

Belarus At War With Its “Social Parasites”

On 2 April, Alexander Lukashenka signed a decree against “social parasites”. From now on, individuals who do not pay taxes will lose be forced to submit around \$240 annually into the the state’s coffers.

This law is designed to help stimulate employment and fill any number of budget gaps, but it should be viewed in terms of how it reflects the natin's rising unemployment rate and inability to collect taxes.

Despite its good intentions, it is almost certain to harm many individuals who are in real need of assistance. According to the IPM Research Centre, in the near future the unemployment rate in Belarus will rise to a historic high of 8-9%. Moreover, many Belarusians are presently working either part-time or have been laid off as the economy struggles to recover.

The rising level of unemployment has only extended the gap between the authorities and society. Lukashenka’s approval rating has dropped by more than 10% over the last six months. The latest round of ill-conceived legislation clearly demonstrates that the authorities are helpless when it comes to adverting further economic decline.

The Belarusian Fairy Tale of Full Employment

The pre-election campaign programme of Alexandr Lukashenka in 2010 claimed that by 2015 “everyone will be guaranteed a job”. According to official statistics, the Belarusian authorities have gotten pretty close to reaching their prescribed goal over the past couple of years. As of 1 March, for example, only 0.8% of Belarusians are officially registered as being

unemployed.

This figure [does not reflect](#) reality. The majority of Belarusians do not apply for social welfare assistance and do not officially register as unemployed for a number of reasons.

unemployment benefits in Belarus amount to roughly \$8 a month

First of all, unemployment benefits continue to be miniscule and amount to roughly \$8 a month. Second of all, to obtain this financial support, the average Belarusian must perform poorly paid public monthly work like street cleaning. Both of these issues make it pretty clear why only a small percentage of Belarusians have registered themselves as being unemployed with the officials.

Despite unreliability of the state's data, the unemployment rate in Belarus is much lower than in neighbouring countries. A low unemployment rate has allowed the Belarusian economic model to remain attractive for many Belarusians, many of whom have been reluctant struggle through economic liberalisation, a path that has dominated the policy agendas of all of its neighbours to some degree.

Unemployment in Belarus and its neighbours in 2013 (%)

Country	Russia	Belarus	Ukraine	Poland	Latvia	Lithuania
Unemployment rate	5.6	5.8	7.9	10.4	11.1	11.8

Data: World Bank

A high employment rate largely explains why Alexandr Lukashenka has quickly become a popular president, not only among Belarusians, but also in neighbouring countries. As of late, however, a rapid transformation is under way – a chance that challenges this dominant paradigm.

Belarus Prepares for High Levels of Unemployment

Unemployment in Belarus is very likely to reach historic levels in the near future. A recently published study by the IPM Research Centre, for example, shows that an unemployment rate of 8-9% may be just around the corner.

Even official statistics have shown a growing level of unemployment – from February to March it officially increased 0.1%. The number of labourers has steadily declined in Belarus even in traditionally strong sectors like construction and trade.

Unemployment is only the tip of the iceberg. Many businesses have closed their doors and are sending their employees home. Near the end of March the [Minsk Automobile Plant](#) shut down its main conveyor belt. Some enterprises, like the Minsk Tractor Plant for instance, literally have no place to store their finished products. Many enterprises are currently working only two or three days a week as a result of the ongoing economic slump.

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Businesses have huge debts that they owe banks and, by all appearances, are unable to satisfy them in the current economic climate. Many of them are unable to pay their employees' salaries at present, like the Homel Agricultural Plant. Data from the Independent Institute of Socio-Economic and Political Studies shows that more than two thirds of Belarusians believe that the Belarusian economy is in a state of crisis.

The economic decline of Russia has made Belarus' problems even more acute. Since the disparity between Belarusian and Russian salaries has decreased, Belarusians have fewer incentives to go to work in the east. Many Belarusians will stay at home and look for a job, even though the number of positions has

declined. One collective farm director told Belarus Digest that refugees from Ukraine have created additional pressure on the market and lowered local salaries due to competition.

A Decree on “Social Parasites”: A Goofy Means of Meeting Budget Demands

The Belarusian authorities are trying to encourage Belarusians to take up any job they can find. A recent law, more popularly known locally as a decree on "social parasites", forces Belarusians to pay a tax for being unemployed. This law is unique to Belarus and many individuals question how it will be enforced given the current climate.

Belarus has problems with collecting taxes and largely appears to be unable to punish tax evaders in the usual way, so it has been forced to create push out nontraditional measures. According to [Alexander Chubryk](#), Director of the IPM Research Center, the presidential decree on the issue largely avoids the main issues and will help tax evaders profit and develop into the next generation of "social parasites" all while avoiding paying usual taxes, which are much higher.

The law will, however, punish people who really need help during the economic crisis. People, who really cannot find a job and make ends meet will receive adequate financial support from the state.

Unemployment is Already Changing Belarus

Alexandr Lukashenka is paying for the economy's ongoing decline. According to the Independent Institute of Socio-Economic and Political Studies, in September 2014 his electoral rating was sitting at 45.2%, and in March 2015 only 34.2% of Belarusians were behind him. If not for the war in Ukraine, Lukashenka's rating would likely be even lower than this.

As the Belarusian economy will continue to be in crisis for at

least another two years, Lukashenka's ratings may yet reach new historic lows. Although [mass demonstrations are unlikely at the moment](#), the situation will open a larger window of opportunity for other forces inside and outside of Belarus.

More Money from the IMF: Prudent Credit Policy with the World's Worst Tax System

The International Monetary Fund completed its review of Belarus's economic policies and approved another financial aid package to Belarus. This time it amounts to US\$688 Million. The IMF noticed some improvements in the legal and institutional frameworks for privatization and in easing administrative controls. The IMF praised and encouraged Belarus' prudent credit policy and reduction of public deficit. It looks like a very peculiar combination: on the one hand, Belarus has [the worst tax system in the world](#), but manages to run prudent credit policy to the IMF's satisfaction.

Following the IMF Executive Board's discussion on Belarus, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, noted:

Performance under Belarus's Stand-By Arrangement has been strong, and the economy is beginning to emerge from the crisis. Export volumes have stabilized, the exchange rate depreciation has improved competitiveness, and confidence appears to be growing among households. At the same time, Belarus remains vulnerable to external shocks, requiring continued prudent macroeconomic policies as well as

flexibility in the face of uncertainties. In this regard, the authorities' commitment to take difficult measures to compensate for shortfalls and delays in external financing is commendable. The authorities' continuing commitment to pursue a prudent budget policy is an important building block in achieving program objectives.

The IMF Asks the Belarus Government to Weaken its Grip over the Economy



WASHINGTON – Having concluded another round of consultations with Belarus authorities, the International Monetary Fund urges the Government to sell state assets, curb lending and raise utility prices to cope with the most serious economic crises in more than a decade.

The IMF recommendations sharply contrast with the views of Sergey Tkachev, one of Belarus President's most influential economic aides. In an interview given earlier this week, privatization of state property is described as a "craze" and the movement towards economic liberalization as shameful. (The full text of Tkachev's [interview](#) as well as a [compilation](#) of its most controversial parts are available online in Russian.)

However, privatization and liberalization is exactly what the IMF expects from Minsk. Here is the Concluding Statement of the IMF Mission to Belarus:

Belarus is confronted with the urgent task of overcoming the current economic crisis and longer-term challenge of resuming

rapid economic growth. To improve the external current account balance and preserve reserves, the authorities need to maintain a tight macroeconomic policy stance and contain domestic demand. The measures that are needed to achieve this will be an important subject for discussion during the mission's continuing work on the second review of the SBA. The Article IV consultation discussions have focused on the longer-term issue of how Belarus can resume the growth performance of recent years. The mission believes that high and sustainable growth in future can be achieved with improvements in productivity and increased foreign direct investment. Economic liberalization and accelerated privatization efforts can produce these results. The exchange rate level and regime appear appropriate, but a move to a more flexible system would be warranted once a strong institutional framework is in place to support it.

1. Belarus achieved an average 7.5 percent annual growth in the ten years up to 2008, benefiting from its inherent strengths and favorable external conditions. High investment-to-GDP ratios and productivity gains from a well-educated and disciplined labor force were the main contributors to growth. The favorable external environment—including strong growth in Russia and the rest of the world, easy access to the Russian market, and low-cost energy imports from Russia—also allowed the economy to grow rapidly.

2. However, the global economic crisis has exposed the economy's vulnerability. The external current account has registered a sizable deficit for most of the past decade as savings fell short of investment, leading to precariously low international reserves. Concentrated exports, destined mainly to the Western European market for oil products and the Russian market for non-energy products, were hard hit when demand in both markets fell drastically as a result of the global financial crisis. The situation was exacerbated by reduced subsidies on energy imports.

3. Belarus has made progress in economic adjustment in 2009, which will help restore the country's external stability. The 20 percent devaluation of the rubel against the U.S. dollar and the adoption of the peg to a basket of currencies in early 2009 helped improve Belarus's external competitiveness. The authorities' willingness to widen the band in June and to allow flexibility of the exchange rate within the trading band has made the system better positioned to absorb further external shocks. Disciplined wage policy has also contributed to restoring external competitiveness, and future wage increases should be consistent with maintaining external competitiveness.

4. Nevertheless, boosting domestic demand when the country's balance of payments remains fragile would risk undermining the objective of reducing external vulnerability through building international reserves. Credit to the economy continued to grow strongly in the first seven months of 2009, driven by lending under government programs, often at subsidized rates. In addition to crowding out normal commercial credit and imposing fiscal costs, the lending programs boosted domestic demand, which increased the trade deficit and has led to loss of reserves in recent weeks. These lending programs need to be curtailed and the resulting changes reflected in the government programs under which they take place, to alleviate reserve losses.

5. The authorities' commitment to a balanced budget in 2009 has been an important source of strength for the economic program. To realize this target, the government needs to closely monitor the collection of revenue in an environment of lower income, profits, consumption, and trade activity. It would be advisable to defer a public wage increase, while providing targeted social assistance to shield the poorest from the impact of the crisis. It is also important to keep the deficit of the local governments under control.

6. A prudent fiscal position in 2010 is necessary to

consolidate macroeconomic stability Tax reforms envisaged in 2009, which would help reduce distortions in the system, need to be followed through. In the meantime, utility tariffs should be raised toward cost recovery level, and social assistance reform completed.

7. The NBRB needs to tighten credit policy in the near term. Given the already high level of interest rates, strict limits should be set on lending under government programs. This would not only reduce import demand but also contribute to more effective risk management in banks. It will also be important to strengthen the operational independence of the NBRB through legislative changes which would facilitate monetary policy implementation and effective banking supervision. Any easing of the policy stance should be conditional on continued decline in inflation and recovery in reserves.

8. While the banking sector is less susceptible to global deleveraging, it remains vulnerable to a rise in non-performing loans (NPLs) and domestic liquidity risk. The NBRB should continue monitoring the asset quality and liquidity situation closely, and enforce prudential regulations.

9. Increasing the commercial orientation of the banking sector would be essential to improve risk management and reduce banks' vulnerabilities. Transferring existing bank loans under government programs to the proposed Financial Development Agency would help clean up the banks' balance sheets. The agency should take over existing government-directed loans and associated state funding from commercial banks, and could eventually become the exclusive source of funding for government programs, with its lending financed from the budget and banks disengaged from such lending. At the same time, efforts should be made to strengthen governance of the state-owned banks and prepare them for privatization.

10. Looking ahead, the economy is expected to grow at lower rates than recently registered for the foreseeable future in the context of a weak global recovery. GDP is expected to contract this year, largely because of spillovers from the deep recessions in Russia and the European Union. In 2010, benefiting from a gradually recovering global economy, output is expected to register a modest rebound.

11. In the longer run, several external constraints may hinder a return to the growth path prior to the current crisis. Both the GDP level and potential growth rate of Belarus's main trading partners are likely to be lower in the aftermath of the crisis, reducing external demand for Belarus's products. Easy access to the Russian market is no longer guaranteed. Belarus would not benefit to the same extent as in the past from preferential prices on oil and gas imports from Russia. This would have significant costs for Belarus.

12. Domestic factors could also hold back the country's potential growth. Domestic savings have been lower than investment, putting pressures on an investment-driven growth model as external financing is likely to be less accessible and more costly following the global crisis. In addition, there are indications that the returns from investment have declined, not only because the level of investment is already very high, but also much of the recent investment has been in residential construction. Like some other countries with aging populations, the labor force is likely to shrink reflecting demographic trends. Due to these factors, long-term potential growth in Belarus could be 2-3 percent lower than the pace observed in the past decade.

13. To repeat the remarkable growth performance of recent years, it would be essential for Belarus to strengthen its growth factors by carrying out structural reforms. Significant productivity gains would be necessary to resume high economic growth given the limited scope to increase

capital and labor input from domestic sources. In this respect, the emphasis on public expenditure on education should be maintained. Experience in other countries that have undergone economic transition proves that better allocation of resources, a larger and more dynamic private sector, and increased use of foreign capital can help boost productivity growth. Belarus has much to gain from market-oriented reforms given the fact that Belarus is still in its early stage of transition, and its structural reforms can focus on yielding state control to market forces, and steadfastly pushing ahead with privatization.

14. To allow market forces to play a major role in the allocation of resources, state intervention in the economy should be significantly reduced.

- Price controls need to be reduced to the minimum so that the price signal can direct the flow of resources and help adjust excesses and shortages in the economy, and most retail trade margins should be abolished in line with the government's agreement with the World Bank;

- Wages need to be liberalized to reward high productivity, and the labor market developed so that workers can move to jobs where they are most productive;

- Mandatory quantitative targets at the macroeconomic and enterprise levels need to be abolished as it has become more difficult to manage an increasingly sophisticated economy through central planning; and

- The banking system shall be allowed to make lending decisions based on the profitability and risks of the projects rather than government directions or recommendations.

15. Productivity growth will also benefit tremendously from the emergence of a strong private sector.

- *Conditions for setting up new private businesses should be simplified, as experience in other countries indicates that jobs created by the private sector can provide employment opportunities for workers laid off as a result of state enterprise reforms. New businesses might be created by spinning off parts of existing state enterprises.*
- *The regulatory burden on the private sector should be further reduced, and greater flexibility in setting prices, wages and margins allowed.*
- *The expansion of the private sector would benefit from financial sector reforms that help increase the private sector's access to credit resources;*
- *These benefits can be amplified by the participation of foreign investors.*
- *An ambitious and transparent privatization agenda that is open to foreign investors would help bring capital, technology, and management and marketing skills. This, combined with a high-quality and better motivated labor force, holds the promise of greatly increasing total factor productivity. Foreign investment can also help diversify Belarus's production base and export market, and spread good business practices to the rest of the economy;*
- *To attract investors, both foreign and domestic, conditions attached to new investment, including the requirement to keep the current employees and wage scale should be reduced;*
- *Learning from other countries' experience, the renewed drive can start with the enactment of a modern Privatization Law and establishment of a Privatization Agency charged with preparing enterprises for privatization, with the power to hire professionals from the market to support the process. Privatizing a few enterprises through an open, transparent, and competitive tender early next year would help demonstrate the government's commitment and help build capacity.*

16. Providing social security can help reduce the negative impact of, and sustain popular support for the structural reforms. A social safety net can be established to give subsistence and vocational assistance to the temporary dislocated labor force, until they are re-absorbed by the labor market. Privatization proceeds and fiscal savings from reduced subsidies to inefficient production can help finance the safety net.

17. The exchange rate level and regime appear appropriate, but a move to a more flexible system would eventually be warranted. At present, the current peg to a basket of currencies with flexibility around a central parity offers the best prospect of maintaining external stability. Over time, and when a supporting institutional framework is in place, Belarus can move further in the direction of exchange rate flexibility. A flexible exchange rate regime would better enable Belarus to handle the real sector shocks to which it is subject. It would require an alternative nominal anchor (such as an inflation targeting framework) and an independent central bank capable of implementing credible monetary policy.

Source: the [IMF](#) web site.

World Bank to provide Belarus with \$125mn loan



World Bank

Washington – According to Belarusian news agency Belta, the World Bank and Belarus have agreed on a \$125 million draft loan for a new energy-effectiveness project.

The draft loan agreement is subject to approval by the Board of Directors of the World Bank before it will be officially signed. Belarus has not gained much aid from the World Bank in recent years and, if approved, this will be one of the largest projects sponsored by this intergovernmental organization in Belarus.

The \$125 million World Bank loan will be used to assimilate energy-effective technologies at municipal boiler plants and at major power installations. The project envisages modernizing energy generating equipment in Barysau, Mahiliou, Ruba, Ashmiany, and Rechytsa.

The initiative was preceded by successful accomplishment of previous World Bank projects in Belarus. In particular, the modernisation of social infrastructure (the first loan totalled \$22.6 million, the extra loan – \$15 million) and rehabilitation of Chernobyl-affected areas (\$50 million).

AFP: IMF approves 2.46 bln dlr loan for Belarus



WASHINGTON (AFP) – The International Monetary Fund gave final approval Monday to an emergency loan of 2.46 billion dollars to help Belarus cope with the global financial crisis.

The IMF said the 15-month standby credit was approved by its executive board “in support of the country’s efforts to adjust to external shocks” and will allow the eastern European nation to draw some 787.9 million dollars immediately. The remainder will be made available subject to quarterly reviews.

The IMF loan is unusually large, representing about four times Belarus's quota, the maximum amount an IMF member country pays to finance the Washington-based institution. Normally an IMF member country can draw up to 100 percent annually of its quota, and 300 percent cumulatively. However, the IMF has granted exceptional access to financing to distressed countries, such as a [quick loan for bad credit](#) to Georgia in September after its armed conflict with Russia.

"Belarus is experiencing serious economic problems," said Takatoshi Kato, IMF deputy managing director. "External vulnerabilities have been exposed by adverse terms of trade movements, falling demand from trading partners, and difficulties in securing external finance, leading to a decline in international reserves. In the face of these shocks and the adjustment needed to contain them, the economy is likely to slow in 2009."

Officials in Minsk have said the IMF loan was needed to make up for lost export revenues because foreign countries were having trouble paying for its goods amid the global credit crunch.

Belarus agreed to a 20 percent devaluation of its currency to "help restore competitiveness and address external imbalances," the IMF said.

"The adoption of the new currency basket and wider band will leave the economy better able to adapt to external shocks, thus making it less likely that further exchange rate adjustment will be needed," an IMF statement said.

The country will also make other reforms, including price and wage liberalization, the IMF said. It added that deregulation, and privatization "are also needed to underpin better medium-term growth, and should be undertaken as fast as market conditions allow."

Juha Kahkonen, IMF mission chief for Belarus, said, "The IMF

believes the Belarussians have implemented a strong economic program,” adding that this includes “shifting to a more market-based financial system.”

Belarus, a state on the European Union’s eastern border with a Soviet-style economy, had initially requested a two-billion-dollar loan from the IMF but increased the request later, IMF officials said.

Belarussian President Alexander Lukashenko last year threatened to pull out of the IMF if the loan had been rejected.

The United States, by far the largest voting power in the 185-nation institution, has branded Belarus “Europe’s last dictatorship.” But US officials said last week relations had improved with Belarus.

Forbes: Currency devaluation a shock for Belarussians



MINSK, Jan 8 (Reuters) – A surprise 20 percent devaluation of the Belarussian currency has sent people rushing to shops before prices go up. The devaluation shocked many in this ex-Soviet state where President Alexander Lukashenko, widely known as 'Batka' or 'Dad', insulated the population from the turbulence of world markets by keeping much of the economy in state hands.

But the global turmoil has caught up with Belarus and has forced it to seek a \$2.5 billion loan from the International Monetary Fund. The devaluation may have been linked to the loan as freeing up the currency system, cutting social

spending to balance budgets and wage controls are common conditions set by the IMF for its loans to help rebalance ailing economies.

On Dec. 31 Minsk agreed to the IMF loan and on New Year's Day it devalued the rouble to 2,600/\$ from 2,200/\$. Belarussians rushed to the shops the next day to buy what they could in anticipation of steep price rises once the next set of imports hit the shelves. 'I don't remember such queues since the Soviet times,' said Marina, a 38-year-old housewife, out shopping in Minsk. 'I saw a woman grabbing onto a fridge and shouting that she got it first, while a man was telling her that he had ordered it.' 'We sold 10-days worth of stock in three days,' said Tatyana, a furniture store assistant.

'Today, there were a lot of unhappy people. People couldn't believe that we've sold out.' Read full text at Forbes.com.