

Macroeconomic stabilization on shaky ground – digest of the Belarusian economy

On 3 April 2017, Economy Minister Vladimir Zinovskiy announced a negative forecast for first quarter GDP growth in Belarus. This comes despite an increase in industrial output and exports at the end of March.

In this context, on 6 March a new IMF mission arrived in Belarus in an attempt to encourage the authorities to implement further economic reforms.

Meanwhile, insufficient efforts at liberalising the private sector still hinder the emergence of a new pillar of the Belarusian economy.

Economic growth: shaky stabilisation

Economic data for the first two months of the year show mixed results. On one hand, industrial production and exports have improved (see Figure 1).

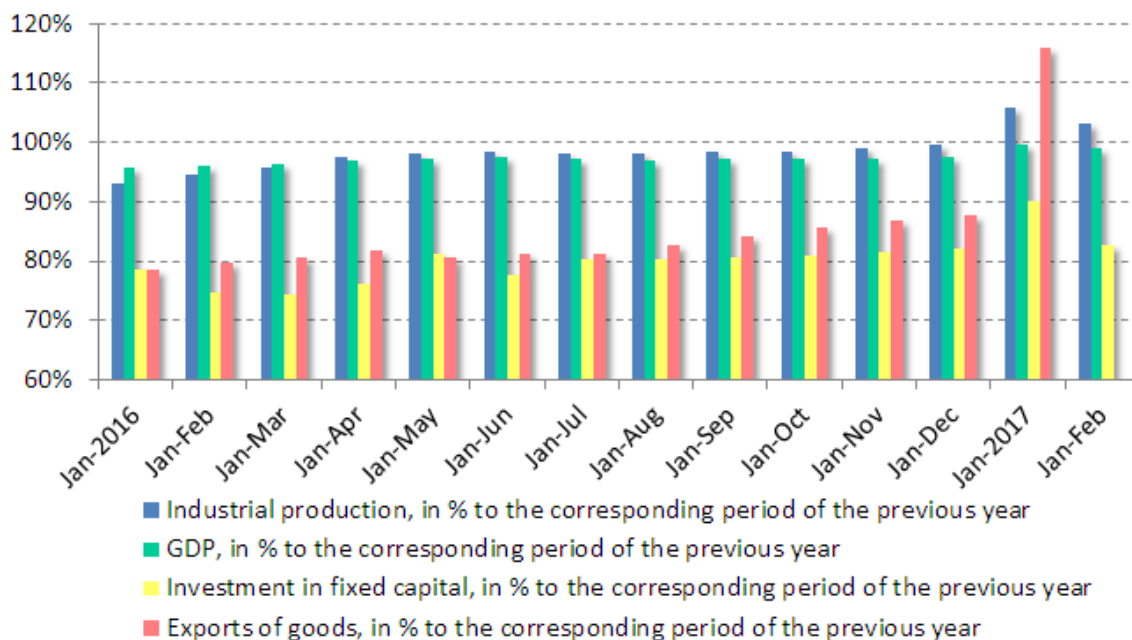


Figure 1. Economic performance

On the other hand, the government continues to postpone measures which would aid in the financial recovery of enterprises. Authorities are also [putting off fundamental decisions on structural reform](#), thus prolonging the economic recession.

For example, investment demand remains in deep trouble, shrinking for the 14th quarter in a row. During the first two months of 2017, it dropped by about 17.4 per cent year on year (see Figure 1).

Therefore, during the rest of the year, the economy faces the delayed effects of investment depression, such as reduction in output due to the reduction of production capacity; this affects such important industrial enterprises as Gomselmash, MAZ and MTZ. Moreover, firms facing financial losses influence not only the amount of investment and production, but also the employment rate and wages.

To address the latter issue, on 21 March President Alexander Lukashenka banned job cuts without the initial approval of local authorities. The promised \$500 average monthly wage for 2017, however, remains off the table (it currently hovers around \$370).

Therefore, taking into account the implausibility of reducing SOE costs, the painful process of sustainable stabilisation of their operations will be postponed even further.

For these reasons, the entire economy will take even longer to emerge from economic imbalances. Given the prospects of economic dynamics, such a pattern means that in 2016 the 'price' for structural weaknesses remains unpaid, and structural corrections will continue in the upcoming months of 2017.

The financial system: feeling the pressure of the money shortage

Under these conditions, on 16 November 2017 representatives of the IMF once again discussed the terms for a new credit programme with Belarusian authorities.

Six months before, during the IMF's previous visit, the economy was experiencing a long-lasting recession which called the stability of the banking system further into question. However, this time the National Bank of Belarus (NBB) tried to win over its sceptical visitors.

On 6 March 2017, regulators unveiled a new report, which evaluated the impact of potential shocks on the banking system. In particular, the NBB evaluated the impact of the devaluation of the Belarusian ruble on banking stability.

Judging by the results of the report, Belarusian banks are sufficiently strong. Banks would feasibly survive even a 30 per cent devaluation of the Belarusian ruble.

However, independent experts believe that the stability of Belarusian banks depends mostly on the state of public

finances, first and foremost because struggling [state-owned enterprises urgently need fresh money to repay their debts](#). According to the NBB, in 2016 SOEs contributed to a total of 81 per cent of bad-asset growth in the banking system.

Nevertheless, before signing a new credit programme with Belarus, the IMF will still insist on implementation of decisive structural reforms in the near future, regardless of what official figures say.

Private sector: prolonged liberalisation

In turn, [the underdevelopment of the Belarusian private sector](#) (in particular small and medium enterprises, or SME) still remains one of the key problems of the Belarusian economy.

For example, SMEs' share in the Belarusian GDP accounts for approximately 30 per cent, which limits competition on the domestic market and leads to inefficient allocation of both material and labour resources. In contrast, according to the World Bank, in other developing countries this parameter ranges from 60 to 75 per cent of GDP.

In this light, on 2 March 2017 a new presidential decree intending to improve the procedures of state registration and liquidation of economic entities was launched. The document limits the right of the tax ministry and other authorised bodies to invalidate the state registration of a business entity or its liquidation through the court to three-year periods.

The head of the Association of SMEs, lawyer Syarhei Balykin, considers the decree a progressive step, but he thinks that by and large it will make things easier only for official registrars. Moreover, according to him, this legislative act

partially degrades the position of entrepreneurship.

For example, the document actually limits possibilities of creating new companies. In particular, the decree prohibits the registration of new business entities for founders of liquidated entities or for those going through bankruptcy proceedings.

In addition, the principle of collective responsibility (meaning that all of a given company's co-founders bear responsibility for violations in economic activity of any individual co-founder) still remains in force. In the opinion of Syarhei Balykin, such restrictions violate the rights of entrepreneurs to implement business projects.

The last month has shown certain positive trends in the stabilisation of industrial production and exports. However, the Belarusian economy still struggles with problems with its banking system, lack of external finance, and the unresolved issue of increasing private sector involvement.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

#DanceForReforms, Jails

Monitoring, Websites Warned – Belarus Civil Society Digest

StudWatch initiative launches a #DanceForReforms flashmob. Viasna publishes a report on monitoring detention facilities in Belarus. 106 new NGOs were registered in 2015. Three Belarusian crowdfunding platforms collect nearly \$140K of local funds in 2015. Belarus in Focus announces winners of its annual international journalism competition. Lawtrend presents infographics of 48 government websites.

Ministry of Interior confirms "no detention, fines later" as new tactic on protest rallies. Two independent websites receive warnings from the Information Ministry. Belarusian Christian Democracy Party denied registration for the sixth time. Since the presidential elections fines for civic activists and journalists grow, but arrests drop to zero.

Civil society initiatives

[StudWatch launches a flashmob #danceForReforms.](#) StudWatch initiative is a number of student CSOs that united to jointly uphold the quality of higher education and achieve true student self-government. The initiative calls on students who are dissatisfied with the status quo in Belarusian higher education, to take part in the flashmob – to dance on the background of the university, record a video and post it in social networks with the hashtag #danceForReforms.

[Mova Nanova announces a new flash mob.](#) On the eve of Mother Language Day, people confess, why they do not speak Belarusian, creating posters with their photos. Among the advanced reasons are fear of making mistakes, lack of Belarusian-language environment, laziness. Mova

Nanova/Language Anew is free courses of Belarusian language held in 10 cities over the country.□

Reports and statistics

[Viasna publishes report on monitoring places of detention in Belarus](#). The Human Rights Center *Viasna* has analyzed the situation in places of detention in Belarus and prepared a report on the results of monitoring in 2015. The report states that the situation in places of detention did not considerably change last year and describes cases of violating human rights, using or encouraging cruel, inhuman and degrading treatment.

[Statistics on the registration of NGOs](#). In 2015, 106 new NGOs were registered in Belarus, which increased the number of registered organizations by 2.7% compared to 2014. Thus, now in Belarus there are 2,665 registered NGOs, 34 unions (associations) of NGOs, 164 foundations, and 7 republican state-public associations.

[More than 3 billion rubles collected at Belarusian crowdfunding platforms in 2015](#). They are MaeSens.by, Ulej.by and Talaka.by. The total amount is around \$140K (on the recent exchange rate). According to [Ulej.by](#), the average donation is \$23-25. People respond more actively on social projects like support to children, disabled, inclusive education systems, and animals.

["Executive Authority Online" infographics](#). Lawtrend presents the results of a recent study of 48 official websites in a format of interactive infographics. The infographics reflects changes of the official websites since 2013, when for the first time Lawtrend conducted monitoring of the official resources of national executive authorities (general rating, accessibility for the blind, the changes for two years, etc.).

Fines grow, arrests not applied. According to the Human Rights Centre [Viasna](#) and [BAJ](#), since the presidential elections to present (October 2015-February 2016), about 90 administrative cases were initiated against civic activists and journalists. More than a half of cases ended up with fines for a total amount of Br320 million (around \$17K); no administrative arrests followed. To compare with the same period a year ago (October 2014-February2015) – 70 administrative cases, Br120 million (around \$8K) of fines and 151 days of administrative arrests. Also, then six political prisoners remained behind bars.

Other events

[Tell the Truth holds fifth founding congress.](#) On February 21, the civil campaign *Tell the Truth!* held the fifth founding congress to apply for registration of the association. It was attended by 70 delegates from all regions of the country. *Tell the Truth!* has been trying to get an official registration since 2011, to no avail. On February 25, the campaign celebrates its sixth anniversary.

[Belarus in Focus announces winners of the fifth edition of its annual international journalism competition for authors writing about Belarus.](#) This year, the competition received 71 articles by 59 authors from 16 countries. The jury has decided to assign 4 prizes to professional journalists and 1 prize to the beginner. The winners will be awarded at the award-giving ceremony in Minsk in the end of April.

Interaction between state and civil society

[Entrepreneurs' protests continue.](#) On February 28, several hundred of private entrepreneurs gathered in Minsk October

Square, trying to make the government abolish decree #222. No one was detained. Anatoli Shumchanka, the leader of the Perspektiva, and Mikalai Statkevich, ex-political prisoner announce an [Entrepreneurs March](#) under the same slogans for March 14.

[Interior minister explains why police go easy on opposition rallies](#). Recently, the police stopped dispersing mass rallies and detaining their participants – now they draw protocols and impose fines. Thus, the Belarusian police found a new suitable algorithm for responding to opposition rallies, which satisfied both the authorities and the West. The monthly [Human Rights Monitoring](#) for February confirms that all unauthorized peaceful assemblies within a month passed without the intervention of law enforcement authorities.



[Two websites warned by the Information Ministry](#). Two independent websites, of Nasha Niva newspaper [nn.by](#) and Ezhednevnik [ej.by](#) received written warnings from the Ministry of Information. The chairperson of BAJ Andrei Bastunets underlines that a warning is not a preventive measure, but a sanction – two warnings can result in a closure of the mass media.

[Belarusian Christian Democracy Party failed to register for the sixth time](#). The Ministry of Justice has found 'rude violations of the legislation of Belarus' in the statutes. The last constituent assembly of the BCD was held in December 2015.

[BAJ leader takes part in Editors' Club](#). The program Editors' Club is broadcast on the Belarusian State Television Company and gathers for a discussion chief editors of state-run editions. After the [appeal](#) of key independent media, the Club invited Andrei Bastunets, head of Belarusian Association of Journalists, to the program on February 25.

Belarus Digest prepared this overview on the basis of materials provided by Pact. This digest attempts to give a richer picture of the recent political and civil society events in Belarus. It often goes beyond the hot stories already available in English-language media.

How to Make Quick Money for the State: The Belarusian Solution

Belarus had a [rough start](#) to 2016 with the global drop in oil prices, causing instability in its currency and posing problems for its budget planning.

Yet instead of focusing on the IMF recommendations, the government appears to favour short-term solutions that allow it to generate immediate revenue for the state budget.

In 2015 the government introduced a range of new regulations, including the infamous tax on “social parasitism.” Limitations on cross-border duty-free goods allowances and postal parcels from abroad followed in 2016.

New measures, including stricter control over the occasional business activities of the population, came as a surprise and

stirred up discontent in society. They directly impact the lives of ordinary Belarusians, forcing them to show more interest in politics.

Fighting tax evasions

According to the Minister of Tax Collection Siarhiej Nalivajka, in 2015 the Belarusian tax system generated more than 70 per cent of state revenues. This is less than in 2014 and 2013, when these figures were 86 per cent and 87 per cent respectively. The minister noted the need to improve monitoring of business operations to encourage more payments.

In the past month the Belarusian tax inspection service has followed this advice and tightened controls over the “illegal business activities” of the Belarusian population. This broad definition includes everything from occasional private sales advertised on online platforms such as craigslist, to entrepreneurs who violate standard procedures.

Several recent publicised cases involve undercover tax inspectors posing as potential customers in the notorious “control deals.” One offender caught in this manner was Aliaksandr Makaeŭ, owner of a business selling plumbing equipment and an activist of the [entrepreneurs’ protest](#) movement. For him, the sale of a faucet turned into a fine for incomplete certification documents and a failure to provide a receipt.

These tactics by the authorities target tax evasion and aim to secure fair conduct of business. However, at the same time they affects the lives of ordinary Belarusians who are trying to make some extra money on the side. In December 2015, several Santa Clauses fell victim to charges of unregulated business activities in Homiel’. In Minsk people had to pay fines for selling kittens and puppies and failing to report the income to the authorities.

Eliminating parasitism”

“social

On 2 April 2015, President Alexander Lukashenka signed decree No. 3 “On the Prevention of Social Dependency,” otherwise known as the “[tax on parasitism](#).” It is one of the innovations of the Belarusian tax system, reminiscent of the infamous Soviet practices of the 1960s.

In the Belarusian case, “social parasites” are persons who do not participate in financing state expenditure, yet enjoy the benefits of the social state, including free education and medical services. Anyone who does not work for more than 183 calendar days in the year and who fails to register as officially unemployed has to pay the state a sum of about \$190.

The implementation of the decree remains unclear, as there are numerous categories of tax exemptions. The Belarusian Tax Ministry announced that it would prepare a comprehensive list of “social parasites” by 1 August 2016, since currently only 820 persons have voluntarily reported to the authorities.

The end of shopping tours era?



On 11 February 2016, Lukashenka signed decree No. 40 on regulating imported goods. In particular, new rules for monthly parcels from abroad limit their total duty-free value to €22 and their weight to 10kg. By contrast, the previous duty-free monthly limit, in effect since 2014, allowed for 31kg of a total value of €300.

This measure will undoubtedly affect online shopping in China, which recently became quite popular among Belarusians. According to the State Customs Committee, more than 250,000 Belarusians made online purchases in 2015, with the average number of parcels from abroad ranging from 10 to 100 per person.

Moreover, to prevent the import of goods for commercial use, the new decree introduced tighter limits on frequent travelers abroad. Currently, the duty-free allowance is set at 50kg and at a total value of €1,500 per person. However, those who cross the border more often than once every three months will be able to transport goods of a total value not exceeding €300 and weighing no more than 20kg.

In reality, these new regulations will most likely have an impact on those Belarusians who prefer [shopping abroad](#), attracted by lower prices and better quality. VAT tax returns on such purchases make this option even more attractive. Shopping tours to Białyystok malls in neighbouring Poland have already become a distinctive feature of the Belarusian travel market.

A chance for the Belarusian opposition



Discontent caused by the tighter regulations offers a chance for the Belarusian opposition to work on its current [marginalised image](#). Re-establishing the link with society over the unpopular measures might also energise the [reshaping process](#) within the opposition.

Former presidential candidate and political prisoner Mikola Statkevič already made use of this opportunity, accusing the president of “robbing the ordinary people” and depriving them of consumer choices.

The recent entrepreneurs’ protest in Minsk on 15 February gathered between 500 and 1000 people. Among them were opposition activists Mikola Statkevič, Anatol’ Liabedz’ka, Uladzimir Niakliaeŭ, and Paval Seviarynec. The protesters demanded that the authorities revoke decree No. 222, which prohibits trade with goods without certification and affects the [small traders](#).

It appears that Lukashenka has recognised the dangers of popular dissatisfaction. On 16 February he criticised the government, warning against “destabilising the situation in the country.” At the same time, the regime has started monitoring contact between the opposition and entrepreneurs. On 19 February, the authorities detained opposition activist Viačaslaŭ Siŭčyk together with Aliaksandr Makaeŭ in Svetlahorsk, where they organised a meeting with local entrepreneurs to discuss decree No. 222.

So far the benefits of the new regulations and tax innovations remain debatable. At first sight, they alleviate some of the budget constraints. Yet they also emphasize short-term solutions at the expense of the population, harming the image of the social state. Finally, they make the Belarusian regime more economically vulnerable.

Belarusian Government: Strong on the Opposition, Weak on the Shadow Economy

The Belarusian government plans to step up its campaign against the shadow economy. In January 2016, new amendments to the Tax Code will come into force which introduce harsher punishments against illicit business. Last month, President Alexander Lukashenka demanded that [Valery Vakulchyk](#), the head of the KGB, suppress illegal economic activities.

Belarus' shadow economy has been an elephant in the room for many years. Restaurants do not document all of their employees wages. Shops sell goods without receipts. State organs have for a long time closed their eyes to this, apparently fearing that more law enforcement would cause political repercussions.

State of Denial

The government downplays the problem of the shadow economy. This spring, the Tax Ministry announced that the share of the shadow economy accounts for only about 11% of national GDP. Two years ago the same ministry told that it accounts for

8-10%.

Yet a mid-level National Bank official, Lyudmila Stefanovich speaking at a conference in Minsk in May stated that, “the share of shadow economy in Belarus is very big. According to research results, it is about 35% of GDP.”

Indeed, in spring 2015, the IPM Research Centre conducted a survey asking small and medium enterprises whether some of their activities existed in some areas of the shadow economic. 35% of respondents dared to admit that there were such elements.

Some experts believe that the share may be even higher. In 2010 the World Bank published a study on the shadow economy which assessed its share in Belarus in 2007 at 43.3% of the GDP. Among Belarus's neighbours only Ukraine fared worse with 46.8%. The situation in the national economy has failed to substantially change since 2010.

Promises Instead of Documents

Tax evasion in legally registered private businesses is commonplace. The author recently visited the city of Maladzechna near Minsk and was impressed that very few private businesses even in respectable looking large trade centres, such as *Troyka* and *Modul* bothered giving receipts for bought goods.

The vendors promised to accept returns if customers found deficiencies. They had no concerns about possible undercover tax officers, although they hardly pay taxes for the goods sold. On top of this they probably pay somebody in order to be allowed to work so.

Last year, state agencies resorted to a new form of control by assessing the whole income of a vendor by measuring his income over a short time and then appropriately multiplying it. Tax

officials conducted 80 raids using this method, and found irregularities in 70% of business entities.

Another sphere of tax evasion involves accommodation rent by private landlords, as well as renting premises to be used for commercial and manufacturing purposes. Houses and flats are often rented in Belarus without registering a contract with the authorities. In May, the real estate web-site Pro-n.by estimated that every second flat (i.e., more than 46,000) is rented in Minsk illegally.

Even production lines (for instance tile production) and workshops visibly consuming electricity and water have for years functioned without proper registration. Last year, the tax authorities conducted around 2,600 raids on premises which were suspected to be rented illegally. Almost in all cases it turned out to be the case, as more than 2,500 persons were found to rent property without paying the necessary tax.

Illegal car repair workshops, which have many customers, work on unregistered premises without encountering problems with the police or tax authorities. For instance, in Maladzechna local authorities do not care much about such illegal workshops. Meanwhile, because of this unfair and illegal competition legally registered workshops who pay taxes and social insurance have to reduce personnel and then close down.

Officials of the Tax Ministry articulated the problem of [car repair workshops](#) in the early 2010s and promised to take measures. Little has changed since then, thousands of these workshops seem to continue work throughout the country and government agencies no longer speak of the problem anymore.

Belarusian Laissez-Faire

The government apparently avoids antagonising private entrepreneurs engaged in illegal practises. The chairman of

State Control Committee, the key control agency, [Leaniid Anfimau](#) in September announced that the number of raids conducted by the Committee since 2000 decreased tenfold, from 14,000 to 1,500 last year.

Certainly, dubious business practises in Belarus involve much more than hiding income. Violations of labour law stand out as another common practice. Even a fashionable restaurant in the prestigious Niamiha neighbourhood of Minsk belonging to a known Russian businessman pays half of the employees wages “in envelopes,” its personnel told *Belarus Digest*. Therefore it avoids paying more taxes and social insurance for them, effectively cutting their future [pensions](#).

It is easy to spot these violations as a minor cook gets officially just \$250 per month. Without additional payment he would be unable to work. Yet no state agency has an interest in the situation because a raid on this business will bring the state agencies up against an owner who is well connected with the Belarusian regime.

And you do not need to be so influential to be able to break the law without punishment. Even low-level administrators of discount chains have no fear to say those willing to work as merchandisers that if employed they will be prohibited, for instance, to take any sickness leave for the child. This violates Belarusian law, yet the practise has functioned for years without causing the interest of state agencies.

The Belarusian Government: Strong Yet Weak

The Belarusian state faces a paradoxical situation. On the one hand, it controls the political life of the country, including election results. On the other hand, it fails to suppress the shadow economy. The size of the latter remains relatively

stable. Moreover, the government displays little willingness to challenge the illegal economy.

For a good reason. It could not do anything about it. Analysing the problems encountered by new independent countries Samuel Huntington once wrote, "there is a failure to recognise that most countries are suffering from an absence of power in their political systems."

The behaviour of the Belarusian government illustrates the point. State authorities fear the consequences if they touch illegal deals. So far, the Belarusian [private sector](#) has refused to finance the political opposition to the Belarusian leadership. The state effectively buys political silence by tolerating not just informal economic schemes but also outright illegal businesses.

The Belarusian state remains narrowly focused on political control. It achieved sophistication in preventing social and political unrest or doctoring election results. Yet its taxation organs let a large shadow economy thrive which seriously undermines honest competition, labour law, taxation and pension systems.