

Why Belarus Struggles to Stop Subsidising Its Enterprises

This month, the Belarusian Ministry of Finance will issue bonds for \$425.8 million to bail out Gomselmash (abbreviation for Homiel Rural Machine Building), the most important industrial holding company of the second largest city in the country. The large cost of issue reflects the size of Gomselmash's problems.

The holding fails to sell its products, is reluctant to lay off people and cannot pay salaries to its employees. Many other Belarusian enterprises face similar problems. The state recently limited assistance to state-owned enterprises, which still dominate the Belarusian economy but has no choice but to provide even more help.

The Main Problem of Homiel

In May, Prime Minister of Belarus [Andrej Kabiakou](#) stated that the authorities should assist Gomelselmash because it remains a Belarusian national brand. In fact, the factory has a long history: it emerged in the late 1920s, during the Second World War it was evacuated, but was still producing mines. After the war it became one of the five largest manufacturers of agricultural machinery in the world.

Today Gomselmash is one of the main companies of the [Homiel region](#). It has around twenty thousand employees and offices not only in the post-Soviet region, but also in China and Argentina.

Now the plant is going through its worst times. Sales fell several times, and the plant shortened its employees working week to four or three days in winter, spring and summer. The

reduction in sales was primarily a result of the economic crisis in Russia and high prices. Salaries in the company fell by 3-4 times. Moreover, the number of staff members decreased by 10% in one year only

| Holding Companies | The number of employees in 2014 | The number of employees in 2015 |
|---|--|--|
| OJSC "Gomselmash" | 9492 | 8203 |
| OJSC "Gomel Plant of Foundry and Fasteners" | 4755 | 3810 |
| OJSC "Research and Development Centre of Combine Harvester Engineering" | 683 | 600 |
| OJSC "Svetlogorsk Machine-Building Plant" | 251 | 251 |
| OJSC "Gomel Factory of Special Instruments and Technological Equipment" | no data available | no data available |
| OJSC "SP-Build" | no data available | no data available |

Data: Ministry of Finance

The enterprise appeared at second place among the most unprofitable enterprises in Belarus in the first quarter of 2015. The newest data remains unavailable, but introduction of the bailout program means that the second-quarter results can bring no difference.

Gomselmash is no longer able to service its loans or cover the costs of electricity and gas necessary for production. Gomselmash cannot even issue its own bonds, so the Ministry of Finance would have to do it instead. Minsk Tractor Plant, who will also get help this month.

Unstoppable Belarus

Belarusian authorities believe that Gomselmash remains too big to let it fall. Belarus, however, no longer has the money for direct state subsidies, as the amount of [exchange reserves](#) does not allow to keep printing money. Therefore, the authorities came up with the idea of issuing bonds for \$425.8 mln that will be acquired by four banks.

Without this state aid Gomselmash would be unable to pay its debts and that would lead to serious problems in the banking sector

According to [Aliaksandr Chubrik](#), Director at IPM Research Center, "this measure does not contradict to stabilization efforts of the authorities and is in line with their general approach: not to allow further aggravation of problems in financial sector". Without this state aid, he told Belarus Digest, Gomselmash would be unable to pay its debts and that would lead to serious problems in the banking sector. Therefore, Belarus subsidises state companies to keep them afloat, even though these same enterprises led the economy to the current state in the first place.

The International Monetary Fund, that is currently negotiating a new program with the Belarusian authorities, could as well, according to Chubrik, understand the reasons behind the help to Gomselmash. Moreover, the Belarusian authorities never promised to stop enterprise bailouts and start economic reforms. And possible donors, like the IMF, know that things cannot change for the moment.

Keeping the Status Quo

Given the state of Gomselmash, it makes sense that the Belarusian authorities decided to help the holding. However, these tactics will probably not save it, but rather increase

its debt and worsen the economic situation of the whole country.

Today, Gomselmash's problems are associated with low levels of innovation, but the money it will receive will not go to research and development. The law signed by [Lukashenka](#) does not provide extra subsidies for Research and Development of the Centre of Combine Harvester Engineering, Gomselmash's R&D subsidiary. The poor quality of machinery does not appear to bother the authorities at all.

Most major enterprises in Belarus belong to the state and, according to the Ministry of Finance, a quarter are not profitable

According to Chubrik, the money will go to pay off previous debts and to ensure the basic functioning of Gomselmash. However, it remains unknown whether the holding will be able to upgrade its production or repay its debts. It also seems that this is not the last check picked up by the government for the company.

The bailout of Gomselmash would not be a topic for discussion if it did not open the gate for other enterprises to seek government money. Most major enterprises in Belarus belong to the state and, according to the Ministry of Finance, a quarter are not profitable. They certainly would like to have some financial help from the state.

According to a report released this month by the Ministry of Statistics production in machine building fell by 20%, while in rural machine building, as in case of Gomselmash, it fell even further.

The situation clearly shows the dilemma that Belarus faces: if it wants to keep the economy afloat, it has to continue to subsidise its enterprises. Other options, like privatising or discussing how to restructure dysfunctional enterprises with

the IMF's help, remain on the table, but the authorities remain reluctant to choose them.

Azerbaijan Elections Praised, Corruption in Construction Industry, IMF – Belarus State TV Digest

State TV Channel 1 widely covered the presidential elections which recently took place in Azerbaijan. A visit of Ukrainian Prime Minister Nikolai Azarov to Minsk resulted in the signing of a package of agreements. Alexander Lukashenka also made it clear that he would not oppose the Western ambitions of Kiev.

The IMF mission will be monitoring the economic situation of Belarus, but state TV noted that Minsk already appeared to be a trustworthy partner not only for the IMF, but also for other international organisations.

Foreign Affairs

[The elections in Azerbaijan: complied with all democratic standards](#). Belarusian journalists widely reported on recent presidential elections in Azerbaijan. Reporters pointed out that all (unnamed) experts were stating that the current president Ilham Aliyev remained the indisputable leader of the country and the people would re-elect him. Although 10 other opposition candidates took part in the elections, the victory of Aliyev was all but completely assured.

52 thousand observers monitored the elections, including an

observatory mission from members of the CIS. Lidzija Jermoshyna, the head of the Central Electoral Committee, headed the Belarusian delegation. Both she and other experts shared the same views on the elections, "they went in compliance with democratic norms, with an exceptionally high turnout of voters".

Belarusian state TV also showed happy supporters of Aliyev who were glorifying the current president.

It is not surprising that the opposition did not win, TV noted. It just became famous for the scandals during the electoral campaign. None of the opposition politicians presented a clear political programme. In the aftermath of the turbulent 1990s, the Azerbaijani people do not wish to go through the same situation again. All it wants is stability which only the current leader can offer, journalists explained.

[Minsk: "Yes" to the integration of Ukraine with the EU](#). Last week the Ukrainian Prime Minister Nikolai Azarov visited Belarus. Both countries have been closely co-operating over the last years in the sphere of industry, agriculture, energy and transport. Also the trade turnover between Minsk and Kiev, which in 2012 reached \$4.5bln, is proof of this growing co-operation. According to Belarusian journalists, this course for co-operation will be continued.

Belarusian authorities sent also a positive message to their Ukrainian colleagues. During the meeting with Azarov, Lukashenka clearly stated that Minsk had no objections against Kiev signing the association agreement with the EU. The whole issue was being politicised, he added. However, apart from the co-operation with the West and its institutions, Ukraine should not close the door on potential integration with the Customs Union.

Domestic affairs

Lukashenka's dialogue with the Russian media: open and honest.

State television reported on the traditional press conference of the head of the state and Russian journalists from over 70 regional media outlets. Several times it emphasized how open and honest the "dialogue" was. This impressed Russian journalists who could not believe how open and honest a leader Lukashenka is.

The Belarusian head of the state pointed out one of his main achievements was formation of a "sovereign and independent Belarus". Apart from telling jokes, he replied to all questions from social policy to relations with Russia, often in a concise and clever way, according to the state TV report. The Russian journalists expressed their full support for the Belarusian leader.

A warning to officials on utility costs. Lukashenka chaired a meeting on the key aspects of economic and social development of Belarus. He warned officials not to increase the utility costs as a remedy for the state's budget issues. "I will not allow to suffocate the people. And this is not populism", he added. Increase of the costs should correspond to increase of the salaries.

The head of the state criticised the government for its insufficient work. "And what do we have here: the government is sleeping, then wakes up after a half a year and we should increase the costs by 40%", Lukashenka continued.

World Hockey Cup: all hands on board. The state channel continues to report on preparations for the international sporting event. This time Lukashenka met with officials to demand from them their maximum effort to make sure the event is as professional as possible. The Cup should become also an economic forum that will bring money to Belarus in the future.

Apart from that, it will be a chance to improve the international image of Belarus. "We should show to the whole

world that we are a normal civilised Central-European country”, Lukashenka pointed out. Belarusian journalists reminded viewers that Minsk has already simplified its visa regime system for foreigners who would come to the event.

Economy

[Belarusian investigators: corruption scandals in construction industry](#). The TV channel reported on shady practices in the construction sector. The whole problem has brought about a few million USD in losses to the state.

Journalists described how the illegal scheme worked over a period of 7 years. Over the 7 years around 200 illegal houses were constructed. The company was buying old houses and building new ones. Instead of two-bedroom flats, it built houses with more rooms and sold them then for around \$300,000 a piece. Now a special working group will investigate the whole issue and find out how these illegal practises were possible and whether any officials supported its operations.

[Minsk as a trustworthy partner to the International Monetary Fund](#). Representatives of the IMF arrived to Belarus to monitor the economic situation of the country. Journalists reported that in 2009-2010 Minsk implemented a stand-by programme supported by a \$3.5 bln IMF loan. According to state television, Belarus proved to be a trustworthy partner for the IMF, because it fulfilled all its obligations on time.

Partnership with the IMF remains beneficial for Minsk. The interest rate is relatively low and repayment conditions do not put too much stress on the Belarusian economy. According to the Belarusian TV, further co-operation also could country attract other international organisations and potential investors to Belarus.

Belarus Digest prepared this overview on the basis of materials available on the web site of Belarusian State Television 1 (BT1). Freedom of the press in Belarus remains

restricted and state media convey primarily the point of view of the Belarusian authorities. This review attempts to give the English-speaking audience a better understanding of how Belarusian state media shape public opinion in the country.