

In this issue:

Scenarios of balance of payment current account deficit reduction. Main changes in business regulatory legislation. Some barriers against the increase of enterprise competitiveness and sales. National Business Platform of Belarus 2009. Study of Belarusian business behavior in crisis (IPM business school).

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Dear Readers!

We are pleased to offer you our 16th issue of the quarterly "Small and medium business in Belarus". We analyze changes in business regulation in the last quarter, the difficulties that SMEs come across in the crisis and what is recommended to improve business environment.

In Part 1 of the quarterly survey we provide the analysis of possible scenarios of the reduction of balance of payment current account deficit. It shows that the optimal solution would be devaluation coupled with tight monetary policy and without too tight measures to reduce wages. Another possible scenario to finance the current account deficit is to increase the external debt and to attract foreign direct investment.

In Part 2 we present the main changes in business regulatory framework. There were no major changes in legislation in the last three months excluding the introduction of import duties on some consumer goods and the abolition of price regulation on some consumer goods. At the same time the government suggested a few guidelines to reform business regulatory framework.

Part 3 of the survey is dedicated to the analysis of some barriers against the increase of enterprise competitiveness and sales in particular bad indicators of energy efficiency of the economy, change of demand, protectionism in regions of the country.

Part 4 of the quarterly survey sums up the results of business advocacy in particular the activities to create National Business Platform in Belarus and its impact on the change in regulatory framework in the country.

In part 5 of the survey we present the results of the study of the behavior of Belarusian business in the crisis conducted by IPM business school.

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Materials of this issue are prepared by experts of the IPM Research Center. The experts' opinions reflected in these materials may not necessarily coincide with the position of the IPM Research Center.

1. CAN BELARUS AVOID DEVALUATION?

The answer to the question in the title of this part of the survey can be formulated in a different way: can Belarus lower its current account deficit and if not can it finance it? The first question can be answered with the help of modeling different scenarios of economic development in the environment of the external shock which is the current crisis. The answer to the second question requires the evaluation of the perspectives of Belarus from the point of view of foreign debt accumulation and even to a larger extent the possibility to attract foreign investment. In the part we forecast the current account balance in 2009–2010 and a few options of its financing.

Mechanism of forecasting

Balance of the current account can be forecasted by using a macroeconomic model (further macromodels) of the Republic of Belarus worked out by IPM Research Center in 2006 (see Kruk, Pelipas, Chubrik (2006)). This model is revised annually (see for example Kruk, Chubrik (2007)). The task of such modeling is to estimate the effectiveness of different tools of economic policy (such as devaluation, monetary policy, income policy etc.) and their impact on the current account balance. The modeling can be done according to the following scheme (Table 1).

On the first stage we take exogenous variables which describe external demand. Then within a chosen scenario we choose the parameters that characterize economic policy. Then within the chosen macromodel the main macroeconomic indicators including current account balance are forecasted. Then based on the estimates of the current account balance we can conclude whether the economic policy that was chosen or this scenario was adequate (for example whether the proposed devaluation can balance the current account to the degree that it can its deficit be financed by means of external loans and investment).

Exogenous variables

Within the current version of the macromodel exogenous variables are constant for all scenarios (Table 2).

Table 1. A few possible scenarios to finance current account deficit

External demand → current account balance	1. Base scenario: no devaluation	2. Devaluation as a tool to balance current account	3. Restrictions of wage increase as a tool to balance import
a) moderately soft monetary policy			
b) tight monetary policy (for example inflation targeting)			

Table 2. Exogenous variables which are the same for all scenarios

Indicator	Unit of measurement*	2009	2010
Oil world price (Urals)	USD per ton	40	65
Gas price for EU (price for Russian gas at the German border)	USD per 1000 m ³	258	196
Price for Russian gas for Belarus	USD per 1000 m ³	153	155
Devaluation of the RUR to USD	%	41.1	6.2
Inflation in Russia	%	15.0	10.0
Inflation in USA	%	0.0	2.3
GDP growth rate in Russia	%	-4	-2
GDP growth rate in Eurozone	%	-2	-1
Real refinancing rate	% annual	-4	0

* all data are given as annual average.

Source: IPM Research Center (based on data from IMF, International Energy Agency etc.).

Table 3. Exogenous variables that are set for each scenario

Indicator:	2009	2010
1. Base scenario:		
Devaluation (to US dollar)	30.6	0.0
Money base	15.0	10.0
2. Devaluation		
2.1. Devaluation (to US dollar) – by 50% in 2009 (equally during the year) and by 20% in 2010 (equally during the year)	41.3	25.5
2.2. Devaluation (to US dollar) – by 70% in 2009 (equally during the year)	58.1	25.9
2.3. Devaluation (to US dollar) – by 70% in 2009 (in 1–2 quarters of 2009 e.)	79.6	9.1
Money base	15.0	10.0
3. Restriction on wage growth		
Devaluation (to US dollar) – by 50% in 2009 (equally during the year) and by 20% in 2010 (equally during the year)	41.3	25.5
Real wage	-7.2	-10.0
Money base	15.0	10.0
4. Tightening monetary policy		
Devaluation (to US dollar) – by 50% in 2009 r. (equally during the year) and by 20% in 2010 (equally during the year)	41.3	25.5
Real wage	-7.2	-10.0
Money base	3.1	-10.0

Note. All data are annual average, in %.

Source: IPM Research Center.

It should be noted that we have chosen quite an optimistic scenario of GDP change in Russia and Euro zone. According to the first months of 2009 data the situation is much worse. Other exogenous factors characterize the choice of economic policy tools. They are used to formulate scenarios (Table 3).

Scenarios

The results of forecasting for 2009–2010 in the framework of four scenarios are given below (see table 3).

1. Base scenario. It is presumed that current account deficit is fully financed at the expense of the inflow of money to the financial account;

devaluation and measures to restrict domestic demand are not applied;

2. Devaluation scenario. It presumes 70% devaluation in 2 years and in three variants: (1) by 50% in 2009 (equally during the year) and by 20% in 2010 (equally during the year); (2) by 70% in 2009 (equally during the year);

3. Scenario of wage growth restriction. In this scenario 70% devaluation (variant 2.1.) real wage growth is limited (by 7.2% in 2009 and by 10% in 2010).

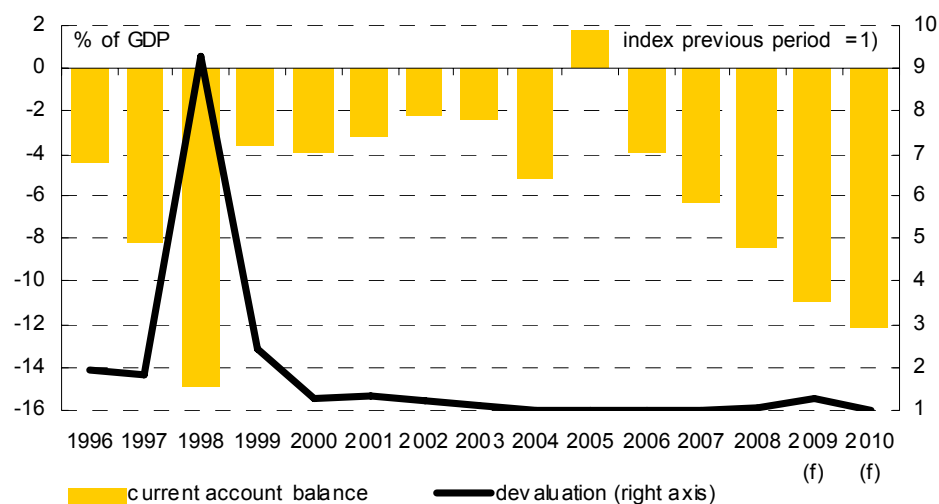
4. Scenario of tightening monetary policy. As restrictions of real wage is the

Table 4. Some forecasting results

		1. Base scenario	2. Devaluation scenario		3. scenario of wage growth restriction	4. Scenario of tightening monetary policy
			2.1. 50% in 2009 and 20% in 2010	2.2. 70% in 2009		
Current account balance, USD bn	2009	-6.4	-6.2	-6.0	-6.0	-6.0
	2010	-8.2	-6.6	-5.1	-6.2	-6.0
GDP, % yoy	2009	-2.7	-2.8	-2.9	-4.0	-4.0
	2010	-0.1	0.5	1.9	-3.1	-2.6
Household consumption, % yoy	2009	2.3	2.1	1.9	0.2	0.2
	2010	0.3	0.6	1.5	-2.9	-2.9
Investment, % yoy	2009	-6.4	-6.8	-7.1	-7.7	-7.7
	2010	0.4	-1.8	-3.0	-6.5	-5.7
Inflation, % yoy	2009	27.5	31.3	35.9	33.0	31.8
	2010	11.8	29.2	39.3	37.6	31.1

Note. All data are annual average numbers.

Source: IPM Research Center.

Figure 1. Nominal devaluation of Belarusian ruble to US dollar and current account balance

Note. The forecast was made assuming that in 2–4 quarters 2009 and in 2010 devaluation will be made according to the base scenario.

Source: NBRB (current account balance, exchange rate), IPM Research Center (exchange rate, forecast), Belstat (GDP).

bigger loss of GDP (due to consumption reduction) and inflation (due to the reduction of demand for money). That is why as in the base of devaluation such measure should be assisted by tightening of monetary policy.

Scenario 4: tightening monetary policy enables the government to get similar effects as in scenario 2.1 in terms of inflation but with bigger loss of GDP. Compared to Scenario 2.1. current account deficit is USD 0.2 bn lower in 2009 and USD 0.6 bn lower in 2010.

Results of forecasting within these scenarios let us state that in the situation when it is impossible to finance the deficit the most effective policy of its reduction is devaluation coupled with tight monetary policy and without too tight measures to reduce wages.

Possibilities of current account deficit financing

Historically current account deficit correction in Belarus was done with the help of devaluation. In particular in 1997 when current account deficit reached 8.1% the government sued devaluation to balance foreign trade. As it was accompanied by soft monetary policy in 1998 Belarusian ruble was devalued to US dollar by more than 9 times (in nominal terms). For the next few years devaluation remained a key tool to balance the current account.

Evidently the current situation in considerably different from the situation in 1998. First the Russian financial crisis which was one of the reasons of the Belarusian crisis that time was short. Russia on the way out of crisis “helped” Belarus. Secondly, in 1998 Belarusian government and banks practically did not have access to external loans and the volume of foreign direct investment was low compared to the one Belarus has now. Only in the 4th quarter 2008 – 1st quarter 2009 the government received about USD 3 bn of loans and agreed to get another USD 2.5–3.0 bn. The government is the process of negotiation to increase crediting even further.

Why did the government prefer external debt and not devaluation (or measure to reduce domestic demand). The thing is that devaluation threatens the stability of the financial system of the country. It is also unappealing for the social point of view (especially if we take

equivalent of reduction of demand for money it is presumed that supply of money is reduced by the National Bank by 10% in 2009 and 2010 (taking into account the data for the first quarter the money base in 2009 will increase by 3.1% and will be reduced by 10% in 2010 (annual average).

Results of forecasting

Scenario 1: Without devaluation the current account balance will reach 11.0 and 12.1% of GDP in 2009 and 2010 correspondingly (USD 6.4 bn in 2009 and USD 8.2 bn in 2010, see Table 4). Taking into account the fact that it is extremely difficult to finance such deficit the use of devaluation and other tools of economic policy to balance the current account is highly likely.

Scenario 2: From the point of view of balancing external trade the most effective is devaluation during one year (scenario 2.2). It would enable Belarus to reduce current account deficit compared to the base scenario by USD 0.4 bn in 2009 and by USD 3.1 bn in 2010. The effect of gradual devaluation (scenario 2.1) is much less in scope: reduction of just USD 0.2 bn and USD 1.6 bn for the corresponding periods. However devaluation during the year (by 425 in the 2–4 quarters 2009) still keep such deficit that it is quite difficult to finance. The main problem of devaluation is its impact on inflation. Within this model in case of sharp devaluation inflation will soar.

Scenario 3: real wage growth reduction has just a little complimentary effect on external trade. However it leads to much

into account that in the end of 2010 there will be another presidential election campaign). However debt accumulation can be an effective strategy only if the crisis is short. It cannot liquidate the reason of the permanent deficit and excessive demand for import and/or low competitiveness of Belarusian goods in external markets. The positive part of this policy is that loans are given under certain condition. One of the conditions is to reform the national economy. If implemented market reforms can contribute to economic growth and mid- and long term. It can also keep trust to the national currency and to the banking system which in its turn will ease Belarus' way out of crisis.

The second tool of deficit financing – foreign direct investment - can also contribute to the reduction of the deficit in the long-term as such investments can bring new more effective technologies and help Belarusian enterprises get better access to external markets. Attraction of foreign investments also requires market reforms that jointly with the reforms “exchanged” for foreign loans can have an additional positive effect for long-term development of the economy. In forecasts based on macromodels it is the investment that are the most sensitive to the external shock that is why the inflow of foreign direct investment could be an important factor of economic growth restoration in the short-term. In order to do this considerable changes in legislation should be made. They might be expected as parts of commitments to IMF.

2. MAIN CHANGES IN BUSINESS REGULATING LEGISLATION

2.1. Control and supervision

The problem of negative consequences of numerous inspections and fines for business development was highlighted by business community long time ago. The growing crisis and the need to liberalize the economy in the end of 2008 the government introduced the moratorium on business inspections for six months (until July 2009). However the effect from such measure did not lead to the reduction of sanctions and fines. For example in the first quarter of 2009 State Control Committee carried out two times fewer inspections (1267) than in the same period of 2008 but the volume of fines that were trans-

ferred to the budget was 215 bigger (BYR 64 bn). As government officials stated inspections in the country are carried out only if there was trustworthy data on violation of laws and also on criminal cases. At the same time the time of inspections was shortened and economic sanctions are applied due to concrete reasons. In spite of these factors the volume of fines increased.

The time for the preparation of the new decree on inspection expired in the same time as the moratorium on inspections. A new order of control and supervision activities should be worked out and adopted. It should substitute Decree #673 as of November 15, 1999. “On some measures to improve the coordination of activities of control bodies of the Republic of Belarus”. The information one the readiness of the document was not available at the moment of writing this quarterly bulletin. It is expected that the new decree will change many approaches to the business control in Belarus and will make it more orderly and with less severe fines.

Press service of the president informed that the draft law in making amendments and additions to a few codes on criminal and administrative responsibility was passed to the parliament. It is expected to ease punishments for violations in the sphere of entrepreneurs. The drafts of these documents are aimed at decriminalization of a few administrative crimes. For example criminal responsibility for tax violation will happen if the damage exceeds 1000 of “base units” (1 base unit = BYR 35,000). Now this threshold is 250 base units. “Considerable damage” will be the damage in the amount of 2500 base units (now it is 1000 base units). Similar approach is planned to apply to illegal entrepreneurial activities. It is planned to reduce fines on more than 30 violations and to exclude property confiscation. Instead the legislators propose the introduction of alternative sanctions.

Norms on administrative punishment for deals with securities without a proper certificate, exceeding the terms of external trade operations, providing wrong information to the bank by importers and other clauses should be excluded from the Code on Administrative Violations. On some violations the responsibility will be laid on a guilty worker not on a legal entity. There are a few changes in the

norms on administrative responsibility for the violation of legislation in the sphere of construction, customs regulation, cash operations and truck cargo shipping. Nevertheless business associations argue that the proposed changes of the legislation did not include many proposals by the representatives of business. In particular the document proposes to increase fines for some violations in the economic sphere. Their maximum amounts are not defined and the procedure of fine application and property confiscation have not been formalized.

2.2. Changes in price formation

Resolution of Ministry of Economy #60 as of March 31, 2009 “On making amendments and additions to Resolution of the Ministry of Economy of the Republic of Belarus as of September 10, 2008 #183” and in particular to Instruction on the procedure price and tariff formation and application. Rules of service prices formation were also corrected. It was decided that the cost of materials, spare parts and aggregates that are used to provide services (works) for the population and to subjects of entrepreneurial activities is included into service (work) tariffs. They can be paid for additionally at the purchasing prices. These expenditures are included into the price. At the same time the new order of pricing states that the cost of materials and spare parts of foreign origin purchased from nonresidents is defined on the basis of prices for imported goods.

The Resolution made additions to Point 19 of Chapter 3 of Instruction “Discounts on prices and tariffs”. Now the rule of dividing the whole sale discount provided by the manufacturer to all trading organizations that are branches of the manufacturer and if 50% of its stock (share in the authorized capital) are owned by the manufacturer. The wording of Point 23 of Instruction was changed. Now the wholesale margin of a trading organization at a transit delivery of a good should not exceed 5% irrelevant of the number of intermediaries.

The possibility of selling the remaining imported goods at the prices that were adopted at the moment of their sales was abolished (point 50 of Instruction). Earlier subjects of entrepreneurial activities could sell the stock of the goods

(either purchased abroad or manufactured) at the price approved at the moment of sales. Now this norm applies only to imported goods. While making selling prices on imported goods importers should be guided by point 12 of Instruction that also gives them some freedom in price formation. According to the new document prices can be set freely based on the market demand on the following goods: locks, brushes, seeds of vegetables and root vegetables, grasses, bulbs, flowers, onion, garlic, goods for zoo shops, implements to furniture, light bulbs and electric appliances. At the same time wholesale and retail margins are limited for such goods as sugar substitutes for the people who have diabetes and for cereals (rice, buckwheat, millet).

Resolution of the Council of Ministers #752 as of June 8, 2009 “On making changes and additions to Resolution of the Council of Ministers of the Republic of Belarus as of June 18, 1999 #943 and as of March 26, 2008 #454” made changes in the list of socially important goods (works, services), prices (tariffs) since July 1, 2009. Prices for these goods are regulated by the state. A few kinds of goods were excluded from the good group “bread and bakery” and “milk” such as pies, goat milk etc. The good group “potatoes and vegetables” was substituted with the group “fresh potato and vegetables”. Hairdresser’s services (excluding services of salons and salons “De Lux”), laundry and documentary photo services were excluded from the list of socially important goods (hence from the list of the goods with state regulated prices).

Ministry of economy stated that “the exclusion of the mentioned above groups of goods (services) from the list of goods with regulated prices is due to the fact that today there is a certain price level for these goods and services in the country and free pricing primarily for services will allow to attract SMEs into the area of household services which will contribute to the creation of competitive environment in this sphere”.

Hence some measures to change price registration were made but there has not been meaningful improvement in it.

2.3. Plans to reform the taxation system

Lowering taxes can be an effective tool

to stimulate business activities in the economy in the crisis. In Belarus the following measures to reduce tax burden are planned: abolition of the fee to Republican Fund for agricultural producers support (1%), sales tax (5%) and local fee from profit (3%). It was also planned to reduce corporate income tax (by 4%). However it is also planned to increase VAT from 18% to 22%. The abolition of turnover taxes could have a positive effect on labor costs of enterprises as they will pay fewer taxes. However experts argue that that increase of VAT rate would have a negative effect on the enterprises with high share of value added primarily in the service area. It would lead to the price increase in the domestic market.

There is another point of view on the proposed changes. They are aimed at ensuring steady inflow of taxes to the budget in the crisis at the expense of more reliable tools. For example as Belstat reports in January – March 2009 gross income of enterprises fell by 34% compared to the same period of 2008. In the first quarter of 2008 income and profit taxes made 17.2% of all tax revenues and in the first quarter of 2009 – less than 13%. The share of excise taxes fell from 10.3% to 9.7%. The revenues from fees to Republican Fund for agricultural producers support fell from 7.8% to 5.7%, fees to innovation funds – from 5.7% to 6.1%. At the same time the share of VAT increase from 22.3% to 26.7%. The proposed tax changes could lead to higher centralization of tax revenues, the reduction of local budget revenues and further loss of their independence.

At the same time it should be noted that the abolition of a few turnover taxes could have a positive impact on the image of the country in the international ranking of business climate (for example “Doing Business” of the World Bank and International Finance Corporation). Such reform measures would send a signal that the government is dealing with the most problematic area of business climate – taxation system.

2.4. Changes in regulation of external trade

Since May 1, 2009 according to Resolution of the Council of Ministers and National Bank #548/8 as of April 30, 2009 “On non-monetary ways to meet commitments on external export oper-

ations” barter was allowed to use to meet financial obligations at export operations.

Law #22-3 as of June 3, 2009 “On making changes and additions to Law of the Republic of Belarus “On foreign currency regulation and foreign currency control” introduces the lists of current foreign currency operations, operations of non-trade character and the rules of carrying them out. The amendment increased the list of current foreign currency operations by adding the operations connected with the transfer and (or) receiving assets as a result of leasing (rent) operations, transfer or receipt of dividends and other investment income. The list of operations of non-trade nature was expanded to include transfers to pay fees in patent offices and other payments, transfer and the receipt of money connected with the participation in conferences, seminars, sport events, exhibitions, fairs and also as mistakenly transferred and/or transferred in excess to the required sums.

The Law also simplifies the order of carrying out foreign currency operations by legal entities and individual entrepreneurs – residents of Belarus connected with the transfer of money to purchase contest (tender) documents for the participation in contests, tenders, auctions, receiving loans by banks and non-bank credit financial organizations. The same refers to carrying out foreign currency operations connected with the movement of capital such as selling non-residents shares in authorized funds of a legal entity-resident at the expense of deposits of non-residents in foreign currency, Belarusian rubles or securities. It will not be necessary to receive a permission of the National Bank to carry out such operations. The Law will come into legal force in December 2009.

2.5. Import restriction

The government adopted more measures to restrict import and to protect national manufactures. Decree of the president #162 as of March 31, 2009 set 60% import duty of the invoice price on starch made of potatoes. Manufacturers of Belarusian starch welcomed such measure as they had big inventories and faced problems with selling their product. In Belarus starch sector is represented by 15 plants with the annual production of 14–16 thousand

tons. The volume of the domestic market is about 20–25 thousand tons but Belarusian starch is more expensive than foreign one. For example Polish starch is 1.5 times cheaper.

Import of fish products and sea food products can also be considerably limited in the near future. There will be no restrictions only for imported raw materials that are used for further processing in Belarus. The government sets the task of domestic market protection and to limit competition for local producers. Government officials say that there are a few big fish and seas food producers. Moreover new facilities may be launched if new investors enter the Belarusian market. At the same time since May 1, 2009 sixteen organizations were denied the right to import fish and sea food to Belarus. The explanation of such decision was that in the beginning of 2009 they did not use their quotas on fish and seafood import. As a result import of fish to Belarus fell by 25% which led to the price increase on these products.

Since the end of April import duties were temporarily increased for other consumer goods. It as done by Decree of the president #214 as of April 21, 2009 "On temporary rates of customs duties for goods". In particular 40% import duty for meat and meat products was set for nine months, for natural grape wines and yeast – 30%, butter and other fats made of milk, starch, ice cream – 25%, sweaters, t-shirts, coats, raincoats, skirts, suits, pajamas, lingerie – 25%, fridges, freezers and washing machines – 25%, vacuum cleaners and DVD-players – 30%, microwave ovens and TV sets – 40%. The minimal import duty on TV sets was set to be from 50 to 200 euro. In addition the government introduced prohibitive import duties 180% for six months for potatoes, onion, cabbage, carrot and beetroot.

In spring the State Customs Committee (SCC) proposed to lower the limit on duty free import of goods by physical entities from abroad from EUR 1000 to 200. Such measure was aimed at partial solution of the problem of foreign trade deficit and also to stimulate domestic demand. Such measure ignited a very negative reaction of the press. Experts argued that such restrictions could not solve the problems of foreign trade deficit as the biggest share of Belarusian import is not the import of

consumer goods (17%) but the import of intermediary and investment goods. Such measure will have a negative impact on the welfare of citizens and will not have any meaningful effect on the foreign trade deficit. The decision to lower the limit of duty free import has not been made yet. However as the SCC stated the limit of duty free import of goods can be lowered to 200 euro but not earlier than the end of the holiday season. At present the limit 1000 euro is still valid for physical entities.

2.6. Plans to reform rent relations

High level of rent in Belarus is one of the considerable stumbling blocks for business development in Belarus. Moreover the tie-up of rent rates to euro in the environment of devaluation in the beginning of 2009 led to substantial deterioration of financial state of legal entities. Under the existing conditions the government offered to change the tie-up of rent rates from euro to "base unit". Such decisions is proposed to take into force from 2010. Draft decree "On some issues of rent and passing assets to economic entities free of charge" which was prepared by the State property Committee was sent to different state bodies and business association for consideration.

As the bi-weekly "Ekonomicheskaya gazeta" states the draft decree proposed to set the base rate of rent in Minsk in the amount of 0.5 of base unit, 0.3 of base unit for regional cities, 0.25 base units for big district cities, 0.2 base units for other district cities and 0.1 base units for other places. The state in Belarus is the main owner of real estate that is rented to business (about 80%). The document will deal with state enterprises, the organizations where the state is a majority stock holder and private enterprises according to Decree #148¹ that regulates trade space for individual entrepreneurs. At the same time Belarusian entrepreneurs insist on setting rent rates in Belarusian rubles not in base units as the base unit can be changed which will lead to the increase of rent payments. Moreover according to the draft decree the lessor upon agreement with the lessee can apply the index from 0.5 to 5 to the rent

rate. It enables the lessors to even increase the rent rates even more. There is shortage of commercial space to rent in Minsk and in big Belarusian cities.

In addition the draft decree states that the index 3 can be applied to the rented space where directors of the company, sales department, financial technical services and accounting department are located. Indexes that lower rent payments for production facilities are not envisaged. The draft decree can also eliminate the institution of subrent in Belarus. The draft decree does not envisage the indexes that increase rent payments at subrent operations. In this case there is no commercial sense in making such deals.

Rent rates of trading places at markets and trade objects of private form of property should also be regulated anew. The draft decree proposes to set the following rates; from 0.3 of base unit in regions to 1.1 base unit in Minsk. If the level of rent payments does not allow owners of market places and trade objects to compensate maintenance and development costs the increasing indexes can be allowed by regional executive committees and Minsk executive committee.

Ministry of economy adopted Resolution #80 as of April 30, 2009 "On making amendments to Methodological recommendations on application of increasing indexes to rent rates that apply to trade places at market places and other privately owned trade objects". The Resolution introduced the 30% ceiling on profitability which is applied to the sum of rent payments. The list of maintenance costs that can be compensated at the expense of rent payments was approved. These costs can be taken into account while making an economic justification of application of indexes that increase rent payments.

2.7. Plans to adopt new privatization regulation

A new draft of privatization law was worked out by the government. It is being considered and agreed upon in different state structures and agencies. As Director of Fund for State Property V. Kovalevsky stated it is envisaged to terminate free of charge privatization. State property is proposed to be sold only for payment. Forms of privatization and the number of objects for privatization will

¹ Decree of the President #148 as of March 24, 2005 "On urgent measures to support entrepreneurship".

be increased. It is expected that if stocks are not sold at the auction they will be offered at Belarusian currency stock exchange. The draft law also proposes to sell stocks of open stock holding companies that were in trust management. The order of selling state assets will be regulated if the number of buyers is limited.

At the same time State Property Committee is working on amendments of Law #156-3 as of May 5 1998 "On objects that are owned only by the state". It is planned to shorten the list of such objects. Government officials argue that in different sectors state enterprises compete with non-state companies and hence it is not necessary to keep old approached to privatization. Decisions of the president to sell 44 open stock holding companies are being prepared. Stocks will be sold through auctions and contests.

2.8. The most problematic areas of business regulation: opinions of SME representatives

In January – April the number of small businesses (legal entities) in Belarus increased considerably. Compared to the same period of 2008 it went up by 21.6%². However the role of small business in the economy is still small. It produces about 9% of GDP and it employs 12% of the labor. The share of such enterprises in the overall volume of investment in fixed capital is also insignificant – 11%. Small business is primarily concentrated in the spheres that do not require high skills and qualification, specialized knowledge and big volumes of finance (trade and catering, transport, household services etc.)

Based on the polling of participants of the 10th annual session of the Council for Development of Entrepreneurship in Belarus (representatives of state bodies of power, top managers of enterprises) a few problem areas for the development of small and medium business in Belarus were formulated:

- absence of meaningful increase of the role of small enterprises in the economy of the country;

- concentration of small businesses primarily in the areas that do not require high level of qualification, specialized knowledge and big volumes of financial investment;
- considerable restrictions on production cooperation between small private companies and big state enterprises (small private companies are often considered not as partners but as competitors. Moreover big state enterprises are often banned from buying raw materials, spare parts and other materials from small enterprises);
- limited possibility of companies to stimulate labor of high-skilled workers and experts (they have to make additional payments from profit);
- restriction on the term of hard currency payment from abroad – 90 days which is quite problematic in crisis;
- keeping the system of ordering production output indicators to private enterprises without any share of the government and without any support from it;
- old system of price formation in construction, problems of trade development in the existing system of price regulation.

These are just a few problem areas in business regulation that were voiced during the session of the Council for Development of Entrepreneurship. In real life there are many more problematic areas for private business development. One of such areas is a cumbersome, complex taxation system and heavy tax burden, licensing, price formation, excess to financing etc.

2.9. Features of business regulating legislation

The quality of the legislative system in Belarus is criticized not by local economic entities but also by foreign companies and international cooperation in general. Contradictory and complex normative acts, their constant changes, difficulty in interpreting them – all these factors hamper the functioning of enterprises. Director of the National Center for Legislation and Legal Research V. Mitskevich complained that corporate interests of different ministries and state structures often interfere with the pro-

cess of preparing qualitative legal acts. At the same time other state bodies lack any initiative. For example during the work to simplify administrative procedures different state structures actively lobbied their interests that prevented from reaching the general goal. Moreover Belarusian laws are full of references to other legislative acts and norms that are described in different instructions and methodological recommendation. Very often they distort the meaning of the main document. Tax and customs legislation are the most problematic to Belarusian business. V. Mitskevich believes that another big problem in Belarus is instability of legislation. For example more than 200 amendments and additions were made to Code of Administrative Violations since its adoption. Twenty three codes that exist in Belarus were amended 177 times for the last three years. The most frequently amended codes are Procedural-Executive Code, Criminal Code, Criminal-Procedural Code, Civil Code and Code on Administrative Violations. At the same time as V. Mitskevich stated Belarusian legislation in general had improved its quality.

It is possible that in the near future there will be a full list of administrative procedures. It will make them and their execution more orderly. As Viktor Margelov, Chairman of Republican Confederation of entrepreneurship said the government is finalizing the work on making the single list of administrative procedures. The possibility of making such list was discussed as early as in summer 2007. It was believed that there would be a full list of such procedures and other procedures that were not included into the list would be considered illegal. Adding new procedures to the list would be possible if government officials justify it. So far it is difficult to estimate consequences of such legislative innovation on debureaucratization of economic relations in Belarus.

3. SOME BARRIERS AGAINST COMPETITIVENESS AND SALES INCREASE

3.1. Energy effectiveness

Experts of International Finance Corporation (IFC) say that competitiveness of Belarusian goods on external markets can increase at the expense of the reduction of energy costs as Belarusian economy is still among the most ener-

² The increase of the number of small enterprises was primarily due to the introduction of a new declarative principle of registration from February 1, 2009 (instead of the old principle when a person is asked for a permission to get him company registered).

gy inefficient in the region. IFC states that to produce USD 1 of GDP Belarus uses 4.4 kw/h of energy which is 1.8 times more than in the USA, 1.9 times more than in Poland and 2.6 times more than in Germany. This problem is becoming even more topical in the context of switching to world gas prices with Russia in 2011.

International Finance Corporation (IFC) can finance Belarusian projects in the sphere of energy efficiency in the future. It is in the state of negotiation with two Belarusian banks on giving them special products to invest in energy efficiency. Analyst of IFC consulting programs O. Puntus also said that IFC's possibility to invest would depend on liquidity of Belarusian banks that cooperate with it. IFC informed that in Russia for the last four years it gave banks USD 150 m. An average loan for an SME was about USD 400,000.

Within the program "Energy Efficiency – new resource for sustainable development. Study of energy saving practices at Belarusian enterprises" IFC studied energy efficiency of more than 100 Belarusian enterprises of different size in metal works, machine building, food and chemical sectors, production of building materials. These enterprises make more than 90% of Belarusian export.

As the Study showed only 28% of small, 56% of medium and 71% of big enterprises carry out their energy efficiency plans. For the last few years the enterprises made moderate modernization of their production equipment. At the same time as IFC experts argue this process should be accelerated as the share of companies where it has been in operation for more than 15 years is 41%. It is particularly true for chemical and petrochemical sectors. The problem is less acute in food and metal work sectors. Companies in these sectors carried out more energy efficiency programs than in other sectors of the Belarusian economy. IFC experts believe that having considerable potential of energy saving measures and the means that can be saved if optimization of energy consumption is done Belarus can reduce energy consumption of GDP by 30% by 2010.

Based on the results of the Study the authors prepared recommendations to improve practices of energy saving in the real sector of the economy. They

Table 5. Sales of food and non-food products, January–May 2009 in % to January–May 2008 (in real terms)

Food products	%	Non-food products	%
Meat and meat products	102.5	Clothes and underwear, BYR bn	100.1
Meat and chicken meat	104.3	Knitting, BYR bn	114.8
Sausages and smoked meat products	100.6	Linen, BYR bn	115.2
Canned meat, m of cans	108.1	Socks and stockings, BYR bn	103.9
Butter	98.4	Leather footwear, BYR bn	106.0
Cheese	95.6	Building materials, BYR bn	82.8
Vegetable oil	129.9	Perfumes and perfume goods, BYR bn	106.6
Sugar	108.2	Tabacco goods, bn pieces	102.4
Fish and sea products including herring	90.0	Detergents, thsd tons	131.8
Cereals	114.6	Fridges and freezers, thsd of units	106.8
Pasta	113.7	Washing machines, thsd units	88.0
Eggs, m	101.2	Color TV sets, thsd units	72.6
Soft drinks, m decaliters	104.7	Drugs, BYR bn	105.8
Sweets	103.1	Gasoline, thsd tons	99.1
Juices, m cans	100.2		

Source: Belstat.

stated that first of all directors of enterprises should make a realistic assessment of technically possible for enterprises reduction of energy consumption and the means to achieve it. IFC recommends to carry out financial analysis of possible measures to improve energy efficiency. The authors of the Study believe that such analysis would be a tool to make investment decisions for an enterprise. It will also demonstrate the feasibility of the project for potential creditors.

3.2. Features of the population demand

The reserve of the consumption boom in the domestic market which Belarusian economy enjoyed in the recent years and which contributed much to its growth is almost exhausted. As deputy chairman of the National Statistical Committee (Belstat) V. Mikhno informed the growth rate of retail trade turnover is falling. In January – May 2009 it increased just by 5% compared to the same period of 2008 (in 2008 retail trade turnover was 20.5%).

Belstat stated that the composition of consumption is changing. In recent year the share of household income that was spent on non-food products grew which is an indication of the growing life standard. In 2008 for the first time in recent years the share of non-food products in the structure of retail trade turnover was higher than the share of food products and reached 50.6%. In January – May 2009 this indicator fell to 49.4%. In the crisis environment we observe that people change their consumption from non-food to food products. It is the evidence of the falling level of their wel-

fare. As a consequence in Belarus in January – May 2009 sales of food products that can be stored grew. For example sales of vegetable oil increased by 29.9% compared to January – May 2008, pasta – by 13.7%, cereals – by 14.6%, sugar – by 8.2%, canned meat – by 8.1%. At the same time the sales of fish and sea products including herring fell by 10%. Consumption of cheese also fell by 4.4%.

From non-food products the biggest increase of sales was registered with fridges and freezers – 33.9% in January – March 2009. It was due to the devaluation but by May 2009 the sales growth rate fell to 6.8%. The sales of detergents grew by 31.8% in January – March 2009, linen and knitting – 14.8% and 15.2% correspondingly. At the same time the sales of color TV sets fell by 27.4%, building materials – by 17.2%. The data on sales of main consumer good are given in Table 5.

At the same time the consumption of alcohol drinks in Belarus grows each year. The crisis did not break this tendency. In 2005 the consumption of pure alcohol per capita was 9.3 liters and in 2008 it went up to 12.4 liters. As the World Health Organization states 8 liters is the limit after which the process of active degradation of the nation begins. Unfortunately the situation in Belarus does not improve.

3.3. Restrictions on competition in regions of Belarus

Artificial restriction of competition among regions of Belarus has been around for many years. As business complains during the period trade wars

among regions got even more intense. There are unwritten barriers for selling the goods produced in other regions of Belarus. In the near future this problem can be solved. Ministry of economy initiated the draft document that will introduce a direct ban on any restrictions of goods movement inside the country. The document is being agreed upon by different government structures. Representatives of regions are quite skeptical of the effectiveness of such change as all regions still get target retail sales growth indicators. In the first quarter of 2009 not a single oblast and even Minsk reached their corresponding target indicators. All regions face difficulty with selling goods which pushes them to apply protectionist measures.

4. MAIN GOAL OF THE NATIONAL BUSINESS PLATFORM-2009 – IMPROVEMENT OF BUSINESS CLIMATE³

The proposals of business community which are aimed at improving business climate in Belarus are provided in the National Business Platform of Belarus. Business associations from Minsk, Brest, Vitebsk, Grodno, Gomel and Mogilyov initiated it. Minsk Capital Union of Entrepreneurs and Employers in partnership with Analytical Center “Strategy” and IPM Research Center lead the process of working out draft documents and agreeing them with thousands of entrepreneurs and all major business associations.

The tradition of annual adoption of NBP of Belarus was initiated four years ago. The first National Business Platform 2006 had an impact on the change of business climate in the country. That year the authorities fully or partially integrated just one third of all proposals of the business community. In 2007 the number of proposals that were integrated into the legislation increased to more than half of the NBP proposals.

The effectiveness of NBP recommendations can be judged by the following data. Out of 112 proposals of the NBP-2008 the following 22 points were integrated into the current legislation:

- abolition of “golden” share;
- the ban on off-court confiscation of goods and assets was introduced;
- the requirements to indicate all kinds of economic activities in the authorized documents and to inform the registering body about the change of activities were abolished;
- the declarative principle of registration of commercial organizations was introduced, the requirement to the authorized documents were eased;
- a new order of registration and liquidation of legal entities was adopted;
- inspections were suspended for six months;
- flat rate 12% for personal income tax was introduced;
- the list of goods that can be sold without obligatory certification was expanded;
- private universities were freed from paying VAT (18%).

59 recommendations of NBP-2008 are being considered by different government structures. They are either included into the draft documents or into the plans of legislative activities of different government structures. 28 propositions of NBP are on the initial stage of consideration and integration into the legislative base. Only 11 propositions of NBP-2008 have not been addressed at all. 30 proposals and ideas formulated in the NBP were included into the governmental Program to liberalize the economy.

These measures had a serious impact on the change of business climate in Belarus. If not for the consequences of the financial crisis the positive results of the dialogue between the authorities and business have been more impressive. Of course the authors of the Platform – entrepreneurs, experts of think tanks and business associations – take into account the fact that many proposals that were included into the liberalization program should be expanded and presented in greater detail. Their elaborations were included into the draft of NBP-2009 which was adopted on March 4, 2009 at the Republican Assembly of Business Circles. Minsk Cap-

ital Union of Entrepreneurs and Employers, Republican Confederation of Entrepreneurship, the Council for the Development of Entrepreneurship in the Republic of Belarus proposed to adopt NBP-2009 at the Assembly. The Assembly was attended by 345 persons (founders and directors of enterprises) representing 31 business associations from all regions. The Assembly was also attended by diplomats, scholars, experts, representatives of international organizations and all branches of power.

The final version of NBP-2009 (with amendments made at the Assembly) was sent to all republican and local bodies of power, to ministries and governmental structures, to the parliament and Presidential Administration and other structures. The NBP-2009 was presented at the Public Consultative Council at the Presidential Administration. As the time when NBP-2009 was finalized coincided with the final stage of the preparation of the government liberalization program many propositions from NBP-2009 were included into the governmental program.

NBP-2009 contains 145 proposals aimed at the considerable improvement of business climate in the country. Of course all problems that SMEs face cannot be addressed in such relatively short document but the proposed reforms of the business climate would definitely solve many of the most burning existing problems. There is a potential for SMEs today to considerably increase its contribution to GDP production. This potential will be released if NBP-2009 is implemented.

However we have to state that the authorities while analyzing the proposals of the business community are far from using all its potential. There are still many burning issues. The first problem is price regulation. Market liberalization that will enable market participants to self-regulate should be initiated. Antimonopoly legislation should be considered. Tax reform is long overdue. Social fees should also be lowered. Another urgent issue is to lower fines that are levied on SMEs for minor violations of legislation. The NBP-2009 also proposes the acceleration of privatization, simplification of goods and services certification, ensuring easier access to credit resources and more transparency in economic policy and governance.

³ This part of the quarterly report was prepared by press center of MCUEE, tel. (+375 017)298-24-52, www.allminsk.biz.

As in previous versions of NBP the National Business Platform of Belarus 2009 is a Road map for Belarusian business. If fully implemented business climate in Belarus will become much better. Belarusian business will have a much better environment for effective operation.

5. CRISIS: REACTION OF BELARUSIAN BUSINESS (BASED ON IPM BUSINESS SCHOOL SURVEY)

The crisis had a different impact on representatives of Belarusian business. Some of them just want to survive while others build plans to expand business. Such conclusions can be made based on the research of IPM business school "Crisis: reaction of Belarusian business". Representatives of wholesale and retail trade, service sector and manufacturing were polled by experts. The companies were asked to analyze such spheres of the company activities in crisis as marketing, finance and staff management.

One third of the companies that took part in the survey noted that they began an active search for new clients. Others concentrate on the work with the existing clients. Some enterprises refused to cooperate with budgetary organizations due to their low payment discipline. There is a tendency to change the emphasis from the work with big clients to the work with small ones. The emphasis is also on servicing loyal clients. Some companies pointed out at the expansion of the assortment of their goods but the majority of the companies reduced the assortment. At the same time companies are not in a hurry to cut prices. Instead they offer discounts and favorable payment terms for their clients.

As for the distribution system companies reduce their expenditures and urge their own sales network to switch from partnership deals with big dealers to the work with a few small ones. In selling strategies internet became a popular means for goods promotion. Companies began to use inexpensive advertisement materials and sharing with clients new ideas on purchases free of charge.

In terms of cutting expenditures about one third of the companies as the polling showed lowered wages. Moreover

before the crisis the constant part of the wage prevailed while today it is the variable part of the wage that is bigger. At the same time there was no mass reduction of labor but just slight optimization of companies' staff (firing useless employees and bad sales managers as well as some administrative staffers). In crisis Belarusian enterprises try to make better use of their working time and stimulate creativity of their employees. Some companies increase the working hours and employees are given more free hand and initiative. The "ideological motivation" is becoming stronger.

The structure of capital of companies has not changed much. Belarusian enterprises still rely on their own means and the share of loans is not big. Only 12.5% of all companies indicate the increase of the share of loans in their capital. At the same time accounts payable are growing due to the deficit of turnover capital for timely payments.

"Crisis is beneficial for good leaders and companies", – argues Pavel Golenchenko, general director of IPM Business School. The environment is changing, the state of the market is changing and the number of clients is falling. At the same time during the crisis weak competitors die and the market is left for strong players. He believes that companies should not focus on external factors as the main source of the problems. Many factors can be dealt with within the company. It is necessary to use internal reserves and opportunities to deal with the crisis. Such measures can be taken by the companies themselves without any recourse to external factors.