

In this issue:

Possible results of application of economic policy measures in Belarus in the context of the world economic crisis (results of macroeconomic modeling). The main changes in business regulating legislation. Research of “Doing Business-2010” study.

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Dear Readers!

We are pleased to offer you the 17th issue of the quarterly “Small and medium business in Belarus”. We analyze the economic policy of the authorities in the conditions of economic recession and the main changes in business regulation in the last quarter. In addition we provide the results of the World Bank and International Finance Corporation’s Study “Doing Business – 2010”.

In the first Part of the quarterly we analyze the perspectives of economic development in Belarus in the context of the world economic crisis and describe possible scenarios of economic policy. Based on macroeconomic modeling we conclude that to liquidate considerable external trade deficit both in mid- and long term perspective it is necessary to carry out the measures of structural policy which are aimed at the increase of national competitiveness. These measures should be coordinated with the current measures of macroeconomic policy.

In the second Part we analyze the main changes in business regulatory framework. Last quarter the main changes were aimed at combating import and supporting import substitution schemes. In addition the government also made some steps to attract foreign investment.

In the third Part we describe the results of the Study “Doing Business-2010” conducted annually by the World Bank and International Finance Corporation. Based on the results of the business climate regulatory reforms Belarus moved in the ranking up by 24 places compared to the previous year (in DB-2009 Belarus moved up by 30 places) and ranked 58th out of 183 countries. Nevertheless Belarus still took the last 183rd place on “Paying Taxes” factor.

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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. MEASURES OF ECONOMIC POLICY IN BELARUS IN THE CRISIS ENVIRONMENT: RESULTS OF ECONOMETRIC MODELING

1.1. Policies directed at overcoming recession and its results

In 2009 Belarusian economy faced a few challenges that are the consequences of its structural distortions. These distortions are to a big extent enhanced by external demand. Under these circumstances the current account deficit reaches a threatening size. The measures to combat the current account deficit in Belarus include more flexibility to the exchange rate and tighter budgetary discipline.

Simultaneously the government pays too much attention to sustaining economic growth. That is why though the mentioned above policy leads to the reduction of government expenditures it also leads to investment and household consumption stimulation. Monetary policy is also quite contradictory. The authorities keep high interest rates and restrictions on placing deposits of the government in the banking system and at the same time these measures go hand in hand with active refinancing of banks. So far such policies prevented GDP from falling which is not the case in neighboring countries which are key trade partners of Belarus. However on the other hand Belarus experienced the high growth rate of external borrowing which made it possible to balance the currency and money markets.

The growing external trade deficit made the authorities revise their currency policy in the beginning of 2009. Firstly on January 2, 2009 the exchange rate of the Belarusian ruble was changed by 20.45% which was one of the requirements of IMF's standby program. Secondly, the National Bank switched from the dollar targeting to the basket of currency targeting (euro, dollar, and Russian ruble on the parity basis). The NBRB used 5% band for the exchange rate flow. Later the band was expanded to $\pm 10\%$. This decision was also supported by IMF¹. However it is worth noting that the January devaluation was not accompanied by the policies to reduce

external trade deficit. As a result the effectiveness of the devaluation from the point of view of the external trade the deficit was low. As the devaluation was not enough to balance the current account economic entities became more active in attracting foreign loans to reach macroeconomic balance. The tightening of global financial markets led to the restriction of access to private loans. That is why starting from November 2008 fast accumulation of state loans began.

Active external loans can be justified if the problem of external trade deficit is short-term and it is accompanied by the adequate policy to balance the current account in the near future. The incentive of getting external loans was aimed at financing the deficit in the current period – not at the balancing of the current account in the future.

A few measure of economic policy were used to influence the domestic demand in the period of crisis. On the one hand the government pursued the policy of financial restriction and the reduction of wage growth. These measures were aimed at the reduction of demand for import. However the implementation of such measures in practice leaves much space for maneuvering. Moreover the considerable growth of investment demand was supported by credit expansion which in its own turn was guided by administrative methods.

Hence a set of anti-crisis measures adopted by the authorities can be summarized in the following way:

1. the increase of exchange rate policy flexibility while keeping 10% currency band relative to the basket of currencies;
2. restriction of additional inflation risks and the demand for additional external loans by means of keeping the fiscal discipline;
3. application of restrictions in income policy and the reduction of public consumption in order to limit the demand for import and hard currency;
4. stimulation of investment demand (primarily through housing investment);
5. Financing the deficit of the current account by means of foreign debt accumulation (primarily public foreign debt).

1.2. Macroeconomic model of the Belarusian economy: short survey

In 2006 IPM Research Center² worked out a small macroeconomic model of Belarusian economy. Later it was revised in and renewed 2007³, 2008 and 2009. The main goal of working out the current version of the model is to forecast the effects of the global economic crisis on the Belarusian economy. One of the main differences of the current model from previous ones is to define GDP just in short period based on the components of aggregate demand while earlier the long-term trend was used based on the production function. That is why the forecast interval of in the previous model was quite short. It should not be more than 2–3 years.

The Interconnections in the previous models can be divided into the following blocks:

1. Domestic demand: household consumption, gross capital accumulation (investment), change of inventories of material turnover means (consumption of households and non-commercial sector as exogenous variables);
2. External sector: export and import of goods and services, average export and import prices (deflators);
3. Labor market: wages (employment is considered as an exogenous factor);
4. Money market: demand for money, interest rates and inflation;
5. GDP: it is defined as a sum of consumption of households, government and non-commercial sector, gross accumulation of capital, change of inventories of material turnover capital and net export of goods and services.

1.3. Scenarios of functioning Belarusian economy in 2009–2010

We present the results of econometric modeling within two scenarios that are

² Kruk D., Pelipas I., Chubrik A. (2006). *Main macroeconomic interrelations in the economy of Belarus: results of econometric modeling*, Minsk, IPM Research Center.

³ Kruk D., Chubrik A. (2007). Scenarios of developing Belarusian economy in Belarus after the energy shock: forecast based on the macroeconomic model. In: *Growth for everybody? New Challenges for Belarusian economy*, edited by Gaiduk K., Pelipas I., Chubrik A., Minsk, IPM Research Center.

¹ IMF (2009). IMF supports the decision of the Republic of Belarus to expand the band of the exchange rate flow. IMF press release, June 22, 2009.

Table 1. Scenarios

№	Content of a scenario:
1	Base scenario: current set of measures of economic policy; forecast of the world economy development – forecast of the world economy development ⁵ IMF
2	Base scenario + additional devaluation by 51.0 and 35.5% y/o/y in 2009 and in 2010 correspondingly + cumulative deduction of real wages by 15% from three quarters of 2009 and until the fourth quarter of 2010.

Table 2. Exogenous variables (Scenario 1 – base scenario)

Growth rate, % yoy (if other indication is not given)	2009	2010
Nominal devaluation to US dollar (annual average)	33.3	6.7
Government consumption (in real terms)	0.0	0.0
Real discount rate, % annual	-1.0	-1.0
Money vase (4 th quarter to 4 th quarter of the previous year)	-5.0	2.0
Employment (annual average)	-1.0	-0.8
Crude oil world price (annual average, USD/barrel)	60.4	72.4
Russian gas price for Belarus (annual average, USD/1000 m ³)	150.0	155.0
Russia's real GDP (annual average)	-6.5	1.5
Euro zone real GDP (annual average)	-4.8	-0.3
Inflation in Russia (annual average)	12.9	9.9
Nominal devaluation of Russian ruble to US dollar (annual average)	29.4	4.9
Inflation in the USA (CPI, annual average)	-0.9	-0.1
Employment in Russia (annual average)	-1.0	-1.0

Source: IMF forecast, US Energy Information Administration, STEO data base; own estimates.

Table 3. Main macroeconomic indicators (Scenario 1)

Growth rate, % yoy (if other indication is not given)	2009	2010
Real household consumption (annual average)	-0.1	-1.3
Gross capital accumulation (annual average)	7.2	-14.2
Export of goods and services in real terms (annual average)	-41.6	28.3
Import of goods and services in real terms (annual average)	-24.3	6.9
Real GDP	-1.2	-5.6
Inflation (annual average)	16.2	16.7
Real wage (annual average)	-3.1	-0.9
Current account deficit, USD bn	-8.2	-7.7
Current account deficit, % of GDP	-15.7	-13.6

Table 4. Main macroeconomic indicators (Scenario 2)

Growth rate, % yoy (if other indication is not given)	2009	2010
Real household consumption (annual average)	-0.4	-2.4
Gross capital accumulation (annual average)	6.6	-17.5
Export of goods and services in real terms (annual average)	-38.9	36.8
Import of goods and services in real terms (annual average)	-23.1	-7.1
Real GDP	-1.4	-5.0
Inflation (annual average)	21.6	40.7
Real wage (annual average)	-3.5	-9.7
Current account deficit, USD bn	-7.8	-5.0
Current account deficit, % of GDP	-16.0	-10.1

based on different growth rates of the world economy and also on the suggestions of using different measures of economic anti-crisis policy of Belarusian authorities. As a base scenario of the development of the global economy we use IMF forecasts that were presented in the latest revision (July 2009) of the bulletin "Perspectives of the world economy development"⁴. While considering the economic policy of Belarusian authorities we take the following tools: growth of devaluation, wage restriction,

government consumption, investment demand stimulation. The list of the scenarios is given in Table 1.

Within the base scenario (1) it is suggested that the world economy will develop according to the IMF forecast, i. e. gradual way out of recession of most of the countries and the world economy in 2010. Among the measures of economic policy in Belarus this scenario suggests keeping the policies which were carried out in the first half of 2009. The main exogenous variables within this scenario are taken as presented in Table 2.

The model solutions within the given scenario lead to the following macroeconomic indicators (see Table 3).

Within the second scenario we make assumptions that (in addition to the prerequisites of Base scenario) the average annual devaluation rate will be 51.0 and 35.5% in 2009 and in 2010 correspondingly alongside with gradual reduction of real wages by 15%. The macroeconomic results within this scenario are given in Table 4.

1.4. Conclusions on possible results of the economic policy within the scenarios

The main conclusion within the given scenarios is the problem of the steady external misbalance (current account deficit). According to the forecasts of the base scenario the current account deficit will be 15.7 and 13.6% of GDP in 2009 and 2010 correspondingly. Within the scenario of considerable devaluation and tight restriction of wages – these are the key tools that are considered for balancing the current account – the deficit will still be at a quite high level. The reduction of government consumption is considered to be less effective to reduce the current account deficit due to the strong substitution effect. We can conclude that at present the current account deficit is mainly a structural problem for Belarus which is very difficult to solve by means of macroeconomic policy.

At present the tools of economic policy that are used are either not sufficient or the degree of their application to balance the current account should be so intense that would lead to considerable drop of the standard of living. The hope to reach an "acceptable" level of the deficit quickly can be reached only in case of fast restoration of world economy economic growth. At the same time such restoration of economic growth and the volumes of world trade is unlikely. That is why we believe that to liquidate the huge external deficit both in mid term and long term perspective it is necessary to simultaneously take measures of structural policy aimed at the increase of national competitiveness alongside with the agreed upon list of measures of current macroeconomic policy.

As the problem of the external misbalance is considered to be long-term the tools of financing it and the use of public borrowing in particular are of big interest. We believe that now there is no clear-cut strategy to reduce the current

⁴ See <http://www.imf.org/external/pubs/ft/weo/2009/update/02/pdf/0709.pdf>.

⁵ Forecast of the world economy development.

account deficit to finance the deficit Belarus has. At the same time we observe the situation when the government attracts external loans to finance the existing deficit. With this kind of approach when the deficit is financed by new loans the critical level of loans can be reached quite fast (especially if we take into account a high level of debt servicing⁶).

Finally it is worth noting that practically all our scenarios⁷ demonstrate the inevitability of recession in Belarus. In a big part it is due to the fact that earlier the recession prevention was reached by means of domestic demand stimulation. Most of such measures if further applied both in mid term and long term periods will damage the Belarusian economy. That is why the choice of measure of economic and institutional policy should take into account this danger. Long-term economic growth should be the priority of the comprehensive economic policies.

2. MAIN CHANGES IN BUSINESS REGULATING LEGISLATION

2.1. Fight with import and import substitution

Belarusian government continues its fight with the deficit of the balance of payment. As one of the measures to achieve this goal the government urges the private business to substitute import by domestic production. Concerns "Belbiofarm", "Bellegprom", "Belneftekhim" sent out the lists of specific goods to business associations. The lists included such goods as dried fruit, vanilla, cocoa powder, concentrated exotic fruit and many more goods that are used in food and light industry, construction and other sectors of the economy⁸. All in all the list contains more

than 100 positions many of which can not be produced in Belarus. At the same time Head of the State Control Committee Z. Lomat during his report to the president on the state of the import substitution program implementation said that *"the situation does not change. Some kinds of the goods that were produced as substitutes of imports are still stockpiled and not demanded"*. In this situation the administrative mode of managing production and trade can hardly solve the problem of import.

We rather need economic incentives and favorable regulatory framework for manufacturers of import substitution goods. Simultaneously the government ordered retail trade to increase the obligatory quota of Belarusian goods on shop shelves. Officially quotas were not introduced but in Belarus unofficial mechanisms of enforcing enterprises to follow orders of the national and local governments are applied. Now quotas are as "recommendations". These recommendations are to set the quota of Belarusian food products in the amount of at least 90% and non-food goods in the amount of at least 70%. Today these shares are 80% and 55% correspondingly. On the other hand as inspections of the State Control Committee found out in some Minsk hypermarkets the share of foreign goods is over 80%. Quotas on Belarusian goods in retail trade were abolished a few years ago upon insistence of Russia but now these quotas though unofficially are coming back. As entrepreneurs believe such measure can lead to the reduction of retail trade turnover and to losses in trade in general as customers are used to a rich assortment of goods and formed their consumption preferences. Correspondingly if consumers are denied the right to choose it will have a negative impact on the purchases.

The State Control Committee is going to work out additional justification of the necessity of reducing the norm of duty free import of goods by physical entities from EUR 1000 to EUR 200. If such norm was enacted the import of good for more than EUR 200 would be possible only after paying 30% duty of the value of the goods. One of the arguments provided by the State Control Committee is that big quantities of

goods are imported by physical entities without paying duties⁹.

Belarusian customs officers believe that the norm of duty free import by physical entities set at 35 kg. and the value of EUR 1000 makes it possible to arrange a business to sell imported goods threatens the economy of the country. As a representative of the State Control Committee emphasized Russia is also considering such harsh measure as it also faces the problem of huge duty free import of goods by physical entities.

If consumption import in recent months is about 15% the intermediary and investment import is much higher. This kind of import is the main threat of the foreign trade balance. Under these circumstances the government does its best to reduce import of state enterprises by quite radical means. For example in the last quarter a few resolutions of the government were aimed at changing import purchases. Resolution of the Council of Ministers #991 "On some issues of purchasing goods in the Republic of Belarus" as of July 28, 2009 and its subsequent abolition was widely discussed in the media. This resolution stipulated that legal entities in Belarus should purchase domestic and imported goods on the territory of the country only from their manufacturers or their official trade representatives. The Resolution did not contain any criteria of "official status" of trade representatives. It was planned to make it in the future. A list of official trade representatives should have been approved by national and local bodies of power. Actually passing such resolution meant the introduction of the control over purchasing of enterprises, destruction of the existing logistical system and the liquidation of a big number of intermediaries. Moreover the resolution did not specify whether its norms cover just state or also private commercial entities. Hence the right of private enterprises to freedom of decision making was breached. As representatives of business unions stated the resolution practically suspended the activities of thousands of economic entities (manufacturers, importers, exporters, logistical structures, wholesalers and trade representative offices).

⁶ See Shimanovich G. (2009). External debt of Belarus: problem of sustainability, IPM Research Center, Discussion material PDP/09/01, <http://www.research.by/pdf/pdp2009r01.pdf>.

⁷ IPM Research Center Web site www.research.by, the results of the survey are given in Policy paper PP/04/09, authors: D. Kruk and A. Chubrik.

⁸ Minsk Oblast Executive Council to carry out sub item 1.4.2 of the minutes of the session of the Presidium of the Council of Ministers of the Republic of Belarus as of August 15, 2009 #28 presents a list of imported goods to be substituted by domestic production that is in demand of the organization reportable to government and local authorities, <http://allminsk.biz/content/view/3851/116/>.

⁹ Customs officers analyzed the outflow of hard currency and import of goods during half a day at one of the border crossing points.

After a wave of immediate protests from business and business associations prime minister S. Sidorsky stated that Resolution #991 will be applied only for state enterprises and the commercial entities where the state owns a stake. One of his arguments was that many intermediary structures overprice goods that are consumed by enterprises in their production and commercial activities. Moreover the activities of commercial, purchasing departments of state enterprises and the commercial entities where the state owns a share would be substituted. The Resolution even after such amendment still created a lot of problems for the economy. It did not take long before the president ordered the government to correct the situation. Very soon – on August 4, 2009 the government abolished Resolution #991.

At the same time the Council of Ministers adopted Resolution #1000 that was dated July 29, 2009 but its official text was not published. The status of the document was “For Confidential Use”. Nevertheless the state did not give up its attempts to reduce import by administrative means (including the import via intermediaries). Mass media got access to the text of Resolution #1000 (its scanned version was downloaded in the internet). According to the new resolution the issue of import of intermediary and investment goods by state organizations should be allowed only with the personal permission of heads (their deputies) of Republican bodies of state power and other bodies of state management that report to the government, regional executive committees and Minsk Executive City Committee. Hence the state has strengthened and centralized the control over import activities of the organizations that are owned and controlled by the state.

2.2. Export stimulation

In order to stimulate export of Belarusian goods the government initiated the dialogue with private business by offering it some benefits in exporting Belarusian goods. As a consequence on September 25, 2009 President issued the Decree #477 “On some issues of activities of individual entrepreneurs and making amendment to Decree of the President of the Republic of Belarus as of April 15, 2009 #194” and provided benefits to individual entrepreneurs when they export Belarusian goods.

The document sets the following benefits to small business:

- Instead of paying a few taxes¹ on revenues from outside the country individual entrepreneurs will pay one trade fee in the amount of BYR 35,000 for each month in which an individual entrepreneur exports goods. The fee will be paid before buying the good. The fee will be paid to the regional budgets and the budget of the city of Minsk.
- Individual entrepreneurs that sell Belarusian goods outside the country have the right to deliver these goods without getting a special permit (license) if the goods are transported by the truck or any other vehicle for cargo transportation and which weight does not exceed 3.5 tons.
- Individual entrepreneurs are free from obligatory deposit of cash hard currency into a bank account that they get for selling goods abroad.

However it should be noted that after the adoption of this decree there is still the obligatory norm of filing statistical declarations or customs clearance and control over the goods that are exported by IEs. The document is temporary and will be in force until July 1, 2010.

In their own turn representatives of business sent the government their own vision of necessary measures to stimulate the sales of Belarusian goods. Many of them repeat the previous proposals of business associations which have not been implemented yet. For example business associations proposed to abolish price regulation for private enterprises, the ceiling for trade margins on all goods for all economic entities (except for manufacturers, trade organizations and importers that have the dominant position in the market) and to regulate the issues of confirming VAT payment in external trade contracts with Russia etc.

The State Customs Committee (the SCC) took an active position in stimulating export growth. The Customs Office will stimulate the export of Belarusian goods by individual entrepreneurs. As the SCC informed the decision was made that export of goods will be allowed

without any restrictions, without taking into account the value and the quantity of exported goods. The main condition will be the availability of the check and other documents that prove the fact of purchasing a good. The SCC also initiates the abolition of the fee for customs clearance of exported goods. However it is likely that Belarusian entrepreneurs can come across obstacles at the border of the country – destination of goods where other customs rules exist. It will be quite problematic for Belarusian individual entrepreneurs to export goods in relatively big volumes to all countries except for Russia where there is no customs control at the border.

2.3. Changes in privatization regulation legislation

President of the Republic of Belarus signed Decree #8 “On making amendments and changes in Decree of the President of the Republic of Belarus as of March 20, 1998 #3” that gave open stock holding companies the privileged right to buy their own shares that can be freely circulated in the market. This norm refers to the stocks purchased by physical entities on the stage of preferential privatization. Now a potential buyer who is immune to the moratorium¹¹ can be purchased only after the refusal of an open stock holding company to buy its own shares. In the interests of citizens in accordance with the Decree a citizen has the right to send a note on selling his shares to the stock holding company or to place a note on selling stocks in the trade system of the exchange. A stock holding company can use its preferential right to purchase these shares only within 5 day period after it receives a note on selling stocks or on placing a note on selling stock in the trading system of the exchange. After that a citizen can sell shares to third parties through the stock exchange.

Experts argue that this document can serve the interests of stock holding companies that do not want to water their stocks among small investors and that want to keep the control over the process of turning legal entities into stock holding companies. The State Property Fund believes that such measure will reduce the risk of enterprise takeover against the will of their owners or their

¹⁰ Income tax, single tax in the simplified taxation system, VAT, local taxes and fees.

¹¹ All restrictions should be abolished since January 1, 2011

management (raiding). At the same time such threats can be groundless as the rules of share trading are quite strict at the stock exchange and they make speculation difficult. Among the arguments of negative nature there is one point that if an open stock holding company buys its own shares there will be no necessary inflow of external capital. Moreover the concentration of the stock in the hands of old owners of the stock holding company will hinder the transfer of progressive technologies of production and management. IMF requirements should also contribute to stimulate further privatization. Belarus and IMF agreed that by the end of February 2010 the Belarusian government will offer for sale the stocks of five big enterprises. In order to give a boost to orderly privatization it is proposed to set up Agency on privatization. The draft law on privatization is already being considered.

2.4. Changes in licensing regulation

Ministry of economy prepared and sent to the Council of Ministers a draft Decree on licensing in the first part of December 2008. The document on licensing is being agreed upon inside the government for more that half a year. Now it is being considered at the presidential administration. The draft Decree envisages the change of licensing for insurance of responsibility on 14 kinds of economic activities. The list contains such activities as trade (except for trade of excise taxable goods), catering, wood processing, banking audit, designing and construction of building of Level 1 and Level 2, tourism, domestic cargo transportation, spreading legal information etc.)

Entrepreneurs are not pleased with the draft decree as the minimal amount of the insurance fee can be too high for a business. According to the draft decree the insurance fee will be the same for all kinds of activities (8000 base units or about BYR 280 m. And the average insurance rate is 0.6% which will be about BYR 1.7 bn. Minister of Finance representatives while discussing the draft decree in the government agreed to take this argument into account and differentiate their requirements to different categories of business.

Experts of Business Union of Entrepreneurs and Employers believe that the main problem of the Belarusian licens-

ing system is the requirement to have assortment lists that enterprises must abide by even if the licensed kind of activities does not include its works or services. Violating the norm to have the assortment of goods is considered to be a rude violation of legislation and it is punished by revoking the license. Unlike licensing the most optimal form of regulating economic activities as business associations argue could be voluntary certification and a purchase of a patent. The latter can solve the problem of registration and taxation. On the other hand even if retail trade licensing is abolished the state will still control and manage it in a way. As Vice Chairman of Minsk Capital Union of Entrepreneurs and Employers V. Margelov said licensing can be substituted by a trade registry of Ministry of Trade which will keep the record of all trading organizations of the country. In order to be included into the Registry a company should meet almost the same requirements as at getting a license. V. Margelov pointed out that the draft law on trade that is being prepared by the government also included such norm. The advantage of the registry compared to licensing is its stability. Licenses are issued for a certain period of time.

2.5. Additional measures to attract foreign investment

Passing Decree #10 "On creating additional conditions for investment activities in the Republic of Belarus" as of August 6, 2009 was a meaningful event of the third quarter of 2009. Earlier in Belarus there was a practice of providing different privileges for some investors. The privilege was to give profit tax breaks, duty free import of equipment, spare parts and also to provide land lots.

The Decree set obligatory conditions for signing investment agreements. These conditions can be modified depending on the sector of the investment project. Investors who sign investment agreements ate given the following preferences:

- Providing a land lot to lease through the auction;
- Stage by stage filing necessary documents on giving a land lot simultaneously with the construction on actual land and the construction of objects simultaneously with designing further stages of construction;

- Import of technological equipment and spare parts that are connected with the implementation of the investment project without paying import duties and VAT;
- Freeing an investor from compensating losses of agricultural production;
- Freeing from paying a state fee for getting a special working permit for foreign citizens that are used by investors to implement the investment project.

The Decree introduced a three layer system of signing investment agreements between Belarus and investors. The difference is in the importance of investment projects and consequently the nature of given preferences. The Decree expanded the number of organizations that have the right to make investment agreements. Such right is given not only to the president and the government but also to other state bodies reportable to the government and local bodies of power. As the Press Service of the president informed an investment agreement can be made upon the following decision:

- Republican body of state power and other organization that reports to the government, a regional executive committee, Minsk executive city committee if preferences are not necessary to carry out such project;
- Council of Ministers if an investment agreement envisages giving an investor benefits and preferences that are not set by legislation or other decisions of the government;
- Council of Ministers upon agreement with the president if an agreement envisages giving an investor the preferences that are not set by legislation or other decisions of the president.

As it is indicated on the official web site of the president the Decree is temporary. It was sent to the National Assembly for consideration. In fact this decree unified the rules of interaction with investors and made them more transparent. However the mentioned above measures are not likely to solve the problem of attracting foreign investors to the country as rules of the game and privileges for investors were changed many times earlier. On the other hand

the modern rhetoric of the leaders of Belarus enhanced by demands of international organizations this time can be the evidence of real intentions of the authorities to launch a constructive dialogue with investors.

Another measure to attract investors to Belarus was the introduction of the institute of investment agents. In August the president signed the decree #413 "On granting physical and legal entities authorities to represent interests of the Republic of Belarus to attract investment to the Republic of Belarus". According to this decree the status of an investment agent can be granted to persons who have practical skills to prepare investment projects, who have personal traits that enable him or her to conduct negotiations with top management of big companies. Physical and legal entities both residents and non-residents can be investment agents. A proposal to make a concrete person an investment agent can be sent to the Council of Ministers by any republican body of state power and other state organization and regional executive committee based on the application of an investment agent.

It is likely that this procedure of granting the status of an investment agent will be adopted in the beginning of November. The solution to grant the status of an investment agent will be made by the government. The Council of Ministers will also define a state body that will make an agreement with an investment agent. The investment agent will act on this basis of this agreement. The direct institutional framework for activities of investment agents have not been defined yet. Nevertheless as a representative of the Ministry of Economy stated an agreement will be made on an individual basis with each agent. That is why the government does not plan to pass a special legislative act to regulate the activities of investment agents. So far the status of an investment agent is not clear. That is why it is difficult to evaluate the possible impact of the decision to introduce this institution on the volume of investment in Belarus.

2.6. New obligations to IMF in economic policy¹²

In exchange for financial tranches in 2009 International Monetary Fund

¹² <http://www.imf.org/external/country/blr/index.htm>.

(IMF) demanded Belarus to meet certain conditions including liberalization of the economy. The economic program for 2009 suggested in Memorandum on economic and financial policy was published in the beginning of 2009¹³. The Program envisages the adoption of measures to strengthen private sector in the Belarusian economy by means of tax reform, system of payment reform, price liberalization, easing state control and influence for manufacturers and the continuation of privatization. In July another IMF country Report #09/260 was published¹⁴. In Letter – Supplement II to it (signed by Prime – Minister S. Sidorsky and Chairman of the Board of the National Bank) Belarus reported on its activities in the area of economic policy for the passed period and made commitments until the end of 2009–2010.

Among other things the Belarusian authorities state that:

- They have met the target indicator of price liberalization;
- Raised utility and housing service prices;
- Lowered wages in state sector;
- Rejected the practice of placing deposits of central and local bodies of power in commercial banks;
- Abolished the interest rate ceiling for Belarusian ruble credits given to the corporate sector etc.

The letter contains one important innovation. In the near future Belarusian government is expected to abolish two taxes, local retail sales tax and also the reduction of the corporate income tax from 24% to 20%. To compensate the losses of the budget from such tax changes it as proposed to increase VAT from 18% to 22%. In fact important tax reforms in the taxation system are being proposed. Local business community and international experts criticized

¹³ International Monetary Fund (2009). *IMF Country Report # 09/109* (April 2009), including the Letter of Intent. Memorandum on economic and financial policies and technical Memorandum on the agreement <http://www.imf.org/external/russian/pubs/ft/scr/2009/cr09109R.pdf>.

¹⁴ International Monetary Fund (2009). *IMF Country Report # 09/260* (July 2009), <http://www.imf.org/external/russian/pubs/ft/scr/2009/cr09260r.pdf>.

Belarus for its tax system. The government seems to respond to this criticism. However the planned changes will hardly contribute the business development in Belarus. In crisis enterprises earn little income. That is the reduction of corporate income tax rate will not have a major positive impact on their financial status but the increase of VAT rate will reduce price competitiveness of Belarusian goods.

The Letter also proposed (item 22) to free all companies where the state is not a majority stakeholder from meeting quantitative target indicators including output and employment. The rights of the state in such companies will be the same as the rights of other minority stakeholders. Such measure may reduce the government interference into economic activities of enterprises. It will also increase the attractiveness of such companies for investors (see other proposed measures in the Country Report #09/260).

2.7. Other changes in regulatory environment

Wages

On September 1, 2009 a new Instruction of Ministry of Labor on the application of the Single Tariff Rate (the STR) order came into force. As representatives of Ministry of labor state the changes in the STR were prepared within the state liberalization policy. For example the new instruction gives an employer the right to raise tariffs (salaries) of employees for 300%. The difference in size of salaries of different categories of employees was also increased. The document abolished the procedure to set wages of directors and experts depending on the main kind of activity of an enterprise. The attitude of business to such innovation is quite negative. As business representatives believe such innovations create more uncertainty in the system of wage payment. In fact the government takes some measures that are not parts of comprehensive systemic reforms. Hence they do not change the system in general.

Accounting

To further simplify administrative procedures in Belarus Ministry of justice, Ministry of Taxes and Fees, National Statistics Committee and Ministry of Labor and Social Security adopted Resolution #56/58/88/86 which aims at improving

the procedure of interaction of registering bodies with the state bodies and organizations that make different kinds of registration of legal entities (in tax bodies, statistical bodies, Fund for Social Security of the Population, Ministry of labor and Social Security, branch offices of Belgosstrakh).

The Resolution made amendments and additions to information cards of a legal entity and an individual entrepreneur. Instead of many documents that were given at the registration of different state bodies a legal entity and an IE will get just one – a notice on registration. Such document in accordance with notes confirmed electronically will be passed to a registering body through an automated information system “Cooperation” (Vzaimodeistriye). Then an authorized government official will certify this document with his signature and a seal. The Resolution was included into the National Registry of Legal Acts of the Republic of Belarus on July 27, 2009 #8/21248.

Offices for business

An important measure to improve business environment for small business in Belarus and for the development of the service sector was the adoption of Decree of the President #479 “On the transfer of housing into non-housing areas and amending Decree of the president of the Republic of Belarus as of March 16, 2006 #152” as of September 25, 2009. The Decree made it possible to transfer housing area situated in one flat houses and on ground floors of blocks of flats into non-residential areas. Such transfer will be allowed by decisions of local executive bodies made upon the request of owners of housing areas. As presidential press service stated such transfer will enable owners of such flats and houses to locate legal entities in them and use them in their entrepreneurial activities. The Decree set some limits on the transfer of residential areas into non-residential one. They are connected with rules of zoning, nature protection, sanitation, fire and other requirements of technical normative legal acts. The good part of the Decree is that it states the full list of documents that are necessary to transfer an areas from residential into non-residential. The Decree also states the procedure of such transfer and timing of consideration of applications for the

Table 5. Places of Belarus in World Bank ranking of “Doing business-2010” and “Doing business-2009”

	“Doing business-2010”	“Doing business-2009”	Change in ranking, places
Overall ranking, place	58	82	+24
Starting a business	7	98	+91
Dealing with construction permits	44	62	+18
Employing workers	32	40	+8
Registering property	10	13	+3
Getting credit	113	109	-4
Protecting investors	109	105	-4
Paying taxes	183	183	0
Trading across borders	129	134	+5
Enforcing contracts	12	14	+2
Closing a business	74	74	0

Source: World Bank, “Doing Business-2010”.

Table 6. Ease of Paying Taxes and tax burden in different countries

Indicator	Belarus	Europe and Central Asia	OSCE average
Payments (number)	107.0	46.3	12.8
Time (hours)	900.0	336.3	194.1
Profit tax (% of profit)	20.1	10.8	16.1
Labor tax and contribution (% profit)	39.6	23.1	24.3
Other taxes (% profit)	40.0	9.5	4.1
Total tax rate (% profit)	99.7	43.4	44.5

Source: World Bank, “Doing Business-2010”.

transfer by local executive bodies of power.

3. RESULTS OF THE STUDY “DOING BUSINESS-2010”

In September Finance Corporation and World Bank published its another annual study “Doing Business-2010”¹⁵. It was based on the result of the business climate analysis in 183 countries. As the latest study of the World Bank and IFC showed Belarus moved up in the ranking by 24 positions (in 2009 report Belarus moved by 30 places) and took 58th place. The best countries for doing business are Singapore, New Zealand, Hong Kong, USA, Great Britain, Denmark, Ireland, Canada, Australia and Norway. Out of post-socialist countries Georgia, Estonia, Lithuania, Latvia, Azerbaijan, Kyrgyzstan and Armenia are ahead of Belarus. Hence Belarus again made it to the top four of the best reformers (alongside with Ruanda, Kyrgyzstan and Macedonia). The government made a big progress in reaching its decorated goal – to make it to Top-30 of the countries with the best environment for doing business. As press release of the report “Doing Business-2010” states in 2009 the record num-

ber of business climate reforms was registered (287 reforms in 131 countries). It is 20% more than a year earlier. The most popular reforms were the simplification of procedures of opening businesses, regulation of commercial disputes, bankruptcy and strengthening of property rights.

The study for the Report was done in May 2008 – June 2009. During this period experts of the World Bank indicated reforms in Belarus in six areas of business regulation: starting a business, dealing with construction permits, employing workers, registering property, paying taxes and trading across borders (see table 5). As it was expected the biggest progress was registered in the category “starting business”¹⁶. Thanks to Decree #1 adopted on January 16, 2009 “On state registration and liquidation of economic entities” Belarus moved up from 98th place to 7th place (91 places up). The Decree merged four registration procedures into one. The requirement on the minimal authorized capital was abolished. The time of registration was cut almost by one month.

However the simplification of the registration procedure is important only for

¹⁵ <http://russian.doingbusiness.org/features/Highlights2010.aspx>.

¹⁶ Glambotskaya A. (2009). Liberalization of the environment for economic activities PDP/09/02, <http://research.by/pdf/pdp2009r03.pdf>.

new legal entities. It does not improve the conditions for existing enterprises to do business. Legal entities still face many barriers. In particular Belarus three years in a row stays the last in the world (this year it is 183rd in "Doing business 2010" on Paying taxes in spite of some reforms that were made in Belarusian legislation. For example as the World Bank experts report Belarusian enterprises spend 900 hours to make 107 tax payments compared to 1188 hours and 112 payments a year earlier. On "paying taxes" Belarus is lagging behind average indicators of other countries (see table 6).

At the same time World Bank experts noted that the procedure of paying taxes in Belarus was improved due to wider use of electronic system. The tax burden was a bit lowered at the expense of lowering the rates of ecological tax, turnover tax and the reduction of the number of real estate tax payments.

The measures to liberalize business climate that the government is taking and declared to take are aimed at attracting foreign investment. The government is trying to forge a positive image of the country for foreign investors. Nevertheless not always the measures of the government lead to this goal and have a considerable impact of the investment climate. In "Doing Business 2010" Report Belarus moved from 105th to 109th position on the factor "Protecting investors". Experts estimated the index of "Protecting investors" at 4.7 points (maximum is 10 points), the index of openness - 5 points and index of director's responsibility – just 1 point. It can be the evidence that privatization processes are perceived as nontransparent and directors of enterprises can abuse their position for personal gains.

Belarus has considerably improved its position in the international ranking "Doing Business". It will enable it to increase its attractiveness for foreign investors and creditors that take into account international ratings in their decision making. On the other hand we should keep in mind that all ratings are relative. Moreover the overall success of a country in one rating or another does not mean the success in all areas under analysis. Nevertheless the liberalization vector has been chosen. There is hope that the Belarusian government will take further steps to improve business environment in the country.