

COUNTRY ESSENTIALS

BELARUS

Summer 2015



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Overview

The Coface Country Essentials offer a concise and clearly structured overview of country economic facts.

The most important facts for 18 countries in Central and Eastern Europe include the most recent risk overview and our Coface country risk assessment.

You receive a general information on the country ranging from major cities to natural resources and most important sectors. This is followed by our risk assessment giving a general overview

on the economic and political situation and the strength and weaknesses of the country. The next chapter focuses on the key facts: top trading partners and economic data like GDP growth, inflation or public debt. The insolvency part shows you the top and flop sectors, information on the development of insolvencies and the procedure.

Last but not least we provide you with a checklist for business operations and the latest corruption and doing business index data. If you need further information you will find a list of our contacts in the region.

GENERAL INFORMATION

Belarus is a country in Eastern Europe that borders on Poland, Ukraine, Russia, Latvia and Lithuania. The country is neither a member to the EU nor an accession candidate. Its relations with the NATO countries are considered tense. Together with Russia, Belarus forms the Russian-Belarusian Union, which has experienced significant difficulties in recent years.

Form of government:	Presidential Republic										
Administrative organisation:	6 regions and the capital district										
Area:	207,595 km ²										
Population:	9,457,000; density: 46 inhabitants/km ²										
Official language:	Belarusian, Russian										
Local currency:	1 Belarusian Rouble (BYR) = 100 Kopeks										
Capital:	Minsk: 1,904,000 inhabitants										
Business locations:	<table> <tr> <td>Homel'</td> <td>515,300 inhabitants</td> </tr> <tr> <td>Mahileu</td> <td>372,000 inhabitants</td> </tr> <tr> <td>Vicebsk</td> <td>347,500 inhabitants</td> </tr> <tr> <td>Hrodna</td> <td>328,200 inhabitants</td> </tr> <tr> <td>Brest</td> <td>309,800 inhabitants</td> </tr> </table>	Homel'	515,300 inhabitants	Mahileu	372,000 inhabitants	Vicebsk	347,500 inhabitants	Hrodna	328,200 inhabitants	Brest	309,800 inhabitants
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Ethnic groups:	83% Belarusians, 8% Russians, 3% Poles, 1.7% Ukrainians as well as 4.3% Tartars and other groups										
Religion:	60% Russian-Orthodox, 8% Roman Catholic, minorities of Muslims, Jews, Protestants										
Natural resources:	Timber, potassium salts, sapropel (mud with decomposed organic matter), limestone, loam, peat, granite										
Most important sectors:	Metallurgy, machinery construction, chemical and petrochemical industry, agriculture										

RISK ASSESSMENT

Coface Country Assessment

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Growth constrained by the weakness of activity in Russia

In 2015, activity in Belarus, highly dependent on Russia and, to a lesser extent, the Ukraine, will be hit by economic and political situation in these countries. Insufficient investment and slower demand on its main export markets are putting pressure on the industrial sector (nearly 1/4 of GDP), dominated by food production (meat, milk), petrochemicals and machines. Exports could, however, benefit from the sanctions imposed on Russia, which, is turning increasingly to its Belarusian suppliers.

The growth of domestic demand, sustained by rising wages and increased lending activity, could be slowed by rising prices.

Inflation, which is expected to slow slightly thanks to the moderation of food prices, will remain high in 2015, fuelled by the depreciation of the rouble and an accommodative monetary policy.

The banking sector has been weakened by the rise in non-performing loans. The use of directed lending increases the risk of deterioration in the quality of the portfolios and the solvency of the undercapitalised banks. Meanwhile, the proportion of loans denominated in dollars (50% of the total) exposes the sector to exchange rate risk.

Precarious financial situation associated with twin deficits and exchange rate tensions

The budget deficit will not improve in 2015. The State will have additional revenues as it now permitted to keep 40% of the taxes on the export of refined products, where previously 100% had to be returned to Moscow. However, expenditure, especially social spending, will continue to rise in the run-up to the presidential elections in November 2015. Quasi-budget transactions (state-guaranteed loans valued at over 5% of GDP) will put pressure on government finances. No progress is being made on privatisation projects, despite pressure from Moscow, which wants to increase its stake in Belarusian companies (Gazprom already holds 50% of Beltransgaz), delaying the prospect of revenue opportunities linked to the sale of public assets.

The public debt will stabilise but the burden of debt in foreign currency (1/3 of the total) increases the risk associated with the depreciation of the rouble.

The current account deficit could narrow slightly in 2015. The depreciation of the Belarusian rouble will foster the competitiveness of Belarusian products on the CIS markets. The sanctions against Russia and President Putin's decision to place an embargo on certain western goods are likely to help sustain exports to Moscow. Cut off from some of its European and US suppliers, Russia is turning increasingly towards Belarus, especially for agricultural products. Imports will remain high, but the maintenance of subsidised tariffs for Russian gas will limit the costs.

Downward pressure on the rouble, which lost over 10% of its value between January and the end of October 2014, is likely to increase due to the firming of the dollar exchange rate, while the ability of the central bank to intervene is limited by the weakness of the foreign exchange reserves (one month of imports).

The country no longer benefits from an IMF loan and the sixth tranche of the USD 3-billion loan awarded by the Eurasian Economic Community (EurAsEc), expected at the end of 2014, has been postponed. As a member of the Eurasian Economic Community, Belarus can, however, rely on support from Russia, which has granted the country a loan of USD 2 billion (VTB) followed by a second loan of USD 1.5 billion in 2014, limiting the risk of too great a deterioration in its financial position, which, nonetheless, remains fragile.

Tense political situation and weak governance

Despite his opposition to the annexation of Crimea, the President of Belarus, Alexander Lukashenko, maintains good relations with Russia, given the economic, financial and strategic ties (trade, supply of hydrocarbons, investments) between the two countries.

Domestically, the political climate remains tense, but the control exercised by the security apparatus on civil society, and the disunity of the opposition, keep the risk of large-scale protest movements at bay. Moreover, the government conducts an interventionist policy (wage rises) aimed at easing social tensions. The risk of the situation deteriorating in the run-up to the presidential elections at the end of 2015 cannot, however, be ruled out.

The World Bank indicators for Belarus reflect the weakness of its governance, especially regarding political freedom (200th out of 2015) and regulatory quality (180th).

RISK ASSESSMENT

Strength
Strategic position between Europe and Russia
Skilled labour force
Relatively diversified industrial sector (agrifood, machines, petrochemicals)

Weaknesses
State-controlled economy and slow progress on reforms
Risk of liquidity crisis
Economic and financial dependence on Russia
Difficult business climate (high levels of corruption, little protection afforded by legal system)

FOREIGN TRADE & ECONOMIC KEY DATA

Belarus' Top Trading Partners

Exports in Mio. USD	2011	2012	2013	2014
Russia	14,508.6	16,308.9	16,837.5	15,345.7
Ukraine	4,159.8	5,557.2	4,195.8	4,089.5
United Kingdom	404.0	556.6	1,024.2	2,969.7
Netherlands	6,128.5	7,551.3	3,330.4	1,742.5
Germany	1,826.4	1,737.1	1,753.4	1,654.1

Imports in Mio. USD	2011	2012	2013	2014
Russia	24,930.2	27,550.9	22,904.9	22,284.6
Germany	2,558.2	2,732.1	3,035.5	2,450.8
China	2,193.9	2,373.5	2,829.4	2,371.2
Ukraine	2,035.0	2,309.5	2,053.5	1,688.7
Poland	1,289.2	1,349.2	1,581.5	1,533.7

Source: Belarussian Statistical Office

Economic Key Data

Key Data	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	1.7	0.9	0.9	1.2
Inflation (yearly average) (%)	59.2	18.3	18.6	16.9
Budget balance (in % of GDP)	1.7	-0.9	-3.3	-3.6
Current account (in % of GDP)	-2.9	-10.1	-6.7	-5.5
Public debt (in % of GDP)	38.5	37.0	35.7	35.1

(e) estimate

(f) forecast

Source: Coface

INSOLVENCY

Insolvency Laws & Insolvency Procedures

The legal basis for insolvency proceedings is defined in the “Law on Insolvency and Bankruptcy”, which was passed in May 1991 and took effect on 1 July 1991. A new Act “On Insolvency (bankruptcy)” was signed by the President of the Republic of Belarus on 13 July 2012 that has been put in force on 25 January 2013. With this Act, the insolvency legislation in Belarus took a new step towards a new and modern system of insolvency. It consists of 20 chapters and 242 articles.

The Act aims at

- creating clear and harmonised rules for enterprises;
- monitoring the financial situation of the state enterprises to avoid a crisis;
- strengthening the whole burden of liability of directors, participants and government agencies for the insolvent enterprises;
- rehabilitation of insolvent enterprises;
- improving the economy by exclusion of inefficient enterprises from the market;
- settling claims in a fair way and preserving the enterprises if possible;

- reducing the duration insolvency proceedings and the costs.

Moreover, the creation of a Single State Register of Bankruptcy Data is planned for 2014. The Register will provide free online information about any debtor involved in insolvency proceedings, the list of assets for sale, the time and place of the auctions, information about crisis managers in Belarus and the Commercial Court's decisions in each of the proceedings. The creation of this online database will therefore improve the quality of information on insolvency proceedings including the list of assets and hopefully reduce the chances of crime and offences in this field.

On 1 May 2013, a new Regulation on registration and liquidation of companies and entrepreneurs entered into force. It prohibits business owners (investors, shareholders) from establishing new companies if their existing companies are being liquidated. A maximum liquidation period of nine months has been introduced and can be prolonged up to twelve months (under certain circumstances).

CHECKLIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	<ul style="list-style-type: none"> ■ Foreign investors may establish any type of business entity permitted by law ■ Minimum capital for open joint stock company: 400 basis points (approx. EUR 4,240) ■ Minimum capital for closed joint stock company: 100 basis points (approx. EUR 1,060) ■ No minimum capital requirement for limited liability company since 1 January 2009
Tax law	<ul style="list-style-type: none"> ■ Corporate income tax: 18% ■ Value-added tax: 20% (reduced rate: 10%) ■ Income tax for natural persons: 12% (increased rate: 15%) ■ Social security: 34%
Investments	<ul style="list-style-type: none"> ■ Government programme to promote foreign investment ■ Six “free economic zones” ■ Technology parks ■ Investment incentives for specific activities in rural areas
Foreign exchange	<ul style="list-style-type: none"> ■ Foreign exchange transactions are regulated by the National Bank ■ Foreign currency transactions between residents may only be carried out in local currency
Labour law	<ul style="list-style-type: none"> ■ Legal minimum wage in 2014: BYR 1,660,000 (approx. EUR 119,-) ■ Average wage dependent on region and branch, wage level higher with foreign employers
Customs	<ul style="list-style-type: none"> ■ Tariff system with five ad-valorem rates: 5%, 10%, 15%, 20%, 25%
Travel and residence	<ul style="list-style-type: none"> ■ Travellers require a visa, which must be applied for at the responsible representation in the home country. ■ Passport must be valid at least three months after the final date of the visa. ■ In special cases EU citizens may also apply for a one-month visa directly at the „Minsk 2“ Airport (written invitation required).

Corruption

Belarus was 119th in the International Corruption Perceptions Index 2014. In comparison, Germany was ranked 12th and Austria was ranked 23rd.

The Corruption Perceptions Index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and related solely to the public sector.

Doing Business

The Doing Business Index issued by the World Bank (www.doingbusiness.org) expresses the ease of doing business in a particular country. In this ranking, Belarus was ranked 57th in 2015 and gained six ranks compared to the previous year. Germany and Austria were rated 14th and 21st, respectively.

This index consists of ten different sub-indexes that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the founding and closing of companies.

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Print

Handbuch Länderrisiken 2015, Coface, Niederlassung Austria, Vienna 2015.

Imprint

Media owner and production: Coface, Niederlassung Austria, Stubenring 24, 1010 Vienna, Austria;
Editorial office: Susanne Krönes.

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