

# Country Essentials

Belarus

Spring 2013



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### Print

- Fischer Weltalmanach 2013, Fischer Taschenbuch Verlag, Frankfurt/Main 2012.
- Handbuch Länderisiken 2013, Coface Austria, Vienna 2013.

### Imprint

Media owner and production: Coface Central Europe Holding AG, Stubenring 24, 1010 Vienna, Austria;  
Editorial office: Susanne Krönes.

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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 <sup>2</sup>		
Population:	9,470,000; density: 46 inhabitants/km <sup>2</sup>		
Official language:	Belarusian, Russian		
Local currency:	1 Belarusian Rouble (BYR) = 100 Kopeks		
Capital:	Minsk	1,860,000	inhabitants
Major cities and population:	Homel'	491,700	inhabitants
	Mahileu	360,900	inhabitants
	Vicebsk	354,500	inhabitants
	Hrodna	338,200	inhabitants
	Brest	315,800	inhabitants
Ethnic groups:	81% Belarusians, 11% Russians, 4% Poles, 4% Ukrainians as well as 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		

## Coface Country Assessment

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### Growth hampered by macro-economic adjustment

Growth slowed strongly in 2012, hit by economic contraction in the eurozone and slower growth in Russia. Activity is expected to be steadier in 2013, driven by private consumption, encouraged by wage rises, recovery in investment and construction. Agricultural (cereals, milk) and industrial production will continue to grow.

Inflationary pressures were strong in 2012, fuelled by higher tariffs (electricity), rising food import prices and also by the maintenance of an accommodative monetary policy (the Central Bank cut its rate from 45% to 30% during 2012). Although slowing, inflation will remain high in 2013, sustained by domestic consumption. This will affect the export sector's price-competitiveness and the net contribution of exports to growth will remain negative.

### Fiscal deficit under control but a worsening current balance

To control spending without halting wage rises (30% in 2012), the government is cutting investment spending. The decline in revenue linked to the slowdown of the economy resulted in a slight deficit in 2012, which will persist in 2013. The state's need for finance is not fully covered by the loan of USD 3 billion granted by the Eurasian Economic community (EURASEC). Negotiations with the IMF for the award of further aid have failed due to insufficient commitment to structural reform. Public debt, which had almost doubled since the 2011 devaluation, fell distinctly in 2012 and is expected to stabilise in 2013. However, the foreign exchange portion will increase substantially, giving rise to a risk of default in the event of a further depreciation of the rouble.

The current account deficit recorded in 2012 will increase slightly in 2013. Belarus imports Russian oil and gas, the prices of which are subsidised, and re-exports them to Europe. The gas price hike announced by Russia (12% in 2012) will increase the cost of imports, the volume of which will also grow due to increased domestic demand. Moreover, sales of metals and minerals (40% of exports) will continue to be hampered by less vigorous growth in Russia and the slowdown in the eurozone, widening the current account deficit.

Net foreign direct investments will remain weak, given the rather unattractive political situation and business environment.

The Central Bank's level of reserves is extremely low (one month's imports), exposing the country to a significant liquidity risk. The banking sector has been weakened by the devaluation and the financial crisis. It remains very vulnerable to a worsening of the economic situation which would increase the number of doubtful loans and threaten the solvency of the banks.

## Growing dependence on Russia and political weakness

Belarus seems increasingly isolated and dependent on Russia. The economic sanctions imposed by the EU and the United States will be maintained as long as the government of A Lukashenko fails to make any move towards greater political openness. Despite President Lukashenko's determination to preserve his country's political independence from Russia, the economic integration of the two countries is becoming significantly stronger. Belarus is very dependent on Russia for hydrocarbon purchases and financial assistance, and also through the stakes held by Russian companies in the economy. Gazprom, since purchasing 50% of the capital of Beltransgaz (a condition for Belarus to continue benefitting from subsidised gas prices), is now its sole shareholder and Russian companies intend to take full advantage of the programme of the privatisation of public assets planned for 2013.

The September 2012 legislative elections, boycotted by a large part of the opposition (which is therefore not represented in Parliament) were judged "neither free nor fair" by western observers. The leaders of opposition, which remains weakened, have left the country. But a deterioration of the economic situation, challenging the wage rises and social benefits currently making for relative social stability, could trigger unrest, raising fears of violent repression.

## Belarus' Top 5 trading partners

Imports in million EUR	2009	2010	2011	2012
EU 27	-	5,305	6,563	7,157
Russia	12,854	13,894	19,158	21,164
Germany	1,699	1,833	1,966	2,099
China	830	1,294	1,686	1,820
Ukraine	991	1,444	1,564	1,776
Poland	605	830	991	1,037

Exports in million EUR	2009	2010	2011	2012
EU 27	-	5,345	11,888	13,533
Russia	5,163	7,649	11,147	12,513
The Netherlands	2,842	2,187	4,710	5,831
Ukraine	1,300	1,967	3,197	4,279
Latvia	1,272	714	2,422	2,521
Germany	759	354	1,404	1,335

Source: Belarussian Statistical Office.

## Economic Key Data

Key Data	2010	2011	2012 (e)	2013 (f)
GDP growth (%)	7.6	5.3	2.5	4.0
Inflation (yearly average) (%)	7.7	53.2	70.0	35.0
Budget balance (% GDP)	-1.8	3.1	-1.0	-0,8
Current account balance (% GDP)	-15.0	-10.4	-6.1	-7.0
Public debt (% GDP)	41.0	50.6	37.7	34.0

(e) estimate

(f) forecast

Source: Coface.

## Insolvency Law & Insolvency Procedures<sup>1</sup>

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).

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<sup>1</sup> See also: [www.insol-europe.org](http://www.insol-europe.org) and [www.bnt.eu](http://www.bnt.eu).

The following table shall summarize relevant information for investors and exporters.

Corporate law	<ul style="list-style-type: none"> <li>■ Foreign investors may establish any type of business entity permitted by law</li> <li>■ Minimum capital for open joint stock company: 400 basis points (approx. EUR 3,520)</li> <li>■ Minimum capital for closed joint stock company: 100 basis points (approx. EUR 880)</li> <li>■ No minimum capital requirement for limited liability company since 1 January 2009</li> </ul>
Tax law	<ul style="list-style-type: none"> <li>■ Corporate income tax: 18%</li> <li>■ Value-added tax: 20% (reduced rate: 10%)</li> <li>■ Income tax for natural persons: 12% (increased rate: 15%)</li> <li>■ Social security: 34%</li> </ul>
Investments	<ul style="list-style-type: none"> <li>■ Government programme to promote foreign investment</li> <li>■ Six “free economic zones”</li> <li>■ Technology parks</li> <li>■ Investment incentives for specific activities in rural areas</li> </ul>
Foreign exchange	<ul style="list-style-type: none"> <li>■ Foreign exchange transactions are regulated by the National Bank</li> <li>■ Foreign currency transactions between residents may only be carried out in local currency</li> </ul>
Labour law	<ul style="list-style-type: none"> <li>■ Legal minimum wage in 2013; BYR 1,395,000 (approx. EUR 123 based on the exchange rate in 05/2013)</li> <li>■ Average wage dependent on region and branch, wage level higher with foreign employers</li> </ul>
Customs	<ul style="list-style-type: none"> <li>■ Tariff system with five ad-valorem rates: 5%, 10%, 15%, 20%, 25%</li> </ul>
Travel and residence	<ul style="list-style-type: none"> <li>■ Travellers require a visa, which must be applied for at the responsible representation in the home country.</li> <li>■ Passport must be valid at least three months after the final date of the visa.</li> <li>■ In special cases EU citizens may also apply for a one-month visa directly at the „Minsk 2“ Airport (written invitation required).</li> </ul>

## Corruption

The International Corruption Perceptions Index published by Transparency International, which determines the general perception of corruption in a country based on surveys, showed a score of 31 for Belarus in 2012 on a scale of 1 to 100, 100 representing the best result. Belarus is therefore clearly among the worst in this ranking. Reforms are therefore urgently required.

The Doing Business Index ([www.doingbusiness.org](http://www.doingbusiness.org)) issued by the World Bank expresses the ease of doing business in a particular country. In the 2013 Doing Business report, Belarus ranked 58th. This means an improvement by nine ranks compared to the 2012 report and shows that constant progress is being made. This indicator takes into account many elements such as the expenditure involved in setting up a company, the ease of acquiring property, hiring personnel, obtaining a loan.

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