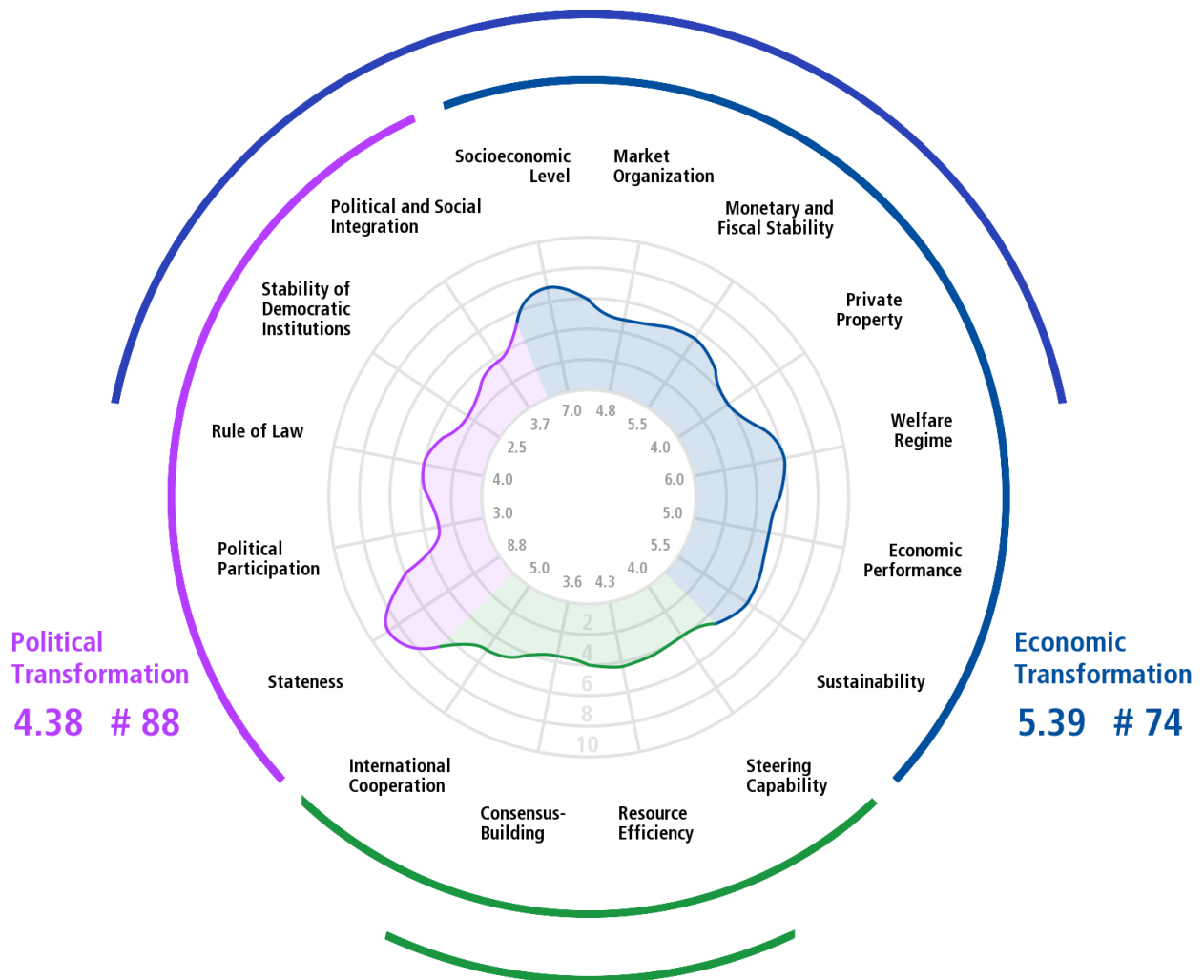


Belarus

Status Index

4.89 # 88

on 1-10 scale out of 137



Political Transformation
4.38 # 88

Economic Transformation
5.39 # 74

Governance Index

3.71 # 105

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	9.5	HDI	0.817	GDP p.c., PPP \$	19960
Pop. growth ¹	% p.a.	-0.1	HDI rank of 189	50	Gini Index	25.4
Life expectancy	years	74.1	UN Education Index	0.837	Poverty ³	% 0.0
Urban population	%	78.6	Gender inequality ²	0.119	Aid per capita \$	-26.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the 2017 to 2019 period, Minsk’s policy agenda was focused on overcoming the country’s recession amid favorable terms of foreign trade, a constrained economic transformation, economic and political conflicts with Russia, and obvious efforts to adapt to the changing internal and external environment.

Protests against Presidential Decree No. 3 (decree on “social parasites”) were held around the country, including in main urban centers. In many respects, these served as an encapsulation of the country’s broader internal developments in 2017. About 500,000 people had been added to the “parasite list” of those who were not employed, and who had to pay a so-called social tax and provide compensations for the state’s social expenditures. The protests clearly demonstrated that the country’s “security contract” (in which citizens offered their loyalty to the state in exchange for security and stability), introduced in the context of regional geopolitical turbulence and the economic recession of 2015 to 2016, was no longer functioning.

Although the authorities initially resorted to their usual practices of crackdown on Freedom Day, March 25, 2017, they managed to draw valuable lessons from what they had seen and elected not to escalate confrontation further.

In spring 2017, the government began to work on a package of decrees aimed at improving conditions for doing business and the investment climate, allowing new space for private entrepreneurship and the digitalization of the economy. In so doing, the government shifted its focus toward the idea of creating a “new economy,” referring to the old idea of the coexistence of two economic realities. The “traditional economy” is aimed at ensuring employment, inflating the budget and solving other sociopolitical tasks. The “new economy” is supposed to generate economic growth.

Repression of the opposition and independent media evolved throughout 2017. A few months after the protest activity was suspended, the government relaxed its pressure somewhat, and conditions

for civil society improved slightly. However, in the second part of 2018, independent journalists were once again subject to state pressure due to the BelTA case.

Economic recovery in 2017 and 2018 facilitated this process. President Alexander Lukashenko's disappointment with the results of previous efforts to modernize and reindustrialize the state sector led to the appointment of a new government headed by a supporter of market reforms, Sergei Rumas, in August 2018.

This coincided with a new oil crisis and political tensions with Russia that escalated to a serious level by the end of 2018. During a routine dispute over Russian oil and gas prices for Belarus in December 2018, the Kremlin raised the stakes and sent an "integration ultimatum" that essentially tied cheap energy resources to Belarus' agreement to give up more of its own sovereignty. Moscow openly declared its ambition of incorporating Belarus deeper into its own sphere of influence, making discounts for oil and gas conditional on deeper integration between Russia and Belarus within the so-called Union State, a project that dates back to 1999.

Growing Russian pressure on Belarus pushed it to embrace greater international openness and a moderate, limited revision of internal policy approaches. The state attempted to recruit new supporters by reaching out to previously excluded social groups. The authorities even authorized a big celebration of Freedom Day and the 100th anniversary of the Belarusian People's Republic on March 25, 2018, in marked contrast to the crackdown the year before.

History and Characteristics of Transformation

In striking contrast to most of eastern and central European states, including the Baltic states, Belarus did not react to the 1991 collapse of the USSR by transforming itself into a market-based economy with well-developed and strong democratic institutions and a robust civil society. In 1994, President Alexander Lukashenko came into power in the context of very strong pro-Soviet sentiments within Belarusian society (at the All-Union referendum in March 1991, 83% of Belarusians voted for the preservation of the USSR).

Lukashenko began his own nation-building experiment with a focus on the country's Soviet heritage and the concept of a unique Belarusian path, opposing the liberalization, democratization and de-Sovietization going on in other post-Soviet states, especially in Russia and Ukraine. He consolidated a hyper-presidential regime with the help of a constitutional referendum in 1996, while another referendum in 2004 permitted him to be reelected to more than two terms in office. Since the beginning of his tenure, Lukashenko has increasingly monitored and restricted the activities of the opposition, independent media, civil society and the private business sector.

President Lukashenko managed to preserve a Soviet-style model that remained state-dominated and thus socially oriented. The government implicitly proposed a vertical social contract based on the formula "loyalty in exchange for high living standards," which was accepted by the most part of Belarusian society. Thanks to redistributive policies and government regulation, the population

benefited from economic growth in the 1990s and the 2000s. However, this was also the result of privileged relations with Russia, which provided Belarus with cheap energy, access to the Russian market and finance, Belarus also managed to maintain a sense of social justice despite the lack of democratic elections after 1996, in part by taking tax evasion and the fight against corruption seriously.

The opposition was not represented in the legislature at all between 2004 and the most recent elections in 2016. Elections have consistently fallen short of OSCE Office for Democratic Institutions and Human Rights (ODIHR) standards. For a brief period between 2008 and 2010, and again beginning in 2014 and lasting through the present day, the Belarusian state has made some concessions to the fulfillment of democratic standards in order to facilitate economic and technical cooperation with the West.

Converging foreign policy considerations in the wake of Russia's war against Georgia in 2008 and subsequent conflict with Ukraine in 2014 led Belarus to a tentative warming of relations with the European Union and the United States. This in turn resulted prompted Europe to lift sanctions, while the United States froze its sanctions. However, Belarus has also strengthened its strategic partnership with China. Belarus' neutral position in the Russia-Ukraine conflict, along with its provision of a negotiating platform intended to help solve the conflict in Donbass, helped strengthen Minsk's international standing and changed the perception of the country in the international arena.

Driven by the deep economic recession of 2014 to 2016 and the growing pressure from Russia, the Belarusian authorities began more actively to diversify the country's foreign relations and economic ties with the world, and gradually implemented market reforms with the assistance of international financial institutions. In response to the regional geopolitical tensions, the authorities tried to replace the social contract with a security contract, guaranteeing peace and stability despite the evident crisis of the so-called Belarusian socioeconomic model. However, this has not proved very successful.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Belarus is a unitary state where the central executive authorities exercises power throughout the whole country, relying on a strong security apparatus. There is virtually no threat to the state's monopoly on the use of force either horizontally or vertically within the state power structures. Global and regional terrorist organizations or extremist groups are not present in Belarus. National organized crime groups are few in number, while Russian and major transnational criminal networks do not pose a threat to the state's monopoly on the use of force. However, the influence of Russian propaganda and the activities of informal pro-Russian groups and NGOs funded by Russia have tended to increase sympathy for Putin and the idea of a unification with Russia among some citizens.

Belarus' independence and sovereignty are generally accepted by political actors and the general population, with the official discourse prioritizing the protection of both. These sentiments have been heightened in light of the current geopolitical turbulence provoked by the Russia-Ukraine conflict and the confrontation between Russia and the West. Russia has increased its pressure on Belarus, resulting in the Kremlin's recent "integration ultimatum."

According to independent polling conducted at the end of 2018 by the Belarusian Analytical Workroom (BAW), a total of 75.1% of the country's residents believe that Belarus and Russia should remain independent but friendly countries, while 12.4% support unification with Russia in the form of a union state, and 2.7% favor Belarus joining the Russian Federation as a constituent part. However, according to BAW, more than 20% of Belarusians support integration with the EU.

All individuals and groups enjoy the right to acquire citizenship without discrimination, and the constitution formally grants equal rights to all citizens. However, Belarus has not adopted an anti-discrimination law as of yet.

Question
Score

Monopoly on the
use of force

10



1

State identity

8



1

The constitution grants the freedom of religion and worship insofar as this is not otherwise prohibited by law. It stipulates that all faiths are equal before the law. Relations between the state and religious organizations are regulated by law, taking into account these groups' role in the formation of the spiritual and cultural traditions of the Belarusian people. Legal regulations prohibit the activities of religious organizations that undermine the sovereignty of Belarus, its constitutional order and civil consent; violate the rights and freedoms of citizens; prevent citizens from fulfilling their state, social, family duties; or harm citizens' health and morality.

Belarus is a multi-confessional society. The 2002 law on freedom of conscience and religious organizations stresses "the determining role of the Orthodox Church in the historical formation and development of spiritual, cultural, and state traditions of the Belarusian people." However, it also emphasizes the role of the Catholic Church in Belarus, as well as that of the Evangelical Lutheran Church, Judaism and Islam. Hence, this law allows discrimination against minor confessions and religious groups.

Religious organizations have the right to participate in public life and can access the media like other public associations. But they do not participate in the activities of political parties or other public associations pursuing political goals, and do not provide them with financial or other support. Places of worship are not allowed to use state symbols, hold meetings or other events of a political nature, or host speeches or appeals that insult government officials, officials or other individuals.

By law, all registered religious groups must seek permits to hold events outside of their premises, including proselytizing activities, and must obtain prior governmental approval to import and distribute religious literature. The law bans all religious activity by unregistered groups. As a result, legislation overregulates the freedom of conscience. Concrete cases in this regard are noted and described in the reports of Belarusian human rights organizations.

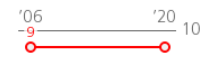
The state provides all basic public services, and the administrative structure is differentiated.

The administrative structure includes regional, district and local levels, with corresponding sub-national governments (SNGs) that exercise control over the activities of the lower-level administrations accountable to them. There are six regions plus Minsk city, 118 districts plus 12 cities with district rights, and around 1200 rural units (such as the village council or selsovet).

Regional and district SNGs operate professionally. Rural units have fewer employees, and their basic management skills tend to be minimal. Budgets in Belarus are divided on a territorial basis. Financing of SNGs is generally conducted through tax sharing and transfers from higher levels of government. Belarus' SNGs have not developed fiscal autonomy, as these entities still look to the central government for the majority of their revenues.

No interference of religious dogmas

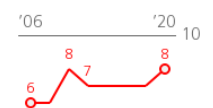
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Basic administration

8



1

The government has gradually been reforming the administrative structure and has reduced the number of state employees by more than 30% since 2013. It has also developed a draft concept for reforming the system of local administration and self-government, which provides for a greater decentralization of power. A first option suggests reducing the total number of districts, while the second would create 15 to 18 new regions with an average radius of 43 to 80 kilometers. However, Belarus has not yet signed the European Charter of Local Self-Government, which limits the positive effect that any reform of the local administration system can have.

According to national statistics (2017), a respective 100% and 95% of the population have access to water and sanitation. Access to health services is universal and free of charge. The National Bank indicated that the Belarusian government allocated 4.09% of GDP to the national health care system in 2017. Shortcomings include a lack of sufficient medical staff and significant co-payments, predominantly with regard to dental and optical care costs and pharmaceuticals. As a matter of general practice, patients are also expected to give health care workers some unofficial payment when receiving medical services. There are 622 hospitals and 2,196 outpatient clinics in the country. Within Minsk, there are 59.3 medical doctors and 81.1 beds in hospital organizations per 10,000 people.

The state guarantees the right of education in general and offers free secondary education to all its citizens. In the 2018/2019 academic year, there were 3,035 secondary schools, 4,226 specialized secondary schools, 180 vocational schools and 51 tertiary-education institutions.

The country's universal postal and basic telecommunication services are provided by the Republican Unitary Enterprise of Belpochta, which operates 2,940 post offices, 209 points of postal services and 207 mobile post offices. Belpochta performs important functions in that it also processes payment of pensions and offers some retail goods. This is especially important for small towns and rural areas. However, the decline in population figures in these areas has led to the continuous closure of postal offices, which has prompted dissatisfaction among local populations.

2 | Political Participation

Elections are regularly held in Belarus. The president is elected for five-year terms without limitations (on October 17, 2004, a referendum lifted the restriction on the number of presidential terms.). Parliamentary terms are four years in length. Elections for local-council deputies also take place every four years.

No election in Belarus since 2001 has been recognized as free and fair by the international community. Criticism by the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) has pointed mainly to the non-pluralistic constitution of the election commissions, the strict media regulations, the lack of sufficient

Free and fair elections

3

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safeguards during the early voting period, and the lack of transparency during the counting of the votes and the tabulation of election results.

In recent years, the Belarusian authorities have reengaged with international organizations in a dialogue on electoral reform. Though general assessments of the electoral process have not changed, ODIHR did note some improvements during the October 2015 presidential elections and the September 2016 parliamentary elections. In the latter election, Alena Anisim and Hanna Kanapatskaya entered parliament as the first two successful independent candidates since 2004.

Belarusian human rights organizations regularly work with their international partners to organize independent monitoring of electoral campaigns. As a rule, their work is hampered by the Ministry of the Interior and the security services.

Local elections were held in February 2018. However, a number of key recommendations made following previous elections by ODIHR and the Council of Europe's Venice Commission remained unaddressed. Moreover, Belarusian authorities indicated that electoral reforms would not be implemented before the presidential and parliamentary elections in 2019 and 2020, citing a lack of time to pursue them. Nevertheless, ODIHR has changed its approach toward Belarus from criticism to critical engagement, in 2018 launching the European Union-funded project "Promoting Democratization and Human Rights in Belarus."

The president is the only elected political entity with effective power to govern. The legislative bodies have largely symbolic functions. The government is appointed by the president, who has only to ask parliament for approval of the prime minister. Most political decisions are prepared by the presidential administration. The council of ministers acts as a technocratic government.

In general, the political decision-making process is not transparent. Security agencies such as the Security Council and the KGB (State Security Committee) play an important decision-making role. These security agencies have effective veto power.

According to the 2018 Belarusian Yearbook, the increased protest activity at the beginning of 2017, largely due to deteriorations in the socioeconomic situation, prompted a return to restrictive and repressive practices. However, although relations between the state and civil society deteriorated, the previously launched dialogue platforms continued their work.

Mass protests against Presidential Decree No. 3 (Prevention of Social Parasitism), held across the country, resulted in a government crackdown on March 25, 2017, traditionally celebrated by the opposition as the Freedom Day. However, obtaining permission for civil society activities proved easier the following year.

According to the 2018 Belarus in Focus Annual Review, 2018 saw some progress in the development of a legal and political environment for civil society. A big Freedom

Effective power to govern

3

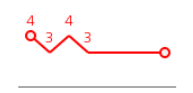
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Association / assembly rights

3

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Day celebration dedicated to the 100th anniversary of the Belarusian People's Republic took place on March 25, 2018, attracting as many as 50,000 Belarusians in Minsk. Observations of this day were sanctioned by authorities for the first time in many years.

Civil society organizations (CSOs) and independent activists continued to raise funds successfully through crowdfunding platforms for high-profile projects, primarily of a national-cultural and charitable nature. A campaign to publish a Belarusian-language edition of *Voice of Utopia* by Nobel laureate Svetlana Alexievich raised \$100,000. Another remarkable success story was created by "Names," a non-commercial platform that raised some \$700,000 for charity projects.

Civil activists and human rights defenders successfully won the decriminalization of activities by unregistered organizations (Art. 193.1 of the Criminal Code was abolished, leaving only administrative charges) in 2018. However, they continue to fear that authorities will change their repressive tactics and ultimately expand activities against civic activists using this article.

In 2017, state authorities applied a differentiated approach to managing the information sphere. On the one hand, harassment of independent journalists became tougher in cases when there was a risk of losing control over public opinion. On the other hand, normalization of relations with the West forced the state to make some concessions to the independent media.

In March 2017, journalists faced significant problems in covering the street protests. Many were detained and fined. Belsat journalists are regularly detained and fined by the authorities, and all Belsat requests for official permission to work in Belarus are rejected by the Ministry of Information.

In 2018, the authorities implemented several measures limiting the influence of social and non-state media by banning anonymity on the internet. The new Law on Mass Media introduced mandatory identification for users posting materials on websites, including comments and forum posts. Apparently, the main objective was to reduce alternative information flows' influence on public opinion. However, in light of the significant informational material coming from Russia, authorities also tried to strengthen national information security.

Independent media faced serious government persecution. In August 2018, popular independent news agencies (Tut.by and Belapan) were subject to a wave of searches and some journalists were detained in proceedings related to the so-called BelTA case – a criminal investigation into alleged unauthorized access to the paid services of the state-owned BelTA news agency. However, seeking to diminish the international resonance of this case, the authorities dropped charges against 14 of the 15 accused journalists, although they still had to pay a minimum of \$35,000 in fines. Early in 2018, opposition website Charter97.org was blocked in Belarus.

Freedom of
expression

3

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3 | Rule of Law

Amendments to the constitution, adopted in 1996 in a controversial referendum, established a strong presidential system with a formal but very limited separation of powers. The president has the right to issue decrees that have the force of law. The large majority of laws are prepared by the presidential administration.

The president appoints and dismisses members of the electoral commission, members of the cabinet including the prime minister, and the heads of the Supreme Court, the Constitutional Court and the Supreme Economic Court. He also appoints six of the 12 judges of the Constitutional Court, as well as all other judges in the country. Only six judges in the Constitutional Court are elected by the Council of the Republic of the National Assembly (the upper house of parliament).

Legislative power is exercised by a bicameral parliament, the National Assembly of the Republic of Belarus. The lower chamber is the House of Representatives, which consists of 110 members who are elected within geographic constituencies. The Council of the Republic is the upper chamber, and consists of 56 members, eight from each region (oblast) and another eight from the city of Minsk, who are elected by a secret vote at sessions of local councils of deputies. Eight additional members are appointed by the president.

Executive power in the country is exercised by the government – the Council of Ministers – which is the central body of state administration. In its activity, the government is accountable to the president and responsible to the parliament.

Judicial power in Belarus is vested in the courts and is based on the principles of territorial delineation and specialization.

In actual fact, however, the separation of powers does not function. The population has almost no influence on decision-making or elected bodies, local self-administration functions primarily as a local arm of the central government, and presidential power is virtually unlimited and lacks any accountability. No democratic system of checks and balances is in place.

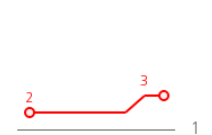
Belarus' judicial system consists of the Constitutional Court and a system of courts of general jurisdiction. The Supreme Court is the leading court of general jurisdiction, and is the supreme judicial body handling civil, criminal, administrative and economic cases.

The judicial branch operates in a state of near-total dependency. The Constitutional Court can act only if addressed by the president, the houses of parliament, the council of ministers or the Supreme Court. Since 2008, the Constitutional Court has been obliged to conduct a preliminary review of the constitutionality of laws adopted by

Separation of powers

3

'06 '20 10



Independent judiciary

4

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parliament before they are signed by the president. Citizens and civil society organizations do not have the right to address the Constitutional Court directly.

Courts are organized by the executive branch, and the president is directly responsible for appointing, dismissing and determining judges. Representatives of the executive at the regional and national levels intervene in trials and even influence verdicts when the cases are of economic, political or social importance to the authorities. However, in “non-political” cases it is usually possible to receive a fair trial in Belarus, at least if there is no state body involved in the suit.

There have been some limited attempts to reform the judicial branch. In 2013, for example, a presidential decree ordered the merger of the Supreme Court and the Supreme Economic Court, the abolition of military courts and a shift of all district courts from the jurisdiction of the Department of Justice to that of regional courts.

According to various surveys, Belarus is often regarded as one of the least corrupt countries in the Commonwealth of Independent States (CIS), and even among some of the Eastern European states, but implementation of anti-corruption measures remains selective in practice and lacks transparency.

The authorities and the public display a high degree of intolerance for official corruption. Much of the economy is still controlled by the state, which creates fertile ground for corruption. Bureaucrats enjoy vast discretionary powers, thus increasing the risk of encountering extortion when dealing with administrative requirements.

In 2017 and 2018, authorities launched a large-scale anti-corruption campaign within the agricultural, energy and medicine sectors, as well as within local administrations and among managers of public enterprises. According to the 2018 Belarus in Focus Annual Review, the major goal here was to discipline resource-intensive industries and reduce their capacity to lobby for state assistance.

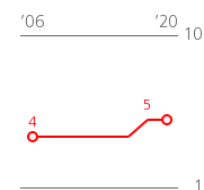
However, double standards are practiced regarding high-level officials prosecuted for corruption. There have been numerous cases in which they have received relatively mild sentences or even early amnesties thanks to presidential intervention.

While basic human rights are for the most part respected, civil and political rights are heavily curtailed. Minsk has traditionally ignored criticism by international organizations regarding the human rights situation in the country, and even insisted that there were no significant problems in this sphere. More recently, however, Belarusian authorities have demonstrated a readiness to discuss the civil rights situation with the international community in order to preserve the pace of normalization with Western countries.

The EU-Belarus Human Rights Dialogue continued in 2017 and 2018, with a focus on the implementation of the inter-agency plan on human rights. A position paper prepared for the 2018 discussion round by the Belarussian national civil society

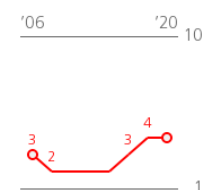
Prosecution of
office abuse

5



Civil rights

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platform and human rights community clearly stated that no progress had been made in implementing the inter-agency plan. In 2017, the United States and Belarus also launched a human rights dialogue as a key element of their bilateral agenda.

In October 2018, Belarusian authorities presented a country report at the 124th session of the UN Human Rights Committee in Geneva, the first time in 20 years it had done so. However, the leading Belarusian human rights coalition prepared an alternative report that was sharply critical of the official one. Amnesty International has also published a summary of its human rights concerns in Belarus focusing on the 2013 to 2018 period. During this span, the authorities continued to violate fundamental human rights, including the freedoms of peaceful assembly, association, and expression, as well as the right to liberty and security of the person. Death sentences and secret executions of prisoners were still carried out despite some positive steps that indicated progress with regard to abolition of the death penalty. Amnesty International also emphasizes that the legal framework allows the authorities to undertake wide-ranging surveillance with little or no justification.

Consensual same-sex conduct between adults is not prohibited by law, but discrimination against lesbian, gay, bisexual, transgender and intersex (LGBTI) persons is widespread, and harassment does occur.

Members of the Romani community generally are citizens, but face serious discrimination. Roma experience marginalization, high unemployment, low levels of education and a lack of access to social services and are sometimes refused official identity documents. In 2017, the UN Committee on the Elimination of Racial Discrimination urged the government to investigate all cases of racial discrimination, take measures to prevent discrimination against Roma individuals, and promote the independence of the judiciary. In addition, the UN Committee against Torture urged Belarus to impose a moratorium on executions as a step toward ultimately abolishing the death penalty, while also highlighting the “widespread” use of torture in Belarus and warning against the use of psychiatric hospitalization for non-medical reasons.

4 | Stability of Democratic Institutions

Belarus’ constitution describes unitary, democratic, social state based on the rule of law and the priority of generally acknowledged principles of international law. In practice, however, a number of democratic institutions do not function, and power is concentrated in the hands of President Alexander Lukashenko and groups around him. Lukashenko manages these through a process of divide and rule, carefully balancing a variety of interests that range from hardliners to moderate economic liberals.

Parliament lacks the resources and capacity to fulfill its lawmaking and oversight responsibilities. In 2018, the House of Representatives adopted only one law.

Performance of democratic institutions

3

'06 '20 10

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However, since the election of two independent representatives in 2016, parliament has engaged in more debates.

The party system is still simulated rather than practiced. Since 2006, representatives of independent political parties have had virtually no chance of winning election to the parliament or to local councils of deputies (with only a few rare exceptions).

Local issues are dealt with by locally elected councils of deputies. These local councils operate on three levels – primary (villages and towns), basic (cities and district) and regional (oblast) – and are in charge of health, education, social welfare, trade and transportation issues. But they are subject to central control and not autonomous.

Subnational executive bodies have no direct democratic legitimacy, since they are formed and controlled by, and ultimately accountable to, the president and the central government. The executive chairman at the regional (oblast) level is usually appointed personally by the president.

Major media sources are under strong state control. Independent information is generally available on the internet, but the most popular media such as TV channels are fully supervised by the government.

The Belarusian president regularly rotates personnel in order to prevent the formation of any influential groups. The list of influential actors includes the so-called siloviki or elites in the military, law enforcement agencies and secret services, who are kept in check by Lukashenko through a policy of divide and rule. Additional influential actors include the bureaucracy apparatus and the directorates of state-owned enterprises (SOEs), or the so-called nomenklatura. Both of these groups are represented in the government. The third group can be called reformists, and mostly include government officials who see a need for reforms, primarily in the economic sector.

The democratic opposition suffers from structural shortcomings and has no influence in decision-making. Civil society organizations (CSOs), activists and journalists were subject to a wave of detentions and harassment by the authorities in 2017 in connection with the peaceful protests demanding the abolishment of Decree No. 3. The abuses included arrests, searches and the confiscation of equipment at CSO offices and in the homes of activists, as well as criminal charges, including tax evasion charges against the director and accountant of the Belarusian Trade Union of Workers of Radio-Electronic Industry. At the end of 2017, with the aim of increasing control over CSOs and preventing their participation in unauthorized public protests, the government submitted a bill to parliament establishing fines for legal entities (including CSOs) that violate procedure for holding mass events.

The situation took a more constructive turn in 2018. The authorities become more tolerant, and even selectively supported some independent cultural initiatives, such

Commitment to
democratic
institutions

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as those aimed at encouraging the use of the Belarusian language and popularizing Belarusian national history and culture. Other initiatives managed to engage high-level officials in political and economic debates, including President Lukashenko (Minsk Dialogue Forum, May 2018), Prime Minister Sergei Rumas (Global Entrepreneurship Week, November 2018) and Deputy Prime Minister Alexander Turchin (Kastrycnicki Economic Forum, November 2018).

With the appointment of Sergei Rumas, a supporter of market reforms, as prime minister in August 2018, the public debate between reformists and supporters of state subsidies in the public sector resumed. Moreover, the SOE directorate began to lose its influence over the distribution of state resources.

However, the detentions, fines and harassment experienced by journalists in the second half of 2018, largely around the so-called BelTA case, sent the opposite message to Belarusian society and the international community, indicating that liberalization is confined to the economic area.

5 | Political and Social Integration

The party system in Belarus is highly fragmented and unstable. The number of parties has expanded over time, but most remain small, often with little more than a leadership team in Minsk. Political parties are usually among the least trusted institutions in the eyes of society.

In 2017, a number of groups in the Belarusian establishment communicated indirectly with the president regarding a strengthening of the institutional role of political parties and parliament in exchange for guarantees of loyalty to Lukashenko over his next presidential terms. The pro-governmental movement “Belaya Rus,” which occupies 73 out of 110 seats in the House of Representatives, aspires to become the party of power, and was the most active in this regard. Lidia Yermoshina, who heads the Central Election Commission, also cautiously expressed the idea of reorganizing the electoral system into a mixed model with a greater role given to political parties and the parliament. However, debate on this issue fell silent by late 2017, and did not prompt the president to authorize transformations.

On February 18, 2018, Belarusians elected representatives to the local councils. Essentially pro-government parties (the Communist Party of Belarus, the Republican Party of Labor and Justice, the Liberal Democratic Party and the Social Democratic Party People’s Accord) doubled their representation to 470 deputies out of 18,000, or 2.5% of the total number. In addition, more than 6,500 members of the “Belaya Rus” became local deputies, which increased their representation by 9% up to 36% of the total. Only two independent candidates (activist Roza Strelchanka and Valery

Party system

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Bilibukha from the unregistered Belarusian Christian Democracy) were elected, both at the lowest village level.

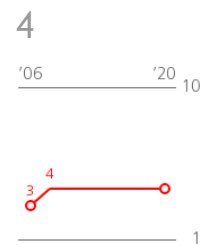
In 2017, opposition parties faced a new reality, characterized by growing societal politicization and improved opportunities to influence the government's agenda, but a decline in the effectiveness of previous mobilization methods. The protests in spring 2017 showed that people were ready to protest in large numbers against injustice and the deterioration of living standards, but were not ready for any regular political actions.

In 2018, the opposition was divided into three major groups, differing by their strategic approaches to political actions. The Belarusian National Committee, headed by former presidential candidate Nikolay Statkevich, promoted politicized street-protest actions in Minsk. Tell the Truth, also headed by a former presidential candidate, Tatyana Korotkevich, advocated gradual and progressive changes that would avoid destruction of the existing socio-political system, seeking dialogue with local and central authorities. This facilitated the adoption of compromises on several political issues, such as the suspension and revision of Decree No. 3 on so-called social parasites, greater openness within the Defense Ministry, and staff rotation at the Pechi military base, where conscript soldier Alexander Korzhych had recently died. The center-right coalition (United Civic Party, For Freedom Movement and Belarusian Christian Democracy) used both approaches, depending on the situation. National Democrats from the Belarusian Popular Front focused mainly on the promotion of nation-building and cultural initiatives. In doing so, they expressed a considerable degree of solidarity with the authorities in upholding the country's independence. Social democrats and leftists remained fragmented and engaged in no significant initiatives.

According to the 2018 Belarus in Focus Annual Review, political parties successfully politicized some social demands in some cases, for instance, those put forward by the Mothers 328 movement, pressing for lesser punishments for those who used but did not distribute drugs.

Thus, civil society and the political parties have moved beyond the traditional protest agenda and demonstrated some positive dynamics with regard to mutual cooperation and work with the population. However, they continue to have little influence on state policy.

Interest groups



There is no reliable survey data available on the population's general approval of democracy. The only independent polling organization is Belarusian Analytical Workroom (BAW), which conducts opinion polls, but it is difficult to find its results in open sources. According to available data (December 2017), the hierarchy of trust in Belarusian society is as follows:

- Church (58.2% trust vs. 31.6% don't trust vs. 10.2% don't know)
- President (42.8% trust vs. 44.3% don't trust vs. 12.9% don't know)
- Army (41.3% trust vs. 48.4% don't trust vs. 10.2% don't know)
- Government (37.9% trust vs. 50.4% don't trust vs. 11.7% don't know)
- Parliament (37.1% trust vs. 50.9% don't trust vs. 12.1% don't know)
- Branch ministries and departments (34.0% trust vs. 51.8% don't trust vs. 14.2% don't know)
- City governments and district executive committee (33.4% trust vs. 57.0% don't trust vs. 9.5% don't know)

A total of 41.2% of respondents in 2017 described the state of affairs in the country as successful, up from 27.8% in 2016. The majority of Belarusians (64.3%) said they believed they were responsible for their own lives, well-being and problem-solving, while 25.2% considered the government to be responsible for these tasks.

According to the 2018 discussion paper "The Belarusian Civil Society: dynamics of change in an unfriendly environment," public awareness regarding the activities of civil society remains at a low level, and civil society has difficulty generally in breaking through to public consciousness. However, while the intensity of Belarusians' involvement in CSOs activities remains quite low, the composition and social structure of the active part of society are changing. The number of CSOs is increasing minimally, but in comparison with other countries of a similar level of economic development, remains rather low in absolute terms.

At the same time, there is growth with regard to informal initiatives of a mainly social, cultural and lifestyle character. Cross-sectoral dialogue remains difficult due to the lack of institutional mechanisms and free media, and the reality of conflicting values. According to surveys, 62% of citizens trust CSOs, while 37% of respondents indicate that they distrust such organizations.

In general, according to the 2017 Civil Society Organizations Sustainability Index, Belarus and Azerbaijan showed the lowest level of sustainability, while remaining regional outsiders within Central and Eastern Europe. However, CSOs did

Approval of
democracy

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Social capital

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successfully conduct a number of advocacy campaigns addressing local and national issues in 2017 and 2018.

According to a survey commissioned by SYMPA and Budzma Campaign and conducted by the Belarusian Analytical Workshop in December 2017, 55.3% Belarusians believed that they cannot succeed without trusting people, while 35.6% assumed that success is possible only without trusting anyone. A total of 63.4% said they quite rarely encountered situations in which their relatives or close friends had betrayed or cheated them, while 17.4% had never encountered such a situation. Indirectly, these data indicate a relatively high level of trust among the population.

II. Economic Transformation

6 | Level of Socioeconomic Development

Belarus appears to have a relatively high level of socioeconomic development. The HDI ranked Belarus 53rd in 2017 (0.808), the highest such score among Commonwealth of Independent States (CIS) countries except for Russia. However, the country ranks lower than its neighbors to the west, including Poland (33rd), Lithuania (35th) and Latvia (41st).

According to the World Bank, Belarus has the lowest poverty rate in the CIS, and one of the lowest Gini coefficients in the world (0.27), on par with Scandinavia.

The share of the population below the poverty line had fallen from 41.9% in 2000 to 5.7% by 2017 (i.e., 500,000 Belarusians with disposable incomes of BYN 206.3 Belarusian rubles, or about \$103, per month). Belarus reduced its poverty rate more quickly than all other countries in Europe and Central Asia. This was possible thanks to redistributive policies and government regulations such as guaranteed employment, as well as growth within the country's manufacturing and agricultural sectors.

However, according to the 2018 Global Wealth Report, Belarusians, together with Ukrainians, are at the bottom of the list of 140 countries in terms of wealth per adult (123rd position). Credit Suisse's economists assess the level of wealth in the country at \$1,563 per person. The average monthly salary was about \$470 in 2018 (up from \$422 in 2017), according to national statistics.

Belarus was ranked 31st in the Gender Inequality Index in 2017. A total of 33% of parliamentary seats are held by women, and 87% of adult women have reached at

Question
Score

Socioeconomic
barriers

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least a secondary level of education, as compared to 92.2% of the country's men. The labor-market participation rate among women is 58.4%, compared to 70.7% for men.

The revised but still controversial Decree No. 3 (on “social parasites”) entered into force on January 1, 2019. According to the government, the purpose of the decree is to ensure 100% employment among citizens who should work according to their abilities. Nevertheless, the criteria for defining unemployment are confusing and non-transparent, for instance with regard to single mothers and labor migrants.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	56454.7	47722.7	54726.6	59662.5
GDP growth	%	-3.8	-2.5	2.5	3.0
Inflation (CPI)	%	13.5	11.8	6.0	4.9
Unemployment	%	5.9	5.8	5.7	5.7
Foreign direct investment	% of GDP	2.9	2.6	2.3	2.5
Export growth	%	2.1	2.6	7.5	3.5
Import growth	%	-10.6	-1.4	11.1	6.9
Current account balance	\$ M	-1831.0	-1611.9	-945.2	-265.6
Public debt	% of GDP	53.0	53.5	53.2	47.8
External debt	\$ M	38257.9	37515.9	39584.2	38843.7
Total debt service	\$ M	4976.2	6217.5	4408.5	5790.2
Net lending/borrowing	% of GDP	2.3	1.5	2.3	-
Tax revenue	% of GDP	14.2	13.8	13.0	-
Government consumption	% of GDP	14.9	15.7	15.7	15.6
Public education spending	% of GDP	4.8	4.9	4.8	-
Public health spending	% of GDP	3.7	3.9	-	-
R&D expenditure	% of GDP	0.5	0.5	0.6	-
Military expenditure	% of GDP	1.3	1.3	1.2	1.3

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition operates with a weak institutional framework. However, due to the evident structural crisis of the Belarusian socioeconomic model, as well as unfavorable external conditions, the government has expressed an intention to continue its reforms in the business sphere.

In the World Bank's Doing Business 2019 report, Belarus climbed to 29th place (score 93.39) out of 190 total countries with regard to the ease of starting a business. Doing so requires four days and nine procedures, and costs 0.5% of per capita GNI.

The country scores well in many of the report's sub-indexes, including "registration of property" (5th place), "connection to the power supply system" (20th place), "international trade" (25th place), "enforcement of contracts" (29th place) and "registration of enterprises" (29th place). However, "protection of minority investors" (-11 points), "resolution of insolvency" (-4 points), and "taxation" (-3 points) require improvement.

The 2019 Heritage Foundation Index of Economic Freedom is less optimistic about Belarus' system. It gives Belarus an economic freedom score of 57.9, ranking it at 104 out of 180 countries, and labelling it as "mostly unfree." Its overall score has decreased by 0.2 points since the previous survey, with extensive state ownership and government control identified as severely limiting investment and financial activity.

However, neither of these reports yet reflect recent measures intended to improve the business environment, implemented at the end of 2017 and in 2018 as part of the "liberalization package" adopted by President Lukashenko. Presidential Decree No. 7 from 2017, on the issue of entrepreneurship, reduced government interference with the operation of commercial entities, and cut back administrative requirements for establishing a business in a number of economic sectors. The document covers about 95% of Belarusian small and medium-size private companies.

There is no reliable data on informal employment. According to the 2018 IMF Report "Shadow Economies Around the World," the informal sector within the Belarusian economy accounts for 32% of GDP. In 2018, the official "social parasites" database included 500,000 Belarusians not formally involved in economic activities, though the official number of unemployed Belarusians was about 14,600. Thus, a good one-tenth of economically active Belarusians could be included in this database.

The legal basis for the regulation of competition is the Law on Counteraction to Monopolistic Activity and Competition Development. This defines the institutional and legal framework for the prevention, restriction and suppression of monopolistic activity and unfair competition. The law aims at ensuring the necessary conditions for the establishment and effective functioning of commodity markets, the promotion

Market
organization

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Competition policy

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and development of fair competition, and the protection of consumers' rights and legitimate interests.

In September 2016, a new antitrust authority was put in place, in the form of the Ministry of Antimonopoly Regulation and Trade. The previous regulator – the Ministry of Economy – is now in charge of natural monopolies and the creation of holdings. Antimonopoly and price regulation were transferred to a single authority due to requirements imposed by the Eurasian Economic Union. Before 2016, the Ministry of Economy and the Ministry of Trade shared these functions. Both regulators are members of the International Competition Network.

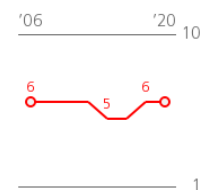
The Belarusian economy is characterized by a strong monopolization of commodity markets. In order to liberalize markets with natural monopolies, the government recognizes the need to monitor the markets to determine the status and the role of market monopolies, and to identify appropriate methods of state antimonopoly regulation and means of oversight over potentially monopolistic activities and behaviors.

The Ministry of Economy will carry out its regulation of natural monopolies by gradually reducing the number of commodity markets in which natural monopolies persist. The government claims that this will encourage competition, support entrepreneurship and remove barriers to market entry for new producers.

Another relevant problem, recognized by the government, is the high level of concentration in the field of economic and financial-industrial groups, holding companies, and other associations of economic entities. Therefore, the government has emphasized that competition policy will encourage state control over economic concentration, relying on such principles as the common economic space; free movement of goods, services and cash; competition support; and the exclusion of activities aiming at monopolization and unfair competition. This is expected to have a positive impact on domestic producers' competitiveness.

Economic ties with Russia remain strong, including through membership in the Eurasian Economic Union (EAEU). Since 2010, upon launch of the customs union, Belarus' customs and tariffs have been collectively determined. The EAEU Treaty provides for joint tariffs, harmonized non-tariff trade regulations including bans and quantitative restrictions, and automatic licensing and authorizations (non-automatic licensing). However, there are various administrative barriers to market access in trade even between EAEU member-states.

A number of trade conflicts with Russia have emerged since 2015, intensifying in 2017 and 2018. These have included a string of battles over milk and meat products, as well as over gas and oil. The decision by Russia to impose an import ban on certain Western goods in the food sector resulted in a temporary ban on Belarusian re-exports



of meat and other foodstuffs, and the reimposition of custom controls between the two states.

Relations with Russia are particularly vital in the sphere of energy, with Belarus almost completely dependent on Russia. The construction of a nuclear power station in Astravets is also being carried out by Russia. Russia accounted for 40% of the country's total exports in 2018, but three-fourths of non-commodity exports. Potash and refined oil account for one-third of Belarusian commodity export proceeds. The vast majority of Belarusian exports to the EU are in the form of oil products refined in Belarus using cheap Russian imports. The combination of few commodities and a few trading partners makes Belarus vulnerable to shocks.

According to the IMF, Russia's new hydrocarbon tax system will have significant implications for Belarus at least through 2025. Under the terms of the current bilateral agreement, Belarus annually imports 18 million tons of crude oil from Russia free of export duty. This is refined, and much of the resulting oil products are re-exported. The country also receives the equivalent of the export duty on 6 million tons of crude oil as a budget transfer. However, these inflows will be affected by Russia's introduction of a mineral-extraction tax that will replace the export duty on oil and oil products over a five-year period. In addition, under the terms of its bilateral agreement with Russia, Belarus will be required to reduce its own oil export duty rate. Absent a new agreement, at current oil prices, the annual direct impact on Belarus' current account and fiscal balance once the transition in Russia is complete is respectively estimated by the IMF at some 3.9% and 1.3% of GDP.

The new reality of relations with Russia has pushed Belarus to diversify its external economic relations. However, Belarus still lacks an agreement with the EU regulating trade and investment cooperation, even though trade between the EU and Belarus has expanded in the last couple of years.

Membership in the EAEU obliges Belarus to reduce tariffs consistent with Russia's commitments to the WTO, with which Belarus is also negotiating accession. Currently, the simple average of most-favored nation tariffs is 6.8% (in 2017). Belarus intends to complete all the necessary WTO accession procedures and wants to sign a partnership and cooperation agreement with the EU by the end of 2020.

Belarus and China have been diplomatically close since 2016. Belarus is considered to be a key element of China's One Belt One Road Initiative in Central Europe, a status that promises additional investment and logistics resources. In order to promote cooperation further, the Chinese-Belarusian Great Stone industrial park has been given the status of a special economic zone.

The National Bank is Belarus' banking supervisory authority. In 2017, it adopted a strategy for the development of the financial market through 2020. One of its main goals is an improvement of banking supervision through the introduction of Basel III standards as prudential requirements for banks, non-bank financial institutions and the Development Bank.

Asset-quality reviews in 2016 and 2017 led to some remedial actions, and capital adequacy has improved as a result. In 2017, the total quantity of the banking sector's risk-weighted assets was up by 13.4%. The regulatory capital adequacy showed only insignificant change, from 18.6% as of 1 January 2017, to 18.5% as of 1 January 2018. The National Bank Financial Stability Report indicates that the regulatory capital-adequacy ratio varied across different groups of banks in 2017: at state-owned banks, it increased from 17.7% in early 2017 to 18.1% as of 1 January 2018; while at private banks it decreased from 24.1% to 21.7% over the course of 2017.

As of 1 January 2018, Belarus' banking sector was composed of 24 operating banks, including 19 banks with foreign capital. Over the course of 2017, the state's share in the banking sector's aggregate authorized capital rose from 80.3% to 81.4%, while the foreign-capital share decreased from 16.7% to 15.9%. There is a high degree of concentration; as of 1 January 2018, the five largest banks accounted for 76.9% of assets and 73.2% of banking-sector capital.

The heavy debt load in the economy, primarily in the state-owned sector, has threatened the stability of the banking sector. The share of bad assets within the banking sector's total asset portfolio rose from 12.79% as of 1 January 2017 to 13.14% at the beginning of 2018. The share of bad assets denominated in the national currency declined over the course of the year from 12.41% to 9.62%; the share denominated in foreign currency rose from 13.05% to 15.66%. This is also reflected in the ratio of non-performing loans and credits to total gross loans and credits, which has grown from 6.8% as of 1 January 2016 to 12.9% as of 1 January 2018.

8 | Monetary and fiscal stability

Monetary policy in Belarus has historically been subordinated to policy objectives other than price/monetary stability, for example through the stimulation of subsidized lending. According to the IMF, a revised monetary-policy framework targeting money aggregates, adopted in 2015, has allowed a shift to a more rules-based policy. Financial sector regulation and supervision have also improved, as has the independence of the National Bank.

In 2018, inflation decreased to 5.5% from 6% in 2017, and 11.8% in 2016. As inflation pressures have eased, the benchmark interest rate was steadily cut from 17% in 2017 to 10% by June 2018. As a result, lending interest rates have fallen as well, improving loan supply conditions and stimulating bank lending, which grew by about

Banking system

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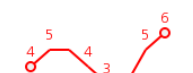


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Monetary stability

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11.5% in year-over-year nominal terms by mid-2018. Still, the degree of dollarization remains high, with 67.2% of bank deposits denominated in foreign currency in 2018.

The Belarusian ruble depreciated against the U.S. dollar by 8% in 2018. However, national bank data indicate that the real effective exchange rate of the Belarusian ruble dropped by only 0.4% in Q1 2018 and then continued to decline gradually.

According to the IMF, authorities have been tackling various market distortions in a manner consistent with the transition towards inflation targeting. The foreign-exchange (FX) market has been liberalized, as witnessed by the elimination of the foreign-exchange surrender requirement for exporters, and the elimination of the requirement that buyers explain their reasons for foreign currency purchases.

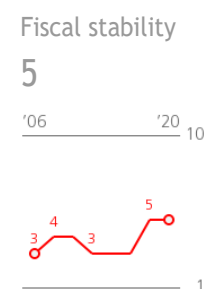
Monetary authorities have retained inflation targeting as the best means of preserving a disciplined and rules-based policy. The necessary steps to increase operational capacity so as to meet the demands of modern inflation targeting have already been taken. As part of the monitoring and handling of systemic risks, a Financial Stability Council has been set up to provide a forum for coordinating financial sector issues between the government and the central bank.

According to the IMF, higher oil prices and robust external demand during the review period helped boost exports, while domestic demand was driven by double-digit wage growth in response to ambitious wage targets in 2018. In turn, stronger imports, including those related to the construction of the nuclear power plant in Astravets, led to deterioration in the external accounts despite the positive terms of trade; the current account deficit thus reached 2.5% of GDP in 2018, versus 1.6% in 2017.

Strong external demand, better terms of trade and a higher-than-expected redistribution of import duties within the Eurasian Economic Union boosted budget revenues, which increased by some 0.75% of GDP in 2018. Expenditures, however, have risen even faster, with capital spending showing particular growth, but wages and salaries also rising. All in all, the overall budget deficit including quasi-fiscal spending on state-owned enterprises totaled 1.3% of GDP in 2018, up from 0.3% in 2017.

Public debt stands at 52% of GDP (2018), but this figure has risen fast over the last 10 years. This is mostly because of costly extra-budgetary activities and the very high share of foreign-currency-denominated debt in total public debt (90%), which exacerbates the impact of currency depreciations on the debt/GDP ratio. External (private and public) debt stands at 70% of GDP, but gross external refinancing needs are relatively large at 26% of GDP. These remain substantial even if one excludes trade credits, which tend to have more stable rollovers, and which account for about half of the total.

In 2018, fiscal policy continued to be disciplined, showing a solid primary budget surplus, improved revenue collection, better-quality expenditures and restrained non-



priority spending, according to the IMF. In the period between January and September 2018, the budget had a surplus of 3.8% of GDP (2017: 3.3%). Budget revenues increased by 31.6% year over year in January to September 2018, facilitated by increased world prices for the main Belarusian export commodities. This led to significant growth in export-duty income, while high and persistent consumer activity helped swell VAT and excise-tax receipts.

Foreign-currency reserves totaled \$7.2 billion at the beginning of January 2019, covering approximately 2.2 months of imports. The National Bank remains committed to a flexible exchange rate and intends to proceed with further foreign-exchange reserves accumulation when conditions permit.

In January 2018, Fitch Ratings increased Belarus' long-term sovereign credit rating for obligations either in foreign exchange or the local currency to the level of "B." This forecast is deemed "stable," with the country previously receiving a rating of "B-." The most positive contributions to the upgrade were made by the creation of reserves for government debt payments upcoming in 2018, and by the significant and rapid decline in inflation rates and the current account deficit.

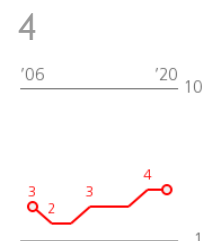
9 | Private Property

Property rights are guaranteed by the Civil Code. Mortgages are available, and the property registry system is reliable. Investors and duly established commercial entities with the participation of foreign capital have the right to rent plots of land for up to 99 years. The Belarusian Land Code denies land ownership to foreign legal persons and individuals. The Investment Code provides a transparent legal framework for investors in Belarus with the following guarantees: foreign ownership of property, full equality of rights, protection against discrimination and the freedom to repatriate profits. The Code also gives investors legal rights to appeal against any actions by the state that violate the investors' rights or inflicts losses.

Belarus is among the top-five reformers worldwide with respect to property registration, according to the 2019 World Bank's Doing Business report. Today it is necessary to complete only two procedures and spend three days to register a property. The country has created a one-stop shop for property registration, introduced a broad administrative simplification program with strict time limits for the registration process, and computerized its records.

In spite of this improvement, private property is not always fully protected by the legal system in reality. On occasion, companies and organizations have found that even if they have signed leases on land and property, the properties can still be seized by state bodies for their own use.

Property rights



Expropriation of private property sometimes occurs in the form of de-privatization. That is, the government sometimes seeks to secure a majority share in joint stock companies under various pretexts (e.g., securing the interests of workers or addressing a long loss-making record). Chyzh, Baskin, Prakapenya, Knyrovich, Arbusau were well-known cases of such activity in 2016. In the recent past, there have also been instances in which business property has been confiscated as a penalty for violations of the law, especially in cases of tax evasion.

Belarus remains one of the most state-controlled economies in Europe. It has avoided large-scale privatizations. Enterprises either fully or partially owned by the state account for 42.8% of GDP and 47.5% of employment. However, despite substantial capital investment, their value-added share has fallen compared with that of the private sector. The current governance structure of many SOEs does not make for efficiency in a competitive environment. SOE employment to some extent performs a social-protection function, with the rate of overemployment estimated to be about 10%.

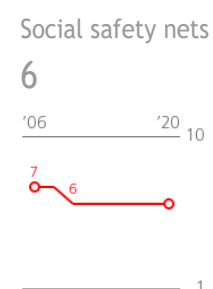
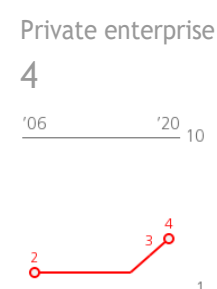
In 2018, there were 112,000 local SMEs, which were responsible for almost a quarter of the country's GDP and employed around 1.5 million people. They also contributed 42% of the country's external trade. The provision of support for and the further development of SMEs has been identified as one of the new government's top priorities. Hence, an SME-promotion strategy entitled "Belarus is a country for successful entrepreneurship" was adopted in October 2018 and is slated to last through 2030. However, the key barrier to private business remains the lack of a level playing field in comparison with SOEs, rather than the regulatory environment itself.

Despite these positive trends, the business community still wants to see more progress in developing the private sector. The National Platform of Business Belarus has called for ensuring an equal economic environment for enterprises of all forms of ownership, the elimination of existing gaps in SMEs' access to finance and financial infrastructure, an act on public-private partnership (PPP), and a roadmap for the implementation of the SME development strategy.

10 | Welfare Regime

Belarus has pursued a policy focused on centralized decision-making, full employment and real wage growth with the aim of maintaining living standards and stability.

According to the World Bank, while the range of social assistance programs in Belarus is extensive, the rate of income replacement from social assistance is low when compared to other countries in Europe. Cash and in-kind benefits make up 4% of disposable income for the bottom 10% of households by income, and only 1% for the second income decile. These low rates suggest that the current social-assistance



system provides little in the way of direct poverty relief or protection from adverse economic shocks.

The population has fallen from 10.2 million in 1990 to 9.5 million in 2017. The proportion of the population under the age of 14 is expected to decline from 18.3% in 2000 to 14.1% in 2025, while the proportion of those over 60 years will increase from 19.2% to 25%. The aging population has placed strains on the pension and health care systems. In 2018, overall life expectancy at birth increased to 73.21 years. It is 10.1 years higher for women (78.58 years) than for men (67.69 years), mainly as a result of the growing incidence of noncommunicable diseases.

The authorities have recognized this problem and have initiated a pension reform to ensure the sustainability of the Social Protection Fund (SPF), which faces a persistent deficit. As a result, by 2022, the retirement age will be 63 for men and 58 for women (up from the current ages of 60 and 55, respectively). In December 2018, the average monthly pension level was BYN 393.3 (\$184.5), an increase of 14.8% (in rubles) in comparison with December 2017.

Health services are equitable and affordable but underperform in terms of efficiency and outcomes. At 3.5% of GDP, public health expenditures are in line with other middle-income Eastern European and Central Asian countries. There are still shortcomings such as unequal access to and quality of medical services in rural and urban areas, and restrictions on free prescriptions for some medications (especially when they are produced abroad). The country has made improvements in addressing public health issues such as child mortality and communicable diseases. In 2017, the infant mortality rate was about 2.8 deaths per 1,000 live births, while the maternal mortality rate was about two per 100,000 live births, both figures the lowest in the region.

The Global Gender Gap Report 2018 ranked Belarus at 28th place, as high as Spain and the Netherlands. The country is ahead of many CIS countries when it comes to gender equality.

Women in Belarus have equal opportunity with men when it comes to economic participation (earning the country a 6th place in the global rankings). However, gender parity in education is not yet a reality (49th place), and men have more political power than women (74th place).

Belarus has made considerable investments in the human capital of its population, both for men and women. With both primary and secondary education being compulsory, nearly 100% of girls are enrolled in schools. The same is true of boys. However, at the level of tertiary education, there is a gender gap, with more women than men enrolled in universities. However, even though women are better educated, they remain at a disadvantage on the labor market. Women are 2.5 times less likely than men to be given a managerial position, for example.

Equal opportunity

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According to the 2018 Human Development Index, the literacy rate is 99.6% (99.8% for men and 99.5% for women). The World Bank points out that Belarusian women are paid less than men, even when they hold the same positions. The gender wage gap increased from 19% in 2001 to 25% in 2017. The gender pay gap in Belarus is explained by two factors. First, women are generally employed in sectors where the pay is lower overall, as for example in public-sector jobs in education, health and social security, trade and public catering, culture, and art. Second, women are underrepresented in higher-paid positions in other sectors.

Some groups still face significant barriers in the economic, social and political spheres. Roma individuals, people with disabilities, persons from the LGBTI community, migrants, some religious groups and even Belarusian-speaking people can face discrimination in employment or social services contexts.

11 | Economic Performance

In 2018, economic and financial conditions improved compared to 2017, which itself marked the end of the 2015/2016 recession (in these two years, the economy shrunk by a respective 3.8% and 2.5%). According to preliminary data, GDP was around \$60 billion, while real economic growth was 3% in 2018, continuing the cyclical recovery begun in 2017 (2.4% growth). GDP per capita (PPP) was \$18,848 in 2017, but data for the previous four years indicates some degree of economic stagnation.

According to the World Bank, stronger domestic demand and increased exports helped GDP growth accelerate. Real wages rose, outpacing productivity growth and fueling household consumption, which grew by 10.2% year over year (y/y) in Q2 2018.

According to the World Bank, industrial production remained the main driving force on the supply side, with manufacturing growing by 9% y/y in the first five months of 2018. Strong positive dynamics were also evident in the domestic trade (8.6% growth y/y) and construction (7.1% growth y/y) sectors. On the demand side, the broad economic recovery was primarily driven by a long-awaited pick up in investment activity (15% growth y/y). External trade continued to recover after many years of decline, with goods exports growing by 22% y/y in the period from January to May. This positive dynamic was for the most part due to a strong increase in exports to the European Union of 52.5% y/y.

Meanwhile, corporate-sector financials continued to deteriorate, according to the IMF. In the first half of 2018 (H1 2018), profits in manufacturing and construction fell in real terms, while the number of loss-making SOEs in these sectors decreased only marginally. Nonetheless, commercial banks increased lending to manufacturing-sector corporations despite high levels of indebtedness in 2017.

Output strength

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Consolidated government revenues showed real growth due to robust tax revenues, according to the World Bank. Authorities reduced spending on public investment and transfers to local budgets in order to meet rising public-debt repayment obligations (up by 2.4% in real terms in H1 2018), generating a headline fiscal surplus of 5.5% of GDP.

The current account deficit narrowed substantially in 2017 before rising again in 2018. Thus, it fell to 1.7% of GDP from around 3% in 2015 – 2016; in the first half of 2018, however, it rose back to 2.9% of GDP. Foreign borrowing by the public sector along oil-trade-related transfers to the budget helped address short-term financing needs.

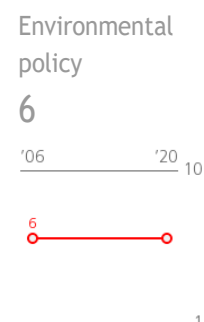
According to the National Bank, Belarus still has difficulty in attracting foreign investment. In 2018, FDI totaled \$1.63 billion (2.7% of GDP) compared with \$1.2 billion (2.3% of GDP) in 2017 and \$1.1 billion (2.3% of GDP) in 2016, according to Belstat.

12 | Sustainability

According to the 2018 Sustainable Development Goals (SDGs) Index and Dashboards Report, Belarus ranks 23rd in the Global Index Rank among 156 countries (76/100). According to the United Nations Development Program (UNDP), the country has achieved a significant reduction in carbon dioxide emissions, and the consumption of ozone-depleting substances over the past five years has been reduced by 50%. The economy's carbon intensity has decreased by a factor of four, and the energy intensity of GDP was reduced by a factor of three. The area of land suitable for the conservation of biological diversity has increased.

In 2017, upon the decision of the president, the position of a national coordinator for the implementation of SDGs was created, along with a Council for Sustainable Development focused on implementation of the 2030 Agenda.

One of the key risk factors for the environment is the ongoing construction of the Astravets nuclear power plant. In 2017, the Meetings of the Parties to the Aarhus and Espoo Conventions noted that the project in Astravets continues to be implemented in violation of the provisions of both conventions. In July 2018, the EU and the European Nuclear Safety Regulators Group noted that stress tests at Astravets had revealed numerous safety problems and indicated that the project does not meet modern nuclear-safety standards. This issue has proved to be one of the key obstacles to the establishment of a more expansive EU-Belarus partnership.



Belarus has a universal primary- and secondary-school system, along with equitable access to tertiary education, but the content of education and training needs to adapt to the job market. According to the World Bank, Belarus' educational system has a strong reputation in the areas of literacy, numeracy, technology and engineering. However, input-based management approaches and a lack of diversity with regard to education methods are jeopardizing the delivery of market-relevant skills.

As of 2017, the country's score on the UN Education Index was 0.838, indicating considerable improvement since 2007 (0.774). However, the score has remained at almost the same level for the last five years. This is the best result among the group of post-Soviet states, including Russia (0.832) and Ukraine (0.794). Belarusian students spend an average of 15 years in the educational system. As of 2017, gross enrollment ratios were respectively 101.9%, 104.4% and 87.0% for the primary, secondary and tertiary levels; the gender parity index scores for each of these levels were respectively 1.0, 1.0 and 1.3.

Public expenditure on education totaled 4.9% of GDP in 2017 and 5% in 2018. Belarus has been working on reducing the number of incompletely filled general secondary-education institutions and is upgrading the remaining facilities. It has instituted a per-pupil approach to school funding and is improving the use of information technologies (ITs) in education as a management tool and as preparation for participation in international standardized tests.

At 0.6% of GDP in 2017 and 2018, government expenditure on R&D is well below the international average and is one of the lowest such levels in Europe. The 2018 Global Innovation Index ranked Belarus at 86 out of 126 countries, behind Ukraine and Russia.

For the last three years, the country's higher-education policy has been subject to considerable criticism. Following the implementation schedule of the roadmap on higher education reforms, Belarus should have completed all its obligations by 2018; however, by that date it had implemented only a small part of the commitments. Some limited progress has been made in individual areas of the roadmap, but the overall understanding of the interplay and interdependence of Bologna tools still needs to be developed. The Bologna Follow-Up Group (BFUG) called for the introduction of a specific support procedure for Belarus, which included the mandate to perform all outstanding obligations contained in the Belarusian roadmap by 2020, in particular, the adoption of the National Qualifications Framework, the establishment of an independent agency for quality control, automatic support of academic freedoms, and the guarantee of institutional autonomy.

According to the White Book published in late 2018 by the Independent Bologna Committee, higher education funding declined by more than 40% from 2014 to 2017. This fall in funding has been steeper than the decrease in the number of students (25%). This means that the higher education sector is getting poorer, and that its

Education policy /
R&D

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quality is deteriorating at the same time. Access to higher education is also declining, a trend that is disproportionately affecting vulnerable groups (people with disabilities and rural areas).

Governance

I. Level of Difficulty

Belarus is one of Europe's few landlocked states. On the one hand, its geographical location favors the deployment of logistics centers along the routes used to transport cargo between Europe and Asia. On the other, it is also landlocked in terms of geopolitics, at the juncture of Europe and Russia, and therefore, a subject of geopolitical tensions, especially due to the Russia-Ukraine and Russia-West confrontations.

According to the World Bank, Belarus is an upper middle-income country, with a relatively high degree of ethnic and religious homogeneity. The country's labor force is comparatively well-educated, but this is an ambiguous legacy of the Soviet system. The main problem is the decreasing quality of education, which has been sacrificed to a focus on increasing enrollment numbers.

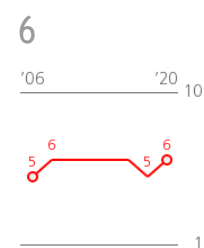
The World Bank characterizes the economy of Belarus as showing serious spatial disparities in welfare. Gaps in mean consumption between urban and rural areas, as well as between regions, have widened. The average gap in per capita household consumption between Belarus' richest and poorest region is now close to two-thirds of the country's mean per capita consumption level, according to the World Bank.

UNAIDS estimated that 34,000 people in the country were living with HIV/AIDS in 2017. The prevalence rate in adults between 15 and 49 is 0.4%, which is quite high by European standards.

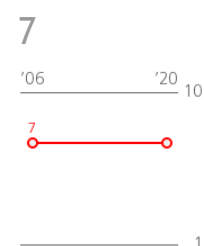
As of January 1, 2018, there were 2,856 registered public associations in Belarus, including 223 international, 762 national and 1,871 local associations, as well as 41,760 registered branches of public associations. Other registered entities include 29 trade unions, 39 unions (associations) of public associations, 195 foundations and seven national governmental public associations. Some organizations continue to register abroad or operate without registration due to the country's unfavorable legal environment. About 200 Belarusian CSOs are registered in other countries, including Lithuania, Poland and the Czech Republic.

According to research carried out in 2018 by the Center for European Transformation and the Center for Legal Transformation (Lawtrend), published in a report called

Structural
constraints



Civil society
traditions



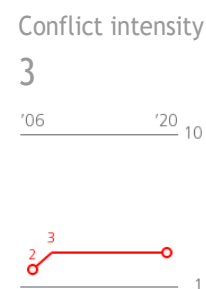
Civil Society of Belarus: Current State and Conditions of Development, the largest category of CSOs are those dealing with culture and social services. Following these are youth-focused CSOs, faith-based organizations, CSOs involved in education, business associations and CSOs focused on the business environment. The smallest general category is organizations representing independent trade unions, those engaged in civil society development, and CSOs working in such “new” spheres as media and urbanism.

According to the 2017 CSO Sustainability Index, for Belarus the public has a generally positive or at least neutral perception of CSOs and activists. According to a survey conducted by the Belarusian Analytical Workroom in December 2017, 48% of Belarusians expressed trust in CSO activists. In comparison, 44.6% of respondents expressed trust in businesspeople, 39.6% in journalists and 23.2% in politicians. The level of trust in CSOs as institutions is lower than in individual CSO activists, and the figures for government-organized NGOs (GONGOs) and independent CSOs show little difference. In addition, 55.9% of Belarusians believe that it is impossible to succeed without trusting people.

In October 2017, the MASMI Research Group conducted a national poll. The findings indicated that 25.5% of the respondents were aware of CSO activity, while a vast majority (80%) did not participate in them. According to a survey of Belarusian internet users conducted by the Office for European Expertise and Communications and the Baltic Internet Policy Initiative in January 2018, if Belarusians had the opportunity to transfer 1% of their taxes to support the activities of CSOs, they would primarily support social, environmental and educational initiatives.

The year 2017 was marked by mass protests against Decree No. 3 (on the issue of so-called social parasites) and the deteriorating socioeconomic situation. When the protests started in February, the authorities initially took no harsh measures against them, as most of the protesters were drawn from previously apolitical social groups in the regions. However, on March 25, 2017, the security apparatus received carte blanche for a brutal crackdown in Minsk, with the goal of quelling the ongoing demonstrations. Law enforcement agencies resumed mixed punitive practices, alternating between fines and arrests depending on the situation.

According to the 2018 Belarusian Yearbook, 32 citizens had been detained by the end of March 2017. Some of the detainees were previously activists of the White Legion patriotic association, which was disbanded in 2005. The arrests were accompanied by propaganda presenting the protests as part of a conspiracy and coup attempt, the aim of which was to overthrow the government. There was considerable evidence that the Belarusian intelligence services falsified elements of this case in order to provoke Lukashenko’s harsh reaction against the protests. In November 2017, the charges against all the defendants were lifted, and the case was dismissed.



At the end of 2017, the president's Information and Analytical Center published national survey data. According to this data, one million Belarusians were in principle ready to participate in protests against the state authorities. Moreover, 190,000 Belarusians had considered the option of armed resistance. As catalysts to action, the respondents most often identified the sharp reduction in the size of salaries and delays in their payment, higher prices, the risk of losing their jobs, unsafe conditions in production in cities, and restrictions on political rights and freedoms. These polls were conducted at the end of 2016, before the eruption of protests against Decree No. 3.

In 2018, faced with growing pressure from Russia, the authorities took several steps aimed at decreasing the intensity of ideological confrontation with the nationally oriented part of society. A key gesture here was the authorization of a large-scale concert on March 25, 2018, to celebrate Freedom Day and the 100th anniversary of the Belarusian People's Republic.

Long-term autocratic governance and the lack of public dialogue have led to a situation in which most Belarusians demonstrate an apolitical attitude and have no intention of confronting the authorities. While this helps avoid conflict, this behavior also leads to social apathy, a lack of social trust, a society divided by value-based cleavages, internal immigration flows, and an underestimation of the importance of social problems and incomprehension toward mechanisms for their solution.

II. Governance Performance

14 | Steering Capability

The political leadership claims that it pursues long-term aims, but these are regularly supplanted by short-term interests. Reforms and greater international engagement, especially with the West, tend to be strategies compelled by circumstances, and usually coincide with crises in relations with Russia. There are no notable strategic planning institutions, and independent expertise is not used in the course of policy-making. Three institutions effectively manage all spheres of life of Belarusian society and the state – the presidential administration (political matters), the government (economic matters) and the security council (security-related matters).

Hardliners, particularly those in law-enforcement agencies and the security services, tend to support closer ties with Russia, while seeking to block any market reforms or liberalization in Belarus. By contrast, some technocrats support limited modernization and the improvement of economic ties with the West.

Question
Score

Prioritization

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Driven by the deep economic crisis and the increased pressure from Russia in 2015 and 2016, the Belarusian authorities developed an anti-crisis plan in cooperation with the World Bank and the IMF. However, after an agreement was reached with Russia on credit and fuel subsidies in April 2017, authorities suspended the program discussions with the IMF.

In 2017, there was a modest recovery. In this context, the Program of Activities of the Government of the Republic of Belarus for 2016 – 2020 was adopted with the objective of improving living standards through enhanced competitiveness, innovation and an increase in investments.

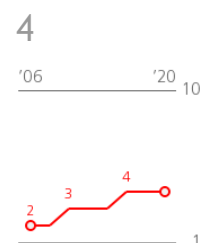
In 2018, following the Kremlin’s “integration ultimatum,” the authorities returned to their modernization agenda. In August 2018, Sergei Rumas was appointed as new prime minister. His economic program includes measures aimed at strengthening SOE oversight and financial discipline; lowering state support for the public sector; reducing cross-subsidies for housing, utilities and electricity tariffs; improving corporate governance; enhancing the business climate and attracting FDI; initiating a structural transformation of the economy toward the service sectors and IT industries; and diversifying the country’s trade flows. This action plan relies on the technical assistance and expertise of international financial institutions, as well as Belarus’ other foreign partners.

The government set itself ambitious tasks in 2017, primarily within the realm of the economy. A package of liberalization decrees on stimulating economic growth and improving the business climate was signed by President Lukashenko at the end of 2017. The development of entrepreneurship (Decree No. 7) and the digital economy (Decree No. 8) were identified as new drivers of economic growth intended to distract attention from the lack of reforms in the public sector of the economy, and this sector’s consequent inability to fulfill its social obligations.

In August 2018, a new government headed by Sergei Rumas was appointed. Compared to its predecessors, it formulated a more realistic vision of reform needs, including the need to separate ownership and regulatory functions in state property management. Another important plan is to end criminal prosecution for tax violations, with the aim of preventing law enforcement’s “extortionate” tax collection. To maintain economic growth, the government is seeking to develop the service sector, achieve large-scale digitalization, keep inflation low, improve the investment and business climate, and continue to reduce regional inequalities.

Significant reform needs persist in numerous areas including the pension system, social dependency, the healthcare system, social inclusion and environmental protection. However, the new government gives the impression of being fully aware of these problems.

Implementation



Both the government and the presidential administration drew conclusions from the spring 2017 protests against Decree No. 3. First, the implementation of the decree was frozen, and the policy was revised in January 2018. Second, and more importantly, the state acknowledged the need to engage in consultation with the public and with experts before drafting regulations. Hence, a number of interdepartmental advisory groups containing subject-area experts, top NGO figures and representatives of various government bodies were established in 2017.

Former Vice-Premier Natalya Kochanova was appointed as the president's chief of staff in early 2017. She subsequently chaired a task group aimed at simplifying administrative procedures for business. While the government was working on a liberalization package of presidential decrees intended to improve the investment climate, two expert groups were discussing the decriminalization of economic risk-taking in early summer 2017. Both groups included representatives of business unions and industrial associations, as well as civil servants. The presidential administration's Entrepreneurship Council was strengthened by giving it the right to draw up initiatives and send proposals to state bodies.

Authorities have also sought to improve the quality of management in SOEs by following OECD guidelines, while also tightening budget constraints, leveling the playing field and seeking to attract investors to the state-owned sector.

However, Belarus' governance capacity is still rather limited. Few young professionals are educated abroad in a way that might provide them with a more modern view and professional competences incorporating international experience and lessons learned in different parts of the world.

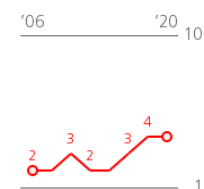
15 | Resource Efficiency

Natalya Kochanova, a former vice-premier, was appointed presidential chief of staff in early 2017. She was given several conflicting tasks: the recruitment of new staff, optimization of existing staff (largely through making cuts) and de-bureaucratization of the administration (by reducing and transferring bureaucratic functions to the business sector). The first round of staff cuts took place in 2013, while a second began in 2017, and largely affected the armed forces, the police and the Ministry of Foreign Affairs.

According to the World Bank, Belarus achieved its structural reform targets in 2017 to 2018. These were focused on governance and enterprise restructuring, price liberalization, trade, and the foreign exchange system. There were also some improvements made with regard to the disclosure of contract awards and executive budget proposals, as well as expansions in the coverage of the treasury single account. A public financial-management reform strategy has been approved, entailing the

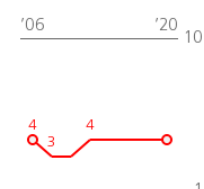
Policy learning

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Efficient use of assets

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introduction of an improved financial-management information system and improvements to the budget-management process.

In December 2016, the government approved a Medium-Term Financial Program for 2017 to 2019. This is focused on the country's main macroeconomic and fiscal indicators, including state expenditures and intergovernmental transfers. The measures are said to be taken in close cooperation with the World Bank and the IMF.

The Belarusian political system is highly centralized, with President Lukashenko acting as strategic referee between state institutions and informal elite groups. The presidential administration sits at the apex of the power vertical. Subordinate structures are expected to implement commands and there is no horizontal oversight between different branches of government. This has led to a situation in which there is a lack of accountability, and even high-ranking authorities try to avoid responsibility where possible.

However, throughout 2018, expanding on the modest steps of 2017, the economic authorities implemented a responsible monetary policy, restraining the appetites of SOEs in the agricultural and industrial sectors for state subsidies. According to the 2018 Belarus in Focus Annual Review, this took place because of Lukashenko's disappointment with the results of the previous pilot-stage modernization and re-industrialization program in Orsha district, despite the project's considerable state financial support. As a result, the new government appointed in August 2018 received a green light to promote financial discipline and eliminate structural imbalances, in part by working in close cooperation with international financial institutions.

In recent years, the government established national implementation plans in a variety of problem areas. Their implementation (on issues such as gender equality, the convention on the rights of people with disabilities, human rights, etc.) usually requires some horizontal coordination, which was previously very rare.

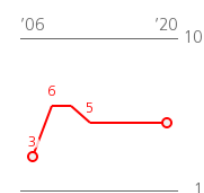
The active (but largely ineffective) work of public advisory councils at different levels and within different thematic fields is also intended to bring more horizontal synchronization and communication to decision-making.

Belarus has well-developed anti-corruption legislation, which includes provisions of the Criminal Code and Administrative Code as well as the Law on Public Service and the Law on Combating Corruption. The country's regulations require that any potential conflict of interest on the part of parties seeking a government procurement contract be addressed. This is an important area, since the public procurement sector is considered to be one of the most corrupt sectors in the country.

However, anti-corruption regulations are vague and require improvement. They have also been poorly enforced, and officials continue to engage in corruption. By contrast, petty corruption is relatively limited. In December 2017, the Council of Europe's Group of States against Corruption (GRECO) noted that Belarus' ratification of the

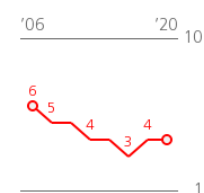
Policy coordination

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Anti-corruption policy

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Council of Europe’s Criminal Law Convention Against Corruption triggered a revision of the country’s anti-crime and anti-corruption program. However, these policies are still insufficient to ensure compliance with the European standards.

President Lukashenko has frequently instrumentalized the fight against corruption to increase his popularity. In 2017 – 2018, the authorities launched a broad anti-corruption campaign focusing on the agricultural, energy and medical sectors, as well as local and city-level executive administrations and managers of public enterprises. The measures were aimed at disciplining resource-intensive industries and reducing their appetite for state financial assistance. As a result, a special information-monitoring system for government procurement tasks was established, supervised by the security agencies.

16 | Consensus-Building

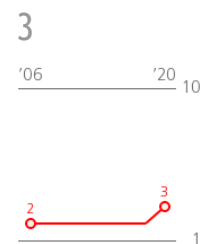
Consensus on policies and their objectives is enforced from above, with the president at the apex of the power pyramid. Members of the government and state administration who forgo expressions of loyalty to the president have little opportunity to influence political decisions. The counter-elites in the opposition are effectively marginalized in an “opposition ghetto,” and do not have significant support within Belarusian society.

However, beginning in 2017, the obvious bankruptcy of the existing socioeconomic model led Belarusian policymakers to seek a new ideological basis and new mechanisms for controlling public sentiment. By August 2018, this had led to a new government with greater readiness to pursue reforms at least in the economic sphere.

Sergei Rumas’ government was appointed in August 2018 first and foremost for its managerial credentials. Its technocratic nature differs considerably from the previous nomenklatura-style governments. However, President Lukashenko remains the country’s key decision maker, and the security services remain in control of implementation.

According to a report on the 2018 Belarus Reality Check event, the country has been undergoing a slow and subtle transition toward a market economy. There has been a gradual shift in the Belarusians’ value system from entitlement toward enterprise. A 2018 IPM Research Center survey on the issue of societal values indicated that the public’s key unmet expectation from the state was that it “creates conditions for citizens to make money.”

Consensus on goals



Aside from the president and his far-from-democratic record, the main anti-democratic actors in Belarus are the law enforcement and security agencies. This sector is traditionally oriented toward Russia, because in their minds, economic reforms and improved relations with the West will lead to political liberalization and social protests, ultimately threatening their influence. Thus, the security services are trying to convince Lukashenko to abolish reforms and crack down on civil society and the opposition. They are supported by some elements within the Belarusian bureaucracy apparatus.

It is remarkable that in the wake of the early-2017 protest movement, the president used narratives postulating preparation of a Belarusian Maidan that had appeared in the Russian intelligence and expert communities in 2015 to 2016. This means that the Belarusian secret services' intelligence reports were based on fake or falsified data, as well as purposely false assessments of the political-military situation in and around Belarus, likely provided by Russian intelligence agencies. This raises questions as to whether the brutal crackdown on civil society in Minsk in March 2017 was in fact a deliberate attempt by pro-Russian elements within the law enforcement bodies and security agencies to disrupt the gradually improving relations between the West and Belarus.

However, President Lukashenko learned from the brutal 2010 crackdown on opposition forces and civil society, and acted more flexibly in 2017, pulling back from further escalation in order to avoid jeopardizing relations with the West.

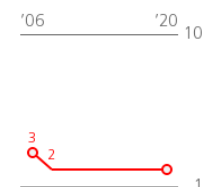
Another strong anti-democratic actor is the presidential administration, which is the main power broker in Belarus. It has frequently stopped progressive reforms in fields such as youth policy, higher and secondary education, and domestic violence. The administration's main interest is in retaining the status quo; any initiative for change that comes from civil society or the ministries should pass this filter. The presidential administration also drafts most laws, which are later adopted by parliament. Decision-making in the administration is totally non-transparent, and no public debate regarding interests and arguments is possible. The present head of the administration, Natalya Kochanova, is more open than her predecessors, but this does not change the nature of this institution.

Hardliners, particularly those in law enforcement agencies and security services, tend to block market reforms and political liberalization in Belarus, while supporting closer ties with Russia. By contrast, some technocrats support limited modernization and the improvement of economic ties with the West.

In 2018, the Belarusian leadership sought ways of improving the security apparatus' efficiency. The KGB was pushed to refocus its attention from the political opposition to corruption. It subsequently increased its influence in the power hierarchy due to its successes in fighting corruption (and its ability to presenting these outcomes to the

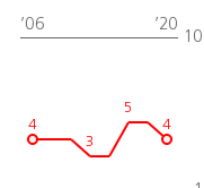
Anti-democratic actors

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Cleavage / conflict management

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top decision makers effectively), as well as through its cooperation with Russian intelligence services.

In addition, as social protections have diminished, Belarusian policymakers have attempted to reach out to new social groups that have never previously demanded or relied on state support, such as politically neutral IT workers. Facing growing pressure from Russia, the authorities also sought to mitigate the ideological confrontation with the nationally oriented elements of society by authorizing a big concert to celebrate Freedom Day on March 25, 2018.

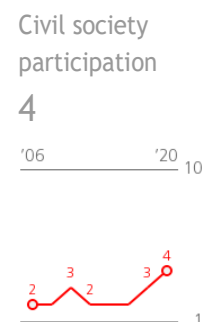
However, the Belarusian leadership style still centers on demonstrations of power through top-down decrees instead of dialogue. Cultural elites, the expert community, journalists and civil society are divided into pro-governmental and independent actors as a result of the long-standing policy of cultural division.

Interaction between CSOs and the state continues to be limited, although a moderate thaw in relations between public officials and CSOs has continued. In 2017 to 2018, high-level officials participated in major events organized by CSOs, including the Minsk Dialogue and Kastrychnicki Ekanamichny Forum (October Economic Forum). The government involved CSOs in a few consultations, such as in the development of the National Action Plan on the Rights of Persons with Disabilities for 2017 to 2025, and regulatory acts on the procurement of social services in health care. Representatives of human rights CSOs participated in consultations on the implementation of the National Human Rights Action Plan. Independent actors and civil society were partly engaged in consultations with the EU-Belarus Coordination Group.

In most cases, however, civil society played only a limited role in these processes. Most consultations were of an informative nature, and the state did not engage CSOs in discussions on important issues, or on efforts to shape the agenda or monitor the implementation even of those national plans that they helped develop. There are no known cases in which decision-makers have changed their mind following the presentation of civil society opinions.

Business associations and related CSOs are increasingly represented in public advisory councils (PACs), including the Advisory Council for the Development of Entrepreneurship at the Ministry of Economy and the Advisory Council at the Ministry of Antimonopoly Regulation and Trade. The chairman of the Belarusian Helsinki Committee has been made a member of the National Public Monitoring Committee at the Ministry of Justice. PACs are also established at the regional and local level.

The work areas and responsibilities of PACs are not detailed, but depend on the head of the ministries overseeing them. In many cases, civil society representatives cannot use PAC mechanisms effectively, due to their lack of policy dialogue experience.



The “soft Belarusization” advocated in diverse circles in recent years has become an element of state ideology. The ideological apparatus has thus begun to pay more attention to promoting the Belarusian national history, culture and language, thus diminishing ideological divisions between different parts of society.

Though the Belarusian political elites have not addressed acts of Soviet injustice (such as the Kurapaty massacre), they did initiate some steps toward a process of reconciliation in 2017. Activists of the Young Front and civil society were able to launch and promote a successful campaign in defense of Kurapaty. The developer (who had an official construction permit) and the state chose not to escalate the conflict.

Surprisingly, the presidential administration’s newspaper SB Belarus Today expressed support for the campaign pursued by the Kurapaty defenders. The authorities stopped the construction works, announced the intention of building a memorial in Kurapaty, and even proposed that Nobel Prize winner Svetlana Alexievich chair a commission to choose a draft of the memorial, but she refused. In late 2018, the monument in memory of victims of the Soviet repression was installed in Kurapaty.

Nevertheless, the appearance of Minister of the Interior Igor Shunevich in the uniform of the wartime NKVD at a parade in 2015 provoked considerable criticism and raised concerns. Later, Shunevich was regularly the focus of criticism due to his active support of Soviet norms and symbols, which are deemed by some elements of the society as being irrelevant or even in opposition to Belarusian norms and values.

17 | International Cooperation

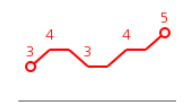
Driven by heightened international tensions, Belarus has again shifted toward greater openness, and has even shown increasing readiness to discuss domestic political developments, including the human rights situation in the country. In implementing its so-called multi-vector politics, the government has sought to expand cooperation with the European Union, the United States and China, with a view to receiving technical assistance and financial support. One particular goal has been a new IMF credit line that would help it reduce the country’s growing financial dependence on Russia, mitigating the economic and political pressure from the Kremlin.

In 2017 to 2018, Belarus focused its efforts on shifting the Belarus-EU agenda, as well as its bilateral relations with some EU member states, toward greater pragmatism and de-politicization. The EU has supported a number of key measures to help the country’s economy. It has promoted cooperation with international financial institutions (EIB and EBRD), supported enhanced preparations for WTO accession, and facilitated a twinning project between the National Bank of Belarus, the Bundesbank and the central banks of Poland and Lithuania. Since the EU-Belarus

Reconciliation

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Effective use of support

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'06 '20 10



Coordination Group was set up in 2016, senior Belarusian and European officials have met twice a year to discuss the development of relations. The Dialogue on Economic and Financial issues resumed in April 2018, with the goal of exchanging views on Belarus' economic and financial situation and outlook.

In 2017, Belarus and the EIB signed a Framework Agreement on cooperation. Special attention was paid to the development of the transportation network, small and medium enterprises, energy-saving technologies and the environment. The EBRD new country strategy 2016 to 2020 addresses strengthening the bank's presence in the public sector and increasing the number of projects in the transport and energy sectors, as well as continuing the joint work in the utility sector.

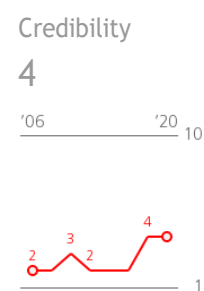
A new World Bank Country Partnership Framework for 2018 to 2022 was adopted in April 2018. Over the next five years, the World Bank Group's assistance to Belarus will focus on the private sector, with the goals of promoting more efficient public investment, maintaining the country's human capital, and improving the contribution of infrastructure to climate-change management, economic growth and human development.

As of the time of writing, Belarus and the World Bank were developing a new roadmap of structural reforms. Several pilot privatization projects have been initiated with the technical assistance of the EBRD and World Bank Group. There has also been extensive, productive dialogue with the IMF staff regarding the primary thrust of the country's economic policy, and the new Belarusian government intends to advance its macroeconomic and structural policies in line with the staff's recommendations.

Since the beginning of the Russia-Ukraine conflict in 2014, Belarus has provided a neutral negotiating platform and hosted consultations of the OSCE Trilateral Contact Group on Ukraine. Belarus has also formulated security guarantees that prevent foreign states from establishing military bases on its territory or using it to commit acts of aggression against other countries. It was for this reason that Russia was not permitted to establish an airbase on Belarusian territory in 2015.

Several large international events (including the 26th OSCE PA Annual Session in July 2017, the Minsk Dialogue Forum in May 2018, the OSCE Conference on Cybersecurity in September 2018, and the Core Group Meeting of the Munich Security Conference in December 2018) have showcased top decision-makers' efforts to present the country as an active and reliable international actor.

Belarus is currently trying to advance an ambitious new initiative, the so-called Helsinki 2.0, which is a broad dialogue aimed at bridging differences between the countries in the Euro-Atlantic and Eurasian region. In doing so, Belarus is trying to avoid getting pulled into Russia's confrontation with the West on the Kremlin's side and is hoping to find a new source of legitimacy with respect to the West. However,



it remains to be seen whether this initiative will garner sufficient support to be effective.

With regard to the human rights issue, the main source of Western countries' distrust, Belarus' policymakers have done little to depart from the country's restrictive and repressive domestic course. Hence, they are credible only within a fairly narrow foreign-policy frame.

Belarus has been trying to convert its contribution to regional stability in the context of the Russia-Ukraine conflict into a source of stronger relations with the West. This tactic led to some tangible results in 2016, when the EU lifted its sanctions against Belarus. However, the strategy seems to have exhausted its potential, and Belarus today faces institutional constraints in relations with the EU.

While Belarus has taken significant steps toward normalizing and improving its relations with the European Union, negotiations regarding a basic partnership and cooperation agreement seem deadlocked over Lithuania's strong objections to Belarus's Astravets nuclear power plant, now under construction by Russia's Rosatom.

At the beginning of 2017, Minsk unilaterally abolished entry visas for citizens of 80 countries. In 2018, Belarus extended the visa-free stay for foreigners from five to 30 days. However, this did not influence the visa facilitation and readmission talks with the EU. Belarus and the EU have also not concluded an agreement on partnership priorities within the Eastern Partnership framework.

In late 2017, Belarus and Russia found compromise solutions to key cooperation issues, including gas and oil deliveries through late 2019. However, following further disputes over oil and gas prices, the conflict between the two countries escalated again in the second half of 2018; this resulted in the Kremlin's "integration ultimatum," fueling President Lukashenko's criticism of the EAEU and Russia itself for its alleged attempt to incorporate Belarus and threaten its sovereignty.

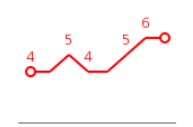
Relations with other neighboring countries, especially Ukraine, Latvia and Poland, have been characterized by positive dynamics in a variety of spheres, including the economy and security.

Belarus has been strengthening its strategic partnership with China within the One Belt One Road Initiative. The primary focus has been on the development of the Chinese-Belarusian "Great Stone" Industrial Park near Minsk as a special economic zone and regional logistics hub, as well on interaction in the field of security and military-technical cooperation.

Regional
cooperation

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'06 '20 10



Strategic Outlook

As the country approaches the presidential and parliamentary elections of 2019 to 2020 (as of the time of writing, the exact dates were still unknown), Belarusian authorities are facing several internal and external challenges that could easily jeopardize the fragile balance between domestic and geopolitical factors. Their responses will define future developments in many respects.

Despite the economic improvements in 2017 to 2018, the cyclical growth has come to an end. At this juncture, medium-term growth is projected at 2% annually over the next few years, limiting convergence with the income levels of richer neighboring countries. This modest outlook is conditional on full compensation from Russia for losses triggered by the latter's new energy taxation system. Should compensation be significantly less – and this is the key risk hovering over the Belarusian economy at this stage – medium-term growth could be much lower than 2%, and the budget and current account deficits higher than projected.

The greatest challenges in such a scenario would be a destabilization of the economy and a potential interference by Russia in domestic affairs, particularly in light of the Kremlin's recent "integration ultimatum." Russia perceives Minsk's growing autonomy in foreign policy, as well as its normalization with the West and its strategic partnership with China, as potential threats to its influence. Therefore, Moscow will likely continue to put political and economic pressure upon Alexander Lukashenko in order to gain strategic concessions from Belarus, linking these conditions to discounted energy supplies and financial assistance.

In response, Minsk is likely to continue to expand cooperation with the European Union, the United States and China, with the goal of obtaining additional technical assistance and diplomatic support. However, breakthroughs in relations with the West are unlikely. But Minsk will also seek aid from international financial institutions. Relying on their assistance, authorities are likely to implement structural reforms, developing a "new economy" while cutting public funding and reshaping most resource-intensive industries.

In order to keep the political situation stable, the authorities will continue to limit unauthorized political and civil activities. The government will also continue to engage some CSOs and some representatives of the moderate political opposition in communication and consultations.

Nevertheless, if threats to internal or external stability (following a deteriorating economic situation, resurgent protests, new provocations or foreign interference) appear, Belarus' policymakers will again apply strict measures of political control and restrictions on political rights. This in turn could easily trigger a rollback of political and economic reforms.