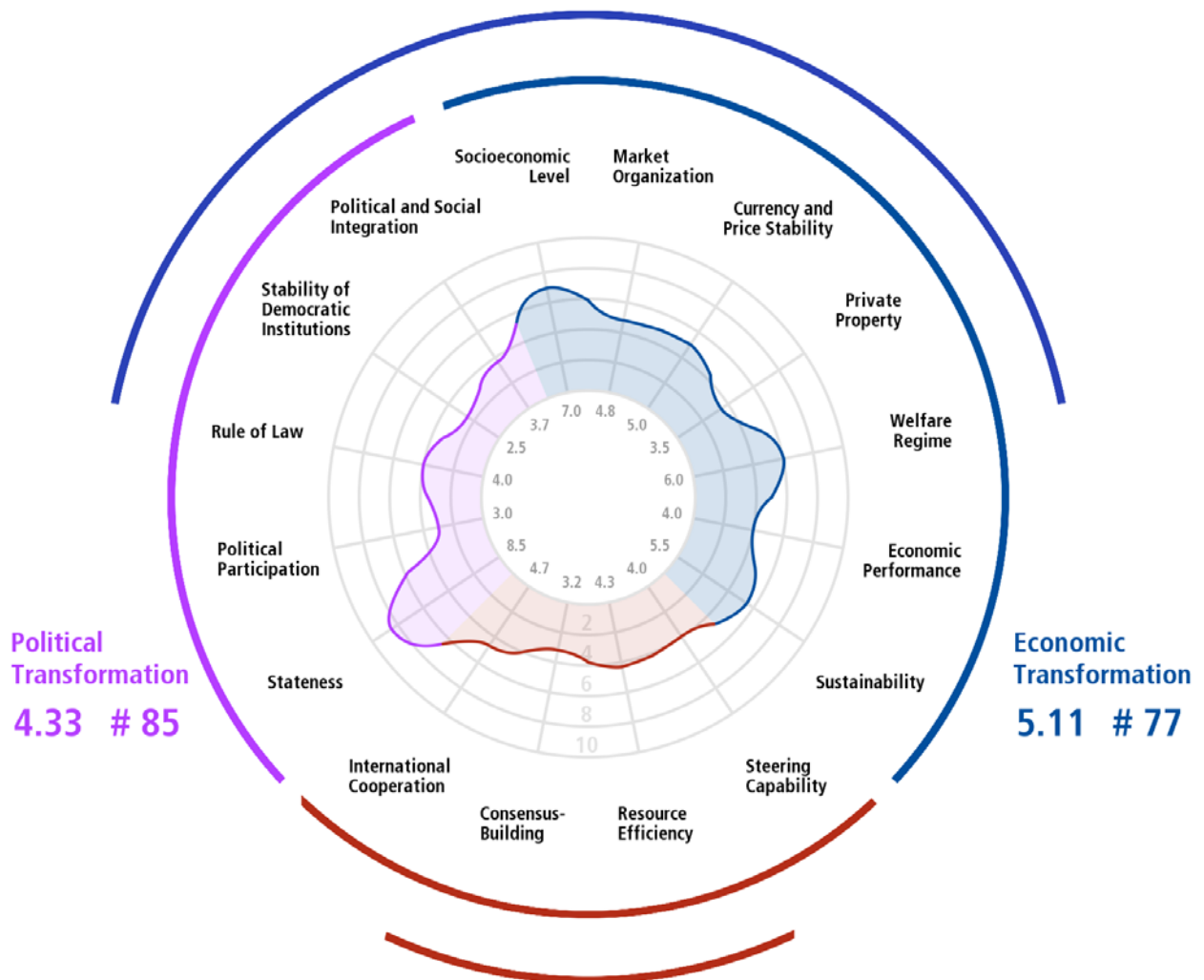


Belarus

Status Index

4.72 # 86

on 1-10 scale out of 129



Political Transformation
4.33 # 85

Economic Transformation
5.11 # 77

Governance Index

3.52 # 105

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	9.5	HDI	0.796	GDP p.c., PPP \$	18060
Pop. growth ¹	% p.a.	0.2	HDI rank of 188	52	Gini Index	26.7
Life expectancy	years	73.6	UN Education Index	0.855	Poverty ³	% 0.0
Urban population	%	77.0	Gender inequality ²	0.144	Aid per capita \$	11.0

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. 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

July 2015 marked the 25th anniversary of Belarus' declaration of independence from the Soviet Union. In October 2015, President Lukashenko secured a fifth term in the presidential election. In September 2016, parliamentary elections took place. The results of these elections differed from previous ones insofar as, for the first time since 2004, two opposition candidates—Anna Kanapatskaya of the United Civil Party and independent civil society activist Elena Anisim of the Belarusian Language Society—became members of parliament.

Despite the fact that the OSCE did not recognize the presidential elections as free and fair, unlike in 2010, they were not followed by a brutal crackdown on civil society or the imprisonment of major opposition figures. Moreover, some improvements in the political environment in Belarus were recognized by the West and this opened a window for a normalization process. In October 2015, following the release of political prisoners and the peaceful elections, the European Union suspended sanctions against Belarusian authorities. Similarly, the United States temporarily lifted sanctions against several major Belarusian state-owned enterprises.

Hosting the negotiations of the OSCE Trilateral Contact Group on the resolution of the Ukraine crisis in 2014 and a high-level Normandy format summit in Minsk in February 2015 worked to intensify contacts with the Western capitals.

Despite efforts to diversify its foreign policy and economic cooperation, Belarus is still heavily dependent on Russia. However, Russia's illegal annexation of Crimea in 2014 and the destabilization of Donbass had an important psychological impact on Alexander Lukashenko, who is increasingly concerned by Russia's aggressive stance with regards to Ukraine and the West. His threat perception has changed considerably since the beginning of the Russia-Ukraine conflict and Russia is perceived as a potential threat to national sovereignty and independence.

Despite economic and political pressure from the Kremlin on the Belarusian leadership, Lukashenko still resists supporting Russia's aggressive foreign and military policy. Minsk refused

to establish a Russian military base on the territory of Belarus in 2015 and avoided getting involved in a confrontation with the NATO the following year.

Economic conditions in Belarus continued to deteriorate, driven by the contraction in Russia, lower export revenues and domestic structural problems. The economy contracted by 3.9% in 2015 and 2.6% in 2016. In order to overcome these negative trends, the Belarusian government worked with the World Bank to produce a Roadmap for Structural Reforms in Belarus in 2015, which provide the basis for applying to loan programs with the Eurasian Fund for Stabilization and Development and negotiations with the International Monetary Fund.

The situation with democracy institutions and human rights has not changed significantly in the review period. However, the environment for civil society improved slightly and Belarusian authorities included human rights issues in the negotiating agenda with the West. In October 2016, Belarus adopted its first interministerial human rights plan.

History and Characteristics of Transformation

The transformation of the Belarusian Soviet Socialist Republic into the Republic of Belarus did not lead to a fundamental change in the nation's elite, and institutional reforms were carried out only slowly. Because of the massive industrialization and modernization of Belarus during Soviet times, many people retained considerable nostalgia toward the Soviet Union.

An important institutional turning point was the adoption of the Belarusian constitution in March 1994 which created the office of a powerful president. With the help of a populist electoral campaign, Alexander Lukashenko succeeded in winning the presidency in summer 1994. Since that time, the country's development has been dominated by the president's autocratic power.

Lukashenko consolidated a hyper-presidential regime with the help of a constitutional referendum in 1996, and another referendum in 2004 that permitted him to get reelected for 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.

The opposition was not represented in the legislature at all between 2004 and the last elections in 2016. Elections have consistently fallen short of OSCE/ODIHR standards for democratic balloting. For a brief period between 2008 and 2010, as well as between 2014 up to the present day, the Belarusian state has made some concessions in fulfilling democratic standards in order to facilitate economic and technical cooperation with the West. All high-profile political prisoners were released in 2008 before parliamentary elections and in 2015 before the presidential campaign, but there were only minor improvements in the election process itself. In conjunction with converging foreign policy considerations in the wake of Russia's war against Georgia in 2008 and

its conflict with Ukraine in 2014 led to a tentative warming of relations with the European Union and United States, as well as a strengthening of the strategic partnership with China.

The Belarusian side made significant efforts to assist in resolving the crisis in neighboring Ukraine, providing all the necessary conditions for holding regular meetings of the OSCE Trilateral Contact Group and the Normandy format. These efforts contributed to strengthening Minsk's international standing and changing the perception of the country in the international arena, as well as realizing its value as a "pole of stability" in the region.

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 can exercise power at the level of all territorial units. The country is divided into six regions (oblasti), which are further subdivided into 118 districts (rayony). The presidential administration appoints all key positions in regional authorities and has full control over its so-called “presidential vertical.” It relies on strong security forces and prosecution organs. There is virtually no threat to the state’s monopoly on the use of force either horizontally or vertically in state power structures.

The independence and sovereignty of Belarus is generally accepted both by political actors and the population. Nevertheless, according to independent polling conducted in March 2016 by the Independent Institute of Socioeconomic and Political Studies (IISEPS), a two-thirds majority believes that Belarusians, Russians and Ukrainians are three branches of one people. Additionally, according to another poll, conducted in June 2016 by the same institute, 29.3% of the respondents expressed their readiness to vote for unification with Russia in a hypothetical referendum. Consequently, concepts of ethnic nationalism are widely rejected in Belarus. The official state languages are Belarusian and Russian. But census figures for 2009 report that only 26% of all Belarusians and 12.8% of the urban population speak Belarusian in everyday life. Political opposition groups actively promoting the development of a distinctive Belarusian national identity have been marginalized by President Alexander Lukashenko since the 1990s.

However, since Russia’s intervention in Ukraine in 2014, the Belarusian leadership has striven to reduce the country’s dependence on Russia. Hence, one can observe a modest trend toward Belarusification by the authorities. Speaking Belarusian in public has become more popular in recent years, as initiatives like “Mova Nanova” (Language Anew), Speuny Skhod (Song Assembly) indicate, and is no longer automatically considered a form of commitment to the political opposition.

Question
Score

Monopoly on the
use of force

10



1

State identity

8



1

All individuals or 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.

Belarus is a multi-confessional society, where the Belarusian Orthodox Church (which is a part of the Russian Orthodox Church) clearly has a dominant position. About 80% of the population consider themselves Orthodox Christians. The Belarusian Orthodox Church is also the most trusted institution, according to independent polls conducted by IISEPS (65% in December 2015). Correspondingly, it receives preferential treatment and financial contributions from the government.

The law on religion, adopted in 2002, stresses “the determining role of the Orthodox Church in the historical formation and development of spiritual, cultural, and state traditions of the Belarusian people.” The Belarusian Orthodox Church is also the only denomination that signed an agreement on cooperation with state authorities in 2004.

Although President Lukashenko obviously regards the Orthodox Church as a “moral pillar” of his rule, he has also established close ties with the Roman Catholic Church as the second largest denomination. In April 2016, he visited the Vatican for the second time and invited Pope Francis to Belarus. Nevertheless, there are sporadic conflicts between the Roman Catholic Church and state authorities, especially concerning the work of foreign citizens as priests in Belarus.

Some Protestant and “non-traditional” communities also face harassment, while Jewish, Muslim and Lutheran communities are regarded as “traditional faiths” and relatively well accepted by state actors. All church communities, including the Belarusian Orthodox Church avoid interfering in the political decision-making process.

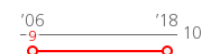
According to President Lukashenko’s ideology, Belarus is “a state for the people.” Consequently, the state provides all basic public services. However, due to the depopulation of rural areas and the aging population, this system is becoming increasingly cost intensive. Quality of service in the countryside is lower than in cities. In response to these problems, the government gradually reforms the administrative structure by abolishing smaller units and has reduced the number of state servants by more than 30% since 2013. But these attempts to improve the functioning of the state sector have brought only limited success so far.

2 | Political Participation

Elections are regularly held in Belarus. However, according to the OSCE/ODIHR election observation missions, no election conducted after 1995 has been in compliance with OSCE/ODIHR standards of fair and free elections. In general, the missions’ reports confirm that the elections were effectively organized. The criticism

No interference of religious dogmas

9



1

Basic administration

7

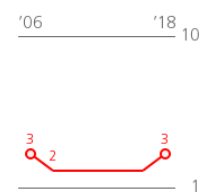


1

Free and fair elections

3

applies mainly to the non-pluralistic formation of the election commissions, the strict media regulations, the lack of sufficient safeguards during the early voting process, as well as the lack of transparency during the counting of votes and the tabulation of election results. All in all, the existing legal framework favors candidates supported by the state authorities, and limits the free expression of the will of voters.



During recent years the Belarusian authorities have reengaged in a dialog on electoral reform with international organizations. Though the general assessment of the electoral process did not change, the OSCE/ODIHR missions noticed some improvements during the presidential elections in October 2015 and the parliamentary elections in September 2016. With Elena Anisim and Anna Kanopatskaya, two independent candidates were elected to parliament for the first time since 2004.

The only elected political body with effective power to govern is the president. The legislative bodies have largely symbolic and decorative functions. The government is directly 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.



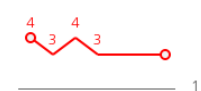
In general, the political decision-making process is not transparent with security agencies, like the Security Council, playing an important role in it. These security agencies have effective veto power to block both economic liberalization and political reforms. This was especially obvious after the presidential elections in 2010, when political protests were suppressed and several presidential candidates of the opposition arrested.



The constitution guarantees freedom of association and assembly. However, the opportunities for citizens to exercise these rights are strictly limited. In 2011, restrictions on freedom of assembly were tightened through legal amendments that required official permission for any kind of public gathering. The practical procedures for obtaining permissions became slightly more relaxed after the release of all political prisoners in August 2015. As a rule, organizers and participants of unauthorized meetings are no longer sentenced to prison, but have to pay a fine.



NGOs have to register with the authorities (and fulfill the provision of possessing a legal address in a public building). All international funding also requires official registration, which is one of numerous mechanisms of control over voluntary activities. Article 193.1 of the Criminal Code criminalizes activities by unregistered initiatives. By refusing to register NGOs, the authorities can effectively criminalize their activities. Political and human rights organizations as well as the organizations of sexual minorities in particular have no chance of registering.



However, some positive trends appeared in 2015 to 2016, thanks to constant efforts by the most experienced civil society organizations and the (temporary) political

calm, including a reduction in government harassment (such as a reduction in police violence against government opponents before and during the parliamentary elections), successful advocacy campaigns, use of online crowdfunding platforms, organizational capacity development and grassroots organizing.

Furthermore, while the 110-seat parliament remained mostly nonpartisan, the number of political party representatives increased to 16, the highest figure since the 1995 elections. According to the Freedom House's Belarus Nation in Transit report, these changes in 2016 represented a step toward political pluralism, but they were seen as the planned result of a shift in government priorities, and it was unclear whether they would have any noticeable political consequences.

Television, radio and the print media are dominated by the state. The largest daily newspaper is owned and operated by the presidential administration. There is inequality in publishing services for independent and state-owned media – state media enjoy lower costs and free access to this service. State authorities exert pressure on companies and public institutions in order to ensure subscription to state-run print media. Nevertheless, as a consequence of the economic recession, state newspapers receive fewer subsidies and their circulation has declined.

Independent media exist, but face difficulty gaining access to a wider audience. Non-state periodicals can be hardly sold through public national distributors. Independent television and radio can only be accessed online. In general, the internet provides the greatest opportunity for freedom of expression. However, the new media law, which went into effect in 2015, increased regulation of web media. At the same time, the Ministry of Information acquired the right extrajudicially to restrict access to online resources, including foreign websites.

Refraining from harsh expressions against independent media and journalists after the presidential and parliamentary elections in 2015 and 2016 can be characterized as a positive fact. Independent journalists were also invited to meetings with the president several times and non-state actors had more opportunities to present their positions on television. However, the general legal framework for independent media activities continues to be restrictive. Belarusian journalists are also subject of administrative prosecution for cooperation with foreign media without accreditation.

3 | Rule of Law

The constitution, adopted in 1996 by a controversial referendum, has established a strong presidential system with a very limited separation of powers. The president has the right to issue decrees that have the force of law. The clear majority of laws is prepared by the presidential administration and its institutions. The Belarusian National Assembly only initiated three laws during the legislative terms of 2012 and 2016. The parliament is formally entitled to repeal presidential decrees, but has not

Freedom of expression

3

'06 '18 10

4 3

1

Separation of powers

3

made use of this competence so far – in contrast to the president, who has vetoed laws adopted by parliament in the past. In a very limited number of cases, parliament has the right to start an impeachment procedure against the president and express a vote of no confidence against the prime minister.

Referenda are set by the president on his initiative, at the suggestion of parliament or a sample of 450,000 citizens. In 2004 he initiated a constitutional referendum that suspended the limitation of the presidential term to two electoral periods.

The president can influence all levels of administration, institutions and political bodies. Among other issues, 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, i.e., the upper house of the parliament.

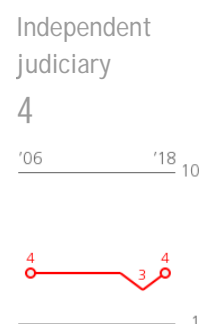
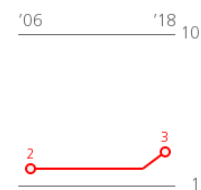
The judicial branch remains almost entirely dependent. The Constitutional Court is not able to initiate a case on its own and can only act if addressed by the president, the houses of parliament, the council of ministers or the Supreme Court. Additionally, since 2008, the Constitutional Court is empowered to exercise an obligatory preliminary review of the constitutionality of laws adopted by parliament before signing by the president. Citizens or civil society organizations do not have the right to directly address the Constitutional Court. Since 1996 the Constitutional Court has not considered or renounced any legal act passed by Lukashenko as unconstitutional.

The 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 de facto intervene in trials and even influence verdicts in cases of economic, political or social importance for the regime.

Belarus is the only country in Europe that still carries out the death penalty. State authorities do not make any effort to review this practice, despite heavy criticism from the international community.

The judiciary is also regularly used as a tool to pressure local businessmen, under the pretense of lacking loyalty, or if somebody wants to grab their business. The regime also abuses judicial power as a tool of punishment and repressions against the opposition. Members of the democratic opposition can face arbitrary arrest.

However, it should be noted that in “non-political” cases it is usually possible to receive a fair trial in Belarus if there is no state body involved in the suit. There are also limited attempts to reform the judicial branch. Thus, in 2013 a presidential decree ordered the merger of the Supreme Court and the Supreme Economic Court, the



abolition of military courts and the removal 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, but implementation of anti-corruption measures remains selective in practice and lacks transparency.

The authorities and the public display a high intolerance for official corruption.

Although petty corruption, such as bribery of police or customs officials, remains relatively uncommon in Belarus, higher-level corruption is more difficult to detect and represents a serious problem. Much of the economy is still controlled by the state, which creates fertile ground for graft and corruption. Bureaucrats enjoy vast discretionary powers, thus increasing the risk of encountering extortion when dealing with administrative requirements.

The Belarusian leadership also uses anti-corruption prosecution to balance out different nomenclature and business groups in the regions and at the national level.

The country's deteriorated economic performance and related budgetary risks forced Alexander Lukashenko to strengthen his efforts to combat the shadow economy and corruption. Amid dwindling state resources, the state is attempting to step up discipline and the liability of managers, especially in the most troubled economic sectors. In 2015, it was reported that more than 60 officials had been under investigation for corruption over the previous year, including eight people from the president's 'reserve list' of most trusted officials.

Also, President Lukashenko believes that all-penetrating corruption in Ukraine was the main cause of the Maidan revolution in Kiev in 2014. Therefore, the Belarusian authorities took a number of steps to address corruption in 2015 to 2016, including the adoption of a new anti-corruption law and the implementation of a national program to combat crime and corruption.

In addition, President Lukashenko initiated reforms to ease administrative requirements (making starting a business easier by eliminating some bureaucratic procedures that could serve as a source of corruption), and reducing the number of bureaucrats and raising the salaries of the remaining employees, as part of his campaign for the 2015 presidential election. Beyond this, several rounds of anti-corruption campaigns targeting local authorities in rural areas were initiated, in order to improve his ratings and strengthen discipline in the state apparatus.

In 2015 to 2016, the KGB and Investigative Committee of Belarus mainly focused on high-profile corruption cases in governmental bodies and state-controlled enterprises, such as Naftan, the Minsk Wheel Tractor Plant (MZKT trademark), BelAZ, Belkoopsoyz, et cetera. Several Belarusian businessmen such as Yuri Chyzh and Vladimir Yaprntsev, both associated with the president's inner circle, were

Prosecution of
office abuse

5

'06 _____ '18 10



1

detained on charges of “tax optimization” (tax evasion). Some were released after paying fines.

While, for the most part, basic human rights are respected, civil and political rights are heavily curtailed in cases of unsanctioned political or civic activity.

The release of all political prisoners in August on the eve of the 2015 presidential election and decreased state persecution of the political opposition contributed to a modest improvement in the country’s political environment. This has also been confirmed by the 2016 Freedom House Report, pointing to more opportunities for advocacy campaigns, local fundraising and attempts by high-level officials to engage with civil society groups, especially on economic reforms.

However, the executive remains firmly in control of all branches of power, with very little public oversight of its activities.

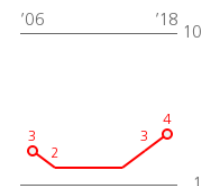
The EU and Belarus also agreed to resume a bilateral Human Rights Dialog in April 2015. The dialog allows for an extensive exchange of views on the situation of human rights both in Belarus and in the European Union, focusing in particular on the freedoms of expression, assembly and association, electoral laws, the death penalty and the fight against torture and ill treatment, the rights of people with disabilities and battling violence in the family. Discussions are equally dedicated to the development of Belarus’ national institutions for the protection of human rights.

In October 2016, Belarus adopted its first interministerial human rights plan within the framework of the EU-Belarus Human Rights Dialog. The plan contains 100 measures to improve the human rights situation in the country. Even though it doesn’t address various important concerns, it increases the attention on human rights issues within the government. At the same time, this plan was much criticized by the human rights community for its modest steps. Regarding the death penalty, the Belarusian Ministry of Foreign Affairs has been tasked with initially investigating international experiences and public opinion on the matter.

However, the proposed changes in the area of political rights and civil liberties fall distinctively short of the plan. Regarding freedom of assembly, the authorities will first evaluate international experiences regarding to whether they are suitable for application in the country. But the Belarusian leadership understands that improvements in the human rights situation remain a precondition for the West’s greater economic engagement in Belarus and for lifting all remaining sanctions.

Civil rights

4



4 | Stability of Democratic Institutions

The Republic of Belarus is proclaimed by its constitution to be a democratic social state, based on the rule of law that admits the priority of generally acknowledged principles of international law and ensures the conformity of legislation with them. In practice, however, some democratic institutions do not function, and power is concentrated in the hands of the president who has effectively placed the judiciary and legislature under his control.

The whole system is crucially influenced and dominated by Alexander Lukashenko himself and the groups around him, principally the presidential administration, which he often manages through a process of divide and rule, carefully balancing different interests which range from hardliners to moderate economic liberalizers.

Under the terms of the constitution, the president, who is the head of state, is popularly elected for a five-year term. The president appoints the prime minister, who nominally is the head of government but, in effect, is subordinate to the president.

The Belarusian government – or Council of Ministers – is made up of the prime minister of Belarus, his deputies and ministers. The government is accountable to the president of the Republic of Belarus and answerable to parliament. Its mandate covers the budget, domestic and foreign policy, economic and social development, national security and defense.

But in 2015, government officials began to publicly recognize that the long-term development of Belarus requires property rights protection, the separation of powers, and market-based competition.

President Lukashenko reappointed the prime minister and deputy prime ministers in 2015. The composition of the Andrey Kobayakov-led government didn't change, implying that the president didn't not come to a final decision regarding the country's strategy for socioeconomic development. The president also preserved the balance between conservatives and supporters of market reforms.

The bicameral parliament known as the National Assembly of the Republic of Belarus and consisting of the House of Representatives and the Council of the Republic lacks the resources and capacity to fulfill its lawmaking and investigative responsibilities.

Pro-Lukashenko candidates predominated in legislative elections, which were deemed irregular or undemocratic by international observers. In practice, the presidential administration drafts nearly all legislation. Yet after the parliamentary elections in 2016, the National Assembly began practicing more discussions and debates.

Performance of democratic institutions

3

'06 '18 10



Local issues are represented by the locally elected councils of deputies. These local councils operate on three levels: primary (villages and towns), basic (towns and regional councils) and regional (oblast). Deputies are elected for a four-year term to address local issues and represent the local population in decisions on issues relating to health, education, social welfare, trade and transport. The constitution provides for local government institutions, but as they are subject to central control, they are not autonomous in their jurisdiction over the local community.

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

The Belarusian president practices the rotation of elites on a regular basis in order to prevent the formation of any groups of influence. The list of influential actors includes the so-called “siloviki” or elites in the military, law enforcement and the secret services, who are kept in check by Lukashenko through a policy of divide and rule. Another influential actor is the bureaucracy apparatus and the directorate of state enterprises, or so-called ‘nomenclature.’

The democratic opposition, which suffers from structural shortcomings, has no impact on or influence over state institutions, and is often condemned as illegitimate. The main focus of the political opposition is the struggle against Alexander Lukashenko. Independent civil society organizations have rather limited access to people due to governmental domination of mass media. A state-sanctioned civil society has been created through pro-regime public associations that do not seriously challenge the authorities.

The authorities appear to have become more tolerant and even supportive of independent cultural initiatives, such as those aimed at encouraging the use of the Belarusian language and popularizing Belarusian national culture.

The Russia-Ukraine conflict and new Cold War intensified a division within the Belarusian elites regarding their attitude toward Russia. While some part of the security and bureaucracy apparatus, especially the KGB and nomenclature, advocate deeper integration with Russia, Alexander Lukashenko as well as the military and foreign affairs officials, are demonstrating a strong commitment to independence and sovereignty and perceive Russia as a potential threat.

Commitment to democratic institutions

2

'06 '18 10

2 1

5 | Political and Social Integration

The political party system in Belarus is highly fragmented and unstable. The number of parties multiplies, but they remain small in size, often little more than a leadership team in Minsk. Many parties lack stable social roots or effective regional structures. Political parties are usually among the least trusted institutions in the eyes of society. Belarusian society still has only a vague understanding of the role parties play in the Belarusian political system.

According to the Belarusian Yearbook 2016 by Nashe Mnenie and the Agency for Social and Political Expert Appraisal, the main event that determined the life of political parties in 2015 was the presidential election. Preparation for, conduct in and the results of the election campaign determined the reformatting of the party field. During the run-up to the election, the opposition was divided. At the beginning of the year, the seven largest structures were still trying to find a compromise on the nomination of a single candidate on behalf of the country's democratic forces.

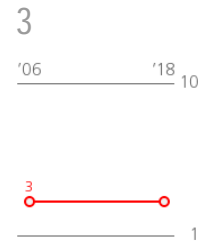
Preparations for the nomination of candidates of smaller associations had begun as early as November 2014 – in the framework of the campaign, the People's Referendum, which united Tell the Truth, the Movement For Freedom, the Belarusian Popular Front, Hramada (the Belarusian social-democratic party) on the one hand, and the block Talaka that consists of the United Civil Party, Fair World and smaller parties, on the other hand.

In 2015, Anatoly Lebedko, the head of the United Civil Party, and Vladzimir Neklyayev, the leader of Tell the Truth, revealed their presidential ambitions. As a result of long bargaining, Neklyayev “slammed the door” and left the negotiation process, as well as the movement Tell the Truth, which was led then by Andrey Dmitriev. At this stage, the remaining members immediately announced their nominations: Tatyana Karatkevich was nominated by People's Referendum, Anatoly Lebedko by the United Civil Party and Sergey Kalyakin by the left-wing party Fair World. The nomination of two candidates both from the Talaka block required, in order to validate their registration, the disintegration of the coalition.

From the parties supporting the government, but not included in it, Serhey Haidukevich, the leader of the Liberal Democratic Party of Belarus, and Nikolay Ulakhovich, the leader of the Belarusian Patriotic Party, ran for the presidency.

The average number of participants in the initiative groups of democratic forces, which had to collect 100,000 signatures by law for a candidate to be registered, amounted to about 1,500 people. In the end, the Central Election Committee registered four candidates – Alexander Lukashenko, Tatiana Karatkevich, Serhey Haidukevich and Nikolay Ulakhovich. The democratic political organizations managed to register only one candidate – Tatiana Karatkevich. The result was a

Party system



paradoxical situation: the only democratic candidate was not supported by any of the opposition parties.

In early 2016, there were 15 registered political parties and 1,127 party organizations in Belarus, the number of the latter increased by 56 during the last year, which is quite significant in Belarusian conditions. New parties had not been registered since 2000, when the Conservative Christian Party Belarusian Popular Front obtained legal status.

The rigidity of the regulatory environment and various administrative obstacles forced organized political structures to act either in the form of registered associations (e. g., the Movement For Freedom) or organizing committees of parties (Belarusian Christian Democracy), or civil campaigns (Tell the Truth). The organizing committees of parties and public associations submitted the documents for registration and always received rejections.

The republican public association Belaya Rus, of which most members belong to powerful government organizations, failed to transform into a political party.

In spring 2016, three organizations – the United Civil Party, the Belarusian Christian Democracy and the Movement For Freedom announced the formation of a center-right coalition to participate in the parliamentary elections and the nomination of a single candidate for the presidential election of 2020. However, the Belarusian Popular Front, which is also a center-right party, refused to participate in this coalition.

On the left flank, there are no unifying processes. A policy of “peaceful changes” and “a dialog with the government” declared by the movement Tell the Truth was perceived as conciliatory and opportunistic by other parties.

On September 11, 2016, Belarus held parliamentary elections. Political parties saw a renaissance during the parliamentary campaign, as 64% of all candidates were party-affiliated. The Central Electoral Commission registered 521 candidates. Opposition candidates constituted more than one-third of all registered candidates. Based on the Central Election Commission and party reports, registered candidates included 16 from Tell the Truth, 49 from Belarus Popular Front, 67 from the center-right from For Freedom Movement, United Civil Party and the Belarusian Christian Democracy, 27 from the Belarusian social-democratic party Hramada, 38 from Fair World, and five from the Greens.

Nevertheless, only two representatives from the opposition and civil society, Anna Konopatskaya (United Civil Party) and Elena Anisim, for the first time in 20 years were elected to the new parliament. This does not reflect the true level of support for the opposition, but rather Alexander Lukashenko’s willingness to demonstrate goodwill to the European Union. Former presidential candidate from Tell the Truth,

Tatyana Karatkievich, whom some believed was given the seat, was not elected, despite an active campaign.

Out of 110 mandates, 108 were won by candidates supported by the authorities. Sixteen of the 110 parliamentarians represented five parties, including the United Civil Party, and the Belarusian Patriotic Party headed by former pro-governmental presidential candidate Nikolay Ulakhovich. The absolute majority of members of parliament were non-party. Seventy-three of them were members of the pro-governmental association Belaya Rus.

In 2015, in the context of the Russian-Ukrainian conflict and a new Cold War between Russia and the West and shortly before the presidential election, relations between Belarus and the West normalized. The increased interaction of the EU and the U.S. with official Minsk led to a loss of interest in local political activities. For this reason, political organizations functioned under much more adverse conditions, having received from their former allies no substantial support for participation in the main political campaign.

The Belarusian Yearbook 2016 considered the normalization process between Belarus and the West as the main factor influencing the activities of non-governmental organizations. Legal restrictions on NGOs remained in place, including political censorship during registration of public associations and foundations that the authorities found undesirable. However, the authorities reformed the legislation on foreign funding, which affected the operations of NGOs.

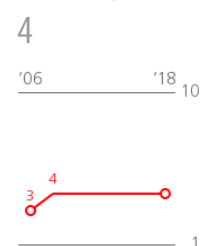
Under the influence of the conflict in Ukraine and taking into account the role of Minsk as a negotiating platform, the West aimed for normalization of relations with the Belarusian authorities, which contributed both to opening of new “windows of opportunity” for NGOs and to reducing the impact of those NGOs on the democratic spectrum, which had been integrated into a confrontational mode of foreign relations in the previous five years.

In 2015, civil society did not show interest in the upcoming presidential elections. Within the sector previous trends of increasing de-politicization continued. During the presidential and parliamentary election campaigns nearly all democratic NGOs, with the exception of those that specialize in election monitoring, either ignored the campaign or were sharply critical of the participants. Thus in 2015 to 2016 the most important factors in the development of civil society were connected with external conditions, to which the organizations adapted.

The civil society sector moved to much more mundane aims, that is, to providing expert assistance to the government in the implementation of economic reforms in the framework of the program “Reform.”

National NGOs are still present in the arena of Belarusian-European cooperation, the most significant example of coordinating efforts cooperation being the Belarus

Interest groups



National Platform (BNP) of the Eastern Partnership Civil Society Forum. The BNP tries to consolidate the voice of civil society in EU-Belarus relations and is partly involved in policy dialog within the formats of the EU-Belarus Coordination Group and Human Rights Dialog. At the same time, the majority of civil society organizations are not involved: they are no longer trend-setting and follow in the footsteps defined by the state and Europe.

In 2015, there was a reform of international technical assistance (ITA). The Commission on International Technical Cooperation under the Council of Ministers created a Coordination Council with the participation of representatives from state bodies, the non-governmental sector (including representatives of the Belarusian Helsinki Committee and other independent NGOs) and ITA donors. The Center for International Technical Assistance of the European Union was established in Minsk.

Under conditions of complicated humanitarian aid and the economic crisis, in 2015 to 2016, Belarusian NGOs actively developed crowdfunding campaigns. Platforms for charity and social projects fundraising such as Ulej.by, Maesens.by and Talaka became the most visible manifestations of this trend.

The Belarusian Yearbook 2016 stated that the value of the dialog and interaction with the Belarusian authorities and Western partners outweighed the importance of human rights and freedoms for NGOs. Under these circumstances, external actors ceased to consider the opinions of the NGOs that communicate human rights and a democratic agenda, and paid more attention to those NGOs that are ready for dialog with state authorities and the promotion of ideas of evolutionary change in Belarus.

Belarus is usually recognized as an authoritarian regime and there is no reliable survey data available on the population's general approval of democracy. The last independent polling organization in Belarus, IISEPS, in 2016 announced that it was ceasing activity in Belarus due to political and administrative pressure on sociological agencies and the impossibility of providing sociological data in a nonpartisan way.

According to one of the last public opinion polls of IISEPS, undertaken in June 2016, Belarusians' attitude to state institutions remains quite critical. The number of respondents who did not trust main state institutions is still larger today than the number of those who trust them. Just like in 2011, the majority of Belarusians hold the president responsible for the current economic crisis: 42.3% of respondents share this opinion. 35.6% and 12.8% blame the government and parliament, respectively. In March these shares were equal to 47%, 48.3%, 22.7%, respectively.

The majority of respondents reacted critically to the main thesis of the 2016 Spring Message by Alexander Lukashenko to the Belarusian people and the National Assembly. Here is the popularity rating of some of his statements:

Approval of
democracy
n/a

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n/a 1

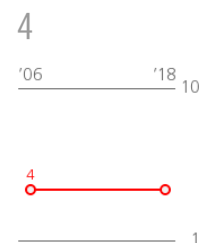
- “all the necessary decisions for economic development were made by the authorities; now it’s time to implement them” – 31.1% agreed, 55.8% disagreed;
- “at the heart of state policy lays concern for people, for the improvement of their well-being and standard of living” – 32.9% vs. 52.7%;
- “the state defends the rights, property and dignity of all entrepreneurs who run their businesses honestly” – 32.5% vs. 51.5%;
- “state institutions can create 50,000 new jobs annually” – 30.5% vs. 55.4%;
- “Belarus takes the top spot in the world rating on access to medical care” – 29.6% vs. 54.8%.
- Only a quarter of respondents agreed that “Alexander Lukashenko will succeed in fighting against corruption after a serious purge of high-ranking officials and after introduction of more serious penalties for such crimes;”
- Slightly more than a quarter of respondents believe that “it is not likely that he will succeed, as corruption in Belarus is ineradicable;”
- Over 45% suspect that “he depends on corrupted officials himself” or even “he is interested in it in one or another way.”

Belarusian citizens typically know very little about civil society organizations or political parties. Self-organized civic groups can be characterized as a) being in favor of democratic ideas and human rights, b) oriented toward non-political but socially important activities and changes (education, culture, environment), c) offering pure humanitarian aid and social assistance (often in support of victims of the Chernobyl disaster or other charities) or d) providing social support for the Belarusian authorities (so-called GoNGOs).

Nevertheless, statistics on the nonprofit sector represented growth in 2015 to 2016. As of the end of 2016, the Ministry of Justice reported 15 political parties and 1,145 party organizations, 31 trade unions (27 republic-level trade unions, one territorial trade union and three trade unions in organizations) and 23,303 trade union organizations, 2,731 public associations (NGOs), including 221 international organizations, 730 republic-level and 1,780 local. Officially registered were 42,094 organizational structures of NGOs, 36 associations of NGOs, 172 foundations (16 international, six republic-level and 150 local), and seven republic-level state-public associations were registered as well.

In 2016, two new republic-level trade unions were registered (created as a result of reorganization in the form of a merger), 116 new NGOs (2 international, 17 republic-level and 97 local), 4 unions (associations) of NGOs and 16 new foundations (1 international, 1 republic-level and 14 local) appeared. 22 organizational structures of

Social capital



political parties, 1,033 organizational structures of trade unions and 1,148 organizational structures of NGOs were registered as well.

Compared to 2015, the total number of registered NGOs increased by 2.5% (from 2,665 to 2,731). The number of registered foundations increased by 4.9% (from 164 to 172).

It appears that the change of attitude to internal fundraising and the increase in the share of domestically collected funds for NGO projects will soon become a long-term trend that will inevitably entail a change in the direction of organizations.

There is a low level of trust in Belarusian society. Many people do not recognize the state as representative of their interests, but at the same time they do not trust other institutions such as the church, NGOs, trade unions or political parties, to represent their interests. Different polls conducted in 2012 to 2015 revealed that nearly 70% of Belarusians said they didn't trust each other.

II. Economic Transformation

6 | Level of Socioeconomic Development

Compared to other post-Soviet republics, excluding the Baltic states, Belarus appears to have a relatively high level of socioeconomic development. The Human Development Index ranked Belarus in 52nd place in 2015, the highest among CIS countries and higher than one EU member state, Bulgaria.

According to the World Bank, Belarus has the lowest poverty rate within the Commonwealth of Independent States (CIS) and one of the lowest Gini coefficients in the world. This has been achieved at the cost of highly regulated labor and pricing policies.

Recession in Russia and low commodity prices have had a major impact on the Belarusian economy, which contracted by 3.9% in 2015 and 2.6% in 2016, the first recession in two decades. Throughout 2015 to 2016, more jobs were cut than created, and some of the largest state-owned enterprises continued to downsize labor. In January to October 2016, real wages and incomes fell by 4.1% and 7.2%, respectively. However, the rise in poverty was contained by further increases in targeted social assistance: by 5% in real terms in the first nine months of 2016 y/y, with the number of applicants up by almost 20.3%.

Question
Score

Socioeconomic
barriers

7

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There is no structural economic disenfranchisement of Belarus' religious and ethnic minorities. The relatively undeveloped state of economic reform means that the social and economic spheres have been defined by political means and mechanisms.

Belarus is the best performer in the CIS on the Gender Inequality Index. At the same time, women and people with disabilities can still see a soft discrimination in their opportunities to participate in economic life or reach senior positions, which are determined by stereotypes.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	75527.5	78813.0	56454.8	47433.4
GDP growth	%	1.0	1.7	-3.8	-2.6
Inflation (CPI)	%	18.3	18.1	13.5	11.8
Unemployment	%	0.5	0.5	0.5	0.5
Foreign direct investment	% of GDP	3.0	2.4	2.9	2.6
Export growth	%	-14.6	5.3	-2.0	-
Import growth	%	-4.2	2.4	-8.5	-
Current account balance	\$ M	-7567.3	-5227.7	-1843.2	-1703.2
Public debt	% of GDP	36.9	39.5	53.3	53.9
External debt	\$ M	39573.5	40013.8	37934.7	37515.5
Total debt service	\$ M	4667.4	5353.2	5346.5	5936.7
Net lending/borrowing	% of GDP	-0.8	0.4	2.3	-
Tax revenue	% of GDP	13.4	12.7	14.2	-
Government consumption	% of GDP	13.4	13.8	14.9	16.0
Public education spending	% of GDP	5.2	5.0	4.9	-
Public health spending	% of GDP	4.0	3.7	-	-
R&D expenditure	% of GDP	0.7	0.5	0.5	-
Military expenditure	% of GDP	1.3	1.3	1.3	1.3

Sources (as of October 2017): 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 within a weak institutional framework. President Lukashenko has pursued a policy of pervasive state involvement in the economy. However, some improvements can be detected because state-dominated economic activity is increasingly inefficient, creating a drag on growth.

In 2016, driven by the contraction in Russia, lower export revenues, and domestic structural problems, the Belarusian government approved the 2016–2020 Action Plan aimed at regaining competitiveness, reducing vulnerability to external shocks and restoring economic growth. Planned measures include a further reduction in government-directed lending, the establishment of a toxic assets management agency in agriculture, the introduction of contemporary corporate governance practices for state-owned enterprises (SOEs), the creation of an antimonopoly agency, negotiations for World Trade Organization (WTO) accession, and further increases in utility tariffs to reach full cost recovery.

In related developments the government has initiated a phased reduction in directed lending.

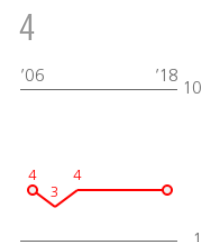
More recently, the authorities have been compiling a comprehensive inventory of SOEs with key financial and employment indicators, and published their first SOE monitoring report. According to the IMF, they have taken steps to strengthen SOE governance, including a recent decree that separates regulatory oversight and ownership and establishes independent supervisory boards.

Another recent decree replaced production targets with objectives of profitability, efficiency and export competitiveness, though there is evidence that some SOEs are still receiving production target instructions from line ministries. The authorities report that some small SOEs were being prepared for privatization. Looking ahead, they hope to attract minority-stake strategic investors for large SOEs, and pursue a mixture of ongoing operations, restructuring, insolvency and privatization for other SOEs. In terms of tangible results, employment in larger SOEs has fallen by about 12% over the past two years, but few SOEs have entered insolvency or have been privatized.

Price controls were reduced from 28% to 18% of the Consumer Price Inflation basket, down from 49% in 2011. Price ceiling controls remain on pharmaceuticals and some staples, as well as a price floor on alcohol.

The authorities have achieved some progress in the World Bank's Doing Business index, having reduced administrative and licensing procedures for businesses and simplified startup, tax administration and ownership registration procedures, raising

Market-based
competition



the country's rank to 37 in 2016 from 44 in the previous year. Progress has also been made in reducing the tax burden on businesses.

The size of the informal economy is difficult to measure and estimates for its share of Belarusian GDP vary wildly.

The formation of monopolies and oligopolies is regulated by law. The "Law on Counteraction to Monopolistic Activity and Competition Development" is the basis for the prevention, restriction and suppression of monopolistic activity and unfair competition.

In 2016, President Lukashenko signed a corresponding decree, Concerning Anti-Monopoly Regulation and Trade Bodies. A single anti-monopoly body, the Ministry of Anti-Monopoly Regulation and Trade, was set up on the basis of the Belarusian Trade Ministry after recommendations from the IMF and World Bank. It was created in order to protect fair competition and to promote civilized and efficient instruments of pricing control. The ministry includes the Pricing Policy Department of the Economy Ministry, anti-monopoly and pricing policy departments of oblast executive committees and Minsk City Hall.

The new anti-monopoly agency is expected to prevent monopolistic activities and promote competition on Belarusian commodity markets. It also is supposed to regulate the activities of natural monopolies, prices and tariffs, monitor and regulate the consumer market, public procurement contracts, advertising and consumer protection activities. The implementation of such goals, however, remains highly unlikely with regard to state-owned monopolies, where no market rules are applicable.

Russia remains the country's leading trade partner. Relations with Russia are vital in the sphere of energy, with Belarus almost completely dependent on Russia for supplies of oil and gas. The Belarusian economy has traditionally relied on subsidized energy imports from Russia for much of its success. The vast majority of Belarusian exports to the EU are in the form of oil products refined in Belarus using cheap Russian imports.

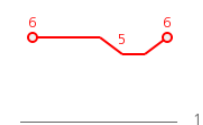
Economic ties with Russia remain strong, including through membership in the Eurasian Economic Union (EEU), though disagreements over the pricing of energy imports from Russia are coloring these good relations and creating risks. The predominant interest of Belarus in the project is directed toward a joint energy market to ensure continued supplies of cheap oil and gas.

In spite of the rhetoric of Eurasian economic cooperation and integration, trade conflicts with Russia persisted in 2015 and intensified in 2016. These included a string of battles over milk and meat products, as well as gas and oil disputes. The decision by Russia to impose an import ban on certain Western goods in the food sector worked initially in the favor of Belarus, which could fill the gap with its own

Anti-monopoly policy

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Liberalization of foreign trade

6

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produce (and through relabeled re-export). However, accusations by Moscow that Belarus was supplying prohibited goods to Russia via its territory resulted in a temporary ban on the import of meat and other foodstuffs from Belarus and the re-imposition of some customs controls on the eve of the launch of the EEU.

Belarus is also seeking to strengthen other external economic links by leveraging its proximity to the European Union (EU) and growing ties with China.

The EU recently lifted most sanctions on Belarus, unlocking potential loans from the European Bank for Restructuring and Development (EBRD) and European Investment Bank (EIB).

Belarus has revived WTO negotiations and intensified relations with International Financial Institutions. Currently the weighted mean tariff rate is 1.8% (in 2015), according to the World Bank. However, while the Belarusian authorities agreed on the importance of WTO membership, including as a driver of reform, they expressed concern that they would be asked to accept less favorable terms than Belarus's EEU partners.

Belarus became a key element on the China-led Silk Road in 2015, promising additional financial and logistics resources. In order to promote cooperation, a China-Belarus Industrial Park was established under the intergovernmental agreement between the People's Republic of China and the Republic of Belarus as a special economic zone.

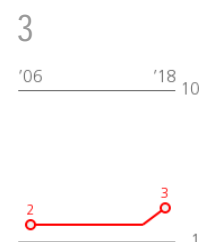
The Belarusian banking system is still largely controlled and dominated by the state.

State-owned banks dominate the sector in terms of market share (63%), followed by banks with Russian capital (27%) and private banks (10%), which include also banks with non-Russian foreign capital. State-owned banks do not operate on a level playing field with private banks; they are able to offer government-subsidized interest rates to customers. But still the banking sector is one of the few sectors where comparatively independent business actors with resources are operating. Banks like Prior Bank, Belgazprombank, Alpha Bank, MT Bank carry out own business strategies on their own and occasionally even in disagreement with state actors.

However, the Belarusian authorities announced in 2016 that they are ready to sell a 25% stake in the country's largest lender, state-run Belarusbank (with 42% market share in the country's banking system), to a foreign investor, preferably a Western one.

Domestic structural challenges of state-dominated financial sector include heavy state involvement in the banking and corporate sector, the lack of hard budget

Banking system



constraints for state-owned enterprises (SOEs) given state support, and high dollarization.

In early 2013, (corporate and household) loan growth was at 36% y/y in nominal terms. This gradually decreased and entered negative territory in summer 2015 and reached -2.4% in 2016.

The loan dollarization ratio increased over the period considered and amounted to 56% at the end of 2016, after 46% in early 2013.

After some years with a rather low level of non-performing loans (NPLs), bad loans sharply increased due to a serious slowdown in economic dynamics and the unstable financial position of many (state-owned) companies since early 2016. From the end of 2016, this development reversed slightly and NPLs reached 12.8% of assets subject to credit risk.

The system-wide capital adequacy ratio (CAR) stood at 18.6% (according to the norms of the national bank of Belarus) and remains above regulatory norms (10.6%). However, an asset-quality review in mid-2016 that covered 92% of the sector revealed that in a stress scenario, CAR would drop to 10.8%.

8 | Currency and Price Stability

In 2015, the national bank replaced its crawling peg with a de jure managed floating exchange rate regime and money aggregate targeting. The authorities established broad money as the nominal target, and national currency (BYN) base money as the operational target. According to the IMF, interventions in the foreign exchange market were broadly rules-based, guided by a wide crawling band allowing smoothing and opportunistic build-up of reserves.

The authorities' medium-term objectives are to reduce inflation to 5% by 2020 (13.5% in 2015), rebuild reserves to a 'safe' level of \$10 billion, and gradually transition to inflation targeting. In general, the national bank has pursued an autonomous anti-inflation policy, which has proven adequate in present circumstances and has not been subordinated to other goals from higher authorities.

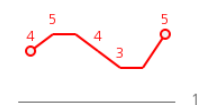
The authorities also took several steps to move to a more flexible exchange rate policy, which included limiting the use of foreign exchange reserves in exchange rate interventions to cases of strong fluctuations; raising the share of Russian rubles in the currency basket to 40%, versus 30% each for the euro and the U.S. dollar; and modifying the exchange rate trading mechanism from a fix to a two-way auction.

In July 2016, the authorities redenominated the currency to help boost confidence, issuing new bills that dropped four zeros.

Anti-inflation /
forex policy

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Monetary aggregate growth was contained at levels broadly consistent with the authorities' inflation objective for 2016 of 12% (while excess liquidity and credibility gains allowed some reduction in the interest rate corridor). The reserve requirement has been used as an instrument to address structural liquidity in the banking system as well as the dynamics of money supply. Over the past two years, the national bank lowered overall reserve requirements and unified the rate on domestic and foreign currency deposits at 7.5%.

Increasing external risks, like the growing current account deficit and the constantly growing external indebtedness in relation to GDP, were the main developments in 2015 to 2016.

The government budget (according to the official definition) ran a surplus of 1% of GDP in 2016, which is going to turn into a deficit of 0.7% of GDP in 2017. This is explained by a fall in revenues caused by the contraction of the real sector and a fall in export duties on oil products. Reduced fiscal space promotes the revision of public expenditures from support to the real sector to social spending.

The contraction of the economy automatically led to a reduction of the tax base. In order to sustain the level of budget revenues, the government revised the system of tax privileges. In 2016, the most significant changes occurred in legislation on value-added tax (VAT), as utilities are no longer exempted from this tax. This measure was expected to compensate for a reduction in VAT revenues that occurred in 2015 (by 0.6% of GDP). An increase of excises was another measure aimed at restoring the pre-crisis level of related revenues. Despite some ease on the revenue side, the fiscal authorities had to be more conservative in respect to expenditures, given the high and further increasing debt burden.

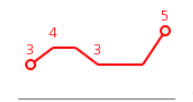
The current account deficit increased to 5.7% of GDP in 2016 (after 3.8% in 2015) and is expected to remain at this level in 2017, mainly due to worsened terms of trade. This indicates a change that brings an end to the decrease of the deficit, which had continued for several years. In 2013, the deficit amounted to more than 10% of GDP and has decreased gradually ever since.

In recent years, Belarus witnessed a continuous growth of its external debt, which received increasing attention as an important external indicator of the economy in addition to the development of the current account balance and the foreign currency reserves. The continuing endeavors to conclude international financial assistance programs (e.g., ongoing negotiations with the IMF and conclusion of a program with the Eurasian Stability and Development Fund) are to be seen in the context of unhindered external debt service.

Macrostability

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9 | Private Property

Belarus has become one of the top-five reformers worldwide with respect to property registration in 2016, according to the World Bank's Doing Business report. 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. Hence it only takes five days and five procedures to start a business in Belarus.

Belarus made also it easier to transfer a property by improving the transparency and reliability of the land administration system. Today it is necessary to complete only two procedures and spend three days to register a property.

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 in spite of signing leases on land and property, they can still be seized by state bodies for their own use. Property rights are comparatively well protected until they touch on the interests of state officials.

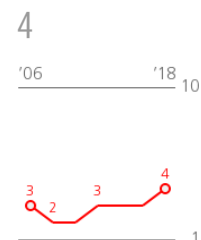
Expropriation of private property sometimes occurs in the form of de-privatization. That is, the government sometimes seeks to secure a majority share in joint stock companies under various pretexts (e.g., securing the interests of workers or addressing a long loss-making record). Some successful local businessmen have been forced out of business by bureaucratic methods. In the recent past there have been instances of confiscation of business property as a penalty for violating the law.

In the last five years, the Belarusian authorities have repeatedly highlighted the need to develop the private sector, presenting it as the main source of sustainable economic growth and Belarus' competitiveness in the future. Officially the private sector accounts for 30% of GDP, but the reality is that in many of those private companies the state still owns the majority of the shares.

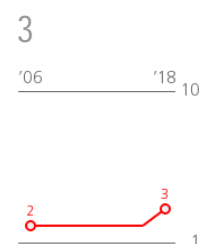
In 2015 to 2016, the Belarusian government improved cooperation with the World Bank, the IMF, the EU and the U.S. in supporting the private sector. The IMF and World Bank are assisting the Belarusian government in bringing new foreign investors and privatizing state enterprises. An ambitious action plan for large-scale privatization was developed by the National Agency for Investments and Privatization at the end of 2016, which includes 38 investment projects in various sectors of the economy.

The Investment Code of the Republic of Belarus is the regulatory framework governing all forms of investment activities in Belarus. Several presidential edicts and decrees have been issued that also regulate investment activities. However, both the central and local governments' policies often reflect an old-fashioned Soviet-style

Property rights



Private enterprise



distrust of private enterprise – whether local or foreign. The ongoing business raids pose additional challenges that seriously undermine trust in the authorities.

10 | Welfare Regime

Belarus faced the need to reform its social protection policy in 2015-2016. While the government has so far been reluctant to undertake serious structural reforms, the decrease in budget revenues and lack of access to international financing leaves the authorities with few other options than to reform the social security system.

A lot of government tariffs in Belarus are currently subsidized. Utility service tariffs and transport fees are lower than the costs of providing these services. This is especially true for the heating tariffs, which currently amount to 10-20% of total expenditures.

The subsidization policies are inefficient, as they benefit the rich (who consume more), rather than the poor in need of government support. Moreover, in the case of energy tariffs, cross-subsidization leads to higher energy costs for the firms, making them less competitive. Both prospective creditors, the IMF and the Eurasian Fund for Stabilization and Development, demand that the subsidies be gradually removed.

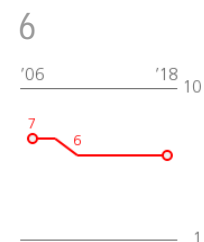
In 2015, the financing of social programs by the state suggested a counter-cyclic trend: amid the drop in GDP, social support grew to 2.76% of GDP from 2.55%. However, according to the National Social and Economic Development Program for 2016-2020 adopted at the end of 2016, economic policy should still take care of social security. Health care, education, science, culture and sport services will remain affordable and accessible for Belarusian citizens regardless of their place of residence. Measures are promised to be taken to improve the targeted and individualized nature of state support.

In 2015 to 2016, the situation in the labor market was further affected by general economic challenges, and the country for the first time suffered from a serious deficit in the Social Security Fund.

No wonder the government started looking for ways to make up for the deficit by cutting “gray” employment schemes. The presidential decree, Concerning the Prevention of Social Parasitism, signed in April 2015, envisaged annual payments to finance public expenditures for citizens who were not employed or were employed for less than 183 calendar days per year. The annual payment was set at 20 basic units (\$181 in 2015 and \$211 in 2016). Four hundred seventy thousand Belarusians had to pay it, according to statistics from 2016.

This decree gave rise to large-scale protests as the affected people found it totally inappropriate to be called “parasites” by the state and even prosecuted without any constructive efforts on the part of the state to alleviate unemployment (in particular

Social safety nets



in small towns and villages) or to recognize the limitations for full employment for certain social groups, such as mothers of children and people with disabilities.

The average level of pensions in 2015 was just under \$176 and decreased to \$150 in 2016 (in line with the currency devaluation). In April 2016, Alexander Lukashenko signed a decree, Concerning the Improvement of the Pension System, which aims to improve the pension system under changing social and demographic conditions. In accordance with the decree, beginning on January 1, 2017, the standard age to begin receiving a government pension will be gradually increased by six months every year until it reaches 63 years for men and 58 years for women by 2022; there will be the same increase in the retirement age (by three years during the period of six years) for those entitled to preferential, long-service and military pensions.

According to the latest WHO data published in 2015 life expectancy in Belarus was 66.5 years (male), 78.0 years (female) and total life expectancy was 72.3. Due to relatively low fertility rates (1.6 per woman) and increasing life expectancy, the Belarusian population is quickly aging: in 2015, there are four persons of retirement age per 10 persons of working age, but in 2035, this ratio will be six per 10.

Free education and health care are guaranteed by the Belarusian constitution. In practice, however, supplementary financial payments are required in these sectors in order to ensure high quality service.

Over the last seven years, Belarus has remained among the top 50 countries with a high Human Development Index, with regard to overall access to education and health care services, employment opportunities and so on. Societal fragmentation remains within tolerable limits. Women make up almost 50% of the labor force, but are underrepresented in the top echelons of business and government.

In 2016, Belarus published its national action plan for gender equality for 2017-2020. The major goal of the national plan is to develop an institutional mechanism of securing gender equality; expand economic opportunities of women and men; ensure gender-oriented health care; secure gender equality in family relations; combat domestic violence and human trafficking. Gender equality issues are considered vital for development, human security and stable economic growth.

Social groups that are more discriminated against than women and ethnic groups are people with disabilities and sexual minorities. The dominant mentality still does not accept them as equal members of society, with a more charitable approach toward people with disabilities and a more aggressive approach to members of the LGBT community.

In some cases, opponents of the Belarusian state have been denied employment or education, or prohibited from taking part in social and political life.

Equal opportunity

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11 | Economic Performance

The Belarus economy is undergoing a painful adjustment and a prolonged recession. In 2016, GDP plunged by 2.6%, after falling by 3.8% the previous year. A dispute with Russia over pricing of gas provoked Russia to reduce its oil supplies, which hit the Belarusian processing industry and exports.

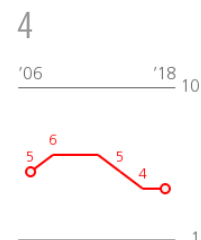
A sharp decline in fiscal revenues prompted the government to tighten spending to achieve a fiscal surplus. In January to September 2016, according to the World Bank, general government tax revenues declined by 4.4% y/y in real terms, as customs duties shrank by 22.2% y/y due to lower proceeds from oil products and potash exports.

Fiscal adjustments were made on the expenditure side. Capital expenditures were cut by 14.5% in real terms y/y, along with smaller spending increases on wages and salaries, resulting in a surplus of 1.9% of GDP in January to September 2016. Public debt continued to rise, reaching 48% of GDP by September 1, 2016. The increase of 20% points in just three years puts pressure on public finances and fiscal sustainability.

In the first nine months of 2016, public debt service payments (largely in foreign currency) increased by 16.1% y/y, along with the growth of subsidies and transfers, required to cover the deficit in the Social Security Fund. In January to September 2016, the government paid about \$2 billion in debt denominated in foreign currency, and nearly one-third of this amount has been financed by the budget surplus (equivalent to the sum of export duties on oil products). The rest was financed from foreign reserves and new borrowings, including from the Eurasian Fund for Stabilization and Development and China, and bond issues in the domestic market.

The current account deficit widened due to lower commodity exports and increased payments on foreign loans by the corporate sector, banks and the government. During January to August 2016, merchandize exports in nominal U.S. dollar terms fell by 17.3% and imports by 12.9%, as compared to 27.1% and 26.9%, respectively, a year earlier. The gradual recovery of Russia's industrial activity benefited merchandize exports to that country, which shrank by only 1.8% y/y during January to August 2016, as compared to the 32.8% drop a year ago (in nominal U.S. dollar terms). Despite a growth in exports of investment goods and vehicles, the decrease in the value of exports of oil products, potash fertilizers and metals worsened the merchandize trade balance. The pace of imports declined and BYN depreciation against the U.S. dollar slowed and the terms of trade continued to deteriorate, resulting in a wider merchandize trade deficit of 3.9% of GDP in January to August 2016, as compared to 1.3% a year earlier. The deficit was financed by additional

Output strength



borrowing by commercial banks and the government and – mainly at the beginning of the year – foreign reserves.

The ratio of gross external debt to GDP deteriorated considerably, from 55.2% in mid-2015 to 76.7% a year later, as U.S. dollar-denominated nominal GDP contracted by almost one-third. As of November 1, forex reserves (excluding gold) stood at \$2.9 billion, which is enough to cover 1.1 months of imports of goods and services.

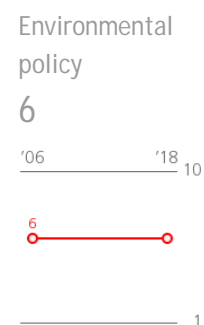
Belarus continued its careful management of tight monetary conditions, which led to lower inflation, but the high degree of dollarization continues to pose risks to the banking sector. Broad money supply decreased in real terms by 8.8% over January to October 2016 y/y. As a result, the annualized inflation rate slowed to 12% in September 2016, in contrast to 13.9% a year earlier. Declining inflationary pressures, along with modest depreciation of the national currency vis-à-vis U.S. dollars (by only 5.8% during January to November 2016 versus 34.4% a year earlier) allowed the national bank to gradually cut its benchmark rate, from 25% to 18% p.a., in a bid to reduce lending/deposit rates.

12 | Sustainability

Belarus has occasionally attempted to reconcile economic growth with environmental concerns, particularly in the areas of energy supply and utilization. The environment remains heavily threatened by nuclear and chemical pollution associated with industrial sources and the 1986 accident in Chernobyl, in which 70% of the radioactive fallout hit Belarus. The Belarusian state, however, actively demonstrates that economic interests are more important than environmental ones. The decision to build the Astravets nuclear power station is indicative in this respect.

In 2016, Belarus adopted an action plan for the period 2016–2020 to implement Environmental Performance Review recommendations, developed by the United Nations Economic Commission for Europe (UNECE). The review highlighted a number of achievements, such as a decrease in air pollution from mobile sources, proclamation of new protected areas and Ramsar Sites, progress in integrating environmental education and education about sustainable development into formal, non-formal and informal education, and the stability of the institutional framework for environmental protection, which has resulted in consistent development and implementation of environmental policies. It also recognized progress achieved in improving the quality of environmental legislation and in the integration of environmental requirements into sectoral legislation and strategic documents.

Among key areas for improvement, the review identified public participation in strategic planning and the development of legislation, the management of diffuse



pollution, the introduction of economic incentives to facilitate the renewal of the aging transport fleet and a reduction in the use of asbestos.

Government education expenditure usually represents about 5% of GDP (4.7% in 2015 and 4.9% in 2016), in line with average global expenditures.

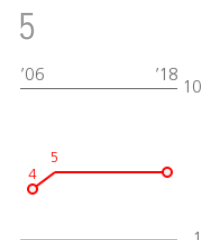
In 2015, Belarus was reaccepted to the Bologna Process and the European Higher Education Area. It now takes four years to complete study at the bachelor's level and one-two years at the master's level.

Government expenditure on R&D is well below average and one of the lowest in Europe. The year 2015 recorded a significant reduction in the proportion of national spending on research and development by 0.17% to 0.52% of GDP, which is the lowest rate in the entire post-Soviet history of Belarus. Research institutions are losing specialists due to low salaries and limited professional freedom. In addition, Belarus ranks only 79th out of 128 countries in the Global Innovation Index 2016 by INSEAD, having sunk 26 places since 2015. Belarus did not make it into the Bloomberg Innovation Index rankings at all in 2016.

However, in the Martin Prosperity Institute's annual Global Creativity Index 2015, Belarus ranked 37th, not only higher than other Eurasian Economic Union countries, but also better than some of the neighboring EU countries like Latvia, Lithuania and Poland. Of the three components measured in the ranking (talent, technology and tolerance), talent is Belarus' main asset, as in the talent sub-index the country ranked 8th, placed on par with New Zealand, Slovenia and Sweden. In the technology sub-index, Belarus was 41st as far as R&D investment is concerned and 25th in the number of patents per capita.

There were 313 students in Belarus for every 10,000 people in 2016. And one-fourth of all students in Belarus choose to study technology and engineering. Belarus's strong tradition of science and technology education originated in the Soviet era. While social sciences were and still are restrained by a lack of democratic freedoms and traditions, technical education is free from any ideological barriers and blossoms in Belarus. In line with other post-Soviet countries, Belarus also performs well in terms of school enrollment (gross enrollment rate above 100 in secondary education) with an equal share of male and female pupils.

Education policy /
R&D



Governance

I. Level of Difficulty

According to the World Bank, Belarus is an upper middle-income country. The level of poverty is low and income disparities are small. Among the country's other advantages are relative ethnic and religious homogeneity. The UNDP Education Index shows the country's labor force to be relatively well-educated, but this is an ambiguous legacy of the Soviet system. There are concerns that the quality of education is being sacrificed for quantity of enrollment. The country's population has grown in recent years after a decrease of half of a million people between 1999 and 2012. As of January 1, 2013, the population consisted of 9,464,000 people. As of the end of 2016, it stood at 9,504,700 people.

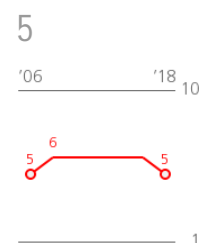
Despite the fact that Belarus is one of Europe's few landlocked states, its geographical location favors the deployment of logistics centers along the routes used to transport cargo between Europe and Asia.

UNAIDS estimated the number of people living with HIV/AIDS in 2015 to be 35,000. The prevalence rate in adults between 15 and 49 is 0.6%, which is quite high by European standards.

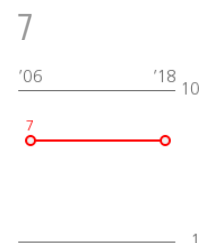
Belarus possesses negligible or at best weakly developed civic traditions. The activities of civil society organizations continue to be seriously restricted by the authorities. Nevertheless, Belarusian civil society is surprisingly active compared to many other post-Soviet societies. Since the late 1990s, the Belarusian Assembly of Democratic NGOs has established a united national coalition of NGOs. In 2010, a National Platform was created to engage with the Civil Society Forum of the EU's Eastern Partnership program. However, the state has also been active in creating government-oriented civil society organizations.

The 2015 CSO Sustainability Index, published in 2016, shows that the greatest obstacles for the development of civil society in Belarus are the legal environment and financial viability. In other areas – public image, infrastructure, service provision, advocacy, and organizational capacity – Belarusian NGOs exhibit a much higher degree of sustainability. Among positive trends, the report noted a reduction in

Structural constraints



Civil society traditions



government harassment, successful advocacy campaigns, use of online crowdfunding platforms, organizational capacity development and grassroots organizing.

Local business involvement in NGO funding is limited because of a lack of philanthropic traditions and informal prohibitions on supporting “disloyal” activities and organizations.

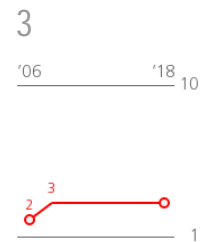
Belarus has no substantial or dominant ethnic or religious conflicts. Nevertheless, the authorities can restrict, for example, the activities of religious communities, as witnessed with some of the newer Protestant churches operating in the country, which are dismissed by the authorities as sects. The government has created a regime-loyal Belarusian Union of Poles to counter a more independent-minded alternative public association representing the Polish minority. These developments are not so much manifestations of ethnic or religious strife, but rather show the massive level of state intervention in all areas of society.

There has not yet been a violent radicalization of the opposition and violent incidents at protests are usually initiated by the authorities. However, dozens of Belarusians joined as combatants the conflict between Ukraine and Russia in Donbass on both sides. Seen as a source of possible destabilization in Belarus, they are usually prosecuted once returning to Belarus.

Belarusian society remains divided over geopolitical orientation. According to a public opinion poll conducted by IISEPS in June 2016, 42% of Belarusians were for integration with Russia and 34% for joining the EU. This division has provoked a debate over whether Russia could take advantage of the situation to destabilize the country. However, it is unlikely that tactics employed in Ukraine, such as claims to defend the rights of ethnic Russians or Russian-speakers could be employed in Belarus, which has much less fertile ground for nurturing such cleavages, and there is no equivalent of a separatist region such as Crimea or Donbass.

Nevertheless, some evidence points to the fact that Moscow has already developed a contingency plan for Belarus should it lose influence there. Belarusian and Russian joint military drills in 2015 revealed that Russia was preparing for a possible destabilization of the military and political situation in Belarus. The Kremlin also considered the possibility of deploying troops to “stabilize the situation and restore the constitutional order” in Belarus.

Conflict intensity



II. Governance Performance

14 | Steering Capability

The political leadership claims to pursue long-term aims, but these are regularly supplanted by short-term interests. Hardliners, particularly those in law enforcement agencies and security services, tend to support closer ties with Russia and block any market reforms and liberalization in Belarus, while some technocrats support limited modernization and improvement of economic ties with the West.

Driven by the deep economic crisis in 2015 to 2016, the Belarusian authorities had to develop an anti-crisis plan in cooperation with international financial institutions.

As a result, in 2016, President Lukashenko enacted the National Social and Economic Development Program for 2016-2020. Its main goal is to raise the living standards of Belarusians by bolstering the competitiveness of the economy, raising investments and securing innovation-driven development. For the sake of reaching this goal, the document sets priorities taking into account existing global trends. All domestic and external resources and efforts of the entire power vertical will be harnessed to secure these priorities.

The document views investment as a tool to renew technologies in basic industries and bring about new innovative branches of the national economy. The growth of competitiveness is projected to come from innovation-driven development, financial rehabilitation of the real sector of the national economy, reduction in all kinds of costs, and by a higher contribution of small and medium private companies.

Informatization is expected to make a systemic contribution to the development of the high-tech branch of the national economy, in addition to facilitating the transition to a digital economy and enabling a favorable institutional and favorable business environment.

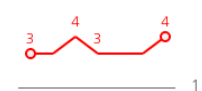
In particular, the GDP growth rate in 2016 to 2020 is projected such that 112%-115% of the current GDP will be achieved at the end of the period. The figure is twice as high as the target set for the previous five-year term (106%). As the indicator of domestic balance, the aim is to keep inflation under 5% by the end of the five-year term. Belarus is expected to secure a steady foreign trade surplus from 2017 on as an indicator of external balance. Meanwhile, in 2020, the growth rate of real disposable incomes of Belarusians will have to reach 109.5%-111.6% in comparison with 2015.

Question
Score

Prioritization

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The Belarusian leadership's ability to democratize and open the country is highly doubtful. Government reform initiatives are oriented toward short-term benefits with the aim of sustaining power, rather than based on a long-term modernization strategy. Irrespective of all these shortcomings, the government has proven surprisingly effective at muddling through, outliving numerous predictions that it was unsustainable and faced imminent collapse.

However, driven by the deep structural crisis in the Belarusian economy, as well as increasing pressure from Russia upon Alexander Lukashenko, the Belarusian authorities have taken several mid-term measures to overcome economic structural constraints and diversify economic, security and foreign policies.

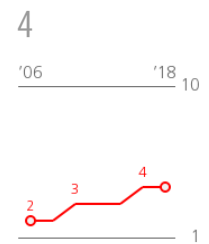
Alexander Lukashenko is the longest serving political leader in Europe and he celebrated his 20th anniversary as president in 2014. He has shown formidable learning skills, often adapting his policies to new challenges and situations. His prevalent conservatism notwithstanding, the continuity of Lukashenko's rule has come through expediency, pragmatism and opportunism in making changes, even where this would apparently contradict previous strongly-held positions. Heavy criticism of the West has been reduced since 2013 and, following the Ukraine crisis in 2014, Minsk has actively exploited the opportunity to push for a further thaw in relations with the EU and the U.S. by providing a neutral diplomatic negotiating platform in Minsk since 2014.

In the light of the Ukraine crisis and the deep economic crisis in Belarus, the maintenance of statehood and national security have suddenly become a much more prominent part of Lukashenko's governing formula. In other words, he has replaced a social contract by a security contract.

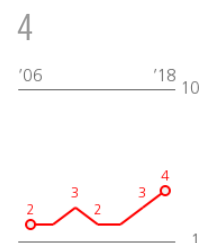
After Russia's decision to move toward charging market prices for its energy deliveries, and in the wake of the global financial crisis, some structural reforms were announced, including a privatization program and the reduction of administrative barriers to opening a private business. However, the reforms are ad hoc, piecemeal and subject to reversal at any time.

Belarus has also reassessed its security situation since 2014, declaring itself as a regional security and stability provider and refusing to support Russia's aggressive stance toward Ukraine and the West. Despite Minsk being a traditional strategic military and political ally of Moscow, all of Russia's neighbors, friend or foe, were shaken by the assault on Ukrainian sovereignty at the beginning of 2014.

Implementation



Policy learning



15 | Resource Efficiency

Government personnel remains relatively efficient. Nevertheless, the system has perpetual weaknesses such as corruption and a lack of relevant skills or modern human resources. The administrative system has many executors, but suffers from a lack of skilled, professional managers able to solve conflict situations efficiently. Decision-making remains highly centralized.

Terms such as “modernization” and “optimization” were increasingly employed by the authorities during the period under review, but there has been little discussion of their actual achievements, which are few and far between.

In this context, Alexander Lukashenko has announced that it is necessary to raise the status of civil servants and “optimize” personnel numbers in the Belarusian state apparatus. He planned to reduce the personnel numbers by 50% in accordance with the optimization plan. But this proved very difficult at the initial stage. So, the government now suggests reducing the personnel by 30%-35%. In 2016, Lukashenko continued the optimization of law enforcement and security agencies, first the KGB and Ministry of Interior.

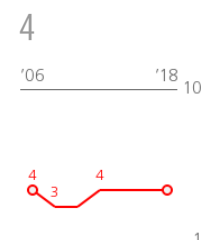
Macroeconomic performance was much weaker than peers expected in 2016. The economy remained in recession in 2016 contracting by 2.6%, due to weak growth of trade partners, real wage contraction, tighter policy stance and the gas price dispute with Russia.

Fitch estimated the consolidated general government remained in surplus (1.6% of GDP) in 2016 reflecting revenue measures, no real growth for the wage bill and capital spending cuts. Fitch also estimates that including off-balance sheet expenditures, the government reached a surplus in 2016 at 0.6% of GDP. Authorities have presented a three-year budget (2017-2019) in order to anchor expectations and stress their commitment to reducing off-balance sheet spending and program lending.

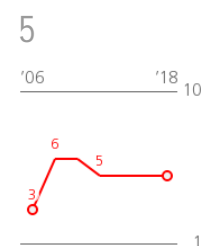
The Belarusian political system is highly centralized, with the presidential administration sitting at the apex of a so-called power vertical. The council of ministers is in reality subordinate to the unaccountable presidential administration. Subordinate structures are expected to implement commands and there are no genuine horizontal checks or balances between different branches of government. This has led to a situation in which there is lack of actors who are ready to take responsibility and even high-ranking authorities try to avoid responsibility where possible.

The dominant “social market economy” model does not allow for conflicting policy priorities, demands high expenditures and neglects structural reform of the economy. The authorities strive to maintain a social contract with the electorate through public spending on social programs, cheap electricity and petrol, and the preservation of a

Efficient use of assets



Policy coordination



cycle in which salaries and pensions are increased on the eve of elections to win popular support. The politically motivated manipulation of the economy in the run-up to the 2010 presidential elections had negative consequences in its aftermath with the 2011 economic crisis.

The Belarusian economy has been struggling to stabilize and return to strong growth since then, but faced a renewed downturn in 2015 and 2016. In the context of deep economic crisis, the presidential elections in 2015 and parliamentary elections in 2016 were marked by replacing the social contract with a security contract.

President Lukashenko has always used the fight against corruption to increase his popularity and legitimacy. In 2016 seeking to demonstrate consistency in the fight against corruption, the authorities announced prosecutions of both petty and high-ranking officials and even of a businessman close to the president.

Some 1,603 corruption crimes were registered in 2015. According to the Prosecutor General, slightly more than 1,280 corruption crimes and delinquencies were registered in January to October 2016.

A new anti-corruption law entered into force in January 2016. Under the new measure, persons dismissed for discrediting reasons cannot be appointed to high civil posts; retirement benefits are not available to corrupt officials; and an institute of public control will be established with mechanisms for citizen participation. Yet in general, the changes in the law are not expected to significantly strengthen the fight against corruption.

In September 2016, the Council of Europe's Group of States against Corruption (GRECO) noted that Belarus has implemented only one of the 20 pending recommendations on addressing corruption, with no progress registered on others. The only area where progress has been recorded concerns the introduction of administrative liability of legal persons for money-laundering offenses. An evidence-based comprehensive strategy and plan of action, as well as independent mechanisms to combat corruption, are still missing; no initiatives have been taken to strengthen the independence of either the Prosecutor General's Office or the judiciary.

The level of corruption greatly depends on the sector. For instance, the World Justice Project's Rule of Law Index 2016 ranked Belarus 57th out of 113 countries overall. However, the index's "Civil Justice" and "Regulatory Enforcement" factors place Belarus at 30th in the world, while in terms of the "Open Government" factor, Belarus holds only the 90th position.

Pardoning persons who have committed corruption crimes but offset the financial damage through fines twice the size of the embezzled amount or more remained a common practice in 2016.

Anti-corruption
policy

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16 | Consensus-Building

The consensus on policies and their objectives is enforced from above, with the president at the apex. Members of government and state administration who forgo expressions of loyalty to the president have little opportunity to influence political decisions. There is an absence of strong independent voices in politics, business or the regions to promote democratization.

The counter-elites in the opposition are effectively marginalized in a “democratic ghetto” and do not have significant support in Belarusian society.

There is a regular turnover in the economic and political elites around Lukashenko, as seen in the extensive reshuffles in 2014 to 2016. Lukashenko has proved adept at balancing different groupings against one another and ensuring that it remains in their own various personal, financial and professional interests to maintain the existing system as it is.

However, a public opinion poll conducted by IISEPS in June 2016 revealed that only 24.7% of respondents’ advocate maintaining the situation, while 67.3% support change. Ten years ago, 53.4% of respondents said that maintaining the current situation was more important for them, and 37.8% preferred changes.

Major actors are required to support Lukashenko’s “social market economy” path. However, because the current economic crisis calls into question its efficiency and sustainability, major consensus has been achieved between Alexander Lukashenko and technocrats in the Belarusian government to implement some market reforms in order to receive financial assistance from the IMF, the World Bank and the Eurasian Fund for Stabilization and Development, which should stabilize the socioeconomic situation in the country. However, structural reforms alter the balance of winners and losers in society and for this reason pose significant political risks.

Polls conducted by the Belarusian Institute for Strategic Studies (BISS) as part of its REFORUM project in 2015 revealed that most of the population feels the need for reforms: Asked whether Belarus needs reforms, 76% of the respondents said in April 2014 that reforms were needed, whereas in 2015, the share of such answers increased to 84%. However, having suffered from the effects of the new economic crisis – growth of unemployment and reduction in real incomes – people appear to be less willing to endure the negative consequences of reforms.

The inability of the Belarusian government to overcome the crisis and stabilize the national economy, due to both external (crisis in Russia, international isolation) and internal factors (deep structural crisis and incompetence), is the main source of the fledgling legitimacy of Lukashenko. Meanwhile the contradictions within the power

Consensus on goals

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Anti-democratic actors

2

elite are growing because of deep economic crisis and conflicting opinions about defining an adequate strategy.

The main anti-democratic actors in Belarus are law enforcement and security agencies, or so-called siloviki, especially the KGB. This part of the siloviki is traditionally oriented to Russia for ideological reasons. In the mind of the Belarusian siloviki, improving relations with the West and economic reforms will lead to political liberalization, which will provoke social protests and also decrease their influence. Thus, they are trying to convince Lukashenko to abolish reforms and crack down on civil society and the opposition. They are supported by some elements of the Belarusian bureaucracy apparatus. Especially because siloviki are currently subject to “optimization” measures, they are trying to consolidate their position within the state apparatus.

The political leadership downplays cleavages, often dismissing attempts to create political alternatives as influenced by foreign powers. Democratic protests against the results of the presidential elections in 2010 were characterized by Alexander Lukashenko as attempt to launch a color revolution in Belarus backed by Western intelligence services.

These events show the regime’s readiness to propagate misconceptions of democratic protests as a political tool when it comes under pressure. In doing so, protesters are portrayed as not representing the domestic concerns of the population, but rather the agenda of their external backers who want to destabilize the country.

With the outbreak of the conflict in neighboring Ukraine in 2013 and 2014, Lukashenko has been keen to be seen to depolarize potential conflict in Belarusian society, while still asserting distinctiveness from Russia. He suggested that if Russian troops were sent into Belarus they would not be sure which side to fight for. Lukashenko has praised the use of Belarusian and has been heard to speak it more himself, while promising that Russian and Belarusian would always be “native languages” in Belarus. He has also criticized Russia for trying to claim a monopoly on representing the Russian language. The cleavages which were exploited in Ukraine are nowhere near as pronounced in Belarus, nor are they completely absent either.

Improvements in Belarus’ relations with the West have strengthened the need to demonstrate some improvements in civil society, as well as the need for a liberalization process in the country.

In 2015, government officials began to engage more actively with civil society organizations, which in the past were viewed as political adversaries. A number of high-level officials spoke at an event organized by independent Belarusian economic think tanks, including a deputy head of the Presidential Administration and the head of the Main Economic Department of the Presidential Administration. The Belarusian

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Cleavage /
conflict
management

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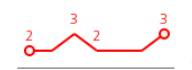
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Civil society
participation

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MFA agreed with EU representatives on limited participation by civil society representatives in the EU-Belarus Coordination group in April and September 2016, as well as in the EU-Belarus Human Rights Dialog in June 2016.

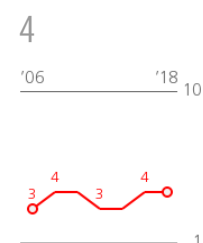
The authorities became more tolerant and even supportive of independent cultural initiatives, such as those aimed at encouraging the use of the Belarusian language and popularizing Belarusian national culture.

The positive trends of broader cooperation between the authorities and civil society organizations were maintained in 2016. Both sides participated in joint public events and expert discussions and conferences, and cooperated on cultural and other projects. Informal restrictions were partially lifted.

It is difficult to separate the identity of either the elites or the population at large from the Russian and Soviet past. For this reason, Lukashenko deliberately affirms the continuity of the Soviet heritage, while still acknowledging the country's pre-Soviet and pre-Russian history. However, at various press conferences and in various statements, Alexander Lukashenko likened Belarusians to Russians, but rejected considering Belarus part of the "Russian World" and ordered the state ideological apparatus to pay more attention to national history, Belarusian culture and language.

Belarusian political elites have not addressed acts of Soviet injustice (such as the Kurapaty massacre) and have not initiated a process of reconciliation. Moreover, there have also been insensitive acts pertaining to the common Soviet past, such as the Minister of Internal Affairs Shunevich joining a parade on July 3, 2016, in NKVD (Soviet secret police) uniform. He justified this by saying that he was proud to wear this uniform and that he felt a direct connection between this past and the present.

Reconciliation



17 | International Cooperation

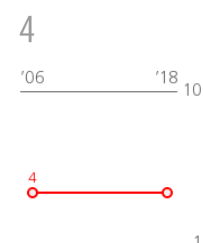
The geopolitical perspective that Belarus is being squeezed between Russia and the European Union remains relevant. The Belarusian leadership strives to manage a balancing act between East and West, making minimum concessions for maximum gains.

Officially, Minsk's most significant progress last year was in foreign policy. The country's neutral position in the conflicts involving Russia, its closest ally, which the country has maintained since 2013, grew even stronger in 2015 and 2016.

After hosting the OSCE contact group in 2014, Minsk became the negotiating venue that welcomed a high-level diplomatic group of four countries (Germany, France, Russia and Ukraine) in a bid to resolve the crisis in eastern Ukraine in 2015.

The agenda for Belarus's relations with the EU deepened and expanded after the lifting of sanctions in 2015, and its relations with the United States also improved.

Effective use of support



Washington suspended some sanctions, opening windows of opportunity for establishing channels of communication with Belarusian officials because of the deteriorating security environment in Eastern Europe due to the Ukraine crisis and new Cold War.

Furthermore, Minsk strengthened its position internationally by promoting contacts with Asia, especially in the security sector, where collaboration with that region proved to be quite successful. Belarus and China signed a joint declaration on the establishment of a trust-based all-round strategic mutually beneficial partnership in 2016 (China had previously only entered into such a deep level of cooperation with three countries – the United Kingdom, Pakistan and Russia).

However, Russia perceived Minsk's growing autonomy in foreign policy, as well as its normalization process with the West and its strengthening of relations with China, as potential threats to its influence on Belarus. It continued to put political and economic pressure upon Alexander Lukashenko in order to gain strategic concessions from Belarus, which included deployment of Russian military bases and involvement in the confrontation with the NATO.

Belarus actively engaged with the international financial institutions such as the IMF, the World Bank and the Eurasian Fund for Stabilization and Development in order to obtain financial assistance in supporting structural reform.

The perception of Belarus in the West has changed to some extent. Belarus is no longer seen as the “last dictatorship in Europe,” but rather as a provider of regional security and stability.

According to observers, the presidential and parliamentary campaigns in 2015 and 2016, respectively, were not fundamentally different from previous campaigns due to vote rigging and fraud. However, the conflict-free environment of the elections and the release of political prisoners contributed to the normalization of Belarus' relations with the European Union and the United States.

Efforts by Belarus to resolve the conflict in Ukraine, as well as its neutral position in the Russian-Ukrainian conflict and Russian-Western confrontation, helped to normalize relations with the West and the European Union.

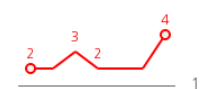
China also recognized Belarus' contribution to regional security and stability and shifted its strategic focus on cooperation with Belarus from Ukraine due to the political and military situation in this country.

Belarus has expanded its engagement in international relations. In 2016, Alexander Lukashenko even proposed launching a new, broad scale negotiation format in Minsk comparable to the Helsinki Process to discuss the future of relations between East and West.

Credibility

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Belarus has sought to make its contribution to addressing global problems, countering modern challenges and threats, and has been an active participant of the UN, OSCE and other international organizations promoting various trust-building initiatives in 2015 and 2016.

In the complex environment of the formation of the Eurasian Economic Union (EAEU), Belarus continued to protect its national interests and strongly pursue its principled position of promoting the four fundamental economic freedoms of goods, services, capital and labor, eliminating internal barriers and creating equal conditions for economic entities of all member states.

As a country at the Western boundary of the EAEU, Belarus consistently advocates for developing sustainable mechanisms for dialog and cooperation with the European Union. The Belarusian side believes that Eurasian integration should not be limited to the western border. A major task should be close collaboration with states and economic alliances in the East: China, Asian-Pacific states, and member states of the Shanghai Cooperation Organization (SCO) and other regional associations.

Adaptation of the Commonwealth of Independent States to modern realities was central in 2016. Belarus advocated for the preservation of the CIS as a regional international organization, providing interaction of member states in an entire range of collaboration areas.

Belarus continued to participate actively in multilateral events within the Eastern Partnership (EaP) initiative that is currently based on the principle of differentiation.

Cooperation with neighboring countries, especially Latvia and Poland, was characterized by positive dynamics in different spheres, including the economy and security. Belarus also continued a direct dialog at the level of foreign ministers with other Visegrad group countries.

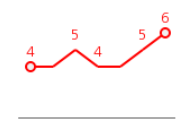
For the first time, a Belarus delegation led by the prime minister took part as an observer in the 16+1 Forum on Cooperation between China and Central and Eastern European Countries in Riga in November 2016. The Belarusian side was involved in the activities through the Shanghai Cooperation Organization (SCO), in which it acquired observer status in 2015.

All these efforts were aimed at contributing to the country's international standing and changing the perception of Belarus in the international arena, as well as realizing its true value as a "pole of stability" in the region.

Regional
cooperation

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Strategic Outlook

The next parliamentary and presidential elections are not until 2020, and the long interim period opens possibilities for economic and administrative reforms. However, the Belarusian authorities will hardly improve the situation significantly with regards to democracy and human rights institutions, as this is no longer a precondition for Western engagement. Rather, it appears that only the minimum expectations of Western counterparts are to be met in order to obtain more economic assistance from international financial institutions.

Relations with the United States and the EU have already been normalized, which provides some deterrent to new repressive policies. Nevertheless, if threats to internal or external stability (as a result of the deteriorating economic situation, the growth of protest sentiments or foreign interference) appear, the Belarusian authorities will again apply strict measures of political control and restrictions on political rights.

The greatest challenges in such a scenario would be a deepening of the economic crisis and a potential Russian political and military interference in domestic affairs. Both factors could trigger a rollback in political and economic development.

However, Alexander Lukashenko will be trying to preserve the status of Belarus as a regional security and stability provider, keeping a distance from Russia and reaping economic and political dividends from the West and China.

According to the World Bank, the Belarusian economy is expected to remain in recession in 2017 (-0.9% of GDP) and to start recovering only in 2018 (+1.1 % of GDP). Domestic demand will remain subdued, as the space for domestic stimulus is very limited. Current account balances are likely to worsen as commodity prices are projected to remain low and the terms of trade to further deteriorate. The gross external debt and public debt are projected to rise until 2017, reaching about 83% of GDP and 52% of GDP, respectively, with a gradual decline to follow afterwards, as GDP increases.

Serious improvements in the business environment are needed to stimulate new private businesses. In recent years progress has been made. In the 2017 Doing Business rating by the World Bank, Belarus achieved the 37th place of 190 countries. In order to capitalize on this achievement, additional institutional and policy changes are necessary to induce productivity-led growth. This will include enterprise restructuring and facilitating an orderly exit of inefficient firms. Improving the incentives system and the governance of state-owned enterprises will allow these companies to move away from quantitative production targets toward maximization of profits and returns on investment. In addition, better conditions have to be created to attract foreign investment, including through joint ventures and contract manufacturing arrangements.