

## Main events of the week

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## Other events: in brief

### Minsk aspires to compensate for losses from oil with additional gas concessions

The talks about changing the formula for the [gas price](#) for Belarus are still ongoing, no decision, as yet. Belarusian government officials are demonstrating optimism and confidence that Russia will reduce the gas price. However, each month, the lack of the decision [increases Belarus' losses](#) from the reduced supply of the Russian oil to the Belarusian refineries. However, the Belarusian leadership avoids the aggravation and is not willing to raise the issue publicly, unlike before. The Russian government insists that Belarus accepts and repays its debt for gas, and then it will be ready to resume oil supplies to Belarus in agreed volumes. Minsk waits for Moscow to accept concessions on gas price and until then pretends there is not tension in relations with the Kremlin.

### Budget surplus may not last until year-end

According to the [Finance Ministry](#), in H1 2016, the plan for income tax on profit was implemented by 37% and for revenues from foreign economic activity by 48% of the planned annual volume. The overall budget surplus in H1 2016 totalled BYN 1 billion or 2% of GDP and was achieved due to containment of non-priority government spending. The state is likely to increase expenditure on stimulating economic growth, cuts in oil supply in July and August are likely to lead to an increase in the backlog between revenues from foreign economic activity and the projected targets for 2016 and the state is likely to require additional funds to repay public debt. The planned wage growth in education is likely to increase budget expenditure on social needs and is likely to be funded from the existing budget surplus. In H2 2016, budget deficit is likely to occur and current budget surplus is unlikely to cover all projected costs without further austerity measures.

### Belarusian Banks will provide more information about clients' spending to control bodies

The [Resolution](#) of the Belarusian State Control Committee and the National Bank Board No 3/336 of June 20<sup>th</sup>, 2016 envisages a decrease from BYN 500 to BYN 300 in the size of payments by their clients, which banks have to report to the SCC. This rule excludes information about salaries, payment for utility services, payment for services under contracts with legal persons. As a result, people are likely to reduce non-cash payments, the workflow to process all this information will increase, hence the controlling bodies will need to recruit new staff. In addition, more citizens will be penned by the tax authorities for comparing income/expenditure in order to identify illegal incomes. The measure seems to be very inefficient and may cost more than the desired economic effect. In a while, the resolution may be abandoned or the audited payments' size may be revised upwards.

## More about main events of the week

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The Belarusian government has decided to give bonuses to [experienced teachers](#) for organising extra-curricular classes.

As the parliamentary elections draw closer, the president is attempting to boost the loyalty among teachers of educational institutions, so as being members of commissions at the polling stations, they are the key elements in organising the elections. The authorities have announced additional fundraising, in an attempt to increase teachers' salaries from extra-budgetary sources, such as funds reallocation from the private education sector to that of the state.

In addition, the authorities are attempting to reduce tension in some social groups with the highest protest potential. For instance, the authorities have promised milder fiscal pressure to those who work in the shadow economy and do not depend on the state. In exchange for political loyalty, the state has promised to broaden the legal frameworks for small private enterprises by introducing a patent system.

That said, the authorities promised changes in support for the unemployed and targeted increases in unemployment benefits. Due to the lifted restrictions on fuel exports, residents of the bordering regions, where unemployment is traditionally high, will be able to make some cash from cross-border trade.

To spite the criticism by oppositional candidates, the authorities said they had no plans to increase the retirement age in the coming years. In addition, as the president has no plans to raise pensions, he has promised to provide targeted state support to pensioners in paying for housing and communal services. The authorities thereby aspire to secure the turnout among pensioners.

The Belarusian authorities have refrained from traditionally high budget expenditure in order to buy the electorate with inflated incomes. Amid dwindling state resources, the Belarusian authorities aim to ensure the loyalty of their conventional electorate by promising future revisions of state support mechanisms.

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The deceased Uzbek leader sought to be equidistant from the main external players in the region and consistently opposed to Moscow's great-power ambitions. The change of power in Uzbekistan is likely to trigger the struggle among external actors for influence on the new Uzbek leader. Yet fears of possible political destabilization in Uzbekistan seem premature. For years, Karimov exercised brutal repression against the secular and religious opposition. As a result, one is completely destroyed, while the other one is extremely weak and deep in the underground.

Meanwhile, Karimov has left the country in a dire economic state. The new Uzbek leadership's foreign policy will be largely

predefined by where external financial assistance comes from.

The threat of destabilization in Uzbekistan is speculative for Belarus due to the geographical distance between the two states. However, Tashkent may become Minsk's rival for obtaining financial support from Russia. Belarus is already a member in the CSTO and the EEU; she does not want to be drawn into the Kremlin's confrontation with the West and seeks to reduce her dependence on Russia. Unlike the Uzbek leadership, the Belarusian authorities have virtually nothing to "sell" to Moscow in the political, ideological, or symbolic terms. That said, the economic situation in Belarus is unstable and Russia is still a major financial donor for Minsk.

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*Last week, Minsk-News newspaper published more than fifty [election programmes](#) of candidates from Minsk.*

Alternative candidates seek to raise the voters' interest in the elections by organising campaigning concerts, joint campaign actions and brilliant performances, as well as other non-conventional activities aiming to enhance contacts with voters and step-up their participation in the election campaign. Party candidates have not made public statements about withdrawing from the election race; they are likely to participate in the campaign until the end.

In order to gain new supporters, many oppositional candidates have somewhat altered their rhetoric and not only talk about the regime change, the Belarusian language, the geopolitical choice and independence, but also raise socio-economic issues. Opposition candidates seem to have abandoned mutual accusations and focused on electoral cooperation, which has had a positive media effect on their campaigns as a whole, especially in the regions.

Meanwhile, the opposition lacks human and financial resources to make full use of existing communication channels to convey their ideas. Many candidates have not found funds to print flyers, place paid advertising in newspapers and ensure visual presence in their constituencies.

The Belarusian authorities not only have reduced the budget financing for the candidates' campaigning activities, but also have taken measures to ensure voter's low interest in the elections and de-politicization of

the society as a whole. Some nomenclature candidates have refused to participate in the debates with the opposition candidates on public television, which, inter alia, could be due to the lack of experience and skills required to participate in public policy debate.

Overall, some opposition candidates are attempting to gain new supporters among new social groups, among those who are dissatisfied with the current social and economic policies.

## Unprofitable agricultural enterprises in Belarus to decrease in number thanks to mergers

*For reorganisation purpose, in the next two years 37 unprofitable agricultural enterprises will be **merged** with four profitable organisations in the Vitebsk region. The mergers aim to improve the poor financial performance of the agriculture as a whole. Thanks to financial injections from the state budget, the agriculture is likely to report some improvements. However, in order to sustain these improvements, the government needs to change its approaches to the pricing policy and enable private businesses in the agriculture industry.*

According to the Presidential Decree No 320 of August 25<sup>th</sup>, 2016, 37 agricultural organisations will be merged with four organizations of the Vitebsk region in 2016-2017: the Vitebsk meat plant, the Glubokoye feed mill, Orsha and Polotsk bread plants. The new organizations will be entitled to the instalment repayment of the existing debt on taxes and duties, budget loans and borrowings, and on energy for a period of three years without an interest. The state will issue currency bonds with 5 year maturity period at 7% per annum, which will be handed over to banks as payments for the assets of problem enterprises - with a total worth of BYN 369 million.

The merger of agricultural enterprises in the Vitebsk Oblast is required in order to improve their financial health. Unlike in other regions, in the Vitebsk Oblast agriculture is unprofitable, with total losses in H1 2016 BYR 26.9 million. Regardless of the state support, 45% of agricultural enterprises in the Vitebsk Oblast are loss-making; the Vitebsk region has the highest number of enterprises with chronic payroll arrears, some enterprises have not paid wages on time for several months, some have accumulated a significant energy debt.

The merger will become one of the stages in agriculture's financial recovery. Tax and financial benefits aim to reduce non-payments for supplied raw materials, other materials and energy. Unified management at the reorganized enterprise will simplify the accounting and reduce the maintenance costs. Meanwhile, the main financial burden will be assumed by the regional budget, since the servicing cost of government bonds issued under this Decree will be attributed to taxpayers. As a result, the visual economic effect will be achieved by unprofitable enterprises reduced in number, reduced overdue accounts payable, and fewer organizations with wage arrears. The real economic effect may only be achieved if agriculture is reformed, including abandoning production plans, enhancing private sector, changing the pricing policy and transiting to a market economy. The state has taken yet another attempt to improve the financial situation in the agriculture. Due to benefits and inflows of funds from the budget, the number of loss-making enterprises will decrease, however, without changing the pricing policy in agriculture, its stable and profitable operation is impossible.