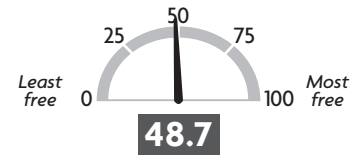


# BELARUS

## Economic Freedom Score



World Rank: **150**

Regional Rank: **42**

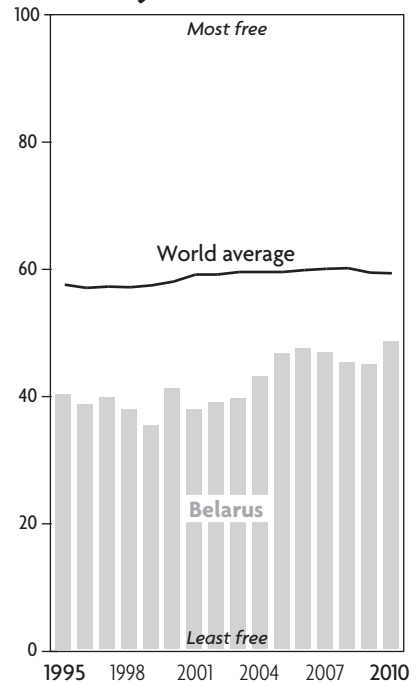
**B**elarus's economic freedom score is 48.7, making its economy the 150th freest in the 2010 *Index*. The persistence of Soviet-era policies and practices continues to deny Belarus the benefits of economic freedom enjoyed in most other former Soviet republics, although its low score has improved by 3.7 points after four years of decline. Belarus is ranked 42nd among the 43 countries in the Europe region.

Reforms undertaken to reduce regulatory costs and enhance the business and investment climate have led to improved business freedom and labor freedom scores. Most of Belarus's 10 economic freedom scores, however, are considerably lower than world averages.

Belarus's economy is still characterized by pervasive state involvement and control. Restructuring is very slow, and the small private sector remains marginalized. Though tax rates are moderate, there is no comprehensive tax code. Regulations are confusing and applied unevenly. Financial freedom, investment freedom, property rights, and freedom from corruption are 20–40 points below world averages. The government controls many financial institutions, directly or partially. Besides insecure property rights and corruption, foreign investment faces restrictions and bureaucratic inefficiency.

**BACKGROUND:** In October 2004, President Alexander Lukashenko, in power since 1994, changed the constitution, effectively becoming president for life. In 2005, he vowed to guide Belarus toward “market socialism,” and the economy has been deteriorating ever since. Industry and state-controlled agriculture are uncompetitive, and GDP is expected to contract by 4 percent in 2009. In 2008, Russia extended a \$2 billion loan to Belarus that was linked to the creation of a single currency between the two countries. The International Monetary Fund approved a \$2.46 billion loan in January 2009. Growing ties with Iran, Venezuela, and China have not improved economic prospects; nor has Belarus's effort to move toward a customs union with Russia and Kazakhstan as a part of the Eurasian Economic Community.

## Country's Score Over Time



## Quick Facts

**Population:** 9.7 million

**GDP (PPP):** \$118.7 billion

10.0% growth in 2008

9.5% 5-year compound annual growth

\$12,261 per capita

**Unemployment:** n/a

**Inflation (CPI):** 14.8%

**FDI Inflow:** \$2.2 billion

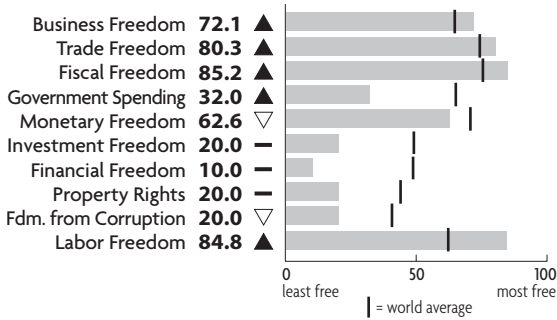
2008 data unless otherwise noted

Data compiled as of September 2009

### How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## BELARUS'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 72.1

Recent reforms have somewhat enhanced the overall freedom to establish and run a business. Starting a business now requires about six days, compared to the world average of 35 days, and obtaining a business license takes less than the global average of 218 days.

### TRADE FREEDOM — 80.3

Belarus's weighted average tariff rate was 2.3 percent in 2008. Extensive import restrictions and quotas, licensing requirements, non-transparent and arbitrary regulations, weak enforcement of property rights, domestic preference in government procurement, and government subsidies add to the cost of trade. Fifteen points were deducted from Belarus's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 85.2

Belarus has a relatively low income tax rate and a moderate corporate tax rate. In 2008, the top income tax rate dropped to a flat 12 percent from 30 percent. The top corporate tax rate is 24 percent. Other taxes include a value-added tax (VAT), a turnover tax on production of goods and provision of services, and an environmental tax for legal entities. Excise taxes on alcohol and tobacco were raised as of July 1, 2009. In the most recent year, overall tax revenue as a percentage of GDP was 27.5 percent.

### GOVERNMENT SPENDING — 32

Belarus's economy is highly centralized. Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 47.6 percent of GDP. The government is seeking buyers for state-owned enterprises in energy and telecommunications, but privatization has stagnated.

### MONETARY FREEDOM — 62.6

Inflation has been very high, averaging 12.6 percent between 2006 and 2008. The government subsidizes many basic goods and services, sets prices of products made by state-owned enterprises, controls wages, and regulates retail-sector prices. Fifteen points were deducted from Belarus's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 20

The government discriminates against domestic and for-

ign private parties in favor of state-owned businesses. Foreign investments undergo additional screening and are allowed only case-by-case. The government openly states that it wants to control all economic activity. Numerous industries remain the exclusive domain of the state, and profitable and strategic sectors are often under de facto government control. Inefficient bureaucracy, corruption, contradictory enforcement of regulations, lack of respect for law, and official resistance to the private sector hinder foreign investment. Foreigners and businesses may not own land. Capital transactions, resident and non-resident accounts, and current transfers are subject to restrictions. When expropriating property, the government generally alleges breaches of business law and offers no compensation.

### FINANCIAL FREEDOM — 10

Belarus's banking system remains heavily government-influenced, with commercial banks' lending practices subject to state pressure. Although 14 banks have been sold to foreign investors since 2006, the four largest state-owned banks account for more than 70 percent of total assets. Foreign banks face major impediments, and barriers to credit remain high. Businesses have access to various credit mechanisms, but long bureaucratic delays discourage smaller companies. The small non-bank financial sector is inhibited by state intervention and irregular regulatory enforcement. The stock market is small and largely dormant.

### PROPERTY RIGHTS — 20

The structure of property rights is unchanged since the Soviet period, with state ownership of land and government-controlled collective and state farms. The legal system does not fully protect private property, and inefficient courts do not enforce contracts consistently. The judiciary is neither independent nor objective by international standards. The government has wide scope to interfere in commercial transactions. In 2008, the government made registration, assessment, sales, and purchases of property somewhat less cumbersome, but the procedures are still highly bureaucratic and time-consuming. Independent lawyers cannot practice without a special license from the Ministry of Justice. Protection of intellectual property is weak.

### FREEDOM FROM CORRUPTION — 20

Corruption is perceived as pervasive. Belarus ranks 151st out of 179 countries in Transparency International's Corruption Perceptions Index for 2007. Owners of import-export businesses in particular complain of corruption at every point in a transaction. According to independent polls, corruption is most pervasive among local government officials, directors of large state enterprises, police, doctors, and teachers.

### LABOR FREEDOM — 84.8

Relatively flexible labor market regulations promote more job creation and productivity growth. The non-salary cost of employing a worker remains high, but dismissing a redundant employee is relatively easy.