

Financial and social stability

INTERVIEW WITH ANDREI KHARKOVETS

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was born in Minsk, Belarus, on September 16, 1963. A graduate of the finance and credit faculty of Belarusian State University of Economics and the Presidential Management Academy (he majored in national economic administration). He has worked in the Finance Ministry of the Republic of Belarus and since then moved from the position of senior economist, local economies financing office, up to Minister of Finance of the Republic of Belarus.

What do you consider to be the main objectives of financial policy (fiscal and monetary) in Belarus?

Belarus' chief fiscal policy objectives are to ensure financial and social stability and a macro-economic environment necessary to promote an efficient and competitive economy. Another essential goal is to improve overall living standards for Belarusians.

In the long run, our taxation policies will aim to foster sustainable economic growth, building up the framework for investment and innovation and increasing labour productivity while honouring our fiscal commitments. Belarus' system of taxes and duties differs very little from foreign levy systems. We charge direct and indirect taxes, property taxes, natural resource taxes and social taxes.

The key objective of our fiscal policy is to improve the efficiency of budget spending by implementing a management-by-objectives budgeting strategy and introducing medium-term financial budgeting. As a result, the key preconditions for improving the quality of public services and further increasing labour productivity in the public sector will be created. Belarus will prioritise the social aspects of the state budget in the longer term. Expenditures to meet state social standards will be an essential part of the budget, thus ensuring fair compensation, pensions, educational scholarships, social allowances and other social payments.

When it comes to intergovernmental financing, we focus on the social and economic development of the regions, emphasising their financial autonomy and underlining the responsibility of local government institutions to ensure efficient budget spending.

The taxation system of the Republic of Belarus is similar to those in European countries and the Commonwealth of Independent States (CIS) as far as the range of levels of taxation are concerned. Traditionally, the main sources of tax revenue in Belarus are the profit tax and income tax collected from corporate entities and individuals, value-added tax (VAT), excise taxes, property tax, land tax, and customs payments. Belarus' method of budget revenue distribution via the Treasury system was ranked among the most effective in the former Soviet Union by the International Monetary Fund (IMF) and is seen as a model for the Russian Federation.

Belarus' customs regulations, especially the customs tariff and payment procedures, fully comply with World Trade Organisation (WTO) standards and fulfil the country's commitments on customs and tax harmonisation

policies under a number of integration agreements that Belarus is party to.

What are the key challenges in establishing high and sustained economic growth rates in Eurasia and how are you stimulating domestic economic growth in Belarus?

Eurasian economies are currently characterised by unsustainable development patterns, susceptibility to global crises, energy difficulties, and increasing inflation. In its endeavour to maintain positive trends in economic expansion, Belarus focuses on enhancing the investment environment through improvement to the legal framework, tax concessions for new companies and the free economic zones. The government facilitates borrowing by providing guarantees and placing available resources with commercial banks.

I also believe production and the export of services should be a top priority. Services, which make up around 70 per cent of the gross domestic product (GDP) in most of the developed countries across the globe, remain an untapped resource in Belarus.

To what extent has macro-economic stability and development been achieved in Belarus? Please outline the latest trends in GDP growth, inflation and real interest rates over the past three years.

Belarus' major macro-economic indices reveal steady growth – despite the serious energy price hikes in recent months, the economic situation has remained stable. Economic expansion is impressive, with January–August 2008 GDP growth recorded at 10.6 per cent more than the same period in the previous year, which compares to 8.2 per cent annual GDP growth in 2007 and 10 per cent growth in 2006.

Inflationary pressure has, however, also grown stronger. The annual average consumer price index increased 7 per cent year-on-year in 2006, 8.4 per cent in 2007, and 8.3 per cent in January–August 2008 (from December 2007). The rise in inflation is for the most part attributed to natural gas price increases in 2007, when Russian fees for Belarus more than doubled, causing cost increases and higher manufacturing prices.

The rising energy prices also led to a drop in return on sales (to 12 per cent in 2007 from 13.6 per cent in 2006) and affected competitiveness. However, the figure soared to 15.8 per cent in the first seven months of 2008;

a clear indication that the measures launched by the government enabled the national economy to adapt to the new energy price levels.

What are the key challenges in ensuring continuous and sustained economic growth in Belarus?

Being an open economy, the Republic of Belarus is sensitive to external economic factors, including raw material prices, higher inflation rates, financial crises and others. The situation is exacerbated by the lack of fuel and energy resources.

In these circumstances, it is important that the country's fiscal policy ensures that the budget deficit and national debt are maintained at sensible levels while supporting sustainable economic growth. Back in 2006, Belarus achieved a budget surplus of 1.4 per cent of GDP; a year later, a surplus of 0.4 per cent of GDP. Belarus' national debt amounted to 8.8 per cent of GDP in 2006, with foreign and internal debts standing at 2.3 per cent of GDP and 6.5 per cent of GDP, respectively. The national debt increased to 11.6 per cent of GDP in 2007, with foreign and internal debts as high as 5.2 per cent of GDP and 6.4 per cent of GDP. The target for the state budget is a deficit of 3 per cent of GDP and for the state debt is 40 per cent of GDP, or 20 per cent of GDP for the internal and foreign debt respectively.

How do you assess the relative importance of foreign direct investment versus domestic investment with regard to Belarus's economic stability?

Belarus is interested in both foreign and domestic investment inflows. The Investment Code offers foreign investors and corporate entities, established with foreign capital, the same legal treatment as Belarusian companies and individuals, and equal commercial opportunities.

Businesses with foreign investments are subject to the tax laws of the Republic of Belarus, including tax abatements. A clear example is the exemption of all companies, whether or not with foreign investment, from all basic taxes and duties within five years of their inception, provided they are located in communities with less than 50,000 inhabitants. Importantly, Belarus' laws impose no bans or restrictions on foreign investors' gaining tax remissions and investors are not liable to additional commitments.

How effective is the tax collection system and what challenges lie ahead in this area?

Belarus' tax administration system ensures a very high level of tax compliance. Proper tax receipts are encouraged by special taxation departments and these measures also minimise tax evasion.

We make every effort to simplify the taxation system in order to balance the interests of the state budget and taxpayers. The government's tax action plan includes the abolition of taxes imposed on revenues, the reduction of

the tax burden on the payroll bill and the convergence of bookkeeping and fiscal accounting rules, the adoption of International Accounting Standards (IAS). I hope this package of measures will enable us to optimise the tax collection system.

Much of the Belarusian economy remains State controlled – what effect does this have on economic efficiency? What is the policy on privatisation?

Ongoing privatisation is under the control of the government, which is a logical way to reduce risks and ensure that new owners meet all the investment and social commitments.

Since 1991, Belarus has reformed 4,129 state property units, or about 41 per cent of the total number of enterprises. The country has made considerable progress in the retail sector, public catering, and consumer services, with over 70 per cent of all enterprises successfully transformed. The list of reformed enterprises includes over 200 large businesses each with more than 1,000 personnel, some of them being of strategic importance to the country.

Once major changes were introduced to the denationalisation regulations in April 2008, a new phase of privatisation started with even greater vigour. The Belarusian government adopted a programme of privatising state assets for 2008-10, which envisages the privatisation of 519 unitary enterprises and the sale of state controlled shareholdings in 147 open joint-stock companies. Another 500 state-run communal enterprises are expected to change their ownership structure in this period.

Privatisation remains an efficient way to attract private investment in enterprises currently controlled by the state. I also believe Belarus' legislation is, in effect, quite liberal in investment matters. To promote foreign investment inflows, the President and the Government of Belarus have passed a number of regulatory acts to phase out the moratorium on the sale of shares acquired by citizens during preferential privatisation. Also in 2008, the state waived its pre-emptive right to acquire shares in corporate entities that enjoy state support and abolished the 'golden share' rule, a blocking minority ownership of the state.

What is your vision for Belarus's economic development over the next decade?

With socially oriented budgetary policies implemented in the medium and long run, the state will aim to further increase living standards and improve the quality of life, establish high levels of social security, education, culture, and healthcare standards, pension benefits and provide support for lower-income households.

Budget policy is among the most efficient instruments to regulate socioeconomic progress in the country, therefore budget funds will only be used to improve living standards for all population groups by strengthening social security and by adopting the necessary economic reforms. **F**