

Government reshuffling in Belarus

BACKGROUND AND OUTLOOK

On August 18, 2018 the Belarusian President Alexander Lukashenko performed a quick and massive transformation of his government. The country got a new head of the government, four new vice prime ministers and also four new ministers with substantial areas of responsibility. This was triggered, quite commonly for Belarus, by the dissatisfaction of the head of the state with the execution of his instructions by the government regarding the economic development – especially in the Orsha district in the East of Belarus. However there are more reasons for this move.

In Belarus the dismissals of government officials – including members of the government – by the President are a staple of his overall repertoire of political action, especially if the President thinks the appropriate results have not been achieved. The new appointment of the head of the government is, however, quite an exception: to the surprise of many observers he completely removed the previous PM practically overnight and the new one is the youngest one ever in the history of Belarus. For a system, which until fairly recently was mostly managed by cadre with many years of experience and with proven history on the political landscape, the appointment of a number of persons in their mid-forties is a notable sign. Also peculiar is the fact that the previous head of the government, upon recollection, produced good results: Despite all financial difficulties he succeeded in the stabilization of the national currency, in generating more economic growth and actually increasing the incomes of the population. From the macroeconomic standpoint it can

be evaluated as one of the most successful governments in the history of Belarus.

A young head of the government

The new Prime Minister, Sergey Rumas, is just 48 years old and he replaced the previous office-holder Andrey Kobayakov. Rumas already served as the first vice prime minister in the government of the premier Mikhail Myasnikovich between 2010 and 2012. Probably due to his market-based approach back in the days he had left the office early and since then he was managing the Belarusian Reconstruction Bank.

The 43 year old Alexander Turchin was appointed the first vice prime minister, who previously managed the organization (administration) of the Council of Ministers and the Council for the Development of Entrepreneurship. He replaced the single real pronounced "market economist" in the old government – Vasily Matyushevsky (49).

The former President's negotiator with Russia in the matters of oil, gas and energy as well as the one responsible for the industry, vice Prime Minister Vladimir Semashko (68), was also replaced by the 43 year old Igor Lyashenko who previously managed the important state group of companies "Belneftekhim".

Another vice prime minister is the former deputy chairman of the State Control Committee (akin to economic police), Vladimir Kukharev (46). He takes over the area of responsibility of the dismissed vice Prime Minister Anatoly Kalinin (59), which is construction, transport and housing. Replacing Vasily Zharko (62) involved in a corruption

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BELARUS

DR. WOLFGANG SENDER

August 2018

www.kas.de/belarus

scandal, is the former Belarusian ambassador in Russia Igor Petrishenko (52), stepping in as the fourth new vice prime minister. There is an immediately obvious important transformation goal in this area: to somehow differently manage the relations with a difficult partner, which is Russia, as well as to prevent corruption.

The ministers Anatoly Cherny (60) for architecture and construction and Vitaly Vovk (56) for industry were replaced by Dmitry Mikulenok (45) from the Minsk City Administration and Pavel Utyupin (41) who previously had been the deputy minister in the Ministry of Industry and since 2017 — the deputy minister in the Ministry of Economy.

Dmitry Krutoy, only 37, was appointed the new Minister of Economy, which is extremely important for Belarus. Dmitry Krutoy was previously the first deputy Minister of Economy. Krutoy, a skillful and progressively-thinking economist-politician, replaced the 62-year-old Vladimir Zinovskiy.

Another new appointment is the new Minister for Communications and Information — a representative from the security-service-type organization Operative and Analytical Center under the Administration of the President, Konstantin Shulgan, who in his new capacity will be responsible, *inter alia*, for the increase of the share of IT in the Belarusian economy. He replaces Sergey Popkov (61) and due to his influential previous position he supposedly has a particularly good contact with the President. Finally, the State Committee for Military Industry will be further managed by Roman Golovchenko, 45, previously a long-term ambassador in the United Arab Emirates. He replaces the 52 year old Brigadier general Oleg Dvigalev.

Reason for the government reshuffle

The government reshuffle happened after the President took a tour of the enterprises in the Orsha district on August 13. A year before that the Head of the state specifically instructed his government to make the struggling region rise "from the ruins and ashes". During his inspection visits, partially documented in videos which are worth see-

ing¹, and in course of the follow-up discussion², the President expressed his clear dissatisfaction with the structural and economic state of state-owned enterprises. The failures in development, especially in the Orsha region, were blamed on the accountable actors, including members of the government.

However dirty factory backyards and outdated workshops in state-owned enterprises are nothing extraordinary, neither in the capital nor in other parts of the country. And since, in addition to that, no specific case of misappropriation of state funds or anything suchlike was revealed in Orsha, it seems possible that the transformation of the government also had other background.

The overall context first of all includes the current and perspective problems with the significant economic partner, Russia. It can be assumed that the office in Minsk gears itself up for further cutbacks of Russian contributions and therefore it must optimize domestically, to the best of its capacity. Another item on the agenda could be a recent wave of crackdowns — short-term arrest of journalists in August, as well as a corruption ring in healthcare recently uncovered by security authorities. The latter was directly related to the currently dismissed vice premier Vasily Zharko, who had previously been the Minister of Health. The political astrology must presume that also against this background a new political balance in the government had to be found. Finally, it can be assumed that the President already looks into the upcoming parliamentary and presidential elections 2019/2020 and prepares these with the personnel changes. And one should not forget that President

¹ Poseshcheniye OAO "Tekhnika svyazi". President.gov.by. Available online at: <https://goo.gl/tG18uy>. Last accessed on 23.08.2018. Poseshcheniye Orshanskogo instrumentalnogo zavoda. President.gov.by. Available online at: <https://goo.gl/GMg91R>. Last accessed on 23.08.2018.

² Soveshchaniye o khode vypolneniya porucheniya. President.gov.by. Available online at: <https://goo.gl/fGHSQA>. Last accessed on 23.08.2018.

Konrad-Adenauer-Stiftung e.V.

BELARUS

DR. WOLFGANG SENDER

August 2018

www.kas.de/belarus

Lukashenko has been implementing, for several years now, a massive rejuvenation program across the country's management. Thereby, Soviet-style office holders were commonly replaced by younger experts, loyal to the national ideology.

Framework for the new government

The current rapid change of the government by itself does not indicate the change of objectives or of the policy direction of the new government. First of all, Belarus rather performs a step-by-step economic liberalization and modernization of economy via presidential decrees.³ In his numerous and extensive speeches immediately before and after the replacement of high-profile officials, the head of the state, however, made it clear that the old control system will be preserved and the new government must ensure that the existing machinery "should be firing on all cylinders". At the same time, alternative ways for the reformation of economy were rejected by the Belarusian head of the state as "pure nonsense".⁴ This guideline from the President was consequently reiterated by the new head of the government, whose political statement was that one should not expect the revisions of previously made decisions or sharp U-turns, and that the main goal of the new government is to work towards greater prosperity of the population.⁵ Therefore important basic characteristics of the current Belarusian economic system will be further pre-

³ One of the most notable expressions of the current economic liberalization is the Presidential decree about the digital economy. See: Wolfgang Sender: Everything on Bitcoin and Block chain. Country report of the Konrad-Adenauer-Stiftung Belarus Available online at: <https://goo.gl/u2moHy>. Last accessed on 23.08.2018.

⁴ Chtoby sistema ne poshatnulas. Naviny.by. Available online at: <https://goo.gl/WqaTsk>. Last accessed on 23.08.2018.

⁵ Kakie izmeneniya obeshchaet belorusam novoe pravitelstvo.Artyom Martynovich. Naviny.by. Available online at: <https://goo.gl/N3Jxzz>. Last accessed on 23.08.2018.

served: including a high share of state-owned enterprises – about 75 percent of industrial production⁶ – and a heavily centralized management parallel to the political system with its "top-down system of presidential governance".

The fact is, however, is that in recent months and years this system was facing ever increasing challenges. Even at level of state-owned enterprises, which survive mainly at the cost of the state budget, many problems have accumulated recently – not only in the Orsha region which was visited by President Lukashenko. According to official data provided by the Belarusian Statistics Committee, in 2017 more than half of all enterprises in Belarus were loss-making or operated with a minimum profitability under five percent. And though the share of loss-making enterprises in 2017 reduced as compared to 2016 by 3,9 percentage points to make 15,3 percent, the volume of losses per organization grew by almost 14 percentage points. The credit indebtedness of economic entities in 2017 increased by 15 percentage points.⁷ In many cases enterprises are not able to service their debt. Almost 80 percent of the credit exposure falls on the state sector.⁸

One of the main sources for maintaining the extensive state economy of Belarus so far was the Russian Federation, which yearly subsidized the Belarusian revenue stream, as estimated, with initially with eight and presently with up to 3 billion US dollars through subsidized oil and gas supply. This source has been drying up for quite some time now – also not only due to the strained

⁶ Glavniy sektor ekonomikik i dolgov. Ekonomicheskaya gazeta. Available online at: <https://goo.gl/wMxV3Y>. Last accessed on 23.08.2018.

⁷ Osnovniye tendencii v ekonomike. Nationalny Bank. Available online at: <https://goo.gl/uvq76o>. Last accessed on 23.08.2018.

⁸ Glavniy sektor ekonomikik i dolgov. Ekonomicheskaya gazeta. Available online at: <https://goo.gl/wMxV3Y>. Last accessed on 23.08.2018.

Konrad-Adenauer-Stiftung e.V.

BELARUS

DR. WOLFGANG SENDER

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www.kas.de/belarus

economic situation in Russia.⁹ The objective indicator of the challenges of the existing economic system is a rapid growth of foreign and domestic indebtedness of Belarus: from less than ten percent of the GDP in 2006 to more than 40 percent in 2017.¹⁰ Thus, new debt is taken out to refinance the older one.¹¹

Between state economy and market-economy reforms

This ambivalence of the economic policy – when, on the one hand, there is adherence to the old centralistic system of state economy and, on the other hand, the market-economy reforms are partially implemented – has just recently led to the problems for the political management. Thus, the "Decree against social parasites"¹², which had led to protests in the country, also had to be canceled and reworked due to poor administrative forethought. Also the declaration or requirement by the President to ensure that the average salary achieves the equivalent of 500 US dollars till the end of 2017¹³ has yet to materialize.

Nevertheless, some experts in Belarus see the chances for a consequent market-

economy policy of the new government. First of all, not only the new head of the government, but also his first deputy are considered to be the supporters of market-economy approaches. Sergey Rumas left his office of the first vice premier in the government of Mikhail Myasnikovich in 2012 namely due to rejecting the "manual control" method of economic administration. His first vice premier, Alexander Turchin, while the chairman of the Council for the Development of Entrepreneurship proved himself an official, who understands the issues of enterprises and is ready to commit to addressing them.

Some headroom for market-economy reforms can be negotiated by the new government also within the framework of the existing system. The National Bank is the case in point. Its head since December 2014, Petr Kallaur, has obviously managed to convince the head of the state that the whole society would benefit from a tough monetary policy and a stable national currency. As a result, already in 2017 the National Bank could achieve the inflation rate of 4,6 percent, which was the lowest in the history of the sovereign Belarus¹⁴. Previously, this value was mostly in the two-digit range and the financial market in Belarus was repeatedly shocked by massive devaluations of the national currency.

⁹ Bad vibes between Moscow and Minsk. Wolfgang Sender. Available online at: <https://goo.gl/2h7qxz>. Last accessed on 23.08.2018.

¹⁰ Gosdolg Belarusi dostig kriticheskogo maksimuma. 4esnok. Available online at: <https://goo.gl/uCAXQz>. Last accessed on 23.08.2018.

¹¹ Belarus looking for new loans. Tweet from posting at TUT.BY. Available online at: <https://goo.gl/wZxQHf>. Last accessed on 23.08.2018. Pravitelstvo RB sobirayetsya ezhegodno refinansirovat gosdolg. Select.by. Available online at: <https://goo.gl/MELvMJ>. Last accessed on 23.08.2018.

¹² The anger of Belarusians. Christina Hebel, Spiegel Online. Available online at: <https://goo.gl/BdX4db>. Last accessed on 23.08.2018.

¹³ Eta cifra svyataya. TUT.BY. Available online at: <https://goo.gl/RaBtMh>. Last accessed on 23.08.2018.

Outlook

The pressure on the new head of the government is high. Already on September 1 he must submit to the Administration of the President a draft forecast for the social and economic development of the country for 2019.¹⁵ This essential document will provide

¹⁴ Inflyaciya v Belarusi. Myfin.by. Available online at: <https://goo.gl/9ievMq>. Last accessed on 23.08.2018.

¹⁵ Rukovodit starymi metodami uzhe ne vseгда poluchayetsya. Gp.by. Available online at: <https://goo.gl/QsvGP9>. Last accessed on 23.08.2018.

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a little more clarity not only about the future of the economy of the country, but also about the scope of work of the new government. The most prominent item on the agenda will be creation of the economic growth, especially in the field of digitalization. Shortly after his appointment the Minister of Economy Dmitry Krutoy already spoke about the need "to guarantee a new quality of the economic growth".¹⁶ Further ideas for a change must be provided by the Ministry of Information, which shall become the headquarters for the future digitalization of the national economy.¹⁷

While hopes for further step-by-step economic liberalization are currently fueled by the change of the government, at least two facts indicate that domestic policy is unlikely to undergo sudden and fundamental changes, which is always reiterated by President Lukashenko: All the heads of intelligence services, which are very influential in Belarus, as well as the chief of police kept their positions during this phase of major transformation.

In addition to that, the method for the appointment of the new government by the head of the state shows that giving the Belarusian Parliament more weight is not really an objective for the short-term perspective: although the new Belarusian Prime Minister already received congratulations from his fellow Russian Premier Dmitry Medvedev and took the first governmental actions, in legal terms he didn't have any grounds for that, because according to the Constitution he must be installed in office by the Parliament. It is clear that such a confirmation in case of Belarus is a legal technicality. However it is notable that the Parliament was not officially informed about the new ap-

pointments until two days after the decision of the President.¹⁸

¹⁶ Glava minekonomik: pered nami stoit zadacha. TUT.BY. Available online at: <https://goo.gl/J7Wsy6>. Last accessed on 23.08.2018.

¹⁷ Strane nuzhen strategicheskij shtab po razvitiyu cifrovoy ekonomike. TUT.BY. Available online at: <https://goo.gl/nYTeYy>. Last accessed on 23.08.2018.

¹⁸ Diya utverzhdeniya Rumasa v dolzhnosti predstoit sozvat Palatu predstaviteley. Telegraf.by. Available online at: <https://goo.gl/wxUx2s>. Last accessed on 23.08.2018.