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ECONOMIC POLICY IN BELARUS FROM OFFICIAL AND OPPOSITIONAL PERSPECTIVES

Introduction

Taking the period from 1991 until 2000, the purpose of this article is to contrast official and oppositional approaches to economic policy in the Republic of Belarus. The types of policy we will be dealing with include fiscal, credit-monetary, investment and structural.

The official position is represented by the policy of the Belarussian Government. The alternative position is represented by six parties in opposition: the Party of Communists of Belarus, the Belarussian Communist Party, the Belarussian Social-Democratic Party “Gramada”, the Belarussian Popular Front, the United Civic Party and the Belarussian Republican Party.

The essay is divided into four sections, corresponding to four types of economic policies, which will be analysed from official and oppositional perspectives. The conclusion will contain the main findings and observations revealed in the analysis.

1. Fiscal policy

1.1 Development of the official policy

The possibility of the conduct of fiscal policy is principally secured by the reform of ownership rights and method of resource allocation in the economy, which constitute formal conditions for fiscal policy, as well as by the state of public finances, which provides the actual possibility of the conduct of the fiscal policy, especially an expansionist one.

Ownership rights, which have been hardly reformed during transition, will be discussed below. As far as the state of the public finances is concerned, most of the post-socialist countries had deficit budgets by the beginning of transition. The main budgetary pressures of transformation origin include the increased difficulties in tax

collection, the profound crisis of the remaining state enterprises, the spread of barter operations and servicing the foreign debt.

Regardless of these factors, Belarus generally had one of the smallest deficits amongst transition states¹. However, this cheerful observation points to the hypothesis, that, starting from 1995, the mechanism of fiscal regulation has been similar to the one used under central-planning.

To trace this, let us look at the revenue and expenditure sides of the budget. Here two peculiarities arrest our attention. Firstly, taking the low per-capita income of Belarus, which was only US\$ 1396 in 1998, it is curious that it was possible to reach a relatively high level of revenues: 36.6 per cent of GDP in 1999. This phenomenon can be attributed to the strengthening of the mechanism of tax collection, the decreasing of the role of income and profit taxes and the influence of inflation. The second peculiarity is the budget's chronological unevenness. The years 1993-94 stand out with high levels of both expenditures and revenues, as compared with the years before and after. This correlates with the phase of relatively active economic reforms that took place in those years, when Stanislav Shushkevich was in power and when many state enterprises were privatised and massive price liberalisation took place. These two years, in our view, were the most trustworthy over the years of transformation in terms of the accuracy of the official fiscal statistics. The point is that in 1991-1992 Belarus had still not got rid of the mechanism of fiscal regulation, practised under central planning; since 1994, with the change of Government, Belarus has been reintroducing this mechanism. In both cases many fiscal elements could not be traced in the official budget statistics: these elements referred to implicit taxes and subsidies.

The development of fiscal policy over the years of Belarusian transformation has been characterised by, first, changeability, second, exorbitant (almost looting) taxation, and third, paradoxically enough - a seemingly liberal character of fiscal policy.

The first observation can be easily explained by taking into account the necessity for the transitional economic system to find its new equilibrium. Constant changes in economic legislation is anecdotal in transitional countries and Belarus does not present an exception.

¹ Though prior to 1994, Belarus had been experiencing some imbalance in its state budget, especially in 1993, when the deficit reached 5.6 per cent of GDP. With the coming of Lukashenka to power, the

The second feature is attributed to the fact that the abolition of the plan has, on the one hand, created a monetary vacuum, and, on the other hand, suddenly required the budget to perform a more significant role, similar to that in market type economies. In order to fill the vacuum, or at least to secure budgetary allocations for social and other important items of expenditures, governments of post-central planning countries have been faced with the necessity to tax heavily. This situation is vividly illustrated in Belarus, where there are presently about 30 taxes, with the main ones being profit, payroll, VAT, excise tax and customs duties. Their totality, significantly stifling commercial activity in Belarus, cannot therefore be interpreted as an illustration of state protection of domestic industry.

The last feature of central planning – a seemingly liberal character of the fiscal system - can be explained if we recall the specificity of the transitional structures – a co-existence of central planning and market elements. In such a situation, given an adequate political commitment, the central planning method of resource allocation takes over market institutions. The latter are alien to a central planning system and therefore still undeveloped. It is the persistent macroeconomic crisis, which spurs the Belarusian government into implementing command-administrative measures at the expense of market ones. The market instruments, which include protectionist policy (because protectionism is an element of the market, not a central planning system) therefore remain underdeveloped and manifest themselves as liberal ones. These liberal fiscal institutions can be seen in the low level of tariffs, the loosely differentiated types of tax and non-tariff protection, and the only limited preferences given to domestic producers². The persisting command-administrative instruments, on the other hand, can be traced in fiscal policy itself and, especially, pricing policy, to be discussed later. As

public finances have been gradually stabilising and in 1999 the budget deficit was 2.9 per cent of GDP.

² Indeed, until 1997 the excise tax rates in Belarus were the same for domestic and imported products. The standard VAT has undergone a number of changes (in 1991-2 it was 28 per cent, in 1993 – 25 per cent, since 1994 it has dropped to 20 per cent (IMF, 1998: 154). VAT had certain concessions for socially important goods, state sales, collective and private farms. On the other hand a number of exemptions were used for imported goods (items for the production of cars, buses, tractors and agricultural machinery). Customs duties, in turn illustrate the argument more vividly. For instance, in 1996, 20 per cent of EU and Japanese, 75 per cent of Thai and all of Indian tariffs were higher than those in Belarus. In 1998, Belarus submitted a tariff proposal to the WTO and the tariff rates were, again, much more liberal than in many developing, NICs and even developed countries.

for the former, implicit forms of taxation and subsidisation³ have been observed in Belarus.

Thus, we see that the change of political power has caused an inconsistent development of fiscal policy in Belarus in 1991-2000. In the early 1990s, when the administrative leverages were weakened, the fiscal problems in the Belarusian economy became acute. Starting from 1994, with the advent of Lukashenka into power, one could get the impression of the coming stabilisation of Belarus' public finances. Closer investigation reveals that it is no more than window-dressing, since administrative-commands methods of expropriation and allocation of resources have been lagging. However, the specificity of fiscal policy is not attributed to the change of political regime only. As we have seen, governments of any colour and political convictions had to face some unprecedented and objective puzzles of the post-central planning transition.

1.2 Alternative approach

Since the programmes of the Party of Communists of Belarus and the Belarusian Communist Party⁴ are, in substance, a call to bring back central planning, the place of fiscal policy in the view of communists has an interesting reflection for our discussion. The notion of fiscal policy did not exist in the vocabulary of central planners, nor did budget mechanism fulfil its functions. This can be explained by two factors. First, since fiscal policy presupposes redistribution of resources between private and public sector, it could not be realised in a country, where less than 1% of the GDP derived from the private sector. Second, planning is a principally different method of resource allocation, as compared to budgeting – the basis of fiscal policy. Budgeting played a

³ For instance, allocation of credit at below market interest rate, or the financing of the clearance of payments arrears, over-valued exchange rates for qualifying imports, provision of free or inexpensive lands for some activities, cheap energy and housing and so forth. Another channel for subsidies beyond the state budget is through the so-called extra-budgetary funds, which have been growing in Belarus since 1991, and which also point to the similarity with central planning system, since these were previously an integral part of state budget.

⁴ Their economic programmes are 95 per cent identical and the difference between them is of a political nature: the Party of Communists of Belarus (leader - Kalyakin) opposes the Belarusian President Lukashenka, whereas the Communist Party of Belarus (Chikin) – does not.

minor, secondary role in central planning. It is not surprising, therefore, that the programmes of the communist parties are silent about fiscal policy. It is also logical to assume that communists would support various quasi-fiscal, quasi-central-planning initiatives of the present Belarusian government. It is known, for instance, that in budget debates in the Parliament, communists have been supporting the introduction of non-budget funds (Bagdankevich 1999).

Social democrats and the Belarusian Popular Front occupy a very similar position regarding fiscal issues. Both favour significant cuts in revenues and expenditures, and both give a substantial priority to social protection. In its programme, the Belarusian Popular Front is more concrete, however, in proposing measures for a thoughtful and tough customs policy, which is presently lacking in official policy, as well as for a complex of protectionist measures to favour domestic producers.

The leaders of the United Civil Party favour stricter fiscal policy, reserving less social security benefits and giving a concrete quantitative estimation of the maximum amount of taxes to be paid by producers – 35 per cent (Bagdankevich 1999). On the other hand, the United Civil Party advocates a substantial active role for the state, in particular support for the eight to ten large enterprises that potentially constitute the economic base of Belarus. It also advocates measures to stimulate private business and innovation, and direct subsidies and indirect measures, like preferential credits, tax exemptions, state guarantees, state purchases, and a protectionist customs policy. Quasi-fiscal elements of the present Belarusian government like non-budget funds, social infrastructure of enterprises, forced subsidisation through the banking sector are repudiated by the United Civic Party.

Finally, the Belarusian Republican Party, regardless of its active liberal position and desire for a dramatic reduction in the tax burden and simplification in the tax system, still favours measures to stimulate exports, innovation and investment activities.

Therefore, we can conclude that, except for the communist parties whose ideology has no room for fiscal policy, the rest of our sample is highly critical of the massive role of the state in reallocating resources. All the parties, though to different degrees, call for both a reduction in taxes, a simplification of the tax system, and a reduction and re-allocation of subsidies. It is also noticeable that most of the parties

stand for selective state support of priority industries, services and enterprises, and consider the present official policy as being *ad hoc* and ineffective.

2. Monetary-credit and currency policy

2.1 Official policy

In Belarus, the first years of transition were not marked by an independent monetary policy, due to the Kebich government's strong adherence to monetary unification with Russia. The Belarusian rouble had circulated alongside the Soviet rouble from 1992 until 1994, after which it became the only legitimate means of payments.

During the early years of transition curbing inflation became the priority for transition states. Since excessive money supply growth was regarded as the primary cause of inflation, positive real interests rates and money emission tightening became major anchors of stabilisation policy.

But Belarus differed in its credit-monetary policy, which was rather chaotic, and intended to cushion the transformation shocks. On the one hand the policy of negative real interest rates, which were maintained to support non-profitable state enterprises, prevailed over the years of transition. On the other hand, an unprecedented credit expansion policy⁵ typified Belarus' transitional economy.

In 1994 Stanislav Bogdankevich, a neo-liberal economist, became chief of the National Bank of Belarus (NBB). The following year and a half were different from the rest of the transition period because of a tight monetary policy. Market credit auctions, which amounted to 80 per cent of total credits to banks, dominated the over centralised resource allocation mechanism, and monetary emission was carried out through buying currency by the NBB.

By the end of 1994 a fixed exchange rate appeared to be the instrument to control inflation. Together with a relatively restrictive credit expansion policy it

⁵ While the Central European emerging economies such as the Visegrad states and Slovenia tended towards decreasing the growth in domestic credit, and there was a reluctance on the part of banks to engage in lending, Belarus increasingly practiced credit expansion. This rose from 1,582 per cent in 1992 to 2,03 per cent in 1994 (EBRD 1999: 197).

resulted in curbing inflation⁶, achieving positive real interest rates and balancing the current account⁷. However, the deterioration of the real sector of the economy led the Belarussian authorities to refuse to tighten monetary policy, which resulted in soaring inflation and deterioration in foreign trade. The inability of the Government to sustain its exchange rate commitments, because of an insignificant level of foreign exchange reserves, led to devaluation.

In 1996 the ‘planned devaluation’ system, with strict administrative control of the currency market and a state monopoly on credit allocation were introduced. Due to the creation of a multiple exchange rates system, and widespread centralised credit resource allocation, the next couple of years bore a strong resemblance to the years of the command-administrative economy. Many prices were fixed administratively and so the price system’s resource allocation functions were limited by government policy. The method of resource allocation was similar to the Soviet system, based on “planned funding”. If in a market system, credit is designed to stimulate economic activity, in the Belarussian case its role was mostly damaging, since a soft credits’ policy prevailed. The banks forming the system were designed to channel directed credits at the half market interest rate to support the non-profitable sectors of the economy.

As far as multiple exchange rates are concerned, six rates existed. Belarussian exporters were obliged to surrender 30-40 per cent of their earnings at the official rate, which, in effect, amounted to an additional 15 per cent tax on exporters⁸. In addition, the multiple exchange rate system stimulated the development of the black market.

With increasing inflation, economic agents switched to alternative financial mechanisms and barter. A problem with demonetisation of the economy soon became obvious. The ratio of M2 to GDP was around 15 per cent by the end of 1998, while private holdings of US\$ were estimated at around 20 per cent of GDP (EBRD 1999:194).

At the end of 1998 the NBB announced its intention to carry out a tighter monetary policy which presupposed restrictive credit expansion, positive interest rates

⁶ Average annual inflation in 1995 reached 709 per cent in comparison with 2,221 per cent in 1994 (EBRD 1999 : 197).

⁷ This could also be explained by the floating exchange rate regime prior to the end of 1994 that increased the competitiveness of Belarussian goods in foreign markets.

and a convergence of exchange rates⁹. However, the main problems remained unresolved. Credit emission and inflation remained higher than planned. During 2000 positive real interest rates were achieved but their positive values remained insignificant and they did not operate as a mechanism of efficient allocation of funds.

The unified exchange rate was achieved in September 2000, but its future stability, as well as the support for the 'crawling peg' regime announced in 2000-1 are questionable because foreign currency reserves barely cover weekly imports.

The banking sector in Belarus remains dominated by state-owned banks. In 2000, there were 27 commercial banks, from the six largest. Four of the largest six are state-owned and control 80 per cent of total assets. The banking sector is undercapitalised and the sustained policy of soft budget constraints and directed credits undermine its solvency. Bad debts have been increasing every year. Despite the implementation of banking reforms and the appearance of a two-tier banking system, the process of change seems to be cosmetic rather than real, since the state, represented by the NBB, has unlimited influence on commercial banks, depriving them of independent policy-making.

So one can conclude, first, that the credit-monetary and currency policies in Belarus have been uneven and inconsistent over the years of transformation. This led to chaotic measures in the early 1990s, a tough stance in 1994-5, a reverse move to command-administrative measures in 1996-8, and a re-introduction of stricter monetary discipline since 1998. Second, command-administrative measures have been used to resolve macroeconomic problems. Third, due to the specificity of central planning structures, the move to a market type system while preserving plenty of characteristics typical of the previous one, has created a situation where market instruments, such as money, exchange rates and credits fail to perform their functions.

2.2 Alternative approaches

The communist orientated parties do not have an identifiable monetary policy programme. Because the final goal of both parties is to construct a centrally planned

⁸ Since the official rate was 60 per cent lower than the market exchange rate 15 per cent =.40*.60/1.60 (Nuti 1999:8).

economic system, money is likely to play a passive role in the execution of economic activity.

The programmes of other parties include similar in credit-monetary policies, to the government. All the parties advocate tightening monetary policy, beginning with an abandonment of unjustified credit emission. They all agree with restoring the independence of the National Bank, and its status as the sole body responsible for the stability of the currency. Moreover they all advocate privatising the banking system; increasing liquidity; restructuring of debts of enterprises; removing barter and monetary surrogates from settlement and payment; and assuring rigid financial discipline with efficient bankruptcy.

Their programmes are distinguished in the area of exchange rate regimes. The currency policy of the Belarusian Popular Front is rather passive, since it advocates stability by pegging to the Euro, though the significant dollarization of the Belarussian economy might suggest a peg to the dollar. The Belarusian Social-Democratic Party “Gramada” stresses a managed floating exchange regime, while the United Civic Party (UCP) – a party of right wing orientation – advocates a flexible exchange rate policy, aimed at supporting external competitiveness and increasing currency reserves.

3. Investment policy

3.1. Official policy

Economic transformation is particularly demanding of investments, since colossal economic restructuring is required. But in reality the problem is exacerbated by the extremely low level of domestic saving which is the primary source of investment funds.

According to World Bank estimates stable economic growth needs a domestic investments level of 20-25 per cent of GDP. At the end of 1998 the level of domestic

⁹ Set out in “The main Guidelines of Monetary and Credit Policy for 1999 “ and in “The Concept of

savings in Belarus amounted only 7-10 per cent of GDP [Novik 2000:61-62]. During the 1990s the demand for savings instruments denominated in Belarusian roubles was low, because high inflation led to negative real interest rates for savers. The high share of foreign currency deposits in M3, which amounted to 56 per cent and 44 per cent by the end of 1998 and 1999 respectively, indicates the declining ability of domestic currency to serve as a 'store of value'. The significant share of foreign deposits in M3 could be explained both by the rise in the value of foreign currency holdings, due to a sharp devaluation of the Belarusian rouble, and by the increasing incentive to hold foreign currency as the only profitable means of savings (TACIS 1999).

The significance of foreign investments lies in their ability to compensate for the insufficiency of investments from domestic sources. The main channels of foreign investments are foreign direct investments (FDIs) and credits.

In terms of foreign investment policy, Belarus stands at one extreme of the transition states' policy spectrum. The total volume of foreign investments in Belarus had only reached \$237 million by the end of 1998. That is less than 0.5 per cent of the \$50 billion which the government announced in 1996 as FDI needed by Belarus (Nuti 1999). The plans announced by the government in mid-1999, to accelerate the sale of shares in state-owned companies by attracting foreign capital, seemed to raise doubts since it is unlikely that the government will offer majority stakes - thus discouraging foreign investors. According to existing legislation, sales of stakes of over 50 per cent in industrial companies are forbidden, while sales of shares with a book value over US\$ 40,000 require the approval of the President (EBRD 1999:195). In addition to the above the unwillingness of foreign investors to work in Belarus is influenced by the presence of various restrictions, similar to those practised in the centrally-planned system; by the macroeconomic instability; and by the inconsistency and unpredictability of politico-economic policy.

As far as international credits are concerned, the major generator is the IMF. The IMF's relations with Belarus have been highly unstable over the years of transition. In 1993-1995, when the government had a stronger neo-liberal stance, the IMF provided SDR 140 million under a Systemic Transformation Facility (STF). A Stand-by Arrangement for SDR 160 million was approved in September 1995 and

SDR 70 million was released in the first tranche. The second tranche was not released because a number of performance criteria had not been met, as a result of Belarus' change in economic course. Discussions between the IMF and the Government resumed in November 1999. They are centred on the possibility of the Fund granting Belarus a Contingency and Compensatory Fund Facility worth US \$ 100 million. The IMF has called for specific government action on tightening monetary policy, prices and liberalising the exchange rate, privatisation and restructuring before any new lending programme can be agreed.

As far as portfolio investments are concerned the situation is much more complicated. After the collapse of the USSR, financial markets began to appear and were under constant development during 1992-4. A necessary base was created to build up the system of capital circulation in Belarus, involving both domestic and foreign investors. However, after 1995 further development of the capital market has slowed down, due to the sluggish restructuring of the economy and to some degree by a return to the command-administrative method of regulation. This meant that financial instruments¹⁰ were unable to provide investors with an adequate return to compensate for the high risks borne by them because of contradictory legislation, low transparency of operations, high uncertainty, and inefficient control. The situation was also aggravated by a high level of inflation, continued devaluation, low or even negative interest rates, and by generally high country and liquidity risks. Therefore the capital market is unattractive to both internal and external investors due to a low risk-adjusted rate of return. It is undeveloped and its activity is reduced mostly to trade in GKO's. 18 banks are licensed to operate on the primary GKO market and they are obliged to purchase 1 per cent of each GKO issue (TACIS 1999). Non-resident banks operating on the secondary market are mostly Russian.

The high exposure of the banks to the GKO market; the general fragility of the banking sector and its close links with Russia adversely affected the Belarussian

¹⁰ The securities market is mostly represented by the government securities such as short-term liabilities (GKO's), which are along with credit emission one of main methods of financing the government deficit, and are the most liquid financial instrument due to the highest nominal yield and tax-exemption. Another government securities are long-term liabilities (DGO's) for up to 3 years, municipal bonds, used to raise funds for housing construction and corporate securities - shares of privatised enterprises. The latter are weakly developed because of low degree of privatisation, lack of transparency of company accounts and liberalisation generally.

banking sector when the Russian financial market collapsed in August 1998. Estimated losses amounted to US\$ 70 million. Exchange rate depreciation led to a sharp fall in total share capital from US\$ 240 million a year earlier to US\$ 110 million by April 1999 (EBRD 1999:195). It is interesting to note that Belarus remained insulated from the chain of 1997-8 financial crises which started in the South East Asia and spread to Brazil, until Russia was affected. Insulation at first could not be explained by relative macroeconomic stability, as in the case of the Central and Eastern Europe countries (CEECs). It was due in part to the lack of foreign portfolio investments, which make any country more vulnerable to international financial turmoil. As discussed, the capital market is unattractive to foreign investors for many reasons, therefore one may conclude that Belarus, while closely linked to Russia economically, is not part of any global financial integration process.

3.2 Alternative approaches

Investment policy is not clearly stated in the official programmes of either party of communist orientation, as in principal it cannot develop under central planning due to the lack of private property that dissuades foreign investors. Furthermore, domestic savings could not be considered as an important source of investment due to their extremely low level. It is therefore quite difficult to understand how the distribution of state investments between enterprises can operate and be effective in terms of the limited capital allotment, alongside the principles of central planning ¹¹.

Other parties are highly critical of the present official investment policy. An adequate legislative and institutional environment for stimulation of private investment activities is cited as a priority for investment policy.

¹¹ A centrally planned economy allocated its capital administratively, without resort to rates of return or other measures of profitability. According to the Marx's labour theory of value, capital was regarded as a free factor of production and was allocated to enterprises as an interest free grant. Only since the late 1960s an interest like criteria for allocating investments within administrative units, that implicitly introduced rates of return and other capital profitability criteria into the investment decision, began to be used. However investment allocation, according to the principle of priority, remained dominant, which made efficiency indexes insignificant in making investment decisions. Investment funds were continuously determined administratively in the investment plan, which in turn followed the output plan of the economy.

The Belarusian Popular Front stresses the necessity for legislative reforms, for the unimpeded delivery of land plots into ownership of investors. Mechanisms for land selling and purchasing should be developed in advance.

The United Civic Party advocates the creation of institutions for accumulation of private savings (pension, insurance funds) that does not sound realistic in a highly inflationary environment. The Republican Party declares that investment policy should be conducted via maximum liberalisation including capital investment, regardless of its origin.

4. Structural policy

4.1 Official policy

Ownership reform together with pricing policy constitutes the core of the structural reform in transitional post-socialist countries. The basis for the ownership reform was set up in Belarus as early as in 1990 when the law “On Ownership” was adopted. However, the concrete mechanisms of this process had not been elaborated by the early 1990s, which fostered the development of “spontaneous privatisation”. As a result, the Supreme Soviet made a decision to halt privatisation until a law on privatisation was adopted (Zlotnikau 1999). Due to the communists’ domination in the Supreme Soviet, the long-awaited law “On Destatisation and Privatisation of State Property in the Republic of Belarus” was adopted only in January 1993. In June 1993 the Programme of Privatisation was adopted¹² which did not come into effect immediately, however, because the law “On Personal Privatisation Cheques”, intended to go in the package, was adopted only in late 1993. By the time the basics of legislative drafting in the sphere of ownership reform had been completed, the political situation had changed, and Lukashenka halted privatisation on the grounds of corruption. In subsequent years there was little ownership reform. In 1996 and 1998¹³

¹² It centralised the process via establishment of annual plans and clarified aims and objectives of privatisation, priorities and limitations, sources of finance on privatisation campaign and distribution of incomes from privatisation.

¹³ The law “On Introduction of Changes and Additions into some legislative acts of the Republic of Belarus, including those on the issues of Privatisation and Destatisation” of 21 June 1996 included the permission to decrease the price of objects for privatisation due to credit indebtedness, level of radiation, or the lack of demand during auctioning. The Decree of the President “On Destatisation and

the state privatisation programme underwent further changes, but they did not bring serious ownership restructuring.

As for the mode of privatisation, it usually takes one of the following forms: corporatisation, sale, restitution and mass (voucher) privatisation. Due to the limited practical significance of sale and restitution in Belarus, our main focus will be on the voucher privatisation scheme.¹⁴ It was established in 1994 and has suffered from a number of deficiencies. First, the idea of exchanging vouchers for enterprise shares meant that enterprises did not receive any financial inflow on change of ownership.

Second, there was a certain incompatibility between the speed of corporatisation and the issue of vouchers. Though the deadline for the application of vouchers was extended, due to the low public interest (from 1996 to 1997), the rate of corporatisation was even slower, which did not give the potential investors any adequate choice of enterprises. Also those enterprises offered to voucher holders were often heavy debtors, which weakened the public interest in investments. Created as alternative institutions for the public investment of vouchers, investment funds were suspended by the President in the middle nineteen-nineties.

Finally, the high inflation has been depreciating the value of vouchers, which was especially important since enterprises' assets have been inflation-indexed. As a result of these and other problems, the process of voucher privatisation was very slow. Only half of the issued vouchers had been used by 2000.

Pricing policy refers to one of the most contentious legislative areas in Belarus. Over the years of transformation, pricing policy has covered various topics, like costs of production, profit, final prices, as well as various forms like fixed, ceiling, minimum prices, price declaration and trade margin regulation.

The first shifts in terms of price liberalisation took place at the end of the 1980s and beginning of the 1990s, when certain groups of goods were gradually exposed to free price formation. From 1991 until 1995 all prices (except some alcoholic drinks) and all price subsidies (except for some essential consumer services) were liberalised.

privatisation of state property of the Republic of Belarus" of the 20th March 1998 de-centralised the privatisation process. In addition a number of new measures were introduced; prohibiting the alienation of shares bought from the state on preferable conditions (20 per cent less than normal), the auctioning or sale on a competitive basis of loss-making enterprises, or the use of credits and loans for privatisation.

¹⁴ For instance, during the privatisation auctions, held in 1998, less than 50 per cent of property was sold and the final selling prices were lower than the initial price by 52.6 per cent on average.

The following years were marked by a rollback of policy, since the unprecedented inflation invoked the use of administrative control measures by the Belarusian Government. The regulation of prices over the following years was mainly centred on the regulation of prices of enterprises with dominant positions in the market, and of socially important goods. Later on, restrictive administrative measures were used for a list of products.

As far as the control over dominant enterprises is concerned, the specificity of the nature of these enterprises, which grew up from the concentration of production under central planning, has caused methodological difficulties in defining the enterprises covered by pricing control. In 2000, twenty-six “strategically important” enterprises, producing domestic supplies of fertilisers, glass and cement had their prices regulated by the state.

Several changes were made in defining the list of socially important goods, which have also been eligible for price control. The number of these goods dropped from thirty, to eight in 1998 and five in 2000: bread, dairy products, meat and vodka.

Finally, the high inflation rates, persisting over the years of transformation, has provoked the government to introduce administrative, non-economic measures to suppress price increases: regulate prices by the cost of inputs¹⁵, establish internal quotas for domestic producers¹⁶, and limit price increases within certain ranges. Finally, the state measures to enforce the regulations have been tightened.¹⁷ Thus, the tight price control policy of the 1980s was changed in favour of price liberalisation in

¹⁵ Apart from the justifiable cost calculations as a reason for price increases (Resolution of the cabinet of Ministers No 209 of 10 February 1999 “Measures to Strengthen Control over the Price Discipline”), the regulation took a closer control over salaries, see Resolution of the Cabinet of Ministers No 449 of 31st of March 1999. Starting from January 2000, the income grid was introduced again, which signified the serious intent of officials to return to the central planning system.

¹⁶ See, for instance, 28 November 1997 “On Establishment of Quotas on Manufacture and Wholesale Realisation of Alcoholic and Tobacco Products” - Resolution of the Council of Ministers No. 1570; 24 November 1997 “On Import Quotas on Alcoholic Products and Spirit of Ethyl and Food Raw Material and on Cost in 1998” - Resolution of the Council of Ministers No. 1553. The attempts to halt exports from Belarus were made also by price measures. See the Resolution of the Price Committee for the Ministry of Economy of 12th march 1996, according to which minimum prices were set for exported alcoholic drinks.

¹⁷ In August 1997 the President issued a decree imposing penalties and even dismissals, if prices were raised beyond the monthly 2 per cent rate. Resolution of the CM No: 209 of February 10th 1999, “Measures to strengthen control over the price discipline” rules that firms are to justify their prices by appropriate economic calculations (with an exact description of expenses). According to the Resolution, violation of this norm may result in a fine of 10% sales revenue. On July 9th, 1999 the Cabinet of Ministers made changes to this document and increased the fee to 30% (the Resolution No 1059).

early-mid-1990s, which was then followed by the reintroduction of centrally planned instruments of price control.

4.2 Alternative approaches

The spontaneous privatisation that took place in Belarus in the early 1990s, before a legal mechanism had been formulated, was opposed by all political parties. The most extreme view was taken by communists, who, being in principle opposed to private property, called for the re-nationalisation of the “plundered assets”. Private ownership, accordingly, should exist only during the transitional period to socialism and only for medium and small-scale production, including services. The private property on land is to be forbidden and agricultural production is to be organised in collective farms.

As far as other alternative approaches are concerned, the Popular Front supported both centralised and de-centralised modes of privatisation. The government seems to have come to this decision only in 1998 with the adoption of the Presidential Edict, discussed above. The United Civic Party has been opposed to the voucher method of privatisation, seeing it as ineffective, and instead has favoured auctions. Their position is partly incorporated into the current official government policy, since auctioning of loss-making enterprises for a minimum sum began in 1998. The Republican Party, being guided by the principles of classical liberalism, further diverges from the official position as it calls for rapid and whole-scale privatisation.

The official pricing policy before and after 1994 stood respectively further away from, and closer to the position of the communists. This is because the considerable price liberalisation before the arrival of Lukashenka and the subsequent introduction of price control first clashed and then converged with the communists’ approach to price regulation. The rest of the parties in our sample have since 1994 taken a highly critical position on such regulation. The difference between the parties is that social democrats and the Belarusian Popular Front place more weight in the pricing policy on social protection, whereas the United Civic and the Republican parties call for rapid price liberalisation for all goods, except those of natural monopolies.

Conclusion

This analysis has revealed that, first, political, institutional and macroeconomic variables constitute a very interesting way of explaining the official course of fiscal, monetary-credit, investment and structural policies. Namely, the reintroduction of central planning institutions, underpinned by the political stance of Lukashenka's regime, became the means of resolving of macroeconomic crisis.

Second, market instruments, being alien to central planning institutions, play a marginal role in the present economy. This preconditions their underdevelopment, which manifests itself in the very liberal character of market-type institutions in Belarus.

Third, alternative positions were analysed across the spectrum, starting with the communists and finishing with the neo-liberals. It was revealed that whilst most of the parties are highly critical of the present official policy, they support a significant role for the state in their preferred economic policies.