

BELARUS

INVESTMENT GUIDE 2014

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БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS



Хто ў бядзе не быў, той праўдзівых прыяцеляў не знае.
A friend in need is a friend indeed.

Без падпалу дровы не гараць.
A good beginning makes a good ending.

Не плюй у крыніцу: прыйдзеш па вадзіцу.
Don't burn your bridges behind you.

Каб рыбу есьці, трэба ў вадзіцу лезьці.
No pains, no gains.

Прыйдзе тата нашае свята.
Every dog has its day.

1 GENERAL INFORMATION

1.1. Geography and climate

The Republic of Belarus is a landlocked country in the heart of Eastern Europe on the watershed of the Baltic and Black Seas. Belarus offers a favourable geographical position as a transit country for natural resources and their derivatives, as a communication link and transport corridor between Western Europe, regions of Russia, and Asian countries.

Belarus covers a territory of 207,600 square kilometres. The country borders Russia, Poland, Ukraine, Lithuania and Latvia. In area size and population, it ranks respectively 13th and 15th among all European states and 6th and 5th among the countries of the former Soviet Union.

Belarus is divided into six regions, while each region contains districts (altogether 118), cities and towns and smaller municipalities. Minsk is the capital, the political, cultural and economic centre of the country. It is the largest and most populous city with 1.91 million inhabitants in 2013. Apart from Minsk, which is also the centre of the Minsk region, the other regional centres of Belarus are Gomel (population 505,000), Mogilev (367,000), Vitebsk (362,000), Grodno (352,000), and Brest (326,000). Altogether there are 13 cities with more than 100,000 inhabitants and 10 more cities with population of 50,000 – 100,000 people.

Belarus has a relatively flat territory, 39% of which is covered by forest. The terrain contains much marshland. One can find 20,800 streams having a total length of 90,600 kilometres and 10,800 lakes in Belarus.

Belarus has the third highest reserves of potassium salt (almost 10% of the world's recoverable reserves) in the world, only being surpassed by Canada (37%) and Russia (31%). There are also significant groundwater deposits of high quality. The country has rich reserves of peat, which is used for fuel, fertiliser, and in the chemical industry. Explored mineral reserves satisfy long-term needs in practically all kinds of building materials (granite, dolomite, marl, chalk, sand, gravel, clay etc.). At the same time, oil deposits are not significant and oil is extracted in small quantities (maximum 2 million tonnes per year, 1.65 million tonnes in 2013), which covers less than 10% of the local refining capacity and less than a quarter of the local consumption.

The Belarusian climate is moderately continental, a transition from maritime to a continental climate with mild and humid winters, warm summers and damp autumns.

1.2. Population and language

The population of Belarus was 9.47 million people in 2013. The urban population constitutes 76.3%. The average population density is 46 people per square kilometre, while the capital city accommodates about 6,000 inhabitants per square kilometre.

Ethnic Belarusians constitute 83.7% of the total population (according to a census in 2009). The next largest ethnic groups are Russians making up 8.3%, Poles at 3.1% and Ukrainians comprising 1.7% of the population.

There are two official languages, Belarusian and Russian, although Russian bears greater influence.

The role of religion in Belarus is growing after the decades of suppression of religious expression in the Soviet Union. Estimates indicate that about half of the population is religious, although the share of the population actively practicing religion is believed to be lower. Russian Orthodox Christianity is the religion most commonly practised.

According to the UNDP's Human Development Report 2013 (hdr.undp.org) Belarus ranks 53rd among countries worldwide and the 1st among the Commonwealth of Independent States (CIS) countries based on the Human Development Index, up from 54th in 2012, and is among countries with High Human Development. The report noted the relatively poor life expectancy in former Soviet Union countries, including Belarus, where the life expectancy at birth was 72.6 years in 2013.

Literacy is high with 99.6% of the population able to read and write (UNDP's Human Development Report 2013, hdr.undp.org). One hundred per cent of children are enrolled in primary and basic secondary education. Post-secondary specialised education is provided by 231 institutions around the country (belstat.gov.by). Altogether there are 54 higher educational establishments. There are 418 students per 10,000 residents of Belarus, which is among the highest in Europe.

Like many other European countries, Belarus has negative rates of population growth (the difference in the actual population over two years) and natural growth (the difference between the birth and death rates). Although the population decline is generally low (the compound annual growth rate was -0.08% in the five years to 2014) and decelerating, there are concerns about the ageing of the population. At the beginning of 2013 the share of population over 65 years of age was 13.9%, above the working age – 23.9%. The working-age population (men aged 16–59 years, women 16–54 years) equals 5.7 million or 60.2%. There is a declining trend of this indicator owing to an unfavourable balance of the youth population entering the working age and the senior population approaching retirement.

1.3. History

While archaeological evidence points to settlement in today's Belarus at least 10,000 years ago, recorded history begins with settlement by Baltic and Slavic tribes in the 6th century A.D.

The emerging Belarusian state had distinctive features by the ninth century when it was absorbed by Kievan Rus'. Later, Belarus was an integral part of what was called Litva, which included today's Belarus as well as today's Lithuania. Belarus was the birthplace of the Grand Duchy of Lithuania. Belarusian was the state language of the Grand Duchy until 1697, in part

owing to the strong flowering of Belarusian culture during the Renaissance through the works of leading Belarusian humanists such as Frantzyisk Skaryna.

Belarus together with adjoining territories was annexed by the Russian empire at the end of the 18th century and remained part of it until 25 March 1918, when it first declared independence and the Belarusian People’s Republic was formed. Soon after, the republic fell under the influence of the Bolsheviks and the Red Army and became the Byelorussian Soviet Socialist Republic in 1919 within the USSR. Suffering devastating population losses under the Soviet leader Joseph Stalin and the German Nazi occupation, including mass executions of 800,000 Jews, Belarus was retaken by the Soviets in 1944.

After seven decades as a constituent republic of the USSR, Belarus declared its independence from the Soviet Union on 25 August 1991. The dissolution of the Soviet Union and the formation of CIS were formally declared on 8 December 1991. CIS remains largely a political regional mechanism nominally possessing coordinating powers in the areas of trade, finance, law making, and security.

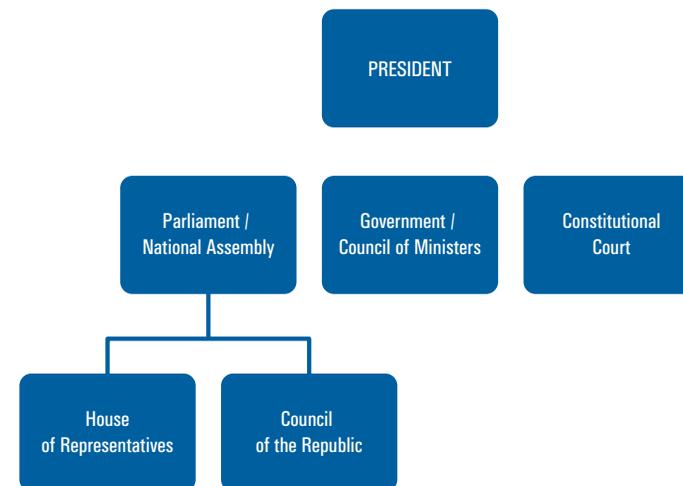
Belarus has retained closer political and economic ties to Russia than any of the other former Soviet republics. After some earlier integration initiatives in 1996 and 1998, Belarus and Russia signed a treaty on a two–state union (the Union State) on 8 December 1999, envisioning greater political and economic integration. There were various legislative and executive institutions established for the Union State, however these institutions and the union itself rather reflect the political ties between the countries and people than playing an effective role in institutional building and administration of the union. The aggressive integration plans have been continuously revisited and revised. Integration within the Union State was further dampened in 2010 and 2011 owing to serious disputes between Russia and Belarus mainly in economic areas. Implementation of two–state and regional economic integration initiatives have effectively moved to the new integration mechanism, the Customs Union of Russia, Belarus and Kazakhstan, and subsequent formation Common Economic Space.

On 1 January 2010 the Customs Union was launched as a first step towards forming a broader European Union–type economic alliance of former Soviet States called the Eurasian Economic Union. The Common Economic Space of the three states is effective from 1 January 2012. On 29 May 2014 the leaders of Russia, Belarus and Kazakhstan signed a treaty establishing the Eurasian Economic Union starting 1 January 2015. The Eurasian Economic Community (EurAsEC) is an international economic organisation, a permanent supranational regulatory authority of the Customs Union and the Common Economic Space.

1.4. Political system

State system: Presidential Republic

The Constitution, adopted in March 1994 and subsequently amended at the national referenda in 1996 and 2004, provides significant power to the country’s authorities, particularly to the President, to whom the country’s government reports. The President of the Republic of Belarus is the Head of State elected by popular vote for a five–year term. There is no limit to the number of presidential terms for the same person.



Alexander Lukashenko (born on 30 August 1954) became the country’s first president on his election in July 1994. Since then, he has been re–elected in 2001, 2006 and 2010. The next presidential elections are scheduled to take place no later than 20 November 2015.

The National Assembly acts as the parliament and is the representative and legislative body of the Republic of Belarus. Parliament consists of two chambers: the House of Representatives (110 deputies, elected through popular elections) and the Council of the Republic (64 members, of which eight are appointed by the President and the rest are elected by municipal authorities). The most recent parliamentary elections were held on 23 September 2012, and the next are scheduled to take place in 2016.

Executive power in the Republic of Belarus is exercised by the Council of Ministers of the Republic of Belarus, which is headed by the Prime Minister, who reports to the President and is accountable to the Parliament of the Republic of Belarus.

Supervision of the constitutionality of enforceable enactments of the state is exercised by the Constitutional Court of the Republic of Belarus, which was established in 1994. The Court consists of 12 judges, of which six are appointed by the President (including the Chairman, whose appointment should be agreed by the Council of the Republic), while the other six are appointed by the Council of the Republic.

1.5. Opportunities for international investors

- Stable political and social situation, low levels of crime.
- New initiatives towards boosting business activities.
- Advantageous geographical location between the European Union and Russia
- Export oriented economy.
- Customs Union with Russia and Kazakhstan offers access to the vast and growing market of approximately 170 million people.
- Transit opportunities including a developed transport infrastructure.
- Growing local demand and consumption.
- Various untapped sectors and niches.
- Qualified and cost competitive work force.
- A well-developed scientific and technical potential.
- Developed investment infrastructure including six free economic zones, a High Tech Park, a newly established China–Belarus Industrial Park, and a Foreign Investment Advisory Council under the Council of Ministers.
- Safeguards provided by the Law on Investments and numerous international treaties on preventing double taxation and investments protection.

1.6. Sovereign rating

Belarus was assigned its first sovereign credit ratings by Standard & Poor's and Moody's Investors' Service in 2007.

In April 2013 long-term sovereign credit rating of Belarus according to Standard & Poor's Ratings Services was confirmed at B- (both local and foreign currency) with outlook for foreign currency changed from stable to positive, short-term – at B. S&P explained the improvement of the outlook by the steps of the Belarusian authorities in tightening fiscal and monetary policy, decrease of inflation and pressure on exchange rate. At the same time S&P has confirmed long-term and short-term ratings of Belarus for the liabilities in foreign and national currency at the level «B-»/»B».

In October 2013 Standard & Poor's Ratings Services changed outlook for foreign currency from stable to positive.

Nowadays foreign and local currency government bond ratings of Belarus are confirmed by Moody's Investors Service at B3 with a negative forecast (last updated by Moody's Investors Service in June 2013). Belarus's country ceiling for foreign-currency bonds is B3 and the country ceiling for foreign-currency bank deposits is Caa1. The local-currency bond and bank deposit ceilings are B1.

1.7. Belarus and international organisations

Name	Abbreviation	Year
United Nations	UN	1945
United Nations Economic Commission for Europe	UN UNECE	1947
United Nations Conference on Trade and Development	UNCTAD	1962
United Nations Scientific Committee on the Effects of Atomic Radiation	UNSCEAR	2008 observer status
International Atomic Energy Agency	IAEA	1957
World Trade Organization	WTO	1993 observer
World Customs Organization	WCO	1993
Organization for Cooperation of Railways		1993
International Organization for Standardization	ISO	1993
UN specialised agencies		
World Health Organization	WHO	1946, 1992
World Intellectual Property Organization	WIPO	1967
International Labour Organization	ILO	1954
United Nations Industrial Development	UNIDO	1985
International Monetary Fund	IMF	1992
World Bank group		
International Bank for Reconstruction and Development	IBRD	1992
International Finance Corporation	IFC	1992
Multilateral Investment Guarantee Agency	MIGA	1992
International Centre for the Settlement of Investment Disputes	ICSID	1992
Regional organisations		
Organization for Security and Cooperation in Europe	OSCE	1992
Council of Europe	CE	
European Bank of Reconstruction and Development	EBRD	1992
Council of Euro Atlantic Partnership	CEAP	1997
Council of the Baltic Sea States		2009, observer status
Shanghai Cooperation Organization	SCO	2009, observer status
Organization of the Black Sea Economic Cooperation	BSEC	2005, observer status

1.8. Infrastructure

The favourable geographic location of Belarus predetermines its role as a transit country. This potential is still not fully tapped. Its strategic position as a crossroads between Western Europe, regions of Russia and Asian countries, and on the watershed of the Black and Baltic Sea countries enables Belarus to become one of the major oil, gas and product pipelines, as well as a communication system and transport corridor.

Key infrastructure points are:

- The length of its railways totals 5,490 km.
- The length of roadways totals 101,000 km.
- The length of the waterways totals 2,000 km but use is limited by their location on the perimeter of country and by their lack of depth).

Major pipelines: crude oil pipeline “Druzhba”, oil products pipeline, gas transport pipelines “Beltransgaz” (owned and operated by Beltransgaz, which is controlled by Gazprom) and “Yamal–Europe” (owned by Gazprom and operated by Beltransgaz).

Two national air-carriers: the two main air-carriers are the state controlled JSC Belavia (passenger and cargo carrier) and JSC TransAVIAexport (cargo carrier).

Minsk International Airport is the main international airport in Belarus, located 42 km to the east of the capital Minsk. Minsk International Airport is capable of handling 5.8 million passengers per year and in 2013 had direct flights to 42 destinations. Almost 2.2 million passengers and 16,585 flights were handled in 2013, an increase of about 18.7% and 11.0% on 2012, respectively.

Transport corridors crossing the territory of Belarus:

- Pan-European transport corridor II (Berlin – Warsaw– Minsk – Moscow – Nizhniy Novgorod).
- Pan-European transport corridor IX (Finland – Lithuania – Russia – Belarus – Ukraine – Moldova – Romania – Bulgaria – Greece).

Belarus is a highly attractive place for investment in the development of warehouse and transport logistics. Due to its geographic location, this opportunity has been identified and the Government has accepted a logistics system development programme that runs until 2015. The most active participants so far are Russian, Belgian, Iranian and Lithuanian investors. As of 1 January 2014 there were 12 logistic centres in Belarus.

The total capacity of energy system in Belarus as of 1 August 2014 is 9,221.2 MW. The main energy sources are thermoelectric power stations and regional CHPs that run on natural gas and use furnace fuel oil as a reserve fuel. Under its 2011–2020 energy strategy, Belarus is seeking to diversify energy suppliers. One of the main intentions is to reduce reliance on Russia as a major supplier of energy inputs. The Belarusian authorities are actively pursuing the construction of the first national nuclear power station, with an installed capacity of up to 2,400 MW in the Grodno region, about 20 km from the border with Lithuania. The total costs of construction and infrastructure are estimated to reach USD 9 billion and are largely financed by a loan from Russia. Russia provides also the general contractor and suppliers of the technology and equipment. The preparatory works on the site have been completed and in November 2013 the President signed an edict which officially launched the construction phase of the project. The first generating unit of the facility with the installed capacity of 1,200 MW is due to be commissioned in 2018 with the second unit to follow in 2020. The authorities are contemplating construction of yet another nuclear power station.

БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS

Няма нічога ліхога, каб на добрае не выйшла.
Every dark cloud has a silver lining.

Грошык такі: у ім два бакі.
Every stick has two ends.

Божа памажы, але і сам не ляжы.
Good fences make good neighbours.

Спех – людзям смех.
Haste makes waste.

Калі ўлез у дугу, не кажы «не магу».
If you can't stand the heat get out of the kitchen.

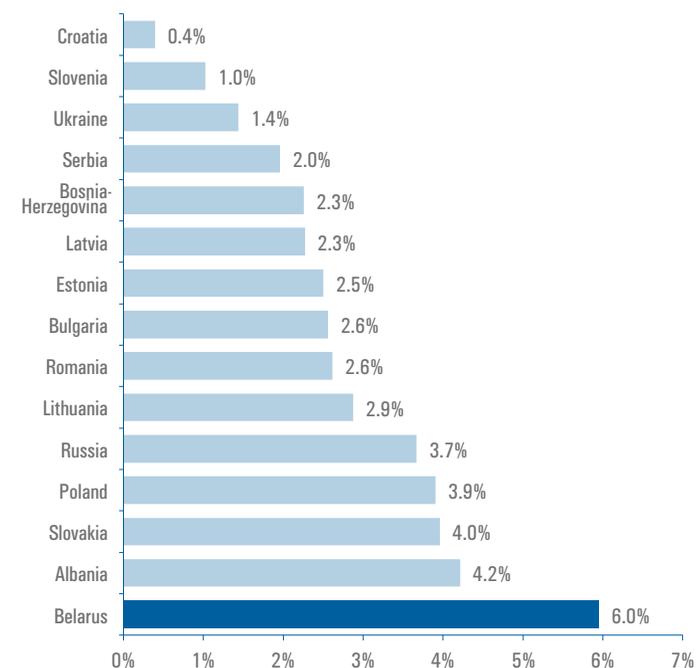
2_HIGHLIGHTS. BELARUSIAN ECONOMY IN 2013 – FIRST HALF OF 2014

- Slowdown of economic growth
- Inflationary pressures remain in place
- Belarusian ruble (BYR) is on a gradual depreciation path
- New benefits from tighter integration with Russia

Last year turned out to be not as good for the Belarusian economy as previously expected. Despite some positive dynamics in H1 2013, GDP growth for the full year amounted to 0.9% yoy, which was one of the lowest figures over the long run. The weak development was based on shrinking exports, which provoked contraction in industrial output and led to the C/A deficit widening. On the other hand, the economy was supported by strong household consumption due to higher wages.

At the same time, as for the average GDP performance in 2005–2013, Belarus noticeably outperformed its neighbours with about 6% yearly growth. Moreover, significant improvement was seen in price stabilization over the last two years. However, inflationary pressures still remain in place amidst continuous increase in regulated prices and gradual devaluation of the Belarusian ruble. After a broadly stable position in 2012, the local currency weakened by more than 10% in 2013. FX reserves also continued their decline, due to considerable external debt redemptions and net FX purchase from households.

Average GDP growth rates in 2005–2013



The fact that Belarus strongly relies on Russian support results in high vulnerability to any changes in the neighbours' economic situation. For instance, slowdown of Russia's GDP growth and the entrance to the WTO led to Belarusian export contraction by more than 15% yoy or USD 8 bn in 2013. From the other side, Belarus has a large price discount on Russian gas and free trade zone within the Customs Union (Belarus, Russia and Kazakhstan). New advantages can be obtained within the establishment of Eurasian Economic Union in 2015 (e.g. the gradual abolishment of export duties on oil products, paid to the Russian budget and amounting to USD 3.3 – 3.8 bn per year). As already agreed, Belarus will keep in its budget USD 1.5 bn of this export duties in 2015. Moreover, the supplies of crude oil, which now should be agreed on a quarterly basis, will remain in line with Belarusian expectations (23 mn tons per year) and could be increased in case of need.

Further development of the Belarusian economy will likely be marked by a slowing growth trend with inflation level in double-digit figures. The growth will still be underpinned by private consumption, however in much less extent like it did in 2013. Some occasional progress in privatisation seems possible with the purpose of generating revenues for external debt servicing.

БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS

За сем работ бярэцца, а ні адна не ўдаецца.
If you run after two hares, you will catch neither.

Бяда за бядою, як рыба за вадою.
It never rains but it pours.

Ляжачыя і грошы ржавеюць.
It's the squeaky wheel that gets the grease.

Як не стала хлеба, дык і нож не трэба.
It's not worth crying over spilt milk.

Казалі-гаварылі, што ходзіць Базыль да Марылі.
It's the empty can that makes the most noise.

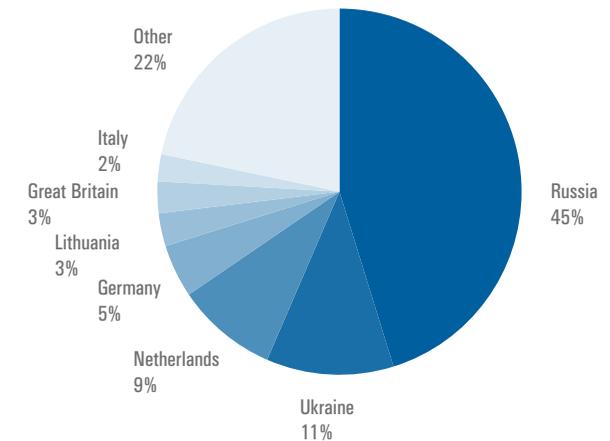
3 SELECTED ECONOMIC INDICATORS AND FORECASTS

3.1. Real economy, fiscal policy and public debt

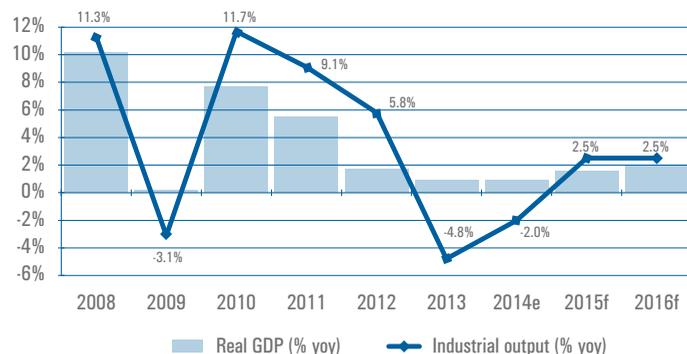
3.1.1. Real economy

The Belarusian economy is based on historically formed complex of large state-owned industrial enterprises, the share of public sector in the economy is still more than 70%. Belarus also represents an open-type economy with export to GDP ratio at about 70%. In 2013 the main export market for oil products was the EU, for machinery construction and food products – Russia and for the export of mineral fertilizers – China and India. 90% of raw materials and intermediate products for machinery construction were imported from Russia.

Export of goods
in 2013

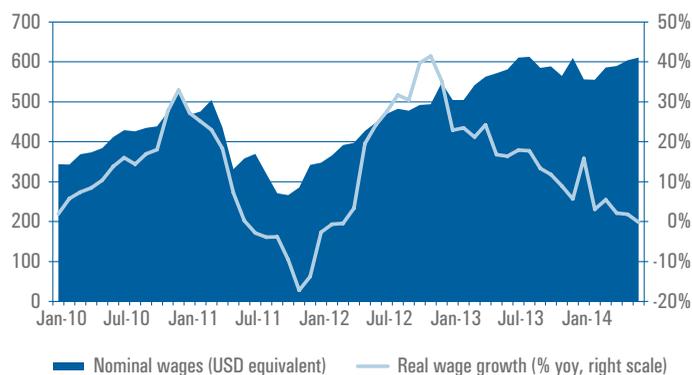


The performance of the Belarusian economy in the last two years was weaker as compared to a long-lasting period of extremely high (above 5%) yearly growth rates. In 2012 the GDP growth fell to 1.7% yoy from 5.5% yoy in 2011, and continued to decline further to only 0.9% yoy growth in 2013.



GDP & Industrial output, % yoy

The economy was still mainly driven by household consumption, supported by significant increase in wages and social benefits paid from the budget. The average growth rate of private consumption in 2008–2013 in real terms amounted to 8.5% yoy.



Wages development

On the other hand, the contribution of gross fixed capital formation was highly volatile, depending mainly on the state support, and the government consumption growth remained in negative territory. Last year state capital investments (7.4% yoy growth) were directed to the programs of the technological modernization of industrial enterprises and residential construction actively promoted by the government.

The lack of economic growth in the euro area market, slowdown of GDP growth in Russia (which resulted in a reduction of economic support for Belarus), and Russia's entrance to WTO led to Belarusian exports contraction by more than 15% yoy or USD 8 bn in 2013. Existing problems in export provoked a sharp decline of industrial production by 4.8% yoy. Shortage of revenues in the industrial sector reduced investment possibilities for companies, thus the main source for capital investment was the bank lending, including the one actively promoted and supported by the government.

Following GDP contraction in the first two months of 2014 (compared to the same months in 2013), the Belarusian economy returned to 1.2% yoy growth over the first half of this year on the back of still-strong public consumption and improvement of external trade balance amidst lower imports. Activity in the industrial sector continued to contribute negatively to growth, but the decline slowed down to 1% yoy in Jan–Jun against 7.1% yoy in the beginning of 2014. The most intensive stagnation in the industrial sector was registered in machinery and vehicles manufacture.

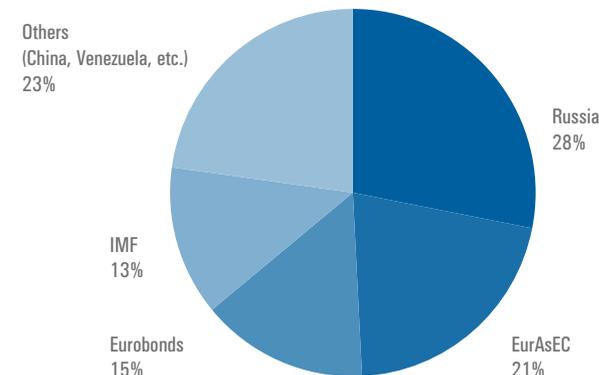
All in all, the economic growth in the coming quarters is expected to be only moderate, amounting to around 1% yoy in 2014 and to about 2% yoy growth in 2015 (according to the IMF forecasts). The growth will be supported by private consumption, however in much less extent like it did in 2013, as the willingness of households to buy will likely diminish amidst an only modest increase of real incomes. The industrial production is expected to contribute negatively to GDP growth in 2014, but will likely recover in the following years, based on some improvement of Russian economic development. Another decade of elevated growth rates seems unlikely, however Belarus will continue to benefit from tight integration with Russia, especially within the Eurasian Economic Union.

3.1.2. Fiscal policy and public debt

As a result of 2013, the total budget revenues amounted to about 30% of GDP. In spite of the fact that public sector occupies in the economy more than 70%, almost a half of the budget revenues was formed by the payments of private companies. The fall in exports of large Belarusian companies primarily affected the budget revenues from external economic activities, which saw a decline of more than 4% yoy. In order to achieve the balanced budget target the Ministry of Finance gradually decreased the amount of budget expenditures. All in all, the 2013 general budget run a surplus of BYR 1.6 trln or 0.2% of GDP.

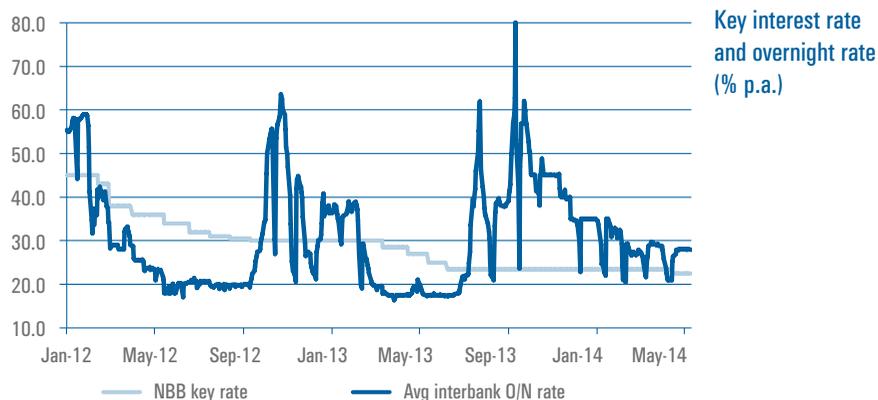
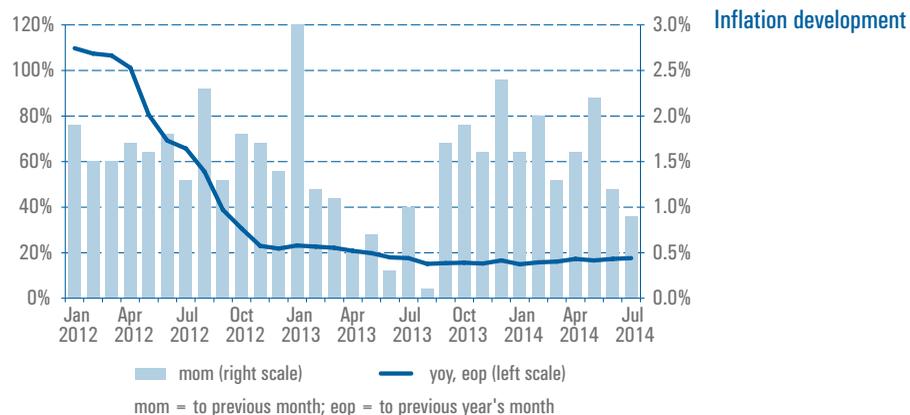
Fiscal policy in Belarus on a first glance seems very tight, as there had never large budget deficits, usually balancing around surplus/deficit of 1% of GDP. However, this is mainly attributable to the fact that lending under governmental programs and bank recapitalization costs are not included in the budget expenditures. Sizeable external debt redemptions (Belarus should repay about USD 6 bn in 2014–2015) exert additional pressure on the budget and require new external and local borrowings. Foreign public debt increased by 3.5% yoy and reached USD 12.4 bn (17.4% of GDP) in 2013.

Main lenders to Belarus in 2013



3.2. Inflation and monetary policy

Following the challenges the Belarusian economy faced in 2011, marked by a currency crisis and hyperinflation (108.7% eop), significant improvement was seen in price stabilization over the last two years. In order to take a turn for the better the National Bank of Belarus (NBB) reversed the main objectives of its monetary policy from the maintenance of exchange rate stability and supporting government's growth targets by credit expansion to inflation constraint and keeping the real interest rates positive. The main regulator's monetary policy instruments include open market operations, reserve requirements for financial institutions and interest rate policies. At the same time the level of CPI growth in the country still remains high in double-digit figures and exceeds the same in the neighbouring economies. For instance, Belarus ended last year with the annual inflation of 16.5%, while Russia's CPI amounted to above 6% yoy and Ukraine's reached only 0.5% yoy. Inflation in Belarus is fuelled by a continuous increase of regulated tariffs (energy, transport, utilities), hikes of excise duties on alcohols and tobacco and ongoing gradual devaluation of the Belarusian ruble. In the first half of 2014 CPI has already registered 10.2% ytd growth, averaged 17.2% yoy.



Source: National Bank of Belarus

Subsiding inflation in H1 2013 allowed for a gradual reduction in the key interest rate from 30% to 23.5% p.a., but the cutting cycle was stopped amidst the renewed pressure on BYR. Further reduction of the official refinancing rate resumed only in mid-April 2014 and the rate has already been lowered four times up to the current level of 20% p.a.

It is expected that CPI will come to about 16% in 2014 (IMF forecast) and stay in the low double digits in the long-term perspective, partly offsetting the weakening of the Belarusian currency. Success in reducing the level of inflation will depend on further monetary and fiscal regulator's measures, aimed at keeping money supply under control (e.g. positive real interest rates, budget consolidation, moderate real wage growth), as well as by possible additional financing support either through loans or privatisations.

3.3. Exchange rate, balance of payments and external debt

3.3.1. Exchange rate

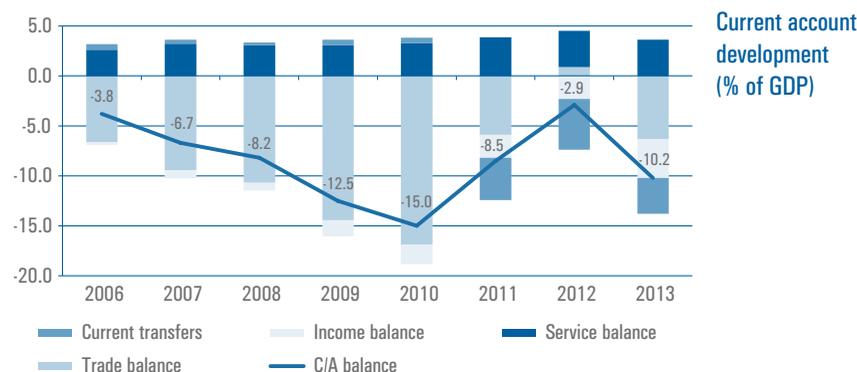
In previous years the position of the Belarusian currency was rather unstable. Starting with a 20% devaluation in early 2009 as one of the requirements for IMF Stand-By agreement, BYR then experienced severe currency crisis in 2011, including a temporary break in the FX market functioning and the emergence of black market rates. But substantial Russian financial support and monetary policy tightening helped Belarus to stabilise the situation. Following a largely stable position for about a year and a half, the devaluation of the Belarusian currency resumed in H2 2013, but at a gradual pace. Still, as a result of 2013 BYR lost about 11% of its value versus USD, 15% versus EUR and 3% against RUB and went into the new 2014 with the highest exchange FX rates ever. The main reasons were the deterioration of the trade balance (sharp fall in exports combined with increased consumer imports) as well as significant external debt repayments to the IMF and other lenders. In addition to this, households' devaluation expectations began to appear more actively and the net FX purchase amounted to USD 2.8 bn in 2013 vs. a broadly balanced position in the previous year. For the time being, the NBB welcomes the gradual depreciation of the local currency, thus each month the BYR loses another 1–1.5% of its value. In the first half of 2014 it has weakened by more than 7% ytd against USD and 6.5% ytd versus EUR.

Exchange rates



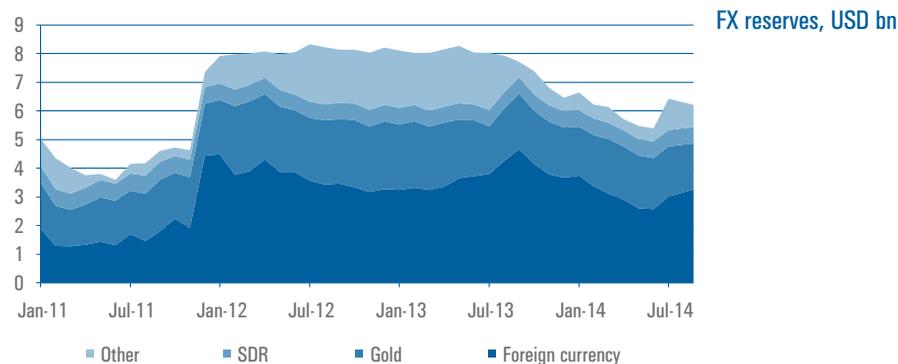
3.3.2. Balance of payments (current account and FX reserves) and external debt

The current account balance, mainly driven by trade operations, is persistently negative in Belarus. Some improvement was seen in H1 2012, while the C/A balance was even positive, however it reversed from H2 2012 and posted further deterioration up to the present times. As a result 2013 current account deficit widened to USD 7.3 bn (10.2% of GDP), thus increasing a need for additional external funding. For the next years, we project C/A deficit to slightly diminish, based on lower imports and actively supported by the government export.

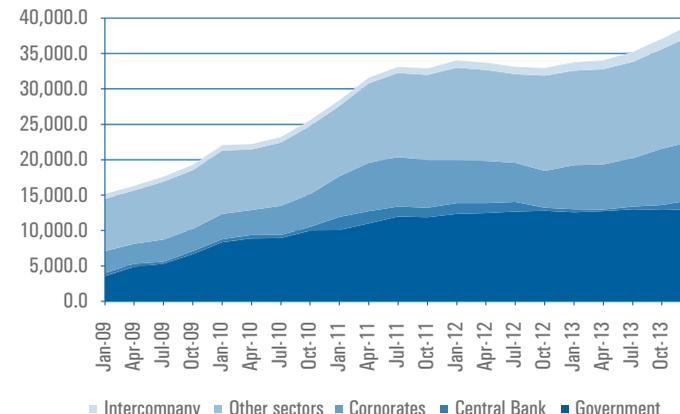


The recovery of FX reserves from low levels of around USD 5 bn in 2011 (owing to the tranches of EurAsEC loan and privatisation proceeds), to a relatively stable position at USD 8 bn was maintained throughout 2012 and early 2013. However, the increased demand for the FX and last year's repayments on external debt of USD 3.1 bn pressured FX reserves and led to their decrease by more than USD 1.4 bn in the course of 2013.

In late June 2014 Belarus received USD 2 bn Russian bridge-loan, designated for FX reserves replenishment. Thus, at the beginning of July 2014 the level of FX reserves increased to USD 6.4 bn (1.7 months of imports).



External debt by sectors (USD mn)



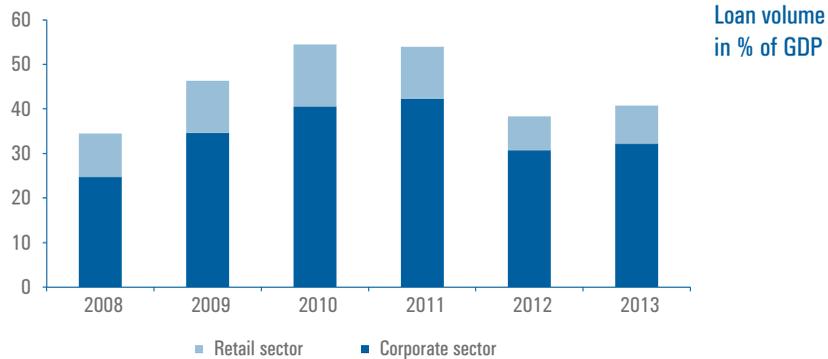
3.4. Banking sector

Despite the fact that macroeconomic trends played against the banking sector, the latter posted strong growth in 2013. Total assets in BYR-terms increased by 23% yoy, even though in USD-terms growth amounted to 11% yoy, affected by BYR weakening. The loan growth was in high double-digits (28.5% yoy in BYR), which even exceeded official targets. A strong loan growth was visible in the consumer lending segment: households' loan portfolio in BYR increased by almost 35% yoy on the back of a strong increase in wages. The expansion of loans was also underpinned by domestic demand, as well as for some part inflated by the BYR devaluation. Moreover, the share of FX loans in the total amount of loans increased from 22% in 2010 to around 50% in 2013. In early 2014, the NBB introduced a number of additional measures limiting FX lending and aiming at a reduction of interest rates on consumer and corporate loans, but also at constraints in terms of total lending volumes (e.g. higher capital requirements for household credit risk or restrictions on FX loans to Belarusian enterprises, except for payments to non-residents).

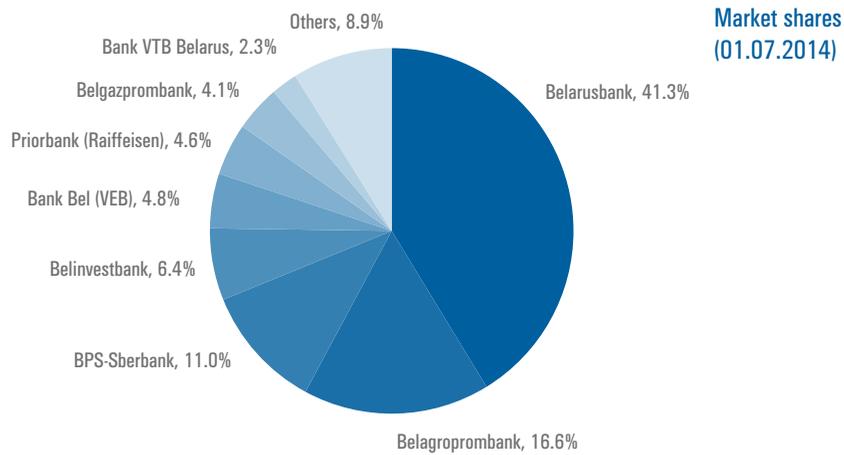
The volume of non-performing loans increased slightly in 2013, however their share in the total loan volume remains insignificant at 0.8%. This can be attributed to the rational regulation of the NBB, the ban of FX lending to households issued in 2009 and the activity of the Development Bank of Belarus (founded in 2011), which takes over the state lending programs on its own balance. The loan profile of the Development Bank of Belarus almost doubled in 2013, amounting to BYR 19 tn (USD 2 bn).

Last year household's devaluation expectations and low confidence in BYR deposits forced the regulator to adhere to a high interest rate policy in order to prevent mass deposit outflow and/

or conversion into FX. Currently deposits in FX make up about 62% of total deposits, while the loan-to-deposit ratio stands at 150% (compared to more than 200% in 2010), pointing to improvements in the deposit base.



The overall number of banks in Belarus amounts to 31. The market is highly concentrated as 80% are controlled by the Top 5 players. Three of them are the state-owned banks, while the other two are banks with a majority Russian capital. The position of the latter shows the continued trend of increasing market share of foreign-owned (mainly Russian) banks and their aggressive growth strategies.



We expect only moderate growth for the Belarusian banking sector in the following years, influenced by a slowdown in economic growth. Further credit growth is likely to be limited, due to the weakening ability of state support to the real economy and the banking sector.

БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS

Любіў цалаваць – любі і калыхаць.
Love me, love my dog.

Адзін дуб у полі – то не лес.
No man is an island.

З ваччу сышоў і з памяці зваліўся.
Out of sight, out of mind.

Паглядзі, сава, якая сама.
People who live in glass houses shouldn't throw stones.

Не за дзень Вільня становілася.
Rome wasn't built in a day.

4 LEGAL ENVIRONMENT FOR FOREIGN INVESTMENT

According to the Doing Business 2014 report published by the World Bank, Belarus ranks as one of the world's leading economies when it comes to improvements to the ease of doing business since 2005. During the preceding year the country made progress in the spheres of starting a business, obtaining electricity, dealing with construction permits, paying taxes. The country is working hard on developing its legal frameworks for business to remain competitive in the region, to attract more foreign investment to boost export-oriented industries, and to modernize the economy. To a great extent, positive change is fuelled by involvement in the emerging Eurasian Union with Russia and Kazakhstan (scheduled to go live from January 2015) – an undertaking which implies adjusting national laws to higher standards often set by other member states, especially Russia. Below, you will find a digest of the key regulations on business activities in Belarus prepared by SORAINEN lawyers.

4.1. Investment laws

Since independence, Belarusian investment laws have evolved remarkably and now accommodate the needs of investment projects of different scales in various branches of the economy. Special regimes exist for investors in small towns and rural areas, residents of free economic zones, residents of the High Technology Park, and of the China–Belarus Industrial Park.

4.1.1. General guarantees

Belarusian laws set the following basic guarantees for investors:

- guarantee of the right to private property and its protection without discrimination;
- protection against unlawful acts by government authorities which violate investors' rights or cause losses, or both;
- equality of rights granted to national and foreign investors;
- free repatriation of profits; and
- protection of investments from nationalisation and requisitioning.

The law says that nationalisation may be undertaken only based on public need and subject to proper compensation. Compensation for nationalised property should be paid promptly and comprise the value of the nationalised property and other losses caused by the nationalisation.

World Bank "Doing Business 2014" report: <http://doingbusiness.org/~ /media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf>

The law also establishes an exhaustive range of circumstances when requisitioning is possible – these mainly include emergency situations such as natural disasters, accidents, epidemics and epizootics, and also when public interest demands such measures.

4.1.2. Investment agreements

An investment agreement may be concluded directly with the Republic of Belarus in order to obtain additional guarantees and incentives from the government. The state may be represented by a ministry, a state committee, a municipal authority, or a state concern.

During 2010–2013 the popularity of investment agreements increased, and as of October 2013 almost 1,300 had been concluded, mostly via municipal authorities. The total amount of investments scheduled under investment agreements with the Republic of Belarus exceeds USD 21 billion.

An investment agreement is used, for example, in the following cases:

- acquiring a state-owned enterprise or establishing a joint venture with a state-controlled company to secure a stable legal framework for a project;
- greenfield investment projects which require arrangements for supplies of power and raw materials, prices for goods produced by the new enterprise (especially in the energy sector);
- large-scale development and construction projects.

The law lists the particular benefits and exemptions that may be granted under an investment agreement, including those related to the acquisition of title to a land plot, construction, exemptions from certain taxes and customs duties. An investment agreement may additionally provide for waiver of the Belarusian state's legal immunity. This is crucial for submission of disputes with the state to foreign courts and arbitral tribunals and enforcing judgements and arbitral awards outside of Belarus.

For large-scale projects an investor may be granted additional benefits, exemptions and legal guarantees not envisaged by law. These may include government obligations to provide a special tax regime, ecological standards and other conditions material for the investor, to issue all permits and approvals necessary for realisation of an investment project, or to guarantee a stable legal framework for an investment project. An investment agreement with additional benefits, exemptions, and guarantees requires a decision of the Council of Ministers approved by the President.

An investment agreement may also specify additional investor obligations, such as employing and training Belarusian nationals, or use of new technologies.

Investors initiate an investment agreement with the authority responsible for a certain region, enterprise or industry – normally, a municipal authority, a ministry, or a state concern. If the draft investment agreement provides benefits or exemptions, the respective authority negotiates the contents of the agreement with the investor and circulates the draft among other interested state authorities such as the Ministry of Economy (pricing issues), the Ministry of Taxes and Duties (tax exemptions), the Ministry of Justice (legal clarity and compliance of the agreement with local laws). Negotiations and approval of the draft by all interested authorities may take several months.

4.1.3. Concession agreements

A concession is an agreement by the Republic of Belarus granting a temporary right to carry out a specific type of activity related to the exclusive competence of the state, or the right to use property (e.g., subsoil, waters, woods, land) owned by the state.

Concession agreements are of three types:

- full concession agreement (right of property to goods produced remains with the concessionaire);
- agreement on division of products (goods produced are divided between the concessionaire and the state under the procedure and in the proportion set by the agreement);
- concession agreement on services / performance of work (the right to goods produced is transferred to the state; the concessionaire only receives remuneration for services (work) performed).

A concession agreement is concluded either at a tender or following direct negotiations with the investor. Direct negotiations are possible for strategically significant objects or if information about the object is a state secret.

The official list of objects offered for concession as of April 2014 includes ironstone deposits, gypsum, chalk, sand and sand–gravel fields, oil shale, gas shale, clay and bentonite clay fields.

4.1.4. Investment activity in small towns

Since 1 July 2012, companies and individual entrepreneurs operating in all rural areas and towns can use the following benefits within 7 years after their registration:

- exemption from profit tax on sale of goods, work, services of own production;
- exemption from other taxes and duties, except for VAT, excise tax, offshore duty, land tax, ecological tax, natural resources tax, customs duties and fees, state duties, patent duties, and stamp duty;
- exemption from mandatory sale of foreign currency received from sale of goods, work, services of own production, and from leasing property; and
- no restrictions on insuring risks with foreign insurers.

The special legal regime does not apply to banks, insurance companies, investment funds, professional participants in the securities market, businesses operating under other preferential legal regimes (e.g. free economic zone, High Technology Park) and certain other businesses.

4.1.5. Free economic zones (FEZs)

At present, Belarus has 6 FEZs (one for each oblast (region) administrative centre, including Minsk). As of 1 April 2014, 475 companies were registered as FEZ residents.

In order to become a FEZ resident, an investor needs to meet certain criteria, such as:

- minimal investment is EUR 1 million; and
- FEZ residents should produce within the FEZ territory import–substituting goods or goods oriented for export (in this case 70% of goods produced should be exported from Belarus or sold to other FEZ residents).

All cities and towns except for Baranovichy, Bobruisk, Borisov, Brest, Vitebsk, Gomel, Grodno, Zhodino, Zhlobin, Lida, Minsk, Mogilev, Mozyr, Molodechno, Novopolotsk, Orsha, Pinsk, Polotsk, Rechytsha, Svetlogorsk, Slutsk and Soligorsk.

FEZ residents enjoy the following main tax benefits:

- exemption from profit tax within 5 years of the date of first declaration of profit; afterwards the rate of profit tax decreases by 50% (i.e. currently 9%), provided that the goods (work, services) produced are either exported from Belarus or recognised as import–substituting goods, or sold to other FEZ residents;
- supply of goods included in the list of import–substituting goods attracts a reduced 10% VAT rate; and
- buildings located within the FEZ are exempt from real estate tax.

Tax benefits are applicable if the FEZ resident provides the tax authority with a certificate of goods of own production issued by the Belarusian Chamber of Commerce and Industry.

The special legal regime does not apply to businesses in the area of catering, gambling, interactive electronic games, trade, and securities.

4.1.6. China–Belarus Industrial Park “Great Stone”

In June 2012 the China–Belarus Industrial Park (Industrial Park) was created for a term of 50 years. The Industrial Park represents an area of over 9,000 hectares in the south–western part of Smolevichi district (close to «Minsk–2» national airport).

In the Industrial Park, a special regime applies to taxation, customs, administrative and other regulations. A «special economic zone» legal regime is intended to foster economic, trade, and investment cooperation between Belarus and China. Within the framework of the regime residents of the Industrial Park are provided with a wide range of benefits and preferences.

The status of Industrial Park resident can be granted to legal entities registered and implementing investment projects there. Nationality of the investors is not limited to China only. The priority industries expected to be developed in the Industrial Park are electronics, biomedicine, chemicals and mechanical engineering.

Industrial Park residents enjoy the following benefits:

- for 10 years from the date of registration as residents:
 - 1) exemption from income tax on proceeds from sale of goods (work, services) of own production manufactured in the Industrial Park;
 - 2) exemption from real estate tax on real estate objects located in the Industrial Park;
 - 3) exemption from land tax on land plots in the Industrial Park;
- in the following ten years the rate of income tax, real estate tax, and land tax is reduced by 50%;
- for the first 5 years starting from the year when profit is first declared by a resident, the income tax rate on dividends paid by an Industrial Park resident to its founder amounts to 0%;
- until 1 January 2027 the income tax rate on royalties paid by Industrial Park residents to foreign organisations amounts to 5%;
- until 1 January 2027, the personal income tax rate for employees of Industrial Park residents is 9%;
- a full refund of VAT is paid for imported goods (work, services), property rights used in the design, construction, and equipping of buildings and constructions in the Industrial Park;
- until 1 January 2027, exemption from mandatory sale of foreign currency proceeds received from activities in the Industrial Park;
- exemption from customs duties and VAT on goods (manufacturing equipment, components and

spare parts, materials and raw materials) imported into Belarus in order to implement investment projects in the Industrial Park;

– other benefits related to social security payments for employees of Industrial Park residents, terms of processing matters involving foreign labour immigration, and others.

In addition, legal acts specify features of construction of Industrial Park objects and infrastructure, in particular:

– investors and Industrial Park residents can choose contractors to construct Industrial Park objects and suppliers of goods for building and equipping them without tenders;

– design, adjustment of project documentation, construction and commissioning of Industrial Park objects may be carried out in accordance with technical legal acts of China and other foreign countries if project documentation passes public examination in Belarus, safety of construction work and materials is guaranteed and necessary documentation is drawn up in Russian (Belarusian) (or a translation of the documentation is provided);

– imported goods for the design, construction, and equipping of Industrial Park objects are not subject to mandatory conformity assessment in Belarus.

Legislation guarantees stability of the special legal regime throughout the lifetime of the Industrial Park.

Incentives and preferences of the Industrial Park do not apply to financial institutions, businesses in the area of lotteries, gambling, and interactive electronic games.

4.1.7. High Technology Park (HTP)

The HTP was created in 2005 to foster development of the IT industry. The HTP is an area in the eastern part of Minsk with a special legal regime lasting until 2020.

The status of HTP resident can be granted to a Belarusian company (including those with foreign investments) whose business is:

- analysis, design, and software support for information systems;
- data processing;
- fundamental and applied research, exploratory developments in the field of natural and engineering sciences; or
- other types of business activity set by the Government upon approval by the President.

HTP residents enjoy the following tax benefits:

- exemption from profit tax and VAT;
- land plots within the HTP necessary for construction of buildings are exempt from land tax throughout the period of construction but no longer than 3 years;
- real estate on HTP territory (except for leased real estate) is exempt from real estate tax; and
- dividends paid to shareholders registered in offshore zones are not subject to offshore duties.

Furthermore, certain exemptions concern personal income tax paid by employees in HTP, and social security payments. Foreign legal entities also enjoy benefits with regard to taxation of dividends, interest and royalties from HTP residents. These types of income are taxed at the rate of 5%, unless more favourable conditions are set by international agreements.

4.1.8. Bilateral investment treaties

Additional guarantees for foreign investors in Belarus are provided by a number of agreements on promotion and protection of investments.

Agreements on promotion and protection of investments currently bind Belarus with the following countries: Armenia, Austria, Azerbaijan, Bahrain, Bosnia and Herzegovina, Bangladesh, Bulgaria, China, Croatia, Cuba, Cyprus, the Czech Republic, North Korea, Denmark, Egypt, Germany, Finland, India, Iran, Israel, Italy, Jordan, Kuwait, Kyrgyzstan, Laos, Latvia, Lebanon, Libya, Lithuania, Macedonia, Mexico, Moldova, Mongolia, the Netherlands, Oman, Poland, Qatar, Saudi Arabia, South Korea, Romania, Singapore, Slovakia, Sweden, Switzerland, Syria, Tajikistan, Turkey, the Ukraine, United Arab Emirates, the United Kingdom, Venezuela, Vietnam, former Yugoslavia.

Belarus is also a party to a number of multilateral treaties on cross-border investment activity:

- 1965 International Convention on Settlement of Investment Disputes between States and Nationals of Other States;
- 1985 Convention Establishing the Multilateral Investment Guarantee Agency;
- 1993 Agreement on Cooperation in the Field of Investment Activity;
- 1997 Moscow Convention on Protection of Investors' Rights;
- 2010 Agreement on Trade in Services and Investments in the Member States of the Common Economic Space.

4.2. Corporate laws: setting up a business in Belarus. Main organisational and legal forms

When establishing a presence in Belarus, foreign investors choose from a variety of corporate forms. The decision on corporate presence in the form of a representative office or local legal entity is usually influenced by the regulatory framework, the nature of the project, and strategic plans.

A representative office is a popular form at the initial stage of entering the Belarusian market. Due to flexible employment, currency control, and certain other regulations, representative offices have often been used at the initial stage of business operations in Belarus and for a certain time even alongside a local legal entity.

At the same time, starting from 1 January 2014 a foreign company may carry out only auxiliary or preparatory activity via its Belarusian representative office. This activity includes market research, exploring investment opportunities, incorporating a legal entity, and similar.

Representative offices are accredited by the Belarusian Ministry of Foreign Affairs. A permit for establishing a foreign representative office is issued for a fixed term of three years. A foreign company pays state duty equivalent to 65 basic units (approx EUR 715) for each year of accreditation of its representative office in Belarus. The number of foreign employees of a representative office is limited to five.

Accreditation of a representative office is issued within 10 days after filing the necessary documents. Post-accreditation procedures take at least 2.5 weeks and end with opening representative office bank accounts. The main vehicles for foreign investments in Belarus are legal entities established under local laws.

4.2.1. Commercial legal entity

(a) Forms and types of commercial legal entities

The most common forms of commercial legal entity in Belarus are joint stock companies, limited liability companies, and unitary enterprises.

A Joint Stock Company (JSC) under Belarusian law is a commercial company founded by two or more individuals / legal entities (shareholders). Shares in the JSC are securities issued by the company; their issue is registered with the Department of Securities of the Ministry of Finance or its relevant territorial subdivisions. Any issue / cancellation of shares or increase / decrease of their nominal value also require registration. Unless performed via the Belarusian Currency Stock Exchange, transactions with shares of JSC must in most cases be registered with professional operators in the securities market (specialised licensed companies).

Under Belarusian law, a JSC can be of two types: open and closed. Shares of an open JSC may be sold freely to any person without the consent of other shareholders. In a closed JSC, shareholders have a pre-emptive right to acquire shares offered, or under its articles shares may be sold only to a limited range of persons. A closed JSC cannot offer its shares for public subscription.

A Unitary Enterprise (UE) is a commercial company established by a single owner. All assets of a UE are considered as the property of its owner. The authorised capital of a UE is not divided into shares. A UE may be sold or otherwise assigned as a whole asset complex, including buildings, equipment, inventory, raw materials, ready made goods, claims, debts, as well as trademarks and other exclusive rights of the UE. The asset complex is considered to be a real property object. In this regard, the asset complex plus related rights and transactions must be registered with the National Cadastral Agency.

A Limited Liability Company (LLC) is the most widely used form of business. A LLC is founded by two or more individuals / legal entities (any combination is possible). Shares in LLC are often referred to as "participation interest" and do not require separate registration. Par value of participation interest, number of votes and share in profit are distributed between shareholders proportionally to the amount of a shareholder's contributions to the authorised capital of LLC. However the shareholders may agree on a different correlation between participation interest, number of votes, and share in profit. Shareholders in a LLC have a pre-emptive right to purchase a participation interest in a LLC offered to third persons by other shareholders. If none of the shareholders exercises this right, the pre-emptive right passes to the LLC itself. Shareholders in a LLC may, in contrast to a JSC, at any time declare their exit from the LLC and after their exit receive part of the property of the LLC proportional to the amount of their participation interest.

(b) Minimal amount of authorised capital and number of shareholders

Type / form of legal entity	Minimal authorised capital	Number of shareholders / owners	Formation of authorised capital
Open joint-stock company (OJSC)	400 basic units (approx EUR 4,350)	minimum 2 maximum is unlimited	Authorised capital should be fully paid within 12 months after state registration of the company
Unitary enterprise	BYR 1	only 1 owner of assets	
Closed joint-stock company (CJSC)	100 basic units (approx EUR 1,088)	minimum 2 maximum 50	
Limited liability company	BYR 2	minimum 2 maximum 50	

4.2.2. Management

Management structures are specific for each legal form of company.

(a) Unitary enterprise

The owner of a UE is the supreme management body. Exclusive competence of the owner concerns introducing amendments to the UE articles, increasing or decreasing authorised capital, approving annual reports, and decisions on distribution of net profits. The owner appoints and dismisses the director of the UE or outsourced manager. An owner who is a natural person may personally perform the duties of director or outsourced manager.

(b) Joint-stock and limited liability companies

The structure of managing bodies of a commercial company other than a UE may include the general meeting of shareholders, the supervisory board, and the director (board of directors).

The general meeting of shareholders (**Meeting**) is the supreme managing body of the company. The Meeting convenes at annual and extraordinary sessions.

The Meeting can decide on issues of reorganising and liquidating the company, amending its articles, changing the amount of authorised capital, electing and terminating the powers of other managing bodies. The competence of the Meeting also extends to deciding on the company's entry into transactions with affiliated persons. All these issues pertain to the exclusive competence of the Meeting.

Establishing a **Supervisory Board** is mandatory only in an open JSC. The competence of the Supervisory Board usually covers general management of the company. Specific powers may be granted by the Meeting within the limits of Supervisory Board competence as defined by law. Only natural persons may be members of the Supervisory Board, who may be elected not only from the shareholders of the company.

The company may be managed by a sole and / or collective executive body (the Director / Board of Directors) but there may not be several managing directors equal in status. The company may have both a Board of Directors and a Director General. But in this case their competence should

be clearly distributed among the bodies and the Director General should be elected in the capacity of Chair of the Board of Directors. The functions of the executive body may be transferred to an outsourced organisation or manager. The executive body is in charge of managing the company's day-to-day activities.

A foreign citizen may be appointed a Director / member of the Board of Directors in any company, in which case he or she should obtain a work permit.

Appointment of foreign citizens to the Supervisory Board requires no special permits or licences.

4.2.3. Establishing a company

Generally, incorporation of a company includes the following steps:

- choosing a name for the company and registering this with the municipal authority;
- choosing the future location of the company (“virtual addresses” are not allowed);
- executing the articles of the company and other incorporation documents;
- filing for registration of the company.

Registration of the company is effective from the date when the documents are filed. Registration with the tax authorities, social security fund and insurance body is accomplished without involvement of the applicant during the next 5 business days. Other post-registration procedures include production of the corporate seal, appointment of the executive body and the chief accountant, opening bank accounts.

State registration takes no more than 1 working day and the whole registration process (up to opening bank accounts) should not exceed 1.5 weeks.

4.3. Privatisation

The type of privatisation procedure depends on objects of privatisation, which include housing, state enterprises, leased state property, state-owned shares. Potential investors can join the privatisation of state enterprises process at various stages:

- access as new shareholders during transformation of enterprises into open joint-stock companies;
- acquire state-owned shares in existing open joint-stock companies;
- acquire a state or municipal unitary enterprise as an asset complex.

The lists of open-joint stock companies in which shares are available for privatisation are published on the official website of the State Property Committee (www.gki.gov.by/auction/auinf/auishares). These lists contain basic information on privatisation conditions, and sometimes a brief description of the privatisation objects.

Investors are welcome to select privatisation targets from the list and send a brief letter of interest to the State Property Committee. Letters are reviewed by a special commission that decides on the feasibility of preparing a decision of the President on privatisation of shares via tender, auction or direct sale.

The investor may also send a letter of interest in respect of objects that do not appear on the State Property Committee list. Basically, any object can be sold if an investor is interested and the state finds the conditions proposed by that investor interesting.

4.3.1. Becoming co-founder of an open joint-stock company

State unitary enterprises which the state plans to transform into open joint stock companies are listed in the official schedules. The plan for transformation for 2011–2013 was fulfilled, and around 40 new enterprises are expected to be included in the plan for transformation for 2014–2016.

The Belarusian State Property Committee or its local divisions, depending upon the size of the enterprise, decide on transformation of every enterprise mentioned in the plans for transformation of state unitary enterprises into joint stock companies and may announce a contest to choose a private investor in addition to the state – the future shareholder of an open joint stock company. The winners are selected after the contest by a specially established commission, or may be directly negotiated if there is only one contest participant.

It is also possible to acquire a share in a transformed company at the stage of sale of shares. Since 1 January 2014 the practice of selling shares to employees of a transformed company on beneficial terms was discontinued. This should make it easier for a strategic investor to acquire shares.

4.3.2. Acquisition of state-owned JSC shares and enterprises as asset complexes

The State Property Committee can also itself organise an auction or contest where state-owned shares or enterprises are sold to investors. The contest or auction is announced in the Belarusian mass media and on the Committee's official website www.gki.gov.by. To participate in a contest or auction the investor applies with a set of supporting documents. Contest participants should also file a tender proposal corresponding to the terms of the contest. The winner of the contest or auction becomes either the shareholder in the company or the owner of the enterprise as an asset complex.

4.4. Merger filing requirements in Belarus

In Belarus merger filing is mandatory in some cases. This means that some transactions may require prior clearance by the antimonopoly authority (Department of Price Policy of the Ministry of Economy of Belarus or departments of antimonopoly and price policy of municipal authorities).

On 1 July 2014 the new Law on Counteraction to Monopolistic Activity and Development of Competition entered into force. The Law ensures that national legislation is brought in line with agreements concluded within the Common Economic Space with Russia and Kazakhstan and provides new regulation of merger clearance.

Under the new Law the acquirer should apply to the antimonopoly authority for approval of an intended transaction with shares (participation interest) if the book value of the target's assets as of the latest reporting date exceeds 100,000 basic units (approx. EUR 1,1 mln), or the amount of proceeds from sales for the previous financial year exceeds 200,000 basic units (approx. EUR 2,2 mln), in the following cases:

1. Transactions where the acquirer and the target operate in the same commodity market (all of the following conditions should be met):

- a. the intended transaction relates to acquisition of shares (participation interest) in the target;
- b. the acquirer and the target perform their activity in the same commodity market;
- c. the acquirer is a business entity holding a dominant position in this commodity market.

2. Transactions with shares (participation interest) of a target holding a dominant position (all of the following conditions should be met):

- a. the intended transaction relates to acquisition of at least 25% of shares (participation interest) in the target;
- b. the target is a business entity holding a dominant position in a certain commodity market;
- c. the acquirer is a business entity or an individual.

3. Acquisition of the ability to influence decisions of a target holding a dominant position (all the following conditions should be met):

- a. the intended transaction results in the acquirer's ability to influence decisions of the target;
- b. the target is a business entity holding a dominant position in a certain commodity market;
- c. the acquirer is a business entity or an individual.

4. Acquisition of control over a material amount of shares (participation interests) of a target (all of the following conditions should be met):

- a. the acquisition may take any form as long as control over disposal of shares (participation interests) is gained (e.g. purchase, trust management, agency); and
- b. the acquirer is a business entity or an individual; and
- c. the intended transaction results in the acquirer's right to dispose of more than 25% of the shares (participation interest) in the target, if before the transaction the acquirer has no right to dispose of the target's shares (participation interest) or has the right to dispose of not more than 25% of the target's shares (participation interest), or
- d. the intended transaction results in the acquirer's right to dispose of more than 50% of the shares (participation interests) in the target, and before the transaction the acquirer has the right to dispose of more than 25% but not more than 50% of the target's shares (participation interests).

5. Acquisition of the right to participate in the executive bodies, supervisory board, and other managing bodies of two or more targets by the same acquirer (all of the following conditions should be met):

- a. the targets operate in the market for interchangeable (similar) goods;
- b. the acquirer has an opportunity to set conditions for the targets' business activities;
- c. the acquirer is a business entity or an individual.

No filing fees are payable in Belarus for examining an application or approving a transaction.

4.5. Financial regulation in Belarus

4.5.1. Bank accounts

Opening a bank account abroad by a Belarusian company requires a permit from the NBB, subject to few exceptions. Foreign companies may open settlement accounts in Belarusian banks both in local currency and in foreign currency.

In practice, pledges over Belarusian bank accounts are not taken because of enforcement issues. Instead, direct debit arrangements in respect of bank accounts are sometimes implemented.

4.5.2. Currency of settlement and currency exchange

Foreign currency can be used in settlements between Belarusian residents only in a limited number of cases. Settlements between a resident and non-resident may be both in local currency and in foreign currency if the NBB has set the official exchange rate of the BYR against the other currency (the list comprises 79 foreign currencies, including USD and EUR). Certain limitations as to the use of foreign currency in settlements with foreign companies may be set in international treaties of Belarus.

The level of freedom in local currency exchange depends on the purposes of the exchange. For repatriation of investor's proceeds local currency may be freely changed to foreign currencies through the bank. A Belarusian company has to send the bank documents confirming the purpose of the exchange (e.g. loan agreement, decision of the general meeting of shareholders on profit distribution).

If a Belarusian company receives foreign currency, in most cases it must sell 30% of the proceeds.

4.5.3. Requirements for obtaining a loan from a non-resident

A Belarusian borrower requires a permit from the National Bank to obtain a loan from a non-resident, if any of the following criteria is met:

- interest rate for a loan in USD or EUR exceeds 14% p.a., or for a loan in other currencies the refinancing interest rate of the respective central bank plus 5% p.a.;
- the default interest rate exceeds 0.01% daily (3.65% p.a.);
- the loan will not be repaid from the borrower's account;
- the creditor is registered in an offshore zone;
- the loan is disbursed to the account of a third party;
- additional payments (e.g. commitment fee, front-end fee, prepayment fee) are set by the agreement (this criterion is not applicable to loan agreements with foreign banks).

4.6. Legal status of land and other real property

Under Belarusian law real property includes land plots, buildings and structures, objects of incomplete construction, parking places and other objects closely connected with land.

4.6.1. Registration of real property

Real property objects are considered as created only after state registration.

Emergence, transfer, and termination of rights to and encumbrances on real property as well as transactions with real property require state registration (except for lease, sublease and free-usage transactions with buildings and structures and rights thereto). Real property transactions requiring state registration enter into force from the date of state registration. Failure to comply with this requirement results in invalidity of the transaction.

Registration is performed by the local agencies of the National Cadastre Agency. All information on registered real property is available in the Unified State Register of Real Property, Rights thereto and Transactions therewith (Real Estate Register). Registration data are open for public access. However, only title holders, their successors, government authorities and, in certain cases, notaries and advocates may access a list of all real property objects belonging to a particular individual or legal entity.

4.6.2. Land plots

In Belarus, use of land plots is predetermined by their specific designation (e.g. agriculture, forest and water fund, inhabited areas, infrastructure).

Designation of land plots may be changed by decision of local authorities.

Belarusian legal entities (including those with foreign investments) can hold the following rights and titles to land:

- right of property;
- right of permanent use;
- right of temporary use;
- lease (dominant title to land plots).

Land plots can be transferred into ownership of Belarusian legal entities at auction. The law sets an extensive list of exceptions when auctions may be avoided.

A right of permanent use of a land plot presumes the right to own and use the land plot for the designated purpose without time limitation. Only certain types of commercial legal entity can enjoy a right of permanent use of land plots, including:

- agricultural organisations;
- non-governmental legal entities with regard to land plots used for servicing real estate objects owned by the state;
- cooperatives for construction and operation of parking places and garages;
- legal entities with regard to resizing land plots which were granted for permanent use in

connection with reconstruction of buildings located on them;

- legal entities for construction and maintenance of transport and engineering infrastructure facilities as well as roadside service facilities.

The above entities can also be granted the right of temporary use of a land plot. This right can also be granted to national and foreign investors operating under concession agreements.

A land plot can be granted into temporary use for a maximum of ten years, with some exceptions. The maximum period of temporary use of a land plot allocated under a concession agreement is 99 years.

Lease agreements can be concluded for a maximum 99 years. The amount of lease payments should be set in the lease agreement.

The general rule is that land plots owned by the state are let based on the results of one of the following main types of auction:

- auction for the right to conclude an agreement for lease of a land plot;
- auction for the right to design and construct buildings.

Land plots are provided under lease without holding auctions in limited cases set by law.

4.6.3. Buildings and constructions

Belarus has no codified legal act regulating the status of buildings and structures and construction activity. It is possible to distinguish two categories of buildings with different legal status – residential and non-residential.

Apart from buildings and constructions (permanent structures) the law treats the following as real property objects:

- isolated premises (parts of the building registered and regarded as separate real property);
- parking places (structures registered and regarded as separate real property);
- objects of incomplete construction.

Buildings and constructions can be owned by foreign legal entities and individuals.

Rent rates for lease of a state owned building should be set according to special rules in the Edict on Certain Issues of Lease and Free Use of Property and calculated in basic lease units (BYR 102,000, i.e. approx EUR 7.4). Local authorities enjoy a right of first refusal to acquire certain buildings and other real estate located within their jurisdiction. The list of these buildings and other real estate is set annually by local authorities. In practice this right is rarely exercised. However, sale-purchase agreements may be registered with the Real Estate Register and ownership may be transferred to the purchaser only after the local authority decides not to exercise its right of first refusal.

4.6.4. Mortgage

Belarusian law allows use of real estate as collateral but some restrictions apply.

Only the following organisations are allowed to be mortgagees of land plots and pledgees of lease rights to land plots:

- banks with a licence to place funds attracted in their own name and for their own account on condition of recurrence, interest payment, and maturity;
- the IFC, EBRD and the Eurasian Development Bank, if the mortgage of a land plot (pledge of lease right to a land plot) secures repayment of a loan to a Belarusian resident.

Only owners and tenants of a land plot may act as mortgagors (i.e. persons holding land plots under the title of permanent or temporary use cannot mortgage land plots or rights thereto).

Mortgage of buildings as well as isolated premises located on an owned land plot is allowed only on simultaneous mortgage of the underlying land plot. Mortgage of buildings as well as isolated premises located on a leased land plot is allowed on simultaneous mortgage of the right of lease to the underlying land plot if payment for the right to conclude the lease agreement was made by the tenant. If payment was not made the building or the isolated premises may be mortgaged without simultaneous pledge of lease rights to land plots. Consequently, buildings or isolated premises located on an owned or leased land plot (provided that the payment for the right to conclude the lease agreement has been paid) may secure only repayment of bank loans and loan agreements with the IFC, EBRD and the Eurasian Development Bank.

Types of liabilities that may be secured by mortgage of buildings or isolated premises located on land plots held under the title of temporary or permanent use are not limited. The same relates to buildings or isolated premises located on leased land plots for which payment for the right to conclude the lease agreement was not made.

Mortgage of real estate requires registration with the Real Estate Register.

4.7. Intellectual property protection

Besides having fairly well developed national legislation on protection of intellectual property, Belarus participates in many international IP agreements administered by the World Intellectual Property Organisation (WIPO).

Belarus is also a party to several regional IP agreements (e.g. Eurasian Patent Cooperation within the framework of the CIS), and several bilateral cooperation agreements in the field of industrial property protection.

4.7.1. Intellectual property (IP)

Belarusian laws provide for the following types of IP:

- scientific, literary and artistic works subject to copyright protection (including software);
- performances, phonograms, transmissions of broadcasting organisations (related rights);
- trademarks and service marks;
- geographical indications (appellations of origin and indications of source);
- corporate names;
- inventions;
- utility models;
- industrial designs;
- topologies of integrated circuits;
- selection achievements (plant varieties and animal breeds); and
- production secrets (know-how).

Copyright and related rights require legal protection due to the fact of their creation and from the same moment. No formalities are required to enable their protection.

Trademarks are protected in Belarus only if they are registered through international or national procedures.

Corporate names of Belarusian companies are protected on the basis of registration. Trade names of foreign companies are protected in Belarus without formalities if the trade name of the foreign company is registered in a member state of the Paris Convention or is generally acknowledged therein.

Appellations of origin are protected in Belarus on the basis of national registration while indications of source are protected on the basis of use.

The right to protect know-how from unlawful use arises irrespective of execution of formalities (e.g. registration). However, know-how is protected only if all the following criteria are met: the information is of commercial value due to its confidentiality, it is not freely accessible on a lawful ground, and the owner of the information takes certain measures to protect its confidentiality (e.g. issues internal documentation, applies technological and/or organisational means). Under Belarusian law know-how can be neither assigned nor licensed. However, the owner of know-how can provide access to know-how under special agreement.

Rights to inventions, utility models, industrial designs and selection achievements are protected only if patents are granted for them.

Legal protection of topologies of integrated circuits depends on registration with the patent body.

Registration of trademarks, appellations of origin and topologies of integrated circuits is confirmed by certificates.

4.7.2. Patent body and registration of agreements

The patent body of Belarus is the National Centre of Intellectual Property (NCIP). The official NCIP website is www.belgopatent.org.by. It contains databases of inventions, utility models, industrial designs and trademarks registered in Belarus. These databases are updated every

month with new registrations and intended for guidance only. Official data on applications filed (for some types of IP), registered IP, protective documents effective in Belarus, as well as changes made in state registers of industrial property are published in official NCIP editions. Upon request the NCIP executes extracts regarding any IP objects, or issues information on agreements registered for a certain company.

Licences, assignments, pledges, and other agreements with regard to industrial property rights must be registered with the patent body in order to be considered valid – as must changes to and termination of these agreements.

4.8. Employment specifics

Employment has a number of peculiarities in Belarus, including a dual contract system, certain issues pertaining to employment of management.

4.8.1. Employment agreement

Employment relations in Belarus should be formalised by written employment agreement. The most common type of employment agreement in Belarus is the employment contract.

An employment contract is a highly specific type of employment agreement which can be concluded for a minimum of one year and a maximum of five years. It is more employer-friendly and is widely used in Belarus for several reasons, including the following:

- the contract provides additional grounds for terminating employment relations upon the initiative of the employer;
- the contract cannot be terminated solely upon the employee's initiative, except for material breach by the employer or a good reason (moving to a different city and the like).

4.8.2. Termination of employment

All grounds for termination of employment relations are set by law. The parties cannot set additional grounds for termination in an employment agreement.

4.8.3. Non-competition and confidentiality

If performance of job duties requires access to trade secrets of the company the employer may require the employee to sign a confidentiality commitment: refusal to do so justifies termination of employment at the employer's discretion. An employee's signature to a confidentiality commitment enables the employer to claim loss of profit in case of disclosure.

Belarusian laws do not explicitly forbid a clause prohibiting competition (e.g., prohibition of employment in the same business or in a particular organisation after leaving the company). However, it is not widely applied in Belarus because its enforceability is disputable. Arguably,

restriction of employment may conflict with general principles laid down in the Belarus Labour Code and Constitution.

4.8.4. Employment of a director

A director's rights and obligations are set in an employment agreement and in the articles of the company. From 25 July 2014, a director of a privately-owned company or a company with a state share of less than 50% can combine their job with a job as a paid employee of another company. Directors of state-owned companies and companies with a state share of 50% or more cannot combine jobs, except for teaching, scientific work, art, and medical practice.

A director cannot participate in the supervisory and controlling bodies of the company. A director bears full material liability for real damage caused to company property.

4.8.5. Other forms

A natural person may perform work on the basis of a civil contract. In that case the contractor is not included in the company's staff list and may independently manage their work. The company should organize labour protection of the contractor as well as paying social security fees.

4.9. Dispute resolution

The judicial system of Belarus includes the Constitutional Court, common courts, and commercial courts. From the beginning of 2014 a unified system of common courts has started to function, following the merger of common and commercial courts. The reform is based on several Presidential Decrees and Edicts.

The Supreme Court of the Republic of Belarus (Supreme Court) is now the sole supreme authority among common courts. A new judicial panel for commercial matters was introduced within the Supreme Court along with existing panels for civil, criminal, and intellectual property matters. The new panel will consider cases at first instance, cassation instance, and upon discovery of new facts.

Since 1 January 2014 a unified system of enforcement departments has been in operation, consisting of the main enforcement department and regional departments of the Ministry of Justice. A new Law on enforcement procedures is expected soon.

The enforcement fee to be withheld from debtors constitutes 10% of the amount collected based on proprietary claims. For non-proprietary claims the enforcement fee constitutes 5 basic units (approx EUR 55) for claims by natural persons and 10 basic units (approx EUR 110) for claims by legal entities. The enforcement fee for non-proprietary claims is paid for each execution order.

Belarusian national law recognises arbitration as a means of dispute resolution between private parties involved in commercial transactions. Some disputes cannot be referred to arbitration, for example:

- disputes involving rights to real estate located in Belarus;
- disputes over decisions by the bodies of a company registered in Belarus;
- disputes arising from administrative actions;
- disputes related to state-owned property, including disputes related to privatisation of state-owned property and compulsory seizure of property for state needs;
- disputes related to recognition of records in state registers (cadastrés) as null and void;
- matters related to insolvency (bankruptcy) of companies and individual entrepreneurs registered in Belarus;
- disputes related to recognition of non-normative legal acts of state bodies and local authorities as null and void;
- disputes related to release of arrested property where the property was arrested by a Belarusian state body.

Arbitration can proceed under either self-administered ad hoc or institutional procedures and rules. The International Arbitration Court at the BelCCI (Belarusian Chamber of Commerce and Industry) was established in 1994. Recently another international arbitration court was established: the Chamber of Arbitrators at the Lawyers' Association. Since 2012 more than 20 arbitration courts (not international) were established in Belarus.

Awards by international arbitration courts in Belarus can be annulled by the Supreme Court.

Belarus is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Foreign arbitral awards are recognized and enforced in Belarus by commercial courts.

Parties may refer disputes to a foreign court unless Belarusian courts hold exclusive jurisdiction (for example, a local subsidiary of a foreign investor is considered as a Belarusian resident and therefore could not refer a dispute with a local company to a foreign court).

Under Belarusian law foreign court judgments may be recognized and enforced in Belarus, if:

- recognition and enforcement is provided by Belarusian law or by an international treaty of the Republic of Belarus, or
- reciprocity in recognition and enforcement of judgments exists between Belarus and the country whose court rendered the judgment.

Under international treaties judgments of the courts of the following countries may be recognized and enforced in Belarus: Armenia, Azerbaijan, Bulgaria, China, Cuba, Cyprus, the Czech Republic, Finland, Georgia, Hungary, Iran, Italy, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam.

The existence of reciprocity with other countries can be checked through diplomatic channels.

БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS

Ціхая вада грэблю рве.
Still waters run deep.

Шануйся замалада – не напаткае бяда.
The boy is father to the man.

Адкуль дым, адтуль і полымя.
There's no smoke without fire.

Гні дрэўца, пакуль гнецца.
Time and tide wait for no man.

Заўтра ў тую пару, калі рак паляціць з вады ўгару.
Wait for the cat to jump.

5 ACCOUNTING AND AUDITING

5.1. Accounting and auditing in the banking system

5.1.1. Accounting

During the last years the National Bank of Belarus encouraged and supported the implementation of IFRS rules by issuing National Financial Reporting Standards ("NFRS") which can be regarded as summarised and simplified translations of the corresponding International Accounting Standards ("IAS") and IFRSs as adopted by the International Accounting Standards Board. The NFRSs also delineate the methodological instructions and amend the accounting legislation.

By 30 June 2014 the National Bank has implemented twenty four NFRSs, which correspond to IFRSs and are the following:

- NFRS 1 "Presentation of the Financial Statements"
- NFRS 2 "Inventories"
- NFRS 3-F "Business Combinations"
- NFRS 5-F "Non-current Assets held for Sale and Discontinued Operations"
- NFRS 7 "Cash Flow Statements"
- NFRS 7-F "Financial Instruments: Disclosures"
- NFRS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- NFRS 8-F "Operating Segments"
- NFRS 10 "Events after the Balance Sheet Date"
- NFRS 12 "The Corporate profit tax (CPT)"
- NFRS 16 "Property, plant and equipment"
- NFRS 19 "Employee Benefits"
- NFRS 21 "The Effects of Changes in Foreign Exchange Rates"
- NFRS 23 "Capitalisation of Borrowing Costs"
- NFRS 24 "Related Party Disclosures"
- NFRS 27 "Consolidated and Separate Financial Statements"
- NFRS 28 "Investments in Associates"
- NFRS 31 "Interests in Joint Ventures"
- NFRS 32 "Financial Instruments: Presentations"
- NFRS 33 "Earnings per Share"

NFRS 34 "Interim Financial Statements"

NFRS 37 "Provisions, Contingent Liabilities and Contingent Assets"

NFRS 38 "Intangible Assets"

NFRS 39 "Financial Instruments: Recognition and Measurement"

According to the regulation of the National Bank, in addition to financial statements prepared in accordance with local rules Belarusian banks are obliged to compile and submit to the National Bank the full set of financial statements (the statement of financial position, of profit and loss and/or of comprehensive income, of cash flows, of changes in shareholders' equity and corresponding notes) prepared in accordance with IFRS. The IFRS financial statements should be prepared annually for the period from 1 January to 31 December and submitted to the National Bank by 1 July of the year following the reporting period along with the Auditor's opinion on the financial statements.

The banks compile IFRS financial statements on the basis of the accounting records prepared in accordance with the Belarusian legislation by applying adjustments, reclassifications, and estimates to comply with the IFRS accounting records.

5.1.2. Auditing

An annual audit of the financial statements prepared in accordance with the Belarusian legislation and IFRS is mandatory for all Belarusian banks. The financial statements should be approved by the Annual General Shareholders' Meeting and submitted to the National Bank no later than 31 March of the year following the reporting period for statutory financial statements, no later than 15 May for statutory consolidated financial statements and no later than 30 June for IFRS financial statements.

Only auditors and audit organisations approved by the National Bank can provide audit services to banks in respect of the financial statements prepared in accordance with the Belarusian legislation and IFRS. For the provision of audit services to banks in respect of the IFRS financial statements, the auditor should have a certificate/diploma of the internationally recognised accounting or auditing body/organisation and the audit organisation should have at least three auditors with a certificate/diploma of the internationally recognised accounting or auditing body/organisation.

5.2. Accounting and auditing in the non-banking sector of economy

5.2.1. Accounting

The regulation of accounting and auditing matters is overseen by the Ministry of Finance.

In January 2014, a new Law on accounting was enacted requiring all public interest entities to prepare IFRS consolidated financial statements starting from 1 January 2016.

Public interest entities include:

- Joint stock companies having subsidiaries;
- Banks;
- Non-banking financial organisations; and
- Insurance companies.

The Law on accounting introduced new accounting principles similar to those used in IFRS:

- Going concern;
- Verifiability;
- Neutrality;
- Completeness.

Though Belarusian accounting regulations are changing and approaching IFRS still there are significant differences between them. Major differences between IFRS and the Belarusian legislation are the following:

- Hyperinflation adjustments are applied in IFRS financial statements;
- Valuation of fixed assets;
- Prepayments for fixed assets;
- Borrowings received not at market rates;
- Cut off (timing) differences between accounting records according to IFRS and the Belarusian legislation;
- Forex differences, repair expenses;
- Different rules for calculating deferred tax in the Belarusian legislation comparing to IFRS.

5.2.2. Auditing

The specifics and rules of audit activities are stipulated by the “Law on Audit Activities” (hereafter referred to as the “Law”) and “Rules on Audit Activities” (hereafter referred to as the “Rules”).

There are several types of audit services that can be performed by the audit organisations:

- Audit of financial statements;
- Audit conducted under a special task;
- Conducting of audit related services (the list of audit related services is stipulated by the Law).

An annual audit of the financial statements is obligatory for the following entities:

- Entities in the form of open joint stock companies;
- Banks and non-banking financial organisations;
- Exchange markets;
- Companies with foreign investments;
- Insurance companies and insurance brokers;
- Residents of the High Technology Park;
- Entities conducting the guaranteed refund of individuals’ bank deposits;
- Professional participants of securities market;
- Entities earning more than EUR 5 000 000 revenue for the year previous to the reporting year.

Within 30 days of receiving the auditor’s opinion, the entities must make corrections to the

financial statements in connection with any irregularities and misstatements investigated by auditor.

Audit conducted under a special audit task. The special task is the other than audit of financial statement reliability task. The audit conducted under the special task designation can be of two types – obligatory and voluntary. There is a list of activities that can be performed within the scope of the audit conducted under the special task.

The special audit task may be applied to an audit of the following:

- accuracy of transactions recording on the accounts;
- target use of credits and investments;
- investors’ (initiator of investment project) financial statements;
- financial statements of a securities issuer;
- formation of a statutory fund, or the origination of monetary funds contributed to the statutory fund by the participants;
- reliability of the tax return (for foreign companies acting through permanent establishment);
- structure and value of an enterprise as an asset complex;
- value of assets owned or controlled operationally by the audited entity;
- other indicators of financial and economic activities of the audited entities.

The audit conducted under the special audit task must be performed for:

- confirmation (as established by legislation) of the origination of the monetary funds that are contributed to the start up statutory funds for insurance companies by the participants;
- confirmation of an enterprise’s value before sale;
- confirmation of the investors’ (initiators of investment project) financial statements;
- other audits conducted under the special audit task designation as specified by legislation.

Professional services

Under the Law, audit organisations are allowed to perform the following professional services (considering the requirements of Independence policy):

- Preparation of the financial statements;
- Valuation of the companies’ assets;
- Analyses of financial and economic activities;
- Preparation of the tax return on income and assets;
- Advisory services;
- Organisation, restoration and maintenance of accounting;
- Analyses of investment project and business plan development;
- Development of recommendations on implementation of audit activity and professional services;
- Education programs;
- Other services stipulated by Law.

Under the current legislation the expenses connected with the mandatory audits and the audit under the international financial reporting standards are taxes deductible for the audited entities.



БЕЛАРУСКІЯ ПРЫКАЗКІ І ПРЫМАЎКІ

BELARUSIAN PROVERBS AND SAYINGS

Дзе дровы сякуць, там трэскі лятуць.
You can't make an omelette without breaking eggs.

Не глядзі, што на галаве, а паглядзі, што ў галаве.
You can't tell a book by its cover.

Лепш верабей у руцэ, як голуб на даху.
Half a loaf is better than no bread.

Не ўсё ж мігдаламі карміць.
Into every life a little rain must fall.

Якая матка, такое й дзіцятка.
Like father, like son.

6 TAXES

6.1. Corporate profit tax (CPT)

The standard rate is 18%. Reduced rates are 12% (for dividends); 10% (for residents of science and technology parks; for producers of laser and optical equipment; for the sales of self-produced high-tech goods); 50% of the basic CPT rate (for the disposal of shares); and 5% (for members of Science and Technology Association established by the State University). For free economic zones the CPT rate is 50% of the standard tax rate (but not more than 12%) if certain specific requirements are met.

6.1.1. Tax period

The tax period is one calendar year. Effective from 2014 the reporting period is one calendar quarter. The reporting period for CPT on dividends distributed by Belarusian organisations is one calendar month. CPT returns are submitted to the tax authorities by 20th and CPT must be paid by 22nd of the month following the reporting period.

Tax Code provides for a special CPT payment procedure for 2014. CPT for the fourth quarter of 2014 must be paid by 22 December 2014 in the amount of two-thirds of CPT calculated for the third quarter of 2014. CPT for the entire year 2014 shall be settled by 22 January 2015.

6.1.2. Tax depreciation rates

Depreciation recorded for accounting purposes is also used for taxation. Straight-line, reducing balance or productive method of fixed assets' depreciation may be chosen by the entity (taking into account peculiarities). Depreciable life for each type of fixed assets is listed in the official glossary. A multiple of 0.5 to 1.5 may be applied to depreciation guidelines of fixed assets that are used in business activity (for buildings, constructions and transmission devices the factor ranges 0.8 to 1.2)

6.1.3. Capex tax allowance

Effective from 2014 the Tax Code provides for a one-time "Capex tax allowance" in relation to real estate objects, machines, equipment and vehicles acquired and commissioned in a particular

month. Capex tax allowance increases tax expenses for CPT purposes. Depending on asset's type the value of the Capex tax allowance is limited to 10% or 20% of the capex value.

6.1.4. Research and development (R&D) expenses

Effective from 2014 in case when R&D project is registered in the State Register, related expenses in certain circumstances increase tax expenses using a multiplying factor up to 1.5.

6.1.5. Loss carry forward

Loss carry forward for 10 subsequent years was introduced in Belarus effective from 2012 (starting from losses reported in 2011).

6.1.6. Transfer pricing

Light transfer pricing regulations are effective in Belarus from 2012.

For tax purposes, the Belarusian Tax Code contains a procedure for correcting prices of goods sold by Belarusian CPT taxpayer to foreign entities or individuals as well as of sold fixed assets in case when deviation of the applied prices from market prices is over 20%.

6.1.7. Thin-capitalisation rules

Starting from 1 January 2013 if a Belarusian company pays interest to a foreign company, the interest of "controlled foreign debt" will be capped for tax purposes if the debt-to-equity ratio is above three.

6.2. Withholding tax on the income of foreign legal entities not engaged in commercial activities in Belarus through a permanent establishment (WHT)

According to Belarusian law withholding tax shall be applied to the taxable income of foreign entities received in Belarus at the following rates:

- 5% for dividends, interest, royalties and licenses from HTP residents;
- 6% for cross-border transportation, forwarding and chartering fees;
- 10% for interest income retained from debt obligations;
- 12% for dividends and disposal of shares and stakes in companies;
- 15% for other types of income under the list stipulated by the Tax Code.

Withholding tax rates may be reduced by Double Taxation Treaties (see list at the end).

WHT in the Republic of Belarus is withheld by legal entities, individual entrepreneurs and individuals (for several types of income) accruing and (or) paying out a foreign entity's income (the "tax agent").

6.2.1. Tax period

Tax returns are submitted on a monthly basis to the tax authorities by the 20th day of the month following the month of payment or accrual and tax must be paid not later than the 22nd day.

6.3. Personal income tax (PIT)

6.3.1. Tax base

The tax base for personal income tax is the aggregate income of individuals received both in cash and in other forms during a calendar year. The tax base is calculated separately for all kinds of income that are taxed at different rates. For individuals that are not considered residents for taxation purposes, the tax base is income received from sources in Belarus only.

6.3.2. Tax rates

12% – basic rate (including dividend income)
 15% – applied to the income of individual entrepreneurs and applicable for income drawn from commercial and public notary practice activities;

9% – applied to the income of individuals (except for employees who provide maintenance and security services with respect to buildings, premises, and land plots) drawn from residents of a High Technology Park under labour contracts as well as income earned by residents of a High Technology Park who are individual entrepreneurs.

6.3.3. Tax exemptions

Some types of income according to the list are exempt from PIT (social allowances, travel expenses, etc.). In certain cases taxpayers have the right to apply standard, social, property and professional tax exemptions.

6.4. Social security fund contributions (SSFC)

Social contributions are paid by employers, employees, and individuals who pay SSFC independently. Foreign citizens who work in Belarus pay SSFC on a voluntary basis. The base for SSFC is payroll in cash or in other forms (but not greater than four times the official average salary of a Belarusian employee for the previous month).

Pension insurance (retirement, disability (invalidity), and loss of breadwinner) rates:

- 28% is applied for the majority of employers
- 24% is applied for employers engaged in agricultural production
- 29% is applied for individuals who pay SSFC independently
- 1% is applied for employees.

The social insurance (pregnancy, temporary disability protection, death of an insured) rate is 6% for all employers and individuals who pay SSFC independently.

6.5. Employer's obligatory insurance payments against accidents at work and professional diseases

The base for these obligatory insurance payments is the payroll in cash or in other forms, based on the total remuneration except for those types specifically stated as an exception on a list stipulated by the Government. The rate of the insurance payment is 0.6% (special coefficients from 0.5 to 1.5 are applied).

6.6. VAT

6.6.1. Tax base

The turnover from the sale of goods (work, services), property rights (including compensation-free transfers of goods (work, services, ownership rights) and the cost of goods imported to the customs territory of Belarus are subject to taxation.

6.6.2. Tax rates

- The basic VAT rate is 20%.
- A 0% rate is applied to export sales of goods, work (services), sales of trucking, loading and re-loading services or other similar services directly related to the export sales, exports of transportation services (including transit transportation), exports of work (services) connected with the production of goods from customer supplied raw materials, works (services) on repair, modernisation and the re-equipping of aircraft and their engines, rolling stock units.
- A 10% rate is applied to sales in the territory of Belarus of crop production (except flowers and ornamental plants) and livestock production (except for farming), fish and bee farming performed in Belarus; imports to the customs territory and sales in the territory of Belarus of goods for children; and food according to a list defined by the President, including grain, milk, butter, fish, meat and other products.

6.6.3. VAT deductible

The total amount of VAT to be paid can be reduced by the amount of VAT paid to suppliers when acquiring goods (work, services), fixed assets, proprietary rights as well as the amount of VAT paid when importing goods, works and services to the customs territory of Belarus.

In case VAT deductions exceed the VAT to be paid, the payer is not obliged to pay VAT, and the difference is carried over and deducted from the tax liability in the next period, or refunded to the payer.

6.6.4. Tax period

The tax period is calendar year. The reporting period is one calendar month or quarter (may be chosen by taxpayer). Tax returns are submitted to the tax authorities by the 20th day and tax is paid by 22nd day of the month following the tax period.

6.7. Excise duties

6.7.1. Taxpayers

Taxpayers include entities, individual entrepreneurs, and individuals that produce or import excisable goods to the customs territory of Belarus.

Subject to excise duty are the following:

1. Pure alcohol
2. Alcohol production
3. Non-drinkable solutions containing alcohol
4. Beer and beer cocktails, cider
5. Low-alcohol drinks containing from 1.2 to 7% ethanol by volume
6. Tobacco products
7. Automobile fuel, petrol or diesel (biodiesel) fuel, marine fuel and other fuel including gas fuel used as motor fuel, oil for diesel and/or carburetor (injector) engines.

6.7.2. Tax period

The tax period for excise duties is one calendar month. Tax returns are submitted on a monthly basis to the tax authorities by the 20th day and tax is paid by 22nd day of the following month.

6.8. Real estate (RET)

Real estate subject to taxation includes:

- buildings and constructions owned by organisations which are Belarusian taxpayers;
- the cost of unfinished buildings and constructions (i.e. which were not put into operation within the required regulatory term) owned by organisations which are Belarusian taxpayers;
- buildings and constructions located in Belarus and owned by an individual who is a Belarusian taxpayer;
- buildings and constructions located in Belarus and leased by an organisation which is a Belarusian taxpayer from an individual or foreign company not engaged in commercial activities in Belarus through a permanent establishment.

6.8.1. Tax rates

For legal entities the basic annual RET rate is 1% for buildings and constructions and 2% for unfinished buildings and constructions. The tax rate for individuals and individual entrepreneurs is 0.1% per annum.

Under the Tax Code, real estate tax rates can be increased or decreased by local authorities up to two-fold for certain categories of taxpayers. Local budgets stipulate the increase (or decrease) of rates by the application of indices. For example, the territory of Minsk is divided into five zones with a specific index for each equal from 1.7 to 2.0.

6.8.2. Tax period

The tax period is one calendar year. Tax returns are submitted on an annual basis to the tax authorities by the 20th March of the reporting year. Payment of RET is made once per annum not later than 22 March of the reporting year, or quarterly not later than the 22nd day of the third month of each quarter at a rate of one-fourth of the annual sum of the tax.

6.9. Land tax

The tax rate for land depends on the cadastral valuation of a land plot. Land tax is established in the form of annual fixed payments per hectare. Local authorities can increase or decrease the tax rate not more than two-fold. Some local budgets stipulate the increase of rates via implementation of indices. For example, the territory of Minsk is divided into five zones with a particular index for each equal from 1.7 to 2.0.

6.10. Offshore levy

Payments to tax havens made by Belarus entities are the base for calculation of the offshore levy.

The rate of the offshore levy is 15%.

The following transactions are subject to taxation:

- transfer of funds by residents of Belarus to non-residents of Belarus registered in offshore zones, or to other persons under the obligations to non-residents mentioned above, or to accounts opened in offshore zones;
- settlement of a non-cash obligation to a non-resident of Belarus registered in an offshore zone;
- transfer of property rights or obligations due to a change of parties' obligation when they comprise a resident of Belarus and a non-resident of Belarus registered in an offshore zone.

6.11. Ecological tax

The following objects of taxation are stipulated by the Tax Code:

- contaminant releases into the atmosphere
- waste water pollution
- storage and disposal of production residue (waste)
- import of ozone destroying (depleting) substances.

Ecological Tax rates are stipulated by the Tax Code.

6.12. Taxation treaties

In 2014 Belarus has effective Double Tax treaties with the following countries:

Armenia	Iran	Netherlands	Thailand
Austria	Ireland	Oman	Turkey
Azerbaijan	Israel	Pakistan	Turkmenistan
Bahrain	Italy	Poland	Ukraine
Belgium	Kazakhstan	Qatar	UAE
Bulgaria	North Korea	Romania	Uzbekistan
China	South Korea	Russian Federation	Venezuela
Croatia	Kuwait	Saudi Arabia	Vietnam
Cyprus	Kyrgyzstan	Serbia	Denmark
Czech Republic	Latvia	Slovakia	France
Egypt	Lebanon	Slovenia	Japan
Estonia	Lithuania	South Africa	Malaysia
Finland	Macedonia	Sweden	Spain
Germany	Moldova	Switzerland	UK
Hungary	Mongolia	Syria	USA
India		Tajikistan	

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- Audit of IFRS financial statements
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- Taxation of foreign specialists' income
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