Global Counsel

Should I stay or should I go? Business's choices in Belarus

Blog post by Research Analyst Alexander van der Wusten, 24 February 2021

With the ending of the All-Belarusian People's Assembly - a major meeting held every five years between the government and "people's representatives" – the prospect of a swift leadership change in Belarus has dimmed. But Alexander Lukashenko's presidency is not entirely secure. His survival depends on reducing street protests and maintaining Russian support for the economy, over which he has little control. This makes further aggressive interventions in the economy more likely, especially in the dynamic IT sector. The worsening economic situation and heavy-handed policymaking mean the next few months look uncertain not only for Lukashenko, but also for domestic businesses and foreign investors. What should we expect?

Lukashenko set out a preliminary timeline for constitutional changes at the assembly, but without even seriously committing to a transfer of power in the near term. He probably senses that the opposition is losing momentum. The conditions he has set for his resignation - a stop to all protests and a guarantee of safety for his supporters - are sufficiently vague for him to be able to backtrack whenever he sees fit. Above all else, Lukashenko's staying in power remains dependent on Russian financial and military support, which he seems to have again secured following a meeting with Russian president Vladimir Putin in Sochi on February 22nd. However, in return for loans, Russia wants its companies to be able to buy Belarusian state assets and to see deeper economic integration between the two countries. It remains to be seen how far Lukashenko is willing to go to accommodate this and it may become a source of tension in the months ahead.

The stagnation of Belarus's largely state-run economy, which has been aggravated by the pandemic and political instability since August, have contributed to a growing budget deficit for the government. As well as seeking Russian help, the authorities have proposed tax increases for private businesses, higher social contributions and tougher penalties for tax fraud. The IT sector is a favourite target: from January 1st, income taxes for IT were increased, violating the covenant the government made with the sector in 2017 not to raise taxes until 2050, causing both disbelief and anger among IT professionals. The tax hikes are partly motivated by the active participation of IT workers in the protests since August, which has reinforced Lukashenko's view that the sector has 'betrayed' him and is getting 'filthy rich'. Lukashenko's statements at the assembly further suggest that the success of private sector initiatives in Belarus may be increasingly determined by political loyalty to the current authorities. So, despite favourable existing tax and investment legislation, the current approach may indicate to foreign investors that what the government says on paper will not necessarily be matched by reality.

In sum, Lukashenko's need to fill up the state coffers as the economy struggles will not only translate into increasing dependence on Russia, but also continued targeting of the private sector – and IT in particular – with the authorities proposing new tax legislation that could force businesses to invest in Belarus. The impact may be felt unevenly, even in the IT sector. M&A deals with European tech companies continue, as potential profits outweigh the current political risks, at the least for the moment. However, Belarus may lose its competitive edge in the region as new taxes contradict the generally favourable tax and investment framework for IT, in turn prompting many domestic and foreign companies to relocate. With president Lukashenko staying in power, many more may follow.