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DRAMATIC DECLINE OF THE BELARUSIAN MIDDLE CLASS – THE FIRST “VICTIM” OF THE AGGRAVATING ECONOMIC CRISIS

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Part I. Size and structure of the Belarusian middle class

a) Unstable character of the Belarusian middle class

Since the early 90s, the social structure of the Belarusian society has been quite unstable. Generally, Belarus has failed to achieve any serious progress in establishing a steady social structure after the collapse of the USSR. That is why the Belarusian middle class should not be perceived as a well-established permanent social group, but rather as a very unstable group, whose size is wholly determined by the current economic situation in the country. The present-day Belarusian middle class emerged after 2001, during the period of high growth of the Belarusian economy (driven by oil profits). The development of social group was repeatedly challenged by several economic crises (2008–2009; 2011; 2014–2016) which had the most negative effect on the size and status of the middle class in this country.

b) Possible size of the Belarusian middle class

According to the common understanding, the middle class is a social group, which has comparably high sustainable income that allows members of the group to maintain a high living standard (access to high-quality imported consumer products, cars, real estate, tourism and medical services, etc.). In Belarus, there is a serious difference between those who perceive themselves as “middle class” and those who can really be classified as members of the middle class. For example, social surveys show that about 75% of the population of Belarus perceive their income as “moderate/average” (neither poor nor rich), but a large majority of these people cannot be qualified as the true middle class because their income is low.

It seems that the necessary level of income to ensure a modest middle class lifestyle in Belarus may be within the regions of at least USD 700–800 (per capita per month). However, this sum of money may not guarantee access to the basic attributes of the middle class lifestyle (access to imported goods, tourism and entertainment services, a car, etc.). It does not seem that people with lower monthly income can be qualified as part of the middle class as the level of prices in Belarus is quite high.

According to the official Belarusian statistics, in November 2015, the monthly income of 11.1% of the working Belarusians was over BYR 10 million (over USD 480, exchange rate for March 2016)¹. The monthly income of another 10% of the population was BYR 8–10 million (USD 390–480). The monthly income of the further 19.3% of the population was BYR 6–8 million (USD 290–390). These most “affluent” groups account for about 40% of the Belarusian population, the income of the remaining 60% of the people is less than USD 290. It is important to remember that the official Belarusian statistics tends to exaggerate the income of Belarusians, so the real income of the population could be 20–30% lower.

This statistics shows that currently, only 11% of the Belarusians can be conditionally attributed to the middle class (people with monthly income higher than BYR 10 million), but even their monthly income today does not come to USD 700–800, which means they cannot afford the basic attributes of the middle class lifestyle. Thus, the real current size of the Belarusian middle class may be lower than 10% of population, which is a really poor indicator.

Before the economic crisis of 2014–2016, about 30–35% of the Belarusian population could belong to the middle class, but after several devaluations of the Belarusian currency, two-thirds of these people were pushed out to the lower class. Despite lower salaries, these people may continue to enjoy their typical middle class lifestyle as they still have some savings, but these savings are gradually decreasing. It means that under the conditions of prolonged economic crisis in Belarus, a significant part of the former middle class Belarusians will have to give up their middle class lifestyle as their income is decreasing and they will run out of savings.

c) Structure of the Belarusian middle class

The Belarusian middle class is mainly composed of the following categories of people:

1. Owners of small and medium-sized businesses and individual entrepreneurs.

¹http://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/trud/operativnaya-informatsiya_8/raspreделение-chislennosti-rabotnikov-po-razmer_2/

Social surveys show that about 75% of the population of Belarus perceive their income as “moderate/average” (neither poor nor rich), but a large majority of these people cannot be qualified as the true middle class because their income is low.

2. Highly-qualified employees of medium-sized and large businesses.
3. Highly-paid functionaries and specialists employed in the state sector.

These three categories of people make the middle class in Belarus and their share could be up to 10% of the population. Under the conditions of the growing economic crisis, however, all these three categories of people will face dramatic economic challenges. It is highly possible that many of them may become insolvent, lose jobs or lose a large part of their income.

Part II. Economic challenges for the Belarusian middle class

The future of the Belarusian middle class is completely dependent on the duration of the ongoing economic crisis. If the crisis lasts for two-three years or more, it will exhaust the sources of income of the largest part of the prosperous Belarusians. The following economic trends will have the greatest negative effect on the sources of income of today’s representatives of the Belarusian middle class (small- and medium-sized business entrepreneurs as well as highly-paid employees from the private and state sectors):

1. Dramatic decline in consumption

A serious decline in consumption will affect the entire private sector of the Belarusian economy, which is directly dependent on the level of consumer spending in Belarus. Under the conditions of the crisis, people will have to change their consumption habits, limit their purchases of food and staple products. It means that income of tens of thousands of entrepreneurs and owners of small- and medium-sized businesses will decline dramatically.

2. Accelerating impoverishment of the population

Following the devaluation, the Belarusian population (both lower middle class and middle class) continues to get poorer, pay is cut, and the unemployment and inflation are high. This trend will force a large part of the Belarusian middle class to become the lower middle class, while many of those who enjoy the lifestyle of the lower middle class will become part of the underclass.

3. Serious increase in unemployment

The Belarusian economy is already facing a huge problem of unprecedentedly high unemployment. Even successful private companies start to implement significant layoffs of their highly-qualified employees.

4. Destabilisation of the financial system

The income of the Belarusian middle class is further affected by the ongoing devaluation of the Belarusian currency. Furthermore, entrepreneurs have practically no access to affordable credits for

development of their businesses.

5. Problems in the Russian market

The economic crisis in Russia brings huge challenges to Belarusian producers who are totally dependent on the Russian market (such companies are forced to cut salaries and layoff their employees). Moreover, there are increasing problems in the Russian labour market, so fewer Belarusian seasonal workers are able to find jobs in Russia.

Part III. Consequences of the growing economic crisis for the Belarusian middle class

a) Consequences for individual entrepreneurs and owners of small and medium-sized businesses.

The growing economic crisis already has an impact on practically all types of businesses in Belarus, as a result incomes of their owners and employees decrease. The following important spheres of the Belarusian business may be worst affected by the crisis:

1. Real estate

It is highly possible that the price for the purchase and lease of real estate (both residential and commercial) in Belarus will significantly decrease in the near future. It is important to remember that the main asset of the Belarusian middle class is their real estate investments. As a result, the falling prices for apartments in Belarus will seriously reduce the real value of the assets accumulated by the prosperous Belarusians.

2. Various services connected to the sphere of entertainment

Such service-oriented businesses as tourism, cafes and restaurants, various types of entertainment and other similar services will be severely affected by the growing crisis. The increasing lack of cash will force Belarusian customers cut their spending on all “non-critical” services. The owners and employees of the Belarusian services industry will lose a serious part of their incomes and this will compromise their middle class status.

3. Import and distribution companies

The risk of next devaluation and the decline in consumption in Belarus will result in serious problems for the numerous import and distribution companies in this country. The demand for high-quality imported products will continue to decline, so many of these companies will have to considerably limit their operations.

4. Retail trade

A very large number of owners of small and medium-sized enterprises is involved in a variety of retail trade, which is always negatively affected by any kind of problems with the level of consumption in the country. In addition, the retailers continue to face numerous problems

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with taxation, high rents and certificates for their goods. As a result of the growing crisis, a large part of these people may become insolvent or suspend their operations.

5. *Logistics and transport services.*

A significant decline of the Russian import from the EU has negatively affected the situation of Belarusian logistics companies. The volume of transported goods continues to decline and revenues of these companies are decreasing.

b) Consequences for highly-qualified employees at the medium-sized and large businesses

The growing economic crisis will negatively impact large and medium-sized enterprises. The owners of these businesses will likely respond to the crisis by optimising their expenditures through significant pay cuts and massive redundancies. Numerous Belarusian highly-qualified employees therefore risk to lose their jobs or to receive smaller salaries. As a result their middle class status will be compromised. The following large businesses may be the most vulnerable:

1. *Construction companies*

This sphere of business employs a very large number of people with the above-average salaries. It is highly possible that the construction sphere will continue to decline resulting in massive redundancies and pay cuts.

2. *Banking and financial institutions*

In recent years, the Belarusian banks and other financial institutions have been on the rise. However, under the conditions of the crisis, they will have huge problems with liquidity and income resulting in broad layoffs and pay cuts.

3. *Telecommunications*

Due to the ongoing devaluation of the Belarusian currency, there is a serious decline of real income of the Belarusian telecommunication companies. They incur costs in foreign currencies and there is no way for them to compensate their post-devaluation losses. These companies will have to implement serious pay cuts.

4. *All the rest of the large and medium-sized companies*

In general, the worsening situation in the labour market will provide all large and medium-sized businesses with an excuse to cut salaries for the majority of their employees. In view of the growing unemployment in Belarus, the employees will accept the pay cuts as there will be very few alternatives for them on the declining labour market of the country.

c) Consequences for highly-paid functionaries and specialists employed in the state sector.

It is questionable whether the Belarusian government will have any additional resources

for further increase of salaries for state employees. It means that the income of high-ranking state employees will be “frozen” and will continue to be reduced by the ongoing devaluation and inflation. As a result of the growing crisis, most of state employees with comparably high salaries may no longer afford the basic attributes of the middle class status.

Conclusions:

1. The aggravating economic crisis in Belarus will have even stronger impact on the status and size of the Belarusian middle class. The number of people with relatively high income in Belarus will further shrink. Since 2014, the size of the Belarusian middle class has been reduced two or even three times and less than 10% of the population continue to have income above the reference USD 700–800 per month. Before 2014, about 30–35% of the Belarusian population could enjoy the middle class income. Most of these people still have some savings, which are gradually decreasing.

2. In the nearest months, the economic crisis will reduce the income of the core of the Belarusian middle class – individual entrepreneurs, owners of small and medium-sized enterprises and highly-paid employees of large Belarusian companies. It is possible that the consequences of the ongoing crisis will be so serious that the size of the Belarusian middle class will shrink below the current 10%.

3. It is highly improbable that the Belarusian middle class will start any major political and economic protests in this country. There may be numerous protests of individual entrepreneurs, but it is very doubtful that they will trigger massive protests of the middle class. The main exit strategy for the declining middle class in Belarus will be a search for alternative sources of income, emigration, relocation of assets abroad and dramatic reduction in spending.