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Belarus has lost an important source of export revenues

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On 1 October the Belarusian National Statistical Committee published data on the external trade balance of Belarus for the period between January and August this year. During these eight months the positive trade balance stood at US$ 1.6 billion, which is US$ 380 million lower when compared with the data for the period between January and July 2012. Thus in August this year for the first time since the beginning of 2012 the trade balance has been negative. This is a reversal of this year's upwards tendency in Belarusian exports.

Commentary

- These poorer results for Belarusian exports stem above all from the fact that Russia has blocked lucrative re-exports of Russian oil-based products to the EU as diluters and solvents. Due to these manipulations Minsk had been evading the paying of export customs which it has to pay to the Russian budget on kerosene-based products made from Russian oil. Belarus has thus been violating its commitments under the Customs Union with Russia and Kazakhstan. Although Moscow has tolerated this practice, despite it being unfavourable to its budget, since the beginning of 2011, it has eventually decided to put an end to it. This may be a response to a lack of concessions from Alexander Lukashenka as regards the privatisation of companies of strategic importance.

- This year the revenues from exports of diluters and solvents have reached over US$ 2.5 billion, which represented approximately 12% of the total value of Belarusian exports. As a result of losing this important source of revenue it can be expected that Belarus's trade balance will be further affected and this will have a negative impact on the country's whole economy. The reduced influx of foreign currency will increase pressure on the country's currency reserves which, although they are worth approximately US$ 8 billion, are above all a guarantee of the payment of Belarus's external public debt, which is set to reach over US$ 6 billion in 2013-2014.

- The actions undertaken by the Belarusian government are exacerbating the economic situation in the country. Despite warnings issued by independent economists and experts from international financial organisations, they are increasing salaries in the public sector (the ultimate objective is to reach an average of US$ 500 by the end of the year and are stepping up industrial production in order to achieve the planned 5.5% increase in GDP. In

consequence, for several months now the demand for foreign currency from individuals and companies has been growing. It may also be expected that the rate of increase in the import of components indispensable for Belarusian industry will grow.

- The above mentioned situation proves once again that the Belarusian command-and - distribution model is ineffective and unable to generate growth without external subsidies or the manipulation of re-exports. In this case, everything indicates that the situation of the Belarusian economy will deteriorate in the coming months and, in response to this, the Belarusian government will decide to gradually devalue the ruble and at the same time will seek additional external support. In the current circumstances Russia, which is seeking to increase its control over Belarusian economy, can be its only lender.