

The Belarusian government's attempts to get out of the economic crisis

Kamil Kłysiński

The economic situation in Belarus has been deteriorating for many months; this is primarily due to the significant depreciation of the Belarusian rouble, low foreign exchange reserves and a persistent negative trade balance. To improve the situation, the Belarusian government launched a continuous additional session on the currency exchange in mid-September, which has allowed the Belarusian rouble's exchange rate to become more realistic. This has allowed individuals and businesses to gain access to foreign currencies. However, the Belarusian government is still not ready to undertake root-and-branch reform of the system, and is restricting itself to taking *ad hoc* measures. In addition, record inflation and a drop in real wages pose a risk of social discontent, which would force the government to introduce costly social policies. Therefore, the only hope of stabilising the Belarusian economy remains trying to attract external financial support.

Signs of economic crisis

The past few months have seen a continued shortage of foreign currency; as a result, only state exporters have had access to it at the official, more favourable exchange rate. So, demand by individuals and private companies has been met on the black market, at rates above the official average of 60%. Moreover, the rising costs of the inefficient command-and-distribution economic system have forced the Belarusian government to increase its foreign debt; on 1 July, Belarus' total external debt amounted to US\$33 billion (56.3% of GDP). According to forecasts, the level at year-end could reach 73% of GDP. At the same time, the peak of repayments and debt servicing will be reached over the next few years, which means that repaying the earlier loans will require further borrowing, this time on much less favourable terms.

In this situation, achieving a lasting increase in the dangerously low foreign currency reserves is infeasible. This unfavourable situation could be reversed if there is a significant improvement in the foreign trade imbalance, which has been in the red for years. But the country's almost total dependence on supplies of Russian oil and gas will maintain the negative trend in Belarus's foreign trade. Another major problem is inflation, which from January to mid-September reached about 63%, and could reach up to 100% by the end of this year, according to expert predictions.

Since the beginning of the year the real value of average real wages in dollars has fallen to US\$218, which puts Belarus second-last in the CIS (in front of Tajikistan). This is a real

social problem, especially since the price increase also covers basic foodstuffs as well as cigarettes and alcohol.

Immediate anti-crisis measures

Since the limited devaluation of the rouble which was introduced in May, the government has been slow to take any further anti-crisis measures. President Alyaksandr Lukashenka only presented a plan to rectify the situation on the currency market at the end of August. An additional session of the stock exchange was launched on September 14; this made it possible to fix a realistic exchange rate for the rouble, which was higher than the official one by about 60%. This in effect has meant yet another devaluation of the Belarusian rouble this year.

But the government's actions have not been market-oriented in nature. A lowered official exchange rate is still being maintained. Keeping up this double exchange rate creates a favourable situation for the large state-owned exporters (who buy the foreign currency they need to pay for the imports essential to their production at the official exchange rate), and also makes it easier to make payments for Russian gas supplies. At the same time, fearing a rise in social discontent over the coming weeks, the government will pay one-off bonuses for pensioners and public sector employees, which will be an additional burden on the budget.

Searching for external financial support

In addition to the activities it is currently undertaking for the economy, the Belarusian government is seeking external financial support. But the two options it has for raising funds – privatisation or taking stabilisation loans – are associated with Lukashenka's fear of weakening his power. As of yet, Minsk has not decided to sell its strategic assets to Russian investors. For now, the sale of shares in the second half of Beltransgaz (which owns Belarus's gas pipelines) to Gazprom seems likeliest. In September, the Belarusian government was able to acquire a US\$1 billion loan from Russia's Sberbank, although this has only partially met the country's financial needs.

Belarus has still not implemented all the IMF's recommendations, which for now makes it impossible to obtain any loans from the latter. At the same time, Minsk has been seeking the support of China; however, Beijing does not intend to make direct loans to the Belarusian economy, and has only offered lines of credit for specific projects which will use Chinese companies and technologies.

Conclusion

The additional session on the foreign exchange market could help to normalise the monetary situation in Belarus, but it will not inhibit the rise of inflation and external debt. Efforts by the government to manage the crisis are still *ad hoc* and limited in nature, and will not of themselves reform the state's inefficient economic model. In addition, the

government is not ready to give up its expensive social spending. All this means that the only way to stabilise the situation is to attract investment and loans from outside. Thus, it is increasingly likely that Lukashenka will sell certain strategic industrial assets to Russian investors. Nor is it likely that the Belarusian government will undertake any economic reforms, even though further Western loans are conditional on doing just that. A key factor in the implementation of immediate policy actions, even though they may not lead to economic recovery, will be the attitude of the Belarusian public. If the government proves incapable of effectively compensating them for the costs of the crisis, outbreaks of public discontent cannot be ruled out.