

Negative trends in Belarusian foreign trade

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The first four months of this year saw a strong increase in the trade deficit of Belarus, to the level of US\$-1 billion; compared to the same period last year, this indicates a deterioration in the balance of over US\$2 billion. In this situation, there is growing pressure to draw on the still-substantial foreign exchange reserves (which currently stand at about US\$8 billion), some of which could still be used to repay this year's public foreign debt (about US\$3 billion). The Belarusian government has succeeded in paying off its debt so far, but all indications are that the country's trade deficit will continue to worsen, which means that Minsk may have difficulty in meeting its obligations in the coming months. This may pose a threat to the stability of the Belarusian economy.

This situation is the result of the policies of President Alyaksandr Lukashenka, who has blocked economic reforms, including privatisation, out of fear of weakening his hold on power. In this way the Belarusian president has maintained the inefficient command and distribution model, which is proving to be ever less competitive with other economies, and is dependent on external support, mainly from Russia. Therefore, to protect the economy from collapse, the Belarusian government will only implement short-term solutions, such as the acquisition of new foreign loans and the devaluation of the Belarusian rouble. Such actions, as in previous years, fail to address the systemic problems of the Belarusian economy, and will only temporarily ease the symptoms of crisis.

Increase in Belarus's trade deficit

The serious drop in exports has been caused by Russia's move last July to block Belarusian companies from their lucrative re-exporting of Russian petroleum (oil) products to the EU markets as thinners and solvents. As a result, in the period from January to April this year, exports of this category of goods fell from 1.9 million tons (with a value of US\$1.7 billion) in the same period last year to approximately 600 tons (US\$730,000), losing Belarus a major source of its export earnings. The situation is also deteriorating due to a downturn in the global market for potash fertilisers (the Bielaruskaliy potassium company is one of the world's leading exporters of potassium).

At the same time, since Russia joined the WTO (Belarus is still in talks on membership, but they are not very advanced), Belarus's strategically important exports to the Russian market have become more and more difficult for the less competitive Belarusian producers. In addition, opportunities for exports from Belarus have been severely limited by the economic downturn in Russia, and by the Russian government's withdrawal of preferential terms for Belarusian producers in Russian government tenders.

The situation is particularly serious in the engineering industry, which is almost exclusively oriented to the Russian market. In the first quarter of this year, the share of MAZ (the Minsk Car Plant, which produces trucks) on the Russian market fell from 14% to about 7%. At the same time, due to the wide-ranging modernisation programme undertaken in the first four months of this year, there has been a 35% increase in investment imports (including the purchase of technology and equipment, mainly from China); this has cost a great deal of foreign currency, without any possibility of quick return on the investment. Also, consumer imports have risen by 35%, as a result of the government paying higher wages.

Continuation of unrealistic economic policy

Lukashenka is afraid that a shorter working week or even downsizing employment in industry could lead to a destabilisation of the social situation. Therefore, the Belarusian president has called for the achievement of a GDP growth rate of 8.5% planned for this year (2.5% has been reached in the first four months of this year); this means maintaining a high level of production in the export-oriented state-owned large industrial plants – regardless of the actual situation on foreign markets. As a result, since the beginning of the year, the inventory of finished goods has risen by approximately 30%, and reached 80% of the monthly production level (according to data from 1 May), which represents a value of approximately US\$3.7 billion. However, in a number of plants the levels are far above the average rate; for example, at the Minsk Tractor Plant, the inventory level on 1 May had reached around 167% of average monthly production. And so, the warehouses are holding large quantities of frozen funds, including foreign currencies, resulting from the significant share of imported components (about 40%) in the production. At the same time the government's centrally-commanded methods for increasing sales in an underperforming market (such as preferential sales of agricultural equipment to *sovkhozes* and *kolkhozes*) are only increasing costs and worsening the currency deficit.

Fear of the outbreak of social unrest has also encouraged the government to raise wages. In the first quarter of this year wages rose by 21.2% (to an average of about US\$540), while labour productivity rose by 4.5%. This wage policy has led to a significant increase in demand for imported goods, and if there is loss of public confidence in the Belarusian rouble, it may cause the mass purchase of foreign currency and lead to a deficit in the foreign exchange market.

Conclusions

Further deterioration in Belarus's trade balance and the continuation of wage increases will lead to a depletion of foreign reserves and currency deficit, as happened in the first half of 2011. As a result, the country's relative economic stability could be disrupted even before the end of this year, which would require the Belarusian government to take further anti-crisis measures. However, there is no indication that Lukashenka is willing to undertake the structural reforms necessary to improve the Belarusian economy. Therefore, the Belarusian government will limit itself to only short-term actions, which may only postpone the risk of economic collapse. Minsk will increase its public external debt, which according to data from 1 May totalled US\$12.4 billion, or about 19% of the country's GDP (its total external

debt at the beginning of the year amounted to US\$34 billion, or 54% of GDP). At the same time, because its only real creditor (namely Russia) has made new loans conditional on plans to integrate selected Belarusian industrial enterprises with Russian partners (that is, their *de facto* privatisation), it seems that this year Lukashenka will be forced to make concessions allowing the Russians to take control over at least one strategic Belarusian plant, such as the MAZ automotive plant, which the Russian KAMAZ is interested in. A devaluation of the Belarusian rouble in the second half of the year also seems likely, which should improve the competitiveness of Belarusian exports for a time. However, these measures will not solve the Belarusian economy's structural problems, but only postpone its oncoming crisis.

Appendix

Selected macroeconomic data

