

The financial crisis and the changes in the Belarusian government

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In the second half of December 2014 a financial crisis broke out in Belarus, reaching its peak on 19 December. The interventions which the Belarusian government made in order to prevent the financial market from collapsing have led to the staggered devaluation of the Belarusian ruble by over 30%. As a result of the crisis, on 27 December 2014 Alexander Lukashenko introduced a series of changes in the composition of the government, the central and local administration, the management of the National Bank, and in several large state-owned companies. Despite the fact that the situation on the foreign exchange market has been contained, structural problems in Belarus's command-and-distribution economic model remain unresolved. They are deteriorating due to the ongoing crisis on the Russian market (which is key for Belarusian exports) and declining prices of oil and oil-based products. This poses additional risks to the financial condition of the state, particularly in the context of the presidential election to be held this year.

The foreign exchange crisis

The forecasted impact the financial crash in Russia will have on the Belarusian economy led to increased expectations of the devaluation in Belarusian society before 19 December which, in turn, caused a sharp rise in demand for foreign currencies (mainly US dollars) and a rapid decline in the value of the Belarusian ruble. In order to prevent the collapse of the Belarusian financial market, the government and the National Bank of the Republic of Belarus took a series of measures, including:

- a 30% commission fee was introduced for buying currencies by both companies and individuals; the fee was then eliminated in stages by 9 January 2015 as the trend to buy currencies in mass quantities decreased,
- the level of foreign currency income which Belarusian companies earn via external trade which is subject to compulsory sale on the internal market was increased to 50%,
- the rate of refinancing was increased to 25% and interest rate was set at 40% (data for 14 January 2015).

In parallel, the Belarusian ruble was gradually devalued. As a result of this, between 19 December 2014 and 14 January 2015 its exchange rate against the US dollar decreased by 32% (in total, in 2014 the Belarusian ruble lost 49% of its value, with the compulsory commission fees to be paid at the end of December 2014 taken into account). The

measures taken produced the desired result only in the short term as the threat of the insolvency of the banking system was avoided. However, the decisions which have been made will not resolve the problems in the long term. The currency shortage is still felt on the market. The increase in the refinancing rate and interest rates has worsened the prospects the entire economy has of obtaining loans, which will significantly hamper the work of many Belarusian companies (without additional assistance from the state) and will perhaps sometimes even make this impossible. Following the intervention on the foreign exchange market the level of foreign currency reserves considerably decreased by US\$ 760.8 million to a level of US\$ 5 billion. An increase in inflation and prices, which have been temporarily frozen due to a special moratorium, is also inevitable.

Postponing the decision about the devaluation of the Belarusian ruble until the critical moment has again shown the manner in which the Belarusian authorities are pursuing its economic policy. Despite the fact that the exchange rate of the Belarusian ruble was maintained at an inflated level compared to its real value for months, for populist reasons the government did not want to agree to its devaluation until the last possible moment. What has also confirmed the willingness to maintain full control over economic processes in the country were the measures (intensified following the intervention on the financial market) against the independent media that reported on the economic problems (blocking access to their websites), intensified audits of stores (also Internet-based ones), which resulted in the temporary closure of dozens of them and the announcement of continual, strengthened control over the pricing policy.

The changes in the government

Following the crisis, on 27 December 2014 Alexander Lukashenko made a series of changes in the composition of the government, the central and local administration, the management of the National Bank and in several large state-owned companies. The major changes have been: Andrei Kabiakou (previously the head of the presidential administration) replacing Mikhail Miasnikovich as prime minister; Alexander Kosinets was appointed the new head of the presidential administration, moving from his previous role as governor of the Vitebsk district; Pavel Kalaur was appointed the new president of the National Bank of the Republic of Belarus, having led Belvnesheconombank since 2010. Furthermore, Lukashenko appointed two deputy heads of the presidential administration, three deputy prime ministers, a minister for the economy, an education minister, tax minister, industry minister, a deputy education minister and a deputy minister for the economy, a president of the property state committee, governors of the Brest, Vitebsk and Mogilev districts, a president of the statistics committee and managers of several state-owned companies.

Frequent staff reshuffles have been a permanent element of Alexander Lukashenko's politics. These changes are meant to produce an effect of "renewal" and thus the appearance of replacing the state structures. Nevertheless, the majority of the appointments are in fact reshuffles within a group of a limited number of candidates. In the present situation the changes made above all constitute a way of shifting the responsibility for the current economic problems to high-ranking officials in the government and the central bank. By replacing a host of officials Lukashenko has shown society that he is in control of the situation and has held those responsible to account. It needs to be stressed

that in Belarus's political system all key decisions, including those regarding the economic model, are made by Alexander Lukashenko and his immediate aides. The government and the National Bank are merely subcontractors who function within a framework of set premises. In this regard it should not be expected that the new appointments will bring fundamental changes in Belarus's economic policy, the less so, given this year's presidential election (initially planned for November) since Alexander Lukashenko regards the prospect of structural economic reform as a threat to the stability of the system of power he has established.

A threat to the state's finances

The stabilisation of Belarus's finances will be a difficult task due to problems on the Russian market since approximately 50% of Belarus's total trade is linked to the Russian market. The economic recession in Russia and a sharp decline in the value of the Russian ruble will translate into a decrease in revenues from exports. Further dangers are linked to a steep fall in oil prices because revenues from re-exporting products based on Russian oil make up approximately 30% of Belarus's total exports. Furthermore, given the fact that long-term forecasts do not foresee a swift improvement in the Russian economy or an sharp increase in oil prices, the above mentioned problems may be long-term. Additionally, the Belarusian government is faced with the necessity to pay growing amount resulting from external debt (over US\$ 4 billion in 2015).

Nevertheless, the present economic problems have not led to a radicalisation of feelings in Belarusian society, as confirmed by sociological surveys. According to a survey conducted by NISEPI in December 2014 (albeit before the culmination of the monetary crisis) nearly 80% of Belarusians declared they were not ready to participate in mass protests should the election results be fixed. Only 51.9% admitted that they would be in favour of radical changes in the country's internal and external policies, however, 46.4% claimed that potential changes should lead to an increased role for the state in society. The aversion to protests is also linked to the systemic weakness of the Belarusian opposition which does not represent a genuine alternative to Lukashenko due to internal conflicts within its ranks and the political ineffectiveness of its leaders. Generally, approximately 20% of society in Belarus has declared support for the opposition for years, whereas confidence in its individual leaders did not exceed 3.5% in the survey conducted in December 2014. In this situation the Belarusian government will continue its attempts to use the political and economic crisis in Ukraine in Belarusian internal politics in order to emphasise the stability of the Belarusian state and its peaceful role in the region. Another strategy will be the propaganda consisting in stressing the responsibility for the current financial problems on external factors i.e. the crisis in Russia.

The above mentioned conditions indicate that, unlike in previous cases, Belarus is beginning a year with a presidential election faced with a situation of a substantial financial crisis and a difficult economic outlook. Pursuing the present economic model without the necessity of introducing structural reforms will compel the government to take out further external loans, above all from its main lender – Moscow. This will lead Minsk further down the classic debt spiral and will not contribute to a systemic solution to its economic problems.