

# Will Inflation Deal the Final Blow to Current Government?

Yesterday the National Bank of Belarus allowed private banks to increase foreign currency exchange rates. Previously, all banks were limited by a very low ceiling. Now officially banks received full freedom to establish the rate. However, various sources suggest that the recommended US exchange rate should not be higher than BYR 4,000. Most of the Belarusian banks now set the buying/selling rate at BYR 3,990/4,000. Yet they almost had no currency for sale on Tuesday.

In the morning, the USD exchange rate in black market, the only place to get foreign currency now, was around BYR 3,900/4,100-4,200 (selling/buying). As a result of the National Bank's move, in the afternoon the black market rate reached BYR 4,800/5,000. It is the most clear evidence of how the situation is getting out of the government's control. No wonder that in such circumstances many small businesses are closing down. Those who receive salaries from state institutions and state-owned firms, are terrified by prospects of their income being eaten up by high inflation.

As usual, the government is trying to blame someone else for these developments, in particular people who are hurrying to buy cars abroad. In July, new import duties will become effective making Western cars almost unaffordable for ordinary Belarusians. Very few in Belarus took seriously today's statement by the state statistics office Belstat that in 2011 the inflation in Belarus was just 10.9%.

According to Belstat, the consumer products and services price index in April increased by 4.5% comparing with March, and by 10.9% comparing with December 2010. As a matter of fact, in April prices for many products increased by 30-100% and there are almost no goods which did not become more expensive.

Bad news for the government came also from Moscow, as Kremlin declared again that it would not give Lukashenka the loan he was waiting for. Russian Finance Minister Alexei Kudrin proposed the Belarusian government to ask the International Monetary Fund for money and privatize the state owned enterprises.

Minsk wanted a USD 3 billion loan from Russia and Russia-dominated EurAzES, Euroasian Economic Space. EurAzES is a form of cooperation of Russia, Belarus and most Central Asian post-Soviet nations. Moscow is willing to discuss only a much smaller loan of less than USD 2 billion from the EurAzES. And no money from Russia itself.

Kudrin said that probably Russian Prime Minister Putin would visit Minsk to finalize the deal next week. Due to desperate situation of the Belarusian government it will not be capable to resist any Russian demands. Kudrin believes, Belarus cannot avoid resorting to the IMF help and privatizing state owned enterprises for around USD 2 billion.

Interestingly, the Swedish Foreign Minister described recently exactly [scenario](#) at the Warsaw conference. He predicted problems with getting the help of IMF and US, and said that finally Belarus would have to turn to the EU.

Of course, there is not much precision in politics, yet one thing is clear: the Tuesday's fall of the Belarusian ruble may be the first blow which will result in fundamental changes in Belarus. Whether under external pressure and privatization or due to large-scale social protests Belarus may see serious changes.

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