# Loan from the IMF or Privatization by the Russians?

Belarus' economy needs external financing more then ever before. The government resists privatization but it will have to surrender soon, even if the International Monetary Fund decides to extend another loan.

Recently the Belarusian weekly Belorusski Rynok discussed the chances of getting an IMF loan. At least three factors play against it. First, Belarus failed to fulfill a number of conditions for the loan extended two years ago. For instance, it failed to establish an agency of financing for state programs, and while the agency on privatization was established, it stopped short of privatizing anything. Moreover, just before the 2010 presidential elections, the government has dramatically raised salaries to woo the electorate.

Apart from that, the IMF usually imposes caps on the amounts a country can borrow in accordance with the country's quota. Belarus has already used its quota. In 2008, following extension of the US $2.46 loan to Belarus the IMF Managing Director Dominique Strauss-Kahn noted that the access the country was granted to its resources in the amount of 420% of the quota was unprecedented.  However, Belorusski Rynok noted that the IMF was a flexible institution and may extend funds beyond the quota of Belarus.

The political component in the IMF's future decision also needs an explanation. The United States and the European Union heavily criticize the Belarus government for its human rights violations. Both introduced sanctions against Belarus, although the European Union stopped short of serious economic sanctions. They insist that Belarus should stop repression against the opposition and release political prisoners before discussing any financial aid.

Belarusian weekly Nasha Niva quoted an anonymous European diplomat in Minsk, according to whom Belarus authorities were sending inconsistent signals, both in politics and economics. As an example, he mentioned Lukashenka's statement that political prisoners would soon be released. However, following that statement two former presidential candidates – Mikola Statkevich and Dzmitry Uss were sentenced to long prison sentences.

The diplomat also recalled new restrictions on media, and the threat to close two leading opposition newspapers – Narodnaya Volya and Nasha Niva. According to him, if the situation remains the same, the European Union will continue to ignore any overtures made by the Belarusian authorities. As far as the economic situation in Belarus is concerned, he had the impression that Belarusian authorities are doing nothing to change the course of events. The government negotiates a possible loan with the IMF, but decisions are not being made by the government.

Although the West dislikes Lukashenka and his policies, they are also concerned about the increasing role of Russia, which continues to build up pressure against Lukashenka. This week, the Russian energy state-owned giant "Inter RAO EES" halved its supplies of electricity to Belarus. The reason was the debt of Belarus in terms of energy supplied in March-April of this year.

The Russian Ambassador to Belarus, Alexander Surikov stated this week that the main reason for the economic crises in Belarus was the change of the terms of Russian oil supply with Belarus. Between 1995 and 2007 Belarus did not have to share the export duty on refined oil products with Russia. Starting in 2007, it had to share with Russia, which "caused a hole" in the Belarusian budget. Surikov noted that the government needed to correctly develop a program to combat the crises, secure external finances, privatize state property and reduce imports. According to him, it was time to understand that Belarus economy can no longer afford the level of spending it had in the past.

The Financial Times proposed in its editorial to extend an IMF loan to Belarus because that would help the country reduce the threat of placing Belarus irreversibly in Russia's geostrategic and economic orbit. This would reduce the independence of Belarus to a cipher and set a disturbing precedent for other former Soviet republics. The editorial concluded that an IMF program, properly designed and implemented, would contribute to the goal of free and independent Belarus.

Others consider that providing an IMF loan to Lukashenka means prolonging the existence of the Belarus regime. This year the official Minsk faces pressure which it has never seen before and is closer to collapse then ever. Providing help to it today would mean to waste the momentum. Moreover, in the past not only did Belarus not comply with recommendations of the IMF it failed to implement any significant reforms and has largely "eaten up" the loans.

It appears that for the long-term development of Belarus privatization of enterprises is highly desirable. That would help attract the badly needed foreign investments and make state enterprises more efficient. However, Western investors worry about political risks in Belarus and the instability of its legal and political system. Russian investors, on the other hand, have enough financial resources and hope that the Kremlin could protect their interests. Even if the state enterprises are sold to Russian business groups, Belarus will be able to tax and otherwise regulate those enterprises and even expropriate, if necessary. In the future, the same enterprises can be sold by the Russian investors back to the state or to Western investors.

However, privatization by the Russian capital has two potential downsides. First, the privatization process will not be transparent. A significant share of the proceeds of sales of large enterprises will end up with corrupt Belarusian and Russian bureaucrats. Second, early 1990s showed that Russian investors tend to loot assets instead of thinking long-term. The situation in Belarus today in many respects resembles the early 1990s, which may prompt Russian businesses to behave as before. Another downside of inviting Russian investors is that it will further strengthen Belarus' dependence on Moscow. Also, Russian privatization in the early 1990s demonstrated that it was better to invite investors with superior technologies and management skills rather then selling to the locals.

However, because the demand for the external financing is so great, it appears inevitable that Russian businesses will take over many Belarusian state enterprises. And even the IMF loan will not help the Belarusian authorities to keep its state-owned property. Once the structure of the economy is changed, Belarus will no longer be the same.

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# The Agony of the Belarusian Economy

The currency exchange crisis persists in Belarus while the government is looking for ways to tackle it at a minimal political cost. Russia has declined to grant Belarus the much awaited loan of 1 bn. USD.

The last hope is a loan from Stabilizing Fund of the Eurasian Economic Community, where Russia has a decisive voice. And Russia almost literary declared – if you want financial support, you need to start selling your state-owned enterprises. If Belarus agrees on Russia’s conditions it will receive a 1.2 bn USD loan from the Eurasian Economic Community this year. But it will hardly save the agonizing economy, even if the amount of the loan were to be much higher.

The exchange market was stuck waiting for foreign currency and a currency devaluation for about two months, while the government was waiting on Russian loans. Only at the beginning of May, when Russia's Finance Minister Kudrin announced that no loan could be expected directly from the Russian budget, the National Bank devaluated the Belarusian ruble by 30%. On May 24th it devaluated ruble by another 30%, but the situation on the market remains bad – no one is eager to sell foreign currency at the official exchange rate.  Already in April the devaluation had reached 100% on the black market as well as the interbank market in comparison to the official rate. The inability of the government to pull Belarus out of an economic crisis provoked the introduction of a multiplicity of currency exchange rates, which had already previously been observed in Belarus in late 1990s.

The recent official devaluation of the Belarusian ruble was too late to improve the situation of the foreign exchange market. After two months of uncertainty with currency restrictions, and with the resulting black market speculation, a Pandora's box of devulation and inflation forces had already spread throughout the economy. Trust in the government and the banking system are decreasing at the same speed that prices on most products are increasing.

According to the National Bank of Belarus during March alone Belarusians bought $768m USD, while throughout the whole of last year it was only $1.5bn USD. The restrictions on the exchange market did slightly slow down the outflow of foreign currency reserves in March and April, but this led to more negative outcomes for the economy.

The lack of trust in the official exchange rate and deficit of foreign currency made importers increase the prices on their goods according to the "market" (in fact, black market) exchange rate, which was 50% (and even 100%) higher than the official one before the devaluation. As a result, prices for all imports had immediately soared, which boosted an increase in inflation. In only the first four months did the rate of inflation reach 10.9%. Deputy of Minister of Economy Andrey Tur has already confessed that inflation could reach about 39% at the end of the year.

The first signs of an increase in unemployment showed up too. Many companies dependent on imports were forced to suspend their activity and fire employees.The Minister of Statistics and Analysis has already announced that about 600 thousand people lost their jobs. But the actual number is probably much higher.

The National Bank, unable to make decisions independently from the Presidential Administration, turned into an experimental lab of not particularly competent bureaucrats. Despite banning itself from any decisions in April the National Bank increased the refinancing rate four times during the last two month period – to 16%. This measure is supposed to stop at least the bank run – the increase of the refinancing rate subsequently leads to an increase in the rate on ruble deposits. But with generally low confidence in the Belarusian currency, it seems to be quite a useless measure.

But most of the "entertainment" in recent months was reserved for the commercial banks. At the end of March the National Bank set free the exchange rate for interbank operations. But when the exchange rate increased to more than BYR5000 for $1 USD (with the official rate 3048 BYR/USD) for interbank operations, the unofficial recommendation from National Bank came not to increase the exchange rate more than 4500 BYR/USD. In turn, it paralyzed the whole interbank sector for a few weeks. However, the second devaluation to 4970 BYR/USD failed to revive the interbank market, as the government still prevented commercial banks from increasing the exchange rate higher than 2% from the official one.

The recent devaluation did not change much in the economy – it is still impossible to buy foreign currency for ordinary people. Commercial banks can buy currency only on the stock exchange market – the National Bank refused to sell its foreign reserves. And the present “free” (officially devaluated) exchange rate of 4970 BYR/USD is still far from an equilibrium. Belarus' ruble will devaluate further (and create an increase in inflation) if no adequate steps are undertaken in the next few months. The economic tools at the disposal of Belarusian government is highly limited – it consists of either external loans or printing money. And today such tools can bring about only negative results.

What can be observed in Belarus' economy now resembles the breakdown of Soviet economic and political system. More and more the situation in the country reminds one of those wild 1990s with queues, deficits of goods, inflation and unemployment. From the Soviet Union Belarus inherited the nature of its extensive economy, when only a mass influx of resources enabled economic growth. In the case of Belarus it was the financial and natural resources received from Russia, which were then redistributed among state-owned companies through the state budget or commercial banks. This type of economy is unable to regenerate and create sustainable returns on investments.

The disintegration of the economic system will subsequently undermine the present political regime. However, it is hard to predict how soon it will happen. The only thing that is obvious – the price of political and economic transformation, skipped by Belarusians in 1990s, is going to be high.

Volha Dudko

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# Belarus Authorities Combat Economic Crises on the Ideological Front

The Belarus authorities seem to be combating the economic crises on two fronts. On the economic policy front, they promise modernization and reforms. On the ideological front, they initiated closing down two leading independent newspapers and instructed state media not to focus too much on the economic problems. The authorities can easily succeed in liquidating independent newspapers, however hiding the most serious economic crises in Belarus since 1990-s will be much more difficult.

The state daily Zviazda reported on a seminar organized by authorities for editors of state-controlled media on 29 April 2011. State officials were instructing editors how they should do their work. Deputy Prime Minister Anatoly Tozik spoke about the need to modernize Belarus economy and encourage more independent decision-making of directors of state enterprises. He also promised that despite economic problems there will be no cuts in spending on social projects.

Aleh Praliaskouski, the main state ideologist, referred to media which in his opinion incorrectly covered the 11 April terrorist attack. According to him, fear and panic in Belarus is exactly what the terrorists want. In connection with it he also quoted Lukashenka, who said that Belarus was under external pressure because of its independent internal and external policies.

The opposition weekly Nasha Niva picked up Mr Tozik's admiration of reforms which need to be led by the "strong" government. The newspaper, which may be closed down soon, noted that the strength of authorities should not be measured by how the authorities oppress the opposition. Instead, it should be measured by how successful it is in fighting corruption, collecting taxes and promoting economic development. Nasha Niva also discussed the effect of the authorities' request to the state media not to focus on rising prices and other economic problems because this could even further deteriorate the situation.

Indeed, it will be difficult to hide economic problems and this is exactly what people in Belarus want to know more about. Most opposition web sites such as Belaruspartizan.org describe how people are struggling with the inadequate supply of imported goods and rising prices. The lack of foreign currency hinders the retailers' ability to import goods. Goods produced in Belarus are often of inadequate quality and cannot replace all imports. According to sellers, even with increased prices the stocks of imported goods are depleting and there is nothing to replace them.

The state-run media is generally silent about the ongoing trials of former presidential candidates and other opposition activists. Independent media, however, cover those trials in great detail. Belarus' internet users actively discuss recently released photos which suggest that after the violent crackdown against the opposition meeting on 19 December 2010, Belarus security services planted shovels, ice-axes and other items at the demonstration site to show that the protests were not peaceful. However, the courts do not seem to be interested in considering evidence exonerating the opposition. That makes many bloggers skeptical about the Belarusian authorities' investigation of the 11 April bombing in Minsk. Their concern is that if authorities so easily and willingly manipulate evidence to punish their political opponents, why one should expect from them a fair and transparent investigation of the 11 April blast.