

Why Belarus Struggles to Stop Subsidising Its Enterprises

This month, the Belarusian Ministry of Finance will issue bonds for \$425.8 million to bail out Gomselmash (abbreviation for Homiel Rural Machine Building), the most important industrial holding company of the second largest city in the country. The large cost of issue reflects the size of Gomselmash's problems.

The holding fails to sell its products, is reluctant to lay off people and cannot pay salaries to its employees. Many other Belarusian enterprises face similar problems. The state recently limited assistance to state-owned enterprises, which still dominate the Belarusian economy but has no choice but to provide even more help.

The Main Problem of Homiel

In May, Prime Minister of Belarus [Andrej Kabiakou](#) stated that the authorities should assist Gomelselmash because it remains a Belarusian national brand. In fact, the factory has a long history: it emerged in the late 1920s, during the Second World War it was evacuated, but was still producing mines. After the war it became one of the five largest manufacturers of agricultural machinery in the world.

Today Gomselmash is one of the main companies of the [Homiel region](#). It has around twenty thousand employees and offices not only in the post-Soviet region, but also in China and Argentina.

Now the plant is going through its worst times. Sales fell several times, and the plant shortened its employees working week to four or three days in winter, spring and summer. The

reduction in sales was primarily a result of the economic crisis in Russia and high prices. Salaries in the company fell by 3-4 times. Moreover, the number of staff members decreased by 10% in one year only

Holding Companies	The number of employees in 2014	The number of employees in 2015
OJSC "Gomselmash"	9492	8203
OJSC "Gomel Plant of Foundry and Fasteners"	4755	3810
OJSC "Research and Development Centre of Combine Harvester Engineering"	683	600
OJSC "Svetlogorsk Machine-Building Plant"	251	251
OJSC "Gomel Factory of Special Instruments and Technological Equipment"	no data available	no data available
OJSC "SP-Build"	no data available	no data available

Data: Ministry of Finance

The enterprise appeared at second place among the most unprofitable enterprises in Belarus in the first quarter of 2015. The newest data remains unavailable, but introduction of the bailout program means that the second-quarter results can bring no difference.

Gomselmash is no longer able to service its loans or cover the costs of electricity and gas necessary for production. Gomselmash cannot even issue its own bonds, so the Ministry of Finance would have to do it instead. Minsk Tractor Plant, who will also get help this month.

Unstoppable Belarus

Belarusian authorities believe that Gomselmash remains too big to let it fall. Belarus, however, no longer has the money for direct state subsidies, as the amount of [exchange reserves](#) does not allow to keep printing money. Therefore, the authorities came up with the idea of issuing bonds for \$425.8 mln that will be acquired by four banks.

Without this state aid Gomselmash would be unable to pay its debts and that would lead to serious problems in the banking sector

According to [Aliaksandr Chubrik](#), Director at IPM Research Center, "this measure does not contradict to stabilization efforts of the authorities and is in line with their general approach: not to allow further aggravation of problems in financial sector". Without this state aid, he told Belarus Digest, Gomselmash would be unable to pay its debts and that would lead to serious problems in the banking sector. Therefore, Belarus subsidises state companies to keep them afloat, even though these same enterprises led the economy to the current state in the first place.

The International Monetary Fund, that is currently negotiating a new program with the Belarusian authorities, could as well, according to Chubrik, understand the reasons behind the help to Gomselmash. Moreover, the Belarusian authorities never promised to stop enterprise bailouts and start economic reforms. And possible donors, like the IMF, know that things cannot change for the moment.

Keeping the Status Quo

Given the state of Gomselmash, it makes sense that the Belarusian authorities decided to help the holding. However, these tactics will probably not save it, but rather increase

its debt and worsen the economic situation of the whole country.

Today, Gomselmash's problems are associated with low levels of innovation, but the money it will receive will not go to research and development. The law signed by [Lukashenka](#) does not provide extra subsidies for Research and Development of the Centre of Combine Harvester Engineering, Gomselmash's R&D subsidiary. The poor quality of machinery does not appear to bother the authorities at all.

Most major enterprises in Belarus belong to the state and, according to the Ministry of Finance, a quarter are not profitable

According to Chubrik, the money will go to pay off previous debts and to ensure the basic functioning of Gomselmash. However, it remains unknown whether the holding will be able to upgrade its production or repay its debts. It also seems that this is not the last check picked up by the government for the company.

The bailout of Gomselmash would not be a topic for discussion if it did not open the gate for other enterprises to seek government money. Most major enterprises in Belarus belong to the state and, according to the Ministry of Finance, a quarter are not profitable. They certainly would like to have some financial help from the state.

According to a report released this month by the Ministry of Statistics production in machine building fell by 20%, while in rural machine building, as in case of Gomselmash, it fell even further.

The situation clearly shows the dilemma that Belarus faces: if it wants to keep the economy afloat, it has to continue to subsidise its enterprises. Other options, like privatising or discussing how to restructure dysfunctional enterprises with

the IMF's help, remain on the table, but the authorities remain reluctant to choose them.