

# **Foreign Exchange Reserves Increase, New Regulation of Microloans – Belarus Economy Digest**

For the first time over the last six months, in June Belarus saw an increase in its foreign exchange reserves.

This growth was due to the issuance of a bridge loan by Russian VTB Bank.

At the same time, the overall amount of foreign exchange reserves remains relatively low, a problem which has been influenced by an increase in foreign debt repayments this year.

In order to maintain a high level of profitability on ruble deposits versus those done in a foreign currency, the National Bank did not change the refinancing rate in June 2014.

Accelerated price growth in May made it impossible to utilise this monetary instrument then. In July, the refinancing rate dropped 1 percent point.

In late June, the President signed a decree which aims to regulate the activity of microfinancing institutions. According to the document, these companies will be limited to giving loans to the general population strictly for consumer purposes.

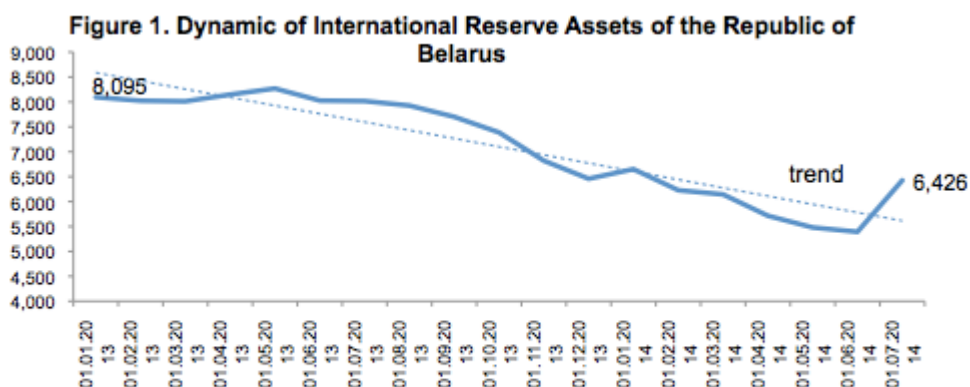
## **Foreign Exchange Reserves Make Gains**

In 2013 and at the beginning of 2014, Belarus' foreign-exchange reserves gradually declined. In 2013-2014 repayments on external debts increased significantly. This year, for

example, external debt servicing will cost Belarus more than \$3bn .

Ensuring positive dynamics continue with a nation's foreign reserves is quite difficult in the context of a pervasive negative trade balance in goods and an absence of a significant inflow of foreign direct investment on a net basis. Both of these factors have, naturally, negatively influenced state reserves.

At the same time, in June 2014, the country's international reserve assets increased by more than \$1bn and now totals \$6.43bn. A bridge loan from Russian VTB Bank to the Belarusian government for \$2bn to replenish its foreign exchange reserves is the main culprit behind this sudden increase. Foreign currency bonds issued by the Ministry of Finance also provided a positive impact on the growth of its reserves.



Source: *National Bank of the Republic of Belarus*

The government and the National Bank have been carrying out a number of projects aimed at maintaining their foreign currency reserves at a more or less stable level through utilising both internal and external sources.

The Ministry of Finance, for example, issues foreign currency bonds for individuals and legal entities on the domestic market. Over the first five months of 2014, they have issued foreign currency bonds designated for individuals for a total of \$34.2m and separate bonds for legal entities for \$145.7m

and €130m .

In addition, the Government has been attracting foreign government loans from the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and several Chinese banks.

Over the first five months \$315.6m was drawn from foreign markets. Taking into account the credit received from Russian VTB Bank in June, from the beginning of the year external borrowing increased by more than \$2.3bn.

In 2013, external borrowing reached a total to \$2.4bn, just slightly more than what Belarus has acquired in under 6 months in 2014.

Still, Belarus is struggling to augment its international exchange reserves. According to all the available data, at the end of June Belarus had about 2 months worth of reserves to cover its imports (or at least a minimum of 3 months).

In the long term, the volume of the country's reserves can contribute to attracting more foreign direct investment, including funds received from privatisation.

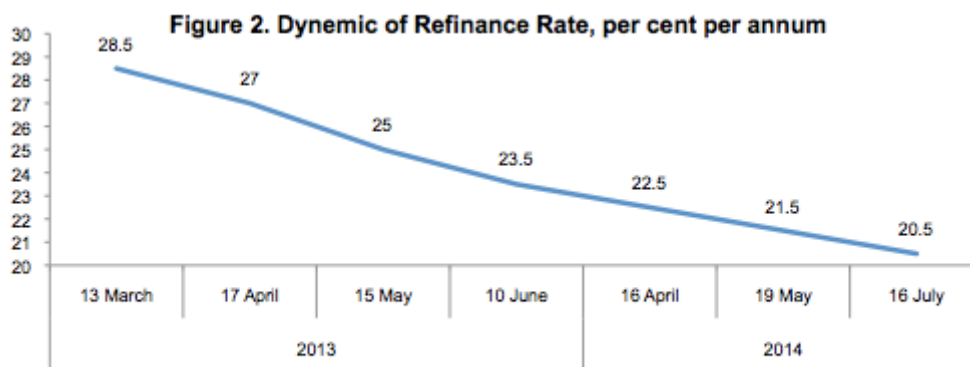
### **Refinancing Rate Remains Unchanged**

The National Bank maintained its June 2014 refinancing rate throughout the month of July. This decision made as a result of accelerated inflation rates in June. Prices for consumer goods and services have already increased by more than 10 per cent over the past six months.

Growing prices in January-June 2014 imply an unconditional excising of the projected inflation figures for the end of the year. Taking into account actual price movements, the National Bank announced that by the end of the year the refinancing rate may drop as far as 18-20 per cent.

This forecast built on the assumption that there will be hikes

in consumer prices of about 16-17 per cent in 2014.



Source: *National Bank of the Republic of Belarus*

The refinancing rate affects the dynamics of other rates in the banking sector. By reducing the value of this rate, it helps to bring down the costs of [personal loans for bad credit](#) and, therefore, the cost of ruble deposits.

A rapid decline of interest rates on deposits in Belarusian rubles, when compared to price dynamics, in reality means there will be a reduction in their overall profitability. This situation may lead to a decrease in ruble deposits, which may negatively impact the banking system.

In this regard, the National Bank gradually has been reducing the refinancing rate, taking into account a policy of maintaining higher returns on ruble deposits than those done in foreign currencies. Staying true to their strategy, in July the refinancing rate decreased to 20.5 per cent due to reduced inflation in May.

## **Regulation of Microfinance Organisations**

In late June, Lukashenka signed Decree № 325, which restricted the kinds of activities that microfinance institutions were able to take part in.

According to the document, beginning next year Belarusians will be able to get loans only to satisfy their consumer needs in what are the equivalent of pawnshops in Belarus.

All the remaining microfinance institutions will make loans to the population only for business purposes. The decree also limited the activities of microfinance institutions to bring in money from the public.

The decree was apparently designed to streamline and improve the performance of microfinance institutions. Previously, however, there were no special regulations governing the activities of financial institutions that were not banks. As a result of this loophole, many “get cash before you get your salary” shops popped up all over the country.

For these kinds of fast cash shops a passport is enough to put some money in your pocket. However, as is all too common elsewhere, the actual expense of borrowing money from these kinds of institutions usually far exceeds the cost of a bank loan for a similar amount. In some cases, the repayment rate, through various tricks and schemes, could be as high as 1,000 per cent per year.

In addition, some microfinance institutions have been able to get the public to place deposits at super-high interest rates. These kinds of operations, while very tempting, are quite risky, as there is no strict set of regulations for microfinance institutions in contrast to banks.

Furthermore, in Belarus the state guarantees 100 per cent refund on all bank deposits regardless of if there were made in a foreign or national currency.

This guarantee, of course, does not apply to microfinance institutions. In the end, this new presidential decree is intended to deal precisely with some of the issues that arise around these unregulated microfinance institutions.

Such changes will stimulate the development of more organised financial market and reduce risks for the general public.

*Anastasiya Luzgina, Belarusian Economic Research and Outreach*

Center and blogger for [Readies.co.uk](http://Readies.co.uk)

*This article is a part of a joint project between Belarus Digest and the Belarusian Economic Research and Outreach Center (BEROC)*