

Stripped of Cash, Belarus Grants Large Concession to British Company

Yesterday the Belarusian government concluded an investment agreement with the British company *GMC Global Energy plc* owned by Russian oligarch Mikhail Gutseriev. Gutseriev, who fled Russia in 2007 and currently lives in the United Kingdom, has undertaken to build a major potash-extraction enterprise in Belarus.

The new enterprise will inevitably compete with Belaruskali, the most profitable state company in Belarus. It will extract the same potassium and undermines all its further prospects. This desperate move by the Belarusian authorities is like shooting themselves in the foot. It shows that their options are really exhausted.

Earlier this month, Lukashenka issued a presidential order on concessions for natural resources. Belarusian potassium chloride has been the single major mineral exported of Belarus since Soviet times. Mikhail Gutseriev promises to invest USD 1.5 billion in three major sites to the south of the Belarusian capital. The new enterprise will reach its full capacity in ten years.

Allowing Gutseriev into such business is a very sensitive issue. Belarus has extracted potassium on its own for about 50 years, and has advanced technologies to do it, so it does not need foreign input. The potassium-extracting branch is controlled by state monopoly Belaruskali, which brings a bulk of income to the Belarusian budget; this year alone it will earn about USD 3 billion. Contrary to the government's boasting, it is potash products that are Belarus' major export commodity, and not cars or tractors. Another source of big

money for the Belarusian government – oil refineries – are now suffering net losses because of the new price arrangements with Russia.

However effective its work may be, Belaruskali cannot expand its production despite increasing global demand. The government effectively confiscates all the profits leaving nothing for any major investment. In addition, no matter how much the Belaruskali earns, Lukashenka needs money now, and cannot wait.

In order to get the money, the Belarusian leadership grants – as always without any tenders or transparency – a concession to a good friend of the Minsk ruler who has already worked with the Belarusian regime in the past. In 2002-2002 he was the president of Russian-Belarus oil firm Slavneft.

Apparently in today's Belarus, the only way to undertake major investment in the country is to befriend someone from the very top of the regime, and even better, Lukashenka himself.

Russian journalist Pavel Sheremet admits, “Of course, he [Gutseriev] does have money, but it is that type of entrepreneur and that type of investment which may be called risky. And this project is built upon a political component. None of the well-established Russian oligarchs will come to Belarus”[*](#).

Having a powerful political sponsor is a precondition for doing business in Belarus. For example, after Lukashenka's visit to Qatar last August, the Belarusian government media loudly applauded the deals made which would allegedly bring billions to Belarus. The secret of such deals was simple – of course, the Qatari rulers can afford property in more legally-protected places in the West. Yet in Belarus they can build whatever they want even in places where the building is legally prohibited for some social, cultural or environmental reasons. What is impossible in Western countries is possible

in Belarus.

For instance, some of the most discussed projects may be linked to building palaces in the world-renowned protected area of Belavezhskaya Pushcha. But there are no restrictive laws for Gutseriev and other friends of the Belarusian strongman. Upon signing the deal he gratefully declared that “the investment climate in Belarus is not worse than in other countries”*.

This new development demonstrates that the situation in Belarus is becoming desperate. Lukashenka would not touch potassium business had he not found himself in a real emergency. Could he put on sale other assets of his country? It is hard to answer this question, yet the value of many assets currently owned by the Belarusian state cannot be as high as expected.

The Belarusian government recently declared it was planning to get USD 6-7 billion of foreign investment for extracting national mineral resources. Yet this sum seems to be hardly achievable. Potassium was indeed sought by many companies and Belarus is actually a major player on the global market of this mineral resource. But other natural resources such as granite, gypsum or low-quality iron ore – that can be made available for some kind of foreign investment or purchase, are by far less profitable.

Most likely the king is effectively naked. Most business adventures of Lukashenka in the past – like the arms trade – were no more than improvisations to get quick money without any prospects for stable earnings.

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Belarus Economy Digest: Retaining the Status Quo

The development of the crisis in Belarus has slowed down and the macroeconomic situation has been temporarily balanced. The state program of privatization struggles to achieve its goals because of the lack of buyers but the foreign trade balance is improving because Belarusian goods are relatively cheap. The government failed to adopt market rate for foreign currency exchange despite calls from the business community and its own ministries. More importantly, the government apparently has no robust plan to reform the economy.

Exchange rate. The government appears to have abandoned its plans concerning the revitalization of the foreign exchange market in the near future and bringing the official exchange rate to the market level. Moreover, to date, the preservation of restrictions on the free access to the foreign currency for importers and the public began to be openly considered by the authorities as an important factor of improving the foreign trade balance and preservation of the gold and foreign exchange reserves. Currently, the non-cash foreign currency market has split into a number of interdepartmental centers of foreign exchange allocation.

Moreover, the right to buy foreign currency earnings flowing to the accounts of accountable exporters is distributed among the importers – members of a certain department (ministry, konzern). In case if the department does not have large enterprises receiving currency earnings in its subordination (as, for example, in the Ministry of Energy), its importers will have problems with the payment for import, regardless of the degree of its criticality (the example of “Belenergo” unable to pay its relatively small debt in the amount of 53,5 million USD to the “Inter RAO UES” is very illustrative).

Organizations that are outside the state system of economic management can buy foreign currency from banks at the official exchange rate of +/- 2% (the banks offer this option only to very large customers or affiliated entities) or on the basis of bilateral deals with non-state exporters (based on the actual rate of 6800-7200 Br/USD with the extra payment added to the official exchange rate according to a certain scheme).

Inflation. In June the fight against inflation continued by means of administrative resources ("untwisting" of the petrol prices by the President, forcing the retailers to lower the prices and discounts for certain categories of citizens). In general, in June we can expect some deceleration of inflation, although its absolute indicator remains significant (for the first six months of this year the inflation is expected at the level of 33-34%). As a measure for prevention of the trade deficit due to the disparity of prices relative to neighboring countries, the Government introduced restrictions and even bans on the export of certain groups of goods outside the Customs Union (petrol, tobacco, certain foods, refrigerators, etc.).

We can say that there are no significant shortages of goods in Belarus yet, but as far as some commodity groups are concerned (cement, coffee, cocoa, meat and dairy products) there is a marked narrowing of the range of products and the decrease of the saturation of the market. It is caused both by the deterioration of conditions for importers and the priority export of domestic products to Russia.

Trade balance. As for the balance of the foreign trade, the most acute problem of the Belarus economy, there was a significant improvement of its dynamics (surplus in May in the amount of 154,4 million USD, which happened for the first time in 1,5 years). The mentioned dynamics is driven by both the devaluation of the national currency and the improvement of the external trade conditions in the mineral products trade (almost 33% of the total exports).

Foreign loans. In order to increase the size of the gold and foreign exchange reserves (GFER) to a level that ensures sustainability of the economy, the Government continued implementation of measures aimed at attracting external funding. On June 21 Belarus received the first tranche of the Anti-crisis Fund EAEC credit in the amount of 800 million USD from the 3 bn credit line. This amount has been fully transferred to the GFER and was not used for interventions in the foreign exchange market. The next tranche of the credit in the amount of 400 million USD will be received in September 2011 in case of implementation of the agreed measures.

The prospects for obtaining assistance from the IMF are still hard to assess: the funding is possible only in case of implementation of the tightly controlled structural reforms. A measure to increase the loyalty of the IMF can be the decision on the establishment of the Bank for Development of the Republic of Belarus. According to the Decree of Alyaksandr Lukashenka the Government and the National Bank should in a 3-month period determine the list of assets of the state banks to be transferred to the Bank for Development (funds previously allocated under the funding of state programs), and the appropriate procedure for their transfer. During this period, the procedure for restructuring the transferred assets shall be approved and the new mechanism of funding of the state programs shall be submitted for approval. The establishment of the Bank for Development should clean up banks' balance sheets of the non-performing assets and make the monetary policy of the state more transparent through the elimination of the quasi-fiscal financing.

Privatization. The privatization process in June proceeded slowly. It is known about the sale of several small manufacturing and transport companies for the total amount of about 3 million USD. At the same time, the auction for selling 10 medium-sized state-owned enterprises ended in vain due to lack of applications from potential buyers. At the end of the

month the Government announced its intent to conduct the IPO of "Belaruskaly", "BelAZ" and "BelarusBank" shares. This may prove the management's desire to increase the real interest in the Belarus assets from the non-Russian investors (primarily from China) and start the auction aiming at raising the initial price set for the Russians. A similar situation is with the "Beltransgas", about which there are Government's hints about Venezuela's interest in this asset.

Banking. Despite the decline due to the devaluation of the assets of banks from 48,1 to 36,3 billion USD in the equivalent, the situation in the banking system remains relatively stable and is characterized by a low level of troubled debts. However, a particular threat is the further reduction of population's deposits (which is partially balanced by a lowering credit demand in the economy as a whole), as well as the high level of debt of the National Bank to commercial banks. In ruble terms, the value of claims of commercial banks to the National Bank as of June 1 totaled 33,6 trillion Br (6,8 billion USD), exceeding the country's gold and foreign exchange reserves.

The National Bank will certainly seek to roll over this debt as it is unable to timely repay it. In general, the banking market of Belarus is significantly shrinking and losing its investment attractiveness. Interesting in this context is the invitation for banks to participate under the government guarantees in the provision of soft loans to agricultural enterprises within the 9 state programs with the reimbursable from the state budget lost revenue. Theoretically, such activity would help to minimize the losses from the shrinkage of the market, but in terms of the immature compensation mechanisms it shall increase commercial risks. By the end of the month it became clear that the Government embarked on the classical deterrent (restrictive) policies.

GDP growth. The forecasts of the annual GDP growth were lowered to 4-5% (in the worst case scenario even up to 1-3%),

the program of preferential construction was reduced (the volume of housing construction through the use of budget funds in 2012 is expected to decline by 55%), the emission lending to the economy was suspended, the public sector wages and social payments were frozen (there is an increased targeting of social assistance).

According to the released list of economic policy measures the Government of Belarus is committed to perform the hard limiting of the budget deficit, as well as preserve until 2013 of the proportion of expenditure on salaries in the budget expenditures at the level of 2011, increase the compensation of utility and transportation costs by the population, reduce the net lending of the state programs to the level of 1% of GDP by 2013, define the refinancing rate at the level of the annual inflation etc. All these measures shall certainly help to stabilize the economic situation in Belarus; however they will predictably lead to the fall in GDP, unemployment, freezing or even lowering of population incomes. There is a danger that the growth of these problems will roll back towards populism, with the active use of emission credits in the public sector of the economy.

Prospect of reforms. In the near future it is unlikely to expect significant changes in the Government policies or the emergence of new large-scale reform programs: the prevailing view is that all possible measures have been already taken and there is only the need to wait for positive results. The main work shall be done in the format of monitoring the situation and responding rapidly to acute problem situations (finding funding for the harvesting campaign, strengthening targeted social assistance, stimulation of the creation of new jobs in the private sector, administrative price regulation, provision of goods markets with lacking positions).

The task of reviving the foreign exchange market is postponed at least until fall, while there is a fundamental view that improving the dynamics of the balance of payments will push

the market price down to the official level. In this format the economy can function for several months, but in the longer term perspective such system is unstable due to its inherent significant imbalances (in fact, such a system is repressive in relation to the exporters and the private sector as a whole). The major privatization deals in the next month shall only be possible if very favorable conditions are proposed to Belarus.

This material was prepared by Belarus Digest on the basis of materials provided by Belarusian Security Blog, operated by a group of young professionals in Belarus analyzing current political, economic and security issues.

Belarus Economy: In Search of More Loans

Last week Russian Minister of Finance Kudrin warned that Russia would reconsider any further loans if Belarus government continues to preserve multiplicity of exchange rates, restrict import and delay privatization. Over the last months all efforts of Belarus government focused on getting financial aid from Russia through the Eurasian Economic Community or the IMF. Unable to provide effective economic policy the government keeps applying for new loans, as it were the only solution to combat the deepening economic crisis. In the light of Kudrin's comments, even 3bn USD loan, approved by the Eurasian Economic Community in June, can be lost.

While waiting for the decision from Eurasian Economic

Community, Belarus also applied to the IMF for another loan. The government expected to receive 3.5-8bn USD from the IMF. But instead of granting the loan, the IMF merely issued a number of recommendations on how to overcome economic and financial crisis following a two weeks visit. According to IMF official statement, Belarus government can count on financial support only when it really proves the readiness for structural reforms. That means that the government should implement concrete measures, instead of merely preparing drafts reforms.

On 4th of June the Summit of the Eurasian Economic Community in Kiev decided to grant Belarus a 3bn USD loan, to be paid over the period of three years. The first installment of 800m USD has been already transferred in late June. And this time Russia is going to be stricter with implementation of its requirements than before – to receive the loan Belarus should privatize its assets on the amount of 7.5bn USD over three years, by 2.5bn USD every year. If the government fails to implement the privatization plan and reduce budget expenditures, the future installments will be reconsidered.

Privatization was also one of the main requirements from IMF, when it granted Belarus a stabilization loan in 2008. But the government had never fully implemented it in spite of all declarations. The privatization agency, on which the IMF insisted, had never been created in Belarus. And only a few companies were privatized from the long list of those intended for privatization.

The price of the loan

Bargaining for the most lucrative Belarusian companies has already started. Beltransgaz, Belaruskali and MAZ remain the most frequently mentioned companies in Belarus and international media.

The negotiations for privatization of Beltransgaz by Gazprom have a long history. This gas transportation company is one of the most strategically important assets of Belarus, even though Russia declares that it is not particularly interested in it. Indeed, after Russia launch the oil and gas pipeline "North stream" on the bottom of Baltic Sea, Belarus will lose its advantage of a major natural gas transit country. But as writes the columnist of Naviny.by Ivashkevich, without controlling its energy transportation system Belarus would find it difficult to diversify the energy suppliers in future and participate, for example, in BEMIP (Baltic Energy Market Interconnection Plan) financed by European Union.

Over the 2007-2010 Gazprom already purchased 50% of Beltransgaz for 2.5bn USD. Now Belarus tries to sell the rest of its share in the company for another 2.5bn USD in a bundle with the contract for lower prices of gas supplies. Gazprom is strongly opposed to mix these two deals and decrease gas price, which is already the lowest in the region. The average gas price for Belarus this year will be around 250 USD/m³, while in Ukraine it is 290 USD/m³ and in Poland-401 USD/m³. But Belarus government insists that Belarus should have the same gas prices as Russian consumers. Thus, negotiations continue.

The second very important asset for the country and lucrative for investors is Belaruskali – one of the biggest producers of potash fertilizers in the world. Soon after Belarus received a loan from Eurasian Economic community, Belarus media began to discuss the news that Russian investor and large shareholder of Uralkali Suleyman Kerimov is already negotiating with the government (or more precisely with the Presidential Administration) the terms and price of the controlling stock of Belaruskali. According to Lukashenka's estimate, the price of the whole company is 30bn USD. But a week later the next news came that Suleyman Kerimov was not going to buy any share in Belaruskali. It seems the negotiation with Belarus government became rather tough. Or Kerimov just realized that

even purchase of major stock would not give him necessary control in the company.

The planned merger of Minsk automobile plant – MAZ with Russian automobile giant KamAZ is another deal, actively discussed in media. The negotiations are also postponed due to political reasons, as Belarus government wants to have higher share and bigger influence in joint company than it is suggested by KamAZ management.

Reportedly, Belarus prime Minister Miasnikovich suggested Azerbaijan to take part in privatization of key Belarus enterprises – oil refineries – Mozyr Oil Refinery and Naftan during his recent visit to Baku. What indicates that Belarus tries to weaken the Russian pressure and find other buyers of “family jewelry”.

So the number of companies intended for privatization will only expand. According to the requirements of the loan, received from Eurasian Economic Community, Belarus has to prepare a list of enterprises it is going to privatize until the end of the year. But Lukashenka, who acts as the sole owner of the whole country, will do as much as possible to postpone the privatization. Instinctively he understands, that privatization will inevitably change the structure not only of the economy itself but will also trigger political changes.

The persisting crisis

The June loan from the Eurasian Economic Community was almost unnoticed by Belarus economy. It is still impossible to buy US dollars or Euros in exchanges for the officially declared exchange rate, even though Belarusian rouble was finally devaluated by 50% starting from March. Belarus government refuses to let market itself to define the equilibrium exchange rate, because it simply cannot give up the illusion that this regulation will keep people’s saving from devaluation. Neither it starts interventions on the foreign

currency market, as understands that foreign currency reserves are too small. Even with recently received loan the reserves are only 4.15bn USD. From the start of the year it comprised by 28.6% (in January-May).

Even the Ministry of Energy found it hard to buy foreign currency. It was not able to pay off the country's electricity debt to Russian energy company Inter RAO UES, which led to temporary suspension of electricity supply to Belarus.

Financial crisis and government restriction on interbank operations dried out the credit rivers – banks started to curtail their consumer credit programs. The important pillar of Lukashenka's social program – preferential crediting of housing construction – is about to be canceled altogether. According to this program a large number of Belarusians received preferential housing credits with the interest rate of only 5% for 40 years (that was lower than inflation rate). And finally the government abandoned this program, gradually leaving its model of socially oriented economy, as there are no more sources to support it. For many years the preferential crediting of agriculture, state enterprises and housing construction was undermining the Belarus financial system. That in part caused the present economic crisis.

Belarus government has no strategy how to overcome the crisis. The previous month was marked by return of price regulation and introduction of [few absurdist laws](#), which will have little or no influence on the economic crisis.

The only policy it is capable to make is to ban and restrict. With further worsening of economic situation Belarus government is likely to impose more bans and restrictions. Lukashenka simply tries to restrain the natural economic laws, which work against him.

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Belarusian Opposition: The Silence of The Lambs

Several months into the grave economic and social crisis the Belarusian opposition seems to be concerned only about two problems: how to achieve the release of political prisoners and how to keep their offices. The economic crisis, the impoverishment of the people and the cheap sale of the state property are largely ignored. The opposition leaders do not use these issues to mobilize the population.

Viktar Ivashkievich, veteran of the Belarusian opposition, proposed the first event on the crisis for as late as 16 October. Other politicians prefer to limit their activities on social problems to media comments. The post-election repressions proved effective: the oppositional politicians have become extremely cautious.

Right-Wing Democracy: an Infantile Disorder

Many years of continuous failures have negatively effected intellectual capacities and institutional structures of the Belarusian opposition. Many capable individuals have left to avoid being permanent losers for years. To be a freedom fighter may be romantic for a brief period, yet after a while it makes more pragmatic people think twice about their future prospects. As a result, they go elsewhere.

Now, the proportion of emotional idealists in the Belarusian democratic opposition is disproportionally high. There are far too few pragmatics, however. No wonder that analytically and strategically the opposition looks not much better than the government. Even to launch a campaign on social problems or

against selling state flagship companies seems to be an insurmountable task for the opposition at the moment. And probably not because they fear the consequences, but because there are not enough methodological and analytical capacities to produce such new concepts. The parties' regional structures have disintegrated as far as never before.

This uncritical approach to the results of their own activities since 1996 on the part of the opposition is combined with an ideological right-wing tilt. There are no left-wing parties in Belarus to be on par with the right-wing political organizations. Even worse, the right-wing parties are taking purist rightist stances and – contrary to their Western European counterparts – they have failed to articulate a social agenda. Thus, for instance the Christian Democrats effectively take as their model the US Republicans and not Western European Christian Democratic parties, which have long ago understood that social matters should have a place in the programs of non-left parties as well.

Commenting on the latest Internet-organized protests in Minsk on June 15th, one of the leaders of the Christian Democrats, Dzianis Sadouski, declared, „We should not go to a social action with party flags“. Instead, the Christian Democrats are going to hold 100 pickets and other actions supporting political prisoners in all regions of the country and start collecting the signatures under a petition calling for their release. A former presidential candidate, Vital Rymasheuski emphasized, “no loans, no anti-crisis program will work in Belarus, unless main political demands are provided for. That is – free elections, media freedom and freedom of public organization and political parties activities».

Such ideological right-wing purism deliberately blind to social issues is pursued in the country where social and welfare traditions of Soviet times have formed many common people's beliefs. That omen loomed over the democratic opposition in Belarus since its beginning in the late 1980s.

The then opponents of the Communist rule have positioned themselves as the representatives of nobility and disregarded that Belarusians are a nation with strong egalitarian traditions. The democratic opposition suffered subsequently numerous setbacks yet did not give up socialism-bashing as their major idea.

The same fear of touching any presumably socialistically-sounding themes may explain why nobody is attacking the government for selling the Belaruskali, the most valuable asset of the Belarusian state. Even the media are limiting their coverage to neutral when describing the situation.

Without doubt, selling such a national company – comparable in its importance to national oil companies in oil-producing countries – under more than unclear conditions should be a cause of nationwide protest campaign. After all, almost no news on presumable Belaruskali deal with a Russian oligarch reach the public, and given the track record of Belarusian regime, no one expects it to act openly. The opposition, however, does not touch the issue.

Yet even the pure rightists should see that any government to come after Lukashenka will find empty pockets, the Belaruskali sold and money for it already spent. It will simply have no more internal resources for reforms – on any ideological platform. Besides, there are doubts about the rationale of privatization of mining company as such.

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Maybe the problem is that the opposition is divided and therefore unable to take a stronger line against the government? Today, many speak about uniting the oppositional movement. Yet, this would make sense only when the forces to be united are something more than zero each. Adding zeros together hardly brings an increase in strength, as the 2006 presidential election has clearly shown. Though the last

elections in December have demonstrated the untapped potential of protests that exists in Belarus, it is clear that the people were gripped by the appeal of candidates and not the political parties, whose popularity is negligible.

The balance of more than a dozen years of democracy proponents struggle with the regime is not impressive – Lukashenka has won, opposition is defeated and its structures eliminated, media and NGOs have had the same fate. Recent protests at the Belarusian-Polish border have shown that the angry Belarusians are not talking the language of opposition and possibly would not articulate their condition in political terms at all. They even sang the state hymn – a Soviet-style song reinvented by Lukashenka's regime and out-rightly rejected by opponents of existing Belarusian regime.

One thing is clear. This opposition will stay aside of future political developments determining Belarus after Lukashenka. The government is currently overcoming its weakness – though by a terrible price of selling the best national companies – and is going to retain its control of the nation by gradual and not acute impoverishing the people while suppressing any protests in the bud. Democratic opposition effectively are assisting it. Finally, either Lukashenka will prevail or some figures of his regime will emerge as new rulers in Minsk – but not the old-style Democrats.

The question of who is guilty for defeat of democratic movement in Belarus cannot be explained only by recent repressions. Of course, repressions played its part, yet the opposition is weakening itself by behaving this way and dropping the most actual issues. As a result, it loses popular support, remains weak and unimportant partner for the government and – last but not least – is extremely susceptible to foreign pressure.

Apparently, the foreign support from abroad – moral and material – both helped the Belarusian democratic opposition to

survive and made it inefficient. The most evident example is the OSCE intrusion in 2000-2001 when the opposition was too weak to resist the foreign friends' proposal to put Uladzimir Hancaryk as its single candidate.

The very first measure to change the situation should be a critical review of the opposition's activities. To be able to conduct a long-needed 'cost-benefit analysis', the Belarusian democratic movement needs more robust media and think tanks which will let it see itself from outside. It is also important that the opposition learns to listen to even the most outspoken critics and learns from their criticism.

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Will Russia Provide More Loans to Lukashenka?

The Eurasian Economic Community (EurAsEC), a post-Soviet economic bloc led by Russia, agreed in May to extend a loan of USD 3 billion. According to the agreement, Belarus will receive the following funds: USD 1.24 billion in 2011, USD 800 million in 2012, and USD 1 billion in 2013. The first installment was received by Minsk last week.

The provision of the loan does very little to end the economic crisis in Belarus. Alyaksandr Lukashenka himself stated in his interview on June 17, 2011 that dollars and Euro would not appear in foreign currency exchange offices any time soon. Moreover, in 2011 Belarus will receive only an insignificant sum from the EurAsEC.

The loan extension does not mean that something changed in Belarus – Russia relations. Russia appears determined to privatize Belarusian enterprises. “Privatization is the main factor of capital inflow. Therefore, there are conditions, connected with privatization of property to the sum of USD 7.5 billion, i.e. USD 2.5 billion a year in the contract. This condition will be retained for sure,” said the Minister of Finance of Russia Aleksey Kudrin after the EurAsEC Anti-Crisis Fund meeting, where the credit extension to Belarus was approved, on June 4, 2011.

The official representatives of Russia, including Kudrin, underscore that “Beltransgas”, “Belaruskali”, and Minsk Automobile Plant should be privatized (in other words, to be sold to Russia), first of all.

The Kremlin officials believe that Belarus will be able to avoid a default only in case of selling a part of state property. Sergei Shatalov, the EurAsEC Anti-Crisis Fund Director noted on June 14, 2011 that Belarus would not receive other credit tranches, if it failed to meet its contractual obligations or announced a default.

The Belarusian authorities hold the same position on the issue of selling the industrial enterprises to Russian companies as on other issues of ‘real integration,’ as seen by Russia. Thus, the Belarusian side did not refuse to discuss the issue of concluding the Constitutional Act of the Union State in 2002 – 2004. However, it insisted categorically on signing its version of the Constitutional Act, knowing pretty well that it would never be supported by Russia.

Similarly, the authorities do not officially rule out uniting monetary systems with Russia. However, they insist categorically on their version of the alliance. Accordingly, the National Bank of Belarus must enjoy the rights of the second emission center together with the Central Bank of Russia.

Having signed the contract on getting the credit, Lukashenka and the First Vice-Premier Uladzimir Siamashka articulated again the position of Belarusian side: the state shares of "Beltransgas" can be sold only in case if "Gasprom" agrees to supply gas to Belarus at Russian domestic prices.

Apparently, among other, the position of authorities on the sale of "Beltransgas" was influenced by forecasts of expert organizations on the gas consumption growth. In particular, according to the International Energy Agency updates, the quota of gas in the global energy balance – 2035 is expected to reach 25% to be compared to 21% nowadays. The authorities believe that "Gasprom" will require the Belarusian transit facilities to meet obligations on contracts with buyers in the EU member-states after the "Nord Stream" gas pipe line is put in operation.

On June 17, 2011, Lukashenka stated he did not object to the sale of state shares of enterprises. However, the Russian party is not happy with the articulated prices at all. In particular, Lukashenka valued "Belaruskali" at more than USD 30 billion. Apart from that, the Belarusian negotiators listed other terms of sale, never to be accepted by the Russian partners. Thus, the investors were urged to retain the high employment rate, increase the tax revenues and invest in the development of their enterprises after all.

Lukashenka also doubted that Russian oligarchs would develop the purchased enterprises and fulfil their commitments to the Belarusian state. He underscored that the state enterprises worked efficiently: "Our population owns USD 20 billion. Who will buy the enterprises then? You know, who has an eye on them, don't you? Especially, on such an effective one, as "Belaruskali". They propose me to privatize the best assets. Nobody will have an eye on poor companies."

Lukashenka had stated repeatedly before that the sales of industrial enterprises would have created danger to the

independence of Belarus. Following his recent statements, the position remained unchanged.

Lukashenka noted that there was a number of unresolvable contradictions in relations with Russia. Thus, a Belarusian TV propagandist Prakopau put the following question to Lukashenka on June 17, 2011: "Why does Russia pursue the unfair policy in relation to Belarus and fails to support the ally during the crisis, like the EU backs Greece?" "Don't provoke me! I have enough of it. Everyone understands that without saying. We will survive," Lukashenka replied.

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Is Belarus on the Brink of Financial Collapse?

The National Bank of the Republic of Belarus has recently started devaluation of the Belarusian ruble. Foreign currency is now officially allowed to be traded at an exchange rate that is deviating as much as 10 percent from the official rate set by the Bank.

The poor competitiveness of the Belarusian economy was the main impetus for an urgent devaluation of the currency. According to Timothy Ash, head of emerging market research at RBS in London, the rapid reduction in convertible foreign-currency reserves would necessitate an eventual 20-30 percent

drop in the rate of the Belarusian ruble. Supposing that the RBS analyst is correct, within the next 3 months, Belarus will further devalue its currency by 36-44 percent relative to January 2009 levels. This dramatic devaluation is aimed at decreasing the current account deficit by encouraging exports and limiting imports. In the short run, this may help to revive economic activity; judging it with a longer-term perspective in mind, however, the rebound of the Belarusian economy is highly unlikely.

According to a recent [British Trade Platform review](#), the widening current account deficit, which presently stands at 16 percent of GDP, may contract insignificantly in the short run: it would be cheaper for foreigners to buy Belarusian exports. At the same time, Belarusians would become substantially poorer and unable to afford imported goods. The fall in imports would also result in a corresponding decline in the national output, and consequently, in exports. In the long run the Belarusian economy faces greater isolation and decreasing competitiveness due to the rising costs of production, such as higher energy and commodity prices.

Prior to the implicit devaluation of the ruble, Belarus claimed to be on a fixed-but-adjustable exchange rate system, a rather unsustainable illusion. The current account deficit depletes the country's foreign exchange and gold reserves, and once these are exhausted, Belarus will no longer be able to intervene in foreign exchange markets to reverse the depreciation of the ruble oversupplied due to decreasing demand for Belarusian exports. Inevitably, the government will have to devalue the currency even further. The government would not be able to finance a gap on its own because the current account balance stands at negative \$8 billion while Belarus has only \$3.4 billion in reserves.

The current account deficit is not a usually terminal problem. The US economy, for example, has run large account deficits

for several decades. As long as a country's capital account surplus compensates for the current account deficit, the economy will sustain itself, at least for some time. In Belarus, however, that the capital account surplus is diminishing due to growing international concern for the country's ability to meet its financial obligations. This fading creditworthiness is reflected in the rising interest rates at which Belarus can borrow on international markets. Thus, the dwindling capital account surplus will not match the expanding current account deficit.

If Belarus fails to conduct a large-scale sale of government-owned assets (privatization) and secure financial support from regional partners, it will enter a cycle of devaluation that may end in a default, driving the general population deeper into poverty.

Privatization and foreign investments in Belarus have long been impeded by the so-called Golden Share Rule, according to which the government had a privilege to participate in the management of foreign enterprise state territory. On March 4, 2008, President Alyaksandr Lukashenka signed Decree No. 144, which abolished the Golden Share Rule. However, because of the growing isolation of the Belarusian economy, the contentious political relations with the West, and the recent economic sanctions, Western investors are increasingly reluctant to buy Belarusian assets. Because the United States and the EU hold a cumulative 33 percent voting power on the Executive Board of the IMF, any decision to lend money to Belarus will be blocked. Moreover, Belarus is set to repay a \$2.3 billion IMF loan over the next three years.

A traditional way out is for Belarus has been to turn to its Eastern neighbor, Russia, for more loans. Moscow is increasingly likely to impose unfavorable lending conditions on Belarus, however. It is increasingly willing to offer loans only in exchange for the ownership of the Belarusian state-owned assets. With nearly \$483 billion in reserves and the oil

prices on the rise, Moscow is in a strong bargaining position, whereas Belarus seems to have no better alternatives than play by Russia's rules.

The most sensible way out of the economic crisis is selling unprofitable enterprises to private or state investors in the Former Soviet Union and hoping that they can revitalize them. The inevitable consequence of such policies, however, is the rise in unemployment, only partially offset by the expansion of profitable enterprises.

Belarus' current economic problems are a yet another sign that the country can no longer delay fundamental economic reforms. The example of China in the 1970s could be instructive in this regard. While China is different from Belarus in most respects, the formula for long-term economic success is similar – the introduction of market incentives for agriculture and manufacturing. It is high time for the Belarusian economy to pivot toward the global market and profitability. Foreign direct investment and trade liberalization are crucial.

Finally, it is important to note that while all of the above methods are good in theory, the current political environment hampers their implementation. True economic liberalization and progress are contingent on the fundamental changes in the political environment of Belarus.