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Belarus Crisis Set to Strengthen Russia's Hand

By The Moscow Times

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A worker fixing a state flag atop an office building in Minsk. Belarus has just $3.76 billion left in foreign reserves. **Sergei Grits**

MINSK — Belarus is running out of cash, with people waiting in day-long lines to exchange rubles as they prepare for another devaluation. But since the country known as Europe's last dictatorship alienated the West, Russia now has a free hand to set its own terms in exchange for a lifeline.

As Moscow draws up the papers to give as much as $3 billion to the government of President Alexander Lukashenko, it will be eyeing Belarus' most lucrative assets, particularly its oil refineries and chemical plants.

"Lukashenko is beginning to understand that having slammed the door on the West with his foot, he has doomed himself to conditions set by the Kremlin," said Stanislav Bogdankevich, a former head of Belarus' central bank.

There is no doubt Belarus needs help. Reserves of hard currency fell 20 percent in the first three months of the year to just $3.76 billion. To staunch the flow, the government has made it difficult for people to buy dollars and euros.

"How can we have faith in a government that publicly promised stability and average monthly salaries of $500, while today I am at risk of losing half of that," said Yanina Zenkovich, a 43-year-old teacher, who makes the equivalent of only $230 and waited in a 10-hour line at an exchange point to trade 700,000 Belarussian rubles into dollars.

The official exchange rate is fixed, but a significant devaluation seems to be only a matter of time. During the period of uncertainty, major car dealerships have stopped selling foreign vehicles. Foreign food and alcohol brands have begun to disappear from store shelves as imports are suspended and shoppers stock up.

A big part of the problem is that the Belarussian economy has seen little development under Lukashenko, who during 17 years in power has run a quasi-Soviet state.

He has stifled private enterprise and kept about 80 percent of industry under state control, but his promises of stability and efforts to maintain the Soviet-era social safety net have kept him popular with the elderly and working class.

He raised public sector salaries ahead of the December presidential election, a landslide win widely seen as rigged. The International Monetary Fund has now urged him to lower wages to adjust demand to a weaker economy.

An alternative would be to devalue the ruble, as most economists recommend, by as much as 40 percent. The government took a first step last week, when it allowed banks to trade the ruble at 10 percent below the official rate. Any sharper drops would be extremely unpopular, however, even though confidence in the currency is already plummeting.

After violently dispersing election night protests and arresting hundreds of demonstrators, Lukashenko launched a broad crackdown on the opposition in an apparent effort to prevent further street protests as the economic troubles deepen.

"Lukashenko used repression to win the fight for power, but these methods don't work in the economy," said political analyst Alexander Klaskovsky.

So Belarus is now in the position of having to ask Russia for a $1 billion credit and the Eurasian Economic Community, a Russia-dominated grouping of former Soviet states, for $2 billion more.

Belarus' central bank said last week that it was confident the credit would be forthcoming within the next 20 to 30 days, and until then planned no further changes to its currency policies.

The Belarussian government said talks with Russia were under way but gave no specifics about what Minsk was prepared to offer Moscow in return. Russia has been pushing its western neighbor to put up for sale some crucial assets, such as oil refineries and chemical and machinery plants.

"It is unlikely that Russia will give money to Belarus without asking for some guarantees linked to Belarussian state property," said Anton Struchenevsky, an economist at Troika Dialog.

As relations between the neighboring countries have soured in recent years, Lukashenko has faced growing difficulty in fending off Russia's advances. Moscow has increased the pressure by raising prices for oil and gas supplies, in effect cutting support to Belarus' outdated industries and Soviet-style economy.

The Belarussian government last week passed on some of the costs to consumers by raising gasoline prices 10 percent, which led to long lines forming at gas stations in the days before the increase went into effect.

The West, meanwhile, had been working in recent years to improve relations with Belarus, offering incentives in exchange for an easing of political repressions. The European Union had offered 3 billion euros ($4.2 billion) in aid if the election had been judged free and fair. Since it wasn't, both the EU and the United States have imposed new sanctions.

Alexei Moiseyev, chief economist at VTB Capital, said the only long-term solution is for Belarus to restructure its economy.

"It was OK to have this kind of economy when they were able to buy cheap oil and gas from Russia and get cheap loans from the West. Now that both sources of their wealth have dried up, the economy cannot function properly," Moiseyev said.

Citing Belarus' dwindling reserves, Standard & Poor's has downgraded its credit rating to B, putting it deep into junk status and making it difficult to borrow abroad.

The IMF provided a $3.5 billion credit in 2009 to help Belarus during the global financial crisis, but no further aid is expected. The IMF stressed in a March report that it would first want to see "a credible commitment to strong stability-oriented policies and an ambitious structural reform agenda."

"Lukashenko openly spit on the West, since for him the most important thing is to maintain control over the situation inside Belarus. He does this in the usual way, with an iron fist," said Belarussian analyst Valery Karbalevich.

"The key to the future of Belarus lies in the Russian money pit, in which President Lukashenko now has to dig deeper and deeper."

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