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Privatisation Prospects in Belarus

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On 25 August 2010, an Agency for Investment and Privatisation was launched in Belarus. Given the deteriorating condition of the Belarus economy, the establishment of the Agency signals the Minsk authorities' readiness to continue cooperation with such Western partners as the IMF and the EU. Under the circumstances, both organisations should pursue a consistent policy of conditionality to push through measures that will genuinely liberalise the Belarus economy. Economic changes thus initiated in Belarus could contribute to triggering the process of political change in this country.

Problems of the Belarus Economy. According to official data, Belarus' GDP rose 7% over January–July 2010, yet the country is struggling with grave problems connected with the state of its finances.

Since the beginning of 2010 Belarus's foreign currency reserves have dropped 5.7%, to $5.3bn as of 1 August, in the wake of the rise in the prices of energy sources (which are paid for in U.S. dollars) and the central bank's efforts to keep the exchange rate of the Belarus ruble (BYR) stable. Neither the final $670m tranche of an International Monetary Fund (IMF) loan, nor the sale to Gazprom of a 12.5% stake in Beltransgaz for $625m, have arrested this shrinking of reserves. Belarus still falls short of a secure level of currency reserves, which according to the IMF's methodology should be $9bn, i.e. an equivalent to Belarus's exports in the recent three months. To halt the decline in foreign currency reserves, this July and August the Belarus authorities decided to make two issues of 5-year Eurobonds with a total value of $1bn. The bonds carry an interest rate of 8.75% a year (to compare, Russia and Ukraine issued their Eurobonds with interest rates of, respectively, 3.74% and 6–7%). These issues evidence Belarus's attempts to obtain foreign financing without the need to carry out the economic reforms demanded by international financial institutions, such as the IMF.

Another threat to the economic stability of Belarus is its deepening budget deficit, which after the first six months of 2010 registered at 2.2 billion Belarus rubles ($734m), i.e. at 3.2% of Belarus GDP. The magnitude of the problem is evidenced by fact that Belarus ended 2009 with a modest budget surplus of BYR492.5m. Underlying these budget troubles are, among other things, the energy sector's declining profit performance in the wake of the rising price of Russian oil and following a substantial increase in customs duties, particularly compared with 2009, when Belarus paid 35.6% of the Russian crude oil export tariff. These disadvantageous terms of purchase caused a decline in the amounts of oil bought and processed; crude oil imports plummeted 39.8% since the beginning of the year. With a higher price of processed crude oil, the prices of petroleum products exported to the West rose too and, to maintain competitiveness in the Western markets, the authorities lifted export duty on these products.

Progress of Privatisation Processes. One way to improve Belarus's finances is to attract foreign investors, and the work of the Agency for Privatisation and Investment should contribute to attaining this objective. Already in 2009 Belarus undertook to create an institution to be put in charge of privatisation conducted in accordance with the IMF's requirements. Enterprises were to be put up for sale in open competitive bidding process with clear participation rules. This would have benefited, besides Western investors, the Russian investors, who had been obstructed (or outright prevented) from purchasing Belarus enterprises.

As the first test of the Agency's performance, five enterprises cleared with the IMF were to be privatised. The authorities had undertaken to sell these operators already in July 2009. The competitive bidding procedures for their sale were scheduled to commence on 18 August 2010 and from then on further progress in their privatisation was to be overseen by the newly created Agency. Yet these privatisation procedures were not instituted and competitive bidding was re-scheduled to September–October. Moreover, the government has procrastinated over the sale of minority stakes in several key enterprises, including in two operators which service the Friendship oil pipeline in the territory of Belarus and in the Belarus Potassium Company—even though on 25 June 2010 President Lukashenka signed a decree permitting their transformation into Treasury-owned companies and removed them from the list of enterprises excluded from privatisation. The sale of stakes in these enterprises, while not actually falling within the scope of cooperation with the IMF, could have improved meaningfully the condition of the country's foreign currency reserves, but the Belarus authorities have not yet launched a single enterprise privatisation according to transparent Western standards.

The actions (or cases of inaction) described above are contrary to declarations about the imperative of attracting foreign investors. The chief reason for putting off the privatisation process is a concern that Belarus enterprises will be bought by Russian capital, in which case Belarus will become even more dependent on Russia. Another worry of the Belarus authorities is that privatisation will boost unemployment—and social discontent—as private owners reduce the present excessive employment in state-owned enterprises. Last but not least, following privatisation the central administration would no longer be able to influence the filling of positions in enterprises, which would reduce its leverage on the local nomenklatura.

Conclusions and Recommendations. The establishment of the Agency for Investment and Privatisation has not changed the privatisation rules currently in place in Belarus, but its creation in accordance with the IMF's requirements signals the Minsk authorities' readiness to continue cooperation with this institution. It is to be expected that the authorities will apply to the IMF for another stand-by loan, to be used chiefly for improving the state's financial liquidity, particularly as the cost of servicing this loan will be markedly lower than the cost of new Eurobond issues.

The putting off of privatisation is hurting the Belarus economy, which is in need of rapid efficiency improvement. It closes the country to Western (including Polish) investors, who—given the insecurity of investment—are disinclined to set up operations in Belarus. The deteriorating budget and the dwindling currency reserves could force the Belarus authorities not only to continue the search for foreign sources of financing, but to engage in closer cooperation with Western partners as the only parties genuinely interested in the liberalisation of the Belarus economy. This situation creates opportunities for such organisations as the IMF or the European Union. By conducting a consistent policy of conditionality, they can push through measures that will truly liberalise the Belarus economy. For the EU, this will also be an opportunity to combine cooperation in the spheres of the economy and policy.

The EU should continue to demand from the Minsk authorities, in return for concrete aid, steps meant to democratise public life in Belarus and should make progress in this field a condition of financial aid and of the inclusion of Belarus in Community projects. It is worth emphasising here that the EU has a number of political and economic instruments with which to exert influence, both under the Eastern Partnership (EP) programs and under European Investment Bank financing. What makes these tools even more valuable is the fact that the Belarus authorities are extremely anxious for projects in energy cooperation, trans-border cooperation or the development of transport corridors to be implemented and that they solicit joint financing of these undertakings under Eastern Partnership. Poland as a co-initiator of the EP should see to it that the EU, while calling for the democratisation of Belarus, acts at the same time for a liberalisation of the Belarus economy. Not only can such efforts contribute to accelerating the process of change in this country, but they are also a chance for increasing the level of foreign (including Polish) investment and investment security. That said, Poland should support Belarus border infrastructure or energy cooperation projects to be implemented under the EP.

The time after the next presidential election, which will probably be held on 6 February 2011, will be particularly opportune for stepping up EU pressure for the liberalisation of the Belarus economy, as then the Belarus authorities might be more inclined to bring in economic reforms.