Belarus receives $2.5 billion IMF loan

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Belarus has secured a $2.5 billion emergency loan from the International Monetary Fund. The bailout comes amidst a crisis of the economies of the whole eastern European region. Latvia, Ukraine and Hungary have secured large IMF loans, while Serbia and Georgia have been granted emergency credit lines. Speculation is rife that Turkey will soon approach the IMF for an emergency loan.

The IMF has lent over $40 billion in response to the world financial crisis. Its loan is very large relative to Belarus' "quota" from the institution--the amount any country can draw compared to the amount it pays into the fund. At 420 percent of the Belarus quota, the $2.5 billion is one of the largest ever granted by the IMF.

Russia, suffering from its own deep financial crisis, has pledged a further loan of $2 billion to Minsk in order to prevent the economic collapse of one of its closest allies and trading partners.

In recent months Belarus spent about 25 percent of its gold and foreign exchange reserves to prop up its currency, in response to the rapid shrinking of demand for its industrial goods and the freeze of the international credit markets.

While Belarus is less dependent on international credit than other economies in Eastern Europe, it has suffered from the declining fortunes of Russia. The price of crude oil, Russia's main foreign currency earner, has fallen by 70 percent from its peak in July 2008, while Western credit that has fuelled much of the property boom in Moscow and other cities in recent years has largely dried up. The Russian rouble has fallen by 30 percent against the dollar.

In recent years the value of Russian subsidies to Belarus, especially in the form of cheap oil and gas supplies, has reduced. The weakness of the Russian economy in particular, and the regional and world economies in general, have led to sharp declines in demand for Belarus' main exports of petrochemical products, potash fertilizer and machinery.

An IMF mission visited Minsk in October 2008, after which Belarus applied to the fund for a loan to increase state gold and foreign currency reserves. Minsk also requested funds to create a "safety cushion", likely to be used to bail out failing businesses, banks and state enterprises.

During the talks, Belarus pledged to the IMF that it would amend its monetary and fiscal policies. The IMF board has approved a 15-month programme for Belarus to slash public spending, cut wages and deepen the privatization drive in state industries.

The IMF stated that Belarus' economy has demonstrated "remarkable growth" in recent years, but has stagnated due to the global financial crisis.

"The fund-supported programme will help Belarus achieve an orderly adjustment to the external shocks that it is facing and offer protection against its most pressing vulnerabilities", IMF chief executive Dominique Strauss-Kahn said.

"Measures agreed include a strengthened monetary and exchange rate policy framework, fiscal restraint through cuts in public investment and directed lending by banks, and strict public-sector wage restraint", he added.

Belarus President Aleksandr Lukashenko threatened to withdraw from the IMF if its loan request was rejected, but his government has indicated that it is ready to impose IMF demands on working people.

At the start of January Belarus devalued its rouble currency by about one-fifth. The Belarus currency fell to 2,650 roubles to the US dollar from 2,200 roubles per dollar. The average monthly wage in Belarus was worth $400 at the end of 2008, a value that has fallen to $332 after the devaluation.

The Belarus Central Bank said the new exchange rates for the rouble would "safeguard the high competitiveness of the Belarusian economy". Lukashenko said of the devaluation, "Russia is our major trading partner and, with a strong Belarussian rouble, our exporters had begun to make large losses trading in its markets".

Many in Belarus have rushed to buy what they can in anticipation of sharp price rises in the coming months. Lukashenko has urged people to maintain their bank savings.

The devaluation will drive up the cost of imported goods and bring inflationary pressures. The move was blamed by Lukashenko on the demands of the IMF. He insisted that public sector workers' pay had to be cut as a condition of the loan.

In another moved linked to the IMF bailout, the government announced a 20 percent rise in electricity and gas prices. Social spending is set to be cut significantly in 2009 and 2010.

In 2008 Lukashenko initiated a massive privatisation drive, with hundreds of state-owned or joint-stock companies sold off to foreign capital and the president's cronies. Lukashenko has suggested that he intends Belarus to follow the "Chinese model" of economic development. Far from being a "socially oriented economy", as the regime in Minsk characterises itself, the goal is to consolidate Belarus as a cheap labour platform for international capital ruled over by an autocratic regime.

Relations between Russia and Belarus have grown tense over the past eight years, with the Kremlin imposing increasingly unfavourable energy deals on Minsk. In exchange for continuing subsidised oil and gas supplies, Moscow has pressured the Lukashenko regime to allow Russian capital to buy up large stakes in Belarus' industries. As a counterweight to the threat of dominance by Russia, Minsk has looked to improve relations with the West. Accompanying the privatization programme, the Belarus elite have made moves to improve relations with the European powers.