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Belarus Allows 10% Ruble Devaluation

By The Moscow Times

March 29, 2011

MINSK — Belarus on Tuesday effectively allowed the Belarussian ruble to devalue by 10 percent, in a move that analysts say could help it secure bailout loans but would not by itself fix an unsustainable foreign trade gap.

The Belarussian ruble is under pressure from the country's big trade deficit and increased spending by the government in the run-up to the December presidential election, when President Alexander Lukashenko won a fourth term.

To plug the gap, Belarus has asked Russia and other ex-Soviet nations for $3 billion in loans.

The Belarussian Central Bank said local banks were now able to trade more freely on the over-the-counter market, which should account for up to 70 percent of total foreign exchange turnover.

"Banks ... have been allowed to buy and sell foreign currency to other banks and customers at rates deviating from the official rate by no more than 10 percent," it said in a statement.

The Central Bank had previously allowed banks to deal at only 2 percent above or below the official rate. This tight restriction would remain in place for exchange points dealing with retail customers, it said.

"This step is one of the obvious measures directed at reviving the economy and evening out the balance of payments, and the sooner it happens, the better for the economy," said Alexander Kudrin, head of fixed income research at Troika Dialog.

But analysts have said the ruble could devalue by 20 to 30 percent if a free float was allowed. Kudrin said the exchange rate should be 50 percent lower than the current 3,038 rubles per dollar.

Belarus has not applied for International Monetary Fund financing. But, like the IMF, Russia would require a credible adjustment package before agreeing to Minsk's request, an international financial source said.

"There are [loan] talks, but it is a lengthy process," Russian Deputy Finance Minister Dmitry Pankin said. "This week they must present us their proposals on how to stabilize the situation."

Short of money and friends, Lukashenko may have to offer key assets for sale to Russia, further undermining the viability of Belarus's Soviet-style command economy, already squeezed after Moscow cut subsidies on oil and gas supplies.

The Central Bank said last Thursday that it would restart sales of foreign currency to banks from April 1 but would sell only as much as it could buy from exporters.

Raising the average monthly wage to an equivalent of $500 was one of the items on Lukashenko's election agenda, and this makes devaluation politically painful.

"The currency crisis is destroying people's trust in the government," said Leonid Zaiko, head of Minsk-based Strategiya think tank. It means that "the Central Bank and the government would have to renege on the promises Lukashenko ... made before the elections."