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Minsk Flouts IMF and Drops Interest Rate

By The Moscow Times

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MINSK — Belarus' central bank cut its main interest rate to below 30 percent on Tuesday and promised further easing this year, despite a warning from the International Monetary Fund that such moves would destabilize the country's fragile economy.

The cut in the bank's benchmark rate to 28.5 percent from 30 percent, effective from Wednesday, was the first since October and comes less than two weeks after authoritarian President Alexander Lukashenko threatened to fire his top officials if they fail to revive economic growth.

Inflation has been slowing sharply as the former Soviet republic recovered from a balance-of-payments crisis suffered in 2011, shortly after Lukashenko's re-election, that forced a steep currency devaluation and sent inflation into triple digits that year.

"An actual slowing of inflation processes in February, and our forecast of a further slowdown, justify gradual reductions in the nominal refinancing rate while keeping it positive in real terms," the central bank said in a statement.

The bank forecasts that annual inflation will fall to 12 percent this year from 21.8 percent in 2012, making it possible to lower the refinancing rate to between 13 and 15 percent by the end of this year.

Due to tight monetary and fiscal policies put in place during the crisis, when the central bank raised its refinancing rate to 45 percent, Belarus' economic growth slowed down to 1.5 percent last year from 5.5 percent in 2011.

This month, President Lukashenko threatened to fire senior officials if they fail to achieve the official target of 8.5 percent growth in 2013.

The IMF warned Minsk in December that its growth target was overambitious and incompatible with the goals of reducing inflation and improving the balance of payments.

"The authorities' pursuit of excessively ambitious growth targets could weaken the balance of payments, fuel inflation and jeopardize debt sustainability," the IMF said in its latest report on the country.

However, with no running loan program for Belarus and little prospect of any new deal, the fund has little leverage over Lukashenko.

Instead, Belarus has relied on ex-Soviet ally Russia for its financing needs. At the peak of the 2011 crisis, a Russia-led regional fund provided Minsk with a $3.5 billion bailout package.

Last December, Lukashenko asked Moscow for a new $2 billion loan to upgrade Belarus' industrial facilities, which remain mostly state-owned.

The issue is likely to be brought up again when Lukashenko travels to Russia on Friday for talks with President Vladimir Putin.

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