Belarus: On a slippery slope

“Fast facts” from Belarus’s official socio-economic data

MINSK, Belarus – 1 September 2011 - Virtually all of the transition and developing economies in Europe and Central Asia have emerged from the worst of the global financial crisis. In contrast to the rest of the region, however, Belarus is now experiencing a serious episode of macroeconomic instability, which could have significant implications for poverty and socio-economic vulnerability. This instability, which is driven by the country’s unsustainable external position and unfolding currency crisis, is not yet robustly evident in official data on output, incomes, and unemployment. However, it is quite visible in Belarus’s inflation and exchange rate trends. This article provides a brief overview of these trends, and considers their possible implications for living standards—especially for vulnerable households—in Belarus.

The weakness in Belarus’s external position is most graphically illustrated by trends in the National Bank’s foreign exchange reserves (Chart 1), which have dropped sharply during the last 18 months. As of mid-year, these were sufficient to finance less than one month of imported goods and services (Chart 2). By contrast, three months of import coverage is generally regarded as a minimum safe buffer.

Its melting reserves led the National Bank to devalue the Belarusian rubel by nearly 60 percent against the dollar in May (Chart 3), from around 3000 rubels/$ to close to 5000/$. However, while the official and interbank exchange rates have remained more or less fixed since then, the exchange rate on the unofficial foreign exchange market—which had not existed prior to May—has continued to fall, dropping to the vicinity of 9000 rubels per dollar by late August.

These developments led President Alyaksandr Lukashenka on 30 August to announce that, as of mid-September, the Belarusian rubel would float; the official exchange rate is to be set by supply and demand on the foreign exchange market. National Bank Governor Nadzeya Yermakova predicted the next day that the rubel would not drop below 10,000/$. Be that as it may, Belarus is
clearly experiencing a crushing currency crisis, with potentially devastating implications for the prices of consumer goods, foodstuffs, energy, medicines, and other key imports.

Chart 3—Average monthly exchange rate trends (Belarusian rubels/$)

The inflationary implications of the collapsing Belarusian rubel were apparent even before the developments of late August (Charts 4, 5). Consumer price inflation, which was running at around 10 percent (in year-on-year terms) in January 2011, had by July skyrocketed to 49 percent. Inflation rates for foodstuffs and petrol were running at 54 and 59 percent respectively—posing particular hardships on pensioners, students, and others on fixed incomes. More hits seem likely this fall: from 1 September households are facing tariff increases for water and sewage of 25 and 26 percent, respectively.
Were it not for administrative controls on the prices for many important consumer goods and services, Belarus could now be headed towards triple-digit inflation rates. But even if price controls are able to keep a lid on reported inflation rates, their side effects are already making themselves felt. Reports of shortages of meat and other key consumer goods seem to be appearing in the media with increasing frequency.

Because Belarus maintains many of the attributes of a planned economy (e.g., price controls, binding output targets for key state enterprises), the collapsing exchange rate and the gathering inflationary firestorm can have an indirect, delayed impact on production. This is particularly apparent in the industrial sector, where an 11 percent increase in production was reported for the January-July period. In other sectors, however, the impact of Belarus’s financial instability is apparent even in the official statistics. For example, the 2011 housing construction data suggest that the authorities have responded to the need for more austere fiscal and monetary policies by dramatically cutting back on construction activity (Chart 6).

* Nominal growth in retail trade turnover, deflated by changes in the consumer price index.
* Nominal growth in household incomes, deflated by changes in the consumer price index.
A dramatic slowdown is also visible in the year-on-year growth of retail trade turnover and household incomes, in real terms (Charts 7, 8). After reporting double-digit increases during the first quarter of 2011, growth in the volume of household incomes and spending had dropped toward zero by mid-year. If price controls had not limited the increases in consumer prices (used to deflate nominal income and spending growth), these trends could easily have turned negative by mid-2011. Likewise, Belarus’s accelerating inflation rates seem likely to reduce the real value of household incomes and spending in the months to come.

![Chart 9—Year-on-year changes in employment, real wages, real pensions* (2010-2011)](image)

*Nominal growth in wages, pensions, deflated by changes in the consumer price index.

Signs of strain are apparent in the labour market as well (Chart 9). After benefitting from a 30 percent public sector wage increase (in nominal terms) in November 2010, Belarusian workers have seen growth in the real value of their salaries steadily eroded by inflation. By July, wages were lower in real terms than they had been a year earlier. Pensions likewise fell (in real terms) during May, June, and July. And while a 0.7 percent official unemployment rate continues to be reported, labour market data indicate that employment has been falling (in year-on-year terms) since March. In June alone, a 10 percent decline in employment (relative to levels reported for June 2010) was recorded. The official labour market data imply that employment during January-June 2011 declined by some 553,000 workers; by way comparison, a 7000 increase in the number of people working was reported during the first half of 2010. Falling employment, wages, and pensions (in real terms), combined with skyrocketing prices for food, utilities, and other essentially must be squeezing many households—irrespective of reported increases in production volumes.

In many transition economies, workers have responded to socio-economic vulnerability by migrating abroad, and sending remittances home (Chart 10). Until now, Belarus has not relied extensively on remittance inflows. However, Belarus has not faced a socio-economic crisis like the one now unfolding for two decades. Perhaps not surprisingly, National Bank data now show remittances growing at a rapid pace. The 43 percent increase in remittances (in dollar terms) reported for Belarus in 2010 was the largest in the region; this growth accelerated to 61 percent during the first quarter of 2011 (Chart 11).
This suggests that growing numbers of Belarusian workers are adopting migration-based coping strategies in response to the uncertainties and insecurities now facing them. In the days to come, however, efforts by the government and the international community to help mitigate these insecurities may be no less important. While an emphasis on managing the macroeconomic challenges now facing the country is understandable, the urgency of measures to protect vulnerable groups, isolated communities, and disadvantaged regions from the worst of the unfolding crisis, should not be ignored.

* UNDP calculations, based on data taken from national bank websites, and the IMF's April 2011 World Economic Outlook.

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