



Turmoil in Belarus Is a Headache for Russia

Anders Åslund says that President Alexander Lukashenko's string may be running out as Belarus seeks Russian help in its financial crisis.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics with Anders Åslund, senior fellow at the Institute, to discuss the financial turmoil in Belarus. Anders, what's going on in Belarus and why should the West or the rest of the world be alarmed?

Anders Åslund: I think that we are seeing a financial crisis of the same kind that hit the Soviet Union in '91 and crashed the whole economic system taking place right now in Belarus.

Steve Weisman: Belarus has hung in there as a state-controlled economy all these 20 years.

Anders Åslund: Yes, but now it's breaking down. And the cause of the whole problem is that the president, [Alexander] Lukashenko, increased salaries by 50 percent before the presidential elections last October. And even still he had to steal the elections. They were locked over by violence and now something like 40 people are sitting as political prisoners. And he couldn't afford this increase of salaries by 50 percent and maintaining a fixed exchange rate. So now he's forced to devalue by about 40 percent. But he's not prepared to let the exchange rate float and, therefore, he's in the worst of both worlds. He has devalued and cut the peoples salaries by effectively 40 percent. And at the same time he has massive shortages and therefore there is massive inflation now.

Steve Weisman: If the currency did float, what would it plunge to?

Anders Åslund: Probably the exchange rate would plunge from 3000 to 5000 rubles to the dollar, a devaluation by 40 percent. The real wages would have to fall by at least 20 percent.

Steve Weisman: Who can save Belarus? The IMF, the West: they don't want to step in.

Anders Åslund: The West generally doesn't want to step in because of human rights violations. The IMF did step in for the first time in January 2009, and Belarus essentially didn't do anything that it should do--that is President Lukashenko personally. So the only source of money available at all is Russia, but Russia is also a market economy and Russia also wants Belarus to devalue, let the exchange rate float, and to privatize substantially.

Steve Weisman: If Belarus privatizes, this becomes a bonanza for whom? Russia?

Anders Åslund: Only Russian enterprises are today prepared to go in and buy big enterprises.

Steve Weisman: Is that one reason why Lukashenko doesn't want to privatize?

Anders Åslund: Yes. That's the reason he thinks that it's no good to privatize in the midst of a crisis, because then you will get low prices.

Steve Weisman: Right. Fire sale prices for all these assets.

Anders Åslund: This he understands. But he doesn't understand that the prices are rising because he has issued a lot of credits and he doesn't understand that one cannot devalue as much as one wants if the country has essentially run out of international resources.

Steve Weisman: Is Belarus to Russia what Greece is to the EU?

Anders Åslund: It's worse because Belarus does not have the functioning economic system that Greece has. Greece is only a problem over public finances.

Steve Weisman: But could there be a contagion from Belarus?

Anders Åslund: Well, not really economic contagion. Belarus is not sufficiently important, and the country that is most concerned is Russia. And Russia can easily take it. So if there would be a contagion, it would be political. It would be like the Arab spring and it could go to Ukraine and to Russia because Lukashenko cannot take this politically.

Steve Weisman: Is Lukashenko facing such turmoil that we might see his departure this year?

Anders Åslund: I would be very surprised if he doesn't go this year because you can't really pursue this kind of economic madness.

Steve Weisman: People have been trying to get him out of there for a lot of years.

Anders Åslund: Yes, but essentially he's got himself now by increasing the public wages massively and insisting on a fixed exchange rate.

Steve Weisman: But if he can't pay those wages, are we going to see instability?

Anders Åslund: Yes, I think that the economic instability will lead to political instability because this looks very much like the end of the Soviet Union. People will not work because they can't use their money. And if they don't work, output will fall and there will be fewer and fewer goods. The shops in Belarus are empty today.

Steve Weisman: What's the lesson here for the rest of us?

Anders Åslund: That you shouldn't have an old Soviet type economy and unfortunately everybody has learned that from President Lukashenko. We have North Korea and we have Cuba left, but there's hardly anybody else on that list.

Steve Weisman: Thank you, Anders.

Anders Åslund: Thank you.

