

Privatization in Belarus – Obstacles and Perspectives

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For a long time Belarus considered privatization as a minor factor in influencing the economy's development, competitiveness and effectiveness. The former economic model relied on concessional loans and donations from Russia and various international organizations. The 2011 financial crisis led to the breakdown of this model and forced the authorities to reconsider privatization. A draft of a new law on investment has been prepared, which is aimed at increasing foreign capital inflow to the country. However, it does not contain sufficient measures to significantly raise the investment attractiveness. In turn the lack of such attractiveness can have a very negative effect on the economy in the near future.

Belarus is right now facing a currency crisis primarily due to three factors:

1. A growing deficit of trade and payment balances;
2. The National Bank's continuing Belarusian ruble emission partly because of pre-elective directive wages' raise;
3. A lack of foreign currency reserves required to keep the USD exchange rate at BYR 3100 level.

However, the key problem is a growing negative balance of payments, which in January-June 2011 amounted to USD (-1032.6) million against USD (-82.2) million in January-June 2010.

The Belarusian ruble devaluation, which occurred in May 2011, managed to improve the trade balance situation and gradually lead to export earnings growth. That in turn reduces the current account deficit, which amounted to USD (-1630.4) million in the second quarter of 2011 against USD (-3657.2) million in the first quarter 2011.

Negative foreign trade balance mostly forms negative balance of payments of the country,

and problems with external payment capacity are likely to occur under conditions of trade deficit preservation. Moreover, taking into account that the main repayment share of external debt should be paid in 2012-2014 it is necessary to attract additional funding sources.

Table 1. External debt repayment scheme

	2011	2012	2013	2014
External debt repayment	167,3	918,4	289,00	454,70
Debt servicing	461,6	698,5	738,4	766,4
Total	628,9	1 616,9	3 027,4	3 221,1

For this to be feasible privatization as a major long-term capital raising instrument will be required for the following reasons:

1. Belarus will not be able to borrow in the external markets in the near future.

This is due to impossibility of attracting loans from international organizations as well as extreme expensiveness and inexpedience of sovereign debt securities placement in global stock markets.

2. Before the 2011 crisis, public and private companies were able to attract bank and state financing programs' sources for the financing of their activities. However, the unstable economic situation in the country has forced the authorities to cut the state programs' funding (BYR 12 trillion instead of requested BYR 36 trillion, while BYR 22 trillion were spent in 2011) in order to prevent further inflation and to provide a budget surplus. Moreover, the economic crises resulted in a decline in domestic demand of the population and the corporate sector simultaneously, with reduced domestic savings levels as a consequence. During the first eleven months of 2011 savings dropped by 25% in USD terms in comparison to the corresponding period of the previous year. These occurrences in the economy make a search of a strategic partner through additional issue of shares or mergers with other agents the only source of financing attraction for state and private companies.

Speaking about the current situation, it should be noted that Belarus planned to get around USD 3 billion from privatization in 2011. 178 assets were to be sold according to the privatization plan. However, just around 38 assets were sold in 2011 and the country managed to gain around BYR 150 billion (USD 17.6 million) from that. Thus, the result cannot get positive evaluation right now.

The main reasons for the slow privatization process and weak foreign capital inflows are the following:

The multiplicity of agencies responsible for privatization. There are too many responsible decision-makers, which potential buyers have to contact. In addition, it is not very clear which agency is responsible for this or that asset. The State Property Committee and the National Agency for Investments and Privatization (NAIP) supervise the state asset sales today. However, ministries and local authorities are also responsible for privatization plan accomplishment.

Difference in asset valuation methods. Investors, while analyzing any investment project, tend to focus on the cash flows that the project will be able to generate and how soon the costs will be covered. The Belarusian side values the asset according to its' book value, below which the price cannot fall. This often results in large price differences.

Additional requirements. The presence of additional requirements is a common phenomenon, but only when the price negotiations are more flexible. But it distracts investors in case the requirements are followed by a fixed overestimated price.

Lack of transparency. Periodically the deals are announced, which were closed not during the auctions or tenders but after the closed backroom negotiations. That also affects negatively investors' opinion about the country

High share of public sector. Private sector is mostly represented by small and medium businesses. Thus, the strategic investors' interest in them is initially lower. Moreover, they are unable to invest by themselves due to a lack of resources.

In addition, the authorities and enterprise management demotivation in the privatization process, an undeveloped culture of IR and consulting services usage, and the fact that it is often non-controlling stakes that are put up for sale, are also obstacles in the process.

These are the main problems influencing the foreign capital inflow rates. Their solution and

elimination should increase the economy's investment rates as there is an interest in the country's assets and it is high enough.

As was mentioned earlier, the sale price of an asset is estimated according to its' book value in Belarusian rubles. The national currency devaluation, which occurred in May and October 2011, has significantly reduced assets' real value in USD terms and therefore a sharp drop in prices occurred. Starting from March 2011, the national currency depreciated by 181%, and the fall in real value of assets on sale was comparable. The analysis of transactions, which were closed during the auctions held in 2011, showed that the companies acquired by the investor were generally highly undervalued even in the beginning of 2011. As a result of devaluation, the ratio of asset price to revenue (P/S) dropped by 1.67-1.8 times. OJSC "Zhlobinmebel" (P/S=0.3 January 2011, P/S=0.18 in June 2011), OJSC "Vitebskles" (P/S=0.37 – January 2011, P/S=0.2 – June 2011) [6].

On the other hand, in accordance with Presidential Decree #476, the revaluation of fixed assets should be done by January 1, 2012 and adjusted to PPI, which equaled to 82% in October, 2011. Such adjustment will still not be able to cover the depreciation resulting from the devaluation. Therefore, there will be a gap between the announced corrected asset price and its real value at least for another year.

Nowadays, the demand is formed by Belarusian export-oriented companies. Their products have become more competitive in the markets as a result of devaluation and have caused some growth in earnings. Consequently, they are ready for vertical and horizontal integration with attractive companies operating in the local market in order to expand the production and increase their niche in the global markets.

As for foreign investors, macroeconomic stabilization is necessary in order to make them wanting to enter the Belarusian market.

Moreover, foreign buyers are attracted by the strategic Belarusian companies rather than by the small and medium business. This is because they are then able to generate sufficient profit volumes even in the short-term period.

Conclusion

The privatization process will be much more active and intensive in the forthcoming 2012, in comparison to what we have seen during 2011. This is determined on the one hand by a great need in external capital and on the other hand by sufficiently favorable acquisition conditions. However, obviously the privatization process and plan should be reviewed and optimized.

It might be more efficient to put on sale, not just companies' shares, but also controlling interest as it should increase buyer interest.

It is also possible to sell assets at a minimum fixed price (in case it has losses and no perspectives with current owner), or the authorities could reduce the amount of requirements which accompany the transaction.

Finally, it should be noted that the privatization of small companies will not generate sufficient amounts of foreign capital to the country. In order to achieve that goal, Belarus will have to sell some large strategic assets. It already sold the state's controlling interest of OJSC "Beltransgaz" to OJSC "Gazprom" for USD 2.5 bln. As for other assets, it is most likely that these will be 51% of shares sale of OJSC "MTS", 51% shares sale of OJSC "Naftan" in exchange of USD 1 billion syndicated loan issued by "Sberbank Russia" and EABR, as well as a merger of OJSC "MAZ" with Russia's corporation "Russkie Mashiny" or OJSC "KAMAZ".

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