

Remarks at the forum on the 25 years of the belarusian ruble by Jacques Miniane the IMF Mission Chief for Belarus



Dear governor, distinguished guests.

Thanks for the opportunity to speak at this important conference. As we look towards the future of the Belarusian ruble, I cannot think of a more relevant question than whether Belarus will be able to de-dollarize and make the domestic currency the predominant currency in the country. So, this is what I want to discuss here today.

Let me start with some facts. As you can see in this chart, Belarus has one of the highest levels of deposit and credit dollarization in eastern Europe. A history of currency crises and hyper-inflation contributed to this outcome. And while things are slowly getting better relative to a few years back, Belarus is more dollarized today than 10 years ago.

Why is this a problem? Well, there are many reasons. First, when a large share of your deposits is in fx, you run the risk of a run on the banks without a lender of last resort that can provide infinite liquidity; the only buffers you

have are the banks' liquid fx assets and the central bank reserves, which in Belarus are stronger than three years ago but not yet as strong as we would like them to be.

Second, when a lot of the credit in the economy is in fx, a large depreciation can stress the borrowers' balance sheets and potentially stress the banks who lent to them. The world is littered with cases where sharp depreciations in dollarized economies led to full-blown crises.

Third, and relevant to our conference today, fx dominance in the system will limit the effectiveness of the monetary transmission mechanism, complicating the task of the central bank.

And fourth, when most of public debt is in fx, as it is here, sudden depreciations will quickly worsen public debt ratios. If you look at the last ten years of public debt in Belarus, the rapid increase had little to do with overtly loose fiscal policy and much to do with repeated depreciations of the ruble.

So what will it take for Belarus to successfully de-dollarize? Well, if you look at countries that have managed it, they had five key ingredients: (i) a coherent de-dollarization strategy; (ii) improved macro-policies; (iii) improved regulatory policies--notably in the banking system--that make lenders and borrowers internalize the cost of saving and borrowing in fx; (iv) deeper domestic capital markets; and finally, the one element seldom discussed, but truly fundamental: an appreciating currency. You will see later what I mean by this.

Let's go one by one. On a de-dollarization strategy, the national bank is working on one which will be unveiled soon. That's a good step and there's not much more to say until we see the strategy in the flesh.

On macro-policies, things have gotten better in recent years. 2014-2016 was a wake-up, and since then the government has made a genuine effort to keep fiscal policy on a sustainable path. It is now redoubling those efforts in the face of declining revenues. On the monetary policy front, a much more coherent and better executed policy framework, anchored by a gradual transition to inflation targeting, has delivered historically low inflation and exchange rate stability.

On the banking regulation side, we have seen big improvements as well, with policies better geared at making banks and borrowers internalize the social cost of dollarization. For example: differentiated reserve requirement ratios for fx and ruble deposits, ban on household fx borrowing, differentiated risk weights for fx and ruble assets, and limits on banks' open fx position all speak to progress in this area.

Given the above, why isn't Belarus making more progress in de-dollarizing then?

First, there is much to go still in the formation of a full-fledged ruble capital market. Supply of medium to long-term ruble instruments is limited given the government's financing strategy, and there

is little demand for medium- and long-term ruble debt given the paucity of institutional players. I know the authorities are working with the EBRD to foster capital market development; this is a great initiative that should be given every encouragement.

But now I come to my punchline, the other crucial factor that is missing: an appreciating currency. It is my strong belief that, to successfully and durably de-dollarize, domestic agents need to see the domestic currency appreciate through time, so as to make holding fx a losing proposition. Look at Peru, one of the main case studies in the successful de-dollarization literature. Throughout the 2000s, Peru reduced the share of fx deposits and loans dramatically. But this was also a decade during which the currency was steadily appreciating, thanks to big terms of trade gains. Or look at Israel, another of the most oft-cited successful de-dollarizations: same story, de-dollarization happened during a period of steady real appreciation of the shekel. Closer to home, we saw the tight link between de-dollarization and currency appreciation in Russia in the 2000s, before the GFC.

The opposite is also true: depreciations lead to reversals in de-dollarization. We saw it here in Belarus. In Russia, the ruble depreciation in 2014-15 saw a significant re-dollarization. And we saw it even among the most successful de-dollarizers, as happened in Peru after the 2013 taper tantrum. In short, de-dollarization is a long process, one that requires good policies and sustained favorable conditions.

Now, of course, when linking de-dollarization with an appreciating currency, I am not in any way advocating appreciating the currency via artificial means. That will simply not work. So then, how do you get a “healthy” appreciation? If you’re not a commodity exporter benefitting from terms of trade gains, and Belarus is not, then the one way theory tells us is that you have to have higher tradables productivity than trading partners (or than the country whose currency dominates in your case). In Belarus, we are not there yet.

This is why we have advocated, along with others, for productivity-enhancing structural reforms. Sure, growth would benefit first and foremost, and that’s urgently needed. But beyond that, a positive balance of payments would have many benefits, of which aiding de-dollarization would be an important one.

I know what you’re thinking right now: whatever the topic, the IMF always comes back to SoE reform. But just like all roads lead to Rome, in Belarus all roads lead to the inefficient SoEs and the need to boost private sector activity. For the Belarusian ruble to be stronger in the next 25 years than it’s been in the past 25 will require not just better macro-financial policies but better structural policies as well, ones that bring the balance of payments to a higher plane. So here it’s hoping that it will happen.

Thank you very much.