

Timid reform of the state-supported export financing

Belarus has reformed export financing for the first time in several years. So far, state-supported export financing was largely monopolised at the Belarusian Development Bank. In the area of medium- and long-term export financing, there has been no possibility for commercial banks to offer export credits with state-supported interest rates since 2016. The recent legal amendment, which took place in February 2021, moderately expands the possibilities of commercial banks in the areas of export production financing, export factoring and small export credits. The Development Bank can also access new business areas, such as export production financing and export factoring. Overall, however, the reform falls well short of expectations.

Regulatory framework for export promotion

Export financing in Belarus is regulated by several presidential decrees and is partly further specified by government regulations. While this is not an untypical framework for Belarus, it is a rather rigid procedure for a dynamically developing area such as export financing. Decree No. 534/2006 was intended to create a comprehensive system of export promotion. In 2016, important segments of export financing were monopolised at the Belarusian Development Bank (DBRB), probably also because of inappropriate use of state interest subsidies by banks. A government decree of 2016 also stipulated that, as a matter of principle, only economic goods that are included in an enclosed list ("goods in the list") are eligible for state-supported export financing. The export financing of other goods requires a complex administrative approval procedure. The February 2021 reform is based on Presidential Decree No. 39 of 4 February 2021 and will enter into force on 7 May 2021. Decree 39/2021 is a republication of Decree 534/2006 with amended wording. With this regulation Belarus widens the options for business for the official Export Credit Agency Beleximgarant and allows the activities of domestic not officially mandated credit insurers for the first time.

Need for reform of export financing in Belarus

The main weakness of the previous scheme was the monopoly-like role of the DBRB in the areas of medium- and long-term export financing and export leasing. Added to this was the limitation to "goods in the list", which, according to our 2017 calculation, resulted in only 17-22% of Belarusian goods exports being eligible for state-supported export financing. This significantly limited the scope of action for commercial banks, largely eliminated competition between banks and

threatened to lead to a gradual loss of important know-how in export financing after 2016. The risk that export credits from the DBRB would be systematically made available primarily to state-owned enterprises and not allocated according to economically sensible criteria lies at hand.

Changes due to the February 2021 reform

To a certain extent, the 2021 reform expands the scope of operations for commercial banks. In essence, however, the DBRB's monopoly will remain; in some areas of activity, the DBRB's role will even be strengthened. The areas affected by the reform are primarily the financing of export production (pre-export finance), bank loans to foreign borrowers for smaller transactions (buyer credits) and the discounted purchase of export receivables (export factoring). These measures are initially limited to the years 2021/2022. However, past experience shows that such regulations are likely to be extended on a regular basis.

Working capital loans for export production

Commercial banks and the DBRB are allowed to issue working capital loans with government support, in the form of interest subsidies, to domestic borrowers to finance export production, covering a production period of up to 180 days and not exceeding USD 3 m equivalent per borrower. This form of financing was no longer covered by Decree 534/2006 since 2016.

Buyer credit

The sphere of medium- or long-term buyer credits, i.e. loans to foreign borrowers in foreign currency for the purchase of Belarusian goods (services, construction work), was opened to commercial banks. Such credits with repayment terms of not less than 360 days may be financed up to 85% of the value of the export contract. This is a voluntary alignment with OECD-wide rules for state-supported export credits (OECD Consensus). Here, too, an upper limit of USD 3 m per borrower applies, so that only small loans ("small tickets") are permitted. Loans to foreign banks (bank-to-bank loans) are exempt from this rule and remain the exclusive domain of the DBRB, regardless of their size.

Export factoring

In export factoring, the exporter sells its receivables from short-term supplier credits to a domestic factor. These are often specialised factoring companies, as is the case in Belarus. Through the global assignment of receivables, the company secures its liquidity and can pass on the credit risks to the factor. This segment of

corporate financing was previously reserved for commercial banks and factoring companies only, but is now being opened up also to the DBRB, for which this form of short-term liquidity supply to export companies is a completely new business field, in which it so far lacks experience.

Settlement of the interest rate support

On a monthly basis, commercial banks can apply for compensation of their incurred interest losses. This is equal to the difference between the average interest rate for business loans applicable for the period and the external interest rate agreed in the loan contract. It is capped at the CIRR (Commercial Interest Reference Rate) set monthly by the OECD for different currencies and the minimum surcharges imposed on it. There are comparable regulations for rouble loans. Compensation up to USD 500,000 is approved by the Ministry of Finance, higher amounts by the Cabinet of Ministers. Since the allocation of budget funds for interest support has not been increased despite the reform measures, the room for expansion remains limited.

Strengthened role of the Development Bank

The DBRB remains the only institution allowed to provide export credits of any size to foreign borrowers, as well as bank-to-bank loans. Previous minimum amounts for DBRB loans, until most recently USD 200 thsd, were eliminated by the reform. Export leasing remains exclusive to the DBRB, as do purchase commitments for foreign bank letters of credit and letters of credit follow-up financing. State-supported financing of export production is added as a new business segment. The same applies to export factoring, a very untypical business area for a Development Bank.

Summary

The reform of February 2021 moderately strengthens commercial banks in the areas of working capital and small tickets without challenging the DBRB's monopoly. This shows that the aim of the reform was not to strengthen the commercial banks, but presumably only to give in to the pressure of Development Bank, Beleximgarant and commercial banks for broadening the area of state supported export financing business. Competition among the financial institutions and the increase in international competitiveness of the Belarusian export economy thus remain very limited. The danger of state-controlled financing of state-owned enterprises remains unchanged.

The opening for domestic credit insurers is positive, but one should not overestimate the attractiveness of these changes for them. Very few insurers have the

capital required for this and all lack any experience in the field of credit insurance. At least the state export credit agency Beleximgarant will have slightly more business opportunities with commercial banks and will be able to strengthen its export-promoting role.

It remains questionable whether the regulation of export financing by presidential decrees is still up-to-date and sensible. In international markets, requirements and methods change so quickly and dynamically that a regulation by presidential decree, which only takes place every few years and is administratively cumbersome, is not fast and flexible enough to be able to adapt to the changing needs on a regular basis. The timid reform in Belarus must definitely be followed by more energetic reform steps.

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