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## Between Revolution and Stagnation: Perspectives for Belarus

Belarus faces a serious economic and financial crisis, which may have a significant impact on the political transformation of that country. Because of increases in living costs, which are part of the aftermath of the devaluation of the Belarusian ruble and rapidly rising inflation, an explosion of mass public protests is forecast for the autumn. However, it is not expected that the protests will bring about a rapid (pro-European) turn in the political situation in Belarus. Moreover, the weakness of the opposition, which after the presidential election of 2010 became even more divided than before and still has no charismatic leader, is not propitious to radical, pro-European changes.

At the same time, a lack of foreign exchange reserves means that the Belarusian authorities will have to sell some of their most profitable enterprises, such as refineries and fertilizer plants, and take more foreign loans to stabilize the currency market. The main creditor (via the anti-crisis fund of the Euro-Asian Economic Community) and the main party interested in buying Belarusian enterprises is Russia, which will then gain another leverage over Belarus. Selling state assets to meet the payment of salaries and pensions, however, could mean the slow decay of the regime.

Russia remains the single most important player on the Belarusian political scene. Russia will seek to maintain the status quo in Belarus until at least this year's elections to the Duma. In addition, Russian authorities will not accept a pro-European revolution in a country that is tied to it not only politically and economically but also militarily. This means it should not be expected that Russia will support political change in Belarus, at least while Lukashenka remains useful as the president. More specifically, Russians will only go along with changes limited to internal reshuffles in the Belarusian *nomenklatura* and a candidate who will guarantee maintaining Russia's influence in Belarus.

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## Economic malaise

During the five months between March 2011 and July, the economic situation in Belarus dramatically worsened. Foreign exchange reserves fell to a dangerously low level (on 1 July, they amounted to \$4.15 billion),<sup>1</sup> which resulted in an almost complete lack of foreign currency in the country's financial market. To a limited extent, currency was available in the interbank market but it was insufficient to meet the needs of Belarusian enterprises. It also was almost impossible for people to buy currency in exchange offices. The National Bank of Belarus (NBB) initially decided to float the exchange rate on the interbank market to enable entrepreneurs to buy currency. On May 24, the Belarusian ruble was devalued by 56% against the world's other currencies.<sup>2</sup> Belarusian experts estimate the devaluation was introduced too late and was too little and should have been around 100% (from about 3,000 rubles per dollar to 6,000 rubles per dollar). In carrying out the devaluation, the NBB stiffened the course of the interbank market via a ruling that exchange rates cannot differ by more than 2% from the official rate.<sup>3</sup> This resulted in the total stagnation of the interbank foreign exchange market as the undervalued exchange rate currency dealers dropped out. Moreover, the devaluation meant the average monthly salary, if calculated in dollars, declined from \$515 to \$313. Problems in the currency market have been deepened by growing inflation—in the first six months of 2011, inflation reached about 36.2%.<sup>4</sup>

The difficult situation in the currency market is largely the result of the 2010 presidential election campaign. The government at that time decided to artificially increase average wages in rubles to about \$500, which didn't reflect the real condition of the Belarusian economy. Belarusians en masse exchanged the extra rubles for foreign currencies, emptying exchange offices. At the same time, the NBB wanted to fulfil a promise made by Lukashenka that there would be no devaluation of the Belarusian ruble and maintained it at an artificially high level, which caused a drastic decline in foreign reserves. Furthermore, by delaying the devaluation, the NBB not only caused chaos for the country's foreign exchange markets but also, paradoxically, increased the percentage of change. It is estimated that if it had carried out the devaluation in accordance with the expectations of the IMF in autumn 2010, the change probably would have been about 20%. Moreover, it is said that the devaluation conducted in May will not be enough and a second devaluation of the Belarusian ruble is in the cards. There also are plenty of analogies to the Russian crisis of 1998, including:

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<sup>1</sup> Data of the National Bank of the Republic of Belarus: *International Reserve Assets of the Republic of Belarus, According to the Methodology of the IMF*, [www.nbrb.by](http://www.nbrb.by).

<sup>2</sup> National Bank of the Republic of Belarus, *On establishing the of the Belarusian ruble exchange rate*, [www.nbrb.by](http://www.nbrb.by).

<sup>3</sup> *Ibid.*

<sup>4</sup> National Statistical Committee of the Republic of Belarus, *On Price Changes in June 2011*, [www.belstat.gov.by](http://www.belstat.gov.by).

- a small number of foreign investors in the economy caused by a significant lack of transparent legal infrastructure and market institutions,
- issuance of high-yield government bonds,
- growing foreign debt,
- growing problems in the banking sector,
- a lack of willingness by the authorities to enter into economic reforms, and
- the devaluation of the currency and a reduction in the real income of society.<sup>5</sup>

This means that without comprehensive economic reform, Belarus will be threatened by insolvency. Moreover, the crisis in Belarus may be more long-lasting than the one in Russia because while higher prices for energy resources and the purchasing capacity of the internal market helped Russia leave the recession, Belarus doesn't have such options. The Russian example also shows that the political responsibility for the crisis is likely to be charged to the government, not the president.

### **Weakened authorities vs. anaemic opposition**

It seems that the economic crisis is starting to influence the president's position, especially since President Lukashenka didn't react for a long time to the country's economic problems and his behaviour raised the question about whether he was well-informed. According to an opinion poll conducted in June 2011 by independent research centre NISEPI, only 35.7% of Belarusians trust Lukashenka, a drop from 55% since December 2010. This trend is accompanied by a decline in confidence in the government. In the same period, December 2010 to June 2011, trust in the government shrank from 51.6% to 33.6%. President Lukashenka also has the lowest public support since 2003. Moreover, if presidential elections were held in June 2011, just 29.3% of those polled say they would be ready to vote for the incumbent president. The decline in the popularity of the Belarusian president means that he is primarily blamed by the people for the economic and financial difficulties of the country. At the same time, Belarusians still see no alternative to Lukashenka, which is a result of the weakness of the opposition.<sup>6</sup>

The situation for the Belarusian opposition since the presidential election has been precarious. Its leaders accused each other of taking inappropriate actions during the 2010 presidential campaign. In addition, various judgments against individual leaders for their participation in the demonstrations of 19 December 2010 have been transformed into mutual accusations among opposition leaders. Some leaders, such as Jarosław Romańczuk, received no judgments at all while others, such as Uladzimir Niaklajeu, received suspended

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<sup>5</sup> For more about the reasons and effects of the Russian economic crisis in 1998, see: Barbara Durka, *Kryzys gospodarczy w Rosji. Geneza, skutki, scenariusze rozwoju sytuacji*, Warszawa 1998, p. 6-12, and Edwin Bacon, *Contemporary Russia*, Basingstoke, New York 2010, p. 133–135.

<sup>6</sup> NISEPI opinion poll, *The president of the minority*, [www.iisepts.org](http://www.iisepts.org).

prison sentences. Still others, such as Adrei Sannikau, Mikola Statkevich and Dzmitry Us, received penalties ranging from five to six years in a strict-discipline penal colony.<sup>7</sup> These differences in judgments and penalties raised speculation among the opposition about who among the candidates collaborated with the Belarusian secret services. There also is a common accusation that Niaklajeu's "Tell the truth!" campaign "spoiled" the market for opposition activists who wanted very high rates for their work on behalf of candidates (collecting signatures and spreading leaflets).

Internal divisions and accusations, an absence of clear leaders, humble sources of funding and a lack of consolidation of the opposition groups are not their only problems. The opposition, perhaps with the exception of the United Civil Party of Belarus, has no political and economic program that would be a response to the deteriorating economic situation of the country or that could give it a chance to heighten awareness among Belarusian society. After the arrests and convictions of ordinary opposition activists, difficulties in attracting young activists have increased. What is more, out of fear of reprisals from the authorities, a large group of young people is likely to decide to emigrate. Finally, in Belarus there are no entrepreneurs who represent the middle class and who might support opposition candidates and act as their donors.

### **Three scenarios for Belarus**

Against the backdrop of these economic and political factors there are at least three scenarios in which the situation in Belarus could develop in the coming months.

#### *Regime decay*

Given that the only international financial support Belarus received during the last few months was a credit from the anti-crisis Euro-Asian Economic Community (EurAsEC) fund in the amount of \$3 billion, Belarusian authorities seeking to stabilize the financial markets in their country will have to privatize many of the country's major and most-profitable enterprises. Incidentally, that is also one of the conditions set by EurAsEC to receive the credit. Belarus, therefore, has to implement a reform package, including in particular the privatization of enterprises worth \$7.5 billion during the program. In addition, Russia is practically the only one interested in buying the majority of these companies, which may be privatized profitably.

The Belarusian authorities are likely to decide to sell a \$2.5 billion stake (50%) in Belarusian gas operator Beltransgaz to Russia's Gazprom, which already owns the rest. It is also said that Lukashenka will sell the Belarusian producers of dairy products to Russian companies. Moreover, it also is very possible that Minsk Automobile Plant MAZ, which produces buses and trucks, will be merged with Russian truck manufacturer KAMAZ and that

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<sup>7</sup> For more about Viktor Fedorovich, see: *Trial of December the 19<sup>th</sup>. Belarusian opposition was put on a hundred years*, [www.naviny.by](http://www.naviny.by).

some money from the sale will be transferred to the state budget.<sup>8</sup> Nevertheless, the Belarusian authorities will seek to delay the sale of other companies, primarily in the petroleum and petrochemical sectors (refineries and fertilizer manufacturers Grodno Azoty and the Belarusian Potassium Company). Paradoxically, the option to sell the Belarusian enterprises to Russian companies may prove to be quite beneficial for their future success. The Russian owners certainly will carry out modernization and increase the profitability of the Belarusian companies. However, most probably this will be done at the cost of releasing workers and cutting social services. Moreover, for the government in Minsk, selling key Belarusian enterprises will mean the authorities will no longer be able to shift funds from profitable enterprises to these with losses (so-called “cross-subsidization”). Clearly, if Russia were to become the main stakeholder in the biggest and most profitable enterprises in the country, the Russian authorities will surely muse about using them not only to support their economic interests but also their political goals.

Further, in order to achieve its goal of subordinating the major Belarusian enterprises, Russia certainly will use the “gas prices argument.” There are many indications that a particularly difficult period in relations between Belarus and Russia may come at the turn of 2011–2012 when negotiations about the price of gas for the following year will resume, especially because the current contract for gas supplies to Belarus ends on 31 December 2011. The price on the open market now is about \$286 per 1000 m<sup>3</sup>, which is a significant increase from 2010 when the average price was about \$185 per 1000 m<sup>3</sup>. Most likely, however, when it is time to sell a stake in Beltransgaz, Belarusian authorities may succeed in negotiating to maintain the current prices through 2012 and, from 2013, switch to the much-lower internal Russian prices. What is interesting for Russia’s Gazprom is that if it buys Beltransgaz it will recoup its investment in about five years, since Gazprom currently pays Beltransgaz about \$400 million annually in gas transit fees.<sup>9</sup>

A slow sell out of national property could herald a “system decay.” Experts estimate that selling Belaruskali, a major producer of potassium fertilizer valued at an estimated \$30 billion, could give Lukashenka about three years of calm rule. After that, he could sell other profitable Belarusian companies until there will be nothing left to sell. In that case, the biggest winner would be Russia because its companies would be the main owners and employers in the Belarusian economy. It will mean Russian authorities also could influence the political situation even if there is no indication now that Russia has developed a scenario for “operation successor,” i.e. installing a new president in Minsk. Thus, in the near future, Russian attempts to oust the current Belarusian leader would be unlikely. In this scenario, Lukashenka would stay on in his post as long as Russia would consider him useful. This also minimizes a Belarusian turn toward the European Union because even in the case of a democratic upsurge in Belarus, Russia would be the main owner of the most profitable and largest companies, thus influencing the political arena. Moreover, time plays for Russia. If

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<sup>8</sup> See Tatiana Manyanok, *Family silver of the first row*, [www.belmarket.by](http://www.belmarket.by).

<sup>9</sup> Tatiana Manyanok, *Contract “two in one”—the cause of discord*, [www.belmarket.by](http://www.belmarket.by).

the revolution starts soon, Belarusians probably will choose independence and painful reforms instead of relative welfare under Russian rule. If not, Belarus will be increasingly dependent on Russia.

*Social revolution—with strings attached*

The main factor that may cause an explosion of social discontent is the deepening economic crisis and the decline in the standard of living. According to a current annual prognosis by independent economists, inflation may be as high as 80%. The higher inflation is caused not only by an increase in prices connected with the ruble's devaluation but also by the lack of foreign currency in the market, which forces people to make purchases immediately (including equipment and household appliances) and accumulate stocks of basic food products or lose the value of their money. The increasing demand for various types of goods results in deficits in the market as has occasionally happened with sugar, salt, cigarettes and even vinegar. Another factor that will cause a growing rate of inflation would be the indexation of wages and pensions. What is more, within a few months the devaluation of the Belarusian ruble will cause an additional increase in production costs because Belarusian companies pay for energy supplies in dollars. Inevitably, this will increase transport and heating costs and raise the prices of petroleum products and fertilizers, which are mainly export goods manufactured from imported raw materials. Moreover, authorities announced that in the autumn there would be increases in fees for municipal services, which so far have been heavily subsidized by the state.

Every one of these factors has a potential to cause social discontent. Unless Belarusian authorities can mitigate the effects of the crisis, massive protests are a real possibility. The protests could break out in the autumn when people will have to pay significantly higher fees for heating, water and supplies for children who are returning to school. These protests may force a reshuffle in the ruling camp.

Depending on the severity of these protests, an early presidential election would not be implausible. In that case both opposition candidates and members of the current *nomenklatura* supported by Russia would probably take part. The *nomenklatura* would support a candidate who will guarantee the status quo. It could be former Prime Minister Sergei Sidorsky or current Prime Minister Mikhail Myasnikovich (both of whom have their own connections with Russia's *nomenklatura*) or Head of Presidential Administration Vladimir Makey. Any of them would be acceptable to Russia because of their ties with the Russian *nomenklatura* and guarantees to maintain Russian interests in Belarus.

Interestingly enough, these elections could be fair and free. After all, since not even the *nomenklatura* would know who the victor would be, there would be no reason to falsify the election results. Nevertheless, the candidate with the best chance of winning the elections would be one supported financially and politically by Russia. Paradoxically, this means not only an increase in Russian influence in Belarus but also an improvement in

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relations with the European Union. Holding free elections and the recognition of its results by the EU could mean the unfreezing of Belarus' relations with the EU.

*A pro-European transition*

In a related scenario the social protest could adopt a pro-European course. However, this scenario seems rather unlikely for at least two reasons. First, such a development of events would run counter to Russian interests. Thus the Russian authorities are likely to use all possible political and economic tools in order to maintain their influence in the country.

Second, and perhaps crucially, the Belarusian opposition is weak and fragmented. Mutual accusations by post-election opposition leaders only deepened the already existing divisions. In addition, the Belarusian opposition is missing a charismatic leader who would be able to stand at the helm of a social protest. The Belarusian opposition has not worked out a scenario on the timing of the protests or the eventual takeover of power, which would be connected to plenty of difficult economic reforms and changes in the political system.

What is more, unlike the North African countries, Belarus is not conducive to demographic change since it is an aging society. Finally, a revolution will not be sparked by police brutality, lack of currency or more and more expensive goods. It is a matter of mentality. Hence unless Belarusians change their way of thinking, the situation will remain unchanged.