

BULLETIN

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Belarus in 2011: The Hardest Year of the Last Decade

Anna Maria Dynner

The dispersal of post-election demonstrators on 19 December 2010 initiated major changes in both domestic and foreign politics in Belarus. The freezing of European Union–Belarus relations caused by human-rights violations led to an increase in the political and economic dependence of Belarus on Russia. Regardless of the condition of relations with Belarus, the EU should support Belarusian civil society and use tools of cooperation, such as the Eastern Partnership and regional cooperation, with Belarusian authorities.

The Political Situation. For Belarusian authorities, the post-election year was particularly difficult, both in domestic politics and foreign policy. During the year after the presidential elections, the situation for the opposition and civil society institutions has substantially worsened. After the events of 19 December 2010, a wave of repression fell on opposition activists and leaders. It touched people who decided to attend silent marches or protests against increasing fuel prices, and for many of the protesters, a two-week detention or fines were imposed. Nevertheless, on the national level it is difficult to find symptoms of a growing social resistance. This is not only because Belarusians fear reprisal but also because of the lack of alternatives to the ruling party in a society that does not recognize the opposition. Moreover, the Belarusian regime has taken note of the Arab Spring and reacts sharply to any form of protest by not only arresting demonstrators but also by throwing them out of work. In times of crisis, and especially for Belarus where the majority of people are employed under multi-year contracts, permanent work is paramount.

Out of fear of a revolution, the regime also aims to increase the competence of the ministries of force. On 12 September, the Investigative Committee was created as an institution directly subordinate to the president that will conduct investigations into matters that are classified as particularly important for national security. Moreover, the authorities want to increase the powers of the country's KGB officers, allowing them the use of physical force and surveillance during ongoing operational activities.

The Economic Situation. In the year since the presidential elections, the Belarusian economy has substantially deteriorated. This was caused by the omission of necessary reforms and the financing of artificial growth in Belarusian GDP in 2011, which caused inflation. To ensure that Belarusians' average salaries would be the equivalent of \$500 (to match a pre-election promise by President Lukashenka), at the end of 2010 the government decided to print money, which automatically increased the inflation rate. An additional inflationary impulse came from financing by the government and the National Bank of Belarus (NBB) who assumed 11% GDP growth but which was not reflected in the real economy (in 2011, actual growth was 4%-5%). Thus, in the period from January to November this year, inflation exceeded 100% and is estimated that by the end of the year will reach about 120%.

The ruble's devaluation deepened problems in the money market: during the year, relative to a basket of currencies, the ruble lost its value by almost 300%. This devaluation and the high inflation have impoverished the Belarusian society—the average salary at the end of this year amounted to the equivalent of \$240, less than half the amount at the end of 2010.

In 2011, the government also failed to meet a plan to attract foreign investment. Of the \$6.5 billion hoped for, less than a billion dollars actually came into the country, a shortfall that negatively reflected on both the Belarusian budget and its foreign exchange reserves.

Relations with Russia and the EU. The events of 19 December 2010 also resulted in changes in Belarusian foreign policy. The dispersal of the post-election demonstrators was tantamount to the end of the thaw in EU–Belarus relations, which had lasted from 2008. The European Union strongly condemned all the violations of human rights in Belarus and almost froze bilateral relations. Nearly all the initiatives of Belarus in the Eastern Partnership were suspended. As a result of the freeze in the dialogue with the EU, President Lukashenka became increasingly dependent on Russia.

Initially, Russia refused to give Belarus a stabilization loan and the Russian finance minister criticized Belarus for its lack of economic reforms. This situation changed in the end of the year when, in exchange for support for Russian economic integration projects such as the Common Economic Space (of which Lukashenka has expressed great concerns and called into question the economic benefits of membership for Belarus), Russia decided to support Belarus financially. On 25 November, Russia's Gazprom bought the remaining 50% of the shares of Belarusian gas provider Beltransgaz (Gazprom has owned the remaining share since 2010) for \$ 2.5 billion, which helped to increase the level of Belarusian foreign exchange reserves. Russia also gave Belarus a loan in the amount of \$10 billion for the construction of a nuclear power plant.

Prognosis. The coming years will be particularly difficult for the economy of Belarus. The foreign debt is the main threat for the Belarusian financial market. In the period 2013–2014 Belarus will have to pay more than \$6 billion in loans. The need to obtain funds to repay the debt with no support from the EU will be tantamount to increasing dependence on Russia as Belarusian authorities offer to sell key enterprises that Russia will be interested in buying. Using the growing problems in Belarus to its advantage, Russia will consistently aim to take over major Belarusian petrochemical companies and those in the engineering, food and banking sectors, which will allow it to increase its influence in both the Belarusian economy and its politics.

While Belarus in 2012–2014 will save approximately \$2.5 billion per year thanks to discounts on gas, without structural reforms in enterprises, modernization of production lines, or at least partial privatization, the Belarusian economy will remain inefficient. The artificially sustainment of GDP growth can also be a problem. The expected 2012 growth of about 5%–5.5% is probably overestimated by about four percentage points, and the only source of financing will be to artificially issue money, which would result in a continued increase in inflation and a rapid devaluation of the ruble.

Also, Russia's accession to the World Trade Organization (WTO) will lead to problems for Belarus, since according to the rules of the Common Economic Space, Belarus cannot have higher duty rates than Russia. Thus, the Belarusian authorities would lose the possibility of tariff protection for domestic production of its dairy, paper or machine industries—areas where Russia tariffs through WTO are lower than those currently used by Belarus.

Recommendations for Poland and the EU. Regardless of the ongoing internal crisis, the European Union should not neglect the eastern dimension of its foreign policy, especially given its interest in seeing EU standards of democracy, transparency in justice and economic and trade law adopted by neighbouring countries. This also applies to Belarus, which in its current situation of political isolation from the EU is threatened by an increase in economic and political dependence on Russia.

The EU should make better use of available cooperation instruments, such as the Eastern Partnership, regional cooperation, and energy security, to offer Belarus concrete projects for joint realization in fields such as building transport corridors or the construction of energy interconnectors. While simultaneously pursuing such projects, the EU should insist on implementing them in accordance with EU procedures and widely distributed information about its involvement in order to increase public awareness.

The EU should also enhance its support for civil society represented by independent media and NGOs. At the same time, the support mechanisms should be as simple as possible to reduce the risks associated with the increasing penalties for people who receive unregistered foreign aid.

The EU countries, especially Poland, also should increase their soft-power activities in areas such as cultural cooperation and scholarship programs, not only for students but also for civil servants at lower and middle levels. Also very important would be the abolition of fees for Schengen visas because it would meet the expectations of Belarusian society.