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**BISS-Trends focuses on five main trends:**

The report consists of two parts.

**Part 1:**

- a) Executive summary;
- b) Description of each of the sixth issue. The authors were invited to structure their reports as follows:
  - Assessment of the forecast given in the last issue of BISS Trends;
  - Justification of a new trend (September-December 2011);
  - Description of key events that defined the assessment of the trend;
  - Description of additional events;
  - Description of events that ran contrary to the trend but failed to affect the overall assessment;
  - Brief forecast for the next quarter and next year.

**Part 2:**

- c) The reference catalog of events, facts, changes, based on which the experts assessed the trend (in Russian only).

**Symbols used in the report:**

- ▲ progress (upward trend)
- status quo
- ▲ minimal progress
- ▼ minimal regress
- ▼ regress (downward trend)

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## EXECUTIVE SUMMARY

This BISS-Trends issue draws the results of both the four final months of 2011 and the entire complicated and contradictory year. Overall, the year 2011 can be characterized using these few terms: downturn, rollback and regress.

In the domain of Belarus' internal policy (political liberalization and democratization), further stagnation was observed in the scope of the de-liberalization and de-democratization trend. Despite expectations, political prisoners stayed behind the bars, the dialogue with Europe never started, and the whole year witnessed political frosts, irrespective of the season. Belarus, which managed to survive the economic crisis owing to the generous subsidies of the Russian Federation, which resumed in November 2011, demonstrated certain liberalization in its economic policy in the final quarter of 2011. However, in the quality of governance and rule of law sector, evident regress was recorded.

Geopolitically, Belarus made a turn towards Russia and replaced the multi-vector strategy with the Eurasian integration project. The result of this geopolitical turn was the temporary salvation of the current economic model. At the same time, in the case of Belarus it is premature to announce the end of the story and final choice of this country in favor of Moscow.

Finally, in the cultural field, we record the continuation of the trend towards a restraint of the cultural landscape, marginalization of alternative cultural projects and simultaneous attempts to force unofficial cultural projects into a ghetto. ■

# Trend 1

## Political liberalization and democratization —

### THE 2011 RESULTS

The year 2011 became a year of political de-liberalization and de-democratization. Despite forecasts, the poor track record of the presidential election failed to encourage amendments to the country's electoral legislation: the authorities still claim they will keep the Electoral Code without any serious amendments until the next parliamentary elections, slated for September 2012.

Furthermore, the existing model of the regime has lost even its decorative elements, which could otherwise attest to its democratization efforts.

### Was the forecast provided in the previous issue of BISS-Trends accurate?

It seemed that at the beginning of the period under review the trend towards a cautious abatement of repression could be observed. Some factors, namely a) the information about the mission of Bulgarian Foreign Minister Nikolay Mladenov; b) release of some political prisoners; c) signals about the possible release of all political prisoners by late October, inspired hopes that the forecast made in the previous quarter would be accurate. The fact that of all the activists of Viasna human rights center only Viasna Director Ales Byalyatski was accused and indicted proved that the authorities had no plans to eradicate the human rights movement in the country.

However, the process of the release of political prisoners soon stalled, no other features of the relaxation of repression were manifested (the summer statement about the commencement of political dialogue never turned into real actions), and the existing platforms for negotiations appeared to be shut down (the dissolution of the Public Advisory Council with the Presidential Administration). The demonstrative and unpredictably harsh sentence passed on authoritative human rights activist Ales Byalyatski, a figure that is significant to the West, became a symbolic full stop in Belarus' dialogue with the West.

It seems that the processes of the mitigation of repression and normalization of the situation in the country have been interrupted because of the ultimate re-orientation of the regime towards Russia as the source of external support. This tendency, albeit mentioned in our previous forecasts throughout 2011, was manifested at the end of the year with intensity and unambiguity that were well beyond expectations.

### Justification for the new trend

The de-liberalization trend is attributed to the following factors: a) geopolitical re-orientation of the country in the light of the new Eurasian integration project; b) fact that potential external sponsors of liberalization are lacking political will to restore their levers in order to influence the

situation in Belarus. Furthermore, the lethargic stupor of Belarus' public life also contributes to the status quo. The intensity of spontaneous summer protests has diminished, being limited to traditional opposition actions. The small number of protests stood behind the small number of those arrested for violating the legislation on mass protests. This pattern is also true for the freedom of association.

Although the score we gave to the period is the "absence of changes", we have to note the long-term nature of the de-liberalization trend caused by external factors. In terms of legislative efforts, the ground for new repressive actions is prepared here and now, which in the future might be manifested by severer repression against potentially more active public protests, especially those inspired by the more radical part of the opposition from abroad or ahead of the parliamentary elections of 2012.

### Description of the key event that defined the trend

The criminal case of Ales Byalyatski is mentioned as the main event of the quarter for the second time in a row. However, whereas in the summer of 2011 his arrest could be qualified as something truly unexpected that contradicted the continuing release of political prisoners, then the stiff sentence imposed on Byalyatski in November already fits into the logical framework of the above trends.

Besides the significance (and value) of the Byalyatski figure to the West, this case has a demonstrative value for all the variables included in the dimension of the reviewed indicator. First off, Viasna human rights center played the key role in the organization of internal monitoring of the election process and simultaneously acted as an authoritative expert when assessing the legislative modifications in this sector. The human rights center served as a link to provide legal and material support for victims of political repression. The organization also actively brought up questions concerning the freedom of speech, assembly and association, being the leading structure of the Belarusian human rights movement.

It is for the reasons listed in the previous paragraph that the sentence passed on Ales Byalyatski and his conviction appear to be the key events of the period and at the same time characterize the existing trend. In this context, Byalyatski's future stands out against the possible release of prisoners of conscience who are political activists.

On November 24, 2011, the Pervomaiski District Court of Minsk sentenced Ales Byalyatski to 4.5 years in a medium-security correctional facility

subject to property confiscation and revocation of the right to engage in public activity. The human rights activist was found guilty of grave non-payment of taxes, which is a punishable offense under Part 2 of Article 243 of the Criminal Code. Byalyatski's defense claimed that the money on his accounts was not his personal income, but was meant for his human rights projects and was used with the sanction of donors for specific purposes.

The prosecutor's office initiated the criminal case after the Ministry of Justice of Lithuania and the General Prosecutor's Office of Poland confirmed the information about the human rights activist's accounts in foreign banks. However, there were some reports during the proceedings that the case had been instigated by the Belarusian KGB back in late 2010 with a view to impeding Byalyatski and Viasna's human rights efforts.

Prosecutors applied for adjournment during the proceedings citing the need to reclassify the accusation, which many observers believed could mean a new accusation under Article 1931 of the Criminal Offenses Code, this time targeting Viasna as an unregistered organization (which automatically means a threat of criminal prosecution of the rest of the Viasna activists). This did not happen, though, and the new accusation was in its essence the same as the previous one. The convicted activist filed an appeal to Minsk Municipal Court, and his supporters declared their willingness to compensate for the amount of taxes that Byalyatski failed to pay, which could become an indirect motive to mitigate the sentence in the appellate court.

#### Description of additional events

On December 16, 2011, Partizanski District Court of Minsk satisfied the claim of the district tax inspection to deputy chairman of Human Rights Center Viasna Valentsin Stefanovich. During the proceedings, Stefanovich made a statement that the money transferred to his account in Lithuania was not his personal income. The money was meant for his human rights activity and was to be handed over to a third person. However, the court found that the demands of the inspection for taxes and dues of the Partizanski District of Minsk must be satisfied and obliged Stefanovich to pay taxes and a penalty amounting to a total of 54,357,370 Belarusian rubles. When considering Stefanovich's case, the court referred to the same arguments as in the Ales Byalyatski case. The only reason why Stefanovich was not given a prison sentence is that he had been transferred less significant amounts to his foreign accounts.

In early October 2011, the public learnt that on October 3, 2011, the House of Representatives had approved the bill introducing amendments to some laws of the Republic of Belarus. The laws in question include the Law of the Republic of Belarus On Public Associations, the Law of the Republic of Belarus On Political Parties, the Criminal Offenses Code of the Republic of Belarus, the Criminal Procedural Code of the Republic of Belarus, and the Administrative Offenses Code of the Republic of Belarus. The

lower house addressed amendments to the laws and codes during its closed sessions, and they remained unavailable for public discussions for quite a long time, despite the criticism of non-governmental organizations.

Among others, the amendments pertain to the legal framework for the activity of public associations, specifically, public associations and unions of such associations are prohibited from having accounts in foreign banks. Additional limitations have been imposed on party structures' receiving donations. The amendments tighten the liability for failures to follow the established procedure when receiving foreign gratuitous aid: criminal liability has been introduced in addition to existing administrative liability (and possible liquidation of public associations and parties for such violations).

Of special concern is the inclusion in the Criminal Offenses Code of Article 3692 "Receipt of foreign gratuitous aid in contravention of the legislation of the Republic of Belarus". Almost synchronously the lower house adopted the bill to introduce amendments to the Law "On Mass Events in the Republic of Belarus", which imposes strict limitations in the domain of the freedom of assembly, including new types of and grounds for criminal liability. The bill also provides for liability for the distribution of information about mass events prior to the authorization of such events.

One event illustrating stagnation in political liberalization/democratization is the dissolution of the Public Advisory Council with the Presidential Administration on September 23, 2011. In December 2011, the Minsk office of the German Friedrich Ebert Foundation was closed, and for the first time in many years, the annual Belarusian-German Minsk Forum was not held.

The final months of the year saw the continuation of the criminal prosecution of three members of the Party BPF Soym – Ales Kalita, Siarhei Semyanyuk and Maksim Hubarevich. They are accused of violence against a guard of the building, in which the party used to lease office premises. In November, the Party BPF had to change the location of its headquarters for the second time in 2011, because the owner of the premises, into which the party moved in July, suggested that the opposition party should vacate the leased areas before the lease contract expired.

Member of the Vitebsk department of the Conservative-Christian Party (CChP) BPF Siarhei Kavalenka, who had been given a suspended sentence for placing a white-red-white flag on the municipal Christmas tree, was arrested many times on charges of administrative violations. All those accusations were somewhat ambiguous. Kavalenka was later arrested and charged under Article 415 of the Criminal Offenses Code (avoidance of the service of sentence in the form of personal restraint) and is now facing up to three years in prison.

On the eve of the People's Assembly that was arranged by opposition parties in various Belarusian cities and towns on October 8 and a

few following days, there were many preventive arrests. Specifically, on the eve of the event slated for October 8, head of the Slonim department of the Party BPF Ivan Shego, deputy head of the Brest city organization of the Belarusian United Left Party "Fair World" Lyavontsy Chepyrnykh and dozens of other members of opposition organizations were arrested as a preventive measure.

Preventive arrests of prominent oppositionists also took place before the December 19 events, timed to the first anniversary of the latest presidential election (among those arrested was former candidate Vital Rymasheuski and at least two more members of the Belarusian Christian Democracy). Arrests were also sanctioned on December 30 and 31 on the eve of New Year's Day. During the New Year celebrations, some popular opposition websites were attacked by hackers, and the management of the popular resource Charter'97 was intercepted.

On the final day of 2011, state enterprise Minsk Television Information Networks decided to exclude Euronews from the list of generally available package of television channels. Euronews used to provide Minsk residents with an uncensored coverage of news in the country and the world.

NGOs are still facing arbitrary rejections of their registration applications. Specifically, three regional and the Minsk city branches of the Human Rights and Outreach Public Association Movement "For Freedom" were denied registration for various reasons. Some organizations cannot have their names officially approved by concerned authorities (Minsk and Grodno). It takes a few days to consider applications for the approval of names for organizations, while commercial organizations have their names approved on the day they file applications. During the period under review, the prosecutor's office issued an official warning under Article 1931 of the Criminal Offenses Code

for carrying out activities in an unregistered religious organization in the Gomel Region.

#### Description of events that contradict, but do not change the trend

On October 1, 2011, former 2010 presidential candidate Dzmitry Vuss was released from prison. On September 1 and 14 presidential rulings pardoned and released Nikita Likhaved, Alyaksandr Klaskouski and some other political prisoners who were previously sentenced for taking part in the mass rally that protested against the results of the presidential election on December 19. However, the process of releasing political prisoners was later suspended.

The decreasing number of those arrested on administrative charges for unsanctioned mass events (Human Rights Center Viasna reports a bit more than 50 arrested activists from September through December) observed during the quarter in question can be attributed to the end of the "Revolution through Social Networks" campaign, which resulted in hundreds of arrested activists in the summer of 2011.

In November 2011, the Party BPF for the second time since the start of the year changed its premises, this time making a three-year lease contact in a building of communal ownership. At the same time, congresses of public organizations and political parties were held with no impediments – the Party BPF, the Belarusian Christian Democracy, the Conservative-Christian Party BPF and the Independent Union of Belarusian Writers all convened without hindrance. The public organization "Alternativa-plus", which is committed to protecting the rights of sexual minorities, held its constitutive meeting on October 15.

In the period October through December 2011, 20 public organizations and four funds were registered. Most of the registered associations are sports societies, just like in previous periods. ■

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### Brief forecast for the next quarter

Stagnation will remain in the public and political sector, whereas the repressive and forceful components of the policy pursued by the Belarusian regime will grow even stronger. Because of this, the future status of the indicator in question should be called "potential de-liberalization": state agencies are ready for new limitations of the freedom of speech (especially with regard to Internet sites and social networks), freedom of assembly (adopted amendments pertaining to the procedure for the organization of mass events) and freedom of association (criminal cases initiated against the NGOs that receive and use foreign gratuitous aid without registration). Overall, the scope of repression will depend on the level of public activity and protests, which does not seem to have potential to be high enough.

### Brief forecast for 2012

The electoral legislation will not feature any amendments, while at the practical level (during the preparation for the parliamentary elections of 2012), one should rather expect a depreciation of the few positive changes that were introduced prior to the latest presidential election. This could be made possible either by way of direct violations or by adopting sublegislative clarifications and interpretations by the Central Election Commission). In any case, the country will be in for a more active manifestation of public activity before the parliamentary elections, as well as tighter measures to control the freedom of speech and increase in the number of people arrested for breaching the rules of holding mass events. One or two political parties may be liquidated.

The de-liberalization trend can only be modified by changes in the foreign political standing of the regime, hypothetically, during the period following the presidential election in Russia in March 2012.

Further release of political prisoners (not all of them, though) could indicate the readiness of the regime to take part in a new round of talks with the West and mitigate repression. One should not expect a complete elimination of the human rights movement; the authorities will sooner continue and expand the tried practice of "wearing lawsuits", like in the case with the tax-based prosecution of the Belarusian Helsinki Committee.

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## Trend 2

### Economic liberalization — ▲

#### THE 2011 RESULTS

Following timid attempts to regulate the money market using administrative levers, which really took very long, the authorities made up their mind to act on recommendations of independent experts, including IMF staff, and launch a market exchange rate of the ruble. However, in 2011, economic and social losses could not even be compared to any other year of the previous decade. Unfortunately, the policy pursued by the authorities does not rule out the chance that the situation might repeat in the future.

The end of the year was marked by the return of Russian rents to the Belarusian economy (sale of a 50% stake in Beltransgaz to Gazprom, opening of a credit line to build the Belarusian nuclear power plant, new terms of energy trade). The result was a temporary alleviation of the crisis. However, it is not clear whether the new economic policy will build on the macroeconomic populism of the past or become more rational and learn the lessons of the 2011 recession.

#### Was the forecast provided in the previous issue of BISS-Trends accurate?

The previous BISS-Trends issue had a forecast that should the administration keep to manual economic controls and fail to embark on structural reform, especially in the currency segment, the country would be in for an aggravation of economic consequences in the financial and real sectors and dramatic reduction in the purchasing power of the population. Fortunately, that forecast did not come true. During the period September to December 2011, the authorities gradually loosened the administrative control of the economy. The extra trading session at the currency exchange was later unified with the principal session. As a result, the situation in the currency market, which was one of the reasons behind the economic crisis, stabilized, and the Belarusian ruble even appreciated a bit against the basket. Furthermore, the National Bank tightened its monetary policy by increasing interest rates, limiting preferential lending and targeting the money supply.

Nevertheless, we should note that the government was only making steps to rectify the aftermath of the economic crisis, instead of aiming at liquidating the reasons behind the economy's high susceptibility to external and internal macroeconomic shocks. The authorities never diminished the role of the state in the economy, though. The National Bank still lacks the autonomy to make decisions and depends entirely on the executive branch. The Finance Ministry is obliged to meet the populist demands of the president; the share of the state in GDP has remained unchanged at about 70%. Of the 180 enterprises that were supposed to be privatized in

2011 (mostly in the second half of the year) only 38 were sold for a total of 170 billion rubles (about USD20 million).

#### Justification for the new trend

In the fourth quarter of 2011, the trend seemed to make a positive turn – instead of de-liberalization, a clear message was observed that the authorities were planning to undertake targeted reforms in the economy, including efforts to liberalize the currency sector, tighten monetary, credit and fiscal policies, increase energy efficiency of the economy, limit privileges and preferences, improve the business environment for small and medium-sized enterprises, introduce equal treatment of businesses and continue the privatization process. Not all of these measures were launched in the final quarter, and those that were introduced often fell short of the planned scope. The pace of the economic reform leaves much to be desired. However, there is a high likelihood that the trend towards a future economic liberalization will continue.

#### Description of the key event that defined the trend

The main event of the final four months of 2011 was arguably the resolution of the currency crisis. On September 14, the National Bank allowed an extra session of the Belarusian Currency and Stock Exchange (BCSE). Currency for so-called critical imports (oil, gas, pharmaceuticals, servicing of the foreign debt) was still available at the principal session at lower rates. For all other purposes, currency was available at the extra session of the exchange at nearly market rates.

One of the objectives of the extra session was to determine the real market exchange rate of the ruble. On the first day of the extra session, the exchange rate collapsed, and the gap between the official exchange rate and that identified as a result of the additional trading session reached 60%. The dollar bought 5,347 Belarusian rubles in the morning, which compared to the 8,600-ruble rate achieved at the extra session that day.

The period between September 14 and October 19 saw the authorities try the administrative, financial and information resources to support the exchange rate of the ruble and create the appearance of foreign exchange stability. Eventually, on October 20, the National Bank unified the exchange rates, which envisaged 51% devaluation of the ruble against the basket of currencies compared to the official exchange rate set for the previous day. During the few following months, the exchange rate kept fluctuating within a narrow band of  $\pm 2-3\%$  (during the first weeks) and appreciated vis-à-vis the basket by 6% by the end of the year. However, compared to the start of 2011, the national currency was devaluated by

172%, a new record high for Europe for the past two decades.

The transfer to the market exchange rate and its further stabilization produced a positive impact on the reduction in investment risks and limited devaluation and, consequently, inflationary expectations. Previously, companies were unable to acquire currency legally; the exchange rate used to change unpredictably, and all currency costs and risks were included in the price.

For instance, in September, many commodities with an imported component (the absolute majority of commodities in the Belarusian market) were offered at prices based upon an exchange rate set between 9,000 rubles and 12,000 rubles per U.S. dollar. Therefore, the unification of multiple rates created equal possibilities for doing business in the public and private sectors. Previously, private enterprises were supposed to surrender 30% of their revenues to the state at the official (lower) exchange rate and could only buy foreign currency in the black market or at the extra session of the exchange at a rate 50-80% above the official one, whereas state-run enterprises requiring foreign exchange enjoyed access to internal interdepartmental channels and were able to buy exchange at the official rate.

Simultaneously with the liberalization of the money market in September-December 2011, the National Bank consistently tightened the monetary and credit policy. The refinancing rate was raised to 45% from 22%. The money supply was growing at a slower pace due to restraints on new money issues imposed by the NBB and new lending operations between commercial banks and the real sector in connection with the increase in interest rates.

In September-November, ruble money supply (the M2 aggregate) increased 8%, an average 2.6% a month, whereas in January-August, the figure expanded by 34%, an average 3.7% a month. The one-point difference between the average monthly increase really matters on a yearly scale (in our case, the 12-month difference would reach 19%). The result was a less significant consumer inflation increase at the end of the year. In September 2011, CPI went up 13.6% on the month, which compares to 8.2% in October, 8.1% in November and only 2% during the first 27 days of December. Nevertheless, since the start of the year, consumer prices grew 109%, which is also one of last decade's highs not only for Belarus, but also for entire Europe.

Amid the high consumer inflation rate and ruble devaluation in September-December, the authorities kept cutting back spending on state programs, including preferential home lending projects and subsidies to state-run agricultural enterprises. Because of the trend described above, September-December 2011 saw a deceleration in investment and consumer activities. GDP growth rate fell to 5.8% in January-November 2011 from 9.1% in January-August and is expected to further decrease to 4.5% for January-December. The same factors started affecting the banking sector by increasing the

vulnerability of banks' foreign exchange liquidity position and affecting the quality of their assets.

#### Description of additional events

As we predicted in the previous issue of BISS-Trends, the devaluation of the ruble without structural reforms can only increase the competitiveness of Belarusian products for a very short period. Despite the significant devaluation of the Belarusian ruble accompanied by moderate monetary and fiscal policies, the country's current account balance deteriorated in September-November 2011. While in the third quarter, Belarus' foreign trade surplus amounted to USD909 million, in October-November, a USD145 million deficit was recorded.

During the first three quarters of the year, current account deficit reached 11.9% of GDP, down from 13.1% in January-September 2010). Overall, current account deficit remains high. To offset it, the authorities plan to increase external borrowing and currency receipts from case-by-case privatization or attract other foreign direct investments.

Because of the generally negative business climate in the country, one should not expect new large investors to arrive in Belarus soon. On the other hand, the foreign debt and expenses to service the debt are already high enough to get concerned about the future generations being able to repay them. As of the end of the year, Belarus' overall foreign liabilities, including those of the private sector, stood close to USD35 billion, about 60% of GDP, including the USD13 billion of the state sovereign debt.

In 2012, Belarus plans to spend USD1.2 billion to service its foreign debt (to compare: this year's third and fourth tranches of the EurAsEC loan will total USD800 million). Current account deficit alongside the poor foreign debt situation can therefore contribute to the trend towards a gradual liberalization and implementation of separate structural reforms.

#### Description of events that contradict, but do not change the trend

The final weeks of the year 2011 witnessed a number of significant agreements signed between Belarus and Russia. On November 18, the presidents of Russia, Belarus and Kazakhstan in Moscow signed the Declaration of the Eurasian Economic Integration. In exchange for its engagement in the integration projects, Russia is ready to extend to Belarus a USD10 billion loan to build its first nuclear power plant. It was reported later that Russia would provide a tied loan, albeit on very beneficial terms. Belarus will receive a loan amounting up to USD10 billion to cover up to 90% of the nuclear plant cost. The money will be provided for 25 years with a repayment moratorium of 10 years and a 15-year term to pay the principal. Furthermore, Belarus exchanges the remaining 50% stake in OAO Beltransgaz for USD2.5 billion and a preferential natural gas fee for 2012. The gas price discount will result in about USD3 billion in benefits for the country in 2012. Additionally, Belarus and Russia agreed a

new price formula and terms of supplies of Russian crude oil to the Belarusian oil refineries, a move that will save Belarus another USD700 million in 2012. Finally, the Belarusian government managed to borrow another USD1 billion against a security of 51% in OAO Naftan, one of the country's two oil refineries. On December 30, Belarus received the second USD440 million installment of the EurAsEC loan. The total amount of Russian subsidies thus

returned to the level of the blessed early 2000s.

One conclusion that can be made from what has been said is that Belarus is getting more and more attached to Russia, hence its stronger dependence on the eastern neighbor. This means that the Belarusian authorities are not interested in transforming the economy towards the market. On the contrary, it looks like the authorities will be doing their best to postpone unpopular decision-making. ■

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#### Brief forecast for the next quarter

One should expect the economic situation to further stabilize in the first quarter of 2012. This holds for not only inflationary and devaluation processes, but also the slower growth in GDP caused by tighter economic policies. The increase in the first grade wage rate on January 1 (by 32.5%), students' allowances (by an average 20%) and pensions will very soon be offset by growing prices, therefore, real personal incomes will remain unchanged in the first quarter of 2012 on a year-on-year basis.

#### Brief forecast for 2012

Unfortunately, we still have doubts that the existing regime, which denies the necessity of market reforms (the "market-oriented" premier recently earned a severe public reprimand from Lukashenka), will be able to conduct the requisite transformations in the economy.

Just like it happened in 2011, we should be skeptical about the government's forecasts and targets (a foreign trade surplus, 5-5.5% GDP growth, consumer inflation growth between 19% and 22% and stability of the Belarusian ruble). Experience proves that the Belarusian economy is founded on populism, and there are no preconditions to assume that the authorities will give up on populist measures this year. Another likely outcome of the current trend is the further reduction in the purchasing capacity of the population compared to 2011. Inflation rate will exceed 20%, foreign trade deficit will likely reach 5-6% of GDP, gross domestic product will grow insignificantly, by mere 2-3%, and devaluation prospects are vague.

On the other hand, the liberalization of trade relations between Belarus, Russia and Kazakhstan, as well as Russia's accession to the WTO, may eventually force the Belarusian authorities to undertake at least gradual market reforms.

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## Trend 3

### Quality of governance and rule of law — ▼

#### THE 2011 RESULTS

Overall, the year 2011 was marked by selective (i.e. arbitrary) administration of law both in the field of economic and political rights. The year that had been christened the “Year of Entrepreneurial Spirit” was characterized by mostly manual economic management and absence of any improvements in the rules of the game for private business.

#### Was the forecast provided in the previous issue of BISS-Trends accurate?

As we had predicted, the “manual” economy management trend and contradictory changes in the legislation with a strengthening of controlling functions of the state persisted. Amid the development of legislative acts pursuant to Directive No.4 on economic liberalization, some amendments to codes and laws tightened the management framework. Thanks to external financial injections from Russia, the country managed to curb the negative processes in the economy, which allowed the regime to further conserve the existing authoritarian management and law system with no alterations.

#### Justification for the new trend

Whereas previously the liberalization rhetoric was purely formal, then in the final quarter of 2011 it disappeared completely. In early November, Lukashenka openly dressed down the “Myasnikovich-Rumas economy”, and the liberalization context immediately lost its relevance. Nevertheless, government members kept their posts, which means the previous policy and previous trends will remain.

The authorities keep working on regulatory acts in pursuance of Directive No.4; however, the original drive that encouraged the government to put the directive into life has been almost completely exhausted. When developing new regulations, the state authorities keep consulting with the business community; however, the latter has little influence on the decision-making. Given the large-scale privatization transactions that are completely non-transparent and discussions of the scandalous amendments to the law on state security agencies, the fourth-quarter trend should be marked as “regress”.

Overall, the year 2011, dubbed the “Year of Entrepreneurial Spirit” did not finish in favor of entrepreneurs, who, just like other citizens, are losing confidence in the authorities because of arbitrary law administration and the instability of legislation. The experiment of “controlled liberalization” collapsed. Belarus expectedly failed to attain transparent and equal conditions for all entrepreneurs. Altogether, the “liberalization” trend monitored in 2011 can be unambiguously called

“regress” compared to the year 2010 developments, considering unstable regulations and the non-transparency and inconsistency of law-enforcement.

#### Description of the key event that defined the trend

This key event is the signing of the contract to sell a 50% shareholding in Beltransgaz to Russian OAO Gazprom. Following the relatively successful first privatization wave, when stakes in smaller open joint-stock companies (OAOs) were sold by open auctions, the deal with the Russian gas giant to sell the remaining state-controlled interest in Beltransgaz used a non-market method, i.e. the way of direct negotiations with the only bidder, the monopoly supplier of natural gas to the country. This fact amply illustrates the arbitrary nature of the administration of law in Belarus and absence of uniform transparent rules of the game that would be binding for all. The arbitrariness of law-enforcement therefore identifies the quality of governance and the rule of law.

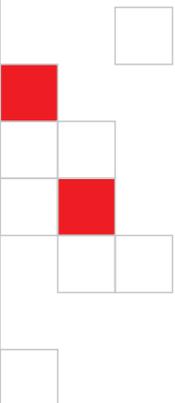
#### Description of additional events

On January 1, 2012, the investigative department of the prosecutor's office, preliminary investigation board of the Interior Ministry and financial investigation agency of the State Control Committee were merged into a single Investigative Committee, which will answer directly to the president. The head of state will personally appoint chiefs of the new structure. Over the last few years, there have been many scandals caused by various investigative departments producing damaging information about “counterparts”. Expectedly, the creation of the new structure will rule out such incidents, whereas the investigation process will definitely become more opaque.

The Administrative Offenses Code now features new sanctions – Article 22.16 stipulates a punishment for violating the regulations concerning the use of the national Internet segment. Starting next year, the state will be enabled to fine organizations and entrepreneurs selling commodities and services on the domestic market using Internet-based systems that are located and registered outside Belarus. Furthermore, the amendments to the code stipulate fines for Internet providers that fail to identify and store personal data of such subscribers. Also, users' access to banned websites will be limited.

#### Description of events that contradict, but do not change the trend

In the fourth quarter, the government announced the preparation of new “liberalization” rulings to implement Directive No.4 aimed to promote competition, facilitate antitrust measures, form



the single list of administrative procedures and regulate industrial and agricultural subsidies.

Presidential ordinance No.545, which adopted the Address on the development of ordinary law courts, became one in that series of promises. The direction of the reform is clearly outlined; however, we have to remember that as long as the judicial power in the country depends entirely on the executive branch and as long as “telephone law” remains effective, there will be no improvement in the status of justice in the country.

As a rule, declarations remain on paper, and entrepreneurs, including foreign investors, are already tired of listening to promises that are abundant, but not good enough to reshape the business environment. The preparation of a “liberalization” document alone cannot be considered liberalization until the document is adopted and launched; therefore, this preparatory process cannot influence the generally negative trend in the period in question. ■

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### Brief forecast for the next quarter

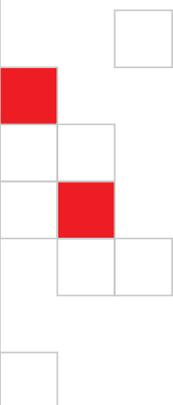
Amid the temporary macroeconomic stabilization caused by external financial injections from Russia, the authorities will keep restraining or even start phasing out liberalization. At the same time, this country's joining the Common Economic Area (CEA) and commitment to harmonize economic regulations, including antitrust rules, will oblige the Belarusian authorities to adopt legislative acts that will be liberalizing in their nature. The competition with Russia and Kazakhstan in the common market and need to have a more favorable business environment compared with neighbors will call for real liberalization measures in the economy. The gap between the liberalization of the economic and sociopolitical life will thus broaden.

### Brief forecast for 2012

The protest moods in society and low confidence rating of the ruling elite demand tighter measures to control society and the economy. The development of information technologies that permeate all spheres of life will be accompanied by the strengthening of control of the electronic exchange of information. It is unlikely that in this context the authorities will adopt regulations to protect personal information.

By all appearances, the trend towards the overall “codification” of the country will continue, i.e. efforts to adopt codes in various fields (for instance, in culture), and the same holds for the association of a few regulatory acts into a single one with virtually same unchanged components. Manual economic controls in the form of presidential rulings will also continue as handy instruments that can easily be approved and then cancelled by a single person.

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## Trend 4

### Geopolitical orientation

Pro-European vector ▲

Pro-Russian vector ▼

#### The 2011 RESULTS

The year 2011 saw a major geopolitical turn and the end of the multi-vector foreign political endeavor. As soon as EU visa sanctions were slapped on the Belarusian administration (those were mostly caused by the presence of political prisoners in the country), official Minsk commenced a foreign political turn towards Russia. Whereas in summer, there was certain intrigue about the possibility of resuming dialogue with the European Union, as soon as Russia generously offered economic preferences, Belarus' choice in favor of the Eurasian integration was predetermined.

#### Was the forecast provided in the previous issue of BISS-Trends accurate?

The previous forecast was not accurate for a few reasons: the secret talks between Bulgarian Foreign Minister N. Mladenov and A. Lukashenka were made public; official Minsk had to scale down the declared liberalization in order to preserve its image; the Belarusian administration made up its mind to sell Beltransgaz and accede to the Eurasian Union. These factors dramatically changed the geopolitical situation around Belarus.

#### Justification for the new trend

The period in question saw a "freezing" of the conflict status quo in Belarus' relations with the European Union. The Belarusian authorities ceased their attempts to normalize the relationship with the West in order to receive financial support from the EU and international institutions. This was to a great extent promoted by the country's disillusionment with the engagement in the Eastern Partnership initiative, as well as the ongoing policy of imposing sanctions on the regime that is pursued by official Brussels.

The economic and political dependence of Belarus on Russia increased in conditions when no alternative foreign political vectors are available. The generous "integration discount" on natural gas fees and new loans further marginalized the relations with the European Union. In its relations with Russia, Belarus swung from the policy of stonewalling decision-making towards actions demonstrating loyalty and friendly rhetoric.

#### Description of the key event that defined the trend

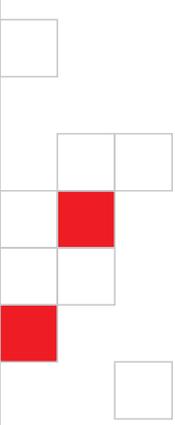
Throughout September-December 2011, Belarus meticulously met all conditions to join the

Common Economic Area (CEA): the country signed and ratified the Declaration on the Eurasian Economic Integration; inked the agreement on the establishment of the Eurasian Economic Commission; offered Russian capital new opportunities for the privatization of the largest Belarusian enterprises. These concessions secured official Minsk substantial economic preferences for the year 2012.

On November 8, the first spur of the European-Russian Nord Stream pipeline (routed on the Black Sea bottom) was officially launched. Although the new pipeline system is not capable of rerouting the entire volume of the Belarusian gas transit, its mere availability dramatically reduces the significance of the Belarusian gas transport system, stripping Minsk of an important bargaining chip in its talks with Moscow.

On November 25, Belarus and Russia signed a contract to sell/purchase the remaining 50% stake in Beltransgaz for a total of USD2.5 billion. In exchange for this transaction, as well as Minsk's consent to take part in the Russian integration initiatives, Belarus was offered an unprecedented discount on the natural gas price, which will only amount to USD165 per 1,000 cubic meters in 2012. The Belarusian administration also contrived to secure beneficial terms of supplies and processing of Russian crude oil. This country also got a second installment of the EurAsEC loan amounting to USD440 million and hopes to take out a preferential loan for the construction of its first nuclear power plant amounting to USD10 billion (the contractual agreement on the construction of the first and second power units of the future nuclear plant was signed on October 11). Furthermore, Belarus got USD1 billion as a loan to OAO Belaruskali, extended against a security of the government. Minsk also managed to get itself new concessions and indulgencies, as its economy is clearly unready to accede to the Common Economic Area – Belarus was allowed a seven-year respite (transition period) to amend its rules of state support for agriculture, whereas national customs preferences for companies registered in free economic zones will be valid until January 1, 2017.

Russian capital started penetrating slowly into this country's potash industry, as Russian businessman M. Gutseriyev was granted the right to develop a potash field in Belarus); the USD1 billion loan to OAO Belaruskali was extended against a security of a 51% shareholding in OAO



Naftan. Belarus has also made the decision to sell the state stake in Mobile TeleSystems (MTS). Russian businesses also continued acquiring less significant Belarusian enterprises. Throughout the period in question, Belarusian state propaganda demonstrated complete loyalty to the Russian administration (it supported all integration initiatives, provided a positive coverage of the parliamentary elections and slammed post-election protests in Moscow, etc.).

During the final days of September (on the 29th and 30th), Warsaw played host to the second Eastern Partnership summit, where Belarus was represented at the level of its ambassador to Poland, because the head of state never got an invitation. For its part, the European Union deemed it unacceptable for the Belarusian ambassador to take part in the top-level summit events, which resulted in a demarche of the Belarusian representatives, who declared their further non-participation in the event. The demarche complicated the already tense relations between Minsk and Brussels. Amid the general disappointment with the results of the Eastern Partnership summit, Donald Tusk's proposal to provide a financial assistance package to Belarus looked all the more ambitious and sensational. The Polish premier suggested offering Belarus a total of USD9 billion as soon as the Belarusian government met three conditions: to release and rehabilitate political prisoners, embark on a dialogue with the opposition and conduct the parliamentary elections in compliance with the OSCE standards. Tusk's proposal was to designate the financial assistance for reform in Belarus – the money will be coming from various sources, including the IMF, the European Bank for Reconstruction and Development and other financial instruments. Lukashenka's resignation was not on the list of the conditions.

In a bid to implement the secret agreement with Nikolay Mladenov, the Belarusian side indeed released nearly all political prisoners sentenced for their roles in the December 19, 2010 events, except some key figures, such as A. Sannikau and M. Statkevich. However, the foreign political effect of the move was somewhat neutralized by the ongoing "Ales Byalyatski case" and repressive legislative initiatives of the Belarusian authorities (including amendments pertaining to the regulations on political parties, NGOs, mass actions and new legislative initiatives concerning the security forces). In response to these aggravations, the Council of the European Union on October 10 decided to add 16 more names to the list of Belarusian officials who are denied entry to the European Union, and whose assets in the EU must be frozen. The European Parliament also passed a resolution condemning the aggravation of the situation with human rights in Belarus and calling for an immediate release of Ales Byalyatski.

The sentence passed on A. Byalyatski (Human Rights Center Viasna) on November 24, which envisages imprisonment and property confiscation,

became an important factor in the relationship between Belarus and the European Union, at least in the short-term prospect. Right after the sentence was pronounced, the European Union expanded its sanctions (entry ban and freezing of assets) applying them to the people who participated in the case of the human rights activist. The two new names on the blacklist added on December 16 brought the total number of persons subject to sanctions to 210.

During the final quarter of the month, Lukashenka repeatedly made sharply negative statements about the European Union (the most characteristic examples include the interview to editor-in-chief of Russian News Service (RSN) Sergey Dorenko and the press conference for Belarusian media.

#### Description of additional events

In September, the Euronest parliamentary assembly, the parliamentary component of the Eastern Partnership initiative, was inaugurated. Belarus' place was vacant, because the European Parliament does not recognize the Belarusian National Assembly to be a legally elected parliament. The format of Belarus' engagement in the Euronest dimension had been discussed for a few years, and only as late as last autumn the EU made the decision to launch the assembly without a delegation from Belarus. This country thus lost another communicative platform in the framework of building its relations with the European Union.

In December, the Belarusian authorities closed the office of the German Friedrich Ebert Foundation in Belarus. According to spokesman for the Belarusian Foreign Ministry Andrei Savinykh, "the decision was prompted by a sharp radicalization of Germany's position concerning Belarus, for which the German side is solely responsible." The Belarusian office of the foundation opened in Minsk in 1997. The office promoted cooperation with government institutions, civil society organizations, political and public figures.

The annual joint board sessions of the Ministries of Foreign Affairs of Russia and Belarus, which took place in Moscow on October 31, adopted a Program of concerted actions in the foreign policy of the member-states of the Union State of Belarus and Russia for 2012-2013. During the board session, Ministers Martynov and Lavrov had a one-on-one meeting.

According to the National Statistical Committee, in January-October 2011, Belarus' trade turnover with the European Union member-states came to USD19.637 billion, up 71.7% on the year. Of all Belarusian exports, Russia accounted for 34.7%, other CIS countries for 14.3%, the EU for 38.3%, and other foreign countries for 12.7%.

#### Description of events that contradict, but do not change the trend

When accepting credentials of Head of the EU Delegation to Belarus Maira Mora on September 20, Alyaksandr Lukashenka said he hoped for a

reset of Belarusian-European relations based upon the equality of rights and mutual respect. On September 22, it was spokesman for the Foreign Ministry Andrei Savinykh who said that Belarus was interested in constructive, consistent and equitable relations with the European Union. The statements were made during the preparation for the regular Eastern Partnership summit. On October 6, Minsk

hosted the first round of technical talks with the European Union over economic and financial issues – the declared objective was to promote the exchange of information about the situation in the economy with a view to producing recommendations as to improvements of macroeconomic policies. ■

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#### Brief forecast for the next quarter

Given the agreements with Russia and sizeable “integration discount” on the natural gas fee for Belarus, one should not expect modifications in the foreign political orientation of official Minsk in the near future, at least before the presidential election in Russia this March. The relationship with the European Union will remain difficult because of Minsk’s failure to comply with Brussels’ requirements – in the new foreign political framework, the Belarusian authorities are no longer interested in normalizing the relations with the European Union.

#### Brief forecast for 2012

Minsk’s heavy dependence on Moscow will persist and grow stronger. In the framework of the Common Economic Area, the Belarusian socioeconomic model will undergo gradual transformations accompanied by stronger market trends. Russian capital will step up its presence in the Belarusian economy. In order not to mar the image of the Belarusian head of state, this expansion will be masked by various “grey” schemes, which will be largely non-transparent to the public.

Belarus’ policy on the European Union, being overshadowed by Belarusian-Russian relations, will depend entirely on Russia’s actions and accuracy of the implementation of the agreements with Belarus. This country’s getting back to the policy of balancing between the east and west is only possible if the Kremlin puts more pressure on Belarus and fails to honor its commitments after the presidential campaign in Russia has been completed.

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## Trend 5

### Culture policy —▼

#### THE 2011 RESULTS

In Belarus' cultural policy, the year 2011 was marked by lost opportunities for the authorities, limitations imposed on the cultural landscape, marginalization of alternative cultural projects and attempts to drive unofficial cultural projects into a ghetto. In 2011, such negative phenomena as "black lists", cancellations of concerts, veil of silence about Avtoradio's getting back on air and multiple slander and contempt lawsuits filed against both individuals (A. Pochobut, S. Mikhalok, etc.) and independent media resources (Nasha Niva, Narodnaya Volia) became a routine. Logically building on the trend is the series of attacks against the Charter'97 resource, which was clearly beyond the legal field.

On the positive side, the year 2011 saw an increase in the demand in the Belarusian cultural field for products well outside the official aesthetic framework. In this context, one should note the significant increase in the number of visits to independent media resources, growing popularity of alternative musical projects, which do not fit in the pool of "approved cultural figures", as well as the demand for a sarcastic, grotesque conceptualization of the political reality, which allows overcoming the state monopoly on the interpretation of cultural, political and other events.

#### Was the forecast provided in the previous issue of BISS-Trends accurate?

The forecast made in the previous issue of BISS-Trends was accurate with regard to the advancing depreciation of cultural products that represent the official discourse – even the state media admit this. An excellent illustration is the debate over the role of the writer and literature initiated by Sovetskaya Belorussia daily, which eventually turned into a bitter wrangle over personalities. Also indicative in this context is the tour of the pro-government Union of Writers of Belarus (UWB) of the Minsk region, which revealed – a fact that is also reported by Sovetskaya Belorussia – that the writers who visited the province are unknown to the public, and that their books cannot be found in local libraries.

The possibility of certain liberalization mentioned in the previous forecast, which was connected with the possible release of political prisoners, was realized only in the framework of the presidential ordinance "On measures of state support and promotion of cinematography", which many experts believe has the potential for overcoming the monopoly of the state film studio Belarusfilm. Repeating the pattern of political

liberalization, when not all political prisoners were released, the liberalization in the cultural sector was manifested in the narrow cinematographic sphere and cannot be considered systemic.

#### Justification for the new trend

The fourth-quarter trend of the year 2011 should be identified as the artificial ousting of politics from culture. This trend was observed previously, but it has become especially obvious during the final months of the year. The intention to separate politics from culture was declared by some officials and at the institutional level, when relevant decisions were made by state and even private organizations. The culture figures who in their works or public statements can qualify for a political role are alienated, and their symbolic value for society is negated.

The autumn of 2011 traditionally saw a number of regional and international annual holidays and festivals. The cultural life of the country therefore cannot be called uneventful. Nevertheless, it cannot be called diverse, either, because most of the actors who are independent of the authorities are still faced with restrictions on their potential presence in the public space.

At the same time, all attempts to create a cultural product that could encourage loyalty in the official discourse tend to fail. The significant decrease in living standards of most Belarusian citizens contributes to the increased relevance and demand for a special critical prism to interpret the cultural products that are deliberately reduced to entertaining and distracting the public from socially significant events. It seems symptomatic that the culture page in the state press is filled with news of showbiz, reports from entertainment events and amusing stories from the past.

The strategy of pushing politics away from the culture field, de-liberalization and rejection of the European identity of Belarusian culture produces an opposite effect: the audience tends to pay more attention to political acts expressed in the form of artistic works, to such cultural practices that presuppose a critical interpretation of the political reality. This form of protest is deemed most successful currently, which is proved by the growing audience of independent media resources, popularity of the musicians and writers from the unacknowledged "blacklist".

#### Description of the key event that defined the trend

A chain of events was observed during the period under review that can be characterized as "de-liberalization" and "regress" of the Belarusian cultural landscape. Contrary to the traditional

pattern, we are going to describe a series of events that determined the nature of the trend instead of a single event. On December 30, 2011 A. Lukashenka signed a ruling to declare the year 2012 to be the “Year of the Book”. This choice was not random, because, judging by the events of the last four months, literature started to be considered as one of the most important instruments to struggle for people's loyalty and advocate the ideology of the Belarusian state. In this connection, one should recollect the repeated statements by A.Lukashenka about the role of the writer and literature in Belarusian society; speech of Culture Minister P.Latushka during the opening ceremony of the Days of Belarusian Literature in Gantsevichi; development of the national reading program initiated by the Ministry of Culture, and active publications in Sovetskaya Belorussia – the official mouthpiece of the Presidential Administration – in this respect.

At the same time, the intention to popularize the men of letters who are loyal to the authorities and their works inevitably envisages the denial of the value of alternative literary styles. Political activity implies a waiver of the right to create. The recognition/rejection criterion is clearly outlined in A.Lukashenka's speeches during meetings with members of the Union of Writers of Belarus, on October 25, and creative youth, on December 1. Therefore, the cultural policy of the period in question was initiated and governed by a clearly personified source rather than an anonymous figure of the regime, which cancelled concerts, shut down Avtoradio and imposed censorship.

Paradoxically, the key events turn out to be Lukashenka's statements, not the measures and resolutions of the Ministry of Culture or Ministry of Information. Yet, the period under review clearly revealed the imperfections of the authoritarian cultural policy. The Union of Writers of Belarus, established in 1996, enjoys a colossal support of the state, both financial and informational. However, its results are not impressive, and most of its members are virtually unknown to the general reader. The UWB tour of the Minsk Region on November 8-9 demonstrated the absence of any significant influence of the pro-government literary retinue on the general reader, despite 2

million copies printed under the aegis of the Union over the last five years (fully financed by the state).

#### Description of additional events

The events that add to the trends described above include the probe by the prosecutor's office into the statements addressed by the leader of Lyapis Trubetskoy Siarhei Mikhailok to Lukashenka – the groundlessness of the investigation evoked a wide response in non-governmental media. Also noteworthy is the censorship of the performance of famous Belarusian musician Lyavon Volski at the tut.by portal, which is positioned as an unbiased outlet. This event made it into the top news of all independent websites and provoked an active public discussion.

Also worthy of mention is the congress of the alternative public organization Union of Belarusian Writers (UBW), which expelled V.Yakavenka for his publications in the state Litaratura i mastatstva periodical. In his publications, the writer accuses the leaders of the Union of financial fraud. The UBW later received a letter from the Justice Ministry, which did not recognize the expulsion of the writer. These measures to localize influence indicate the symbolic significance of the cultural actors opposed to the authorities in the public space.

#### Description of events that contradict, but do not change the trend

One event contradicting the trend was presidential ordinance No.567 “On measures of state support and promotion of cinematography” adopted by President Lukashenka on December 5, 2011. The ruling can be considered a step towards liberalization, as many experts believe it has the potential for liquidating the monopoly of the state film studio Belarusfilm. The document envisages equal financial possibilities for state and private companies and introduces control of the use of funds in movie productions.

The fact that many trends of the official cultural policy are personified in the actions of a single power actor can be considered a confirmation of certain servility of the Belarusian Ministry of Culture, which regulates the sphere rather as an entertainment zone. ■

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**Brief forecast for the next quarter**

The first quarter of 2012 will be largely characterized by the identified negative tendencies connected with the de-liberalization of the Belarusian cultural field. With that, one should expect further equivocal manifestations of the strategy to approximate to the Russian cultural landscape within the track of the regional geopolitical project of Russia, Belarus and Kazakhstan.

There is also a strong likelihood that the authorities will continue making use of the practice of excluding and marginalizing independent cultural actors in the first quarter of 2012, including in connection with more successful self-identification attempts of Russian civil society and engagement of actors having considerable cultural capital and capable of successfully investing it in political struggle.

**Brief forecast for 2012**

Amid shortages of financial resources, the regime will arguably save on “circuses” in the framework of its cultural policy. This is confirmed by the attempts to promote the “monetization” of the Belarusian cinema and permanent search for sponsors and donors to finance other cultural projects. It is also reasonable to presume that the authorities will keep to the habitual strategy of resorting to repression against any alien discourse in the Belarusian cultural landscape. The process of liberalization and engagement of Belarusian culture in the European context will rather take the form of short-term perfunctory modifications. At the same time, the symbolic capital of independent alternative actors in the cultural field will be growing. This tendency holds certain potential for the struggle for the European identity of Belarusian culture.

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