

SMS Devaluation

About a thousand Belarusians received an unusual anonymous SMS text on 4 January.

According to the message the National Bank of Belarus had secretly decided to devalue the national currency by more than 60%. It was predicted that the new exchange rates were to appear immediately after the Orthodox Christmas celebrations – on 8 January.

Belarusian KGB immediately started to investigate the incident. The message turned out to be a provocation. The currency market stayed calm. But the very fact that such things happen reveals tensions in society.

The issue of devaluation has become one of the phobias that the people of Belarus have because of their recent memory of economic turmoils. When it comes to their own money they no longer trust government officials, including the president.

As prospects for real devaluation in 2013 look more likely Belarus becomes increasingly vulnerable to all sorts of provocations that can destabilise currency markets and even the social situation at large.

SMS Devaluation that Failed to Materialise

The text sent on 4 January around to a thousand subscribers of the leading mobile operators MTS and Velcom contained the same text:

Ermakova (the head of the National Bank – Y.P.) has just signed it and decision has been sent to voblasts and Belarusbank (the biggest commercial bank – Y.P.). From 08.01.13 \$1 will cost BLR 14,340 and €1 – BLR 18,116. Urgently withdraw your deposits and exchange the money.

As it always happens, the rumour quickly began to circulate in the social networks. New interesting stories started to emerge. Apart from the general fear of a New Year devaluation, similar to the one which happened in 2009, for many the rumour resonated with independent economists' projections about high prospects for devaluation in 2013.

KGB: The Provocation Came from India

For an attentive person it was clear from the very beginning that the text could not be genuine. Its authors made a mistake (maybe intentionally): the smallest bank note in Belarus is BLR 10. Thus, €1 could not cost BLR 18,116.

However, for a common citizen all this looked very frightening. Remarkably, the phone number that the texts were sent from in reality belongs to the National Bank's call center.

So not only the National Bank but even the KGB had to react quickly. They immediately called it "nonsense and a provocation" and said that its perpetrators would be severely punished.

A bit later the KGB categorised the case as "hacking" and said that the messages came from a server located in India. Further investigation is underway.

The press-secretary of the National Bank stated that there were absolutely no reasons to devalue the rouble and promised its stability.

Indeed, the rumour did not materialise. On 8 January the rate of one US dollar was BLR 8,630 and of one Euro 11,230 – much lower compared to what the SMS had predicted.

The New Year Tradition – Expectation of Devaluation

In fact, in recent years devaluation has become one of the most popular topics which Belarusians often discuss at New

Year's celebration.

In 2009 the authorities made an extremely unpleasant New Year gift for the whole nation. Without any prior announcement they devalued the rouble by roughly 20% on 2 January of that year. The government chose very tricky timing: the people were still celebrating and did not pay much attention to what was going on around. But when they recovered, millions realised that they had lost thousands of US dollars because of the government's decision.

Belarusian economist Leonid Zaiko calculated that overall the citizens lost about \$1 billion from that devaluation.

Needless to say that for many Belarusians that was huge money. The government's act left a deep psychological scar. And in 2011 the scar became even deeper.

Amidst the raging [economic crisis in 2011](#), the authorities [devalued the national currency first in May](#) and then in September. As a result, the value of the national currency went down by almost three times. The losses suffered by people were very painful.

Importantly, in the previous cases the National Bank and the government never even tried to prepare the citizens for their harsh decisions. On the contrary, they made official promises that no need for devaluation existed and that people could relax.

Not surprising, therefore, that today the Belarusians have little trust in what officials say about money. Many even tend to listen to what the head of the National Bank, Prime Minister or Lukashenka say and do the opposite.

Since the devaluation of 2009 each year at the end of December long queues form in front of currency exchange offices. Having the government's dishonesty in mind, thousands of people prefer to exchange some extra Belarusian roubles for hard

currencies before another New Year arrives. They do it just in case.

Is Devaluation Likely in 2013?

At the moment the authorities do not see much point in devaluating the rouble. Even though the last months of 2012 turned out bad for the country's foreign trade, overall last year was comparatively good for the current account balance.

The National Bank has slightly more than \$8 billion in gold and foreign exchange reserves (by the IMF standards). This sum cannot pay for three months of imports and, therefore, is low. But it is still enough to make some tactical currency interventions.

Moreover, the liquidity (Belarusian roubles) is concentrated in the reserves of commercial banks. So the currency market does not feel the pressure of the additional 40% Belarusian roubles that the National Bank issued in 2012.

However, future problems are looming large. Many factors point to a probability of devaluation throughout the year.

First, the country is again facing foreign trade deficit and it is hard to say what can become its foreign trade locomotive (like solvents were in 2012). Second, Belarus has to pay the record sum of \$3.1 billion in its [foreign debt](#). Finally, the problems with exports might necessitate a devaluation to help exporters.

In the light of these factors the SMS case seems highly symptomatic. Bad economic policies make Belarus vulnerable to all sorts of shocks and provocations. One day they may destabilise not only the financial market but even the social situation in the country.

Hit by the Crisis Lukashenka Looks for Money and Strengthens the KGB

Unable to deal with the economic crisis by economic means and fearing a revolution, Belarusian ruler Alyaksandr Lukashenka strengthens the KGB.

Last Thursday the Belarusian rouble fell sharply against the US dollar. Now the rate is 9,000 Belarusian rubles for one dollar. In September, the rate was less than 8,000 rubles. The new fall clearly breached Lukashenka's promise that the Belarusian national currency would be strengthened.

Because of high inflation, wages and salaries are stagnating. Most Belarusians today earn two or three times less than they did a year ago. The situation with pensions is even worse as many retired people have to survive on less than 100 dollars per month.

The Belarus National Bank is trying to convince people to keep their Belarusian rubles. But [no one trusts](#) the national currency anymore. The Government cannot do much to strengthen the national currency because it has no money. On Thursday, Belarus asked Russia to postpone payments for natural gas and suggested paying for 2011 deliveries in 2012.

Earlier this week the Belarusian government asked five of the most profitable national companies, including Belaruskali or Druzhba Oil Pipeline, to quickly transfer a part of their profits to the so-called National Development Fund. Under normal circumstances, such payments would be due only after

the end of the year.

The government also ordered Belarusbank, the largest financial institution in the country, to suspend offering loans for residential developers who plan to complete construction after this year. As a result, a lot of people are struggling to either find a huge sum to pay developers or give up building their own housing.

Although Lukashenka's rule seems today very vulnerable and fragile today, the opposition is still much weaker. No significant protests are taking place in Belarus today. The 'People's rallies,' called for by some opposition activists, took place on the 8th of October. But they [looked](#) more like a farce and were characterized by extremely poor attendance. However, it is difficult to blame the opposition. Opposition activists have had to deal with intimidation and outright violence for years. They were finally crushed after the last year presidential elections and the pressure is increasing.

As the economic clouds get darker, the Belarusian rubber-stamp parliament has almost secretly adopted new amendments to give more rights to the Belarusian KGB, which still keeps its Soviet name. The proposed amendments allow KGB officers to enter any private or public places whenever they wish and to use force almost without restrictions.

In addition, the new legislation puts an absolute ban on foreign grants and financial aid. That will certainly be a hard blow for media, political organizations or civil society which have virtually no resources inside the country. Last but not least, the new amendments introduce harsher punishments for organization of and participation in public protests, as well as broadening the definitions of 'spying' and treason.

Although there is no strong opposition, the Belarusian regime has serious reasons to be afraid. Lukashenka is probably running out of money. The Belarusian authorities were never

able to generate or attract serious money. The regime's [arms trade](#) was more akin to a casino game than a sustainable business. Trade in petroleum products was more lucrative but sufficient only to satisfy regime insiders rather than the country as a whole.

The regime's poverty may turn even its employees against Lukashenka. And a tiny spark of discontent may turn into a real revolution. To avoid it, the Belarusian strongman needs to tighten the screws and find money as soon as possible. And that proves increasingly difficult. Neither Russia nor the West are ready to inject significant amounts into the Belarusian economy. Other solutions include [selling](#) the most valuable national assets such as potash deposits to the Russians and seeking help from China. Iran cannot help much.

So the Belarusian opposition will hardly be able to benefit. Parallels between Belarus and late Communist Poland and calls for a "Round Table" with the regime would not be accurate because Belarusian civil society is weak. The situation in Belarus looks more like late Ceausescu's Romania and their dubious revolution.

The Polish and Romanian regime changes in 1989 were worlds apart. In Poland, strong opposition and civil society forced a military ruler into negotiations which eventually led to establishing democracy and dismantling all essential institutions of the old regime. In Romania, with its non-existent opposition and civil society, the regime insiders just dragged Ceausescu out of the palace and killed him after a kangaroo trial. The old Romanian regime was able to delay a democratic transition for many years.

As many times before in the world history, the sultanistic regime in Belarus is evolving towards full-blown authoritarianism. But how long this authoritarianism will last depends in the first place on the opposition that badly needs to reorganize, and only then on external support.

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