

Daily protests and repressions, international reaction, Coordination Council – Belarus Civil Society Digest

For over 40 days, starting from August 9th, Belarusians continue daily peaceful protests. The most massive [rallies on Sundays](#) continue to gather hundreds of thousands of people in Minsk, despite the increasing brutality by the police. Lukashenka keeps pushing a rhetoric of Belarus' destruction by [external aggressors](#). Independent experts agree that Belarus is passing through the [most dramatic political crisis](#) in its history, as well as the [foreign policy default](#) and [human rights catastrophe](#).

- **The daily protests and solidarity actions** across the country [continue](#) in various forms – hanging white-red-white [flags](#) and ribbons, [repainting](#) city objects in national colors, [art](#) products, neighborhood evening [parties](#), [cyber](#) [partisans](#), public appeals by [lawyers](#), [university graduates](#), [parents of students](#), [musicians](#), and [football players](#), quitting the GONGOs, singings [flashmobs](#), dismissal of officials (e.g., [head](#) of the state Institute of Sociology), etc. In response, the authorities use new forms of pressure – [bills](#) for flag removal and [warnings parents](#) against taking children to rallies.
- **Strikes**. Amid intimidation and dozens of [new arrests](#) of strike committee leaders, the state enterprises continue an [Italian strike](#) and other “guerrilla”/hidden forms of protests, including anti-records in fulfilling monthly

plans at [Belaruskali](#) and [BelAZ](#). The Norwegian company Yara, a buyer of Belarusian fertilizers is [concerned](#) over the situation with Belarusian workers and [visits](#) Soligorsk this week.

- **Economy in recession.** [Currency withdrawal](#) by population accelerates to \$30 million per day. However, the currency rate is falling slightly, which is explained by the [continued sale](#) of gold and foreign exchange reserves. The [total debts](#) of large and medium-sized enterprises amounted to \$60 billion – that is more than the size of the Belarusian economy.
- **Civil society** continues monitoring, financial and other support to victims of repression – e.g., so far, the [Probono](#) platform that unites over 500 volunteers and 250 organizations has helped in solving over 2,500 issues. The initiative to help the [resigned police officers](#) continues. The new campaign [Honest University](#) will help students to be heard. To the moment, the [BY_help](#) initiative has paid \$400 thousand to 650 victims of violence. In total, aid funds to support Belarusians have raised [\\$6.2 million](#).
- **Coordination Council.** [MEPs](#) welcome the Coordination Council as an “interim representation of the people demanding democratic change”. Two out of seven leaders of the Coordination Council remain at large in the country – Nobel laureate Svetlana Alexievich and the representative of the strike committees [Sergei Dylevsky](#), released after 25 days of arrest. Others are [arrested](#) in criminal cases or forcibly taken abroad. [Svetlana Tikhanovskaya](#) in her address to the UN Human Rights Council reiterates the readiness for a dialogue with the authorities.
- **Repressions.** The authorities continue mass detentions to bring down a wave of protests – [over 770 people](#) were

detained during the last Sunday protests. It became known that the formal reason why Belarusian Catholic Church Head was banned to return to Belarus: his passport was declared [invalid](#). TUT.BY releases a document with the data of [over 1,100 people](#) who sought medical treatment during street events. [70 political prisoners](#) remain in jail, including [12 new political prisoners](#) this week. The opposition compiles "[Taraikovsky's List](#)" (by the name of the first protester killed) with those who torture and beat people.

- **Crackdown on independent media.** Eight journalists are [in jail](#) for administrative cases. Two photojournalists were sentenced to 11 days of arrest each, independent media react with [blank front pages](#).
- **International reaction.** The [EP](#) resolution indicates the non-recognition of Lukashenka as president of Belarus when his term expires in November. [OSCE](#) launches the Moscow Mechanism to examine human rights violations in Belarus. [IIHF](#) will review hosting the 2021 Ice Hockey World Championship in Minsk. The Verkhovna Rada of [Ukraine](#) does not recognize the Belarusian election. [Poland](#) wants the EU to pledge 1 billion euros to stabilize Belarus. [Putin](#) promises a \$1.5bn loan to Belarus. Lukashenka threatens to [close the borders](#) with Poland and Lithuania, but so far it remains rhetoric.
- **COVID-19.** This week the number of new infections exceeded 200 daily cases. Over 75,000 Belarusians positively tested for and 773 died [due to COVID-19](#). Lukashenka got the [Ig Nobel Prize](#) for "using the COVID-19 to teach the world that politicians can have a more immediate effect on life and death than scientists and doctors can".

Belarus Digest prepared this overview on the basis of materials provided by Pact. This digest attempts to give a richer picture of the recent political and civil society

events in Belarus. It often goes beyond the hot stories already available in English-language media.

Economy in recession, protests continue despite repressions – Belarus civil society digest

For a whole month, starting from August 9th, Belarusians continue daily protests demanding new presidential elections. The traditional [Sunday's rallies](#) gather hundreds of thousands of people in Minsk and thousands in regions. Last Sunday, on September 6th, for the first time, peaceful protests were overshadowed by police provocations.

- **Protests and solidarity actions** across the country become decentralized and self-organized. The bright example is the [Minsk courtyard on Chervyakova](#), where neighbors persistently restore a mural with *DJs of Change* and hang white-red-white flags every time the police removes them. [Students](#) and [university teachers](#), [athletes](#), [IT sector](#), [women](#) continue civic resistance in different forms.
- **Strikes.** Amid intimidation and new [arrests](#) of strike committee leaders, focal resistance continues. Miner [handcuffs himself](#) to protest election results and lawlessness. On September 11, the Minsk Court considered the [legality of the strike](#) at Belaruskali enterprise; those who came to the courthouse to support the workers were [detained](#).

- **Economy in recession.** During the month of protests, the exchange rates of the dollar and euro [rose to a record](#) by 18%-27% since the beginning of the year. Fearing devaluation, the population is buying up the currency and [withdrawing deposits](#) (\$226 million during the last month). In August, the National Bank spent 15% of its gold and foreign exchange reserves to support the Belarusian ruble. In 2020, the [budget is in deficit](#) and is \$2.4 billion.
- **Civil society** continues monitoring, financial and other [support](#) to victims of repression. [Belarus Free Theatre](#) initiates a global artistic solidarity campaign with Belarus. The [Inclusive Barista](#) initiative offers a free cup of coffee to protesters. The [Belarusian National Platform](#) urges to postpone the launch of Belarusian NPP due to the political crisis. CSO leaders are [detained](#), while a number of CSOs are ordered to report on the [use of foreign aid](#) (grants) since the beginning of the year.
- **Coordination Council.** Six out of seven leaders of the Coordination Council were either detained or forcibly taken abroad. [Maria Kolesnikova](#) averted expulsion by tearing up her passport and later was [arrested](#) in a criminal case on the seizure of power. Only Nobel laureate [Svetlana Alexievich](#) is currently at large but tells that strangers terrorize her – [EU Ambassadors](#) visited her at home to support. The opposition leader Sviatlana Tsikhanouskaya [encourages](#) everyone to become members of the Coordination Council.
- **Repressions.** The authorities increase the degree of brutality but have not yet reached the level of the first days of repressions. Lukashenka [states](#) that “sometimes there is no time for laws, and tough measures must be taken to stop all the rubbish.” At least [10,500](#)

[people were detained](#) during the month of protests. [Criminal cases](#) are initiated against over 100 participants of post-election protests. [58 political prisoners](#) remain in jail, including 9 new political prisoners this week – [Maria Kolesnikova](#), [PandaDoc IT company](#) staff, and others.

- **Crackdown on independent media.** The Ministry of Information issued the [3rd warning](#) to [TUT.BY](#) portal, while two warnings during the year are enough to block the website. RT, a Russian state-controlled TV network, confirms that [32 Russian journalists](#) work in Belarus now. [Investigative Committee](#) responded to BAJ that its appeal concerning the detention of 47 journalists was “abstract”. The new public campaign [MediaSOL](#) raises money to help independent media and journalists.
- **International reaction.** The [U.S.](#) calls on the Belarusian authorities to end the violence against their own people. The [EU High Representative](#) expects the Belarusian authorities to engage in an inclusive national dialogue. [Lithuania](#) recognizes Tsikhanouskaya as the “leader elected by Belarusian people” and is prepared to [assume leadership](#) for mediating the dialogue in Belarus. Three “brave women,” Tsikhanouskaya, Kalesnikava, and Tsapkala have been [nominated](#) for Sakharov Prize. [PACE](#) sets up an international body to investigate human rights crimes in Belarus. Lukashenka will [visit Moscow](#) next week.
- **COVID-19.** Over 73,000 Belarusians positively tested for and 738 died [due to COVID-19](#). Meanwhile, the UN data indicates that the mortality rate for the first half of the year in Belarus [beats a five-year record](#) and is 5,600 people more than a year earlier. IMF [refuses](#) to allocate \$940 million to Belarus to counter the pandemic consequences.

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Testing the Limits of Investment Crisis – Belarus Economy Digest

On 25 August 2016 the National Statistic Committee of Belarus (Belstat) publicised new macroeconomic data for July, which showed that the economy is suffering from a lack of investment flows.

Meanwhile, according to the National Bank of Belarus the continuing decline of companies' profits threatens the financial stability of the country.

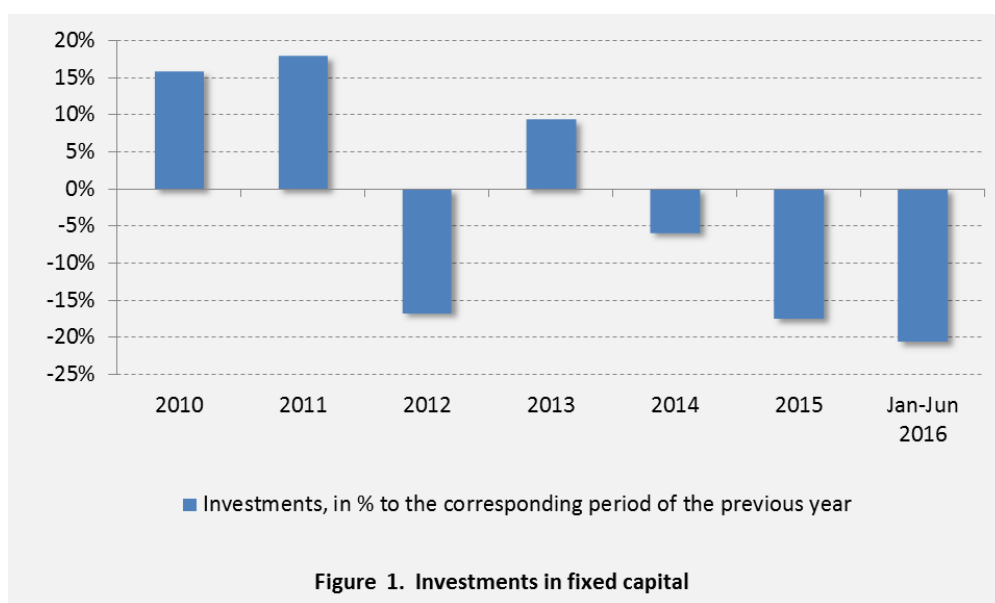
Finally, the CEO of "Great Stone" Hu Zheng tries to convince authorities of the profitability of the "Great Stone" industrial park, teaching Belarusians about high-level commercial science.

Economic Recession: Investment Drought

In January-July 2016 investment in fixed capital in Belarus has dropped by a fifth since the same period last year.

Belarus has not witnessed such a decline in investment activity since the 1990s, a period of investment disaster in the economy.

2016 has brought a third straight year of investment drought, bringing the total amount of years of drought up to four over the last five years. Moreover, the process of investment "deforestation" is speeding up: from -5.9 per cent in 2014 up to 20.6 per cent right now (see Figure 1).



The main explanation lies in the economic structure of the Belarusian economy – the greatest "stake" still belongs to the state. It thus continues to play the leading role in the investment scenario. As a result, the decline in investment expenditures of public industries has pulled down the whole investment activity in the country.

The second reason concerns foreign investors: they spend money mainly on sectors with high domestic demand – finance, communications, retail trade, restaurants, and so on. With the reduction of the "life-giving" source of superprofits the additional commercial investments have also greatly diminished.

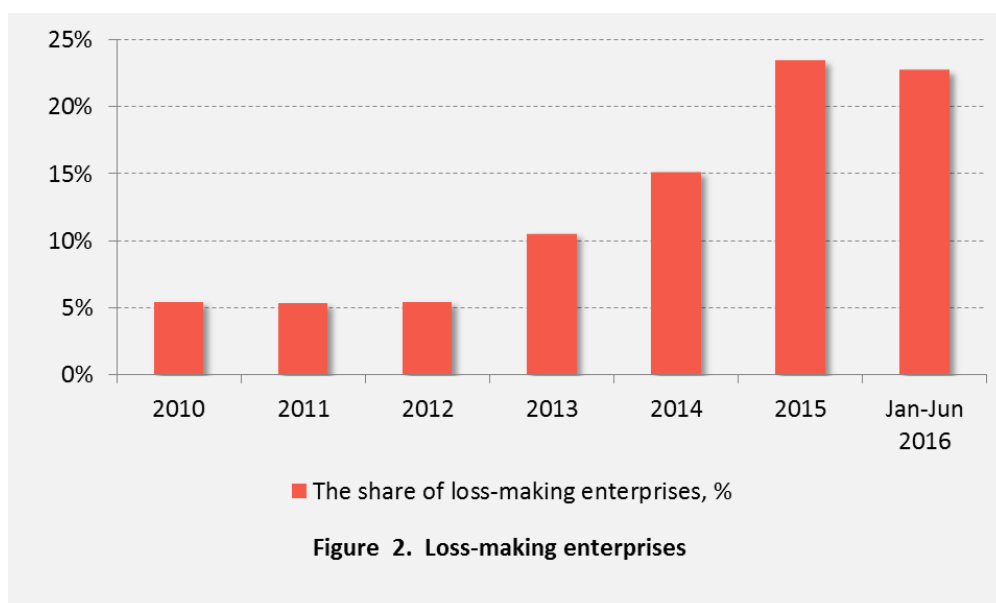
Finally, in order to help the National Bank reduce inflation, the government has committed itself to cut funding of state

programmes by approximately BYN28tn this year and by BYN20tn the next one.

Therefore, given the significant dependence of investment programmes of state enterprises on state funding, the government's hopes for an investment recovery in the following years seem dubious.

The Financial System: Destabilising Loss-Makers

According to Belarus's statistical agency Belstat, the profits of enterprises have decreased by a fifth in the first half of the year, while the number of loss-making companies has increased by a quarter compared to the same period last year. On 1 July 2016 the number of loss-makers reached 1,738 (or 22.8 per cent in total) and outperformed the corresponding figures of the previous year by 24.8 per cent.



On 28 July 2016 representatives of the National Bank said that the situation with loss-makers is even more complicated, as over the last several years, in order to expand production, a large share of enterprises took out more loans without an adequate assessment of their ability to pay them back.

Correspondingly, in the first half of the year the amount of troubled assets in Belarusian banks doubled, thus increasing the risk of financial instability in the country.

Moreover, according to the National Bank, due to the devaluation of the national currency the debt burden (formed mostly by foreign currency liabilities) of the enterprises has increased significantly over the past two years.

As a result, the positive effect of the devaluation on price competitiveness of Belarusian exporters has been cancelled out. In January-July 2016 exports fell by more than a fifth in comparison with the same period last year.

Trade Policy: Low-ball from the Great Wall

On 5 June 2012 President Aliaksandr Lukashenka signed a decree on the creation of the Belarusian-Chinese industrial park "Great Stone," aimed at attracting over 100 companies from China and Europe. However, to this day only eight residents have agreed to participate, and only two of them have started the building process.

On 19 August 2016 the CEO of "Great Stone" Hu Zheng tried to dispel any uncertainty about the future of the project by claiming that the conditions for entering the project are too restrictive (the size of the company and its business area: electronics, pharmaceuticals, R&D, engineering, biotechnology, fine chemistry, new materials, warehouse logistics), which restrains investors.

Hu Zheng has suggested that the criteria for residents must initially be relaxed and their areas of activity expanded. He gave several examples, including firms engaged in processing of raw materials on a tolling basis (for example, processing

of stone or metal).

However, such "extraordinarily helpful" advice may turn the innovative project into a simple excuse to transfer the above mentioned [enterprises with low added value](#) (which are also potentially harmful to the environment) from China to Belarus.

Due to prohibitive tax benefits (10 years of "all inclusive" tax vacation plus a subsequent 10 years of half-priced tax bills) for the investors, acting on such advice could undermine the competitiveness of Belarusian enterprises, contribute to additional job losses of Belarusians and lead to even more severe budget problems.

In Belarus this is an unpopular position: the first Deputy General Director of the "Company for the development of the industrial park" Kirill Koroteyev has admitted that the primary aim of "Great Stone" is to attract only high-tech companies.

Thus, the government is still searching for additional sources of economic growth, preferring to bet on foreigners and forgetting about the entrepreneurial abilities of their own citizens. Meanwhile, investments continue to evaporate and additional fiscal risks threaten the financial stability of the country.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

Progressing Recession Deteriorates Quality of Debts – Belarus Economy Digest

On 27 October, the Belarusian statistical office released revised GDP data. The government actually bets on a quick revival of the economy and bails-out some firms and industries through expanding its own debt.

However, this in turn creates a potential problem of public debt sustainability, as the perspectives for creating the effective economic activity of firms under a bail-out look doubtful. Another troubling trend is that the growth rate of outstanding loans has been significantly higher than the expansion of firms' economic activity.

No Recession End in Sight

The Belarusian statistical office reported that in January-September GDP contracted by 3.7%. From the perspective of recession, this figure provides ambiguous signals. On the one hand, the deepness of the recession was less than in January-July. On the other one hand, GDP performance in September deteriorated in comparison to August.

Some swings in output dynamics occurred due to late harvesting this year. If this fact is taken into account, the perception that the bottom of the recession is further ahead becomes more reasonable.

The Belarusian authorities prefer to accuse external shocks for the poor GDP performance

New statistics show further that Belarus is experiencing a

significant shock in its level of potential GDP. The latter emphasises the partial disorganisation of the important aspects of the national economy, which might increase the length of the recession, which will result in lower living standards.

□The Belarusian authorities prefer to accuse external shocks for the poor GDP performance. For instance, the first deputy Minister of the Economy characterised the current trends as 'adaptation to a new normality'. Although external shocks have indeed become a trigger for the recession, currently mainly domestic adjustments speed up and increase the contagion of recession.

However, problems associated with poor GDP performance and lower living standards have both lost their top positions in the economic agenda for now. This is due to the Belarusian authorities announcing the new denomination in 1 July 2016. Although the technical step of removing 4 zeros from prices will not have any effect on economic dynamics, it has attracted much public attention.

Two Patterns of Adjustment to Recession

Belstat reports that the 'average' financial stance of firms improved in comparison to previous years. For instance, the average level of sales profitability in January-August 2015 improved modestly in comparison to previous year, although it remains close to the historical minimum. The improvement in profitability became possible mainly due to cost adjustments, as most firms currently face much tighter budget constraints.

However, each firm's performance is not uniform. The share of loss-makers increased threefold in 2015. The absolute amount of loss generated by these firms during the first 8 months of

2015 approached to roughly 5.5% of GDP.

Government Buys the Debt of Wood-Working Firms

Within the real economy a divide among firms has arisen. Some firms appear to be successful in adjusting to the new environment, due to lower costs and growing productivity. Yet other suffer and for them operating in a recession environment results in progressive loss-making and debt accumulation (see Table 1).

Industry	Sales profitability, January-August 2014, %	Sales profitability, January-August 2015, %
Agriculture	7.1	4.2
Manufacturing	8.5	9.5
Construction	9.7	7.8
Trade	3.5	4.1
Hotels and restaurants	2.8	1.4
Transport	9.6	10.4
Communications	19.4	21.0
Financial activity	30.7	46.7
Real estate	15.5	16.8
Education	11.9	5.0
Health care	12.9	11.9
Utilities, social and other personal services	6.1	5.8
Average	7.6	8.3

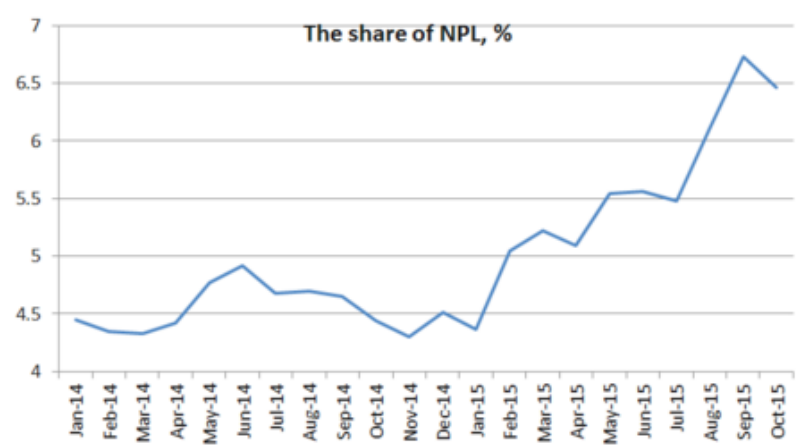
From this perspective, wood-working manufacturing has become a good example. In 2007-2014, the government initiated a so-called modernization of the industry, allocated to the industry more than \$1 billion through a mechanism of direct lending. During a meeting between government officials and Alexander Lukashenka in late October devoted to wood-working, the officials recognised that majority of wood-working firms will not become profitable in the near future.

Moreover, a huge amount of debt has been accumulated by these firms (during the modernization campaign) and so it becomes further each firms poor prospects. This in turn becomes a huge

challenge for the banking system of the country.

In the case of wood-working, Lukashenka decided that the government should purchase this debt from commercial banks. This scheme looks pretty similar to the one employed in June for supporting state machinery firms. The government in turn is forced clean each banks' balance sheets from the issue of potentially bad loans by means of increasing government debt.

The Quality of Debt As A New Systemic Threat



Over roughly a decade, the growth rate of outstanding loans has been significantly higher than the expansion of firms' economic activity. Hence, the fraction of each firms own capital has decreased constantly. Between 2004 and 2014 it fell by 22.1 percentage points down to 57.3%.

Given the sharp growth in real interest rates during the last couple of years, each firms' costs for debt servicing has increased significantly. Hence, during the recession many firms faced the choice of:

- substituting, at least partially, borrowed funds using their own money;
- limiting the volume of production;
- instigating loss-making activities, expecting that

either the interest rate will go down, or the demand will revive in the short-term.

A significant number of firms (especially state-owned ones) had to select the third option, as ceasing/contracting production would have meant a quick default on already accumulated debts.

These threats have also emerged in banking balance sheets. The share on non-performing loans started growing, although modestly (see Figure 1). But one may argue that the problem is gaining momentum. For instance, the growth rate of assets classified as 'in between standard and non-performing ones' (i.e. the part of these loans will become non-performing soon) is growing rapidly.

The deteriorating financial performance of firms has already affected banks' financial results. Due to the deteriorating quality of assets, nearly all the banks display lower profitability in 2015 in comparison to previous year. More than this, some banks have displayed losses in the last quarter of 2015. From this perspective, a long drawn out recession might hit the banks further (individually, or, in the worst case, systemically), thus continuing the feeling of depression in the economy.

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This article is a part of a joint project between Belarus Digest and Belarusian Economic Research and Outreach Center (BEROC)

Belarusian Economy Creeping into Recession

The first quarter of 2015 displayed a number of distressing trends in Belarusian economy.

The adjustment of the exchange rate has not secured the restoration of competitiveness. Furthermore, the government has to resort to conservative policies for mitigating structural weaknesses.

The economy has gone into recession, which was accompanied by lower real wages and levels of employment. However, a tough environment may become a trigger for structural reforms.

A New Economic Pattern: Shrinking Economy and Conservative Policies

The first quarter of 2015 has been distinct because of some of the novelties witnessed in economic dynamics and policies. A couple of months ago, the low competitiveness of Belarusian goods had become a key reason for the exchange rate's adjustment. But this time around, the authorities have minimised the impact of devaluation, as they were afraid of a new full-fledged financial crisis.

Hence, they have been deferring to 'austerity policies' to mitigate structural weaknesses and to restore competitiveness. Such policies include constraints on wages, fiscal expenditures, and a rather conservative monetary policy.

This scenario has changed the traditional landscape. First, the government has thus far refused to engage in a policy of wage stimulation. More than this, the government has actually begun to restrain wages, for instance, like those found in

budgetary sector, and through administrative measures. Hence, a trend of real wage contraction has become persistent.



Figure 1. Cyclical Component of GDP

Note: Seasonally adjusted.

Second, a new reality has expressed itself through declining levels of employment and growing unemployment. Official statistics only report registered unemployment. In the 1st quarter it grew by 8.6%, reaching 0.9% of labor force. However, the absolute value of official unemployment is rather far from the actual figure. But, its growth rate may be used as a proxy for showing actual unemployment. Given the assessments of the latter at around 4.5% in December, one may argue that currently, the actual rate of unemployment tends to be climbing towards its historical maximum from the last decade.

The new environment has resulted in a contraction in economic output. In the 1st quarter GDP fell 2%. The scope of this contraction seems to be relatively modest, as the depressed environment has also led to a tremendous contraction in imports. However, a mitigating recession due to fewer imports might be exhaustible: roughly all of the options for import restrictions have already been invoked. Hence, the additional competitiveness of enhancing the policies employed are necessary in order to ensure that the recession will continue to be modest and/or short-lived.

Sustainable Weaknesses May Secure Long-Lasting Recession

During the 1st quarter, Belarusian exports saw a significant decline. However, the adjustments in the exchange rate for the Belarusian ruble and the 'austerity policies' in place helped to mitigate this trend. Being accompanied by rapidly contracting imports, it helped to secure rather attractive foreign trade statistics.

For instance, the trade balance (goods and services) in January-February turned was in the green. From the perspective of current accounts, this means that it is likely to shift upwards into the positive in the first quarter as well (especially, taking into account that oil duties are going to the Belarusian budget this year, while previously they were being sent to Russia).

Improvements in its external positioning assisted in stabilising the exchange rate. The latter pushed the households to deposit more actively in the Belarusian ruble as they try to take advantage of a period of high real interest rates. This, in turn, created an impulse to drive interest rates down on financial markets. The authorities have begun to argue about stability and Lukashenka has characterised it as 'a certain equilibrium between the economy and finance'.

But in a broader context, the situation remains far ideal. First of all, despite improvements in foreign trade, international reserves continue to shrink (see Figure 2).

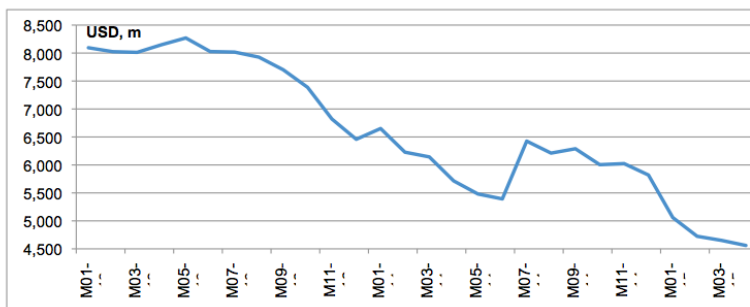


Figure 2. The Dynamics of International Reserves

Payments towards external debts are the main culprit behind this development. Moreover, future payments due this year will lead to a further decrease of the reserves, unless some of the debts are not be refinanced.

Second, devaluation and inflation expectations are still high and not sustainable. Hence, any serious shock may generate a new wave of disturbances on domestic financial markets. From this perspective, dwindling reserves is alarming, as just it may trigger new financial turmoil.

Third, while the current policies have improved the competitiveness of the firms somehow, but the situation is still far from normal. A majority of firms still cannot restore their financial position because a huge part of their working capital is frozen in the pipeline. For instance, manufacturing firms have accumulated 84% of their monthly average production as finished goods inventories.

These frozen inventories can simultaneously cause a number of other events to unfold. First, the share of borrowed funds (bank loans) in firms' working capital is increasing, substituting their frozen funds. Given the high interest rates, these will only worsen firms' financial positions. Second, the lack of liquid assets influences the growth of non-payment in the real sector. Third, firms have to restrict their output, make further cuts in wages, which generate negative impulses for output patterns. Hence, the overall lack of competitiveness is likely to make the current recession deeper and more prolonged.

Authorities Apply for New Credit, Promising Structural Reforms

The authorities suffer from a lack of available instruments to smooth over the recession and reduce its potential length. Hence, their search for a new chunk of external financial support has once more become their primary target to solve the issue. In March and April they launched negotiations with Russia, the EurAzEC anti-crisis fund and the IMF for new funds.

However, the government is trying to show (albeit indirectly and without issuing any official statements) that this time is different – they are not just applying for more credit, but they want to use these funds as a kind of umbrella for structural reforms. For instance, a visit by the Belarusian authorities to the IMF's Spring Meetings included a presentation on a structural reform 'road map' that had been developed in cooperation with the World Bank. This 'road map' contains a wide range of measures, which indeed could lead to systemic structural reforms, if it were to be implemented.

However, there are still doubts amongst the Belarusian public about the willingness and readiness of the authorities to start the reforms. Given their negative past experiences, many experts argue that the agenda for structural reforms is simply being used as a justification for filling the state's coffers. It is up to the authorities to show what their real intentions are in the coming weeks and months.

Dzmitry Kruk

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