



## IN THE BACKSTAGE OF ELECTIONS

Despite more or less obvious outcomes, 19th of December – the day of presidential elections in Belarus – is the subject that attracts analysts, journalists, researchers. Medias have been filled with analyses of electoral campaign, opposition's strategies, possible scenarios, etc. Are there other issues, important enough, to draw our attention in the backstage of elections? The authors of current Bell issue will present two of them.

In the first article Elena Daneiko examines geopolitical preferences of Belarusians and which vector – East or West – they perceive as a better option for their personal well-being. As most of the issues in today's Belarus, such choice is closely linked with upcoming elections. Generally, it is said that citizens' vote for current President means their choice of Eastern vector. Support for oppositional candidates indicates their willingness to adopt Western developmental path. But is it really the case? Some interesting insights into recent sociological data put such premise under question.

In the second article Dzmitry Kruk evaluates what burden Belarus's economy will have to take due to government's current macroeconomic approach. From the perspective of different economic challenges author examines expansionary economic policy, which is being implemented in 2010. The article asserts that aggressive policy actualized a number of risks for Belarusian economy, i.e. budget pressure, increasing external deficit, inflationary pressure etc. According to Dzmitry Kruk, its premature to judge whether such policy could cause major economic destabilization. On the other hand, its obvious, that qualitative distortions in the national economy will have to be eliminated if at least some level of economic sustainability is to be maintained.

*Justinas Pimpė, Editor*

## GEOPOLITICAL PREFERENCES OF BELARUSIANS: WHAT ARE THEY AND WHO REALIZES THEM?

*Elena Daneiko, Wider Europe*

**Do Belarusians want changes linked to geopolitical choice? What vector – East or West – do they prefer?**

**IISEPS Pollsters look at the geopolitical preferences of Belarusians right before the upcoming presidential election on December 19, basing on the answers to the question about their vision of the future president.**

(The data used in the text are from the national poll, conducted by the Independent Institute of Socio-Economic and Political Studies in September 2010. 1,527 people were interviewed; margin of error is less than 3%).

### Conditions for Choice

Media images of political events have an evident impact on public moods. It is especially true in

Belarus, with its almost complete monopoly on electronic media, with the exclusion of the Internet. There are evidently more supporters of the European integration among Belarusians who receive information from different sources. Their ability to consider pros and cons is based on various opinions, assessments and information which generates another view on the situation, quite different from what is offered by the state-controlled media and not that explicitly linked to relations of the official Minsk with Moscow and Brussels.

This is particularly obvious now, when mutual personal enmity between the Russian ruling duumvirate and the Belarusian president reached the stage of public rebukes and quite scandalous statements for politicians of that level. At the same time, visits of the EU officials are presented to the Belarusian electorate depending on the current state of affairs, most often – as acknowledgement of the legitimacy and negotiation ability of the regime. According to

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the pollsters, both trends immediately reflect in the answers of the respondents.

However, we should not forget about the factor of media image of political events, forming the public opinion (in particular, the Russia-Belarus conflict in the version of the Belarusian state media) and a relatively small number of alternative information sources accessible to many Belarusians.

Obviously, the priority of the western or eastern vector in the moods of the Belarusian society assumes corresponding changes in all spheres of both internal and external policies. What changes do Belarusians expect?

According to the results of the IISEPS September poll, 43.2% of respondents believe the future president should be the supporter of cardinal changes of the current policies; 38.2% support the current policy.

According to 39.1% of respondents, the future president should support further rapprochement with the European Union, 24.8% want him to support further integration with Russia; 58.8% want him to support market economy, while 14.6% -- planned economy; 43.5% want the future president to be the supporter of separation of powers, while 29.6% are for strengthening of the presidential power.

#### **Geopolitical Choice, Attendant Changes and Image of Future President**

Comparing the positions of the potential voters of the opposition and the incumbent president, the pollsters state that Lukashenka's supporters evidently tend to support the current policies, integration with Russia, planned economy and strengthening of the presidential power. However, the results of the recent polls demonstrate the change in the moods.

In particular, almost 10 per cent of the interviewed Lukashenka supporters, who are ready to vote for him on December 19, want the president to support cardinal changes. Moreover, almost 16% of Lukashenka supporters are for rapprochement with the European Union, over 41% -- for market economy, and almost 15% -- for separation of powers, and not strengthening the president's power.

In the opinion of pollster professor Oleg Manayev, the results of the poll break the traditional idea of Lukashenka's electorate as a group of people with little education, low social status, who have conservative views and nostalgia for the USSR, or senior citizens.

The above mentioned statistical data stand for hundreds of thousands of people, who want changes, renewal, and rapprochement with the EU, and not Russia. However, they link their hopes and expectations to president Lukashenka, assuming that he is the person who will be able to implement their wishes. Experts stress that it is the smaller part of Lukashenka supporters who stand for changes that evidently correlate with the western vector. Most importantly, that such people exist!

There are a lot more people supporting cardinal changes -- rapprochement with the EU, market

economy, and separation of powers -- among the voters who are likely to vote for the candidates in opposition (i.e. Lukashenka's opponents in this election) than among the supporters of the incumbent president.

However, it is quite remarkable that even among the opposition voters almost 16% want the future president to keep on the current policies, over 11% -- to continue integration with Russia, and almost 18% stand for strengthening president's power. That means, there is quite a distinct part of the opposition electorate (or those dissatisfied with the incumbent president), who link their desires to some new political figures.

Pollsters maintain, in the current election -- if it was completely transparent and democratic -- there is no objective way to win for any candidate who explicitly supports the East, or the West vector in the foreign policy, as well as the changes in Belarus caused by such an unambiguous choice.

Talking about the geopolitical choice of the Belarusian citizens, it should be mentioned that even with no accurate statistical data about the number of Belarusians who left to work or study in Russia or the EU, we can state that quite many of them have already made it, while their Fatherland is still on the crossroads. However, that factor, just as some others that could have demonstrated the geopolitical preferences of the Belarusian citizens, was left out in the September poll conducted by IISEPS.

#### **Opinions and Plans about Implementing Geopolitical Aspirations of Belarusian Citizens**

Alexander Milinkevich, the leader of the Movement "For Freedom", who decided not to run in the election, just as the majority of Lukashenka's opponents, does not welcome any talks about the idea of the union state with Russia; the optimal choice, he thinks, is to have good neighborly relations with it. According to Milinkevich, the incumbent regime is being forced to get closer to the EU -- but not the European democracy (!) -- by the economic crisis and the need to modernize the economy.

Mikola Statkevich, one of the leaders of the European Coalition and a candidate in the presidential election, thinks the ruling regime is the main obstacle for the European integration of Belarus. He is convinced that integration of Belarus in the EU is not possible if the ruling clique stays in power.

BPF chairman Aleksei Yanukevich thinks that today, just as never before, Belarus is facing a very important geopolitical choice: will it become a buffer zone between Russia and the EU countries, or become a well-respected member of the European family. Yanukevich believes that the vague comments some politicians, both in the government and the opposition, make is an attempt to avoid the choice. The BPF leader is convinced, the bigger part of the Belarusian society does not accept the option of integration in Russia; nevertheless, such a geopolitical option exists in some minds.

**Some members of the Belarusian opposition forces think the current EU policy to improve relations with Belarus betrays the interests of democracy.**

Rygor Kostusev, presidential candidate of the Belarusian Popular Front (BPF), talking about his election platform, sees no prospects in rushing and tearing between Moscow and Brussels. He suggests that Belarus should discontinue all agreements with Russia as not meeting the national interests of Belarus.

Presidential candidate Vladimir Nekliayev suggests a plan that many analysts consider quite paradoxical: to cooperate with Russia in order to achieve the European standards needed for integration in the EU.

Yaroslav Romanchuk, candidate from the United Civic party, speaks about stage-by-stage rapprochement with the EU, which would lead to joining the European Union by 2025. The plan suggests successive membership in the Council of Europe, the World Trade Organization, recognizing the market nature of the Belarusian economy and creation of the free trade zone.

At the same time, another presidential candidate, leader of the civic campaign "European Belarus" Andrei Sannikov claims Belarus can join the EU already in 2016. He has not published the plan of doing that yet.

Some members of the Belarusian opposition forces think the current EU policy to improve relations with Belarus betrays the interests of democracy. They believe, by strengthening contacts with the governmental officials the EU capitulates and supports the dictatorship, by no means bringing Belarus closer to the European future. Their opponents claim the EU refusal to support Belarus now would lead to the threat of Belarus losing independence and getting under stronger Russian influence, even up to joining the Russian Federation.

Political scientist Viacheslav Pozdniak sums up, currently there is quite a small circle of experts in Belarus who are really aware of all the details and nuances of not only Belarus joining the EU, but even the process called "further rapprochement with the European Union". We are talking about the whole corpus of legal, political and economic agreements, as well as the nuances one should start with. Certainly, one way or the other, that brings us to the issue of common values.

#### **Lack of Correlation**

We can hardly talk about any correlation in the Belarusian society between the geopolitical choice and the value choice, which is inevitably linked to it – both in the social and economic spheres.

The incumbent Belarusian president Alexander Lukashenka who, according to various assessments, has all chances to keep the post after December 19, 2010 due to, softly speaking, the specific nature of elections in Belarus, from the first steps to the vote counting procedures, has a very pragmatic attitude to his European aspirations.

In Lukashenka's scenario, realization of the European aspirations of Belarus is receiving mere benefits of economic preferences – at least the ones that are

already available for Belarus if the country takes part the existing EU programs. According to many analysts, there is a ground for that.

Opinion poll results demonstrate that the majority of Belarusians are not aware of the interdependency and conditionality of the choice of the Western vector, the benefits of the European civilization and a certain level of democracy.

Historian Aleksei Bratochkin states, the majority of the Belarusians do not bind the slogans of freedom and democracy and the economic liberalization. Belarusian citizens (not all, but the bigger part of them) are somehow trying to divide the changes, which are inevitable if Belarus makes its choice in favor of the EU, into parts choosing the same things that Lukashenka suggests. In fact, basing on the opinion poll results, the people do not think it is absurd or impossible for Lukashenka, who played quite specific integration games with Russia for a long time, to try and do the same with the European Union.

#### **Eastern Vector and Lukashenka's Conflict with Kremlin: Changes Possible**

The official rhetoric of Minsk reflects its current attitude to integration with Russia. Pollsters explain the drop in president Lukashenka's rating by the conflict with the Eastern neighbor. At the same time, we observe the drop in the number of respondents who support integration processes with Russia, and the growing number of the EU integration supporters.

According to September IISEPS opinion poll, at a hypothetical referendum with the question if Belarus should join the EU, 42.2% of respondents would vote "yes", and 32.5% would vote "no" (in IISEPS poll in June 2010 the numbers were 36.4% and 39.4%, correspondingly).

If they had to choose between uniting with Russia or joining the EU, 41.7% would vote for joining the EU, while 34.9% would vote for unification with Russia (in June -- 38.9% and 37.7%, correspondingly).

However, the pollsters point out, the increase in the number of those who support the European choice, does not lead to mirror decrease of the pro-Russian Belarusians. At a hypothetical referendum about unification of Belarus and Russia, if it was held today, 33.1% would vote in favor, and 45.4% -- against the unification (29.3% and 48.6% in June, correspondingly).

In the opinion of Oleg Manayev, attitude to Russia is a deep part of the psychology and culture of the majority of Belarusians. That means, if the current conflict between Moscow and Minsk is resolved, the dynamics of pro-European aspirations in the country might change. It is absolutely evident that the real reason of the discord splashed out in public is the personal enmity between the Russian and Belarusian leaders. However, a conflict of that kind can hardly cause quick and irrevocable changes in the public moods.



The government lost the space for maneuver as the new risks for macro stability have formed in the fiscal sector.

## NEW ECONOMIC CHALLENGES AGAINST BACKGROUND OF EXPANSIONARY POLICY

*Dzmitry Kruk, IPM Research Centre*

### **Aggressive policy: building up the pressure**

It was December 2009 when Belarusian economic authorities officially presented ambitious macro-economic targets for the pre-election 2010 year, including extremely high growth rates of GDP (11-13% yoy) and households disposable income (14-15% yoy). The scenario of expansionary policy (with similar tools of stimulating economic activity as used in 2009) seemed to be evident and inevitable.

It should be emphasized that in the beginning of 2010 Belarusian economy got out of cyclical recession, and from that viewpoint there were not so many arguments for justification of the economic expansion. Hence, the risks to macroeconomic equilibrium due to the expansionary policy, such as further deterioration of foreign trade, pressure on the currency peg, and inflationary pressure were foreseeable already at that time. The government was aware of such risks and tried to find a proper solution within the trade-off between the political goal of stimulating growth and the enhancement of macroeconomic stability. The government seemed to find the solution in setting the priority in the growth of capital investments. The scenario was comprised of the following ideas.

Firstly, stimulating growth of productive investment ought to increase productive capacities and competitiveness of the Belarusian economy in the near future. Hence, although artificial stimulation of investment demand seems to disturb the current macroeconomic equilibrium, later on these distortions are to be absorbed by more intensive growth due to the economic fundamentals.

Secondly, within the scenario of investment growth, the scope of macroeconomic distortions in 2010 seemed to be controlled and affordable. For instance, while the government possesses a wide range of instruments in the sphere of investment finance (say, the state banks, the budget funds, etc.), it can push projects with a low share of imports (i.e. such projects will stimulate mainly domestic output), while restrict those with a high share of imports, thus reducing elasticity of imports on the domestic demand.

Further on, the link between the boosts in investment demand and consumer prices is weaker (compared to the one between households consumption and CPI), while the time lag is bigger, which means that the inflationary pressure would be under control. Finally, the government assumed foreign investment (both direct ones and in other

forms) as the main driver of the capital investments growth. Domination of this source of funds should have enhanced stability in the domestic currency market, while the currency peg plays an extremely important role in the Belarusian economy as a whole.

Overall, this scenario would have been treated as a compromise between the political goal of "heating" the economy and handling the structural distortions in the national economy.

However, the scenario broke from the very beginning of the year. The first challenges were consequent to the oil shock. New mechanism of oil supply insisted by Russia substantially deteriorated the prospects of Belarus' external trade (the losses, compared to the mechanism of oil supply in 2009, will be about USD 2 bn or 3.5% of GDP by the end of the year). Moreover, the oil shock disturbed the revenues of the state budget, which is assessed by the Ministry of Finance at about USD 2 bn in annual terms. In this situation, it should either compensate the losses by new revenues, or restrict expenditures, or maintain the budget deficit higher than planned.

To some extent, the government used all these kinds of adjustments, but the latter became dominant and in autumn the Ministry of Finance had to recognize the necessity to increase the planned level of the central government deficit up to 3% of GDP (it was planned at the level of 1.5% of GDP in the beginning of the year). Taking the deficit of local budgets into account, the deficit of the general government budget is going to be extraordinary high in 2010, while there was a surplus or near balance during the last five years. In other words, it means that the government lost the space for maneuver as the new risks for macro stability have formed in the fiscal sector.

Later on, fulfillment of the main precondition of the investment growth scenario found out to be questionable. The initial plan of the authorities was that capital investments should have grown by 23-25% yoy in 2010. Assuming this growth was to be fully financed by foreign investments, it meant that about USD 4 bn of additional foreign investments should have been attracted to Belarus.

In the beginning of the year, the government considered Chinese investments as the main solution to this problem. The agreements with the Chinese potential investors and banks open up the possibility of attracting up to USD 15 bn for the investment projects in different branches of the Belarusian economy. However, up to now the Belarusian enterprises managed to obtain only a miserable part of these potential funds.

## China considers its financial resources as a tool to promote its exports.

The main reason for this mismatch between the plans and reality seems to be the different approaches of the parties to the mechanism of providing the funds. As we have shown above, Belarus needs non-tied funds, preferably in the form of direct investments to the preferred branches in order to boost the demand and the output in the economy. In its turn, China considers its financial resources as a tool to promote its exports. That is why, they mainly provide funds in the form of tied loans, which assume the purchase of Chinese goods and, in some cases, using Chinese labor force. Finally, at least in the first half of 2010 a planned hike in the inflow of foreign investments failed. Therefore, there is still a huge gap between the planned growth rate of the capital investments and the actual one.

The impact of these trends is expressed in the changed structure of the GDP growth drivers in the demand side in 2010 (both in respect to those in 2009 and expected one). While in 2009 only the contribution of gross capital formation was positive, in the 1st half of 2010 it became only the 3rd important component of the demand growth. In its turn, household consumption became the main contributor to GDP growth against the background of the relatively modest stimulation of disposable income. In the 1st half of 2010 a standard wage rate<sup>1</sup> was increased by 16.9%, while it had been unchanged since the end of 2008. This caused an increase of real average wage in the economy by 5.1% and 10.9% yoy in the 1st and the 2nd quarter, while household consumption increased by 4.6% and 14.6% yoy, correspondingly.

A huge gap between the growth rate of disposable income and household consumption formed in the 2nd quarter demonstrates an extremely important trend in the national economy – households substantially increased the propensity to consume due to expectations of further increases in their incomes. The data on consumer market that is closely related to the dynamics of households consumption shows that the gap maintained, and the growth rate of households consumption grew even stronger in the 3rd quarter: the growth rate of real retail turnover amounted 18.4% yoy (16.4% yoy), while the growth of real wages increased up to 15.9% yoy. The nature of this trend may be twofold. Firstly, it may be based on consumer optimism and positive expectations, which moves forward consumer activity of households. Secondly, on the contrary, increased propensity to consume may be caused by negative expectations, i.e. expectations of growing consumer prices and falling purchasing power in near future as a result of the expansionary policy, which is the incentive to reallocate part of consumption from tomorrow to today.

The statistics of the 1st quarter gave grounds to hope for propitious adjustments in foreign trade, while trade deficit declined both in nominal and real terms. Accordingly, contribution of the net

exports to real GDP growth was positive during that period. It was clear that to a great extent that tendency was caused by the oil shock and a sharp decrease in the supply of crude oil from Russia. Nevertheless, advantageous trends in trade of other goods except for energy ones also contributed to improvement in merchandize foreign trade.

But in the 2nd and the 3rd quarter the positive effect was mitigated, and the growth of merchandize deficit resumed. In Jan-Aug, in nominal terms it grew by 14.9% yoy. Decomposition of this growth by broad economic categories shows that the trade with energy goods (19.7 percentage points (pp)), other intermediate goods (15.8 pp), and non-food consumer goods (4.4 pp) contributed to the growth of the deficit, while the trade with capital (-11.4 pp) and food consumer goods (-13.4 pp) reduced the deficit.

One may argue that the net effect netted out from the energy trade (i.e. pure adjustments in foreign trade without oil shock) would have provided a reduction of the deficit by 5.2% yoy. At the same time, it should be emphasized that the increased net demand for intermediate goods other than energy ones (mainly it is driven by additional imports of ferrous metals) plays a role comparable with energy goods. Alongside, growth in the exports of capital goods, i.e. the exports of those industries that use a bigger share of these intermediate goods in their production cycle (mainly machine-building and metal-working) grew more modestly. The latter means that stimulation of domestic demand contributed much to the increase of imports of intermediate goods.

Furthermore, an increasing deficit on non-food consumer goods should be recognized, which has got a direct link with stimulation of consumer activity. Just this category of goods performed the highest growth rates of physical volume of imports. Within the range of 14 main non-food consumer goods in retail turnover the share of those imported grew considerably in 11 ones. For instance, in Jan-Sep the share of imported TV-sets grew by 12.8 percentage points up to 16.9%, washing machines – by 9.3 pp up to 57.5%, footwear – by 8.3 pp up to 28.5%, and apparel – by 8.4 pp up to 31%. Thus, basing on their expectations the consumers changed their preferences to the benefit of import goods.

On the whole, we may argue that the “center” of economic activity has shifted to consumer markets. Alongside, there is still a high elasticity of imports on domestic demand, which undermines the possibilities of reducing the distortions in foreign trade against the background of expansionary policy.

### Predictions for the future

This disposition forms a range of new risks for the national economy, which are likely to visualize more explicitly in near future. While household consumption is the main driver of real GDP growth, it determines more considerable and more rapid actualization of the inflationary pressure in comparison to the scenario of investment growth. Gradually,

<sup>1</sup> A benchmark wage rate set by the government, which predetermines actual wages in the economy through the single tariff scale for all companies in the economy.

**Intensifying the usage of the instruments of the domestic demand stimulation will result in a further inflationary pressure on the economy.**

the growth of prices has been accelerating since autumn. In August CPI inflation in annual terms amounted to 7.7%, while in September it grew up to 9.0%, and up to 9.7% in October. By the moment, food products perform the highest growth rate of prices because of the unfavorable environment in agriculture. Nevertheless, increased consumer activity and additional incomes are preferably channeled at the non-food market: the growth rate of real retail turnover of food goods is roughly constant during this year (about 14.0% yoy), while those of non-food goods performs a sustainable increase (from 13.0% in the 1st quarter up to 21.6% yoy in the 3rd quarter). Alongside, similar trends may be observed in regard to the demand on services. Hence, an “additional” demand, i.e. those stimulated by the government’s wage policy, shifts mainly to the segments of non-food goods and services, which forms a substantial potential for acceleration of prices growth in these segments.

Herewith, we may argue that intensifying the usage of the instruments of the domestic demand stimulation (a substantial increase of the standard wage rate by 31% took place since November 1st, which will result in a hike of wages received at the beginning of December) will result in a further inflationary pressure on the economy.

However, even rough estimates of the inflation potential in a short term are not currently considered worthwhile, as the government has got plenty of instruments of direct and indirect price control.

Firstly, there is still a wide range of goods and services the prices of which are under direct government control. The prices for housing and public utilities, education, and transport services should be emphasized here. Pursuing a political goal of increasing purchasing power of households at the end of 2010, the government avoids substantial tariff adjustments in these sectors. For instance, the tariffs for housing and public utilities has been almost constant since the beginning of 2009, despite the prices for energy resources grew considerably since that time. However, this leads to additional pressure on the consolidated budget, as it has to subsidize the gap between the market prices and the actual ones.

Secondly, while the state ownership is the dominant one in the economy and the government has got a number of tools of indirect control of companies,

it can prevent increase in prices by restricting their profitability. Such a trend has already been visualized in the economy, and since June profitability ratios perform a gradual decline. Furthermore, the values of different profitability ratios in the economy are much lower in comparison to the pre-crisis level. So, there is a kind of paradox: despite stronger growth rates in the majority of branches, it results in low and reducing profitability. The latter reflects the situation when the government redistributes the costs of artificial GDP growth among different economic agents.

At last, we must admit that there is a threat that negative expectations of households will spread to the real sector of the economy. There is an important adverse peculiarity of the Belarusian economy – high financial dollarization, i.e. dollarization of deposits and loans, which forms a number of challenges for the banking system and monetary policy. However, dollarization ratio is going to grow on the background of negative expectations.

Further on, this situation may be worsened by increased currency substitution, i.e. households may increase net demand for foreign currency if they treat the current monetary policy as “less than credible”. Furthermore, the share of purchased foreign currency may only increase due to the increased incomes. In October, the signals of this threat strengthened, while the net demand for foreign currency by households grew 5 times. In the most pessimistic scenario, negative expectations of the households may result not only in purchasing additional foreign currency, but also in a substantial net outflow of households’ deposits from the banks. The latter may severely hit the banking sector and become an additional factor of the macroeconomic instability.

Summing up, we may argue that aggressive expansionary policy actualized a number of risks for the Belarusian economy. Among them there are: budget pressure, increasing external deficit, inflationary pressure, challenges for enterprises profitability, exchange rate peg pressure, and higher risks of the banking sector. Actualization of these risks does not inevitability mean macroeconomic destabilization, but it signals about the urgent need to avoid artificial expansion and focus on elimination of the qualitative distortions in the national economy. Just the latter seems to be inevitable.

**Opinion expressed by the authors of “Bell” does not necessarily correspond with that of the Eastern Europe Studies Centre.**



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TO CONTRIBUTE TO THE NEXT ISSUE OF “BELL”, PLEASE CONTACT:

Justinas Pimpe  
Phone: +370 5 2705993  
Fax: +370 5 2736953  
E-mail: [justinas.pimpe@eesc.lt](mailto:justinas.pimpe@eesc.lt)  
EASTERN EUROPE STUDIES CENTRE