

Aurora Macro Strategies – Belarus Update: Russian Flows and Election Prep

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The Tearsheet

- Belarus has finally moved ahead with issuing “substitute bonds” for Russian holders, with some payments made on the 2023 notes to smaller holders.
- At least one major Russian corporate holder – Softline – reported receiving repayments on its 2023 notes last month.
- But according to comments from those publicly identifying themselves as smaller Russian noteholders, while some coupon payments have been received, some have not and there are also mixed reports on the extent to which the principal has been repaid.
- The Belarusian Development Bank (BRRB) also on September 27 announced that its defaulted Eurobonds were now being swapped into Russian substitute bonds as well.
- President Alexander Lukashenko on September 10 held a public meeting in which he – in our view – effectively ordered officials to begin preparing for early presidential elections.
- The next election does not have to be held until the end of 2025 but we expect it will be called this winter or next spring.
- The election will not be free or fair, as with all elections in the country’s post-Soviet history except that which brought Lukashenko to power in 1994.
- Lukashenko will clearly stand again and while he has all but tapped his son Nikolai ‘Kolya’ as his favored successor, given he is just 20 years of age it is too soon for this option to be on the table.

1. Eurobond Payments finally begin to flow, at least to Russians

- On September 18, the Belarusian Ministry of Finance issued a [press release](#) that laid out the timetable for issuing substitute Eurobonds in the Russian depository for the 2026, 2027, 2030, and 2031 Eurobonds, aligning these replacement dates with forthcoming coupon dates, except for a small adjustment changing the date to 27 December from 29 December for the 2027 series.
- The press release specifies that only those who bought the affected bonds before 26 July 2022 are eligible. This is the latest step in the process that began last month to enable the issuance of such bonds on the Russian National Settlements Depository (NSD).
- However, foreign holders of Belarus’ defaulted Eurobonds are, it appears, not eligible for the process. The Belarusian Ministry of Finance has not, however, responded to a request for comment on the issue.
- The exchange is a convenient way for the authorities to improve their reputation with foreign investors whilst also expanding the domestic bond market. Payments will still be made in Belarusian rubles, which is good for the government as it is short of hard currency given its trade deficit of around \$2bn. However, payments will be linked to the dollar exchange rate at the time of coupon payment.
- On September 27 the Belarusian Development Bank also issued a press release announcing that its defaulted Eurobonds were also now being swapped into replacement notes on the Russian NSD and that the first payments had been made to holders. Participants in public

Russian forums on the social media app Telegram as well as in online forums have confirmed that they have received some payments.

- However, this has not be universal. The same Telegram channel noted rumors that Russian holders have reported receiving payments on Belarus-23 Eurobonds; a development that has also attracted attention on Russian social media channels dedicated to following the issue.
- According to related Telegram channels, holders have sent two requests (one for the 11th and the other for the 12th coupon), with only some confirming receipt of the latter. Principal repayment reportedly has not been made, however.
- We note that the Belarusian Development Bank has also begun payments in Belarusian rubles on its Eurobonds through the Russian depository system.
- Reports on these media channels suggest that depositories had received the payments and began distributing them to final recipients. As far as any particular movements in Belarusian debt, or new Russian buyers seeking to purchase that debt, we are unaware of any buyers specifically other than Softline (whose purchases have been previously reported).

2. Lukashenko prepares for early elections

- We expect that President Alexander Lukashenko will move to call the next presidential election – due to be held by the end of 2025 – early, potentially as soon as this winter or in the early spring.
- On September 10 Lukashenko convened a meeting with many of his closest advisors to “discuss domestic affairs,” readouts and brief clips of which were widely aired on state media. Lukashenko effectively declared that he was beginning the effort to mobilize the state and its media in his favor ahead of the vote.
- Our expectation that Lukashenko will call the vote in the coming weeks is based on the fact that the regime firstly wants to take advantage of recent wage growth – caused by labor shortages similar to those seen in Russia – and because the inclement weather of the Belarusian winter would help to deter public protests.
- We expect Lukashenko to make increasing public appearances – as if his image didn’t dominate state media enough – as well as to potentially further promote his favored son and most likely successor, Nikolai ‘Kolya’ Lukashenko, who is only 20 years old.
- The odds of the younger Lukashenko taking a major position in the state apparatus are relatively low, though Lukashenko’s two older sons from a previous marriage already hold government posts.
- His eldest son, Viktor, who is due to turn 50 next year, is head of the Belarusian Olympic Committee and previously served as a security aide to his father. His second eldest son Dmitry is the Head of the Presidential Sports Body and a director of the automobile plant BelAZ.
- Kolya may be formally appointed a presidential aide after the vote but the personality-based nature of the regime and the fact that his father takes him along to almost all public appearances – a trend that has remained steady since he was a teenager – is enough of a signal about the extent of his “succession planning.”
- However, in the event of Lukashenko’s untimely death, we consider there to be a moderate risk of elite infighting and it cannot be ruled out that Russia would even move to formally “united” with the country under the Russian-Belarusian Union State, a framework that has existed since 1998 though it has never made any serious traction since.

- Lukashenko was clearly rattled by the 2020 presidential elections and the public reaction to their rigging, which prompted the country's largest protest movement since he first came to power in 1994.
- In the 2020 elections, Lukashenko focused on portraying himself as leader of the state's security services and not in the populist mold that previously helped him cement his grip on power but we expect this will be effectively reversed. This time around he will focus on his close relations with Moscow and highlighting his populist image.
- Although there have been some notable pardons and releases of political prisoners in recent weeks, we expect that Lukashenko will ensure that the political opposition is neutralized.
- Our expectation is that there will be far fewer protests given the state of repression and the hounding into exile or jailing of the most prominent opposition leaders and most effective organizers.

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