

## Belarusian Monthly Economic Review

- Stock owned by government employees must be deposited with the trust management of Belarusbank.
- Increased exports to Russia helped to accelerate output growth and to improve external trade.
- Agricultural enterprises were allowed to postpone debt repayments until January 1, 2009.
- The fiscal surplus exceeded 6% of GDP.
- Hard currency revenues increased; ruble deposit demand is still high.

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### Politics: Stock owned by government employees must be deposited with the trust management of Belarusbank

In March President Lukashenko approved a new governmental position: "Plenipotentiary of the President of the Republic of Belarus, deputy Prime Minister". The appointee's duties are to preserve the interests of Belarus in its relations with Russia, to coordinate the activities of state bodies on implementation of resolutions of the highest State Council of the Union State and promotion of cooperation with the Russia, and to control implementation of agreements with Russia. Evidently, the introduction of this post is aimed at eliminating disagreements in the bilateral relations between Belarus and Russia.

Another presidential edict requires that prior to August 1, 2004 all government employees must have deposited their shares in authorized funds of commercial organizations with the trust management of Belarusbank for the duration of their terms in office. This edict is aimed at reducing corruption. However, as the stock market is almost nonexistent in Belarus, it is not likely to have any impact on corruption.

### Real Sector: Growth of exports to Russia contributed to acceleration of output growth

GDP growth in Jan-Feb reached to 9.5% yoy. Industrial output increased by 13.2%. The improvement of the macroeconomic indicators was largely due to fixed capital investment growth and to an increase of external demand from Russia, which resulted in increased exports to Russia. Output growth in most sectors of the economy led to improvements in the financial situations of enterprises. Nevertheless, the situation still remains quite difficult. In January 44.3% of all enterprises made losses, which can be partially explained by seasonal factors. By the end of the year the number of loss making enterprises falls considerably.

The situation in the labor market also improved a little. Employment grew and unemployment fell since the beginning of the year. Real wages grew by 10% yoy in Jan-Feb. However, the wage increases were accompanied by a resumption of wage arrears growth, which by mid-March had reached about 20% of the total February wages. This is 12 percentage points higher than during the same period of 2003.

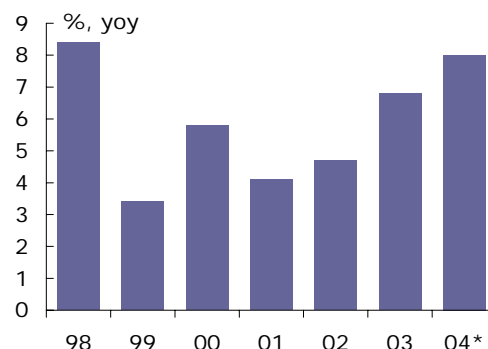
### Structural Trends: Debt restructuring of agricultural enterprises

In March the president issued an edict concerning the special right of the state to manage economic entities ("golden share"). It states that the government can introduce the golden share in an enterprise of any type of ownership that was created as a result of privatization. Passing this edict is likely to create obstacles for investments attraction to Belarus.

Another presidential edict granted all agricultural enterprises postponements for payments of debts and fees to the state,

**Population: 9.8 m**  
**Industry/GDP: 25.5%**  
**Agriculture/GDP: 7.7%**  
**Investment/GDP: 18.6%**  
**Export destination: Russia 49%, EU 23%**  
**Import origin: Russia 66%, EU 15%**

**Real GDP Growth**



\* Own estimates.

Source: Ministry of Statistics and Analysis.

as well as debts for gas, electric and thermal energy, until January 1, 2009. The decree also introduced several measures aimed at stimulating the acquisition of loss making agricultural enterprises by legal entities. Such enterprises would be sold for one base unit (19000 BYB or about 9 USD as of April 1). The new owners will be given the right to postpone debt repayments, and in case they buy new equipment and machinery they will be given a tax break in the amount of EUR 150,000. However, the possible positive effect of this issue is limited by the absence of private land ownership in Belarus. During the restructuring an investor can only get the long-term rent for the lands of the agricultural enterprise he buys. At the same time, agricultural enterprise debt restructuring does not create incentives to increase their effectiveness. It just leads to a worsening of the credit portfolios within the banking system.

**External Sector: Improved external trade caused by increasing exports to Russia**

During the second half of 2003 Russia enacted several protectionist measures (in particular it introduced customs duties on trucks, which are over 7 years old). On the other hand, economic growth in Russia created favorable conditions for Belarusian export growth. In January exports of non-ferrous metals to Russia grew 1.7 times, tires 2.4 times, trucks 3.2 times, truck tractors 1.7 times. As a result, exports to Russia grew by 37.4% yoy, which is considerably higher than the import growth rate.

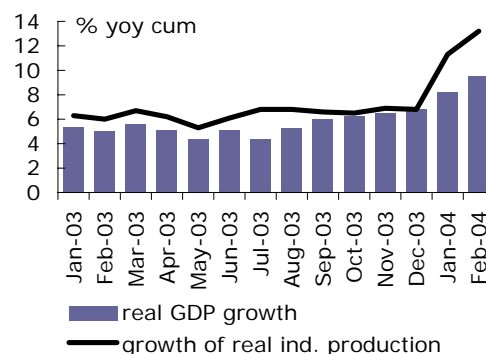
The improving trade with Russia contributed to a general improvement of the foreign trade situation. In January the merchandise trade surplus amounted to USD 4.6 m (according to Ministry of Statistics data). The surplus of the current account of the balance of payment was USD 72.7 m, which made it possible to meet the liabilities of non-residents even though the inflow of foreign direct investment decreased. The NBB did not reduce its hard currency reserves either. The inflow of resources from sources that are not taken into account by the official statistics (item "errors and omissions") was USD 53.7 m.

**Public Finance: Fiscal surplus exceeded 6% of GDP**

The consolidated revenues (excluding revenues of the Social Security Fund) amounted to 35.9% of GDP (16% of the annual plan) for Jan-Feb. This is 2.7 percentage points higher than for the same period of 2003. The growth of the consolidated revenues was mainly due to corporate income tax. Its revenues increased by 0.7 percentage points compared to the same period of the previous year, amounting to 3.7% of GDP (19.1% of the annual plan). One of the main reasons for this increase is the improved financial situation of enterprises. At the same time, the lower growth rate of real personal incomes led to lower personal income tax revenues, dropping from 3.3% to 3.1% of GDP. Besides, the arrears to the budget continued to mount (since the beginning of the year they increased by 33.1%). As of March 1, 2004 these arrears amounted to BYR 332.8 bn. Thus, the improved financial situations of enterprises and the increased corporate income tax revenues were not accompanied by revenue increase from other sources.

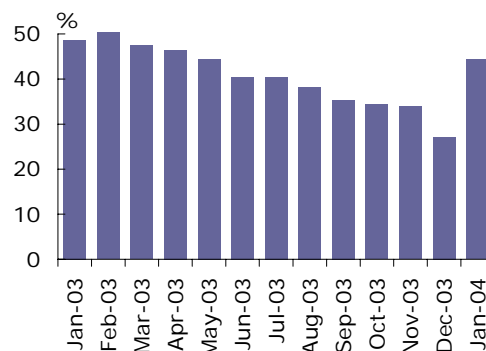
The consolidated expenditures (excluding expenditures of the Social Security Fund) amounted to 31% of GDP (13.2% of the annual plan). This low level of expenditures is due to the absence of a final plan for distribution of the budgeted expenditure items. Hence, the public money was spent irregularly among expenditure items. For example, the social and cultural expenditures amounted to 14.2% of GDP (0.4 percentage points lower than in Jan-Feb 2003), while expenditures

**GDP and Industrial Production**



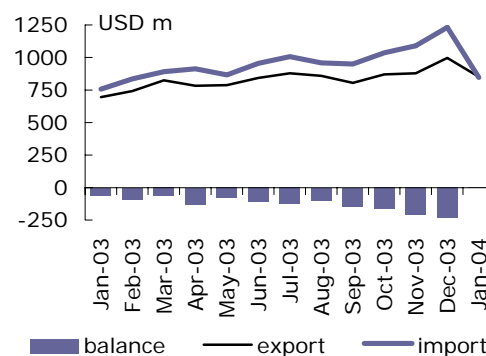
Source: Ministry of Statistics and Analysis.

**Share of Loss Making Enterprises**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade Structure and Dynamics**

	USD m		Change (%)
	Jan 03	Jan 04	
<b>Russia</b>			
Export	292.1	401.3	37.4
Import	550.7	582.3	5.7
Balance	-258.6	-181.0	30.0
<b>Non-CIS countries</b>			
Export	367.1	409.5	11.6
Import	175.8	237.8	35.3
Balance	191.3	171.7	-10.2
<b>Total</b>			
Export	691.1	851.9	23.3
Import	753.9	847.3	12.4
Balance	-62.8	4.6	107.3

Source: Ministry of Statistics and Analysis.

on agriculture increased substantially (from 0.7% to 1.8% of GDP) and amounted to 32.8% of the annual plan. As a result, revenues (including the Social Security Fund) exceeded expenditures by BYR 370.1 bn (6.1% of GDP) in Jan-Feb.

In March the president issued an edict to revise several indicators of the central budget for 2004: expenditures for fees and contributions, as well as the fiscal deficit were increased by BYR 132 bn (by 19.1%). Increases of the fiscal deficit are supposed to be financed by revenues from selling government securities. These funds will be directed to increase the authorized capital of Belagroprombank in order to compensate it for having to issue soft loans for housing construction in rural areas.

**Monetary Policy: Growth of hard currency and high demand for ruble deposits**

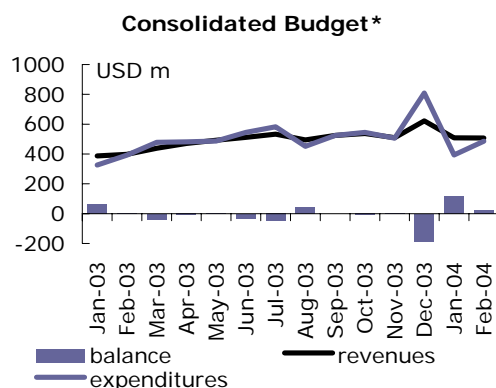
In February the money base grew by 6.7% mom, the ruble money base rose by 9% mom. The main tool of ruble emission was the NBB's purchasing of hard currency. In February the NBB increased its net foreign assets by USD 67.1 m. In addition, net domestic assets decreased mainly due to increased government deposits in the NBB by 41.4%. The increase of the money supply had a minor impact on the growth rate of crediting of the economy. Loans to economic entities increased by BYR 112.7 bn and government financing (the volume of government securities in the banking investment portfolio) decreased by BYR 34.2 bn. This is evidence of lowering the money multiplier and of the growth of excessive bank liquidity, as reflected in the high level of bank deposits held by the NBB. All of which was caused by a lower demand for money by the economic entities. Their transferable deposits decreased by 7.9% mom in February (by 13.45% from the beginning of the year). At the same time, cash in circulation went up by 11.9% mom, but it did not lead to any deterioration of the money aggregates structure, as the demand by households for time deposits in the national currency remained quite high. The increase of time ruble deposits amounted to 7.4% mom in February. Ruble money rose by 5.5% mom, consumer prices – by 1.9% in February.

Along with the growing demand for ruble deposits, the reason for the relative stability in the money market was the stability of the currency market. The hard currency revenues of the economic entities rose by 18% yoy in February, and amounted to USD 790.2 m, which contributed to strengthening the Belarusian ruble. In March its exchange rate to the US dollar increased by 0.05%. As of April 1, 2004 it stood at 2150 BYR/USD.

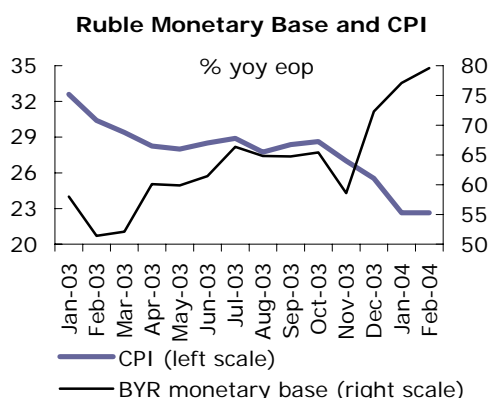
**Banking Sector: The NBB adopted some restrictions on settlements by bills**

The NBB amended the "Rules of regulation of activities of banking and non-banking institutions" by introducing a new norm reducing the maximum volume of loan notes issued by any bank relative to its own capital from 100% to 50%. In addition, limitations on the payment terms of such bank bills were adopted. Thus, the term may not mature before 20 days after the date when the bill was issued. These amendments could lead to some reduction of payments in the form of bills.

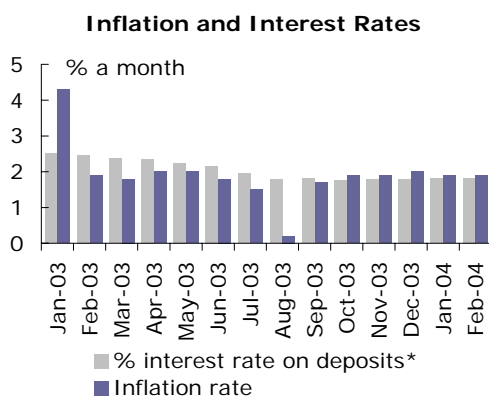
Also, the NBB introduced a new limit of EUR 600 for sums that can be transferred by legal entities to physical entities' accounts without providing documentation (the limit had been EUR 200). At the same time, payments to physical persons by cash by legal entities are regulated by the Rules of Cash Circulation. These rules do not specify any such limit, which is why the effectiveness of this measure directed at lowering corruption is quite limited.



\* Without Social Security Fund. Sources: Ministry of Statistics and Analysis, own calculations.



Sources: NBB, own calculations.



\* Interest rates on new time households deposits in BYR. Sources: NBB, own calculations.

<b>Economic Trends</b>		<b>Q1 02</b>	<b>Q2 02</b>	<b>Q3 02</b>	<b>Q4 02</b>	<b>Q1 03</b>	<b>Q2 03</b>	<b>Q3 03</b>	<b>Q4 03</b>	<b>Dec 03</b>	<b>Jan 04</b>	<b>Nov 04</b>
GDP growth	% yoy	3.9	5.7	4.6	5.5	5.6	4.7	7.2	8.8	--	8.2	--
GDP growth	% yoy cum.	3.9	4.9	4.8	5.0	5.6	5.1	6.0	6.8	6.8	8.2	9.5
Industrial production	% yoy cum.	2.3	4.0	3.9	4.5	7.0	6.3	6.5	6.8	6.8	11.3	13.2
Agricultural production	% yoy cum.	1.8	3.2	2.8	0.7	1.2	-1.5	3.8	6.8	6.8	4.5	4.5
CPI	% yoy eop	46	44	42	35	29	29	28	25	25	23	23
PPI	% yoy eop	39	38	44	42	43	42	36	29	29	30	27
Merchandise export (USD)*	% yoy	-7.0	8.4	10.2	24.1	39.2	20.0	22.2	25.3	26.9	23.3	--
Merchandise import (USD)*	% yoy	-0.2	2.9	12.9	19.4	39.0	29.8	21.4	21.5	27.2	12.4	--
Merchandise trade balance (NBB data)	USD m cum.	-127	-179	-441	-914	-165	-398	-695	-1234	-1234	17	--
Current account	USD m cum.	52	137	-23	-337	-32	-44	-174	-505	-505	73	--
Current account	% GDP cum	1.8	2.1	-0.2	-2.3	-0.9	-0.6	-1.4	-2.9	-2.9	5.2	--
International reserves	USD bn eop	275	257	251	457	463	526	459	474	474	494	--
Monetary Base	% yoy eop	88	58	55	40	52	61	65	72	72	77	80
Lending rate**	% p.a. aop	71	67	55	51	47	41	33	31	30	30	29
Exchange rate (official)	USD aop	1652	1753	1837	1893	1960	2031	2082	2135	2150	2159	2155
Exchange rate (official)	EUR aop	1448	1613	1808	1891	2105	2311	2342	2541	2638	2727	2726

\* Since 2003 – the data of the Ministry of Statistics and Analysis. Other external trade indicators – NBB data.

\*\* Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB, own calculations.

<b>Key Economic Indicators</b>		<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Nominal GDP*	BYR trn	0.367	0.702	3.026	9.134	17.173	26.613	35.930
Nominal GDP	USD bn	12.7	9.4	6.3	8.9	12.2	14.5	17.5
GDP growth	% yoy	11.4	8.4	3.4	5.8	4.7	5.0	6.8
Industrial production	% yoy	18.8	12.4	10.3	7.8	5.9	4.5	6.8
Agricultural production	% yoy	-4.9	-0.7	-8.3	9.3	1.8	0.7	6.8
CPI	% yoy aop	64	73	294	169	61	43	29
CPI	% yoy eop	63	182	251	108	46	35	25
PPI	% yoy aop	88	72	355	186	72	41	38
PPI	% yoy eop	90	197	245	166	41	42	29
Exports (gs, USD)	% yoy	19.5	-10.8	-8.5	17.6	10.4	8.6	26.9
Imports (gs, USD)	% yoy	20.5	-7.8	-19.0	21.0	8.2	9.1	27.2
Current account	USD m	-859	-1017	-194	-338	-435	-337	-505
Current account	% GDP	-6.8	-10.8	-3.1	-3.8	-3.6	-2.3	-2.9
FDI (net)	USD m	350	201	443	119	96	453	169
International reserves	USD m	394	339	305	357	347	457	474
Fiscal balance**	% GDP	-5.8	-5.0	-2.9	-0.6	-1.3	-0.6	-1.3
Internal public debt	% GDP eop	4.3	4.9	5.7	4.5	4.5	4.6	6.0
External debt (total)	% GDP eop	20	51	42	24	20	20	--
Monetary base	% yoy eop	96	102	204	52	225	32	50
Exchange rate (official)*	USD aop	34	151	572	1035	1394	1784	2075
Exchange rate (official)*	USD eop	42	430	925	1213	1580	1920	2156
Spread***	% aop	31.1	224.0	128.2	44.4	0.8	0.0	0.0
Spread***	% eop	35.5	301.9	189.1	2.8	0.2	0.0	0.0
Exchange rate (official)*	EUR aop	--	--	270	651	1239	1690	2353
Exchange rate (official)*	EUR eop	--	--	323	1097	1392	1989	2695

\* On January 1, 2000 the Belarusian ruble was devalued (1:1000). All figures are given in "new" Belarusian rubles.

\*\* The fiscal balances for 1996-1998 included quasi-fiscal financing through commercial banks. Negative values refer to fiscal deficits.

\*\*\* Spread between the black market and official (NBB) exchange rates.

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, own calculations.

#### Notes:

aop	average of period	mom	month-on-month change
avg	average	trn	Trillion
bn	billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year change
gs	goods and services	ytd	year-to-date
m	million		

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