

Belarusian Monthly Economic Review

- The mandate of the OSCE office in Minsk was extended until January 1, 2005.
- Increased production growth was accompanied by employment reductions.
- The Belarusian brewery "Krynitsa" paid its debts to the Russian "Baltika" company.
- The growing current account deficit required a reduction of the reserve assets.
- State expenditures lag behind the budgeted amounts.
- The government and the NBB are against an obligatory transfer of the state enterprise accounts to the state banks.

**No. 1 (16)
January
2004**

Politics: The mandate of the OSCE office in Minsk was extended until January 1, 2005

The OSCE extended the mandate of its office in Minsk for the year 2004 by means of a so called "procedure of silence", i.e. none of the member countries of the organization filed a protest or made any claims prior to 10 o'clock on December 24, 2003. This decision was taken because Belarus had still not improved its election process, and freedom of the press and human rights are still severely restricted. Thus, the OSCE will monitor the parliamentary elections in Belarus in the autumn of 2004.

Real Sector: Increased production growth was accompanied by employment reductions

The official statistics show that the GDP and industrial production growth accelerated. At the same time investment to fixed capital grew slower than in Jan-Sep, which led to lower construction growth. Increased oil and oil products freight helped to maintain a high growth rate in the transport sector.

However, the production increase did not lead to improvements in the financial situation of enterprises in most sectors of the economy. Only the industry, utility and construction sectors had profitability growth compared to the previous year. The utility and housing sectors continued to make losses. The share of unprofitable enterprises increased by 1 percentage point compared to Jan-Oct 2002, due to increased number of loss-making enterprises in agriculture, trade and communication. Though the increases in production led to some reduction of unemployment in the second half of 2003, the overall situation in the labor market did not improve. In Jan-Oct the number of employees of big and medium-sized enterprises decreased by 120,000, and wage growth rate slowed down considerably.

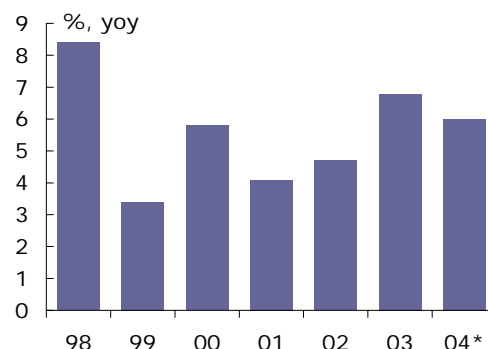
Structural Trends: The Belarusian brewery "Krynitsa" paid its debts to the Russian "Baltika" company

For the first time in the past five years Belarus failed to sign the common energy balance with Russia. The prices and volumes for gas deliveries have not been approved either. In January, the companies "Transnafta" and "Itera" are going to sell gas to Belarus at commercial prices. "Gazprom" is going to sell Belarus gas at market prices until the joint venture with "Beltransgaz" is set up. "Gazprom" has not decided on gas prices for Belarus yet. The Russian side is considering a price level at about USD 50 per 1000 m³.

The Belarusian brewery "Krynitsa" paid its debt to the Russian brewery "Baltika". Based on a presidential order, the Belaru-

Population: 9.9 m
Industry/GDP: 26%
Agriculture/GDP: 9%
Investment/GDP: 16.6%
Export destination: Russia 50%, EU 17%
Import origin: Russia 65%, EU 17%

Real GDP Growth



Source: Ministry of Statistics and Analysis.
 * Own estimates.

Institute for Privatisation
and Management (IPM)
76 Zakharova St., Minsk 220088, Belarus
Tel./fax (+375 17) 236-11-47
236-43-95
E-mail bmer@ipm.by
Internet <http://ipm.by>

sian brewery obtained a six-months government loan in the amount of USD 10.08 m at an interest of 7% per annum. With this "Krynitsa" paid its debt two days before a case to seize the assets of the Belarusian company was to be brought before the arbitrage court of Krasnodar. The company "Baltika" initiated this case after two years' unsuccessful efforts to get its money back.

The inflow of foreign direct investment into Belarus is expected to rise in 2004. In December the German company "Conrad Jacobson" confirmed its agreement with the Belarusian government to take part in a project to build a newsprint plant in Shklov. The amount of investment is expected to be EUR 250 m. A joint stock company with a 10% German share participation is planned to be set up in February 2004. Also at the beginning of February 2004, the independent Finnish consulting company "Jakob-Pere" will conduct a project study to build a paper mill with an annual capacity of 200,000 tons. After that, western banks would be invited to start financing its construction. Building this paper mill would enable Belarus to meet all its demand for newsprint, which is 43,000 to 47,000 tons per year at present. Any excess production would be exported via Conrad Jacobson's trade representation.

External Sector: The growing current account deficit required a reduction of the reserve assets

In Jan-Oct the current account deficit of the balance of payments grew 2.2 times. The main cause was the deterioration of the trade situation with Russia. The increase of merchandise trade deficit with Russia was only partially (by 36%) compensated by trade surplus growth with other countries. This led to a trade deficit growth by 54.2% yoy.

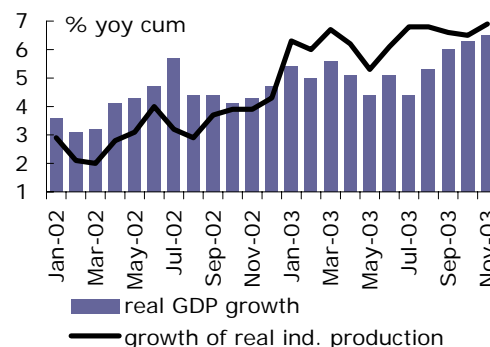
The current account deficit in Jan-Oct was financed by an inflow of resources both into the capital and financial accounts. However, the structure of the financial account balance changed greatly. The foreign direct investment inflow decreased by USD 23.1 m, while commercial loans increased by USD 238.4 m. Also, the increased "Errors and Omissions" item compared to Jan-Oct 2002 is the evidence of an unregistered inflow of resources into Belarus. Yet, the financing from all these sources was not enough, resulting in a USD 51.7 m reduction in reserve assets.

Public Finance: State expenditures lag behind the budgeted amounts

In Jan-Nov the consolidated state revenues amounted to BYR 10852 bn (33.8% of GDP). The share of VAT, profit tax, revenues from foreign trade, personal income tax and excises decreased by 3.6 percentage points (yoy) to 54.4% of total revenues. Lower revenues from these sources were caused by increased arrears. As of December 1, these arrears amounted to BYR 268.4 bn, having grown by 4.6% in November. The biggest arrears were with VAT collection (32.8%), excise tax (21%) and turnover taxes (16.7%). State enterprises were the main debtors (98% of all debt). Besides, enterprises were given financial assistance in the form of debt deferments or restructuring in the amount of BYR 189.4 bn, and in the form of tax loans, etc. By November 2003 the state had failed to receive about BYR 459 bn due to these causes.

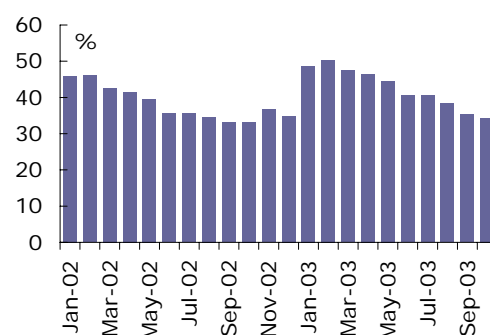
Due to problems with collecting the main taxes, lack of revenues from selling or privatizing state assets, and lack of sources of fiscal deficit financing, the government reduced expenditures in line with the revenues received. Planned expenditures were made for only three budget classes in Jan-Nov: National defense (97% of the annual plan), the Republi-

GDP and Industrial Production



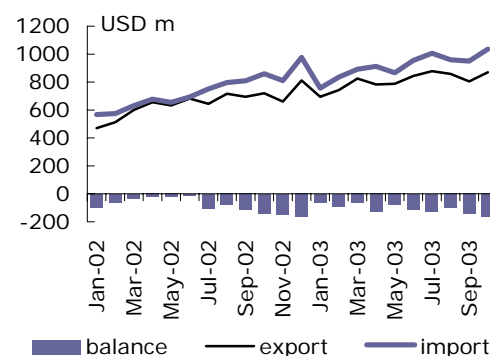
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Merchandise Trade Dynamics*

	Change of:					
	Export		Import		Balance	
	USD m	% yoy	USD m	% yoy	USD m	% yoy
Russia	753	23.5	1347	28.5	-595	-39.0
Other CIS countries	123	37.6	56	18.5	66	284.8
Non-CIS countries	665	22.0	517	23.3	148	18.4
Total	1541	23.5	1921	26.5	-381	-54.2

* Data for Jan-Oct 2003 compared to Jan-Oct 2002. Sources: Ministry of Statistics and Analysis; own calculations.

can fund for agricultural producers support and agrarian science (98.7%), and fees and shares (100%). As a result, the consolidated expenditures amounted to BYR 10906 bn (34% of GDP) and the deficit remained at the same level (0.2% of GDP).

Monetary Policy: Lower inflation

In November, the ruble money supply increased by 3.3% mom and in Jan-Nov it grew by 55.5% eop. The main components of this growth were cash money in circulation (3.1% mom) and transferable deposits (6.5% mom). At the same time, the maintaining of a negative interest rates led to a slowing down of the growth of time deposits and a decrease of deposits by legal entities by 3% mom. Currency deposits interest rates in November were even lower than ruble ones. This led to a decrease of currency deposits by 1.2% mom. If ruble instruments continue to give lower yields, the currency component of the money supply will tend to grow due to the lower risk of currency assets.

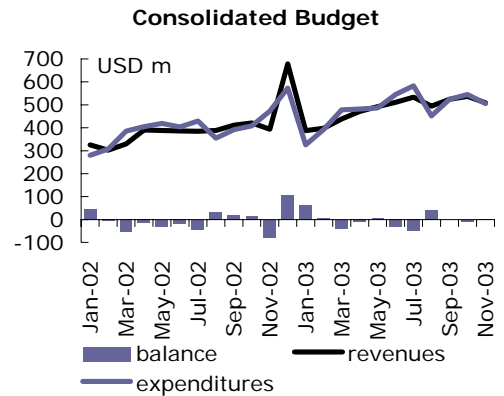
In November, inflation dropped a little bit. Compared to November 2002 consumer prices increased by 27% yoy (in November they grew by 1.9% mom). In order to meet the annual inflation target the inflation in December 2003 should not exceed 0.9% mom. To meet this target the government ordered to cut trade mark-ups for main food products. But, should this measure prove effective, it would just postpone a rise in consumer prices.

Due to the fact that the hard currency revenues of legal entities grew and net purchases of hard currency by the population decreased, the NBB managed to increase its net foreign assets in November by USD 16.1 m. The devaluation rate of the Belarusian ruble vis-à-vis the US dollar dropped a bit in December, amounting to 0.65%.

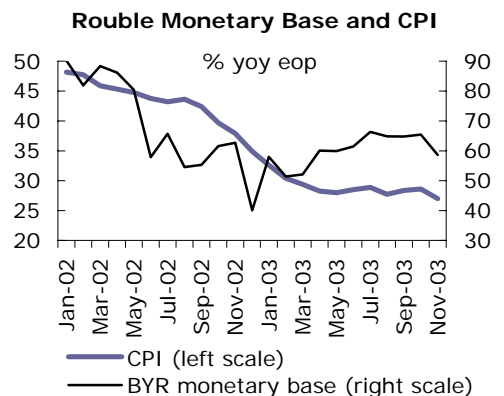
Banking Sector: The government and the NBB are against an obligatory transfer of the state enterprise accounts to the state banks

The government and the NBB send a joint statement to the office of the president, affirming that it is not reasonable to oblige all state enterprises to transfer their accounts to banks in which the state holds the majority stock. Their main argument against the proposed legislation is the danger that state banks would have to use inter-bank credit to offset the cost of having to credit the most problematic enterprises. Therefore, the source of financing would remain the same, but the state banks would face all the risks connected with crediting state enterprises. Besides, such a measure could raise the interest rates for loans and decrease of the gross volume of credits. Additionally, the statement affirms that abolishing tax benefits for banks with foreign capital would be undesirable, as it would have a negative impact on attracting foreign investment to the Belarusian banking sector, which the NBB is hoping for.

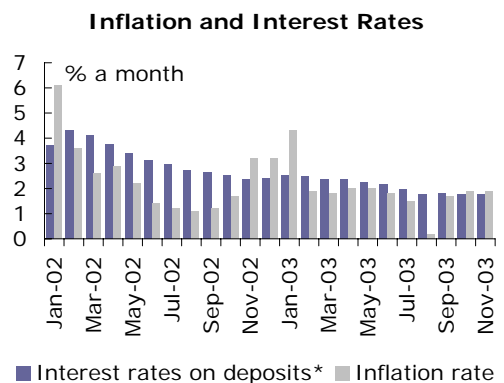
In December the technical mission of the IMF monitored the Belarusian banks. They concluded that the banking system is vulnerable because of excessive interference of the state in the banks' credit and interest policies. The mission recommended bringing the national accounting and reporting standards in line with international ones in order to be able to adequately analyze financial status of Belarusian banks.



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.

Economic Trends		Q4 01	Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Sep 03	Oct 03	Nov. 03
GDP growth	% yoy	7.0	3.7	5.5	4.0	6.2	5.6	4.8	7.3	--	--	--
GDP growth	% yoy cum.	4.1	3.7	4.7	4.4	4.7	5.6	5.1	6.0	6.0	6.3	6.5
Industrial production	% yoy cum.	5.9	2.0	5.6	3.7	4.3	6.7	6.1	6.6	6.6	6.5	6.9
Agricultural production	% yoy cum.	1.8	1.8	4.3	3.2	1.5	1.2	-1.5	3.8	3.8	5.8	6.2
CPI	% yoy eop	46	46	44	42	35	29	29	28	28	29	29
PPI	% yoy eop	41	39	38	44	42	43	42	36	36	40	39
Merchandise export (USD)	% yoy	-2.7	-7.0	8.4	10.2	24.1	39.2	20.0	22.2	24.2	22.1	--
Merchandise import (USD)	% yoy	10.0	-0.2	2.9	12.9	19.4	39.0	29.8	21.4	27.7	24.5	--
Merchandise trade balance (NBB data)	USD m cum.	-807	-127	-179	-441	-914	-164	-403	-700	-700	-853	--
Current account	USD m cum.	-435	44	120	-50	-378	-27	-100	-292	-292	-334	--
Current account	% GDP	-10.1	1.5	2.2	-4.2	-8.7	-0.8	-1.9	-3.8	-6.0	-2.7	--
International reserves	USD bn eop	347	275	257	251	457	463	526	459	459	416	--
Monetary Base	% yoy eop	120	88	58	55	40	52	61	65	65	65	59
Lending rate*	% p.a. aop	65	71	67	55	51	47	41	33	33	32	31
Exchange rate (official)	USD aop	1525	1652	1753	1837	1893	1960	2031	2082	2100	2120	2136
Exchange rate (official)	EUR aop	1367	1448	1613	1808	1891	2105	2311	2342	2353	2482	2502

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

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

Key Economic Indicators		1996	1997	1998	1999	2000	2001	2002
Nominal GDP*	BYR trillion	0.192	0.367	0.702	3.026	9.134	17.173	25.518
Nominal GDP	USD bn	14.3	12.7	9.3	6.3	8.9	12.1	14.2
GDP growth	% yoy	2.8	11.4	8.4	3.4	5.8	4.1	4.7
Industrial production	% yoy	3.5	18.8	12.4	10.3	7.8	5.9	4.3
Agricultural production	% yoy	2.4	-4.9	-0.7	-8.3	9.3	1.8	1.5
CPI	% yoy aop	53	64	73	294	169	61	43
CPI	% yoy eop	39	63	182	251	108	46	35
PPI	% yoy aop	34	88	72	355	186	72	41
PPI	% yoy eop	29	90	197	245	166	41	42
Exports (gs, USD)	% yoy	27.1	17.0	-9.6	-9.7	19.6	8.2	9.0
Imports (gs, USD)	% yoy	26.5	19.5	-6.6	-18.0	21.5	7.1	9.4
Current account	USD m	-516	-859	-1017	-194	-323	-435	-378
Current account	% GDP	-3.6	-6.8	-10.9	-3.1	-3.6	-3.7	-2.7
FDI (net)	USD m	105	350	201	443	119	108	434
International reserves	USD m	469	394	339	305	357	347	457
Fiscal balance**	% GDP	-3.4	-5.8	-5.0	-2.9	-0.6	-1.3	-0.6
Internal public debt	% GDP eop	3.9	4.3	4.9	5.7	4.5	4.5	4.6
External debt (total)	% GDP eop	17	20	51	42	24	20	20
Monetary base	% yoy eop	78	96	102	204	52	225	32
Exchange rate (official)*	USD aop	17	34	151	572	1035	1394	1784
Exchange rate (official)*	USD eop	27	42	430	925	1213	1580	1920
Spread***	% aop	25.1	31.1	224.0	128.2	44.4	0.8	0.0
Spread***	% eop	71.0	35.5	301.9	189.1	2.8	0.2	0.0
Exchange rate (official)*	EUR aop	--	--	--	270	651	1239	1690
Exchange rate (official)*	EUR eop	--	--	--	323	1097	1392	1989

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

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

The Belarusian Monthly Economic Review is prepared with support from the Ministry of Economy and Labour (Germany) within the framework of the TRANSFORM program