

## Belarusian Monthly Economic Review

- The Council of Europe proposes to impose sanctions on Belarus.
- Gas, thermal and electric energy prices went up.
- The growing trade deficit with Russia has deteriorated the trade balance.
- In December 2003 and in January 2004 the budget was revised 4 times.
- The increased money supply growth will make it difficult to reduce the inflation in 2004.
- The state ownership in Belarusbank and Belagroprombank grew due to loan issues by the NBB.

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### Politics: The Council of Europe proposes to impose sanctions on Belarus

On January 27, the Legal Affairs and Human Right Committee of the Parliamentary Assembly of the Council of Europe (PACE) unanimously passed the draft report regarding investigations into the disappearances of Belarusian politicians. The report states that the Belarusian authorities have failed to carry out independent investigations into the disappearances of the Belarusian politicians Zakharenko, Gonchar, and Kravsovski and the journalist Zavadski. In the final memorandum PACE proposes that the EU freeze all contacts with the Belarusian parliament and consider all means available to the Council of Europe to introduce sanctions against Belarus, should the Belarusian authorities not set up an independent commission to investigate these crimes.

### Real Sector: The agricultural output grew due to household production increases

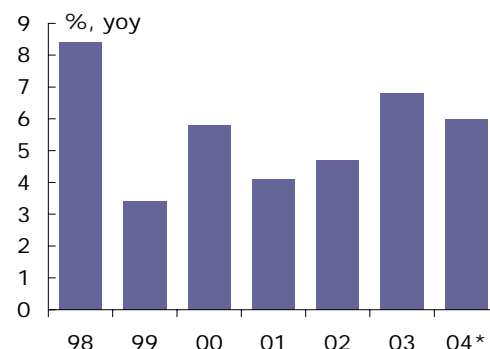
Acceleration of GDP and industrial production growth in 2003 led to some improvements in the financial situations of real sector enterprises. It also helped to cut costs as wages grew much slower than during the previous year. Credits became cheaper, too. Profitability rose in Jan-Nov, but the percentage of loss-making enterprises remained at the level of the previous year (33.9%). As banks increased the volume of credits given under governmental and the presidential decrees, wage arrears were eliminated. More credits to agriculture led to a higher output growth rate in this sector, which amounted to 6.8% yoy. Agricultural production by households increased by 9.1% yoy, but agricultural enterprises grew only by 4.6%. Profitability in the agricultural sector remained negative and the number of loss-making enterprises in this sector increased. As most agricultural enterprises are unable to pay off loans, we can expect a deterioration of the quality of the credit portfolios of Belarusian banks (primarily Belagroprombank).

### Structural trends: Gas, thermal and electric energy prices for enterprises went up

Several problems with Russian gas delivery to Belarus have not been solved yet. Gazprom still does not sell gas to Belarus, as both sides have failed to agree on an acceptable price. In January only Itera and Transnafta sold gas to Belarus at about USD 47 per 1000 m<sup>3</sup>. Gas delivery contracts with these companies terminated on January 29. Due to increases in the average gas price, the Council of Ministers passed a resolution to increase the tariffs for gas, thermal and electric energy prices for enterprises (except agricultural ones) on January 27, to be effective as of January 1, 2004. Gas tariffs increased by 24.2%, prices for thermal and electric energy went up by

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



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

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21.3%. Experts estimate that this will cause production costs to increase by about 5% in real terms, which could negatively affect the financial situations of enterprises.

An administratively decreed reduction of the retail trade mark-ups on a number food products (representing about 48% of the food products retail trade turnover) from 30% to 20% led to a reduction of consumer prices growth rate in December and hence to a lower inflation rate in 2003. However, this measure also caused the financial situations of trade enterprises to deteriorate. The reductions led to losses of BYR 470 m (more than 16% of food products revenues) by these enterprises. As a result, in 2003 the share of loss-making enterprises in trade exceeded 30%. Reacting to this problem, the Ministry of Economy restored the mark-up to the previous level.

The Presidential Administration drafted a decree to give the state special rights to manage legal entities ("Golden share") under certain circumstances. According to the draft, the "Golden share" decree could be applied to any enterprise created out of a previously state-owned one, including those in which the state has no ownership anymore. It would be imposed whenever an organization has wage arrears exceeding 3 months, where its economic status is unsatisfactory for 6 months, and in a few other cases. The government and the NBB expressed concern with the draft decree. They believe that existence of the "golden share" discourages foreign investment inflows. As a result, the draft decree was ordered to be revised.

**External sector: The growing trade deficit with Russia has deteriorated the trade balance**

The trade balance continued to deteriorate in November. The main reason was the increased trade deficit with Russia, which was not offset by increased trade surpluses with other countries. According to NBB data, around 52% of the trade deficit increase is due to energy resources, and 48% due to other goods. In other words, the reason for the trade balance deterioration is not just an external shock (growth of oil prices), but also a decrease in the competitiveness of Belarusian goods.

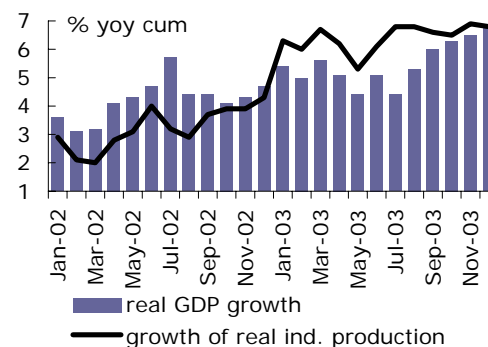
The growth of exports of energy resources to EU countries (including first-wave accession countries) contributed to the trade surplus increase with these countries. In Jan-Nov it was offset 44% of trade deficit with CIS countries. However, since the European Commission decided to launch an investigation of Belarus concerning its violation of trade unions rights, the EU could be permitted to cancel export preferences for Belarus. Experts estimate that Belarus could lose more than EUR 100 m should this happen, which would, of course, result in a further deterioration of the trade balance in 2004.

**Public finance: In December 2003 and January 2004 the budget was revised 4 times**

In December 2003 and January 2004 the president revised several components of the central budget by issuing four decrees. In particular, the budget revenues were increased by BYR 10.4 bn, expenditures – by BYR 217.9. The limit of the budget deficit and its financing – by BYR 207.5 bn. It includes loans of the NBB in the amount of BYR 120.7 bn, deposits of the government in the NBB of BYR 156.9 bn, and sales of government securities of BYR 56.1 bn. The external financing was dropped by BYR 121 bn.

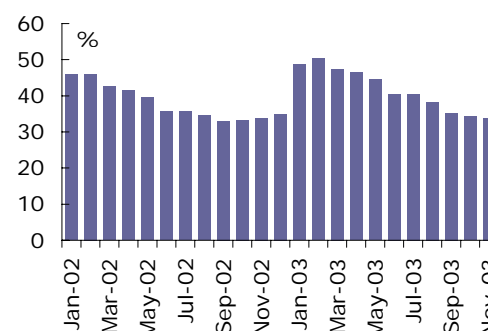
The preliminary data showed that in 2003 the consolidated revenues amounted to 99.2% of plan (33% of GDP), while expenditures were at 93.7% (33.4% of GDP). The fiscal deficit was 0.3% of GDP. The central budget revenues were 97.3% and expenditures (only) 90.8% of plan. The reason for failing

**GDP and Industrial Production**



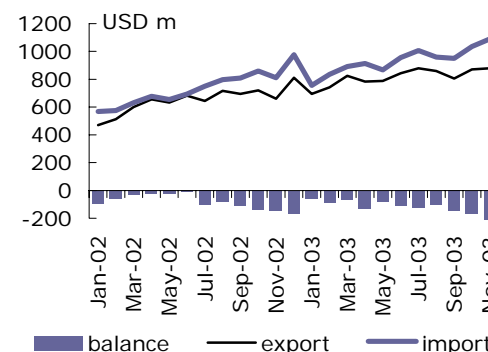
Source: Ministry of Statistics and Analysis.

**Share of Loss Making Enterprises**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade Balance Dynamics**

	USD m		
	Jan-Nov 2002	Jan-Nov 2003	Change
Total	-878.1	-1290.6	-412.4
CIS countries	-1681.7	-2249.0	-567.3
Russia	-1719.7	-2355.4	-635.7
EU (including accession countries)	702.9	990.5	287.7
Other countries	100.7	-32.1	-132.8

Sources: Ministry of Statistics and Analysis; own calculations.

to meet the expenditure plan was the extremely low privatization revenues (instead of BYR 430 bn the central budget received only BYR 3.3 bn). Furthermore, the difficult financial situation of enterprises led to increased budget arrears of 14.4% during 2003. The amount of tax credits increased by 70.2%, the amount of delayed budget payments increased 3.2 times. The overall amount of enterprise debt to the state including tax delays amounted to BYR 720 bn. Local revenue collections slightly helped to meet the consolidated budget target. The main reason was the increase of revenues from sales tax, since the rate of this tax went up. Land tax revenues also increased due to increases in the rate of this tax and revisions to its base.

**Monetary policy: The increased money supply growth will make it difficult to reduce the inflation in 2004**

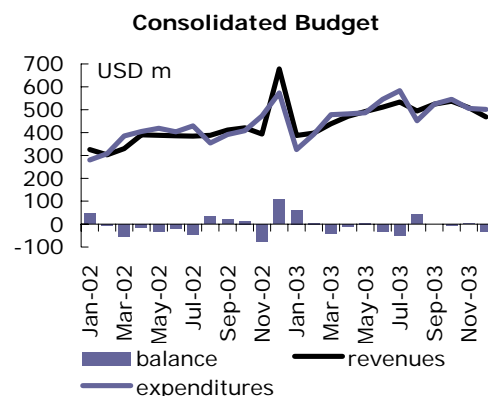
In December the NBB increased credits to the government by BYR 156.6 bn, which became the main factor in the acceleration of the money supply growth. The considerable increase of emission led to a ruble money supply (M2) growth of 10.1% mom in November. As a result the ruble money supply grew by 71.1% in 2003. This doubled the planned parameter (stated in the Monetary Policy Guidelines – 2003). The main component of the ruble money supply growth in December was demand deposits, which grew by 15.6% mom. They contributed to 46.8% of the increase of ruble money. The increase of time deposits caused by the growth of real income of the population in Nov-Dec was moderate, though its growth rate was higher than in November, amounting to 5.7% mom. If the ruble deposit yield remains at a level close to zero, it will hamper the process of deposit increase at the same rate in 2004.

The currency market situation remained stable in December: net sales of currency by legal entities still exceeded net purchases of currency by the population. A minor decrease of net foreign assets in hard currency was offset by an increase in soft currencies. As a result net foreign assets grew by USD 9.2 m in December and amounted to USD 523.8 m. Deposits in foreign currency grew by 5.8% in December. As a result the banking system reserves covered just 32.9% of the currency component in broad money in December, a decrease of 2.4 percentage points. In 2003 inflation lowered to 25.4% eop. However, the accelerated money supply growth at the end of the year and the change of the structure of broad money (increase of the share of high liquidity components and currency deposits) are evidence of the formation of the prerequisites for increase of hard currency demand. This will make it difficult to lower inflation in 2004.

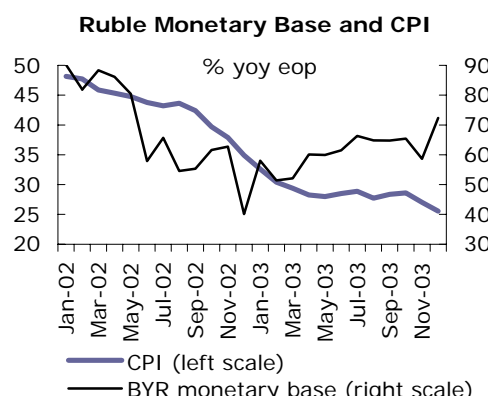
**Banking sector: The state ownership in Belarusbank and Belagroprombank grew**

In 2003 the practice of increasing the chartered capital of state banks using credits of the NBB became very evident. In December, in order to increase the share of the state in Belarusbank and Belagroprombank, the NBB issued BYR 144.55 bn of loans to the government. BYR 131.05 bn of this amount was given to Belagroprombank. Evidently, such a practice must be due to this bank's difficult financial situation.

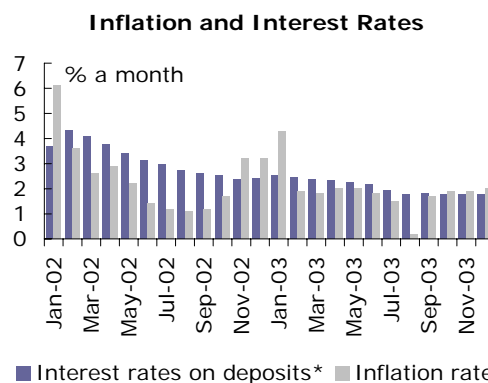
The increased state ownership in the state banks led to decreases of the share of foreign capital in the banking system. In January foreign capital amounted to 7.5% of the total amount of the chartered capital of the banking system. However, the NBB stated that it is ready to provide assistance to investors to ensure inflows of foreign capital into the banking system. It is expected that in 2004 the Russian bank Dialog-optim will open an affiliate in Belarus; however Alfa-bank refused to buy the controlling stock of Minskcomplexbank.



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		Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Oct 03	Nov 03	Dec 03
GDP growth	% yoy	3.9	5.7	4.6	5.5	5.6	4.7	7.2	8.8	--	--	--
GDP growth	% yoy cum.	3.9	4.9	4.8	5.0	5.6	5.1	6.0	6.8	6.3	6.5	6.8
Industrial production	% yoy cum.	2.3	4.0	3.9	4.5	7.0	6.3	6.5	6.8	6.5	6.9	6.8
Agricultural production	% yoy cum.	1.8	3.2	2.8	0.7	1.2	-1.5	3.8	6.8	5.8	6.2	6.8
CPI	% yoy eop	46	44	42	35	29	29	28	25	29	29	25
PPI	% yoy eop	39	38	44	42	43	42	36	29	40	39	29
Merchandise export (USD)	% yoy	-7.0	8.4	10.2	24.1	39.2	20.0	22.2	--	22.1	23.0	--
Merchandise import (USD)	% yoy	-0.2	2.9	12.9	19.4	39.0	29.8	21.4	--	24.5	25.7	--
Merchandise trade balance (NBB data)	USD m cum.	-127	-179	-441	-914	-164	-403	-700	--	-853	-953	--
Current account	USD m cum.	44	120	-50	-378	-27	-100	-292	--	-334	-386	--
Current account	% GDP	1.5	2.2	-4.2	-8.7	-0.8	-1.9	-3.8	--	-2.7	-3.4	--
International reserves	USD bn eop	275	257	251	457	463	526	459	474	416	473	474
Monetary Base	% yoy eop	88	58	55	40	52	61	65	72	65	59	72
Lending rate*	% p.a. aop	71	67	55	51	47	41	33	31	32	30	30
Exchange rate (official)	USD aop	1652	1753	1837	1893	1960	2031	2082	2135	2120	2136	2150
Exchange rate (official)	EUR aop	1448	1613	1808	1891	2105	2311	2342	2541	2482	2502	2638

\* 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		1997	1998	1999	2000	2001	2002	2003
Nominal GDP*	BYR trillion	0.367	0.702	3.026	9.134	17.173	26.613	35.930
Nominal GDP	USD bn	11.0	8.4	5.7	8.9	12.5	14.8	17.6
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	17.0	-9.6	-9.7	19.6	8.2	9.0	--
Imports (gs, USD)	% yoy	19.5	-6.6	-18.0	21.5	7.1	9.4	--
Current account	USD m	-859	-1017	-194	-323	-445	-352	--
Current account	% GDP	-6.8	-10.9	-3.1	-3.6	-3.7	-2.5	--
FDI (net)	USD m	350	201	443	119	108	434	--
International reserves	USD m	394	339	305	357	347	457	--
Fiscal balance**	% GDP	-5.8	-5.0	-2.9	-0.6	-1.3	-0.6	-0.3
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	2052
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	2325
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	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		

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