



Belarusian Monthly Economic Review

- Belarus demanded compensation from Russia for potential losses caused by the introduction of a single currency.
- The growth of real wages slowed down.
- The price for Russian gas imported into Belarus has not been agreed upon yet.
- The control over imports of some goods is likely to be tightened in 2004. Import restrictions might be introduced.
- The foreign currency share in the money supply grew.
- New National standards for financial accounting have been adopted.

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Politics: Belarus demanded compensation from Russia for possible losses from introducing the Russian Rouble

At the beginning of October Belarus specified additional requirement for introducing the Russian rouble as the sole Belarusian currency. The government requested compensation from Russia for potential losses caused by the introduction of the Russian rouble as the sole currency, which were estimated at USD 1.9 bn. The government also requested an interest free loan of about USD 200 m. The Russian government refused to accept both requests. It stated that neither country will face direct losses from introducing a common currency, in fact, Belarus would benefit from it. The issue of introducing a single currency was not included on the agenda of the Highest State Council of the Union State, though it was planned to be discussed earlier.

On October 24 President Lukashenko held a press conference about Belarusian-Russian relations. Following this event, the Ministry of Foreign Affairs of Russia summoned the Ambassador of Belarus to Russia and handed him a note of protest "in connection with unfriendly statements about Russian side made during the press conference". Under these circumstances one can hardly expect any significant progress with Belarusian-Russian integration, including the introduction of a common currency.

Real Sector: The growth of real wages slowed down

The financial status of enterprises remains poor. As of September 1, 38.3% of all enterprises made losses. The increase of loss-making enterprises goes hand in hand with lower profitability in all sectors of the economy except for industry and housing and utilities. At the same time, according to official statistics, the GDP and industrial output continue to grow. In Jan-Sep real GDP grew by 6% yoy, industrial output increased by 6.6% yoy, and construction (due to increased capital investment) by 11.4% yoy.

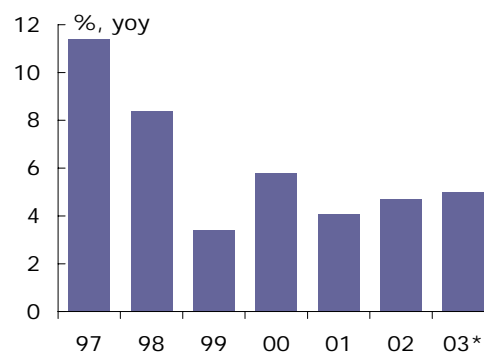
In spite of high production growth rates, the standard of living improves very slowly. The average wage grew by 1.6% yoy in Jan-Sep (in 2002 it grew by 10.2% yoy during the same period). Though banks made loans of more than BYR 1000 bn to pay wage arrears in Jan-Sep, in September the arrears began to accumulate anew. Administrative measures to increase wages would further deteriorate the financial situation of enterprises, and commercial banks would be burdened more heavily too.

Structural Trends: The price of the Russian gas for Belarus has not been agreed upon yet

The price of Russian gas for 2004 has not been agreed upon yet. In October during the negotiations between Belarus and

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.

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Russia, the Russian side proposed a price of USD 80 per 1000 m³ of gas, and a transit fee for Russian gas through Belarus of USD 1.75 per 1000 m³. The Belarusian side rejected this offer, since, if accepted, the net losses for Belarus would be about USD 700 m. Negotiations were postponed until November.

Russia could sell Belarus gas at its domestic price if Belarus were to sell control stock of the company Beltransgaz. But Belarus is ready to sell only 49% of the stock, and for at least USD 2.7 bn. Another condition the Belarusian side put forth is that it should be given the right to extract 10 bn m³ of gas a year in Russia. As such terms are unacceptable to Russia, the gas price can be expected to rise in 2004.

The government drafted a law to speed up privatisation. It foresees certain changes in the privatisation procedure: enterprises employing up to 500 persons and having debts overdue amounting to 80% or more of the active part of the balance for one basic unit (about USD 7 now) are to be sold; the norms of the "golden share" are to become more transparent and voucher privatisation is to end. However, the government recalled the draft law from parliament since President Lukashenko rejects the suggested amendments to the privatisation procedures. Hence, in 2004 privatisation is likely to be handled through presidential decrees and edicts.

External Sector: Import restrictions on some goods are likely to be introduced in 2004

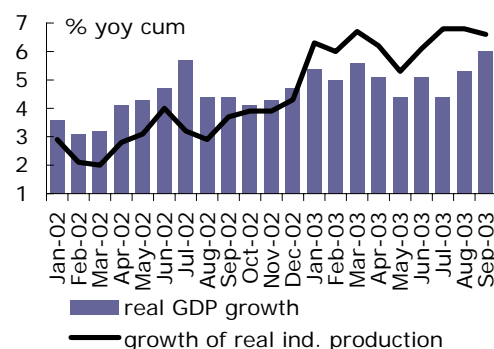
The foreign trade situation continued to deteriorate. In Jan-Aug the merchandise trade deficit increased by 80% to USD 768.3 m yoy. The main reason for this large increase was that imports grew faster than exports, due mainly to rising oil prices. As oil prices are an exogenous factor, the foreign trade balance can only be improved by higher exports via increasing the national competitiveness.

However, the government is planning to improve the foreign trade situation through protectionist measures aimed at import reduction. The Commission for the 'Increase of Competitiveness in the Economy' was mandated to develop measures to reduce imports of the following goods: machinery and tools for metal works, TV sets, textiles, construction materials, home appliances, etc. President Lukashenko declared that customs controls could be reintroduced on the Belarusian-Russian border to tighten controls over the movement of goods from third countries. Such customs controls would conflict with the principles of the Eurasian Economic Community (Belarus and Russia are its members). Since the above-mentioned goods represent only 11.6% of imports, one can hardly expect a considerable improvement in the balance of trade from introducing the planned protectionist measures. Moreover, these measures will not improve the competitiveness of national enterprises. On the contrary, over the mid-term perspective they would do the opposite.

Public Finance: More constraints to meeting the budget targets

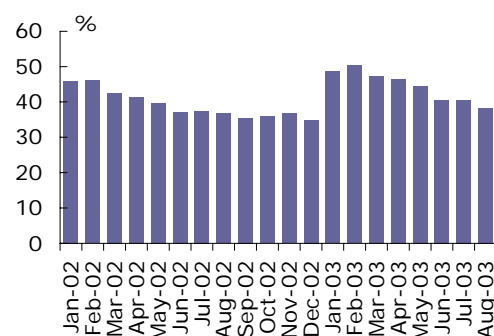
Meeting the budget targets for 2004 remains a very difficult task. The share of consolidated revenues in the GDP fell by 3.7 percentage points in Jan-Sep, compared to the same period of the previous year, and amounted to 33.8% of GDP. Constraints in meeting the revenue targets were due to a bad collection performance for some taxes, and other revenue problems. In Jan-Sep revenues from privatisation, from VAT and from corporate income tax amounted to 5.3%, 65.4%

GDP and Industrial Production



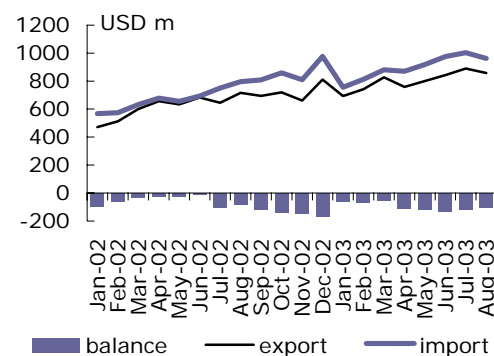
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: National Bank.

Structure of Merchandise Trade by Trade by Merchandise Groups

| | Export | | Import | |
|------------------------------------|---------|------|---------|------|
| | Jan-Aug | | Jan-Aug | |
| | 2002 | 2003 | 2002 | 2003 |
| Mineral products | 20.7 | 24.5 | 24.4 | 28.1 |
| Carriers | 12.2 | 10.9 | 7.1 | 5.7 |
| Chemical products | 11.1 | 9.9 | 8.2 | 7.7 |
| Ferrous metals | 8.4 | 8.7 | 11.6 | 11.9 |
| Textile | 9.6 | 8.6 | 4.4 | 4.0 |
| Agricultural & other food products | 7.6 | 8.2 | 14.0 | 12.2 |
| Machinery and equipment* | 3.8 | 3.5 | 5.6 | 6.1 |
| Other | 19.5 | 18.6 | 19.8 | 19.6 |

Source: Ministry of Statistics and Analysis.

* Electric machines and equipment, audio and video technique, TV sets.

and 68.5% of the annual plan. At the same time, due to export and import growths, revenues from foreign trade were 10.2% higher than planned. If this situation persists, the consolidated revenues will show a shortfall of BYR 200 bn.

Taking the anticipated deficit of public revenues and the limitations for attracting financial sources to finance the fiscal deficit into account, the government prefers cutting expenditures to increasing the deficit. The share of the consolidated expenditures in GDP fell by 0.3 percentage points in September, amounting to 33.9% of GDP. As a result, the consolidated fiscal deficit became BYR 42 bn (0.2% of GDP). During the fourth quarter of the year the government is planning to further cut expenditures. Subsidies for industry, loans and subventions for regions from the central budget will be reduced. Besides, tax breaks and tax loans will be cut too. Science, telecommunication and the utility sector will also have less money to spend.

Monetary Policy: The foreign currency share in the money supply grew

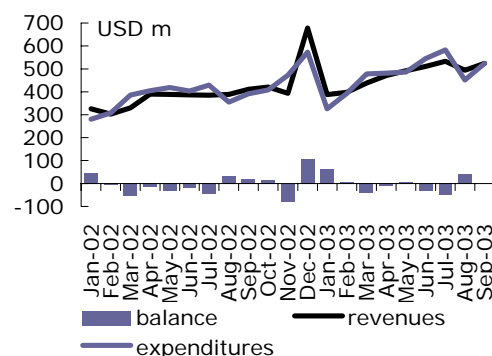
The money supply in national currency grew by 46.5% in Jan-Sep. It greatly exceeded the planned parameter for 2003. Consumer prices grew by 18.4% over the same period, i.e. 1% of the money supply growth brought about a 0.39% consumer price increase (for the same period of 2002 this indicator was 0.58%). The money supply had a weaker impact on inflation due to a decrease in the cash share in rouble money supply from 32.6% on January 1, 2003 to 26.9% on October 1, 2003.

However, interest rate reduction policy pursued by the NBB led to the situation where the real deposit interest rates were 3 times lower than during the same period last year. As a result of this policy, an increased inflation tendency became noticeable in September. First, the structure of the rouble money supply changed in September: the share of call deposits increased and the share of demand deposits shrank. Such changes increase the influence of money on inflation. Second, in September the share of foreign currency in the money supply (both in national and foreign currencies) grew. This is evidence for a higher demand for foreign currency. At the same time, covering this component of the money supply with net foreign assets of the banking system decreased in September by 5 percentage points, down to 47%. If these tendencies persist the NBB may have to sell a part of its foreign currency reserves and will then have to speed up the devaluation of the Belarusian rouble.

Banking Sector: New National standards for financial accounting have been adopted

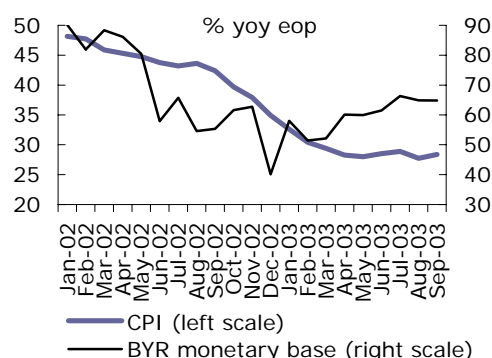
Toward the end of September – beginning of October, the NBB approved several new National standards for financial accounting (NSFA). They were developed to match international standards for financial accounting. The NSFA regulate the consolidated banking reporting by Belarusian banks. They establish a uniform method of profit calculation for one common share. The requirements for providing such information and for financial reports were defined. Besides, terminated activities of banks were defined and norms on information about terminated activities of banks in their financial reports were given. Adoption of the new NSFA should improve the accounting system of commercial banks.

Consolidated Budget



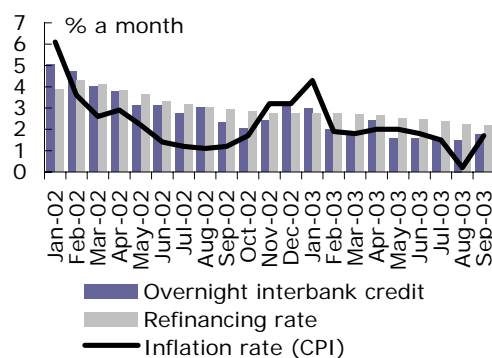
Sources: Ministry of Statistics and Analysis, own calculations.

Rouble Monetary Base and CPI



Sources: National Bank, own calculations.

Inflation and Interest Rates



Sources: National Bank, own calculations.



| Economic Trends | | Q4 01 | Q1 02 | Q2 02 | Q3 02 | Q4 02 | Q1 03 | Q2 03 | Q3 03 | Jul 03 | Aug 03 | Sep 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 | 4.4 | 5.3 | 6.0 |
| Industrial production | % yoy cum. | 5.9 | 2.0 | 5.6 | 3.7 | 4.3 | 6.7 | 6.1 | 6.6 | 6.8 | 6.8 | 6.6 |
| Agricultural production | % yoy cum. | 1.8 | 1.8 | 4.3 | 3.2 | 1.5 | 1.2 | -1.5 | 3.8 | -16.9 | -5.1 | 3.8 |
| CPI | % yoy eop | 46 | 46 | 44 | 42 | 35 | 29 | 29 | 28 | 29 | 28 | 28 |
| PPI | % yoy eop | 41 | 39 | 38 | 44 | 42 | 43 | 42 | 36 | 41 | 34 | 36 |
| Merchandise export (USD) | % yoy | -2.7 | -7.0 | 8.4 | 10.2 | 24.1 | 39.2 | 20.0 | -- | 26.6 | 25.6 | -- |
| Merchandise import (USD) | % yoy | 10.0 | -0.2 | 2.9 | 12.9 | 19.4 | 39.0 | 29.8 | -- | 31.5 | 29.7 | -- |
| Merchandise trade balance | USD m cum. | -780 | -137 | -196 | -451 | -916 | -188 | -551 | -- | -664 | -768 | -- |
| Current account | USD m cum. | -270 | 31 | 106 | -48 | -352 | -58 | -185 | -- | -219 | -194 | -- |
| Current account | % GDP | -2.2 | 1.0 | 2.1 | -3.8 | -7.6 | -1.0 | -2.8 | -- | -2.2 | 1.5 | -- |
| International reserves | USD bn eop | 347 | 275 | 257 | 251 | 457 | 463 | 526 | 459 | 520 | 523 | 459 |
| Monetary Base | % yoy eop | 120 | 88 | 58 | 55 | 40 | 52 | 61 | 65 | 66 | 65 | 65 |
| Lending rate* | % p.a. aop | 65 | 71 | 67 | 55 | 51 | 47 | 41 | -- | 34 | 33 | -- |
| Exchange rate (official) | USD aop | 1525 | 1652 | 1753 | 1837 | 1893 | 1960 | 2031 | 2082 | 2065 | 2082 | 2100 |
| Exchange rate (official) | EUR aop | 1367 | 1448 | 1613 | 1808 | 1891 | 2105 | 2311 | 2342 | 2350 | 2323 | 2353 |

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

* Nominal rate of commercial banks for new loans for legal entities in national currency (source: NBB).

| 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 | 14.3 |
| 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 | -445 | -352 |
| Current account | % GDP | -3.6 | -6.8 | -10.9 | -3.1 | -3.6 | -3.7 | -2.5 |
| 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 |
| Total 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 |

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

* On January 1, 2002 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.

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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