

## Belarusian Monthly Economic Review

- PACE reiterated that it seems not yet appropriate to readmit Belarus to special guest status.
- Exports and household consumption contributed most to GDP growth.
- Belarus offered to Russia Deloitte & Touche as an independent appraiser of the Beltransgaz assets.
- The trade surplus with non-CIS countries decreased by 11.2%.
- The consolidated revenues reached 107.2% of the plan.
- The NBB reduced the reserve requirements for household ruble deposits to 8%.

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### Politics: PACE reiterated that it seems not yet appropriate to readmit Belarus to special guest status

The observation of human rights and the independence of the mass media in Belarus are still matters of concern for international organizations. In April the UN commission for Human Rights and the Parliamentary Assembly of the Council of Europe (PACE) passed resolutions urging the Belarusian authorities to suspend from office any official who might have been involved in the disappearance of certain well-known politicians in Belarus. These resolutions also urged the authorities to carry out an independent investigation of these crimes. PACE also passed a resolution concerning media independence in Belarus. It recommends amending the national legislation to make it reflect international democratic standards and norms. Before these recommendations are fulfilled PACE does not intend to revoke its 1997 decision to suspend Belarus' special guest status. Hence, Belarusian parliamentarians will not be able to be present at the sessions of this organization even in an informal capacity.

### Real Sector: Export and household consumption became the main factors of GDP growth

In Jan-Mar output grew due to strong external demand and fast economic growth in Russia and countries of Eastern Europe. The machinery and metalwork, chemical, petrochemical, and iron and steel industries grew fastest due to substantial export increases of their production. These sectors contributed most to industrial output increase. Fixed capital investment growth led to output growth in the construction materials sector, but this sector did not contribute much to the industrial output increase.

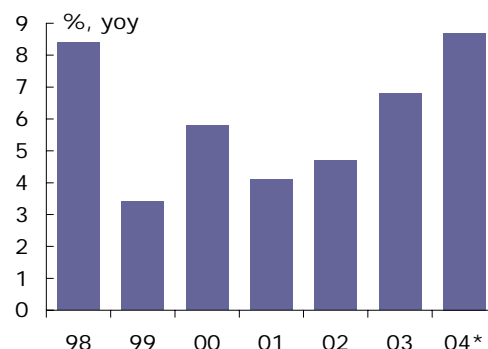
Acceleration of GDP output growth in all major sectors of the economy improved the situation on the labor market. Unemployment increased only in January. In Feb-Mar unemployment dropped by 0.2 percentage points, reaching 3% at the end of March. Real wages increased by 10.3% yoy in Jan-Mar, which contributed to increases in the real money incomes of the population and consequently to higher internal demand. Hence, the main factors of GDP growth from the demand side in Jan-Mar were exports and household consumption.

### Structural Trends: Belarus offered Deloitte & Touche as an independent appraiser of the Beltransgaz assets

Belarus continues to buy gas from independent Russian suppliers. The contracts with them expire in mid-May. The long-term agreement on gas delivery to Belarus was not signed during the meeting of the prime ministers of Belarus and Russia, as the two sides failed to agree on the price for gas and for its transit. At the existing gas transit price of USD 1.02 per 1000 m<sup>3</sup> and 100 km Gazprom would be willing to sell Belarus gas at

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.

USD 54 per 1000 m<sup>3</sup>. In order for the gas price to remain at the present level (USD 46.67) the gas transit price would have to be USD 0.67 per 1000 m<sup>3</sup> and 100 km. Belarus will evidently be able to buy Russian gas at Russian internal prices (5th price zone) only if the joint venture based on Beltransgaz is set up. At present there is little progress in this area. An independent appraisal of the Beltransgaz assets has not yet been made. It is likely that the auditing company Deloitte & Touche will be appointed as an independent appraiser.

**Foreign Trade: The trade surplus with non-CIS countries decreased**

Parallel to the high external demand that led to export increases, foreign trade also saw an increase of internal demand, which in turn led to increased import growth. As a result, the merchandise trade balance turned negative (USD - 43.6 m) in Jan-Feb, although the export growth rate still outstripped the import growth rate. Exports to Russia grew fastest due to export increases in volume terms, but were accompanied by deteriorating price terms of trade (the growth rate of import prices was higher than growth rate of export prices by 3.6 percentage points).

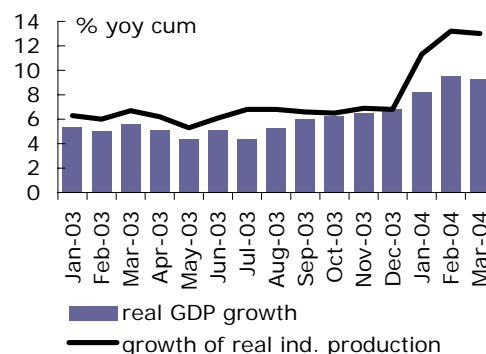
Belarus' increase of oil and oil products export duties within the framework of tariff unification between Russia and Belarus was one of the reasons for the slower growth rate of oil and oil products export to non-CIS countries. At the same time, an increase of domestic demand led to import increases from these countries. As a result, the import growth rate from non-CIS countries exceeded the export growth rate to these countries, and the positive trade balance with them decreased by 11.2%.

Increased merchandise trade in volume terms led to increases of both exports and imports of services, primarily transportation, therefore the services trade surplus remained on the level of the previous year. It exceeded the merchandise trade deficit twofold. The merchandise and services trade surpluses made it possible to pay off the liabilities in the financial account of the balance of payments and to increase the reserve assets by USD 14.8 m. Still, the reserve assets level remains rather low (less than one month of imports). The stability of the currency market is assured by the growth of hard currency revenues, which met the demand for hard currency by non-residents.

**Public Finance: The consolidated revenues reached 107.2% of the plan**

The GDP growth acceleration and the improvement of the financial status of enterprises led to further public finance improvements. The growths of the VAT and profit tax revenues were the reasons for the increases in the consolidated revenues. In Jan-Mar the revenues amounted to 36.9% of GDP (excluding revenues of the Social Security Fund). This is 2.8 percentage points higher than in Jan-Mar 2003. As a result, the revenues reached 107.2% of the amount predicted in the general budget. At the same time decreases of the volumes of oil processed and of gasoline, diesel fuel and alcoholic beverages sold, led to lower than expected excise tax revenues. The consolidated expenditures (excluding expenditures of the Social Security Fund) amounted to 33.3% of GDP. Financing of the major expenditure items (social sector, national defence, housing and utilities) remained on the level of the previous year. An increase in the direct state financing of the agricultural sector in Jan-Mar led to increased financing of the real sector of the economy from 1.8% to 2.7% of GDP. An increase of the consolidated expenditures in March caused some reduction of the fiscal surplus, which amounted to 3.5% of GDP (including the Social Security Fund).

**GDP and Industrial Production**



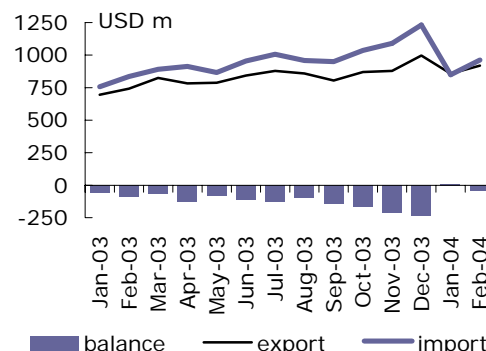
Source: Ministry of Statistics and Analysis.

**Contribution of the Selected Industries to Industrial Output increase\***

| Industry   | Contribution, % |
|--|-----------------|
| Machine building and metal works                 | 24.3            |
| Chemical and petrochemical industry              | 13.6            |
| Food processing industry                         | 12.6            |
| Iron and steel industry                          | 12.4            |
| Fuel processing industry                         | 8.7             |
| Power industry                                   | 7.9             |
| Wood, wood-processing, pulp and paper industries | 4.6             |
| Light industry                                   | 4.3             |
| Construction materials industry                  | 2.6             |
| Other industries                                 | 8.9             |
| <b>Total industry</b>                            | <b>100.0</b>    |

\* Contribution to the increment for Jan-Mar 04 (yoy). Source: own calculations based on the Ministry of Statistics and Analysis data.

**Merchandise Trade**



Source: Ministry of Statistics and Analysis.

**Balance of Payments**

| Balance of items:       | USD m      |            |        |
|-------------------------|------------|------------|--------|
|                         | Jan-Feb 03 | Jan-Feb 04 | Change |
| Current account         | -22.2      | 92.8       | 115.0  |
| Capital account         | 8.5        | 11.5       | 3.0    |
| Financial account       | -84.0      | -205.2     | -121.2 |
| Direct investment       | 35.4       | 36.3       | 0.9    |
| Portfolio investment    | -0.7       | 5.4        | 6.1    |
| Other investment        | -118.7     | -246.9     | -128.2 |
| Reserve assets (change) | 78.1       | -14.8      | -92.9  |
| Errors and omissions    | 19.6       | 115.7      | 96.1   |

Source: NBB; 2004 – preliminary data.

The indicators of the central budget for 2004 were again revised in April. According to a presidential edict capital investment expenditures and the limit of the fiscal deficit were increased by BYR 10 bn (due to increases in government deposits). As a result, the limit of the fiscal deficit increased to BYR 832.2 bn (1.8% of GDP) Thus, one can expect increased state expenditures during the second half of this year.

**Monetary Policy: A further increase of excessive banking liquidity**

The growth of the money supply in March was due to the NBB's purchase of foreign currency. The net foreign assets (NFA) of the monetary authorities grew by 6.2% mom in March. The contribution of the NFA increase in the money supply was 98.3% during Jan-Mar. Higher business activity led to increases of bank credits to the economic entities. In March, the banks' claims on the economy grew by BYR 264.7 bn (4.1% mom). However, the situation with excessive banking liquidity remains problematic. Banks deposits in the NBB grew by 62.1% mom and their cash increased by 9.5% mom. To reduce excessive liquidity banks practically cannot use crediting of the government, as in the situation of the fiscal surplus the supply of government securities was quite limited and short and long-term government bonds interest rates got lower, while increasing the term of their circulation.

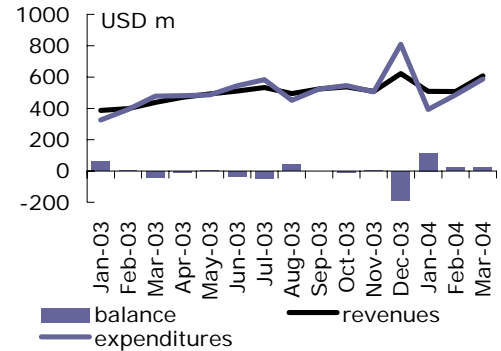
The improvement of the foreign trade situation led to a larger supply of foreign currency by residents on the internal market. This supply was enough to meet the demand of non-residents. It also led to keeping stability in the currency market and strengthening of the real effective rate of the Belarusian ruble. Along with output growth and an increase of real incomes, this led to maintaining the high demand for deposits in national currency by both economic entities and the population. In March transferable deposits of economic entities grew by 22% mom, while household time deposits increased by 8.2% mom. The increased demand for ruble deposits was accompanied by a lower demand for cash (cash in circulation decreased in March by 4.4%) and by slower growth of the currency component of broad money (it grew by 3% in March). As a result, the contribution of the ruble money supply increase to the broad money increment was 69.5%. Consumer prices grew by 1.5% (22.3% yoy) in March. In April the US dollar appreciated by 0.14% vis-à-vis the Belarusian ruble to reach 2153 BYR/USD.

**Banking Sector: The NBB reduced the reserve requirements for ruble household deposits**

Since April 1, the NBB reduced the reserve requirements on household deposits in national currency from 10% to 8%. As this measure decreases the cost of servicing household deposits compared to deposits of legal entities, it is aimed at further increasing the volume of household deposits in the banking system. But since lower reserve requirements contribute to higher liquidity, this reduction is a questionable step given the current situation.

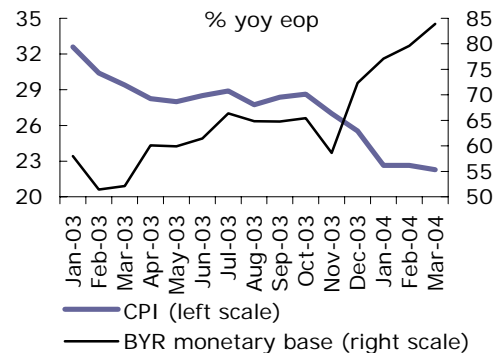
On April 9, the Chamber of Representatives passed amendments to the Banking Code in first reading. This draft law defines the procedures required for bank registration, eliminates the multiplicity of licenses to carry out different kinds of activities, and reduces the number of economic requirements demanded of banks from 13 to 8. It intends to amend the procedure of entering into credit agreements, the provision on bank guarantees, the practice of allowances and encashment. In general, it is aimed at liberalization of the banking sector, and should lead to increased opportunities for banks and make them more independent in their activities.

**Consolidated Budget\***



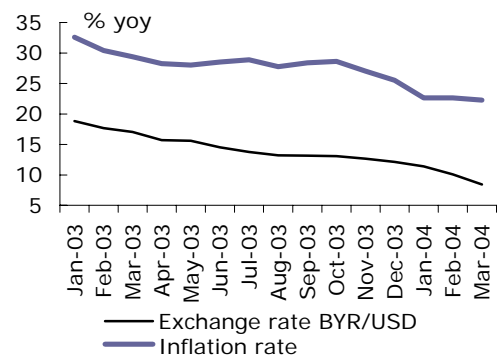
\* Without Social Security Fund.  
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

**Ruble Monetary Base and CPI**



Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

**Inflation and Exchange Rate Dynamics**



Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

| Economic Trends                      |            | Q1 02 | Q2 02 | Q3 02 | Q4 02 | Q1 03 | Q2 03 | Q3 03 | Q4 03 | Jan 04 | Feb 04 | Mar 04 |
|--------------------------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| 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   | 8.2    | 9.5    | 9.3    |
| Industrial production                | % yoy cum. | 2.3   | 4.0   | 3.9   | 4.5   | 7.0   | 6.3   | 6.5   | 6.8   | 11.3   | 13.2   | 13.0   |
| Agricultural production              | % yoy cum. | 1.8   | 3.2   | 2.8   | 0.7   | 1.2   | -1.5  | 3.8   | 6.8   | 4.5    | 4.5    | 4.3    |
| CPI                                  | % yoy eop  | 46    | 44    | 42    | 35    | 29    | 29    | 28    | 25    | 23     | 23     | 22     |
| PPI                                  | % yoy eop  | 39    | 38    | 44    | 42    | 43    | 42    | 36    | 29    | 30     | 27     | 27     |
| Merchandise export (USD)*            | % yoy      | -7.0  | 8.4   | 10.2  | 24.1  | 39.2  | 20.0  | 22.2  | 25.3  | 24.1   | 23.9   | --     |
| Merchandise import (USD)*            | % yoy      | -0.2  | 2.9   | 12.9  | 19.4  | 39.0  | 29.8  | 21.4  | 21.5  | 12.6   | 16.0   | --     |
| Merchandise trade balance (NBB data) | USD m cum. | -127  | -179  | -441  | -914  | -165  | -398  | -695  | -1234 | 17     | -24    | --     |
| Current account                      | USD m cum. | 52    | 137   | -23   | -337  | -32   | -44   | -174  | -505  | 73     | 92.8   | --     |
| Current account                      | % GDP cum  | 1.8   | 2.1   | -0.2  | -2.3  | -0.9  | -0.6  | -1.4  | -2.9  | 5.2    | 3.3    | --     |
| International reserves               | USD bn eop | 275   | 257   | 251   | 457   | 463   | 526   | 459   | 474   | 494    | 510    | 617    |
| Monetary Base                        | % yoy eop  | 88    | 58    | 55    | 40    | 52    | 61    | 65    | 72    | 77     | 80     | 84     |
| Lending rate**                       | % p.a. aop | 71    | 67    | 55    | 51    | 47    | 41    | 33    | 31    | 30     | 29     | --     |
| Exchange rate (official)             | USD aop    | 1652  | 1753  | 1837  | 1893  | 1960  | 2031  | 2082  | 2135  | 2159   | 2156   | 2152   |
| Exchange rate (official)             | EUR aop    | 1448  | 1613  | 1808  | 1891  | 2105  | 2311  | 2342  | 2541  | 2727   | 2720   | 2639   |

\* 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.

| Key Economic Indicators   |           | 1997  | 1998  | 1999  | 2000  | 2001   | 2002   | 2003   |
|---------------------------|-----------|-------|-------|-------|-------|--------|--------|--------|
| 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     | 19     |
| 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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