

## Belarusian Monthly Economic Review

- The share of loss making enterprises dropped by 7.9 percentage points.
- Belarus is planning to recommence electric energy imports.
- In Jan-Mar the reserve assets grew by USD 103.7 m.
- All state enterprises were given VAT and profits tax payment targets to meet.
- Reducing the reserve requirements on household deposits led to increased credits to the economy.

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### Politics: New government appointments

On May 25, President Lukashenko appointed several senior government officials (deputy prime-minister, minister of agriculture, minister of taxes and fees, etc.) and chairmen of concerns and big enterprises. Most of these vacancies had remained open after earlier resignations of the former heads of these structures.

A meeting of the presidents of Belarus, Ukraine, Russia and Kazakhstan within the framework of the Common Economic Area (CEA) was held in Yalta on May 23 and 24. The first set of CEA documents are hoped to be signed in 2005 or early 2006. At this stage, a list of priority draft agreements (more than 60 documents), which should be agreed on during this year, was considered. However, nobody has as yet taken any concrete steps to pursue a common economic policy and to set up a customs union. Also, Russia has recently reached an agreement with the EU on the issue of Russia's WTO accession. Thus, Russia's joining of the WTO has become more probable, which would likely change the configuration of agreements within the CEA considerably.

### Real Sector: The share of loss making enterprises dropped by 7.9 percentage points

According to official statistics, GDP grew by 9.6% yoy in Jan-Apr. The following factors contributed to increase aggregate demand. Real income growth led to a rise of household consumption. Increased business activity along with more accessible credit led to increased investment demand. The government maintained its expansionary policy, which led to increased government consumption. On the supply side, industry contributed most to GDP growth (2.7 percentage points). Trade and catering (1.2 percentage points), and transport and communication (1 percentage point) were two other important contributors.

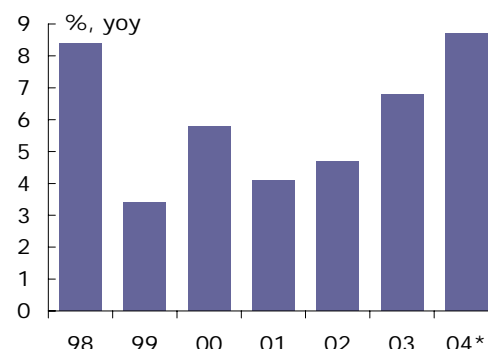
The accelerated economic growth was accompanied by a considerable improvement in the financial status of enterprises. In Jan-Mar, their revenues grew by 13.5% yoy in real terms; costs rose by 10.8% yoy. As a result, profitability increased and the share of loss making enterprises dropped. Agriculture experienced the biggest reduction in loss making enterprises (by 20.5 percentage points). This is evidently due to increased state support for this sector.

### Structural Trends: Belarus is planning to recommence electric energy imports

Since February, Belarus stopped importing electric energy. Its domestic production increased by 16% yoy in Jan-Apr. As Belarus generates electric energy using thermal stations, importing electric energy during the summer could be a more economic option. At present, Belarus is negotiating delivery terms for Russian electric energy with "UES of Russia". Russia wants

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.

to sell power at USD 21.6 per 1000 kWh, compared to the USD 16.8 for which it was sold in 2003.

The state increased its share in the authorized capital of the biggest Belarusian mobile phone operator JV Mobile Digital Communications Ltd. (MDC). According to a resolution of the Council of Ministers, the two cofounders of this company, the Cyprian company "SB Telecom" and the Belarusian company "Beltekhexport" made a commitment to transfer their shares (of 20.9% and 10% respectively) of the authorized capital of MDC at no cost to Beltelekom (the biggest state monopoly in communications). The nominal value of these shares is USD 2.09 m and USD 1 m. However, taking the high profitability of MDC into account, the market price of these shares is much higher. After the deal will have gone through, SB Telecom will own 28.1% of MDC, and Beltekhexport 10%. Evidently, this decision will hardly improve the Belarusian investment climate.

**External Trade: The reserve assets grew by USD 103.7 m**

According to preliminary NBB data, merchandize exports grew by 25.2% yoy in Jan-Mar, and imports by 20.5% yoy. As a result, the merchandize trade deficit decreased by USD 73.9 m compared to the same period of 2003, now amounting to USD 90.6 m. Means of transport, ferrous metals and textiles contributed most to improving the trade balance. The services trade surplus grew by USD 23.4 m due to a decrease in the deficit of the item "trips".

The improvements in the merchandize and service trade situations led to improved current accounts balance, amounting to USD 76.7 m in Jan-Mar. An outflow of resources in the amount of USD 76.7 m appeared on capital and financial account. However, the reserve assets grew by more than USD 100 m in Jan-Mar, due to considerable inflows of resources that were not registered by statistics. Net foreign direct investment amounted to USD 18.7 m, which is half of the amount for Jan-Mar 2003. Given the unfavorable investment climate and the absence of privatization, an increase of foreign investment inflow can be only expected if an agreement is reached with Russia on selling Beltransgaz or other large enterprises.

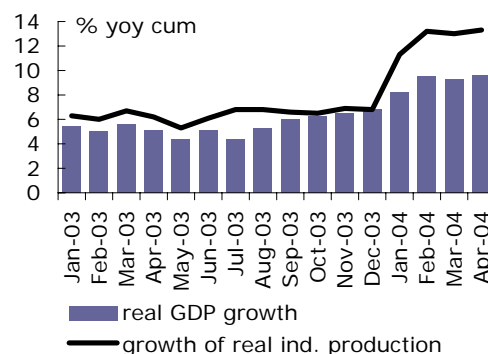
**Public Finance: State enterprise were given VAT and profit tax target volumes to meet**

The consolidated revenues continued to increase in Jan-Apr. The public revenue target was exceeded by 8.9%. As a result, the tax burden (without the Social Security Fund) increased by 1.2 percentage points in April, amounting to 38.1% of GDP. More revenues were collected through VAT and the profits tax, caused by GDP growth acceleration and the improvement in the financial status of enterprises. Profit tax revenues grew most: by 1.3 percentage points compared to Jan-Apr 2003 (up to 4% of GDP). At the same time, budget arrears grew by 0.3 percentage points, amounting to 2.4% of GDP.

In order to improve budgetary discipline, the government stipulated target indicators for 2004 in terms of VAT and profits tax payments for enterprises that are subordinated to government bodies. For the year 2004, sectoral concerns and ministries were mandated to ensure a VAT collection in the amount of BYR 1214.3 bn (36% of the total amount of revenues from this tax envisaged for 2004) and a profits tax collection in the amount of BYR 668.8 (57.2%). The heads of the government bodies involved will bear personal responsibility for meeting these targets. However, without financial enterprise restructuring these measures will only have a short-term effect.

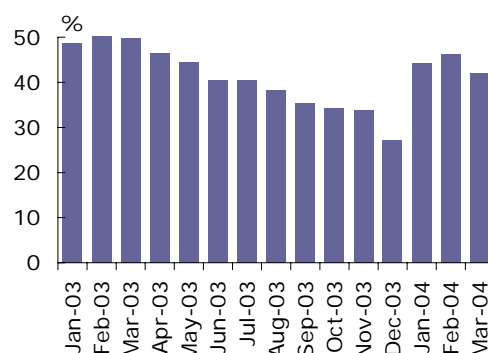
Consolidated expenditures (without the Social Security Fund) amounted to 35.2% of GDP. In April they increased by 1.9

**GDP and Industrial Production**



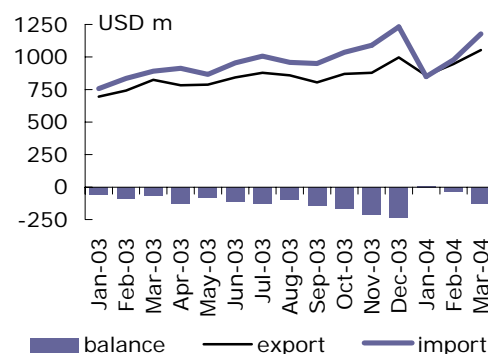
Source: Ministry of Statistics and Analysis.

**Share of Loss Making Enterprises**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade**



Source: Ministry of Statistics and Analysis.

**Balance of Payments**

Balance of items:	USD m		
	Jan-Mar 03	Jan-Mar 04	Change
Current account	-32.4	76.7	109.1
Capital account	17.4	14.5	-2.9
Financial account	26.6	-89.5	-116.1
Direct investment	41.8	18.7	-23.1
Portfolio investment	1.8	9.2	7.4
Other investment	-17.0	-117.4	-100.4
Reserve assets (change)	-18.1	-121.8	-103.7
Errors and omissions	6.5	120.1	113.6

Source: NBB; 2004 – preliminary data.

percentage points. The growth rate of expenditures being higher than that of revenues led to a fiscal deficit of BYR 46.5 bn in April. This fiscal deficit was financed by selling government securities with net sales amounting to BYR 167.9 bn in April.

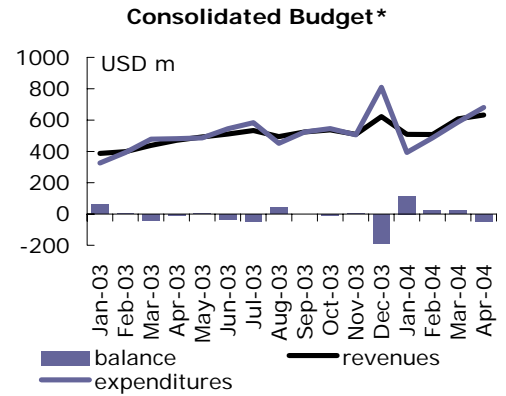
**Monetary Policy: More credits to the economy due to lower reserve requirements**

Lowering the reserve requirements on household deposits together with keeping excessive liquidity in the banking system led to a further lowering of credit interest rates. As a result, credits to the economy grew by 4.5% (or BYR 298.5 bn) in April. Additionally, banks credited government by purchasing government bonds. The volume of this form of financing grew by BYR 152.6. However, even this level of active bank operations did not solve the problem of excessive liquidity. Banks' deposits in the NBB decreased by just BYR 32.5 bn, amounting to BYR 302.5 bn. More credits to the government and to the economy, and lowering of the reserve requirements led to decreased obligatory and excessive reserves of commercial banks. At the same time, cash in circulation increased by 12.4% in April. As a result, the reserve money increased slightly (by 0.9%) in April.

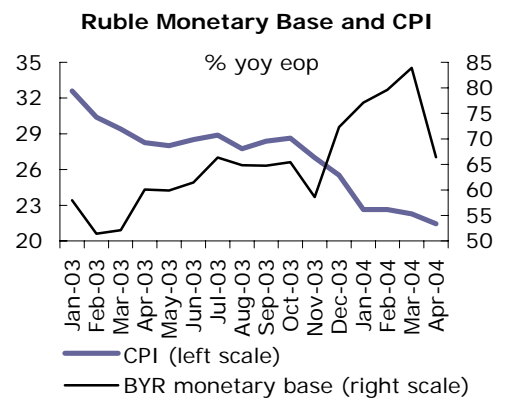
The decreased inflation rate (in April consumer prices grew by 1.3%, which is 0.7 percentage points lower than in April 2003) led to an increase in the real interest rate for household deposits in Belarusian rubles. Alongside with the exchange rate stability (as of June 1 the exchange rate was 2151 BYR/USD), this led to a higher demand by households for time ruble deposits, which grew by 5.3% in April. As a result, the ruble money base increased by 6.9% mom.

**Banking Sector: The circulation of bills is expected to be tightened**

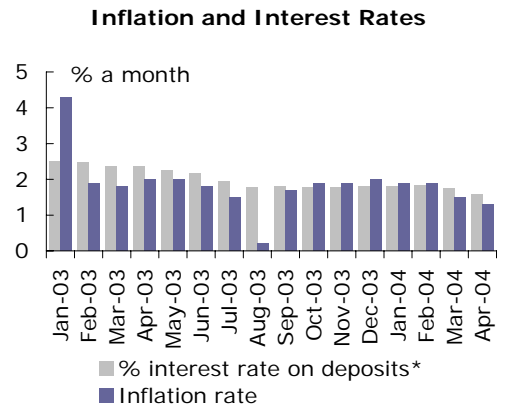
The Council of Ministers approved a document that introduces considerable restrictions on the circulation of bills in Belarus. It was sent to the president for his endorsement. The document was drafted due to recent considerable growth of bill circulation. This growth is the result of a lack of turnover capital. The government believes that this form of payment lowers the transparency of payments among enterprises and creates opportunities for tax evasion. Additionally, the following new restrictions will be introduced. A bill holder will have the right just to present the bill to a bank for it discounting, but it cannot be used as a means of payment. Banks can make commitments based on the bill only if they endorse or avail it. They will not have the right to issue their own bills. As the financial potential of enterprises is quite limited, they will have to look for alternate resources. This will increase the demand for loans, but due to excessive liquidity their prices are not likely to change.



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



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



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

<b>Economic Trends</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>Q1 04</b>	<b>Feb 04</b>	<b>Mar 04</b>	<b>Apr 04</b>
GDP growth	% yoy	5.7	4.6	5.5	5.6	4.7	7.2	8.8	9.3	--	--	--
GDP growth	% yoy cum.	4.9	4.8	5.0	5.6	5.1	6.0	6.8	9.3	9.5	9.3	9.6
Industrial production	% yoy cum.	4.0	3.9	4.5	7.0	6.3	6.5	6.8	13.0	13.2	13.0	13.3
Agricultural production	% yoy cum.	3.2	2.8	0.7	1.2	-1.5	3.8	6.8	4.3	4.5	4.3	5.5
CPI	% yoy eop	44	42	35	29	29	28	25	22	23	22	21
PPI	% yoy eop	38	44	42	43	42	36	29	27	27	27	27
Merchandise export (USD)*	% yoy	8.4	10.2	24.1	39.2	20.0	22.2	25.3	25.2	22.5	30.0	--
Merchandise import (USD)*	% yoy	2.9	12.9	19.4	39.0	29.8	21.4	21.5	20.5	19.0	30.1	--
Merchandise trade balance (NBB data)	USD m cum.	-179	-441	-914	-165	-398	-695	-1234	-91	-24	-91	--
Current account	USD m cum.	137	-23	-337	-32	-44	-174	-505	77	93	77	--
Current account	% GDP cum	2.1	-0.2	-2.3	-0.7	-0.6	-1.4	-2.9	1.3	3.3	1.3	--
International reserves	USD bn eop	257	251	457	463	526	459	474	617	510	617	511
Monetary Base	% yoy eop	58	55	40	52	61	65	72	84	80	84	66
Lending rate**	% p.a. aop	67	55	51	47	41	33	31	29	29	28	26
Exchange rate (official)	USD aop	1753	1837	1893	1960	2031	2082	2135	2156	2156	2152	2152
Exchange rate (official)	EUR aop	1613	1808	1891	2105	2311	2342	2541	2695	2720	2639	2586

\* 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	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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