

Belarusian Monthly Economic Review

- President Lukashenko doesn't rule out the possibility of another presidential run.
- Output growth deceleration in a number of sectors of the economy.
- Government keeps on pursuing the policy of competition restriction.
- In response to merchandise trade deficit some protectionist measures were introduced.
- The Ministry of Finance expects a decrease in the fiscal deficit.
- Commercial banks have cut excessive reserves in the NBB.

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Politics: President Lukashenko doesn't rule out possibility of another presidential run

President Lukashenko doesn't rule out the possibility of his participation in the presidential elections in 2006. He announced it during the press conference on July 20 (on the threshold of the 10th anniversary of his first election as a president). Moreover, he made several statements related to the forthcoming parliamentary elections to be held on October 17, 2004 having noted that he is interested in re-election of 30-40% of the present MPs to secure power succession, and promised to monitor the process to make his wishes fulfilled. Evidently, it means that problems of previous parliamentary elections will be preserved during elections 2004.

Real sector: Output growth deceleration in a number of sectors of the economy

According to the official statistics, in Jan-Jun GDP has increased by 10.3% yoy, including 11.1% yoy of growth in the second quarter. The main aggregate demand components were household consumption and fixed capital investments (about 6 and 3.5 percentage points of second-quarter GDP increase respectively). At the supply side, industry and services made the largest contribution to GDP growth (3.7 and 2.2 percentage points respectively).

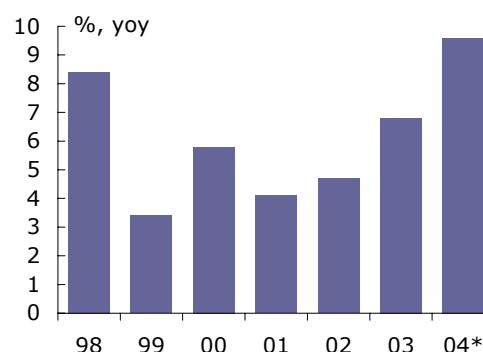
Industrial output in Jan-Jun has increased by 14.4%. Machine-building, metalworking, and food industry have contributed the most owing to their products export growth. However, acceleration of output growth in industry has ceased, while in trade, transport and construction the growth rates have slightly fallen compared to Jan-May. In the second half of the year output growth is likely to slow down. Additionally, as high investment demand in Jan-June has lead to increase of capital goods prices, one can expect some fall in investment growth rate. Nevertheless, as domestic and external demand keeps growing, the potential for output growth will remain.

Structural trends: Government keeps on pursuing the policy of competition restriction

Industrial policy. According to government's regulation, solvent poultry factories will be granted privileged loans for the term of five years for their technical re-equipment in 2004-2005. Moreover, the government has approved the list containing 8 enterprises (including 4 joint stock companies) that will have part of the loan interest (3/4 of refinancing rate) compensated from budget funds when implementing investment projects. The joint stock companies will have to transfer to the government part of their shares equal to the amount of the rendered aid. Such policy creates unequal business conditions and results in resource redistribution to inefficient branches.

Population: 9.8 m
Industry/GDP: 25.5%
Agriculture/GDP: 6.1%
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.

Privatization. The Supreme Economic Court of Belarus declared invalid registration of Belmedpreparaty JSC as a joint stock company and restituted its status of a state-owned unitary enterprise. The court argued this decision with the fact that in 1996 privatization of Belmedpreparaty was carried out illegally as the enterprise produces medicines for agriculture and should be included into the list of companies not subject to privatization. The company has been nationalized despite a very insignificant share of medicines produced for agriculture in its production structure. Re-registration and re-certification of the enterprise will cost the company about USD 2 m. It is evident that similar practice will negatively influence the investment climate of Belarus.

Foreign trade: In response to merchandise trade deficit some protectionist measures undertaken

Since April import growth rate has been exceeding growth rate of export. As a result, merchandise trade deficit in Jan-May has surpassed the last-year figure by USD 15 m. The largest contribution to the import growth has been made by Russia – as a consequence of world oil prices rise, import of mineral products from Russia has significantly increased in value terms. The same factor has led to an increase in export to the non-CIS countries. The biggest positive balance increase was registered under item “transport means” (USD 133.5 m), the largest deficit increment – in machinery and equipment trade (USD 121.6 m).

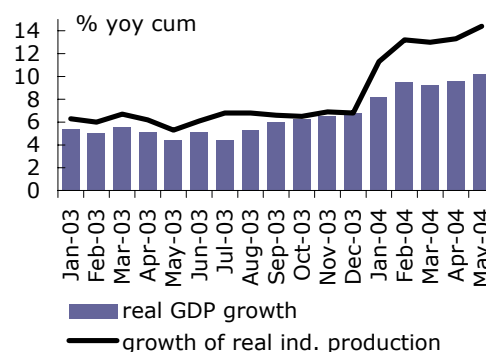
Reacting to the increase of merchandise trade deficit the government has undertaken a number of protectionist measures aimed at lowering import costs and supporting domestic exporters. First, the list of goods subject to tender procedure when purchased abroad has been extended. Secondly, zero customs duty rates have been temporarily introduced for some types of chemical raw materials. However, although this measure will allow to cut down prime costs for such products, it will not improve their competitiveness, since it creates no incentives for enterprises to lower costs. Thirdly, the Ministry of Foreign Affairs proposed to restore state financing of the Fund for Exporters Support having included it as a budget item at the amount of BYR 15 bn. Nevertheless, this amount of funding will obviously be insufficient for considerable technical re-equipment at least at several companies-exporters.

On July 20 in response to a considerable increase in confectionery import from Russia Ministry of Foreign Affairs announced a launch of anti-dumping investigation, which may precede the introduction of special protective measures towards confectionery import to Belarus. Should confectionery be inscribed into the list of “protected” goods (the list already includes beer, soap, sugar, etc.) it will lead to rise in prices for both imported and domestic products and consequently will negatively impact the consumers.

Public finance: The Ministry of Finance expects budget deficit decrease

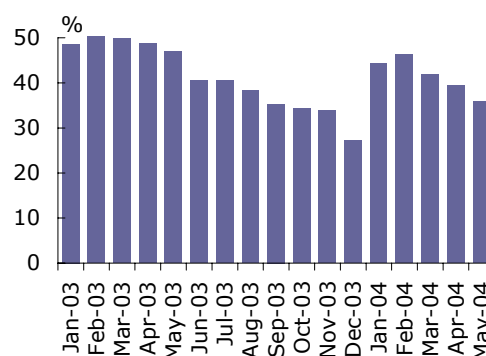
High GDP growth rate and improved financial situation of enterprises have preconditioned budget revenues increase. In Jan-Jun consolidated revenues were executed by 107.3% of the plan for this period. Targets for all major sources of tax revenues were fulfilled. Revenues plan over-fulfillment allowed the government to slightly increase expenses (primarily for funding of social sphere and capital investments). As a result, in June the fiscal deficit amounted to BYR 9.7 bn, which led to fiscal surplus decrease in Jan-June down to BYR 298.2 bn (1.4% of GDP). According to the Ministry of Finance estimates, a favorable situation with budget execution will allow cutting the deficit in 2004 from planned 1.8% down to 1.1% of GDP.

GDP and Industrial Production



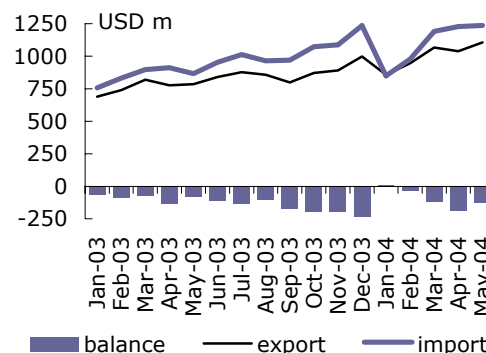
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade Dynamics



Source: Ministry of Statistics and Analysis.

Merchandise trade

USD m	Jan-May 2003	Jan-May 2004	Growth rate, %
Export	3811.1	5016.5	31.6
to Russia	1722.2	2360.2	37.1
to non-CIS	1897.9	2373.7	25.1
Импорт	4262.6	5483.0	28.6
from Russia	2883.7	3717.8	28.9
from non-CIS	1223.3	1534.4	25.4
Сальдо	-451.5	-466.5	-3.3
with Russia	-1161.6	-1357.5	-16.9
with non-CIS	674.6	839.3	24.4

Source: Ministry of Statistics and Analysis.

During the Presidium sitting the Council of Ministers considered draft budget law for 2005. It is envisaged that central government revenues will increase in nominal terms by 27.4% compared to the expected performance in 2004; expenditures will grow by 28.9%. It is also planned to lower emergency tax rate from 4 to 3% and aggregate tax rate for taxes from revenues 4.15 to 2.75%, and to abolish privileges in income tax for newly established companies with foreign investments. At the same time central government tax revenues should grow by 20%. Also, consolidated budget should include non-budget innovation funds. All these provisions would increase fiscal transparency and decrease tax burden. Fiscal deficit is expected to be BYR 885 bn (1.5% of GDP).

Monetary policy: Commercial banks cutting excessive reserves

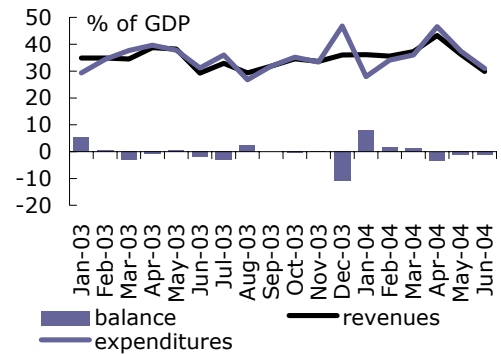
Import growth acceleration resulted in some increase in foreign currency demand, which forced the NBB to sell part of its foreign assets – in June they went short by BYR 11.9 bn. Thus, the NBB was deprived of this emission channel for money supply increase. Moreover, during June government deposits in the NBB have grown by BYR 143.6 bn. Hence, money supply decrease led to liquidity shortage for several banks. Therefore, in June the NBB extended banking system crediting and lowered interest rates for main refinancing operations by 2 percentage points. As a result of such activities money supply reduced by 5.1% mom with increasing by 37.3% yoy in Jan-Jun. As a consequence of money supply decrease commercial banks have significantly cut excessive reserves in the NBB (by BYR 216.2 bn). These funds were allocated primarily for granting loans highly demanded by enterprises under an increased demand for their products and interest rate lowering. In June loans to the economy grew by BYR 411.2 bn (5.6%). Interest rates on deposits have come down in proportion to credit interest rates. Therefore a significant increase of money supply by the banking system has exceeded the demand on time deposits by enterprises and households. This led to growth acceleration of the most liquid components of broad money supply (both in national and foreign currencies). Cash in circulation has increased by 10.2% mom, transferable deposits – by 4.9% mom, while the broad money supply increased by 5% in June.

Consumer prices increased by 1% in June. This was caused by monetary policy easing in the beginning of the year. However, under money demand increase consumer prices grew by 8.1% eop in the Jan-Jun, which is by 4.3 percentage points lower than in Jan-Jun of 2003. US dollar exchange rate stay practically unchanged in July and as of August 1 it made up 2157 BYR/USD.

Banking sector: NBB simplified crediting procedure

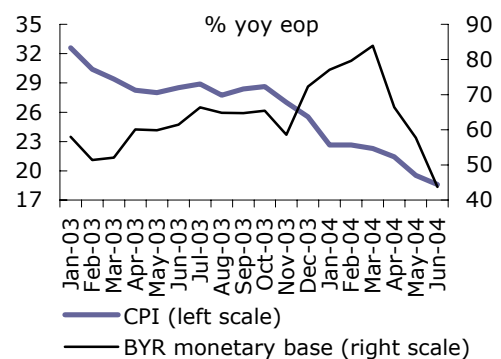
Starting from July 1 a new instruction regulating loan granting by commercial banks came into force. The document cancels an obligation for banks to monitor credit resources targeted usage. Moreover, it sets the common rules for granting loans both in national and foreign currencies, as well as allows loans in a cash form. Earlier foreign currency loans could have been allocated only in a non-cash form, while the amount of Belarusian ruble loans in cash was limited down to 50 base units. New rules should simplify loan issuing procedure and make credit resources more accessible. Also they should facilitate crediting of small business entities and stimulate micro-crediting development. At the same time, the new rules stipulate an opportunity for companies with overdue liabilities to get a loan. This measure may be used by state bodies upon necessity to credit agricultural and other low-profit sectors.

Consolidated Budget*



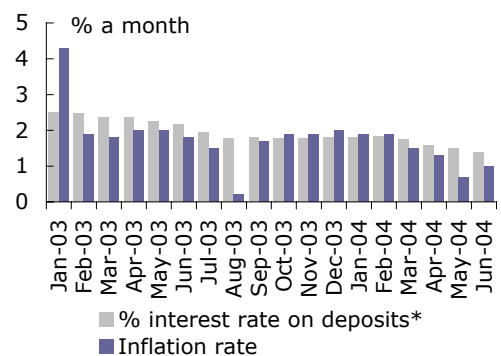
* Without Social Security Fund.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

Ruble Monetary Base and CPI



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

Inflation and Interest Rates



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

Economic Trends		Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Apr 04	May 04	Jun 04
GDP growth	% yoy	4.6	5.5	5.6	4.7	7.2	8.8	9.3	11.1	--	--	--
GDP growth	% yoy cum.	4.8	5.0	5.6	5.1	6.0	6.8	9.3	10.3	9.6	10.2	10.3
Industrial production	% yoy cum.	3.9	4.5	7.0	6.3	6.5	6.8	13.0	14.4	13.3	14.4	14.4
Agricultural production	% yoy cum.	2.8	0.7	1.2	-1.5	3.8	6.8	4.3	5.7	5.5	5.5	5.7
CPI	% yoy eop	42	35	29	29	28	25	22	19	21	20	19
PPI	% yoy eop	44	42	43	42	36	29	27	28	27	27	28
Merchandise export (USD)*	% yoy	10.2	24.1	39.2	20.0	22.2	25.3	25.2	--	33.8	40.9	--
Merchandise import (USD)*	% yoy	12.9	19.4	39.0	29.8	21.4	21.5	20.5	--	34.6	42.9	--
Merchandise trade balance (NBB data)	USD m cum.	-441	-914	-165	-398	-695	-1234	-91	--	-285	--	--
Current account	USD m cum.	-23	-337	-32	-44	-174	-505	77	--	-24	--	--
Current account	% GDP cum	-0.2	-2.3	-0.7	-0.6	-1.4	-2.9	1.3	--	-0.4	--	--
International reserves	USD bn eop	251	457	463	526	459	474	617	538	511	552	538
Monetary Base	% yoy eop	55	40	52	61	65	72	84	44	66	58	44
Lending rate**	% p.a. aop	55	51	47	41	33	31	29	24	25	24	22
Exchange rate (official)	USD aop	1837	1893	1960	2031	2082	2135	2156	2154	2152	2154	2154
Exchange rate (official)	EUR aop	1808	1891	2105	2311	2342	2541	2695	2596	2586	2586	2617

* 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	7.1
Agricultural production	% yoy	-4.9	-0.7	-8.3	9.3	1.8	0.7	6.6
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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