

Belarusian Monthly Economic Review

- The first package of agreements to shape the Single Economic Space between Belarus, Kazakhstan, Russia and Ukraine is to be passed in the mid-2005.
- Labor productivity growth conduce acceleration of wage growth.
- Belarus renewed electric energy import from Russia.
- In June the merchandise trade deficit grew by USD 263 m.
- In July the government spent more to pay off bonds than it received by selling them.
- Slowing down money supply growth at high demand for loans led to shortage of bank liquidity.

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Politics: The first package of agreements to shape the Single Economic Space is to be passed in the mid-2005

A new date of the introduction of the Russian ruble in Belarus (January 1, 2006) was voiced during the meeting of the presidents of Russia and Belarus, which was held on August 23, in Sochi. However, this is not the final decision on the date. As President Lukashenko stated it can be revised. Besides, the presidents of the countries declared that there are no problems in relations between Russia and Belarus and that the sides had made quite a few successful steps in integration. At the same time the main argument to support the success story of integration is still the growth of trade turnover between the countries. It is obvious that it can be explained rather by economic than political factors.

Creating of the Single Economic Space (SES) is another integration initiative in which Belarus and Russia take part. There is a minor progress in this process. The High Level Group (a working body of the SES) expects signing of the first agreements (to deal with merchandise trade, coordination of WTO accession policies, simplification of rules for physical entities to cross borders inside SES countries) only in the mid-2005.

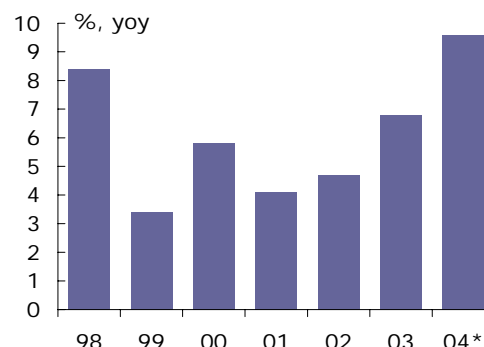
European Bank for Reconstruction and Development (EBRD) adopted its new strategy of cooperation with Belarus. As EBRD "still expresses concern over the political situation in Belarus and slow transition of the country to the market economy" it continues to work according to the "base scenario". It envisages only monitoring of the existing projects and selective participation in programs of private business support. According to EBRD estimates, Belarus is in the last but one place among transitional countries as far as transition progress is concerned. In order for EBRD to increase investment Belarus should accelerate the process of market reforms.

Real sector: Labor productivity growth conduce acceleration of wage growth

In Jan-Jul the GDP growth rate was 10.2% yoy. It decreased by 0.1 percentage point compared to the first half of the year. Evidently, the main reason for this decrease was slowing down of investment growth. In Jan-Jul fixed capital investment went up by 20.3% yoy. It is 1.4 percentage points less than in the first half of the year. However, the increase of other components of domestic demand did not slow down. In real sector of the economy only two sectors showed higher growth rate: in industry it went up from 14.4% yoy in the first half of 2004 to 14.9% yoy in Jan-Jul and in transport from 4.0% yoy to 4.7% yoy. In agriculture and construction the output growth slowed down though its rates remained high. In agriculture lower growth rate is due to shifting the harvesting season compared to 2003.

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.

Situation on the labor market has improved too. In Jan-Jul Employment decreased just by 0.5 yoy, while in Jan-Jul 2003 it has dropped by 3.0% yoy. Supply of labor was still higher than demand for it in the most industries (except for construction, construction materials industry and a few smaller industries). Therefore most of enterprises increased wages at a lower rate than labor productivity grew. Hence, revenues of enterprises increased more than their costs, and their financial status has improved. In Jan-Jun the share of loss making enterprises decreased by 13.8 percentage points compared to Jan-Jun 2003 and amounted to 30.8%.

Structural trends: Belarus renewed import of electric energy from Russia

Infrastructure. After a six-month break Belarus renewed import of electric energy from Russia. According to the contract by the end of the year Russia will sell Belarus 2.5 bn kWh of electric energy at USD 2 per 100 kWh. The price went up by 0.32 USD compared to the previous year, but it turned to be USD 0.15 lower than the first offer of the Russian side. The main reason of renewing import is high production costs of electric energy in Belarus (in the beginning of 2004 they were more than USD 3 per 100 kWh). Thus, import of electric energy allows Belarus to avoid inefficient use of resources in the power sector.

According to the presidential decree starting from August 1, 2004 only state insurance organizations and insurance companies in which the state owns more than 50% of the authorized capital will have the right to provide obligatory insurance of civil responsibility of vehicle owners. Legalized state monopoly on this kind of insurance (one of the most profitable) will lead to further crowding out of private insurance companies, reduce competition and thus worsen consumers' position.

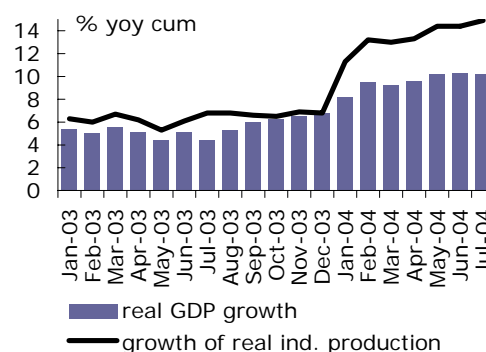
Foreign trade: In June the merchandise trade deficit grew by USD 263 m

According to the data of the Ministry of Statistics and Analysis in June merchandise trade deficit amounted to USD 262.8 m. For the first half of the year it reached USD 756.3 m, which is USD 192.1 m more than in the first half of 2003. Increase of the deficit is due to higher growth rate of import (42.3% yoy) than export (36.7% yoy) in the second quarter. The acceleration of import growth was due to higher consumer demand on import as real income of the population increased. Additionally, real sector increased demand for imported raw materials and other intermediary goods. The main factors for the increase of the trade deficit was stimulation of import of technological equipment and machinery by means of introduction of zero import tariff and increase of world oil prices. The main sources of trade balance financing in the first half of the year were the surplus in services trade (USD 342.3 m), the inflow of current transfers (USD 109.7 m) and foreign direct investment (USD 69 m).

Public finance: In July the government spent more to pay off bonds than it received by selling them

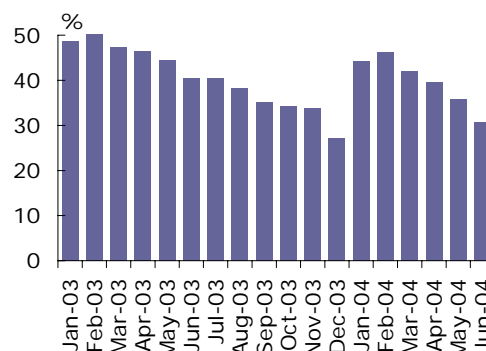
The favorable situation in the economy enabled the government to perform even better than it planned. In Jan-Jul consolidated revenues (without the Social Security Fund) were BYR 8979 bn (35.3% of GDP), or 60.5% of the annual plan. VAT and profit tax contributed most to the revenues – 23.0% and 10.1% of all revenues correspondingly. The Ministry of Finance estimates that the government will receive BYR 550 bn more revenues than planned. The consolidated expenditures (without the Social Security Fund) amounted to BYR 8772.3 bn (34.5% of GDP), or 55.7% of the annual plan. As a result of higher

GDP and Industrial Production



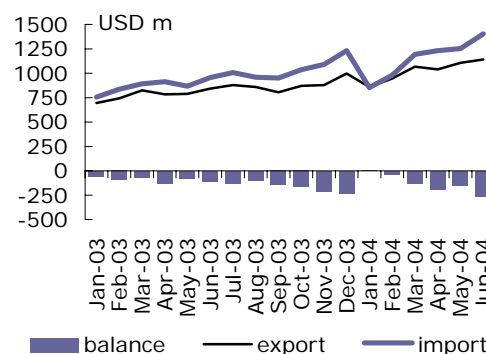
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade Dynamics



Source: Ministry of Statistics and Analysis.

Merchandise Trade in June

USD m	Jan-May 2004	Jun 2004
Export	5016.8	1140.4
including machines and equipment	546.3	134.1
Import	5510.3	1403.2
including machines and equipment	842.9	239.8
Balance	-493.5	-262.8
including machines and equipment	-296.6	-105.7

Source: Ministry of Statistics and Analysis.

growth rate of revenues compared to the growth rate of expenditures in June the general budget (including the Social Security Fund) was executed with the surplus in the amount of BYR 92.3 bn. In Jan-Jul the budget surplus amounted to BYR 390.6 bn (1.5% of GDP).

The considerable part of the July surplus was directed to redeem government bonds, as banks' demand for them was quite low due to shortage of bank liquidity in July. As a result in July the government sold bonds for BYR 21.5 bn and paid off BYR 76.8 bn for the previously issued bonds. The net revenues from bond sale in Jan-Jul amounted to BYR 206.7 bn, which approximately equals the annual plan. Therefore less activity on the primary bond market is not likely to have a negative impact on state expenditures in the near future.

Monetary policy: Shortage of bank liquidity

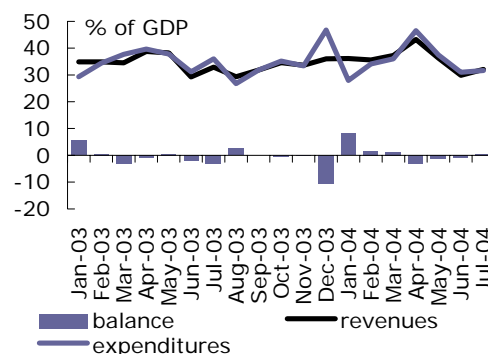
In July money supply growth continued to slow down. High demand for foreign currency on the domestic currency market did not let the NBB use the currency purchase as an emission channel. In July net foreign assets of the NBB grew just by BYR 27.6 bn. Refinancing of banks in the form of non-targeted loans ensured BYR 17.4 bn of money supply increase. Reduction of the government's deposits in the NBB (BYR 50.5 bn) added most to the increase of net domestic credit. As a result the increase of the ruble money supply in July was 41.5% yoy, or 2.3 percentage points lower than in June. This has led to reduction of the share of excessive reserves by 2.5 percentage points, which is an evidence of liquidity shortage in the banking system.

Due to higher demand for loans the banks increased crediting of enterprises. In July loans outstanding increased by BYR 305.4 and by BYR 1625.5 bn (by 26%) since the beginning of the year. Accompanied by slowdown of money supply growth this contributed to liquidity shortage in the banking system too. Liquidity deficit caused higher prices for resources in the inter-bank market. In July the average interest rate increased by 5.6 percentage points. The situation was aggravated by some reduction of transferable deposits of legal entities due to import growth. To prevent outflow of resources banks increased interest rates on time deposits for legal entities by 1.6 percentage points. Interest rates on transferable deposits cut just by 0.4 percentage points. At the same time household time deposit interest rates dropped by 2.2 percentage points which led to slowdown of growth of these deposits and increase of demand for cash. The total increase of ruble money in July was 4%. Some tightening of monetary policy in 2004 led to further reduction of inflation. In July the inflation was 0.9%. In August the Belarusian ruble appreciated by 0.23% against the US dollar. Its exchange rate amounted to 2162 BYR/USD as of September 1.

Banking sector: Adoption of additional norms in the sphere of banking regulation

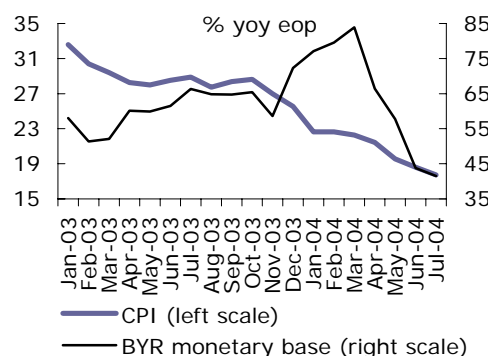
According to the new instruction of the NBB commercial banks and the NBB should constantly give the State Control Committee information on all non-cash payments in Belarusian rubles and in foreign currency free of charge. This measure will increase transparency of the banking system, but it contradicts the principle of the banking secrecy, which is stated in the Banking Code. Another measure that is aimed at increasing transparency of the banking system is adoption of the new procedure and forms of prudential reporting of commercial banks to the NBB. The report should contain information about activities of the bank, its observance of economic norms, how it forms reserves to cover possible asset losses, its financial status and effectiveness of operations.

Consolidated Budget*



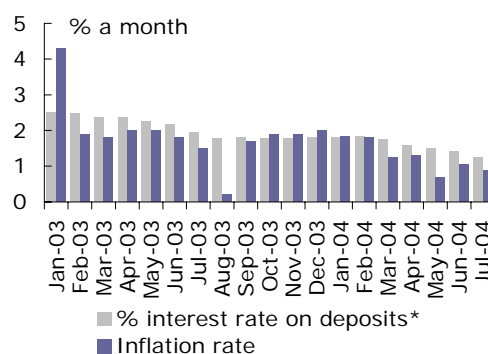
* Without Social Security Fund.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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	May 04	Jun 04	Jul 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	10.2	10.3	10.2
Industrial production	% yoy cum.	3.9	4.5	7.0	6.3	6.5	6.8	13.0	14.4	14.4	14.4	14.9
Agricultural production	% yoy cum.	2.8	0.7	1.2	-1.5	3.8	6.8	4.3	5.7	5.5	5.7	3.4
CPI	% yoy eop	42	35	29	29	28	25	22	18	20	18	18
PPI	% yoy eop	44	42	43	42	36	29	27	27	26	27	26
Merchandise export (USD)*	% yoy	10.2	24.1	39.2	20.0	22.2	25.3	25.2	36.7	40.9	35.6	--
Merchandise import (USD)*	% yoy	12.9	19.4	39.0	29.8	21.4	21.5	20.5	42.3	44.7	47.2	--
Merchandise trade balance (NBB data)	USD m cum.	-441	-914	-165	-398	-695	-1234	-101	-619	-391	-619	--
Current account	USD m cum.	-23	-337	-32	-44	-174	-505	97	-199	--	-199	--
Current account	% GDP cum	-0.2	-2.3	-0.7	-0.6	-1.4	-2.9	1.6	-2.0	--	-2.0	--
International reserves	USD bn eop	251	457	463	526	459	474	617	539	552	539	540
Monetary Base	% yoy eop	55	40	52	61	65	72	84	44	58	44	42
Lending rate**	% p.a. aop	55	51	47	41	33	31	29	24	24	23	22
Exchange rate (official)	USD aop	1837	1893	1960	2031	2082	2135	2156	2155	2154	2154	2157
Exchange rate (official)	EUR aop	1808	1891	2105	2311	2342	2541	2695	2617	2586	2616	2648

* 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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