

Belarusian Monthly Economic Review

- Each Single Economic Space country will determine its own conditions for WTO accession.
- The solvency of agricultural enterprises remains low despite higher profits.
- A gas contract with Russia has been signed.
- The EU increased its textile import quotas for Belarus.
- Belarus and Russia switched to the new regime of VAT payment based on the country of destination.
- Interest rates increased on the credit and deposit markets.
- Belagroprombank increased its statutory fund.

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Politics: Each Single Economic Space country will determine its own conditions for WTO accession

On December 15, at a meeting of the High Level Group for creation of the Single Economic Space (SES) (Belarus, Kazakhstan, Russia and Ukraine) a decision was taken to let each country determine the conditions in the process of negotiations to join the WTO separately. The SES countries are going to coordinate principles of customs policy and to take into account mutual interests while conducting negotiations on joining the WTO.

On December 21, at a session of the Council of Ministers of the Union State, Belarus and Russia established a working group whose mandate is to unify the positions of both countries on the issue of introducing the Russian rouble in Belarus by the middle of February.

Real sector: The solvency of agricultural enterprises remains low despite higher profits

The growth rate in industry, construction and transport declined for Jan–Nov. However due to faster growth in agriculture and trade the GDP growth rate did not decline, amounting to 11.1% yoy for Jan–Nov. The seasonal increases of loss making enterprises and of inventories were not as large as last year. This is evidence that favourable market conditions for enterprises of the real sector are being maintained.

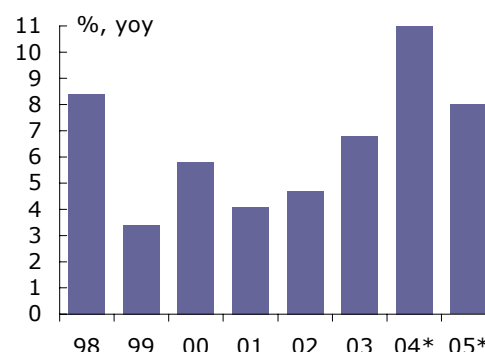
Net profits grew by 68.4% yoy in real terms for Jan–Oct. The profitability of agricultural enterprises increased faster than other sectors of the economy. For Jan–Oct 2003 agriculture had shown a net loss, but for the same period in 2004 it showed a net profit exceeding BYR 360 bn. This is partially due to the lower tax rate applicable to agricultural enterprises. Payments to the state amounted to more than 40% of the gross profits in the economy at large, however for agriculture, it was just 11.9%. In spite of the state support, the liquidity of agricultural enterprises remains quite low. About half of all enterprises in this sector do not have their own turnover capital.

Structural trends: A gas contract with Russia has been signed

Infrastructure. On December 30, Beltransgaz and Gazprom signed a contract for selling gas to Belarus and for transit gas. The Belarusian party requested to lower the 2004 price by the amount of the VAT (to the level of USD 39.56 per 1000 m³). However, according to the new contract the 2005 gas price will be the same as in 2004 (USD 46.68). The gas supply to Belarus will increase to 19.1 bn m³. The transport tariff also remained unchanged (USD 0.75 for transit of 1000 m³ per 100 km through the pipeline owned by Beltransgaz and USD 0.46 for transit through the Yamal-Europe pipeline).

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.

Keeping the price of the Russian gas at the 2004 level and changing the VAT payments regime (to be based on the country of destination) will lead to higher prices for energy resources for households and enterprises.

Privatization: The validity of the nominal privatization vouchers "Imushchestvo" (property) will be extended until December 31, 2005. To date, a little more than half of the privatization vouchers have been exercised in Belarus. This is due to the low attractiveness of stocks of those enterprises that are allowed to be privatised through voucher privatization. At the same time, the government has no funds to pay compensation for unused vouchers.

Foreign trade: The EU increased its textile import quotas for Belarus

The EU decided to abolish quotas for textiles for WTO countries and to increase textile import quotas for a number of countries including Belarus. The Ministry of Foreign Affairs estimates that this will enable Belarus to increase its export of textiles by USD 30 to 40 m in 2005 if the full quota is used. This would represent 5 to 6% of the export of merchandize of this group. However, as the *Système Integre de Gestion de Licenses* (the system for managing licenses for textiles and clothing, and steel imports to the EU) states the average use of quotas by Belarus in 2004 was 78.3%. Belarus used 104.4% of the quota only for one merchandize item out of 34. For three more items the country used almost 100% of the quota. In light of experts' forecasts that textile prices will decrease by at least 20% and that competition will increase on the European market, Belarus may find it more difficult to fully use its quotas on all merchandize items and to increase textile exports significantly.

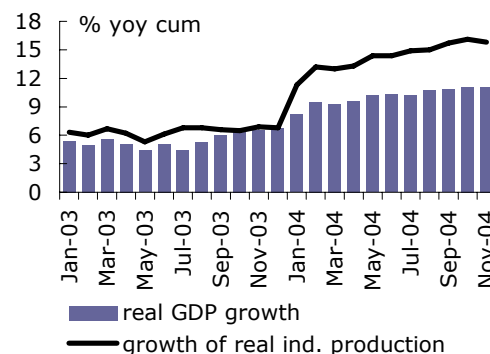
The NBB considerably revised the balance of payment for the first three quarters of 2004. Compared to preliminary data, the current account balance for the period increased by USD 248.9 m, rising to minus USD 228.1 m. The line "errors and omissions" was reduced essentially by the same amount. This indicates that the NBB managed to greatly increase the quality of its balance of payment statistics. In October, the current account deficit was USD 93.6 m. In October, the current account deficit was USD 93.6 m. The main sources of its financing were the inflow of means from sources that are not taken into account by statistics (USD 47.8 m) and the sale of hard currency reserves (USD 26.7 m).

Public finance: Changes in the VAT payments regime

Improvements in the financial statuses of enterprises and the GDP growth acceleration made it possible to execute the consolidated revenues for Jan–Nov at 95.5% of the annual plan (it had been 90.8% for the same period last year). Evidently, in 2004 the budgeted revenues will be exceeded mainly due to VAT and profit tax revenues. The consolidated expenditures made for Jan–Nov (excluding the Social Security Fund) reached 86.2% of the annual plan. Taking into account the resources of the Social Security Fund, the fiscal surplus increased by BYR 95 bn in November, amounting to 1.8% of GDP. This enabled the government to continue to increase its deposits.

In December, Belarus received a Russian government loan in the amount of USD 175 m. It was granted to compensate for costs incurred due to higher gas prices in 2004 compared to 2003. Out of the total amount of the loan, USD 25 m was returned to Russia to pay off earlier loans. The balance will be included in the 2004 central budget, which will improve the situation of financing the deficit.

GDP and Industrial Production



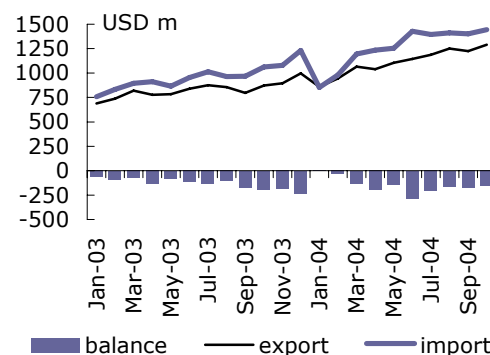
Source: Ministry of Statistics and Analysis.

Profit and profit taxes

	Profit before taxes (BYR m)	Share of taxes in profit (%)
Economy, total	5430.6	40.3
including:		
Industry	3262.5	39.6
Agriculture	413.1	11.9
Transport (including pipelines)	554.8	49.8
Communication	257.8	32.8
Construction	367.3	41.6
Trade and catering	192.9	54.4
Material and technical sales and supply	40.9	48.7
Utilities and housing	93.1	105.2

Source: Ministry of Statistics and Analysis.

Merchandise Trade Dynamics



Source: Ministry of Statistics and Analysis.

Change in structure of external trade

	Change in share of main groups of goods*	
	Export	Import
Mineral products	4.1	1.9
Machinery and equipment	-0.9	0.3
Transport	0.1	-0.1
Chemical products	-0.6	-0.7
Textile	-1.7	-0.4
Agricultural and food products	0.4	-0.9
Base metals	-5.5	1.4
Others	4.1	-1.7

* in Jan-Oct 04 compared to Jan-Oct 03.
Source: Own calculations based on the Ministry of Statistics and Analysis data.

Since January 1, 2005, the economies of Belarus and Russia switched to a regime of indirect tax payments based on the country of destination. As there is no customs border between the two countries, their tax agencies will administer the VAT accounting and payments. Hence a correction of the central budget is expected during the first quarter of 2005. Belarus is still going to request compensation from Russia for the losses incurred by the application of VAT payments based on the country of destination. The government also ordered the Ministry of Economy and the Ministry of Foreign Affairs to work out and implement measures to prevent price increases caused by the new regime of indirect tax payments. The chairmen of the central and local executive bodies were authorized to personally exercise control over external trade relations between Belarus and Russia.

Monetary policy: Interest rates increased on the credit and deposit markets

In November, the money base decreased by 0.6%, primarily due to a reduction of net foreign assets and other net internal assets caused by an increased demand for hard currency. To alleviate this sudden liquidity problem, the NBB continued to refinance the banks. However, even taking into account the decrease of government deposits in the NBB, the banking system faced a liquidity deficit. A high demand for loan funds caused the banks to increase the interest rates for both hard and national currency deposits in order to attract additional resources from the non-financial market. This allowed them to issue 3.3% more loans to the economy than in October. The inter-bank market faced a slight reduction in interest rates, while loan interest rates did not change noticeably in November. However, taking into account the high demand for loans and the limited resources of the banks one can expect increases in the loan interest rates both in nominal and real terms.

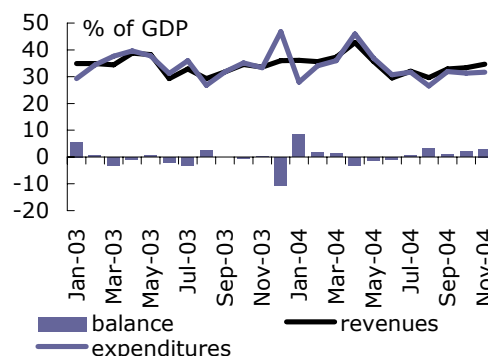
This interest rate policy led to the reduction of money in circulation by 4.1%. This factor along with higher household incomes led to an increase in time household deposits. As a result, while the money base decreased, broad money remained practically unchanged. The growth rate of consumer prices increased due to seasonal factors and amounted to 1.6% mom; though the annual inflation continued to decrease. The Belarusian rouble appreciated vis-à-vis the US dollar by 0.18% in December. As of December 31, its exchange rate was 2,170 BYR/USD.

Banking sector: Belagroprombank increased its statutory fund

In Nov-Dec Belagroprombank made two shares offerings totalling BYR 190.3 bn, since the government mandated it to increase its credit volume. As a result, its statutory fund reached BYR 887.8 bn. The NBB requires the banking system's own capital resources to be increased by USD 150 to 300 m, or 20 to 40%, in 2005. Increasing the statutory funds at the expense of centralized sources can be one way for authorized banks to comply with this NBB requirement. However, this measure will continue the artificial monopolization of the banking system.

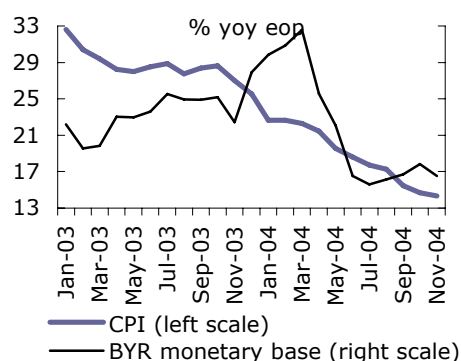
The Fitch Ratings agency gave Belagroprombank the international long-term credit rating of CCC+. This relatively low grade is partly due to the absence of a sovereign credit rating. The credit rating of Belarusbank is the same, while Pri-orbank's rating is lower (CCC-).

Consolidated Budget*



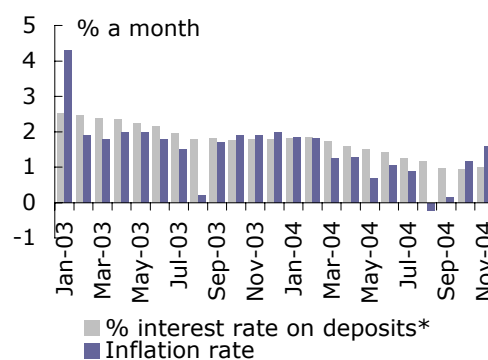
* Without Social Security Fund.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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		Q4 02	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Sep 04	Oct 04	Nov 04
GDP growth	% yoy	5.5	5.6	4.7	7.2	8.8	9.3	11.0	11.7	--	--	--
GDP growth	% yoy cum.	5.0	5.6	5.1	6.0	6.8	9.3	10.3	10.8	10.8	11.1	11.1
Industrial production	% yoy cum.	4.5	7.0	6.3	6.5	7.1	13.0	14.4	15.7	15.7	16.1	15.8
Agricultural production	% yoy cum.	0.7	1.0	-1.6	4.4	6.6	4.3	5.7	10.2	10.2	11.6	12.4
CPI	% yoy eop	35	29	29	28	25	22	18	15	15	15	14
PPI	% yoy eop	42	43	42	36	29	27	27	22	22	21	19
Merchandise export (USD)*	% yoy	20.9	31.1	19.6	21.4	25.1	27.7	36.9	44.2	54.7	47.8	--
Merchandise import (USD)*	% yoy	22.2	33.6	29.7	22.3	23.8	21.8	43.1	42.4	43.2	34.6	--
Merchandise trade balance (NBB data)	USD m cum.	-914	-171	-410	-714	-1256	-77	-560	-939	-939	-1124	--
Current account	USD m cum.	-311	-39	-53	-189	-527	133	-115	-228	-228	-322	--
Current account	% GDP cum	-2.1	-1.1	-0.7	-1.5	-3.0	3.0	-1.2	-1.4	-1.4	-1.8	--
International reserves	USD bn eop	457	463	526	459	474	617	539	664	664	646	585
Monetary Base	% yoy eop	40	52	61	65	72	84	44	44	44	47	44
Lending rate**	% p.a. aop	51	47	41	33	31	29	24	18	18	19	--
Exchange rate (official)	USD aop	1893	1960	2031	2082	2135	2156	2155	2161	2165	2170	2175
Exchange rate (official)	EUR aop	1891	2105	2311	2342	2541	2695	2617	2640	2642	2707	2817

* 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	10.6	7.1	5.4	8.9	12.1	14.5	17.4
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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