

Belarusian Monthly Economic Review

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- The president issued an edict supporting entrepreneurship.
- The output growth in export oriented sectors slowed down.
- A license has been issued to the first state mobile phone operator.
- The merchandise trade balance reached a surplus of USD 125.5 m in January.
- The VAT revenues increased considerably in February.
- Net purchases of hard currency by the NBB amounted to USD 196.3 m in February.

Politics: The president issued an edict supporting entrepreneurship

At the beginning of March, individual entrepreneurs were on a nation-wide strike. They protested against paying VAT in their trade with Russia. The new regime of VAT payments based on the country of destination introduced on January 1, 2005, not only increased the tax burden on entrepreneurs (now enterprises engaged in trade with Russia have to pay not only the single tax but also VAT at 18%), but also increased their operational costs due to the need for properly accounting for the goods. President Lukashenko reacted to the strike by meeting with entrepreneurs and passing the edict "On urgent measures to support entrepreneurship."

According to the edict entrepreneurs are allowed to pay VAT on a declaration basis, which does not require attaching accounting documentation to the VAT report made to the tax inspectors until July 1. If VAT is calculated incorrectly during this period, no fines will be imposed. The most significant measures of support for the entrepreneurs, which are contained in the edict, give delays to the entrepreneurs (until July 1, 2005) and introduce deferred payments on the arrears to the Social Security Fund (from July 1, 2005 until June 30, 2006). The edict also introduces a ceiling for rent charges to individual entrepreneurs. This measure is aimed at reducing the costs of individual entrepreneurs for rent payments at the expense of the owners of the rental properties. However, this measure could lead to a growing grey market where the actual rent payments will be higher than the rents officially charged. Hence, it could promote corruption, as owners of markets and trade centers will have to agree with the regional executive committees and the Minsk City executive committee whenever they want to increase rental charges.

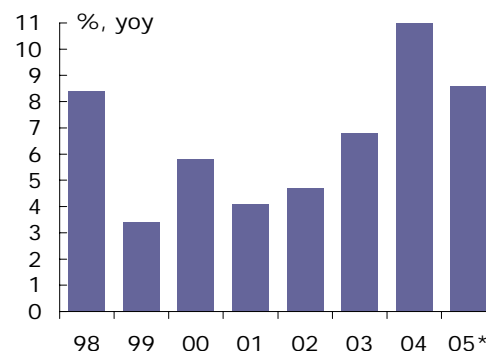
Real sector: The output growth in export oriented sectors slowed down

Economic growth continued to slow in Jan–Feb. GDP increased by 9.7% yoy, industrial production went up by 11.6% yoy in February, which is 0.7 and 1.7 percentage points less than in January, respectively. Industrial growth slowed in practically all sectors. Output in the power sector decreased by 5.3% yoy due to the renewal of electric energy imports. Along with the decline in output growth stocks of finished goods continued to increase. As of March 1 this represented 65.1% of the average monthly output. This is 7.9 percentage points higher than on March 1, 2004.

At the same time construction and trade that were domestic market oriented experienced increased growth. An increase in domestic demand contributed to it, fuelled by faster investment growth and a higher growth rate of household incomes.

Population: 9.8 m
Industry/GDP: 26.8%
Agriculture/GDP: 8.9%
Investment/GDP: 20.7%
Export destination: Russia 47%, EU 37%
Import origin: Russia 68%, EU 20%

Real GDP Growth



* Own estimates.
Source: Ministry of Statistics and Analysis.

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Structural trends: A license has been issued to the first state mobile phone operator

Infrastructure. The company “Belarusian Telecommunication Network” (BTN) was issued a license for providing mobile phone services on March 24. As the declared goal of the company is to provide mobile phone services to low-income persons and to residents of rural areas it is expected that BTN will be given considerable government preferences. The VAT tax rate and the customs duties for equipment to build the network imported by BTN will be lowered. The company will also be given government guaranteed loans.

The state’s share in the statutory capital of the joint venture “Belsel” was increased from 33% to 50% after “Trustbank” dropped out of the company in March. Hence, at present the state basically controls the majority in all mobile phone companies that operate in the Belarusian market since it also holds control in the joint stock company “Mobile TeleSystems” and the joint venture “Mobile Digital Communication.”

Foreign trade: The merchandize trade balance reached a surplus of USD 125.5 m in January

The Ministry of Statistics and Analysis published the preliminary results on external trade in January 2005. They revealed the first consequences of the new regime of VAT payments in the trade with Russia. The growth rate of the external trade turnover fell sharply in January. Exports grew by 13.1% yoy and imports decreased by 0.6% yoy. Exports to Russia dropped by 27% and imports from Russia declined by 7.2% yoy due to decreases in the physical volume of exports and imports. However, even if we adjust the January data for the new VAT payments based on the country of destination, the exports and imports growth rates are much lower than at the end of 2004. As a result, the deficit of trade with Russia increased by 38.7% yoy. At the same time no change was experienced in export or import growth with countries outside the CIS. Belarus ended up with trade surpluses with these countries more than two times bigger than during the same period last year. As a result in January the merchandise trade surplus amounted to USD 125.5 m.

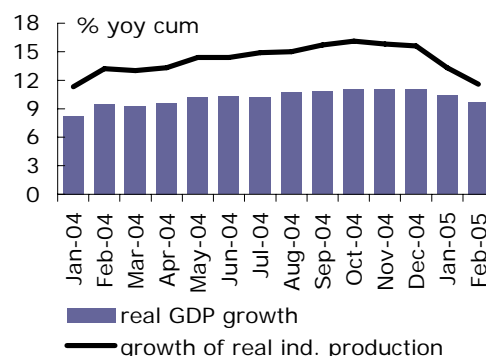
According to preliminary data, the current account deficit in 2004 amounted to USD 1,043 m (4.6% of GDP). In spite of the fact that it is twice as large as in 2003 there were no problems with its financing. The main inflow of funds came from higher arrears of Belarusian enterprises to their suppliers (USD 672 m), from a loan from the Russian government (USD 175 m) and from attracting foreign direct investment (USD 168 m). Another considerable inflow of resources came from statistically unregistered sources (positive balance of the item “errors and omissions” amounted to USD 307 m). This enabled the NBB to increase its reserves by USD 256 m in 2004.

Public finance: The VAT revenues increased considerably in February

The consolidated budget was executed with a surplus in the amount of 12% of GDP in January. This is 0.9 percentage points higher than for the same period of 2004. The fiscal surplus was due to seasonal factors and a shortfall of expenditures. This considerable fiscal surplus enabled the government to pay off certain government bonds and to accumulate funds in deposits. The net amount of government securities paid off amounted to BYR 8.9 bn in January. The government’s deposits increased by BYR 457.7 bn.

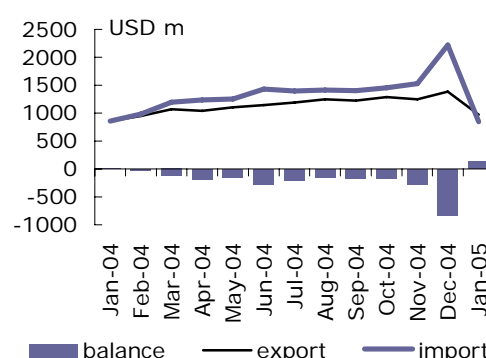
According to the preliminary data, the consolidated revenues increased by 0.3 percentage points in February compared to

GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Export and Import Growth

	Jan 2005, % yoy	
	actual data	adjusted for VAT
Export	13.1	20.3
of which Russia	-27.0	-16.4
Import	-0.6	10.0
of which Russia	-7.2	8.0

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

Balance of Payments

	2003	2004
Current account	-423.5	-1042.9
including		
Goods	-1255.6	-2065.7
Services	584.9	712.6
Capital account and Financial account	382.4	736.3
Capital account	68.9	48.8
Financial account	313.5	687.5
including		
Direct investments	170.3	168.1
Other investments	123.3	715.5
Special drawing rights	13.8	-255.8
Errors and omissions	41.1	306.6

Source: NBB.

January 2005. They amounted to 54.2% of GDP. The revenue growth was primarily due to the considerable increase in VAT revenues due to the new regime of VAT payments in the trade with Russia. As Belarus has a trade deficit with Russia, the VAT revenues from imports increased the amount of VAT refunds. At the same time, enterprises' arrears to the state have increased by 33.7% since the beginning of the year, though the bulk of the increase was in January. The high seasonal increase in arrears was due to the fact that some major taxpayers still have not received their budgeted subsidies.

Monetary policy: The net purchases of hard currency by the NBB amounted to USD 196.3 m in February

The hard currency supply in the currency market increased in February. This was mostly due to the positive balance in the merchandize trade. While the Belarusian ruble strengthened, the net purchases of hard currency by the NBB amounted to USD 196.3 m. As a result, its net foreign assets increased by 22% mom (by BYR 395.5 bn). The corresponding growth of the money supply was neutralized by the 25.4% mom (by BYR 292.7 bn) increase in ruble deposits of the government in the NBB, which was due to the growth of the fiscal surplus. As a result the money supply increased by 3.6% mom in February, which is 27% yoy in annual terms (32.1% yoy in January).

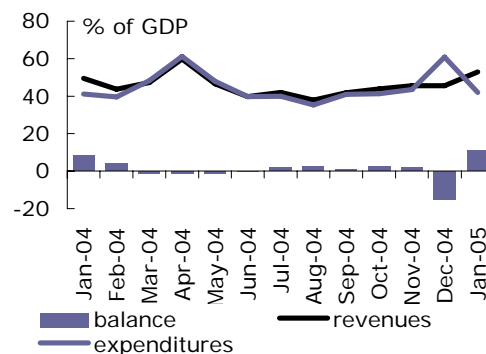
The decrease in the growth rate of the money supply contributed to maintaining a shortage of liquidity in the banking system. To soften this problem a few state banks used their right not to satisfy their reserve requirements. The released funds were used to increase the crediting of state enterprises. As a result the growth rate of crediting in the economy remained practically unchanged since January, amounting to 59.5% yoy. As the liquidity shortage problem in the banking system in general was not solved, the banks did not lower the credit and deposit interest rates. The deposit interest rates for legal entities even went up. This kept deposits growing in spite of the slower GDP and real household income growths. The total increase of ruble money was 6% mom and of broad money 3.4% mom in February.

Inflation went down in February (0.9% mom). Falling prices for non-food products (by 0.1% in February) contributed, while the Belarusian ruble strengthened in nominal terms. A further tightening of the monetary policy led to continued disinflation. Inflation was 12.1% yoy in February. The Belarusian ruble appreciated by 0.3% against the US dollar in March. On March 31, its exchange rate was 2153 BYR/USD.

Banking sector: Mortgage bonds could become the main tool for mortgage lending

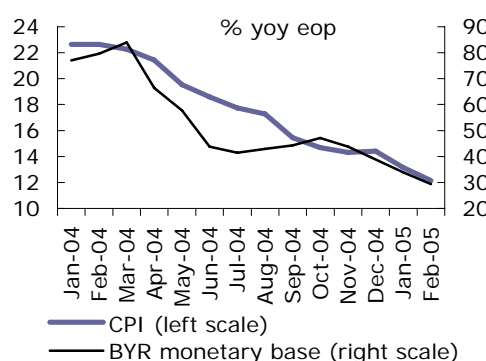
The NBB set up a working group to develop mortgage lending in Belarus. Its task is to work out practical recommendations on mechanisms of mortgage development in the field of housing construction, making the object of mortgages to be a form of payment if the debtor fails to meet his obligations. The group also discussed issues related to the taxation of yields on mortgage bonds. Mortgage bonds issued by banks are suggested to be used as the basis for mortgage development in Belarus. At present the tax rate for investor income from corporate bonds is 40%, which is the main obstacle for mortgage lending expansion. Another obstacle is the system of favorable loans in housing construction. By presidential edict the government passed a resolution according to which the maximum loan to value ratio increased from 75% to 90%. Interest rates for urban and rural residents fell from 10% and 5% to 5% and 3% correspondingly.

Consolidated Budget*



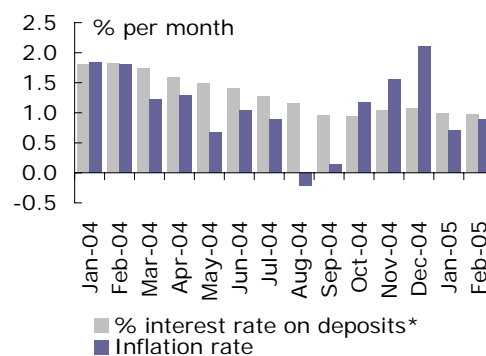
* Without Social Security Fund.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

Ruble Monetary Base and CPI



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

Monthly Inflation and Interest Rates



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

Economic Trends		Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Dec 04	Jan 05	Feb 05
GDP growth	% yoy	5.6	4.7	7.2	8.8	9.3	11.0	11.6	11.6	--	--	--
GDP growth	% yoy cum.	5.6	5.1	6.0	6.8	9.3	10.3	10.8	11.0	11.0	10.4	9.7
Industrial production	% yoy cum.	7.0	6.3	6.5	7.1	13.0	14.4	15.7	15.6	15.6	13.3	11.6
Agricultural production	% yoy cum.	1.0	-1.6	4.4	6.6	4.3	5.7	10.2	12.9	12.9	12.7	12.2
CPI	% yoy eop	29	29	28	25	22	18	15	14	18	13	12
PPI	% yoy eop	43	42	36	29	27	27	22	24	24	15	15
Merchandise export (USD)*	% yoy	31.1	19.6	21.3	25.0	27.7	36.9	44.6	42.2	38.8	13.1	--
Merchandise import (USD)*	% yoy	33.6	29.7	22.8	24.6	21.5	43.1	42.9	53.4	79.7	-0.6	--
Merchandise trade balance (NBB data)	USD m cum.	-171	-410	-714	-1256	-58	-541	-931	-2066	-2594	133	--
Current account	USD m cum.	-26	-19	-131	-424	164	-58	-186	-1043	-1043	--	--
Current account	% GDP cum	-0.7	-0.2	-1.0	-2.4	3.7	-0.6	-1.1	-4.6	-4.6	--	--
International reserves	USD bn eop	463	526	459	474	617	539	664	770	770	693	949
Monetary Base	% yoy eop	52	61	65	72	84	44	44	39	39	34	29
Lending rate**	% p.a. aop	47	41	33	31	29	24	19	18	19	20	--
Exchange rate (official)	USD aop	1960	2031	2082	2135	2156	2155	2161	2173	2174	2172	2167
Exchange rate (official)	EUR aop	2105	2311	2342	2541	2695	2617	2640	2810	2911	2858	2818

* 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		1998	1999	2000	2001	2002	2003	2004
Nominal GDP*	BYR trn	0.702	3.026	9.134	17.173	26.613	36.565	49.445
Nominal GDP	USD bn	7.1	5.4	8.9	12.1	14.5	17.7	22.9
GDP growth	% yoy	8.4	3.4	5.8	4.7	5.0	7.0	11.0
Industrial production	% yoy	12.4	10.3	7.8	5.9	4.5	7.1	15.6
Agricultural production	% yoy	-0.7	-8.3	9.3	1.8	0.7	6.6	12.9
CPI	% yoy aop	73	294	169	61	43	29	18
CPI	% yoy eop	182	251	108	46	35	25	14
PPI	% yoy aop	72	355	186	72	41	38	24
PPI	% yoy eop	197	245	166	41	42	29	19
Exports (gs, USD)	% yoy	-10.8	-8.5	17.6	10.4	8.6	24.0	38.3
Imports (gs, USD)	% yoy	-7.8	-19.0	21.0	8.2	9.1	27.1	41.4
Current account	USD m	-1017	-194	-338	-394	-311	-424	-1043
Current account	% GDP	-14.9	-3.6	-3.9	-3.2	-2.1	-2.4	-4.6
FDI (net)	USD m	201	443	119	96	453	170	168
International reserves	USD m	339	305	357	347	457	474	770
Fiscal balance**	% GDP	-1.4	-2.9	-0.6	-1.6	-0.2	-1.6	0.1
Internal public debt	% GDP eop	4.9	5.7	4.5	4.5	4.6	6.0	5.6
External debt (total)	% GDP eop	51	42	24	20	20	19	17
Monetary base	% yoy eop	102	204	52	225	32	50	42
Exchange rate (official)*	USD aop	151	572	1035	1394	1784	2075	2160
Exchange rate (official)*	USD eop	430	925	1213	1580	1920	2156	2170
Spread***	% aop	224.0	128.2	44.4	0.8	0.0	0.0	0.0
Spread***	% eop	301.9	189.1	2.8	0.2	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	--	270	651	1239	1690	2353	2686
Exchange rate (official)*	EUR eop	--	323	1097	1392	1989	2695	2956

* On January 1, 2000 the Belarusian ruble was devalued (1:1000). All figures are given in "new" Belarusian rubles.

** The fiscal balances for 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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