

## Belarusian Monthly Economic Review

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- The Russian ruble will not be introduced in Belarus on January 1, 2006.
- The wage growth rate was twice as high as the growth rate of labor productivity for Jan-Feb.
- The 2006 price of Russian gas for Belarus might stay at the 2005 level.
- The Jan-Feb merchandise trade surplus resulted from export growth to countries outside the CIS.
- Stabilization of the VAT payment situation led to higher tax revenues.
- Lending to individual entrepreneurs will be simplified.

### Politics: The Russian ruble will not be introduced in Belarus on January 1, 2006

A session of the Highest State Council of the Union State of Belarus and Russia was held on April 22. It resulted in signing 15 documents including the budget of the Union State for 2005. The presidents of Belarus and Russia have not taken the final decision to introduce the Russian ruble in Belarus. As the next session of the Highest State Council of the Union State will only be held in November 2005 the Chairman of the National Bank of Belarus stated that the Russian ruble could not be introduced in Belarus on January 1, 2006. He explained that it would take at least half a year to make the necessary preparations for the introducing the Russian currency.

### Real sector: The wage growth rate was twice as high as the growth rate of labor productivity

GDP rose by 9.6% yoy in the first quarter, which is 0.1 percentage points less than for Jan-Feb. The growth rate of industrial output remained at the level of Jan-Feb 2005 and amounted to 11.6%. The biggest branches of industry (excluding electric energy) faced further declining growth rates, while in the food processing industry and in a few smaller sectors the growth rate went up a little. This could be due to the consumer market boom. The retail trade turnover increased by 20% yoy in the first quarter of 2005.

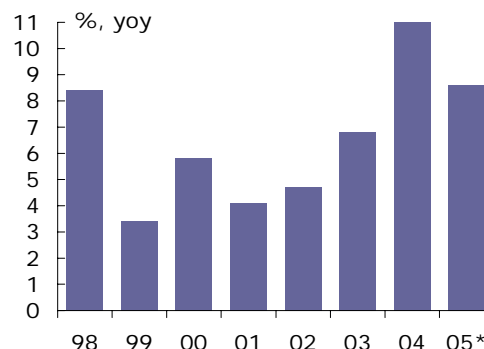
The high growth rate of consumer demand was due to a considerable increase in household incomes. Real wages went up by 23.3% yoy during the first quarter. In all sectors of the economy the wage growth rate was much higher than the growth rate of labor productivity. This was partially due to administrative orders to raise wages to meet the 2005 target of USD 250 by the end of year. This can lead to increased production costs and a deterioration of the financial statuses of enterprises.

### Structural trends: The 2006 price of Russian gas for Belarus might stay at the 2005 level

Although Russia is planning to increase the gas prices for its domestic consumers, the price of Russian gas for Belarus might stay the same. According to an agreement between the Chairman of the Board of Gazprom and the General Director of Beltransgaz signed on April 12, the price of Russian gas for Belarus will remain at the current level of USD 46.68 per 1000 m<sup>3</sup> in 2006, if the four compressor stations of the Yamal-Europe pipeline are completed and become operational, and the long-term land lease agreements for these objects are signed. The gas transit price in Belarus is also slated to remain unchanged. However, keeping the current gas price for Belarus

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.

while raising it in Russia is not likely to continue after 2006, as Russian consumers would then pay more than Belarusian ones.

**Foreign trade: The merchandise trade surplus due to export growth to countries outside the CIS**

The trade between Belarus and Russia now faces the consequences of the new VAT payment regime. Exports to and imports from Russia continue to fall. The rate of export decrease is getting close to zero while imports from Russia began to decrease faster. This probably indicates that exporters have managed to overcome the problems with the VAT payments while importers still have to reduce their deliveries from Russia. At the same time the growth rate of export to non-CIS countries remains at the level of the previous year (about 50% yoy). Imports from these countries began to grow faster. This has already led to a change of the geographical structure of the external trade. The share of Russia in trade turnover went down to 47.6% (58.4% in Jan–Feb 2004), while the share of the non-CIS countries increased to 46.8% (it was 37.1% in Jan–Feb 2004).

Increases in world commodities prices had a major impact on the increase in the share of non-CIS countries in the structure of the Belarusian external trade. Primarily due to price increases, exports of oil products grew by 72% yoy, potash fertilizer went up by 50% yoy, and ferrous metals increased by 23% yoy in Jan–Feb. As a result, the export growth rate to non-CIS countries still outstripped the import growth rate. This led to an increase in the trade surplus with these countries. The decrease of imports from Russia also contributed to an increase in the merchandise trade surplus. It amounted to USD 314.8 m in Jan–Feb.

**Public finance: Stabilization of the VAT payment situation led to increased tax revenues**

The consolidated budget was executed with a surplus, which amounted to 9.5% of GDP (BYR 733.7 bn) in Jan–Feb. This is 3.4 percentage points higher than for Jan–Feb 2004. This is due to higher revenues from VAT payments, profit taxes, foreign trade taxes and excise taxes. The favorable situation enabled the government to increase its deposits to BYR 754.4 bn. However, the increase in government expenditures in the social sphere, culture, agriculture, and capital investments led to a slow down of the surplus growth rate in February.

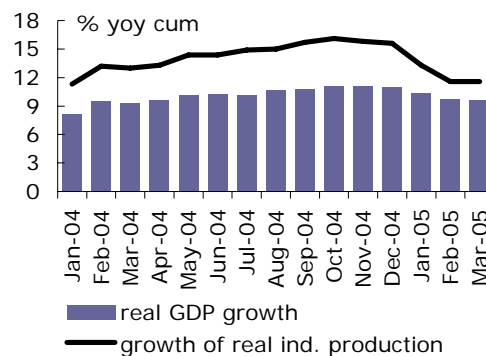
Consolidated revenues continued to grow in March. They amounted to 54.7% of GDP for the first quarter, which is 2 percentage points higher than in the first quarter of 2004. The consolidated revenues increased by 0.5 percentage points in March. This is mainly due to higher VAT and profits tax revenues. Revenues from the taxes imposed on goods imported from Russia amounted to 45.7% of all VAT revenues. This is evidence that the situation with the new regime of indirect tax payments in the trade with Russia is stabilizing.

The president issued a decree to revise some indicators of the central budget in April 2005. The expenditures for capital investments were increased by BYR 145 bn. The fiscal deficit limit was also increased by this amount (up by 1.7% of GDP). These additional expenditures are to be financed out of government deposits.

**Monetary policy: The growth rate of lending to the economy fell**

As in previous months, the supply of foreign currency exceeded demand. This was due to the external trade surplus in March. The NBB continued to buy the surplus currency, which led to an increase of its net foreign reserves by USD 72.2 m,

**GDP and Industrial Production**



Source: Ministry of Statistics and Analysis.

**Real Wage and Labor Productivity Growth**

	Jan-Mar, % yoy	
	Real wage	Labor productivity
Industry	20.3	12.0
of which		
Machine building and metalworking	18.6	15.4
Fuel industry	15.6	17.3
Ferrous metallurgy	47.7	23.4
Agriculture	38.7	16.3
Transport	22.3	7.4
Construction	20.3	11.3
Trade and public catering	29.4	24.6
Economy total	23.3	10.2

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

**Merchandise exports growth**

	Jan-Feb 2005, % yoy	
	Physical volume	Average prices
Total	0.3	18.9
Russia	-15.3	3.8
Non CIS countries	14.7	30.7
Potash fertilizer	-1.2	52.6
Russia	-11.3	41.4
Non CIS countries	-1.7	52.6
Oil products	23.4	36.7
Russia	--	--
Non CIS countries	25.1	37.7
Chemical fiber and filament	-25.6	17.5
Russia	-32.7	8.3
Non CIS countries	-20.4	27.0
Tractors	13.8	23.6
Russia	25.5	17.4
Non CIS countries	151.6	-5.7
Trucks	-27.5	47.8
Russia	-25.7	42.9
Non CIS countries	-49.1	57.5
Ferrous metals	-6.0	31.4
Russia	-18.0	20.4
Non CIS countries	0.9	37.0

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

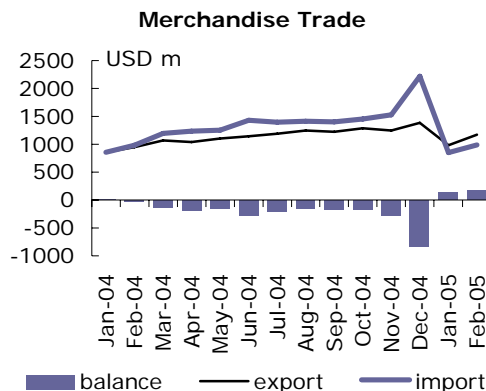
which became the main source of the higher money supply (it increased by 3.5% mom in March). The inflow of money to the banking system in addition to banks restrictions on crediting the economy led to a partial elimination of the liquidity deficit. As a result, the inter-bank interest rates went down to 10%.

Decreased crediting of the economy was due to the fact that the big banks reduced the volume of credits being issued under government orders. The banks also reduced the volume of credits in hard currency. The latter was due to the appreciation of the Belarusian ruble. This situation led to an increase of hard currency loan and deposit interest rates. The lower growth rate of crediting of the economy (59.5% yoy in February, 54.2% yoy in March) led to a decrease in the major interest rates in Belarusian ruble on the lending and borrowing market. However the ruble deposit yield was higher than the hard currency deposit yield. This helped to maintain the high growth rate for Belarusian ruble deposits. Transferable deposits in the national currency went up by 1.3% mom and time deposits increased by 6.9% mom. As a result, cash in circulation decreased by 0.2% mom. Foreign currency deposits grew slower (2.9% mom) due to the yield disparity. As a result, ruble money went up by 3.8% mom, while broad money grew by 3.5%.

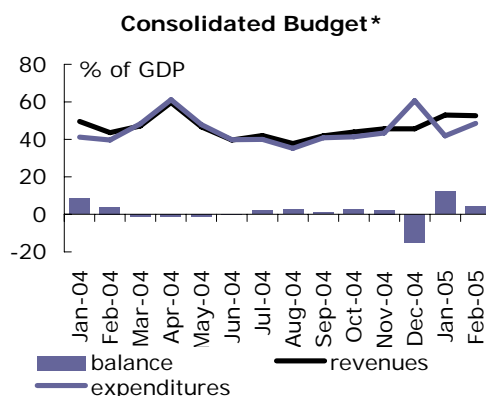
The long-term tendency of a slowing money supply growth and a high demand for Belarusian rubles led to a further decrease of the inflation rate to 11.9% yoy (12.1% yoy in February). Consumer prices increased by 1.0% mom in March. The Belarusian ruble appreciated by 0.09% vis-à-vis the US dollar. On April 30, 2005 its exchange rate was 2151 BYR/USD.

**Banking sector: Lending to individual entrepreneurs will be simplified**

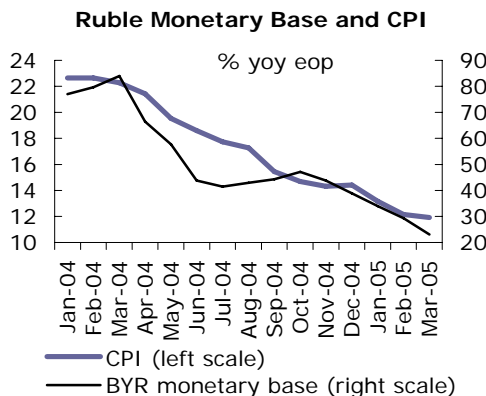
The NBB drafted some regulations to simplify the procedures for lending to individual entrepreneurs. The new regulation assumes that the banks will prepare their own lending programs, which will define the procedures of shaping the criteria of the loan agreement, the terms of the loan and the possibility to pay out the loan in cash. The solvency of an entrepreneur will also be calculated in a simplified manner. In addition, it is planned to abolish the property collateral by guarantors of the loan, which is currently one of the major obstacles for small enterprises to access bank lending.



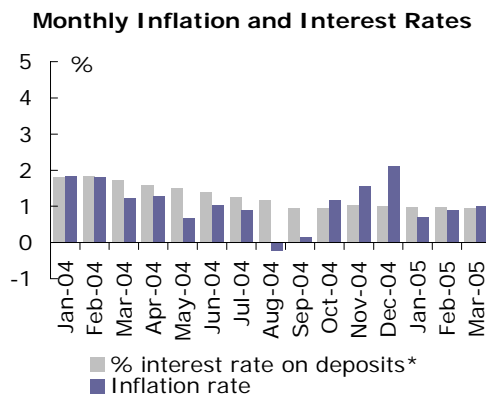
Source: Ministry of Statistics and Analysis.



\* without Innovation 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>Q1 03</b>	<b>Q2 03</b>	<b>Q3 03</b>	<b>Q4 03</b>	<b>Q1 04</b>	<b>Q2 04</b>	<b>Q3 04</b>	<b>Q4 04</b>	<b>Jan 05</b>	<b>Feb 05</b>	<b>Mar 04</b>
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	10.4	9.7	9.6
Industrial production	% yoy cum.	7.0	6.3	6.5	7.1	13.0	14.4	15.7	15.6	13.3	11.6	11.6
Agricultural production	% yoy cum.	1.0	-1.6	4.4	6.6	4.3	5.7	10.2	12.9	12.7	12.2	12.5
CPI	% yoy eop	29	29	28	25	22	18	15	14	13	12	12
PPI	% yoy eop	43	42	36	29	27	27	22	24	15	15	14
Merchandise export (USD)*	% yoy	31.1	19.6	21.3	25.0	27.7	36.9	44.6	42.2	14.5	23.1	--
Merchandise import (USD)*	% yoy	33.6	29.7	22.8	24.6	21.5	43.1	42.9	53.4	-0.2	1.5	--
Merchandise trade balance (NBB data)	USD m cum.	-171	-410	-714	-1256	-58	-541	-931	-2066	133	374	--
Current account	USD m cum.	-26	-19	-131	-424	164	-58	-186	-1043	233	553	--
Current account	% GDP cum	-0.7	-0.2	-1.0	-2.4	3.7	-0.6	-1.1	-4.6	13.2	15.5	--
International reserves	USD bn eop	463	526	459	474	617	539	664	770	693	949	975
Monetary Base	% yoy eop	52	61	65	72	84	44	44	39	34	29	23
Lending rate**	% p.a. aop	47	41	33	31	29	24	19	18	20	19	--
Exchange rate (official)	USD aop	1960	2031	2082	2135	2156	2155	2161	2173	2172	2167	2154
Exchange rate (official)	EUR aop	2105	2311	2342	2541	2695	2617	2640	2810	2858	2818	2844

\* 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>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
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		