Belarusian Monthly Economic Review

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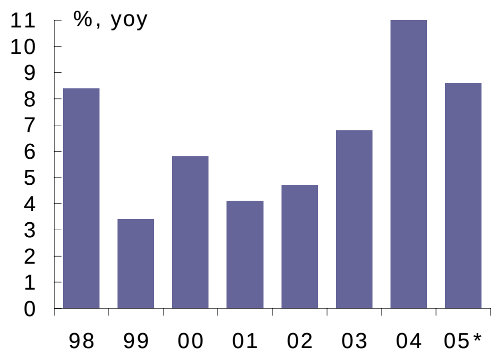
- Oil deliveries from Kazakhstan will be possible only after an agreement with Russia has been reached.
- Household consumption and investment remain the main sources of economic growth.
- A golden share was introduced at a private enterprise.
- Belarus dropped from second to sixth place among Russia's main trading partners.
- A redistribution of VAT revenues between the central and local administrations took place.
- The interest rate spread for financial tools denoted in Belarusian ruble and hard currency decreased.

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%

Politics: Oil deliveries from Kazakhstan will be possible only after an agreement with Russia has been reached

On May 18–19, President Lukashenko visited Kazakhstan. Intensifying economic relations between the two countries, primarily in the fuel and energy sphere, were discussed. The draft agreement between Belarus and Kazakhstan on developing cooperation in this sphere and on oil deliveries of 2 m tons for refining in Belarus had been prepared as early as 2004. However, since oil deliveries from Kazakhstan have to transit Russia, and since the Russian oil companies already use almost 100% of their pipeline capacities to supply oil to Belarusian refineries, the possibilities for transporting Kazakh oil to Belarus are quite limited. To solve this problem the presidents of the two countries agreed to hold joint negotiations on this subject with the president of Russia.

Real GDP Growth



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

Real sector: Household consumption and investment remain the main sources of economic growth

The economic growth rate continued to fall in Jan-Apr. The GDP grew by 9.5% yoy and industrial output rose by 11.2% yoy, which is 0.1 and 0.4 percentage points lower respectively than in Jan-Mar. A quite fast output growth is still accompanied by an increase in the finished goods inventories. As of May 1, 2005 inventories amounted to 65.9% of the monthly industrial output, which is 7.5 percentage points higher than a year earlier. The inventories increase and the slower economic growth are due to a reduction of exports to Russia.

A preliminary estimate of the components of aggregate demand shows that household consumption and fixed capital investment contributed most to GDP growth during January to March. These two factors caused 12.3 percentage points of GDP increase. Following the reduction of the trade deficit with Russia the contribution of the net exports to the GDP increase was also positive. Change in inventories made a negative contribution to the GDP change (the inventories that had accumulated by the end of 2004 were sold at the beginning of the year) on the eve of the transition to the new VAT payment regime. Statistical discrepancies also negatively contributed to the GDP change.

Structural trends: A golden share has been introduced at a private enterprise

Regulation. The Gomel Regional Executive Committee (oblispolkom) introduced a golden share at the private company "MNPZ Plus" who owns 12.25% of the shares in Mozyr Oil Refinery. As a result, the state, which already owned 42.76% of Mozyr Oil Refinery, in effect became the majority shareholder with 55.01% of the Mozyr Oil Refinery shares. However, according to current legislation, golden share can only be introduced at enterprises created on the basis of state property, which is not the case with MNPZ Plus.

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Further to increasing its control over the oil refining sector the government is planning to centralize the export of Belarusian oil products in the near future. A proposal to this effect was made by the state concern "Belneftekhim", using the argument that a centralized sales system under government control would make the export market for oil products more transparent and prevent possible wrongdoing. However, it is evident that this measure is primarily aimed at redistributing the Belarusian oil refinery revenues in favor of the state.

Nationalization. Instead of restructuring loss-making enterprises the government uses the practice of increasing its share in the enterprises' authorized capital in exchange for writing off their arrears to the state. The most recent example is the increase of the state's ownership in the authorized capital of Minsk Bearing Plant from 69.98% to 93.58% in exchange for restructuring the debt this enterprise had with the customs office (the debt also included certain economic sanctions (fines) and a tax loan). Recently the state took over the stock of Minskkomplexbank for BYR 3.56 bn without any compensation. In addition, the Council of Ministers passed a resolution that ordered the increase of the authorized capital of five joint stock companies by July 1. However, nationalization is not an effective tool for the financial recovery of enterprises as it increases the burden on the state finance, but does not solve the problem of labor market distortions. Neither does it create a better business environment.

External trade: Belarus dropped from second to sixth place among Russia's main trading partners

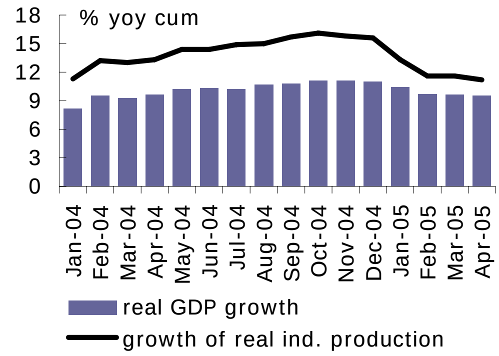
In Jan-Mar exports grew by 21.9% yoy, while imports increased by only 0.5% yoy. The low import growth rate is due to reduced imports from Russia. The trade turnover with this country decreased by 8.7% yoy in Jan-Mar: exports dropped by 7.9 and imports by 9.2% yoy. According to data of the Russian Customs Service, Belarus dropped from second to sixth place among Russia's main trading partners as a result. The export reduction was mostly due to lower deliveries of chemical products, machinery and equipment, and means of transport. Imports decreased due to reduced deliveries of machinery and equipment, chemical products, and agricultural and food products. In the trade with non-CIS countries exports grew much faster than imports, mostly due to increasing oil products exports.

The significant merchandize trade surplus occasioned by the lower trade deficit with Russia and the increasing trade surplus with non-CIS countries were the main contributors to the current account surplus. According to preliminary data, it amounted to USD 760.8 m (13.5% of GDP) for Jan-Mar. There was an outflow of resources in the financial account because import arrears were paid and reserve assets increased. In addition, the balance of the "errors and omissions" item was negative (USD -170 m) for Jan-Mar, which is evidence of unregistered merchandize imports and/or outflows of capital.

Public finance: Redistribution of VAT revenues between the central and local administrations

The revenues of the general government for Jan-Mar amounted to 24.9% and the expenditures to 20.9% of the annual plan. This is 2.0 and 0.6 percentage points more than a year earlier. The revenues grew mainly due to VAT revenue increases caused by the change of the VAT payment regime in the trade with Russia. At the same time, the new VAT payment regime had different impacts on the revenues of the different government levels, since VAT revenues from imports go to the central government. The increased VAT revenues of the central government amounted to BYR 497.7 bn (92.5% yoy)

GDP and Industrial Production



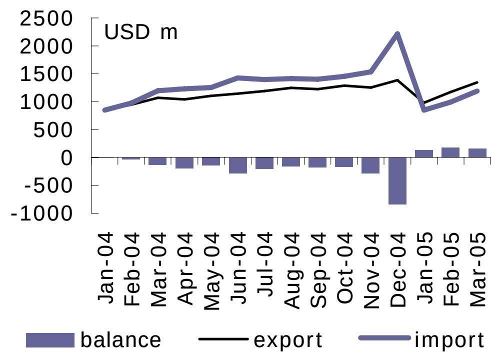
Source: Ministry of Statistics and Analysis.

Stock of the finished goods (in relation to the monthly production)

	as of May 1, % 2004	as of May 1, % 2005	change*
Industry	58.4	65.9	7.5
including:			
Fuel	13.0	13.8	0.8
Ferrous metallurgy	4.1	6.2	2.1
Chemical and petrochemical	40.4	55.1	14.7
Machinery and metalworking	101.7	119.9	18.2
Logging, woodworking, pulp and paper	73.7	67.6	-6.1
Building materials	81.0	80.3	-0.7
Light	135.8	149.6	13.8
Food	72.8	72.2	-0.6

* Percentage points.
Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Changes in trade with Russia

	change, Jan-Mar 05 to Jan-Mar 04, USD m exports	change, Jan-Mar 05 to Jan-Mar 04, USD m imports
Food and agricultural products	20.3	-50.4
Mineral products	-4.7	195.4
Chemical products	-38.2	-78.0
Textile	-7.5	-23.5
Ferrous metals	1.2	-35.7
Machinery and equipment	-35.7	-111.2
Transport	-19.1	-13.8
Other goods	-21.5	-74.1
Total	-105.3	-191.4

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

compared to Jan-Mar 2004, while the local governments lost BYR 39.0 bn (a decrease of 13.5% yoy). As a result, the central administration had a 6.2% of GDP surplus, while the local ones got only 0.8% of GDP (1.2 and 2.2% of GDP for Jan-Mar 2004). The total fiscal surplus amounted to 7.1% of GDP, though its growth slowed due to higher expenditures in the social sphere and culture, agriculture and fixed capital investment.

The favorable situation with revenue execution was sustained in April too. According to preliminary data, the consolidated revenues amounted to 55.2% of GDP for Jan-Apr, which is 5.1 percentage points higher than a year earlier. The main reasons for this increase are the new VAT payment regime with Russia, improvements in the financial situation of enterprises, increases in household incomes and oil products exports growth.

Monetary policy: The interest rate spread for financial tools in national and hard currencies decreased

Favorable tendencies in external trade still enable the NBB to purchase foreign currency on the domestic currency market. In addition, the government increased its foreign currency deposits in the NBB. These two factors ensured an increase of the NBB`s net foreign assets by 6.3% in April, which became the main source of the money supply increase. A reduction of the refinancing rate in April and a corresponding reduction of the main interest rates on NBB operations led to an increase of NBB loans to banks by 12.5% mom. This became an additional cause for the money base increase. It grew by 3.2% mom in April, which alongside with the reduction of reserve requirements by the NBB contributed to the growth of banking liquidity.

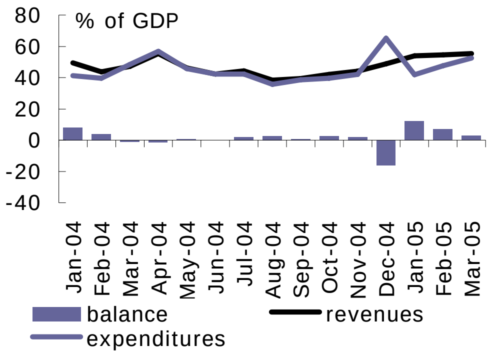
The nominal appreciation of the Belarusian ruble caused the reduction of real interest rates on financial tools in foreign currency. Reacting to this, the banks reduced the interest rates on financial tools in Belarusian ruble and tried to reduce issuing loans in hard currency. As a result, loans in foreign currency decreased in April; all increases in loans were due to credits in Belarusian rubles. Reducing the interest rates on financial tools in Belarusian rubles led to a decrease in the spread between the interest rates on financial tools in national and foreign currencies. This led to increased growth of hard currency deposits from 23.8% yoy in March to 27.4% yoy in April, while the growth rate of ruble deposits correspondingly decreased from 63.8 to 60.4% yoy. Increases in enterprise crediting and in household incomes contributed to the demand growth for cash in circulation (in April it rose by 12.4%). In April ruble money increased by 5.4% mom and broad money went up by 4.6%.

The long-term trend of slowing the money supply growth and the higher demand for Belarusian rubles contributed to further disinflation. In April consumer prices grew by 0.5%. The Belarusian ruble appreciated by 0.09% vis-à-vis the US dollar. As of May 31, the exchange rate of the Belarusian ruble to the US dollar was 2149 BYR/USD.

Banking sector: Reduction of the reserve requirements

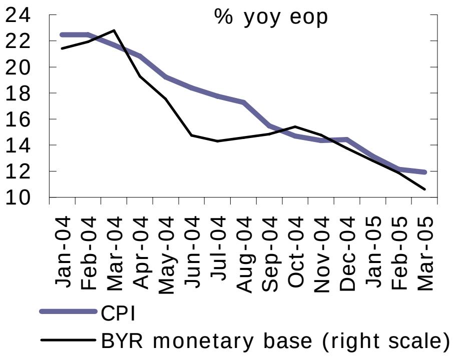
In order to expand the possibilities for commercial banks to credit the real sector of the economy, the NBB reduced the reserve requirements on legal entity deposits and on deposits in hard currency by one percentage point to 9%. Additionally, since April 15, the NBB reduced the norm for the minimal demand balance in the fund of obligatory reserves by 10 percentage points. It became 80% of the calculation value. As a result, the resources that were deposited by commercial banks in the fund of obligatory reserves decreased by BYR 80.6 bn (12.3% mom). These measures made it possible to keep a quite high level of banking liquidity and led to some reductions of interest rates for ruble operations.

Consolidated Budget*



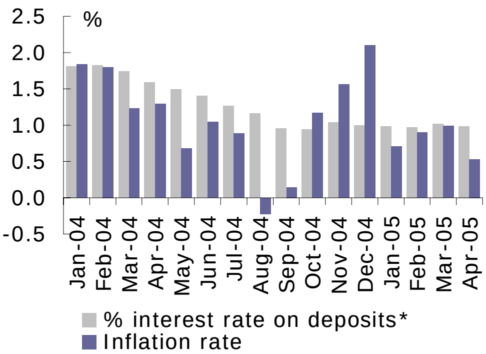
* 2004 – without innovation funds.
Source: own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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		Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Feb 05	Mar 05	Apr 05
GDP growth	% yoy	4.7	7.2	8.8	9.3	11.0	11.6	11.6	9.6	--	--	--
GDP growth	% yoy cum.	5.1	6.0	6.8	9.3	10.3	10.8	11.0	9.6	9.7	9.6	9.5
Industrial production	% yoy cum.	6.3	6.5	7.1	13.0	14.4	15.7	15.6	11.6	11.6	11.6	11.2
Agricultural production	% yoy cum.	-1.6	4.4	6.6	4.3	5.7	10.2	12.9	12.5	12.2	12.5	13.1
CPI	% yoy eop	29	28	25	22	18	15	14	12	12	12	11
PPI	% yoy eop	42	36	29	27	27	22	24	14	15	14	13
Merchandise export (USD)*	% yoy	19.6	21.3	25.0	27.7	36.9	44.6	42.2	21.9	24.1	26.0	--
Merchandise import (USD)*	% yoy	29.7	22.8	24.6	21.5	43.1	42.9	53.4	0.5	-0.4	-1.1	--
Merchandise trade balance (NBB data)	USD m cum.	-410	-714	-1256	-58	-541	-931	-2066	529	374	529	--
Current account	USD m cum.	-19	-131	-424	164	-58	-186	-1043	761	553	761	--
Current account	% GDP cum	-0.2	-1.0	-2.4	3.7	-0.6	-1.1	-4.6	13.5	15.5	13.5	--
International reserves	USD bn eop	526	459	474	617	539	664	770	975	949	975	987
Monetary Base	% yoy eop	61	65	72	84	44	44	39	23	29	23	25
Lending rate**	% p.a. aop	41	33	31	29	24	19	18	19	19	18	--
Exchange rate (official)	USD aop	2031	2082	2135	2156	2155	2161	2173	2164	2167	2154	2153
Exchange rate (official)	EUR aop	2311	2342	2541	2695	2617	2640	2810	2840	2818	2844	2788

* 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		