

Belarusian Monthly Economic Review

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- The slowdown of economic growth continues.
- The regulations surrounding the activities of individual entrepreneurs are getting tighter.
- The share of Belarusian exports to non-CIS countries rose to 58.1%.
- The general government faced a fiscal deficit in April.
- The NBB increased its foreign currency purchases on the domestic currency market.
- Minskcomplexbank was merged with Belarusbank.

Politics: Appointments to executive positions

On June 16, President Lukashenko made some changes to senior executive positions and appointed several new people. In particular, he appointed a new Minister of Trade, a new Chairman for the State Committee on Science and Technology, and made changes within the Security Council and the Ministry of Emergency Situations. The president also nominated the Chief engineer of the Mozyr Refinery to be Director-general of the joint stock company "Naftan", and the Deputy director of Beltelecom to be Director-general of the joint venture "Mobile Digital Communications". Most of these appointments were to vacant positions.

Real sector: The economic growth is getting slower

The GDP increased by 8.9% yoy in Jan-May, which is 0.6 percentage points less than for Jan-Apr. This was due to lower investment and household consumption growth on the demand side, and a deceleration of industrial output growth on the supply side. Industry suffered from the switch to the new VAT payment regime when trading with Russia. Only the fuel sector has not been affected because almost all of its exports were to non-CIS countries. The new VAT payment regime also led to decreased food imports from Russia, which had a positive effect on the food processing industry.

The investment growth rate also declined. It decreased from 33.1% yoy in January to about 9.4% yoy in May. Diminished enterprise revenue growth and a slower growth of crediting the economy led to an investment slowdown. As a result the growth in construction decelerated, too. In sum, the output growth steadily decelerated in almost all major sectors.

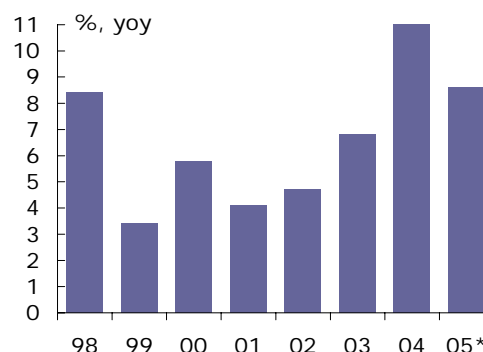
Structural trends: The regulations on the activities of individual entrepreneurs are being tightened

Regulation. The President issued an edict to prolong until July 31, 2005 the period of time for individual entrepreneurs importing Russian goods to pay VAT on a declaration basis (i.e. without providing necessary documentation). From August 1, 2005 to December 31, 2006 entrepreneurs importing Russian goods will be allowed to pay the double size of the presumptive lump-sum tax instead of VAT if they do not provide documentary evidence for the goods imported from Russia. According to the edict, this tax must be paid at each trading spot irrespective of the share of the Russian goods within the assortment of goods at the location. The new regulation is likely to increase the tax burden, which may lead to increased shadow trading by small business.

The edict also limits the number of trading places and production units to four, which an individual entrepreneur can own (cars, places, storage places etc.) without registering as a legal entity. A previous regulation limits the number of physical

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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persons that an individual entrepreneur can employ to 3. This regulation together with the new decree will force some entrepreneurs either to register as a legal entity, or to register parts of their business activities as separate physical entities, or else to close down the businesses.

Foreign trade: The share of Belarusian exports to non-CIS countries rose to 58.1%

Exports increased 22.4% yoy and imports rose 1.3% yoy in Jan-Apr. The lower export growth rate compared to the previous year and the low growth rate of imports were due to the contraction of trade with Russia. In spite of the Ministry of Foreign Affairs' statement that the problems caused by the changes in the VAT payments regime in trade with Russia have now been solved, the trade turnover with Russia continues to fall. Exports to Russia fell 7.9% yoy and imports decreased 9.3% yoy from January to April.

At the same time the commodity world prices growth contributed to an increase in exports (in value terms) to non-CIS countries. Exports of oil products, potash fertilizers and ferrous metals went up 1.7 times, 1.5 times, and 1.2 times respectively. As a result the share of exports to non-CIS countries increased from 47.4% for Jan-Apr 2004 to 58.1% for Jan-Apr 2005. At the same time, due to violations of trade union rights and basic rights of workers noted during an inspection by the International Labor Organization, the Commissar of the European Commission on Trade recommended to initiate procedures for temporarily suspending Belarus' preferential status in the general system of preferences. Until now, there has been no official response by the Belarusian authorities to this event; hence a suspension of Belarus' preferential status is quite likely to occur. If implemented, this measure (it primarily concerns the elimination of preferential customs duties for Belarusian enterprises) could have a negative effect on the competitiveness of Belarusian enterprises.

Public finance: The general government faced a fiscal deficit in April

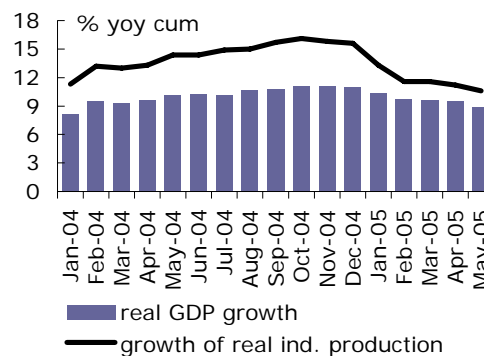
The consolidated revenues increased 0.5 percentage points in April reaching 55.2% of GDP for Jan-Apr. This increase in revenues was mainly caused by higher than planned VAT revenues resulting from the change in the VAT payments regime for trade with Russia.

The consolidated expenditures amounted to 50.5% of GDP. They rose by 2.9 percentage points in April primarily due to government spending on social and cultural programs, national security, fixed capital investment and budgetary funds expenditures including expenditures of the Social Security Fund. As a result the general government faced a fiscal deficit in the amount of BYR 90.1 bn in April, which caused the fiscal surplus to decline to 4.7% of GDP (BYR 771.1 bn) after the first four months of the year. The April deficit was financed by selling government bonds and reducing government deposits in commercial banks.

Monetary policy: The NBB increased foreign currency purchases on the domestic currency market

The NBB continued to buy foreign currencies on the domestic currency market, due to the surplus in external trade in May. This led to a BYR 292.6 bn increase in the net foreign assets of the NBB. The growth of the money supply was also due to the NBB making loans to banks and to the private sector. At the same time higher state revenues led to a BYR 320.7 bn increase in government deposits at the NBB in May, which means an outflow of liquidity from the banking system. The

GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

Contribution to Industrial Growth

	Growth, % yoy	Contribution
Industry	10.6	10.6
including:		
Power	-4.0	-0.3
Fuel	15.4	3.1
Ferrous metallurgy	11.9	0.5
Chemical and petrochemical	5.0	0.6
Machinery and metalworking	14.8	2.8
Logging, woodworking, pulp and paper	7.3	0.3
Building materials	9.7	0.2
Light	3.1	0.1
Food	12.8	1.7
Other	12.7	1.5

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

Exports growth

	Jan-Apr 2005, % yoy		
	Total	Russia	Non-CIS countries
Agricultural and food products	12.2	11.2	12.2
Mineral products	68.8	-51.4	74.8
Chemical products	19.0	-20.6	40.7
Textiles	-4.5	-8.6	-4.7
Base metals	12.6	-3.9	29.5
Machinery and equipment	-1.3	-12.9	17.2
Transport	3.0	-6.3	15.4
Other	3.6	-10.3	19.6
Total	22.4	-7.9	50.0

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

net result of these operations was an increase of the monetary base by 2.2% mom. In annual terms, its growth slowed from 23.9% yoy in April to 22.6% yoy in May.

The inflow of liquidity to the banking system caused by the higher money supply was passed from the banking sector to the real sector. At the same time, the slowdown of economic growth led to a decrease in the rate of credit growth to the economy from 50.3% yoy in April to 47.1% in May. This is the reason why the banks could maintain a sufficient level of liquidity.

The inflow of foreign currency ensured the stability of the Belarusian ruble. As hard currency lending rates were lower than the lending rates in rubles, this contributed to higher demand for loans in hard currency. Under these conditions interest rates for hard currency loans kept rising, while hard currency deposit interest rates went down a little, as banks owned a sufficient volume of hard currency resources. As a result, the spread between ruble and hard currency deposit interest rates decreased. The growth rate of household ruble deposits in May exceeded the growth rate of hard currency deposits for this reason. Cash in circulation went up by 3.3% in May. The growth rates for ruble money and broad money were 2.0% and 1.7% respectively.

The inflation rate was practically unchanged and amounted to 11% yoy in May. Consumer prices went up by 0.6% mom mainly due to higher food (0.9%) and non-food (0.6%) prices in May. The exchange rate with the US dollar remained practically unchanged. As of June 30, it was 2150 BYR/USD.

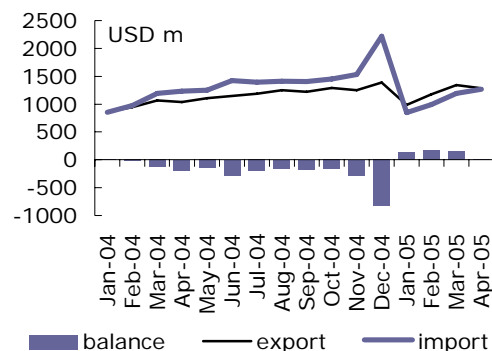
Banking sector: Minskkomplexbank was merged with Belarusbank

After attempts to find a foreign investor for Minskkomplexbank failed, the President issued an edict to merge it with Belarusbank in June. Before that it had been under the administration of an ad hoc board of the NBB. As of March the state owned 90% of the bank. The edict also increased the share of the state in Belarusbank by BYR 50.5 through the purchase of additional emissions of the banks' stock. The budget deficit was amended to reflect this expenditure. It will be financed by issuing long-term government bonds with a 10-year term to maturity and an annual yield of 1%, which will be resold to Belarusbank. In turn the NBB will buy these bonds from Belarusbank thus crediting the government.

The NBB and the government are planning to take measures to ease the access of small businesses to credit resources. By the end of 2005 the NBB is planning to set up a specialized bank for micro lending based on the currently operating Paritetbank, and the Mogilyov Regional Guarantee Fund (an organization that provides guarantees to banks-creditors on loans that they give to their clients). Hence, the prerequisites for a partial solution of the financing problems facing small businesses will be in place.

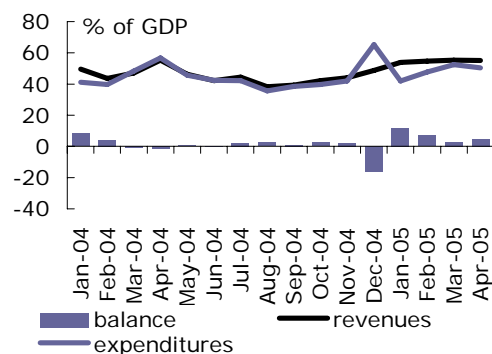
The NBB lowered the monthly premium payable to the deposit insurance fund from 0.1% to 0.05% in June. This measure could be interpreted as meaning that the probability of the banks' failing to meet their commitments to depositors is quite low. Alternatively, it could be interpreted as an attempt to lower the real cost of borrowing for banks in order to create additional possibilities for lowering loan interest rates to the real sector.

Merchandise Trade



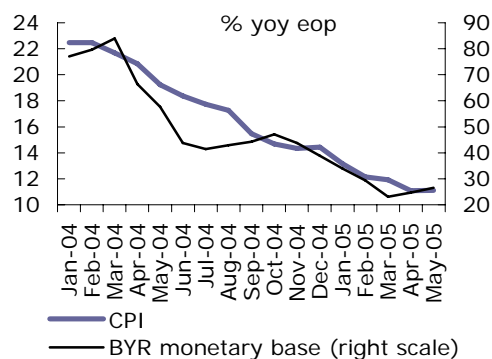
Source: Ministry of Statistics and Analysis.

Consolidated Budget*



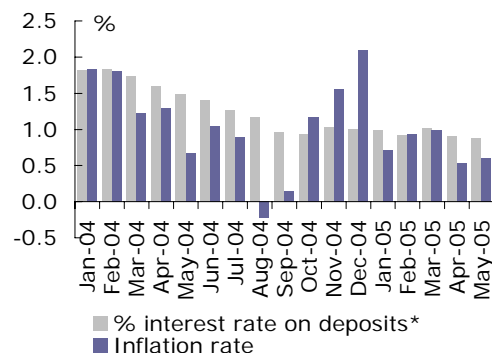
* 2004 – without innovation funds. Source: own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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	Mar 05	Apr 05	May 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	9.6	9.5	8.9
Industrial production	% yoy cum.	6.3	6.5	7.1	13.0	14.4	15.7	15.6	11.6	11.6	11.2	10.6
Agricultural production	% yoy cum.	-1.6	4.4	6.6	4.3	5.7	10.2	12.9	12.5	12.5	13.1	11.1
CPI	% yoy eop	29	28	25	22	18	15	14	12	12	11	11
PPI	% yoy eop	42	36	29	27	27	22	24	14	14	13	13
Merchandise export (USD)*	% yoy	19.6	21.3	25.0	27.7	36.9	44.6	42.2	21.9	26.0	23.6	--
Merchandise import (USD)*	% yoy	29.7	22.8	24.6	21.5	43.1	42.9	53.4	0.5	-1.1	3.0	--
Merchandise trade balance (NBB data)	USD m cum.	-410	-714	-1256	-58	-541	-931	-2066	533	533	583	--
Current account	USD m cum.	-19	-131	-424	164	-58	-186	-1043	761	761	901	--
Current account	% GDP cum	-0.2	-1.0	-2.4	3.7	-0.6	-1.1	-4.6	13.8	13.8	11.9	--
International reserves	USD bn eop	526	459	474	617	539	664	770	975	975	987	1134
Monetary Base	% yoy eop	61	65	72	84	44	44	39	23	23	25	23
Lending rate**	% p.a. aop	41	33	31	29	24	19	18	19	18	16	--
Exchange rate (official)	USD aop	2031	2082	2135	2156	2155	2161	2173	2164	2154	2153	2150
Exchange rate (official)	EUR aop	2311	2342	2541	2695	2617	2640	2810	2840	2844	2788	2734

* 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		