

Belarusian Monthly Economic Review

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- The GDP growth decelerated.
- A number of private medical centers had their licenses revoked.
- Deliveries of mineral products to non-CIS countries provided 77% of the export growth for Jan-May.
- The NBB increased the money supply.
- The NBB established a temporary administration for "Djem Bank".

Politics: First a Constitutional Act, then monetary union

The presidents of Russia and Belarus met on July 20-21. President Lukashenko presented the decisions taken at this meeting at a meeting dedicated to issues of domestic and foreign policy, stating that the presidents had decided to prepare a draft Constitutional Act for the Union State of Belarus and Russia. More detailed consideration will be given to this issue at a meeting of the Highest State Council of the Union State scheduled for November 2005. In addition, President Lukashenko stated that he and President Putin had reached an agreement on a single currency. However, its introduction would be possible only after enacting the Constitutional Act of the Union State.

Real sector: The GDP growth slowed

The GDP growth rate fell to 8.3% yoy in the second quarter of 2005 (9.6% yoy in the first quarter). Seen from the demand side, the lower GDP growth rate is mainly due to a significant reduction of net exports when compared to the first quarter. This was due to a reduction of exports in real terms during the second quarter. Also, household consumption grew much more slowly, caused by lower real wage growth.

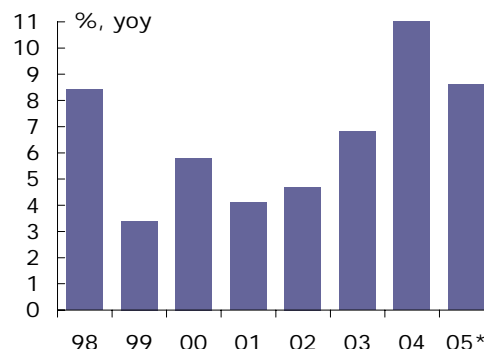
The investment growth rate also went down. Nevertheless, the investment increase caused more than half of the GDP increase during the first half of the year. Due to higher housing credits to households more investment flowed into housing construction. Increased government spending on agriculture stimulated capital investments in this sector. At the same time, because the growth rate of utility service tariffs declined, the investment growth rate in the utility and housing sector declined. Decreased industrial output growth caused by the new regime of VAT payments in trade with Russia led to a considerable slowdown of investment growth in industry. Taking into account that industry is a key sector of the economy this situation could lead to deterioration of economic performance in the mid-term.

Structural trends: A number of private medical centers had their licenses revoked

Licensing. Following wide-ranging inspections by the Ministry of Health, the Committee for State Control and some other ministries, 43 licenses for medical and pharmaceutical activities were revoked. Two of the biggest medical centers "Eko-medservice" and "Nordin" made civil complaints to the Highest Economic Court, demanding that the license revocation mandates be cancelled. The Court refused to change the decision of the government bodies. At the same time the Ministry of Health launched a pilot project to set up state medical institutions to provide paid-for services. Thus one can presume that private organizations providing medical services for money will gradually be crowded out by state facilities.

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.

Regulation. The Minsk City Council of Deputies decided to increase the list of activities that are subject to the single tax. At the same time, it decided to lower the single tax rates by 15-20% on average. This measure aims at reducing the tax burden on individual entrepreneurs in the city of Minsk, which rose after the new principle of VAT payments in trade with Russia was introduced. The Ministry of Taxes and Fees estimates that the increase in VAT payments by individual entrepreneurs from Minsk to the central government will amount to about BYR 1.4 bn per month, while the Minsk-city revenues will fall by about BYR 0.9 bn per month. As a result, in spite of the measures taken by the government the tax burden on individual entrepreneurs will be heavier.

Price regulation. The Ministry of Economy issued a resolution setting price ceilings and limiting the permitted profitability of producers (from 5% to 15%) on selected goods (bread and bakery, milk and dairy, and meat). These restrictions are aimed at meeting the 2005 inflation target (8-10%). They add to the resolution of the Council of Ministries passed early in 2005 limiting the monthly price and tariff increases to 0.6-0.8%.

Foreign trade: Deliveries of mineral products to non-CIS countries ensured a 77% of export growth

The Ministry of Statistics and Analysis reported that between January and May merchandize exports increased by 19.4 and import grew by 2.7% yoy. There is still no improvement in the trade with Russia. Exports and imports to this country fell by 10.1 and 7.4% yoy respectively, and the merchandize trade deficit with Russia reached the level of January to May 2004 (more than USD 1.3 bn).

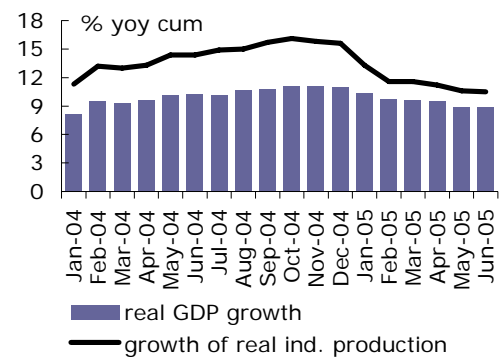
At the same time within the context of growing world oil prices, the Belarusian oil refineries continued to purchase crude oil at prices, which were almost 50% below world-market prices. This enabled Belarus to considerably increase its export of oil products to non-CIS countries. Selling mineral products to non-CIS countries caused 77% of the overall Belarusian export growth. The merchandize trade balance with non-CIS countries amounted to about USD 1.6 bn for January to May. However, its growth rate slowed while the trade deficit with Russia began to grow faster in April and May. As a result, the merchandize trade balance decreased by USD 132 m during these two months, amounting to USD 319 m (3.1% of GDP).

Public finance: Government deposits increased by almost BYR 1.3 bn since January

The growth rate of the consolidated revenues still exceeded the growth rate of the GDP for January to May. This caused a further increase of their share in the GDP. The consolidated revenues amounted to 52.3% of GDP for January to May, which is 3.9 percentage points higher than for the same period in 2004. The transition to a VAT payment regime based on the principle of the country of destination in the trade with Russia caused the VAT revenues to increase by 1.6% of GDP compared to January to May 2004. This is due to the considerable trade deficit with Russia, which exceeded USD 1.3 bn for January to May. About one third of the consolidated revenues increase resulted from including the "innovation funds" in the consolidated budget. The biggest Belarusian exporters "Mozyr Oil Refinery", "Naftan" and "Belaruskaliy" contributed most to the fiscal revenues. This is evidence that achieving the Belarusian budget goals depends to a large extent upon favorable external demand.

The consolidated expenditures grew more slowly than the consolidated revenues. They amounted to 47.4% of GDP for

GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

Contribution to investments growth

	Contribution		Change
	Jan-Jun 2004	Jan-Jun 2005	
	percentage points		
Industry	6.5	0.9	-5.6
Agriculture	2.7	5.8	3.1
Transport	0.8	1.5	0.7
Communications	0.4	1.7	1.4
Trade and public catering	1.8	0.8	-0.9
Housing construction	2.3	4.6	2.3
Utilities	2.9	0.8	-2.1
Health care, sports, and social security	1.3	0.0	-1.3
Other	3.1	2.8	-0.3
Investments growth, % yoy	21.7	19.1	-2.6

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

Exports growth

	Jan-May 2005 to Jan-May 2004*		
	Total	Russia	Non-CIS countries
Agricultural and food products	1.3	1.0	0.1
Mineral products	15.0	-0.6	15.1
Chemical products	2.9	-1.1	3.5
Textiles	-0.3	-0.3	-0.1
Base metals	0.7	-0.4	1.0
Machinery and equipment	-0.4	-1.4	0.3
Transport	0.2	-0.9	0.4
Other	0.0	-0.9	0.6
Total	19.4	-4.8	20.9

* contributions to the merchandise exports growth, percentage points

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

January to May (46.6% of GDP a year earlier). This expenditure increase was primarily due to spending by the Social Security Fund, and to government spending on agriculture and education. The fiscal surplus of the central government amounted to 3.1% of GDP for January to May, which enabled the government to increase its deposits in the banking system, which grew by almost BYR 1.3 bn since the beginning of the year.

Monetary policy: Acceleration of money supply growth

The foreign trade deficit in April and May led to a lower growth rate of hard currency revenues. This resulted in a balance in the supply and demand for foreign currency on the domestic foreign exchange market. The NBB could not use currency purchases as a tool to increase the money supply. In June the money supply rose due to an internal assets increase and mainly due to a reduction of government deposits in the NBB. As a result, the monetary base grew by 7.8% mom in June. In annual terms its growth rate rose from 22.6% yoy in May to 39.3% in June.

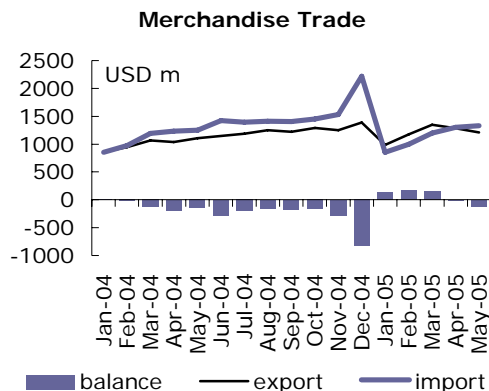
The slowdown of economic growth led to further reduction of real sector crediting growth rate. Alongside with acceleration of growth of money supply it led to improvement of banking sector liquidity and further reduction of nominal interest rates of ruble financial tools. Reduction of interest rates and household income growth led to the increase in cash in circulation by 5.4% mom, though the growth rate of ruble deposits remained quite high too.

Consumer prices grew 0.2% in June. Inflation slowed to 10% yoy in annual terms. The stabilization of the Belarusian ruble is one of the major factors for disinflation. The Belarusian ruble appreciated against the US dollar by 0.09% in July, reaching 2148 BYR/USD on July 31.

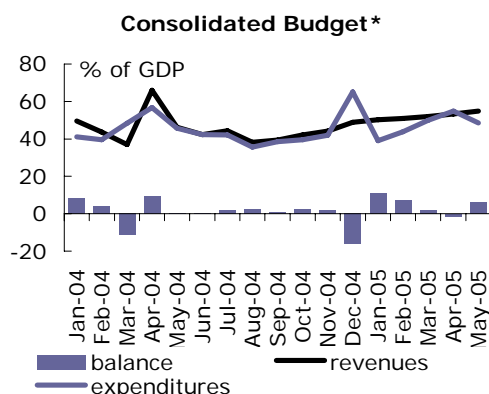
Banking sector: The NBB introduced temporary administration in "Djem Bank"

On July 25 the Board of the NBB decided to introduce a temporary administration for the private bank "Djem Bank". This decision followed an inspection of the bank. The NBB stated that its decision was based on several legislative acts that regulate bankruptcy procedures and the NBB's supervisory authority over banks. These documents contain a list of formal reasons enabling the NBB to introduce temporary administrations. The NBB did not give any reasons for its actions, justifying its approach with the necessity to maintain bank secrecy. At the same time the NBB allowed all legal entities, which are clients of this bank to open second current accounts in Belarusian rubles in any one of the three state banks.

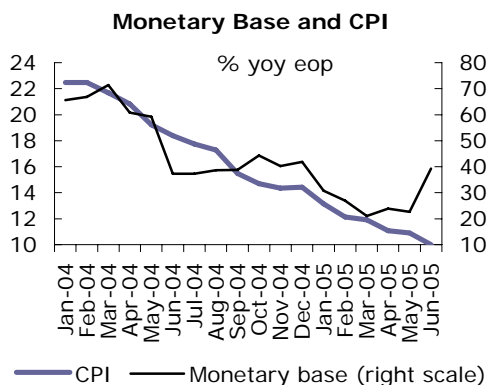
On July 26, "Djem Bank" stated that there were no grounds for the NBB to introduce such a measure. It filed a complaint against the actions of the NBB to the Highest Economic Court. The Board of Directors of "Djem Bank" appointed the bank's Director General to represent its interests vis-à-vis all state bodies and to take any decision on behalf of the Board within the authority defined in the bank's charter. The Bank's Board of Directors issued a press release stating that until its complaint has been ruled upon by the Highest Economic Court any decision of the executive bodies of the bank must be agreed to by the Board of Directors or its representative.



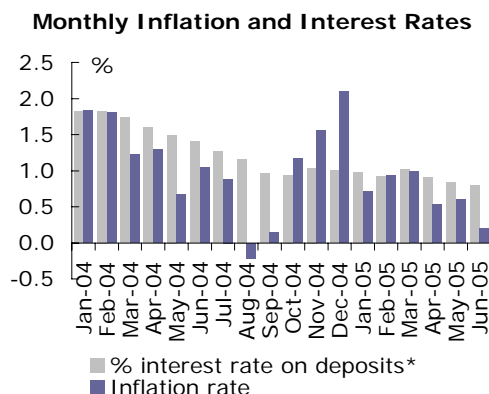
Source: Ministry of Statistics and Analysis.



* 2004 – without innovation funds.
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.



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

Economic Trends		Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Apr 05	May 05	Jun 05
GDP growth	% yoy	7.2	8.8	9.3	11.0	11.6	11.6	9.6	8.3	--	--	--
GDP growth	% yoy cum.	6.0	6.8	9.3	10.3	10.8	11.0	9.6	8.9	9.5	8.9	8.9
Industrial production	% yoy cum.	6.5	7.1	13.0	14.4	15.7	15.6	11.6	10.5	11.2	10.6	10.5
Agricultural production	% yoy cum.	4.4	6.6	4.3	5.7	10.2	12.9	12.5	10.1	13.1	11.1	10.1
CPI	% yoy eop	28	25	22	18	15	14	12	10	11	11	10
PPI	% yoy eop	36	29	27	27	22	24	14	12	13	13	12
Merchandise export (USD)*	% yoy	21.3	25.0	27.7	36.9	44.6	42.2	21.8	--	23.5	9.3	--
Merchandise import (USD)*	% yoy	22.8	24.6	21.5	43.1	42.9	53.4	0.5	--	4.8	5.7	--
Merchandise trade balance (NBB data)	USD m cum.	-714	-1256	-58	-541	-931	-2066	533	--	583	505	--
Current account	USD m cum.	-131	-424	164	-58	-186	-1043	762	--	901	935	--
Current account	% GDP cum	-1.0	-2.4	3.7	-0.6	-1.1	-4.6	13.5	--	11.1	9.1	--
International reserves	USD bn eop	459	474	617	539	664	770	975	1130	987	1134	1130
Monetary Base	% yoy eop	52	51	71	37	39	42	21	39	24	23	39
Lending rate**	% p.a. aop	33	31	29	24	19	18	19	--	16	15	--
Exchange rate (official)	USD aop	2082	2135	2156	2155	2161	2173	2164	2151	2153	2150	2150
Exchange rate (official)	EUR aop	2342	2541	2695	2617	2640	2810	2840	2713	2788	2734	2619

* 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		