Belarusian Monthly Economic Review

No.12 (39)
December
2005

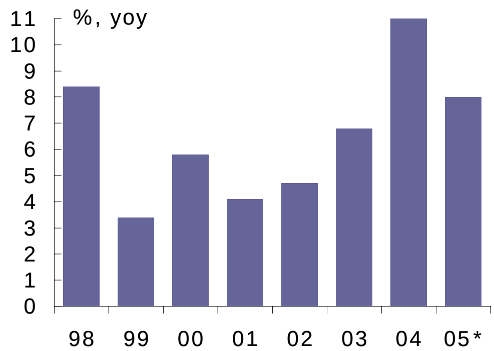
- The EU and the USA opposed the Belarusian proposal to begin drafting a final WTO accession document.
- The Belarusian government plans to clear all debts between enterprises.
- The Jan-Sep merchandize trade balance was close to zero.
- The Central Budget for 2005 was revised, increasing its revenues and expenditures.
- Transferable deposits of the legal entities have increased.
- The benefits for banks-residents of Free Economic Zones were abolished.

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: The EU and the USA are opposed to begin drafting the final Belarusian WTO accession document

The USA and the EU opposed a Belarusian proposal to start drafting its final accession document. Belarus planned to enter the final stage of the negotiation process and draft the final document but the USA and the EU member countries declared that this was premature. The major reasons for their position were the question of the "golden share" (special rights of the state to manage economic entities) and numerous facts of confiscation of goods owned by transit carriers. Belarus did not agree with these claims, stating that the process had become politicized. At the same time, Russia and Ukraine are at the final stage of WTO accession negotiations. Once they have joined the WTO, the status of Belarusian exporters to the markets of these countries could seriously deteriorate due to greater competition from third countries.

Real GDP Growth



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

Real sector: The government proposed to carry out debt clearing operations

The GDP growth rate for Jan-Oct was 8.6% yoy, which is 0.1 percentage point lower that for Jan–Sep. In addition to the continuing decline of the industrial and agricultural growth rates, trade also experienced some growth rate decrease. The only sector of the economy that experienced a faster growth was construction, due to the on-going relatively high growth rate of investment in this sector.

The slowing industrial and agricultural growth caused payments between enterprises to deteriorate. As of October 1, 2005 accounts receivable and payable amounted to 31.9% and 44.3% of GDP respectively, which is 6.7% and 10.1% higher than on July 1, 2005. The increase in overdue debts had not been significant so far, except in the 3rd quarter of 2005, when it rose by almost 2% of GDP. This problem caused the government to take action. The Council of Ministers and the NBB passed a joint resolution to carry out a national clearing of accounts, both receivable and payable. The NBB and the Ministry of Finance adopted the necessary instructions for the clearing operations to be done in two stages in December 2005. However, this measure may not just lead to debt reduction in the economy – it may encourage enterprises to accumulate debts in future without violating the debt limits set up by the legislation.

Structural trends: Expansion of the president's powers in the sphere of economic policy

Legislation. In November, the president issued a decree to increase his powers in the sphere of economic policy. In particular, the president now has the authority to dispense benefits and all kinds of preferences to legal entities and individual entrepreneurs (tax credits and benefits, subsidies

German Economic Team in Belarus (GET)
76 Zakharova St., Minsk 220088, Belarus
Tel./fax (+375 17) 236-11-47
E-mail bmer@ipm.by
Internet http://research.by/

and capital investment etc.). In addition, he now has the right to confirm state programs in the areas of land use, forestry, animal husbandry and the environment. The president also received the exclusive right to amend parts of legislation that can lead to reduction of the means of the Republican budget or to the increase or reduction of its expenditures. In fact, this document simply confirmed powers of the president that he already exercised.

External trade: The merchandize trade balance for Jan-Sep became close to zero

The Ministry of Statistics and Analysis reported that the merchandize trade balance for Jan-Sep had turned negative. However, the deficit is not large (USD 2.8 m compared to USD 1352.8 m a year earlier). Besides, the service trade surplus (USD 657.9 m) contributed to keeping a positive surplus of the current account of the balance of payment and led to an increase of reserves. As of November 1, they reached USD 1.3 bn, which is equivalent to about 0.9 months of imports.

The share of oil and oil products in the external trade of Belarus in 2005 increased yet further. Firstly, for Jan–Sep the share of this merchandize group in exports and imports amounted to 32.2 and 25.9% respectively, now being 7.7 and 4.3 percentage points higher than a year earlier. Secondly, the share of oil and oil products in export to the EU increased from 62% to 70% during this period, turning the EU into the main export market of Belarus. This less diversified export could have a negative impact on exports and imports in case the external demand should fall. This is so, because Belarus did not use the opportunity to employ the new hard currency inflow for more imports of investment goods to modernize production and to increase the competitiveness of Belarusian goods.

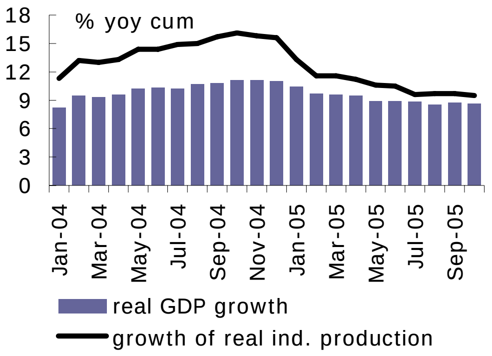
Public finance: A considerable revision of the Central budget

In Jan-Sep the state had received 80.9% of the revenues planned for the whole of 2005 (78% in 2004). The budget forecasts for VAT, profits tax and external trade taxes were all exceeded. However, the budgeted expenditures had only reached 72.3% (71.1% a year earlier). The likely reason for failing to meet the expenditure targets is lack of interest by the ministries and state organizations in budgetary financial resources. However, as the state expenditures are calculated on a cash basis and not on an accrual basis, the low level of government expenditures could hide a large volume of accumulated but as yet unfulfilled obligations. The difference between the rates of executing the revenue and expenditure parts of the consolidated budget led to the increase of its surplus to BYR 1.3 trn or 2.9% of GDP (1.6% of GDP in Jan–Sep 2004).

Unforeseen revenues were received due to the better financial statuses of enterprises, good external demand and the transition to the new regime of VAT payment with Russia based on the country of destination. This enabled the government to increase its revenues and expenditures.

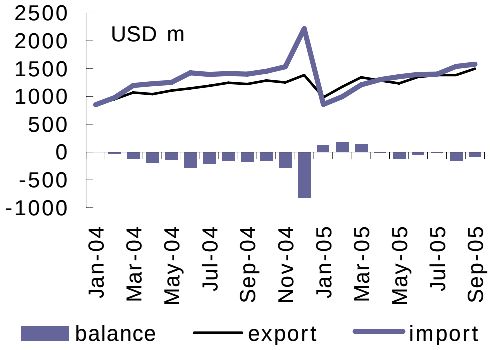
In November, the president issued a decree revising the Central budget: revenues were increased by BYR 1.4 trn and expenditures by BYR 1.7 trn. The limit of the fiscal deficit of the Central government was increased by BYR 326 bn. The higher deficit is planned to be financed by issuing new government securities (BYR 168 bn), by spending government deposits (BYR 77 bn), and by external financing (BYR 181 bn). At the same time, the plan to increase revenues by selling government assets was reduced by BYR 98 bn. This reflects the lack of progress with privatization.

GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Structure of Merchandize Trade

	Jan-Sep 2004	Jan-Sep 2005
Share in total export, %		
EU, including:	35.7	43.4
Oil and oil products	22.2	30.2
Other goods	13.5	13.2
Russia, including:	47.0	36.0
Oil and oil products	1.5	0.0
Other goods	45.5	36.0
Total, including:	100.0	100.0
Oil and oil products	24.5	32.2
Other goods	75.5	67.8
Share in total import, %		
EU, including:	19.7	21.1
Oil and oil products	0.1	0.1
Other goods	19.6	21.0
Russia, including:	67.8	60.4
Oil and oil products	21.0	25.8
Other goods	46.8	34.6
Total, including:	100.0	100.0
Oil and oil products	21.6	25.9
Other goods	78.4	74.1

Source: Ministry of Statistics and Analysis.

Monetary policy: Increase of transferable deposits of legal entities

In October, the money base increased by 3.1% mom and in annual terms its growth rose to 51.3% yoy (49.6% yoy in September). Almost the entire increase was due to a growth in net foreign assets of the NBB (7.8% mom). This in turn was due to an excess of hard currency in the domestic market and an increase of hard currency deposits by the government in the NBB. Because of the situation of excessive liquidity, the NBB essentially did not use any internal tools to increase the money supply. Also, to remove some of the excessive liquidity the NBB continued to sell its own short-term bonds. In addition, the NBB also began to carry out reverse REPO operations with long-term government securities, which are the result of the government's debts to the NBB reshaping.

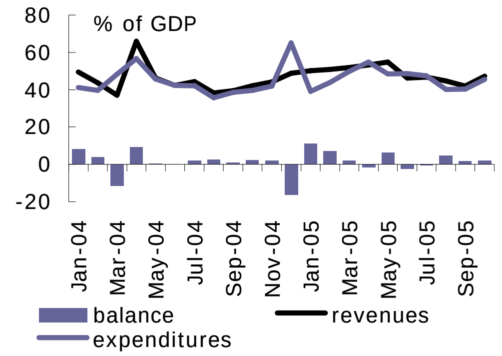
In spite of the high liquidity, the commercial banks continued to reduce the growth rate of crediting to the economy, in light of the high risk levels and relatively low interest rates. In October, outstanding loans to the economy rose by 3.2% mom, the growth rate falling by 2.1% in annual terms compared to September, reaching 33% yoy. This commercial bank policy contributed to keeping most Belarusian ruble interest rates at the September level. Along with the slowing inflation this contributed to a reduction of the cash in circulation by 0.9% mom in October. In annual terms, its growth rate fell to reach 43.2% yoy (49.2% yoy in September). Due to the increased hard currency revenues by Belarusian residents and the faster VAT refunds to exporters, the remaining amounts of money on ruble and currency current accounts of enterprises increased (by 10.4 and 7.0% mom respectively). As a result, ruble money increased by 2.6% and broad money by 2.2% mom. In annual terms, the growth rate of these indicators remained almost unchanged.

In October, consumer prices rose by 0.9% mom and in annual terms inflation fell to the level of 9.5% yoy. That is why the NBB reduced the refinancing rate by one percentage point in November. It is now 11% in annual terms. The exchange rate of the Belarusian ruble to the US dollar did not change in November. As of November 30, it was 2149 BYR/USD.

Banking sector: The benefits for banks-residents of Free Economic Zones were abolished

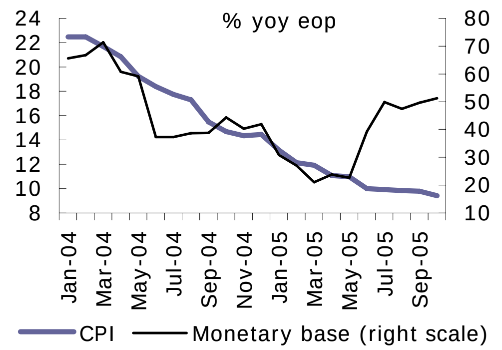
The NBB abolished the privileges for banks-residents of Free Economic Zones (FEZ) concerning the size of the authorized fund and the banks' own capital requirements. In the past a bank only needed to invest EUR 0.5 m of its own capital to get registered. At present, all banks are required to invest EUR 5 m. This is the same norm that applies to all banks in the country. Bank residents of FEZs now having an authorized capital of less than EUR 5 m are required to increase it to the mandated amount. Otherwise, they will be liquidated. The main kind of activities of these banks is to provide services to legal entities – residents of FEZs. Initially it was thought that providing such services would not require much capital. That is why the new measures will primarily have an impact on non-financial companies that are FEZ residents. They will have to change the mechanisms of their activities. As these banks do not have a major impact on the whole banking system – they take part only in small inter-bank operations – the negative impact on the Belarusian banking system will only be in blemishing the image presented to foreign investors.

Consolidated Budget*



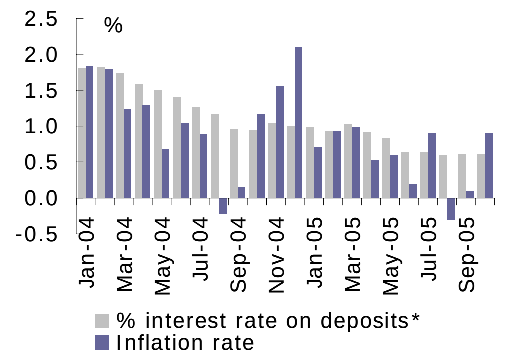
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

Monetary Base and CPI



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

Monthly Inflation and Interest Rates



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

Economic Trends		Q4 03	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Aug 05	Sep 05	Oct 05
GDP growth	% yoy	8.8	9.3	11.0	11.6	11.6	9.6	8.3	8.5	--	--	--
GDP growth	% yoy cum.	6.8	9.3	10.3	10.8	11.0	9.6	8.9	8.7	8.5	8.7	8.6
Industrial production	% yoy cum.	7.1	14.0	14.8	15.7	15.9	11.4	10.3	9.7	9.7	9.7	9.5
Agricultural production	% yoy cum.	6.6	5.0	5.7	11.4	12.6	12.5	10.1	3.0	2.7	3.0	0.9
CPI	% yoy eop	25	22	18	15	14	12	10	10	10	10	9
PPI	% yoy eop	29	27	27	22	24	14	12	11	10	10	11
Merchandise export (USD)*	% yoy	25.0	27.7	36.9	44.6	42.2	21.8	17.4	16.3	10.6	22.1	--
Merchandise import (USD)*	% yoy	24.6	21.5	43.1	42.9	53.4	0.6	3.3	6.9	8.4	12.6	--
Merchandise trade balance (NBB data)	USD m cum.	-1256	-58	-541	-931	-2066	533	-15	-122	400	368	--
Current account	USD m cum.	-424	164	-58	-186	-1043	762	969	--	1086	--	--
Current account	% GDP cum	-2.4	3.7	-0.6	-1.1	-4.6	12.2	7.4	--	5.9	--	--
International reserves	USD bn eop	474	617	539	664	770	975	1130	1189	1124	1189	1301
Monetary Base	% yoy eop	51	71	37	39	42	21	39	50	48	50	51
Lending rate**	% p.a. aop	31	29	24	19	18	19	15	14	13	14	--
Exchange rate (official)	USD aop	2135	2156	2155	2161	2173	2164	2151	2150	2150	2151	2150
Exchange rate (official)	EUR aop	2541	2695	2617	2640	2810	2840	2713	2623	2642	2638	2585

* 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		