

Belarusian Monthly Economic Review

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- Presidential elections will take place on March 19.
- The fuel industry experienced accelerated growth.
- In 2006 the price of Russian gas for Belarus will remain on the level of 2005.
- Surplus of current account decreased.
- Budget law for 2006 was passed.
- In November money supply of the NBB decreased.
- Ban on giving the government loans to finance its budget deficit was included into the Banking Code.

Politics: Presidential elections are slated for March 19

On December 16, the Chamber of Representatives changed its agenda and unanimously voted to hold presidential elections on March 19, 2006. Belarusian law actually allows elections to be held in March. Earlier on it was believed that the elections would need to be held in the summer when the incumbent president's term of office was about to expire. Eight initiative groups supporting presidential candidates were registered. Signature collections in favor of these candidates will continue until January 27, 2006. In December (on the eve of setting the date for the presidential elections) both chambers of the Belarusian parliament approved and the president signed amendments to the Criminal Code. The amendments introduce much harsher penalties for activities in the so-called public sphere. Defamation of the Republic of Belarus and knowingly giving foreign citizens and organizations false information about the Republic of Belarus will be subject to criminal prosecution with sentences of up to two years in prison.

Real sector: Growth acceleration in fuel industry

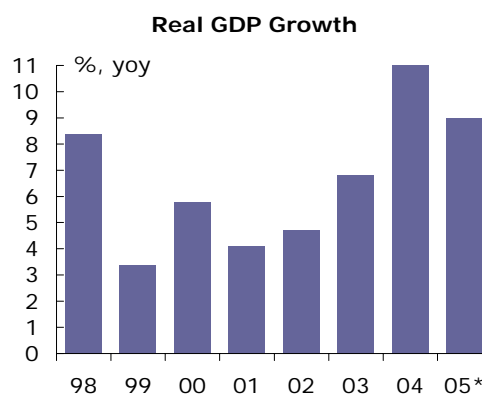
In Jan-Nov GDP rose by 8.9% yoy (8.6% yoy for Jan-Oct). This was due to increased industrial output growth, going from 9.5% to 9.9% yoy, most of which was due to output increases in the fuel industry. The lower growth rate for oil refining was due to some demand deterioration and to a reduction of the oil import growth rate in the second and third quarters.

The most "problematic" enterprises were concentrated in machine building, metal fabrication, chemicals and light industry. Changes in the inventories of some industrial goods prove this – particularly in chemical threads and fibers, tractors, washing machines and certain kinds of fabrics. The stock of potash fertilizer increased most. On December 1, 2005 it was 23.2 times larger than at the beginning of the year. This is evidently due to the prolonged process of setting up the Belarusian Potash Company, despite the fact that one of the goals for its creation had been to simplify the export of fertilizers. Though its stock on December 1, 2005 amounted to only 13.1% of the average monthly output, having such a large volume of fertilizers in stock could generate losses for the fertilizer's producer, "Belaruskaliy", not only because of delayed sales income in an environment of lower demand in this market, but also because of possible spoilage due to excessive fertilizer storage times.

Structural trends: In 2006, the price of Russian gas for Belarus will remain on the level of 2005

Energy. At the end of December, Belarus and Russia signed a contract for delivery of Russian gas to Belarus at the 2005 price level (USD 46.68 per 1000 m³). The transit prices for Russian gas will also remain at the 2005 levels. At the same time, the Russian negotiators emphasized that agreeing to

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%



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

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these conditions was conditional on reaching an agreement with Belarus to set up a gas transportation joint venture with the joint stock company "Beltransgaz" within the next 2 to 3 months. However, the contract can be considered as a Russian subsidy to Belarus, since Belarus did not sign any legal commitments to set up a joint venture.

Foreign debt. In spite of its favorable fiscal situation including the foreign exchange market, Belarus contracted foreign loans in the amount of USD 178 m in December. Of this, USD 146 m is an intergovernmental Russian loan to ensure balanced payments in bilateral trade, which can also be considered as a measure of the Russian authorities' support for the Belarusian economy.

External trade: Reduction of current account surplus

Trade deficit with Russia remained almost unchanged, despite the reduction in trade turnover in Jan-Oct 2005 by 7.6%. For Jan-Oct, the deficit exceeded USD 3 bn, which was partially offset by a merchandize trade surplus with non-CIS countries. The main factor of export growth was higher oil and oil products prices on the world market (the average price of oil products exported by Belarus went up by 44% yoy in Jan-Oct). As a result, the share of oil and oil products in Belarusian exports increased to 32%. In exports to the EU, the share of these goods reached 70%.

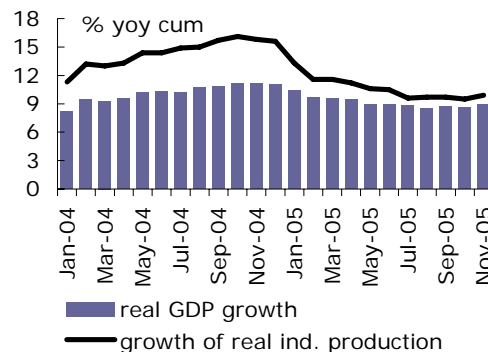
The surplus in the services trade continued to grow in spite of the fact that starting with the second quarter of the year the import of services grew faster than their export. The increased services import was due to more trips of physical entities abroad after a decline of the number of these trips in 2004. In addition, the import of transportation services due to more active trade with non-CIS countries also contributed to the increase of the services import. The deficit in merchandize trade in the 2nd and 3rd quarters of 2005 led to a reduction of the current account surplus from 12.1% of GDP in the first quarter of the year to 3.1% and 0.5% of GDP in the second and the third quarters respectively. In the third quarter of 2005, the outflow of resources from the financial account stopped due to an increase in foreign direct investment. The NBB used this situation to increase its international reserves (in the third quarter of 2005 the reserves rose by USD 52.6 m). At the same time, compared to international standards their volume is quite small, as they did not even reach one month's worth of imports.

Public finance: Budget law for 2006 was passed

The transition to a VAT payment regime based on the country of destination in the trade with Russia, the improvement of the financial statuses of enterprises and the growth of foreign trade resulted in the general government collecting revenues in Jan-Oct amounting to 48.3% of GDP or 89.9% of the annual plan (compared to 85.2% a year earlier). Revenues from VAT, corporate income tax and foreign trade taxes amounted to 98.7%, 104.9% and 92.7% of their annual forecasts respectively. Expenditures of the general government grew slower. In Jan-Oct they amounted to 45.6% of GDP or 80.2% of the annual plan (78.3% a year earlier). The fiscal surplus amounted to 2.7% of GDP, which is 1 percentage point more than for the same period of 2004. The increased fiscal surplus in absolute terms and the increased net revenues from selling government securities enabled the government to increase its deposits by BYR 1.6 trn since the beginning of the year.

Parliament passed the law for the Central Budget for 2006. Revenues of the central government are planned at 34.6% of GDP (revenues of the general government are expected to

GDP and Industrial Production



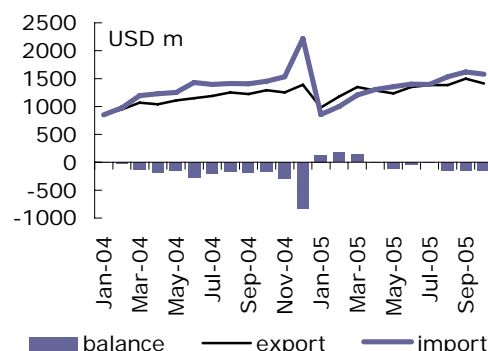
Source: Ministry of Statistics and Analysis.

Contribution to industrial output growth

Industry branches	Jan-Nov 2005	
	Growth rate*	Contribution**
Industry branches		
electric power	-2.3	-0.2
fuel	8.5	1.9
ferrous metallurgy	9.0	0.4
chemical and petrochemical industry	6.1	0.7
machinery and metalworking	14.3	2.8
logging, woodworking, pulp and paper	8.6	0.3
building materials	9.0	0.3
light	4.6	0.2
food	13.4	1.8
other	15.1	1.7
Industry, total	9.9	9.9

* % yoy; ** percentage points. Source: Own calculations based on the Ministry of Statistics and Analysis data.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Balance of payments

balance of items, USD m	1Q05	2Q05	3Q05
Current account	727.6	218.0	43.4
Goods	477.0	-45.0	-203.2
Services	217.5	223.0	171.9
Capital and financial account	-824.0	-122.0	14.2
FDI	12.5	58.3	93.6
Other investment	-607.4	-26.0	-26.1
Change in reserve assets	-238.4	-145.2	-52.6
Errors and omissions	96.6	-95.4	-57.6

Source: NBB.

be 46.1% of GDP, the forecast for 2005 is 46.3%). It is planned to reduce the turnover taxes and a few local fees in order to ease the tax burden by 1.3% of GDP, which will enable enterprises to retain about BYR 1 trn more (at the same time according to the forecast, the consolidated revenues will be lower by just 0.2% of GDP). The expenditures of the central government will be 36.0% of GDP. The revenues of the general government are expected to be 47.6% of GDP, while the forecast for 2005 is 48.7% of GDP). The fiscal deficit of the central government for 2006 is planned to be 1.5% of GDP.

Monetary policy: NBB reduced money supply

In November, monetary base decreased by 3.3% mom, slowing its growth in annual terms to 47.1% yoy (51.3% yoy in October). This was primarily due to the government operations connected with the administration of its deposits in the NBB. The NBB's net foreign assets dropped by 3.4% mom due to a reduction of government deposits in foreign currency by USD 83.6 m. This happened in spite of the fact that the NBB kept buying excessive amounts of foreign currency on the domestic market. Besides, the increase of government deposits in national currency by BYR 310 bn also contributed to the reduction of the NBB's money supply. As a result, the level of liquidity of the banking system was stabilized after a long period of increase.

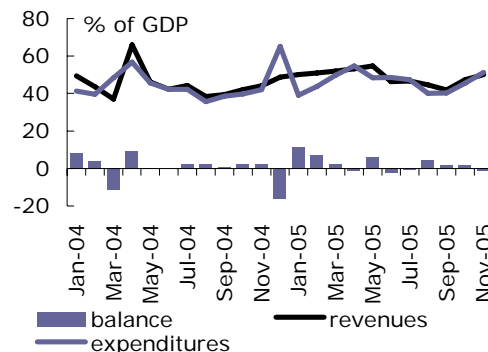
The credit policy of banks also contributed to the solution of the problem of excessive liquidity. In November, the volume of crediting of the banks to the economy went up by 2.9% mom in spite of the monetary base reduction. The growth rate of crediting in annual terms decreased just a little (by 0.5 percentage points) and reached 32.5% yoy. The increase of crediting of the economy led to a small reduction of interest rates in nominal terms. Along with continuing growth of household incomes this factor contributed to the increase of cash in circulation by 1.6% mom and to keeping the growth rate of time deposits (3.6% mom) high. As a result, ruble money increased by 2.2% mom, broad money rose by 1.0% mom. In annual terms the growth rate of ruble money increased by 3.3 percentage points (to 56.8% yoy) and of the broad money by 1.1 percentage point (to 41.5% yoy) compared to Jan–Oct. In November consumer prices went up by 0.5% mom, and in annual terms inflation dropped to 8.3% yoy. The exchange rate of the Belarusian ruble to the US dollar went up by 0.14%. On December 31, it stood at 2152 BYR/USD.

Banking sector: Ban on giving the government loans by the NBB

In December, parliament made amendments to the Banking Code, including some changes to the procedures for regulating and supervising banks. In particular, notions such as bank holdings, bank groups and procedures for their consolidated supervision were included into the Banking Code. In addition, a new procedure for licensing Belarusian banks was introduced. Instead of a series of licenses, which banks need to obtain to carry out their operations, they will now only need one license.

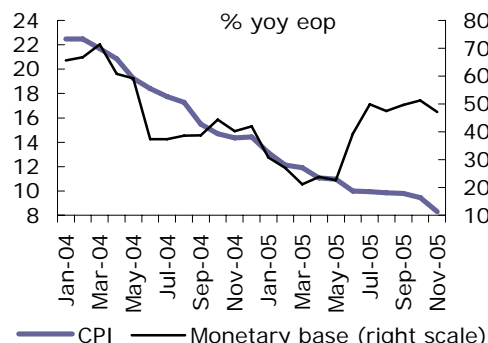
The amendments also modified the structure of the Belarusian banking system, clarified the status of the NBB not just as a central bank of the Republic of Belarus but also as a government body. In addition, the Banking Code introduced a direct ban on giving loans to the government to finance its budget deficits, which applies both to the NBB and to commercial banks. These amendments are beneficial for the Belarusian banking system. They increase the transparency of the regulatory and supervisory procedures of the system and of the relations between the government and the banking system.

Consolidated Budget*



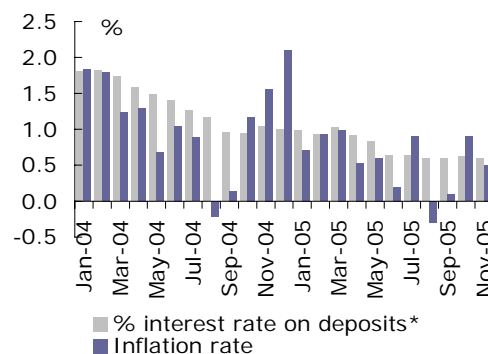
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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	Sep 05	Oct 05	Nov 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	8.7	8.6	8.9
Industrial production	% yoy cum.	7.1	14.0	14.8	15.7	15.9	11.4	10.3	9.7	9.7	9.5	9.9
Agricultural production	% yoy cum.	6.6	5.0	5.7	11.4	12.6	12.5	10.1	3.0	3.0	0.9	1.3
CPI	% yoy eop	25.4	21.7	18.4	15.5	14.4	11.9	10.0	9.8	9.8	9.4	8.3
PPI	% yoy eop	28.1	26.4	26.9	22.1	18.8	14.2	12.1	10.5	10.5	10.3	10.1
Merchandise export (USD)*	% yoy	25.0	27.7	36.9	44.6	42.2	21.8	19.5	18.0	18.0	17.0	--
Merchandise import (USD)*	% yoy	24.6	21.5	43.1	42.9	53.4	0.6	2.3	4.4	4.4	4.8	--
Merchandise trade balance (NBB data)	USD m cum.	-1256	-58	-541	-931	-2066	477	432	229	229	--	--
Current account	USD m cum.	-424	164	-58	-186	-1043	723	945	989	989	--	--
Current account	% GDP cum	-2.4	3.7	-0.6	-1.1	-4.6	12.1	7.3	4.6	4.6	--	--
International reserves	USD bn eop	474	617	539	664	770	975	1130	1189	1189	1301	1270
Monetary Base	% yoy eop	51	71	37	39	42	21	39	50	50	51	47
Lending rate**	% p.a. aop	31	29	24	19	18	19	15	14	14	14	--
Exchange rate (official)	USD aop	2135	2156	2155	2161	2173	2164	2151	2150	2151	2150	2149
Exchange rate (official)	EUR aop	2541	2695	2617	2640	2810	2840	2713	2623	8.7	8.6	8.9

* 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		