

Belarusian Monthly Economic Review

- Consideration of Constitutional Act of the Union State of Belarus and Russia was postponed.
- Acceleration of GDP growth in the fourth quarter.
- More state support to loss making enterprises.
- Rise of oil products export duty.
- Withdrawal of government deposits from the NBB in December.
- Considerable growth acceleration of the money supply.
- Adoption of new regulations for Belinvestbank.

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Politics: Consideration of the Union State Constitutional Act was postponed again

On January 24 the Highest State Council of the Union State held another session. 12 issues were on the agenda. However, the main issue – consideration of the Constitutional Act – was postponed, due to inability to settle disagreements between the parties. Moreover the parties failed to agree on introduction of the Russian ruble in Belarus. Hence, the main issues of Belarus and Russia integration have not been agreed upon.

Real sector: Acceleration of GDP growth in the fourth quarter due to industry's contribution

In 2005, the GDP growth rate was 9.2% yoy, which was less than in 2004 (11.4% according to the revised GDP estimate for 2004). Over the year the revised estimate of the GDP growth rate decreased from 9.7% yoy in the first quarter to 8.3% in the third quarter of 2005. The acceleration of GDP growth in the fourth quarter was due to growth of value added in industry. Its contribution to the GDP increase went up from 2.9 percentage points in the third quarter to 5.5 percentage points in the fourth quarter of 2005.

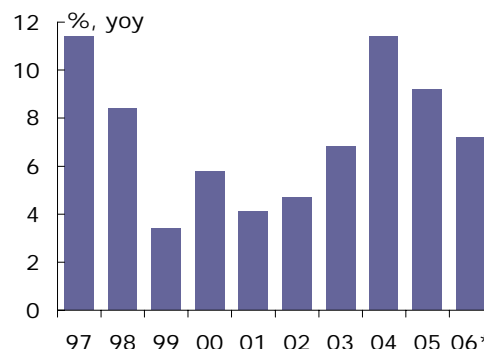
However, industry's contribution to the GDP increase in 2005 was 1.4 percentage points less than in 2004, amounting to 4.2 percentage points. The output of all major industrial sectors grew more slowly in 2005. The contributions of the fuel industry, machine building, metal works and the electric energy sector decreased most of all. The main reason for the slower growth in industry was lost export markets. In spite of a favorable price situation, which contributed to the increase of export in value terms, exports in volume terms decreased. Thus, growth slowed even in the food processing industry, the only sector that saw an export increase to Russia.

Structural trends: More state support to loss making enterprises

State support. The president of Belarus signed the edict "On debt restructuring and certain other measures to improve the financial statuses of loss making organizations", according to which the state will restructure the debts of state enterprises (excluding agricultural organizations) that had losses as of October 1, 2005. Thus, the overdue accounts payable of about 300 loss making enterprises will be given a 5-year payment extension. Experts estimate that the overdue accounts payable, which are thus to be restructured amount to about BYR 500 bn. About 50% of the debts are to the government, 13.4% to banks, and 23% are energy debts. This measure is aimed at reducing the number of loss making enterprises. Yet, the measure is unlikely to reach the goal of leading to real improvements in the companies' financial statuses.

Population: 9.8 m
Industry/GDP: 27.4%
Agriculture/GDP: 7.5%
Investment/GDP: 23.3%
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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External trade: Rise of oil products export duties

In Jan–Nov 2005 merchandise export amounted to USD 14.4 bn and imports to USD 14.9 bn. The export growth rate exceeded that of imports (16.3 and 4.4% yoy respectively). As a result, the merchandise trade deficit amounted to USD 486.7 m, which is 3.8 times less than for the same period of 2004. The merchandise trade deficit with Russia reached last year's level, amounting to USD 3.9 bn. This was due to a stabilization of the decrease rate of Russian imports to Belarus, and to falling exports to this country. In the trade with non-CIS countries the surplus increased by 67.3% yoy. Due to a favorable price situation on the oil products market the export growth rate to non-CIS countries (36.7% yoy) exceeded the growth rate of imports from these countries (22.7% yoy). Export of oil products to non-CIS countries increased in value terms by 48.3%; that of potash fertilizers rose by 29.5% yoy.

The fact that export duties on oil products in Belarus were two times lower than in Russia contributed to the oil products export growth. This regime was maintained though it clearly violates the principles of the customs union between Belarus and Russia. In December export duties were raised, but they are still lower than in Russia. Also, the duties were raised only on goods that are of secondary importance to export. However, if the duties for main oil products were raised this would lead to a considerable reduction in profitability.

Public finance: Withdrawal of the government's deposits from the NBB in December

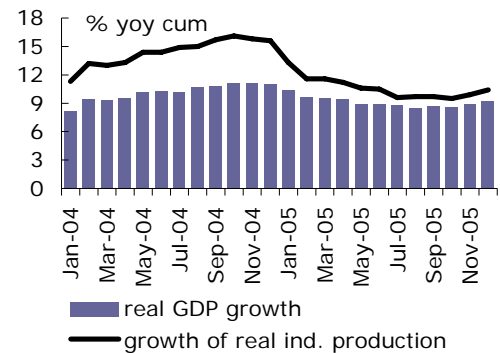
In Jan–Nov the consolidated revenues amounted to 48.2% of GDP. In November, this indicator remained practically unchanged. At the same time, the seasonal growth of the consolidated expenditures took place, amounting to 45.9% of GDP. In November, expenditures rose by 0.3 percentage points. As a result, in November the budget plan was executed with the fiscal deficit of the general government at BYR 59.5 bn or 1.1% of GDP. This led to a reduction of the fiscal surplus for Jan–Nov to BYR 1347.7 bn or 2.3% of GDP, which is 0.6 percentage points more than for the same period in 2004.

In December 2005, the president signed five edicts to amend the law on the Republican Budget for 2005. As a result, the revenues for agricultural producer support rose by BYR 20 bn. Expenditures increased by BYR 324.6 bn, including expenditures for agricultural producer support, which rose by 24.6 bn, and expenditures for fees and deposits of BYR 300 bn. Additional expenditures are planned to be financed by the Agricultural Fund itself (BYR 4.6 bn) and through selling government securities (BYR 300 bn). These December changes caused the planned fiscal deficit of the Central government to rise by BYR 1.8 trn or 2.9% of GDP. However, according to preliminary data, a consolidated fiscal deficit for 2005 was much lower, since the government financed these expenditures at year's end by withdrawing deposits from the NBB.

Monetary policy: Considerable acceleration of money supply growth

In December 2005 the monetary base went up by 38.9% mom and in annual terms its growth accelerated to 73.7% yoy (47.1% yoy in November). The main determinant of this significant increase in the money supply was the government's withdrawal of practically its entire savings from the accounts in the NBB, amounting to BYR 976.2 bn. The money supply also increased due to the NBB's own operations of refinancing commercial banks. Because of this broad increase in the money supply, economic entities increased their demand for hard currency. This led to a situation requiring the NBB to

GDP and Industrial Production



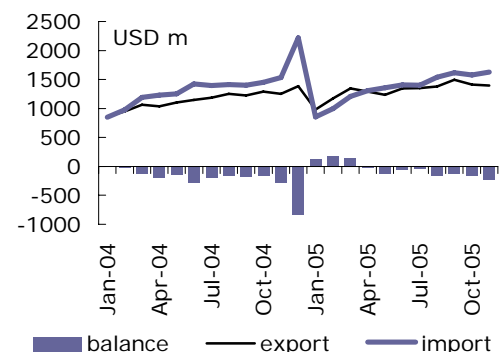
Source: Ministry of Statistics and Analysis.

Sectors' contribution to GDP growth

	2004		2005	
	1	2	1	2
Industry	19.7	5.6	14.0	4.2
Agriculture	13.7	1.5	1.8	0.2
Building	15.2	1.0	17.5	1.2
Transport and communications	7.4	0.8	9.6	1.0
Trade and scattering	12.3	1.4	13.7	1.6
Other sectors	15.1	1.2	11.7	1.1
GDP	11.4	11.4	9.2	9.2

1 – growth, % yoy; 2 – contribution, percentage points. Source: Own calculations based on the Ministry of Statistics and Analysis data.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Contribution of goods groups to export and import growth

	Exports	Imports
Mineral products	13.2	6.3
Machines and equipment	-0.2	-0.4
Transport	0.8	0.5
Chemical production	1.9	-0.1
Textile	-0.4	-0.3
Agriculture and food	1.5	0.4
Base metals	0.0	-1.1
Other	-0.5	-1.0
Total	16.3	4.4

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

increase the volume of hard currency sold on the domestic market. Net foreign assets of the monetary authorities went down by 2.5% mom, which sterilized the money supply to some extent.

The consequences for the economy of such a sharp increase in the money supply were cushioned by the behavior of the commercial banks. They used most of the new money as extra reserves in the national currency (in NBB securities and NBB deposits), raising them by 124.8% mom. Moreover, the hard currency component of the monetary base increased considerably, too, due to a Russian intergovernmental loan in the amount of USD 146 m, which was deposited in Belinvestbank. The new regulations concerning this bank made such an operation possible.

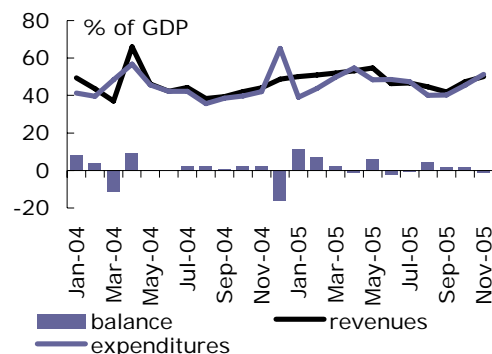
In spite of the prudent reaction of the commercial banks, the monetary shock had an impact on the credit and deposit markets in December already. The large excess of bank liquidity led to increases in the credit resources supply. In December, the growth rate of crediting the economy reached 33.3% yoy (32.5% yoy in November) in spite of the long-term tendency of slowing crediting. At the same time the credit and deposit interest rates for financial tools in Belarusian ruble fell. However, the growth of the money supply led to an acceleration of growth of current deposits of enterprises. The growth rate reached 59.9% yoy (48.3% yoy in November). This also contributed to maintaining the high growth rate of time deposits by individuals, caused by the seasonal increases of salaries and wages in December. As a result, cash in circulation went up by 10.9% mom in December: ruble money by 13.6% mom and broad money by 9.7% mom. The accelerated growth in the money supply did not have an impact on consumer prices in December, which rose by 1.7% mom in December, and in annual terms by 8.0% yoy. In January, the Belarusian ruble appreciated vis-à-vis the US dollar by 0.09%. As of January 31, 2006 the exchange rate was 2150 BYR/USD.

Banking sector: Adoption of new regulations for Belinvestbank

In December, following a presidential edict, the government adopted new regulations for Belinvestbank. These change the bank's status to that of a promotional bank, destined to service the government's investment programs. The new regulations envisage that the authorized capital of the bank will be increased annually with budgeted government funds. The bank's mandate is to issue loans to service the state's investment programs in amounts up to at least the size of its authorized capital.

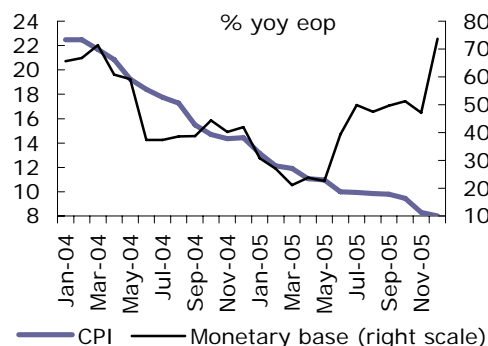
The new regulations also define the procedures for issuing loans within the framework of these programs. According to the regulations, legal entities that want to obtain loans need to apply to state bodies. The government will maintain a list of all applicants and will decide what organizations should receive loans from Belinvestbank. The maximum term for any loan is eight years. The interest rate will be jointly agreed upon by the bank and the Ministry of the Economy. The new regulations have turned Belinvestbank into a quasi-fiscal state body that is deprived of the right to carry out its own credit policy.

Consolidated Budget*



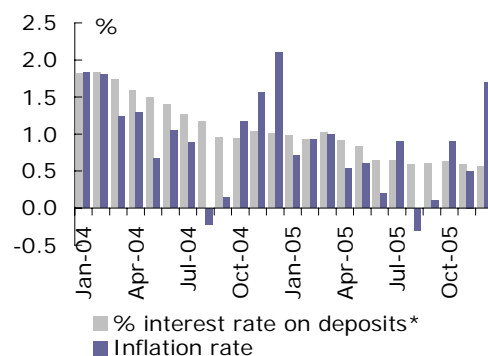
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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		Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Oct 05	Nov 05	Dec 05
GDP growth	% yoy	9.8	11.5	12.1	11.7	9.7	8.2	8.3	10.7	--	--	--
GDP growth	% yoy cum.	9.8	10.7	11.2	11.4	9.7	8.9	8.7	9.2	8.6	8.9	9.2
Industrial production	% yoy cum.	14.0	14.8	15.7	15.9	11.4	10.3	9.7	10.4	9.5	9.9	10.4
Agricultural production	% yoy cum.	5.0	5.7	11.4	12.6	12.5	10.1	3.0	2.1	0.9	1.3	2.1
CPI	% yoy eop	21.7	18.4	15.5	14.4	11.9	10.0	9.8	8.0	9.4	8.3	8.0
PPI	% yoy eop	26.4	26.9	22.1	18.8	14.2	12.1	10.5	10.2	10.3	10.2	10.2
Merchandise export (USD)*	% yoy	27.7	36.9	44.6	42.2	21.8	19.5	18.0	--	9.1	11.5	--
Merchandise import (USD)*	% yoy	21.5	43.1	42.9	53.4	0.6	2.3	4.4	--	7.9	1.6	--
Merchandise trade balance (NBB data)	USD m cum.	-58	-541	-931	-2066	477	432	229	--	105	-98	--
Current account	USD m cum.	164	-58	-186	-1043	723	945	989	--	971	--	--
Current account	% GDP cum	3.7	-0.6	-1.1	-4.6	12.1	7.3	4.6	--	4.0	--	--
International reserves	USD bn eop	617	539	664	770	975	1130	1189	1297	1301	1270	1297
Monetary Base	% yoy eop	71	37	39	42	21	39	50	74	51	47	74
Lending rate**	% p.a. aop	29	24	19	18	19	15	14	--	14	13	--
Exchange rate (official)	USD aop	2156	2155	2161	2173	2164	2151	2150	2150	2150	2149	2151
Exchange rate (official)	EUR aop	2695	2617	2640	2810	2840	2713	2623	2558	2585	2538	2551

* 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		1999	2000	2001	2002	2003	2004	2005
Nominal GDP*	BYR trn	3.026	9.134	17.173	26.613	36.565	49.991	63.678
Nominal GDP	USD bn	5.4	8.9	12.1	14.5	17.7	23.1	29.5
GDP growth	% yoy	3.4	5.8	4.7	5.0	7.0	11.4	9.2
Industrial production	% yoy	10.3	7.8	5.9	4.5	7.1	15.9	10.4
Agricultural production	% yoy	-8.3	9.3	1.8	0.7	6.6	12.6	2.1
CPI	% yoy aop	294	169	61	43	29	18	10
CPI	% yoy eop	251	108	46	35	25	14	8
PPI	% yoy aop	355	186	72	41	38	24	12
PPI	% yoy eop	245	166	41	42	29	19	10
Exports (gs, USD)	% yoy	-8.5	17.6	10.4	8.6	24.0	38.3	--
Imports (gs, USD)	% yoy	-19.0	21.0	8.2	9.1	27.1	41.4	--
Current account	USD m	-194	-338	-394	-311	-424	-1206	--
Current account	% GDP	-3.6	-3.9	-3.2	-2.1	-2.4	-5.2	--
FDI (net)	USD m	443	119	96	453	170	163	--
International reserves	USD m	305	357	347	457	474	770	1297
Fiscal balance**	% GDP	-2.9	-0.6	-1.6	-0.2	-1.6	0.0	--
Internal public debt	% GDP eop	5.7	4.5	6.1	5.4	5.5	5.7	--
External debt (total)	% GDP eop	41.8	24.4	24.8	27.0	23.7	21.4	--
Monetary base	% yoy eop	204	52	225	32	50	42	74
Exchange rate (official)*	USD aop	572	1035	1394	1784	2075	2160	2154
Exchange rate (official)*	USD eop	925	1213	1580	1920	2156	2170	2152
Spread***	% aop	128.2	44.4	0.8	0.0	0.0	0.0	0.0
Spread***	% eop	189.1	2.8	0.2	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	270	651	1239	1690	2353	2684	2681
Exchange rate (official)*	EUR eop	323	1097	1392	1989	2695	2956	2550

* 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		