

Belarusian Monthly Economic Review

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- Presidential candidates are registered.
- Share of loss making enterprises decreased.
- Tightening state regulation of prices.
- In 2005 exports and imports fell in real terms.
- 2005 closed with a net budget deficit.
- The money supply decreased January.

Politics: Registration of presidential candidates

In February four presidential candidates were registered in Belarus. They are the incumbent president A. Lukashenko; deputy of the Chamber of Representatives and leader of the liberal democratic party of Belarus S. Gaidukevich; and two independent candidates: ex president of the Belarusian State University A. Kozulin and the candidate of the joint political opposition, NGO leader A. Milinkevich. While the two first candidates advocate current social and economic policy, basing their programs on its further implementation and development, the independent candidates propose major changes in economic policy in their programs aimed primarily at improving the investment climate and enhancing competitiveness of the national economy. In addition, their programs focus on solving social and demographic problems. Carrying out pension reform is one of the proposals of the pro-reform forces.

Real sector: The share of loss-making enterprises fell to 3.5%

In January GDP grew by 10.2% yoy and industrial output went up by 12.6% yoy (16.0% yoy in December 2005). The slower growth of industry is partially due to a change in the methodology of calculating this particular index. The new methodology, which was introduced in 2006, is based not on the increase of output in comparable prices but on changes in the output of the 558 most important goods that form a representative sample for the calculation of industrial output. The new methodology provides a more precise evaluation of industrial output and GDP changes as well as the volume of value added in the economy. The Ministry of Statistics and Analysis estimates that the old methodology led to 2-3 percentage points per year higher industrial output growth than the new methodology.

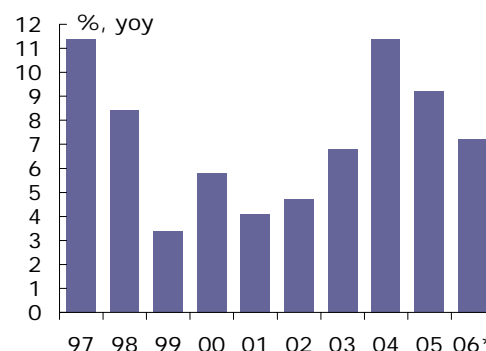
In 2005, a record low number of loss-making enterprises were registered. Only 3.5% of all enterprises reported losses, which is 5.5 times lower than in 2004. In December alone this indicator fell by 4.5 times. This result is due to peculiarities of the accounting rules applied by the enterprises that are monitored by the Ministry of Statistics and Analysis, which recommends that enterprises write off debts against capital assets at the end of the year. This measure does not change the financial status of enterprises because the write-off is at the expense of non-existent assets. In January 2006 the share of loss making enterprises rebounded to over 20%.

Structural trends: Tightening state price regulation

Government regulation. In February the president signed a decree that tightens measures to regulate prices. According to this decree, prices and tariffs cannot grow faster than the income of the population, and each price rise must be approved by government regulatory bodies. Price regulation is enforced for medical services and services provided by commercial organizations with foreign investments. Tighter measures and fines will be applied to legal entities and

Population: 9.8 m
Industry/GDP: 27.4%
Agriculture/GDP: 7.5%
Investment/GDP: 23.3%
Export destination: Russia 36%, EU 44%
Import origin: Russia 61%, EU 21%

Real GDP Growth



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

individual entrepreneurs who violate these price regulations. Thus, the authorities continue to attempt to fight inflation with administrative measures, while increasing money in circulation.

External trade: Exports and imports fell in real terms

In 2005 the growth rate of foreign trade decreased considerably compared with 2004. According to preliminary data, in 2005 exports and imports in value terms went up by 16.0 and 1.3% yoy, respectively (in 2004 – by 38.2 and 42.7% yoy). Growth rates of exports and imports fell sharply, even if the VAT payment regime with Russia is taken into account (23.4 and 15.7% yoy, respectively). In real terms, exports and imports fell by 1.2 and 3.1%, respectively. Export and import values increased due to the increase of average export and import prices (17.4 and 4.6%, respectively). The foreign trade deficit amounted to USD 721.5 and decreased by 70% compared with 2004.

Taking into account the openness of the customs border with Russia, the State Customs Committee of Belarus passed a resolution that introduced one more obligatory document to be presented. If a good is imported from Russia, customs officials must be presented with the original certificate of the origin of the good. If an importer cannot provide this certificate, the goods are cleared following payment of all necessary duties (as if they originated from a third country). A new order of customs clearing for goods from third countries that enter at the Russian border was also introduced. These measures are aimed at making imports more transparent and at blocking so called 'grey' imports. The latter have led to repeated complaints by Belarusian industrial producers.

Public finance: Deficit of the general budget in 2005

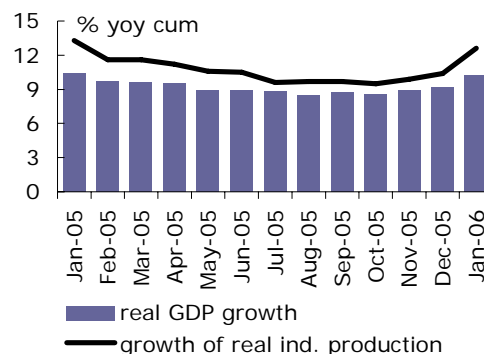
Transition to VAT payment based on the country of destination in trade with Russia, the improvement of the financial status of enterprises, and the growth of foreign trade turnover enabled the government to collect consolidated revenues in 2005 in the amount of BYR 30.8 trn or 48.4% of GDP. This is 4.1 percentage points more than in 2004. According to preliminary data, the execution of the general budget in revenue terms was 108.7% of the amended plan (in the course of the year the budget was revised 16 times). Consolidated expenditures were BYR 31.2 trn or 48.9% of GDP (44.1% of GDP in 2004). The expenditure part of the budget was executed by 96.9% of the amended plan. In December, government expenditures grew considerably. The funds were used to raise wages in the budgetary sphere. BYR 0.6 trn were directed to increase the authorized funds of state banks.

As a result, in December the general fiscal deficit was BYR 1.7 trn or 27.0% of GDP. However, this December deficit was neutralized by the surplus that had accumulated over the first 11 months of the year. Finally, in 2005 the general budget was executed with a deficit in the amount of BYR 0.4 trn or 0.6% of GDP. This fiscal deficit was financed by a net purchase of government securities, accumulated deposits of the government and external sources. Improvement of the situation with external financing of the deficit in December was due to a Russian government loan in the amount of USD 146 m (at LIBOR + 0.75% in annual terms) and a syndicated loan in the amount of USD 32 m (at LIBOR + 4.25% in annual terms) that was arranged by Vneshtorgbank, Raiffeisen Zentralbank Osterreich AG and Priorbank.

Monetary policy: Reduction of money supply in January

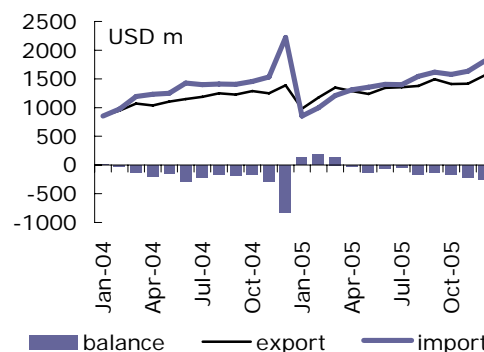
In January, the money base shrank by 18.0% mom, and in annual terms its growth slowed to 58.4% yoy (73.7% yoy in

GDP and Industrial Production



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Contribution to industrial output growth

Branches of industry:	Jan 2005	
	Growth rate*	Contribution**
electric power	18.6	1.4
fuel	2.6	0.7
ferrous metallurgy	18.3	0.8
chemical and petrochemical industry	6.1	0.7
machinery and metalworking	13.4	2.6
logging, woodworking, pulp and paper	1.8	0.1
building materials	22.4	0.4
light	5.5	0.2
food	10.2	1.3
other	48.5	4.4
Industry, total	12.6	12.6

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

Dynamics of external trade in 2005

	Export		Import		Balance	
	USD, bn	Growth rate*	USD, bn	Growth rate*	USD, bn	Growth rate*
Total	16.0	116.0	16.7	101.3	-0.7	30.0
CIS	7.1	96.5	11.1	93.6	-4.1	88.9
non-CIS	8.9	138.2	5.6	121.1	3.3	180.6

* % yoy.
Source: Ministry of Statistics and Analysis.

December). The main factor that led to this slow-down was an increase in the government's deposit balance which grew by 118.7% mom (by BYR 825.6 bn). A considerable part of this increase was due to the transfer to government accounts of hard currency that was received in the form of intergovernmental loans. This transfer also contributed to a 12.9% increase in net foreign assets in January.

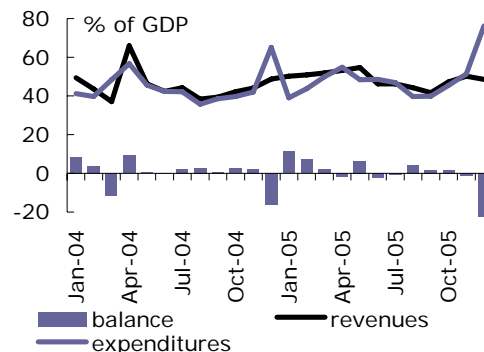
As the money supply was reduced, the excess liquidity in the banking system fell: in January, the excess reserves of commercial banks decreased by 58.8% mom. At the same time, most banks still have excess liquidity. By the end of January, the excess reserves of the banks amounted to 16.1% of the money base. Nevertheless, the majority of the banks remain reluctant to invest in the economy. In January the growth rate of banks' claims on the economy began to fall again both in nominal (by 0.2 percentage points) and real terms. It should be noted that banks did not change their deposit and credit interest rates significantly. Therefore, the interest rate spread remained quite wide. Hence the deposit market did not transform much either. The population continued to distribute its savings between ruble and hard currency accounts in the same proportions, as time ruble deposits of physical entities went up by 4.9% mom, and hard currency deposits by 2.9% mom. In annual terms, their growth rates were 48.6 and 20.1% yoy, respectively. The main reasons for the reduction of money were cash in circulation and the transferable deposits of enterprises. The former shrank by 2.9% mom, although in annual terms its growth rate went up by 4.5 percentage points and reached 55.0% yoy. The ruble transferable deposits of enterprises fell by 17.6% mom, and hard currency deposits by 5.8% mom. This can be attributed to a seasonal reduction in business activities and the transfer of tax payments to government accounts. As a result, ruble money shrank by 2.8% mom, and in annual terms its growth rate increased by 0.9 percentage points to 60.4% yoy. Broad money shrank by 2.2% mom, and in annual terms its growth rate remained unchanged at 42.2% yoy.

Softening monetary policy in the second half of 2005 and a sharp increase in the money supply in December in particular contributed to the acceleration of price growth. In January, consumer prices increased by 1.3% mom. In annual terms, their growth rate increased by 0.6 percentage points to 8.6% yoy. The exchange rate of the US dollar did not change substantially in February. As of February 28, it was 2150 BYR/USD.

Banking sector: Discussion on introduction of Basel-2 standards

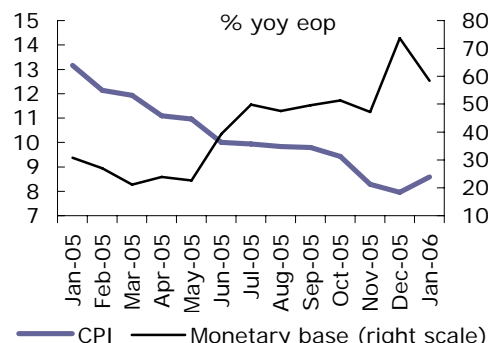
In February the NBB initiated a discussion among commercial banks on the perspective of introducing the standards of the Basel Committee in the sphere of capital adequacy (Basel-2). The banks have been invited to express their opinions on the introduction of these standards at one of the sessions of the NBB Board in 2006. As EU countries are introducing these standards in 2007, and Russia has declared that it will introduce them in 2008, introduction in Belarus will considerably increase the prospects for integrating the Belarusian banking system into the international banking system. Moreover, the introduction of modern standards of evaluation and accountability of risks would have a positive impact on the current financial status of Belarusian banks and would improve the efficiency of the financial system, increasing the likelihood that scarce capital will be channeled to the most profitable investments.

Consolidated Budget*



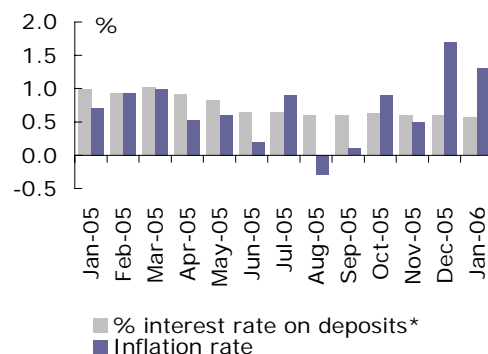
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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	Nov 05	Dec 05	Jan 06
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	8.9	9.2	10.2
Industrial production	% yoy cum.	14.0	14.8	15.7	15.9	11.4	10.3	9.7	10.4	9.9	10.4	12.6
Agricultural production	% yoy cum.	5.0	5.7	11.4	12.6	12.5	10.1	3.0	2.1	1.3	2.1	11.2
CPI	% yoy eop	21.7	18.4	15.5	14.4	11.9	10.0	9.8	8.0	8.3	8.0	8.6
PPI	% yoy eop	26.4	26.9	22.1	18.8	14.2	12.1	10.5	10.2	10.2	10.2	9.5
Merchandise export (USD)*	% yoy	27.7	36.9	44.6	42.2	21.8	19.5	18.0	--	11.5	12.6	--
Merchandise import (USD)*	% yoy	21.5	43.1	42.9	53.4	0.6	2.3	4.4	--	1.6	-19.0	--
Merchandise trade balance (NBB data)	USD m cum.	-58	-541	-931	-2066	464	371	112	-452	-216	-452	--
Current account	USD m cum.	164	-58	-186	-1043	723	945	989	--	--	--	--
Current account	% GDP cum	3.7	-0.6	-1.1	-4.6	12.1	7.3	4.6	--	--	--	--
International reserves	USD bn eop	617	539	664	770	975	1130	1189	1297	1270	1297	1314
Monetary Base	% yoy eop	71	37	39	42	21	39	50	74	47	74	58
Lending rate**	% p.a. aop	29	24	19	18	19	15	14	12	13	12	--
Exchange rate (official)	USD aop	2156	2155	2161	2173	2164	2151	2150	2150	2149	2151	2152
Exchange rate (official)	EUR aop	2695	2617	2640	2810	2840	2713	2623	2558	2538	2551	2605

* 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	-0.6
Internal public debt	% GDP eop	5.7	4.5	6.1	5.4	5.5	5.7	5.8
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		