

Belarusian Monthly Economic Review

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- Presidential elections were held.
- 24.5% of all enterprises now make losses.
- Energy tariffs were increased.
- The export share of oil products increased.
- A new functional classification of state budget expenditures was adopted.
- The net foreign assets of the NBB were reduced.
- Administrative stimulation of investment crediting.

Politics: Presidential elections were held

On March 19, presidential elections were held in Belarus. The turnout was 92%. 31% of voters had cast their votes before Election Day. According to the Central Election Commission the results were as follows: A. Lukashenko received 83% of the votes, A. Milinkevich – 6.1%, S. Gaidukevich – 4%, A. Kozulin – 2.2%. Two of the defeated candidates, A. Milinkevich and A. Kozulin, stated that the elections had been rigged and that they could not recognize the official results. They demanded a rerun of the presidential election. The OSCE observer mission stated that the elections failed to meet democratic standards. The official OSCE report on the Belarusian elections will be published within the next two months.

Real sector: Loss making enterprises now make up 24.5% of all enterprises

In Jan–Feb, the GDP grew by 10.9% yoy. Industrial output rose by 13.6% yoy. The fuel industry contributed 4.4 percentage points (0.7 percentage points in January) to the industrial growth. This sector's share is much bigger than any other sector's contribution, which underlines the high degree of dependence of the Belarusian industry on this sector.

In spite of the high growth rate of the economy, the level of the official unemployment rate increased by 0.2 percentage points, reaching 1.7%. This is still very low, reflecting the facts that the unemployment benefit is too small (BYR 38700 or 24% of the official poverty line) and the criteria for granting someone the status of an unemployed person are very strict. According to a household budget survey, the actual unemployment rate is much higher. At the beginning of 2005 it was 6.5% while the official rate had been 1.9%.

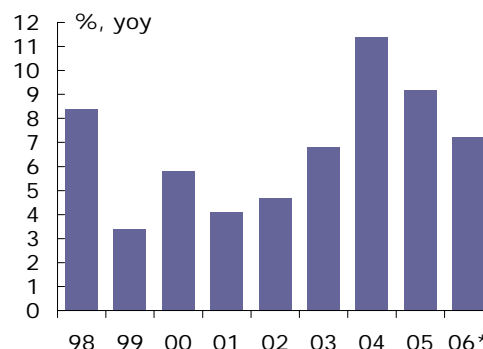
The share of loss making enterprises rose to 24.5% in January, which is a seasonal increase. However, in January 2005 the share of loss making enterprises had increased by 11.2 percentage points compared to 2004, while in January 2006 it rose by 21 percentage points compared to 2005. Hence, the reduction of the share of loss making enterprises at the end of 2005 evidently did not reflect any real change in the financial statuses of Belarusian enterprises.

Structural trends: The energy tariffs were increased

Price setting. The government enacted a regulation to increase the gas, electrical and thermal energy tariffs for industrial consumers as of March 1, 2006. Although the import price for Russian gas did not increase (USD 46.68 per 1000 m³), the gas tariffs for industrial consumers in Belarus rose by 4% (USD 64 excluding VAT per 1000 m³). The thermal and electrical energy tariffs went up by 16%. Hence, the electricity price for industrial enterprises reached USD 0.078, which is the average European level. The government is also planning to increase the household tariffs by 3–4% in

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.

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May. As a result, public electricity tariffs will remain at levels that will not cover production costs. Hence, cross subsidization of households by industry will continue. This leads to an inefficient resource distribution and to price distortions for finished goods. It is also one of the reasons for the deterioration of the financial status of the energy sector.

External trade: The oil products share in exports rose

Merchandise exports amounted to USD 1.34 bn in January, while imports were equal to USD 1.33 bn. The import growth rate (56.1% yoy) was much higher than that of exports (36.3% yoy). These considerable increases can be explained by the low bases for their calculations, since exports and imports decreased sharply at the beginning of 2005, when the VAT payments basis for trade with Russia switched to the principle of the country of destination.

Compared to December, a seasonal decrease of exports and imports was observed in January. Exports fell by 14.2% and imports decreased by 26.3%. In January, the merchandise trade balance nearly equaled zero (USD 7.4 m). It went down by 94.3% compared to January 2005.

Exports increased because of the large increase of exports to Russia (in value terms). The exports of tires (by 328.7% yoy), truck tractors and trucks (157.5% and 35.6% respectively), and meat and meat products (88.0% yoy) grew fastest. However, the main export commodity remains oil products, causing an export increase of 63.4% in January 2006, or 74.8% yoy. The export growth rate for investment goods was much lower (32.5% yoy). Their share in exports fell from 9.3% in January 2005 to 9.0% in January 2006, while the share of energy products went up from 34.6% to 43.5%.

Public finance: New functional classification of budget expenditures

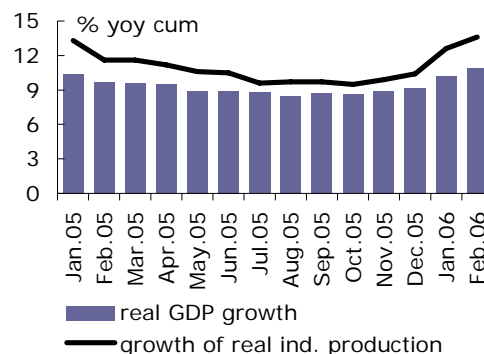
The consolidated revenues amounted to BYR 2.7 trn in January, or 52.4% of GDP. This is 1.2% higher than for the same period of 2005. Revenues from the profits tax, the social security tax, the income tax and VAT increased fastest. The main reasons were increased profits of legal entities, wage increases in the state sector, and a higher growth rate of imports compared to January 2005 (VAT paid on imported goods amounts to about 85% of all VAT revenues). The consolidated expenditures amounted to BYR 2.0 trn, or 39.1% of GDP (39.8% of GDP a year earlier). The reason for the high execution of the expenditure part of the general budget is that in January the government spent a significant portion of the 2005 funds (the fiscal year ends on January, 31). Due to seasonally low expenditures, the fiscal surplus amounted to BYR 677.5 bn, or 13.4% of GDP (11.4% of GDP in January 2005). This surplus and government security sales enabled the government to increase its deposits by BYR 682.9 bn.

This year a new functional classification of budget expenditures was introduced. It consists of ten parts. The new classification corresponds to the international standards for public finance accounting and statistics. It is better suited to reflect expenditures based on the main functions and spheres of activities of the state, and increases the transparency of operations with budgetary funds.

Monetary policy: The NBB sells hard currency

The currency market situation deteriorated in February 2006. As a result the NBB began to sell hard currency. In the same period of the previous year a net supply of the hard currency was observed. Evidently this situation is in part due to the presidential election, on the eve of which many households

GDP and Industrial Production



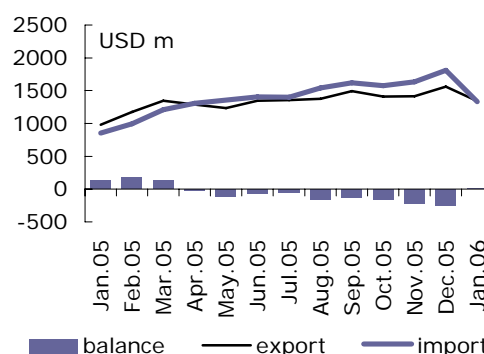
Source: Ministry of Statistics and Analysis.

Contribution to Industrial Output Growth

Branches of industry:	Jan-Feb 2006	
	Growth rate*	Contribution**
electric power	14.0	1.1
fuel	19.7	4.4
ferrous metallurgy	12.6	0.5
chemical and petrochemical industry	8.2	0.9
machinery and metalworking	14.3	2.9
logging, woodworking, pulp and paper	3.4	0.1
building materials	20.7	0.4
light	3.0	0.1
food	10.1	1.3
other	15.9	1.9
Industry, total	13.6	13.6

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

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Growth of Merchandise Exports

January 2006, % yoy	total	trade with Russia
Investment goods	32.5	19.7
Raw goods	38.2	30.9
energy	71.4	48.2
non-energy	7.6	30.8
Commodities	30.4	40.6
food	79.2	85.4
non-food	2.0	5.2

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

increased their demand for hard currency considerably (a similar scenario was observed in August 2001). Also, an increased demand by legal entities occurred as a consequence of the import growth acceleration. Hence, the net foreign assets of the monetary authorities fell by 2.1% mom, which mainly explains the lower money supply. At the same time, the NBB's crediting of banks and private companies contributed to an increase in the money supply. As a result, the monetary base shrank by 2.2% mom in February, while in annual terms its growth rate fell to 49.4% yoy (58.4% yoy in January).

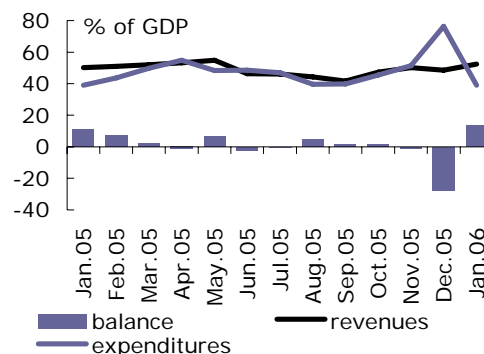
The money supply reduction by the NBB had a contracting impact on the liquidity situation in the banking system. Though with a certain lag, banks began to increase the volume of loans to the economy. By doing so, they regulated the amount of excessive free reserves. As a result, in February the growth rate of crediting of the economy by banks went up both in nominal (by 1.1 percentage points to 34.2% yoy) and in real terms. Moreover, the banks' excessive reserves fell by 6.8% mom. This new liquidity situation enabled the banks to increase the interest rate spread, i.e. they decreased the deposit interest rates more than the credit interest rates. At the same time, there still remains the tendency to equalize the nominal interest rates of financial tools in Belarusian rubles and in hard currency. Legal entities and households reacted to this by increasing their savings in hard currency. After a long period of decrease of the hard currency deposit growth rate, it eventually went up by 3.4 percentage points, and reached 17.8% yoy. At the same time, the growth rate of Belarusian ruble deposits fell considerably. This could be evidence that the propensity of economic entities to save is stabilizing. The volume of cash in circulation in February went up by 4.4% mom, while in annual terms its growth rate fell by 6.6 percentage points to reach 48.4% yoy. Ruble money increased by 2.0% mom, and in annual terms its growth rate fell by 6.1 percentage points (to 54.3% yoy). Broad money went up by 2.1% mom, in annual terms it rose by 40.5% yoy.

As a result of this restrictive NBB policy, consumer prices grew more slowly in February. They went up by 0.2% mom, or by 7.8% yoy (8.6% yoy in January). The exchange rate of the US dollar did not change. As of March 31, it was 2150 BYR/USD.

Banking sector: Administrative stimulation of investment crediting

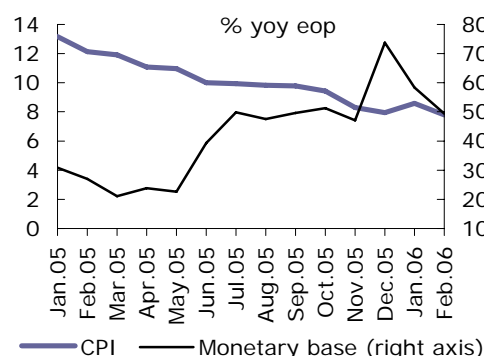
In February the government enacted the regulation "On investment activities". It is aimed at meeting the officially declared investment targets. Government investment programs are intended to become an important element for meeting these targets. The government relies on the banks to finance its projects. State banks are mandated to provide loans in the amount of BYR 2.5 trn. The other banks are asked to give loans in the amount of BYR 0.2 trn. To meet these goals, the banks need to attract at least USD 1 bn of external resources according to the regulation. Last year the banks were also ordered to attract the same amount of resources, but they failed to meet the target. It is unlikely that the target will be met this year, as many potential partners believe there are no attractive investment projects in Belarus. Thus it is likely that the banks will have to provide loans at the expense of the existing sources, which will lead to higher credit and liquidity risks.

Consolidated Budget*



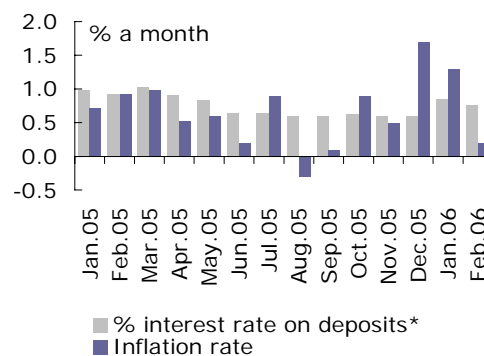
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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	Dec 05	Jan 06	Feb 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	9.2	10.2	10.9
Industrial production	% yoy cum.	14.0	14.8	15.7	15.9	11.4	10.3	9.7	10.4	10.4	12.6	13.6
Agricultural production	% yoy cum.	5.0	5.7	11.4	12.6	12.5	10.1	3.0	2.1	2.1	11.2	10.5
CPI	% yoy eop	21.7	18.4	15.5	14.4	11.9	10.0	9.8	8.0	8.0	8.6	7.7
PPI	% yoy eop	26.4	26.9	22.1	18.8	14.2	12.1	10.5	10.2	10.2	9.5	7.3
Merchandise export (USD)*	% yoy	27.7	36.9	44.6	42.2	21.8	17.2	15.1	11.5	12.6	36.3	--
Merchandise import (USD)*	% yoy	21.5	43.1	42.9	53.4	0.6	3.6	7.8	-5.3	-19.0	56.1	--
Merchandise trade balance (NBB data)	USD m cum.	-75	-569	-969	-2184	452	345	43	-527	-527	11.8	
Current account	USD m cum.	141	-98	-243	-1206	706	855	778	469	--	--	--
Current account	% GDP cum	3.1	-1.0	-1.5	-5.2	11.7	6.6	3.6	1.6	--	--	--
International reserves	USD bn eop	617	539	664	770	975	1130	1189	1297	1297	1314	1323
Monetary Base	% yoy eop	71	37	39	42	21	39	50	74	74	58	49
Lending rate**	% p.a. aop	29	24	19	18	19	15	14	12	12	13	--
Exchange rate (official)	USD aop	2156	2155	2161	2173	2164	2151	2150	2150	2151	2152	2150
Exchange rate (official)	EUR aop	2695	2617	2640	2810	2840	2713	2623	2558	2551	2605	2571

* 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	35.7	15.6
Imports (gs, USD)	% yoy	-19.0	21.0	8.2	9.1	27.1	40.3	4.0
Current account	USD m	-194	-338	-394	-311	-424	-1206	469
Current account	% GDP	-3.6	-3.9	-3.2	-2.1	-2.4	-5.2	1.6
FDI (net)	USD m	443	119	96	453	170	163	303
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	17.9
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		