

## Belarusian Monthly Economic Review

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- Sergey Sidorsky stayed in the position of prime minister.
- Industry contributed most to GDP growth.
- Change in regulation of small business activities.
- Considerable increase of deficit in trade with Russia.
- The legislative norm of giving state support in exchange of shares was introduced.
- Population increased demand for foreign currency.
- New concept of the Bureau of Credit Histories was adopted.

### Politics: Sergey Sidorsky stayed in the position of prime minister

Sergey Sidorsky who was prime minister before the 2006 presidential elections was again appointed to this position by the National Assembly (according to the Constitution the president nominates a person for this position to the National Assembly). The newly appointed prime minister has been holding this position since December 2003. Practically all key ministers in the government kept their positions excluding minister of energy. It is apparently due to the forthcoming negotiations with Russia on energy deliveries in 2007. Other changes in the government are not very significant as the activities of the Council of Ministers were estimated by the president as satisfactory.

### Real sector: Industry contributed most to GDP increase

According to the official statistics GDP growth in the first quarter of 2006 was 10.9% yoy. Industry contributed most to GDP growth (6 percentage points). The increase of industrial output by 13.5% yoy is due to more export of oil products and recovery of machines and equipment export to Russia. Contribution of the fuel sector to industrial output increase amounted to 5.1 percentage points, of machine building – to 3.3 percentage points. However, the recovery of export to Russia will have a short-term effect, as it is due to the very low base of the first quarter of 2005, when export to this country plummeted due to the transition to VAT payment based on the country of destination.

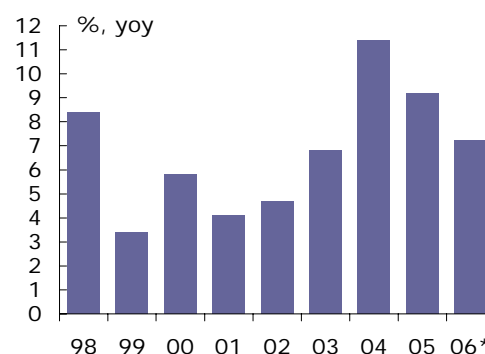
From the demand side, investment contributed most to GDP growth in the first quarter of the year. According to the official statistics, in the first quarter investment went up by 36.2% yoy. Industry contributed most to this increase, adding 9.4 percentage points. Oil refining remains one of the most active investors. In particular, Mozyr Refinery jointly with the company Yuninvest-M (Rosneft's oil trader which is one of the biggest suppliers of Russian oil to Belarus) agreed to carry out the joint project to build a facility to purify diesel fuel at Mozyr Refinery (preliminary cost of the project is USD 60 m). Hence, oil refineries make the best use of favorable demand in the world market and invest in restructuring and modernization.

### Structural trends: Changes in regulation of small business activities

**Small business.** In April the president passed the decree, which amended the existing procedures of registration and liquidation of economic entities. The biggest change was in the period of SME registration (it was reduced from 30 to 20 days). Some administrative procedures that were necessary for registration were also abolished. However, new norms were introduced. They will hamper the development of SMEs in Belarus. For example, the list of reasons for off-court liquidation of economic entities was expanded. The long list of

Population: 9.75 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.



reasons or refusal to register a legal entity remained unchanged. Expensive notary certification of statutory documents has also a negative impact on small business activities. That is why this decree is unlikely to have a major positive impact on the development of small business in the country.

**External trade: Considerable increase in trade deficit with Russia**

In Jan-Feb the merchandize trade balance amounted to USD -24.5 m (USD 306.7 m in Jan-Feb 2005). Positive balance in 2005 was due to sharp decrease of import from Russia as a consequence of the transition to the VAT payment based on the country of destination (export to Russia also dropped but the reduction was smaller). The low base for the comparison is the reason for high growth rate of export and import in Jan–Feb 2006. Recovery of import from Russia was faster than recovery of export to this country. The growth rates are 57.0 and 22.9% yoy correspondingly. As a result, the merchandize trade deficit with Russia amounted to USD 908.5 m, which is 2.2 times higher than in Jan-Feb 2005. Terms of trade with Russia also deteriorated: both volume and average prices of import from Russia grew faster than those of export to this country.

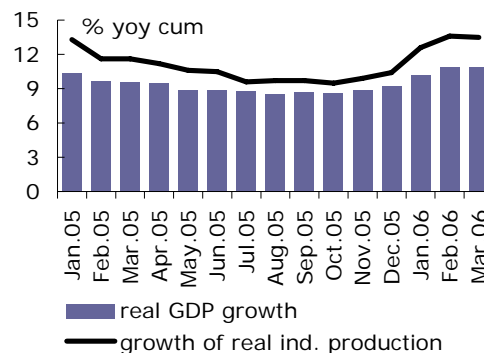
Such tendency is due to loss of competitiveness of a several Belarusian goods in the Russian market and intensification of Russian protectionism. Producers of sugar, drugs and TV sets felt it most keenly. The program of agricultural machine building in Russia drafted by the Ministry of Industry and Energy can initiate another wave of protectionism. This time the measures may be directed against Belarusian tractors, as production and export of tractors and combine harvesters to Russia are actively subsidized by Belarusian authorities. The machines and equipment of Belarusian producers are direct competitors of Russian producers. Additionally, they are purchased from the sources of Russian federal and regional budgets. As a result, the annual losses of Russian producers of agricultural machines and equipment are estimated to be USD 150–200 m. The likely reduction of the purchase of Belarusian agricultural machines and equipment from the sources of Russian budget (such measure has already been introduced for the machines imported from outside CIS) will lead to considerable reduction of export of these goods to Russia.

**Public finance: The legislative norm of giving state support in exchange of shares was introduced**

In Jan–Feb revenues of the general government amounted to BYR 5.3 trn (51.4% of GDP, which is 0.8% of GDP more than in Jan–Feb 2005). The revenue part of the general budget was executed by 15.3% of the annual plan. The execution of the expenditure part of the budget traditionally lagged behind (12.6%). However, compared to Jan–Feb 2005 the expenditures increased faster than revenues. For the first two months of the year they amounted to BYR 4.5 trn, or 39.1% of GDP. It is 2.2 percentage points more than a year earlier. As a result of such revenue and expenditure situation the fiscal surplus amounted to 7.7% of GDP, which is 1.4 percentage points less than in Jan–Feb 2005.

Acceleration of expenditure increase is due to active state support for enterprises. In Jan–Feb the expenditures on the national economy amounted to 7% of GDP and 2.5% of GDP more was spent on utility and housing sector. A considerable part of the state support is in the form of loans repayment were given to enterprises to carry out investment projects. The mechanism of providing such support was adopted in the end of March. The president passed the edict which confirmed the

**GDP and Industrial Production**



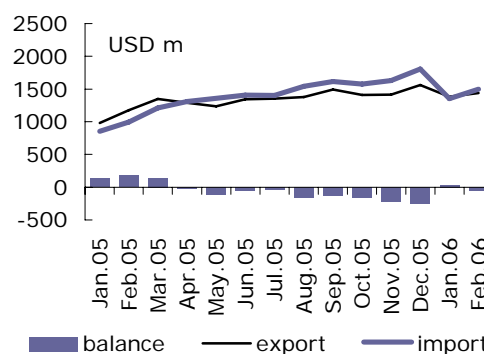
Source: Ministry of Statistics and Analysis.

**Contribution to Industrial Output Growth**

Branches of industry:	Jan–Mar 2006	
	Growth rate*	Contribution**
electric power	11.5	0.9
fuel	23.3	5.1
ferrous metallurgy	11.8	0.5
chemical and petrochemical industry	5.2	0.6
machinery and metalworking	16.7	3.3
logging, woodworking, pulp and paper	4.8	0.2
building materials	13.5	0.3
light	4.3	0.2
food	10.2	1.4
other	9.4	1.2
<b>Industry, total</b>	<b>13.5</b>	<b>13.5</b>

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

**Merchandise Trade**



Source: Ministry of Statistics and Analysis.

**Trade balance in Jan-Feb 2006**

	USD m	growth rate, % yoy
<b>Total</b>		
exports	2823.6	30.9
imports	2848.1	54.0
balance	-24.5	--
<b>Russia</b>		
exports	917.8	22.1
imports	1826.3	57.0
balance	-908.5	--
<b>Non-CIS</b>		
exports	1664.0	30.0
imports	856.0	45.8
balance	808.0	16.7

Source: Ministry of Statistics and Analysis.

practice of providing state support for capital investment (in the form of tax breaks) in exchange for shares of enterprises.

**Monetary policy: The NBB sells hard currency**

In March the situation in the currency market did not allow the NBB to increase money supply and to increase its reserves at the expense of purchasing hard currency. It is due to considerable increase of net hard currency purchase by the households, which happened because of the reduction of the spread between rubles and hard currency interest rates. In March net foreign assets of the NBB fell by 1.5%. The increase of money supply was mainly due to the reduction of the government deposits in the NBB by 11.3% mom in March, which is the equivalent of monetary base increase by 5.8% mom. In annual terms its growth accelerated from 49.4% yoy in February to 52.7% yoy in March.

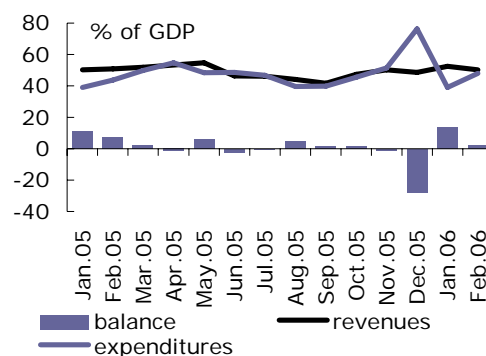
The policy of the NBB has been creating a quite high liquidity level in the banking system in general. In March it resulted in increasing the growth rate of real sector crediting after a long period of its decreasing. It went up by 3.8 percentage points and reached 38% yoy. Additionally, high level of money supply enabled banks to keep wide interest rate spread. That is why both deposit and loan nominal interest rates remained practically unchanged in March. Keeping nominal interest rates on the same level in the situation of disinflation led to the acceleration of household time deposit growth. Ruble deposits went up by 3.9% mom and in annual terms its growth rate increased by 0.3 percentage points and reached 48.3% yoy. Household time deposits in hard currency increased by 1.1% mom, and in annual terms they went up by 1.7 percentage points to reach 24.0% yoy. The growth rate of cash in circulation also increased by 2 percentage points. In March it was 50.4% yoy. As a result ruble money supply increased by 4.8% mom and broad money – by 3.8% mom. In annual terms these monetary aggregates increased by 1.5 and 0.4 percentage points to reach 55.8% and 40.9% yoy correspondingly.

In spite of high growth rate of money supply the Ministry of Statistics and Analysis continues to register reduction of inflation. It states that in March consumer prices went up by 0.1% mom and in annual terms – by 6.8% yoy (7.8% in February). In April, the exchange rate of the Belarusian ruble did not change. As of April 30, it was 2149 BYR/USD.

**Banking sector: A new concept of the Bureau of Credit Histories was adopted.**

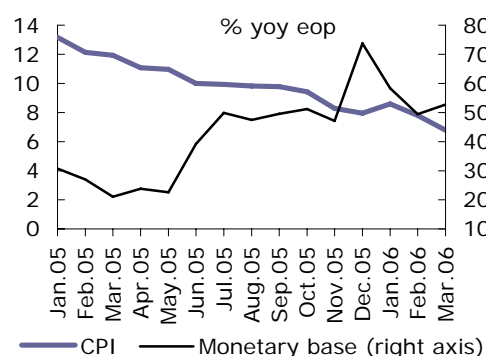
In April the NBB finished drafting a new concept of creating the Bureau of Credit Histories in Belarus. This issue has been quite topical for the last two years but the initial draft of the concept that was worked out a few years ago did not please all potential participants. The new concept envisages the creation of the single Bureau of Credit History while in the old concept it was planned to have a decentralized scheme with an unlimited number of such institutions of different forms of property. The centralized approach has some advantages such as diverse information that such Bureau potentially would have and equal access of all banks to it. At the same time at present when the government actively interferes with the processes of crediting the creation of the Bureau of Credit Histories in one form or another will not make the best use of the potential of such structure.

**Consolidated Budget\***



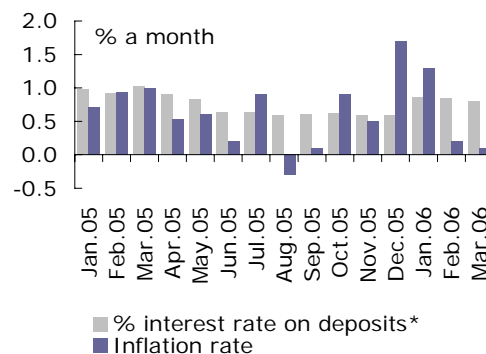
\* 2004 – without innovation funds.  
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

**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.



<b>Economic Trends</b>		<b>Q2 04</b>	<b>Q3 04</b>	<b>Q4 04</b>	<b>Q1 05</b>	<b>Q2 05</b>	<b>Q3 05</b>	<b>Q4 05</b>	<b>Q1 06</b>	<b>Jan 06</b>	<b>Feb 06</b>	<b>Mar 06</b>
GDP growth	% yoy	11.5	12.1	11.7	9.7	8.2	8.3	10.7	10.9	--	--	--
GDP growth	% yoy cum.	10.7	11.2	11.4	9.7	8.9	8.7	9.2	10.9	10.2	10.9	10.9
Industrial production	% yoy cum.	14.8	15.7	15.9	11.4	10.3	9.7	10.4	13.5	12.6	13.6	13.5
Agricultural production	% yoy cum.	5.7	11.4	12.6	12.5	10.1	3.0	2.1	10.1	11.2	10.5	10.1
CPI	% yoy eop	18.4	15.5	14.4	11.9	10.0	9.8	8.0	6.8	8.6	7.7	6.8
PPI	% yoy eop	26.9	22.1	18.8	14.2	12.1	10.5	10.2	8.3	9.5	7.3	8.3
Merchandise export (USD)*	% yoy	37.2	44.9	42.4	21.8	17.2	15.1	11.5	--	40.7	22.8	--
Merchandise import (USD)*	% yoy	43.8	43.5	56.0	0.6	3.6	7.8	-5.3	--	58.2	50.3	--
Merchandise trade balance (NBB data)	USD m cum.	-541	-931	-2066	452	345	43	-527	--	40	3	--
Current account	USD m cum.	-58	-186	-1043	723	945	989	469	--	--	--	--
Current account	% GDP cum	-0.6	-1.1	-4.6	12.1	7.3	4.6	1.6	--	--	--	--
International reserves	USD bn eop	539	664	770	975	1130	1189	1297	1290	1314	1323	1290
Monetary Base	% yoy eop	37	39	42	21	39	50	74	53	58	49	53
Lending rate**	% p.a. aop	24	19	18	19	15	14	12	--	13	13	--
Exchange rate (official)	USD aop	2155	2161	2173	2164	2151	2150	2150	2151	2152	2150	2150
Exchange rate (official)	EUR aop	2617	2640	2810	2840	2713	2623	2558	2587	2605	2571	2583

\* 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.

<b>Key Economic Indicators</b>		<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
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		