

Belarusian Monthly Economic Review

- New trends in the foreign policies of Belarus.
- Fuel industry ensured about one-fourth of GDP growth.
- Simplification of the rules of conducting business.
- Belarus-Russia controversy over trade in oil products.
- Fiscal surplus decreased.
- Interest spread went down.
- The number of banks that could act as mortgagees has been increased.

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Politics: New Trends in the Foreign Policies of Belarus

In September President Lukashenko took part in 2006 meeting of Non-Alignment Movement (NAM) uniting mainly the post-colonial countries in Africa as well as some Asian and Latin America countries. NAM member share the non-acceptance of the politics of the developed countries (first of all the U.S.) and the UN policy in relation to global affairs. In the course of the Summit, the President Lukashenko held bilateral meetings with the Presidents of Iran and Venezuela, both criticizing the U.S. foreign policies. In September, following the visit of the Belarusian delegation to Venezuela, an agreement on joint activities on exploration and certification of the petroleum reserves in Venezuela has been signed. The participation of Belarus in the 2006 NAM meeting was probably motivated by the search for new economic and political allies given the worsening of the relationships with Russia due to the possible gas price hikes since 2007.

Real sector: Fuel industry ensured about one-fourth of the GDP's rate of growth

In Jan-Aug the rate of real GDP growth amounted to 9.8% yoy, what is less than in Jan-Jul. Slowdown of growth was caused by the crop setback. In Jan-Aug, agricultural output increased by only 2% yoy, while grain crops harvest dropped by 10% yoy. The industrial sector demonstrated an unchanged rate of growth (12.7% yoy), although some slowdown was recorded in a number of industries. The acceleration of growth in the fuel industry and restoration of growth in the chemical industry helped to avoid the growth deceleration in the industrial sector as a whole. According to our estimates, in Jan-Aug the contribution of the fuel industry to output growth amounted to 48.8%, while for GDP growth this figure was at about one-fourth.

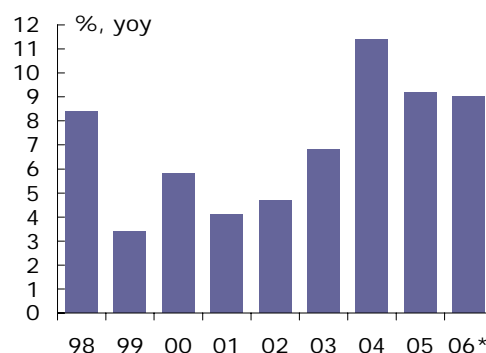
Investment as the key demand factor behind the GDP growth in 2006 has increased in Jan-Aug by 35.5% yoy (in real terms). In nominal terms, rate of investment growth amounted to 31.8% yoy, implying the reduction of prices of investment goods by 2.6% yoy. At the same time, the Ministry of Statistics and Analysis recorded the increase in prices of investment goods by 9.1% yoy. But it has to be noted that in previous years index of investment goods prices was above the fixed assets price index. Such a discrepancy in estimates may reflect the methodological problems related to the calculation of the rate of investment growth.

Structural trends: The rules of doing business have been simplified

Private sector. In September a number of legal provisions were adopted to simplify the conduct of business activities. First, since September 1, the requirement to have a certain proportion of Belarusian goods in a range of products has been abolished. Prior to that, every single mercantile business

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.



enterprise was obliged to fill its range by the goods of Belarusian origin at a rate of 70–90% (including spirits and tobacco goods). As a result, the development of networks of super- and hyper-markets has been checked. Second, the costs of business registration went down. Various fees and payments were substituted by a single state due. Third, the all-republican fee for the use of vehicles owned by natural persons by legal entities and individual entrepreneurs has been abolished. However, customs duties on cars imported by natural persons were increased. Despite all these changes, the positive expected effect on business development is yet to materialize. This is because changes along with administration of the law in a number of other areas (such as price-setting, taxation, etc.) are required.

External trade: Belarus-Russia controversy over the customs duties on oil products

In Jan-Jul the volume of exports amounted to USD 11 bn (increased by 26.65% yoy), and the volume of imports – USD 12 bn (40.8% yoy). As a result, the merchandise trade deficit achieved USD 960.7 m. At the same time, in July the rate of exports growth accelerated, otherwise for imports. The acceleration has been driven by the exports of mineral products to the non-CIS countries. In Jan-Jul this item alone secured 75% of exports increase.

At the same time, the external competitiveness of this product group could deteriorate in the future. This is because the trade in oil products has become a subject of controversy between Belarus and Russia. According to the estimates made by the Russian government the duty-free delivery of oil products to Belarus has implied a loss of about USD 1.7 bn for the Russian budget. The Russian government has demanded from the government of Belarus to transfer up to 85% of revenues from export duties to the Russian budget (referring to the Agreement on the Customs Union, November 30, 1995). Also, the Russian government requested to equalize the level of Belarusian customs duties with Russian ones, and also proposed to revise the terms and conditions of oil supply to Belarus. According to the estimated by the representatives of 'Belneftehim', the implementation of all of the above-mentioned measures would make exports of oil products by Belarus loss-making.

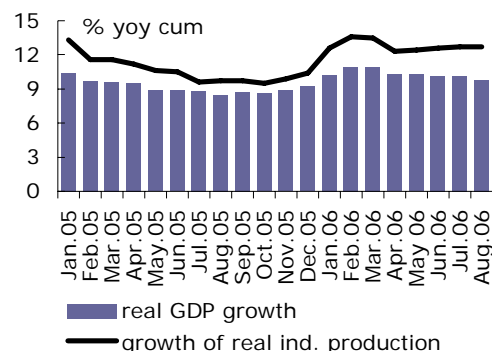
Public finance: The fiscal surplus decreased

The execution of the consolidated budget has not been changed considerably. In Jan-Jul, the revenues of the general government amounted to BYR 20.5 trn, or 49.8% GDP, what is 0.5 percentage points less than in the last year. The expenditures of the general government increased by 0.3 percentage points and amounted to 47.8% of GDP (BYR 19.7 trn). As a result, the budget surplus decreased by 0.8 percentage points to the level of 1.9% of GDP (BYR 0.79 trn). Like in 2005, available assets were directed to increase the volume of government deposits held in the banking system. Also, despite the surplus, the government was selling equities (thus attracting BYR 0.75 trn). However, equity pay-off was more intense than in the last year so that the net revenue from the sale of securities remained insignificant, namely at the level of BYR 0.08 trn.

Monetary policy: Interest spread decreased

In August, the situation at the currency market has improved, but some costs related to the management of official reserves caused a decline in the volume of foreign assets held by the monetary authorities by 1.4% mom. Besides that, the money

GDP and Industrial Production



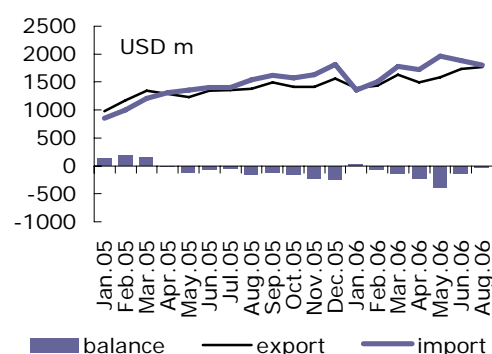
Source: Ministry of Statistics and Analysis.

Contribution to Industrial Output Growth

Branches of industry:	Jan–Aug 2006	
	Growth rate*	Contribution**
electric power	6.8	0.4
fuel	30.0	6.2
ferrous metallurgy	11.1	0.4
chemical and petrochemical industry	3.3	0.4
machinery and metalworking	11.4	2.4
logging, woodworking, pulp and paper	4.4	0.2
building materials	13.3	0.4
light	2.5	0.1
food	7.9	1.1
other	8.6	1.0
Industry, total	12.7	12.7

* % 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

USD m	Jan-Jul 2005	Jan-Jul 2006	Growth rate, % yoy
Exports	8721.1	11042.9	26.6
Oil and oil products	2886.5	4618.5	60.0
Non-CIS	2732.9	4418.3	61.7
Imports	8522.4	12003.6	40.8
Oil and oil products	2132.6	3624.4	70.0
Russia	2120.1	3608.8	70.2
Balance	198.7	-960.7	--

Source: Ministry of Statistics and Analysis.



supply decreased due to the increase of the volume of government balances held in the NBB (by 14% mom). Some growth in money supply occurred only due to the increase in the volume of refinancing of banks (by 12.7% mom). As a result, in August the monetary base decreased by 2.0% mom, what is equal to the annual slowdown in growth to 37.1% yoy (37.7% in July yoy).

The government has continued its policy of provision of credits to the real sector of the economy by using the banking sector. Accordingly, loans to the economy increased by 5.2% mom, while in annual terms its rate of growth remained almost unchanged at the level of 48.3% yoy. As a result, the level of liquidity decreased (excess reserves of banks decreased by 23.8% mom), while inter-bank interests rates went up. Moreover, the banks have increased nominal interest rates on deposits and, consequently, were able to increase the volume of borrowing. Since credit interest rates are subject to a stricter regulation, their growth has been checked thus resulting in the reduction of interest spread in the banking system.

The dynamics of interest rates has further contributed to the increase in the volume of national currency deposits held by the households (by 2.3 percentage points up to 54.5% yoy). The rate of growth of cash in circulation also went up (by 8.9 percentage points up to 49.5% yoy). This is related to the fluctuation of demand for foreign currency and Belarusian rubles in Jul-Aug. The dynamics of other components of monetary base showed no substantial change. As a result, in August ruble money increase by 3.1% mom, while broad money – by 2.7% mom. In annual terms their rates of growth amounted to 57.3 and 47.0% yoy, correspondingly (51.3 and 44.3% yoy in July).

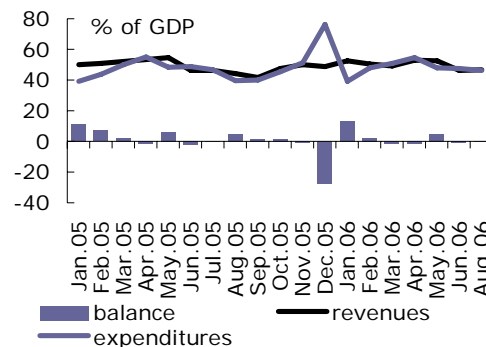
According to official data, consumer prices in August decreased by 0.7% mom due to the seasonal price reduction on foodstuff. In annual terms, the rate of inflation went down by 0.4 percentage points to the level of 6.3% yoy. In September exchange rate remained at its earlier level at BYR/USD 2141.

Banking sector: The number of banks that could act as mortgagees has been increased

In accordance with a decision made earlier, a special regulation has been passed to increase the number of banks able to act as mortgagees. Prior to that, only 6 authorized banks and two banks with a high share of state ownership were allowed to conduct such operations. The provision of this right to private banks that provide increasing volume of credits to population could positively impact the development of the consumer credit, seen as one of the priority tasks for the banking system as a whole by the NBB.

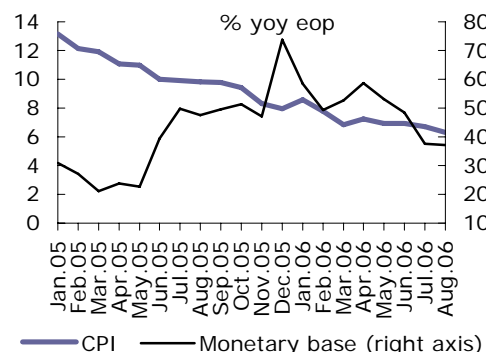
In September there was also a regulation adopted by the government that allowed state guarantees up to BYR 106.9 bn to three banks – Belarusbank, Belpromstroibank, and Belinvestbank – for loans provided to agricultural organizations in accordance with the Presidential edict issued in July this year. It appears that along with the positive measures for creating conditions for fair competition in the banking sectors and its development, measures are taken in parallel to subsidize certain industries via the banking sector.

Consolidated Budget*



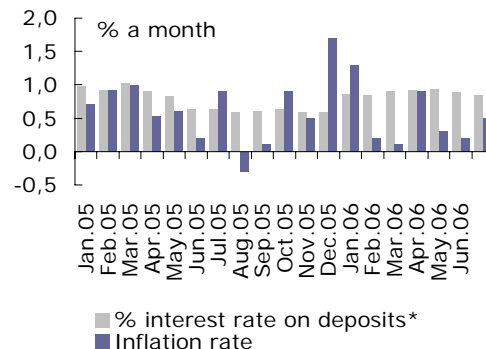
* 2004 – without innovation funds.
Source: Own calculations based on the Ministry of Statistics and Analysis and the NBB data.

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		Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	June 06	July 06	Aug 06
GDP growth	% yoy	12.1	11.7	9.7	8.2	8.3	10.7	10.9	9.4	--	--	--
GDP growth	% yoy cum.	11.2	11.4	9.7	8.9	8.7	9.2	10.9	10.1	10.1	10.1	9.8
Industrial production	% yoy cum.	15.7	15.9	11.4	10.3	9.7	10.4	13.5	12.6	12.6	12.7	12.7
Agricultural production	% yoy cum.	11.4	12.6	12.5	10.1	3.0	2.1	10.1	6.9	6.9	6.6	2.0
CPI	% yoy eop	15.5	14.4	11.9	10.0	9.8	8.0	6.8	7.0	7.0	6.7	6.3
PPI	% yoy eop	22.1	18.8	14.2	12.1	10.5	10.2	8.3	8.1	8.1	8.9	8.8
Merchandise export (USD)*	% yoy	44.9	42.4	21.8	17.2	15.1	11.5	27.5	24.7	29.3	30.3	--
Merchandise import (USD)*	% yoy	43.5	56.0	0.6	3.6	7.8	-5.3	51.1	37.0	34.2	29.1	--
Merchandise trade balance (NBB data)	USD m cum.	-931	-2066	452	345	43	-527	-141	-820	-820	-841	--
Current account	USD m cum.	-186	-1043	723	945	989	469	126	-305	-305	--	--
Current account	% GDP cum	-1.1	-4.6	12.1	7.3	4.6	1.6	1.7	-1.9	-1.9	--	--
International reserves	USD bn eop	664	770	975	1130	1189	1297	1290	1154	1154	1158	1140
Monetary Base	% yoy eop	39	42	21	39	50	74	53	48	48	38	37
Lending rate**	% p.a. aop	19	18	19	15	14	12	12	11	12	12	11
Exchange rate (official)	USD aop	2161	2173	2164	2151	2150	2150	2151	2146	2143	2142	2142
Exchange rate (official)	EUR aop	2640	2810	2840	2713	2623	2558	2587	2694	2715	2715	2744

* 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		