

BELARUSIAN MONTHLY ECONOMIC REVIEW



No. 3 (54)
March
2007

- Representatives of the Belarusian Parliament took part in the sitting of the Parliamentary Assembly of the OSCE.
- Growth of inventories in industry.
- Twofold increase of excise taxes on oil products.
- Increase of rates of local taxes.
- Limits on credit margin have been abolished.

Politics: Belarusian MPs took part in the sitting of the Parliamentary Assembly of the OSCE

In February, the Parliamentary Delegation of Belarus took part in the sitting of the Parliamentary Assembly of the Organization for Security and Cooperation in Europe. During the sitting, the representatives of Belarus discussed safety of transit of Russian energy to the EU and also conducted a range of bilateral meetings with the European MPs. After a meeting between a representative of the Parliament of Belgium and a speaker of the Chamber of Representatives of the National Assembly of Belarus, Mr. V. Konoplev, the former announced that an agreement has been reached on the visit of the official EU delegation to Belarus. It appears that the political relationships between Belarus and the EU are starting to be more intense.

Real sector: Growth of inventories in industry

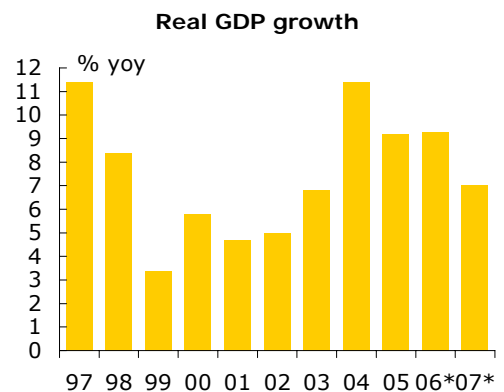
In January, the official statistics recorded GDP growth at a rate of 9.7% yoy. In the construction sector, the highest growth rate was achieved (32.2% yoy), while the consumer market lagged behind (22.5% yoy). In industry, the rate of growth amounted to 8.5%. However, there was a sharp increase of producer prices (by 22.4% yoy) caused by the energy price hike. At the same time, the index of 'comparable prices' (used as a basis to calculate manufacturing output index) went up by only 2.9% per cent. Such a divergence between these indexes suggests low reliability of the industrial output data.

Growth of industrial output in January was accompanied by an increase in the volume of inventories. In comparison with February 1, 2006, their volume increased by BYR 944 bn. At the same time, the rate of manufacturing output growth in absolute terms amounted to only BYR 662 bn. This is not only the consequence of the energy crisis in January, but also might denote existing problems with sales of output in a number of branches of the Belarusian industry.

Structural trends: Changing terms of activity for oil business

Energy sector: In Jan-Feb the government has implemented some measures to compensate for the low profitability of exports of oil products. This has been done by increasing the attractiveness of their supplies to the domestic market. However, these measures have not been efficient. The majority of oil traders have switched to importing oil products to the Belarusian market. At the same time, the exports of oil products declined due to low profitability of these operations. As a result, the overall volume of oil processing by the Belarusian refineries went down (in January by 16% yoy). It follows that the government managed to secure profitability in oil processing in general, but then faced the decline of export revenues and output. Accordingly, in early March, a regulation has been adopted to double excise taxes on oil products sold domestically (at the beginning of the year these taxes were cut by 2.5 times, so their level is to be lower than it was supposed in 2006). Besides, this regulation stipulates the provision of

Population: 9.71 m
Industry / GDP: 27.6%
Agriculture / GDP: 7.5%
Investment / GDP: 24.3%
Export destination: Russia 35%, EU 46%
Import origin: Russia 59%, EU 22%



* Estimate for 2006 and forecast for 2007: IPM Research Center.
Source: Ministry of Statistics and Analysis.

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subsidies to suppliers of oil made on commission to the Belarusian oil refiners at a rate of USD 24 per 1 tone of crude oil. Most likely, these measures would make exports of oil products attractive, stabilize export revenues, and secure profitability in this sector.

In February, the government analyzed a range of prospective measures to mitigate the consequences of the energy price hike. In particular, in order to stabilize the foreign exchange market, the Ministry of Economy has considered the possibility of privatization of large Belarusian enterprises of chemical, petrochemical, and food industries. In addition, the Belarusian government has made a request to the government of Russia about loan provision as large as USD 1.5 bn. However, the realization of these measures would depend on the economic situation and the strategy of economic policy chosen.

Foreign trade: Merchandise trade deficit reached USD 2.6 bn in 2006

In 2006, merchandise exports grew by 23.5% yoy, while imports by 33.6% yoy. Merchandise trade deficit amounted to USD 2.6 bn (USD 0.7 bn in 2005), while in trade with Russia – USD 6.2 bn. Recently, there have been some difficulties with exporting a range of Belarusian goods to this country. In particular, despite the self-restraint of sugar exports, the Russian authorities are intended to refuse buying Belarusian sugar completely. In Jan-Feb, there had been problems with exports of meat and meat products to Russia. Overall, problems in trade with Russia will adversely impact foreign trade balance of Belarus in the future.

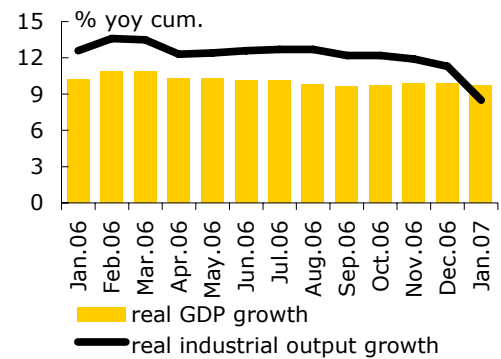
A considerable increase of the trade deficit has forced the government and the NBB to develop a set of measures to reach a trade surplus in 2007. This includes establishment of commodity distribution networks, new market developments, and expansion of import-substitution. However, it has to be noted that in 2006 the merchandise trade deficit in Belarus was observed in the conditions of low demand for imported goods, favorable economic situation at external markets, and preferential gas prices. It can be expected that the plans of the government for 2007 will not be realized.

Public finance: Increase of rates of local taxes

Budget revenues plan in 2007 has been overfulfilled by 8.5%. The share of consolidated revenues in GDP has not changed in comparison with 2006, amounting to 48.4% GDP. As for consolidated expenditures, their share went down by 2.8 percentage points to reach 46.2% of GDP. Moreover their volume appeared to be less than planned by 2.3%. Hence, the budget surplus amounted to 2.2% of GDP (a deficit of 0.7% of GDP in 2006). This suggests that the government has accumulated funds to cover increased expenditures resulting from changing terms of energy supply in 2007.

Despite the claims to reduce tax burden in 2007, the budget law provides a possibility of increase of local tax rates. Based on it, the Executive Committee of Minsk has increased local tax rates since February 1. In particular, the rate of sales tax on imported goods was increased by three times (from 5 to 15%), while the rate of services tax (applied to services provided by mobile communication companies, hotels, restraints, etc.) by two times (from 5 to 10%). Also, the charge for site development of Minsk city has been increased from 0.5 to (maximum) 15 base units of BYR 1 ml of construction budget. Such weighting of tax burden on consumers is induced by the need to secure additional sources of government incomes. This is necessary to cover the increased expenditures caused by the energy price hikes.

GDP and Industrial Output



Source: Ministry of Statistics and Analysis.

Inventories in Industry*

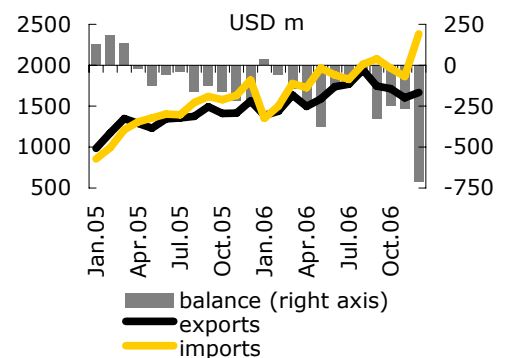
	1.02.06	1.02.07	change**
Fuel	2.4	13.8	11.4
Ferrous metallurgy	14.3	11.8	-2.5
Chemical and petrochemical	37.5	44.5	7.0
Machinery and metalworking	81.5	83.1	1.6
Woodworking	60.5	59.4	-1.1
Building materials	47.0	59.2	12.2
Light	124.1	128.3	4.2
Food	77.5	88.7	11.2
Industry, total	53.4	57.4	4.0

* - as share of average monthly output during last 12 months, %

** percentage points.

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

Merchandise Trade



Source: Ministry of Statistics and Analysis.

Trade Balance

USD bn	2005	2006	change, %
Total:			
Exports	16.0	19.7	23.5
Imports	16.7	22.3	33.6
Balance	-0.7	-2.6	--
Russia:			
Exports	5.7	6.8	19.8
Imports	10.1	13.1	29.3
Balance	-4.4	-6.2	--
EU:			
Exports	7.0	9.0	27.5
Imports	3.6	5.0	39.5
Balance	3.5	4.0	15.2

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

Monetary policy: Abolition of credit margin requirement

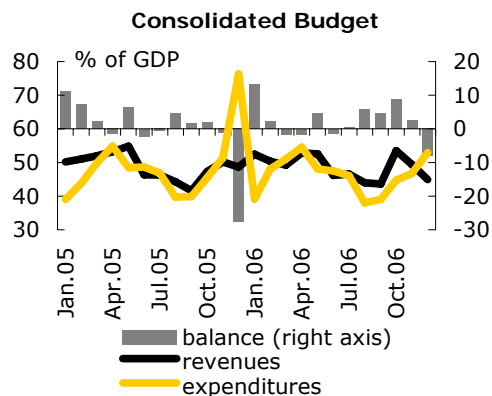
The NBB has tightened monetary policy to stabilize the domestic foreign exchange market. For this purpose, actual interest rates on NBB operations have been increased considerably in January (by 7.5 percentage points on loan auctions). By doing this, the NBB restricted money supply. As a result, its claims on banks went down by 8.9% mom. Also, there was an outflow of funds from the money market to ruble deposits of the government held at the NBB (increase by 12.2% mom). The measures to withdraw liquidity have led to considerable reduction of domestic demand for foreign currency. At the same time, commercial banks have converted their reserves into foreign currency, placing them at the NBB. Accordingly, in January, the volume of net foreign assets of the NBB had not changed considerably, declining only by 1.7% mom. Thus in January, the money base shrank by 5.3% mom. In annual terms, the rate of its growth went up to 38.5% yoy (19.8% yoy in December 2006), which was related to smoothening of seasonal fluctuations in the NBB's policy.

The policy of NBB has determined a high operational demand for Belarusian rubles. Consequently, interest rates at the inter-bank market reached the level of 20% per annum (about 10% per annum at the beginning of the month). Besides that, for the 1st quarter of 2007, the NBB has abolished the credit margin set for banks (prior to that, a maximum interest rate on loans to non-financial sector was equal to the refinancing rate plus 3 percentage points). This has led to the increase of interest rates at loan and deposit market. Accordingly, the further increase of rate of growth of loans to economy up to 60.1% yoy (57.2% yoy in December) was largely achieved by the application of administrative measures. Specifically, large state-run banks increased loan provision to enterprises of the real sector by reducing claims on the government. At the same time, a number of smaller banks postponed loan provision on some programs. The population and enterprises switched their demand to foreign currency at a limited scale. The rate of cash money supply amounted to 30.1% yoy (39.8% yoy in December). The ruble money base was reduced by 9.5% mom in January, while the broad money – by 5.7% mom. In annual terms, the rates of growth of these indicators amounted to 34.5 and 34.3%, respectively (44.5 and 39.3% in December).

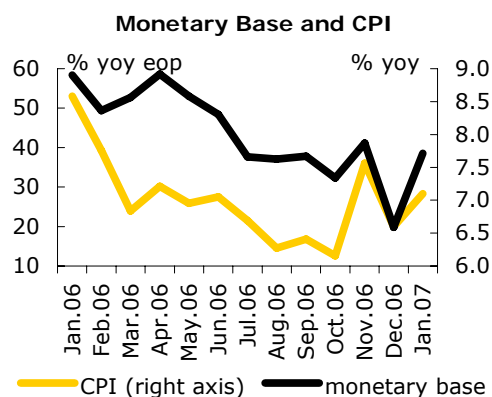
The energy price hike has not yet impacted the dynamics of consumer prices. In January, they went up by 1.8% mom, or by 7.1% yoy (6.6% yoy in December). At the same time, producer prices increased considerably. In January, their rate of growth amounted to 12.6% mom. This is due to a high share of energy commodities in manufacturing costs. The exchange rate of the Belarusian ruble did not change in February, remaining at the rate of 2142 BYR/USD.

Banking sector: Regulation of mortgage bonds issue

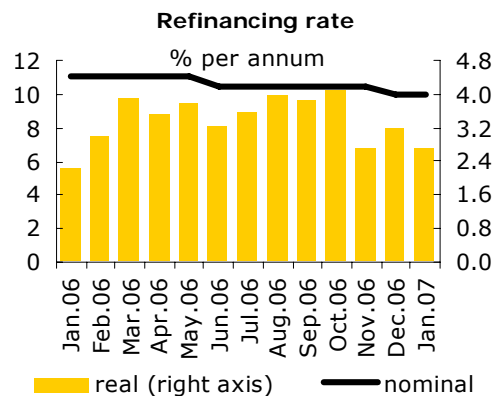
The NBB has produced a regulation concerning mortgage bonds issue that has to be provided by claims on housing construction and reconstruction matters loans. This rule prescribes for a bank to pass a compulsory procedure of confirmation at the NBB of every issue of mortgage securities. Among the list of necessary documents to be submitted to the NBB, there is an extract from the register of credit contract liabilities necessary to back this mortgage issue. It appears that the NBB develops an instrument to supervise correspondence of bonds issue with the rules of their circulation. The regulation also establishes a comprehensive list of reasons to refuse bond issue. Accordingly, a greater reliability is provided for the issue of bonds without affecting the interests of banks in any major way.



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



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



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

Economic Trends		Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Nov 06	Dec 06	Jan 07
GDP growth	% yoy	9.9	8.4	8.7	10.7	11.0	9.6	8.6	10.8	--	--	9.7
GDP growth	% yoy cum.	9.9	9.1	9.0	9.4	11.0	10.3	9.6	9.9	9.9	9.9	9.7
Industrial Production	% yoy cum.	11.7	10.3	9.7	10.5	13.5	12.6	12.2	11.3	11.9	11.3	8.5
Agricultural Production	% yoy cum.	12.5	10.1	3.0	2.1	10.1	6.9	2.2	6.1	5.6	6.1	7.0
CPI	% yoy eop	11.9	10.0	9.8	8.0	6.8	7.0	6.4	6.6	7.6	6.6	7.1
PPI	% yoy eop	14.2	12.1	10.5	10.2	8.3	8.1	8.0	8.5	7.8	8.5	22.4
Merchandise export (USD)*	% yoy	21.8	17.2	15.1	11.5	27.5	24.9	29.3	13.6	13.2	6.7	--
Merchandise import (USD)*	% yoy	0.6	3.6	7.8	-5.3	51.3	37.0	30.0	23.5	14.3	31.0	--
Merchandise trade balance (NBB data)	USD m cum.	452	345	43	-527	-134	-785	-1220	-2384	-1673	-2384	--
Current account	USD m cum.	723	945	989	469	126	-305	-492	--	--	--	--
Current account	% GDP cum	12.1	7.3	4.6	1.6	1.7	-1.9	-1.9	--	--	--	--
International reserves	USD bn eop	975	1130	1189	1297	1290	1154	1155	1383	1369	1383	1330
Monetary base	% yoy eop	21	39	50	74	53	48	38	20	41	20	39
Lending rate**	% p.a. aop	19	15	14	12	12	11	12	12	12	12	13
Exchange rate (official)	USD aop	2164	2151	2150	2150	2151	2146	2142	2141	2140	2140	2140
Exchange rate (official)	EUR aop	2840	2713	2623	2558	2587	2694	2729	2761	2755	2827	2782

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2000	2001	2002	2003	2004	2005	2006
Nominal GDP*	BYR trn	9.134	17.173	26.613	36.565	49.991	65.067	79.231
Nominal GDP**	USD bn	8.7	12.1	14.5	17.7	23.1	30.2	36.9
GDP Growth	% yoy	5.8	4.7	5.0	7.0	11.4	9.4	9.9
Industrial production	% yoy	7.8	5.9	4.5	7.1	15.9	10.5	11.3
Agricultural production	% yoy	9.3	1.8	0.7	6.6	12.6	1.7	6.1
CPI	% yoy aop	168.6	61.1	42.6	28.4	18.1	10.3	7.0
CPI	% yoy eop	107.5	46.1	34.8	25.4	14.4	8.0	6.6
PPI	% yoy aop	185.3	72.1	41.4	37.5	24.1	12.1	8.3
PPI	% yoy eop	166.4	40.9	42.7	28.1	18.8	10.0	8.5
Exports (gs, USD)	% yoy	17.6	10.4	8.6	24.0	38.3	15.6	--
Imports (gs, USD)	% yoy	21.0	8.2	9.1	27.1	41.4	4.0	--
Current account	USD m	-338	-394	-311	-424	-1206	469	--
Current account	% GDP	-3.9	-3.2	-2.1	-2.4	-5.2	1.6	--
FDI (net)	USD m	119	96	453	170	163	303	--
International reserves	USD m	357	347	457	474	770	1297	1383
Fiscal balance	% GDP	-0.6	-1.6	-0.2	-1.6	0.0	-0.6	--
Domestic public debt	% GDP eop	4.5	6.1	5.4	5.5	5.7	5.8	6.5
External debt (total)	% GDP eop	24.4	24.8	27.0	23.7	21.4	17.9	--
Monetary base	% yoy eop	52	225	32	50	42	74	20
Exchange rate (official)*	USD aop	1035	1394	1784	2075	2160	2154	2145
Exchange rate (official)*	USD eop	1213	1580	1920	2156	2170	2152	2140
Spread***	% aop	44.4	0.8	0.0	0.0	0.0	0.0	0.0
Spread***	% eop	2.8	0.2	0.0	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	651	1239	1690	2353	2684	2681	2692
Exchange rate (official)*	EUR eop	1097	1392	1989	2695	2956	2550	2817

* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

** For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

*** Spread between the black market and official (NBB) exchange rates (source: IPM Research Center).

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
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
m	million	ytd	year-to-date