

BELARUSIAN MONTHLY ECONOMIC REVIEW



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- Gazprom has confirmed its decision to purchase 50% of Beltransgaz's stock.
- Further deceleration of GDP growth occurred.
- Merchandise trade deficit increased due to decrease in volume of exports.
- The share of short-term loans reduced in half.
- An agreement has been reached to sell Mesztorgbank and Slavneftebank to investors from Russia.

Politics: Cooperation with the Asian countries has been intensified

In April, official visits have been made, this time to some Asian countries. In particular, President Lukashenko has visited Oman and India, while the government delegation went to China. Negotiations ended with setting directions for bilateral commercial and economic relations. In particular, Belarus and India have agreed to cooperate on nuclear energy use and to set up a bilateral commission on military and technical cooperation. Also, Belarus and India signed the Protocol that concluded the bilateral negotiations on Belarus accession to the WTO with India as a Working Party member. In the early May, President Lukashenko visited Azerbaijan. As a result, Belarus-Azeri Treaty on Friendship and Cooperation has been concluded. Potentially, this could evolve into a joint activity on extraction and processing of oil. It appears that Asia is becoming one of the major foreign policy priorities of Belarus.

Real sector: Further deceleration of GDP growth

In March, economic growth has continued to decelerate. In the first quarter, GDP growth rate amounted to 8.4% yoy (9.0% in Jan-Feb). On the supply side, decline of output in fuel, food, and power industries has been the principal factor behind the trend. On the demand side, we estimate that declining volume of exports alongside with high pace of imports growth mainly contributed to lower rate of GDP growth. Therefore, problems in oil processing sector have played the major role in deceleration of economic growth, both on the demand and the supply side.

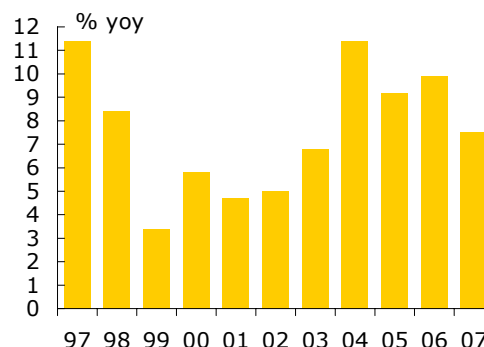
Over the first quarter, investments were the key component of aggregate demand, ensuring 9.8 percentage points of GDP growth. Almost one third of increase in investments was been financed by bank loans, while another third by enterprises themselves. However, higher prices for energy and slower growth of household income will tend to diminish the importance of these two sources of investment.

Structural trends: A share of 'Beltransgaz' stock is coming up for sale

Energy sector: In April, a sitting of the Board of Directors of Gazprom J.S.C. was held. The willingness to purchase 50% of shares of Beltransgaz over the period of 2007–2010 has been confirmed. The terms and conditions of this transaction have already been specified in a bilateral intergovernmental agreement. Also, according to the statement made by the Deputy Chairman of Gazprom, Mr. V. Golubev, his company has agreed to cut price mark-up of Beltransgaz (bargain position of Belarusian party) over 2007–2010. Earlier the parties agreed that Belarus would pay USD 55 per 1,000 cubic meters for imported gas (instead of USD 100) during the first half of the current year, and the difference would be paid in the course of the second half. Nevertheless, despite these friendly steps – from a Russian's party viewpoint – the Belarusian government delays signing up of a sales contract.

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%

Real GDP growth



Source: Ministry of Statistics and Analysis. Forecast for 2007: IPM Research Center.

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However, sale of Beltransgaz is related to the intention of the Belarusian government to obtain a loan of USD 1.5 bn from the Russian government. According to the information provided by some media, the Russian government has found the reasons for provision of this loan unconvincing. Later, the Russian party has requested that 30% of Beltransgaz shares are put as collateral. It appears that situation with the sale of Beltransgaz is ambiguous in spite of the agreement signed.

Foreign trade: merchandise trade deficit has increased

In Jan-Feb, merchandise trade deficit amounted to USD 659 m (USD 23.4 m a year before). This can be explained by high rate of imports growth (24.7% yoy) observed against the background of low rate of exports growth (2.2% yoy). The value of exports increased because of higher export prices (by 10.2% yoy), while the volume declined by 7.3%. As for imports, both higher prices (by 14.7%) and physical volumes (8.5%) made the value of imports greater. Decline of exports is connected with lower sales of oil products to the EU, while higher gas prices offset the correspondent reduction of crude oil imports from Russia. As a result, 55% of merchandise trade deficit was composed of energy commodities.

Twofold increase of investment imports has been another important factor behind growing deficit (specifically, tube mill at the cost of USD 81.1 m was bought). Also, there has been increase in the volume of imports of agricultural machinery, computer hardware, and communication, radio and TV equipment. In contrast to the situation a year before, the volume of consumer imports exceeded the volume of consumer exports. This occurred – among other factors – due to reduction of sugar exports. The issue of sugar supply has not been properly settled over the first quarter. Also, meat exports went down since Belarusian producers have been accused of using Polish meat to produce meat products for exports to Russia. The latter has banned the imports of meat from Poland. At the same time, car imports as well as imports of a range of consumer products increased. It appears that energy shock has been compounded by foreign trade problems with Russia to increase merchandise trade deficit.

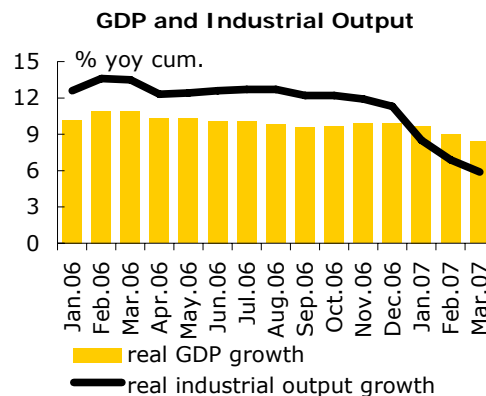
Public finance: Changing structure of revenues and expenditures of the general government

In Jan-Feb, the consolidated revenues amounted to 54.4% of GDP, which is 3.1 percentage points more than a year before. The expenditures were at the level of 42.2% of GDP, or 1.7 percentage points less than in Jan-Feb 2006. Thus, the fiscal surplus reached the figure of 12.6% of GDP over Jan-Feb. This is almost twice as high as it was a year ago. Hence, the government keeps on accumulating funds in the banking system.

New terms of energy trade led to the change in the structure of the state budget. Higher export duties on oil products (now set at the level established in Russia) have increased tax revenues from foreign economic activity (from 2.6 to 5.6% of GDP). At the same time, decrease of profits in the oil processing sector and the economy as a whole (by 1.6% yoy) have led to declining income and profit tax revenues (from 9.3 to 8.7% of GDP). At the expenditure side, the financing of the economy dropped most considerably, from 7.0 to 5.7% of GDP. However, reduction of direct support of enterprises would most likely lead to the extended application of tax preferences and other indirect subsidization measures.

Monetary policy: Shift from short to long-term loans

In March, the NBB kept on a restrictive monetary policy, offsetting the repercussions of energy price hike for foreign ex

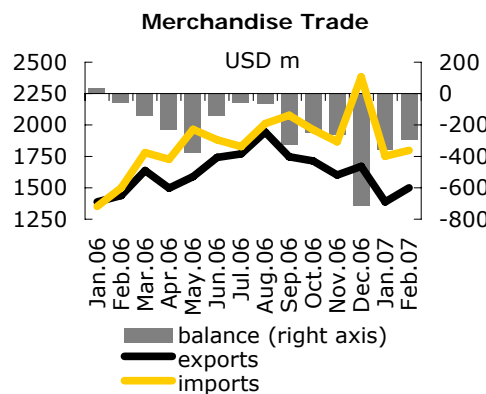


Source: Ministry of Statistics and Analysis.

Contribution to Industrial Output Growth

Branches of industry:	Jan-Mar 2007	
	Growth rate*	Contribution**
Electric power	-9.6	-0.9
Fuel	-0.6	-0.1
Ferrous metallurgy	6.9	0.3
Chemical and petrochemical	10.7	1.2
Machinery and metalworking	11.6	2.5
Logging, woodworking, pulp and paper	7.3	0.2
Building materials	19.7	0.5
Light	4.3	0.2
Food	-8.5	-1.2
Other	29.7	3.1
Industry, total	5.9	5.9

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



Source: Ministry of Statistics and Analysis.

Exports and Imports of Merchandize Groups in Jan-Feb, USD m

merchandize groups:	Exports	Imports	Balance
Investment	458.8	505.1	-46.3
Intermediary:	1916.7	2443.3	-526.6
Energy	752.6	1114.2	-361.6
Other	1164.1	1329.1	-165.0
Consumer	498.4	577.3	-78.9
Total	2887.9	3546.9	-659.0

Source: Ministry of Statistics and Analysis.

change market by cutting money supply. Refinancing of commercial banks through bilateral operations has not been used so claims on commercial banks went further down by 12.5% mom. Due to stabilization at foreign exchange market, indirect regulation of foreign assets of commercial banks and increase of the volume of foreign currency deposits held by the government at the NBB, the volume of net assets of the monetary authorities increased in March quite substantially (by 13.0% mom). Still, this has not led to higher money supply since the volume of ruble deposits held by the government at the NBB has also been increased (by 57.9% mom). As a result, monetary base declined in March by 6.3% mom. In annual terms, its rate of growth lowered to 22.2% yoy (37.9% in February).

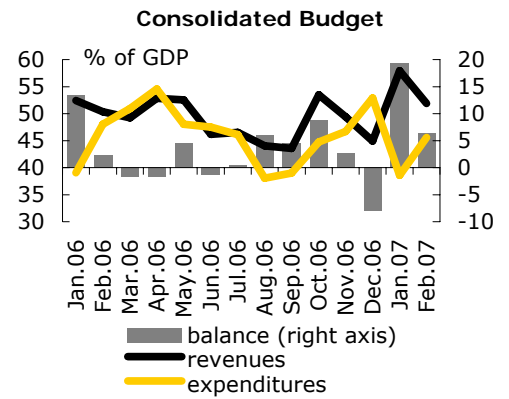
Despite the policy of the NBB, the government has continued to foster provision of investment loans. In March claims on economy went up by 60.2% yoy. The maintenance of such sizeable volumes of loan provision has been made possible due to reduction of short-term loans to both enterprises and households. At the beginning of 2007, the ratio of short to long-term loans of commercial banks was 46 to 54%. By the end of March, these figures amounted to 24 and 76%, respectively.

As a result, further increase of interest rates at the loans and deposits market has been observed. Higher returns to saving limited growth of cash in circulation and encouraged savings growth. Additionally, the tendency for acceleration of currency deposits growth and deceleration of ruble deposits growth sustains. It was due to some distrust to national currency amplified by recent energy shocks. Cash in circulation slightly increased in March (by 1.3% mom) and its annual growth rate amounted to 27.7% yoy (27.4% yoy in February). Ruble money grew by 1.8% mom, while broad money – by 1.9% mom. In annual terms, the rates of growth of these two aggregates amounted to 32.2 and 34.2% yoy (36.0 and 36.8% yoy in February).

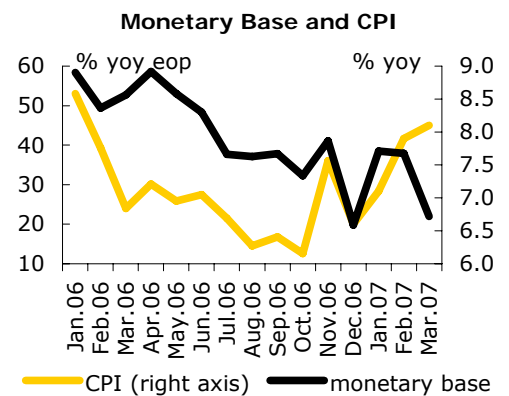
Consumer prices increased in March by 0.4% mom, or by 8.1% yoy. Accordingly, since the beginning of the year inflation rate went up by 1.5 percentage points. This is above the upper threshold of inflation forecast made for 2007. The Belarusian ruble depreciated very slightly in April against the US dollar by 0.09%. On April 30, the exchange rate was 2,145 BYR/USD.

Banking sector: Mesztorgbank and Slavneftebank are permitted for sale

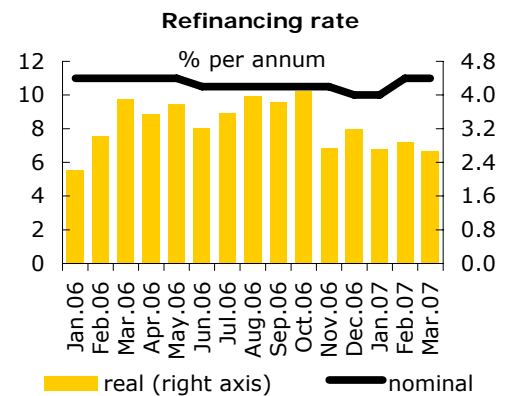
In April, it has become known that major agreements have been reached between the Belarusian authorities and investors about the sale of the majority holdings in Mesztorgbank and Slavneftebank. These holdings are currently owned by the government and the NBB. These two banks belong to the largest in the banking system of Belarus, although right after the six 'authorized' banks. The strategic investors ready to make a deal are the biggest Russian banks. In particular, the majority holding of Mesztorgbank is to be purchased by Alfa-Bank, while of Slavneftebank – by Vneshtorgbank. The steps made by the authorities show their readiness to privatize a part of the banking sector and to revise current functions of the latter. Privatization of middle-sized banks could produce a benign effect on the banking system of Belarus as a whole. Specifically, its capitalization could be increased, while the system would be more integrated into the world financial system. At the same time, it is of little likelihood that the government and the NBB are ready to make a major revision of the very foundations of the functioning of the Belarusian banking system. So it is very likely that state controls over the largest Belarusian banks will be preserved.



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		Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Jan 07	Feb 07	Mar 07
GDP growth	% yoy	8.4	8.7	10.7	11.0	9.6	8.6	10.8	8.4	9.7	--	--
GDP growth	% yoy cum.	9.1	9.0	9.4	11.0	10.3	9.6	9.9	8.4	9.7	9.0	8.4
Industrial Production	% yoy cum.	10.3	9.7	10.5	13.5	12.6	12.2	11.3	5.9	8.5	6.9	5.9
Agricultural Production	% yoy cum.	10.1	3.0	2.1	10.1	6.9	2.2	6.1	4.4	7.0	5.2	4.4
CPI	% yoy eop	10.0	9.8	8.0	6.8	7.0	6.4	6.6	8.1	7.1	7.9	8.1
PPI	% yoy eop	12.1	10.5	10.2	8.3	8.1	8.0	8.5	11.6	22.4	22.6	11.6
Merchandise export (USD)*	% yoy	17.2	15.1	11.5	27.5	24.9	29.3	13.6	--	0.0	4.3	--
Merchandise import (USD)*	% yoy	3.6	7.8	-5.3	51.3	37.0	30.0	23.5	--	29.5	19.8	--
Merchandise trade balance (NBB data)	USD m cum.	345	43	-527	-136	-786	-1215	-2398	--	-365	--	--
Current account	USD m cum.	884	816	510	115	-289	-558	-1512	--	--	--	--
Current account	% GDP cum	6.7	3.7	1.7	1.5	-1.8	-2.1	-4.1	--	--	--	--
International reserves	USD bn eop	1130	1189	1297	1290	1154	1155	1383	1535	1330	1303	1535
Monetary base	% yoy eop	39	50	74	53	48	38	20	22	39	38	22
Lending rate**	% p.a. aop	15	14	12	12	11	12	12	13	12	13	13
Exchange rate (official)	USD aop	2151	2150	2150	2151	2146	2142	2141	2141	2140	2142	2143
Exchange rate (official)	EUR aop	2713	2623	2558	2587	2694	2729	2761	2805	2782	2797	2838

* 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	79231
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	19.4	10.9	9.8	24.4	35.7	15.8	21.8
Imports (gs, USD)	% yoy	21.5	11.1	9.0	25.1	40.3	3.0	33.0
Current account	USD m	-338	-394	-311	-424	-1206	510	-1512
Current account	% GDP	-3.9	-3.2	-2.1	-2.4	-5.2	1.7	-4.1
FDI (net)	USD m	119	96	453	170	163	303	351
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	1.4
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	18.6
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