

BELARUSIAN MONTHLY ECONOMIC REVIEW



No. 6 (57)
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- The Belarusian government and Gazprom have signed an agreement to sell 50% of Beltransgaz stock
- A substantial share of social benefits is abolished.
- Subsidy to suppliers of customer-owned crude oil has reached the level of 90% of export duty on crude oil.
- The yearly plan for collection of export duties is overfulfilled in the course of Jan-Mar.
- Credit Bureau has begun to operate.

Politics: Belarus would extract crude oil in Iran

In May, an official visit of Iran's President Ahmadinejad took place. The major outcome is the agreement that Belarus would take part in the development of the Jofeir oil deposit. This project would allow to extract up to 1.5 m tons of oil per annum. This could to some extent reduce the dependency of the Belarusian economy on world market prices for oil. However, high costs of this project could demand to bring new partners in, thus reducing potential profitability for the project. Besides that, the development of relationships with Iran could adversely impact the relationships between Belarus and the EU.

Real sector: Recession in food industry is over

In Jan-Apr, GDP growth rate increased to 8.7% yoy (8.4% in Jan-Mar). This has occurred due to stoppage of recession in the food industry and acceleration of growth in chemical industry. Yet, the major problem of food industry, namely decline of sugar output, has not been resolved. Acceleration of growth in chemical industry could be explained by a sharp increase of potash fertilizers output. In turn, this is recorded against the background of a very low baseline over the last year. At that time, potash fertilizers had almost not been produced.

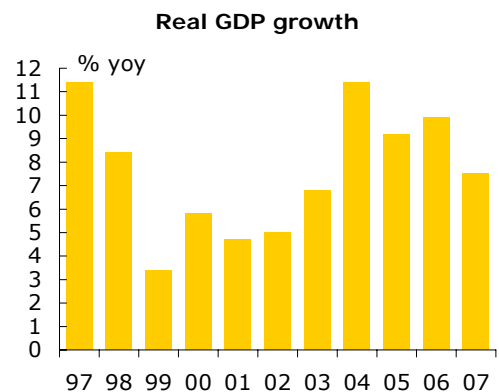
The impact of the energy shock on the financial situation of enterprises has been manifested in the deceleration of profits growth. In Jan-Mar, net profits went up by just 6.5% yoy (23.6% in 2006). This is due to lower profits in oil processing and, hence, industry as a whole. As a result, average profitability in the economy decreased to 11.9% (13.6% in Jan-Mar of 2006). However, the consequences of higher energy prices have not yet become fully apparent for enterprises, due to the continuation of their considerable public support. The opportunities for provision of this support would become limited over time as energy prices would grow further.

Structural trends: Abolition of some social benefits

Social policies: In May both chambers of the Belarusian Parliament passed a Law 'On State-Provided Social Benefits...' (effective as of January 1, 2008). New legislation abolishes or substantially cuts for the majority of categories of citizens the provision of social benefits in such fields as transports, healthcare, spa treatment, and public utilities bills. This legislation has been submitted to the Parliament following the need of shifting to a targeted social assistance. The latter would only be adopted later by a separate edict. However, its preparation has just begun after the above-mentioned legislation has been adopted.

Against the background of abolition of social preferences, the Deputy Prime Minister, Mr. Semashko pointed to insufficient 'social support' for directors of Belarusian state-owned enterprises. He has instructed the Ministry of Labor to adopt measures aimed at increasing their social status. It appears that some new trends in changing social policy priorities are observed in Belarus after the energy shocks.

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%



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

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Energy sector: In May, Gazprom and Belarusian State Committee for Property have signed a contract on selling 50% of Beltransgaz stock in accordance with the conditions agreed on before. The Belarusian party has assumed the obligation that until the deal is made in full, shares to be sold to Gazprom are not to be alienated, encumbered or pawned. Besides that, some additional conditions of functioning of the joint venture have been agreed on: namely increase of a wholesale mark-up of Beltransgaz on gas supplied to final consumers in Belarus (up to USD 11 per 1,000 cubic meters given 52% of transit facilities are to be utilized) and of transit tariff rates (from USD 1.45 to USD 2 per 1,000 cubic meters for 100 kilometers by 2011). Also, the Belarusian party has agreed not to adopt golden share rule for that enterprise. The agreement made have in fact removed potential obstacles to acquiring of 50% of shares of Beltransgaz by Gazprom and increased the likelihood of completion of the deal on the conditions agreed on in January 2007.

Foreign trade: Subsidy to suppliers of customer-owned crude oil has been increased

In Jan-Mar, merchandise trade deficit reached USD 855.4 m (USD 162.3 m a year ago). This is because the growth rate of imports (21.1% yoy) considerably exceeded the growth rate of exports (6.3% yoy). The biggest deficit is recorded for trade in intermediate goods. This has occurred due to reduction of exports of oil products by 20% after the majority of Russian companies refused to supply oil under the tolling agreements to the Belarusian refineries. In order to restore the volumes of processing and exporting of oil products, since May 1 the government has introduced a subsidy for suppliers under tolling agreements at the rate of 90% of import duty on crude oil. The rate is to be revised monthly. Most likely, this subsidy would be preserved until the setting up of the Belarusian Oil Company. Accordingly, subsidies would be provided to that company, and not the Russian ones.

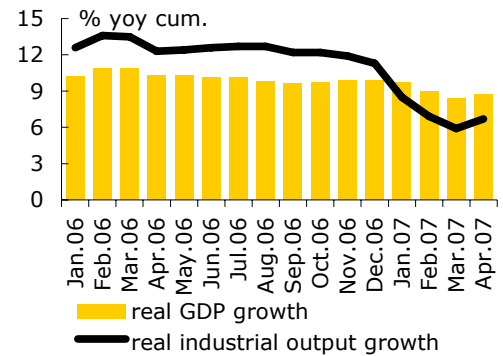
Merchandise trade deficit also increased due to dynamics consumer goods (deficit of USD 139 m comparing to USD 34.7 m a year ago). This is because of a speedy growth of the volume of imports of non-foodstuffs (by 27.4% yoy) and the reduction in export volumes of foodstuffs (by 11.7% yoy). The volumes of imports of foodstuffs also went down (by 1.1% yoy). This could be the evidence of strengthening of protectionist policies. In addition to the existing policy measures to reduce imports of non-foodstuffs, the Council of Ministers has developed a draft regulation to facilitate the production of import-substituting commodities. Therefore, the government attempts to tackle the deficit by employing administrative means.

Public finance: Changes in the composition of consolidated revenues and expenditures

In Jan-Mar, the consolidated revenues had amounted to 53.1% of GDP (2.2 percentage points higher than in Jan-Mar 2006). First of all, increase of revenues is related to changes in the taxation of oil processing sector. In particular, in Jan-Mar revenues from export duties exceeded the planned annual volume by 25.9%. In the light of this, the Ministry of Finance suggested to revise the budget of 2007 by the end of the first half of the year.

Consolidated expenditures amounted to 43.6%. This is 3 percentage points less than in Jan-Mar 2006. The reduction occurred owing to lower expenditures on national economy (by 1.9% of GDP). As a result, the budget surplus reached the level of 9.5% of GDP (4.3% of GDP in 2006), or BYR 1.9 trn. The major part of this surplus has been spent on increasing the

GDP and Industrial Output



Source: Ministry of Statistics and Analysis.

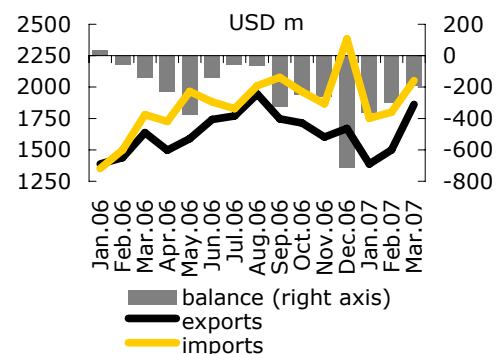
Profitability in Jan-Mar 2007

| | Profitability | Change |
|--------------------------------------|---------------|-------------|
| Industry, including: | 12.6 | -2.8 |
| Electric power | 13.5 | 0.9 |
| Fuel | 7.9 | -23.8 |
| Ferrous metallurgy | 24.8 | 7.2 |
| Chemical and petrochemical industry | 25.6 | 2.3 |
| Machinery and metalworking | 13.4 | 1.6 |
| Logging, woodworking, pulp and paper | 9.8 | 2.5 |
| Building materials | 8.0 | 3.0 |
| Light | 6.3 | 0.6 |
| Food | 6.5 | -2.9 |
| Economy, overall | 11.9 | -1.4 |

Note: Profitability - %, change - percentage points (in comparison to Jan-Mar 2006).

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

Merchandise Trade



Source: Ministry of Statistics and Analysis.

The Structure of Trade Balance, USD m

| Merchandise groups | Jan-Mar 2006 | Jan-Mar 2007 | Change |
|--------------------|---------------|---------------|---------------|
| Investment | 121.8 | 39.5 | -82.3 |
| Intermediary | -219.5 | -729.8 | -510.3 |
| energy | 42.3 | -445.2 | -487.5 |
| other | -261.8 | -284.6 | -22.8 |
| Consumer | -34.7 | -139.0 | -104.3 |
| Total | -162.3 | -855.4 | -693.1 |

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

volume of deposits held by the government at the banking system. In particular, since the beginning of the current year, their volume went up by USD 543.5 m. The volume of deposits accumulated by the government currently exceeds the volume of gas arrears piled up since the beginning of this year.

Monetary policy: The liquidity in the banking system increased

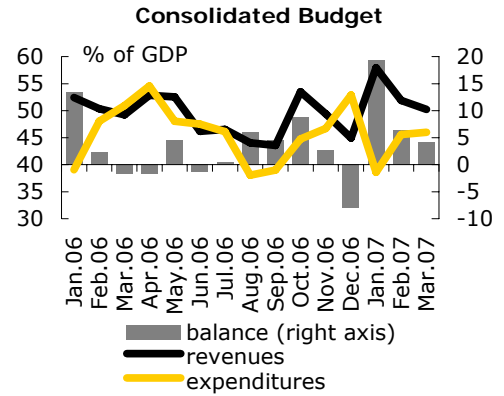
In April, the NBB continued to restrict money supply by means of domestic operations. At the same time, the NBB managed to increase the volume of foreign currency and gold reserves by 3.4% mom, by encouraging commercial banks to borrow abroad. Besides that, the volume of ruble deposits held by the government at the NBB decreased (by 14.5% mom), expanding the money supply. As a result, in April money base grew by 9.4% mom, while in the annual terms its growth rate accelerated to the level of 24.7% yoy (22.2% yoy in March).

Increase of the liquidity level allowed commercial banks to maintain rather decent pace of loan expansion. However, relatively considerable volume of accumulated outstanding loans led to some enfeeblement of credit boom. In April, the rate of loan expansion amounted to 58.4% yoy (60.2% yoy in March). In addition, some increase in excess reserves of commercial banks had been recorded due to the purchase of the NBB securities. This resulted in insignificant reduction of interest rates at some segments of loan and deposit market despite their relatively high value on average. Accordingly, the behavior of economic agents showed no substantial change. Trends for acceleration of the rate of growth of foreign currency deposits and deceleration of the rate of growth of ruble deposits have not been altered. Cash money supply increased by 8.5% mom in April, while in the annual terms the rate of growth of cash money supply amounted to 25.9% yoy (27.7% in March). Ruble money base expanded by 3.7% in April, while the broad money by 2.7% mom. In annual terms, growth rates of these aggregates amounted to 29.4 and 29.7% yoy respectively (32.2 and 34.2% yoy in March).

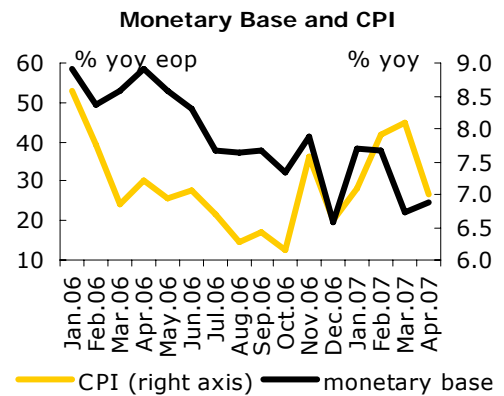
In April, consumer prices decreased by 0.2% mom. Consequently, inflation reverted to planned figure of 7% yoy. However, prices for virtually every item of goods and services (except public utility tariffs) went up. The public utilities (heating and water supply) have become cheaper by 24.4 and 1.1% mom respectively. But in fact, tariffs for these services have not been revised. Therefore, reduction of inflation could be seen as a mere statistical phenomenon reflecting the switch to a summer-time heating pattern.

Banking sector: Credit Bureau has begun to operate

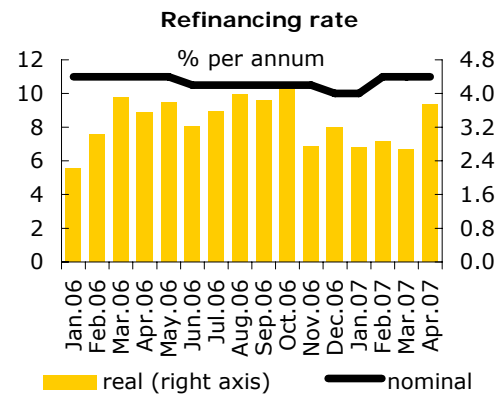
Since May 1, Credit Bureau has begun to function under the auspices of the NBB. It is intended that this new body would facilitate the reduction of credit risk in the economy by collecting information about loan transactions to record credit histories of borrowers. In their turn, commercial banks are allowed to access credit history of borrowers (both individual and corporate ones) by paying a certain charge. At the same time, the functioning of the Bureau is still constrained by the lack of necessary legislation. The latter is not yet adopted so the Bureau has started to operate on the basis of the NBB instruction (while necessary legislation is planned for adoption by the end of this year). It appears that the Belarusian banking system could employ an additional tool to reduce credit risk, but the efficiency gains would come after the accumulation of required information over certain period of time. However, the efficiency could be to some extent limited under the conditions of administrative stimulation of loan expansion.



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 | Feb 07 | Mar 07 | Apr.07 |
|--------------------------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| GDP growth | % yoy | 8.4 | 8.7 | 10.7 | 11.0 | 9.6 | 8.6 | 10.8 | 8.4 | -- | -- | -- |
| GDP growth | % yoy cum. | 9.1 | 9.0 | 9.4 | 11.0 | 10.3 | 9.6 | 9.9 | 8.4 | 9.0 | 8.4 | 8.7 |
| Industrial Production | % yoy cum. | 10.3 | 9.7 | 10.5 | 13.5 | 12.6 | 12.2 | 11.3 | 5.9 | 6.9 | 5.9 | 6.7 |
| Agricultural Production | % yoy cum. | 10.1 | 3.0 | 2.1 | 10.1 | 6.9 | 2.2 | 6.1 | 4.4 | 5.2 | 4.4 | 4.0 |
| CPI | % yoy eop | 10.0 | 9.8 | 8.0 | 6.8 | 7.0 | 6.4 | 6.6 | 8.1 | 7.9 | 8.1 | 7.0 |
| PPI | % yoy eop | 12.1 | 10.5 | 10.2 | 8.3 | 8.1 | 8.0 | 8.5 | 11.6 | 22.6 | 11.6 | 12.9 |
| Merchandise export (USD)* | % yoy | 17.2 | 15.1 | 11.5 | 27.5 | 24.9 | 29.3 | 13.6 | 6.3 | 4.3 | 13.5 | -- |
| Merchandise import (USD)* | % yoy | 3.6 | 7.8 | -5.3 | 51.3 | 37.0 | 30.0 | 23.5 | 21.1 | 19.8 | 15.5 | -- |
| Merchandise trade balance (NBB data) | USD m cum. | 345 | 43 | -527 | -136 | -786 | -1215 | -2398 | -836 | -652 | -836 | -- |
| 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 | 1303 | 1535 | 1565 |
| Monetary base | % yoy eop | 39 | 50 | 74 | 53 | 48 | 38 | 20 | 22 | 38 | 22 | 25 |
| Lending rate** | % p.a. aop | 15 | 14 | 12 | 12 | 11 | 12 | 12 | 13 | 13 | 14 | 14 |
| Exchange rate (official) | USD aop | 2151 | 2150 | 2150 | 2151 | 2146 | 2142 | 2141 | 2141 | 2142 | 2143 | 2144 |
| Exchange rate (official) | EUR aop | 2713 | 2623 | 2558 | 2587 | 2694 | 2729 | 2761 | 2805 | 2797 | 2838 | 2889 |

* 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 | 1.3 |
| 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 |