

Belarusian Monthly Economic Review

- OSCE expressed concerns about the content of the draft law on mass media.
- Growth rates of some economic indicators do not fit the prices growth.
- A new presidential decree creates obstacles for restructuring and privatization of enterprises.
- Budget law for 2004 drafted by the government seems to be unrealistic.
- Increase of cash supply and demand for foreign currency can lead to higher inflation.
- More government interference to banking activities.

No. 12 (15)
December
2003

Politics: OSCE expressed concerns about the content of the draft law on mass media

The situation with independent mass media in Belarus continues to raise concerns of the international community. During the last year, more than 10 national and regional newspapers were fined and consequently closed down (due to very high fines) for "inflicting moral damage" on representatives of the bodies of power. Heads of diplomatic missions of the countries – members of the European Union (EU) and the EU accession countries, which are accredited in Minsk, expressed their concerns about the content of the draft law on mass media, which the government is intended to send to the Belarusian parliament in the near future. OSCE reacted the same way and expressed its hope on establishing the public dialogue on that issue.

However, one can hardly expect any changes in the state policy towards mass media in Belarus in the near future. Minister of information of Belarus has not responded yet to the offer of the diplomatic missions to have a meeting and discuss freedom of the media in Belarus. Besides, President Lukashenko stated that electronic mass media are a tool of his policy; hence state TV channels should play an important role during the parliamentary elections in Belarus in March 2004.

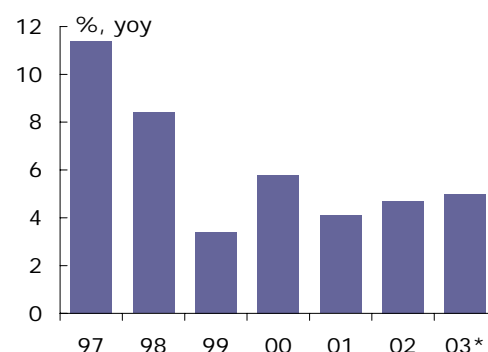
Real Sector: Growth rates of some economic indicators do not fit the prices growth

According to the official statistics, in Jan-Oct GDP grew by 6.3 yoy. GDP growth was mainly due to acceleration of growth rate in agriculture and keeping high growth rate in industry. Increase of capital investment induced growth in construction. Consumer market also developed dynamically – in Jan-Oct retail trade turnover increased by 9% yoy.

However, reliability of that data in high inflation environment is not very high. For example, there is some inconsistency between the data on growth rates of some indicators and price indexes in Belarus. At inflation rate of 29% yoy difference between nominal and real growth rates of retail trade turnover is only 2.6 percentage points. The same biases exist for the number of other indicators (e.g. industrial and agricultural production). At the same time, poor financial status of enterprises (more than 35% of them are loss making) indicates that the situation in the real sector remains difficult. Moreover, some problems of Belarusian enterprises (for example, the problem of wage arrears) are eliminated with the help of banks' loans, which lead to worsening of their assets structure and higher vulnerability of the banking sector.

Population: 9.9 m
Industry/GDP: 26%
Agriculture/GDP: 9%
Investment/GDP: 16.6%
Export destination: Russia 50%, EU 17%
Import origin: Russia 65%, EU 17%

Real GDP Growth



Source: Ministry of Statistics and Analysis.
* Own estimates.

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Structural Trends: Restriction of possibilities for restructuring and privatization

The forecast of the social economic development of Belarus for 2004 has not been adopted. It was due to President Lukashenko's opinion that GDP growth in 2004 should be 10% instead of 6.5-7.5% as the government proposed. It necessitated revision of main indicators of social economic development. Because of that and due to the fact that the price of Russian gas has not been set yet, the state budget for 2004 has not been adopted so far.

The presidential edict "On some issues of economic insolvency (bankruptcy)" reduced considerably the possibilities for carrying out restructuring and privatization of enterprises in Belarus. According to the edict, it will be much more difficult to privatize three groups of enterprises: so-called city-companies, enterprises that have a share of state capital, and that are involved in state purchase programs. The new procedure makes it impossible to privatize "natural monopolies". Besides, the edict reduced the scope of bankruptcy procedure application as a means to restructure them.

External Sector: Growth of trade balance deficit

Russia's introduction of meat import quota for the countries outside CIS reduced competition in this market and allowed Belarus to increase export of meat products to Russia (but only in value terms). In Sep-Oct export of meat to Russia grew by 27% yoy, milk and dairy products – by 63% yoy. Import growth in this period was due to oil price rise and growth of oil products deliveries from Russia. As a result, the growth of export compared to the same period of the previous year still lagged behind import growth rate. It resulted in merchandize foreign trade deficit growth by 60%.

Merchandize trade deficit was partly compensated (by 39%) with service trade surplus. The main sources of current account deficit financing were loans (USD 125.9 m), foreign direct investment (USD 89.9 m) and operations with securities (USD 20.2 m). Long-term capital movement is still characterized by more payments to service old debts than new inflows (by USD 39.6 m).

Public Finance: Budget law for 2004 drafted by the government seems to be unrealistic

In October, the situation with meeting the targets of the consolidated budget did not change. For 10 months, consolidated revenues amounted to BYR 9765 bn. The main sources of revenues were still VAT, personal income tax, revenues from foreign trade, profit tax, and excises. Revenues from these sources made 54.3% of all revenues. Consolidated expenditures for Jan-Oct amounted to BYR 9826 bn. Due to problems with collection of the revenues the expenditure targets on most expenditure items have not been met. The government cut the expenditures, so the expenditure plan was fulfilled just by 76.8% of the annual plan. As a result, the fiscal deficit remained at a very low level (BYR 61 bn, or 0.2% of GDP).

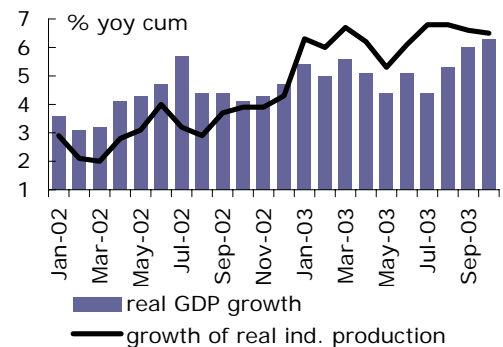
The government drafted the budget law for 2004 based on the figure of GDP growth approved by the president. According to the draft budget law, the revenues will be BYR 13200 bn (including revenues of the Social Protection Fund). This indicator takes into account reduction of the rates of a few turnover taxes and VAT (from 20% to 18%). Expenditures are planned to be BYR 13900 bn. Two thirds of all revenues will be paid as wages and social transfers. As a result, fiscal deficit amounted to 1.5% of GDP (BYR 690 bn). The main sources of the fiscal deficit financing should be net external

Selected Growth Rates and Price Indexes

Indicator (Jan-Oct 2003)	% yoy
<i>Growth rates in nominal terms:</i>	
Agricultural production	15.5
Industrial production	30.6
Retail trade turnover	10.6
<i>Growth rates in real terms</i>	
Agricultural production	5.8
Industrial production	6.5
Retail trade turnover	9.0
<i>Price indexes:</i>	
Food prices index	22.4
Industrial producers' price index	40.0
Consumer price index	29.0

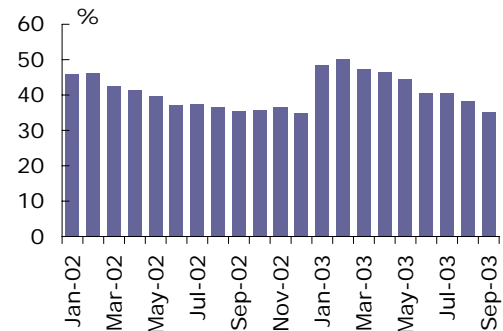
Sources: Ministry of Statistics and Analysis, own calculations.

GDP and Industrial Production



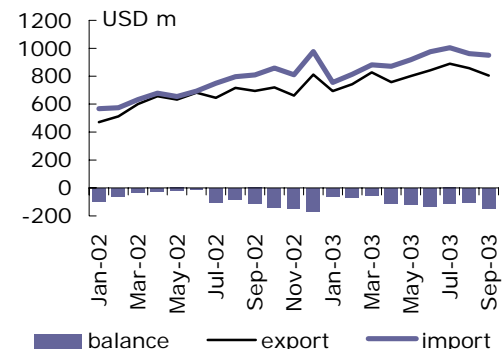
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: Ministry of Statistics and Analysis.

financing (BYR 450 bn), net selling of government securities (BYR 100 bn), and revenues from privatization (BYR 100 bn). Loans of the NBB are not planned to be used to finance fiscal deficit.

In order to realize the revenue plans for 2004, the government will have to implement structural reforms to increase the efficiency and profitability of enterprises and reach projected GDP growth. Otherwise, tax revenues will continue to lag behind the plan. Besides, increase of revenues from privatization also seems to be unlikely. Taking into account the negative net external financing in Jan-Oct 2003 (BYR -94 bn) it will be difficult to attract external sources to finance fiscal deficit in 2004.

Monetary Policy: Increase of cash supply and demand for foreign currency

In October, money supply in national currency grew by 2.6% mom. The main factor of its increase was the growth of cash supply by 5.4% mom. At the same time, inflation rate went up a little bit and reached 1.9% mom. However, households' deposits interest rates fell and became negative in real terms. In spite of this, in October ruble households deposits grew because hard currency deposit rates were even lower. At the same time, outflow of transferable deposits from the banking system and growth of currency deposits were observed. Increase of cash supply and of demand for foreign currency can lead to higher inflation and devaluation. Reduction of the ratio of foreign currency reserves to foreign currency component of money supply by 3.4 percentage points (to 43.6%) is an evidence of that. Covering the foreign currency component of money supply by net foreign assets of commercial banks that have most of foreign currency liabilities is just 2.8%.

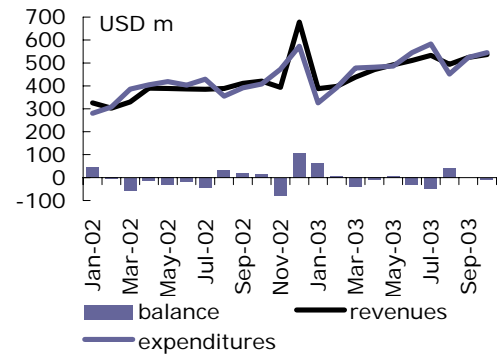
The growth of demand for hard currency led to reduction of foreign reserves by USD 23.5 m. The devaluation rate was kept as planned. In November the Belarusian ruble lost 0.7% of its value to the US dollar and as of December 1 the exchange rate was 2143 BYR/USD. The NBB set the exchange rate target by the end of the year to be 2170 BYR/USD.

Banking Sector: More government interference to banking activities

In response to interest rates reduction, which may lead to outflow of deposits from the banking system, the government plans to attract money to state banks by administrative means. The Council of Ministers is drafting a new law that stipulates that state enterprises will have to open bank accounts only in state banks. This measure will further monopolize the banking system and could destabilize it. That is why the NBB expressed its negative opinion on this draft law.

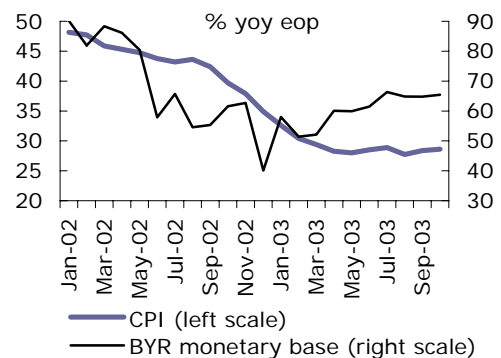
The NBB set the new limit on the volume of bad loans. By the end of the year, it should be just 5% of the total volume of loans. However, reduction of the share of bad loans is being done mainly by transferring them to off-balance accounts. It means that asset structure of banks is not improving. Real reduction of bad loans can happen only if enterprises begin to work more effectively and generate more profit. To achieve this restructuring process and economic reforms in general should be launched.

Consolidated Budget



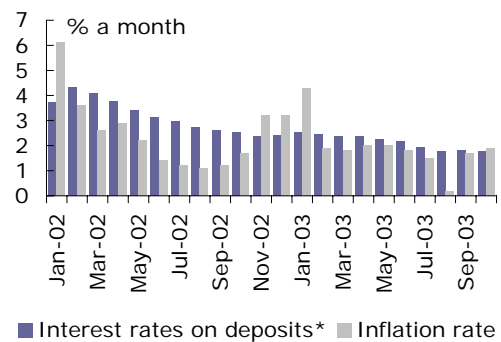
Sources: Ministry of Statistics and Analysis, own calculations.

Rouble Monetary Base and CPI



Sources: NBB, own calculations.

Inflation and Interest Rates



* Interest rates on new time households deposits in BYR. Sources: NBB, own calculations.

Economic Trends		Q4 01	Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Q2 03	Q3 03	Aug 03	Sep 03	Oct 03
GDP growth	% yoy	7.0	3.7	5.5	4.0	6.2	5.6	4.8	7.3	--	--	--
GDP growth	% yoy cum.	4.1	3.7	4.7	4.4	4.7	5.6	5.1	6.0	5.3	6.0	6.3
Industrial production	% yoy cum.	5.9	2.0	5.6	3.7	4.3	6.7	6.1	6.6	6.8	6.6	6.5
Agricultural production	% yoy cum.	1.8	1.8	4.3	3.2	1.5	1.2	-1.5	3.8	-5.1	3.8	5.8
CPI	% yoy eop	46	46	44	42	35	29	29	28	28	28	29
PPI	% yoy eop	41	39	38	44	42	43	42	36	34	36	40
Merchandise export (USD)	% yoy	-2.7	-7.0	8.4	10.2	24.1	39.2	20.0	22.2	25.6	24.2	--
Merchandise import (USD)	% yoy	10.0	-0.2	2.9	12.9	19.4	39.0	29.8	21.4	29.7	27.7	--
Merchandise trade balance	USD m cum.	-780	-137	-196	-451	-916	-188	-551	-914	-768	-914	--
Current account	USD m cum.	-270	31	106	-48	-352	-58	-185	-263	-194	-263	--
Current account	% GDP	-2.2	1.0	2.1	-3.8	-7.6	-1.0	-2.8	-1.6	1.5	-4.2	--
International reserves	USD bn eop	347	275	257	251	457	463	526	459	523	459	416
Monetary Base	% yoy eop	120	88	58	55	40	52	61	65	65	65	65
Lending rate*	% p.a. aop	65	71	67	55	51	47	41	34	33	34	33
Exchange rate (official)	USD aop	1525	1652	1753	1837	1893	1960	2031	2082	2082	2100	2120
Exchange rate (official)	EUR aop	1367	1448	1613	1808	1891	2105	2311	2342	2323	2353	2482

Sources: Ministry of Statistics and Analysis, NBB, own calculations.

* Nominal rate of commercial banks for new loans for legal entities in national currency (source: NBB).

Key Economic Indicators		1996	1997	1998	1999	2000	2001	2002
Nominal GDP*	BYR trillion	0.192	0.367	0.702	3.026	9.134	17.173	25.518
Nominal GDP	USD bn	14.3	12.7	9.3	6.3	8.9	12.1	14.3
GDP growth	% yoy	2.8	11.4	8.4	3.4	5.8	4.1	4.7
Industrial production	% yoy	3.5	18.8	12.4	10.3	7.8	5.9	4.3
Agricultural production	% yoy	2.4	-4.9	-0.7	-8.3	9.3	1.8	1.5
CPI	% yoy aop	53	64	73	294	169	61	43
CPI	% yoy eop	39	63	182	251	108	46	35
PPI	% yoy aop	34	88	72	355	186	72	41
PPI	% yoy eop	29	90	197	245	166	41	42
Exports (gs, USD)	% yoy	27.1	17.0	-9.6	-9.7	19.6	8.2	9.0
Imports (gs, USD)	% yoy	26.5	19.5	-6.6	-18.0	21.5	7.1	9.4
Current account	USD m	-516	-859	-1017	-194	-323	-445	-352
Current account	% GDP	-3.6	-6.8	-10.9	-3.1	-3.6	-3.7	-2.5
FDI (net)	USD m	105	350	201	443	119	108	434
International reserves	USD m	469	394	339	305	357	347	457
Fiscal balance**	% GDP	-3.4	-5.8	-5.0	-2.9	-0.6	-1.3	-0.6
Internal public debt	% GDP eop	3.9	4.3	4.9	5.7	4.5	4.5	4.6
External debt (total)	% GDP eop	17	20	51	42	24	20	20
Monetary base	% yoy eop	78	96	102	204	52	225	32
Exchange rate (official)*	USD aop	17	34	151	572	1035	1394	1784
Exchange rate (official)*	USD eop	27	42	430	925	1213	1580	1920
Spread***	% aop	25.1	31.1	224.0	128.2	44.4	0.8	0.0
Spread***	% eop	71.0	35.5	301.9	189.1	2.8	0.2	0.0
Exchange rate (official)*	EUR aop	--	--	--	270	651	1239	1690
Exchange rate (official)*	EUR eop	--	--	--	323	1097	1392	1989

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, own calculations.

* On January 1, 2000 the Belarusian rouble was devalued (1:1000). All figures are given in "new" Belarusian roubles.

** The fiscal balances for 1996-1998 included quasi-fiscal financing through commercial banks. Negative values refer to fiscal deficits.

*** Spread between the black market and official (NBB) exchange rates.

Notes:

aop	average of period	m	million
avg	average	mom	month-on-month change
bn	billion	NBB	National Bank of Belarus
bp	basis points	p.a.	per annum
cum.	cumulative	yoy	year-on-year change
eop	end of period	ytd	year-to-date
gs	goods and services		

The Belarusian Monthly Economic Review is prepared with support from the Ministry of Economy and Labour (Germany) within the framework of the TRANSFORM program