

## Belarusian Monthly Economic Review

- Russia offers Belarus acceleration of the process of switching to the Russian ruble.
- Unemployment rate increased by 0.6 percentage points.
- Belarus sold its share in Slavneft.
- Trade balance deficit grew significantly.
- In December the 2002 budget was revised twice.
- Net foreign assets (NFA) of the NBB went down to USD 192.5 m.

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### Politics: Russia Offers Belarus Acceleration of the Process of Switching to the Russian Ruble

The efforts of Belarusian entrepreneurs aimed at improving business environment gave some positive results. The NBB temporarily (for 1 year) weakened currency control measures. Now entrepreneurs do not have to specify the purpose of using hard currency while getting cash from the bank.

Furthermore, some procedures of registration and liquidation of private enterprises have been simplified. According to the new wording of the Provision on State Registration and Liquidation of the Economic Entities, enterprises are allowed to carry out any activities, which are not stipulated by the enterprise' Statute, provided they notify taxation and registration authorities. Besides, private unitary enterprise can now be registered in an apartment in case it belongs to the founder of the company. However, further steps to improve business environment are required, such as the application of notification principle of registration and "registration in one window" principle.

The Russian government offered acceleration of introduction of the Russian ruble in Belarus. In this respect Russia is prepared to pay USD 150 m a year (losses of the Belarusian government from collection of the VAT in the country of origin i.e. Russia) for two years, preceding introduction of the common currency. To receive the compensation for losses suffered in 2002, Belarus will have to switch to the Russian ruble in 2004. Besides, the Russian side offered Belarus unification of customs duties and elimination of subsidies to Belarusian enterprises. This is one of the requirements for providing next loan of USD 40 m to cover the current gas debts of Belarus. Other requirements are to enhance control over inflation (it should not exceed 3% a month) and budget deficit (1.5% of GDP).

### Real Sector: Unemployment Rate Grew by 0.6 Percentage Points

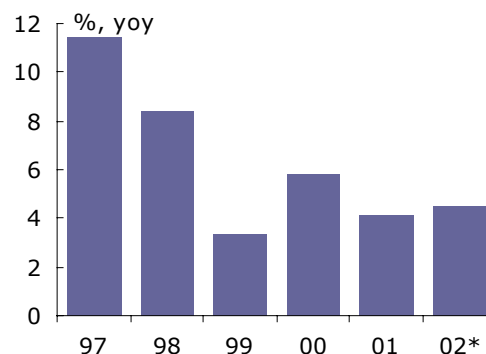
In Jan-Nov real GDP grew by 4.3% yoy. As earlier, growth of real industrial production was lower than GDP growth rates (by 0.4 percentage points). At the same time, stock of manufactured goods continued to increase. By December 1 the inventories amounted to 71.9% of average volume of monthly production.

Growth rates in agriculture slowed down considerably. For the period of 11 months of 2002 agricultural production grew by 0.3%, which is considerably lower than was projected by the Government (3-4%).

By November 1 the share of loss-making enterprises accounted for 35.9%, i.e. 3 percentage points higher than by November 1, 2001. Debt arrears continue to pile up. Real

**Population: 9.9 m**  
**Industry/GDP: 27.7%**  
**Agriculture/GDP: 8.9%**  
**Investment/GDP: 22.2%**  
**Export destination: Russia 54%, EU 11%**  
**Import origin: Russia 63%, EU 15%**

**Real GDP Growth**



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

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overdue creditor indebtedness has risen, but high growth of producer prices led to decrease of real creditor indebtedness. In 2002 government policy of increasing wages in the context of deteriorating financial performance of enterprises resulted in unemployment growth. The official number of registered unemployed is 130,300 persons. The unemployment level increased from 2.4% in November 2001 to 3.0% in November 2002. Unemployment in regions is considerably higher than in Minsk (3.7% in the Mogilev and 4% in the Vitebsk regions). In November unemployment benefit was paid only to 57,000 unemployed. Average size of the benefit was BYR 19,000 (or 22% of the minimum subsistence household budget).

**Structural Trends: Belarus Sold its Share in Slavneft**

The Belarusian government has sold its share (10.83%) in the oil company Slavneft for USD 207 m to the Russian oil company Sibneft through the Slavneftebank. This helped the Ministry of Economy in meeting the budget target on revenues from privatization (BYR 100 bn). Next year the Government plans to receive privatization revenues in the amount of BYR 450 bn and to attract foreign investments in the amount of USD 1.5 bn. These plans could fail if large packages of shares of petrochemical enterprises are not sold. The timeframe for holding investment tenders to sell shares of five petrochemical enterprises has not been determined yet.

The Law "On Personal Privatization Vouchers" was amended. Now it stipulates that by end of the term of circulation thereof (July 30, 2003) the unused vouchers shall be nullified. This is caused by absence of budgetary resources to pay compensation of BYR 670 bn to holders of vouchers. By the end of 2002 the population used only 51.5% of the issued vouchers.

**External Sector: Trade Balance Deficit Increased**

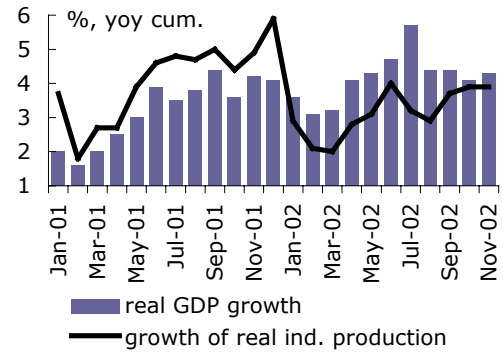
Within 10 months export of goods increased by 4.1% and import grew by 6.5%. In Jan-Oct trade balance deficit reached USD 685.3 m, increasing by 30% compared with the similar period of the previous year. The increment in the deficit (USD 176.1 m) was caused by growth of expenditures for import of crude oil from Russia and increase of imports of agricultural and finished food products beginning from early 2002. Expenditures on imports of these items in trade balance were not compensated by growth of exports of goods and services in the second quarter.

In Jan-Oct net inflow of foreign capital to Belarus due to regular financial operations dropped by 32.2%. Volume of operations on exceptional financing of the economy has gone down by more than 50%. The item "Errors and Omissions" in the balance of payments became positive and reached USD 13.4 m in October. This might indicate non-registered financing of current operations.

**Public Finance: In December the 2002 Budget was Revised Twice**

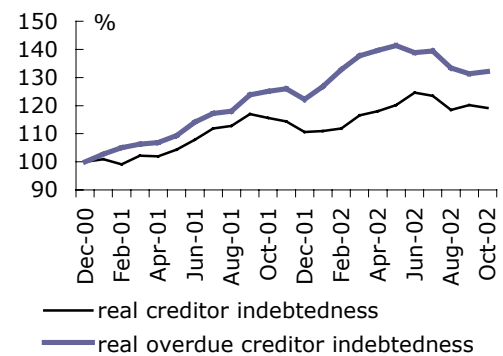
In Jan-Nov 2002 consolidated revenues amounted to BYR 7,337 bn (including revenues of budget funds). VAT, excise duties, taxes on foreign trade and income tax remained main sources of consolidated revenues. In Jan-Nov consolidated expenditures reached BYR 7,584 bn (including budget funds). Wage expenditures (with social security taxes) and social transfers were the biggest expenditure items. Within 11 months the budget deficit amounted to BYR 212 bn. It was financed by government treasury bills (BYR 168 bn) and credits of the NBB in the amount of BYR 160 bn. External financing remained a problem – in Jan-Nov net payments on external debts exceeded net receipts by BYR 104 bn.

**GDP and Industrial Production**



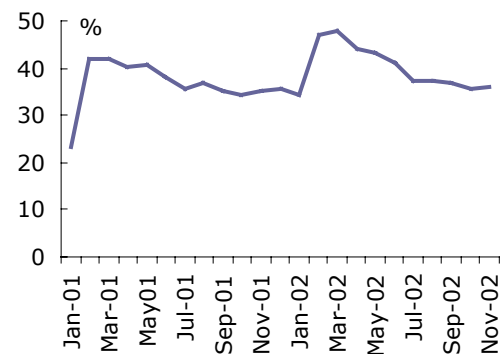
Source: Ministry of Statistics and Analysis.

**Index of Real Creditor Indebtedness and Real Overdue Creditor Indebtedness**



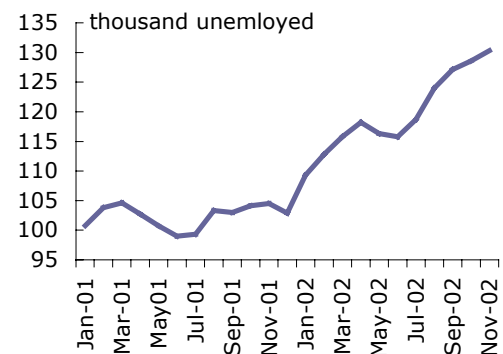
Source: Ministry of Statistics and Analysis, own calculations  
Note: December 2000 = 100.

**Share of Loss-Making Enterprises**



Source: Ministry of Statistics and Analysis.

**Unemployment**



Source: Ministry of Statistics and Analysis.

The Law on the 2002 Budget turned to be poorly prepared. In December indicators of the central budget were revised twice – on December 16 and 30. In the first case revenues and expenditures of the budget were increased, whereas in the second case they were decreased. Budget deficit was to increase in accordance with the both decrees. Besides, a number of the budgetary items in 2002 budget differed considerably from the original version of the law on the budget 2002.

**Monetary Policy: Further Decline in Official Reserves**

In November main monetary and credit indicators deteriorated considerably: amount of rubles in circulation increased by 5.2%, with total amount of increase reaching 52.3% from early 2002 (3.9% per month on average). Consumer price index grew by 3.2%, and in Jan-Nov it grew by 30.6%. In November the ruble monetary base increased by 6.3%. Taken together with the expected high rates of monetary emission maintained in December it may lead to inflation growth in December 2002 and early 2003.

In spite of inflation growth in November, the NBB reduced the nominal refinancing rate from 39% to 38% per annum. It resulted in decrease of the real refinancing rate from 1.6% to zero. In November interest rates for fresh time ruble deposits placed by the population went down to 38.8% per annum losing its financial attractiveness. For the first time in the year in November a net outflow of resources of the population from ruble deposits was observed. Total volume of deposit resources decreased by 0.5%.

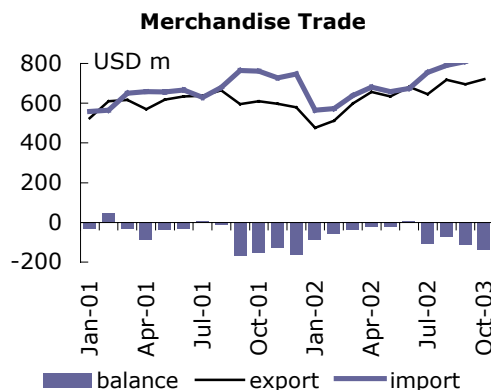
In Nov-Dec 2002 the Belarusian ruble lost 1.8% of its value in relation to the US dollar (from early 2002 it lost 17.7%) and by 31 December the exchange rate became BYR 1920 per 1 USD.

To keep the exchange rate within the framework envisaged by the Monetary Policy Guidelines for 2002, the NBB carried out currency interventions, which resulted in reduction of net foreign assets from USD 231.6 m in January 1 to USD 192.5 m by December 1.

**Banking Sector: Poor Attractiveness of Belarusian Banks to Foreign Investors**

In Jan-Nov authorized capital of banks increased in nominal terms by 90.2%, the banks' own capital increased by 50% and resource base grew by 44.5%. Growth of resource base of the banks was achieved mainly by attracting resources of Belarusian residents. Share of resources of non-residents reached only 5.9%, which indicates poor attractiveness of the banking system to foreign investors. It can be explained by heavy state regulation of the banking sector. In particular, banks have to credit financially non-viable enterprises and sectors of economy.

In the year 2002 four new banks were registered in Belarus. Three of them are foreign banks. The court ruled the "Belorusskiy Birzhevoy Bank" bankrupt. As of December 1, 28 commercial banks operate in Belarus.

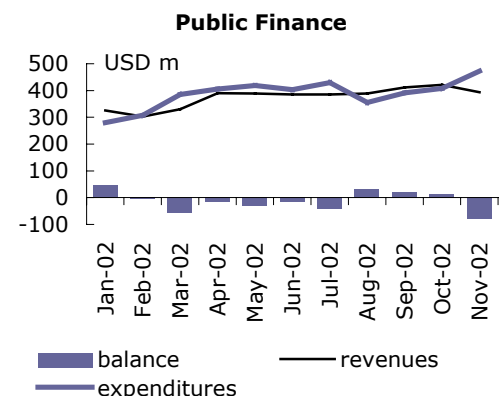


Source: National Bank.

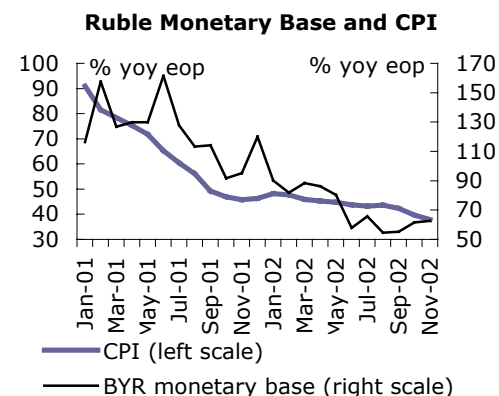
**Financing of Balance of payments in 2002**

Items	Jan-Jul	Q3	Oct
Current account	88.6	-127.2	-88.9
Capital account	-6.3	29.7	48.9
Exceptional financing	33.5	16.4	-8.1
Errors and omissions	-115.8	81.1	48.1

Source: National Bank.



Source: Ministry of Finance, own calculations.



Sources: National Bank, Ministry of Statistics and Analysis, own calculations.

**Refinancing rate in 2002, annualized, %**

Period	Refinancing rate	
	Nominal	Real
Q1	62.0	0.1
Q2	52.9	18.3
Q3	43.2	24.6
Oct	39.7	14.1
Nov	38.7	-5.0
Dec	38.0	-15.8

Source: National Bank, own calculations.

<b>Economic Trends</b>		<b>Q1 01</b>	<b>Q2 01</b>	<b>Q3 01</b>	<b>Q4 01</b>	<b>Q1 02</b>	<b>Q2 02</b>	<b>Q3 02</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>
GDP growth	% yoy	2.0	5.2	1.6	7.0	3.7	5.5	4.0	--	--	--	--
GDP growth	% yoy cum.	2.0	3.9	4.4	4.1	3.7	4.7	4.4	4.4	4.4	4.1	4.3
Industrial production	% yoy cum.	2.7	4.1	4.6	5.9	2.0	5.6	3.7	2.9	3.7	3.9	3.9
Agricultural production	% yoy cum.	3.7	8.1	3.5	1.8	1.8	4.3	3.2	5.3	3.2	0.1	0.3
CPI	% yoy eop	78	65	49	46	46	44	42	44	42	40	38
PPI	% yoy eop	118	79	47	41	39	38	44	46	44	42	46
Merchandise export (USD)	% yoy	21.3	17.1	4.3	-2.7	-9.6	8.2	12.9	7.8	16.8	18.2	--
Merchandise import (USD)	% yoy	6.9	6.3	3.1	10.0	0.0	2.2	13.7	17.3	5.9	13.0	--
Merchandise trade balance	USD m cum.	-5	-158	-340	-780	-191	-56	-546	-466	-546	-685	--
Current account	USD m cum.	95	48	32	-270	-21	88	-39	20	-39	-128	--
Current account	% GDP cum.	3.6	1.7	0.4	-2.2	-0.7	3.3	-3.0	1.1	-3.8	-6.9	--
International reserves	USD bn eop	357	399	304	347	314	357	301	303	301	309	--
Monetary Base	% yoy eop	127	161	114	120	88	58	55	55	55	62	63
Lending rate*	% p.a. eop	79	75	67	65	71	67	55	56	53	54	50
Exchange rate (official)	USD aop	1229	1343	1433	1525	1652	1753	1837	1840	1857	1874	1892
Exchange rate (official)	EUR aop	1136	1175	1276	1367	1448	1613	1808	1798	1822	1839	1888

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

\* Nominal rate of commercial banks for fresh credits in national currency (source: NBB).

<b>Key Economic Indicators</b>		<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Nominal GDP*	BYR tr	0.121	0.192	0.367	0.702	3.026	9.134	16.913
Nominal GDP	USD bn	10.6	14.3	12.7	9.3	6.3	8.9	12.0
GDP growth	% yoy	-10.4	2.8	11.4	8.4	3.4	5.8	4.1
Industrial production	% yoy	-11.7	3.5	18.8	12.4	10.3	7.8	5.9
Agricultural production	% yoy	--	2.4	-4.9	-0.7	-8.3	9.3	1.8
CPI	% yoy aop	709	53	64	73	294	169	61
CPI	% yoy eop	244	39	63	182	251	108	46
PPI	% yoy aop	462	34	88	72	355	186	72
PPI	% yoy eop	118	29	90	197	245	166	41
Exports (gs, USD)	% yoy	--	27.1	17.0	-9.6	-9.7	19.6	8.2
Imports (gs, USD)	% yoy	--	26.5	19.5	-6.6	-18.0	21.5	7.1
Current account	USD m	--	-516	-859	-1017	-194	-323	-270
Current account	% GDP	--	-3.6	-6.8	-10.9	-3.1	-3.6	-2.3
FDI (net)	USD m	--	105	350	201	443	119	108
International reserves	USD m	--	469	394	339	305	357	347
Fiscal balance**	% GDP	-2.7	-3.4	-5.8	-5.0	-2.9	-0.6	-1.3
Total public debt	% GDP eop	2.5	3.9	4.3	4.9	5.7	4.5	4.5
External debt (total)	% GDP eop	--	17	20	51	42	24	20
Monetary base	% yoy eop	350	78	96	102	204	52	225
Exchange rate (official)*	USD aop	12	17	34	151	572	1035	1394
Exchange rate (official)*	USD eop	12	27	42	430	925	1213	1580
Spread***	% aop	0.0	25.1	31.1	224.0	128.2	44.4	0.8
Spread***	% eop	0.0	71.0	35.5	301.9	189.1	2.8	0.2
Exchange rate (official)*	EUR aop	--	--	--	--	270	651	1239
Exchange rate (official)*	EUR eop	--	--	--	--	323	1097	1392

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

\* In January 1, 2002 a denomination of Belarusian ruble was conducted (1:1000). All figures are given in "new" Belarusian rubles.

\*\* Fiscal balance for 1996-1998 includes quasi-fiscal financing through commercial banks. "Minus" means budget deficit.

\*\*\* Spread between black market exchange rate and official (NBB) exchange rate.

#### 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		

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