

Belarusian Monthly Economic Review

- Belarus advocates that central banks within the Russian-Belarusian currency union are given equal status.
- More than a half of Belarusian enterprises are loss making.
- Trade deficit grew in trade with Russia while trade surplus was achieved with the rest of the world.
- Reduction of general government expenditures was made to pay off government's debts.
- Commercial banks exceeded the annual norm of buying government bonds.
- Sanctions against several banks for breaking the norm on own capital.

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Politics: Belarus Advocates that Central Banks within the Currency Union are Given Equal Status

On April 16, Lukashenko addressed the Parliament with his annual statement. Talking about Belarus and Russia integration he stated that Russia's absorption of Belarus is out of the question. He also declared that taking the Russian ruble as a single currency of the union should finalize the integration process. Lukashenko believes that the only acceptable variant of the currency union for Belarus is the one in which central banks of both countries are given equal status in shaping monetary policy. At the same time powers should be granted to Interbank Currency Union. It means that Belarus wants to have an impact on the monetary policy of the Currency Union.

As far as privatization is concerned Lukashenko noted that on the first stage majority of voting stock of privatized enterprises will be kept by the state. The obligatory condition in the process of privatization is to keep the social sphere of the enterprises on its balance. In this kind of legal and administrative environment privatization is likely to be stalled.

On April 23 at the meeting (through the selector) with heads of local bodies of executive power Lukashenko stated that loss-making agricultural enterprises will no longer get preferential loans, subsidies and cheap fuel. According to official statistics as of March 1, 2003 two thirds of agricultural enterprises are loss-making.

Real Sector: More Than a Half of Belarusian Enterprises are Loss-Making

In Jan-Mar 2003 real GDP growth was 5.6% yoy. Industrial production grew even faster and reached 6.7% yoy. In the first quarter of 2003 production of consumer goods and trade turnover increased considerably.

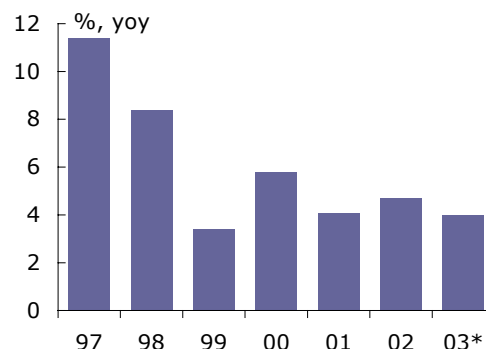
In Jan-Feb share of barter operations was reduced by 4.8 percentage points compared to Jan-Feb 2002. In Jan-Feb profitability grew a little bit and reached 7.3%. At the same time stock of industrial goods increased by 4.7 percentage points. As of April 1, 2003 the stock amounted to 73% of average monthly production volume. In Jan-Feb more than a half of Belarusian enterprises were loss-making. Compared to the same period of 2002 their share increased by 4.2 percentage points.

Sectoral Trends: "Beltransgaz" will be Sold only for Cash

On April 3 the Government announced terms of holding investment contests to sell stocks of four petrochemical enter-

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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prises "Naftan" (USD 476 m) and "Polymir" (USD 311 m), Grondno enterprises "Azot" (USD 293 m) and "Khimvolokno" (USD 71 m). Only 43% of shares were offered for sale. It means that the state is determined to keep control over these companies. Besides investors should not just invest in the enterprises but keep both employment at the old level and the social infrastructure. Buying stocks with loan resources is not allowed.

On April 18, Lukashenko signed the decree, which stipulated that the first emission shares of the joint stock company "Beltransgaz" that is being created (the preliminary estimate of its price is USD 570 m) will be sold only for cash. The Russian company "Gazprom" wanted to get a certain part of the shares in exchange for debt outstanding, which amounted to USD 195 m as of April 1.

Foreign trade: Trade Deficit Grew in Trade with Russia while Trade Surplus was Achieved with the Rest of the World

According to preliminary data export of goods in Jan-Feb increased by 41.7% and import grew by 37.6% (in dollar terms). Trade deficit for this period was USD 129.6 m and grew by 4.2% compared with the same period of 2002. High growth rate of Belarusian export and import is due to higher prices of crude oil and oil products compared with the beginning of 2002. Higher crude oil price leads to import growth from Russia by 58.8%. As a result trade deficit with Russia increased by more than 3 times while export of goods from Russia grew by 14.7%. Rise of prices of exported oil products became the main factor for increasing trade surplus with the rest of the world. It grew by 9 times and amounted to USD 373 m. Export to these countries grew by 70%.

In Jan-Feb minor outflow of resources from economy was observed. It was due to movement of short-term capital in the amount of USD 50 m and due to the fact than payments for debts outstanding exceeded inflow of new resources by USD 24 m. Foreign direct investment increased by 1.9 times. It was mainly due to selling of 50% of stock of "Priorbank" to an Austrian investor.

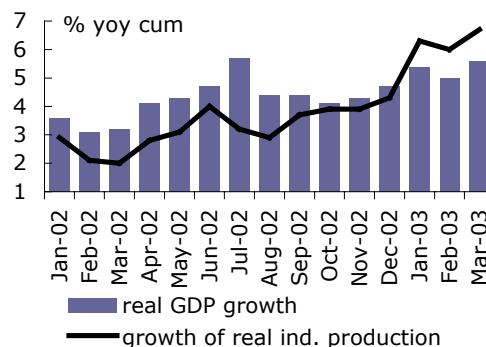
Since April 1, Belarus tightened terms of Russian beer import. At the estimate it will lead to 30% increase of price of Russian beer. The biggest Russian breweries "Baltika" and "Afanasiy Pivo" declared that they had suspended export of beer to Belarus. In response to tightening terms of Russian beer import the Union of Russian breweries addressed the Russian government and demanded introduction of a quota for import of Belarusian goods.

Public finance: Reduction of Expenditures to Pay off Government's Debts

For the first quarter of the year consolidated revenues amounted to about BYR 2400 bn (34% of GDP). The main sources of revenues are VAT, excise taxes, taxes of foreign trade and profit tax. Expenditures of the general government for the first quarter amounted to about BYR 2350 bn (33% of GDP). The main expenditure lines in the first quarter were wages of budgetary workers and social transfers to the population. Social sphere expenditures amounted to 44% of all expenditures, the share of national defense expenditures was 10%, and expenditures of housing and utilities and real sector of economy were 7% and 5% respectively.

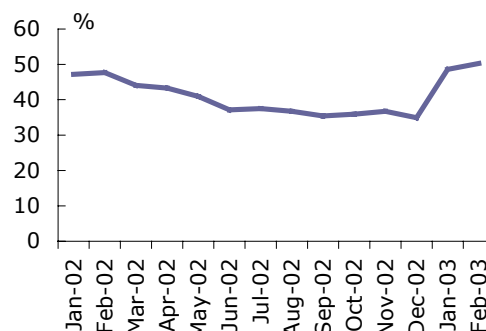
Expenditures on agriculture (including resources for sowing) from the budget and by means of quasi-budget financing (bank loans against state guarantees and subsidized by the

GDP and Industrial Production



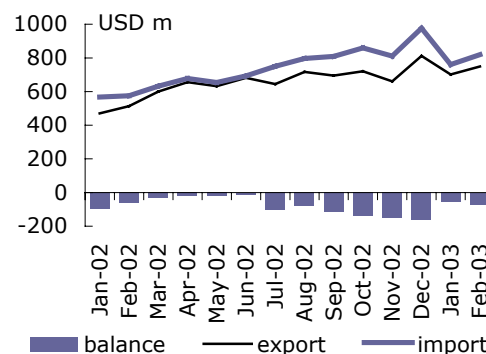
Source: Ministry of Statistics and Analysis.

Share of Loss Making Enterprises



Source: Ministry of Statistics and Analysis.

Merchandise Trade



Source: National Bank.

Structure of Merchandise Trade

	USD m		Change % yoy cum.
	Jan-Feb 02	Jan-Feb 03	
Trade balance			
Total	-124.4	-129.6	4.2
Russia	-165.8	-502.4	203.0
Rest of the world	41.4	372.9	800.0
Merchandise export			
Total	1024.1	1451	47.7
Total	542.7	622.5	14.7
Russia	481.4	828.5	72.1
Merchandise import			
Total	1148.5	1580.6	37.6
Russia	708.5	1124.9	58.8
Rest of the world	440.0	455.6	3.6

Source: National Bank.

budget interest rates) amounted to at least BYR 180 bn (3% of GDP). In Jan-Mar Ministry of Finance sold government bonds to pay off domestic and foreign debt of the Government. Besides some of budget revenues were used for this purpose. As a result revenues of the budget in the first quarter of the year exceeded expenditures by BYR 50 bn (1% of GDP).

Monetary Policy: Commercial Banks Exceeded the Annual Norm of Buying Government Bonds

In March ruble money in circulation increased by 4.5% mom and by 9.4% since the beginning of the year. Growth of money supply in national currency was due to growth of ruble monetary base in the first quarter by 6.3%. More than half of this growth (BYR 30.6 bn) was loans directed to finance central budget, namely public expenditures for housing construction. In the first quarter commercial banks financed the central budget by means of buying government bonds for BYR 111.2 bn. It is more than the annual norm stated in the "Law on the budget for 2003" (BYR 100 bn). In March consumer price index increased by 1.8% mom (in the first quarter prices grew by 8.1%).

Following the inflation slowdown, the NBB reduced nominal refinancing rate to 37%. In March it was 1.3% a month in real terms. In March time ruble deposits of the population grew by 7.5% mom (since the beginning of the year they grew by 31.6%). In the structure of the ruble money the share of this component was 32.3% in March.

In Jan-Mar net selling of foreign currency by commercial organizations fell by 15% compared with the same period of the previous year. At the same time net buying of foreign currency by the population fell from USD 137 m in the first quarter of 2002 to USD 13 m in the first quarter of 2003. This decrease can be explained by the reduction of real incomes of the population by 19.6% in Jan-Feb.

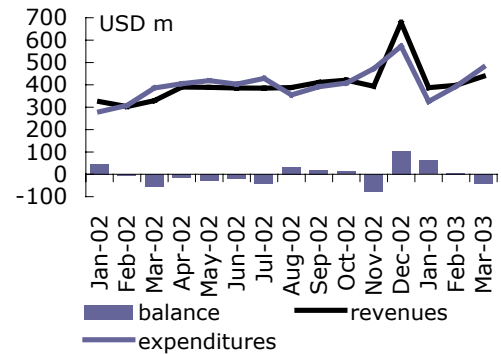
In April the Belarusian ruble lost 1.3% of its value to the US dollar and as of May 1 one USD cost BYR 2022. Due to a change in the procedure of calculation net foreign assets increased to USD 423.7 m as of April 1, 2003. According to the new procedure monetary gold is included into foreign assets. Before it was part of the category "other assets".

Banking sector: Sanctions against Several Banks for Breaking the Norm on Own Capital

For the first quarter of the year the share of non-performed loans (prolonged, outstanding, overdue and bad) in the overall volume of credit increased from 8.3% to 8.6%. It was due to the fact that resources of banks were still used to support insolvent state enterprises.

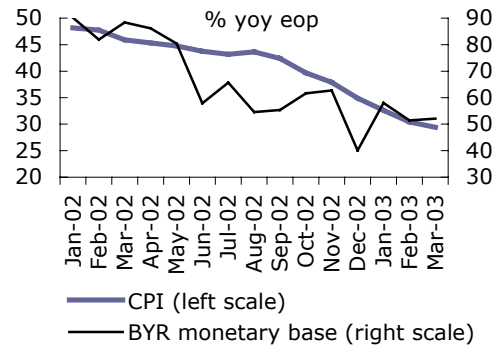
On May 2 the license to work with deposits of population was suspended for "Minskkomplexbank" until June 30, 2003. This measure was taken for breaking the norm of the bank's own capital (EUR 10 m) which is set by the rules of regulation of banks and non-banking financial institutions. Earlier this year the license for the bank "Zolotoi Taler", "Poisk" and "Minskkomplexbank" was suspended for the period from February 1, to April 30 for the same reason. Besides in March such licenses were withdrawn from "Belarusian Narodnyi bank", "Belarusian Industrial bank", "Absolutebank" and "RRB-Bank".

Public Finance



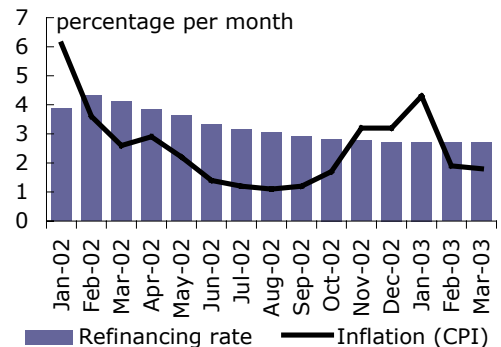
Source: Ministry of Finance, own calculations.

Ruble Monetary Base and CPI



Source: National Bank, own calculations.

Inflation and Refinancing Rate



Source: National Bank, own calculations.

Economic Trends		Q2 01	Q3 01	Q4 01	Q1 02	Q2 02	Q3 02	Q4 02	Q1 03	Jan 03	Feb 03	Mar 02
GDP growth	% yoy	5.2	1.6	7.0	3.7	5.5	4.0	6.2	5.6	5.4	--	--
GDP growth	% yoy cum.	3.9	4.4	4.1	3.7	4.7	4.4	4.7	5.6	5.4	5.0	5.6
Industrial production	% yoy cum.	4.1	4.6	5.9	2.0	5.6	3.7	4.3	6.7	6.3	6.0	6.7
Agricultural production	% yoy cum.	8.1	3.5	1.8	1.8	4.3	3.2	1.5	1.2	0.5	0.8	1.2
CPI	% yoy eop	65	49	46	46	44	42	35	29	33	30	29
PPI	% yoy eop	79	47	41	39	38	44	42	43	42	44	43
Merchandise export (USD)	% yoy	17.1	4.3	-2.7	-7.0	8.4	10.2	24.1	--	43.1	40.4	--
Merchandise import (USD)	% yoy	6.3	3.1	10.0	-0.2	2.9	12.9	19.4	--	37.5	37.8	--
Merchandise trade balance	USD m cum.	-158	-340	-780	-137	-196	-451	-916	--	-59	-71	--
Current account	USD m cum.	48	32	-270	31	106	-48	-352	--	-8	-33	--
Current account	% GDP	1.7	0.4	-2.2	1.0	2.1	-3.8	-7.6	--	-0.7	-2.1	--
International reserves	USD bn eop	399	304	347	275	257	251	457	--	380	374	--
Monetary Base	% yoy eop	161	114	120	88	58	55	40	52	58	51	52
Lending rate*	% p.a. aop	75	67	65	71	67	55	51	--	49	47	--
Exchange rate (official)	USD aop	1343	1433	1525	1652	1753	1837	1893	1960	1935	1960	1985
Exchange rate (official)	EUR aop	1175	1276	1367	1448	1613	1808	1891	2105	2059	2112	2145

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

* Nominal rate of commercial banks for newly issued loans in national currency (source: NBB).

Key Economic Indicators		1996	1997	1998	1999	2000	2001	2002
Nominal GDP*	BYR tr	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
Total 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.

* 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		

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