

## Belarusian Monthly Economic Review

- Introduction of non-cash Russian ruble is delayed.
- GDP and industrial production growth slowed down.
- Term of circulation of the privatization vouchers "Imushchestvo" has been prolonged till December 31.
- Merchandise trade deficit grew by 90% yoy.
- Ruble deposits of population grew by 30.6% in real terms.
- Credits for accrued payroll debt service grow.

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### Politics: Introduction of Non-Cash Russian Ruble is Delayed

On June 18, at the meeting on introduction of common currency of the Union state Lukashenko noted once again that transition of Belarus to the Russian ruble is possible only in case both states have equal rights in making monetary policy decisions. Besides, he stressed that introduction of the Russian ruble is possible only after the fulfillment of all agreements on creation of equal conditions for doing business for Belarusian and Russian economic entities. He expressed the same position on June 30 meeting with the journalists of the Belarusian television channels. Lukashenko noted that making unification of Belarusian and Russian currency systems one must take into consideration the international experience, and in particular, the experience of European integration. Thus, introduction of common currency and creation of unified government bodies should complete the process of integration of the two countries. According to Lukashenko, the opposition should also participate in the discussion of the issue of introduction of the Russian ruble, since it is closely related to the issue of sovereignty maintenance.

At the same time Lukashenko did not sign the edict on parallel circulation of the non-cash Russian ruble on Belarusian territory. Therefore introduction of the non-cash Russian ruble in Belarus that should have taken place on July 1 and which is the first stage of the currency integration of the two countries is being postponed.

At the meeting on June 18, Lukashenko also mentioned that a referendum should be conducted in Belarus on the issue of cancellation the constitutional limitation of number of terms of presidency. According to him this is caused by the necessity of defending interests of Belarus in relations with Russia.

### Real sector: GDP Growth Slow-Down

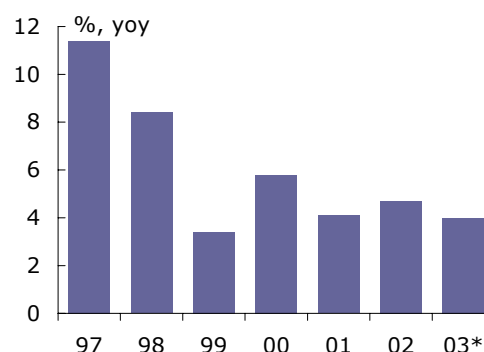
According to the official statistics, in Jan-May real GDP growth slowed down and amounted to 4.4% yoy. The industrial production grew by 5.3% yoy. The growth rate is still high in transportation and trade. Capital investments growth by 9.3% yoy in Jan-May accelerates growth in construction. At the same time agricultural output dropped by 3.6% yoy.

Many Belarusian experts express their doubts of official statistics being reliable. Their position has been supported by the State Control Committee audits. According to them during the last two years agricultural enterprises of Minsk region regularly falsify (overvalued) data on the production value.

Financial status of enterprises remains difficult. Profitability of enterprises in Jan-Apr dropped by 3.7 percentage points as compared with the same period of the 2002. Stock of finished goods of industrial enterprises continues to grow. They grew from 65.3% of the average monthly production as of January 1, 2003 to 73.4% as of June 1, 2003. Besides, the number

**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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of loss making enterprises is growing. In Jan-Apr their share reached 46.5%, growing by 5 percentage points in comparison with the same period of 2002.

**Sectoral Trends: Term of Circulation of the Privatization Vouchers has been Prolonged by December 31**

The government regulation prolonged the term of circulation of privatization vouchers "Imushcestvo" till December 31, 2003 (before it was June 30). By now only about 53% of population used the possibility to exchange privatization vouchers for shares of state enterprises. The current legislation envisages compensation for the unused vouchers, but the government examines the possibility to refuse the compensation, as the resources needed for this equal to annual expenditures of the state budget for education and healthcare.

The government continues to conduct the protectionist policy at the beer market. On June 10, the excise taxes for beer were changed. Instead of the flat rate of EUR 0.04 for 1 liter there are going to be introduced rates from EUR 0 to EUR 0.12. Next year Belarusian State Food Processing Industry Concern "Belgospishcheprom" offers introduction of a differentiated tax rate for beer of 2% for Belarusian beer and 10% - for imported beer. According to the government program of Belarusian brewing industry development the beer import should not exceed 10% of the volume of its consumption.

Protectionist measures are being taken also to retail trade organizations. In accordance with the regulation of Minsk City Executive Committee, about half of kiosks in Minsk are being closed down as from July 1. Most probably it has been done to ease the competition for the grocery stores, and this can lead to the growth of prices for some grocery products.

**Foreign Trade: Merchandise Trade Deficit Continued to Grow**

According to preliminary data for Jan-Apr, merchandise export grew by 31%, while import grew by 35%. Merchandise trade deficit for Jan-Apr was USD 301 m. It increased by 90% yoy. Deficit in trade with Russia grew 2.8 times compared to the same period of 2002. Positive balance in trade with other countries grew 3.5 times. The main factor that determined situation in foreign merchandise trade was growth of prices for crude oil and oil products compared to the same period of 2002.

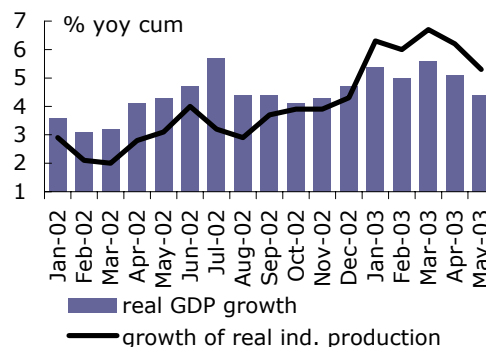
But growth ratio of import of other merchandise (i.e. without mineral products) also exceeded the growth rate of exports of these goods. Such merchandise import in Jan-Apr grew by 19.4% yoy, and such export grew by 15.5% yoy. The fastest growth has been experienced in imports of machines and equipment (22.4% yoy), agricultural and food products (21.2% yoy), and non-precious metals (19.8% yoy). As a result, deficit of trade for these merchandise lines grew by 20.3%, 9.4% and 16% respectively.

In Jan-Apr inflow of foreign direct investments (USD 40 m) and inflow or resources from operations with securities (USD 49 m) took place. Long-term capital flows were characterized by disbursements exceeding the new revenues by USD 33 m.

**Public Finance: the Central Budget was Revised**

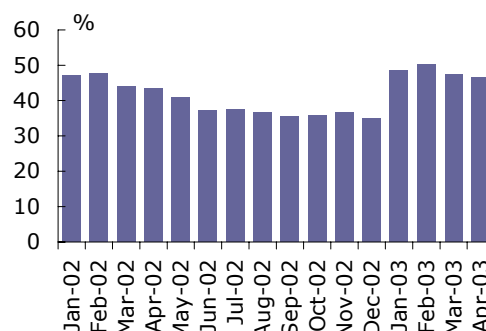
In Jan-May consolidated revenues amounted to BYR 4347 bn (36% GDP). The major sources of state revenues were still the value added tax (23.2% of revenues) and revenues from foreign trade and foreign economic operations (8.5%). The share of direct taxes – profit tax and income tax – remains

**GDP and Industrial Production**



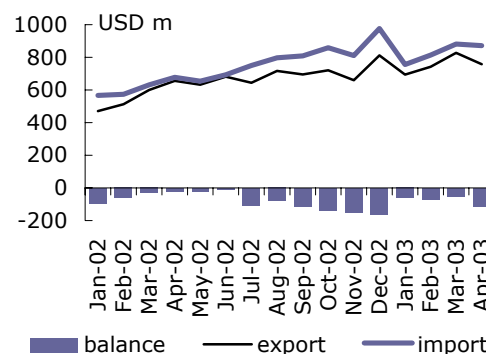
Source: Ministry of Statistics and Analysis.

**Share of Loss Making Enterprises**



Source: Ministry of Statistics and Analysis.

**Merchandise Trade**



Source: National Bank.

**Structure of Foreign Trade Balance**

Merchandise lines	USD m		Change, %
	Jan-Apr 2002	Jan-Apr 2003	
Mineral products	-213.5	-296.9	139.1
Agricultural and food products	-168.6	-184.5	109.4
Machines and equipment	-116.5	-140.2	120.3
Non-precious metals	-96.7	-112.2	116.0
Transport means	135.3	148.8	110.0
Textile	107.5	131.3	122.1
Chemical products	52.0	43.2	83.1
Other	147.2	109.8	74.6
<b>Total balance</b>	<b>-153.3</b>	<b>-300.7</b>	<b>196.2</b>

Source: National Bank.

small according to international standards (7.4% and 8.4% respectively) and continues to shrink. This is the consequence of bad financial status of enterprises and the low level of monetary income of population.

Consolidated expenditures were BYR 4307 bn (35.7% GDP). The largest expenditure items were financing of social and cultural spheres (42.6% of all expenditures), national defense (8.7%), housing and utility (6.7%), and enterprises of the real sector (5.7%). In Jan-May execution of the majority of the budget items did not reach the planned level. The major lack of financing was experienced in such fields as expenditures on science, industry, power and construction, and on development and support of entrepreneurship (21.4%, 21.3% and 11.4% of annual plan respectively).

The presidential decree revised the central budget figures. Social expenditures and the budget deficit limit were enlarged by BYR 12 bn at the expense of the NBB credits. These resources will be directed to "Belarusbank" to compensate the expenses of the bank for preferential credits for the population housing construction.

**Monetary Policy: Real Growth of Deposits of Population**

In Jan-May ruble money in circulation grew by 21.9% eop (for May by 4.6% mom). Its annual growth can be 50-60% and can exceed the determined maximum limit. Consumer price index in May grew by 2% mom (in Jan-May by 12.5% eop). The annual prices growth can amount 30%, which also exceeds the forecast of the NBB.

In Jan-May the NBB non-interest credits to the central budget for financing the housing construction constituted BYR 53.6 bn. Commercial banks financed the central budget by purchasing ruble and foreign currency bonds for BYR 202.3 bn.

In May annual refinancing rate dropped to 34%. In real terms it dropped a bit (to 0.5% per month). Interest rate on newly attracted time ruble deposits dropped from 37.4% per annum in April to 36.9% per annum in May. Time ruble deposits of population grew in May by 5.7% mom (by 46.9% in Jan-May or by 30.6% in real terms).

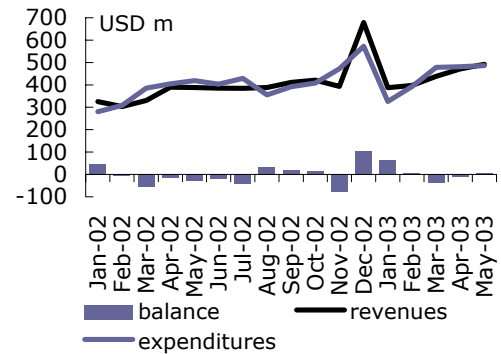
Favorable conjuncture at the currency market in May allowed the NBB to increase official reserves by USD 38.7 m (on June 1, 2003 they were USD 503 m). In June Belarusian ruble lost 1% of its value against US dollar. As of July 1 one US dollar was worth BYR 2040.

**Banking Sector: Growth of Credits for Accrued Payroll Debt Service**

In May commercial banks were ordered by decisions of the President and resolutions of the Council of Ministers to give loans in Belarusian ruble in the amount of BYR 107.6 bn for accrued payroll debt service (in Jan-May BYR 507.2 bn). Nevertheless, accrued payroll debt in May grew by 37%, and its share in the monthly payroll fund of the economy grew from 7.1% to 9.4%. As the banks have to execute these functions, the share of bad loans in all issued loans is still high. As of June 1, it was 8.1%.

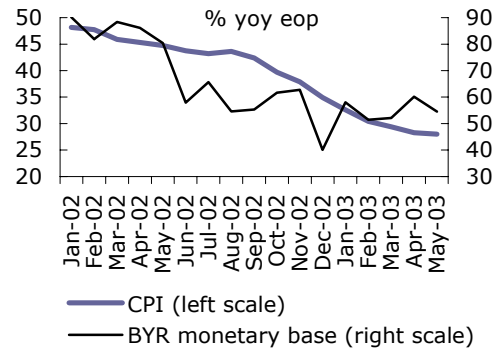
In 2003 the NBB had to issue credits to the central budget in the amount of BYR 12 bn to compensate household deposits and for participation of state in the authorized fund of the organization that guarantees deposits of population. But in accordance with the presidential edict these credits are going to be used to compensate "Belarusbank" interests on preferential loans that it was issuing to population for housing construction on the expense of own resources.

**Public Finance**



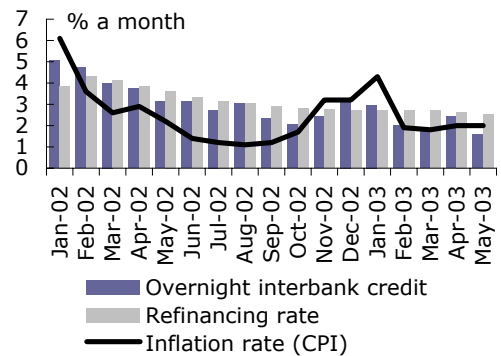
Source: Ministry of Finance, own calculations.

**Ruble Monetary Base and CPI**



Source: National Bank, own calculations.

**Inflation and Interest Rates**



Source: National Bank, own calculations.

<b>Economic Trends</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>Q4 02</b>	<b>Q1 03</b>	<b>Mar 03</b>	<b>Apr 03</b>	<b>May 03</b>
GDP growth	% yoy	5.2	1.6	7.0	3.7	5.5	4.0	6.2	5.6	--	--	--
GDP growth	% yoy cum.	3.9	4.4	4.1	3.7	4.7	4.4	4.7	5.6	5.6	5.1	4.4
Industrial production	% yoy cum.	4.1	4.6	5.9	2.0	5.6	3.7	4.3	6.7	6.7	6.2	5.3
Agricultural production	% yoy cum.	8.1	3.5	1.8	1.8	4.3	3.2	1.5	1.2	1.2	-0.5	-3.6
CPI	% yoy eop	65	49	46	46	44	42	35	29	29	28	28
PPI	% yoy eop	79	47	41	39	38	44	42	43	43	41	43
Merchandise export (USD)	% yoy	17.1	4.3	-2.7	-7.0	8.4	10.2	24.1	39.2	35.6	13.1	--
Merchandise import (USD)	% yoy	6.3	3.1	10.0	-0.2	2.9	12.9	19.4	39.0	41.5	26.9	--
Merchandise trade balance	USD m cum.	-158	-340	-780	-137	-196	-451	-916	-188	-188	-301	--
Current account	USD m cum.	48	32	-270	31	106	-48	-352	-58	-58	-90	--
Current account	% GDP	1.7	0.4	-2.2	1.0	2.1	-3.8	-7.6	-1.0	-1.3	-2.7	--
International reserves	USD bn eop	399	304	347	275	257	251	457	463	463	462	--
Monetary Base	% yoy eop	161	114	120	88	58	55	40	52	52	60	54
Lending rate*	% p.a. aop	75	67	65	71	67	55	51	46	44	42	--
Exchange rate (official)	USD aop	1343	1433	1525	1652	1753	1837	1893	1960	1985	2010	2032
Exchange rate (official)	EUR aop	1175	1276	1367	1448	1613	1808	1891	2105	2145	2181	2354

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).

<b>Key Economic Indicators</b>		<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
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
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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