

# BELARUSIAN MONTHLY ECONOMIC REVIEW

No. 04 (91)  
April 2010

- New challenges in foreign affairs.
- The decrease of production investments.
- New challenges of the Customs Union.
- Investment imports are decreasing.

## Politics: New challenges in foreign affairs

In April, new tensions between Belarus and Russia took place. Belarusian President supported and invited to Minsk displaced Kyrgyz President K. Bakiev. Herewith, Belarusian authorities showed their own position in respect to the events in Kyrgyzstan, which is much different to the position of the major geopolitical stakeholders in the region – Russian and the US. In its turn, Russian authorities criticized Belarusian President, which started up a new wave of bilateral rigid political statements. Furthermore, more active cooperation between Russia and Ukraine – they signed a strategic agreement that prolongs the rental period of the Russian navy's base in Crimea for 25 years in exchange to the discount in a gas price for Ukraine. In Russia's view, agreements with new Ukrainian authorities strengthen their positions in the region, which allows Russia to make more pressure on other countries of the region when promoting their interests. At this background, problems in the relations between Belarus and Russia may actualize at the geopolitical level of the Eastern Europe. Hence, the future summit of Collective Security Treaty Organization may become an "arena" for this tension, while Belarusian President mentioned about the probability of ignoring it.

## Real sector: The decrease of production investments

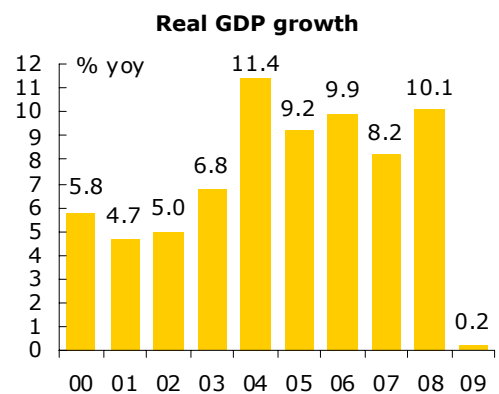
In Jan-Feb, the growth rate of GDP increased to 3.5% yoy (1.1% yoy in January). Expansion of growth was consequent to the recovery in industry. In Jan-Feb, industrial production grew by 4.2, while Jan-Feb 2009 was a trough in industrial production. Industrial growth took place in spite of sharp fall in oil-refinery (by 40.5% yoy). It became possible due to chemical industry and accelerating growth in tractor and agricultural machinery (up to 10.1% yoy). Due to this, the fall in machinery as a whole decreased from 10.0% yoy in January down to 2.4% yoy in Jan-Feb. Moreover, the level of inventories in this branch decreased somehow from 159.4 down to 155.2 of the average monthly production.

In Jan-Feb, capital investments kept on decreasing at almost the same rate as in January (by 9.9% yoy). Capital investments of non-production purposes grew by 5.2% yoy, while production investments decreased by 19.2% yoy. Hence, the necessity of providing source for financing capital investments is still the urgent challenge for the government.

## Structural trends: Agreements within the Customs union may be corrected


Before the July, 1<sup>st</sup> – the date when agreements on common customs area among Belarus, Russia and Kazakhstan come into force – there are still disputable issues among the parties. The most urgent one is the import duties on cars. For Belarus, increased duties mean loosing about USD 120 m of consolidated revenues (about 22% of total revenues from the import duties). Besides, it will lead to the sensible changes in the structure of cars purchased by the households. While the expectations of Belarus that the export duties for oil would have been cancelled with the Customs union did not realize, Belarusian authorities are likely to minimize the negative effects in the sphere of car imports. In April, vice-chairman of the State

**Population: 9.67 m**  
**Industry / GDP: 28.1%**  
**Agriculture / GDP: 8.4%**  
**Investment / GDP: 27.9%**  
**Export destination: Russia 32%, EU 44%**  
**Import origin: Russia 60%, EU 22%**



Source: National Statistical Committee.

IPM Research Center

German Economic Team  
in Belarus 

505 Zakharova St., Minsk 220088, Belarus  
Tel./fax (+375 17) 210 0105  
E-mail: [bmer@research.by](mailto:bmer@research.by)  
Internet <http://research.by/>

© IPM Research Center, 2010

Customs Committee S. Borisiuk stated that Belarus will insist on the current level of duties on imported cars for households. In its turn, Russian authorities try to struggle against potential inflow of used from Belarus to Russia. In April, Federal Customs Service issued a letter, where the necessity of customs clearing for cars going from Belarus to Russia for sale is emphasized. Thus, the parties are likely to change their positions in the issue of correspondent duties unification.

Oil duties is still the main contradiction within the Customs union. In April, Belarus filed a correspondent claim to the Economic Court of CIS. However, this issue is unlikely to be solved by judicial process, while the perspectives of the Customs union are closely connected with this issue.

**Foreign trade: Investment imports are decreasing**

In Jan, the merchandize trade became balanced, which was due to the growth of exports by 39.4% yoy and imports by 1.7% yoy. The main reason for these fascinating results was the trade with oil and oil products. Due to the crude oil imported in previous months, in Jan 2010 in comparison to Jan 2009, the physical volume of oil products exports decreased only by 255 thousand of tones (by 19.0% yoy), while imports of crude oil was reduced by 1.1 m of tones (by 61.4% yoy). Hence, the value of oil products exports grew by 23.5% yoy, while those of crude oil imports decreased by 9.5% yoy. Furthermore, in January the physical volume of potash fertilizers exports grew by 6.2 time yoy (by 3.2 times in value terms).

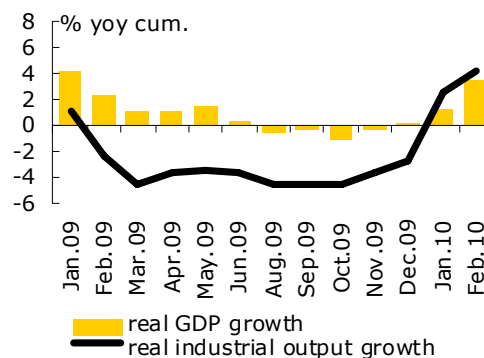
In trade with non-CIS countries exports grew by 32.3% yoy, while imports decreased by 12.5% yoy. The latter was consequent to lower imports of cars (35.2% of total decrease was due to this item) and investment goods. These decreases mainly became the results of the new single customs tariff in the Customs union. In trade with Russia, exports of all three aggregative commodity groups were growing: investment goods by 42.3% yoy, intermediary goods by 43.9% yoy and consumery goods by 36.5% yoy. For instance, the supply of tractors grew by 12.3% yoy, truck tractors – by 59.4% yoy, and trucks – by 3.4 times yoy. This tendency is more due to the low base effect, rather than due to the recovery in demand for the Belarusian goods. For instance, in comparison to Jan 2008, exports of tractors decreased by 3.1 times and trucks by 2.2 times. There were two main trends in imports from Russia: decreasing supply of crude oil and investment goods (by 2.2 times yoy). Decreasing investment imports both from non-CIS countries and Russia is the evidence of freezing or cutting investment programs of the Belarusian enterprises and government’s intention to redirect the investment demand for the domestic production.

**Public finance: Oil shock affected consolidated revenues**

In Jan 2010, consolidated revenues amounted to 37.6% of GDP, including those from taxes 34.9% of GDP (36.0% of GDP in Jan 2009). The reduction was mainly due to lower collections from taxes on goods and services, which lowered from 18.2% of GDP in Jan 2009 down to 15.6% of GDP in Jan 2010. This trend is consequent to the final cancellation of the agricultural levy and local tax on retail sales. Increased VAT rate compensated this only partially: revenues from VAT increased by 0.7 percentage points of GDP up to 9.9% of GDP. Later on, the effect of increased VAT rate is likely to empower, while in January it was mitigated by low imports of crude oil. Consolidated expenditures amounted to 34.2% of GDP, which provided consolidated surplus of 3.4% of GDP.

New conditions of trade with oil made Belarus to cancel the export duties for oil products. The government assessed the

**GDP and Industrial Output**



Source: National Statistical Committee.

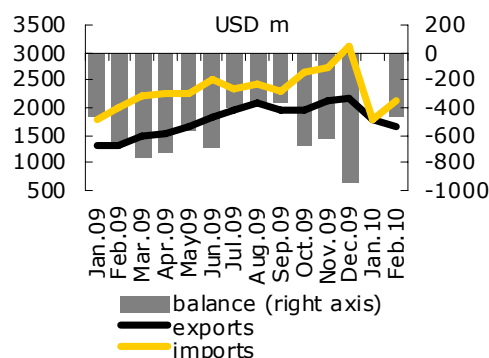
**Contribution of Branches to Industrial Growth**

January-February 2010	Growth, % yoy	Contribution to growth
<b>Industry, total</b>	<b>4.2</b>	<b>4.2</b>
Electric power	12.2	1.1
Fuel	-32.4	-5.7
Ferrous metallurgy	-0.6	0.0
Chemical and petrochemical industry	31.6	2.8
Machinery and metalworking	-2.4	-0.5
Logging, woodworking, pulp and paper	0.2	0.0
Building materials	8.1	0.3
Light	7.2	0.2
Food	8.1	1.2
Other branches	30.1	4.7

Note. Contribution to growth – in percentage points. Other branches also include the changes in the structure of relative prices.

Source: National Statistical Committee.

**Merchandise Trade**



Source: National Statistical Committee.

losses of the budget at 3.8% of GDP. However, increased wholesale prices on fuel by 7% and cancelation of subsidies for oil traders reduce these losses down to 1.4% of GDP. The rest is planned to compensate due to raising the rates of excises on alcohol and tobacco by 10%, raising payments to the innovation funds and export duties on potash fertilizers. Finally, the remained losses would lead to the increase in budget deficit by 0.7% of GDP, if it were not be compensated due to tightening of fiscal policy.

**Monetary policy: Credit rationing**

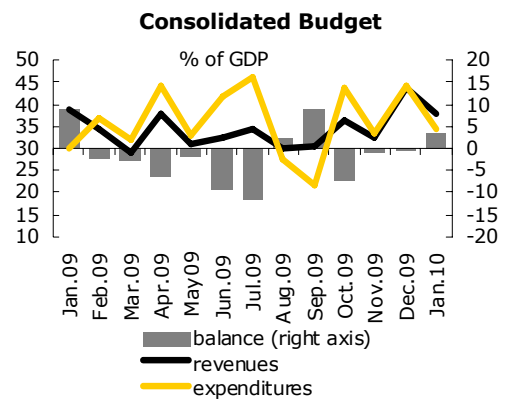
In February, net foreign assets of the monetary authorities grew by 8.2% mom (by USD 375 m), due to the last payment for the shares of Beltransgas (USD 625 m). Refinancing of banks was still the main source of money supply by the NBB and its claims on banks increased by 9.3% mom. Finally, base money grew by 7.1% mom in February, while in annual terms its growth rate amounted to 20.4% yoy (25.1% yoy in January).

In February, like in previous month, banking sector granted loans to the real sector not so actively. Claims on real sector grew by 1.2% mom (BYR 820 bn), which is more than in January, but substantially less than monthly average absolute growth of claims in 2009. In annual terms, the growth rate of outstanding loans reduced to 29.3% yoy (32.4% yoy in January). This facilitated to the improved liquidity stance of the large banks and the whole banking system. Interest rates at the different segments of the loan and deposit market had different directions, but nevertheless, at some segments they were decreasing after the long-term period of growth. More positive trends took place in the structure of the money aggregates. First, the trend of growing demand on cash money persisted. In February, cash in circulation grew by 4.2% mom, while in annual terms its growth rate amounted to 23.2% yoy (17.8% yoy in January). Second, the growth rate of deposits in national currency was much more than those in foreign currency. The latter was mainly due to the households' time deposits in national currency, which grew by 5.3% mom, and in annual terms by 38.8% yoy vs. 24.9% yoy in January. Finally, ruble money grew by 2.8% mom, while broad money grew by 2.0% mom. In annual terms their growth rates amounted correspondingly to 19.0 and 16.6% yoy (12.2 and 19.2% yoy in January).

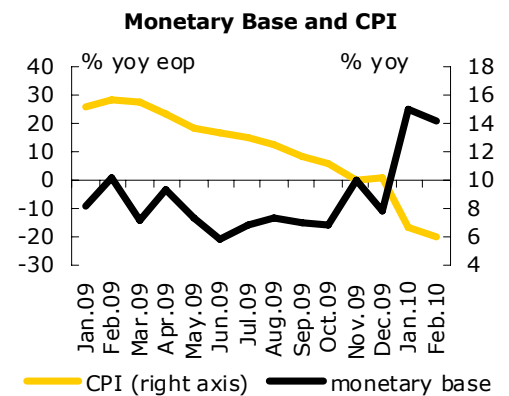
Consumer prices in February grew by 0.5% mom, and in annual terms inflation rate amounted to 5.9% (6.6% in January). During Feb-Mar Belarusian ruble devalued vs. NBB's currency basket by 3.2%. The exchange rate vs. US dollar amounted to 2978 USD/BYR by the end of March.

**Banking sector: The return of direct regulation of banks' interest rates**

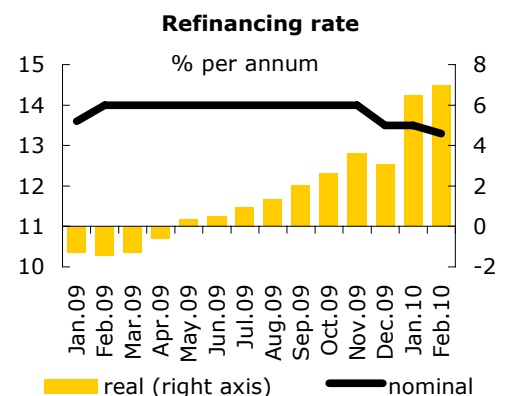
In March, NBB issued recommendations to banks to limit their interest rates on granted loans by the refinancing rate plus the credit margin of three percentage points by the end of June. Such kind of regulation was in force in 2005-2008, and was cancelled under the impact of the global crisis. Artificial impact on interest rates at that period led to distortions at the capital market, while banks had to expose to excess risks or tend to credit rationing. This regulation was cancelled with an official formulation "in order to enhance more flexible interest rate policy by banks", which allowed to mitigate the consequences of the global crisis for the banking sector. Return of this practice is the evidence that the stimulation of the demand through monetary incentives is becoming more vital task for the economic authorities, rather than enhancing stability of the banking sector and macro stability as a whole.



Note: Since 2010 Social Security Fund is not included into the consolidated budget.  
Source: calculations based on the National Statistical Committee data.



Source: calculations based on the National Statistical Committee and the NBB data.



Source: calculations based on National Statistical Committee and the NBB data.

<b>Economic Trends</b>		<b>Q1 08</b>	<b>Q2 08</b>	<b>Q3 08</b>	<b>Q4 08</b>	<b>Q1 09</b>	<b>Q2 09</b>	<b>Q3 09</b>	<b>Q4 09</b>	<b>Dec. 09</b>	<b>Jan. 10</b>	<b>Feb. 10</b>
GDP growth	% yoy	10.9	10.1	11.2	7.5	1.1	-0.4	-1.1	1.8	--	--	--
GDP growth	% yoy cum.	10.9	10.4	10.7	10.0	1.1	0.3	-0.3	0.2	0.2	1.3	3.5
Industrial Production	% yoy cum.	14.7	13.0	13.1	10.8	-4.5	-3.6	-4.5	-2.8	-2.8	2.5	4.2
Agricultural Production	% yoy cum.	6.8	5.4	6.9	8.9	6.3	6.6	2.4	1.3	1.3	5.7	5.3
CPI	% yoy eop	13.2	16.0	16.3	13.3	15.5	13.4	11.7	10.1	10.1	6.6	5.9
PPI	% yoy eop	13.5	16.2	18.5	14.2	21.4	15.4	10.0	11.3	11.3	7.7	7.3
Merchandise export (USD)*	% yoy	69.2	56.0	44.9	-11.6	-48.9	-47.7	-35.4	2.9	32.7	39.4	25.3
Merchandise import (USD)*	% yoy	56.5	55.3	53.1	-1.5	-31.7	-33.4	-37.2	-1.7	10.9	1.7	7.8
Merchandise trade balance (NBB data)	USD m cum.	-647	-2049	-3835	-6104	-1779	-3799	-4797	-6971	-6971	12	-430
Current account	USD m cum.	-411	-1382	-3006	-5263	-1925	-3597	-4408	-6402	-6402	--	--
Current account	% GDP cum	-3.6	-5.5	-6.6	-8.7	-18.7	-17.1	-12.4	-13.1	-13.1	--	--
International reserves	USD m eop	4746	4618	4120	3061	3955	2650	3879	5653	5653	5273	5577
Monetary base	% yoy eop	59	54	48	12	-14.2	-21.5	-15.0	-11.3	-11.3	25.1	20.4
Lending rate**	% p.a. aop	11	10	11	14	17	17	17	17	15	19	18
Exchange rate (official)	USD aop	2148	2136	2114	2147	2772	2809	2821	2768	2839	2856	2903
Exchange rate (official)	EUR aop	3215	3339	3183	2827	3614	3822	4032	4093	4156	4082	3981

\* 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.

<b>Key Economic Indicators</b>		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Nominal GDP*	BYR trn	36.565	49.991	65.067	79.231	97.165	128.828	136.789
Nominal GDP**	USD bn	17.7	23.1	30.2	36.9	45.2	60.3	49.0
GDP Growth	% yoy	7.0	11.4	9.4	9.9	8.6	10.0	0.2
Industrial production	% yoy	7.1	15.9	10.5	11.3	8.5	10.8	-2.8
Agricultural production	% yoy	6.6	12.6	1.7	6.1	4.1	8.9	1.3
CPI	% yoy aop	28.4	18.1	10.3	7.0	8.4	14.8	13.0
CPI	% yoy eop	25.4	14.4	8.0	6.6	12.1	13.3	10.1
PPI	% yoy aop	37.5	24.1	12.1	8.3	16.2	14.7	14.5
PPI	% yoy eop	28.1	18.8	10.0	8.5	17.1	16.4	11.3
Exports (gs, USD)	% yoy	24.4	35.7	15.8	21.8	24.3	35.5	-33.0
Imports (gs, USD)	% yoy	25.1	40.3	3.0	33.0	27.9	37.6	-27.1
Current account	USD m	-424	-1206	510	-1512	-2944	-5263	-6402
Current account	% GDP	-2.4	-5.2	1.7	-4.1	-6.6	-8.7	-13.1
FDI (net)	USD m	170	163	303	351	1770	2143	2149
International reserves	USD m	474	770	1297	1383	4182	3467	5653
Fiscal balance	% GDP	-1.6	0.0	-0.6	2.2	0.6	0.9	-0.7
Domestic public debt	% GDP eop	5.5	5.7	5.8	6.5	6.4	6.7	5.8
External debt (total)	% GDP eop	23.7	21.4	17.9	18.6	28.4	24.6	45.0
Monetary base	% yoy eop	50	42	74	20	38	12	-11
Exchange rate (official)*	USD aop	2075	2160	2154	2145	2146	2136	2793
Exchange rate (official)*	USD eop	2156	2170	2152	2140	2150	2200	2863
Exchange rate (official)*	EUR aop	2353	2684	2681	2692	2937	3135	3885
Exchange rate (official)*	EUR eop	2695	2956	2550	2817	3167	3077	4106

Sources: National Statistical Committee, 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