

# BELARUSIAN MONTHLY ECONOMIC REVIEW

- The development of Belarus-Ukraine relations.
- The growth rates of wages increased.
- Belarus is going to issue Eurobonds.
- Interest rates went down.

## Politics: The development of Belarus-Ukraine relations

In April, a meeting between Presidents of Belarus and Ukraine took place. A. Lukashenko and V. Yanukovich discussed a number of issues, including those of the energy sphere. During the meeting the Ukrainian President confirmed the interest of his country to participate in the logistic scheme of Venezuelan oil supply to Belarus. However, the Ukrainian party might consider this project in one row with the issue of transit of the Ukrainian electric power exports to Baltic countries through Belarus. It should be emphasized that no severe agreements were signed after the negotiations. The parties made only a joint declaration of readiness to elaborate a "road map" of bilateral relations, which will include the issues in the energy sphere as well. Thus, the perspectives of Belarus-Ukraine energy cooperation still seem to be encouraging, though a breakthrough in this issue has not happened yet.

## Real sector: The growth rate of wages increased

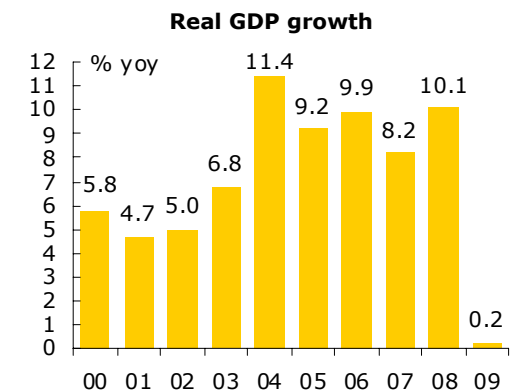
In the first quarter, real GDP growth rate was 4% yoy (3.5% yoy in Jan-Feb), and industrial growth was 5.9% yoy (4.2% yoy in Jan-Feb). Firstly since the end of 2008, a growth was recorded in machine-building and metal-working (by 0.9% yoy), while the inventories of finished products in this industry were reduced from 155.2 down to 140.6% of average monthly output. The growth rate in agriculture was stable during the first quarter and amounted to 5.3% yoy. Furthermore, a recovery of capital investments in the economy in March should be emphasized. In the first quarter a fall in capital investments of 2.4% yoy was recorded, while it 9.9% in Jan-Feb. It witnesses that the policy of investment growth stimulation is being strengthened in the economy.

In the first quarter, the growth rate of real wages amounted to 5.2% yoy (in fourth quarter of 2009 it dropped by 2.6% yoy). In March, real wages grew by 7.6% yoy. The highest growth rates of wages took place in chemical and petrochemical industry (by 18.4% yoy). The most severe reduction of wages took place in ferrous metallurgy – the industry with the highest average wages. Different directions of growth rates among industries led to lower wage differentiation in the economy.

## Structural trends: Belarus is going to issue Eurobonds

In May, President signed an Edict, which enabled the government to issue Eurobonds in 2010-2011 at the amount up to USD 2 bn. Moreover, the upper limit of government's external debt for 2010 was increased by USD 1.5 bn up to USD 11 bn. In its turn, Belarusian government appointed BNP Paribas, Deutsche Bank AG, the Royal Bank of Scotland plc and Russian Sberbank as the joint managers of the issuance. Willingness of the Belarusian government to use the global market for borrowings may facilitate possible future corporate issuances of Eurobonds by the Belarusian firms. The latter may increase the flexibility of the financial and investment policy at the level of enterprises, branches and at the level of the national economy. Furthermore, current period might be relatively fortunate for entering the Euromarket. First, the benchmark rates at the global bonds market are relatively low. Second, the spreads for sovereign borrowers are much lower than during the peak of

**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.

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the crisis (though it went up somehow because of the debt problems in some countries of the Eurozone). However, an assumed amount of Eurobonds issuance during this year (USD 1.5 bn) seems to be substantial for the first sovereign borrowing. The interest rate spread is likely to be rather high because of the absence of the credit history at the Euromarket. Intention to borrow such an amount is likely driven by the necessity to provide financing of the current account deficit, consolidated budget and stimulate the investment growth in the Belarusian economy. Judging by the amount of interest payments, the latter tasks are more expedient to be solved through the IMF's funds. The IMF, in its turn, declared the readiness to a new program with Belarus, but see structural reforms as the priority. But Belarusian authorities are tending to refuse from this program. Thus, borrowing more expensive funds from the Euromarket means that the authorities want to avoid structural reforms in this year and consider only a short-term goal of providing high growth rates in 2010 as their priority.

### Foreign trade: Investment exports are growing

In February, merchandize deficit amounted to USD 469 m, which is 28.0% lower than in February 2009. This was consequent to higher growth rates of exports (25.3% yoy) than those of imports (7.8% yoy). However, the results of trade in February vs. January differed depending on the geographical destination. Exports to non-CIS countries dropped, because of the lower supply of oil products both in monthly (56.3% mom) and annual terms (35.0% yoy) at the background of oil tensions with Russia. Exports of two other severe goods to non-CIS countries – potash fertilizers and ferrous metals – grew in monthly terms, due both to the higher physical volumes of supply and higher prices. Finally in February, exports to non-CIS countries fell by 25.4% mom, while imports grew by 53.4% mom. The main contribution to the growth of imports was provided by cars (14% of the total increase), metal-working machines and medicines.

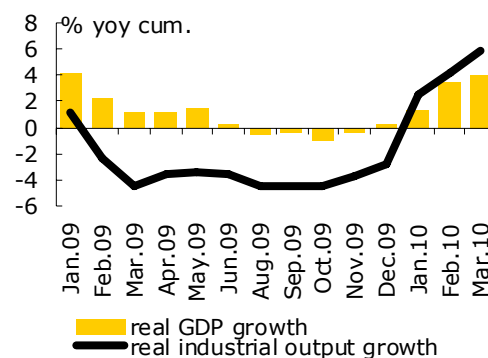
In trade with Russia, February was characterized by a substantial growth in exports (by 25.9% mom), while imports grew much less (by 1.2% mom). Hence, the deficit of trade with Russia reduced by 21.0% mom. The growth of exports was provided due to investment and intermediary exports (28.4 and 34.1% of the total increase), for instance, agricultural machinery, trucks, equipment for tractors and trucks. Definitely low growth rates of imports were explained by drop in the supply of Russian crude oil by 7.9% mom. The price of oil supply dropped by 2 times, while its physical volume doubled in comparison to January, i.e. in February only duty-free Russian oil was supplied. Hence, while the share of oil supplied with a 100% duty will increase, the growth rate of imports from Russia will increase as well. At the same time, this will lead to higher growth rates of oil products exports to non-CIS countries.

In Jan-Mar, according to the preliminary data, merchandize exports grew by 29.2% yoy, while imports by 8.9% yoy. In annual terms merchandize deficit decreased by 34.8% yoy, but in monthly terms a substantial growth of deficit was recorded (by 54.2% mom).

### Public finance: Drop in tax revenues

In Jan-Feb, consolidated revenues amounted to 34.2% of GDP, including tax revenues of 31.6% of GDP, which is lower than in Jan-Feb 2009 by 2.0 percentage points of GDP. This tendency covered all the main groups of taxes, but most severely the revenues from taxes on goods and services were decreasing (by 2.1 percentage points of GDP), while a number of taxes from this group were abolished in 2010. Increase in the VAT

### GDP and Industrial Output



Source: National Statistical Committee.

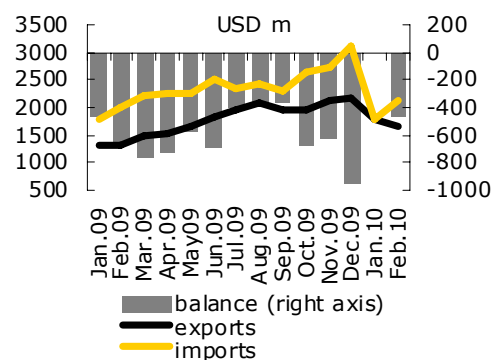
### Average Wages in the Economy by Sectors

	growth, % yoy*	USD**
<b>Total</b>	<b>7.6</b>	<b>369.5</b>
Industry	9.5	418.2
Electric power	-3.7	474.5
Fuel	-6.3	620.6
Ferrous metallurgy	-16.4	581.0
Chemical and petrochemical industry	18.4	585.8
Machinery and metalworking	9.1	413.6
Logging, woodworking, pulp and paper	15.2	318.5
Building materials	5.3	450.8
Light	15.0	276.4
Food	15.1	411.8
Medical	15.9	446.0
Agriculture	5.7	234.1
Transport	8.7	430.0
Communications	11.7	436.9
Construction	9.4	496.3
Trade and catering	13.1	339.8
Health care	3.1	276.8
Education	2.3	255.0
Science and scientific services	10.9	517.7

Note. \* - the growth rate of real wages. \*\* - wages in US dollars (using average weighted rate at the cash market).

Source: National Statistical Committee, NBB.

### Merchandise Trade



Source: National Statistical Committee.

rate compensated only 0.4 percentage points of GDP. Furthermore, revenues from the income and profit tax reduced by 0.5 percentage points of GDP, mainly because of the personal income tax. Tax revenues from the external economic activity decreased just by 0.1 percentage point of GDP, but abolished in March export duties on oil products will deteriorate its dynamics later on. Consolidated expenditures amounted to 34.3% of GDP. In the structure of expenditures, those for the national economy dropped significantly (by 0.9 percentage points of GDP), while those for healthcare increased by 0.5% of GDP. In Jan-Feb, a consolidated deficit of 0.1% of GDP was recorded (a surplus of 5.0% of GDP in Jan-Feb 2009).

**Monetary policy: Interest rates went down**

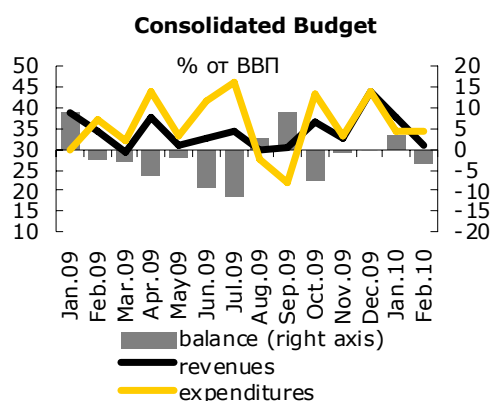
In March, net foreign assets of monetary authorities increased by 7.3% mom (by USD 359 m) due to the fifth tranche of the IMF's loan (USD 662.9 m). Due to the stabilization of the liquidity level in the banking system, NBB restricted refinancing of banks, and claims on them kept almost unchanged. Finally in March, base money shrank by 9.7% mom, while in its growth rate in annual terms reduced down to 14.0% yoy (20.4% yoy in February).

In March, commercial banks granted loans to the non-financial enterprises much more actively, rather than in previous two months. Hence, their claims on real sector grew by 3.8% mom, while in annual terms the growth rate of the outstanding loans began to accelerate again (up to 32.2% yoy from 29.2% yoy in February). Due to the liquidity accumulated in previous months and reduced NBB's interest rates, interest rates on all the segments of money and capital market decreased substantially. Lower interest rates in national currency led to a slight expansion in the growth rate of foreign currency deposits, though the growth rate of ruble deposits was still higher. Hence in March, ruble money grew by 4.9% mom, while broad money by 4.6% mom. In annual terms their growth rates amounted to 22.3 and 20.7% yoy correspondingly (19.0 and 16.6% yoy in February).

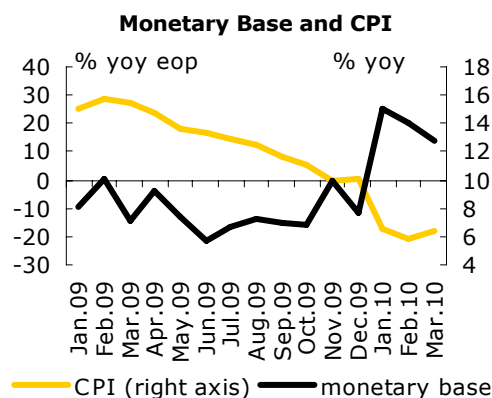
Consumer prices in March grew by 1.1% mom, and in annual terms inflation amounted to 6.4% (5.9% in February). During March-April Belarusian ruble devalued vs. the NBB's currency basket by 1.0%. The exchange rate vs. US dollar amounted to 2961 USD/BYR by the end of April.

**Banking sector: Fitch Ratings emphasize the problem of directed lending in Belarus**

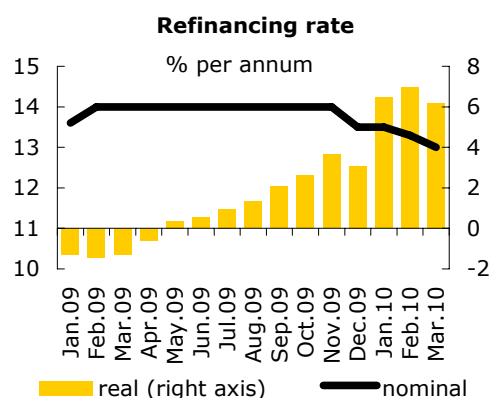
In May, Fitch Ratings, which is one of the most well-known rating agencies, published special review on the Belarusian banking system. The focus of this review is directed lending (i.e. loans provided due to the recommendations of the government) by the state-owned banks. According to the assessments by Fitch, the volume of directed loans granted almost doubled in 2009, while the share of such loans in the portfolio of the two major state-owned banks – Belarusbank and Belagroprombank – is more than 60%. This may lead to a higher credit, liquidity and exchange rate risks exposure by these banks, which might not be fully reflected in their accounting. Furthermore, Fitch pays attention that the possibilities of the government to provide financial support in foreign currency to banks are limited, while the ratio between banks' foreign liabilities and countries' international reserves is definitely not so high. Actualization of these problems by one of the most prominent actors in the banking sphere may become an additional signal for changing the policy of economic authorities in respect to the banking system.



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>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>Q1 10</b>	<b>Jan. 10</b>	<b>Feb. 10</b>	<b>Mar. 10</b>
GDP growth	% yoy	10.1	11.2	7.5	1.1	-0.4	-1.1	1.8	4.0	--	--	--
GDP growth	% yoy cum.	10.4	10.7	10.0	1.1	0.3	-0.3	0.2	4.0	1.3	3.5	4.0
Industrial Production	% yoy cum.	13.0	13.1	10.8	-4.5	-3.6	-4.5	-2.8	5.9	2.5	4.2	5.9
Agricultural Production	% yoy cum.	5.4	6.9	8.9	6.3	6.6	2.4	1.3	5.3	5.7	5.3	5.3
CPI	% yoy eop	16.0	16.3	13.3	15.5	13.4	11.7	10.1	6.4	6.6	5.9	6.4
PPI	% yoy eop	16.2	18.5	14.2	21.4	15.4	10.0	11.3	9.4	7.7	7.3	9.4
Merchandise export (USD)*	% yoy	56.0	44.9	-11.6	-48.9	-47.7	-35.4	2.9	--	39.4	25.3	--
Merchandise import (USD)*	% yoy	55.3	53.1	-1.5	-31.7	-33.4	-37.2	-1.7	--	1.7	7.8	--
Merchandise trade balance (NBB data)	USD m cum.	-2049	-3835	-6104	-1779	-3799	-4797	-6971	-1165	12	-436	-1165
Current account	USD m cum.	-1382	-3006	-5263	-1925	-3597	-4408	-6402	--	--	--	--
Current account	% GDP cum	-5.5	-6.6	-8.7	-18.7	-17.1	-12.4	-13.1	--	--	--	--
International reserves	USD m eop	4618	4120	3061	3955	2650	3879	5653	6074	5273	5577	6074
Monetary base	% yoy eop	54	48	12	-14.2	-21.5	-15.0	-11.3	14.0	25.1	20.4	14.0
Lending rate**	% p.a. aop	10	11	14	17	17	17	17	17	19	18	15
Exchange rate (official)	USD aop	2136	2114	2147	2772	2809	2821	2768	2907	2856	2903	2962
Exchange rate (official)	EUR aop	3339	3183	2827	3614	3822	4032	4093	4028	4082	3981	4022

\* 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