

# BELARUSIAN MONTHLY ECONOMIC REVIEW

- New tensions between Belarus and Russia.
- The growth of capital investments resumed.
- Belarus may sell a minor stake in 'Belaruskaliy'.
- Accumulation of risks in the banking sector.

## Politics: New tensions between Belarus and Russia

In May, a meeting between the Prime-ministers of Belarus, Kazakhstan and Russia took place. It was assumed to discuss all the contradictions dealing with the Customs union on this meeting. However, the key issue on oil export duties was not resolved. Through this Belarusian Prime-minister S. Sidorskiy did not take part in the next meeting of the Supreme body of the Customs union and Belarus refrain from signing a single Customs Code. Later on, this issue was discussed at the meetings of the President A. Lukashenka with Russian President D. Medvedev and Prime-minister V. Putin. However, the parties did not find a compromise again. Further actions by Russian President – setting a five-day term for Belarus to pay off a debt for the gas supplied and a threat to restrict the supply if this demand have not been met – were interpreted by a number of analysts as a pressure in order to make Belarus sign the Customs Code on Russian conditions. This step stresses the domination of the political grounds in the Customs union project from the Russian party. Hence, this situation is likely to result in new tensions in the near future.

## Real sector: The growth of capital investments resumed

In April, the growth of real GDP strengthened substantially and in Jan-Apr the growth rate amounted to 6.1% yoy (4.0% yoy in Jan-Mar). From the demand side, capital investments, which grew in April by 7.1% yoy made a most severe contribution to the GDP growth. This jump in April provided a positive dynamics of investments for Jan-Apr (by 0.2% yoy), while there was a drop of 2.4% yoy in the 1<sup>st</sup> quarter.

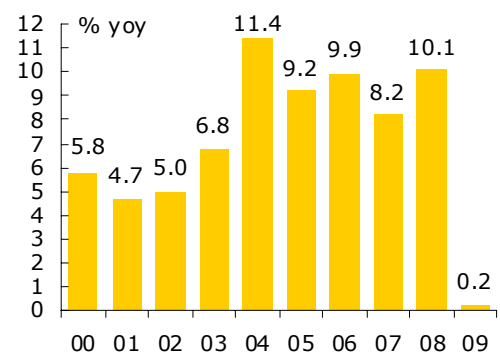
The growth rate in major branches of the economy increased in Jan-Apr just slightly in comparison to the 1<sup>st</sup> quarter: from 5.9% up to 6.1% yoy in industry, and from 5.3% up to 5.4% yoy in agriculture. At the same time, the acceleration of growth in transport was more substantial: the growth rate of cargo turnover in Jan-Apr increased by 4.9 percentage points in comparison to the 1<sup>st</sup> quarter up to 12.8% yoy. The most significant growth was performed in automobile cargo traffic (by 36.6% yoy). Railway cargo traffic grew more modestly (by 6.6% yoy), due to the increase of tariffs by 22.8%. In overall, a sharp growth of cargo turnover might witness about continued recovery of the economic activity.

## Structural trends: Belarus may sell a minor stake in 'Belaruskaliy'

In June, the Lower Chamber of the Belarusian Parliament passed in a second reading a draft-law, which assumes exclusion the enterprises dealing with extracting and manufacturing the potassium salts, and operating main oil pipelines from the list of enterprises where the government has an exclusive right for ownership. In order to become effective, this draft-law should be passed by the Upper Chamber and signed by the President, which is likely to happen in near future. This law will eliminate the obstacles for corporatization of 'Belaruskaliy' and the enterprises that are the owners of the main oil pipeline 'Druzhba'. In its turn, this will make possible a further sale of a control or a minor stake of these firms. A probable partial sale of 'Belaruskaliy' was mentioned rather recently. Chinese


**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%**

Real GDP growth



Source: National Statistical Committee.

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companies are considered to be the most likely potential investor in such a deal. The sale of minor stake is likely to stabilize the volume of supply of potash fertilizers on the Chinese market that is strategically important for this industry. However, on a macrolevel this deal will witness that Belarusian authorities revise the principle of the state ownership for the strategic enterprises, which de-facto has been effective for 15 years. The statement by A. Lukashenka about the readiness to increase the stake holding by 'Gazprom' in 'Beltransgaz' up to the control one may confirm this. This tendency is likely to be connected with the external challenges: the necessity to finance a considerable currency account deficit, a lack of sources for long-term borrowings, and already a rather high external debt. The sale of the stakes in strategic enterprises may soften macroeconomic problems for a time. However, it is unlikely to solve the structural problems of the national economy only through this instrument.

### Foreign trade: The growth of imports from non-CIS countries strengthened

In the 1<sup>st</sup> quarter merchandise trade deficit amounted to USD 1.2 bn, having reduced by 34.8% yoy. Reduction of deficit in the 1<sup>st</sup> quarter was due to a balanced trade in January, while in February the deficit declined only by 28.0% yoy, and in March it was almost identical to the level of March 2009 (USD 762 m). During the quarter, the growth rate of exports was diminishing (from 39.0% yoy in January down to 24.2% yoy in March), while the growth rate of imports was increasing (from 1.7% in January up to 15.6% yoy in March).

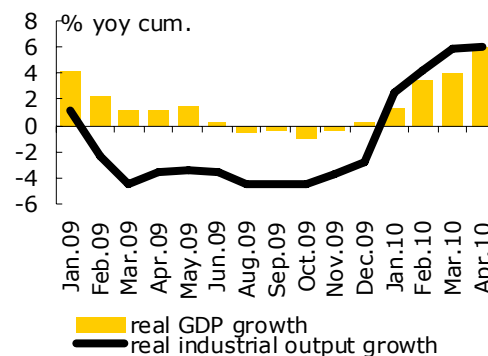
In a geographical view, trade with non-CIS countries contributed most to the adverse dynamics of trade. In March, exports to these countries dropped both in annual (by 3.2% yoy) and monthly terms (by 4.8% mom). At the same time, imports grew much more substantial (by 36.1% yoy and 28.8% mom), which resulted in a higher deficit (by 10.7 times yoy and 5.4 times mom). The decrease of exports in March in comparison to February was driven by lower supply of major raw goods: oil products (by 1.8% mom), potash fertilizers (by 18.0% mom), and ferrous metals (by 20.9% mom). The growth of imports was driven by imports of truck tractors (by 19.9% mom), telecommunication equipment (by 2.2 times mom), engines (by 2.8 times mom), agricultural machines (by 6.8 times mom), and cars (by 1.7 times mom). In trade with Russia, deficit declined by 31.8% yoy in the 1<sup>st</sup> quarter. From the imports side, it was consequent to the considerable reduction of the crude oil supply in the beginning of the year. In monthly terms, the growth rate of imports was increasing and in March it almost equalized to those of exports (13.9 and 16.9% mom correspondingly). The growth of exports was due to the growth of intermediary goods supply. At the same time, in March in comparison to February the growth of the investment exports decelerated. Hence, despite gradual recovery of the Russian market, the demand on Belarusian goods on it is not yet sustainable.

### Public finance: Consolidated deficit grew

In the 1<sup>st</sup> quarter of 2010, consolidated deficit amounted to 2.5% of GDP deficit, while in the 1<sup>st</sup> quarter of 2009 a surplus of 0.8% of GDP took place. Such a significant deterioration of the budget performance was consequent to higher expenditures. For instance, expenditures for the national economy increased by 1.4% of GDP up to 11.1% of GDP. A sharp and sudden increase of these expenditures is likely to be explained by the stimulation of capital investments.

Lower revenues from taxes on products and services were one more reason of increasing deficit. Despite the growth of VAT

### GDP and Industrial Output



Source: National Statistical Committee.

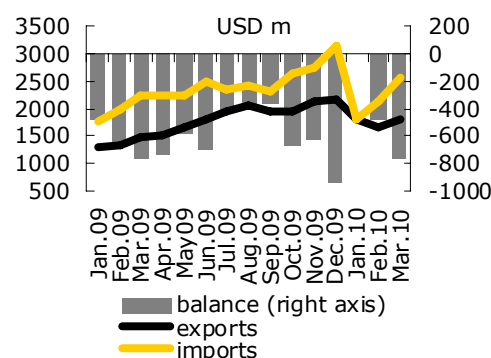
### Contribution of Branches to Industrial Output Growth

January-April 2010	Growth, % yoy	Contribution to growth
<b>Industry, total</b>	<b>6.1</b>	<b>4.2</b>
Electric power	12.1	1.0
Fuel	-30.6	-5.6
Ferrous metallurgy	-4.8	-0.2
Chemical and petrochemical industry	26.0	2.7
Machinery and metalworking	3.4	0.7
Logging, woodworking, pulp and paper	9.1	0.3
Building materials	8.5	0.3
Light	10.6	0.4
Food	10.1	1.5
Other branches	25.7	5.1

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.

rate, the revenues from this tax dropped by 0.1% of GDP. It was mitigated by more revenues from external economic activity, which grew by 0.4% of GDP. Partially it was because of higher rates of export duties on oil products. But cancellation of these duties, which was legislated in March, will reduce the revenues on this item considerably. Hence, the dynamics of the consolidated revenues does not assume a possibility to stimulate GDP growth through fiscal instruments without increase of the consolidated deficit.

**Monetary policy: Interest rates are still declining**

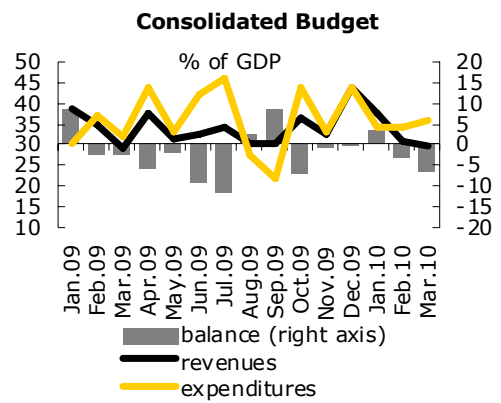
In April, net foreign assets of the monetary authorities grew by 2.0% mom (by USD 109 m), mainly due to foreign borrowings by commercial bank and depositing them at the accounts in the NBB. Money supply grew considerably through NBB’s credit operations with banks and local authorities (claims on them grew by 9.8 and 70.0% mom correspondingly). Finally in April, base money grew by 34.5% mom, while in annual terms its growth rate increased up to 39.0% yoy (14.0% yoy in March).

Credit activity of banks in April was rather high and they increased claims on real sector by 1.7% mom, while in annual terms the growth rate of the outstanding loans increased by 0.5 percentage points up to 32.7% yoy. New monetary stimulus (increase of base money was accompanied by the reduction in the refinancing rate by 0.5 percentage points down to 12.5%) led to a further decline of the interest rates in national currency. However, the interest rates on households’ deposits decreased not so considerably as other interest rates. Hence, households still preferred to save in national currency, and the growth rate of ruble deposits was higher than those of foreign currency deposits. Cash in circulation grew by 6.5% mom, while in annual terms its growth rate reduced by 1.7 percentage points down to 17.3% yoy. Ruble money grew by 3.5% mom, while broad money by 3.1% mom. In annual terms, their growth rates amounted to 24.2% and 23.1% yoy correspondingly (by 22.3% and 20.7% yoy in March).

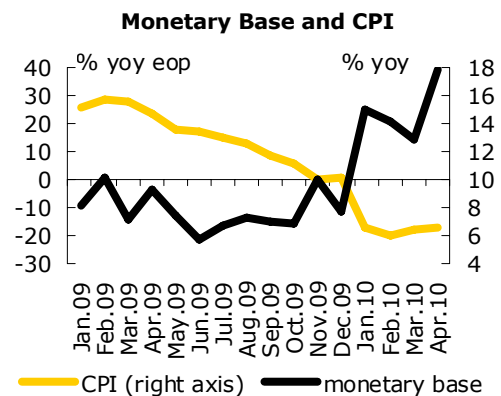
In April, consumer prices grew by 0.7% mom and in annual terms inflation amounted to 6.6% (6.4% in March). During Apr-May, Belarusian ruble appreciated in respect to the currency basket of the NBB by 3.6%. It witnesses that NBB is going to retain a space for maneuver in its exchange rate policy for the second half of 2010. By the end of May, the exchange rate vs. US dollar amounted to 2998 USD/BYR, having decreased in Apr-May by only 0.7%.

**Banking sector: Excessive risks in banks**

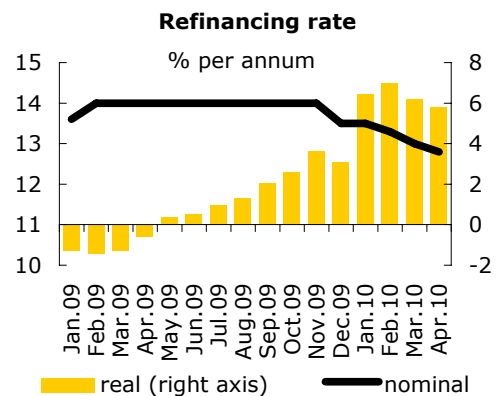
In May, NBB published its Report on Financial Stability, which contains the results of the stress-tests of the commercial banks and the assessment of the level of the banks exposure to main risks. The data published confirms the assumption that excessive exposure to risks by banks was one of the main tools in providing GDP growth in 2009. A considerable increase in the level of the accumulated credit risk, in the extent of banks sensibility to this kind of risk and to an increase in non-performing loans should be emphasized. The assessments in the Report show the reduction of the exposure to the liquidity risk in the beginning of 2010 due to the substantial injections of liquidity to the banking system by the NBB. However, this factor is more likely to be a temporary solution of the banks’ problems, while new injections of liquidity assume granting new loans and push banks to a further accumulation of excessive credit risk. These peculiarities of the banking sector development in 2009 and a similar environment in 2010 may lead to structural problems of banks. If that a case, it may cause a negative impact on the national economy 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>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>Feb. 10</b>	<b>Mar. 10</b>	<b>Apr. 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	3.5	4.0	6.1
Industrial Production	% yoy cum.	13.0	13.1	10.8	-4.5	-3.6	-4.5	-2.8	5.9	4.2	5.9	6.1
Agricultural Production	% yoy cum.	5.4	6.9	8.9	6.3	6.6	2.4	1.3	5.3	5.3	5.3	5.4
CPI	% yoy eop	16.0	16.3	13.3	15.5	13.4	11.7	10.1	6.4	5.9	6.4	6.6
PPI	% yoy eop	16.2	18.5	14.2	21.4	15.4	10.0	11.3	9.4	7.3	9.4	10.7
Merchandise export (USD)*	% yoy	56.0	44.9	-11.6	-48.9	-47.7	-35.4	2.9	29.2	25.3	24.2	--
Merchandise import (USD)*	% yoy	55.3	53.1	-1.5	-31.7	-33.4	-37.2	-1.7	8.9	7.8	15.6	--
Merchandise trade balance (NBB data)	USD m cum.	-2049	-3835	-6104	-1779	-3799	-4797	-6971	-1165	-436	-1166	-1962
Current account	USD m cum.	-1382	-3006	-5263	-1925	-3597	-4408	-6402	-1127	--	--	--
Current account	% GDP cum	-5.5	-6.6	-8.7	-18.7	-17.1	-12.4	-13.1	9.8	--	--	--
International reserves	USD m eop	4618	4120	3061	3955	2650	3879	5653	6074	5577	6074	6046
Monetary base	% yoy eop	54	48	12	-14.2	-21.5	-15.0	-11.3	14.0	20.4	14.0	39.0
Lending rate**	% p.a. aop	10	11	14	17	17	17	17	17	18	15	14
Exchange rate (official)	USD aop	2136	2114	2147	2772	2809	2821	2768	2907	2903	2962	2970
Exchange rate (official)	EUR aop	3339	3183	2827	3614	3822	4032	4093	4028	3981	4022	3986

\* 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