

# BELARUSIAN MONTHLY ECONOMIC REVIEW

- A. Lukashenka visited CSTO summit.
- The growth of investments strengthened.
- Belarus issued sovereign Eurobonds.
- The growth of base money accelerated.

## Politics: A. Lukashenka visited CSTO summit

In July, Syrian President B. Assad visited Belarus. He and President Lukashenka signed a joint declaration, which envisages that the parties are aimed at establishing a free trade zone and mutual promotion of goods and services on their national markets. Furthermore, they claimed about an intention to implement a number of joint investment projects in the near future. However, the promotion of Belarusian economic interests in the relationships with emerging countries is unlikely to compensate the deterioration of the external environment due to the political tensions with Russia. The latter tendency did not change in August during the summit of the Collective Security Treaty Organization (CSTO). Notwithstanding the traditions of such summits, there were no bilateral meetings of A. Lukashenka with other Presidents of the countries – member of the CSTO. This means that there are still a number of problems in foreign politics that affect the economic situation as well, especially taking into account a weakening intensity of contacts of the Belarusian authorities with the political quarters from the EU and the USA.

## Real sector: The growth of investments strengthened

In the first half of 2010, real GDP grew by 6.6% yoy (6.4% yoy in Jan-May). The growth rate increased due to a substantial hike of growth in industry (from 7.7% yoy in Jan-May up to 8.8% yoy in Jan-Jun). At the same time, agricultural growth weakened somehow (from 5.5% down to 4.3% yoy).

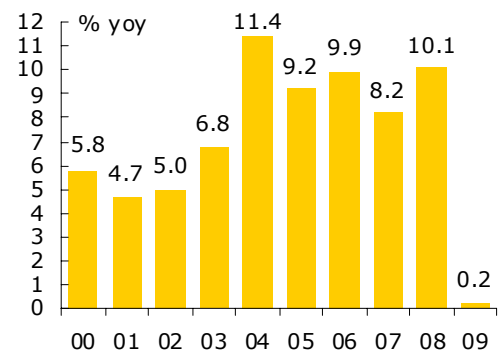
Improvements in the macroeconomic dynamic were consequent to the acceleration of the investments growth from the demand side view. In June, capital investments grew by 14.4% yoy, which provided an increase of cumulative growth in the 1<sup>st</sup> half of 2010 up to 4.0% yoy (0.3% yoy in Jan-May). Banks loans were the source of investment finance, which contributed mostly to the growth of investments. Among the branches of the economy the highest growth of investments was peculiar to public utilities (33.4% yoy), construction (31.2% yoy), and housing construction (21.8% yoy). However, the branches with the biggest share in the structure of investments – industry, agriculture, transport – still performed a downturn in investments. Hence, the lack of financial sources for investment projects in major branches keeps on to be a vital problem for the national economy.

## Structural trends Belarus made a debut issuance of the sovereign Eurobonds

In July, Belarus made a debut issuance of the sovereign Eurobonds. It was made by two tranches with a total value of USD 1 bn and a coupon rate of 8.75%. The first tranche of USD 600 m was placed with a discount (at 99.011% from the par value). The second tranche (USD 400 m) was placed at 102% from the par value. Finally, for the first tranche the yield to maturity amounted to 9%, while 8.251% for the second one. The moment for market entry may be treated as rather successful. First, Belarus waited until the sovereign spreads passed their peaks because of the global crises. Second, Belarus avoided a short-term hike of the rates in May-June at the background of the debt crisis in Europe. The funds received allow financing


**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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a huge part of the fiscal deficit. Moreover, it will facilitate to the stabilization of the currency market and the replenishment of the reserve assets. Finally, it may provide a number of advantages for the long-term growth, due to expanding the access of the Belarusian private companies to borrowings at the global capital market. However, there are a number of arguments against these borrowings at the current moment. The government did not formulate the goals of these borrowings explicitly, which raises the anxiety that they will be used just for balancing the distortions in the economy consequent to its excessive stimulation. However, their might be no contribution to the solution of the structural problems. Finally, a rather huge amount of the Eurobonds issuance is unlikely to be fully logical taking into account the refusal from a new program with IMF, while these funds would have been much cheaper for Belarus.

### Foreign trade: New trends in trade with Russia

In Jan-May, the merchandise trade deficit amounted to USD 2.7 bn, having dropped by 15.1% yoy. But in May, the deficit amounted to USD 702 m, having increased by 21.6% yoy. The growth rate of imports (18.5% yoy) was higher than those of exports (17.4%) in May, firstly since the beginning of the year.

Exports to non-CIS countries reduced by 8.5% yoy, while imports grew by 39.9% yoy, and the deficit amounted to USD 229 m in May. The fall of exports was consequent to the decline of oil products exports by 38.5% yoy (by 58.2% yoy in physical volume). High growth rates from non-CIS countries in May were mainly driven by the hike in the imports of cars and the beginning of the imports of oil from Venezuela. At the same time, the tendency of decreasing investment imports from non-CIS countries maintained.

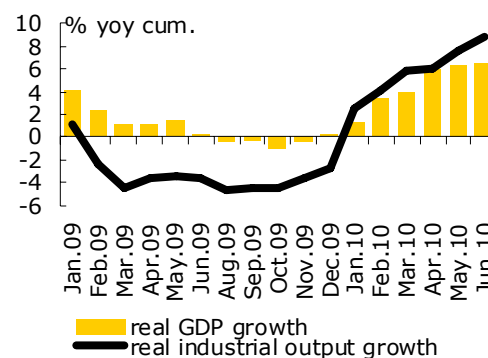
In May, exports to Russia grew by 47.6% yoy, while imports by 3.0% yoy, and the deficit declined by 26.2% yoy down to USD 593 m. A similar dynamics takes place from the beginning of the year, hence, in Jan-May the deficit in trade with Russia reduced by 20.3% yoy down to USD 2.9 bn. In Jan-May, the decline of imports was consequent to a drop of crude oil imports, while Belarus purchased it mainly within its duty-free quota. Despite high growth rates of exports to Russia, there are still a number of problems in this regard. For instance, there is a tendency of growing accounts receivable for the goods supplied, including the overdue ones. In Jan-May, a debt of Russian companies to the Belarusian ones increased by 2.6 times yoy, and in May by 4.9 times yoy. This reflects that Belarusian producers soften the terms of settlements trying to promote their goods at the Russian markets.

### Public finance: Budget deficit is growing

In May, the abolishment of the export oil duties began to affect the cumulative dynamics of revenues from the external economic activity, which declined by 0.5% of GDP. Further, there was a loss in consolidated revenues due to the abolishment of the agricultural levy and local sales tax of 1.7% of GDP. It was partially compensated by the growth in VAT revenues (by 1.1% of GDP), and in the revenues from income and profit taxes (by 0.2% of GDP). Finally, tax revenues dropped by 0.8% of GDP in comparison to Jan-May 2009 and amounted to 30.6% of GDP. As for the non-tax revenues, their dynamics was even more adverse: they dropped by 1.1% of GDP down to 2.7% of GDP.

Among the main items of the consolidated expenditures, only those for the national economy (due to abolishment of the subsidies to the oil traders) performed a downturn (by 0.2% of GDP), while other were almost constant in respect to GDP. Hence, consolidated expenditures were close to the level of the previous year. A consolidated deficit amounted to 2.8% of GDP,

### GDP and Industrial Output



Source: National Statistical Committee.

### Contribution of Financial Sources into the Growth of Capital Investments

2010 1H	Growth	
	%	contribution
<b>Capital investments, including at the expense of:</b>	<b>4.0</b>	<b>4.0</b>
Consolidated budget	-4.4	-0.9
Own funds of the firms	-5.0	-2.0
Borrowed funds from other firms	-45.6	-0.5
Foreign sources (without banks loans)	-21.8	-0.3
Banks loans, including:	20.6	5.4
Foreign banks loans	24.1	0.9
Households' funds	9.2	0.8
Non-budget funds	-8.9	0.0
Other sources	40.8	1.5

Note. Contribution to growth in percentage points. Other sources include structural changes. Source: National Statistical Committee.

### Contribution of Branches of the Economy into the Growth of Capital Investments

2010 1H	Growth	
	%	contribution
<b>Capital investments, including in:</b>	<b>4.0</b>	<b>4.0</b>
Industry	-13.4	-3.6
Agriculture	-4.9	-0.8
Transport	-1.8	-0.1
Communications	10.4	0.3
Construction	31.2	0.9
Trade and catering	23.6	0.9
Housing construction	21.8	4.8
Public utilities	33.4	1.8
Healthcare and social services	-0.6	0.0
Education	14.7	0.2
Culture and art	-25.2	-0.3
Finance, crediting, insurance and pension provisioning	-9.5	-0.1
Other	3.3	0.1

Note. Contribution to growth in percentage points. Other sources include structural changes. Source: National Statistical Committee.

which is considerably more than the initially planned level. In this situation, the Ministry of Finance raised their projection of the Republican budget deficit from 1.5 up to 2.3% of GDP, explaining it by increasing expenditures.

**Monetary policy: The growth of base money accelerated**

In June, NBB kept on active provision of liquidity to commercial banks and its claims on them grew by 9.2% mom (BYR 1.3 trn). Net foreign assets of the monetary authorities dropped by 2.6% mom (USD 137 m). Finally, base money grew by 9.5% mom in May, while in annual terms it strengthened up to 95.2% yoy (78.8% yoy in May). It should be emphasized, that in June and May the value of net foreign assets was likely to have been stabilized by the banks' funds in foreign currency that were placed at the NBB as excessive reserves (USD 654 m in May and USD 187 m in June). This leads to an artificially high level of the base money, which does not fully reflect the situation in the monetary sphere in this case.

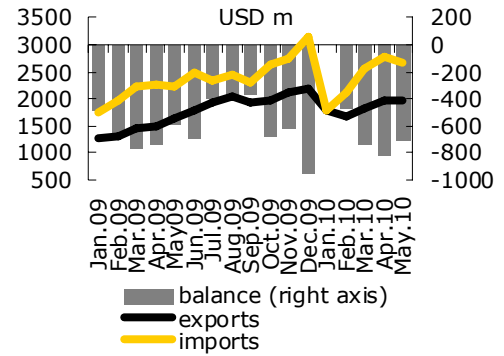
The stimulation of the economic activity by the NBB resulted in further reduction of interest rates at all segments of the financial market. Furthermore, it determined maintenance of high growth rate of the outstanding loans (31.5% yoy in June, 32.2% yoy in May). Interest rates on the households' deposits in national currency were reducing less than on the other segments of the market. Through this and due to the acceleration of incomes, the growth rate of ruble households' time deposits increased most severely (from 33.9% yoy in May up to 48.7% yoy in June). Cash in circulation grew by 6.2% mom in June, while in annual terms the growth rate strengthened up to 28.3% yoy (20.9% yoy in May). Ruble money grew by 6.2% mom, and broad money by 2.1% mom. In annual terms their growth rates amounted to 36.3% and 24.8% yoy correspondingly (27.9% and 25.5% yoy in May).

Consumer prices grew by 0.2% mom in June, and in annual terms inflation amounted to 6.9% (7.1% in May). During June-July, Belarusian ruble devalues versus the NBB currency basket by 1.5%. The exchange rate to US dollar was 2974 USD/BYR by the end of July.

**Banking sector: Establishment of the Special Financial Agency postponed**

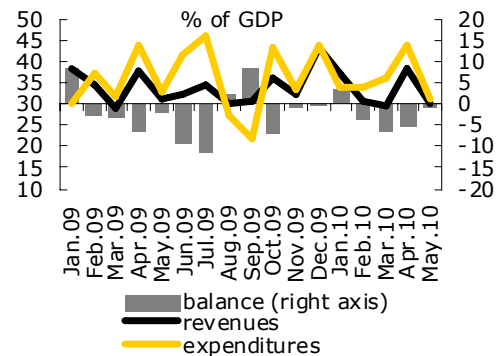
In July, the chairman of the NBB P. Prakapovich stated that a legislative base for the establishment of the Special Financial Agency (SFA) on government programs financing management was accomplished. The commitment on establishment of such an agency and freeing the state banks from the burden of state programs financing was taken by Belarus within the agreements with the IMF. In August, a working meeting headed by the President took place. Instead of the expected discussion dealing with the technical details of the SFA establishment, during this meeting the participants returned to the discussion of the expediency of this measure itself. A. Lukashenka stated that the state banks should retain their role of active financial donors for the state programs. Finally, the meeting was finished by the President's instruction to proceed with the fine-tuning of the legislative base for the SFA. De-facto, this means that the final decision in regard to this issue has been frozen at least till the next year. In 2010, the authorities consider macroeconomic targets as an obvious priority, while these targets are unlikely to be achieved without the direct control on the credit policy of the largest banks. In this situation, a number of distortions – a hindered access to the capital by the private sector, sharp fluctuations of the liquidity level in the banking system, an excessive credit risk exposure by banks – will be still urgent for the financial system of the country.

**Merchandise Trade**



Source: National Statistical Committee.

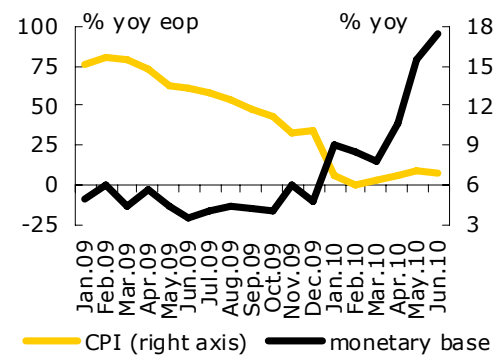
**Consolidated Budget**



Note. Since 2010 Social Security Fund is not included into the consolidated budget. Data for 2009 assessed basing on the quarterly data.

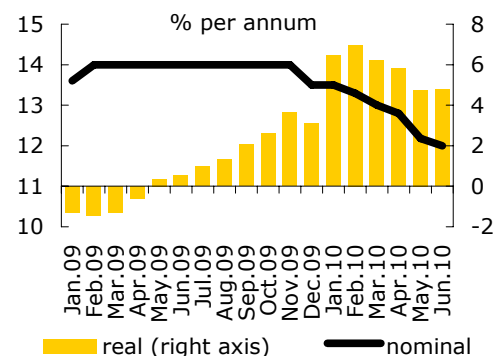
Source: Calculations based on the National Statistical Committee data.

**Monetary Base and CPI**



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

**Refinancing rate**



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

<b>Economic Trends</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>Q2 10</b>	<b>Apr. 10</b>	<b>May 10</b>	<b>Jun. 10</b>
GDP growth	% yoy	11.2	7.5	1.1	-0.4	-1.1	1.8	4.0	8.9	--	--	--
GDP growth	% yoy cum.	10.7	10.0	1.1	0.3	-0.3	0.2	4.0	6.6	6.1	6.4	6.6
Industrial Production	% yoy cum.	13.1	10.8	-4.5	-3.6	-4.5	-2.8	5.9	8.8	6.1	7.7	8.8
Agricultural Production	% yoy cum.	6.9	8.9	6.3	6.6	2.4	1.3	5.3	4.3	5.4	5.5	4.3
CPI	% yoy eop	16.3	13.3	15.5	13.4	11.7	10.1	6.4	6.9	6.6	7.1	6.9
PPI	% yoy eop	18.5	14.2	21.4	15.4	10.0	11.3	9.4	12.6	10.7	12.2	12.6
Merchandise export (USD)*	% yoy	44.9	-11.6	-48.9	-47.7	-35.4	2.9	29.2	--	30.3	17.4	--
Merchandise import (USD)*	% yoy	53.1	-1.5	-31.7	-33.4	-37.2	-1.7	8.9	--	24.4	18.5	--
Merchandise trade balance (NBB data)	USD m cum.	-3835	-6104	-1779	-3799	-4797	-6971	-1165	-3311	-1919	-2579	-3311
Current account	USD m cum.	-3006	-5263	-1925	-3597	-4408	-6402	-1127	--	--	--	--
Current account	% GDP cum	-6.6	-8.7	-18.7	-17.1	-12.4	-13.1	9.8	--	--	--	--
International reserves	USD m eop	4120	3061	3955	2650	3879	5653	6074	5525	6046	5778	5525
Monetary base	% yoy eop	48	12	-14.2	-21.5	-15.0	-11.3	14.0	95.2	39.0	79	95.2
Lending rate**	% p.a. aop	11	14	17	17	17	17	17	12.9	14.4	13.6	12.9
Exchange rate (official)	USD aop	2114	2147	2772	2809	2821	2768	2907	2991	2970	2988	3014
Exchange rate (official)	EUR aop	3183	2827	3614	3822	4032	4093	4028	3810	3986	3766	3683

\* 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