

BELARUSIAN MONTHLY ECONOMIC REVIEW

No. 10 (121)
October 2012

- Belarus held parliamentary elections.
- Sharp slowdown in industrial growth.
- Problems of external borrowing come to the fore.
- Growth of imports outpaced growth of exports.

Politics: Belarus held parliamentary elections

In September, Belarus held parliamentary elections and in the first round 109 out of 110 members of a lower chamber of the Parliament were elected (elections aborted in one district). There are no representatives of opposition parties and movements among those elected. Moreover, a significant share of them withdrew themselves as candidates a week before the elections, claiming that the results of the elections had been already predetermined. Alongside, this step was to draw attention to the fact that a number of politicians are still jailed since the last presidential elections. Summarizing the results of the elections, the observers from opposition parties as well as number of NGOs announced that de-facto the appearance of voters was too low and the official numbers presented are unreliable. Observers from the OSCE noted a number of significant violations as well as uncompetitive atmosphere in these elections. In general, elections took place according to expected scenario and didn't form grounds for improvement of relations with the EU and the USA, which is a vital political and economic goal.

Real sector: Slowdown of industrial growth

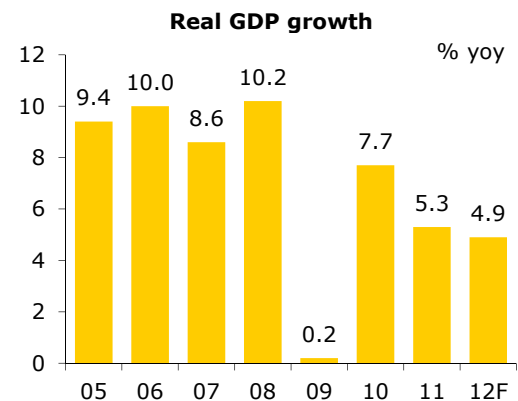
In Jan-Aug, GDP growth equaled to 2.5% yoy (2.8% yoy in Jan-Jul), which is mainly explained by deterioration of situation in industry. In August, volume of industrial production grew just by 4.6% yoy (8.1% yoy in Jan-Aug), which is mainly due to cessation of exports of thinners and solvents. Output within the product group, which includes thinners and solvents, dropped by 87.0% yoy in August, while in Jan-Aug the growth rate amounted to 159.1% yoy. As a result, in August, output of chemical industry grew by 10.3% yoy (42.5% yoy in Jan-Aug) and it fell by 32.2% mom compared to July. Also in August production of machinery and equipment declined by 4.8% yoy (by 2.0% yoy in Jan-Aug). Significant positive dynamics was kept only in production of transport vehicles and petrochemical production (16.7 and 16.5% yoy respectively in Jan-Aug).

While external demand restricted conditions for output growth, positive shifts in domestic demand components occurred. In August, capital investments grew for the first time since the beginning of the year (by 6.9% yoy) and in Jan-Aug they declined by 15.9% yoy (17.7% yoy in Jan-Jul). Retail turnover (which is a proxy for household consumption) performed even more confident growth: in August, it grew by 12.9% yoy (mainly due to non-food products), and in Jan-Aug – by 10.6% yoy. Growth of domestic demand has still been mainly characterized as a recovery one, but given the lack of external demand more signs of its stimulation are being visualized.

Structural trends: Problems of external borrowing come to the fore

In 2013 and 2014, Belarus will enter to the peak stage in payments on external public debt: around USD 3.1 and 3.2 bn respectively are to be repaid, which will amount to around 4-5% of GDP. These payments are rather problematic for Belarus not so much in terms of fiscal position, but from the view of potentially negative impact on currency market of the country. At this background, A. Kharkovets, Minister of Finance, announced Belarusian intention to attract new external borrowings in 2013

Population: 9.47 m
Industry / GDP: 31.7%
Agriculture / GDP: 8.6%
Investment / GDP: 33.1%
Export destination: Russia 34%, EU 39%
Import origin: Russia 54%, EU 19%



Source: National Statistical Committee, 2012 – IPM Research Center forecast.

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
Internet <http://research.by/>

© IPM Research Center, 2012

at the amount of approximately half of upcoming payments (i.e. roughly USD 1.5 bn). It is assumed that around USD 0.9 bn will be attracted through the last two tranches of EvrAzEC loan and around USD 0.6 bn through other loans, the most likely source of which, according to the Minister of Finance, will be emission of new Eurobonds. It should be mentioned that obtainment of EvrAzEC loan is subjected to condition of annual privatization of assets at the amount of USD 2.5 bn. Since this condition is unlikely to be met in 2012 and there is no sign of readiness for large-scale privatization in 2013, obtainment of tranches EvrAzEC loan is not guaranteed and will depend on political loyalty of Russia. On the other hand, attraction of the whole sum of desirable funds in the Euromarket will cause very serious burden on budget in terms of debt servicing in future years. Thus, Belarusian authorities may be expected to make an effort to find alternative sources of cheap loans (e.g. IMF, foreign banks, etc.) in order to reduce economic and political risks. Trial step in this direction was the emission of 3-year bonds at the amount of USD 100m, which were bought by BelVEB bank – subsidiary of Russian Vnesheconombank.

Foreign trade: Growth of imports outpaced growth of exports

In Jan-Jul, exports grew by 28.1% yoy, imports – by 3.7% yoy, and a surplus amounted to USD 2bn. However, there was a sharp decline in exports in July (in annual terms), and for the first time in 2012 growth rate of imports outpaced those of exports. As a result, trade surplus in July amounted to USD 156m, having declined by 54.7% yoy and 51.6% mom.

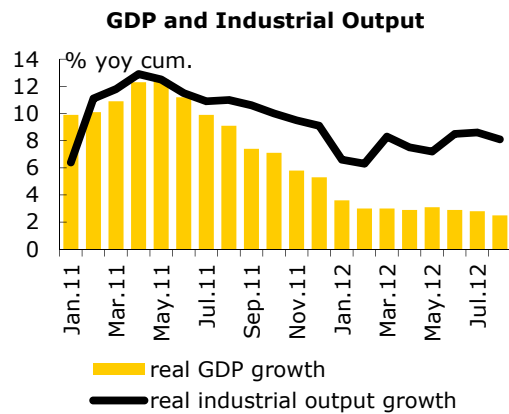
In trade with non-CIS countries, exports grew by 38.5% yoy, imports declined by 18% yoy in Jan-Jul. In July, for the first time in 2012, imports demonstrated growth (by 20.1% yoy), while growth rate of exports sharply declined (from 21.4% yoy in June to 2.0% yoy). Sharp increase in imports is largely explained by statistical base effect against a sharp decline in imports of cars in July 2011. Slowdown of growth of exports is due to oil products (by 12.9% mom and 20.6% yoy), ferrous metals (by 0.5% mom and 14.4% yoy), potash fertilizers (by 2.0% mom) as well as solvents and thinners (by 54.7% mom).

In trade with Russia, exports grew by 9.5% yoy, imports – by 24.6% yoy, and the deficit grew by 47.7% and equaled to USD 8bn in Jan-Jul. In July, tendency of exports decline alongside with imports increase in annual terms preserved. The former was due to decline in supply of engines, refrigerators and freezers, road and construction equipment, artics, trucks and tractors. Imports grew mostly due to increase in supplies of oil products, which in July grew by 2.3 times in annual terms. In coming months, slowdown of imports can be expected due to announced cessation of exports of solvents and thinners.

Public finance: Discussion of 2013 budget began

In July, consolidated budget was positive and in Jan-Jul the surplus equaled to 1.7% of GDP (2.2% a year ago). Its decline is associated with some advance in growth of expenditures compared with revenues. The latter equaled to 32.6% of GDP in Jan-July, which is 1.6% of GDP higher than in Jan-Jul 2011. This growth is almost fully provided by revenues from profit tax, which grew by 1.3% of GDP.

Budget expenditures formed 30.9% of GDP and grew by 2.1% of GDP in Jan-Jul compared to Jan-Jul 2011. Main growth was recorded in expenditures on the national economy, which includes financing of investment program and interest payments on public debt. Other expenditures were close to the last year level. In particular, expenditures on education and healthcare

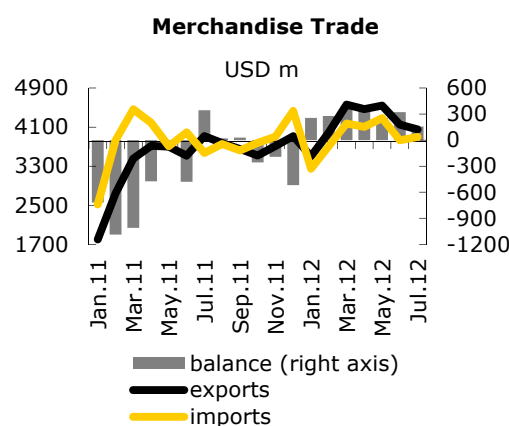


Source: National Statistical Committee.

Economic Activities and Their Contribution to GDP Growth (Jan-June 2012)

	Struc- ture, %	Contri- bution to growth*
GDP	100.0	2.5
Agriculture	8.5	0.5
Industry	36.1	2.4
Construction	6.4	-1.2
Trade and maintenance	10.9	0.4
Transport and communi- cation	7.5	0.7
Other services	18.1	0.0
Net taxes on products	12.5	-0.3

* - in percentage points.
Source: National Statistical Committee.



Source: National Statistical Committee.

came back to the last year level due to the increase of wages in budget sector after drop in the beginning of 2012. According to the draft of budget-2013, these expenditures will preserve positive dynamics. It is also assumed that there will be more active budget support of housing construction sector. In order to avoid imbalances in budget, it is planned to reduce budget support of other sectors of economy in 2013.

Monetary policy: Credit growth revival

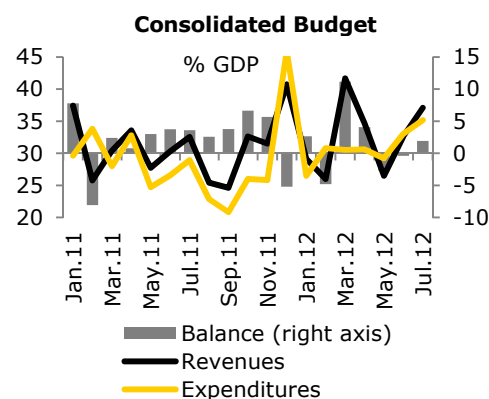
In August, net foreign assets of monetary authorities declined by 2.0% mom (USD 187 m), which was due to the repayments by the NBB on its borrowings, and net demand on foreign currency at BCSE (at the amount of USD 82 m), which was formed for the first time in this year. Claims of the NBB on banks declined by 6.4% mom and 70.4% yoy (67.6% yoy in July). Moreover, NBB ran operations on withdrawals of liquidity during the month. Finally, base money decreased by 1.5% mom, and in annual terms its' growth slowed to 87.3% yoy (97.6% yoy in July).

Banks claims on the economy grew by 5.6% mom and 47.6% yoy (44.8% yoy in July). 60.7% of growth in monthly terms was provided by claims on governmental non-financial organization. Alongside other segments of the market performed rather confident growth as well, which signals about the recovery of credit market. This was favored by reduction of interest rates on loans in August. Interest rates at the interbank market also slightly declined. At the same time, rates on households ruble and currency deposits increased, which may be associated with the need to attract additional liquidity by banks against growing demand on loans. Time ruble deposits grew by 6.1% mom and 87.5% yoy (82.7% yoy in July). Time currency deposits (in USD equivalent) grew by 6.6% mom, 58.9% yoy (47.4% yoy in July). Cash in circulation grew by 5.3% mom and 53.4% yoy (38.4% yoy in July). Ruble money grew by 4.5% mom and 74.3% yoy (72.1% yoy in July), broad money – by 6.6% mom and 108.9% yoy (104.6% yoy in July).

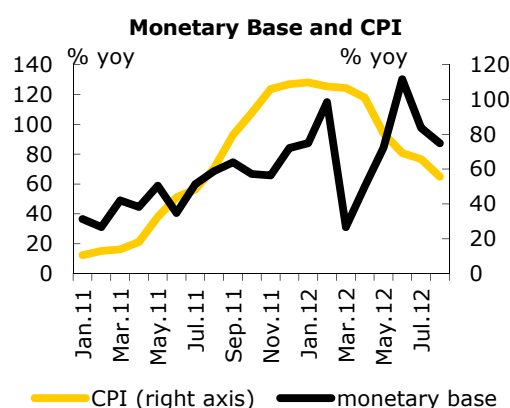
In August, consumer prices grew by 2.3% mom, and in annual terms inflation slowed to 55.6% yoy (65.7% yoy in July). In Aug-Sep, Belarusian ruble devaluated vs. currency basket by 5.8%.

Banking sector: Growth of the demand on liquidity at the interbank market

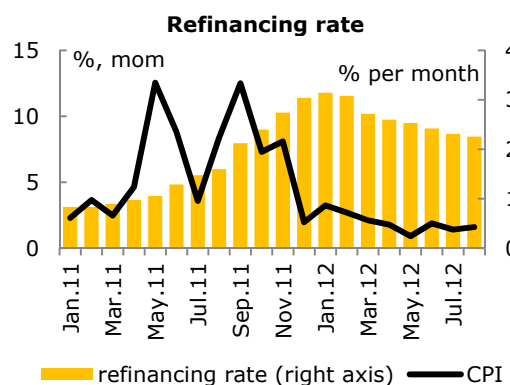
In September, situation with excessive ruble liquidity at the interbank market, which was observed since the beginning of the year, was replaced by the lack of liquidity. Main reasons for that were increase of a norm of required reserves on attracted funds in foreign currency and recovery of banking lending. Several state-owned banks, which kept on loans under government programs, faced the biggest lack of liquidity. For instance, in August, coefficients of short-term liquidity as well as share of liquid assets to total assets of Belagroprombank were below the required standards. Therefore in late September, interest rates on ruble interbank loans started to grow sharply – in the beginning of October they reached 45-50% range, while in the beginning of September they fluctuated around 20%. Situation with the lack of liquidity in current economic conditions is very specific: solving it through a large-scale refinancing by the NBB may cause negative impact in terms of depositors preferences and inflation dynamics; ignoring this situation by the NBB may dampen GDP and wage growth, which is targeted by the government.



Source: National Statistical Committee.



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



Note. CPI is seasonally adjusted. Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Jun. 12	Jul. 12	Aug. 12
GDP growth	% yoy	6.9	10.0	10.9	11.4	1.9	0.0	3.1	2.7	--	--	--
GDP growth	% yoy cum.	6.9	7.7	10.9	11.2	7.4	5.3	3.1	2.9	2.9	2.8	2.5
Industrial Production	% yoy cum.	10.6	11.7	11.8	11.5	10.6	9.1	8.3	8.5	8.5	8.6	8.1
Agricultural Production	% yoy cum.	2.5	2.5	5.0	1.1	4.0	6.6	6.1	5.1	5.1	12.3	7.1
CPI	% yoy eop	9.0	9.9	13.9	43.8	79.6	108.7	106.5	69.2	69.2	65.7	55.6
PPI	% yoy eop	17.8	19.3	22.1	62.5	88.5	149.4	144.6	87.9	87.9	78.7	70.6
Merchandise export (USD)*	% yoy	7.4	22.3	51.0	84.4	78.0	45.1	50.6	20.4	18.1	3.5	--
Merchandise import (USD)*	% yoy	23.8	33.3	66.3	43.8	25.0	6.6	2.9	2.8	-4.1	9.1	--
Merchandise trade balance (NBB data)	USD m cum.	-5587	-9078	-2629	-3351	-2798	-3716	1053	2078	2078	2271	1948
Current account	USD m cum.	-5147	-8280	-3291	-4218	-4020	-5121	41	921	921	--	--
Current account	% GDP cum	-13.0	-15.1	-23.7	-17.0	-11.5	-11.2	0.3	3.3	3.3	--	--
International reserves	USD m eop	5985	5031	3761	4151	4716	7916	8085	8330	8330	8248	8141
Monetary base	% yoy eop	43.7	49.5	49.0	40.6	74.5	84.1	31.1	130.2	130.2	97.6	87.3
Lending rate**	% p.a. aop	10.9	10.6	12.5	19.1	32.3	43.2	41.1	33.6	33.6	31.5	30.4
Exchange rate (official)***	USD aop	3004	3013	3017	3776	5114	7845	8261	8180	8310	8325	8334
Exchange rate (official)***	EUR aop	3871	4098	4120	5430	7234	10578	10829	10503	10413	10230	10321

* Growth rates in value terms (source: National Statistical Committee).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

*** - In Apr-Oct 2011 multiplicity of exchange rates took place.

Sources: National Statistical Committee, NBB.

Key Economic Indicators		2005	2006	2007	2008	2009	2010	2011
Nominal GDP	BYR trn	65.067	79.267	97.165	129.791	137.442	164.476	274.282
Nominal GDP*	USD bn	30.2	37.0	45.3	60.8	49.2	55.2	45.9
GDP Growth	% yoy	9.4	10.0	8.6	10.2	0.2	7.7	5.3
Industrial production	% yoy	10.5	11.4	8.7	11.5	-2.0	12.0	9.1
Agricultural production	% yoy	1.7	5.9	4.1	8.9	1.0	2.5	6.6
CPI	% yoy aop	10.4	7.0	8.4	14.8	13.0	7.7	52.3
CPI	% yoy eop	8.0	6.6	12.1	13.3	10.1	9.9	108.7
PPI	% yoy aop	12.1	8.3	16.3	14.8	15.0	13.5	69.2
PPI	% yoy eop	11.0	9.0	22.2	15.4	11.3	18.9	149.6
Exports (gs, USD)	% yoy	15.9	22.3	24.2	34.2	-32.9	20.3	56.1
Imports (gs, USD)	% yoy	3.8	33.2	28.0	37.0	-27.0	22.8	29.3
Current account	USD m	459	-1388	-3012	-4959	-6133	-8280	-5121
Current account*	% GDP	1.5	-3.8	-6.7	-8.2	-12.5	-15.0	-11.2
FDI (net)	USD m	303	351	1790	2150	1782	1352	3928
International reserves	USD m	1297	1383	4182	3061	5653	5031	7916
Fiscal balance	% GDP	-0.7	1.4	0.4	1.4	-0.7	-2.6	2.4
Domestic public debt	% GDP eop	5.8	6.5	6.3	6.6	5.7	5.6	11.8
Gross external debt*	% GDP eop	17.0	18.5	27.6	24.9	44.8	51.6	74.2
Monetary base	% yoy eop	74	20	38	12	-12	50	84
Exchange rate (official)**	USD aop	2154	2145	2146	2136	2793	2978	4623
Exchange rate (official)**	USD eop	2152	2140	2150	2200	2863	3000	8350
Exchange rate (official)**	EUR aop	2681	2692	2937	3135	3885	3950	6432
Exchange rate (official)**	EUR eop	2546	2817	3167	3077	4106	3973	10800

Note:* - For 2011 this indicator is calculated based on market exchange rate (for 2011 in average - 5981 USD/BYR).

** - In Apr-Oct 2011 multiplicity of exchange rates took place.

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