

BELARUSIAN MONTHLY ECONOMIC REVIEW

- The level of oil supply for the 1st quarter has been agreed.
- Development bank is likely to intensify its activity.
- Exports to non-CIS countries decreased.
- Growth of ruble deposits accelerated.

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Politics: The level of oil supply for the 1st quarter has been agreed

At the end of December, Belarus came to agreement with Russia on the level of crude oil supply, but for the 1st quarter only. Agreed level of supply - 5.75 m tones - is based on desirable for Belarus annual volume of 23 m tones, which assumes full capacity utilization by oil-refineries. However, as of now Russian officials are unwilling to provide Belarus with requested scope of delivery, as they expect correspondent oil products to be supplied at Russian market (which is likely to mitigate probable deficit of oil products supply there), while Belarus wants to avoid these supplies because of their low profitability. Moreover, Russia traditionally considers the level of crude oil supply to be an instrument of pressure on Belarus in terms of solution of related economic issues. Thus, clarification of situation just for one quarter and preservation of uncertainty in the future will strengthen negotiating position of Russia, for instance, in privatization and/or trading issues. However, this uncertainty might negatively affect the expectations of economic agents.

Real sector: Fall of output in trade and maintenance

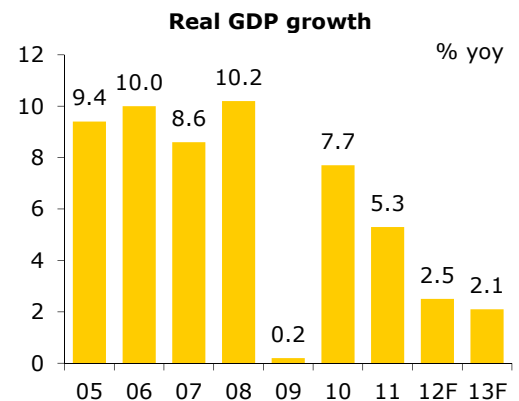
In Jan-Nov, GDP grew by 2.0% yoy. Two industries - construction and trade and maintenance - were mainly responsible for weakening growth. Decline in construction was due to fall in capital investments, which resumed in the 4th quarter of 2012. In October and November, capital investments decreased by 18.0 and 20.5% yoy respectively after 3.7% yoy growth in third quarter. Negative dynamics in trade and maintenance was due to the effect of statistical base in wholesale trade associated with the impact of thinners and solvents. Retail turnover contrarily kept on growth expansion: in November, growth equaled to 18.3% yoy (15.8 in October) and 13.2% yoy in Jan-Nov.

The dynamics of manufacturing output - growth of 1.1% yoy in November and 6.1% yoy in Jan-Nov - was affected by the statistical base effect as well. Slowdown is associated with the decline in chemical production (by 36.2% yoy in November), which is the main sector determining positive dynamics for Jan-Nov. Fall in chemical production was somehow compensated by growth in transport vehicles and equipment (by 32.7% yoy), electrical equipment (25.4%), nonmetal mineral products (13.8%). However, their growth was due to low base of November-2012, while in monthly terms, almost no growth occurred.

Structural trends: Development bank is likely to intensify its activity

At the end of 2012, two normative acts regarding the Development bank were passed: the first one increased statutory fund of Development Bank by BYR 3 trn (by cash deposit at the expense of National Development Fund), and the second one, which sets the procedure of assets (generated when financing government programs) transfer from Belarusbank and Belagroprombank to Development bank. Under this procedure, Development bank issued long-term bonds (at the amount of BYR 4.7 trn), which eventually were transferred on balance sheets of state banks in exchange for the assets mentioned above. As a result, state banks improved quality and yield of

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, 2012/2013 - IPM Research Center forecast.

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their assets (bonds of the Development Bank assume coupon yield equal to refinancing rate). Moreover, state banks improved positions for further credit expansion, as bonds of the Development bank may be considered as the instrument allowing refinancing (for instance, at secondary market or from the NBB). Furthermore, it is assumed that around BYR 4.2 trn of assets will be transferred from state banks to Development bank during the first half of 2013. Injection of new funds to the Development bank and transfer of assets in a way that might subsequently lead to a credit expansion by state banks is likely to be the evidence that the authorities are mobilizing funds for announced technical modernization in 2013.

Foreign trade: Exports to non-CIS countries decreased

In Jan-Oct, exports grew by 16.6% yoy, imports by 2.8% yoy, and trade balance surplus amounted to USD 914 m. In October, trade deficit grew by 37.7% mom and equaled to USD 474 m, and in November (according to preliminary data) it grew by another 35.2% mom (USD 641 m). Such situation is due to decline in exports observed since August, which, in October, equaled to 8.2% yoy, while imports declined by 1.9% yoy.

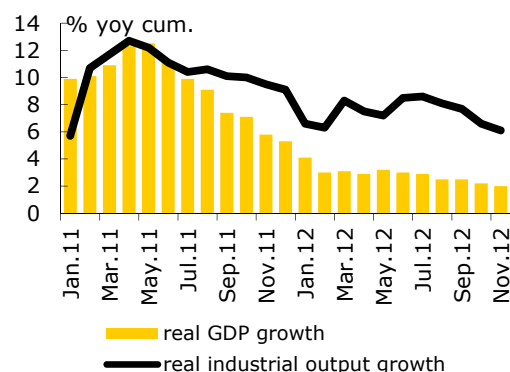
In trade with non-CIS countries in Jan-Oct, exports grew by 16.9% yoy, imports decreased by 9.6% yoy, surplus grew by 2.7 times yoy and amounted to USD 6.8 bn. However in October, there was still a significant reduction of exports (by 32.9% yoy), which was accompanied by huge growth of imports (by 24.5% yoy), which caused growth of deficit by 3.6 times mom (up to USD 342 m). Decline in exports was primarily due to 25.6% yoy decrease in exports of oil products (their physical volume – by 31.9% yoy). Moreover, exports of potash fertilizers declined by 38.3% yoy (physical volume – by 35.5% yoy) due to 29.0% yoy reduction of supplies to Brazil (physical volume – by 18.5% yoy) and absence of supplies to China and India. Growth of imports was still consequent to consumer and investment goods, being exacerbated by a low base effect.

In trade with Russia in Jan-Oct, exports grew by 10.7% yoy, imports by 14.3% yoy, and deficit grew by 19.4% yoy. In October, exports grew by 24.0% yoy, imports declined by 17.3% yoy, causing a decline of trade deficit by 2.7 times yoy. Decrease in imports was due to reduction of physical volume of crude oil and oil products supply, as well as reduction of natural gas price. Growth of exports was due to oil products, agricultural equipment, TVs, tractors as well as meat and dairy products.

Public finance: The government resorts to borrowing in foreign currency at domestic market

In Jan-Oct, consolidated revenues amounted to 31.3% of GDP and grew by 1.6% of GDP compared with the level of the last year. Consolidated expenditures grew by 3.2% of GDP up to 29.8%. Budget surplus for Jan-Oct preserved so far (1.5% of GDP), including those in October (1.4% of GDP). However, the Ministry of Finance proceeded to borrow, which is due to a need of below the line items funding. In particular in December, foreign sovereign bonds, which were issued for the Russian market at amount of RUB 7 bn, were redeemed. In January 2013, there will be repayment of a part of principal debt to the IMF. The Ministry of Finance tries to satisfy funding requirements by different tools, including issuing long-term bonds in foreign currency for domestic market. In December, bonds were placed at amount of USD 60 m for legal entities (rate 7.5%) and USD 50 m for households (rate 7%). In overall, since October, the Ministry of Finance attracted USD 328 m at the domestic market. However, these borrowings are extremely closed to external debt, as they are nominated in foreign currency and their service depends on balance of payments and

GDP and Industrial Output



Source: National Statistical Committee.

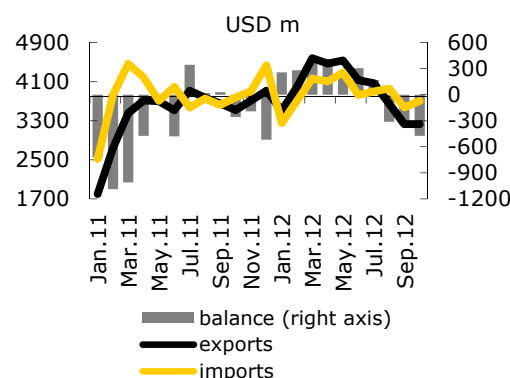
Economic Activities and Their Contribution to GDP Growth (Jan-Nov 2012)

	Structure, %	Contribution to growth*
GDP	100.0	2.0
Agriculture	8.9	0.5
Industry	33.2	1.9
Construction	6.4	-0.7
Trade and maintenance	13.0	-0.6
Transport and communication	6.8	0.5
Other services	18.3	0.1
Net taxes on products	13.4	0.3

* - in percentage points.

Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

level of international reserves. Such borrowings mean that the Ministry of Finance has to diversify sources of external debt refinancing, having faced tough conditions of refinancing the debt by new borrowings from international financial organizations.

Monetary policy: Growth of ruble deposits accelerated

In November, net foreign assets of monetary authorities grew by 0.4% mom (USD 38 m). Their slight growth, despite fulfillment of currency obligations by authorities and the NBB, was favored by net supply of foreign and attracting funds due to issuing new bonds in foreign currency at the domestic market. The claims of NBB on banks decreased by 8.4% mom, as banks returned to the NBB liquidity that was provided earlier. In annual terms, they declined by 67.8% yoy (65.7% yoy in October). Base money declined by 1.1% mom, and its annual growth slowed to 74.8% yoy (76.7% yoy in October).

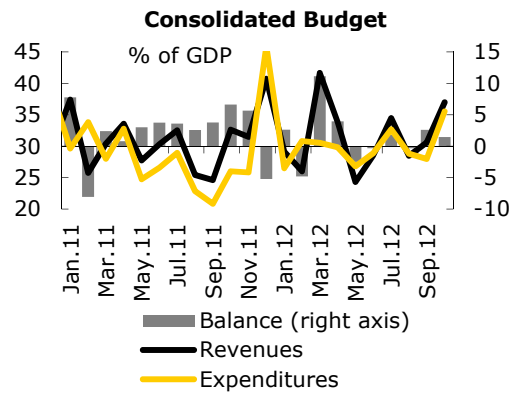
Banks claims on the economy grew by 2.3% mom, in annual terms accelerated to 32.2% yoy (28.9% yoy in October). Interest rates on ruble loans at the interbank market decreased significantly after the liquidity deficit had been resolved. Nevertheless there is still much uncertainty in regard to the liquidity of the banking system in near future, which determined inertia of growth in interest rates at the loan and deposit market. High level of interest rates contributed to growth of saving deposits in national currency by 10.1% mom, while in annual terms they grew by 81.9% yoy(62.3% yoy in October). Saving currency deposits grew by 1.8% mom and 51.1% yoy (51.0% yoy in October). Cash in circulation grew by 5.1% mom and 56.8% yoy (44.7% yoy in October). Ruble money grew by 6.0% mom and its growth in annual terms accelerated to 64.4% yoy (54.8% yoy in October). Broad money grew by 3.2% mom and 49.9% yoy (45.2% yoy in October).

In November, consumer prices grew by 1.7% mom, and in annual terms inflation slowed down to 22.9% yoy (30.6% yoy in October). In Nov-Dec, Belarusian ruble depreciated vs. currency basket by 2.2%.

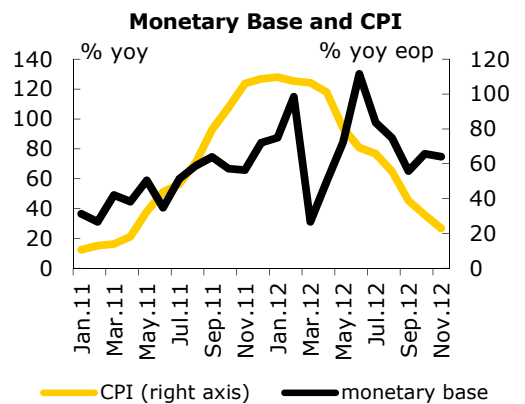
Banking sector: Outlook on ratings of a number of Belarusian banks was changed to stable

In December, Fitch Ratings updated ratings of seven Belarusian banks. Long-term default ratings of issuers of Belarusbank, Belinvestbank, BPS-Sberbank, Belgazprombank, BelVEB Bank, Bank VTB (Belarus) were preserved at a level of B-, and outlook was changed from negative to stable. Rating of BTA-Bank was maintained at CCC level. Other ratings of banks were preserved at previous values. Change of outlook from negative to stable is due to macroeconomic stabilization and high possibility of support of state banks by state, and private – by foreign owners. It is noted that further dynamics of ratings will depend on macroeconomic trends.

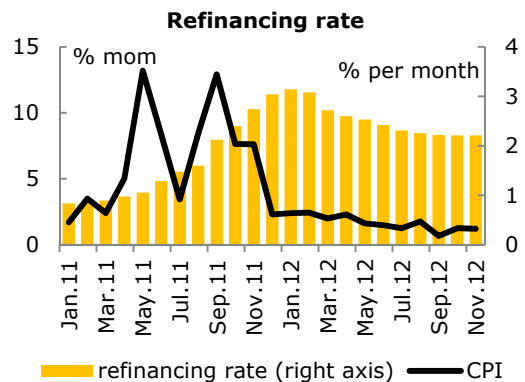
Standard&Poor’s identified Belarus as a country with the highest risk level in its report on evaluation of country risks of banking sector. The agency considers macroeconomic risks as the most important for Belorussian banking system. Along with the signs of economic stabilization, the agency mentions deteriorated operating environment and extremely high credit risk in the economy. Thus, position of Belarusian banks and their credibility among foreign contractors largely depend on the quality of macroeconomic policy of the authorities.



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		Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Sep. 12	Oct. 12	Nov. 12
GDP growth	% yoy	10.0	10.9	11.4	1.9	0.0	3.1	2.9	1.9	--	--	--
GDP growth	% yoy cum.	7.7	10.9	11.2	7.4	5.3	3.1	3.0	2.5	2.5	2.2	2.0
Industrial Production	% yoy cum.	11.7	11.8	11.5	10.6	9.1	8.3	8.5	7.7	7.7	6.6	6.1
Agricultural Production	% yoy cum.	2.5	5.0	1.1	4.0	6.6	6.1	5.1	5.0	5.0	5.2	5.6
CPI	% yoy eop	9.9	13.9	43.8	79.6	108.7	106.5	69.2	38.8	38.8	30.6	22.9
PPI	% yoy eop	19.3	22.1	62.5	88.5	149.4	144.6	87.9	58.4	58.4	42.0	24.4
Merchandise export (USD)*	% yoy	22.3	51.0	84.4	78.0	45.1	51.0	20.2	-3.5	-11.6	-8.2	--
Merchandise import (USD)*	% yoy	33.3	66.3	43.8	25.0	6.6	2.9	2.7	4.4	-1.4	-1.9	--
Merchandise trade balance (NBB data)	USD m cum.	-9078	-2629	-3351	-2798	-3716	1074	2102	1737	1737	1320	--
Current account	USD m cum.	-8280	-3291	-4218	-4020	-5121	60	705	-130	-130	--	--
Current account	% GDP cum	-15.1	-23.7	-17.0	-11.5	-11.2	0.5	2.4	-0.3	-0.3	--	--
International reserves	USD m eop	5031	3761	4151	4716	7916	8085	8330	8126	8126	8040	8208
Monetary base	% yoy eop	49.5	49.0	40.6	74.5	84.1	31.1	130.2	65.1	65.1	76.7	74.8
Lending rate**	% p.a. aop	10.6	12.5	19.1	32.3	43.2	41.1	33.6	29.8	29.8	33.3	36.2
Exchange rate (official)***	USD aop	3013	3017	3776	5114	7845	8261	8180	8362	8428	8526	8544
Exchange rate (official)***	EUR aop	4098	4120	5430	7234	10578	10829	10503	10453	10819	11051	10962

* 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