

# BELARUSIAN MONTHLY ECONOMIC REVIEW

- Real GDP fell in the fourth quarter of 2012.
- Foreign trade deficit in November reached maximum since the beginning of the year.
- Consolidated budget was executed with a deficit in November.
- Changes in Banking Code: increase of credit market transparency.

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## Politics: Directions of public administration reform have been developed

In January, there was a meeting headed by A. Lukashenka, where proposals on optimization of structure, size and functions of government agencies were discussed. Among them was the proposal of the correspondent state commission (formed in autumn of 2012), which assumed disbandment of Ministries of housing and utilities, trade, and taxes and levies. Moreover, a number of departments in other Ministries, State Committee on Science and Technology were suggested to be disbanded as well, along with reduction of state officials at the local level. This plan is expected to save roughly BYR 1 trn of budget funds, which might be used for wage increases of remaining state officials in 2013. It was agreed that final proposals will be prepared during the first quarter in the form of corresponding edict and "optimization" of a size of state machine will be done by July 1, 2013. However, evaluation criterions of the effectiveness of public administration system and perspectives of its growth due to the planned reform are still unclear.

## Real sector: Decline of real GDP in the fourth quarter

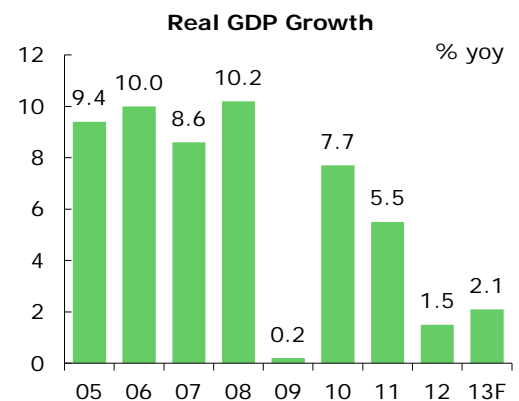
In 2012, real GDP grew by 1.5% yoy (3.2% yoy in Jan-Sep). Weakening growth was due to output fall in the 4<sup>th</sup> quarter by 1.5% yoy. Among the industries, trade and maintenance performed the most negative dynamics (a fall by 6.8% yoy in 2012, while in Jan-Sep its growth amounted to 2.6% yoy). That was a result of a sharp decline in wholesale trade due to almost complete termination of production of solvents and thinners. The latter also affected manufacturing output, which decreased by 0.3% yoy. The most considerable fall was peculiar to chemical and petrochemical branches that also suffered from unfavorable environment at the global potash market and decreased supply of crude oil from Russia. Machinery and equipment as well as transport production also performed fall in output (but only in December, not through all the 4<sup>th</sup> quarter – by 7.7% and 15.9% yoy correspondingly).

From demand side, net exports were the main factor of decline in GDP in the 4<sup>th</sup> quarter. Domestic demand, despite 11.9% yoy fall in capital investments, performed growth due to household consumption. The latter is affirmed by 18.1% yoy growth of retail trade turnover. In 2013, focus on domestic demand as a source of growth is likely to be strengthened in case of negative situation in external markets and activation of declared modernization program.

## Structural trends: Prices for potash fertilizers dropped


In January, Belarusian Potash Company – an exclusive distributor of Belaruskali and Uralkali – signed a new contract on supply of 1 m tones of potash fertilizers at a price of 400 USD/t to China. This is 70 USD/t lower than a price of a previous contract with China. However, the effect of this contract on trade balance is not so straightforward, since price reduction might promote growth of supply volume. For instance in 2012, just

Population: 9.47 m  
Industry / GDP: 31.8%  
Agriculture / GDP: 8.4%  
Investment / GDP: 28.8%  
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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about 3.5 m tones of potash fertilizers were exported, while production capacities allow exporting of about 4.7 m tones. In general, this event, however, might stipulate a number of negative outcomes. First, as of now, potash fertilizers are unlikely to compensate growing trade deficit. Second, fall of prices in potash market causes decrease of market price of Belaruskali. In turn, Belarusian authorities declared willingness to hold negotiations about its full of partly privatization only on the basis of its maximum estimates of cost. Hence, the probability of whatsoever deals with it seems to go down, despite a huge necessity to provide capital inflow to the country. From this view, large-scale privatization deals are the most realistic source of current account deficit financing in 2013. Furthermore, the loan from the Eurasian Development Bank (EDB) is conditioned by privatization revenues. As a result, uncertainty regarding sources of financing of the external imbalances in 2013 is increasing.

**Foreign trade: Growth of deficit in November 2012**

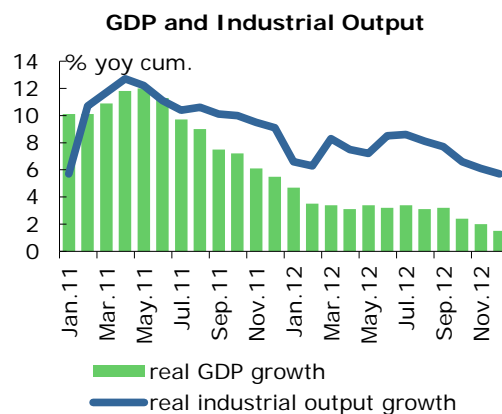
In November 2012, merchandize exports fell by 1.8% mom and 15.0% yoy, while imports grew by 1.9% mom and fell somehow in annual terms – by 3.2% yoy. Hence, trade deficit amounted to USD 622 m, which is the maximum since April 2011, having reached USD 272 m for Jan-Nov.

Exports of oil products decreased by 29.3% yoy in November, caused by limitation of crude oil supplies from Russia. Decline of oil products exports to non-CIS countries and Ukraine was followed by its significant increase to Russia, due to Russia's requirement to bring to its market 200 tsd tones of gasoline A-92 in the 4<sup>th</sup> quarter. Significant impact to growth of exports in November was done by dairy and meat products and trucks (1.5, 0.5 and 0.4 percentage points respectively). Furthermore, exports of potash fertilizers dropped by 50% yoy, mainly due to fall of physical volumes.

Decline of imports in annual terms in November was due to prices, while its physical volume grew. This trend took place despite 20% reduction of oil supplies in value terms and practically full termination of imports of oil products (due to cessation of their re-exports in form of thinners and lubricants). Hence, energy goods contributed to decline of imports (by 22.7 percentage points in November). However, capital, other intermediary, and consumer goods contributed positively by 8.0, 6.7, and 3.8 percentage points respectively. Thus, imports dynamics to a large extent was explained by dynamics of domestic demand. Moreover, even under condition of decreasing capital investments, corresponding imports increased. Hence, further stimulation of domestic demand is likely to cause speedy growth of trade deficit.

**Public finance: Decrease of surplus**

In Jan-Nov 2012, consolidated revenues formed 29.2% of GDP (27.8% of GDP a year earlier). Growth was mainly provided by increase in revenues from profit tax (by 0.8% of GDP) and income tax (by 0.5% of GDP). Growth of the latter was due to increased share of wages in GDP including increased wages in public sector. The other side of the coin was growing expenditures on health care and education (by 0.4 and 0.3% of GDP respectively), as the share of wages there is pretty high. Moreover, growth of expenditures on the national economy (by 0.6% of GDP) and public administration (by 1.9% of GDP) preserved, which is due to increased budgetary funding of capital investments. As a result, in Jan-Nov, consolidated expenditures formed 28.5% of GDP (25% of GDP a year earlier). In turn, budget surplus reduced to 1% of GDP, while in November 3.1% of GDP deficit was observed.

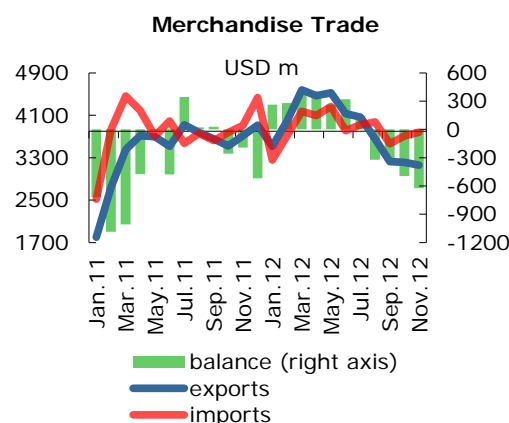


Source: National Statistical Committee.

**Economic Activities and Their Contribution to Real GDP Growth in 2012**

	Structure, %	Contribution to growth*
GDP	100.0	1.5
Agriculture	8.4	0.5
Industry	31.8	1.8
Construction	6.9	-0.6
Trade and maintenance	14.3	-1.2
Transport and communication	7.1	0.5
Other services	18.7	0.1
Net taxes on products	12.8	0.4

\* percentage points. Source: National Statistical Committee.



Source: National Statistical Committee.

In 2013, standard of withdrawal of 20% of state enterprises net profits (except for agricultural) to budget was set, which will narrow their capabilities of investments financing. Corresponding revenues will be directed to “creation of new state enterprises and priority activities”, i.e. direct state investments financing will grow in 2013.

**Monetary policy: Growth of base money**

In December, net foreign assets of monetary authorities decreased by 6.5% mom (USD 569 m), which is mainly explained by debt repayments by the government. In particular, currency deposits of the government at the NBB reduced by USD 419 m. However, the NBB increased its claims on banks in foreign currency (by USD 146 m), which further reduced foreign assets, but determined trend changes in dynamics of claims on banks: they grew by 12.3% mom, while were still below the previous year level. Furthermore, excess supply of foreign currency at the domestic market made a stabilizing effect on foreign assets. These operations, as well as governmental usage of a part of ruble funds from accounts in NBB explained growth of base money by 10.1% mom and 61.6% yoy (74.8% yoy in November).

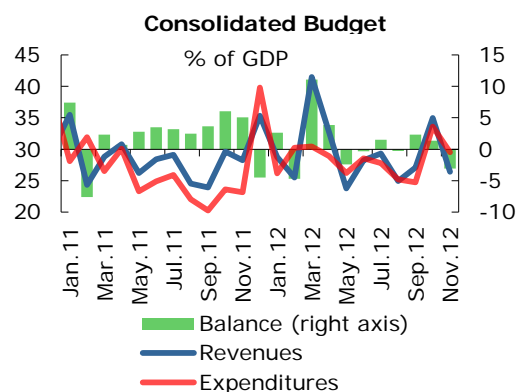
Banks' claims on the economy grew by 2.5% mom, in annual terms they accelerated to 37.0% yoy (32.2% yoy in November). Interest rates on ruble loans at the interbank market kept declining, which contributed to some reduction of interest rates on ruble deposits. Time ruble deposits of households grew by 3.1% mom, but in annual terms they slowed to 62.3% yoy (68.7% yoy in November). Time ruble deposits of legal entities declined by 6.1% mom, in annual terms their growth slowed to 39.3% yoy (95.1% yoy in November). At the same time, current ruble deposits of legal entities grew significantly. Time currency deposits grew by 2.6% mom, but in annual terms slowed to 44.6% yoy (51.1% yoy in November). Cash in circulation grew by 10.6% mom, in annual terms accelerated to 68.5% yoy (56.8% yoy in November). Ruble money grew by 8.2% mom, but its growth in annual terms slowed to 57.2% yoy (64.4% yoy in November). Broad money grew by 3.0% mom and 44.6% yoy (49.9% yoy in November).

In December, consumer prices grew by 1.4% mom, and in annual terms inflation slowed down to 21.8% yoy (22.9% yoy in November). In Nov-Dec, Belarusian ruble depreciated vs. currency basket by 2.2%.

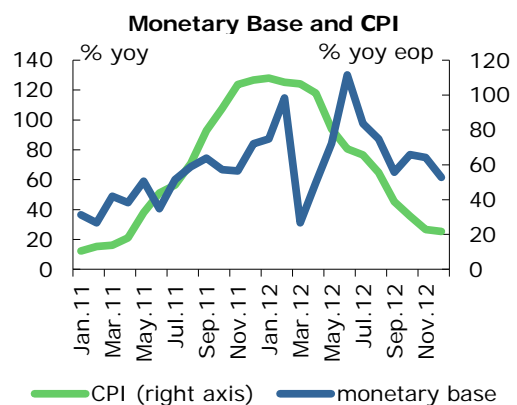
**Banking sector: Changes in the Banking Code came into operation**

The majority of changes in Banking Code came into operation starting from January 22. In particular, under new credit agreements banks are no longer able to include any payments except for interest, into price of a credit, i.e. interest rates on credits, mentioned in contracts, should reflect full price of a credit. This automatically increased level of declared interest rates, while their actual level was left almost unchanged for now by majority of banks. It can be expected, that this novation may lead to certain decrease in demand for loans, mainly for those, where actual level of full interest rate is extremely high (express-credits, overdrafts and etc.) In medium-term perspective this novation should increase transparency of credit market, stimulate growth of competitiveness and gradual decrease of interest rates level.

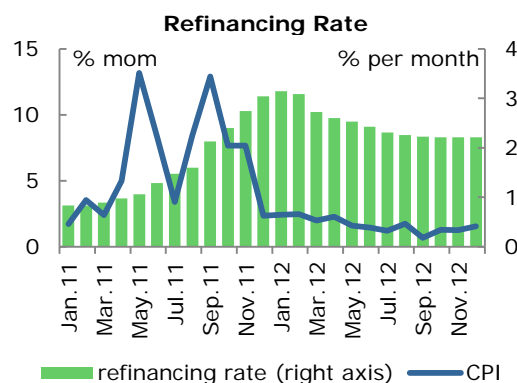
In addition, important changes occurred in the scope of banking supervision. They were amended in order to comply with Main principles of effective banking supervision, updated by Basel Committee on Banking Supervision in 2006.



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	Unit	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012, Oct.	2012, Nov.	2012, Dec.
GDP growth	% yoy	10.9	11.6	2.1	0.6	3.4	3.0	3.1	-1.5	--	--	--
GDP growth	% yoy cum.	10.9	11.3	7.5	5.5	3.4	3.2	3.2	1.5	2.4	2.0	1.5
Industrial Production	% yoy cum.	11.7	11.1	10.1	9.1	8.3	8.5	7.7	5.7	6.6	6.1	5.7
Agricultural Production	% yoy cum.	5.0	1.1	4.1	6.6	6.1	5.1	5.0	6.1	5.2	5.6	6.1
CPI	% yoy eop	13.9	43.8	79.6	108.7	106.5	69.2	38.8	21.8	30.6	22.9	21.8
PPI	% yoy eop	22.1	62.5	88.5	149.6	144.6	87.9	58.4	21.0	42.0	24.4	21.0
Merchandise export (USD)*	% yoy	51.0	84.4	78.0	45.1	51.1	20.1	-3.6	--	-8.7	-15.0	--
Merchandise import (USD)*	% yoy	66.3	43.8	25.0	6.6	3.0	2.3	4.6	--	-1.8	-3.2	--
Merchandise trade balance (NBB data)	USD m cum.	-2629	-3351	-2798	-3716	1065	2132	1738	--	1301	732	--
Current account	USD m cum.	-3291	-4218	-4020	-5121	60	705	-130	--	-474	--	--
Current account	% GDP cum	-22.4	-16.0	-10.9	-10.3	0.5	2.4	-0.3	--	-0.9	--	--
International reserves	USD m eop	3761	4151	4716	7916	8085	8330	8126	8095	8040	8208	8095
Monetary base	% yoy eop	49.0	40.6	74.5	84.1	31.1	130.2	65.1	61.6	76.7	74.8	61.6
Lending rate**	% p.a. aop	12.5	19.1	32.3	43.2	41.1	33.6	29.8	37.7	33.3	36.2	37.7
Exchange rate (official)***	BYR/USD aop	3017	3776	5114	7845	8261	8180	8362	8545	8526	8544	8566
Exchange rate (official)***	BYR/EUR aop	4120	5430	7234	10578	10829	10503	10453	11079	11051	10962	11225

\* 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	Unit	2006	2007	2008	2009	2010	2011	2012
Nominal GDP	BYR trn	79.267	97.165	129.791	137.442	164.476	297.158	527.385
Nominal GDP*	USD bn	36.9	45.2	60.6	49.1	54.9	50.9	63.1
GDP Growth	% yoy	10.0	8.6	10.2	0.2	7.7	5.5	1.5
Industrial production	% yoy	11.4	8.7	11.5	-2.0	12.0	9.1	5.7
Agricultural production	% yoy	5.9	4.1	8.9	1.0	2.5	6.6	6.1
CPI	% yoy aop	7.0	8.4	14.8	13.0	7.7	52.3	67.5
CPI	% yoy eop	6.6	12.1	13.3	10.1	9.9	108.7	21.8
PPI	% yoy aop	8.3	16.3	14.8	15.0	13.5	69.2	90.5
PPI	% yoy eop	9.0	22.2	15.4	11.3	18.9	149.6	21.0
Exports (gs, USD)	% yoy	22.3	24.2	34.2	-32.9	20.3	56.1	--
Imports (gs, USD)	% yoy	33.2	28.0	37.0	-27.0	22.8	29.3	--
Current account	USD m	-1388	-3012	-4959	-6133	-8280	-5121	--
Current account*	% GDP	-3.8	-6.7	-8.2	-12.5	-15.0	-10.3	--
FDI (net)	USD m	351	1790	2150	1782	1352	3928	--
International reserves	USD m	1383	4182	3061	5653	5031	7916	8095
Fiscal balance	% GDP	1.4	0.4	1.4	-0.7	-2.6	2.4	--
Domestic public debt	% GDP eop	6.5	6.3	6.6	5.7	5.6	11.8	--
Gross external debt*	% GDP eop	18.5	27.6	24.9	44.8	51.6	74.2	--
Monetary base	% yoy eop	20	38	12	-12	50	84	62
Exchange rate (official)**	BYR/USD aop	2145	2146	2136	2793	2978	4623	8336
Exchange rate (official)**	BYR/USD eop	2140	2150	2200	2863	3000	8350	8570
Exchange rate (official)**	BYR/EUR aop	2692	2937	3135	3885	3950	6432	10713
Exchange rate (official)**	BYR/EUR eop	2817	3167	3077	4106	3973	10800	11340

\* For 2011, this indicator is calculated based on market exchange rate (estimated annual average exchange rate for 2011 is 5981 BYR/USD), for other years – based on the weighted average exchange rate.

\*\* Multiple exchange rate regime existed between April and October 2011.

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