

BELARUSIAN MONTHLY ECONOMIC REVIEW

No. 3 (126)
March 2013

- GDP grew due to the taxes on products.
- Attempt to elaborate a new growth strategy.
- Consolidated surplus amounted to 0.5% of GDP.
- Acceleration of inflation.

Politics: New tasks for the government have been set

In March, a meeting of the Council of Ministers headed by A. Lukashenko was held. He characterized current macroeconomic dynamics and the results of the government activities as unsatisfactory ones. He indicated "passivity and absence of initiative, inability to prevent negative shocks" as the main problem of the government. A. Lukashenko emphasized a need to improve personnel discipline in the government. De-facto, he announced that if there are no changes in working style of authorities and positive tendencies in macroeconomic dynamics, the government may be resigned. Probably, such an announcement intended to mobilize administrative resources for promotion of GDP growth rate in 2013.

Real sector: GDP grew due to the taxes on products

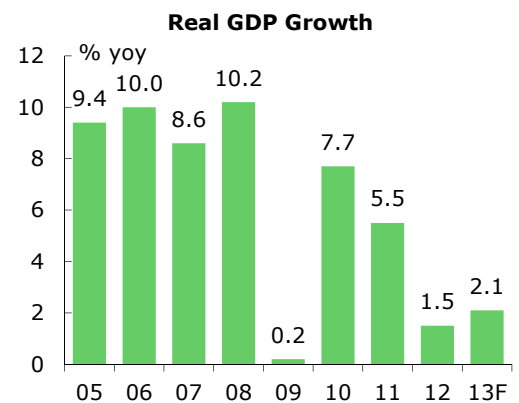
According to first assessment of Belstat, in January 2013, GDP growth amounted to 3.1% yoy. It was provided mostly by net taxes on products, which grew in real terms by 25.2% yoy. The latter is consequent to significant growth of revenues from VAT tax in January, which is likely to be associated with the repeal of VAT exemptions for communication services. The latter is to cause certain changes in the structure of final and intermediate demand, alongside with the impulse for increase in general price level. However, first, adjustments of the economy to innovations in tax policy are likely to have not been completed in January. Second, methodology of monthly GDP assessment, suppose that such an assessment may not fully capture correspondent adjustments. Therefore, the contribution of net taxes to GDP growth is expected to go down, when these adjustments will be captured (for instance, in quarterly assessment, when different methodology will be used). However, this decline might be compensated by upward revaluation of gross value added.

In January, gross value added – GDP excluding net taxes on products – decreased by 0.8% yoy. Its dynamics is still restrained by substantial fall in wholesale trade. Industrial production grew just by 0.4% yoy. Its positive dynamics is provided by food industry (growth of 9.3% yoy) and transport production (growth of 19.6% yoy), partly due to growth of stock reserves. At the same time, decline was observed in chemical and petrochemical industries (13.9 and 19.6% yoy respectively) against the high base of previous year. Retail trade is the only industry of the economy with high growth rates (trade turnover grew by 20.3% yoy), which is due to increase in real wages. Therefore, favorable dynamics preserves mostly in industries, which are sensitive to stimulation of household demand.

Structural trends: Attempt to elaborate a new growth strategy


During a government session under chairmanship of A. Lukashenko, a number of theses were announced, which probably will form a scenario of economic development in the near future. Modernization and promotion of exports were mentioned as key goals, solution of which should assure increase of economic growth rate. Modernization, during this session was mainly treated as a large-scale renewal of active

Population: 9.46 m
Industry / GDP: 31.8%
Investment / GDP: 28.8%
Export destination: Russia 34%, EU 39%
Import origin: Russia 59%, EU 20%



Source: National Statistical Committee, 2013 – IPM Research Center forecast.

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part of fixed assets (machinery, equipment, transport), which correspondingly also means improvement of technical structure of investments. Obviously, such scenario of modernization will have a positive impact on perspectives of economic growth. However, optimality of such strategy is ambiguous. First, in our opinion, modernization of competitive environment and institutional infrastructure contains the biggest potential for prospects of economic growth. Second, implementation of massive technical renovation, i.e. spurt in capital investments might raise threats for macroeconomic stability: growth of imports of capital goods might become one of the destabilizing factors in foreign trade; artificial stimulation of investment demand might set an impulse for acceleration of price growth. Second component of growth strategy – development of new markets for exports – raises certain doubts regarding its feasibility at the moment, as basic methods are assumed to be administrative ones, and their effectiveness is doubtful.

Foreign trade: Growth of capital and food imports

In 2012, merchandize exports grew by 11.0% yoy, merchandize imports by 1.4% yoy, and merchandize trade deficit equaled to USD 413 m. In trade with non-CIS countries in 2012, surplus grew by 55.8% yoy to USD 6 bn due to growth of exports by 6.0% yoy and decline of imports by 5.2% yoy. Growth of exports was almost fully provided by supplies of thinners and solvents, which increased by 76.9% yoy. At the same time exports of oil products grew just by 2.9% yoy (physical volume – by 1.5% yoy). Potash fertilizers contributed negatively – their exports dropped by 20% yoy (physical volume by 22% yoy), following the trends at the global potash market. Decline in imports was mostly due to reduction in imports of consumer non-food products (by 41.0% yoy), mainly cars. Imports of other broad categories – capital goods and foodstuffs – grew by 26.6 and 12.4% yoy correspondingly.

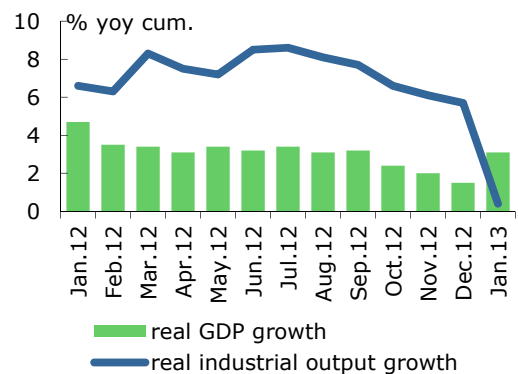
In trade with Russia, exports grew by 12.2% yoy, imports by 8.1% yoy, having resulted in the growth of deficit by 2.6% yoy up to USD 11.3 bn. In Oct-Dec, the growth of exports strengthened, which was mostly due to increase of oil products supply. In the 4th quarter it was 1.5 times higher than in Jan-Sep, given the requirement of Russia to supply 200 thousand tones of petrol A-92 to its market in the fourth quarter under current agreements on oil trade. The most significant growth of non-energetic exports was observed in meat (by 16.1% yoy) and dairy products (by 11.6% yoy), trucks (by 23.5% yoy). In turn, imports dynamics was influenced by significant slowdown in supplies of oil products: their imports amounted only to USD 81 m(137 thousand tones) in the 4th quarter, while in the 3rd quarter it was USD 1 bn (1,7 m tones). In 2012, imports of natural gas decreased by 34.4% yoy, which was due to reduction of average supply price, caused by new gas agreements for 2012-2015.

Public finance: Surplus at the year-end

In 2012, consolidated revenues equaled to 29.9% of GDP (28.8% of GDP in 2011) at the year-end. Consolidated revenues grew due to the revenues from taxes and fees (by 1.5% of GDP), while non-tax revenues declined by 0.3% of GDP. Within tax revenues, those from personal income and profit tax performed most substantial growth (by 0.6 and 0.7% of GDP respectively). The former grew due to the increased share of compensation to employees in GDP, while the latter due to due to changes in taxpaying procedure.

In 2012, consolidated expenditures amounted to 29.4% of GDP (26.6% of GDP in 2011). The growth was consequent to

GDP and Industrial Output



Source: National Statistical Committee.

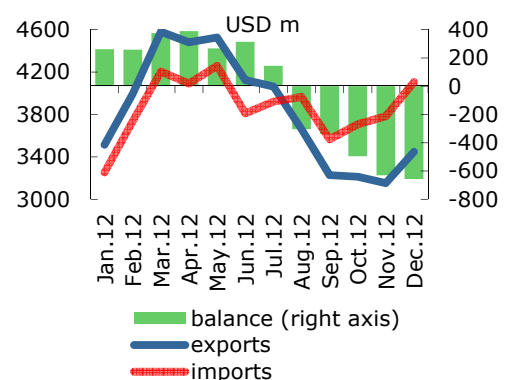
Economic Activities and Their Contribution to Real GDP Growth in January 2013

	Structure, %	Contribution to growth*
GDP	100.0	3.1
Agriculture	4.1	0.2
Industry	31.3	0.2
Construction	4.5	-0.2
Trade	13.8	-1.1
Transport and communication	8.0	0.2
Other services	19.6	0.0
Net taxes on products	18.7	3.8

* percentage points.

Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

expenses on public administration (grew by 1.3% of GDP), which includes interest payments on state debt and financing of government investment program. Expenditures on national economy, education and healthcare grew as well due to accelerated growth of wages. Nevertheless, in 2012 budget surplus preserved and equaled to 0.5% of GDP (2.2% of GDP in 2011), indicating a fairly tight fiscal policy.

Monetary policy: Inflation accelerated

In January, net foreign assets of monetary authorities practically did not change. This was promoted by obtainment of the 4th tranche of the loan by EurAsEC Anti-Crisis Fund, which compensated decline in foreign assets due to repayments on external debt by the government and the NBB. Claims of the NBB on banks grew by 3.4% mom, while in annual terms declined by 33.3% yoy (37.1% yoy in December). This was followed by the growth of government’s funds at the NBB. Base money declined by 6.3% mom, and its growth in annual terms amounted to 60.3% yoy (61.6% yoy in December).

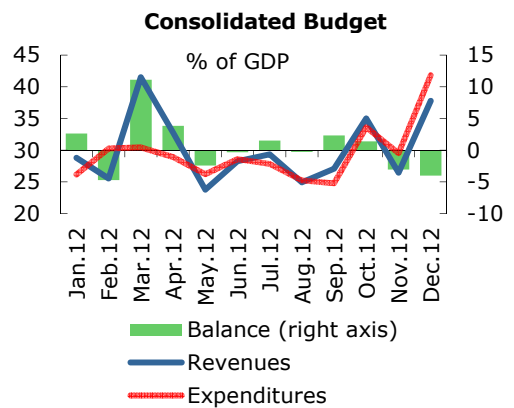
Banks’ claims on the economy grew by 2.0% mom and 40.8% yoy (40.1% yoy in December). Interest rates on ruble instruments grew both at interbank and deposit-loan markets. This promoted growth of time ruble deposits: they grew by 7.8% mom, and in annual terms their growth accelerated to 54.0% yoy (49.6% yoy in December). Time foreign currency deposits grew by 3.2% mom, but their growth in annual terms slowed to 40.5% yoy (44.6% yoy in December). Cash in circulation reduced by 9.6% mom. Ruble money decreased by 5.0% mom due to drop in current ruble deposits to the level of Oct-Nov after their seasonal growth in December. Broad money practically stayed unchanged.

In January, consumer prices grew by 3.0% mom. This was mostly a result of increase in administratively regulated prices and repeal of VAT exemptions for communication services. As a result, in annual terms inflation accelerated to 23.1% yoy (21.8% yoy in December). In Dec-Jan Belarusian ruble depreciated vs. currency basket by 3.4%.

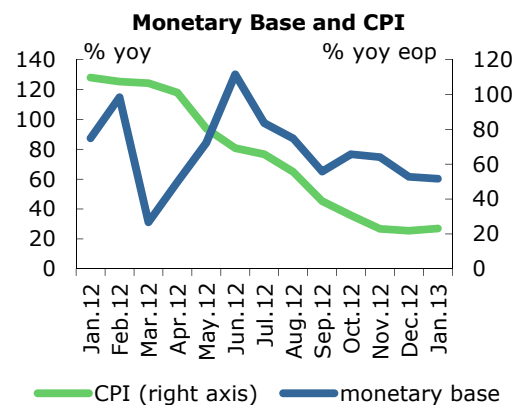
Banking sector: Decrease of interest rates on housing loans

Since the end of February/beginning of March state banks are reducing interest rates on loans for housing construction for a certain categories of households, who are recognized to be in need of housing improvement. Belarusbank reduced annual rates from 19-20% to 12-16%, Belagroprombank – from 25% to 12-14%, Belinvestbank – from 30% to 12-16%. It should be noted that one of the main conditions to obtain such a loan is a usage of own funds on construction in a size of at least 25% of its value (thus, the size of a loan will not exceed 75% of construction costs). Such measure is intended to increase volume of own funds of households, which are directed to housing construction and therefore to stimulate growth of GDP. However, artificial decrease of interest rates can negatively affect perspective of price stability.

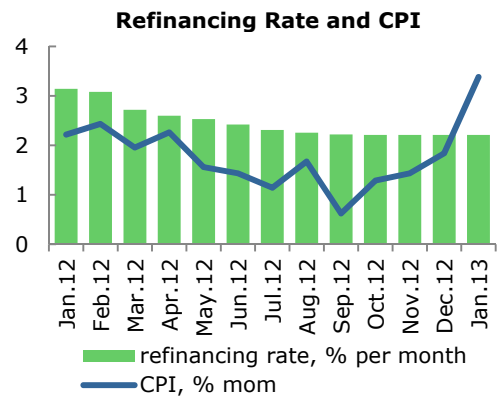
From banks position, provision of such loans is fraught with decline in net interest revenue, as these loans formally are not concessional and, therefore, banks will not be compensated with the difference between market and actual interest rates. Moreover, massive demand on such loans might result in lack of liquidity of banks, which provide them.



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.

Growth rates of monetary aggregates

	December 2012		January 2013	
	% mom	% yoy	% mom	% yoy
M0	10.6	68.5	-9.6	66.2
M1	19.2	69.3	-17.7	58.8
M2	8.4	58.4	-5.0	55.1
M3	3.1	45.1	0.0	42.8

Source: NBB.

Economic Trends	Unit	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012 Nov.	2012 Dec.	2013 Jan.
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	2.0	1.5	3.1
Industrial Production	% yoy cum.	11.7	11.1	10.1	9.1	8.3	8.5	7.7	5.7	6.1	5.7	0.4
Agricultural Production	% yoy cum.	5.0	1.1	4.1	6.6	6.1	5.1	5.0	6.1	5.6	6.1	3.9
CPI	% yoy eop	13.9	43.8	79.6	108.7	106.5	69.2	38.8	21.8	22.9	21.8	23.1
PPI	% yoy eop	22.1	62.5	88.5	149.6	144.6	87.9	58.4	21.0	24.4	21.0	20.0
Merchandise export (USD)*	% yoy	51.0	84.4	78.0	45.1	51.1	20.2	-3.4	-12.0	-15.1	-11.9	--
Merchandise import (USD)*	% yoy	66.3	43.8	25.0	6.6	3.5	2.3	4.6	-4.3	-3.1	-7.4	--
Merchandise trade balance (NBB data)	USD m cum.	-2629	-3351	-2798	-3716	1017	2095	1719	112	704	112	--
Current account	USD m cum.	-3291	-4218	-4020	-5121	60	705	-130	--	-1109	--	--
Current account	% GDP cum	-22.4	-15.6	-10.5	-10.1	0.5	2.4	-0.3	--	-1.9	--	--
International reserves	USD m eop	3761	4151	4716	7916	8085	8330	8126	8095	8208	8095	8025
Monetary base	% yoy eop	49.0	40.6	74.5	84.1	31.1	130.2	65.1	61.6	74.8	61.6	60.3
Lending rate**	% p.a. aop	12.5	19.1	32.3	43.2	41.1	33.6	29.8	37.7	36.2	37.7	38.5
Exchange rate (official)***	BYR/USD aop	3017	3776	5114	7845	8261	8180	8362	8545	8544	8566	8629
Exchange rate (official)***	BYR/EUR aop	4120	5430	7234	10578	10829	10503	10453	11079	10962	11225	11453

* 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	11.4
Imports (gs, USD)	% yoy	33.2	28.0	37.0	-27.0	22.8	29.3	2.5
Current account	USD m	-1388	-3012	-4959	-6133	-8280	-5121	--
Current account*	% GDP	-3.8	-6.7	-8.2	-12.5	-15.1	-10.1	--
FDI (net)	USD m	354	1792	2157	1774	1343	3877	--
International reserves	USD m	1383	4182	3061	5653	5031	7916	8095
Fiscal balance	% GDP	1.4	0.4	1.4	-0.7	-2.6	2.1	0.5
Domestic public debt	% GDP eop	6.5	6.3	6.6	5.7	5.6	10.9	9.3
Gross external debt*	% GDP eop	18.5	27.6	25.0	45.0	51.7	66.8	--
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 5984 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