

BELARUSIAN MONTHLY ECONOMIC REVIEW

- Search of new sources of borrowings.
- Exports of capital goods to Russia are falling.
- Consolidated revenues boosted.
- Changes in activity of Development bank.

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Politics: Search of new sources of borrowings

In March, a meeting of Supreme council of the Union State of Belarus and Russia was held. Official agenda included the issues of external policy, budget, and bilateral trade and economic relations. De-facto, the perspectives of granting a new intergovernmental loan to a Belarusian party was the key issue. However, there were no formal agreement in this regard. Later on, P. Prokopovich, the Deputy Prime-Minister of Belarus, announced that Russia gave principal consent on granting the loan, but there are some technical difficulties. A. Siluanov, the Minister of Finance of Russia, confirmed that this issue was examined, but pointed out that if Belarus fulfilled the commitments on privatization of state assets within the framework of EDB loan, it might be an alternative to such a loan. Taking into account growing current account deficit, along with huge external debt payments in 2013, the vitality of new borrowing is going up. Therefore the authorities are likely to continue the efforts, including the political ones, to solve this problem.

Real sector: Manufacturing output declined

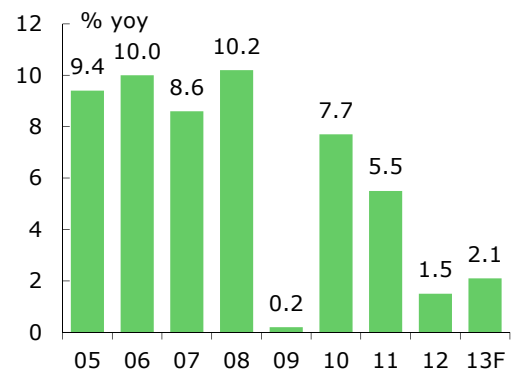
In Jan-Feb, GDP growth strengthened up to 4.4% yoy (3.1% yoy in January). According to the production approach, net taxes on products were the key contributor to the growth (2.5 percentage points). Such a phenomenon might be associated with the abolition of a number of VAT benefits, growth of excises, and deterioration of foreign trade balance, which results in less VAT refunds. This tendency is expected to fade in coming months due to adjustments in intermediate and final demand given the new conditions of taxation. Moreover, the output should adjust to the changes in external demand, otherwise leading to excessive accumulation of finished goods inventories and erosion of working capital of firms. The latter trend has already become observable: modest growth of output in certain industries led to increase inventories, which by grew up to 75.2% of monthly average production volume as of March, 1st (48.9% year ago). All in all manufacturing output kept on declining – by 0.4% yoy – mainly due to chemical and petrochemical industries (by 16.2 and 16.7% yoy respectively). As for other industries of the economy, retail trade performed well, contributing 1 percentage point to GDP growth. However, there are signs of growth rate stabilization within this industry, as the growth of households income tends to slowdown. Therefore, given weak domestic and external demand, there is a lack of possibilities to push GDP growth (without disturbances of macroeconomic equilibrium).

Structural trends: Uncertainty in interest rate policy

In last month and a half there was an uncertain situation in money and loan market. High real interest rates in national currency provided tangible growth acceleration of time ruble deposits. Hence, an adequate increase of credit supply by banks could be expected, leading to a sharp decline in interest rates on loan and deposit market. However, foreign currency segment of the loan market was the engine of credit growth recovery, despite huge amount of excessive ruble liquidity in the banking system. Furthermore, only interbank interest rate performed drastic reduction, while those on loan


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

Real GDP Growth



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

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and deposit market were more or less stable. Such a phenomenon might be explained by transformations in the behavior of depositors and banks given increased inflationary expectations. Initial reason for a spurt in interest rate was lower supply of ruble resources by depositors. Hence, banks were to raise interest rates. Moreover, they face the problem of increased risks and their changing structure given high degree of uncertainty, which shrank their credit supply up to credit rationing in some cases. However, the NBB tends to solve the problem not through linking inflation expectations, but through administrative tools and reduction of its interest rate. In March, refinancing rate declined by 1.5 percentage points and it was announced that it will be probably reduced in April as well. However, given high and volatile inflation expectations, easing monetary policy might lead a new loop of growth in inflation expectations and cause a decline in real credit supply, rather stimulate the latter and domestic demand. Thus optimal interest rate policy is uncertain given unstable expectations, which is to preserve till the effective tool for catching the expectations will be detected.

Foreign trade: Exports of capital goods to Russia are falling

In January, a merchandize deficit was recorded (USD 150 m), while there was a surplus (USD 262 m) a year ago. Exports dropped by 14.7% yoy, imports – by 3.2% yoy, thus a significant decline in goods turnover occurred.

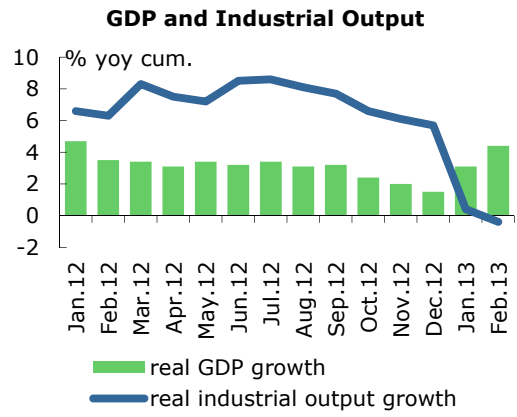
Decline in exports occurred entirely due to supplies to non-CIS countries: exports to these countries dropped by 30.0% yoy (to the EU countries – by 35.4% yoy), while imports from these countries grew by 19.2% yoy. Decline in supplies of oil products (by 25.1% yoy in value terms and by 12.0% yoy in physical terms), along with absence of supplies of thinners and solvents were the key reasons for deterioration in exports. Furthermore, ferrous metals (a fall by 37.5% yoy) contributed to adverse dynamics. Growth of imports was partly explained by a low base effect and was caused by the increase in imports of consumer (by 31.9% yoy) and intermediate non-energy goods (by 29.6% yoy).

In trade with Russia, exports grew by 10.4% yoy, which were mostly due to increase in exports of dairy (by 45.9% yoy) and meat products (by 6.9% yoy). However, exports of capital goods declined significantly (by 22.2% yoy). In particular, supplies of truck-tractors and agricultural equipment declined by 34-35% yoy, and trucks by 63.1% yoy. Exports of oil products to Russia grew by 10 times yoy up to 74.4 thsd tones, which is, however, less than the volume corresponding to the daily supply of 13.3 thsd tones, which was agreed with Russia. Imports from Russia decreased by 14.8% yoy, mostly due to a sharp decline in supplies of oil products (from 925.4 thsd tones to 35.4 thsd tones), which correlated with exports of thinners and solvents last year.

Public finance: Consolidated revenues boosted

In January 2013, consolidated budget performed a surplus of 5% of GDP. Consolidated revenues amounted to 33% of GDP (29% of GDP year ago). Firstly, the growth was due to 1.1% of GDP increase in income tax revenues against an increased share of wages in GDP. Secondly, VAT revenues grew by 2.5% of GDP, which was caused by the abolition of VAT benefits on communication services and the reduction of VAT refunds due to fall in exports.

In January, consolidated expenditures formed 28% of GDP (26.4% of GDP year ago). Like at the end of a last year, the

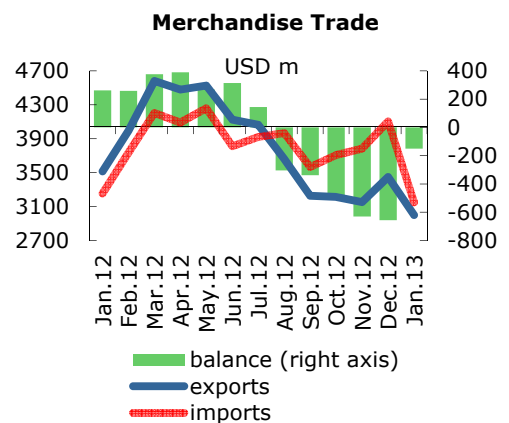


Source: National Statistical Committee.

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

	Structure, %	Contribution to growth*
GDP	100.0	4.4
Agriculture	4.0	0.1
Industry	31.7	-0.3
Construction	5.6	0.2
Trade	14.4	1.5
Transport and communication	8.4	0.3
Other services	20.3	-0.2
Net taxes on products	15.6	2.8

* percentage points. Source: National Statistical Committee.



Source: National Statistical Committee.

growth occurred mainly in healthcare, education and social policy, which was due to the increase in real wages with regard to the low base effect. In January, reduction in expenditures was observed only in public administration item, which might be explained by a low level of financing of investment program in this month. In January, capital investments by the firms managed by the government decreased by 27.5% yoy.

Monetary policy: reduction of interest rates

In February, net foreign assets of monetary authorities grew by 1.5% mom (USD 118m). That was a result of purchase of excessive supply of foreign currency in the domestic market by the NBB. NBB's claims on banks declined by 9.2% mom and 39.7% yoy (33.3% yoy in January), because banks started to form excessive liquidity given fast growth of ruble deposits. At the same time, withdrawal of funds from government's accounts at the NBB (by 30.2% yoy) favored growth of money supply. As a result, base money grew by 9.3% mom, but in annual terms growth slowed to 48.7% yoy (60.3% yoy in January).

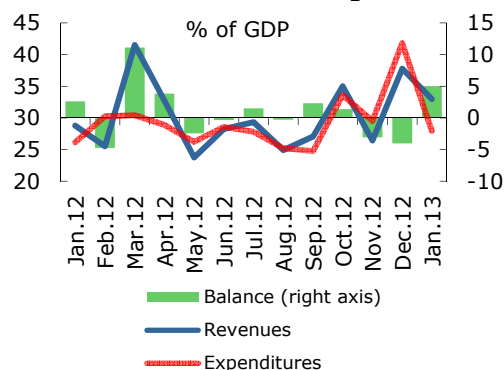
Banks' claims on the economy grew by 1.4% mom, and in annual terms growth accelerated up to 42.5% yoy (40.8% yoy in January). Ruble loans grew by 1.0% mom, and foreign currency loans grew by 1.9% mom. Against the background of high interest rates on ruble instruments, which decreased in February only modestly, growth of time ruble deposits preserved: by 8.3% mom, and in annual terms growth accelerated to 57.0% yoy (54.0% yoy in January). Time currency deposits of households practically stayed unchanged, while deposits of legal entities decreased by 7.3% mom, and their growth in annual terms slowed to 25.7% yoy (33.7% yoy in January).

In February, consumer prices grew by 1.2% mom, and in annual terms inflation slowed down to 22.7% yoy (23.1% yoy in January). In Jan-Feb, Belarusian ruble depreciated vs. currency basket by 0.03%.

Banking sector: Expansion of the Development bank mandate

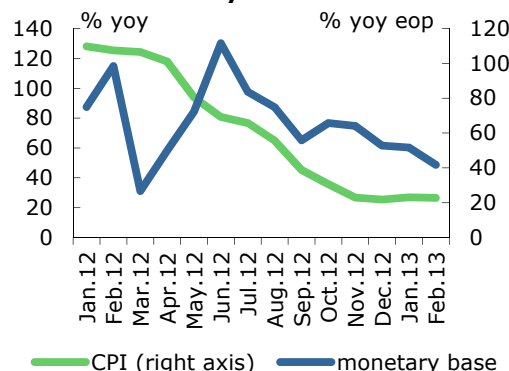
In March, the authorities transferred 62.5% of shares of "Promagrolizing" to the Development bank. As a result, equity capital of Development bank grew by 29% (BYR 875 bn) up to BYR 3.9 trn. Also in March, the Development bank obtained a license to carry out broker and dealer activities with securities. Expansion of field and sphere of activity of the Development bank in many terms contradicts to the initial idea of its establishment as an agent, which should narrow the scope of directed lending in Belarusian economy and increase its effectiveness and efficiency. From this view, the right to issue its own bonds (within the limits determined by the government) that was given to the bank seems to be at least disputable. For instance, the IMF mission directed attention to undesirability such a right for the Development bank, because there is a probability that such bonds may be further refinanced by the NBB. In general, the goals, the scope and the field of the activity of the Development bank seem to have not been clearly determined and the prospects of directed lending are still unclear as well.

Consolidated Budget



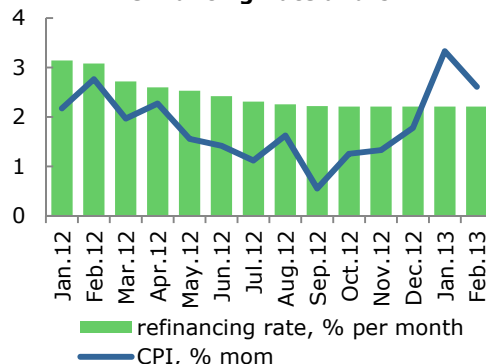
Source: National Statistical Committee.

Monetary Base and CPI



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

Refinancing Rate and CPI



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

Growth rates of monetary aggregates

	January 2013		February 2013	
	% mom	% yoy	% mom	% yoy
M0	-9.6	66.2	8.5	60.0
M1	-17.7	58.8	9.0	52.1
M2	-5.0	55.1	8.2	52.6
M3	0.0	42.8	2.2	43.0

Source: NBB.

Economic Trends	Unit	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012 Dec.	2013 Jan.	2013 Feb.
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	1.5	3.1	4.4
Industrial Production	% yoy cum.	11.7	11.1	10.1	9.1	8.3	8.5	7.7	5.7	5.7	0.4	-0.4
Agricultural Production	% yoy cum.	5.0	1.1	4.1	6.6	6.1	5.1	5.0	6.1	6.1	3.9	3.1
CPI	% yoy eop	13.9	43.8	79.6	108.7	106.5	69.2	38.8	21.8	21.8	23.1	22.7
PPI	% yoy eop	22.1	62.5	88.5	149.6	144.6	87.9	58.4	21.0	21.0	20.0	18.7
Merchandise export (USD)*	% yoy	51.0	84.4	78.0	45.1	51.1	20.2	-3.4	-12.0	-11.9	-14.7	--
Merchandise import (USD)*	% yoy	66.3	43.8	25.0	6.6	3.5	2.3	4.6	-4.3	-7.4	-3.2	--
Merchandise trade balance (NBB data)	USD m cum.	-2629	-3351	-2798	-3716	1017	2095	1719	112	112	-87	--
Current account	USD m cum.	-3279	-4193	-3958	-5026	4	701	-44	-1819	-1819	--	--
Current account	% GDP cum	-22.3	-15.6	-10.3	-9.9	0.0	2.4	-0.1	-2.9	-2.9	--	--
International reserves	USD m eop	3761	4151	4716	7916	8085	8330	8126	8095	8095	8025	8012
Monetary base	% yoy eop	49.0	40.6	74.5	84.1	31.1	130.2	65.1	61.6	61.6	60.3	48.7
Lending rate**	% p.a. aop	12.5	19.1	32.3	43.2	41.1	33.6	29.8	37.7	37.7	38.5	37.9
Exchange rate (official)***	BYR/USD aop	3017	3776	5114	7845	8261	8180	8362	8545	8566	8629	8627
Exchange rate (official)***	BYR/EUR aop	4120	5430	7234	10578	10829	10503	10453	11079	11225	11453	11542

* 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	23.0	24.6	34.9	-32.8	20.5	58.6	11.2
Imports (gs, USD)	% yoy	34.1	28.7	37.8	-26.8	23.0	29.6	2.3
Current account	USD m	-1388	-3012	-4959	-6133	-8280	-5026	-1819
Current account*	% GDP	-3.8	-6.7	-8.2	-12.5	-15.1	-9.9	-2.9
FDI (net)	USD m	354	1792	2157	1774	1343	3877	1343
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	54.0
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