



Belarus: Periodic Report 4/

January 2008

REAL SECTOR AND BALANCE OF PAYMENTS

Real gross domestic product (GDP) grew by 8.1 percent in 2007 (preliminary estimate), down from 10 percent a year ago and reached 96,048 billion Belarusian rubels (Br).

Real industrial output increased by 8.5 percent in 2007 (compared with an 11.4 percent increase in 2006). The fastest sectoral growth was recorded in machinery and metalworking sectors (13.9 percent), construction materials (11.3 percent) and woodworking (10.8 percent) industries.

At the same time, **agricultural output** was up 4.1 percent in 2007, down from 6.0 percent in 2006.

Real income of the population grew 15 percent on the year in January-November of 2007 (down from 17.5 percent a year ago). The *average wage* in Belarus amounted to Br736,386 in November 2007 (up 9.2 percent on the year in real terms)². The *average pension* was Br328,163 in December 2007, or 28.4 percent of the minimal subsistence level for pensioners (a 5.4 percent real 12-month increase).

In 2007, **inflation** accelerated 12.1 percent, to a new high since 2004, which recorded a 14.4 percent inflation pace³. Food prices and non-food prices grew by 15.9 percent and 5.9 percent respectively, while prices for consumer services rose by 10.5 percent. The producer price index (PPI) went up by 17.1 percent. Belarus' *core inflation*⁴ was at 1.8 percent in December 2007, compared with 1.5 percent in November. In January-December 2007 core inflation rate reached 10.2 percent.

Foreign trade posted a US\$3.653 billion deficit in January-November 2007, compared with a

US\$1.914 billion deficit in the same period last year. The *trade deficit with CIS* countries was US\$6.752 billion (up 28.9 percent on the year in the period), while the *surplus with non-CIS* countries was US\$3.100 billion (down 6.7 percent on the year). Belarus's *exports* reached US\$21.788 billion as of end-November 2007 (a 20.6 percent increase in value over the past 12 months, including a 5.1 percent increase in volume terms). *Exports to Russia* stood at US\$8.040 billion (up 28.9 percent on the year), while exports to *non-CIS* states increased by 14.2 percent to US\$11.671 billion. *Imports* reached US\$25.441 billion as of December 1, 2007 (27.3 percent up on the year, a 7.1 percent increase in volume terms), of which US\$15.232 billion worth of commodities originated *from Russia* (a 28.8 percent increase), and US\$8.571 billion from *non-CIS* countries (24.4 percent up).

FISCAL SECTOR

The **consolidated budget** (general government including the Social Protection Fund and the central government agencies) recorded a surplus of Br2,799 billion for eleven months (3.2 percent of January-November GDP). VAT and profit tax receipts amounted to the equivalent of 9 and 3.9 percent of the eleven-month GDP respectively, boosting *revenues* to Br43,200 billion or 49.7 percent of GDP, while *expenditures* stood at Br40,402 billion (46.4 percent of GDP).

The **republican budget** (central government) surplus reached Br2,309 billion, or 2.7 percent of GDP in January-November 2007. *Revenues* amounted to Br32,618 billion, or 37.5 percent of GDP, while *expenditures* stood at Br30,309 billion, or 34.8 percent of GDP.

MONETARY SECTOR

Belarus' **international reserves** (IMF methodology) rose 200 percent in 2007 to US\$4.182 billion as of January 1, 2008. Among the components, monetary gold amounted to the equivalent of \$230 million (26.8 percent down against end-2006), while foreign currency reserves increased by 260 percent to \$3.866 billion in January-December 2007. Using the national methodology,

¹ Source: Belarusian authorities and mass media.

² Out of the total income, the share of salaries and wages accounted for 58.3 percent as of December 1, 2007 (down from 60 percent at the same date a year ago).

³ According to the government's forecast, Belarus' CPI inflation was expected to remain within 6-8 percent in 2007. The forecast for 2008 remained unchanged, that is, between 6 and 8 percent.

⁴ Core inflation is close to basic monetary indicators and does not depend on variables, especially seasonal factors and administratively-controlled price-formation.

international reserves rose by 196 percent to US\$4.993 billion, with foreign currency reserves increasing by 280 percent to US\$4.060 billion.

The NBRB's **net foreign assets** (NFA) totaled \$4.197 billion as of January 1, 2008 (a 160 percent increase against January 1, 2007). However, banking system NFA contracted by 30.9 percent to minus US\$1.241 billion by end-December 2007 from minus US\$948 million as of end-2006.

On January 1, 2008, the **M1 monetary aggregate** (cash and transferable deposits with banks) was 24.4 percent higher than a year earlier. M1 aggregate accounted for 36.7 percent of the total money supply as of January 1, 2008, down from 40.1 percent as of January 1, 2007. **Rubel money supply** (M2*, which includes M2 plus funds in securities, except for shares, of legal and natural persons - residents of the Republic of Belarus in Br) was up 29.2 percent in 2007. Ruble money supply accounted for 67.4 percent of the broad money supply as of January 1, 2008, down from 70.9 percent as of January 1, 2007.

Bank deposits reached Br20,080 billion as of January 1, 2008, up 38 percent over 12 months. *Rubel deposits* rose by 30.6 percent on a year ago to Br12,409 billion, while *foreign currency deposits* grew by 51.9 percent to Br7,670 billion, including Br3,887 billion in deposits of legal entities.

Banks' total loan portfolio increased over the past twelve months by 45 percent to Br32,304 billion as of January 1, 2008. Loans issued in *Belarusian rubels* stood at Br19,574.7 billion (up 37.2 percent since January 1, 2007), and *foreign currency loans* amounted to Br12,729 billion (a 59 percent increase in the period).

The share of **non-performing loans (NPL)**⁵ (extended, overdue and doubtful) in banks' loan portfolio was 0.65 percent on January 1, 2008 (down from 1.16 percent a year earlier). The total volume of NPLs decreased over the past twelve months by 18.3 percent to Br210 billion by end-December 2007.

FOREIGN EXCHANGE MARKET

Reflecting the continued de facto peg to the US dollar, as of December 1, 2007 one US dollar was worth Br2,153, while one Russian ruble (RUR) fetched Br88.18. The NBRB had officially projected that the exchange rate remains within the band of Br2,090 – 2,200 per US\$ and Br77.7 – 84.3 per RUR in 2007.

BELARUSIAN CURRENCY AND STOCK EXCHANGE (BCSE)

Government securities. The Ministry of Finance has sold Br1,667 billion of government securities on the *primary market* via the BCSE in 2007 (an 18.3 percent increase against January-December 2006) in 375 transactions. *Secondary market* transactions in government securities amounted to Br7,937.5 billion as of January 1, 2008 (a 52.3 percent increase compared to the same period in 2006). GKO (government short-term bonds) traditionally accounted for most of the trading volume, with a total of Br5,232.7 billion (a 15 percent increase against January-December 2006).

⁵ Belarus's Monetary Guidelines for 2007 require that the share of NPLs should not exceed 2 percent of total outstanding loans.

BELARUS: BACKGROUND DEVELOPMENTS

National Bank approves instruction on foreign exchange trading. The National Bank of Belarus (NBRB) approved by its Resolution #220 as of December 12, 2007 the Instruction on foreign exchange trading at the stock exchange. The document came into effect on January 1, 2008. The Instruction sets unified rules for trading foreign exchange at OAO Belarusian Currency and Stock Exchange (BCSE), including purchase, sale, conversion and settlement regulations. The Instruction offers an improved procedure of depositing monetary assets for purchasing foreign exchange and provides the possibility for regulating the volume of preliminary reservation. Also, the Instruction specifies payment procedures for transactions with foreign exchange. The document envisages access of EurAsEC resident banks to exchange operations on Belarus' domestic exchange market. Access to trade at the exchange is granted to banks and non-bank financial organizations that have a special authorization (license) of the NBRB, and non-resident banks working in accordance with international agreements.

Presidential Ukaz simplifies price-formation procedures. Ukaz # 694 dated December 30, 2007 exempted companies enjoying simplified taxation schemes and individual entrepreneurs paying the unified tax from the requirement to meet price index limits and justify prices (tariffs, rates) by calculations. The exemption does not apply to entities providing medical services. The Ukaz exempts farms and economic entities trading via OAO Belarusian Mercantile Exchange from the requirement to justify prices. Also, entities providing international freight and passenger transportation services, including transit, have been exempted from requirements to meet price index limits and justify prices and tariffs, as well as from sanctions for the failure to provide justifications. Earlier, preferences were applied to freight transport by road. The document also abolished fines that used to be imposed on directors of legal entities for non-production of justifications of new prices. However, fines still remain under article 12.4 of the Administrative Offenses Code. Companies are supposed to justify changes in prices for products, services and work taking into account the limits set by the government. New prices must be registered if changes cannot be justified. Since 2005, price index limits are set once a year with monthly adjustments by a government resolution classified *For Official Use Only*.

Belarusian government lifts procurement requirements for contracts below 50,000 base units. By its' Resolution #1894 of December 29, 2007⁶ the government lifted the requirement to keep to procurement procedures when purchasing commodities and services worth below 50,000 base units, or Br1.75 billion from January 1, 2008. The document also changed the range of enterprises subject to the requirement to follow procurement procedures.

The government adopts the key socioeconomic targets for 2008. In 2008, GDP in comparable prices will expand 8-9 percent and energy consumption of GDP is supposed to decline 7-8 percent. In accordance with the forecast approved by the government, industrial output is expected to increase 8-9 percent, and farm output 7-8 percent. Consumer goods output is to rise 9-10 percent (y-o-y), capital investment will increase 15-17 percent in comparable prices, foreign trade is projected to widen 14.5-15.5 percent; exports are expected to grow 16-17 percent, and imports 12.5-13.5 percent. Belarus' foreign trade is expected to show a deficit between US\$1.4- \$1.42 billion.

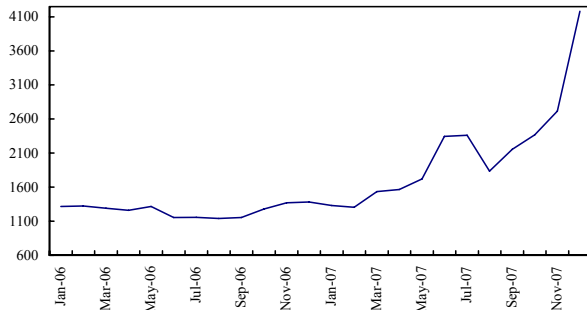
In 2008 Belarus to allocate Br1490.3bln for implementing governmental investment program. Presidential Ukaz #20 dated January 14, 2008 approved the state investment program for 2008. On the whole Br1490.3 billion, including the financial assets from the reserve fund of the President of Belarus, will be funneled into the construction of 596 objects. Some 257 of them are planned to be commissioned in 2008. The law "On the Budget of the Republic of Belarus" provides for allocating Br1380.1 billion from the republican budget for financing the program. Investment from the reserve fund of the President will reach Br110.2 billion.

Belarus adopts 2008-2010 Corporate Securities Market Development Program. A program was adopted to develop the corporate securities market in 2008-2010. The corresponding decision is laid down by Resolution No78/1 of the Council of Ministers and the NBRB dated January 21, 2008. The main purpose of the program is to create the necessary conditions for establishing an integral, transparent and effective securities market as part of the national financial market integrated into the global securities market and contributing to attracting investments, first of all, into the real sector of economy. The program includes a list of measures aimed at removing factors, which slow down the development of the corporate segment of the securities market, and provides for perfecting taxation laws through reducing taxes on incomes gained from operations with securities, through lifting limitations from equity carve-out; bringing golden share regulations into compliance with international rules. The document also provides for improving the effectiveness of the management of state property, introducing collective investors, new stock market instruments, giving access to foreign securities markets to Belarusian companies.

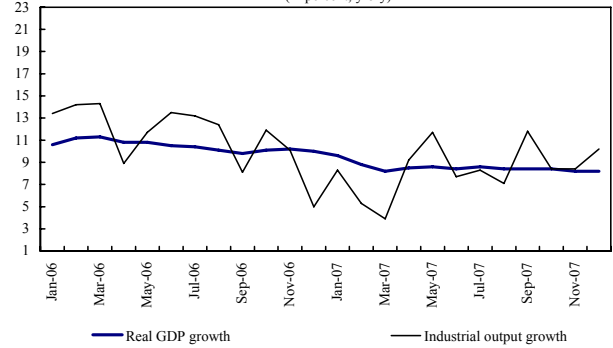
⁶ The Resolution abolishes CoM Resolution #1633 that used to regulate purchases financed from own funds. The companies subject to Resolution #1633 were supposed to keep to procurement procedures, including competitive lists, request of price proposals, etc. for all purchase contracts worth over 30 base units (one base unit stands at Br35,000).

Belarus: Macroeconomic Indicators

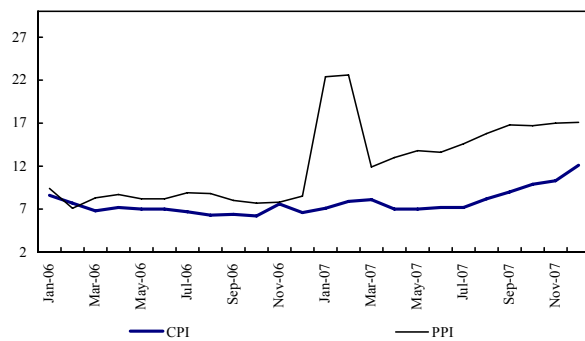
Belarus: International Reserves
(U.S. dollar millions)



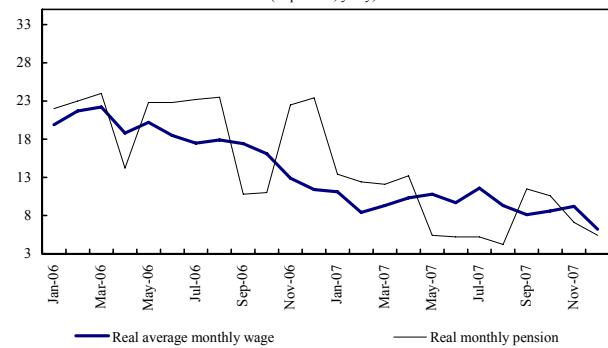
Belarus: GDP and Industrial Output
(in percent, y-o-y)



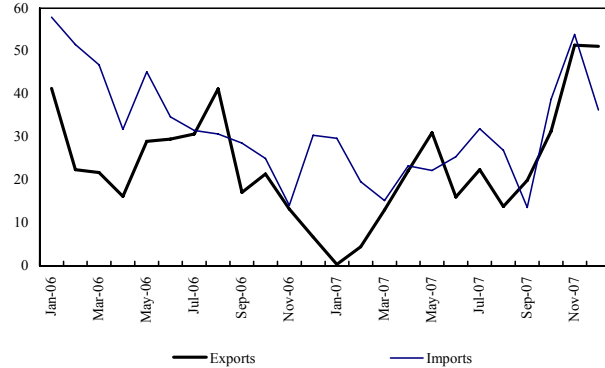
Belarus: Prices
(in percent, y-o-y)



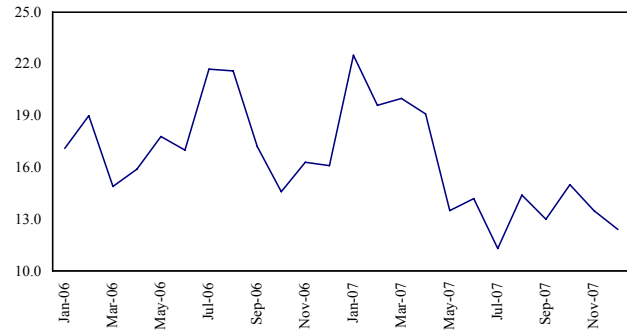
Belarus: Real Wages and Pensions
(in percent, y-o-y)



Belarus: Foreign Trade
(in percent, y-o-y)



Belarus: Real Retail Sales
(in percent, y-o-y)



Belarus: Trade Deficit
(U.S. dollar millions)



Belarus: Capital Investment
(in percent, y-o-y)

