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Belarus: private consumption drives growth acceleration

Preliminary figures suggest that economic growth increased from 7% in 2003 to 11% last year. Industrial production (+15.6% in gross terms) was the main engine of growth, with machinery (+22.3%) and fuels (+18.8%) ranking among the top-performing branches. Thus, after nine consecutive years of economic growth, the GDP in 2004 was 14.5% above the 1990 level. Although initially growth was primarily due to the rising utilization of idle production capacities (following the deep recession in the first half of the 1990s), more recently there has been a surge in fixed capital investment (by 20.8% in 2003 and another 20.2% last year) – an encouraging development in terms of growth sustainability. Simultaneously, the disinflation path has continued: consumer prices rose by 18.1% on average – ten percentage points less than the year before, while the end-year inflation stood at just 14.4%. The registered unemployment rate dropped from 3.1% to 1.9%, although these figures may be a poor reflection of the real situation due to the low incentives to register as unemployed, and the wide incidence of unpaid leave and involuntary part-time employment.

The quarterly GDP figures give evidence of a continuous growth acceleration starting from the second quarter of 2003 and reflecting a strong pick-up in private consumption growth, which increased from 7.4% in 2003 to 15% in the third quarter of 2004 on a year-on-year basis. The booming private consumption is not surprising against the background of rapidly rising wages (the latter grew by 17% in real terms and reached USD 200 per month by the end of the year) and explains why Belarus proved resilient to the slight deceleration of growth in Russia – its by far biggest trading partner. Indeed, according to customs statistics, in 2004 net exports declined, with imports growing faster than exports (by 42% and 38% in dollar terms, respectively, with mineral fuels accounting for a large part of the increase on both sides). Thus, the trade deficit expanded from USD 1.5 billion in 2003 to USD 2.6 billion last year. However, given the forceful economic growth and the real appreciation of the Belarusian rouble, the deterioration of the current account should not be dramatic: a deficit between 3% and 4% of GDP can be expected for 2004, after a 3% deficit in 2003. Besides, the balance-of-payments data are to be treated with caution, since the ‘errors and omissions’ item is often large, presumably reflecting unrecorded ‘shuttle trade’ and unregistered capital movements.

Recently there has been a piece of good news for exporters, as the EU has raised its textile imports quotas allocated to Belarus (along with some other countries). However, the average use of the EU textiles quotas by Belarus stood at only 78.3% in 2004, and export prospects for 2005 may be complicated by rising competition from other non-EU suppliers.

More generally, the robust growth in Russia and the recovering domestic consumer confidence should make possible a continuation of the currently observed high growth in the country. Disinflation is likely to continue as well – a process which will be facilitated by lower inflationary expectations. Also, the monetary policy guidelines for 2005 envisage *inter alia* using the Russian rouble as a nominal anchor by setting a 2.4% devaluation limit for the domestic currency within the framework of a ‘crawling-peg’ arrangement.

The popular referendum held in October 2004 gave an 88% approval to the constitutional amendments permitting the president to remain in office any number of terms. The next presidential elections are due in 2006, and there is little doubt that the incumbent President Alexander Lukashenko will be elected for his ‘third’ term (his first term was extended by two years as a result of another referendum held in 1996). The political opposition in the country remains weak, and any spillover of the recent political instability from neighbouring Ukraine is highly unlikely, at least in the short and medium term. In fact, the authoritarian rule of Mr. Lukashenko may even harden somewhat in response to the Ukrainian events.

The stable political outlook and the likely continuation of the perceived pro-Russian policies of President Lukashenko do not automatically mean that the planned re-unification with Russia will proceed smoothly. The adoption of the Russian rouble as a means of payment has been postponed repeatedly, and there is evidence of diminishing public support in Belarus in favour of such a move. Recently, there have been new tensions in bilateral relations, triggered by the switch to the ‘country of destination’ principle of VAT taxation in trade among the countries of the Common Economic Space (Belarus, Russia, Ukraine and Kazakhstan) starting from January 2005. In particular, the Belarusian side has complained that the price of goods imported from Russia failed to reflect the

abolition of indirect taxation on the Russian side. For instance, the contract signed in December set the price of natural gas imported to Belarus in 2005 at nearly USD 47 per th cm – the same as last year (although the latter is not really surprising, since the pricing of energy carriers in intra-CIS trade tends to be politically motivated). In response, the Belarusian government has elaborated a programme aimed at a gradual reduction of the country’s dependence on Russian gas by encouraging the use of own energy sources such as peat, water, and wind. Meanwhile, if the ‘country of destination’ regime of VAT taxation were implemented properly, the Belarusian public finances would benefit, given the country’s big deficit in trade with Russia.

Table BY

Belarus: Selected Economic Indicators

	1998	1999	2000	2001	2002	2003	2004 ¹⁾	2005	2006
									forecast
Population, th pers., end of period	10045	10019	9990	9951	9899	9849	9800	.	.
Gross domestic product, BYR bn, nom. ²⁾	702	3026	9134	17173	26138	36565	49445	.	.
annual change in % (real)	8.4	3.4	5.8	4.7	5.0	7.0	11.0	8	6
GDP/capita (EUR at exchange rate)	1428	1022	1235	1354	1545	1578	1874	.	.
GDP/capita (EUR at PPP - wiiw)	3820	4060	4430	4740	5130	5550	6320	.	.
Gross industrial production									
annual change in % (real)	12.4	10.3	7.8	5.9	4.5	7.1	15.6	.	.
Gross agricultural production									
annual change in % (real)	-0.7	-8.3	9.3	1.8	0.7	6.8	12.9	.	.
Consumption of households, BYR bn, nom. ²⁾	388	1597	4566	9082	14142	18226	.	.	.
annual change in % (real)	20.6	4.5	6.3	23.6	8.9	0.7	.	.	.
Gross fixed investment, BYR bn, nom. ²⁾	159	624	1809	3049	4485	7131	10244	.	.
annual change in % (real)	25.0	-8.0	2.0	-3.0	6.0	20.8	20.2	.	.
Reg. employment total, th pers., average	4417	4442	4441	4417	4381	4339	.	.	.
annual change in %	1.1	0.6	0.0	-0.5	-0.8	-1.0	.	.	.
Reg. employment in industry, th pers., avg.	1221	1231	1227	1212	1170	1159	.	.	.
annual change in %	1.4	0.8	-0.3	-1.2	-3.5	-0.9	.	.	.
Reg. unemployed, th pers., end of period	105.9	95.4	95.8	102.9	130.5	136.1	85.1	.	.
Reg. unemployment rate in %, end of period	2.3	2.1	2.1	2.3	3.0	3.1	1.9	2	2
Average gross monthly wages, BYR ²⁾	4640	19580	58920	123020	189200	253500	350200	.	.
annual change in % (real, gross)	18.2	7.1	11.9	29.7	7.5	4.7	17.0	.	.
Consumer prices, % p.a.	73	294	169	61	43	28	18.1	14	12
Producer prices in industry, % p.a.	72	356	186	72	40	38	24.2	.	.
General government budget, nat.def., % GDP									
Revenues	34.1	34.9	34.8	33.5	33.0	33.4	44.9 ^{I-XI}	.	.
Expenditures	35.5	37.8	35.4	35.1	33.2	35.0	43.2 ^{I-XI}	.	.
Deficit (-) / surplus (+)	-1.4	-2.9	-0.6	-1.6	-0.2	-1.6	1.8 ^{I-XI}	.	.
Public debt in % of GDP	.	14.7	12.8	9.1	7.1	7.1	.	.	.
Refinancing rate of NB % p.a., end of period	48	120	80	48	38	28	17	.	.
Current account, EUR mn	-908	-182	-366	-440	-329	-466	-650	.	.
Current account in % of GDP	-6.3	-1.8	-3.0	-3.3	-2.1	-3.0	-3.5	-3	-2.5
Gross reserves of NB, incl. gold, EUR mn	291	303	383	408	456	395	482	.	.
Gross external debt, EUR mn	2031	2215	2281	2777	2925	2705	3055 ^{I-X}	.	.
FDI inflow, EUR mn	181.4	416.2	128.6	107.0	261.5	151.9	100 ³⁾	.	.
FDI outflow, EUR mn	2.1	0.7	0.2	0.3	-218.2	1.3	0 ³⁾	.	.
Exports of goods, EUR mn ⁴⁾	6312	5539	7929	8319	8489	8811	11054	.	.
annual growth rate in %	-2.0	-12.3	43.1	4.9	2.0	3.8	25.5	.	.
Imports of goods, EUR mn ⁴⁾	7633	6256	9357	9251	9622	10173	13136	.	.
annual growth rate in %	-0.4	-18.0	49.6	-1.1	4.0	5.7	29.1	.	.
Average exchange rate BYR/USD ²⁾	43.6	276.7	800.0	1420.0	1804.0	2075.0	2160.0	.	.
Average exchange rate BYR/EUR (ECU) ²⁾	48.8	295.1	739.2	1271.9	1704.6	2346.6	2685.5	.	.
Purchasing power parity BYR/USD, wiiw ²⁾	16.5	67.7	189.0	331.4	473.3	608.5	726.8	.	.
Purchasing power parity BYR/EUR, wiiw ²⁾	18.2	74.3	206.0	363.4	513.9	667.9	796.9	.	.

Notes: BYR: ISO code for the Belarusian rouble. - 1) Preliminary. - 2) In denominated roubles. - 3) wiiw estimate. - 4) Data refer to customs statistics.

Source: wiiw incorporating national statistics, IMF; wiiw forecasts.