

Vasily Astrov

Belarus: an unreformed economy recording high growth

At present, high economic growth is to be observed practically everywhere in the post-Soviet space. A peculiar example is Belarus, which after 6.8% in 2003 recorded 10.2% GDP growth in the first four months of 2004, whereas industrial output expanded by 6.8% and 14.4%, respectively. The high economic dynamics in Russia is certainly an important factor, since this country serves as destination for half of Belarusian exports, particularly metals, transport vehicles, chemicals, and textiles. However, domestic demand is picking up as well, largely on account of rising investments. Fixed capital formation grew by 18% in 2003, and in the first four months of 2004, total capital investment (including inventories) increased by 21.2% in real terms.

The growth in Belarus is taking place against the background of falling employment (and a decline of total population at a rate of some 50 thousand per year), nearly absent FDI (the inward FDI stock stands at only some EUR 1.5 billion), and, last but not least, virtually lacking structural reforms. Belarus is a country where the fundamental features of the Soviet-type command economy have been essentially preserved up to now. The bulk of GDP is still generated in the state sector, which is dominated by huge industrial holdings inherited from Soviet times and managed often personally by President Lukashenko. While multiple exchange rates were unified back in 2000 (on the insistence of Russia and international financial organizations), extensive price controls are still very common, not least as a tool to counteract the inflationary impact of excessive monetary emissions. Despite a considerable slowdown in the past few years, inflation remains high: it stood at 28% in 2003 and is expected to reach around 20% this year. Notwithstanding all that, when measured by the PPP-adjusted per capita GDP (EUR 9200 in 2003), Belarus remains richer than both Russia (EUR 7800) and Ukraine (EUR 5100). The wealth of the country relative to its neighbours reminds of its position in the former USSR, where it was largely operating as an 'assembly line', using cheap and abundant energy, raw materials and other inputs coming from other republics, and shipping its often sophisticated manufacturing products in return.

Despite the country's deep international isolation and its largely unreformed economy, the short- and medium-term prospects are fairly good, given the optimistic prospects for Russia. By now, Belarus has a customs union and a common labour market with Russia – both within the framework of a common Union State established back in 1999. However, at the moment, further integration steps appear to be stalled. The plans to introduce the Russian rouble as the sole legal tender in Belarus, initially scheduled for January 2005, have been postponed. Also, negotiations over the price of natural gas shipments from Russia and the level of transit fees are still going on, after a failure to set up a Russian-Belarusian joint venture based on the Belarusian gas monopoly *Beltransgaz*. However, in any case, the price of Russian gas imported to Belarus (and to Ukraine alike) will stay far below the 'world market price'.

Table BY

Belarus: Selected Economic Indicators

	1997	1998	1999	2000	2001	2002	2003 ¹⁾	2004 1st qu	2004 forecast	2005
Population, th pers., end of period	10093	10045	10019	9990	9951	9899	9849	.	.	.
Gross domestic product, BYR bn, nom. ²⁾	367	702	3026	9134	17173	26138	35930	.	46600	57800
annual change in % (real)	11.4	8.4	3.4	5.8	4.7	5.0	6.8	9.3	8	7
GDP/capita (EUR at exchange rate)	1282	1431	1023	1237	1357	1549	1555	.	.	.
GDP/capita (EUR at PPP - wiiw)	5750	6380	6700	7210	7760	8390	9200	.	.	.
Gross industrial production										
annual change in % (real)	18.8	12.4	10.3	7.8	5.9	4.5	6.8	13.0	.	.
Gross agricultural production										
annual change in % (real)	-4.9	-0.7	-8.3	9.3	1.8	0.7	6.8	.	.	.
Consumption of households, BYR bn, nom. ²⁾	186	388	1597	4566	9082	14142	18226	.	.	.
annual change in % (real)	13.4	20.6	4.5	6.3	23.6	8.9	0.7	.	.	.
Gross fixed investment, BYR bn, nom. ²⁾	68	159	624	1809	3049	4485	6684	.	.	.
annual change in % (real)	20.0	25.0	-8.0	2.0	-3.0	6.0	18.0	.	.	.
Reg. employment total, th pers., average	4370	4417	4442	4441	4417	4381	4305	.	.	.
annual change in %	0.1	1.1	0.6	0.0	-0.5	-0.8	-1.7	.	.	.
Reg. employment in industry, th pers., avg.	1204	1221	1231	1227	1212	1170
annual change in %	0.2	1.4	0.8	-0.3	-1.2	-3.5
Reg. unemployed, th pers, end of period	126.2	105.9	95.4	95.8	102.9	130.5	136.1	131.4	.	.
Reg. unemployment rate in %, end of period	2.8	2.3	2.1	2.1	2.3	3.0	3.1	3.0	2.5	2.5
Average gross monthly wages, BYR th. ²⁾	2.3	4.6	19.6	58.9	123.0	189.3	253.5	295	.	.
annual change in % (real, gross)	14.4	18.2	7.1	11.9	29.7	7.6	4.6	10	.	.
Consumer prices, % p.a.	64	73	294	169	61	43	28	22.2	20	16
Producer prices in industry, % p.a.	88	72	356	186	72	40	38	27.4	.	.
General government budget, nat.def., % GDP										
Revenues	30.8	34.1	34.9	34.8	33.5	33.0	34.0	.	.	.
Expenditures	32.9	35.5	37.8	35.4	35.1	33.2	35.6	.	.	.
Deficit (-) / surplus (+)	-2.2	-1.4	-2.9	-0.6	-1.6	-0.2	-1.7	.	.	.
Public debt in % of GDP	.	.	14.7	12.8	9.1	7.1	7.2	.	.	.
Refinancing rate of NB % p.a., end of per.	40	48	120	80	48	38	28	.	.	.
Current account, EUR mn	-758	-908	-182	-366	-486	-356	-447	.	.	.
Current account in % of GDP	-5.9	-6.3	-1.8	-3.0	-3.6	-2.3	-2.9	.	-3.0	-2.5
Gross reserves of NB, incl. gold, EUR mn	356	291	303	383	408	454	392	.	.	.
Gross external debt, EUR mn	1944	2031	2215	2281	2777	2925	2705	.	.	.
FDI inflow, EUR mn	310.0	181.4	416.2	128.6	107.0	261.5	150.8	.	.	.
FDI outflow, EUR mn	1.9	2.1	0.7	0.2	0.3	-218.2	1.3	.	.	.
Exports of goods, BOP, EUR mn	6101	5511	5293	7187	8188	8429	8924	.	.	.
annual growth rate in %	33.6	-9.7	-4.0	35.8	13.9	2.9	5.9	.	.	.
Imports of goods, BOP, EUR mn	7341	6851	5827	8144	9089	9397	10015	.	.	.
annual growth rate in %	34.2	-6.7	-14.9	39.8	11.6	3.4	6.6	.	.	.
Exports of services, BOP, EUR mn	810	826	706	1083	1230	1419	1327	.	.	.
annual growth rate in %	13.1	1.9	-14.5	53.3	13.6	15.4	-6.5	.	.	.
Imports of services, BOP, EUR mn	322	396	411	609	939	961	834	.	.	.
annual growth rate in %	21.4	23.0	3.9	48.0	54.3	2.3	-13.2	.	.	.
Average exchange rate BYR/USD ²⁾	25.0	43.6	276.7	800.0	1420.0	1804.0	2075.0	2150	.	.
Average exchange rate BYR/EUR (ECU) ²⁾	28.4	48.8	295.1	739.2	1271.9	1704.6	2346.6	.	.	.
Purchasing power parity BYR/USD, wiiw ²⁾	5.8	10.2	41.9	117.0	205.2	293.1	372.1	.	.	.
Purchasing power parity BYR/EUR, wiiw ²⁾	6.3	11.0	45.1	126.9	222.5	314.7	396.4	.	.	.

Notes: BYR: ISO-Code for the Belarussian rouble.

1) Preliminary. - 2) In denominated roubles.

Source: wiiw incorporating national statistics; IMF; CISSTAT.