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Impact of the Russian Crisis on the Belarussian Economy

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Abstract

The full-scale financial crisis in Russia erupted in August 1998 made a blow to the President Lukashenko domestic and foreign policy. However, a year-by-year worsening of the domestic economy due to maintaining a system of command economy led to a crisis in Belarus already in the first quarter of 1998. The crisis in Russian spilling over through trade channel only additionally aggravated economic situation in Belarus. The paper briefly characterizes the economic system in Belarus prior to the first quarter of 1998 and then analyzes consequences of the Russian financial crisis on the Belarussian economy.

1. Introduction

After the break-up of the Soviet Union in 1992, initial conditions for economic transition in Belarus were very unfavorable. As the consequence of inter-republican specialization in the former USSR Belarus economic structure was dominated by the high share of manufacturing industry producing sub-standard, semi-finished, and final goods for the Soviet and the CMEA markets with a significant portion of production for military purposes. Most of the Belarussian industry was highly energy and resource intensive and thus depended on deliveries of energy and raw materials from Russia. Very slow pace of economic transition in the beginning of nineties did not help to overcome the difficult legacy of the Soviet past. Post-communist political elites preferred to give up economic and political independence of the country by subsequent proposals of unification with Russia instead of starting radical and comprehensive reforms. Some improvement in the macroeconomic sphere could be observed in the short period of 1994–1995 only. However, massive political liberalization and democratization, which gave strong impulse for economic reforms in other post-communist countries, was never completed in Belarus. Moreover, during last few years under President Alexander Lukashenko leadership, some initial achievements in this sphere were reversed and country came back to authoritarian, highly repressive regime. This has led to increasing political and economic isolation of Belarus on the international scene. Due to these extremely unfavorable political circumstances, Belarus has experienced the most difficult and painful process of economic transition among the Eastern European countries.

The full-scale financial crisis in Russia erupted in August 1998 made a blow to the Lukashenko domestic and foreign policy. Firstly, a year-by-year worsening of the domestic economy led to a crisis in Belarus already in the first quarter of 1998. Secondly, crisis in Russian significantly aggravated economic situation in both countries as Lukashenko's external strategy relayed on the export expansion to Russia. Thirdly, blaming Russia for the worsening of the economic situation in Belarus was very inconvenient for the Lukashenko's goal of re-unification of Belarus with Russia. As a result, Lukashenko's regime found itself in a political and economic dead lock.

The paper is constructed as follows. Section 1 describes the economic situation in Belarus before the crisis in Russia in August 1998. Section 2 describes transmission channels of financial crisis from Russia to Belarus taking account on potential biases resulted from the past economic performance of a fiscal balance, monetary policy, foreign trade and the balance of payments. Due to the widespread administrative control of the Belarussian economy only some macroeconomic data are reliable, but they need to be treated with caution.

The project was financed by the Freedom House in Budapest, Hungary. It was carried out by the Center for Social and Economic Research (CASE), Warsaw-based NGO specialized in the problems of economic and political transition in Eastern Europe and former USSR and the Institute for Privatization and Management (IPM), Minsk-based NGO specialized in the field research, training and policy advising.

2. Economic Background of the Pre-crisis Belarus

Since 1996, President Lukashenko and his consecutive ministerial cabinets started to force growth of industrial and agriculture output using traditional instruments of administrative mobilization, soft banking credits, and indirect budget financing. The result of this kind of economic policy until 1998 was an inverted U-shaped economic reversal (Table 1).

2.1. Real Economy

Official statistics reveal a real GDP growth since 1996, after a cumulative decline of over 40 percent between 1990 and 1995. The GDP growth was supposed to reach over 11 percent in 1997, after an increase of 2.8 percent in 1996. In 1998, GDP grew over 8 percent. During 1997–1998, as the growth was fueled by the expansion of credit for housing construction, export to Russia, and agriculture, not surprisingly a sharp rise in value-added in industry and construction was registered. However, agriculture value-added was in decline since 1996. The two-digit value-added growth in industry explained about two-thirds of the officially measured GDP growth, as industry accounts for 35 percent of GDP. Capital investment in industry growing at the rate close to 10 percent, accelerated to over 30 percent (year-on-year basis) in the first quarter of 1998. The fastest growing branches were those, which large share of output was exported. Three the most export-oriented branches, ferrous metallurgy, machinery and equipment, timber and paper industry, experienced export growth of around 50 percent in dollar terms in 1997. Fiscal measures (see below) as well as trades arrangements with regional governments in Russia strongly advocated by President Lukashenko stimulated industrial production. The Belarussian enterprises were able to increase supply to the domestic and foreign markets, as large unrestructured capacities of industrial sector stood idle.

Contrary to subsidized industrial sectors, heavily credited agriculture has been one of the most poorly performing sectors of the Belarussian economy. Cumulative decline of value-added reached 30 percent since 1991, and 15 percent since 1995. Share of agriculture in GDP declined by over 10-percentage point to 14 percent in 1997. This happened, irrespective to the president's economic strategy of self-sufficiency in food production in 2000. The decline in overall agriculture production partly could be attributed to unfavorable weather conditions (like floods), but declines in the harvests of potatoes, vegetables, and other crops that grow mostly in private plots were smaller than in produce grown by collective farms. Also, animal breeding has been in decline and it is concentrated in the state sector. Subsidization of agricultural sector in Belarus amounted to 1–2 percent of GDP in the form of direct government credits – advanced payments for realization of state orders of major crops, at strongly negative interest rates. Additionally, a state budget fund, Agriculture Support Fund provides funds to compensate food producers for the costs of inputs (fertilizers and equipment) that amounted to another 1–2 percent of GDP in 1996–1997. Finally, the National Bank of Belarus (NBB) issued subsidized credits to the agriculture sector at an interest rate of half the refinance rate. However, in spite of the fact that state owned and collective farms cultivate about 83 percent of agricultural land and benefited the most from the government subsidies, privately run farms and private plots produce more than 40 percent of gross output.

2.2. Fiscal Policy

Not surprisingly, involvement of the state in the Belarussian economy remained very high even when compared with other FSU countries. The general government revenues, after a decline in 1995–1996 to the level of 40 percent of GDP, increased in the period of 1997–1998 to 45 percent of GDP, roughly the same as in 1994 (Table 2). However, an increase in revenues from social security contributions and taxes on goods and services in 1997–1998 compensated for a decline in collection of tax revenues from profits and capital gains and taxes on goods and services in 1995–1996. The general government expenditures, similarly to revenues declined in 1995–1996 to 42–43 percent of GDP to increase in 1997–1998 to 46–47 percent of GDP reaching the level from 1994. The cuts in current and capital expenditures in the former period were more than fully compensated in the latter one. Additionally, subsidies and transfers, especially transfers to households almost doubled since 1994.

The taxation system in Belarus is built on the principle that a very high tax rate on certain activities is used to compensate for a wide variety of tax allowances on other, subsidized operations. Indirect taxes prevail in the revenue structure; these amount to 60 percent of the budget receipts. The substantial predominance of corporate income taxes over those levied on private persons is due to a low-level income of the population. The tax burden in Belarus is relatively high and complicated comparing to low income countries.

Personal income tax is collected on a progressive rate scale expressed in minimum monthly wage (MMW) and varies on eight categories. Zero percent rate is for up to 1 MMW, the next rate of 9 percent is set for taxable income from 1 MMW to 10 MMW and marginal 50 percent rate is for income above 70 MMW.

Standard corporate income tax rate is 30 percent, but for smaller companies as for balance-sheet profit and number of employees the rate is 15 percent. Companies from agroindustrial complex pay preferential rates of either 10 or 7 percent. The 15 percent income tax is paid on dividends.

The VAT standard rate is 20 percent and a preferential tax rate of 10 percent is set on sales of mostly agricultural goods and services. Tax concessions are defined legislatively.

Real estate tax for legal persons is 1 percent levied on the value of productive and nonproductive fixed assets and 0.1 percent of the value of buildings for physical persons. Additionally, there are land tax (annual fixed payments for each hectare in possession), tax on fuel and combustible, and transit tax.

Excise taxes are set by the Council of Ministers in coordination with the President. A new law "On Excises" that went into effect on January 1, 1998 was supposed to harmonize the legislation of Belarus and Russia.

Abolishment of custom borders between Belarus and Russia resulted in unification of import duties in both countries. However, non-transparent system of individual subsidies, privileges, payment delays, liberation from compulsory sale of currency to the state, purchase of currency on the official rate (see below), preferences in custom duties and VAT, administrative prolongation of maturities on loans is granted to dozens of the state-run or commercial enterprises, collective farms, and companies.

It is quite hard to describe the real state of the government finances in Belarus. That is due to the fact that the system of state finances has a number of distinctive features. The state budget, which incorporates the republican and local budgets, covers 70 percent of all activities of the governmental sector. Then there are social and extra budgetary funds: Social Protection Fund, Employment Fund, Road Maintenance Fund, State Foreign Exchange Fund, Price Regulation Fund, Fund for Support of the Agriculture Producers, and Chernobyl Fund [1]. However, the most important and the most security-restricted of all the funds not foreseen in the budget, is the Presidential Fund. It enjoys special auditing and inspection procedures. Its financial accounting reports are not published.

[1] It is hard to name all of the funds because the number of funds and their names change quite frequently.

Therefore, it is impossible to obtain a real fiscal status of the consolidated state budget. Thus, if viewed from the angle, the deficit of the state budget of Belarus is but a convention.

The consecutive Belarussian governments have managed to maintain an official deficit of the general government below 2 percent of GDP since 1995, while in neighborhood Russia or Ukraine the deficit was two-three times as high. However, even though there were periods with budget surplus the government continued to borrow money from the NBB. It could suggest that there are expenditures not reported to the budget. Since international organizations almost withdrew from activities in Belarus, all of the financing of the budget deficit comes from the domestic banking system and the main source is a credit from the NBB (Figure 1).

2.3. Monetary Policy

During 1996-1998 monetary policy tend to be highly expansionary. Net domestic credit of NBB was increasing at the rate of over 100 percent from 1996 till mid-1998 as a consequence of numerous presidential decrees and resolution of the Council of Ministers instructing NBB to extend credits. Since no external sources were available for covering state budget deficit, the NBB emission activity provided its financing. Also, through authorized banks serving governmental programs, the NBB extended preferential targeted loans to state-owned enterprises. The list of credited enterprises is prepared by the government and sometimes depends on the ad-hoc strategies of development. The same applies to foreign currency that is sold below the market exchange rate [2] to certain enterprises by profitable enterprises forced to surrender foreign currencies at a lower exchange rate (see below). Therefore, the main components of the reserve money growth were credits to the government and credits to the commercial banks, and the share of foreign assets was negligible (Figure 2).

Through the period of 1995–1999, multiplier of domestic broad money remained very stable at 1.8–1.4. In fact, commercial banks were acting on behalf of the NBB and the President providing financing of general government. Therewith, the state becomes responsible for banks and enterprises financial standing and, hence, intensifies its interference in the economy.

The above pattern of NBB financing implies a strongly seasonal money emission and incorporates three periods: February - March, August - October, and December (Figure

[2] Exchange rate is defined as a number of Belarussian rubles for USD 1. If it is not mentioned the exchange rate refers to the official exchange rate.

3 and Table 4). The NBB granting interchangeable credits to the government and to the commercial banks kept financing either budget deficit or state enterprises. In spring and late summer, the branches of the national economy (those proclaimed as priorities by the government) are funded through the banking system by means of targeted soft credits. The seasonal cycle of agricultural works is credited at the interest rate twice as low as the refinancing rate. Construction activities are financed for the period from 10 to 40 years, at interest rate 2 percent per year. Finally, in December, the needs of the government are funded which is winding up its fiscal year and credits from the NBB is allocated to reimburse budget expenditures by granting direct credits to the government. Partially, the budget deficit is financed through issuing state securities (GKO and GDO) at the refinance rate. However, since trading in these assets with the government is unprofitable for the banks, the NBB was, at times, itself the holder of up to 40 percent of the total volume of the state securities package.

Starting from the period of an administrative peg of the exchange rate of the Belarussian ruble in 1995, the monetary policy was based on administrative regulation of interest rates. In November 1995, administrative limitations of the inter-bank credit market activity were initiated and still remain in force. The dominant interest rate policy was to maintain lower interest within the second, third, and fourth quarter and increase interest during the first quarter of each consecutive year. Such schedule was implied by scarce sources of budget government financing during the whole year and an attempt to maintain financial system at least to some extent workable. The refinance rate in nominal terms was maintained at the level of about 40 percent per year on average since mid-1996, what implied the negative rate on yearly basis in real terms (Figure 4). The annual yields on the NBB and government securities were a little higher in nominal terms responding to market conditions. Since in the periods of negative real interest rates the NBB has been purchasing government papers in primary and secondary markets, the importance of interest rates as indicator of money market trends was negligible. The annualized average lending and deposit rates were also negative in real terms. Low average lending rates can be attributed to the high share (around 40 percent) of directed credits extended by banks at the fraction of the refinance rate. The low average deposit rates results from the high share of Belarusbank in households' deposit market (around 65 percent) that is heavily credited by the NBB and its deposit rates are used as benchmark by the others. Additionally, the Belarussian households have little option to save in other form than in deposits as the access to foreign exchange market and securities market is restricted.

In spite of the Central Bank Law passed in 1994 guaranteeing its independence, President Lukashenko has a power to nominate and dismiss the Chairman of the NBB and to formulate monetary and foreign exchange policy. Over the past years, preferential credits, administrative price setting, and decline of the interests rate spread below 15 percentage points in the second quarter of 1997 resulted in damaging consequences to enterprises and especially banks. The level of substandard debts can only be roughly estimated due to the lack of international accounting standards, but it probably exceeds 30 percent. Six commercial banks, four formerly state-owned specialized banks Agroprombank, Promstroibank, Vneshekonombank, and Belarusbank and two universal banks (Priorbank and Belbusinessbank) dominated the banking system. These former state-owned specialized banks mainly lend to agricultural sector, industrial sector, and trading companies, respectively, and accounts for over 80 percent of the banking system outstanding loans, over 70 percent of domestic currency deposits, and all the NBB's refinancing credit. Many commercial banks are subject to direct and personal influence of the government since many officials at the ministerial level participate in chairing and managing banks.

2.4. Foreign Exchange Market

The NBB regulates the foreign currency market by means of administrative instruments that support a system of multiple exchange rates. Such an activity of the central bank should be regarded as quasi-fiscal and taken into account in the state budget. However, it is not the case. The NBB sells foreign currency at preferential exchange rate to a selected pool of importers that means latent financing of certain import operations. Through the channels of critical import funding, large enterprises with indebtedness for energy carriers enjoy financial benefits. Also critical import, like medicines, food-staff, raw materials, machinery and equipment is subject to preferential exchange rate.

To finance critical import, a mechanism of mandatory sale of foreign currency receipts is in operation. In January 1996, the obligatory surrender requirement was 100 percent. In July 1996, it slimmed down to 50 percent, and further down to 30 percent in June 1997. On January 22, 1998, an additional trade session was introduced at the Minsk Currency Exchange, which subsisted until August 22, 1998. For the second time, the additional session was restored starting from December 16, 1998 and was cancelled again on March 1, 1999. In July 1998, the government forced exporters to sell 10 percent of their export receipts at the second session of the Minsk Currency Exchange, in addition to the existing authorized 30-percent ratio. In August 1998, following the closure of the second Minsk Currency Exchange session, the rate of mandatory sale of foreign currency was set at 40 percent.

The currency holdings of the NBB are replenished through buying foreign currencies from three sources: from exporters due to mandatory selling of foreign currency (100 percent to 30 percent in different periods of time), from banks, and also until quite recently, trading in the inter-bank market at profitable rate of exchange. An inter-bank currency market trading at official exchange rates was in operation up to mid-September 1998. Thereafter, transactions were limited to minimal lots of USD 1,000. Charges to cover expenses due to difference in quotations were reimbursed by the NBB by money printing, in other words, quasi-fiscal expenses. The same is true of charges for credit emission in favor of the domestic economy.

As the process of exhaustion of the National Bank's hard currency reserves exhibits a dangerous tendency government introduced restrictions on currency transactions. These have resulted in inconvertibility of the Belarussian ruble for the current transactions since March 1998. In certain periods, the difference between the multitude of official exchange rates (inter-bank rate, the National Bank's rate, the rate at an additional session of the Minsk Currency-Stock Exchange, the cash exchange rate at exchange counters, etc.) and the market exchange rate of the Belarussian ruble amounted from 30 to 200 percent. Rationing of the foreign exchange market resulted in the increase of illegal turnover at the shadow cash and non-cash markets, with violation of the foreign exchange regulations.

2.5. Inflationary Consequences

Since 1996, in accordance with the presidential decree, enterprises, irrespective of their forms of ownership, and governmental bodies in charge of economic management have been given forecast figures of monthly and yearly inflation and devaluation as practically administrative directives. Despite all the efforts and sanctions taken by the authorities against enterprises, the official figures have not been adhered to during the last three years. Over 70 percent of the goods consisted in the consumption basket have controlled prices, therefore indices of inflation are hardly reliable. In 1998, administratively imposed limit on maximum price growth was 2 percent per month (or 27 percent per year). However, monetary expansion and devaluation of the official exchange rates had to lead to increase in official index of inflation above the planned level (Figure 5). Monthly increase in the official CPI exceeded the above target by 4 percentage points through most of 1997, and the first half of 1998, and over 17 percentage points in September 1998 to reach over 20 percentage points from October till December 1998. Measured PPI were mostly free of administrative control and having large import component were increasing at the rate higher than official CPI (see, Table 1 and Figure 5). The government has also given enterprises administrative quotas of supply of certain products to the domestic market at the administratively regulated prices. Usually, these quotas are heavily differentiated from enterprise to enterprise and from branch to branch.

Under such terms further support of production requires growth of money stock, through increase of credit emission and the only results may be inflation and further depreciation of the national currency. These are logical results of the government's attempts to regulate prices, fix the exchange rate, and manage the economy through administrative restrictions.

2.6. The First Quarter of 1998 and the First Crisis

At the end of the first quarter of 1998, the Belarussian economy entered the phase of a crisis. However, the coincidence of its effects with the crisis in Russia in August 1998 gave a chance for the Belarussian authorities to write it off to the external factors.

In the beginning of 1998 the evident mismatch of policy mix took place. The NBB and the government agreed on monetary policy measures, but without any quantitative ceilings on increase in net domestic credit of NBB. The net increase was approved later by the NBB supervisory board at the level of 5.5 trillion rubles. However, the 1998 budget required the banking system to provide a deficit financing of 18 trillion rubles, of which the NBB directed credits were over 6 trillion rubles. Therefore, a simple coordination of monetary and fiscal policy was inconsistent.

Following pattern of a seasonal money emission (see above), from January till April 1998 a rapid expansion of credits took place. Ruble broad money was increasing at the average rate of over 5 percent per month pulled by increasing net domestic credits, that after slowing in January, expanded again with a monthly average growth rate of over 5 percent since February (Table 4). By the end of May, the growth of net domestic credit of the NBB exceeded the planned ceiling for the whole year and equaled the annual increase stipulated in the budget. Parts of these credits were granted to agriculture and while in 1996 subsidized credits to agriculture constituted 10 percent of the total amount, in 1997 their amount increased to 40 percent. In March, as repayments of the credits went down, the government rescheduled Rub 1.2 trillion (over 1 percent of ruble broad money) of agriculture credits for over two years and without penalty.

Starting from mid-1997, the NBB has been trying to contain the growth of ruble broad money and increased average reserve requirements from 15 percent in May 1997 to 17.5 percent at end-January 1998, and 21 percent in May 1998. At the same time, from January 1998, the NBB refinance rate was strongly negative in real terms (see, Figure 4) as a result of rapid expansion of credits in the end of 1997. However, in February 1998, the NBB had to raise the refinance rate to 50 percent, following an increase in the rate of the Central Bank of Russia (CBR). Since the beginning of 1998, the Belarussian ruble was under growing pressure at the Moscow Currency Exchange. The NBB interventions were in vain even after loosing 20 percent of the NBB end-1997 reserves (almost USD 100 million). The spread between Minsk and Moscow exchanges reached over 100 percent (32,000 and 69,000 rubles per USD). The NBB has ceased an agreement with the CBR stipulating the use of national currencies in commercial deals between the two countries. Transactions with the Belarussian rubles at the Moscow Currency Exchange were suspended in March 1998. After the currency crisis, President Lukashenko fired the management of the NBB and the refinance rate was lowered twice to 44 percent in April and again to 40 percent in May. The government and the NBB desperately intensified price and exchange rate controls. On March 17, the government issued a decree that ordered retailers to roll back prices to the level of March 1. However, measured CPI inflation in April and May was over 3 percent. In spite of the State Control Committee increased pressure on traders not to withdraw goods from the shelves of shops and lower the prices, the shortages of consumer products were widespread. The NBB set limitations on payments in Belarussian rubles to correspondent accounts of non-residents banks for imported goods. Also, the Belarussian government imposed a ban on export transactions in Belarussian rubles. All these measures were aimed at implementation of international contracts with hard currency or the Russian rubles. In reality, the complex of these measures resulted in a cut-down in the trade turnover and its barterization (see below). The increase in barter transactions urged the Belarussian government to introduce a barter tax in August 1999. Finally, as a result of all the above administrative actions, the currency market turned out to be strongly segmented.

The recorded balance of payments surplus in 1997 was almost ten times smaller than in 1996 (USD 63 million and USD 614 million, respectively), but the two balances were incomparable as the latter one combined a foreign debt settlement with Russia in the amount of USD 1.4 billion. The modest surplus in 1997 allowed for build-up of the NBB reserves and reduction of external arrears. However, the Belarussian government has been unable to prevent a new accumulation of gas arrears since the beginning of 1998, in spite of the fact that majority of gas transaction had the barter character (see below). During the first quarter of 1998, the share of cash payments for gas fell to above 5 percent of the total settlements, while exceptional financing of the balance off payments increased to USD 239 million (see, Table 5). In April 1998, the Belarussian authorities agreed with Gazprom on rescheduling of USD 200 million of gas arrears. The first quarter of 1998, contrary to the respective period of 1997, was characterized by a sharp deterioration of both current and capital account. Depletion of reserves by USD 95 million and accumulation of new arrears (Table 5) financed the deficits. The level of official reserves, which represented two weeks of imports at the end of 1997 went down to less than 10 days of imports by the end of the first quarter of 1998.

In the first quarter of 1998, the overall general government deficit increased to 4 percent of GDP (including quasi-fiscal operations). Following mid-March currency crisis the government decided to lower budget deficit by one percentage point to 2.5 percent of GDP by increasing nominal revenues resulting from higher inflation and cutting expenditures on research, low priority investment, and selected social subsidies.

Summing up, at the end the first quarter of 1998, the performance of the Belarussian economy could be characterized by:

– More than a twice drop of real salaries and pensions from 1995 (see, Table 1);

– High inflation, as consumer prices increased by over 280 percent and manufacturers' prices by over 300 percent (see, Figure 5);

– Very bad financial shape of agricultural enterprises and shortage of foodstuffs;

– Insolvency of most enterprises and of the whole sectors of economy as the payables exceeded receivables by almost 50 percent and depreciation of equipment reached a critical level;

– Financial deterioration of commercial banks as the capital of the whole banking system dropped twice during the year and in the case of the leading banks of the country – more than three times. The volume of "bad credits" in banks portfolio reached at least 30 percent, including those in foreign currencies;

– Net foreign assets dropped over three times at the NBB and 1.5 times at the banking system, and official reserves represented less than 10 days of imports (see, Table 1 and Table 4);

– Destruction of financial markets and decrease in monetization of the economy by more than 1.7 times as the Belarussian ruble lost its function of accumulation of wealth (see, Table 4);

– Deterioration of the balance of payments with a growth of debts for import of energy resources (see, Tables 5–7 and Figure 8);

– Very low efficiency of domestic investments led to a drop in profitability of enterprises. In 1998–1999, the level of foreign investments per capita ranked Belarus at the last in Europe with USD 34, more than 4.5 times below Albania, and more than 10 times below the neighboring Poland, Lithuania and Latvia.

On the other hand, one can indicate the lack of the income differentiation and equality of distribution of incomes. Belarus has the lowest respective figures not only among the transition countries, but also in the world. The quintile ratio characterizing the incomes of the richest against those of the poorest is 3 (compared to 13 in Russia), and Ginni's index characterizing the rate of income concentration is 22 percent (compared to almost 50 percent in Russia). However, if we take into account high level of poverty, that is provision of "equality in misery".

3. Transmission Channels of the Russian Crisis

The Russian currency crisis that erupted on August 17, 1998 involved a sharp devaluation of the Russian ruble and a full-scale banking crisis. The Russian government announced the following measures: abandoning the peg exchange rate policy, conversion of GKO/OFZ with maturity up to December 31, 1999 into non-specified government papers, suspension of quotation and trade of government papers on domestic market, introducing restrictions on capital account transactions to residents and non-residents. Additionally, a 90-day moratorium on payment of all debts to non-residents by domestic banks was introduced. After the CBR gave up interventions in the foreign exchange market, exchange rate of the Russian ruble to USD depreciated by 50 percent within next two weeks, and by 237 percent until the end of 1998. During the same time, the official exchange rate of the Belarussian ruble was devalued by 156 percent. However, this disproportion was reversed in the end of the first quarter of 1999, when depreciation of the Russian ruble towards USD reached 296 percent and the Belarussian ruble 467 percent.

The Belarussian economy being a fully dependent on the Russian one and relatively closed towards the others experienced one principal channel of transmission of the Russian crisis – a decline in the Belarussian export to Russia. The contagion effect on the financial markets in Belarus was negligible due to their poor development, pervasive restrictions imposed after mid-March crisis (see above), and total dependence of the banking sector on government. Besides, the Belarussian banks had an access to cheap direct credits of the NBB, contrary to the Russian banks, which had to rely on indirect financing through operations with government papers.

3.1. Fiscal Contraction

Surprisingly, the impact of the Russian financial crisis on the state of public finances in Belarus was negligible. According to the official data there was no decline in budget revenues, what would suggest that enterprises either did not register a sharp deterioration of terms of trade and loss of the Russian market or reoriented themselves to other markets overnight. However, the Belarussian government responded to the crisis in Russia with a massive expansion of credit (see below). Also, in the first quarter of 1999 as compared with 1998, except for investments, all the budget expenditures were smaller (see, Table 3). The biggest cuts were done in national security (1.9 percent of GDP compared with 2.5 percent of GDP in the first quarter of 1998) and social policy (1.5 and 2.4 percent of GDP, respectively) where the expenditures were lowered almost by one third. Therefore, the Belarussian government approached the same kind of strategy as in March 1998, but on a bigger scale.

3.2. Monetary Expansion

After the March currency crisis and until November 1998, the reserve money in Belarus was growing at the rate of 6–8 percent per month (see, Figure 2). The growth was fuelled by equally rapid expansion of credits to the government and commercial banks at the rate of 6–10 percent per month. However, in December 1998 reserve money increased by 43 percent pushed by explosion of credits to the government (147 percent increase comparing to the previous month) in spite of officially modest deficit of the general government sector (0.4 percent of GDP) and surplus in the state budget in the fourth quarter and the whole 1998 (1.5 and 3.5 percent, respectively).

Almost constant multiplier of domestic broad money (1.8–1.5 in 1996–1999) reflects similar pattern of broad money expansion as the reserve money. Additionally, it reveals a position of commercial banks as agents of the central bank distributing state financial resources. Therefore, also the National Bank of Belarus fulfills purely technical functions as the President and government is permanently interfering into operation of the whole banking sector.

Until mid-1998, the broad money supply has been increasing at the rate of about 7 percent per month and in the second half of 1998 at the rate of 23 percent per month pulled by the expansion of credits to private and public sector. However, since the definition of private sector is rather vague, because it includes both state-owned enterprises and households. Therefore, we may suppose that majority of financial resources is transferred to broadly defined public sector.

In December 1998, expansion of domestic credits from commercial banks similarly to the NBB was directed to finance government as banks' claims to the government increased by over 103 percent. Additionally, broad money supply was supplemented by increase in foreign assets what reflected foreign financing in the form of trade credits from Russia (see, below). Then, during the first quarter of 1999, the rates of growth of reserve money and broad money returned to the pre-crisis ones. Summing up, the crisis in Russia was accommodated by expansionary monetary policy in the third and fourth quarter of 1998.

The results of credit expansion were obvious. Measured CPI inflation in December 1998 reached 75 percent, PPI inflation over 40 percent (see, Figure 5), and depreciation of the official exchange rate of the Belarussian ruble in relation to USD reached almost 70 percent in February 1999.

3.3. Interest Rates Ease

The new management of the NBB, following directives of the government to provide financing to the public sector lowered refinance rate from 40 percent to 38 percent in August 1998 but increased it again in December to 48 percent, then to 60 percent in January 1999, and 82 percent in March. The annualized NBB refinance rate in real terms oscillated around zero until July 1998, sliding downward since then to unprecedented level of over -80 percent in September, -91 percent in November, and to -86 percent in December. The other rates followed suit and the interest rates remained at the level of over -50 percent per year during the first quarter of 1999 (see, Figure 4). Therefore, the government deciding between an insolvency of many economic subjects or keeping them running at a marginal cost of a printing press optioned for the latter solution hoping for improvement of the economic situation in Russia.

3.4. Deterioration of Foreign Trade

With decreased absorption of the Russian market by about one third in dollar terms, reviving and strengthening competitiveness of the local Russian producers, Belarussian enterprises started to face problems with continuing sale of their production. However, it does not change the fact that the main reason of Belarus entering the especially serious stage of economic crisis lay not within Russia, but in the domestic policy.

The foreign trade turnover in 1998 reached almost 120 percent of the Belarussian GDP, with export and import constituting 55 percent and 65 percent of GDP, respectively. It reflects relative openness of the country from one side, but also strong dependence on trade with one partner, i.e. Russia, on the other side. The total value of export during January-July 1999 amounted to USD 3.3 billion, of which 60 percent was export to the CIS states, of them to Russia 53 percent, less than 7 percent to other CIS member states and 40 percent to the countries outside the CIS (Table 6). Compared with the respective period of 1998, export decreased by 22 percent, in the case of the CIS by 39 percent, with Russia by 40 percent, with the rest of the CIS states by 30 percent, and only with the countries outside the CIS export grew by 33 percent. The share of countries outside the CIS in the total export grew from 24 percent to 40 percent, while that of the CIS decreased from 76 percent to 60 percent, including the drop of Russia's share from 69 percent to 53 percent, and the share of the rest of the CIS from 7.5 percent to 6.7 percent (Table 7). It is worth mentioning that in the seven months of 1999, the export equaled to the level of four years ago and only 3 percent higher than in 1996. The calculations of the indices of average prices for exported and imported goods made by the Ministry for Statistics showed that during January–July 1999 the physical volume of export (in comparable prices) against January–July of the previous year grew by 12 percent, while the volume of import dropped by 11.6 percent. Export to Russia dropped by 7.4 percent in comparable prices. The drop of prices on export to Russia in January–July 1999 compared to January–July 1998 was 34.6 percent.

We may suppose that many of the Belarussian enterprises preserved their shares in the Russian market or decreased them insignificantly, but profitability of their sales significantly went down. Also, the relative attractiveness of export to Russia and to developed countries had changed in favor of the latter. Starting in the second half of 1996, due to the abrupt devaluation of the Belarussian ruble and strengthening of the Russian one, the attractiveness of export to Russia became very high. For example in clothing industry profitability of export to Russia went up to 35 percent, while export to the western markets had profitability of 3–4 percent. Under such conditions, enterprises limited or even stopped their export to the western markets and switched over to the Russian market. After August 1998 crisis in Russia, Belarussian enterprises tried to restore their relations with the western partners, and increase quickly their exports.

However, it does not explain completely the dynamics of export to the western markets in the first half of 1999. We may suppose that a trade surplus was partly achieved by re-export of the Russian oil imported by Belarus. Russia introduced the export tax on oil to the countries of the so-called far abroad, and a part of the Russian oil exports started to go via the territory of the CIS member-states. After certain measures of additional control over collection of this tax were introduced in the first quarter of 1999, Belarus witnessed drop of export to the western markets.

The total value of import during January–July 1999 was USD 3.6 billion, of which imports from the CIS countries was 62 percent of the total, of them import from Russia was 54 percent, from the rest of the CIS 8 percent, from the countries outside the CIS 37.6 percent (see, Table 6). In the structure of imports, compared to 1998, the share of the CIS member-states dropped from 65 percent to 62 percent, with the share of Russia staying the same, and the share of the rest of CIS dropping from 11 percent to 8 percent, and the share of the countries outside the CIS also increased from 36 percent to 38 percent (see, Table 7). In 1999, the value of import was the smallest for the last four years and 8.8 percent below the level of 1996.

The foreign trade balance during January–July 1999 was in deficit amounting to USD 269 million (see, Table 6). The deficit was observed in all main directions of the foreign trade: with the CIS countries it reached the value of USD 253 million (94 percent of the total deficit), including that with Russia USD 184.8 million (69 percent of the total deficit), with other CIS countries USD 68.2 million (25 percent of the deficit), with the countries outside the CIS USD 16.3 million (6 percent of the total deficit). In 1999, compared to the previous year, the deficit declined by 73 percent, mainly due to reaching a balanced trade with the other than Russia CIS countries and with the countries outside the CIS. Trade deficit with the latter decreased by 98 percent. In trade with Russia the deficit reached the volume of USD 184.4 million after the positive balance of USD 115.1 million in the period of January–July 1998. Thus, the results of the seven months of 1999 continued the decreasing trend that started from the second half of 1998.

During the seven months of 1999, the Belarussian export to the CIS member-states and Russia was the smallest for the whole period of 1996–1999. What concerns the import, an unprecedented drop in 1999 was related to all the directions of foreign trade at the rates exceeding those of export drop (31.3 percent against 21.6 percent after the seven months). As a result, the volumes of import were the smallest during the period of 1995–1999 and are reflected in decrease of growth rates not only of export, but also of the industrial production and of GDP. Thus, for the first half of 1999 the GDP growth rates and those of the industrial production were 2 percent and 7 percent, respectively, against 12 percent and 14 percent during the same period of 1998, according to the official statistics. From this point of view, the year 1999 witnessed a new quality of trade balance of Belarus.

The growing share of foreign trade transactions in Belarus is settled without use of any currency. It comprises the export-import operations in the form of barter and operations with "give and take" trade, as Russian firms provide raw materials to Belarussian enterprises, which then return the processed output to the same Russian firms.

3.5. Barter Operations

The main direction of barter transactions is Russia, with a share of about 80 percent of exports and over 70 percent of imports (Table 8). We think that the most interesting for the present analysis is the behavior of the barter component of export from which we can assess on further dynamics of the export revenues.

In general, the volume of barter export to Russia decreased for the seven months of 1999 comparing to the previous year. The volume of barter increased only with countries outside the CIS, but due to its low weight in the overall barter operations is was too small to have an effect on its total size. However, in trade with Russia the volume of barter drop was accompanied with unprecedented drop in total export. In trade with other countries (outside the CIS) the value of exports without barter operations grew even higher than barter. But as a result of drop in payment for exports in currency, the value of barter in exports in 1999 grew substantially and reached 36.6 percent of the total export volume. In the export to Russia the share of barter operations reached the level of 53.7 percent, while the barter with countries outside the CIS grew insignificantly up to 12.9 percent.

The results of the first seven months of 1999 point to the fact that decrease in absolute volumes of the Belarussian export and import was caused by an abrupt decline of export settled in cash. The share of the barter could have been even greater. However, the Belarussian government managed to negotiate with Russia lowering of gas prices from USD 60 to USD 30. As the gas deliveries were paid only by 10–15 percent in cash, and the rest being covered by barter settlements, the decline in gas price implied a decline in barter shipments almost twice.

Generally, an important incentive for barter development is the lack of free currency convertibility and obligatory surrender requirement under the presence of multiple exchange rates. During the first half of 1999 the gap between the market exchange rate of Belarussian ruble and the official exchange rate was about 50 percent.

3.6. Balance of Payments Perspectives

In the first quarter of 1999 the external position of Belarus improved. The overall balance of payments deficit amounted to USD 20.7 million while in the first quarter of 1998 the deficit reached USD 325.2 million (and USD 415 million for the whole 1998). The improvement of the external position was owed to the surplus in current account, for the first time since 1993 (USD 20.9 million, while in the respective period of 1998 the deficit amounted to USD 369 million). The values of imports and exports were quite stable for the whole year 1998, but starting from the beginning of 1999 we could observe a sudden decrease in exports accompanied by even greater decrease in imports (exports decreased by 25 percent while imports by 30 percent). Although volumes of exports did not change significantly, in dollar terms the value of exports dropped dramatically. The small deficit in trade of goods was accompanied by a usual surplus in services. The combination of these two factors produced a surplus on the current account in the end of the first quarter of 1999. Although the balance of trade in service sector also decreased in the first quarter, if compared with 1998, it was high enough to offset the deficit in merchandise trade (see, Table 5).

The overall balance of payments was, however negative. This was due to a deficit in capital and financial accounts (Figure 6). For 1997–1998, except for the third quarter of 1997, the capital and financial accounts were in surplus, and from the beginning of 1999 we could observe deterioration in these two positions. The current account deficit was usually financed by FDI from Russia (mainly construction of the Yamal gas pipeline), trade credits from Russia (part in the form of arrears), and government credits, also from Russia. Although direct investments were quite high in the first quarter of 1999, reaching USD 88 million, which is more than 50 percent of the total direct investment in 1998, it was offset by deficits in other items in the balance of payments.

First of all, it was a significant decrease in trade credits provided to the Belarussian enterprises. While in the third and fourth quarters of 1998 it was the Belarussian enterprises that were granted credits (USD 77.5 million and USD 19.4 million, respectively), in the first quarter of 1999 the situation was completely opposite.

Moreover, we could observe deterioration of other components of the capital and financial accounts. The crucial role could be attributed to a significant official outflow of short-term capital, with USD 63.6 million in the first quarter of 1999 compared with total inflow of USD 52.1 million USD in 1998. Estimations of an official and unofficial capital flight has been presenting contradicting trends until the first quarter of 1999, when they reveal the same direction of net capital outflow (Figure 7).

As the international organizations almost withdrew from Belarus, the authorities had to find alternative sources to cover the deficit in the balance of payments. The small deficit (USD 20.7 million in the first quarter of 1999) was financed by so-called exceptional financing, mainly through an increase in debts for energy payments (USD 28.5 million, Figure 8) and increase in overdue payments of foreign debt (USD 6.2 million). Both of these figures were not high, but this was only due to a very small deficit, which had been achieved through dramatically low levels of import. Also, the small deficit made it possible for the authorities to repay some of the IMF credit in the first quarter of 1999 (USD 16.7 million).

4. Summary

Since the election of President Alexander Lukashenko in 1995, the Belarussian authorities implemented expansionist macroeconomic policy. They supported the priority sectors of the economy such as agriculture, construction, and export to Russia by vast direct financial resources, indirect form of tax and trade subsidies, and depreciation of the official exchange rate. All these measures resulted in a promotion of short-term growth that ended with a crisis in Belarus in March 1998.

Increasing domestic credit growth or simply inflationary financing stimulated output based on the availability of excess productive capacity after the break-up of the Soviet Union. However, it also resulted in exchange rate instability or loss of reserves and accelerating underlying rate of inflation with tightening price control. The periodical shortage of consumer goods became the inevitable result of such a policy.

The performance of subsidized sectors of the economy was rather poor, as the highly subsidized state owned agricultural sector was not able to provide basic foodstuffs and increase crops. Fiscal privileges granted to the same group of enterprises prevented them from collapse after the imposition of tight control of their product prices, but distorted the system of public finances. As a result, the state increased its redistributive role to over 45 percent of GDP. The role of central bank and the whole banking system was limited to inflationary financing of the government priorities that resulted in nationalization of commercial banks and degradation of financial markets.

The President Lukashenko's strategy of total economic dependence on Russia, or rather on close cooperation with regional governments in Russia and Gazprom led to a participation in the August 1998 crisis to the extent determined by the existing trade links. Preliminary results of the Belarussian economy during and after the crisis revealed a drastic decline in trade with Russia and some revival of trade with other countries. The latter fact underlines some potential to diversify and reorient trade flows whenever impact of external factors is stronger than priorities of domestic policy.

Finally, a pervasive control of prices resulted in a deficit of basic consumption goods during the periods of the crises in mid-March and mid-August 1998. Therefore, the Belarussian reinvented model of centrally command economy may have already entered the final phase of its existence.

Tables

Table 1. Basic macroeconomic indicators in Belarus, 1996–1998

	1994	1995	1996	1997	1998
Real GDP, %	-12.6	-10.4	2.8	11.4	8.3
CPI inflation, end-of-year, %	1,959.9	244.0	39.3	63.4	181.7
PPI inflation, end-of-year, %	1867.1	140.5	31.1	90.9	200.1
Annual domestic M2 increase, %	1,368.5	310.9	66.7	102.8	129.6
Exchange rate depreciation vis-à-vis USD, %	1,418.6	8.5	34.8	98.3	248.1
General government balance, % of GDP	-2.5	-1.9	-1.6	-0.7	-0.4
NBB credit to government, % of GDP	7.3	3.8	4.1	3.5	7.3
Current account, in millions of USD	-443.8	-458.3	-515.9	-787.6	-944.6
Capital account, in millions of USD	168.4	211.3	447.9	694.1	419.4
Net foreign assets of NBB, in millions of USD	4.2	88.7	47.6	82.7	53.7
Monthly income of population, in USD	33	88	104	108	75
Unemployment, %	2.1	2.7	3.9	2.8	2.3

Source: National Bank of Belarus, Ministry of Statistics

Remark: Figures in USD terms are calculated using the official exchange rate

Table 2. General government operations in 1994–1998 (in percent of GDP)

	1994	1995	1996	1997	1998
Revenue and grants	46.0	40.3	40.8	45.5	45.9
Revenue	46.0	40.3	40.8	45.5	45.9
Current revenue	45.4	39.7	40.5	45.1	45.5
Tax revenue	44.4	37.8	37.3	42.7	42.4
Income, profits, capital gains	13.9	9.7	6.9	8.0	8.5
Social security contributions	7.2	8.4	8.6	9.0	9.3
Payroll taxes	2.3	2.7	2.6	2.2	1.6
Taxes on property	0.6	1.0	1.0	1.4	1.4
Taxes on goods and services	17.2	14.3	15.9	18.8	18.7
Taxes on international trade and transactions	3.3	1.8	1.7	2.6	2.3
Non-tax revenue	1.0	1.9	3.2	2.4	3.1
Capital revenue	0.6	0.6	0.4	0.4	0.5
Grants	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending, adjusted	48.5	42.2	42.4	46.2	46.3
Expenditure and net lending, unadjusted	47.3	43.0	42.7	46.8	46.4
Expenditure	47.3	43.0	42.7	46.3	46.5
Current expenditure	38.6	36.2	35.3	37.1	37.5
Expenditure on goods and services	28.3	22.8	18.4	18.6	18.5
Wages and salaries	4.9	6.0	8.3	8.1	8.2
Goods and services	23.4	16.8	10.1	10.5	10.3
Interest payments	0.2	0.2	0.7	0.7	0.8
Subsidies and current transfers	10.1	13.1	16.2	17.9	18.2
Subsidies	4.4	1.9	4.2	4.8	5.6
Transfers to households	6.9	10.6	11.8	13.0	12.4
Transfers abroad	0.0	0.0	0.1	0.0	0.2
Capital expenditure	8.7	6.8	7.5	9.2	9.0
Net lending	0.0	0.0	0.0	0.5	0.0
Adjustment	1.2	-0.8	-0.3	-0.6	-0.1
Balance	-2.5	-1.9	-1.6	-0.7	-0.4
Financing	2.5	1.9	1.6	0.7	0.4
Foreign	-0.9	-0.5	0.1	0.4	0.0
Domestic	3.4	2.4	1.6	0.3	0.4
Banking system	3.4	2.4	1.6	0.3	0.4

Source: Ministry of Statistics

Table 3. Budget operations, quarterly in 1998–1999 (in percent of GDP)

	1Q 1998	2Q	3Q	4Q	1Q 1999
Total revenues, incl. budgetary funds	40.2	41.0	37.7	36.2	39.9
Revenue and transfers	35.6	34.4	31.3	30.5	35.0
Current revenues	35.3	33.8	30.9	30.0	34.7
Current tax revenue	31.9	31.0	28.7	27.8	31.9
Income, profits, capital gains	9.0	8.7	8.3	8.4	10.3
Social security contributions	1.4	1.2	1.0	0.9	1.5
Taxes on property	16.2	15.9	14.7	14.1	15.3
Taxes on goods and services	1.5	1.7	1.5	1.4	0.7
Taxes on international trade and transactions	2.5	2.8	2.4	2.3	3.1
Custom duties, taxes, and fees	1.3	0.8	0.7	0.7	1.1
Non-tax revenue	3.4	2.8	2.2	2.3	2.8
Capital revenue	0.3	0.6	0.5	0.5	0.3
Revenues of budget funds	3.1	3.3	3.0	2.8	3.1
Revenues of local budget funds	1.5	3.1	3.0	2.9	1.7
Total expenditures	40.2	42.4	38.2	37.7	38.2
State and local governments	1.3	1.3	1.2	1.2	1.0
Foreign activity	0.1	0.2	0.3	0.3	0.2
Defense	1.5	1.4	1.2	1.1	1.1
Law, order, and security	2.4	2.4	2.1	2.0	1.9
Prosecution	0.1	0.1	0.1	0.1	0.1
Science	0.5	0.5	0.5	0.5	0.3
Industry, energy and construction	0.5	0.6	0.6	0.6	0.4
Agriculture	2.1	2.0	1.7	1.6	2.0
Nature preservation, cartography, weather service	0.5	0.5	0.4	0.4	0.5
Transport	0.9	1.3	1.3	1.3	1.4
Development of market infrastructure	0.0	0.0	0.0	0.0	0.0
Housing	1.9	1.9	1.9	2.0	2.6
Emergency funds	2.0	2.2	2.1	2.0	2.1
Education	7.8	7.9	6.5	6.6	7.3
Culture and arts	0.6	0.6	0.5	0.5	0.5
Media	0.3	0.3	0.3	0.2	0.3
Health	6.0	5.8	5.2	5.2	5.8
Social policies	2.4	2.3	2.0	1.7	1.5
Servicing of state debts	0.7	0.8	0.8	0.8	0.9
Increase of state reserves	1.1	0.9	0.8	0.6	0.8
Other	0.8	0.6	0.6	0.5	0.8
Capital investment	2.6	3.1	3.2	3.1	2.9
Expenditure of budgetary funds	4.1	5.7	5.1	5.4	3.9
Deficit	0.0	-1.4	-0.6	-1.5	1.7
Financing	0.0	1.4	0.6	1.5	-1.7
Domestic	-0.3	1.4	1.1	1.5	-0.5
Credits of NBB	0.0	0.0	0.4	0.8	1.0
Government papers	0.0	2.0	2.1	1.7	-1.0
Other	-0.4	-0.7	-1.4	-0.9	-0.4
Foreign	0.3	0.0	-0.4	-0.3	-1.2
Repayment of debts	-0.4	-0.2	-0.3	-0.4	-1.2
Foreign credits	0.7	0.3	0.2	0.1	0.0

Source: Ministry of Statistics

Table 4.Monetary survey, 1996–1999 (in billions of Belarussian rubles, end of period)

	1996	1997				1998				1999
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Net Foreign Assets	3,823	5,770	8,643	10,071	9,012	5,503	6,189	8,361	41,077	67,830
millions of USD	247	234	320	362	293	163	165	157	384	287
Net Domestic Credit	28,896	37,812	42,932	50,385	62,271	68,073	84,409	111,043	249,383	283,166
Claims on Government	6,914	7,911	8,119	7,003	12,745	12,966	15,692	19,272	51,480	46,130
Claims on Private Sector	21,981	29,901	34,813	43,382	49,527	55,107	68,716	91,771	197,904	237,037
Other items (net)	-5,382	-9,311	-10,411	-10,537	-13,503	-11,854	-14,414	-20,965	-73,207	-88,846
Money and quasi money	27,337	34,271	41,164	49,919	57,779	61,721	76,184	98,438	217,252	262,151
Ruble broad money	20,725	23,399	28,624	35,554	42,026	45,124	56,616	71,529	96,496	114,572
Currency outside banks	6,199	7,031	8,832	10,002	12,300	12,236	16,152	18,238	27,074	32,014
Demand deposits	9,509	10,964	14,054	18,338	21,553	23,406	28,283	40,346	53,859	63,333
Quasi money	5,017	5,404	5,738	7,214	8,173	9,482	12,181	12,945	15,563	19,225
Foreign currency deposits	6,612	10,872	12,540	14,364	15,753	16,597	19,568	26,909	120,757	147,579
Exchange rate (e-o-p)	15,500	24,650	26,980	27,830	30,740	33,660	37,540	53,200	107,000	236,000

Source: National Bank of Belarus

Table 5. Balance of payments, 1997–1999 (in millions of USD, end of period)

	1997					1998					1999
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	1Q
Trade balance	-496.5	-223.6	-228.5	-386.8	-1,335.4	-486.4	-371.9	-292.5	-296.5	-1,447.3	-43.0
Export	1,457.1	1,794.2	1,986.3	2,145.0	7,382.6	1,772.9	1,893.5	1,661.7	1,752.9	7,081.0	1,354.4
Import	-1,953.6	-2,017.8	-2,214.8	-2,531.8	-8,718.0	-2,259.3	-2,265.4	-1,954.2	-2,049.4	-8,528.3	-1,397.4
Services	141.6	141.5	121.7	149.2	554.0	116.1	144.2	71.9	107.6	439.8	68.3
Credit	195.7	216.7	237.7	268.7	918.8	223.7	234.3	201.8	216.1	875.9	171.3
Debit	-54.1	-75.2	-116.0	-119.5	-364.8	-107.6	-90.1	-129.9	-108.5	-436.1	-103.0
Income (net)	-18.5	-15.2	-11.5	-39.4	-84.6	-13.8	-25.6	-16.2	-21.9	-77.5	-17.9
Current transfers (net)	16.1	26.6	21.0	14.7	78.4	15.2	43.4	16.5	65.3	140.4	13.5
Current account	-357.3	-70.7	-97.3	-262.3	-787.6	-368.9	-209.9	-220.3	-145.5	-944.6	20.9
Capital & Financial accounts	183.3	60.7	-81.3	531.4	694.1	89.0	71.6	158.8	100.0	419.4	-30.3
Capital account	33.0	22.9	26.5	50.8	133.2	46.2	32.3	34.1	57.5	170.1	45.5
Financial account	150.3	37.8	-107.8	480.6	560.9	42.8	39.3	124.7	42.5	249.3	-75.8
Direct investment (net)	53.7	49.7	16.0	78.5	197.9	24.7	40.1	21.7	55.0	141.5	88.0
Portfolio investment (net)	2.0	3.6	-19.1	-6.3	-19.8	-10.9	9.8	23.3	-7.6	14.6	8.9
Trade Credits (net)	112.5	90.0	-75.8	291.9	418.6	-51.8	-6.9	77.5	19.4	38.2	-104.1
Loans (net)	6.8	18.2	-4.7	46.5	66.8	34.2	4.2	-9.7	-23.9	4.8	-1.7
Assets	1.4	-0.5	-0.1	0.9	1.7	-0.7	0.4	-1.9	1.2	-1.0	-0.3
Liabilities	5.4	18.7	-4.6	45.6	65.1	34.9	3.8	-7.8	-25.1	5.8	-1.4
General government	-2.2	0.2	-2.5	66.9	62.4	27.9	-6.2	14.8	-14.5	22.0	-13.8
Disbursements	10.6	15.8	16.1	95.7	138.2	39.1	15.6	27.6	8.4	90.7	5.8
Amortization	-12.8	-15.6	-18.6	-28.8	-75.8	-11.2	-21.8	-12.8	-22.9	-68.7	-19.6
Other Sectors	7.6	18.5	-2.1	-21.3	2.7	7.0	10.0	-22.6	-10.6	-16.2	12.4
Other (net)	-24.7	-123.7	-24.2	70.0	-102.6	46.6	-7.9	11.9	-0.4	50.2	-66.9
Errors and omissions	143.6	7.3	233.1	-227.1	156.9	-45.3	147.2	66.3	-58.0	110.2	-11.3
Overall balance	-30.4	-2.7	54.5	42.0	63.4	-325.2	8.9	4.8	-103.5	-415.0	-20.7
Financing	30.4	2.7	-54.5	-42.0	-63.4	325.2	-8.9	-4.8	103.5	415.0	20.7
Reserve assets	46.7	32.1	-5.5	3.7	77.0	94.6	4.9	-8.6	-37.2	53.7	2.7
Use of Fund resources	0.0	0.0	0.0	0.0	0.0	-7.9	0.0	-7.8	-8.7	-24.4	-16.7
Exceptional financing	-16.3	-29.4	-49.0	-45.7	-140.4	238.5	-13.8	11.6	149.4	385.7	34.7

Source: National Bank of Belarus

Table 6. Trade balance of Belarus in January–July 1996–1999 (in millions of USD)

	I-VII 1996	I-VII 1997	I-VII 1998	I-VII 1999
Total				
Export	3,227.9	3,858.5	4,247.6	3,330.6
Import	3,947.4	4,685.2	5,238.9	3,599.9
Trade Balance	-719.5	-826.7	-991.3	-269.3
CIS				
Export	2,210.9	2,751.0	3,243.1	1,993.6
Import	2,563.0	3,143.7	3,379.5	2,246.6
Trade Balance	-352.1	-392.7	-136.4	-253.0
Russia				
Export	1,766.5	2,402.4	2,923.9	1,770.1
Import	2,066.1	2,459.9	2,808.4	1,954.9
Trade Balance	-299.6	-57.5	115.5	-184.8
CIS without Russia				
Export	444.4	348.6	319.2	223.5
Import	496.9	683.8	571.1	291.7
Trade Balance	-52.5	-335.2	-251.9	-68.2
Outside CIS				
Export	1,017.0	1,107.5	1,004.5	1,337.0
Import	1,384.4	1,541.5	1,859.4	1,353.3
Trade Balance	-367.4	-434.0	-854.9	-16.3

Source: Ministry of Statistics, National Bank of Belarus

Table 7. Foreign trade flows of Belarus in January–July 1996–1999 (in percent)

	I-VII 1996	I-VII 1997	I-VII 1998	I-VII 1999
CIS				
Export	68.5	71.3	76.4	59.9
Import	64.9	67.1	64.5	62.4
Russia				
Export	54.7	62.3	68.8	53.1
Import	52.3	52.5	53.6	54.3
CIS without Russia				
Export	13.8	9.0	7.5	6.7
Import	12.6	14.6	10.9	8.1
Outside CIS				
Export	31.5	28.7	23.6	40.1
Import	35.1	32.9	35.5	37.6

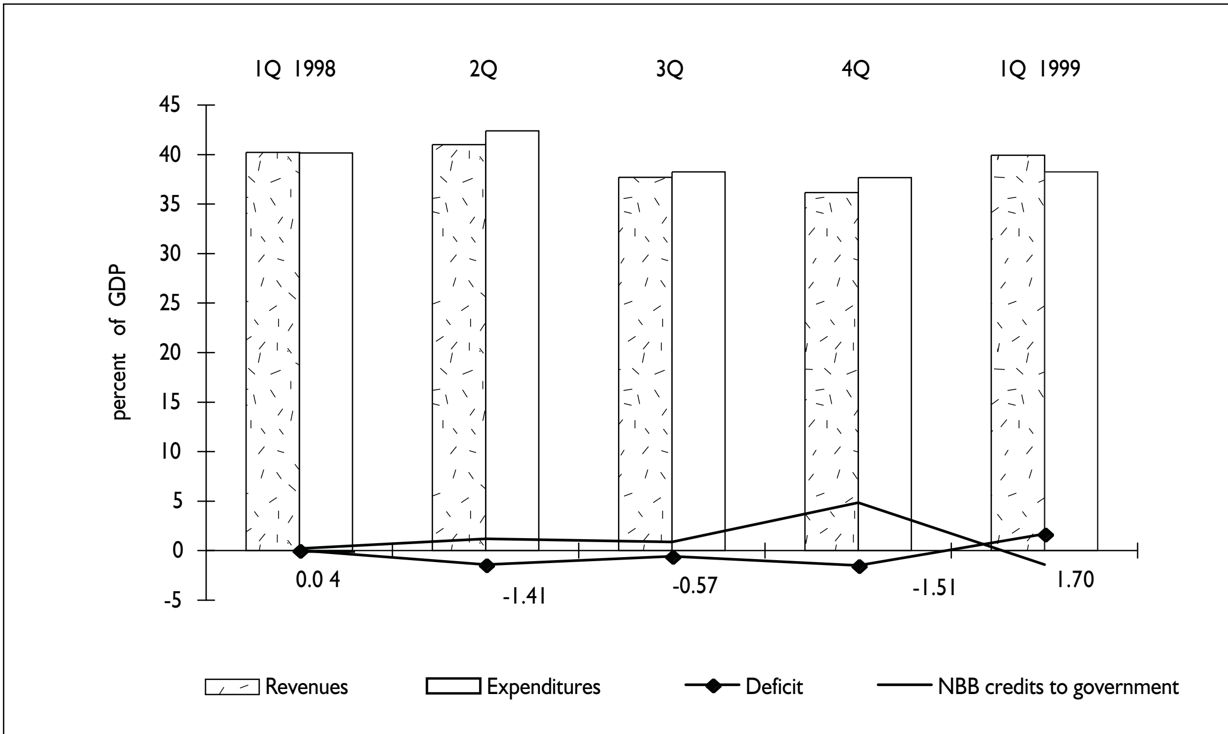
Source: Ministry of Statistics, National Bank of Belarus

Table 8. Barter in the Belarussian exports in January–July 1997–1999

	I-VII 1997	I-VII 1998	I-VII 1999
Total	3,858.5	4,247.6	3,330.6
Barter, in millions of USD	1,039.7	1,342.1	1,219.9
Share, in %	26.9	31.6	36.6
Russia	2,402.4	2,923.9	1,770.1
Barter, in millions of USD	795.1	1,110.8	950.1
Share, in %	33.1	38.0	53.7
Outside CIS	1,107.5	1,004.5	1,337.0
Barter, in millions of USD	107.4	115.5	172.6
Share, in %	9.7	11.5	12.9

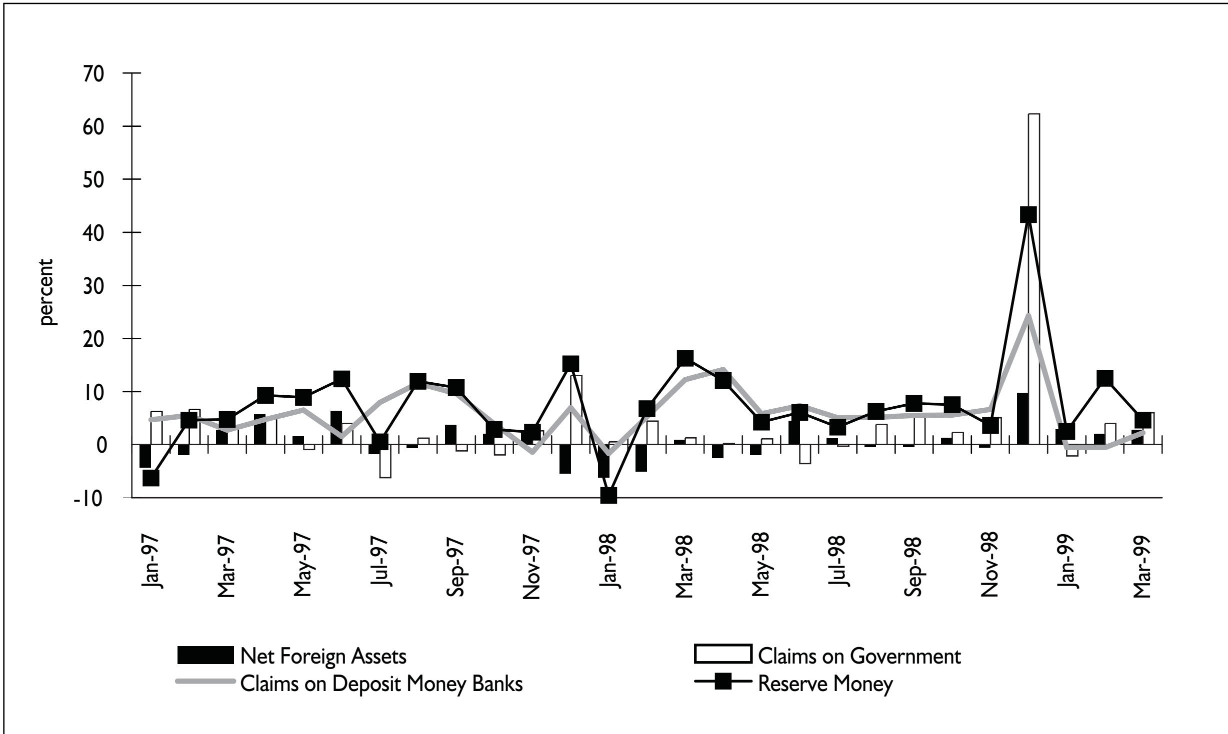
Source: Ministry of Statistics, National Bank of Belarus

Figure 1. General government, quarterly in 1998–1999 (in percent of GDP)



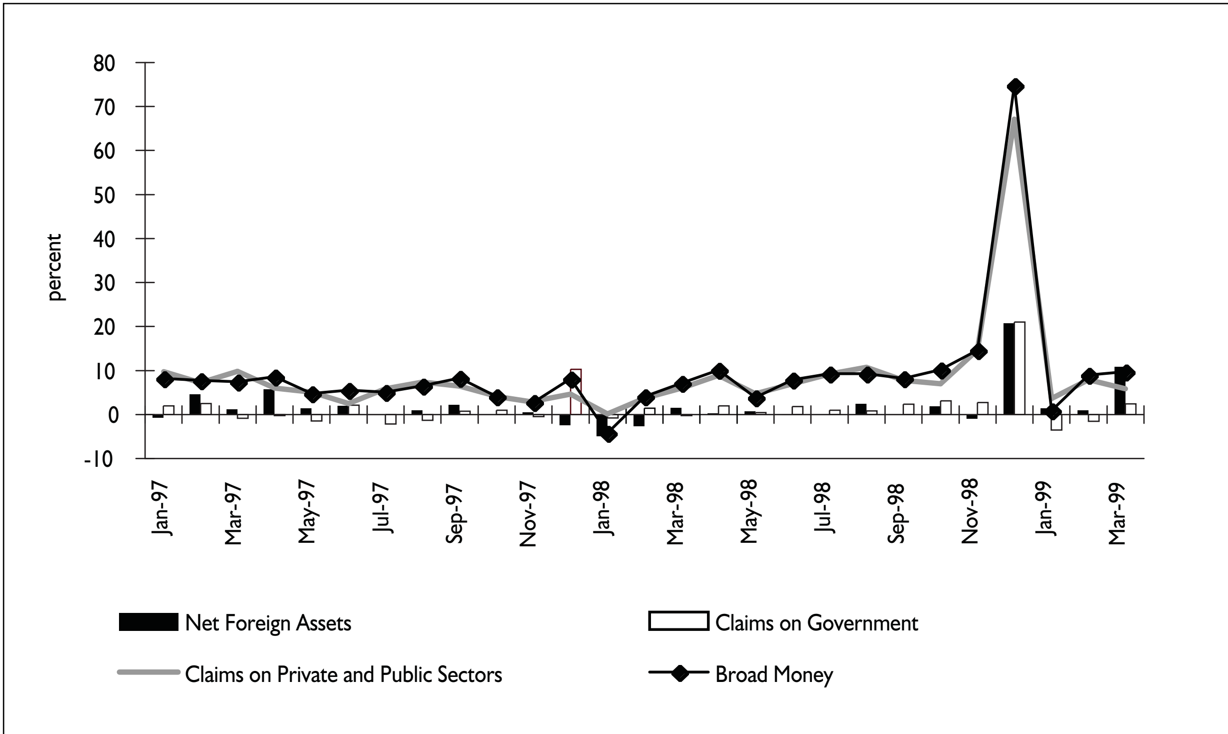
Source: Ministry of Statistics, authors' calculations

Figure 2. Components of reserve money supply, 1997–1999 (percent changes to the previous period)



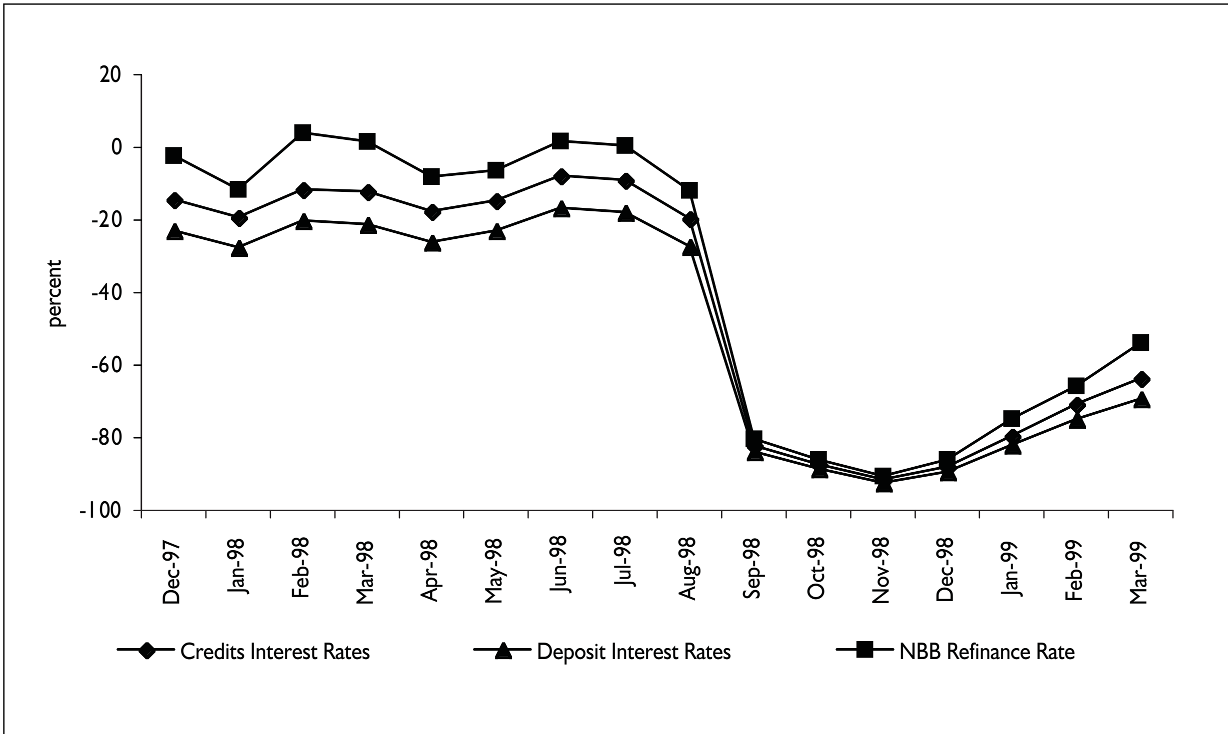
Source: National Bank of Belarus, authors' calculations

Figure 3. Components of broad money supply, 1997–1999 (percent changes to the previous period)



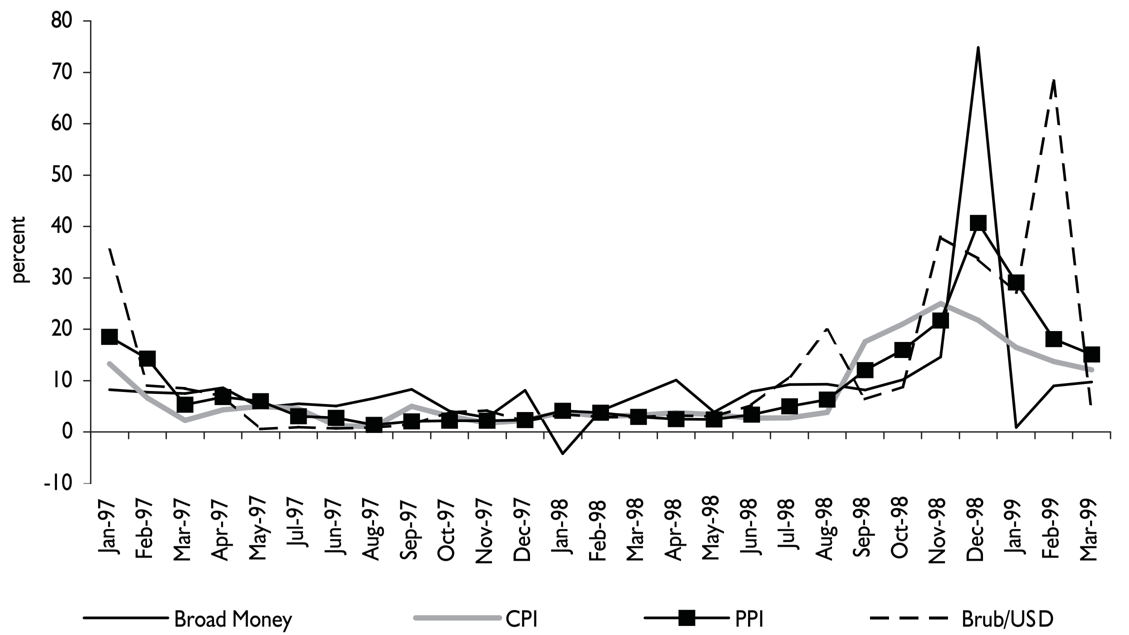
Source: National Bank of Belarus, authors' calculations

Figure 4. Real interest rates in Belarus, 1997–1999 (annualized)



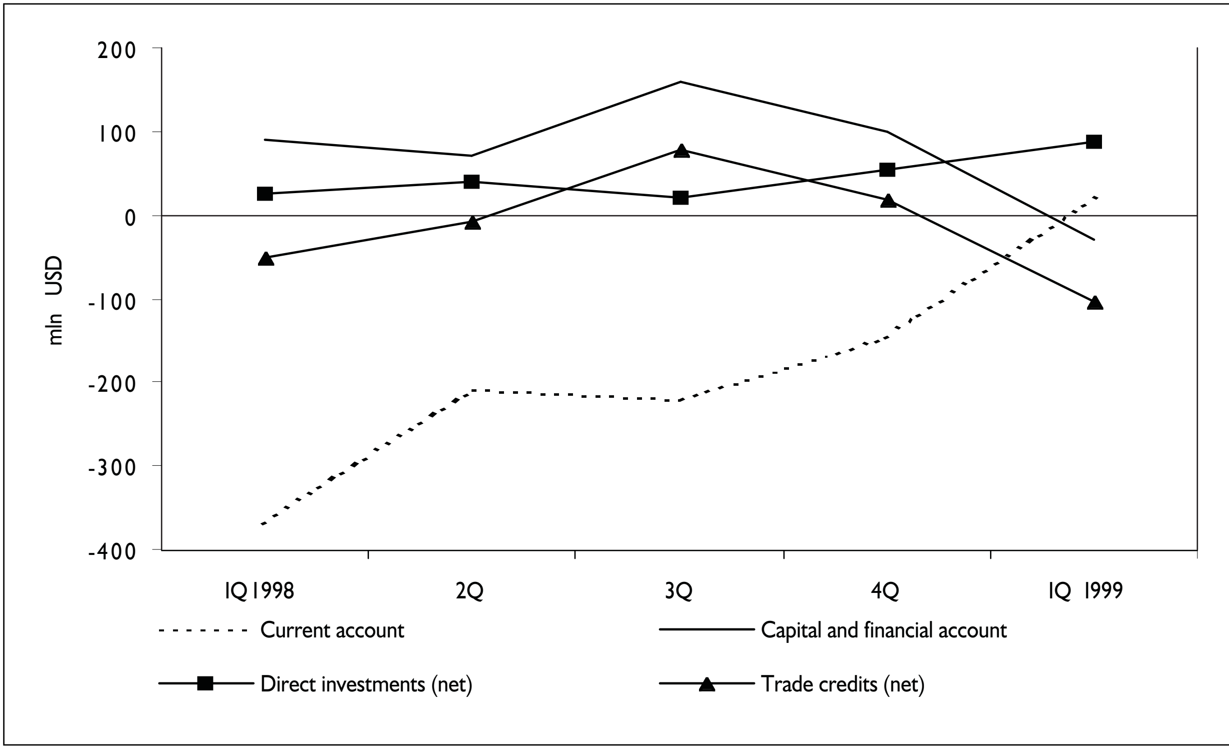
Source: National Bank of Belarus, authors' calculations

Figure 5. Broad money, inflation and exchange rate, 1997–1999 (percentage changes to the previous period)



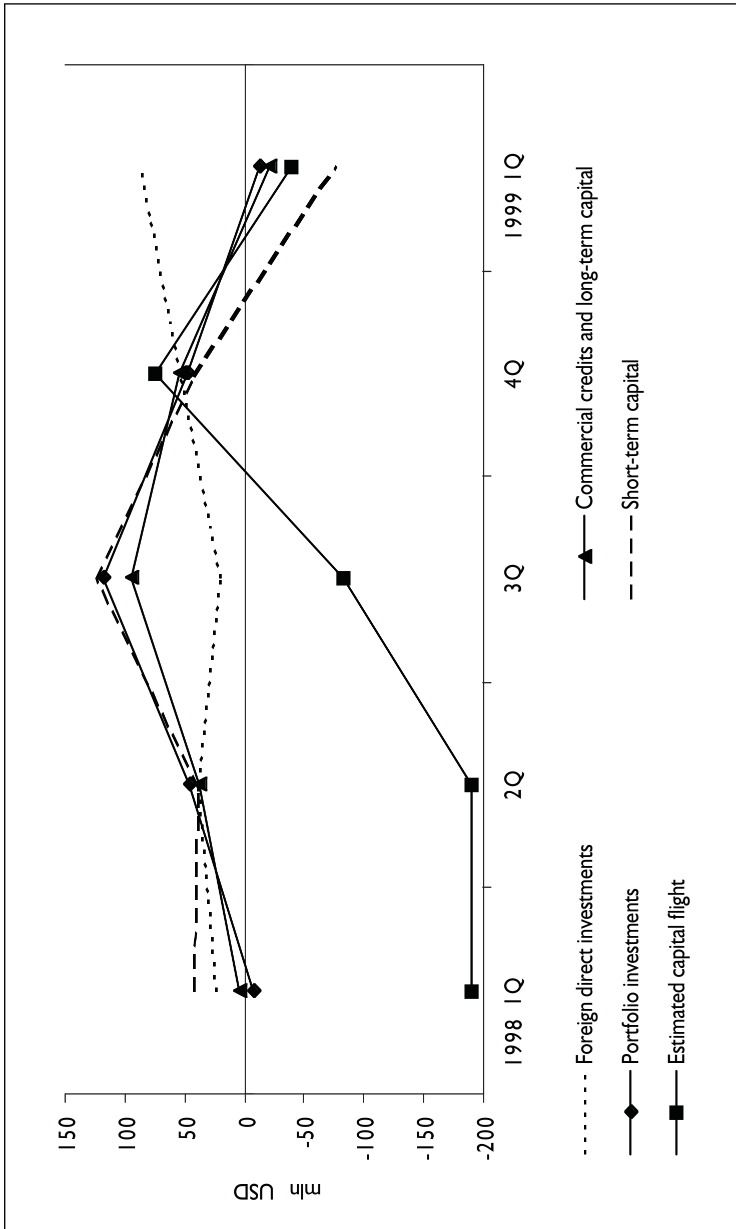
Source: National Bank of Belarus, authors' calculations

Figure 6. Current, capital and financial accounts, 1998–1999 (in millions of USD)



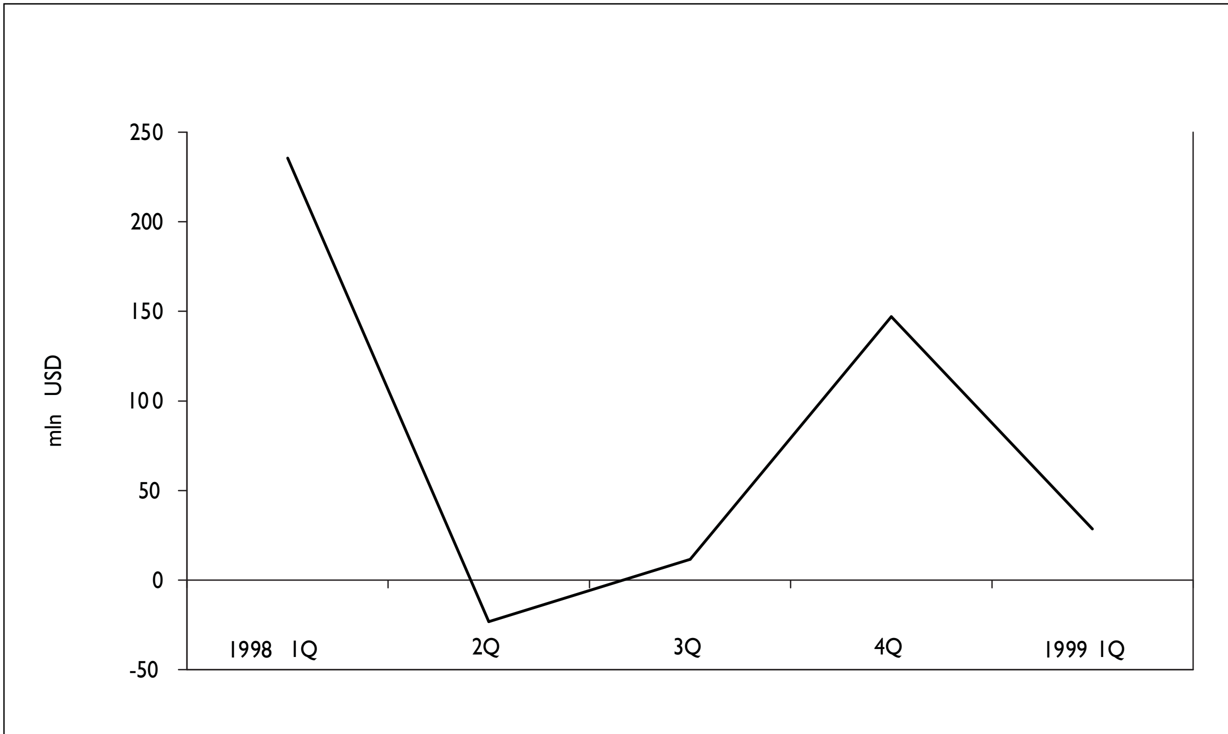
Source: National Bank of Belarus, authors' calculations

Figure 7. Capital flight, 1998–1999 (in millions of USD)



Source: National Bank of Belarus, authors' calculations

Figure 8. Changes in overdue payments for energy to Russia, 1998–1999 (in millions of USD)



Source: National Bank of Belarus, authors' calculations

Statistical sources

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National Bank of Belarus
Ministry of Statistics of the Republic of Belarus