

Economic Development Review

BELARUS

2008

Based on statistics issued by a number of Belarus governmental bodies and agencies, the Review spells out quick facts about the Belarus economic development in 2008, focusing on its key indicators.

Briefly

The Belarusian model of socioeconomic development is evolutionary, based on active governmental involvement in overseeing market relations. A strategic goal of the current stage of development is to improve well-being of the Belarusian population and get the living standards leveled with those of the European developed economies.

Over many years, Belarus has recorded a robust economic growth. The past decade saw Belarus GDP doubled. In 2008, GDP grew 10 per cent on the year to reach Br128.8 trillion. Annually, the average GDP growth in Belarus is 8 per cent.

The major industries in the country are engineering, chemical and petrochemical sectors, energy, agro-industrial sector, forestry and woodworking, etc.

Almost 50 per cent of businesses operating in Belarus are now privately owned. They manufacture over 60 per cent of all industrial commodities in the country. The volume of private retailing is by far larger than that of the public sector.

Half of the Belarusian production is exported. The foreign trade to GDP ratio takes Belarus to the top ten European countries.

Banking is well-developed in Belarus. More than 25 banks operate in the country. Twenty banks have foreign capital in the ownership structure, of them seven are 100 per cent-owned by foreign organizations. Eight branches of foreign banks are located in Belarus.

Major branches of economy

A key component of the Belarusian economy is industry. In 2008, the industrial production grew 10.8 per cent on the year. The fuel industry (11.1 %), engineering and metalworking

(10.2 %), building (10.2 %) reported the highest growth rate in the industrial production.

Special to the chemical and petrochemical industry is the production of potassium, nitrogen and phosphate fertilizers that are in high demand overseas. In 2008, Belarus produced more than 6 million tons of mineral fertilizers (as re-calculated against 100 per cent nutrients).

A major percentage of them was exported. Two world-biggest exporting companies operate in Belarus dealing with mineral fertilizers.

One of the Europe-largest tyre manufacturers operates in Belarus, producing tyres for a variety of vehicles, building, agricultural and other machinery.

In 2008, the volume of output in the chemical and petrochemical industries rose by more than 6 per cent, accounting for 13 per cent of the GDP sectoral structure.

The fuel and energy industry of Belarus includes mining, transport, storage and production systems for all types of power. Nearly 85 per cent of energy resources used in the economy are imported.

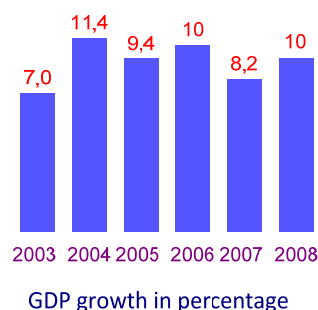
Electric power is central to the fuel and energy industry. This is a leading branch of economy bringing together a traditionally high level of technical and engineering potential of Belarus.

In 2008, Belarus used around 36.7 bn kW/h of electric power and produced 34.9 bn kW/h of its own electricity. The energy intensity of GDP contracted by 8.4 per cent last year.

Currently, the industrial potential of the Belarusian energy system consists of 34 thermal power stations with the rated capacity of over 7.7 thousand MW, a number of smaller power

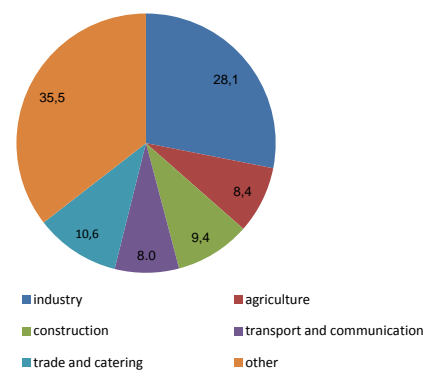
GENERAL FACTS

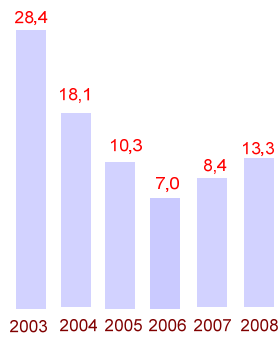
Territory: 207.6 thousand sq. km
Population: 9.67 million
Economically active: 5.9
Urban: 7.1
Rural: 2.5
GDP: Br128.8 trillion
Inflation: 13.3%
Trade turnover: \$72.4 billion
Russia: \$34.2 billion
EU: 22.9 billion
CIS (except Russia): \$5.5 billion
Export: \$32.9 billion
Import: \$35.5 billion
Investments: \$6.5 billion
FDI: \$2.3 billion
Portfolio: \$1.7 million
Other: \$4.2 billion



WORLD BANK rates Belarus as one of the top self-reforming countries in the *Doing Business 2009* report. By easiness of doing business, Belarus is placed 85, which is 30 positions up against last year.

GDP structure in percentage





Consumer prices growth in percentage

Belarus Economy Model

Distinctive features:

Strong and effective statehood that ensures political stability, social equality and public order.

Equality of all forms of ownership seeking to encourage effectiveness of economy.

Multi-directed foreign trade and economic policy as a key principle of promoting adequate development in globalization.

Active social policy, investments in health, education, professional and cultural development of individuals and targeted social help.

FACTS and STATS

The past decade saw Belarus GDP doubled.

Almost 50% of businesses operating in Belarus are now privately owned. They manufacture over 60% of all industrial commodities in the country.

Nearly 85% of energy resources used in the economy are imported. The annual costs of energy supply for consumers is estimated at some 15% of GDP.

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stations and hydropower stations.

Nuclear power is expected to dominate the fuel and energy industry of Belarus in future. In 2008, a decision was made to launch the building of a nuclear power station in the country with the capacity of nearly 2,000 MW which will cut the self-costs of electric power to 20 per cent. The nuclear power station will also allow to slash the consumption of natural gas by over 3.5 bn cubic meters per year.

In 2008, a GDP share of agricultural production was over 8 per cent. The volume of production grew by 9 per cent on the year.

The agricultural sector employed 10 per cent of the country's workforce.

2008 saw the continued implementation of the Programme for the Renovation and Development of Rural Communities in 2005-2010 which is designed to keep agricultural producers adjusted to new market realities, increase efficiency and production volumes of the competitive commodities on foreign markets.

The building sector accounted for 10 per cent of GDP. The core to the industry are manufacturers of building materials.

An important and ever-growing sector of the building industry is construction of residential housing. Housing space of over 5 million square meters was built in 2008 which is 10 per cent more than in 2007.

The light industry of Belarus comprises 300 businesses that produced over 3 per cent of the total industrial output in 2008.

The Belarusian transport industry features a strong infrastructure and solid growth of freight traffic. The year-on-year increase of volume in 2008 for the

following types of transport was 26 per cent for road freight, 2 per cent – railway, 40 per cent – inland waterway.

Ten special programmes were adopted to develop the transport industry in 2007-2008.

The forestry industry in Belarus involves over 2.8 thousand woodworking companies. In 2008, the enterprises harvested 14.7 million cubic meters of liquid wood, with merchantable wood used in ensuing industrial processing accounting for 9.3 million cubic meters. The wood export was nearly 2 million cubic meters in 2008.

The total output of the forestry, woodworking and pulp-and-paper industries went up by 8.6 per cent in 2008, with 7 per cent export growth.

The capital investments in 2008 increased by 23 per cent to reach over Br35 bn. The industry (27.7 per cent) and building of residential housing (17.9 per cent) dominated their overall structure.

In terms of ownership, a majority of capital investments was bound for the private (49.8 per cent) and public (26.9 per cent) sectors of economy.

SMEs

2008 saw a 48 per cent growth of small and medium-sized enterprises (SMEs) in Belarus. As of 1 January 2009, there were more than 66 thousand SMEs registered in Belarus which is 21.5 thousand more than in 2007. Enterprises in small and medium-sized urban areas account for 10 per cent of all SMEs.

There is an entrepreneurship support network operating in Belarus that includes 43 entrepreneurship support centres and 7 incubators for small businesses.

They seek to encourage beneficial conditions for the

creation and operation of SMEs and give impetus to entrepreneurship. Geographically, the centres are located across all regions and in Minsk.

The outreach of the centres was more than 48 thousand individuals in 2008. 780 courses and seminars were conducted to explore pressing issues of business and entrepreneurship, with the overall attendance 21.5 thousand.

Foreign trade

Belarusian economy is export-oriented. In 2008, the Belarusian trade turnover went up by more than 36 per cent against 2007 and reached over \$72 billion. The exports totaled nearly \$33 billion, with a 35 per cent increase compared to 2007.

However, Belarus imported more goods in 2008 than exported. The trade balance was negative for Belarus totaling over \$6.5 billion.

The key trade partners of Belarus are Russia (47.2 % of trade turnover) and the EU (31.7% of trade turnover).

Belarus major exports were mineral commodities (37.9%), chemical products and related goods (14%), machines and equipment (8.1%), vehicles (9%).

The main imports were energy commodities (35.2%), other intermediate products (raw materials, utilities, 38%), investment goods (10.6%).

Foreign investments

2008 saw over \$6.5 billion of inward foreign investments in the real sector of the Belarusian economy, with a 1.2-fold increase against 2007.

A major volume of inward investments came to Belarus from European countries (61.9%) and Russia (33.2%). FDIs made up almost \$2.3 billion.

The major investing countries were Russia, Switzerland, Austria, the UK, Cyprus, and Germany.

Privatisation

In 2008, Belarus adopted a plan of privatisation of the governmental properties for 2008-2010, and a list of joint stock companies with state-owned shares subject to sale.

The privatisation plan sets out the transformation into joint stock companies of more than 500 public enterprises representing all branches of economy.

2008 saw reorganization of 156 state enterprises providing the basis for creation of 107 JSCs, among them are large industrial enterprises. For 2009, the plan forecasts privatisation of over 200 public enterprises.

Labour market

Individual incomes continued to grow in 2008, with a 12 per cent increase against 2007.

Working efficiency growth totaled 9.7 percent in 2008.

Over 4.5 million people or about a half of the total population are employed in Belarus. More than 55 per cent of all employed work in the public sector and over 45 per cent in private businesses.

Unemployment in 2008 was less than 1 per cent, which is one of the lowest rates in Europe.

Inflation

Belarus carries out a balanced pricing policy aimed at controlling ungrounded price increase, but on a gradual and reasonable basis.

In 2008, the consumer price index totaled 13.3 per cent. The prices of industrial manufactures grew 14.2 per cent.

INVESTMENT CLIMATE

To attract more investments, the Government:

- Introduced a notification-based procedure of state registration and liquidation of businesses, shortened the terms of these procedures and list of papers to be filed for these purposes;

- Simplified procedure by which businesses get permits or licences for the given activities;

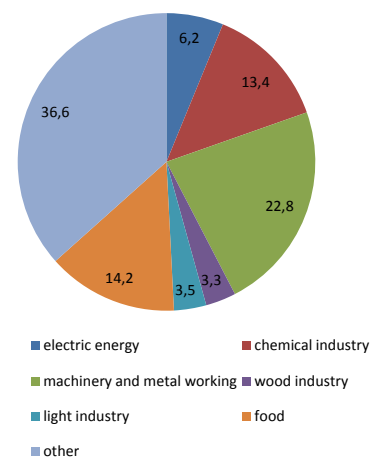
- Relaxed customs-papers regulations for businesses with a "Credible foreign trade and economic business" status;

- Simplified procedure by which the right to land is transferred when the right to premises on that land is transferred to another person;

- Shortened the terms under which a land is given for usage;

- Cut the list of a number of administrative procedures.

Industry structure in percentage



State Programme of Innovative Development for 2007-2010 envisages to set up 187 new enterprises, 321 new manufactures in existing enterprises, comprehensively upgrade 436 active manufactures by larger usage of new technologies that should bring Belarusian goods and services to a higher competitive edge.

Support for SMEs

Simpler regulations in leasing infrastructure facilities and premises of both in public or private ownership, shorter terms of rendering a land for usage;

No registration of prices or tariffs on the new commodities and services, shorter list of commodities and services that are subject to pricing regulation;

Larger application of simplified taxation system;

Notification-based procedure of business registration, with shorter terms;

Terminated inspections and audit of businesses till a relevant order of the Head of State, setting out a uniform procedure of monitoring and control over business, is in place;

List of commodities and services to be certified, and list of commodities that are subject to hygienic registration were cut by 40 per cent;

Pending draft laws on public property disposal, licensing of certain business activities, encouraging innovation, new technologies, larger investments and insurance activities.

Low-carbon economy

Emissions of pollutants in 2007 made up some 1.5 million tons, with a 55 per cent decrease since 1990.

In 2008, Belarus elaborated a National Programme of Measures to Mitigate the Consequences of Climate Change to 2012. It seeks to reduce carbon emissions by 12 million tons.

To implement the Programme, Belarus will need around \$1.5 billion. About 70-80 per cent of the Programme financing is expected to be covered by the Belarus' budgetary resources.

Meanwhile, to achieve the Programme targets, Belarus needs at least \$150 million of carbon financing. Therefore participation in the Kyoto protocol mechanisms, including accession to its Annex B is vital for Belarus.

Full access to the Kyoto protocol mechanisms will allow Belarus, in particular, to intensify modernization of the energy sector, which suffers from 60 per cent of capital depreciation, to encourage larger usage of renewable resources and new technologies in industrial and agricultural sectors.

Impacts of global economic crisis

Global financial and economic crisis caused Belarus less damage than other countries in Europe, US and Russia. Smaller impacts are related to smaller, in comparison to many other countries, amount of foreign loans and investments, and incomplete reforms in domestic stock market.

A key negative effect of the global economic crisis featured a decrease of the demand for the Belarusian goods on foreign markets and of the amount of loans and investments from abroad.

To help mitigate the impacts of the crisis, the Government adopted a plan of economic liberalisation measures and a set of measures to support major industrial enterprises.

Liberalisation measures are being introduced in the following key areas:

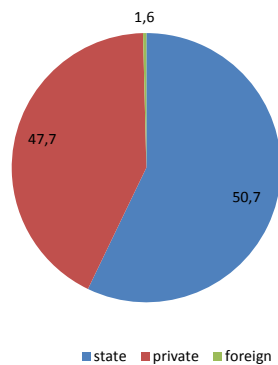
- *Relaxed business launching procedure;*
- *Simplified taxation;*
- *Improved administrative procedures;*
- *Improved pricing and antitrust regulation;*
- *More favourable environment for foreign investors.*

To help address the global economic crisis, the IMF and Russia provided Belarus with loans of \$2.5 billion and \$2 billion respectively.

Apart from that, Belarus and Russia adopted a plan of joint measures to tackle the impacts of the crisis, keep the bilateral trade going and improve environment for businesses.

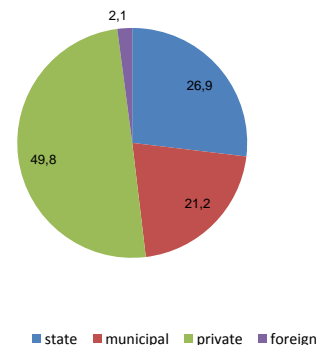
A plan of joint measures of the Eurasian Economic Community to address the crisis is now being agreed. Similar work is ongoing within the CIS and with a number of countries bilaterally.

Employment by forms of ownership in percentage



Within the negotiation process on joining the WTO, Belarus has completed consultations with 10 WTO member countries (Moldova, China, Cuba, Armenia, Turkey, Kyrgyzstan, Bulgaria, India, Panama and Dominican Republic). Negotiations with three countries (Republic of Korea, Brazil and Malaysia) are at the final stage.

Capital investments structure in percentage



To help overcome the impacts of the global economic crisis, Belarus coordinates its anti-crisis measures within different integrations.