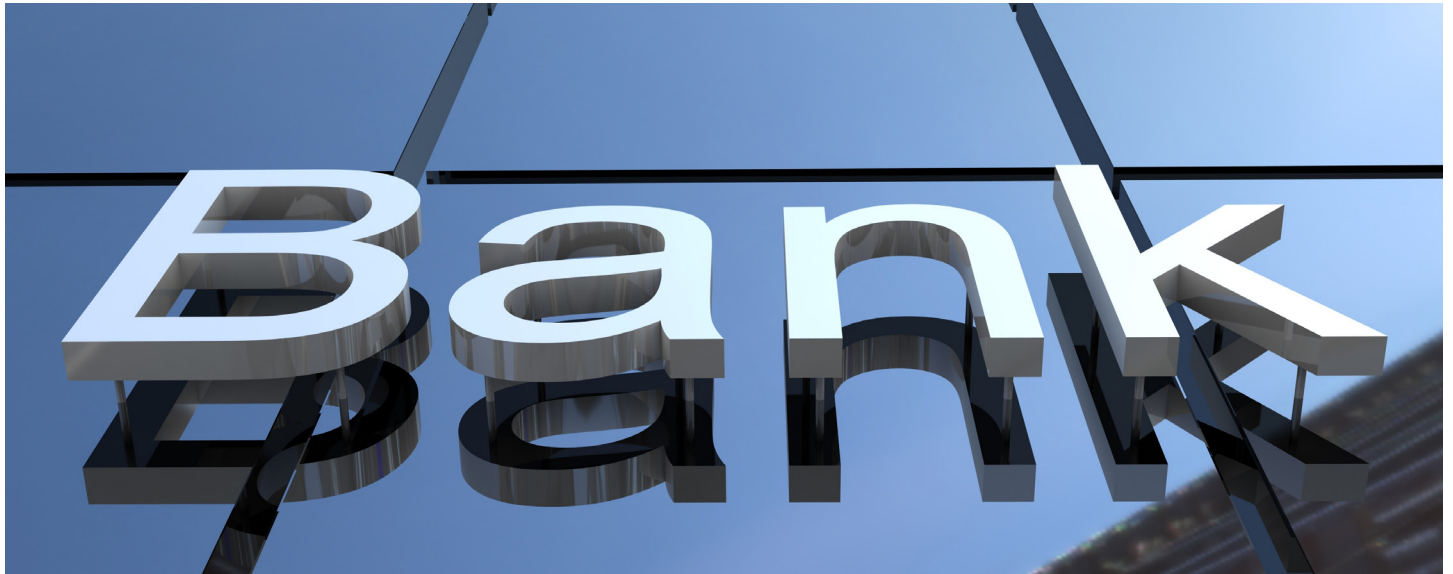


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## Belarusian banks face reshuffle as new requirements imposed

Since the beginning of 2015, nine out of roughly three dozen Belarusian banks have found themselves in a tight spot: they are unable to fulfil new requirements over the minimum level of regulatory capital. As a result, the Belarusian central bank has partially suspended the licences of four lenders and announced that it expects the other five banks to sort their situation out soon.

On January 1, new and more stringent capital requirements came into force in Belarus. The minimum level of regulatory capital needed by a bank operating on the local market was increased to €25mn. Thus on January 29, the regulator

suspended the licences of four small-scale lenders for one year “with respect to separate banking operations”. InterPayBank has found itself under more stringent restrictions: this lender, in particular, will not be able to attract funds into accounts and deposits from individuals, open bank accounts for individuals, issue payments cards, or issue bank guarantees. Three other banks – BIT-Bank, Eurobank and N.E.B. Bank – will be forced to suspend a smaller list of operations.

“The owners of the banks are obliged to take measures aimed at increasing their regulatory capital and remedying other violations, following



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which the suspended banking licences in respect of separate operations may be revalidated, or otherwise to take a decision to change their bank's status to that of a non-bank financial institution involved in a limited number of operations," the central bank noted in a statement.

However, in a subsequent comment provided to bne IntelliNews by the regulator's press service, it appears that five other Belarusian banks also need to boost their regulatory capital. But the central bank has decided to refrain from imposing tough measures against them for now. "Four of these banks have provided us with plans to eliminate violations," the central banks said, adding that if these banks do not implement the announced plans, their licences will also be suspended.

The regulator also says that a fifth bank has violated the new capital requirements only "in connection with a significant increase in the euro exchange rate in late December, so the central bank considers it premature to impose restrictive measures against this bank."

Despite the low levels of regulatory capital denominated in euros, the Belarusian banks maintain their capital in the domestic currency. Thus, the significant devaluation of the Belarusian ruble in December and January was a painful blow for local lenders.

"As for the banks whose licences were limited on January 29, they have not shown any real activity in boosting their regulatory capital to the set amount or any clear plans to implement these requirements," the central banks adds.

## **M&A to the rescue?**

Among the banks that have been unable to fulfil the new regulatory requirements but have avoided punishment are the local subsidiary of Kazakhstan's BTA Bank and Trustbank, controlled by the United Arab Emirates' Alm Investments FZE. As of the beginning of January, BTA Bank needed to boost its regulatory capital by €13mn, while Trustbank needed to find an additional €5.75mn as of the beginning of February.

According to the Belarusian Internet-portal TUT.by, Trustbank is considering the possible acquisition of BTA Bank – a deal that could be finalised in February. This move would resolve the problems of both banks regarding the new regulatory requirements.

However, an inability to agree on a price for BTA Bank could derail any deal, Alexander Mukha, a Minsk-based financial analyst, tells bne IntelliNews. "In such a scenario, the banks will be forced to search for other ways to boost their regulatory capital: in particular, new foreign investors and shareholders," Mukha says.

BTA Bank could end up being rescued by the new owners of its Kazakhstan-based parent. Kazkommertsbank finalised a deal to buy BTA Bank jointly with Kazakh businessman Kenes Rakishev for about \$1bn in February. Before this, the lender was majority-owned by Kazakhstan's sovereign wealth fund Samruk-Kazyna, which bailed out the bank during the 2009 financial crisis. The deal should shift BTA Bank's bad debts into the private sector.

Mukha believes that some of the other banks that need fresh funds for their regulatory capital could also focus on attracting foreign shareholders. "However, some banks will not do anything. They are satisfied with their position [i.e. having suspended licences for operations with individuals] as they work exclusively with legal entities," he says.

## **EBRD investments**

RRB-Bank is among the lenders that have failed to fulfil the new regulatory requirements, but have avoided punishment by the central bank. It needed to boost its regulatory capital by €1.8mn as of the beginning of January. However, on February 11 RRB-Bank issued a statement saying its capital had increased to €28.2mn, which exceeds the minimum level.

Currently, the European Bank for Reconstruction and Development (EBRD) holds a 14.87% in RRB-Bank. •



# Belinvest



## Foreign investment in Belarus economy rises 0.7% to \$15.1bn in 2014

2014 was a difficult year for countries around the globe as problems in the Eurozone and Ukraine mounted, though Belarus managed to maintain its level of foreign direct investment in the teeth of these problems.

In 2014 foreign investors injected \$15.1bn into Belarus' real economy (except for banks), which was up 0.7% from the previous year, according to the National Statistics Committee of Belarus.

The primary investors were from Russia (41.6% of the total investment), the United Kingdom (18.6%), Netherlands (13%), Cyprus (6.2%), Austria (3.5%), and Germany (2.5%). The bulk of investment was channelled into organizations operating in Minsk, the capital (74%). Minsk Oblast accounted for 7% of gross foreign investment, Vitebsk Oblast 6.8%, and Gomel Oblast 5.9%.

In 2014 accounts receivable for products and services amounted to \$7.7bn, down \$517mn from 2013 (6.3%). Taking into account amounts owed for products and services considerable FDI sums were received from residents of Russia (50.3%),

the UK (23.8%), Cyprus (7%), and Germany (3.6%).

In 2014 Belarusian economic operators (except for banks) transferred \$6bn in investment abroad, down 5.6% from 2013. Considerable sums were channelled to economic operators in Russia (37.7% of the total outgoing investments), Netherlands (20.5%), the UK (18.2%) and Ukraine (13.7%).

There are hopes that the country can improve on the FDI total in 2015. Already there have been several large investment plans announced.

The French company Accor is planning to launch the construction of three hotels in Grodno, Brest, and Borisov in 2015, Ambassador of Belarus to France Pavel Latushko said at the opening of the 1st Belarusian-French business forum on February 12.

And on February 13 the Ministry of Economy said China Merchants Group, one of the biggest Chinese holding companies, expressed interest in implementing a large-scale logistics and transportation project in the Great Stone Chinese-Belarusian Industrial Park.

"We need to constantly improve the investment climate in the country, because global competition for investors is continuing. One way or another, countries are coming up with new, interesting features that attract investors. Therefore, working with investors on [improving the investment] climate, attracting investors and improving market dynamics is an ongoing process. I cannot say that we have already reached that goal but we will work even harder for Belarus to become a mecca for investors," Minister of Economy Nikolai Snopkov said in an interview carried on the National Agency of Investment and Privatization website. •



## Interview



### Belarus steps up efforts to construct industrial park with China

Belarus is looking to provide momentum to the ambitious \$5bn project for a China-Belarus industrial park, which that at the final stage should attract more than 200 hi-tech companies and employ over 120,000 people. However, the political and economic crisis in the region that has resulted from the Ukraine conflict is aggravating fears over the project's prospects for quick success.

A 350-hectare strip that borders Minsk's international airport has been allocated as the starting zone for high-priority construction during the first stage of the park, which will eventually cover over 850 hectares. Preparatory infrastructure works are already under way there. However, the "full-scale phase" will start in April, says Kirill Koroteev, the China-Belarus industrial park's deputy director general, in an interview with bne IntelliNews.

This move could be a timely gesture on the eve of a visit to Minsk by Chinese President Xi Jinping,

scheduled for May 10. "It is possible that during this visit we will sign agreements with some new residents of the park," Koroteev says.

The Chinese telecommunications groups Huawei and ZTE have already become the first park's residents. According to Koroteev, China's YTO Group Corporation and state-controlled China Merchant Group are also considering possible participation in the project.

On February 10, Belarusian President Alexander Lukashenko described the park, which was named Great Stone by a special decree signed by him in 2014, as one of the most important projects in Belarusian-Chinese relations. "The President deems it necessary to step up efforts to create the park, taking into account the fact that a meeting with the president of the People's Republic of China Xi Jinping will take place this year," Lukashenko's media office said in a statement.

According to Koroteev, the Chinese machinery maker Sinomach became a shareholder of the park in November through an issuance of additional shares. As of today, 60% of the park is controlled by three Chinese corporations – Sinomach (40%), China CAMC Engineering (17.1%) and Harbin Investment Group (2.9%).

Great Stone's starting zone requires an investment of approximately \$200mn. "At the first phase, we will use our own resources. After that, a long-term loan from Export-Import Bank of China will be allocated. We have almost reached an agreement on this loan," Koroteev says.

The Belarusian side believes that good political relations between the governments of Belarus and China will allow the project to secure funding on favourable terms. According to Lukashenko, China is "a crucial



partner of Belarus”, the president’s media office underlined.

“Production and living areas, offices and shopping malls, financial and research centres are planned in the territory of the park,” Great Stone’s marketing information reads.

## **Regional crisis**

The territory of the park is located 25 kilometres from Minsk, near the M1 international highway that connects Russia and Germany. In recent years, the Belarusian authorities have repeatedly stated that one of the park’s advantages is free access to the markets of the countries of the Eurasian Economic Union (EEU) that was launched on January 1 and includes the original Customs Union members Russia, Kazakhstan and Belarus as well as Armenia.

Meanwhile, it appears that the recent crisis in relations between Russia and the western nations, which triggered the imposition of sanctions and a trade war, is causing potential investors to be worried about the project’s chance of quickly achieving success. “Investment activity is

declining. We feel this even through [a decrease in] the number of meetings, especially with representatives of companies from the nearest European countries,” Koroteev says.

“However, our project is a long-term project,” he underlines, adding that the construction of necessary infrastructure for production facilities will be finished in late 2016 or the beginning of 2017. “Hopefully, the situation will have improved by this time.”

Koroteev also says that Belarus needs to create something like Great Stone because of the absence of similar industrial areas in the country. “Belarus needs to develop. We don’t have a better site for this, and will not have one in the future,” he says.

The China-Belarus industrial park’s deputy director general is also confident that Minsk will be able to meet Great Stone’s need for a highly-skilled labour force, at least in the first stages of the project. “Minsk, where scientific and education life are concentrated, will be the main source,” Koroteev says. ●



# Feature



## Lukashenko calls for normalization of relations with the West

Belarusian President Alexander Lukashenko made explicit in January what was becoming increasing apparent last year: Minsk is fed up with its pariah status and wants to normalize relations with the west.

“Why should we refuse to cooperate with them? Our relations with the West are a bit different. But we need to build them up. The fact that Belarus is pursuing better relations with the USA and the EU should not worry anyone, either in Belarus or in Russia,” Lukashenko told the House of Representatives of the National Assembly of the Republic of Belarus in a speech on January 15, BelTA reported.

As bne noted in an article last year “Belarus in from the cold,” Belarus launched a charm offensive in the second half of last year to try and entice some foreign investment into its economy.

The attempt at Minsk’s rapprochement is being

driven by two factors. First is that Belarus has exhausted most of the easy “catch up” growth of simply putting bums on empty seats of Soviet-era factories and needs investment to modernize existing ones and build new ones. Per-capita income rose to \$16,940 in 2013, but remains behind that of its Eurasian Economic Union (EEU) partners Kazakhstan and Russia, which are at \$20,570 and \$23,200 respectively on a purchasing power parity basis according to the IMF.

The second factor is the unintended consequences of the West imposing sanctions on Russia. The spillover economic pressure on Belarus as a result of the sanctions have been effective in getting Belarus to change its outlook—even if that was not the intention. Keen to drive a wedge between Putin and any of his small number of allies, Europe and the US have made well-received overtures to Minsk.

Adding to the momentum is the increasingly strained relations between Minsk and Moscow. While the Belarusian president continues to maintain that Russia will stay Belarus’ most important partner, the launch of the EEU on January 1 has not gone smoothly; supposedly an economic free trade bloc, Moscow has called for Minsk and Astana into join it in banning EU agricultural imports as part of the tit-for-tat sanctions war. Both Belarus and Kazakhstan have balked at the overtly political move and refused point blank. The upshot has been trade barriers appearing on Russia’s borders to both Kazakhstan and Belarus, just as these borders were supposed to have disappeared completely.

Minsk has been put under even more pressure by the collapse of the Russian ruble in December and was forced to introduce currency controls to prevent a meltdown of the Belarusian ruble, which still lost at least 20% of its value in January.



Minsk needs money. With about five weeks worth of import cover for hard currency reserves and several billions of dollars of debt coming due this year, the Belarusian economy is in a predicament. The Russians may come up with another couple of billion in support as it did in 2009, but it will extract its pound of flesh if it does. The International Monetary Fund (IMF) could also be roped in again, but for the autocratic Lukashenko the pound of flesh to be paid there in the form of reforms and liberalisation is even less appealing. So attracting some foreign direct investment (FDI) and diversifying the country's trade is really attractive right now.

"In this complicated period we can and must rely on ourselves. It will be good if someone from outside can help us. But we cannot count on the West, the East, Russia, Ukraine, or anyone else. We must use our own resources," the President said. "If we manage to diversify export (in relation to the share of export to Russia) and redirect products to other markets, we will avoid collapses

in the economy and finance. Therefore, the diversification of export is number one priority."

It is not going to be an easy sell, but the government is already working hard. Last year government ministers were criss-crossing the globe with a series of investment conferences and this year's effort started with a Belarusian delegation showcasing its woodworking products at a international expo in Turkey for the first time ever.

The acid test will come this autumn when Belarusians go to the polls for another presidential elections. In his speech in January, Lukashenko admitted that the rest of the world will be watching the elections closely, which will in effect be a referendum on his commitment to liberalisation. Lukashenko remains genuinely popular and should be able to win any election. But he also needs to let the election go to two rounds to convince the rest of Europe that democracy is taking hold in the country. •



## Sector



### Beeline to Belarus online

Frustrated with limited choice and backward stores, the increasingly tech-savvy Belarusians are doing more of their shopping online. But with \$3bn of hard currency flowing over the border as a result, the cash-strapped government in Minsk is unhappy with its citizens' new shopping habits.

As with everywhere in Eastern Europe, the Chinese e-commerce giant Alibaba Group has been stealing a match on other online retailers. It reports that Belarus now ranks as its fifth largest overseas market, outspending even the US and Canada on "Single's Day" – a Chinese anti-Valentine's day that celebrates single people on November 11 and is one of the biggest shopping days in the world. This year Alibaba made \$9.3bn in sales on Single's Day, with Russia spending the most of all its overseas customers.

Internet usage is growing fast in Belarus. The state has set up a highly successful technology park and the republic is earning good money from home-grown companies writing software for overseas clients. According to research by the Analytic Centre of the Presidential Administration, as of autumn 2014, 62% of Belarusians used the internet, and around 50% of them were mobile internet users. With the volume of online sales rising fast, last June the online payment provider

PayPal established operations in Belarus to make online shopping even easier.

### A tale of two rubles

The Russian ruble crash has been a boon for Belarusians, who have rushed to buy electronics, consumer durables and cars with their Belarusian rubles after the Russian currency's value collapsed at the end of 2014. And importing their purchases back home has become even easier after the last of the border restrictions were removed on January 1 as the Eurasian Economic Union came into being.

Foreign holidays have been in particular demand, as the falling value of the Russian ruble has forced Russians en masse to cancel their now increasingly costly foreign trips; Russian tourist agencies have slashed prices in response, and for Belarusians tickets to exotic locations have suddenly become much more affordable and they were snapping them up in December.

But it's still early days for e-commerce in this still-isolated ex-Soviet state, with just one in five Belarusians shopping online and one in 20 shopping overseas, according to a study by MASMI, a British market research company.

And with only around \$5bn in foreign currency reserves at hand, the Belarusian government is not happy with its citizens spending such amounts of hard currency overseas; in September, President Alexander Lukashenko threatened to introduce a special tax to curb such shopping habits. "[The West] criticises us for being a poor country, but our people send \$3bn abroad annually and import goods which we also produce ourselves," the president said. "So I have already ordered a decree – if you go abroad, you pay a \$100 fee and then you are welcome to buy things. [This way] people would go to our shops and buy our refrigerators instead of carrying them from abroad." •





# Economics & finance

## **Economy minister says EBRD understands that Belarus is worth investing in**

The European Bank for Reconstruction and Development (EBRD) backs the idea that Belarus is worth investing in, Economy Minister of Belarus Vladimir Zinovsky said in an interview to the ONT TV Channel on 21 January, BelTA reported.

"The EBRD is still examining our country, but the progress is evident. They started to understand that Belarus is worth investing in. They are leaving certain countries due to different reasons, including, perhaps, political ones. Therefore, we have a real chance to demonstrate our significant investment market," Zinovsky was quoted as saying.

The EBRD headquarters in London played host to the signing of an investment agreement between the Economy Ministry of Belarus and the Nordic Environment Finance Corporation (NEFCO) - an international finance institution established in 1990 by the five Nordic countries of Denmark, Finland, Iceland, Norway and Sweden - that advances environmental projects in Northern and Central Europe. "The agreement is estimated at €90 million, and it is quite realistic for us to develop the resources within two or three years," the minister said.

The parties plan to establish a framework for long-term cooperation in using financial resources provided by the corporation for the implementation of environmental projects that are interesting for Belarus and the member states of the association. The project covers a wide range of areas, including environment, energy, infrastructure and even housing and public utilities.

## **Belarus' consumer lending market to resume growth in February**

The consumer lending market in Belarus will start reviving in February, but banks will be more cautious with new loans, writes BelTA, citing various banking sector experts. As of February 1, the National Bank intends to remove the formal limitation on the growth of banks' ruble loan portfolio. "But this does not mean that all banks will instantly start issuing out loans," said Chairman of the Board of MTBank Andrei Zhishevich. "The position of the National Bank on the limitation of ruble liquidity in the banking sector is still very tough. It is a totally justifiable and predictable response of the regulator to the continuing tensions on the foreign exchange market," he said.

Zhishevich deems that this preventive policy will be maintained. "Accordingly, not all banks, including retail banks, will be able to find the funding to resume active lending. The banks, for which the retail business is not the core one, will be probably more focused on the support of their corporate portfolios," he added.

Another fact that needs to be taken into account is possible reassessment of credit risks. "It is clear that the policy of pegging the wage growth to the labor productivity growth is important at this stage but will affect the borrowing capacity of people. It can therefore be expected that banks will be more cautious with new loans, and will reduce credit limits," Zhishevich said.

With regard to the interest rates, Zhishevich believes that given the increase in the deposit rates up to 45-50%, it can be expected that interest rates on consumer lending market will rise to about 60-65%. "It is expensive with



regard to a mortgage, a car loan. Credit cards and small express loans will most likely remain in demand. Given the high interest rates, installment cards will become more popular as they offer zero interest rates for consumers while banks are offset by commission fees from retail networks," he explained.

## Belarus' external debt up 1.1% to \$12.6bn in 2014

As of January 1, Belarus' external debt totaled \$12.6bn, up 1.1% up since the beginning of 2014 taking into account the differences in currency exchange rates, the Finance Ministry has reported.

In 2014, Belarus' external state borrowings totaled \$5.2bn, including \$4.5bn as part of the loans granted by the Russian government and Russian banks, \$626.3mn as loans from Chinese banks, \$47.3mn as loans from the International Bank for Reconstruction and Development, and \$0.3mn as a loan from the European Bank for Reconstruction and Development.

Since the beginning of 2014 Belarus paid \$4.6bn to repay the external debt, including \$2.7bn to the government and banks of the Russian Federation, \$1.3bn to the International Monetary Fund, \$264.8mn to the EurAsEC Anticrisis Fund, \$182.3mn to Chinese banks, \$107.1mn to a Venezuelan bank, \$14.1mn to the International Bank for Reconstruction and Development, \$3.7mn on loans from the USA, and \$0.2mn to German banks.

As of January 1, the state debt stood at BYR197.5 trillion, up 28.2% from the beginning of 2014. As of 1 January, Belarus' internal debt stood at BYR48.4 trillion, up 35.5% from the beginning of the previous year taking into account the differences in currency exchange rates.

In 2014, the government sold \$706.8mn worth of

forex bonds to individuals, BYR2.4 trillion worth of forex bonds to legal entities and redeemed \$199.6mn worth and BYR281.8bn worth of bonds from natural persons and legal persons.

## Belarus' gold, forex reserves down to \$4.7bn in January

As of February 1, Belarus' gold and foreign exchange reserves stood at \$4,724.7mn, the National Bank of Belarus (NBB) has announced. The reserves dropped by \$334.4mn in January, according to estimation means of the International Monetary Fund. In national terms the volume of gold and foreign exchange reserves shrank by \$193.6mn to \$5,522.4mn as of February 1.

The bank noted that the volume was affected by the government's and the National Bank's honouring of domestic and foreign commitments in foreign currency in full.

Overall, revenues from collecting export duties on oil products helped maintain the country's gold and foreign exchange reserves in January, it added. The Finance Ministry's floatation of bonds nominated in foreign currency and an increase in international gold prices also helped keep up the gold and foreign exchange reserves in January.

## Belarus' inflation target for 2015 set at 18%

Inflation in Belarus in 2015 is expected at 18% plus or minus 2%, the National Bank of Belarus (NBB) has announced. In 2015, the key purpose of the National Bank's monetary management policy will be limiting inflation while assisting the stable and balanced development of the national economy. The level of inflation will be achieved by utilising the National Bank's control over money supply, explained the source. Transition to monetary targeting will be enacted. A



30% increase in the average broad money supply in 2015 has been determined as an intermediate reference point for the monetary management policy. An increase in the average ruble money base has been chosen as an operational reference point.

In turn, monetary management instruments will be used to hit the targeted increases in the average ruble money base and the average broad money supply. Regular auctions on the open market will be resumed.

Inflation in Belarus totaled 16.2% in 2014 compared to inflation of 16.5% seen in 2013, the Statistics Service has announced. In 2014, food prices rose by 18.5% while non-food prices rose by 8.1%. Prices for paid services went up by 27.5%.

The central bank noted that in 2014 the macroeconomic situation developed in a complicated and non-homogeneous manner. The fact directly influenced the results of the monetary management policy. Falling prices for oil, devaluation of the currencies in the countries - which are Belarus' main trade partners - geopolitical tensions, changes in the competition situation on markets, all had a negative impact on the Belarusian economy.

## **Belarus's agricultural sector loses \$360mn due to crisis in Russia**

The Belarusian agricultural sector lost more than \$360mn last year due to the devaluation of the Russian ruble. Belarus exported meat products worth \$1.1bn last year, the Agricultural Ministry has announced. The export of meat products declined 19.4% y/y in monetary terms. The export of pork dropped 55.9% to \$57mn, finished and canned meat products – 40.5% to \$77mn, sausages – 32.3% to \$177 n, beef – 15.6% to \$531mn.

In addition, the losses incurred by Belarusian meat processing companies as a result of Russia's temporary restrictions on food imports from Belarus in 2014 are estimated at over \$100mn, writes BelTA, citing Agriculture and Food Minister Leonid Zayats. Together with the devaluation of the Russian ruble, over \$200mn in losses were incurred by domestic companies in August-December 2014, he added.

Commenting on Russia's temporary restrictions on the supplies of meat products of nine Belarusian companies where the African swine fever virus genome was allegedly found, Zayats noted that he would like to have a look at these products. "After all, the ASF virus genome tests are conducted at the laboratories of the Russian Federation. This method is formalized neither by the Single Economic Space nor by the International Office of Epizootics. Product samples are taken in absence of representatives of the Republic of Belarus," Zayats noted.

The Belarusian government considers it important to maintain its positive image on the food markets of Russia and third countries, and wants its products to stay competitive in terms of price, quality and safety. As such, the government is doing its best to lift the import ban, though it believes Russia is being too slow to lift the restrictions.

At the end of November, the Russian Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoznadzor) suspended the import of products of more than 15 Belarusian enterprises to Russia. Several Belarusian companies have already been removed from the import ban list; the decisions on some others are still pending. But the situation is already taking its toll on the Belarusian meat processing companies. Those of them that produce perishable products have been hit the hardest.



## Belarusian premier: Belarus and Russia to harmonize anti-crisis plans

The governments of Russia and Belarus intend to harmonize their anti-crisis plans aimed at halting negative trends in the national economies, Belarusian Prime Minister Andrey Kobyakov said at a meeting with his Russian counterpart Dmitry Medvedev on Thursday, TASS reported.

"The Russian government's [anti-crisis] plan is of great interest to us because we intend to submit the Belarusian government's action plan to our parliament within a month," Kobyakov said.

"The plan offers some serious measures, in particular, to use settlements between Russia and Belarus to a greater extent and also agree macro-economic policy," Kobyakov said.

Russia-Belarus trade peaked in 2012 with \$43bn but fell to current \$37bn, the Belarusian premier said. Russia and Belarus need to understand the reasons for this decline, Medvedev said, suggesting that the entire current agenda of bilateral relations should be discussed, including the Russia-Belarus Union State.

Dmitry Medvedev proposed holding the next session of the Union State Cabinet of Ministers in the first half of 2015 in Russia.

## Belaruskali to channel 75% of profits to budget in 2015

Belaruskali will transfer an additional 55% of its profits above the mandatory minimum of 20% of profits to the national budget every quarter in 2015, writes BelTA citing the FinMin. In line with the document, other Belarusian companies with the profit margin of over 30% will transfer an additional 30% of their profits above the mandatory minimum every quarter in 2015.

In 2014, potash producer Belaruskali produced 10mn tonnes of potash-based fertilizers, up by 48% y/y, the press service of the company has announced. In 2014 the company produced 45mn tonnes of potash ore. The production of granular potash at flotation mills of the first, second and third mining departments made up 60% of the gross output. For the first time the production of compound fertilizers made up 181,700 tonnes. Belaruskali is one of the world's biggest producers and exporters of potash fertilizers. According to International Fertilizer Association it accounts for a seventh part of the world's potash production.

## Finance Ministry: Belarus improves state debt parameters

Economic security indicators of Belarus' state debt have improved considerably, according to the Finance Ministry. As of January 1, the republic's foreign state debt stood at \$12.6bn or 16.6% of GDP. The threshold level of this indicator of economic security is 25%. In October, external state debt stood at 17.8% of the GDP.

Transactions to pay off and service the foreign state debt without including repayments on short-term external borrowings amounted to 7.1% of foreign currency proceeds (7.7% as of October 1, 2014). The threshold is 10%.

As of January 1, combined payments to service the foreign and domestic state debt totalled 5.5% of revenues of the central state budget (with a 10% threshold). The domestic state debt stood at BYR48.4 trillion as of January 1, falling within the economic security zone. Domestic state debt was 5.7% of the GDP, with a 20% threshold.

In 2014, Belarus' external state borrowings totaled \$5.2bn, including \$4.5bn borrowed from the Russian government and Russian banks, \$626.3mn from Chinese



banks, \$47.3mn from the International Bank for Reconstruction and Development, and \$0.3mn from the European Bank for Reconstruction and Development.

## **Inflation in Belarus hits 17.1% in January**

In January, the CPI inflation in Belarus accelerated to 17.1% y/y, the State Statistics Committee has announced. In m/m terms, prices grew by 2.4%. In January, the basic index of consumer prices that disregards changes of prices for individual commodities and services that are affected by administrative and seasonal factors stood at 101.8% in comparison with December 2014. In January prices for foods rose by 1.8% m/m and 17.8% y/y, with prices for non-foods up by 2.4% m/m and 10% y/y. Prices for services rose by 3.9% m/m and 3.

## **Insurance premiums in Belarus rise 10.1% in 2014**

In 2014, insurance premiums on direct insurance and co-insurance plans totalled BYR7.3tn, up by 10.1% y/y, the Belarusian Ministry of Finance announced. The amount of insurance premiums on voluntary insurance plans was estimated at about BYR4tn, up by BYR318bn. The amount of insurance premiums on mandatory insurance plans stood at BYR3.4tn, up by BYR355bn in 2013. According to the FinMin, voluntary insurance accounted for 54% of

insurance premiums in 2014, the same level as in 2013.

The amount of compensation and insurance coverage in general was estimated at BYR3.3tn, up by BYR499bn in 2013. The amount of insurance payouts accounted for 44.5% of insurance premiums in 2014, up from 41.6% in 2013. In 2014 insurance companies transferred BYR936bn to the budget and extra-budgetary funds, up by BYR206bn in 2013.

## **Planned IMF mission to start working in Belarus in March**

A planned IMF mission will work in Belarus in March 2015, the Finance Minister Vladimir Amarin said. "We don't rule out any possibilities as far as financial cooperation is concerned. But the consideration of these matters will need time, at least several months," said the Finance Minister.

Vladimir Amarin explained that a special government program was in development. The program will specify and stipulate national social and economic development parameters as well as parameters of the state budget and other targets. Plans have been made to publish the document in late February. The official also noted that the Finance Ministry is going through technical motions getting ready to release Belarusian eurobonds, but the situation on the securities market is uncomfortable for no. He said it is too early to talk about when Belarus will release eurobonds.



# Chart

## Russia exports economic turmoil to neighbours

Central bank data show that as of February 17 the Belarusian ruble had fallen 17.1% against a basket of currencies since the beginning of the year. The Belarusian currency was down 25.4% against the dollar, 17.9% against the euro and 10.7% against the Russian ruble.

Russia's economic slump, the result of a big drop in the price of oil together with by Western sanctions over the Ukraine crisis, has sent shockwaves across the economies of its post-

Soviet neighbours. Belarus has been particularly hard hit, as more than half of its exports go to Russia.

The National Bank of Belarus has taken some steps to protect the economy from the disorder and buoy the Belarusian ruble. In January it raised its main policy interest rate from 20 to 25%, and last year it imposed a 30% duty on purchases of foreign currency – later nixed for companies and lowered for individuals. •

Exchange rate of the Belarusian ruble against	Official exchange rate	Changes from 31 December 2014, %*	Changes from the previous day of the exchange rates setting, %
<b>the currency basket</b>	<b>2,955.96</b>	<b>-17.13 ↓</b>	<b>0.01 ↑</b>
the US dollar (USD)	14,860.00	-25.40 ↓	1.52 ↑
the euro (EUR)	16,960.00	-17.94 ↓	1.62 ↑
the Russian ruble (RUB)	237.50	-10.72 ↓	-2.37 ↓

## News in brief

### **Belarus falls in world economic freedom ranking**

Belarus ranks 153rd in the updated version of the Index of Economic Freedom ranking, reads the report by the U.S. research think tank Heritage Foundation. Belarus's economic freedom score is 49.8, making its economy the 153rd freest in the 2015 Index. Its overall score is 0.3 point lower than last year, reflecting declines in half of the 10 economic freedoms including investment freedom, the control of government spending, and fiscal freedom. Belarus is ranked 42nd among the 43 countries in the Europe region.

Despite this year's decline, Belarus's economic freedom score has improved by nearly 2 points over the past five years. Marked improvements in overall fiscal management and a decline in perceived corruption have bolstered overall economic freedom. However, the score decline in the 2015 Index has pushed the country back into the "repressed" category.

Belarus remains one of the world's most controlled economies. The state directs or interferes in many areas of the economy. Proposed labor laws include a so-called serfdom decree that threatens to limit the free movement of agricultural workers. These policies, along with centralized state control and harsh redistribution, have stifled Belarus's prosperity and economic freedom compared to the rest of Europe.

### **Belarus milk output to grow by 10% in 2015**

Milk production in Belarus in 2015 will increase by 10% y/y to 6.9mn tonnes due to extensive modernization of the dairy industry, BelTA

news agency quoted Belarusian Agriculture and Food Minister Leonid Zayats as saying on February 13. There are currently 1,600 modern dairy farms in Belarus, or 37% of the total, he added.

Farms using loose keeping practices, milking parlours and milking robots now produce 52% of the country's milk. The improved keeping and milking technology rule out manual labour in milk production and reduce the cost of labour and forage. In 2015, modernisation of the dairy industry will enable production of 6.9mn tonnes of milk, up 10% from 2014, according to forecasts. The share of premium quality milk will be at least 85%, Zayats said.

Construction and modernisation efforts will facilitate an overall increase in milk herd sizes and efficiency, while removing cattle barns and entirely replacing old unserviceable farms, the minister added. The measures also extend to surrounding infrastructure like access roads, as well as repair to farm fences.

### **Belarus plans to receive \$480mn from tourism in 2015**

Belarus plans to increase its revenue from tourism services to \$480mn in 2015, writes BelTA. In January-November 2014, the tourism services revenue totaled \$236mn, up 8.6% y/y. Minsk Oblast showed the best results with 14.5% growth.

Russia traditionally accounts for about 70% of Belarus' total tourism services revenue. Thus strengthening of tourism cooperation with Russia remains a top priority for Belarus. At the same time, in 2015 Belarus intends to continue promoting its tourism potential to



Western Europe and BRICS countries (Brazil, Russia, India, China, South Africa). There are also plans to promote tourism services to Turkey and Israel, since Belarus has agreements on visa-free trips with the two countries.

## **Belarus to sell state-owned shares of Belarusian MTS, Transaviaexport**

The government of Belarus will hold another tender to sell state-owned shares in MTS and Transaviaexport, First Deputy Chairman of the State Property Committee Alexei Vasilyev said on February 12, BelTA news agency reports. "The value of shares in MTS and Transaviaexport remained the same in comparison with the previous attempt," Vasilyev said. The latest attempt to sell the state-owned shares in MTS (51%) was made in February 2014, when the stock was valued at \$863mn.

The Transaviaexport tender originally set for December 30, 2014, was declared void because legal entities that applied to participate did not make the down payment on time. As many as 99.9% of the authorized fund with a face value of BYR13,000 each were available for purchase, according to BelTA.

## **Belarus, Russia to set up venture capital fund in 2015**

A Belarus-Russia venture capital fund will be established in 2015, Chairman of the Belarusian State Science and Technology Committee Alexander Shumilin said, BelTA writes. The joint venture capital fund is designed to provide developers and inventors with the necessary financing to implement their projects. The Belarusian Innovative Foundation will represent Belarus in this project.

According to Alexander Shumilin, there will be enough projects to choose from. "Today the

resources of the Belarusian Innovative Foundation are estimated at merely Br40 billion, while the cost of the projects seeking financing is three to four times as much. There are many good projects that are worth financing in Belarus," he noted.

## **Belarus' Belavia expects to get second Boeing 737-800 in March**

Belavia Belarusian Airlines expects to receive another Boeing 737-800 in March 2015, Belavia Director General Anatoly Gusarov said. The delivery of three new Boeing 737-800 aircraft is part of the Belarusian flag carrier's efforts to renew and expand its fleet.

Gusarov reiterated that in June 2014 Belavia and Boeing signed the contract to purchase the first Boeing 737-800 from the manufacturer. Later, the partners agreed to revise the delivery deadline from 2017 to 2016. The purchase of the new aircraft will allow Belavia to take out of service the Tu-154M planes that are less efficient.

Belavia, headquartered in Minsk, serves a network of routes between European cities and the CIS, as well as some Middle East destinations. Its base is Minsk International Airport. The airline has 1,017 employees. In the last six years, the airline's passenger numbers have doubled.

## **Belarus' meat processing companies lose \$100mn over Russia's import ban**

The losses incurred by Belarusian meat processing companies as a result of Russia's temporary restrictions on food imports from Belarus in 2014 are estimated at over \$100mn, writes BelTA, citing Agriculture and Food Minister Leonid Zayats. Together with the devaluation of the Russian ruble, over \$200mn in





losses were incurred by domestic companies in August-December 2014, he added.

Commenting on Russia's temporary restrictions on the supplies of meat products of nine Belarusian companies where the African swine fever virus genome was allegedly found, Zayats noted that he would like to have a look at these products. "After all, the ASF virus genome tests are conducted at the laboratories of the Russian Federation. This method is formalized neither by the Single Economic Space nor by the International Office of Epizootics. Product samples are taken in absence of representatives of the Republic of Belarus," Zayats noted.

The Belarusian government considers it important to maintain its positive image on the food markets of Russia and third countries, and wants its products to stay competitive in terms of price, quality and safety. As such, the government is doing its best to lift the import ban, though it believes Russia is being too slow to lift the restrictions.

At the end of November, the Russian Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoznadzor) suspended the import of products of more than 15 Belarusian enterprises to Russia. Several Belarusian companies have already been removed from the import ban list; the decisions on some others are still pending. But the situation is already taking its

toll on the Belarusian meat processing companies. Those of them that produce perishable products were hit the hardest.

## **Housing construction in Belarus up 5.8% y/y in 2014**

In 2014, housing construction rose by 5.8% y/y to 5 522.4 thousand square metres of total floor space, which is 110.4% of the envisaged annual target. In 2014, BYR40.6 trillion of fixed capital investment were spent on housing construction, which is 19% of total investment, and an increase of 8.9% y/y. The prevailing sources of funding for housing construction were the own funds of the population (50.9% of investment) and bank credits/loans (34.1%).

For the individuals registered for housing conditions improvement 2,817.5 thousand square metres of total floor space, or 51% of total housing commissioned, were put into use. Compared with 2013, the commissioning of housing for individuals of this category decreased by 3.2 thousand square metres. Out of total housing commissioned for the individuals registered for housing conditions improvement were built: 2,352 thousand square metres with the state support, of which 1,800.8 thousand square metres in apartment houses in cities.

