

bne:Invest in Belarus

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Belarus comes in from the cold

Belarus has launched a charm offensive to turn around its "last dictatorship in Europe" image. And thanks to the geopolitical mess in Europe, the overtures from this long-time pariah state are getting a surprisingly warm reception.

Belarus' senior politicians packed their bags this autumn for a string of road shows to reintroduce the country to the rest of the world. This is the second time the small country wedged between the Baltic states and Russia has tried to interest foreign investors in what it has to offer. In 2008 the republic hired image consultants

Bell Pottinger to organise Belarus' first ever international investment conference in London and about 400 curious investors turned up.

But the timing was terrible. Lehman Brothers had collapsed three weeks earlier and the entire Western financial system was in turmoil. The last thing anyone wanted to do was take on a new and highly risky investment in a country with little in the way of liquid or investable securities.

Now the Belarusians are back to have another go. Europe's investment climate has improved



NATIONAL AGENCY
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REPUBLIC OF BELARUS

since, although it is still poor, and emerging markets have lost some of their appeal following China's economic growth softening and Russia's economic and political woes. The growing consensus is that the main emerging markets have finished their big catch-up gains, so attention is now turning to the frontier markets where big returns are still on offer.

The effort to sell the Belarusian story began earlier in the year. In May, Prime Minister Mikhail Myasnikov met with the president of the Austrian Federal Economic Chamber, Christoph Leitl, in Vienna and agreed to set up a joint investment council, as well as signing a deal with an Austrian construction company to build a new ring road around Minsk.

Then the road show moved to New York in September, where its first investment conference in the US was well attended. A representative from the US State Department turned up and gave a short speech that was full of talk of "cooperation," "partnership" and "promoting democracy," and didn't once allude to the now infamous remark of former US secretary of state Condoleezza Rice that Belarus is "the last remaining true dictatorship in the heart of Europe."

The US interest in improving ties with Belarus may have something to do with Washington's standoff with Russia. Belarus is Russia's best friend in the Commonwealth of Independent States (CIS) and a member of the Customs Union, soon to be transformed into the Eurasian Economic Union (EEU) – Russian President Vladimir Putin's rival to the EU. However, it is in the US interest to drive a wedge between Minsk and Moscow to weaken the impending union if possible, and the best way to do that is through business, trade and investment.

If this is the plan, then Belarus President Alexander Lukashenko seems to be willing to play along. Both Lukashenko and his counterpart

in fellow Customs Union state Kazakhstan, President Nursultan Nazarbayev, have been publicly critical of the one-sided nature of the "free trade" deal they have with Russia. On November 27, Lukashenko expressed "outrage" at new Russian inspections for Belarusian food exports to Russia designed to stop the smuggling of banned EU food products. And in October he embarrassed Moscow by saying Russian sausages used to contain toilet paper but Belarusian sausages don't.

The pace of the PR campaign became frenetic in November when the team hit three capitals in a week. Belarus wants to step up the economic cooperation with Cyprus, Deputy Chairman of the Belarusian Chamber of Commerce and Industry (BCCI) Vladimir Ulakhovich told journalists before the opening ceremony of the Belarus-Cyprus business forum on November 11.

Moving on to Madrid on November 12-13, the Belarusian ambassador to France and Spain, Pavel Latushko, signed off on another business cooperation deal in the Spanish capital.

And by the end of the week Belarusian top officials descended on the British capital for another attempt to woo London's investment banking community and sign off on creating a Belarus-UK business council.

Currently, the UK is the largest Western European investor in Belarus and its third largest trading partner. Belarusian Economy Minister Nikolai Snopkov told the conference delegates that he hoped British investment into his country would decuple. "In Belarus there are 268 companies with the British capital. We want to see this figure increase at least 10 times, and all prerequisites are in place for this," said Snopkov. "We have preserved the potential of the former Soviet Union and augmented it. The per-capita GDP has tripled since 2000. Levels of poverty, inequality, unemployment are the lowest in the



region. About 110mn tonnes of cargo go through Belarus annually. This is only the 40% capacity. This market segment alone can grow twice."

Paying off

It seems that the road show is having some effect, as there is clearly growing interest in Belarus; both Austria and UK have set up business councils to promote investment and trade. And despite its political image, Belarus actually represents an attractive destination for many European companies. In Soviet times the republic was amongst the most desirable places to live, as inputs from a wide range of products were gathered in Minsk for final assembly where the best specialists worked.

Minsk has carried this legacy through to today and remains one of the few really productive manufacturing bases in the former Soviet Union. Things like the famous Minsk fridge are used across the entire former Soviet territory, but likewise mining companies around the world buy its giant MAZ dumper trucks. Almost uniquely in the CIS, Minsk exports as much to the West as it does to the rest of the CIS. With its high quality production, skilled work force but relatively low costs, Belarus is an obvious manufacturing hub right on Western Europe's doorstep.

And the Belarusian authorities are pushing at a door that has already started to open. In January-September, foreign investment in the real sector of the economy (excluding banks) rose by 7% on year to \$11.7bn, the Statistics Committee said in November, of which just over

two-thirds (69%) was foreign direct investment (FDI). The largest part of the investment (35.5%) went into trade and retail, followed by transport (26.6%) and manufacturing (19%).

The increasingly dynamic Turkey has been especially active (after Russia, which currently accounts for 42% of total investment), having increased its investments into Belarus 400-fold in the last six year to a cumulative total of \$1.1bn as of this year.

Germany is also stepping up trade. Currently it accounts for 3.1% of Belarus' total investment, but the number of German companies arriving has been rising quickly: there are now some 350 joint ventures with German capital that have invested a total of \$350mn so far this year, according to the Alexander Fedorchuk, director general of the Minsk department of the Belarusian Chamber of Commerce and Industry, reported BelTA. This increase in investment comes despite an 11% fall in trade to €2.8bn in the first ten months of this year. And that is expected to increase after a German business delegation visited the seventh international investment forum Mogilev Oblast at the start of November, which generated \$500mn in deals with foreign investors.

And Minsk is also trying to make nice with its immediate neighbours. This week the Belarusian foreign ministry announced talks with Poland and Estonia to discuss the "removal of trade barriers" in bilateral trade and deepen economic cooperation. ●



Belinvest



NAIP seeks feedback from foreign investors

The National Investment and Privatization Agency (NAIP), the government organization dedicated to attracting foreign direct investments to Belarus, held a business roundtable on December 11 with the Foreign Investment Agency, which represents the country's leading foreign investors, to get some feedback on what the government can do better to improve the business environment.

Interest in Belarus is rising as the government reaches out to foreign investors. The republic remains one of the few centres of low cost production, while still boasting a highly skilled and educated workforce. "The agency aims to further increase the level of openness on the conditions for investment and expand the communication between business and government agencies. NAIP plans to hold similar events on a regular basis," the agency, which is spearheading Belarus' attempts to attract more investment, said in a statement.

The meeting is part of the republic's efforts to open up to business, which NAIP says will be a regular get-together. The business breakfast was attended by representatives of government agencies, Belarusian and foreign legal and consulting companies, investors and other business associations.

Amongst the issues discussed were proposals on

a set of measures aimed at improving the current situation, as well as issues of mutual relations between the government and potential investors, creating a level playing field for investors operating in the same sectors of the economy, and the need to preserve the stability of the legislation.

Polish interest in Belarus

In particular, Polish businessmen are eyeing Belarus as a possible location for production. "Polish businessmen are interested in investing in Belarus. At present the two countries are advancing to a new stage of economic cooperation, from trade to more complicated schemes," Jerzy Drozd, a representative of the Polish Chamber of Commerce, told reporters on December 1.

At a meeting, the NAIP signed an agreement with the Polish Information and Foreign Investment Agency to intensify its work together. "This document will help work out a single strategy and approaches and will specify business terms," Deputy Prime Minister of Belarus Mikhail Rusy said.

NAIP Director Natalia Nikandrova said Polish partners were interested in projects in alternative energy, transport logistics and agriculture. "We invite Polish investors in Belarus. We operate within the legal framework, which is very important, and are ready to draft regulations for specific investment projects, in other words, we are ready to lobby the interests of investors in Belarus," she said. "We want to challenge the existing stereotypes about Belarus in Western Europe and America, because we are not a closed country."

The government has an extremely ambitious roster of 1,182 projects it would like to complete worth a total of \$22bn. So far, 331 of these projects have already been completed and another 555 contracts to complete new projects have been signed this year, worth more than \$12bn. •



Interview



Belarus strengthens UK ties to grow trade, diversify economy

As Belarus aims to stake a claim as a major destination for foreign investment, bne IntelliNews talks exclusively with its ambassador to the UK, Sergei Aleinik.

Speaking at the Belarusian embassy in London's Kensington, Aleinik covers why a growth in bilateral trade with the UK, a patient approach to diversifying Belarus' economy and the removal of trade barriers could see the country shake off its insular reputation.

The meeting follows the "Belarus Investment Forum", held in London on November 14, where a delegation of Belarusian officials and bankers discussed the potential for foreign investors looking to exploit their growing economy and also announced the formation of a business cooperation council between the UK and Belarus. "We made the decision to set up a bilateral UK-Belarus council, which we believe will prove to be a very good platform for trade and investment facilitation between our two countries," says

Aleinik. "We have organised a trade delegation from the UK to Belarus in the first quarter of next year, where we will be able to hold the first meeting. Then we would expect that the council will meet twice a year, in London and Belarus."

The drive to boost trade with the UK is in keeping with a broader trend of increased activity between London and Minsk. The UK has grown from Belarus' eighth largest partner by trade volume in 2009 to its fourth largest in 2013.

Belarus is increasingly becoming a destination for British foreign direct investment, too, as the ambassador explains: "The UK is already one of the key investors into Belarus. In the first nine months of 2014, we have seen \$2.5bn of investment coming in from the UK and we expect that to grow to \$3bn by the end of the year."

"This is a very solid basis for further trade and already proves that there is a strong mutual interest in terms of investment between Belarus and the UK. We have more than 270 British companies working in Belarus – the numbers are increasing, too," he says.

Aleinik then takes the opportunity to point out that the famous British retail chain, Marks & Spencer, is actually half Belarusian: "Mr Marks [originally Mr Marx] came to the UK roughly 150 years ago, where he met Mr Spencer, and the shop was opened."

Diversify

The ambassador goes on to explain that the aim of strengthening ties with UK investors is not simply to boost trade volume, but also to diversify the overall Belarusian economy, with targeted attempts to develop specific sectors. "We are trying to establish diverse trade relations, sector-wise. We see the petrochemical industry,



fertilizer production, agricultural machinery, optics and textiles sectors as some of the key areas we would like to develop," he says.

"We have to take into account sectors which are already strongly developed here [in the UK]. For example, 8% of all global pharmaceutical exports come from the UK, so this is a sector we can take advantage of not only in pure volume terms, but also in terms of technological input into setting up new production facilities," he says.

The renewables industry is another area that Aleinik says could be not only an attractive area for investment, but also one that the UK's already-established counterpart could help to develop: "We are trying to build a strong, innovative economic model, and we can see a strong example of it in the renewables sector in the UK."

Speaking about the recently established Eurasian Economic Union (EEU), Aleinik says that he sees it as an opportunity to further open Belarus to foreign investment, beyond the member states: "The free flow of goods, services, labour and capital will stimulate trade flows, internal

investment flows, and it create very good opportunities for foreign investors to come and to set up."

Belarus has seesawed between marginal growth and recession in the last 18 months, but has recorded modest GDP increases in the first three quarters of 2014, at 0.8%, 1.6% and 1.4%, respectively. This, set against a backdrop of struggling Western European economies, paves the way for Belarus to seize the moment and establish itself as a serious hub of innovation and economic growth. ●

PHOTO: "The LUCA Awards ceremony of the Global Institute of Certified Public Accountants (ICB Global) took place in London on November 19. The award in the international category "For contribution to the development of the banking sector" was given to the National Bank of the Republic of Belarus. Ambassador Sergei Aleinik accepted the award from His Royal Highness Prince Michael of Kent."

Feature



Uralkali, Belaruskali seen harbouring too many suspicions to revive Potash cartel

Restoring the export cartel between Uralkali, the Russian potash miner, and Belaruskali, its Belarusian rival, could be beneficial for both giants, as well as for the global potash market. However, with distrust lingering after the painful rupture of their cooperation in 2013 and both companies now thriving on their own, the longer they remain apart, the less likely it's seen the cartel will be reinstated.

"I believe that the point of no return has not been passed yet, and that there is still a chance of joint cooperation," Dmitry Konyaev, CEO of Russian fertilizer producer Uralchem, which relies on potash for its products, told the Russian business daily Vedomosti on December 1. "The only thing that matters is that it should be really effective for both companies."

Uralchem, owned by the Minsk-born oligarch Dmitry Mazepin, bought a 20% stake in Uralkali at the end of 2013. The deal was followed by a decision by Suleiman Kerimov, then Uralkali's largest shareholder, to sell 21.75% of the company to

Mikhail Prokhorov, another Russian billionaire and the owner of the Brooklyn Nets US basketball team.

The change of ownership was an attempt to smooth relations with the Belarusian authorities after Uralkali's sudden withdrawal from the Belarusian Potash Company (BPC) – the joint export cartel with a 'price over volume' export strategy. Uralkali's decision sent global potash prices plummeting, however the miner argued that it had been forced into making this step because the Belarusian side had allegedly been negotiating sales outside the cartel.

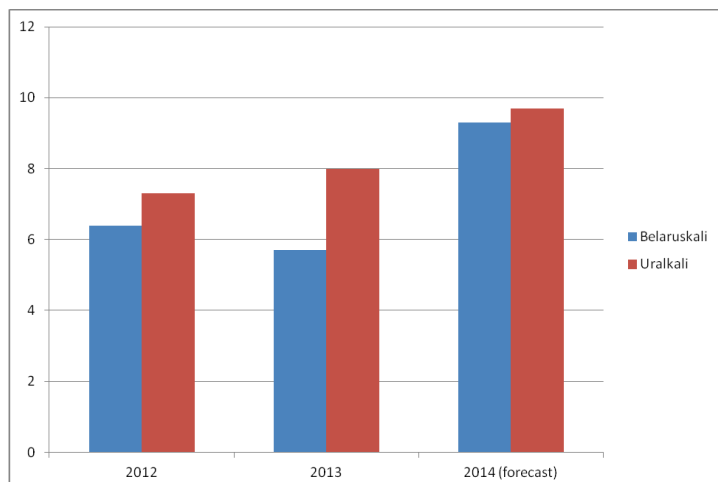
In response, the Belarusian authorities accused Uralkali of attempting to undermine the country's potash industry. Vladislav Baumgertner, then Uralkali's chief executive, was arrested in Minsk after travelling to the Belarusian capital at the invitation of the Belarusian prime minister. After Kerimov agreed to sell his stake in Uralkali, Baumgertner was allowed to return to Moscow.

BPC, now acting as a potash export body for just Belaruskali, has "a new young team" that is engaged in sales on international markets, and it has gained "a lot of expertise," Konyaev said. "However, there is more to learn, including how to operate in the long term on the global potassium market, rather than load production capacities to 100% for the short term," he added.

BPC has reasons to be satisfied with its current sales push. According to Irina Savchenko, spokesperson for the Belarusian company, the potash producer intends to reach a record 9.2mn-9.3mn tonnes of export in 2014. In 2013, BPC's exports stood at just 5.7m tonnes. Savchenko explains that the priority of BPC's marketing policy has been to focus on consumers' particular needs – "this strategy has helped us to achieve these results," she tells bne IntelliNews.



Potash export (million tonnes)



Source: Uralkali, BPC, VTB Capital

Battle for market share

Uralkali, which abandoned its 'price over volume' strategy after it walked out of BPC, also appears to be in good shape. The miner's share of the global potash market had fallen to 17% a year ago on the eve of its withdrawal from BPC, but this had recovered to 23% in the first half of 2014.

Savchenko says that Uralkali's calculation methodology does not count potash shipments from Canada to the US. "If BPC were to approach the calculation in the same way, its market share would be no less than 22.5% for the first half of 2014," she says, meaning that the global market shares of Uralkali and BPC are almost now on a par. "The position of BPC on the market now is very stable."

Uralkali said in a presentation made to investors in November that its decision to change course in July 2013 has contributed to a healthier potash supply-demand balance in the market. "Demand was boosted by more affordable prices and reached record highs in the first quarter of 2014. Stable prices have been encouraging customers to increase their pace of buying," it said.

No talking

According to Savchenko, there are no negotiations at the moment between Uralkali and BPC concerning any possible restoration of their export cooperation. However, the sides have not excluded

the possibility of resuming cooperation. "Never say never," she says.

"Obviously, Uralkali now has a number of serious problems on which it should be working," Savchenko adds, hinting at an accident that occurred in November at the Russian company's Solikamsk-2 mine. Shortly after the mine's evacuation, a sinkhole of up to 40 metres was detected to the east of the Solikamsk-2 production site.

Elena Sakhnova, an analyst at VTB Capital, believes that the longer Uralkali and Belarus delay restoring the export cartel, the less likely they will be to strike a deal. "When the Belarusians were left without any sellers [after Uralkali exited BPC], they were shocked and really wanted to restore the cartel," Sakhnova explains. "But now they are doing well, selling potash fertilisers by themselves, and they do not actually need Uralkali's assistance."

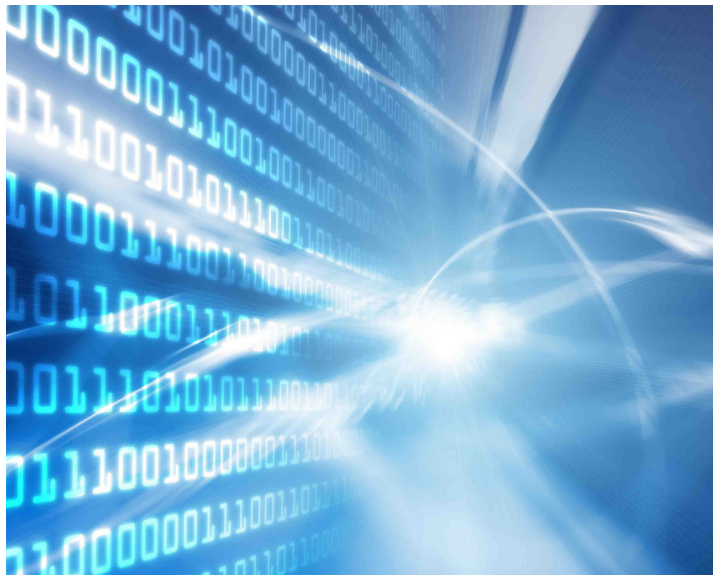
Significantly, the Belarusian side now has full control over the entire selling process. "They sell by themselves, and can control themselves," Sakhnova says, adding that previously the Belarusian authorities believed that the behaviour of Uralkali's management was not fully transparent. In particular, according to Belarusian law enforcement officials, Uralkali allegedly provided illegal discounts to some buyers and favoured Uralkali's own production in the cartel.

Vladimir Semashko, first deputy prime minister of Belarus, told journalists at the end of October that Belarus and Uralkali would not resume cooperation in the short-term perspective. He did not elaborate any further.

Says Sakhnova: "Has the point of no return [in relations between Uralkali and Belaruskali] already been passed? Probably not – it is necessary to negotiate. However, we are not seeing these negotiations. I believe that both sides lack confidence that they really need restoration of their relations." •



Sector



Belarus IT sector benefits from govt's "positive-neutral stance"

The IT sector in Belarus has experienced significant growth in recent years. The government's liberal stance towards the sector and an increasingly skilled workforce are contributing to this 'success story', though some analysts believe a number of challenges loom for the industry.

Exports of IT services in Belarus stood at \$552mn in 2013 – an increase of 35% compared with the previous year. Over the past five years, this kind of export has increased by 3.5 times. "In terms of dynamics and potential, the IT sector is the most successful sector in Belarus now," Dmitry Matveyev, partner at the Minsk-based law firm Aleinikov & Partners, tells bne IntelliNews.

"And in the future we can expect not only quantitative growth, but also qualitative growth. If, initially, the IT sector was predominantly represented by outsourcing of services, today there are many examples of successful 'product' teams which have been able to create competitive software, including mobile platforms," Matveyev underlines.

Oleg Andreyev, managing director of investment banking at Minsk-based EnterInvest, tells bne IntelliNews that the Belarusian authorities have taken "a positive-neutral stance" towards the sector. In Belarus, where many industries are under strict government regulation, "this was enough for success."

"Initially, the state took up a position of non-interference in the affairs of software developers. The IT sector remains the least regulated sector in Belarus; the state only created a 'tax incubator' for these activities," Matveyev adds.

Park life

Matveyev believes that one of the main reasons for the spectacular growth of the IT sector in Belarus lies in the creation of a favourable tax environment in this sphere. He explains that in 2005, Belarusian President Alexander Lukashenko signed a decree that established a high-tech park (HTP) in Minsk, which provides "unprecedented benefits for software developers."

According to the HTP's administration, 140 companies are currently registered as residents, half of which are foreign companies and joint ventures. One of the park's first residents, registered in 2006, was US-based EPAM Systems. The company maintains the bulk of its operations in post-Soviet countries, and has been listed on Nasdaq since 2012.

The HTP's residents, whose offices can be located in any part of the country, are exempt from paying corporate taxes, including VAT, as well as property taxes (they pay just 1% of their revenue to the park's administration). A flat income tax rate of 9% was set for employees of HTP companies. "These measures have managed to stop the outflow of IT business and personnel from Belarus," Matveyev says.



Andreyev says the HTP has become a flagship centre for IT in the post-Soviet space, "which has been able to absorb the world's leading practices." "This has enabled many companies to make a good start. However, I believe that the dynamism and initiative has been in decline in more recent times, especially when compared with projects that are run in neighbouring countries. A transition to a higher level is necessary, but this is not happening; the HTP still remains a centre of offshore programming."

According to Matveyev, Belarus has also introduced favourable conditions for exporters of IT services and software that are not resident in the park, including sole proprietorships. "These businesses can apply to pay a 3% tax rate on their revenues (VAT is not paid on exports). Another significant factor is that filing of reports is carried out only once per quarter," he says.

According to Belarusian sector experts, exports of IT services from Belarus will grow by 24-28%

per year, and could exceed \$1bn in 2017. Uniter, a Minsk-based consulting company, wrote in its market research earlier this year that the country's IT industry will develop towards the creation of a favourable environment for the arrival of large multinational players.

What are the short-term challenges that face the IT sector in Belarus? According to Andreyev, unpredictable currency devaluations in neighbouring countries are now the main problem. "This automatically makes employees of the Belarusian IT sphere less attractive to employers [in neighbouring states]. They become more expensive," he explains.

"On the other hand, we can expect a significant influx of skilled workers from neighbouring countries to Belarus, workers who will not be satisfied with their incomes at home [after devaluation]," Andreyev says. "This could lead to an overall drop in employment in the industry and increased competition among specialists." •

The Dogg loves Belarus

You find friends in funny places. World famous US rap star Snoop Dogg in November launched a line of designer clothes and accessories using the distinctive Belarusian prints and motifs, and promoted it with a Twitter campaign announcing that "Snoop loves Belarus," which is also the name of the line.

The line includes T-shirts, backpacks, iPhone case and computer bags available via the singer's website.

Exactly how the American rapper stumbled across the traditional Belarusian prints remains a mystery, but certainly they are distinctive, attractive and virtually unknown on the US market.

Like many US rappers, in addition to singing Snoop runs a successful commercial operation to leverage his name with various products associated with the music industry. •



Economics & finance

Belarus trade surplus grows as Russia adjusts to Western sanctions

EU sanctions against Russia have helped Belarus generate “a half billion dollar trade surplus over the last few months,” according to Aleksandr Mikhnevich, first deputy prime minister of Belarus.

“We have one of Europe’s most efficient agricultural sectors,” Mikhnevich told a gathering of investors and press, including bne IntelliNews, in London in November. “While there is a clear agreement with Moscow that sanctioned products can’t be imported from Europe to Russia, if the product is processed in Belarus then it can enter Russia.”

Since August, Russia has imposed restrictions on EU food imports in response to Western sanctions aimed at Moscow. This has seen food prices in Western Europe fall sharply, allowing Belarus to import cheap EU food, while exporting its own produce (and “processed” EU food) onto its giant eastern neighbour.

Western sanctions on Russia have “complicated life a little,” said Mikhnevich, but the existence of the Customs Union (which will from 2015 deepen into the Eurasian Economic Union) trade bloc, guaranteeing free trade between Russia, Belarus and Kazakhstan, has provided “an opening” for this relatively poor land-locked country.

“Since Russia introduced sanctions on EU food imports in early August, we have boosted our trade balance by roughly \$500mn,” he told investors at the Belarus Investment Forum in London. “We can sell anything we produce to Russia and replace it with European goods, and Russia won’t object to this.”

Mikhnevich also stressed the progress already made by the EEU, which from next year will also

include Armenia and possible Kyrgyzstan. “Don’t be unnerved by the aims of this organisation – it is solely about commerce,” he said. “In terms of trade integration, we’ve achieved in just a few short years what has taken the EU several decades.”

James Wilson, director of the Belarus EU Business Council, followed up by saying that Russian sanctions on EU food exports were “a good opportunity” for Belarus – with Poland, Latvia and Lithuania immediately accepting Belarusian offers to buy excess produce.

“Because Russia has put sanctions on European fruit and vegetables, prices of apples, pears and potatoes have plummeted in Western Europe, so Belarusian producers can buy cheaper than they can produce domestically, and then sell on to Russia,” said Wilson.

Referring to “warming relations” between Belarus and the EU,” Wilson added that he viewed Belarus as “a launch-pad” to the EEU and its 180mn consumers.

The purpose of the Belarus Investment Forum was “to extinguish this fear investors have that Belarus is under sanctions,” said Mikhnevich. “No one is going to slap your hand if you start working with Belarus.”

Fitch: Geopolitics and oil key to prospects for CIS Banks

The 2015 outlooks for banking systems in the Commonwealth of Independent States (CIS) are dominated by geopolitics and oil, Fitch Ratings said in a December report. Sanctions and the lower oil price will affect the Russian economy and its banks, while Ukrainian lenders are



experiencing considerable stress as a result of the country's crisis. The performance of banks in other CIS countries should be more stable, but they will also face challenges stemming from weaker Russian demand and lower oil revenues.

Fitch expects the Russian economy to contract by 1.5% in 2015, and there is significant downside risk to this forecast in the case of tightened sanctions, accelerated capital flight or a further fall in oil prices. The weak economy, already large depreciation of the ruble, closed wholesale funding markets, rising inflation and high interest rates will put significant pressure on banks' credit profiles and ratings next year, and the sector outlook is negative.

The outlooks for banks in Azerbaijan, Belarus and Uzbekistan are stable, given already low ratings. However, challenges will increase as a result of lower oil prices (Azerbaijan) and the weak Russian economy (Belarus, Uzbekistan). The sector outlook is moderately positive in Georgia as the economy continues to grow strongly, benefiting lenders whose financial metrics remain robust.

Belarus' 2015 draft budget passes first reading

The draft national budget for 2015 passed the first reading in the parliament on 11 December, BelTA writes. According to the draft, the budget revenues in 2015 will amount to BYR156.7 trillion, up 27.4% y/y, expenses will total BYR141 trillion, up 12.4% y/y. Thus the budget surplus will be at the level of BYR15.7 trillion. The total revenue of the consolidated budget is projected in the amount of BYR252.9 trillion, spending is planned in the amount of BYR237.9 trillion.

As usual, the main expenditure items have a social focus. In particular, BYR1.8 trillion will be spent on the family capital program. The share of expenditure on education increased from 17.3% to

18.1%, on healthcare from 14.2% to 14.8%.

In 2015, Belarus is set to run a budget surplus equal to 1.8% of GDP, which is about \$2bn, Belarus' deputy finance minister Maxim Yermolovich said. He stressed that over the past five years Belarus has steadily been running budget surpluses. "We did not allow a budget deficit in 2013, the surplus amounted to about 0.2% of GDP. In 2014, as of 1 October, the budget surplus is at 0.8% of GDP," he said. Moreover, Yermolovich noted that the fiscal policy is quite tough, subject to the principle of cautious expansion of government social spending.

Belarus to spend \$2bn in oil export duties repaying state debt in 2015

Belarus plans to spend over \$2bn in oil export duties on repaying the foreign-currency state debt, BelTA writes, citing Finance Minister Vladimir Amarin.

In 2015 Belarus' state budget intends to earn over \$2bn as export duties on oil products and customs duties on exporting the oil extracted in the country and spend the money on repaying the foreign-currency state debt, both the internal one and the foreign one. Apart from that, taking into account borrowing opportunities on the global financial market, there are plans to use external finances to the tune of about \$1bn to honor commitments of the foreign-currency state debt.

Belarus plans to spend \$3bn to pay off foreign debt in 2015, head of the budget policy department of the Finance Ministry Yuri Seliverstov said. "Foreign debt has a serious impact on the structure of the 2015 central budget. Therefore we have to run a budget surplus of BYR16 trillion. The funds will be used to pay off the public foreign debt. We are due to repay



about \$3bn next year. Besides, the debt servicing will cost us approximately another \$1bn," Yuri Seliverstov said.

As of 1 November 2014 Belarus' external state debt stood at \$12.9bn, up by \$482.4bn since the beginning of the year or 3.9% (taking into account differences in currency exchange rates). Overall state debt on November 1, 2014 totaled BYR182.1 trillion, up 18.2% since the start of the year.

Belarus' foreign trade surplus at \$798mn in Jan-Oct

The surplus of Belarus' foreign trade in merchandise and services totaled \$797.7mn in January-October compared with deficit of \$1.4bn seen in January-October 2013, the National Bank of Belarus has announced.

In January-October, Belarus' foreign trade totaled \$73.3bn, 2.5% down y/y. Belarus' export rose by 0.5% to \$37bn while import shrank by 5.4% to \$36.3bn. In January-October, the deficit of merchandise trade totaled \$1.1bn versus \$3.3bn a year ago.

In January-October, Belarus' foreign merchandise trade dropped by 3.8% y/y to \$62.2bn.

Merchandise export shrank by 0.4% to \$30.6bn while import dropped by 6.9% to \$31.6bn.

Belarus' foreign trade in services rose by 5.7% to \$11.1bn. Export rose by 5.2% to \$6.5bn while import rose by 6.4% to \$4.6bn. The surplus of foreign trade in services rose by 2.3% to \$1.8bn.

Belarusbank repays \$110mn syndicated loan from Russian banks

Belarusbank has repaid q \$110mn syndicated loan raised from Russian banks in December 2013,

the press service of the bank has announced. The loan was organized by NOVIKOMBANK, Gazprombank, MDM Bank and Commercial Bank GLOBEX, Alfa-Bank, Bank ZENIT, Russian Slavic Bank and Investment Trade Bank. Agent bank and bookrunner on the transaction was NOVIKOMBANK.

In November, Fitch Ratings affirmed the foreign currency Long-term Issuer Default Ratings (IDRs) of Belarusbank at B- with Stable Outlook. The affirmation of the bank Long-term IDR with Stable Outlook reflects Fitch's expectation of support potential from the government of Belarus, in case of need. Savings Bank Belarusbank is one of the largest all-service financial and credit institutions of the country.

Belarus' gold, forex reserves fall \$202.9mn to \$5.8bn in November

According to preliminary data as of December 1, Belarus' gold and foreign exchange reserves stood at \$5,821mn in accordance with methods of the International Monetary Fund. The reserves went down by \$202.9mn in November, the National Bank of Belarus has announced. In national terms the volume of the gold and foreign exchange reserves shrank by \$313.6mn to \$6,408.7mn as of December 1 according to preliminary data.

The Fx/gold reserves of Belarus increased by \$18.1mn in October to \$6.227bn, the National Bank has announced. In national terms, the volume of Fx/gold reserves, however, contracted by \$476.5mn to \$6.721bn in equivalent. Foreign Exchange Reserves in Belarus averaged \$3.7bn from 2002 until 2014, reaching all time high of \$8.3bn in June of 2012 and a record low of \$399.7mn in January 2003. At the moment, the reserves/import cover ratio stands at 1.5 month, quite below the required minimum of 3 month.



Belarus approves development forecast, monetary policy for 2015

President Alexander Lukashenko has approved the most important parameters of the country's social and economic development forecast and the major monetary policy guidelines for 2015, the presidential press service has announced.

GDP is expected to grow by 0.2-0.7%. This result will be reached by boosting the added value in the manufacturing sector (0.4-0.8%), agriculture and forestry industry (1.2-1.4%), the services sector (1.6-2%). Further technological and economic modernization of production will help raise labor productivity by 1.5-2% (measured by the GDP).

Taking into account the anticipated decrease in aggregate demand in Russia and the dynamics of world prices, the export of goods and services will make up 96-96.4% as against the 2014 level. Without considering oil and oil products, the export of goods and services is expected to increase by 0.3%. The deficit of foreign trade in goods and services is expected at 3.3-3.5% to GDP.

The energy intensity of the GDP is projected to fall by at least 0.5% in comparison with the previous year. The return on sales in the manufacturing sector is projected to make up 7-7.5%. The increase of consumer prices will not exceed 12%.

There are plans to build at least 2.5mn square meters of housing with state support.

In 2015 the real disposable income of the population will increase by 1.1-1.5% over 2014.

In accordance with the major monetary policy guidelines for 2015, the average annual refinancing rate is supposed to be 15-16% per annum. Lending of banks and the Development Bank of the Republic of Belarus to the economy

will rise by 12-14%, the international reserve assets in IMF terms will remain at the level of 1 January 2015.

Fitch affirms Belarusbank, Belinvestbank at B-

Fitch Ratings has affirmed the foreign currency Long-term Issuer Default Ratings (IDRs) of Belarusbank and Belinvestbank at B- with Stable Outlooks, the Fitch agency has announced. The affirmation of the banks' Long-term IDRs with Stable Outlooks reflects Fitch's expectation of support potential from the government of Belarus, in case of need. The experts also note high systemic importance of the banks.

Savings Bank Belarusbank is one of the largest all-service financial and credit institutions of the country. OAO Belarusian Bank for Development and Reconstruction Belinvestbank is an authorized bank to service government programs.

Fitch Ratings also affirmed the foreign currency Long-term Issuer Default Rating of the Development Bank of the Republic of Belarus at B- with Stable Outlook.

Belarus state budget surplus reaches \$573.5mn or 1% of GDP in Jan-Oct

In January-October, the state budget posted a surplus of \$573.5mn or 1% of GDP, the Finance Ministry has announced. The surplus is attributed to the quarterly amount of principal taxes received in October this year (value added tax, income tax), the report says. The revenues of the state budget in January-October amounted to \$9.7bn or 81.2% of yearly plan. Expenditures totaled \$9bn, or 75.9% of the plan for the year. The VAT revenues



amounted to \$5.6bn-91.7% of the plan, income tax-\$1.5bn (78.1%), excise tax-\$1.66bn (76.8%).

In 2015, Belarus is set to run a budget surplus equal to 1.8% of GDP, which is about \$2bn, Belarus' deputy finance minister Maxim Yermolovich said. He stressed that over the past five years Belarus has steadily been running budget surpluses. "We did not allow a budget deficit in 2013, the surplus amounted to about 0.2% of GDP. In 2014, as of 1 October, the budget surplus is at 0.8% of GDP," he said. Moreover, Yermolovich noted that the fiscal policy is quite tough, subject to the principle of cautious expansion of government social spending.

According to prime minister Mikhail Myasnikovich, in 2015, Belarus intends to spend its state budget surplus on paying down foreign debt. According to the PM, Belarus will primarily use its own resources instead of new loans to repay the external state debt in 2015. The central state budget draft allocates \$4bn for servicing and repaying the state debt, including \$3bn to repay the internal and external foreign currency debt.

Profits of Belarusian banks 18.3% up in January-October

In January-October, Belarusian banks earned BYR6.2bn in profit, 18.3% y/y, the National Bank of Belarus (NBK) has announced. As of 1

November assets of banks totaled BYR454.5bn, 15% up ytd and 1.1% m/m in October alone. The share of foreign currency assets rose from 50% as of 1 January to 50.6% as of 1 November. The share of loans granted to corporations and individuals in the bank assets was 71.6%, up from 71.7% as of the beginning of the year.

As of 1 November the regulatory capital of Belarusian banks totaled BYR60.7bn, up by 13.2% ytd. The sufficiency of the regulatory capital in the banking industry was 15.44% (15.5% as of 1 January) while the threshold is 10%. To compare, as of 1 November 2013 the figure was 15.68%. Troubled assets of the banking industry increased by 8.6% to BYR13.3bn. The share of troubled assets in bank assets, which are susceptible to credit risks, stood at 4.3% as of 1 November. In January-October the overall registered charter capital of the banking industry rose by 1.8% to BYR32.4bn as of 1 November.

The Belarus banking industry comprises 31 banks licensed for banking operations. The number includes 27 banks with a share of foreign capital. The share of foreign capital exceeds 50% of the charter capital in 22 banks.



Chart

Inflation slows to 18.3% in November

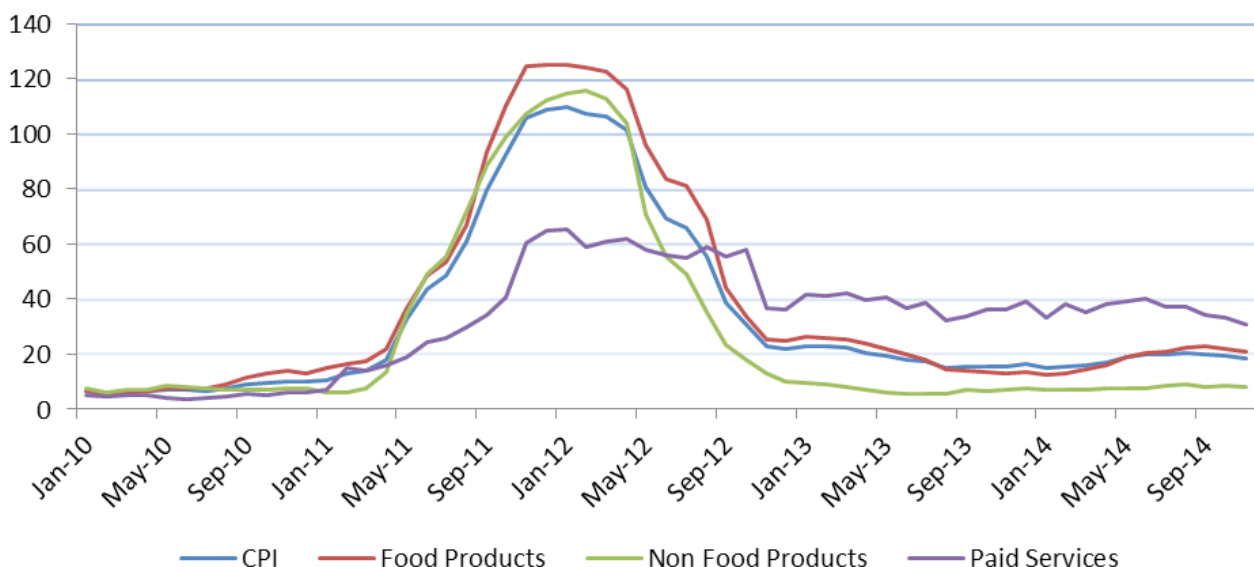
In November, Belarus' consumer price index rose 18.3% y/y, compared with a 19.4% rise in October and 20.1% in September, the Statistics Committee announced. In m/m terms, CPI inflation slowed to 0.6% versus 1.2% seen in October. In January-November, prices grew by 15.5% year to date (ytd).

Core inflation (the CPI excluding price changes for goods and services which are under impact of administrative and seasonal factors) in November 0.6% m/m, 14.1% ytd.

In particular, food prices increased by 0.4% m/m, 20.9% y/y and 18.2% ytd. Non-food prices rose by 0.3% m/m, 8.3% y/y and 7.5% ytd. Services inflation reached 1.9% m/m, 31% y/y and 24.9% ytd.

Under the updated official forecast, year-end consumer price inflation is expected to hit 17.3% y/y in 2014. Originally, the headline inflation was projected to hit 11% y/y in December 2014, but the ytd inflation already hit this level as of July.

Economy Minister Nikolai Snopkov said in November that the government is working on new measures to counter inflation. The draft stipulates antimonopoly measures. "Competition and low prices go hand in hand. The replenishment of the home market is the main factor for reducing inflation or at least for keeping it within the planned range," said Snopkov. •



News in brief

Belarus refutes Russian media allegations of resuming customs control at border

The State Customs Committee (SCC) of Belarus has denied Russian media allegations that it had resumed customs control on the border with Russia, writes BelTA. The SCC stressed that procedure of the transit of goods via Belarus is in strict compliance with the customs legislation of the Customs union and the national customs laws.

The State Customs Committee of Belarus jointly with the Federal Customs Service of Russia have developed approaches for administrating the flow of goods banned by Russia as part of sanctions against the EU and US, and in particular their movement across the Belarusian part of the Customs Union border. Checks have spotted a number of attempts to import sanctioned goods to the Russian Federation.

Russian tourists prefer Belarus to other CIS member states

Belarus tops the list of the CIS member states in terms of the visits of Russian tourists in 2014, BelTA reports citing statistics of Russian online hotel booking service Okto.ru.

Russian tourists coming to Belarus independently, not through travel agencies, stay for three days on the average and pay for hotel accommodation about RUB3,800 per night.

The Okto.ru data shows that in 2014 Belarus accounts for 32% of all trips made by Russian tourists to the CIS member states. Belarus is followed by Ukraine (21% of trips), Kazakhstan

(17%), Armenia, Azerbaijan, Moldova, Uzbekistan and Kyrgyzstan.

The top ten most popular CIS cities among Russian tourists in 2014 are Minsk, Kiev, Almaty, Baku, Yerevan, Astana, Chisinau, Tashkent, Bishkek and Brest.

The number of trips to the CIS member states booked by Russians online has increased 2.5 times this year. The number of trips to Ukraine has halved.

Belavia raises passenger numbers by 25.8% y/y in November

In November, Belarus' national air carrier Belavia increased passenger numbers by 25.8% y/y to 115,585 passengers, the company has announced. In January-November, Belavia carried 1,858,328 passengers, up 22.5% y/y. The passenger traffic increased by 23.3% y/y.

The amount of cargo and post transported by Belavia in November increased by 10.9% y/y to 202,600 tonnes. In January-November Belavia carried 1,990.5 tonnes of cargo and post, up 12.3% y/y.

Belavia Belarusian Airlines is the national airline company of Belarus, headquartered in Minsk. Belavia 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 plans to stop importing electric power from 2018

Belarus plans to stop importing electric power starting from 2018, head of the energy efficiency department at the Energy Ministry of Belarus Mikhail Malashenko said. This will become possible after the Belarusian nuclear power plant (BelNPP) is put into operation he added.

The commissioning of the BelNPP will involve the use of the most efficient facilities of the energy system, with lower specific consumption of electric power. Mikhail Malashenko noted that the specific electric power consumption of condensation stations in new units and existing units differs by about 30%. The prime cost of one KWh of energy generated by the Belarusian nuclear power plant will be considerably lower compared to the cost of energy generated today. Moreover, after the Belarusian nuclear power plant becomes operational, electric power can be supplied to other countries.

Belarus has plans to purchase about 2.5bn kWh of electric energy from abroad in 2015.

Belarus improves to 119th place in Corruption Perceptions Index

Belarus has improved to 119th place out of 174 countries studied in the latest Corruption Perceptions Index compiled by Transparency International. Belarus is sharing with Mozambique, Sierra Leone, Tanzania and Vietnam. Belarus scored above Kazakhstan (126), Azerbaijan (126), Kyrgyzstan (136), Russia (136) and Ukraine (142). The regional average for Eastern Europe and Central Asia is 33 points, with Georgia being the best (52 points) and Turkmenistan the worst (17 points) performers in the region.

Unemployment rate in Belarus stands at 0.5% as of end-Oct

The official unemployment rate in Belarus stood at 0.5% of the economically active population (or 22,000 in total) as of end of October. The unemployment rate rose by 6% y/y and by 2.1% m/m. Organizations (excluding small businesses) in October hired 75,000 people (2.3% of average population).

The official unemployment rate includes only those who are registered as unemployed. Methods of International Labour Organization (international standard) also include job-seekers who are not registered officially. Many unemployed people in Belarus try to avoid registration, because of obligatory participation in public works, while unemployment benefits are very low.

Belarus attracts \$13bn for infrastructure projects

The volume of dedicated credit lines opened up for infrastructure projects amounts to \$13bn, Belarus' Deputy Finance Minister Maxim Yermolovich said during the parliamentary hearings on public private partnerships on 25 November, BelTA reported.

The construction of the Belarusian nuclear power plant (BelNPP) is the largest project, Yermolovich said, with over \$10bn borrowed from the Russian government and Vnesheconombank. Bank of China allocated over \$2bn of credit resources for Belarusian power engineering and road building industries. The International Bank for Reconstruction and Development (IBRD) is investing around \$800mn in the modernization of social facilities, rehabilitation of Chernobyl-affected regions, development of the water-supply and water-disposal systems, and others projects.



Belarus' farm exports down 2.2% y/y to \$4.215bn in Jan-Sep

Belarus lowered exports of farm products and foodstuffs by 2.2% y/y in January-September to \$4.215bn, the National Statistics Committee has said. Imports of farm products and foodstuffs grew 13.2% y/y to \$3.405mn. Belarus produced \$809.8mn surplus in foreign trade in farm products in January-September compared with \$1.303bn surplus in January-September 2013. Farm products and foodstuffs account for 13.1% of Belarus' total foreign trade volume in January-September (up 1pps y/y), including exports - 15% (down 0.2 pps), imports - 11.3% (up 1.9 pps).

In January-September, farm production in Belarus increased by 3.2% y/y to BYR9.5 trillion (\$9bn). In particular, sales of fattened cattle and poultry dropped 2.6% y/y to 1.083mn tonnes, milk output grew 0.4% to 4.761mn tonnes, and egg output rose 2.7% to 2.115bn units.

EBRD to provide \$12mn loan to Belaruskyy Narodny Bank

The European Bank for Reconstruction and Development (EBRD) will provide \$12mn loan to the Belaruskyy Narodny Bank writes BelTA. The funds will be used to finance small and medium-sized business expand the financing of the sector in Belarus, the bank said. The loan will consist of two parts: \$5mn will be provided by EBRD and \$7mn will be syndicated by the European Fund for Southeast Europe and the Impulse Microfinance Investment Fund.

"We are interested in developing the possibility of raising cheaper and long-term resources in the country as well as diversifying the resource base. This will help our bank meet the growing demand from small and medium-sized business for financing. The work in this direction will be continued," said the Director General of the Belaruskyy Narodny Bank Konstantin Tsereteli.

Belarus plans to expand underground gas storage facilities

Belarus plans to increase the capacity of underground gas storage facilities, writes BelTA news, citing Russian Deputy Energy Minister Anatoly Yanovsky. Beltransgaz plans to invest in the expansion of the existing underground gas storage facilities in Belarus and the development of the gas transport system, said the official.

Belarus and Russia have implemented and are implementing a large number of joint investment projects in the sphere of energy and transport. The number includes the construction of the Belarusian nuclear power plant. Russian investments in OAO Grodno Azot are under consideration. The Russian Deputy Energy Minister reminded that the future Eurasian Economic Union will have common markets for oil, oil products, natural gas, and electricity. The sides are now busy working out the relevant concepts. The development of common approaches is underway.

