



ПАСОЛЬСТВА РЭСПУБЛІКІ БЕЛАРУСЬ У ТУРЭЦКАЙ РЭСПУБЛІКІ
BELARUS CUMHURİYETİ ANKARA BÜYÜKELÇİLİĞİ

Tel.: (0312) 441 67 69, fax: (0312) 441 66 74, e-mail: turkey@belembassy.org

Ankara, 6 February 2008

Economic Outlook of Belarus: 2007-2008

Belarus managed to keep its growth rate rather high despite a new record trade deficit and double-digit inflation rate in 2007. Specialists also point at the unprecedented growth of foreign liabilities and affected financial reliability of companies. Although gas prices doubled in early 2007 to \$ 100 per 1,000 cubic meters, the country managed not only to survive, but also to boast an impressive expansion rate; on the other hand, new terms of trade affected all economic layers, from corporate finance to consumer prices and individual incomes. The gas price hike resulted in a dramatic increase in the foreign trade deficit. Simultaneously, domestic companies suffered shortages of floating assets and had to borrow abroad. Gas stood behind the record inflation and slower increase in wages. Energy price hikes normally have a prolonged effect, so consequences will be evident in the first half of 2008.

According to the Statistics Ministry, GDP grew 8.1% on the year in 2007, in comparable prices, to 96.048 trillion Belarusian rubles (Br). Belarus' economic expansion has been quite impressive over the past few years: in 2003 GDP grew 7%, in 2004 - 11.4%, in 2005 - 9.2%, and in 2006 - 9.9%. In the U.S. dollar terms GDP grew by \$7.7 billion in 2007 to \$44.7 billion, making 2007 the most successful year in the history of sovereign Belarus. In 2006, GDP increased by \$7.5 billion to \$37 billion, in 2005, by \$6.6 billion to \$29.5 billion, in 2004, by \$5.6 billion to \$22.9 billion. In 2003-2007 the U.S. dollar equivalent of Belarus' gross domestic product rose to \$44.7 billion from \$17.3 billion, or 160 %. GDP forecast for 2008 stated at 11%, compared to 8%-9% initially.

In 2008 Belarus intends to hike the inflow of foreign direct investment, which targeted \$1.4 billion in the year. It will be advisable to invite investors in joint ventures and companies with 100% foreign capital.

Capital investment remains the chief propellant of Belarus' economic growth. The fast growth may be attributed to record high investment in fixed capital and large-scale investment projects. In 2003, capital investment rose 20.8%, in 2004, 20.9%, in 2005, 20%, and in 2006, 31.4%. Investment made 24.3% of GDP in 2006; in 2005, the figure was at 23.7%, in 2004, at 21.6%, in 2003, at 19.5%, and in 2002, at 17.2%.

The hike in investment facilitates economic growth in the medium-term outlook. Moreover, for the first time over the past 20 years the growth in investment has made a long-term impact on the national economy, while previously it was short-term and local.

Investments in fixed assets increased 14.7% on the year in 2007 to 25.086 trillion rubles in comparable prices, which makes \$11.668 billion, a new record for the past twenty years.

Since the beginning of 2008 strong efforts were taken in Belarus in order to improve investment and business attractiveness of the country.

President of Belarus Alexander Lukashenko has signed the ordinance № 42, which amends some of the previous standard acts regulating the operation of Belarus' free economic zones (FEZ) and adds benefits. Companies registered in FEZ will enjoy special taxation procedures for at least seven years even if Belarus' tax rules should change. Besides, the commodities they will supply to the domestic market as "import-substituting" will remain on the list of preferential products for at least three years.

Also, land rent rates for residents of the zones will be reduced to not more than 2% of the cadastre value, but not less than land tax rates.

Companies registered in FEZ will be exempted from the real estate tax and tax on vehicle acquisition, transfers to the innovation fund of the Architecture and Construction Ministry, mandatory surrender of foreign exchange on the home market; besides, the state will facilitate infrastructure development for large investment projects.

The ordinance provides additional powers to the administrations of the zones: they will be able to independently decide on registration of residents with at least 1 million euros of declared investment and lease out property managed by the state. End

President Alexander Lukashenko also has signed decree № 1 to approve benefits and preferences for companies established in small settlements, including enterprises with foreign investment, the press service of the head of state reported.

The decree applies to settlements with up to 50000 residents. New companies will enjoy certain guarantees and exemptions within five years of the day of establishment.

Starting from April 1, 2008, such companies will be exempted from the tax imposed on profits generated from their own production, the value-added tax and customs duties on production equipment imported as contributions to authorized funds of enterprises with foreign investment. Should tax regulations change within this period, companies in smaller towns will follow previous regulations for five years.

The decree authorizes such companies to purchase raw materials and components for their own productions from any suppliers and at any prices and sell their products at foreign markets at their own prices without having to follow procurement and sales procedures. Companies in question will also be able to set any wages for employees [but not below the official minimum] and insure property with any insurer, both domestic and foreign. The decree does not apply to gambling, lotteries, banking and exchange trade, production of alcohol, tobacco goods, weapons and munitions.

The decree will encourage investors, boost the development of smaller settlements, mitigate employment problems and increase living standards in small towns and villages, the press service said.