INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/383

REPUBLIC OF BELARUS

December 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF BELARUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 13, 2017 consideration of the staff report that concluded the Article IV consultation with the Republic of Belarus.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2017, following discussions that ended on November 9, 2017, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 29, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Belarus.

The document listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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RELEASE December 19, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Belarus

On December 13, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belarus.

The Belarusian economy is recovering after two years of recession, helped by better policies, a more favorable external environment, and stronger domestic demand conditions. In 2017Q3 the economy grew by 1.7 percent year-on-year, amid household consumption boosted by strong wage growth and recovering investment. The current account deficit has narrowed, reflecting growth in services exports, as well as recession and real exchange rate adjustment in 2015-16. The 2017 energy and financing agreements with Russia, and the successful Eurobond issuance in the middle of the year, have eased near-term financing pressures. Headline inflation slowed to 5.3 percent y-o-y in October, helped by tighter control over monetary aggregates, imported disinflation, a negative output gap, and a slowdown in administered price hikes.

The authorities have kept their narrowly defined state budget under control, but estimated sizable quasi-fiscal activities continue to put upward pressure on debt. The overall fiscal balance, including the general government, Nuclear Power Plant, and other off-balance sheet operations, is projected to show a deficit of 3.0 percent of GDP in 2017, reflecting the quasi-fiscal operations. Public and publicly guaranteed debt is projected to rise to just above 55 percent of GDP. The authorities have also taken important steps to address financial sector risks, drawing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

on 2016 FSAP recommendations. Efforts to restructure the large SOE sector are proceeding gradually and on a pilot basis, hindering productivity growth and leaving vulnerabilities to linger at relatively elevated levels.

Medium-term growth is expected to be around 2 percent, limited by negative demographics, weak credit conditions reflecting impaired corporate and bank balance sheets, and lagging competitiveness under the state-centric economic model. Inflation is projected to reach 5 percent in the medium term, assuming some control over quasi fiscal activities, but remain above most neighbors. The current account deficit is projected to narrow to just under 2½ percent, as one-off factors dissipate and the economy reaches potential.

Executive Board Assessment[2]

Executive Directors welcomed the improvement in macroeconomic and financial policies over the last 2½ years. Directors recognized that these policies have helped to support the economic recovery, along with a more favorable external environment. However, they emphasized that vulnerabilities remain high and further efforts are needed, including to address structural weaknesses. In this context, continued active engagement between the Fund and the Belarusian authorities is important.

Directors encouraged the authorities to use the economic recovery to implement deeper, faster reforms in the real sector to increase productivity, raise growth, and boost the economy's resilience to shocks. To help achieve this, they saw a critical need to reform the state-owned enterprise (SOE) sector. Directors also stressed the need to implement measures to improve labor and product markets to remove impediments to private sector growth. The efficiency of social safety nets should also be enhanced to cushion the impact of reforms on vulnerable social groups. Directors noted that wage increases should be consistent with productivity growth.

Directors recommended continued fiscal consolidation over the medium term to ensure public debt sustainability. For 2018, they encouraged the authorities to adopt a tighter fiscal stance, including through stronger control over off-balance sheet fiscal activities and reduction of quasi-

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[2]At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

fiscal risks emanating from the SOE sector. Directors also recommended a stronger, simpler framework to aid planning, management and execution of fiscal policy.

Directors recommended that monetary policy should remain consistent with inflation objectives and noted the importance of laying the groundwork for a future transition to inflation targeting. This should be supported by further efforts to limit fiscal dominance and align wage increases to productivity growth. Directors encouraged the authorities to maintain exchange rate flexibility while seeking opportunities to rebuild international reserves as conditions allow to achieve a more robust cushion against external shocks.

Directors welcomed progress made in strengthening financial sector stability and framework. Further action is needed to eliminate directed lending, strengthen regulation and supervision, and improve bank balance sheets. Directors encouraged continued implementation of the 2016 FSAP recommendations.

Belarus: Selected Economic Indicators, 2014-2018

	2014	2015	2016	2017	2018
				Projections	
			(Percent Change)		
National accounts					
Real GDP	1.7	-3.8	-2.6	1.7	1.8
Total domestic demand	0.0	-7.6	-6.1	0.3	2.3
Consumption	2.9	-2.0	-2.9	0.8	2.0
Nongovernment	4.3	-2.3	-3.9	0.9	2.6
Government	-2.0	-0.6	0.5	0.1	0.1
Investment	-5.0	-18.3	-13.2	-0.8	2.8
Net exports 1/	1.3	7.1	2.7	1.4	-0.3
Consumer prices (average)	18.1	13.5	11.8	6.4	7.0
Monetary accounts					
Rubel base money	12.8	7.4	-1.4	37.6	13.2
Broad money	23.6	36.8	3.8	10.7	10.6
			(Percent of GDP)		
External debt and balance of payments					
Current account balance	-6.6	-3.3	-3.5	-2.6	-3.3
Gross external debt	50.8	67.9	79.2	73.1	71.2
Net IIP	-53.1	-72.8	-86.1	-79.0	-79.9
Savings and investment					
Gross domestic investment	34.8	29.0	25.3	24.3	26.1
National saving	28.2	25.8	21.7	21.7	22.8
Public sector finance					
General government balance (incl. SPF)	0.8	1.1	-0.3	-0.6	-3.0
of which: NPP-related expenditure	0.3	1.1	1.2	1.1	2.7
Primary general government balance (excl. NPP)	2.1	3.9	2.8	2.7	2.2
Overall balance 2/	0.1	-2.2	-3.5	-3.0	-5.0
of which: Off-balance sheet operations (estimated)	-0.7	-3.3	-3.2	-2.5	-1.9
Gross public and publicly guaranteed debt	38.8	53.0	53.9	55.3	58.1
Of which: Public guarantees	12.1	14.0	11.3	10.4	10.7
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	78.7	56.3	47.4	53.3	55.0
Nominal GDP (billions of BYN)	80.6	89.9	94.3	102.1	111.0
Official reserves (billions of U.S. dollars)	5.1	4.2	4.9	6.8	6.0
Months of imports of goods and services	1.9	1.7	1.7	2.3	2.0
Percent of short-term debt	39.5	36.4	46.4	68.0	60.4

Quota (2016): SDR 681.5 million (923.5 million U.S. dollars)

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Includes general government and estimated off-balance sheet operations.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

November 29, 2017

KEY ISSUES

Context. The Belarusian economy is recovering after two years of recession, helped by a more favorable external environment, better policies, and stronger domestic demand conditions. Near-term external financing pressures have eased following energy and financing agreements with Russia and a Eurobond issuance. Although key macroeconomic and financial policy frameworks have improved somewhat, much work lies ahead to support the authorities' ambitious economic objectives through 2020 without increasing imbalances, and to reduce vulnerabilities. External and public debt are high, medium-term financing needs are significant, and corporate and bank balance sheets are weak. Key structural reforms in the real sector are proceeding at a gradual pace amidst a desire to preserve the state's strong role in the economy and support of the existing social system.

Policy recommendations. The current recovery provides an opportunity for more proactive and comprehensive policies to raise potential growth, diversify external trade, and reduce vulnerabilities, while supporting macroeconomic and financial stability.

- **Structural reforms**. Deeper and faster reforms are needed in the state-owned enterprise (SOE) sector, aiming for better resource allocation, efficiency, and competitiveness, and severing a negative macro financial feedback loop. These should be combined with reforms in the labor and product markets, and more efficient social safety nets (SSNs) to support social stability.
- **Macroeconomic policies**. Fiscal policy needs to be tightened—including steps to reduce quasi-fiscal risks emanating from the SOE sector—to bring debt down towards more sustainable levels, and the policy mix rebalanced to support growth. Monetary policy, which has been complicated by pressures from quasi-fiscal activities, is broadly on track to meet its inflation objective next year. Exchange rate flexibility should be preserved as a cushion against the impact of external shocks.
- **Policy frameworks**. Monetary policy and financial sector frameworks should continue to be strengthened, guided by the 2016 FSAP assessment and Technical Assistance (TA) (Annex I). Further action is needed to strengthen regulation and supervision, ensure risk-based lending decisions, and strengthen bank balance sheets. Fiscal frameworks should be upgraded, with a stronger fiscal anchor, a more comprehensive medium-term budgeting framework, better debt management, and better fiscal risk and tax expenditure assessment capacity.

Approved By
Thanos Arvanitis and Zuzana Murgasova

Discussions for the 2017 Article IV Consultation were held in Minsk during October 26–November 9. The mission comprised P.Dohlman (head), D. Benedek, B. Jajko, J. Miniane, and A. Rhee (EUR), D. Moore (SPR), and S. Ogawa (MCM). A. Arvanitis (EUR), B. Bakker (Sr. Regional Res. Rep., EUR), J Lyskova, M. Sviderskaya (both Res. Rep. Office), and M. Erbenova (OED) joined some discussions. The mission met with Prime Minister Kobyakov, National Bank Governor Kallaur, Deputy Prime Minister Matyushevsky, Minister of Economy Zinovskiy, Minister of Finance Amarin, other senior officials and representatives of government, financial institutions, the private sector, labor unions, and civil society. C. Piatakovas contributed to the preparation of this report.

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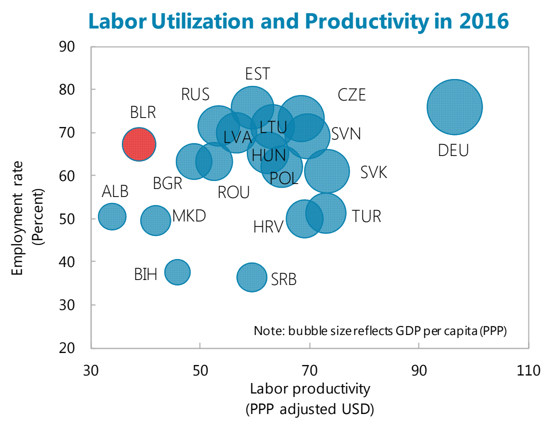
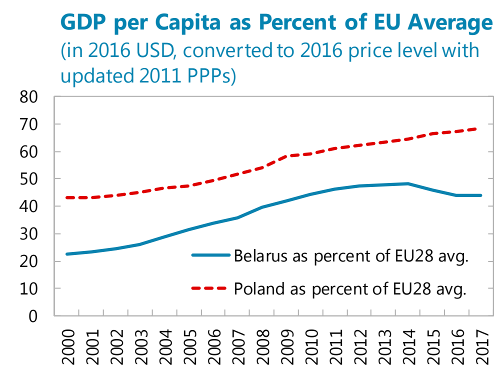
CONTEXT

1. Improved macroeconomic and financial policies, along with better external conditions, have brought greater stability and helped pull Belarus out of recession. Beginning in early 2015, monetary and fiscal policies were tightened, the exchange rate was floated, and some efforts have been made to liberalize prices and address SOE inefficiencies. These steps have moderated domestic and external imbalances and eased immediate financing pressures. External financing conditions improved further following a new energy pricing agreement with Russia, renewed financing from the Moscow-based Eurasian Fund for Stabilization and Development (EFSD) and Russia, and a US$1.4 billion Eurobond issuance earlier this year.[1] In October, S&P upgraded Belarus to "B" from "B-". Overall, the economy is now growing, inflation is declining, and reserves are increasing.

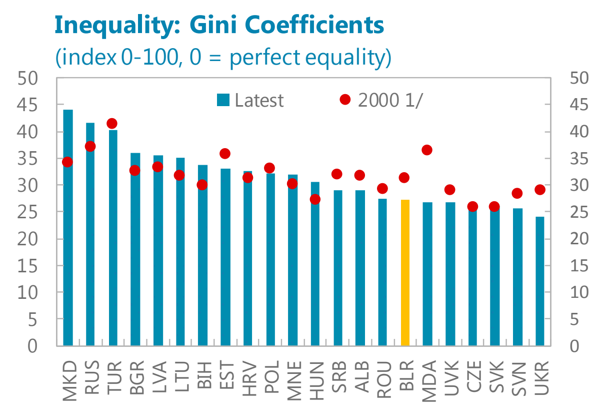


Source: WEO database, World Bank and IMF staff calculations.



Source: The Conference Board, Total Economy Database.

2. However, pervasive government involvement in the economy—including government directed lending by state owned banks, price controls, and quasi-fiscal operations and subsidies—continue to distort resource allocation and efficiency. Up until the 2008 crisis, state-led investment drove growth higher (and delivered relatively low income inequality) than in most other transition country peers, while private investment was held back by an uneven playing field relative to SOEs, extensive regulations, and weak property rights. Since then, falling productivity, combined with a reduction in implicit transfers from Russia, has slowed income convergence. (Figures 1 and 2; text charts). Overall, the state, including state-owned entities, accounts for



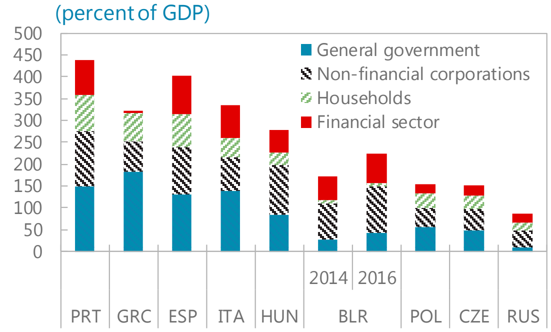
1/ Or closest available data point.
Sources: World Bank WDI and IMF staff calculations.

[1] Belarus issued two tranches: $800 million 5Y at the yield of 7.125 percent and $600 million 10Y at 7.625 percent.

around one-half of overall employment and GDP, with particularly high ownership in the industrial production and banking sectors (roughly 80 and 70 percent respectively).

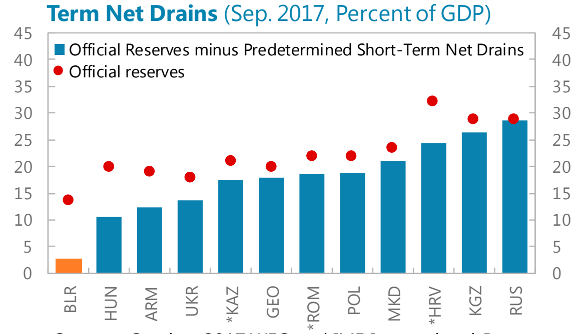
3. State economic policies have fed an adverse macro-financial feedback loop that has amplified vulnerabilities. Over 2007–16, Belarus realized 2.2 percent of GDP on average annually in off-balance sheet liabilities through various channels, reflecting the dependency of loss making SOEs on subsidies and low interest rate loans. More recently, blanket debt restructuring (2.7 percent of GDP) was provided to failing state-owned agriculture entities, and off-budget spending on a new nuclear power plant (NPP) has been ramping up. As a result, public debt continues to rise despite positive headline general government balances in two of the last three years. Weakened balance sheets in the largely state-owned corporate sector (including significant debt and currency mismatches) and state-owned banking sector continue to pose fiscal risks and hinder credit. Exports remain concentrated. International reserves have increased significantly this year, but remain below standard adequacy metrics and below peers on a net basis. Overall, Belarus has significant vulnerabilities.

Debt of the Economy, end-2014
(percent of GDP)



Sources: WEO, BIS, Haver Analytics, NBRB, McKinsey Global Institute analysis, and IMF staff calculations.

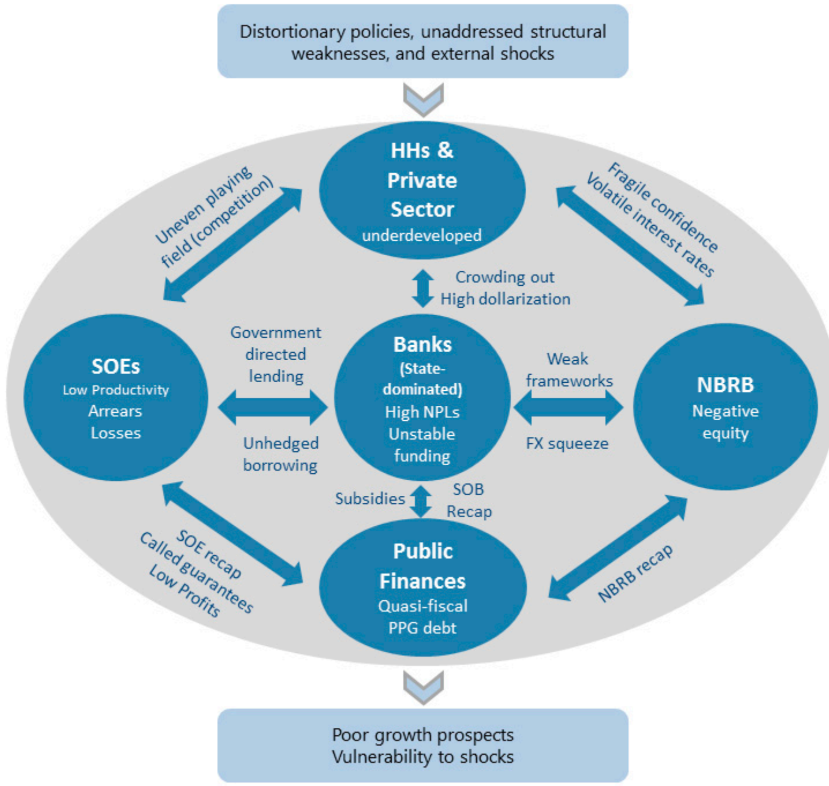
Official Reserves minus Predetermined Short-Term Net Drains (Sep. 2017, Percent of GDP)



Sources: October 2017 WEO and IMF International Reserves and Foreign Currency Liquidity Database.
Note: * as of July 2017.

4. The priority, therefore, is to raise productivity and growth, increase economic resilience by lowering vulnerabilities and increasing export diversity, and make social safety nets more efficient. Article IV discussions focused on these broader issues, building on extensive discussions towards a Fund-supported program during the past two years that have helped anchor the authorities' internal policy debates (but ultimately stalled over the pace and depth of real sector reforms). Staff advice from the 2016 Article IV consultation has been partially implemented (Annex II).

Belarus: Macro-Financial Linkages



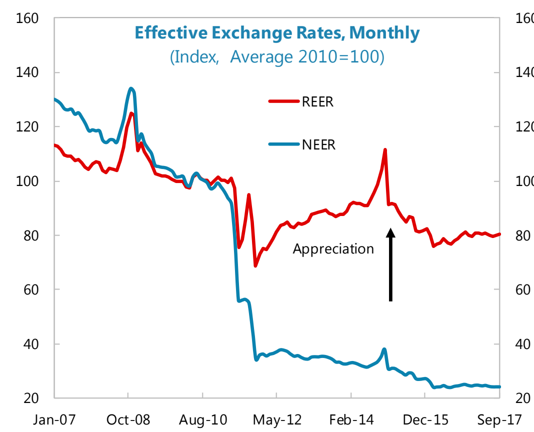
RECENT DEVELOPMENTS

5. A broad-based economic recovery is under way, following a cumulative 6.3 percent drop in real GDP over 2015–16. (Figures 3–5). The 2017 economic outturn by Q3 was significantly better than expected at the time of the 2016 Article IV consultations, supported by more favorable external conditions and stronger domestic demand, especially investment. Household consumption has been boosted by strong wage growth (6.6 percent y-o-y real increase by September) and lower cost consumer financing. On the production side, manufacturing is strongly rebounding, though construction is lagging. The official unemployment rate remains low at 0.6 percent as of end-September. Headline inflation slowed to 5.3 percent y-o-y in October, helped by tight policies, imported disinflation, better anchored inflation expectations (and stabilized exchange rate), a negative output gap, and a slowdown in administered price hikes.

6. The external sector has improved but remains fragile, with low export diversification and limited buffers. (Figure 6). The current account deficit (CAD) is estimated to have narrowed to around 2½ percent of GDP this year, reflecting growth in services exports as well as recession and real exchange rate adjustment in 2015–16. The external position remains moderately weaker than fundamentals and desirable policy settings, but has improved over the past year (Box 1). Belarus faces a longer-term challenge of diversifying its exports and FDI from relatively narrow product and external partner bases——where Russia remains the dominant partner (See Annex V-A). FX liquidity in the highly-dollarized banking system has improved, but consists primarily of FX-denominated domestic bonds issued by the government and the National Bank of the Republic of Belarus (NBRB). External debt is high (see Annex III).

Box 1. External Stability Assessment

Belarus's external position has improved, though remains moderately weaker than fundamentals and desirable policies*. Gross international reserves (GIR) have recovered significantly since early 2015,* reaching an estimated $6.8 billion at end-2017, but only about 58 (75) percent of the ARA metric for fixed (floating) exchange-rate countries. Reserves have been boosted by a combination of interventions to rebuild buffers following the NBRB's shift to a more flexible exchange rate (net FX sales by households totaled US$1.7 billion in January-October 2017), balance of payments support from Russia and the EFSD, and Belarus's return to the Eurobond market. *The net international investment position (NIIP) has stabilized at around -82 percent of GDP* at end-June 2017—close to its 2014 level in dollar terms but 30 percentage points of GDP wider due to depreciation and recession. *The CAD, historically volatile, narrowed from 10 percent of GDP in 2013 to around 2½ percent in 2017.* This reflected both recession-related import compression and a 17 percent correction in the real effective exchange rate (REER). While the recent energy and financing deal with Russia is a stabilizing factor, and the REER has been steady so far through 2017, renewed appreciation pressures could emerge if higher wages materialize without accompanying productivity and export growth.



EBA-Lite methodologies indicate a remaining current account gap of just over 1 percent of GDP in 2017, consistent with a REER gap (overvaluation) of around 2½ percent.

The current account (CA) approach estimates a cyclically adjusted CA norm of -1.1 percent of GDP, consistent with recommended further reserve accumulation and fiscal adjustment. The 2017 cyclically adjusted CA (-2.3 percent of GDP) implies a CA gap of 1.2 percentage points of GDP and a REER gap of 2.6 percent.

CA-Actual	**-2.6%**
Cyclical Contributions (from model)	-0.2%
Cyclically adjusted CA	**-2.3%**
CA-Norm	**-1.3%**
Cyclically adjusted CA Norm	**-1.1%**
CA-Gap	-1.2%
o/w Policy gap	0.0%
Elasticity	-0.47
REER Gap	2.6%
CA-Fitted	-1.3%
Residual	-1.2%

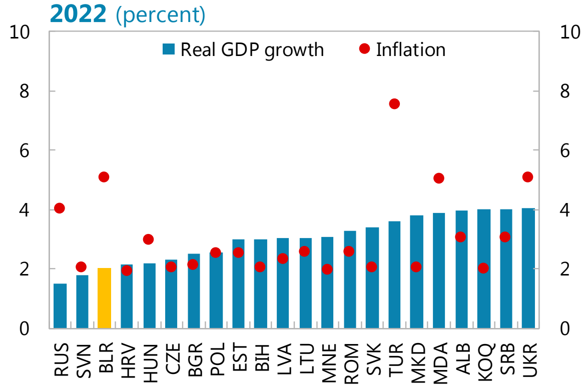
External sustainability approach. A CA norm of -2.0 percent of GDP would be needed to stabilize the NIIP at -60 percent of GDP by 2036. This compares with an underlying CA of -2.3 percent of GDP (2022 projection). Applying standard elasticities to the resulting CA gap of 0.2 percent of GDP implies a REER gap of 0.5 percent.

Authorities' view. The NBRB estimates, using several alternative methods, slight REER undervaluation (5.4 percent) in 2017Q3.

OUTLOOK AND RISKS

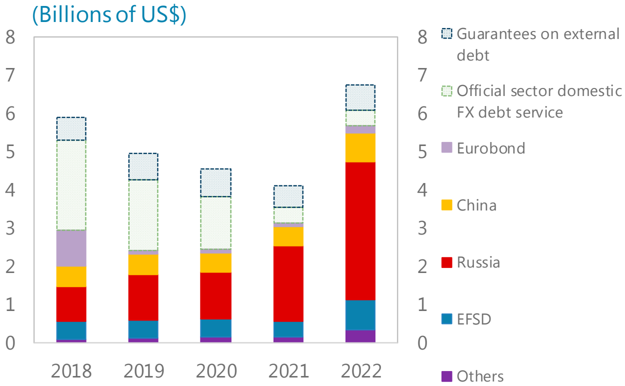
7. Staff projects a fragile economic recovery with still-significant vulnerabilities. The government is expected largely to retain its current system of SOE ownership, social support, and significant elements of its intervention in product markets, with only gradual improvements. Wages are expected to grow more rapidly than nominal GDP this year and next, which would support near term consumption. However, negative demographics, weak credit conditions reflecting impaired corporate and bank balance sheets, and lagging competitiveness will limit potential growth to around 2 percent, putting Belarus at the low end relative to neighboring countries. Inflation is expected to reach the authorities' 5 percent target in the medium term, but remain above most neighbors. The current account deficit is expected to widen in 2018 owing largely to temporary imports associated with NPP construction, but also higher dividend payments as the economy recovers. Over the medium term, as one-off factors dissipate and the economy reaches potential, the current account deficit is projected to narrow to just under 2½ percent. Household net FX sales are expected to taper. The baseline assumes that Belarus will meet its medium-term gross external financing needs through bilateral support and increased market access, though significant vulnerabilities will leave Belarus susceptible to shocks and renewed instability.

Projected Real GDP Growth and Inflation, 2022 (percent)



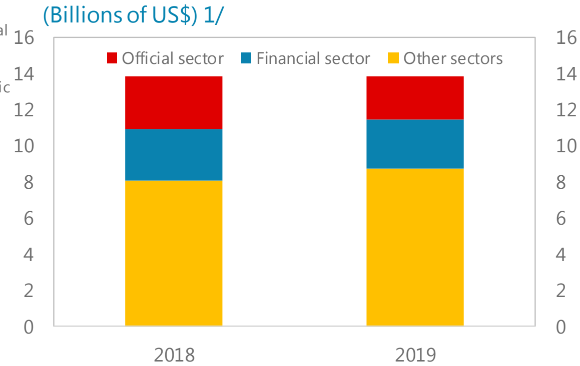
Sources: October 2017 WEO and IMF staff calculations.

Official Sector FX-Denominated Debt Service
(Billions of US$)



Sources: Belarusian authorities and IMF staff estimates.

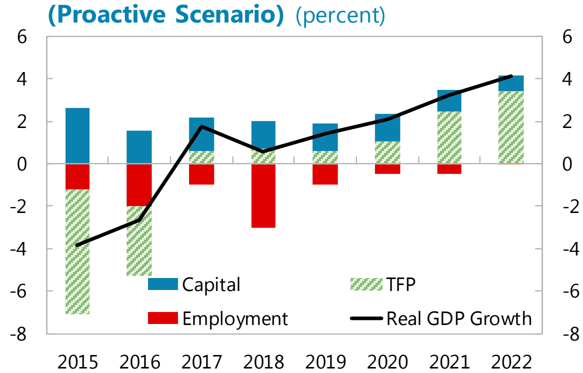
Gross External Maturity Schedule
(Billions of US$) 1/



1/ Excludes domestic FX debt and guarantees.
Sources: Belarusian authorities and IMF staff estimates.

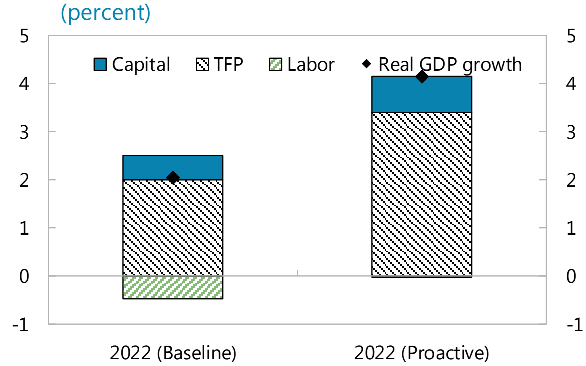
8. Under an illustrative proactive policy scenario that embeds staff's policy advice, Belarus's medium-term growth and convergence prospects would improve, export diversification would increase, and vulnerabilities would fall (Figure 7). Significant reforms, including to SOEs, could initially push growth lower—mainly due to initial production adjustment and some labor shedding—but this would be cushioned by more efficient SSNs. Over the medium term, reforms would boost the growth rate to around 4 percent and would lower vulnerabilities by boosting competitiveness, lowering quasi-fiscal activity, improving the trade balance, increasing export diversification, and attracting higher FDI and other capital inflows (at more favorable borrowing terms). Improvements in corporate and bank balance sheets would boost growth-enhancing credit. Faster price liberalization, including administered prices (e.g., utilities), could drive up inflation in the short run, but better competition policies, resource allocation, and policy frameworks would then bring it down to the government's medium-term objective of around 5 percent. These developments would free up fiscal space that could support other priorities and more rapidly drive government debt down towards prudent levels. The current account deficit would significantly narrow to below 1½ percent of GDP by 2022. This, combined with better market access and financial flows, would support faster reserve build-up. External debt and (negative) NIIP as a percent of GDP would shrink.

Contributions to Real GDP Growth (Proactive Scenario) (percent)



Source: IMF staff estimates

Medium-Term Real GDP Growth Structure (percent)



Source: IMF staff estimates.

9. **There are significant risks to the baseline** (see Annex IV).

- **External:** if external conditions change (e.g., lower or higher growth in Russia), this could erode (boost) growth and external stability. If external market access becomes more costly, Belarus may have to rely on some combination of reserve drawdown, exchange rate adjustment, and tighter policies (and seek alternative domestic financing), which in a context of high dollarization and still low reserves, would likely generate renewed instability. But faster external integration via the Eurasian Economic Union (EEU), the Chinese Belt-Road initiative, and progress towards WTO membership, or significant remittances, could provide welcome support for policies and reforms and strengthen the medium-term external position.

- **Domestic:** if policies reverse, this could feed macroeconomic imbalances and lead to a renewed wave of nonperforming loans (NPLs) in the corporate sector and weakening bank balance sheets. Quasi-fiscal liabilities emanating from SOE and state bank balance sheets could be larger (or lower) than currently estimated, thus pushing up (down) public debt. Outward labor migration (including younger more highly-educated workers) could further exacerbate the already worsening demographic situation and pose additional pressure on the economy, including the struggling social security system (but also provide FX remittances). The NPP business model could come under pressure.

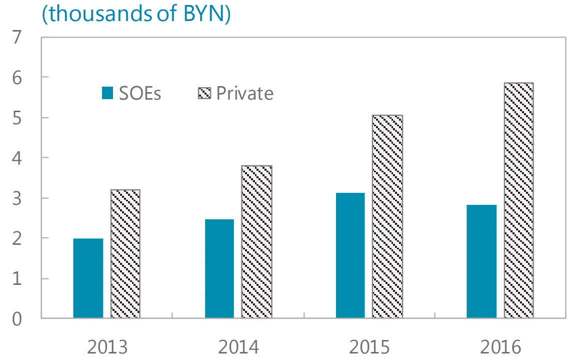
Authorities' Views

10. The authorities shared staff's concerns about vulnerabilities, but viewed staff's baseline projections and risks as overly pessimistic. The government expects higher medium-term growth and faster deceleration of inflation, based on their 2016–2020 economic strategy (Box 2), although they are using more conservative projections in the budget. More generally, the authorities expect that a better external environment and their gradual reform efforts, including steps to improve the business climate, will generate higher investment, supported by new FDI. They see somewhat lower fiscal risks from the SOE and banking sectors. Despite the differences, the authorities underscored that the policy and technical assistance dialogue with IMF staff have helped anchor internal policy debates, and asked that the intensity be maintained even if not in a program discussion context.

POLICY DISCUSSIONS: SUSTAINABLE HIGHER GROWTH AND STABILITY

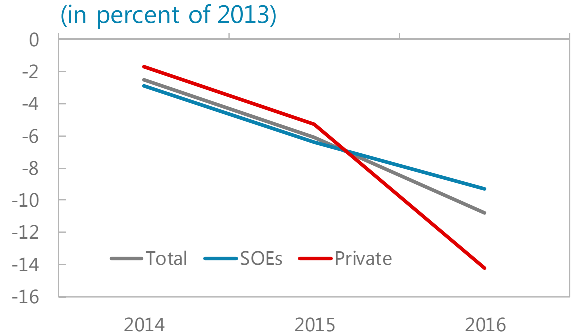
A. Improving Resource Allocation and Efficiency

Operating Profit/Loss per Worker
(thousands of BYN)



Note: Q3 data for all years.
Sources: Belstat and IMF staff calculations.

Dynamics of Staff Headcount of Enterprises Reporting Monthly to Belstat
(in percent of 2013)

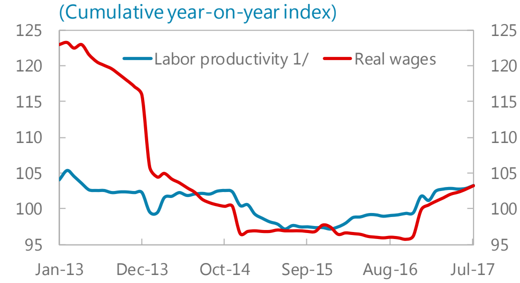


Sources: Belstat and IMF staff calculations.

11. Reforming the SOE sector is a major challenge. Performance has been hindered by numerous factors, including loose budget constraints, a lack of operational independence (e.g., production targets), structural weaknesses in oversight and governance arrangements, competition-inhibiting regulations, price controls, and other means. As a result, the SOE sector has consistently underperformed relative to the private sector and has acted as a drag on growth and competitiveness (See Annex V-B). This weak performance has also fueled explicit and implicit liabilities of SOEs that generate NPLs, drain scarce public resources, and threaten stability. Recently, SOE losses have begun to subside, most likely driven by the cyclical economic recovery but also some SOE labor adjustment over the past several years. While there is no comprehensive approach to restructuring of the SOE sector and strengthening its institutions, some efforts are underway, including some pilot projects aiming at improving the performance and governance of SOEs and some liquidations: from early 2016 until end-August 2017, the number of (mostly agricultural or small) SOEs under liquidation increased from 67 to 201, with 20 SOEs fully liquidated. Some progress has been made in increasing household utility cost recovery.[2]

12. Labor and product markets are distorted.

Labor Productivity and Real Wages
(Cumulative year-on-year index)



Source: Belarusian authorities.
1/ Calculated as current GDP to employment and provided as an index.

- *Employers are struggling to meet a government recommended nominal monthly wage objective* of BYN 1,000 (about US$500) by end-2017. The objective, which the authorities say should only be reached if matched by productivity gains, implies a 27 percent annual increase, while wages have risen about 13 percent y-o-y as of September. Efforts to increase labor participation via a poorly targeted tax on inactive people of working age (the so-called tax on social dependency) sparked protests in early 2017.

- *Regulated product markets are undermining private activity*. While Belarus has made headway in cross-country indicators such as Doing Business—rising to 38th in the most recent ranking from 50th two years ago—this has not translated into higher productivity, FDI/investment, or competitiveness. Various surveys, including the 2018 Doing Business survey, point to problems in getting credit, paying taxes, and the insolvency process. Property rights remain weak and the government maintains price controls on about 17 percent of the CPI basket. One prominent example is the highly segmented dairy sector, that strictly limits cross-rayon (district) commerce, effectively imposing a form of autarky at the rayon level.

13. The government's ambitious 2016–2020 Plan aims to address many of these shortcomings, but implementation and results have been mixed. (Box 2). The Plan aims to strengthen the efficiency of the current system, and includes objectives to improve the business environment and deepen and diversify external integration. The latter includes pursuit of WTO membership, more open markets within the Russia-led EEU, participation in China's Belt-Road initiative, and better economic relations with the EU. The Plan also seeks to inject market incentives and behavior through SOE and product market reforms. A 2016 government decision ended SOE production targets in favor of a mix of key performance indicators such as financial

[2] Household utility cost recovery is reported at 69 percent as of end-September 2017, with the gap financed by budget subsidies and industry cross-subsidies. Recently, the authorities announced that they plan to eliminate all household utility subsidies, except for heating, by early 2018, by reducing operating costs and increasing prices by US$5 per year for a typical household. For heating, a full cost recovery is not expected until 2025.

and efficiency measures, but in practice, observers report mixed adherence, with some SOEs continuing to operate towards production and export targets.

Box 2. Belarus's Socio-Economic Development Program

The 2016-2020 Government Development Program and related Action Plan ('Plan') aim to improve competitiveness, reduce vulnerability to external shocks, restore economic growth, and improve living standards. The Plan sets out interrelated objectives to: (1) support innovation and creation of new jobs, including by transition to a digital economy and development of the SME sector; (2) support higher and more diverse FDI and external trade; (3) increase productivity, competitiveness and export diversification by improving the business climate, and strengthening property rights, competition and anti-monopoly regulation; (4) reform the SOE sector by reducing government-directed lending, introducing modern corporate governance practices for SOEs, separating the owner and regulatory functions, and moving ahead with limited privatization; (5) restructure the energy sector, including closing the household cost recovery gap and eliminating cross-subsidies from industrial users in the utility sector by relying primarily on cost reduction, with only modest increases in tariffs; (6) support social stability, including through job creation and better targeted social support, including for housing and municipal services; and (7) gradually reduce foreign borrowing.

Staff Recommendations

14. The authorities should accelerate and deepen structural reforms, particularly in the SOE sector, while strengthening SSN efficiency. Such actions would reduce quasi-fiscal and financial stability risks, improve resource allocation, and boost productivity and competitiveness, with better SSNs cushioning the impact of reforms. Key recommendations are to:

- *Adopt a comprehensive SOE strategy that will:*
  - (a) tighten budget constraints, including by enforcing planned reductions in subsidized directed lending and state debt guarantees;
  - (b) unify government oversight of SOE assets;
  - (c) strengthen the Ministry of Finance's (MoF) fiscal risk assessment and reporting capacity, focusing initially on SOEs;
  - (d) strengthen corporate governance, including through separation of ownership and regulatory functions and by strengthening supervisory boards;
  - (e) proceed with pilot privatizations;
  - (f) establish a comprehensive SOE inventory, and financial indicator database;
  - (g) implement a framework for identifying and tracking inefficient and loss-making SOEs, with strong criteria for subsequent restructuring or liquidation;
  - (h) implement clear criteria for continued state ownership or privatization;

(i) introduce measures to enhance competition, including possible privatization; and

(j) other complementary measures such as strengthening the legal, accounting, reporting and auditing framework (e.g. switch to IFRS), transparency, and close coordination of SOE restructuring with financial sector reforms. (See 2016 AIV SR).

- *Hike household utility tariffs—combined with expanded and better targeted subsidies to offset their impact on the poorer segments of society—to achieve full cost recovery within two years*. Government's plans to improve utility cost efficiency deserve support, but will likely be insufficient to achieve timely elimination of budget and industrial cross-subsidies (which hamper cost competitiveness). A permanent tariff adjustment mechanism should be adopted to maintain full cost recovery.

- *Reaffirm that wage adjustments should be linked to productivity*. The authorities should also improve the labor market framework, drawing on World Bank advice. The tax on social dependency is a burden that should be removed in favor of other measures to address the informal sector and use of government services.

- *Undertake further liberalization of prices, and work with the World Bank and other partners to address distortions in product markets.* Tightly controlled sectors, such as agriculture, should be opened up to more competition. Property rights should be strengthened.

- *Enhance the efficiency of SSNs aiming to protect the most vulnerable population from the impact of utility sector and SOE reforms.* The latter should include an expanded unemployment benefits and retraining framework.

- *Aim for more diversified trade through greater productivity and competitiveness, and also by easing barriers to trade outside traditional markets*. The measures above will enhance productivity, encourage new market entrants and inward direct investment, and facilitate Global Value Chain (GVC) participation. WTO membership and deeper (trade creating) EEU integration policies would help support these efforts, as well as tap into GVCs and help diversify exports.

Authorities' Views

15. The authorities recognized the deep problems from state influence, and agreed on the direction of reforms, but preferred a more gradual pace. They noted recent improvements in SOE performance, and pointed to pilot projects to strengthen corporate governance and attract investors. They expect that the successful completion of these projects will lead to a gradual uptake of broader SOE reforms, giving time to develop homegrown technical capacity, further improve private sector conditions, and minimize the social impact. They expect to reach full household utility cost recovery partly through addressing inefficiencies and cheaper electricity from the NPP project, and affirmed that the government will not hike tariffs by more than US$5 per year for a typical household. Officials affirmed that wage increases will not occur unless accompanied by productivity gains, and that the objective should therefore be seen as an aspirational call for higher productivity. They are currently revising the tax on social dependency, but stressed that every working age citizen should work and pay for services received. In this regard, senior officials emphasize the centrality of their "social contract" of full employment and broad-based income distribution. For this reason, they do not intend to modify the unemployment benefit scheme at this time, although they will examine options for unemployment insurance. The authorities reported good progress in improving the business climate, including a new liberalization effort now underway aimed at promoting entrepreneurship. They see WTO membership and EEU integration as supporting their efforts.

B. Macroeconomic Policies and Frameworks: Supporting Adjustment and Improving the Quality of Policies

Fiscal Policy and Frameworks

16. While the authorities have successfully kept their narrowly defined state budget under control, quasi-fiscal activities continue to put upward pressure on debt. (Figure 8). The state budget is expected to show a deficit of 0.6 percent of GDP in 2017. However, the broader definition of the overall fiscal balance measure, including the general government, NPP, and other off-balance sheet operations, shows a deficit of 3.0 percent of GDP (reflecting quasi-fiscal operations).[3] Public and publicly guaranteed debt (PPG debt) is expected to rise just above 55 percent of GDP this year (from under 40 percent in 2014)—raising some concerns about sustainability (see Annex III).

17. The authorities' current policies imply high primary balances and improved composition of spending over the medium-term. The overall fiscal deficit is expected to expand in 2018, primarily due to NPP spending but also some wage bill increases, and then improve rapidly over the medium-term as NPP spending drops to zero and off-balance sheet liabilities taper. Reflecting these assumptions, the primary balance is projected to rise over the medium term to 2.1 percent of GDP. Given a moratorium on tax increases through 2020, the authorities are focusing on identifying and reducing tax expenditures, supported by Fund TA, in the event further revenue is needed.

18. Increases in PPG debt highlight weaknesses in Belarus's fiscal framework. Belarus has a complex system of fiscal objectives (see Annex V-C). However, important exclusions in the authorities' budget expenditures (e.g., NPP spending) make them inappropriate indicators to control debt dynamics. These factors, combined with weaknesses in medium-term fiscal planning, debt management, and lack of fiscal space, resulted in a procyclical fiscal stance during the recent recession. A World Bank project is supporting medium-term fiscal planning with a focus on debt management, treasury coverage, and budget transparency.

[3] The link between the authorities' debt and fiscal balance definitions and those under IMF staff methodology are explained in Annex III.

Staff Recommendations

- **Strengthen fiscal frameworks essential for fiscal planning, management, and execution of fiscal policy**. (see Annex V-C):

  (i) *Set a medium-term debt anchor in the range of 45-50 percent of GDP, but expand its coverage to include government guarantees and local government debt*. This level is prudent, given a history of large shocks in the economy, including exchange rate depreciation (and a high proportion of FX-denominated debt);

  (ii) *Expand the annual budget balance target to include all major debt-creating expenditures*—namely, extra-budgetary funds (i.e. SPF), projects like the NPP, recapitalizations to cover losses, and interest rate subsidies on directed lending;

  (iii) *Consider an appropriate operational fiscal rule to secure debt sustainability, such as an expenditure rule*;

  (iv) *Strengthen the capacity of the fiscal risk unit (see above) and integrate its work into the budget framework*; and

  (v) *Implement a three-year medium term budgeting process with strengthened accountability (and strengthen debt management capacity)*.

- **Execute a fiscal consolidation to secure a firm downward PPG debt trajectory to a more sustainable level.** The draft 2018 state budget should incorporate modest consolidation measures (0.2 percent of GDP) to reach a primary balance of -0.3 percent of GDP. Adjustment should continue until the primary balance reaches 2.5 percent of GDP, taking into account the phasedown of NPP spending. This will bring PPG debt down to around 52 percent of GDP by 2022, which, although still above the recommended objective, will continue on a downward trajectory.

- **Employ a mix of revenue and expenditure measures to secure consolidation while also achieving a more growth friendly policy mix**.[4]

  (i) *On the revenue side*: Tax expenditures should be curtailed to improve efficiency and mobilize revenues—including repeal of VAT, interest income, and capital gains exemptions. The labor tax wedge can be lowered. Excise and environmental taxes should be hiked. In the event of unexpected revenue shortfalls, debt reduction should take priority over the tax rate freeze.

  (ii) *On the expenditure side*: Wage bill increases should be kept broadly in line with nominal GDP growth. Subsidies for directed lending should be scaled down and brought on budget. Additional pension reform measures should be brought forward to help close an emerging SPF deficit (the current parametric reforms run through 2021), such as

[4] Using a bucket approach (see IMF Working Paper 14/93), staff estimates that the fiscal multiplier for Belarus in the projection period is low (around 0.3).

harmonizing special pensions with other government pensions and steps to enhance labor participation. The policy mix should aim to open up space for other growth-friendly measures such as higher capital spending and more efficient SSNs—including an expanded unemployment benefit and training system and better targeted social support to offset utility tariff hikes, undertaken in parallel with SOE reforms.

(iii) *The authorities should continue with close scrutiny of and limits on the issuance of new guarantees*.

Authorities' Views

19. The authorities had mixed views regarding staff recommendations. They underscored their commitment to limiting the issuance of guarantees and enhancing revenues by streamlining tax expenditures and small adjustments in other taxes. They viewed the 2018 budget as conservative, and considered raising budget sector wages from the current level of around 70 to some 75 percent of the average wage level in the economy (and to 80 percent over the medium-term) as important for attracting and retaining quality staff. The authorities argued that the staff definition of off-balance sheet items does not appropriately reflect risks related to the repayments of debt or guarantees by SOEs and as such, it overstates the size of the general government deficits. The authorities expressed their concerns with the proposed revised PPG debt level and anchor, but agreed that a broad comprehensive definition is needed. They also agreed that an operational fiscal rule would be useful in supporting debt sustainability but considered the current balanced budget rule appropriate. They see the current level and composition of public debt as prudent and they are planning to work towards addressing debt generated by the SOE sector.

Monetary Policy and Framework

20. Under the monetary aggregate targeting framework adopted in early 2015, inflation has gradually fallen, accompanied more recently by a relatively stable exchange rate (Figure 9). The growth in broad money, excluding exchange rate effects, is broadly in line with the authorities' 2017 target and inflation is well-below the NBRB's 9 percent (ceiling) objective for 2017. Policy credibility is gradually strengthening and inflation expectations are falling. While the exchange rate regime has been more flexible over the past two years (see Information Annex), exchange rate volatility has also eased following the large depreciation through 2016. Reflecting these improvements—as well as excess liquidity in the financial system and other factors—the refinancing rate has been steadily reduced from 25 percent in March 2016 to 11 percent as of October, after being on hold during 2015 and early 2016. Real rates on domestic currency lending and deposits have also come down, in part due to administrative measures (see Country Report 16/298), with the relatively smaller decline in lending rates likely resulting from tighter lending conditions at banks.

21. The NBRB will shift its monetary policy operational target from base money to the interbank rate in January 2018, as part of its transition to inflation targeting (IT). The NBRB already has operational capacity to implement this change, including an interest rate corridor and open market operations. The transition to IT, however, faces several challenges: (i) still weak transmission channels (reflecting government price controls and directed lending); (ii) high dollarization; (iii) fiscal dominance; and (iv) hindrances to NBRB operational independence (e.g., a large negative NBRB equity position due to absorption of past quasi-fiscal losses). The authorities are taking steps to address these issues, following the NBRB's Road Map for Transitioning to Inflation Targeting. In April, the NBRB statute was amended to set price stability as the primary objective. The NBRB is working with SIDA-funded Fund TA experts to strengthen its forecasting capacity. To support de-dollarization, the required reserve rate on foreign currency deposits was raised to 15 percent in July, from 11 percent, though is still paid in local currency.

Staff Recommendations

- **Maintain the current policy stance**. The current stance is appropriate to achieve the authorities' 2018 inflation objective of 6 (+/- 1) percent. Despite slowing inflation, staff recommends a pause in further reductions in the refinancing (policy) rate until there is better understanding of the implications of recent economic and policy developments affecting domestic demand conditions, including from wage policies and quasi fiscal activities.

- **Take measures as needed to achieve the official 5 percent medium-term inflation objective**. Inflation—and therefore the conduct of monetary policy—will continue to be affected by the pace of reforms as well as developments in financial stability (e.g., depositor behavior; success of de-dollarization efforts). The burden on monetary policy would be reduced by a tighter fiscal stance (including off-balance sheet activities and lower quasi-fiscal activities) and wage increases consistent with productivity growth.

- **Put in place sufficient conditions for a successful transition to inflation targeting.** The transition should be accompanied by measures to develop interbank markets and to reduce market distortions, especially fiscal dominance, and reduce interbank rate volatility through well targeted open market operations. NBRB operational independence should be strengthened further, including through recapitalization and implementing a stronger governance and legal framework. The NBRB should continue to strengthen its communication (e.g., to help form inflation expectations) and carefully guide policy variables for a smooth transition to the interest rate-based policy target.

- **Maintain a flexible exchange rate.** The flexible exchange rate has helped absorb external shocks. The authorities should continue to limit interventions to preventing disorderly market conditions and to seek opportunities to rebuild reserves as conditions allow. Given the still high financial dollarization, real exchange rate adjustment can best be achieved through structural reforms.

- **Eliminate the remaining FX surrender requirement for exporters.** This remaining capital flow management measure, which was raised to 50 percent in late 2014, has been gradually reduced to 10 percent, effective October 2017. It should be completely removed in the near future, in light of the improved economic situation (and in line with the Fund's Institutional View on capital flows).

Authorities' Views

22. The authorities broadly agreed with staff's views on monetary policy and framework. They do not anticipate any substantial reduction in the refinancing rate in 2018, and expect to meet their inflation objective. They expect that existing instruments will be sufficient to conduct interbank rate-based monetary policy operations, and plan to narrow the interest rate corridor further over the medium-term to reduce volatility. The NBRB is working to enhance communication, including with the planned Fund TA, and the government plans to continue to reduce the stock of directed lending, albeit at a slower pace than previously envisaged. They plan to remove the remaining surrender requirement in 2018.

Financial Stability

23. The state maintains substantial involvement in the financial sector. State and NBRB-owned banks account for about 70 percent of system assets. Some 40 percent of total loans are tied to government directed lending, mostly to SOEs at subsidized rates. Traditional directed lending is being cut back by 1 to 1½ percent of GDP a year, somewhat slower than staff's recommended 2 percent of GDP pace. However, new channels of government support are emerging such as a new export credit program, a new housing loan program, and plans for a special financial institution (SPV) for securitization[5]—with still unclear implications for government balance sheets and the financial system.

24. The NBRB has taken important steps to address financial sector risks, drawing on 2016 FSAP recommendations. In February, the authorities adopted an Action Plan laying out planned measures and timelines for the implementation of the FSAP recommendations. Important milestones include: (i) the 2016–17 AQRs (large bank remedial actions are complete and small banks identified with potential capital shortfalls are working on plans for follow-up actions); (ii) a tightening of provisioning requirements on FX loans to unhedged corporate borrowers; and (iii) preparation of amendments to provisioning and risk classification requirements on restructured loans. The NBRB began monitoring banks' liquidity coverage ratios (LCRs) and announced that compliance with Basel III LCR and net stable funding ratios (NSFRs) will be required from January 2018, along with the phased introduction of capital buffers through 2019. The World Bank is providing technical assistance to reform the deposit insurance scheme and strengthen the bank resolution framework. The mandate of the Development Bank is being reviewed[6], aiming to bring it more clearly into areas of market failure by commercial banks. However, several 'immediate' FSAP recommendations have not yet been implemented.

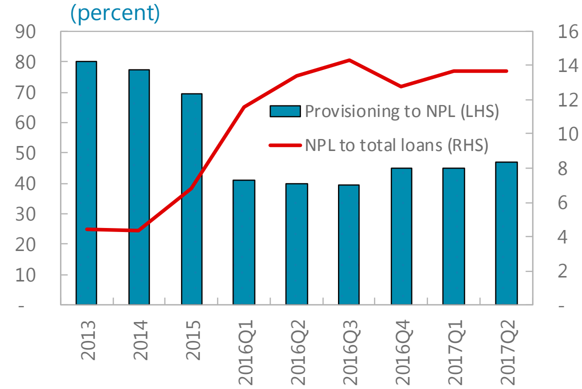
[5] The Ministry of Finance is taking the lead in developing the legal framework for securitization. The operational setup of the institution, including ownership and the start of operation, remains unclear.

[6] The World Bank provided comments to the draft amendments.

25. There are some signs of improving financial sector conditions, but significant vulnerabilities remain and overall credit conditions are weak. (Figure 10).

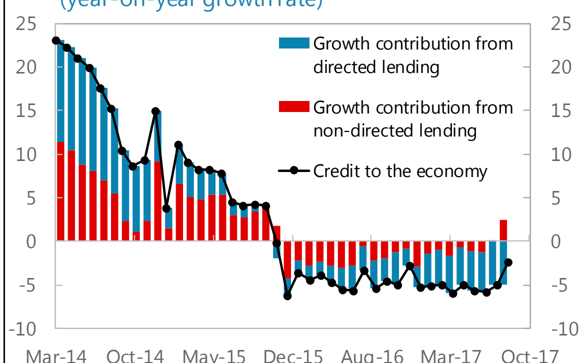
- *Market interest rates have fallen—helped by greater stability, but also administrative measures.* Household FX deposits have stabilized in recent months, following a period of decline.
- *Capital adequacy has improved to 19.6 percent following AQR-related actions by three large banks*. Bank profitability has improved, but remains below pre-recession levels.
- *System-wide NPLs have stabilized, but at elevated levels, and provisioning is low.* After rapid increases in the past two years tied to underperformance in the SOE sector, the NPL ratio has stabilized at around 13 percent, helped also by the transfer of non-performing agriculture loans to a new Asset Management Company (AMC) outside the banking system.[7] However, NPLs are likely underestimated due to regulatory forbearance, evergreening, and weakened real sector repayment capacity. These ad-hoc (and costly to the budget) and non-transparent developments reflect the absence of comprehensive and efficient SOE and NPL resolution frameworks.

NPL and Provisioning
(percent)



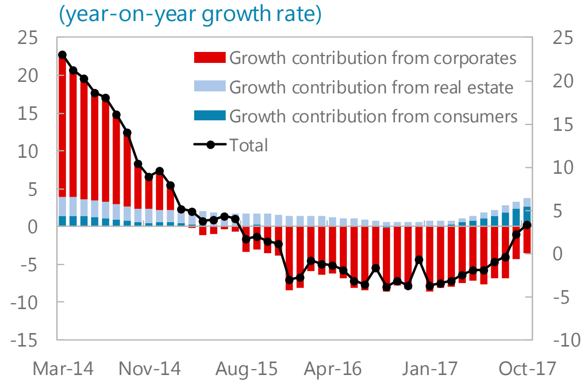
Source: The NBRB.

Credit at Constant Exchange Rate
(year-on-year growth rate)



Sources: Belarusian authorities and IMF staff calculations.

Credit at Constant Exchange Rate
(year-on-year growth rate)



Sources: Belarusian authorities and IMF staff calculations.

- *Belarus appears to be headed for a credit-less recovery.* Credit conditions suffer from both supply and demand factors (see Annex V-E). Despite the existing excess liquidity and lower lending and deposit rates (helping cost of funds), banks are taking a cautious stance towards credit risk and concentrating on lending to corporate clients with good credit records. Credit

[7] The AMC's current operations are limited to serving as a collection agency for problem loans. Over 90 percent of the transferred loans were to SOEs and roughly half classified as NPLs. The transfers took place at face value, with debts receiving blanket lengthening of maturity and below market interest rates.

is also falling due to the government policy of cutting back government directed lending as well as tighter prudential measures (e.g., stronger provisioning; higher risk weight on systemically important borrowers). Reflecting this, nominal credit growth to the economy has declined through most of 2017 (and has only recently turned positive, led by an uptick in consumer credit).[8]

Staff recommendations

- **Complete actions on the remaining near-term FSAP priority recommendations aimed at addressing weak bank balance sheets and strengthening regulation and supervision.** Specifically, the authorities should: (i) finalize and adopt the amendments to provisioning requirements on restructured loans; (ii) implement risk-based supervision with support from a EU Twinning arrangement; (iii) work with the EBRD to divest NBRB shareholdings in commercial banks to address potential conflict of interest and strengthen performance; (iv) refine and broaden the risk management framework; (v) gradually switch reserve requirements for FX deposits into FX currency over the medium-term; and (vi) continue reform of the financial safety net (including deposit insurance and the bank resolution framework) to bring it closer to international standards.

- **Continue to strengthen the NPL resolution framework.** The AMC should be integrated into a broader framework of NPL and SOE restructuring (in the context of a broad SOE strategy), and equipped with oversight and resolution powers, strong governance, and incentives. The authorities should mitigate risks that the proposed SPV could be used for effectively offloading NPLs from banks' balance sheets.

Authorities' Views

26. The authorities stressed that their actions have helped improve banks' resilience and risk management, and reiterated their commitment to continue implementing measures in line with the FSAP recommendations. They agreed that strengthening supervision and regulation is the priority, and plan to implement the tightened regulatory requirements on restructured loans in early 2018. They highlighted the measures taken to improve the monitoring and assessment of FX liquidity risks, and improved FX liquidity indicators. They are also working on implementing risk-based supervision, supported by EU Twinning exercise, and strengthening financial safety nets (deposit insurance and bank resolution framework) with TA from the World Bank. They recognized some of the shortcomings of the AMC and are exploring the possibility of creating a distressed asset market and expanding the scope of the AMC, though this work is still at an early stage.

[8] About ½ of the 8.2 percent drop in nominal credit through 2Q 2017 (y-o-y) was due to the AMC loan transfer.

STAFF APPRAISAL

27. The economy is showing welcome signs of recovery after two years of recession. Through more disciplined policies over the past 2½ years, the authorities have managed to restore macroeconomic and financial stability and curb imbalances. These efforts, supported by rising external demand have paved the way for economic recovery and moderating inflation.

28. Near-term financing pressures have eased, but Belarus has significant medium-term financing needs. The 2017 energy and financing agreements with Russia, and the successful Eurobond issuance in the middle of the year, have eased near-term financing pressures. The external position has improved, though remains moderately weaker than fundamentals and desirable policies. Belarus will need to maintain access to market and other financing sources, and secure sustainably lower current account deficits, to meet medium-term financing requirements while improving its net international investment position.

29. Achieving higher sustainable growth, greater export diversity, and reducing vulnerabilities will require more ambitious reforms. Faster and deeper reforms, particularly in the SOE sector, are needed to reduce macro-financial vulnerabilities, eliminate utility subsidies, raise productivity, diversify exports, and increase growth potential. This should be accompanied by further steps to strengthen private sector activity, including improvements to the business environment (particularly a more level playing field) and strengthening the labor market framework, including more efficient SSNs. The authorities' more gradual pace of structural and institutional reforms risks leaving vulnerabilities to linger for too long, putting Belarus at risk of shocks and inviting pressures for reversals to the type of state involvement in resource allocation seen in the past.

30. Fiscal consolidation should continue over the medium-term to ensure public debt sustainability, backed by improvements to the fiscal framework. The authorities have successfully kept their narrowly defined state budget balance under control, but sizable quasi-fiscal activities have continued to put upward pressure on debt. To secure a faster downward trajectory of PPG debt towards more sustainable levels, staff urges a gradual fiscal consolidation through tighter control over off-balance sheet fiscal activities and some measures such as slower wage growth, as needed. These should be supported by a shift to a simpler fiscal framework.

31. Efforts to strengthen the monetary policy framework should continue, while maintaining policies consistent with inflation objectives. Further space for easing the monetary policy stance would be created by reducing fiscal dominance (including off-balance sheet activity) and wage increases consistent with productivity growth. For the medium term, the authorities should continue laying the groundwork for the planned transition to IT, including further development of financial markets, reducing market distortions, further strengthening the NBRB's operational capacity and independence, and reducing pressures from quasi-fiscal activities. Exchange rate flexibility is an important shock absorber and should be maintained.

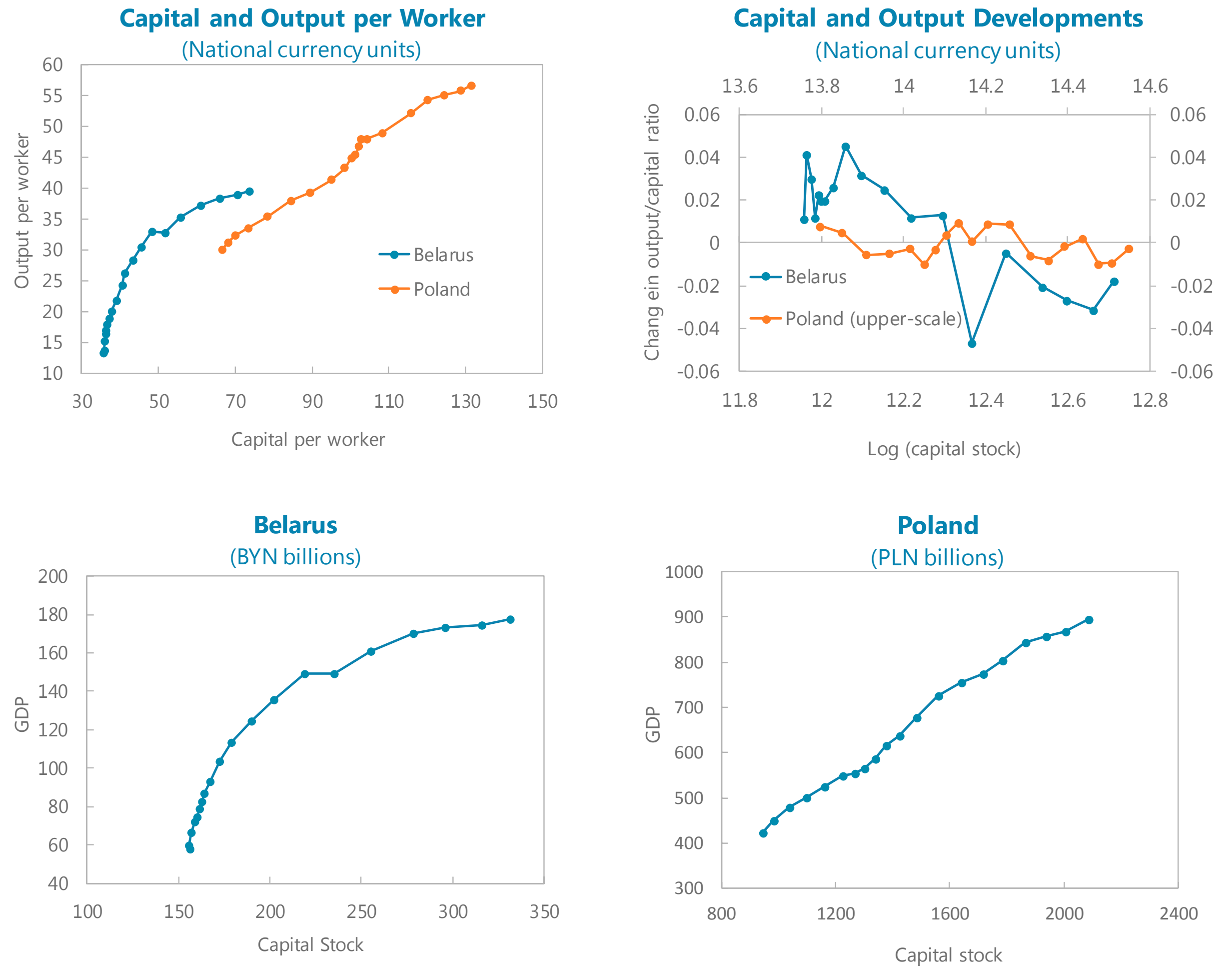
Interventions should remain limited to preventing disorderly market conditions while seeking opportunities to rebuild reserves as conditions allow.

32. The authorities should build on the significant work done to strengthen financial sector stability and frameworks to further strengthen resilience. The implementation of the 2016 FSAP recommendations should continue, with the near-term focus on continued enhancement of bank regulation and supervision, divestment of NBRB shareholdings in commercial banks, refining and broadening the risk management framework, and further enhancing foreign currency risk management in banks. The NPL resolution framework should be strengthened and enhanced in the context of SOE restructuring. Importantly, indirect government support to SOEs through the banking system should be phased out, as it could give rise to future NPLs and undermines efforts to strengthen financial sector stability.

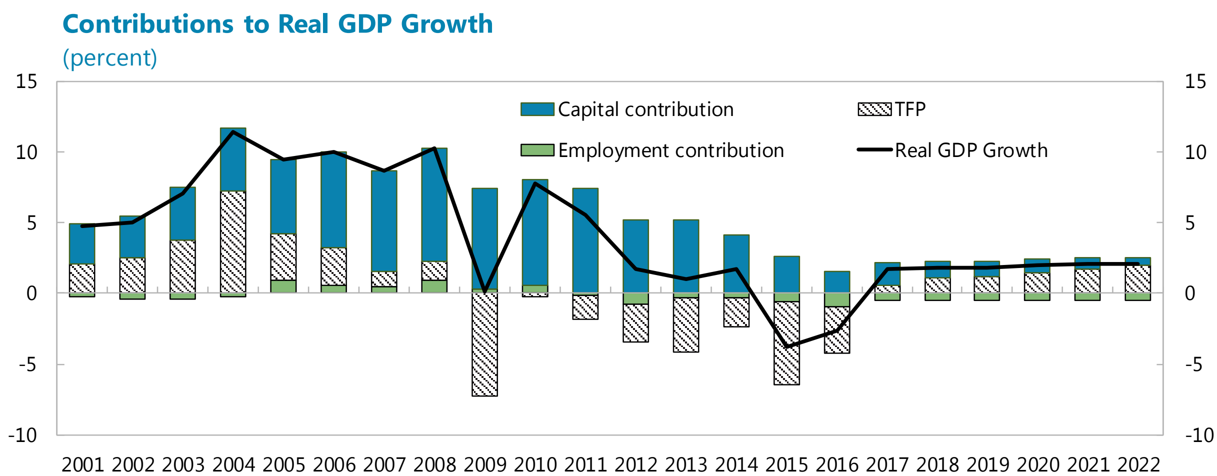
33. The next Article IV consultation will be held on the standard 12-month cycle.

Figure 1. Belarus and Poland, 1995–2022

Higher investment in Belarus has led to a higher level of GDP,
but not to a higher steady state growth rate (in contrast with Poland)



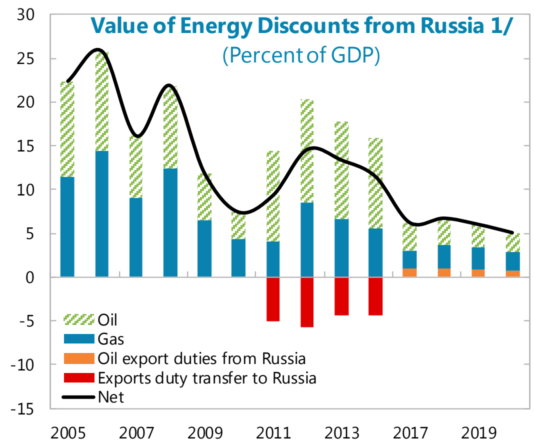
Total factor productivity (TFP) turned negative in Belarus in 2009.



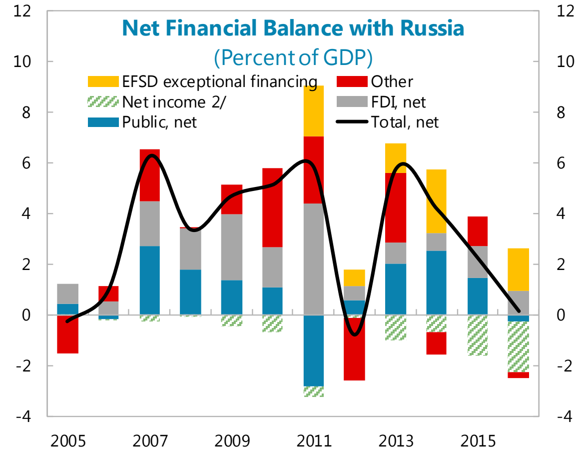
Sources: Penn World Tables v. 9, Belarusian authorities, and IMF staff estimates.
Note: Charts 1-4 display observations for Belarus and Poland spanning 1995-2014.

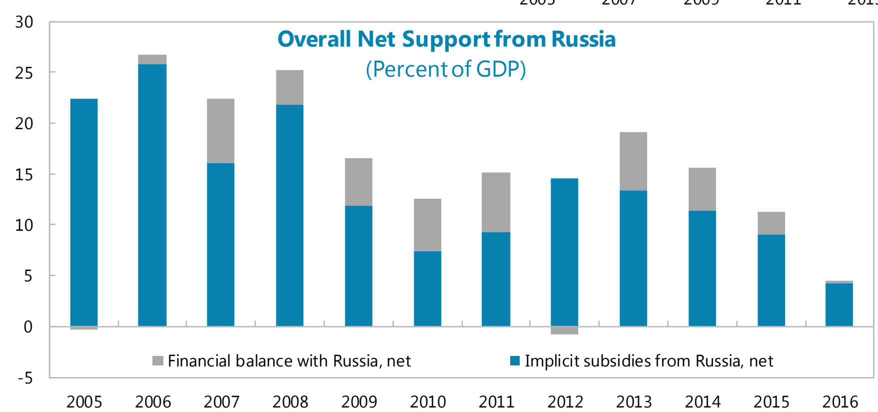
Figure 2. Belarus: Economic and Financial Linkages with Russia and ROW, 2005–2020

Energy pricing support has been scaled back.

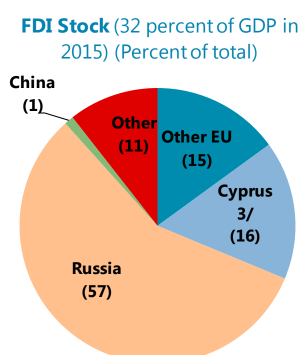


Russian financial support was lower in 2016 but includes a $700 mn bilateral loan in 2017.

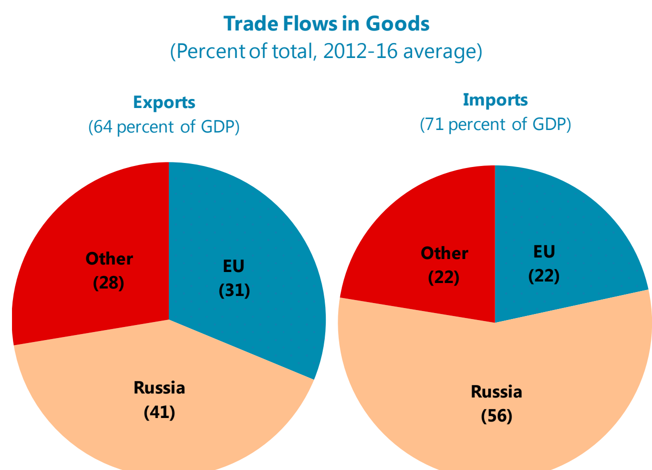




Russia is Belarus's largest foreign investor…



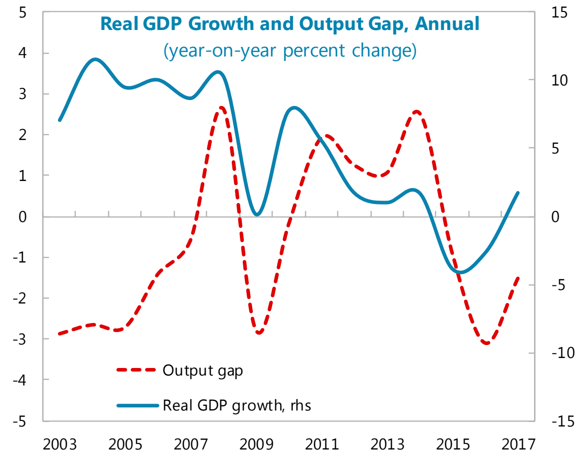
…and largest trading partner.



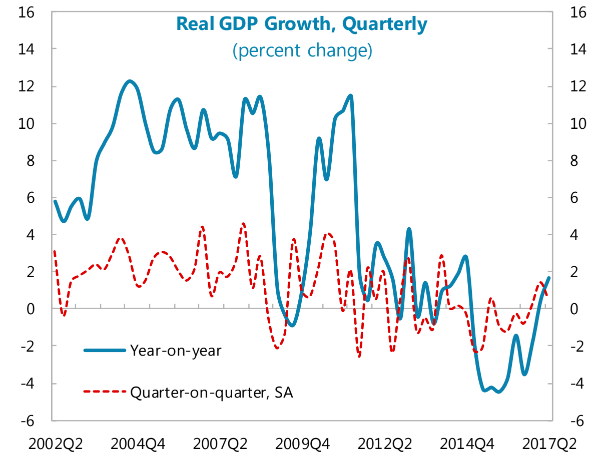
Sources: Coordinated Direct Investment Survey; Direction of Trade Statistics; Belarusian authorities; and IMF staff calculations.
1/ Reflects spread between world energy price and price paid by Belarus to Russia.
2/ Beginning 2013, includes cross-border dividends.
3/ Likely includes significant sourcing from Russia.

Figure 3. Belarus: Real Sector Developments, 2002–2017

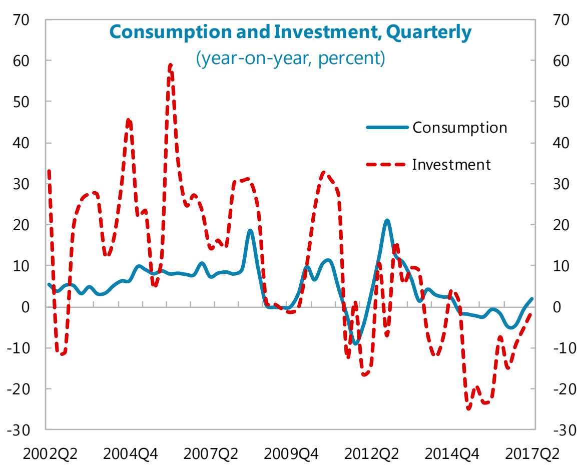
The economy shows signs of recovery....



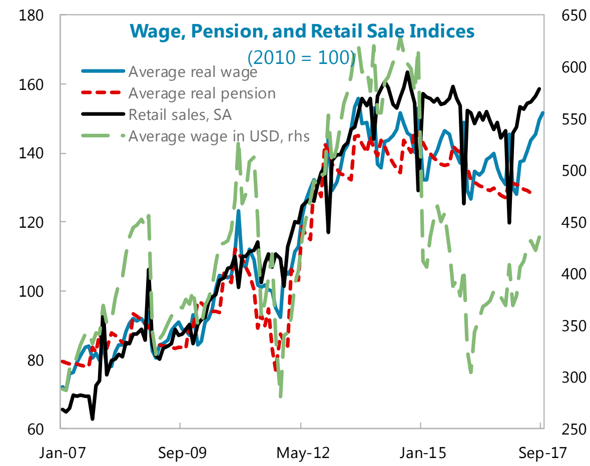
... with growth turning positive in Q1 2017.



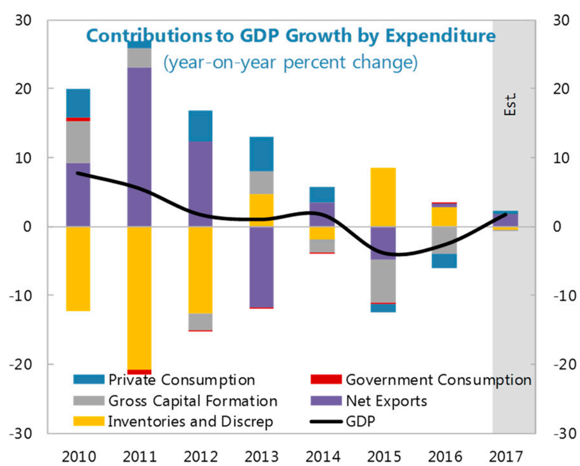
Investment and consumption are rebounding.



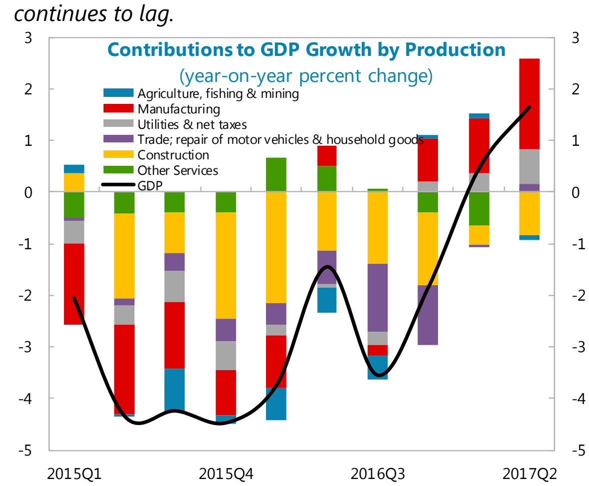
Real wages are growing rapidly (along with retail sales)



Net exports are also supporting the recovery.



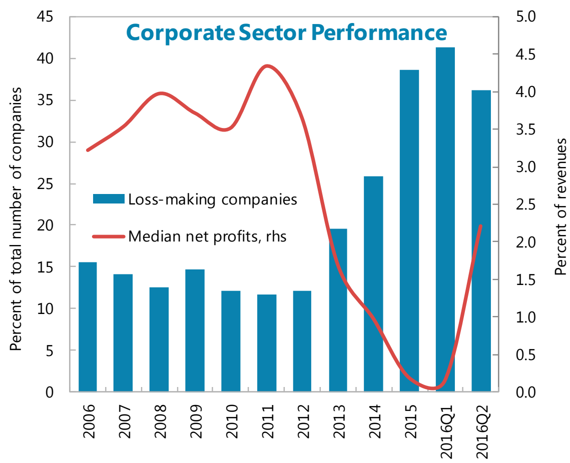
Manufacturing has rebounded strongly, but construction continues to lag.



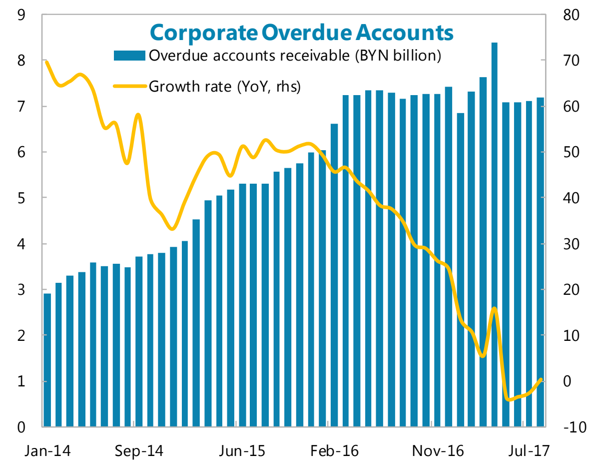
Sources: National Statistical Committee; IMF staff estimates and calculations.

Figure 4. Belarus: Corporate Sector Developments, 2006–2017

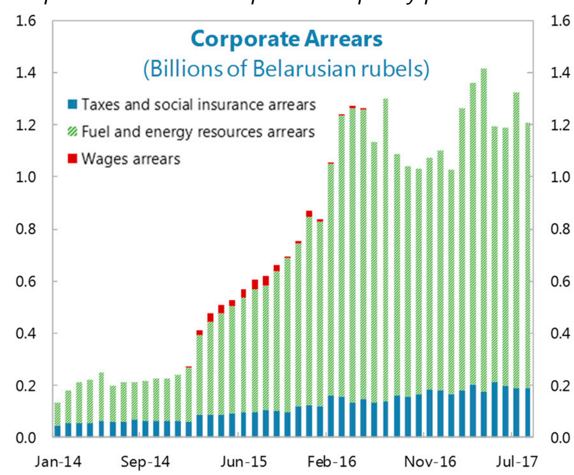
Corporate performance is slowly improving…



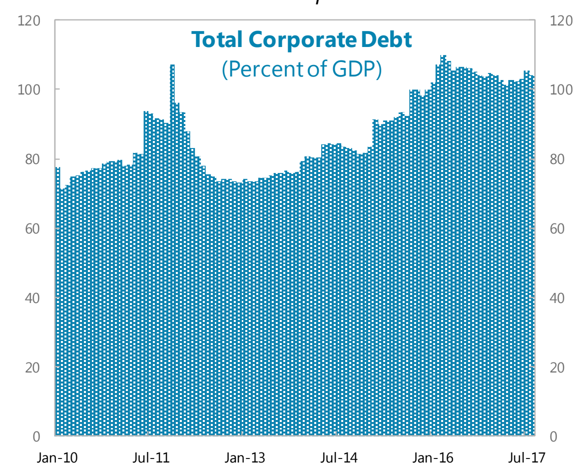
…and overdue accounts have stabilized.



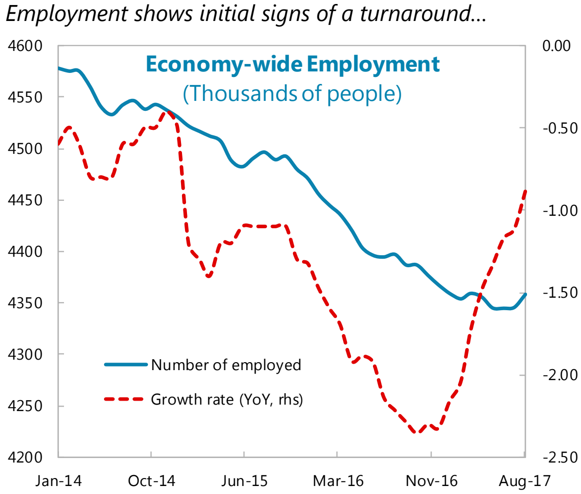
Companies continue to experience liquidity problems…



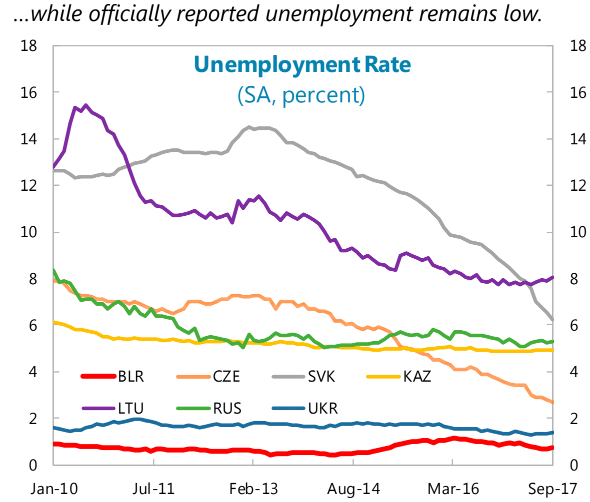
…while debt accumulation has plateaued.



Employment shows initial signs of a turnaround…



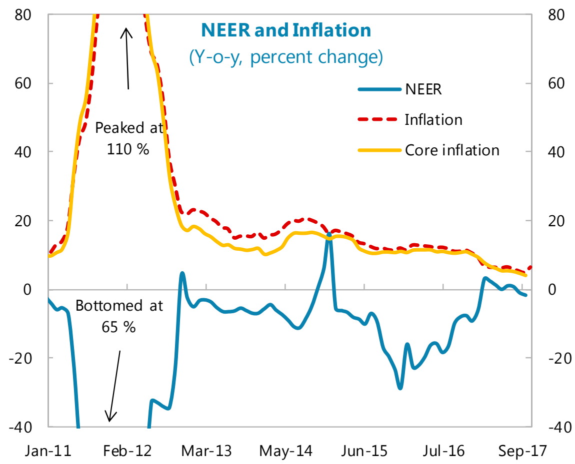
…while officially reported unemployment remains low.



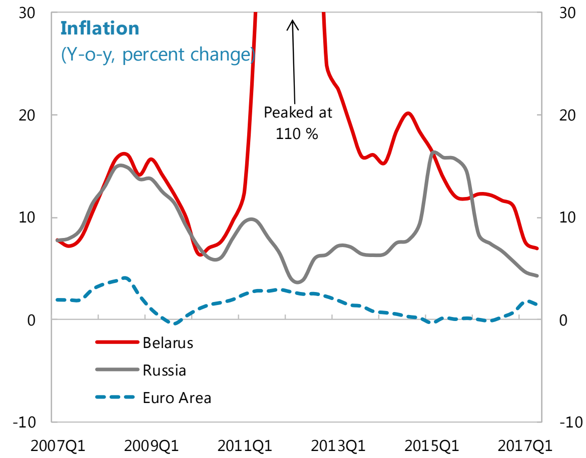
Sources: Belarusian authorities; and IMF staff calculations.

Figure 5. Belarus: Inflation Developments, 2007–2017

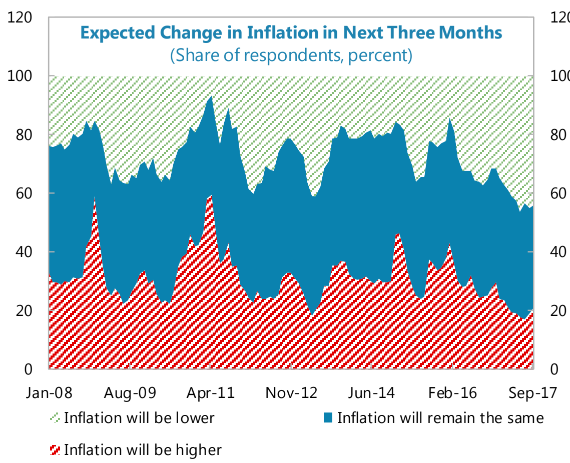
Inflation continues to moderate.



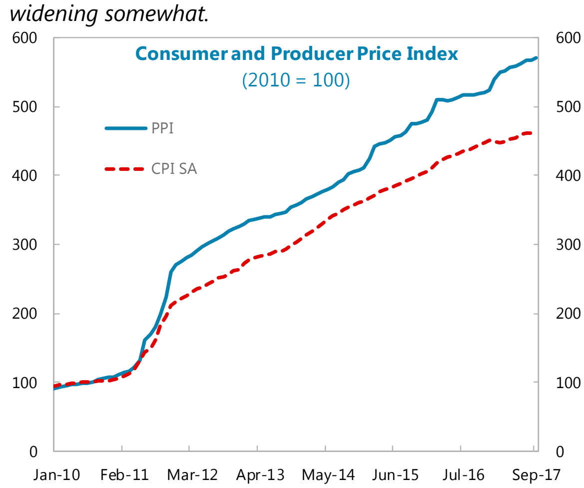
Key trading partners are providing disinflationary pressures.



Inflation expectations are adjusting downwards.

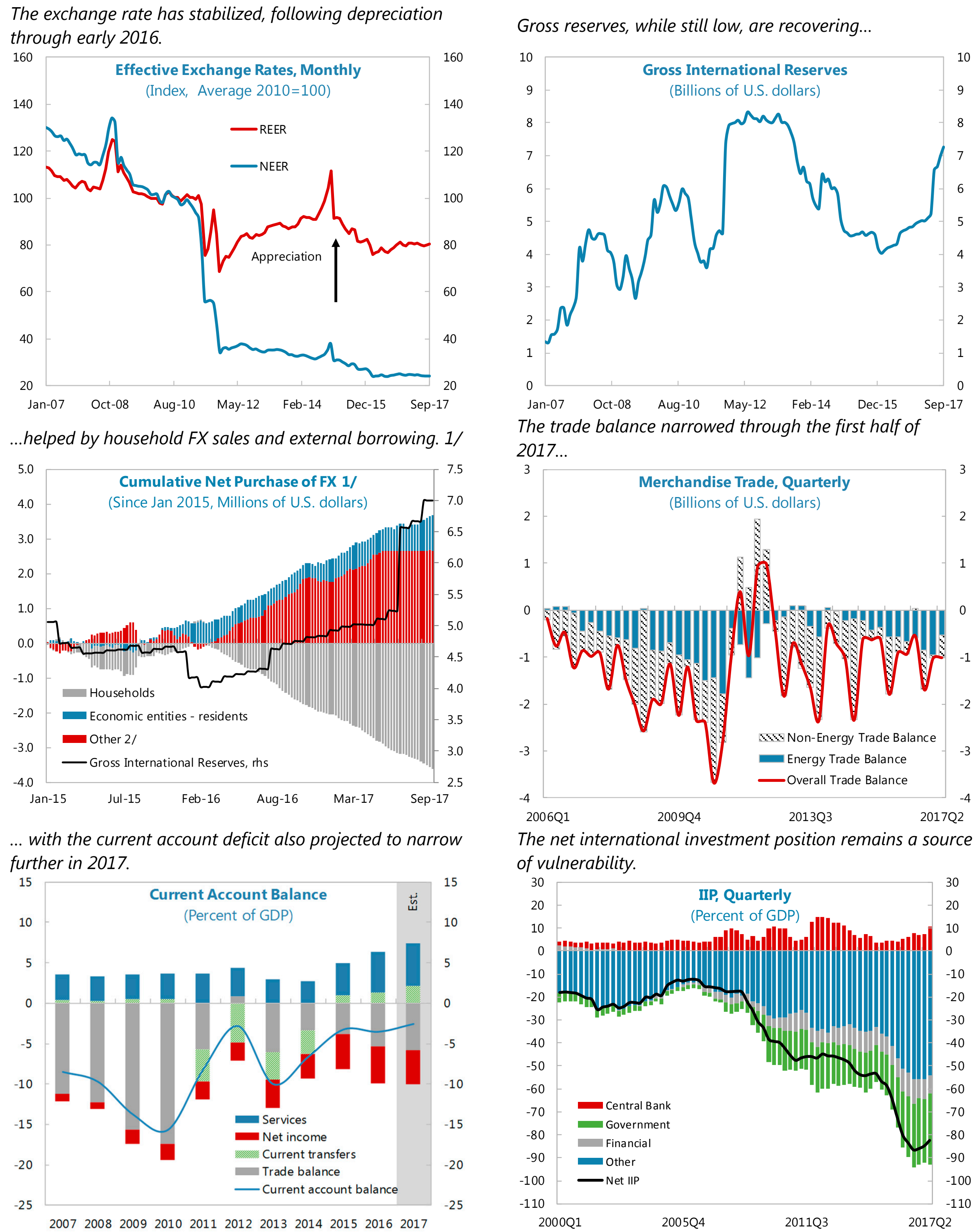


CPI inflation has followed PPI, but the gap has been widening somewhat.



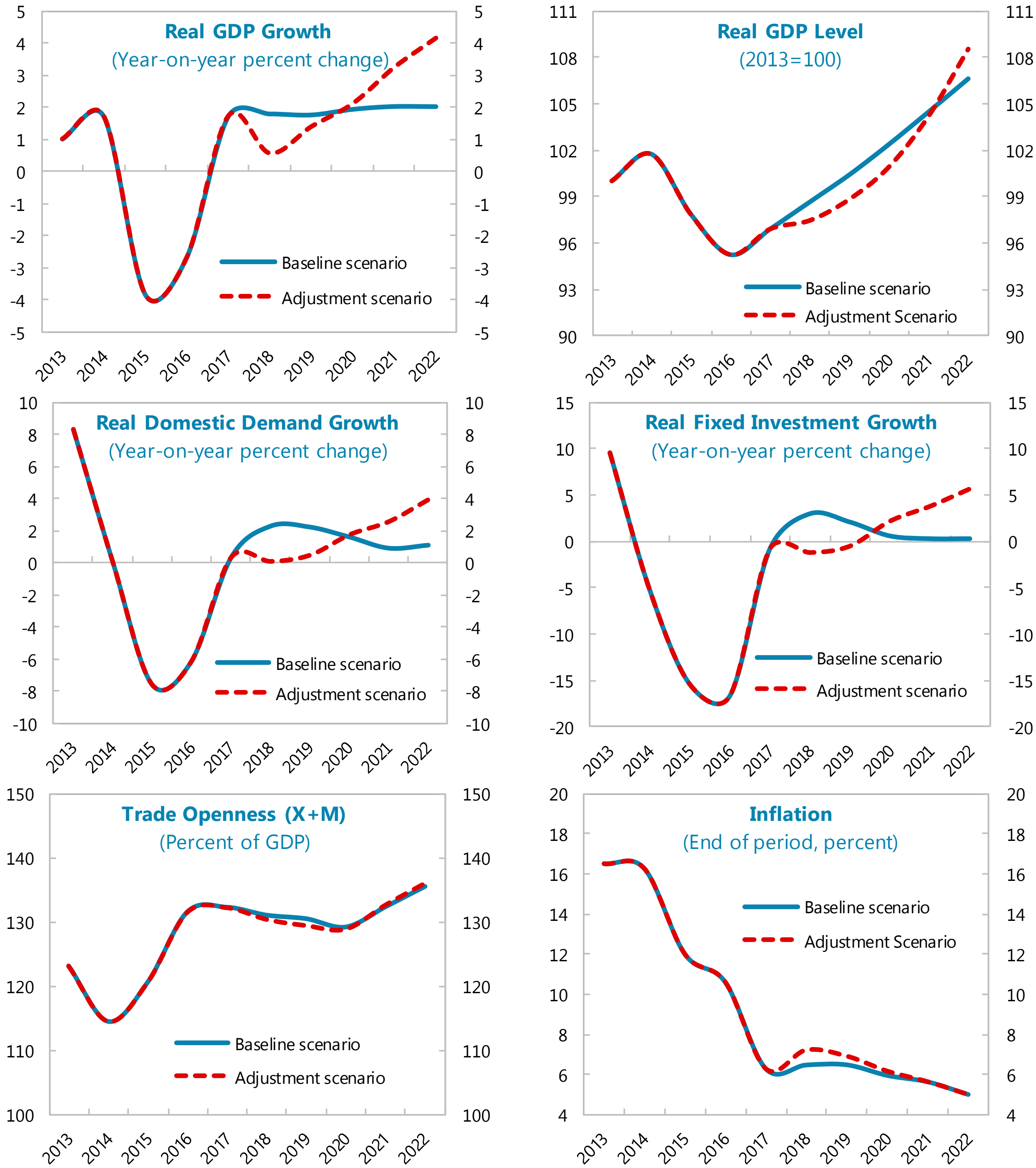
Sources: Belstat; National Bank of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 6. Belarus: External Sector Developments, 2000–2017



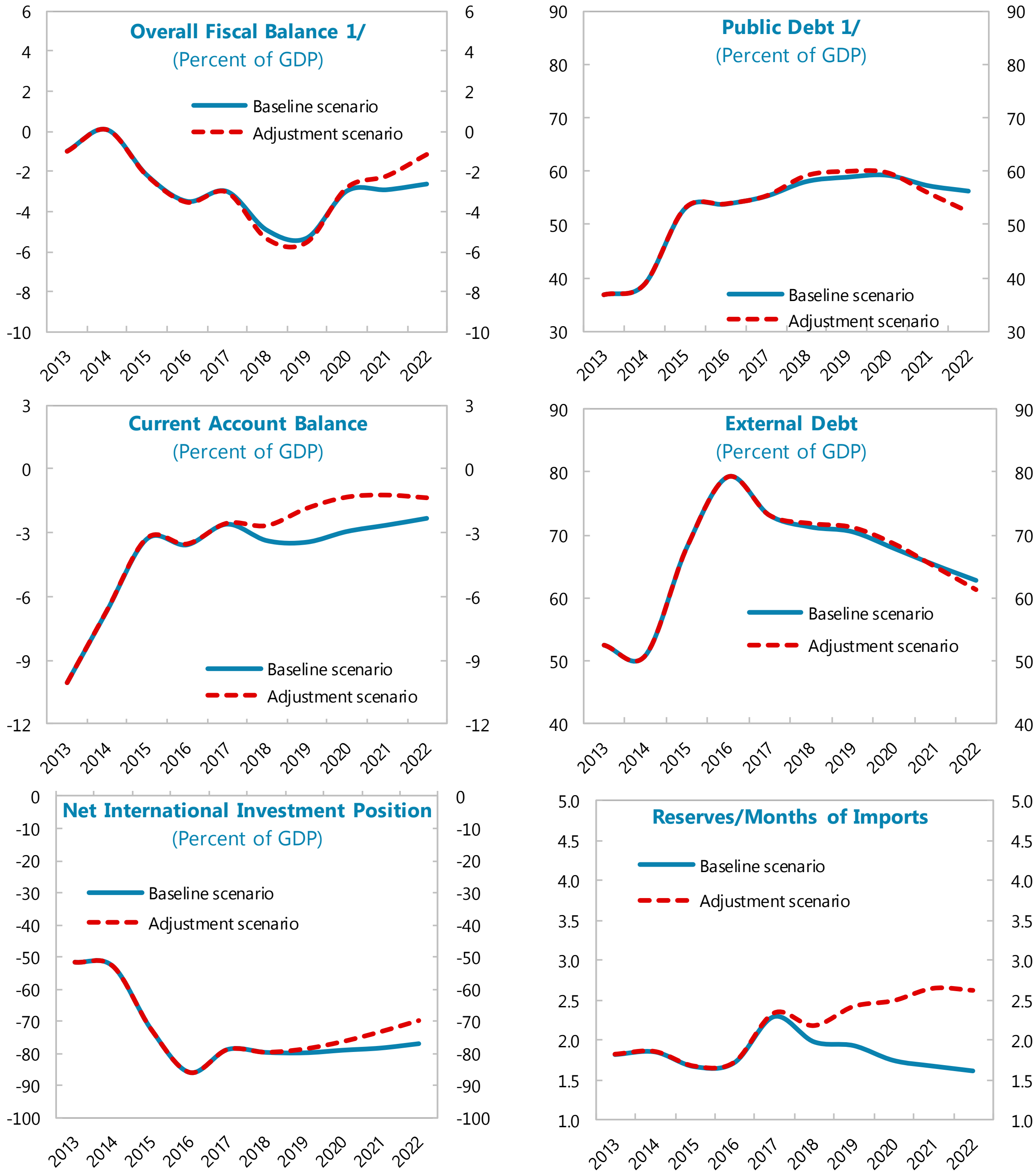
Sources: Belstat; National Bank of the Republic of Belarus; Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.
1/ The jump in reserves in June 2017 reflects the Eurobond issuance.
2/ Represents the residual counterparty activities to clear the market.

Figure 7. Belarus: Baseline and Illustrative Proactive Scenarios, 2013–2022



Sources: Belarusian authorities; and IMF staff estimates and calculations.

Figure 7. Belarus: Baseline and Illustrative Proactive Scenarios, 2013–2022 (concluded)

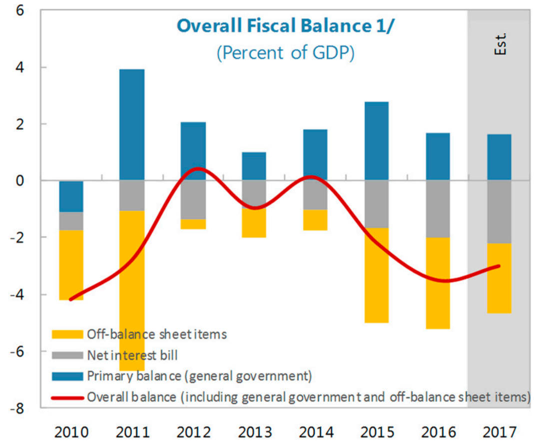


Sources: Belarusian authorities; and IMF staff estimates and calculations.

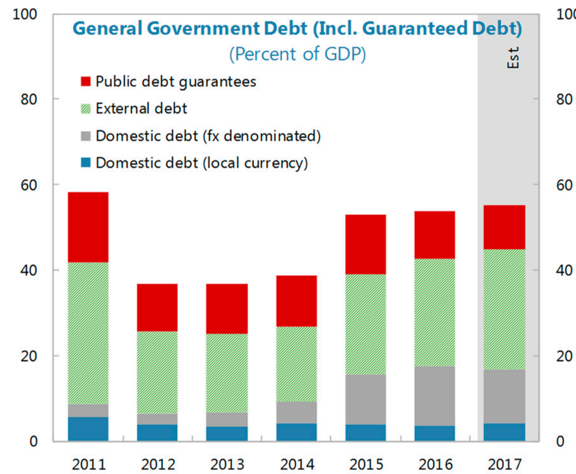
1/ See Annex III for explanation of differences between government and staff definitions of fiscal balance and debt figures.

Figure 8. Belarus: Fiscal Developments, 2010–17

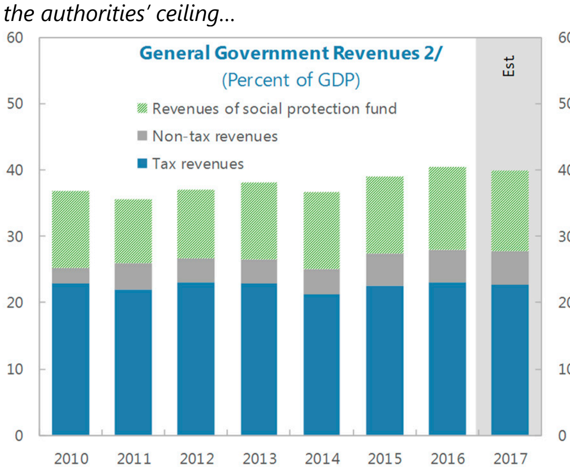
Off-balance sheet items continue to put substantial burden on the fiscal balance......



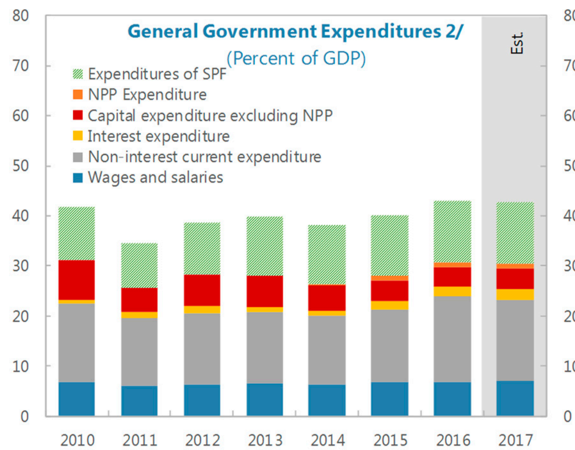
...and push up public and publicly guaranteed (PPG) debt.



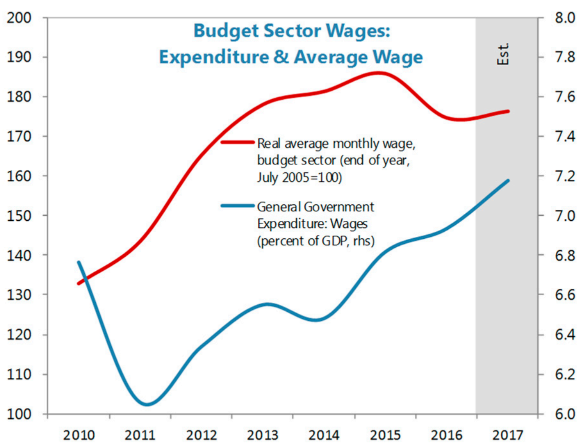
Tax revenues remain below 26 percent of GDP, guided by the authorities' ceiling...



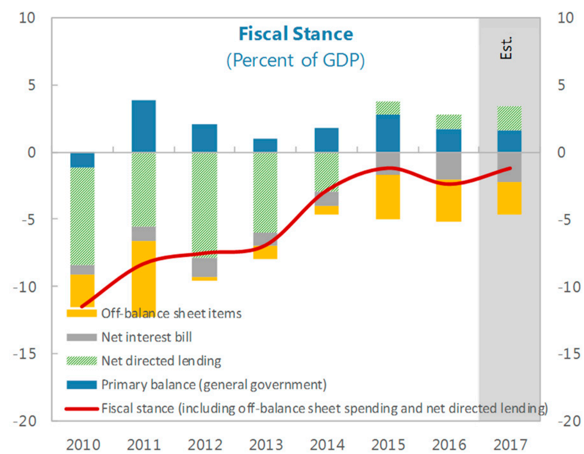
Interest expenditures have increased, reflecting rising debt...



...and wage bill expenditures are also rising.



The fiscal stance is tightening somewhat.



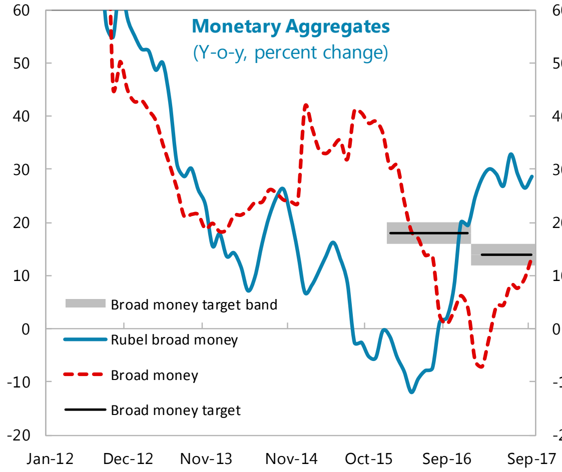
Sources: Belarusian authorities; and IMF staff estimates and calculations.

1/ Staff definition.

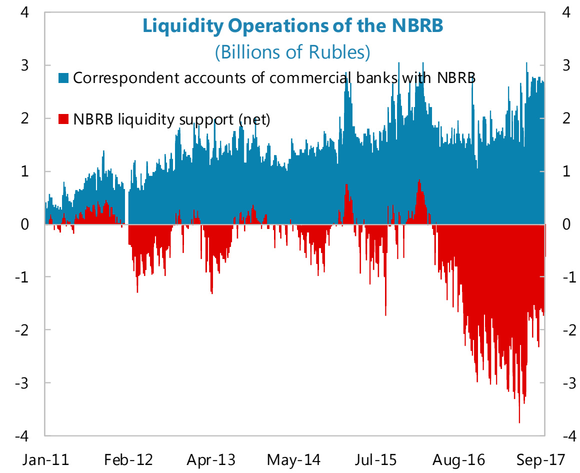
2/ Figures relating to SPF-related revenues and expenditures are not consolidated.

Figure 9. Belarus: Monetary Sector Developments, 2011–17

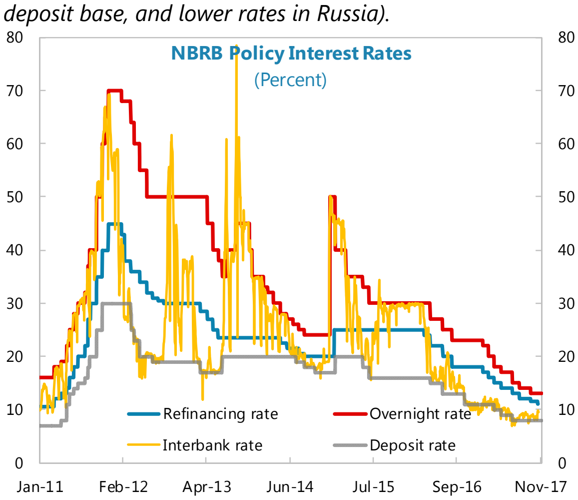
Broad money growth is recovering to a level in line with the central bank's 2017 target.



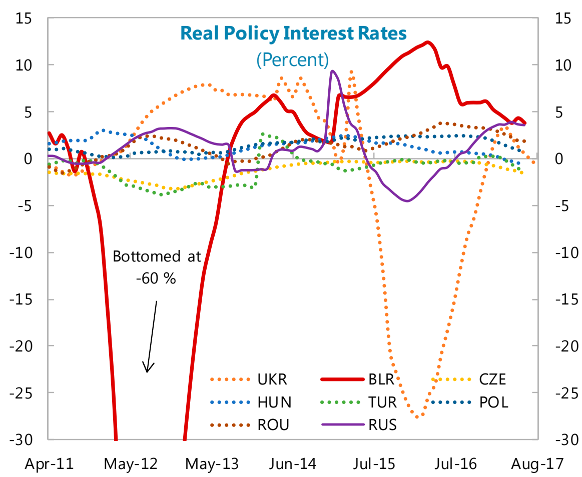
The NBRB continues to withdraw excess liquidity, though at lower levels.



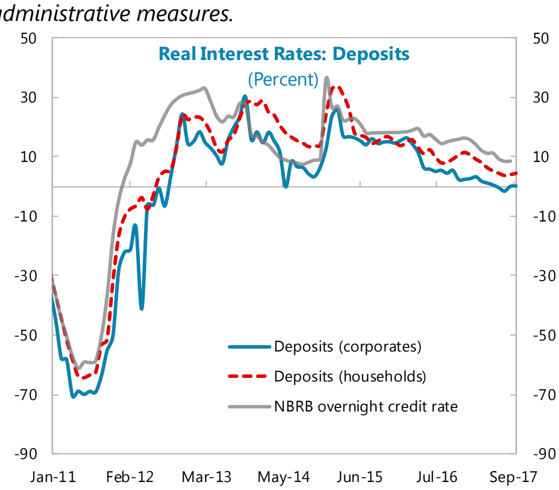
The NBRB has steadily lowered its interest rate corridor (in the context of excess liquidity, disinflation, a stabilizing deposit base, and lower rates in Russia).



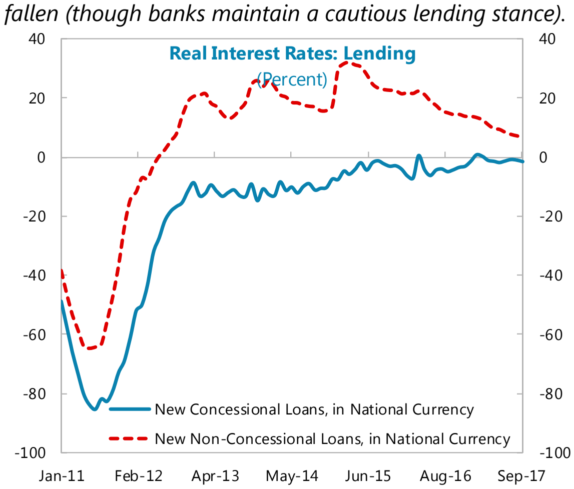
Real rates have fallen towards levels seen in neighboring countries.



Real deposit rates have declined, in part reflecting administrative measures.



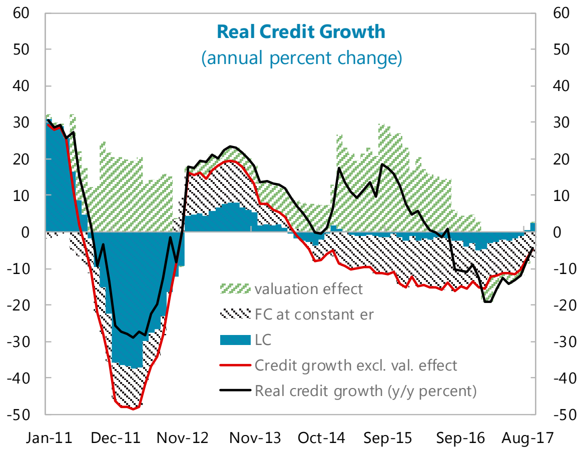
Non-concessional real lending rates have also gradually fallen (though banks maintain a cautious lending stance).



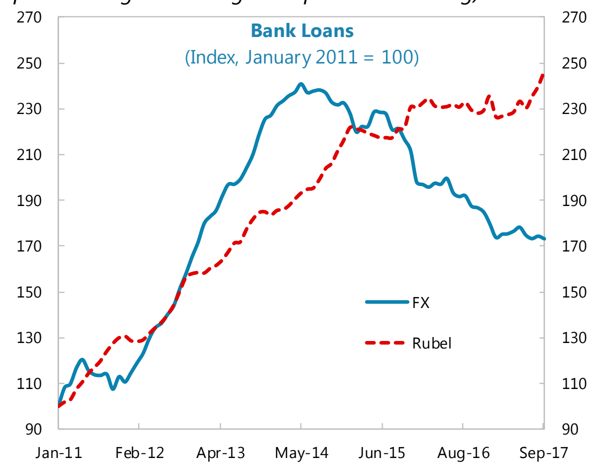
Sources: National Bank of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 10. Belarus: Financial Sector Developments, 2011–17

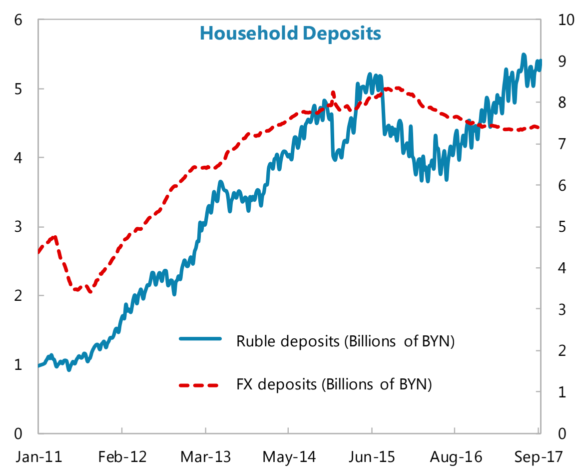
Real credit growth has been negative since mid-2016, reflecting weak bank and corporate balance sheets, asset transfers, and cuts in directed lending.



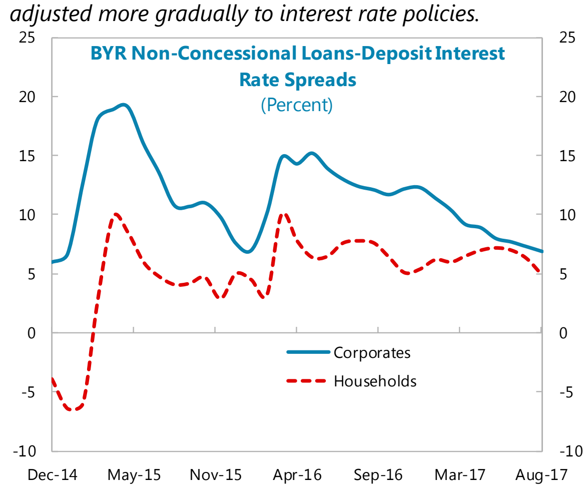
Rubel lending has stabilized, while FX lending continues to fall (reflecting an earlier ban on unhedged HH borrowing, a switch from FX to rubel loans by corporates, and higher provisioning on unhedged corporate borrowing).



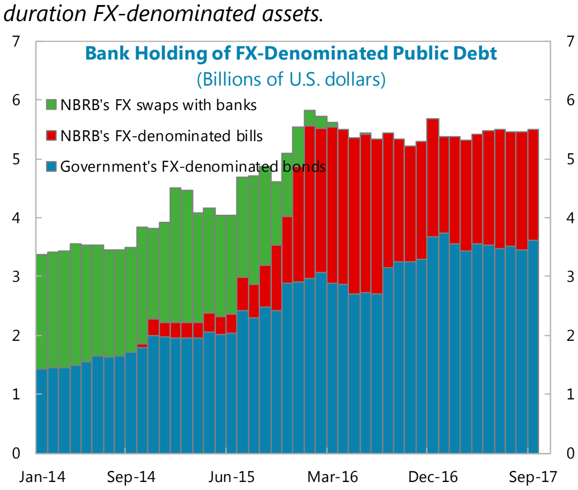
Household deposits are rebounding as confidence grows.



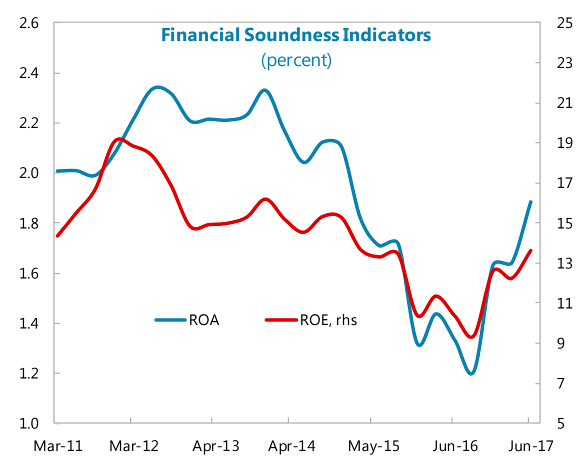
Interest rate spreads have narrowed as lending rates have adjusted more gradually to interest rate policies.



Banks' holdings of FX-denominated domestic public debt remain large, constituting an important part of their short duration FX-denominated assets.



Bank profitability is rebounding from low levels.



Sources: National Bank of the Republic of Belarus; and IMF staff estimates and calculations.

Table 1a. Belarus: Selected Economic Indicators (Baseline Scenario), 2014–2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections					
				(Percent Change)					
National accounts									
Real GDP	1.7	-3.8	-2.6	1.7	1.8	1.8	2.0	2.0	2.0
Total domestic demand	0.0	-7.6	-6.1	0.3	2.3	2.2	1.6	0.9	1.1
Consumption	2.9	-2.0	-2.9	0.8	2.0	2.3	2.0	1.1	1.4
Nongovernment	4.3	-2.3	-3.9	0.9	2.6	2.9	2.8	1.7	2.0
Government	-2.0	-0.6	0.5	0.1	0.1	0.0	-1.0	-1.0	-1.0
Investment	-5.0	-18.3	-13.2	-0.8	2.8	2.0	0.6	0.3	0.3
Net exports 1/	1.3	7.1	2.7	1.4	-0.3	-0.3	0.5	1.2	1.0
Consumer prices									
End of period	16.2	12.0	10.6	6.3	6.5	6.5	6.0	5.6	5.0
Average	18.1	13.5	11.8	6.4	7.0	6.5	6.0	5.6	5.0
GDP deflator	18.1	16.0	7.8	6.4	6.8	6.5	6.5	5.2	5.1
Monetary accounts									
Rubel base money	12.8	7.4	-1.4	37.6	13.2	10.9	9.2	8.8	8.4
Broad money	23.6	36.8	3.8	10.7	10.6	10.1	9.6	8.8	8.5
Net credit to the economy (percent of GDP)	44.4	45.6	41.8	39.6	38.6	38.0	38.0	38.3	38.5
Net credit to private sector (percent of GDP)	22.1	24.0	21.8	21.8	22.6	23.4	24.0	24.7	25.3
				(Percent of GDP)					
External debt and balance of payments									
Current account balance	-6.6	-3.3	-3.5	-2.6	-3.3	-3.4	-2.9	-2.6	-2.3
Trade balance, goods	-3.3	-3.8	-5.3	-5.8	-6.1	-6.0	-5.4	-4.6	-4.2
Exports of goods	45.0	46.4	48.7	49.8	49.0	48.7	48.3	50.2	51.8
Imports of goods	48.3	50.3	54.0	55.6	55.1	54.7	53.7	54.8	56.0
Gross external debt	50.8	67.9	79.2	73.1	71.2	70.5	67.9	65.2	62.8
Public	22.3	31.0	37.1	39.4	39.8	40.2	37.4	34.7	32.5
Private (incl. state-owned-enterprises)	28.5	37.0	42.0	33.7	31.4	30.2	30.4	30.6	30.2
Net IIP	-53.1	-72.8	-86.1	-79.0	-79.9	-80.1	-79.2	-78.6	-77.2
Savings and investment									
Gross domestic investment	34.8	29.0	25.3	24.3	26.1	26.6	26.2	26.7	27.5
Government	5.3	5.1	4.9	5.1	6.7	6.7	4.3	3.9	4.0
Nongovernment (incl. SOEs)	29.5	23.9	20.3	19.2	19.4	19.9	22.0	22.8	23.5
National saving	28.2	25.8	21.7	21.7	22.8	23.2	23.3	24.1	25.2
Government	6.1	6.2	4.6	4.5	3.6	3.2	3.0	2.8	3.0
Nongovernment	22.1	19.6	17.1	17.2	19.2	20.1	20.3	21.3	22.2
Public sector finance									
State budget balance	0.8	1.5	-0.6	-0.6	-3.0	-3.3	-0.8	-0.8	-0.6
State budget balance (excl. nuclear power plant , or "NPP")	1.1	2.6	0.6	0.5	-0.2	-0.5	-0.4	-0.8	-0.6
General government balance (incl. SPF)	0.8	1.1	-0.3	-0.6	-3.0	-3.6	-1.2	-1.1	-1.0
Primary general government balance	1.8	2.8	1.7	1.6	-0.5	-0.7	1.8	2.1	2.1
Primary general government balance (excl. NPP)	2.1	3.9	2.8	2.7	2.2	2.1	2.1	2.1	2.1
Overall balance 2/	0.1	-2.2	-3.5	-3.0	-5.0	-5.4	-3.0	-2.9	-2.6
Gross public and publically guaranteed debt	38.8	53.0	53.9	55.3	58.1	58.9	59.3	57.3	56.3
Of which: Public guarantees	12.1	14.0	11.3	10.4	10.7	10.5	10.1	9.5	8.9
Including NBRB external debt	42.0	56.6	56.9	57.5	59.5	59.6	59.7	57.5	56.5
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	78.7	56.3	47.4	53.3	55.0	57.3	60.1	62.7	65.8
Nominal GDP (billions of BYN)	80.6	89.9	94.3	102.1	111.0	120.3	130.6	140.2	150.3
Terms of trade, percentage change	2.1	-12.4	-5.3	-0.3	1.0	1.1	0.4	-0.2	-0.5
Real Effective Exchange Rate ("-" denotes a depreciation) 3/	8.6	-9.3	-9.2	-4.7					
Nominal Effective Exchange Rate ("-" denotes a depreciation) 3/	-3.8	-12.6	-17.5	-5.8					
Official reserves (billions of U.S. dollars)	5.1	4.2	4.9	6.8	6.0	6.1	5.8	5.8	6.0
Months of imports of goods and services	1.9	1.7	1.7	2.3	2.0	1.9	1.7	1.7	1.6
Percent of short-term debt	39.5	36.4	46.4	68.0	60.4	60.2	57.4	55.8	56.7
Quota (2016): SDR 681.5 million (923.5 million U.S. dollars)									

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Includes general government and off balance sheet operations.
3/ 2017 exchange rate values reference October 2017 over the corresponding period of the previous year.

Table 1b. Belarus: Selected Economic Indicators (Illustrative Proactive Scenario), 2014–2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections					
				(Percent Change)					
National accounts									
Real GDP	1.7	-3.8	-2.6	1.7	0.6	1.4	2.1	3.2	4.1
Total domestic demand	0.0	-7.6	-6.1	0.3	0.1	0.5	1.7	2.5	3.9
Consumption	2.9	-2.0	-2.9	0.8	0.6	0.8	1.6	2.2	3.3
Nongovernment	4.3	-2.3	-3.9	0.9	0.7	1.3	2.6	3.0	4.1
Government	-2.0	-0.6	0.5	0.1	0.0	-1.0	-2.0	-1.0	0.0
Investment	-5.0	-18.3	-13.2	-0.8	-1.1	-0.5	2.1	3.6	5.4
Net exports 1/	1.3	7.1	2.7	1.4	0.5	1.0	0.5	0.9	0.6
Consumer prices									
End of period	16.2	12.0	10.6	6.3	7.2	6.9	6.2	5.6	5.0
Average	18.1	13.5	11.8	6.4	7.2	6.9	6.2	5.6	5.0
GDP deflator	18.1	16.0	7.8	6.4	7.4	6.8	6.4	5.6	5.1
Monetary accounts									
Rubel base money	12.8	7.4	-1.4	37.6	12.4	13.0	12.3	12.3	12.8
Broad money	23.6	36.8	3.8	10.7	11.1	12.0	12.6	12.9	12.9
Net credit to the economy (percent of GDP)	44.4	45.6	41.8	39.6	38.9	38.3	38.2	37.9	37.6
Net credit to private sector (percent of GDP)	22.1	24.0	21.8	21.8	22.8	23.7	24.6	25.3	25.7
				(Percent of GDP)					
External debt and balance of payments									
Current account balance	-6.6	-3.3	-3.5	-2.6	-2.7	-1.9	-1.3	-1.2	-1.4
Trade balance, goods	-3.3	-3.8	-5.3	-5.8	-5.3	-4.0	-3.4	-3.1	-3.4
Exports of goods	45.0	46.4	48.7	49.8	49.2	49.2	49.1	50.8	52.0
Imports of goods	48.3	50.3	54.0	55.6	54.5	53.2	52.4	53.9	55.4
Gross external debt	50.8	67.9	79.2	73.1	71.8	71.2	68.6	65.0	61.3
Public	22.3	31.0	37.1	39.4	40.1	40.8	38.0	34.6	31.8
Private (incl. state-owned-enterprises)	28.5	37.0	42.0	33.7	31.6	30.4	30.6	30.3	29.5
Net IIP	-53.1	-72.8	-86.1	-79.0	-79.9	-78.9	-76.6	-73.5	-70.0
Savings and investment									
Gross domestic investment	34.8	29.0	25.3	24.3	24.4	24.3	24.1	25.1	27.0
Government	5.3	5.1	4.9	5.1	6.6	7.2	4.9	4.6	4.6
Nongovernment (incl. SOEs)	29.5	23.9	20.3	19.2	17.8	17.1	19.2	20.5	22.3
National saving	28.2	25.8	21.7	21.7	21.7	22.4	22.7	23.8	25.6
Government	6.1	6.2	4.6	4.5	3.8	3.6	3.6	3.8	4.1
Nongovernment	22.1	19.6	17.1	17.2	17.9	18.8	19.1	20.0	21.5
Public sector finance									
State budget balance	0.8	1.5	-0.6	-0.6	-2.4	-3.1	-0.9	-0.6	-0.4
State budget balance (excl. nuclear power plant , or "NPP")	1.1	2.6	0.6	0.5	0.3	-0.3	-0.5	-0.6	-0.4
General government balance (incl. SPF)	0.8	1.1	-0.3	-0.6	-2.8	-3.5	-1.3	-0.8	-0.5
Primary general government balance	1.8	2.8	1.7	1.6	-0.3	-0.6	1.8	2.4	2.5
Primary general government balance (excl. NPP)	2.1	3.9	2.8	2.7	2.5	2.2	2.2	2.4	2.5
Overall balance 2/	0.1	-2.2	-3.5	-3.0	-5.3	-5.5	-2.8	-2.2	-1.1
Gross public and publically guaranteed debt	38.8	53.0	53.9	55.3	59.2	60.0	59.7	55.9	52.4
Of which: Public guarantees	12.1	14.0	11.3	10.4	10.7	10.4	9.7	8.7	8.1
Including NBRB external debt	42.0	56.6	56.9	57.5	60.5	60.6	60.1	56.1	52.6
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	78.7	56.3	47.4	53.3	54.5	56.6	59.3	62.9	67.3
Nominal GDP (billions of BYN)	80.6	89.9	94.3	102.1	110.2	119.4	129.7	141.4	154.8
Terms of trade, percentage change	2.1	-12.4	-5.3	-0.3	0.5	0.2	0.4	0.3	-0.1
Real Effective Exchange Rate ("-" denotes a depreciation) 3/	8.6	-9.3	-9.2	-4.7					
Nominal Effective Exchange Rate ("-" denotes a depreciation) 3/	-3.8	-12.6	-17.5	-5.8					
Official reserves (billions of U.S. dollars)	5.1	4.2	4.9	6.8	6.4	7.4	8.3	9.3	10.3
Months of imports of goods and services	1.9	1.7	1.7	2.3	2.2	2.4	2.5	2.7	2.6
Percent of short-term debt	39.5	36.4	46.4	68.0	64.3	73.3	81.2	88.6	95.6
Quota (2016): SDR 681.5 million (923.5 million U.S. dollars)									

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Includes general government and off balance sheet operations.
3/ 2017 exchange rate values reference October 2017 over the corresponding period of the previous year.

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2014–2022 1/
(Millions of USD)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections					
Current account	-5,228	-1,831	-1,676	-1,367	-1,837	-1,957	-1,751	-1,636	-1,509
Trade balance, goods	-2,635	-2,143	-2,511	-3,090	-3,366	-3,448	-3,235	-2,887	-2,786
Energy balance	-364	-1,597	-2,693	-3,171	-2,973	-2,981	-2,835	-2,579	-2,388
Nonenergy balance	-2,272	-546	182	81	-393	-468	-399	-309	-398
Goods, credit	35,423	26,164	23,100	26,567	26,955	27,904	29,034	31,490	34,064
Energy	11,358	7,527	4,606	5,248	4,953	4,950	5,139	6,538	8,073
Nonenergy	24,065	18,638	18,494	21,318	22,001	22,954	23,895	24,952	25,991
Goods, debit	38,059	28,307	25,611	29,656	30,321	31,352	32,268	34,377	36,850
Energy	11,722	9,123	7,299	8,419	7,926	7,931	7,974	9,117	10,461
Nonenergy	26,337	19,183	18,312	21,237	22,394	23,422	24,294	25,260	26,389
Services	2,147	2,243	2,434	2,820	3,051	3,373	3,572	3,726	3,944
Credit	7,880	6,634	6,818	7,532	7,960	8,416	8,912	9,296	9,840
Debit	5,733	4,390	4,384	4,712	4,909	5,043	5,340	5,570	5,896
Primary income	-2,414	-2,466	-2,207	-2,243	-2,687	-3,052	-3,292	-3,565	-3,644
Credit	900	608	657	685	766	857	968	1,044	1,089
Debit	3,315	3,074	2,864	2,928	3,453	3,909	4,259	4,609	4,733
Secondary income	-2,325	534	608	1,145	1,164	1,170	1,203	1,089	977
Capital and financial accounts									
Capital account	8	5	7	3	4	4	4	4	4
Financial account	-2,260	-702	-429	-1,194	-895	-2,001	-1,503	-1,635	-1,717
Direct investment, net	-1,789	-1,546	-1,124	-1,238	-1,324	-1,432	-1,593	-1,736	-1,696
Net acquisition of assets	73	107	123	21	0	0	0	0	0
Net incurrence of liabilities	1,862	1,652	1,247	1,259	1,324	1,432	1,593	1,736	1,696
Portfolio investment, net	20	952	-646	-1,323	451	-632	-1,002	-1,002	-1,002
Government, debt securities, net issuance	0	-991	-7	1,405	-200	800	1,000	1,000	1,000
Gross issuance	0	10	5	1,405	600	800	1,000	1,000	1,000
Gross repayment	0	1,001	12	0	800	0	0	0	0
Financial derivatives, net	30	25	2	0	0	0	0	0	0
Other investment, net	-521	-133	1,339	1,367	-21	63	1,092	1,103	982
Loans, net	409	-1,456	1,640	1,347	-471	-496	620	1,118	868
Government and monetary authorities, net	657	-1,164	93	96	-741	-285	1,337	1,590	1,352
Of which: for nuclear power plant	-254	-600	-552	-568	-1,412	-1,482	-96	784	726
Banks, net	511	478	865	1,014	4	180	-237	-103	-211
Other sectors, net	-758	-770	682	237	266	-391	-479	-368	-274
Trade credits, net	-303	104	-152	649	177	45	242	55	138
Other (excluding arrears), net	-627	1,219	-149	-629	272	514	230	-70	-24
of which: currency and deposits, net	-595	1,155	-191	-566	299	514	380	56	102
Errors and omissions	-451	504	923	225	0	0	0	0	0
Overall balance	-3,410	-620	-317	55	-939	47	-244	3	212
Financing	-3,410	-620	-317	55	-939	47	-244	3	212
Reserve assets ('+' denotes increase)	-1,410	-620	483	1,755	-739	47	-244	3	212
Use of IMF credits	0	0	0	0	0	0	0	0	0
Other exceptional financing	2,000	0	800	1,700	200	0	0	0	0
EFSD	2,000	0	800	1,000	200	0	0	0	0
World Bank	0	0	0	0	0	0	0	0	0
Russia	0	0	0	700	0	0	0	0	0
Memorandum items:									
Gross international reserves	5,059	4,176	4,927	6,759	6,020	6,067	5,823	5,826	6,038
In months of imports of goods and services	1.9	1.7	1.7	2.3	2.0	1.9	1.7	1.7	1.6
In percent of short-term debt	39.5	36.4	46.4	68.0	60.4	60.2	57.4	55.8	56.7
In percent of GIR/ARA EM metric (fixed ER)	37.8	34.9	43.1	58.0	51.1	50.4	47.9	47.5	48.3
In percent of GIR/ARA EM metric (flexible ER)	49.2	44.7	54.6	75.5	66.9	66.3	63.0	62.7	64.1
Total external debt	40,024	38,259	37,517	38,954	39,164	40,397	40,808	40,895	41,270
Net international investment position	-41,833	-40,992	-40,823	-42,102	-43,936	-45,889	-47,636	-49,268	-50,773
Real effective exchange rate 2/	8.6	-9.3	-9.2	2.9	0.0	0.0	0.0	0.0	0.0
Export volume (goods, annual percentage change)	2.2	2.6	0.3	2.2	0.3	0.3	0.8	5.5	5.6
Of which: nonenergy	4.5	-4.5	7.5	4.3	1.9	1.7	1.4	1.6	1.2
Import volume (goods, annual percentage change)	2.6	-11.4	-2.6	0.3	1.2	1.1	0.1	3.4	3.9
Of which: nonenergy	-2.1	-16.6	1.1	0.7	2.8	2.2	1.0	1.2	1.6
Natural gas prices (US$ per thousands m3)									
Import prices for Belarus	170.1	144.5	136.6	142.3	129.0	127.0	127.0	127.0	127.0
Russian natural gas border price in Germany	386.2	269.7	160.7	200.4	204.5	205.4	201.5	201.3	201.0
Oil prices (US$ per barrel)									
Import prices for Belarus	48.3	34.2	30.7	37.3	37.5	39.2	40.9	42.9	45.2
Urals market oil prices	97.5	51.0	42.6	50.0	50.0	50.5	51.2	52.0	53.2

Sources: Belarusian authorities and Fund staff estimates and projections.
1/ According to BPM6 methodology.
2/ Annual percentage change. '+' denotes appreciation.

Table 3. Belarus: Balance of Payments (Baseline Scenario), 2014–2022 1/
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Projections			
Current account	-6.6	-3.3	-3.5	-2.6	-3.3	-3.4	-2.9	-2.6	-2.3
Trade balance, goods	-3.3	-3.8	-5.3	-5.8	-6.1	-6.0	-5.4	-4.6	-4.2
Energy balance	-0.5	-2.8	-5.7	-5.9	-5.4	-5.2	-4.7	-4.1	-3.6
Nonenergy balance	-2.9	-1.0	0.4	0.2	-0.7	-0.8	-0.7	-0.5	-0.6
Goods, credit	45.0	46.4	48.7	49.8	49.0	48.7	48.3	50.2	51.8
Energy	14.4	13.4	9.7	9.8	9.0	8.6	8.5	10.4	12.3
Nonenergy	30.6	33.1	39.0	40.0	40.0	40.0	39.7	39.8	39.5
Goods, debit	48.3	50.3	54.0	55.6	55.1	54.7	53.7	54.8	56.0
Energy	14.9	16.2	15.4	15.8	14.4	13.8	13.3	14.5	15.9
Nonenergy	33.5	34.1	38.6	39.8	40.7	40.9	40.4	40.3	40.1
Services	2.7	4.0	5.1	5.3	5.5	5.9	5.9	5.9	6.0
Credit	10.0	11.8	14.4	14.1	14.5	14.7	14.8	14.8	15.0
Debit	7.3	7.8	9.3	8.8	8.9	8.8	8.9	8.9	9.0
Primary income	-3.1	-4.4	-4.7	-4.2	-4.9	-5.3	-5.5	-5.7	-5.5
Credit	1.1	1.1	1.4	1.3	1.4	1.5	1.6	1.7	1.7
Debit	4.2	5.5	6.0	5.5	6.3	6.8	7.1	7.3	7.2
Secondary income	-3.0	0.9	1.3	2.1	2.1	2.0	2.0	1.7	1.5
Capital and financial accounts									
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-2.9	-1.2	-0.9	-2.2	-1.6	-3.5	-2.5	-2.6	-2.6
Direct investment, net	-2.3	-2.7	-2.4	-2.3	-2.4	-2.5	-2.6	-2.8	-2.6
Net acquisition of assets	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.4	2.9	2.6	2.4	2.4	2.5	2.6	2.8	2.6
Portfolio investment, net	0.0	1.7	-1.4	-2.5	0.8	-1.1	-1.7	-1.6	-1.5
Government, debt securities, net issuance	0.0	-1.8	0.0	2.6	-0.4	1.4	1.7	1.6	1.5
Gross issuance	0.0	0.0	0.0	2.6	1.1	1.4	1.7	1.6	1.5
Gross repayment	0.0	1.8	0.0	0.0	1.5	0.0	0.0	0.0	0.0
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-0.7	-0.2	2.8	2.6	0.0	0.1	1.8	1.8	1.5
Loans, net	0.5	-2.6	3.5	2.5	-0.9	-0.9	1.0	1.8	1.3
Government and monetary authorities, net	0.8	-2.1	0.2	0.2	-1.3	-0.5	2.2	2.5	2.1
Of which: for nuclear power plant	-0.3	-1.1	-1.2	-1.1	-2.6	-2.6	-0.2	1.3	1.1
Banks, net	0.6	0.8	1.8	1.9	0.0	0.3	-0.4	-0.2	-0.3
Other sectors, net	-1.0	-1.4	1.4	0.4	0.5	-0.7	-0.8	-0.6	-0.4
Trade credits, net	-0.4	0.2	-0.3	1.2	0.3	0.1	0.4	0.1	0.2
Other (excluding arrears), net	-0.8	2.2	-0.3	-1.2	0.5	0.9	0.4	-0.1	0.0
of which: currency and deposits, net	-0.8	2.0	-0.4	-1.1	0.5	0.9	0.6	0.1	0.2
Errors and omissions	-0.6	0.9	1.9	0.4	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.3	-1.1	-0.7	0.1	-1.7	0.1	-0.4	0.0	0.3
Financing	-4.3	-1.1	-0.7	0.1	-1.7	0.1	-0.4	0.0	0.3
Reserve assets ('+' denotes increase)	-1.8	-1.1	1.0	3.3	-1.3	0.1	-0.4	0.0	0.3
Use of IMF credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	2.5	0.0	1.7	3.2	0.4	0.0	0.0	0.0	0.0
EFSD	2.5	0.0	1.7	1.9	0.4	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross international reserves	6.4	7.4	10.4	12.7	10.9	10.6	9.7	9.3	9.2
In months of imports of goods and services	1.9	1.7	1.7	2.3	2.0	1.9	1.7	1.7	1.6
In percent of short-term debt	39.5	36.4	46.4	68.0	60.4	60.2	57.4	55.8	56.7
In percent of GIR/ARA EM metric (fixed ER)	37.8	34.9	43.1	58.0	51.1	50.4	47.9	47.5	48.3
In percent of GIR/ARA EM metric (flexible ER)	49.2	44.7	54.6	75.5	66.9	66.3	63.0	62.7	64.1
Total external debt	50.8	67.9	79.2	73.1	71.2	70.5	67.9	65.2	62.8
Net international investment position	-53.1	-72.8	-86.1	-79.0	-79.9	-80.1	-79.2	-78.6	-77.2

Sources: Belarusian authorities and Fund staff estimates and projections.
1/ According to BPM6 methodology.

Table 4. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2014–2022

(Billions of BYN, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections					
1. State (republican and local) budget									
Revenue	21.9	26.6	28.5	30.6	32.7	35.1	37.8	40.6	43.8
Personal income tax	3.2	3.7	3.9	4.4	4.8	5.2	5.7	6.1	6.5
Profit tax	2.0	2.2	2.3	2.8	3.0	3.3	3.5	3.8	4.1
VAT	7.0	7.3	8.2	9.0	9.9	10.7	11.6	12.5	13.4
Excises	2.1	1.9	2.2	2.3	2.4	2.7	2.9	3.1	3.3
Property tax	1.0	1.2	1.6	1.6	1.7	1.9	2.1	2.2	2.4
Customs duties	1.8	3.9	3.4	3.2	3.7	3.6	3.7	4.1	4.7
Of which: oil export duties to Russia retained	0.1	2.0	1.3	1.3	1.3	1.1	1.0	1.3	1.7
Other tax revenues	1.8	2.0	2.1	2.3	2.4	2.6	2.8	3.0	3.2
Non tax revenues	3.0	4.4	4.7	5.1	4.7	5.1	5.5	5.8	6.3
Of which: from SoEs	1.4	2.2	1.5	2.0	1.4	1.5	1.7	2.1	2.3
Expenditure (economic classification)	21.3	25.3	29.0	31.2	36.0	39.0	38.8	41.7	44.7
Wages and salaries	5.2	6.1	6.5	7.3	8.4	8.9	9.5	10.3	11.0
Social protection fund contributions	1.4	1.7	1.8	2.0	2.3	2.5	2.7	2.9	3.1
Goods and services	4.1	4.8	5.7	6.5	6.8	7.3	7.9	8.6	9.2
Interest	0.8	1.5	1.9	2.2	2.8	3.4	3.9	4.6	4.7
Subsidies and transfers	5.5	6.6	8.3	7.8	7.9	8.4	8.9	9.5	10.2
Of which: subsidies for utilities	0.9	1.0	0.9	0.6	0.5	0.5	0.4	0.4	0.5
Of which: interest rate subsidy	1.4	1.3	1.2	1.0	1.0	1.0	0.8	0.9	1.0
Of which: transfers to households (incl. tariffs offset for utilities increase)	1.8	2.2	2.6	2.6	2.8	3.1	3.4	3.7	4.0
Capital expenditures	4.3	4.6	4.6	5.2	7.4	8.1	5.6	5.5	6.0
excl. Nuclear Power Plant	4.0	3.6	3.5	4.1	4.4	4.8	5.1	5.5	6.0
State budget balance	0.6	1.3	-0.5	-0.6	-3.3	-3.9	-1.0	-1.1	-0.8
State budget balance (excl. nuclear power plant , or "NPP")	0.9	2.3	0.6	0.5	-0.3	-0.6	-0.6	-1.1	-0.8
2. Social protection fund									
Revenue	9.4	10.5	11.8	12.4	13.5	14.4	15.5	16.7	17.9
Expenditure	9.4	10.8	11.6	12.4	13.6	14.8	16.0	17.2	18.5
Unemployment Benefits	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Pension	7.4	8.4	8.9	9.6	10.5	11.4	12.4	13.3	14.2
Balance (cash)	0.0	-0.3	0.2	0.0	-0.1	-0.4	-0.5	-0.5	-0.7
3. General government									
Revenue	29.9	35.4	37.1	39.5	42.5	47.0	50.6	54.5	58.7
Expenditure	29.3	34.4	37.4	40.0	45.9	51.3	52.2	56.1	60.2
Balance	0.6	1.0	-0.3	-0.6	-3.4	-4.3	-1.6	-1.6	-1.5
Primary balance	1.5	2.5	1.6	1.7	-0.6	-0.9	2.3	2.9	3.2
Primary balance (excl.nuclear power plant or NPP)	1.7	3.5	2.7	2.8	2.4	2.5	2.8	2.9	3.2
Off-balance sheet operations 1/	-0.6	-3.0	-3.0	-2.5	-2.1	-2.1	-2.3	-2.5	-2.5
Overall balance 2/	0.1	-2.0	-3.3	-3.1	-5.5	-6.4	-3.9	-4.1	-4.0
4. Financing (cash)	-0.1	2.0	3.3	3.1	5.5	6.4	3.9	4.1	4.0
Privatization	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Foreign financing, net 3/	-3.2	-1.0	0.7	2.8	3.8	4.0	0.7	0.0	0.2
Domestic financing, net	2.8	2.8	2.6	0.3	1.6	2.3	3.1	3.9	3.6
Memorandum items:									
Gross public and publicly guaranteed debt	31.3	47.7	50.8	56.5	64.5	70.9	77.4	80.4	84.7
Of which: Public guarantees	9.8	12.6	10.6	10.6	11.8	12.7	13.1	13.3	13.4
Including NBRB external debt	33.9	50.9	53.7	58.7	66.0	71.7	77.9	80.7	84.9
Nominal GDP (billions of BYN)	80.6	89.9	94.3	102.1	111.0	120.3	130.6	140.2	150.3

Sources: Ministry of Finance; SPF; and IMF staff estimates.
1/ Includes guarantee payments, bank and SOE recapitalizations as well as SOE debt restructuring.
2/ Includes general government and off balance sheet operations.
3/ Includes NPP financing, but excludes other project loans (on-lent).

Table 5. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2014–2022

(Percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Projections			
1. State (republican and local) budget									
Revenue	27.2	29.6	30.2	30.0	29.5	29.1	28.9	29.0	29.2
Personal income tax	4.0	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.3
Profit tax	2.5	2.4	2.5	2.8	2.7	2.7	2.7	2.7	2.7
VAT	8.7	8.1	8.7	8.8	8.9	8.9	8.9	8.9	8.9
Excises	2.6	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Property tax	1.2	1.4	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Customs duties	2.3	4.4	3.6	3.1	3.3	3.0	2.8	2.9	3.1
Of which: oil export duties to Russia retained	0.1	2.2	1.4	1.2	1.1	0.9	0.8	0.9	1.1
Other tax revenues	2.2	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2
Non tax revenues	3.8	4.8	5.0	5.0	4.3	4.2	4.2	4.2	4.2
Of which: from SoEs	1.8	2.4	1.6	2.0	1.3	1.3	1.3	1.5	1.5
Expenditure (economic classification)	26.5	28.1	30.8	30.6	32.5	32.4	29.7	29.7	29.7
Wages and salaries	6.5	6.8	6.9	7.2	7.5	7.4	7.3	7.3	7.3
Social protection fund contributions	1.8	1.9	2.0	2.0	2.1	2.1	2.0	2.0	2.0
Goods and services	5.0	5.4	6.0	6.3	6.2	6.1	6.1	6.1	6.1
Interest	1.0	1.7	2.0	2.2	2.5	2.9	3.0	3.2	3.1
Subsidies and transfers	6.8	7.3	8.8	7.7	7.2	7.0	6.8	6.8	6.8
Of which: subsidies for utilities	1.1	1.1	1.0	0.6	0.5	0.4	0.3	0.3	0.3
Of which: interest rate subsidy	1.7	1.5	1.3	1.0	0.9	0.8	0.7	0.7	0.7
Of which: transfers to households (incl. tariffs offset for utilities increase)	2.2	2.5	2.8	2.5	2.6	2.6	2.6	2.6	2.6
Capital expenditures	5.3	5.1	4.9	5.1	6.7	6.7	4.3	3.9	4.0
excl. Nuclear Power Plant	5.0	4.0	3.8	4.0	4.0	3.9	3.9	3.9	4.0
State budget balance	0.8	1.5	-0.6	-0.6	-3.0	-3.3	-0.8	-0.8	-0.6
State budget balance (excl. nuclear power plant , or "NPP")	1.1	2.6	0.6	0.5	-0.2	-0.5	-0.4	-0.8	-0.6
2. Social protection fund									
Revenue	11.7	11.7	12.5	12.1	12.2	12.0	11.9	11.9	11.9
Expenditure	11.7	12.0	12.3	12.1	12.3	12.3	12.3	12.3	12.3
Unemployment Benefits	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Pension	9.2	9.4	9.5	9.4	9.4	9.5	9.5	9.5	9.5
Balance (cash)	0.0	-0.4	0.2	0.0	-0.1	-0.3	-0.4	-0.4	-0.4
3. General government									
Revenue	37.1	39.4	39.3	38.7	38.3	39.1	38.8	38.8	39.0
Expenditure	36.4	38.3	39.6	39.2	41.4	42.7	40.0	40.0	40.0
Balance	0.8	1.1	-0.3	-0.6	-3.0	-3.6	-1.2	-1.1	-1.0
Primary balance	1.8	2.8	1.7	1.6	-0.5	-0.7	1.8	2.1	2.1
Primary balance (excl.nuclear power plant or NPP)	2.1	3.9	2.8	2.7	2.2	2.1	2.1	2.1	2.1
Off-balance sheet operations 1/	-0.7	-3.3	-3.2	-2.5	-1.9	-1.8	-1.8	-1.8	-1.6
Overall balance 2/	0.1	-2.2	-3.5	-3.0	-5.0	-5.4	-3.0	-2.9	-2.6
4. Financing (cash)	-0.1	2.2	3.5	3.0	5.0	5.4	3.0	2.9	2.6
Privatization	0.3	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Foreign financing, net 3/	-3.9	-1.1	0.7	2.7	3.4	3.3	0.6	0.0	0.1
Domestic financing, net	3.5	3.1	2.8	0.3	1.5	1.9	2.3	2.8	2.4
Memorandum items:									
Gross public and publicly guaranteed debt	38.8	53.0	53.9	55.3	58.1	58.9	59.3	57.3	56.3
Of which: Public guarantees	12.1	14.0	11.3	10.4	10.7	10.5	10.1	9.5	8.9
Including NBRB external debt	42.0	56.6	56.9	57.5	59.5	59.6	59.7	57.5	56.5
Total general government deposit	6.9	11.9	12.7	15.6	13.7	12.2	11.4	10.5	9.9
Nominal GDP (billions of BYN)	80.6	89.9	94.3	102.1	111.0	120.3	130.6	140.2	150.3

Sources: Ministry of Finance; SPF; and IMF staff estimates.
1/ Includes guarantee payments, bank and SOE recapitalizations as well as SOE debt restructuring.
2/ Includes general government and off balance sheet operations.
3/ Includes NPP financing, but excludes other project loans (on-lent).

Table 6. Belarus: Monetary Accounts (Baseline Scenario), 2014–2022
(Billions of BYN, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Projections					
Monetary Survey									
Net foreign assets	-3.3	-3.2	0.1	5.7	6.2	8.5	9.2	9.3	9.7
(In billions of U.S. dollars)	-2.8	-1.7	0.1	3.0	3.0	4.1	4.1	4.1	4.3
Net domestic assets	27.2	35.9	33.8	31.8	35.3	37.2	41.0	45.2	49.4
Net domestic credit	29.1	37.6	36.6	34.5	39.2	41.9	45.6	51.5	56.9
Net claims on government	-5.4	-3.4	-2.8	-6.3	-3.6	-3.9	-4.0	-2.3	-0.9
Net Credit to the economy	34.5	41.0	39.4	40.8	42.8	45.8	49.7	53.7	57.8
Other items, net	-1.9	-1.7	-2.8	-2.7	-3.9	-4.7	-4.7	-6.3	-7.5
Broad money	23.9	32.7	33.9	37.6	41.5	45.7	50.1	54.5	59.2
Accounts of the NBRB									
Net foreign assets	4.0	5.4	7.6	11.7	12.1	12.9	13.5	13.7	14.5
(In billions of U.S. dollars)	3.4	2.9	3.9	6.1	5.8	6.1	6.1	6.1	6.4
Foreign assets	6.6	8.7	10.4	13.9	13.6	13.7	14.0	14.0	14.8
(In billions of U.S. dollars)	5.6	4.7	5.3	7.2	6.5	6.5	6.3	6.3	6.5
of which: Gross international reserves	6.0	7.7	9.6	13.0	12.6	12.7	13.0	13.0	13.8
(In billions of U.S. dollars)	5.1	4.2	4.9	6.8	6.0	6.1	5.8	5.8	6.0
Foreign liabilities	2.6	3.2	2.9	2.2	1.5	0.8	0.5	0.3	0.3
(In billions of U.S. dollars)	2.2	1.7	1.5	1.1	0.7	0.4	0.2	0.1	0.1
Net domestic assets	-0.1	-1.0	-3.0	-6.0	-5.8	-6.0	-6.0	-5.6	-5.7
Net domestic credit	-5.2	-8.8	-11.3	-13.8	-13.8	-14.4	-14.7	-14.9	-15.5
Net claims on government	-4.0	-5.7	-5.8	-10.2	-9.4	-8.9	-9.2	-8.9	-9.1
Government deposits	3.8	5.2	5.3	9.7	8.8	8.2	8.5	8.2	8.4
Net claims on the economy	0.9	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Net claims on banks	-2.1	-3.5	-5.7	-3.8	-4.5	-5.6	-5.6	-6.0	-6.4
Other items, net	5.0	7.8	8.3	7.9	8.0	8.4	8.7	9.3	9.8
Base money	3.9	4.5	4.6	5.7	6.3	6.9	7.5	8.2	8.8
Rubel Base money	3.8	4.0	4.0	5.5	6.2	6.9	7.5	8.1	8.8
Non-Rubel Base money	0.2	0.5	0.6	0.2	0.1	0.0	0.0	0.0	0.0
Currency in circulation	1.4	1.4	1.8	2.2	2.4	2.6	2.8	3.0	3.2
Banks' reserves	2.5	3.1	2.8	3.6	3.8	4.3	4.7	5.2	5.7
Deposit money banks									
Net foreign assets	-7.3	-8.6	-7.5	-5.9	-5.8	-4.4	-4.4	-4.5	-4.8
(In billions of U.S. dollars)	-6.2	-4.7	-3.8	-3.1	-2.8	-2.1	-2.0	-2.0	-2.1
Foreign assets	1.4	3.3	3.9	3.5	4.4	5.5	6.7	6.8	7.2
(In billions of U.S. dollars)	1.2	1.8	2.0	1.8	2.1	2.6	3.0	3.0	3.1
Foreign liabilities	8.7	11.9	11.4	9.4	10.2	9.9	11.0	11.3	12.0
(In billions of U.S. dollars)	7.4	6.4	5.8	4.9	4.9	4.7	4.9	5.0	5.3
Net domestic assets	29.8	39.9	39.6	41.3	45.0	47.5	51.7	56.0	60.8
Net domestic credit	36.2	48.7	49.7	51.9	56.8	60.5	65.0	71.5	78.0
Net claims on government	-2.1	1.3	2.1	3.9	5.8	5.0	5.1	6.7	8.2
Net claims on the economy	33.6	40.6	39.2	40.6	42.7	45.7	49.6	53.7	57.8
Net claims on NBRB	4.7	6.8	8.5	7.4	8.4	9.9	10.3	11.2	12.1
Other items, net	-6.4	-8.8	-10.1	-10.6	-11.9	-13.0	-13.4	-15.5	-17.2
Banks' liabilities included in broad money	22.5	31.2	32.1	35.4	39.1	43.1	47.3	51.5	56.0
				(Percent Change)					
Memorandum items:									
Base money	13.8	14.9	1.8	24.6	9.9	9.7	9.0	8.7	8.3
Rubel base money	12.8	7.4	-1.4	37.6	13.2	10.9	9.2	8.8	8.4
Broad money	23.6	36.8	3.8	10.7	10.6	10.1	9.6	8.8	8.5
Net credit to the economy	23.5	20.6	-3.4	3.7	4.9	7.1	8.6	8.3	7.6
Real net credit to economy	5.1	6.0	-13.0	-2.6	-1.5	0.5	2.4	2.5	2.4
Credit to private sector (inc. SOEs with below 50 percent of state ownership)	23.9	20.9	-4.5	8.1	12.4	12.3	11.5	10.6	9.7
Real credit to private sector (inc. SOEs with below 50 percent of state ownership)	6.6	8.0	-13.6	1.7	5.5	5.5	5.2	4.7	4.5
Velocity of broad money, ratio	3.3	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.5
Money multiplier, ratio	6.1	7.3	7.4	6.6	6.6	6.6	6.7	6.7	6.7
Deposit dollarization ratio	64.4	74.6	70.3	66.7	66.4	65.1	64.2	62.9	62.1
				(Billions of USD)					
Bank holdings of public FX-denominated domestic debt and debt Swaps	2.2	4.8	5.1	4.9	5.0	4.4	4.2	4.9	5.4
Non-bank holdings of FX-denominated domestic government debt	-	-	1.8	1.2	1.3	1.4	1.5	1.6	1.7

Sources: National Bank of the Republic of Belarus; and IMF staff estimates and projections.

Table 7. Belarus: Financial Soundness Indicators, 2015–17 1/

(Percent, unless otherwise indicated)

	2015				2016				2017	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital adequacy ratio 2/	17.2	16.8	19.2	18.7	16.3	17.2	18.0	18.6	19.1	19.6
Tier I capital adequacy ratio 2/	13.7	13.2	15.3	14.7	13.4	13.9	14.5	14.2	15.3	15.4
Foreign exchange loans to total loans	57.0	59.1	60.3	58.1	60.4	59.9	58.5	57.5	56.3	56.1
Non-performing loans to gross loans	5.1	5.5	6.5	6.8	11.5	13.4	14.3	12.8	13.7	13.7
Provisions to non-performing loans	73.3	69.2	72.5	69.3	41.1	39.8	39.5	45.1	44.8	46.8
Return on Assets	1.8	1.7	1.7	1.3	1.4	1.3	1.2	1.6	1.6	1.9
Return on Equity	13.7	13.3	13.5	10.4	11.4	10.4	9.4	12.6	12.3	13.6

Source: National Bank of the Republic of Belarus.

1/ Official statistics may not adequately reflect risks because of pervasive evergreening and reporting weaknesses. Indicators do not include the DB.

2/ CARs increased in December 2014 on account of reversing an increase in risk weights for FX assets that was introduced in October 2013.

Annex I. FSAP Update: Status of Main Recommendations

The authorities have made progress in implementing the recommendations made by the 2016 FSAP. An Action Plan was adopted by the Council of Ministers (COM) and the NBRB on February 27, 2017, detailing measures and timeframe for each of the recommendation. The focus of the Plan for the near term is on assessing the banks' asset quality and strengthening their capital, enhancing supervisory and regulatory requirements, and improving monitoring of financial stability and risks including from foreign currency exposures. The authorities have completed the AQRs of all banks, introduced provisioning requirements on unhedged borrowers, and are making progress in preparing strategies for deposit insurance reform and the establishment of a bank resolution framework.

Recommendations and Authority Responsible for Implementation	**Time[1]**	**Status**
Systemic Risks		
Conduct AQR for banks with significant differences between IFRS and prudential provisions (NBRB).	I	*Implemented*. The AQR of the largest nine banks, accounting for 92 percent of the banking sector assets, were completed in July 2016. Follow-up measures were taken to improve the capital adequacy ratios of three banks found to have potential capital shortfalls, including recapitalization, improving the quality of collateral, optimization of expenses, and attraction of subordinated loans. The NBRB subsequently completed the AQR of the remaining 15 banks in mid-2017. Banks found to have potential capital shortfalls have submitted plans to ensure regulatory capital adequacy.
Apply Pillar 2 measures to specific banks to reinforce capital and prudential requirements (NBRB).	I	*In progress*. The NBRB has prepared a draft methodology for supervisory review and evaluation process (SREP), which is planned to be implemented with the support under the EU-funded Twinning program scheduled to start in early 2018. The program will assist the NBRB in adapt the SREP methodology to Belarusian context, performing the assessment for the three largest banks, and training supervisors in applying the methodology.
Conduct bottom-up solvency and liquidity stress tests for banks on a regular basis (NBRB).	NT	*In progress*. The NBRB started conducting annual bottom-up solvency and liquidity stress testing from 2017. The results supplement the top-down stress testing conducted by the NBRB and are taken into account in assessing potential credit risk and impact of prudential measures. The results were discussed by the NBRB and participating banks, and presented to the Financial Stability Committee. The aggregate results were published in "Financial Stability in the Republic of Belarus in 2016".
Increase the RR for foreign currency deposits, require its integration in foreign currency accounts at the NBRB and consider an increase in the daily maintenance requirement (NBRB).	NT	*Partially implemented*. The reserve requirement for FX deposits was increased to 11 percent from 7.5 percent from February 2017, and further to 15 percent from July. Taking into consideration the recommendation of a March 2017 IMF TA, the NBRB plans to implement the accumulation of required reserves in foreign currency in the medium term.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Consolidate and gradually phase out directed lending in Development Bank (MoE, NBRB, MoF, DB).	NT	*In progress*. The authorities are implementing a phased reduction in directed lending (DL) as stipulated in Government Action Plan for 2016 – 2020 (approved April 2016) which envisage the reduction in stock of directed lending by 2.1 percent of GDP in 2017 and by 2.2 percent of GDP in 2018. However, the Development Bank is generating new products, such as export credits.
Financial Oversight		
Strengthen loan provisioning by issuing standards on restructuring and interest accrual (NBRB).	I	*In progress*. The NBRB prepared draft version of new Instruction on Provisioning, which defines restructured debt as those that had changes in the terms of the contract, and require that they be classified as risk group IV or below the level they were included before the restructuring, and provisioned for as required. Banks can reclassify the restructured loans to lower risk groups if the debtor demonstrate timely and full servicing of obligations for at least 12 months after the restructuring, but the debt cannot be classified as risk group I.
Link temporary forbearance only to plans for strengthening specific banks (NBRB).	I	*In progress.* The NBRB does not apply temporary forbearance to specific banks on established prudential requirements in general. In case of incompliance, the NBRB takes supervisory measures taking into account the remedial actions and plans prepared by the banks. The authorities plan to determine additional supervisory requirements and other measures to be applied to specific banks after developing the SREP. The NBRB also plans to phase out existing exemptions on accounting treatments as they expire by end-2020.
Initiate collection of data on unhedged borrowers in foreign currency (NBRB).	I	*Implemented*. Information on unhedged borrowers in foreign currency was collected by the NBRB, in the context of preparing for the introduction of a phased increase in provisioning on loans to unhedged borrowers starting from July 2017. The NBRB is continuing to collect the data on quarterly basis.
Consider an increase in the risk-weight of banks' foreign currency loans to unhedged borrowers (NBRB).	NT	*Implemented*. The NBRB introduced provisioning requirement on foreign currency loans to unhedged borrowers effective in July 2017 (the NBRB Resolution No. 11 of January 2017), which they found to be more effective than higher risk weight based on historical experiences. A schedule is set to increase the provisioning in steps to 5 percent in 2020.
Improve risk assessment for early termination of foreign currency deposits (NBRB).	I	*Partially implemented.* The NBRB introduced irrevocable deposits in November 2015 (Decree No. 7). Prior to this, banks were obliged to fulfil within five days the request to withdraw term deposits. Risk assessment of early withdrawal of foreign currency deposits is conducted on a monthly basis by monitoring liquidity coverage ratios for foreign currencies as an aggregate as well as broken down by key foreign currency.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Improve design of liquidity indicators and supervision of liquidity for individual institutions and aggregate system with focus on foreign currency liquidity risk (NBRB).	I	*In progress*. The NBRB started monitoring liquidity coverage ratios (LCRs) by key currencies for each bank in 2015. Liquidity indicators of Basel III will be mandatory for banks from January 1, 2018, according to NBRB resolution No. 180 of May 2017.
Develop risk-based insurance supervision with EWS, stress testing, and onsite risk inspection (MoF).	NT	*In progress.* MoF is developing frameworks for risk-based supervision, early warning system, stress testing and on-site inspections for the insurance sector, and plans to introduce them by end-2017.
Introduce a risk-sensitive capital regime for insurances and regulation following IAIS (MoF).	NT	*Not implemented.* MoF is studying international supervisory practices in an effort to develop reform plans for risk-oriented supervisory methods based on monitoring and forecasting of insurers' financial positions.
The recently-created Financial Stability Council should include a subcommittee on crisis management that includes DIA as a member (NBRB, MoF, MoE, DIA).	I	*In progress*. The Financial Stability Council was established in June 2016, with the working committee for the development of the financial market crisis resolution mechanism as one of the three working committees underneath it. The working committees have not yet held a meeting, but is planned to be engaged in the review of bank resolution framework. The DIA is not a member of the FSC itself, but is represented at the working committee.
Financial Infrastructure		
Refine the risk management framework to include all FMIs, risk-based scenarios and testing (NBRB).	I	*Implemented.* The Strategy for Managing Risks in the Payment System of the Republic of Belarus (Resolution of the Board No. 155, April 2017) was adopted, identifying the benchmarks for managing risks in the payment system for ensuring the effective, reliable and secure functioning the system.
Draft law and amend regulations to protect settlement finality, netting and collateral (NBRB).	NT	*In progress.* The Framework Law on Payment Services in the Republic of Belarus has been drafted, which focuses on improving the effectiveness, reliability and security of the payment system including by strengthening the NBRB's powers in supervising payment system operators and other payment service providers. The draft law is currently under consideration by the Presidential Administration, and was submitted for the consideration by the Head of State in October 2017.
Stress test payment system to assess sufficiency of liquidity under stressed conditions (NBRB).	NT	*Implemented.* Comprehensive stress tests were conducted in March 2017, including verification of mechanisms to facilitate the completion of interbank settlements subsequent to clearing of transactions involving BELKART bank payment cards, and guaranteed completion of interbank settlements on payments accepted through the automated information system settlement.
Governance		
Discontinue restrictions on the operational independence of the NBRB (NBRB).	NT	*In progress.* The NBRB has submitted proposals to the State Monitoring Committee in coordinating the draft Decree, focused on expanding the NBRB's operational independence. Significant changes were introduced to Decree #510 in October 2017, limiting the number of inspections conducted under investigation of criminal cases.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Amend NBRB statute to introduce concept of independence for the NBRB (NBRB).	MT	*In progress.* Amendments to the NBRB Statute have been made, including on the goal of price stability and the discontinuation of transferring part of the NBRB's income to the DIA. Proposals have been made to include, in the planned pipeline for the draft law preparation in 2018, a draft law providing for amendments to the Banking Code to strengthen the NBRB's operational independence
Divest banks' stakes due to resolution to avoid conflicts of interest as supervisor (NBRB, State Property Committee, Ministry of Foreign Affairs).	MT	*Not implemented.* The government signed the Memorandum of Understanding (MOU) with the EBRD in May 2015 on re-privatization of Belinvestbank, and plans to sell its controlling stake by 2020. The NBRB is also working to divest Moscow-Minsk Bank, which it fully owns. The MOU was signed with the EBRD in September 2017 for the divestment, with planned sale by 2020.
Discontinue employing resources and powers to enforce monetary policy or criminal law (NBRB).	NT	*In progress.* The NBRB has submitted proposals to the State Monitoring Committee in coordinating the draft Decree focused on discontinuing the use of banking supervisory powers for inspections conducted by law enforcement agencies.
Strengthen insurance supervisor's operational independence and remove conflicts of interest (MoF).	NT	*Not implemented.* MoF is exploring the possibility of dividing the functions of insurance market regulator and owner of insurance organizations within the MoF.
Allow DB to lend only to viable projects not financed by commercial banks (DB, MoE, MoF, NBRB).	NT	*In progress.* Draft amendments to the decree on the mandate of the Development Bank is being discussed by the stakeholders (including the World Bank), which aims to limit its mandate to areas with market failure.
Amend Bankruptcy Law to upgrade priority of secured creditors and establish effective procedures for rehabilitating viable businesses (Government).	NT	*In progress.* A draft Law on Insolvency and Bankruptcy was drafted and submitted to the Parliament in July 2016. The draft Law is scheduled to be considered by the House of Representatives during the autumn session of 2017.
Establish mechanisms to enable and incentivize out-of-court debt restructuring (Government).	NT	*In progress.* The government is preparing amendments to the "Law Concerning Business Entities" involving the conversion of debt into shares to be placed among the creditors, as well as a draft Presidential Decree concerning the simplification of the procedure for restructuring debt, including credit agreements, payment to the treasury, and the number of restructuring instruments used.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Restructuring and Financial Safety Nets		
Delegate NPL resolution to a single entity with powers for restructuring/privatization (NBRB).	I	*Not implemented.* An Asset Management Company (AMC) for loans to agricultural sector was established in 2016 but its current structure and functions have major shortcomings. Loans to agricultural sector were transferred to the AMC and to local governments, in exchange with bonds issued by the government to banks. Both transfers took place at face value (with risk shifting to the government), and the creditors received blanket reduction in interest rates and lengthening of maturity. The AMC is a collection agency and does not have resolution powers. The MOF, in coordination with the NBRB and other stakeholders, report that they are working to expand the purview of the AMC. In addition, the authorities plan to prepare a comprehensive regulatory act defining the legislative, economic and institutional conditions under which the troubled assets market functions.
Designate the NBRB as a resolution authority (NBRB).	NT	*In progress.* A concept for Resolving Troubled Banks has been prepared with the WB TA, which proposed granting the DIA authority to resolve troubled bank. The decision to apply resolution procedures to a troubled bank is proposed to be made by the NBRB and the Financial Stability Council. The Strategy was approved by the Financial Stability Committee of the NBRB and will be considered at the Financial Stability Council by end-2017.
Establish comprehensive powers for bank recovery and resolution using FSB Key Attributes (NBRB).	I	*In progress.* A concept for Resolving Troubled Banks has been prepared with the WB TA. The Strategy was approved by the Financial Stability Committee of the NBRB and will be considered at the Financial Stability Council by end-2017. The drafting of legislative amendments is expected to complete by the end of 2017, after consideration of the reform proposal by the Financial Stability Council.
Establish an ELA framework and define conditions for support (NBRB).	I	*In progress.* The NBRB Board Resolution No. 515 was adopted in September 2016, setting principles and criteria for the access to the NBRB's emergency liquidity assistance. The NBRB received Fund TA in March 2017 to develop internal operational procedures, including internal governance, collateral and counterparty policy, and risk control measures. The operational guideline has been prepared by the NBRB examining issues of stabilization refinancing.
Require all banks to establish and test recovery plans; initiate planning for systemic banks (NBRB).	MT	*Implemented.* Requires banks to develop contingency plans in line with NBRB Board Res. No. 550, October 2012.
Limit coverage of deposits, shorten the payout period over time and end NBRB's co-financing (DIA)	MT	*In progress.* The authorities are working with the WB (TA) to develop a strategy for implementation. An NBRB and DIA working group has prepared a concept paper for reform, which was considered by the Financial Stability Committee of the NBRB and for the most part approved. The Working Group is in a process of developing a Concept for Improving the DIA Mandate, which is scheduled to be considered by the Financial Stability Council in 4Q2017.

[1] "I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3-5 years.

Annex II. Responses to Past Policy Recommendations

IMF 2016 Article IV Recommendations	Authorities' Responses
Fiscal Policy (Limited Progress)	
Further strengthen the fiscal framework.	Pilot medium-term projections (3-year) are being conducted for major budget indicators; however, these are relatively basic and are not fully integrated in the budget process.
Strengthen the debt anchor and limit guarantees	No changes to debt anchor. Guarantees are being limited, under strengthened review procedures.
Near-term easing, medium-term consolidation.	In 2017, the headline (general government) fiscal stance is somewhat looser than in 2016, but the overall balance (including recapitalization operations) was somewhat tighter. The medium-term path has changed due to better 2017 performance and shifts in the path of NPP expenditures and off-balance sheet items. The State budget balance excluding NPP is slightly stronger.
Additional revenue and expenditure measures, including review of tax expenditures.	No significant measures have been taken to improve fiscal balances. Instead, the public sector wage bill is rising as a percent of GDP and some *additional* tax expenditures have been reported, including rural area business taxes and expansion of the Great Stone enterprise zone. The authorities are developing better tax expenditure assessment capability.
Additional pension reform by 2022 to maintain solvency.	No changes.
Monetary Policy (Broadly Consistent)	
Focus on lowering inflation, while safeguarding external and financial stability.	Headline inflation continues to decelerate. Broad money growth is broadly in line with the policy target for 2017. Reflecting in part ample liquidity conditions, the refinancing rate has been reduced steadily to 11 percent as of October 2017, from 25 percent in March 2016 (after being on hold during 2015 and early 2016).
Strengthen NBRB operations and operational independence	The authorities have amended the NBRB status to clarify the primacy of price stability and prepared a road-map for moving to inflation targeting. Efforts to strengthen NBRB communications are underway (with possible Fund TA). Forecasting capacity is being strengthened (supported by SIDA-funded IMF TA, and IMF/JVI workshops). No progress with NBRB recapitalization.
Maintain exchange rate flexibility while seeking opportunities to rebuild reserves	The exchange rate has remained broadly flexible.

Financial Sector (Good Progress)	
Strengthen bank financial resilience.	The asset quality reviews (AQR) of the largest nine banks took place in July 2016, and banks that were found with capital shortfalls took required measures to improve their capital adequacy. The AQRs of smaller banks were conducted in mid-2017, with follow-up actions being prepared for banks with potential capital shortfalls. The NBRB strengthened provisioning requirements for unhedged foreign currency borrowers, and introduced higher risk weights for banks' exposures to systemically important borrowers (accounting for over 10 percent of banking sector's aggregate capital).
Strengthen the NPL resolution framework.	There is no comprehensive framework covering resolution of NPLs nor restructuring of debtor SOEs/corporates. The approach remains ad hoc and piecemeal. Loans to the agricultural sector worth of BYN 2.7 bn were transferred from banks to the AMC and local governments. All loan transfers took place at face value and received the same restructured terms (regardless of repayment capacity), passing the burden and credit risks to the budget.
Maintain a limited, well-targeted role for the Development Bank (DB).	Draft amendments to the decree on the mandate of the Development Bank are being discussed by the stakeholders (including the World Bank), that aim to limit its mandate to areas with market failure.
Structural (limited progress)	
Deeper SOE reform, including adoption of a comprehensive SOE reform strategy and strengthened fiscal risk assessment (focusing initially on SOEs) (see 2016 AIV Staff Report for further details).	The authorities, with the assistance of Fund TA, prepared a comprehensive SOE strategy and submitted it to the Council of Ministers and the Presidential Administration in early 2017; but it has not been adopted. A fiscal risk monitoring function was set up at MoF, but its operational and analytical capacities remain very limited. There is limited progress, including some pilot projects, with implementation of other recommendations.
Rationalization of the utility sector, including 100 percent cost recovery by end-2018.	Utility tariffs were increased in January 2017 to reach 65 percent cost recovery. Tariffs were indexed by 8 percent in August, 2017, to reflect the growth in income, and reached 69 percent cost recovery by September 2017. The government's medium-term plan is to increase household utility costs by US$5 each year, but also to achieve 100 percent cost recovery in all non-heating utilities in 2018, and for heating by end-2025 (implying ambitions of a sharp decrease in costs).
Strengthening competition policies and the business climate.	The WTO accession discussions have been proceeding. The authorities are taking a number of steps to strengthen the business climate, particularly for the SME private sector, but the effectiveness of these efforts will take time to assess.

Annex III. Public and External Debt Sustainability Analyses

I. PUBLIC DEBT SUSTAINABILITY ANALYSIS

Public debt sustainability risks are elevated, reflecting exchange rate risks and contingent liability risks mostly related to SOE and bank recapitalization. The majority of public debt is in foreign currency, making public debt vulnerable to exchange rate shocks. High external financing requirements also pose significant challenges. Under the baseline scenario, public debt is projected to peak at just under 60 percent of GDP in 2020. Gross financing needs are forecasted to gradually decline from a peak of 13 percent of GDP in 2016 to below 8 percent of GDP in the medium term.

A. Background

1. **Belarus's gross debt statistics cover the general government and government guarantees.** At end-2016, gross public and publicly guaranteed (PPG) debt amounted to 53.9 percent of GDP. The government has a relatively large stock of assets, including deposits in the banking sector of about 12 percent of GDP. However, much of this is either locked as US$ deposits at the NBRB as an offset to FX reserves generated from government external borrowing, or related to directed financing activities, and only a portion is sufficiently liquid. Therefore, this Debt Sustainability Analysis (DSA) focuses on gross, not net, PPG. Should additional deposits be freed up in the context of reductions in directed financing, these would create upside risks to this assessment.

2. **Exchange rate depreciation and contingent liabilities are major factors behind debt dynamics.** The share of FX-denominated debt is 88 percent. Contingent liabilities tied to government's extensive involvement in economic activities are also high. Realized off-balance sheet debt from such liabilities totaled 8.5 percent of GDP over the past 5 years (2012-2016).

3. **The main changes to the underlying assumptions for the DSA relative to the 2016 Article IV Staff Report include**: (i) a better medium-term overall fiscal balance trajectory; (ii) lower guarantees[1] and, as a consequence, lower PPG debt; and (iii) downward revisions in the share of short-term debt in total debt based on revised historical (and the latest available) data.

B. Baseline

4. **Macroeconomic assumptions.** The assumptions underpinning the public sector DSA are those of the baseline scenario. Following a cumulative drop in real GDP of 6.4 percent over 2015-16, an economic recovery is underway in 2017. Medium-term growth is projected to converge to its potential of 2 percent of GDP (slightly above the 2016 AIV report). The 2017 overall fiscal deficit is lower than previously anticipated, driven by lower off-balance sheet spending related to

[1] Government policies put in place during 2016-17 place a cap on net new domestic guarantees and stricter review procedures for both domestic and external guarantees. Projections assume that the current stock of external guaranteed debt (about $2.3 billion, or 4 percent of GDP) is largely rolled over through 2020 (projected US$2.1 billion), with some further amortizations reducing stock by 2022 (lowering the stock to US$1.5 billion).

SOEs and lower NPP spending. The medium-term overall fiscal balance has been revised upwards (lower deficits) due to lower off-balance sheet operations, changes in the path of NPP spending, and other factors. The baseline scenario assumes an additional realization of contingent liabilities of about 9 percent of GDP over 2018–2022. The primary balance is expected to improve, driven by the phasing out of NPP spending, and reach 2.1 percent of GDP in 2022. The overall balance is however expected to remain negative, given high interest payments (2.5 to 3.2 percent of GDP) and ongoing off-balance sheet operations. Gross financing needs are projected to gradually fall to around 8 percent of GDP over the medium term. The primary balance required to stabilize debt in the baseline scenario is 0.4 percent of GDP.

5. Past forecast errors and realism of projections. Forecast errors in growth, primary balances, and inflation have been mixed. Belarus's projected fiscal adjustment (a change of about 3.0 percentage points in the cyclically adjusted primary balance/GDP) is within the range of other countries' experiences, with a 3-year cyclically adjusted primary balance at the 18th percentile among all surveillance countries.

C. Public Sector DSA: Shocks and Stress Tests

6. Stress tests indicate that debt dynamics in Belarus are particularly vulnerable to changes in the exchange rate.

Real GDP Growth Shock. The impact on the debt-to-GDP ratio of a 1 standard deviation shock (of 4.6 percent) for two consecutive years to real GDP growth is large. Real GDP growth rates become negative over 2018−19. The primary balance worsens before recovering in 2020. In this scenario, gross debt reaches 75 percent of GDP in 2022, after a peak of 77.6 percent in 2020, while gross financing needs reach 11.7 percent of GDP (and peaking at over 16.5 percent in 2019).

Real exchange rate shock. The impact on the debt-to-GDP ratio of shock to exchange rate (178 percent real depreciation; the maximum achieved in the past decade) would push up gross debt to 121.6 percent of GDP in 2022 (peaking at 125.7 percent of GDP in 2020), while gross financing needs would reach 21 percent of GDP in 2022 (a peak). These movements reflect high debt dollarization. Foreign investors hold a negligible portion of domestic government debt.

Real interest rate and primary balance shocks. These two (separate) shocks have relatively little impact on debt. The interest rate shock introduces rate hikes starting from 2017 (by 200 bps). The primary balance shock introduces a deterioration of the primary balance in 2017–18 (shock equal to one-half of the 10-year historical standard deviation; equal to 2 percent of GDP), in comparison with the baseline. Under the real interest rate shock, the debt to GDP ratio reaches a peak of 63 percent in 2020 and gradually decreases to 61 percent in 2022. The primary balance shock drives the ratio up to almost 67 percent in 2020 and to 64 percent in 2022.

Combined macro-fiscal shock. A combined macro-shock scenario pushes the debt-to-GDP ratio to 227.6 percent in 2022 (peaking at 228.5 in 2020). The macro-fiscal shock combines the growth and interest rate shocks and a primary balance shock as in the standard examples in the stress tests, together with the real exchange rate shock consistent with a maximum movement of the real exchange rate over the past 10 years and a pass-through coefficient of 0.25. The effect of these shocks on debt ratios and gross financing needs is large and reflects in particular the sensitivity of debt to exchange rate shocks, which makes the largest contribution to the change in the debt path.

D. Comparison of Fiscal Definitions Used By Staff and the Authorities

7. **Staff uses a broader measure of fiscal deficits than the authorities, to capture other debt-creating activity**. The following tables and chart show the key differences in reporting of fiscal deficits and debt.[2]

Belarus: Fiscal Balance, 2010-16

(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016
State (authorities' definition) 1/	-2.5	2.0	0.5	0.2	1.3	1.8	0.5
State (staff definition) 2/	-2.5	2.1	0.5	0.1	0.8	1.5	-0.6
General government (staff definition) 3/	-1.8	2.8	0.7	0.0	0.8	1.1	-0.3
Overall balance (staff definition) 4/	-4.2	-2.8	0.4	-1.0	0.1	-2.2	-3.5

Sources: Belarusian authorities; and IMF staff estimates.
1/ Republican and local governments (authorities' definition).
2/ Republican (incl. NPP) and local governments; excludes budget loans through 2016.
3/ Includes SPF (consolidated).
4/ Includes debt-creating off balance sheet operations.

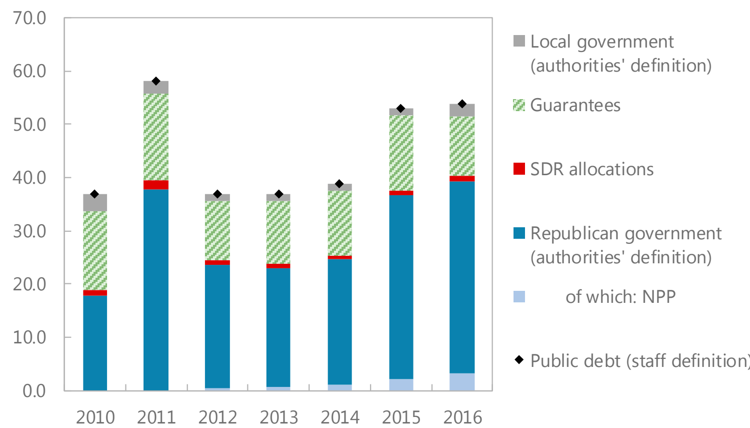
[2] The authorities' definition of general government includes central (republican) government, local governments, and the social protection fund. The IMF methodology also includes these items, but also adds NPP spending in central (and general) government and makes some presentational adjustments to central government net lending (budget loans) to make it consistent with GFS (starting from the 2018 budget, the authorities will classify budget loans as financing items; in addition, they will classify any injections to the statutory funds as expenditures). The broad fiscal measure of the 'overall balance' additionally includes off-balance sheet expenditures. With respect to debt, both the authorities and the IMF include NPP debt in the definition of general government debt. The IMF further includes government guarantees and the Special Drawing Rights (SDR) allocation (see: Informational Annex).

Belarus: Public Debt, 2010-16
(Percent of GDP)

	2010	2011	2012	2013	2014	2015	2016
Public debt (staff definition)	36.8	58.2	36.9	36.9	38.8	53.0	53.9
Republican government (authorities' definition)	17.9	37.8	23.5	23.0	24.6	36.6	39.2
of which: NPP	0.0	0.0	0.4	0.7	1.0	2.1	3.3
SDR allocations	1.0	1.5	0.9	0.8	0.8	1.1	1.0
Guarantees	14.9	16.3	11.2	11.9	12.1	14.0	11.3
Local government (authorities' definition)	3.0	2.5	1.4	1.2	1.3	1.4	2.3

Sources: Belarusian authorities and IMF staff calculations.

Figure AIII.1 Belarus: Public Debt, 2010-16
(Percent of GDP)



Sources: Belarusian authorities and IMF staff calculations.

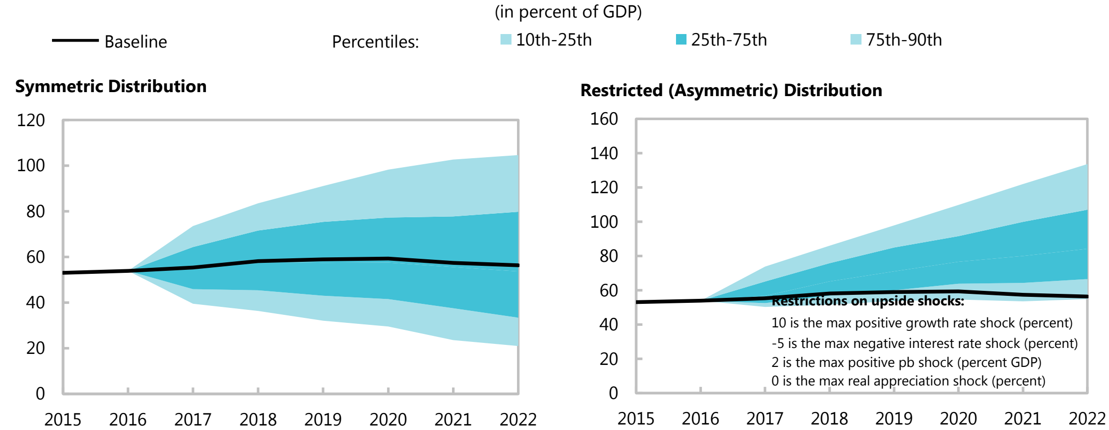
Figure AIII.2 Belarus: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

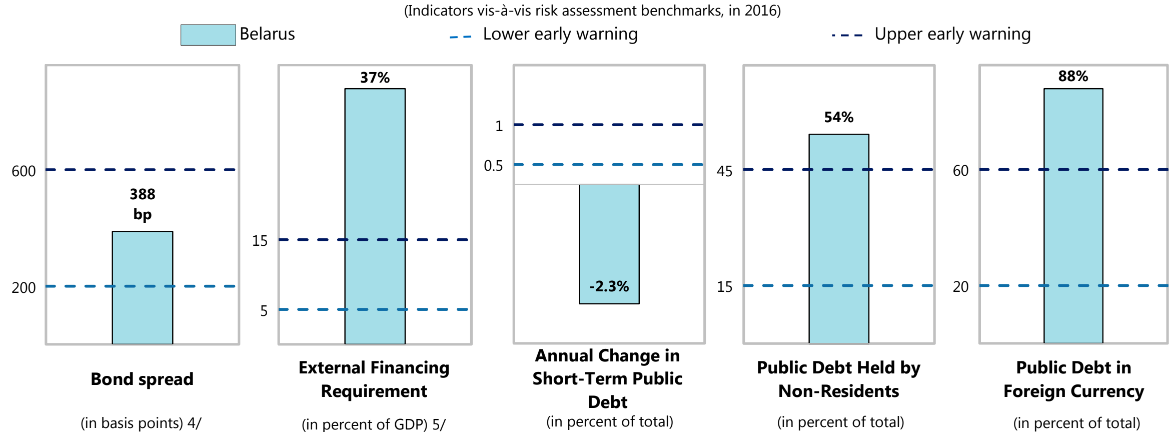
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

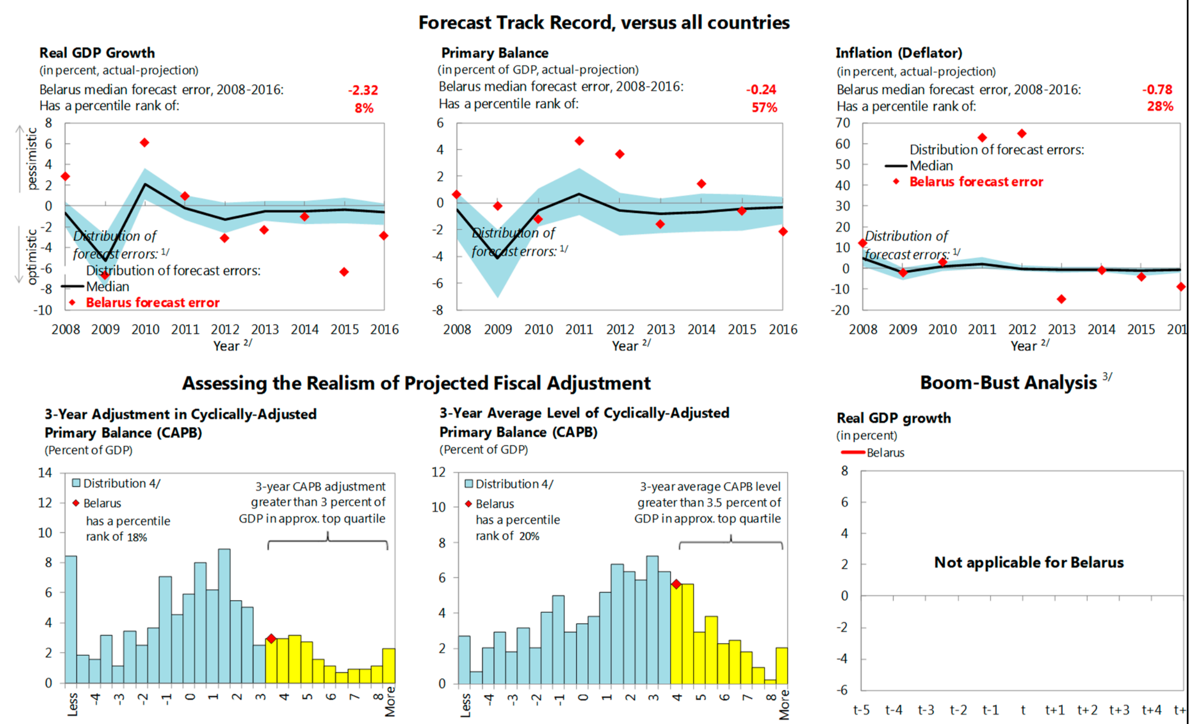
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Aug-17 through 30-Oct-17.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure AIII.3 Belarus: Public DSA – Realism of Baseline Assumptions



Source: IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Belarus, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure AIII.4 Belarus: Public DSA – Baseline Scenario

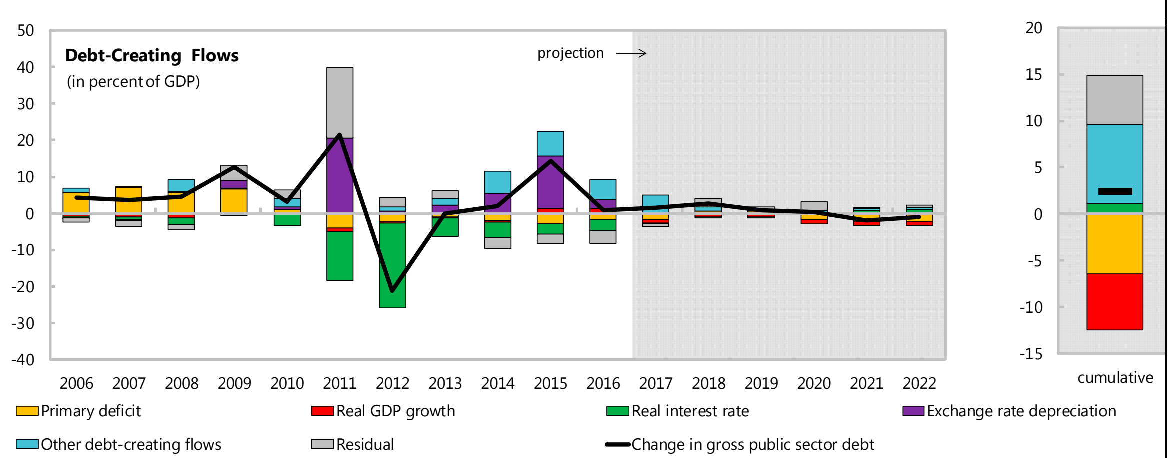
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of October 30, 2017		
	2006-2014 [2]	2015	2016	2017	2018	2019	2020	2021	2022			
Nominal gross public debt	32.4	53.0	53.9	55.3	58.1	58.9	59.3	57.3	56.3	Sovereign Spreads		
Of which: guarantees	11.1	14.0	11.3	10.4	10.7	10.5	10.1	9.5	8.9	EMBIG (bp) 3/		383
Public gross financing needs	7.4	8.2	13.1	7.9	10.1	10.2	8.3	7.9	8.0	5Y CDS (bp)		n.a.
Net public debt		52.0	52.0	42.2	46.8	49.6	51.0	50.4	50.4			
Real GDP growth (in percent)	4.4	-3.8	-2.6	1.7	1.8	1.8	2.0	2.0	2.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	27.9	16.0	7.8	6.4	6.8	6.5	6.5	5.2	5.1	Moody's	Caa1	n.a.
Nominal GDP growth (in percent)	34.3	11.6	4.9	8.2	8.7	8.4	8.5	7.4	7.2	S&Ps	B	n.a.
Effective interest rate (in percent) [4]	6.1	7.0	5.4	5.6	6.1	6.5	6.7	7.1	7.0	Fitch	B-	n.a.
					11.4	9.4	8.3	6.9	5.9			

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	umulative	debt-stabilizing
Change in gross public sector debt	3.4	14.2	0.8	1.5	2.8	0.8	0.3	-1.9	-1.0	2.5	primary
Identified debt-creating flows	0.8	16.8	4.5	2.1	0.6	0.2	-1.9	-2.0	-1.8	-2.9	balance [10]
Primary deficit	2.0	-2.8	-1.7	-1.6	0.5	0.7	-1.8	-2.1	-2.1	-6.4	0.4
Primary (noninterest) revenue and grants	39.9	39.4	39.3	38.7	38.3	39.1	38.8	38.8	39.0	232.7	
Primary (noninterest) expenditure	41.9	36.6	37.6	37.0	38.8	39.8	37.0	36.7	36.9	226.2	
Automatic debt dynamics [5]	-2.8	12.7	0.8	-1.3	-1.3	-1.0	-1.0	-0.2	-0.1	-4.9	
Interest rate/growth differential [6]	-6.4	-1.6	-1.6	-1.3	-1.3	-1.0	-1.0	-0.2	-0.1	-4.9	
Of which: real interest rate	-5.8	-2.9	-2.9	-0.4	-0.4	-0.1	0.1	1.0	1.0	1.1	
Of which: real GDP growth	-0.6	1.3	1.3	-0.9	-0.9	-1.0	-1.1	-1.1	-1.1	-6.0	
Exchange rate depreciation [7]	3.6	14.3	2.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.6	6.8	5.3	5.0	1.4	0.4	0.9	0.3	0.5	8.5	
Privatization Proceeds (negative)	-1.6	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	
Contingent liabilities	2.0	3.3	3.2	2.5	1.9	1.8	1.8	1.8	1.6	11.4	
Non-budget support debt flows [8]	1.2	3.7	2.2	3.5	-0.7	-1.1	-0.3	-0.8	-0.5	0.0	
Residual, including asset changes [9]	2.6	-2.5	-3.7	-0.6	2.2	0.7	2.2	0.1	0.7	5.3	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Non-budget supporting debt is debt issued for BoP purposes (international reserve accumulation). It excludes funds directed to budget support (included as a financing item).

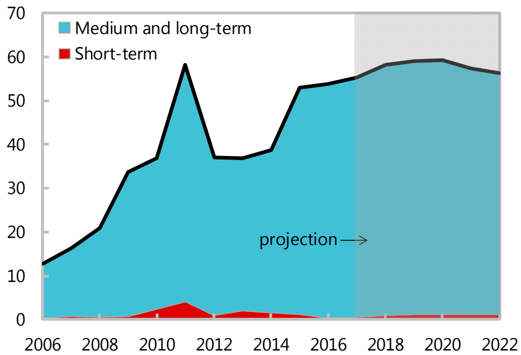
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

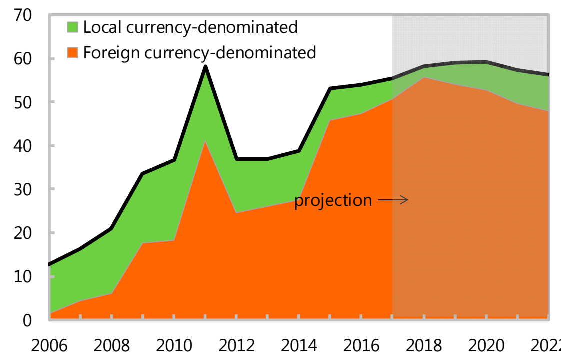
Figure AIII.5 Belarus: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



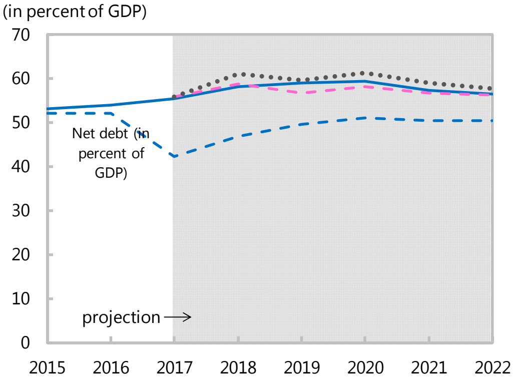
By Currency
(in percent of GDP)



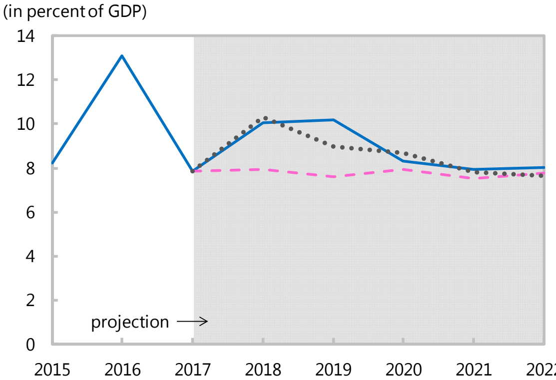
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

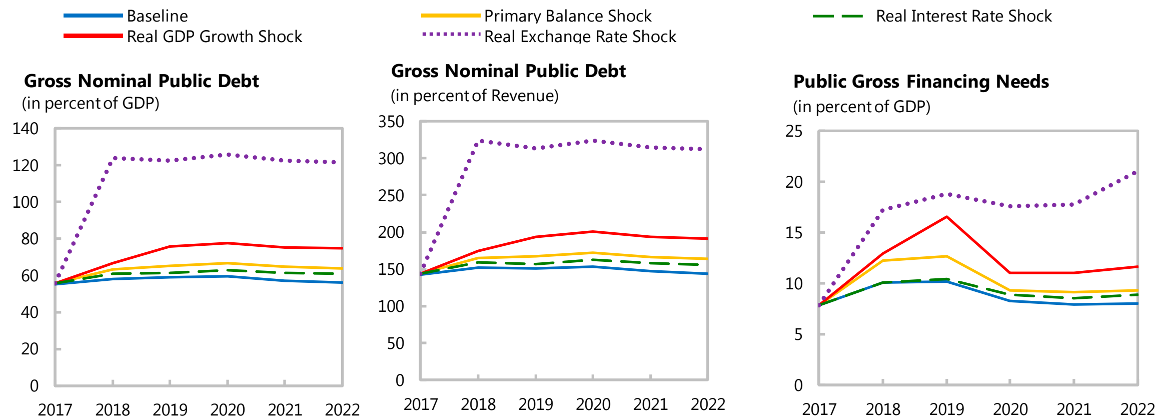
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.7	1.8	1.8	2.0	2.0	2.0
Inflation	6.4	6.8	6.5	6.5	5.2	5.1
Primary Balance	1.6	-0.5	-0.7	1.8	2.1	2.1
Effective interest rate	5.6	6.1	6.5	6.7	7.1	7.0
Constant Primary Balance Scenario						
Real GDP growth	1.7	1.8	1.8	2.0	2.0	2.0
Inflation	6.4	6.8	6.5	6.5	5.2	5.1
Primary Balance	1.6	1.6	1.6	1.6	1.6	1.6
Effective interest rate	5.6	6.1	6.3	6.7	7.0	6.9

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.7	2.3	2.3	2.3	2.3	2.3
Inflation	6.4	6.8	6.5	6.5	5.2	5.1
Primary Balance	1.6	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	5.6	6.1	3.5	1.9	0.8	-0.1

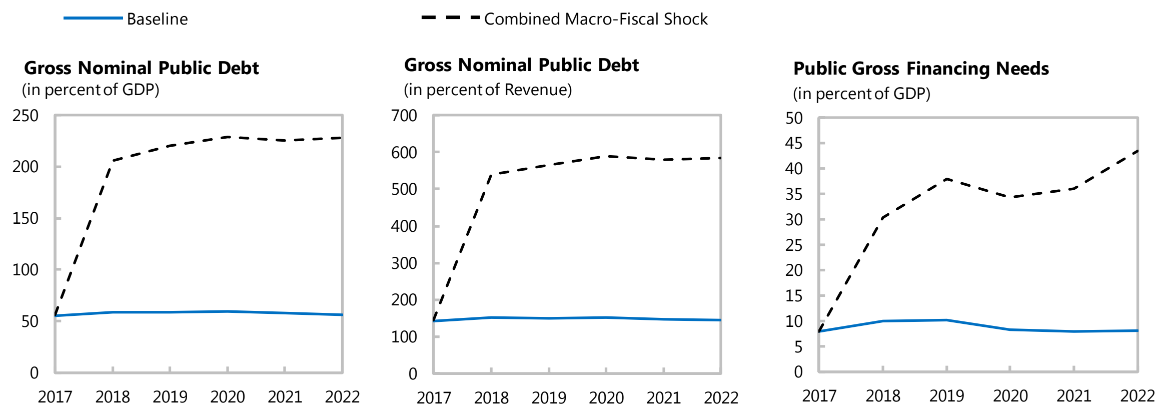
Source: IMF staff.

Figure AIII.6 Belarus: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	1.7	1.8	1.8	2.0	2.0	2.0
Inflation	6.4	6.8	6.5	6.5	5.2	5.1
Primary balance	1.6	-2.6	-2.8	1.8	2.1	2.1
Effective interest rate	5.6	6.1	6.2	6.5	6.7	6.6
Real Interest Rate Shock						
Real GDP growth	1.7	1.8	1.8	2.0	2.0	2.0
Inflation	6.4	6.8	6.5	6.5	5.2	5.1
Primary balance	1.6	-0.5	-0.7	1.8	2.1	2.1
Effective interest rate	5.6	6.1	6.6	7.1	7.5	7.6
Combined Shock						
Real GDP growth	1.7	-2.8	-2.8	2.0	2.0	2.0
Inflation	6.4	5.6	5.4	6.5	5.2	5.1
Primary balance	1.6	-2.8	-5.5	1.8	2.1	2.1
Effective interest rate	5.6	19.7	5.8	6.4	6.8	6.9

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	1.7	-2.8	-2.8	2.0	2.0	2.0
Inflation	6.4	5.6	5.4	6.5	5.2	5.1
Primary balance	1.6	-2.8	-5.5	1.8	2.1	2.1
Effective interest rate	5.6	6.1	6.2	6.6	6.7	6.6
Real Exchange Rate Shock						
Real GDP growth	1.7	1.8	1.8	2.0	2.0	2.0
Inflation	6.4	66.2	6.5	6.5	5.2	5.1
Primary balance	1.6	-0.5	-0.7	1.8	2.1	2.1
Effective interest rate	5.6	19.7	6.2	6.5	6.8	6.7

Source: IMF staff.

II. EXTERNAL DEBT SUSTAINABILITY ANALYSIS

1. A collapse in dollar GDP caused a sharp increase in Belarus's external debt burden. Gross external debt rose from 51 percent of GDP in 2014 to 79 percent in 2016. In dollar terms, external debt has remained stable at around US$40 billion. But denominator effects were profound, with recession and exchange rate depreciation causing U.S. dollar GDP to fall from US$79 billion in 2014 to US$47 billion in 2016.

2. Under the baseline scenario, debt is projected to gradually decline over the medium term. The debt path will be shaped by a gradual recovery in GDP, a relatively stable exchange rate, and a narrower current account deficit that will help reduce borrowing needs. Gross external financing needs are expected to ease, but from high initial levels (37 percent of GDP in 2016) and will remain a source of vulnerability.

3. The external debt burden would rise sharply under the depreciation scenario and continue to deteriorate under the historical scenario.

In the event of a 30 percent one-time real depreciation, external debt would jump to around 107 percent of GDP. The balance sheet impact would be amplified by the high level of domestic financial dollarization, which would likely be absorbed by government given high levels of state ownership in the corporate and banking sectors. This underscores the importance of fiscal and structural measures to underpin adjustment, rather than further exchange rate depreciation.

Under the historical scenario, gross external debt continues to increase steadily, reaching around 92 percent of GDP by 2022. (Figure 6 in the main text shows the steady deterioration of the NIIP over the past decade.) Adhering to the improved macro policies since 2015, and continued efforts to keep the current account deficit low, are thus essential to break with the historical experience and keep debt sustainable.

Debt would be broadly unchanged under the current account, growth, and combined shock scenarios. Only the interest rate shock shows a downward path.

Table AIII.1 Belarus: External Debt Sustainability Framework, Baseline Scenario, 2012–22

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	51.4	52.5	50.8	67.9	79.2			**73.1**	**71.2**	**70.5**	**67.9**	**65.2**	**62.8**	**-2.1**
Change in external debt	-4.0	1.1	-1.6	17.1	11.2			-6.1	-1.9	-0.7	-2.6	-2.7	-2.4	
Identified external debt-creating flows (4+8+9)	-2.5	1.3	2.6	21.1	14.3			-0.6	-0.2	-0.1	-0.9	-1.3	-1.4	
Current account deficit, excluding interest payments	1.1	8.5	5.0	1.1	1.2			-0.1	0.4	0.2	-0.5	-0.9	-1.0	
Deficit in balance of goods and services	-4.3	3.1	0.6	-0.2	0.2			0.5	0.6	0.1	-0.6	-1.3	-1.8	
Exports	79.0	58.3	55.0	58.2	63.1			64.0	63.5	63.4	63.1	65.0	66.8	
Imports	74.7	61.4	55.6	58.0	63.3			64.5	64.1	63.5	62.5	63.7	65.0	
Net non-debt creating capital inflows (negative)	-1.7	-2.0	-1.9	-2.4	-2.0			-1.9	-2.3	-2.3	-2.5	-2.6	-2.4	
Automatic debt dynamics 1/	-1.9	-5.1	-0.6	22.4	15.2			1.4	1.6	2.0	2.0	2.2	2.0	
Contribution from nominal interest rate	1.7	1.6	1.6	2.2	2.3			2.6	2.9	3.2	3.4	3.5	3.3	
Contribution from real GDP growth	-0.9	-0.5	-0.9	2.7	2.1			-1.2	-1.3	-1.2	-1.3	-1.3	-1.3	
Contribution from price and exchange rate changes 2/	-2.7	-6.2	-1.3	17.5	10.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.6	-0.3	-4.3	-4.0	-3.1			-5.5	-1.6	-0.6	-1.7	-1.3	-1.1	
External debt-to-exports ratio (in percent)	65.1	90.0	92.4	116.6	125.4			114.2	112.2	111.2	107.5	100.3	94.0	
Gross external financing need (in billions of US dollars) 4/	18.1	23.1	26.3	19.5	17.3			17.4	16.2	15.7	15.5	16.1	16.5	
in percent of GDP	27.6	30.7	33.4	34.6	36.6			32.7	29.4	27.4	25.8	25.6	25.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**73.1**	**76.0**	**80.7**	**84.5**	**88.2**	**92.4**	**-3.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.7	1.0	1.7	-3.8	-2.6	3.0	4.8	1.7	1.8	1.8	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	5.2	13.8	2.5	-25.6	-13.6	0.7	15.4	10.6	1.3	2.4	2.9	2.2	2.8	
Nominal external interest rate (in percent)	3.3	3.5	3.2	3.0	2.9	3.3	0.4	3.7	4.1	4.7	5.0	5.4	5.3	
Growth of exports (US dollar terms, in percent)	11.5	-15.1	-1.7	-24.3	-8.8	6.8	28.6	14.0	2.4	4.0	4.5	7.5	7.6	
Growth of imports (US dollar terms, in percent)	2.7	-5.4	-5.6	-25.3	-8.3	4.6	22.9	14.6	2.5	3.3	3.3	6.2	7.0	
Current account balance, excluding interest payments	-1.1	-8.5	-5.0	-1.1	-1.2	-6.8	4.8	0.1	-0.4	-0.2	0.5	0.9	1.0	
Net non-debt creating capital inflows	1.7	2.0	1.9	2.4	2.0	2.9	1.3	1.9	2.3	2.3	2.5	2.6	2.4	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

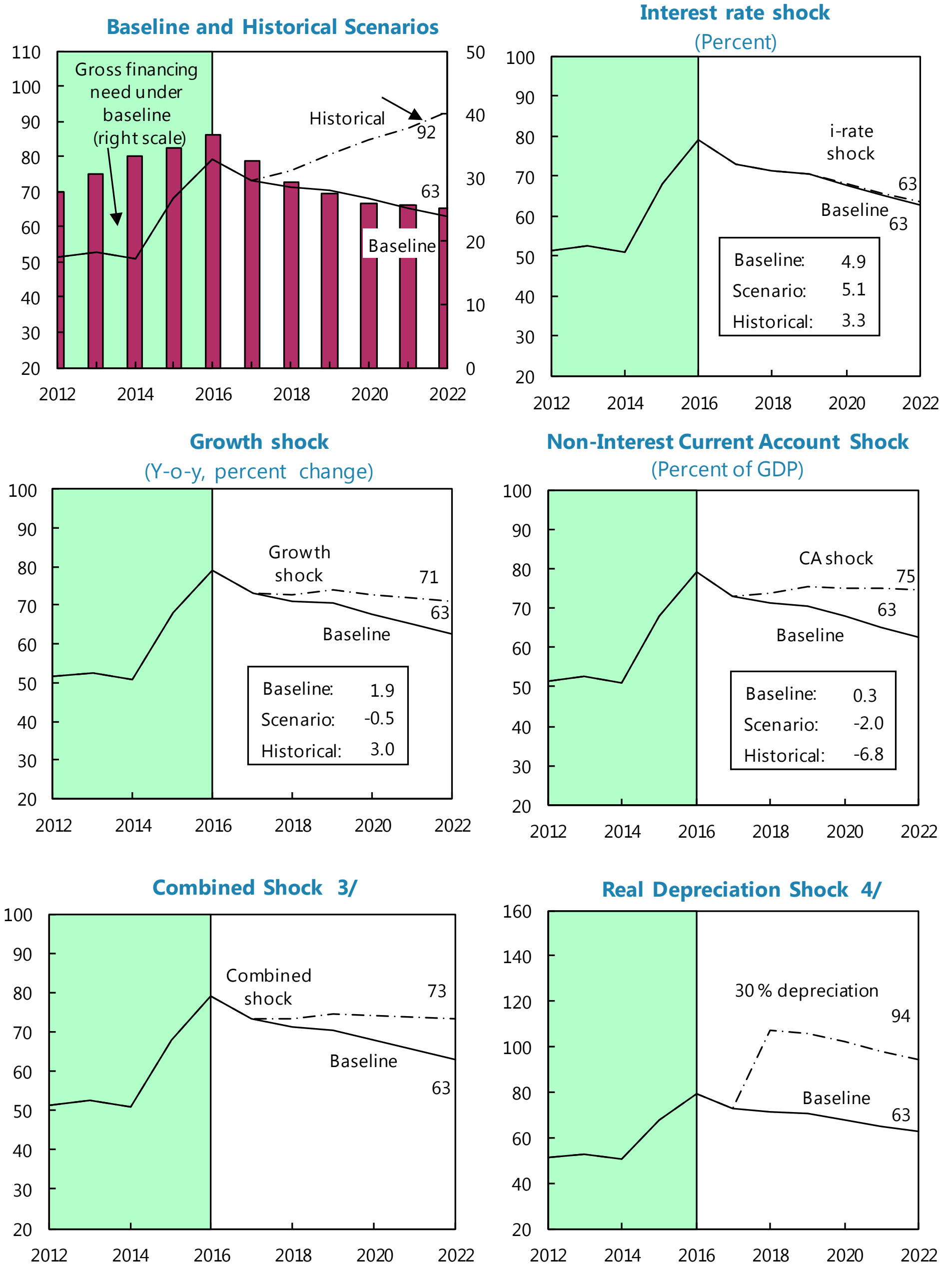
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure AIII.7 Belarus: External Debt Sustainability: Bound Tests 1/ 2/

(Baseline scenario; external debt in percent of GDP)



Source: IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks to external debt under the adjustment scenario ("baseline" for the shocks). Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2017.

Annex IV. Risk Assessment Matrix [1/]

Risk	Relative Likelihood and Transmission Channels	Expected Impact of Risk	Policy Recommendations
1. Lower (higher) energy prices or disruptions in energy price arrangements with Russia; disruption to NPP business model	**Low/Medium** • Reduced (increased) export revenues of refined oil products from lower (higher) world prices, reduced margins on energy export and import prices, or disruptions in oil-related trade with Russia. • Spillover effects from Russia through trade and financial channels. • Tensions with neighboring countries regarding NPP safety could disrupt electricity export plans.	**High** • Renewed BOP pressures (or easing pressures) and potential BYR depreciation (appreciation). • Confidence could be undermined, adversely affecting FX liquidity and increasing banks' FX liquidity risks (particularly given high dollarization). • Belarus may need to reconfigure electricity production and consumption, or find other export markets, with possible repercussions for the BOP.	• A flexible exchange rate remains key to cushion the shock (limit interventions to dampening excessive volatility). • Advance structural reforms to improve economic efficiency and enhance economic diversification. • Adjust fiscal policy to help counter changing BOP pressures, as needed.
2. Tighter global financial conditions	**High/Medium** • Strengthening of the US dollar and decompression of term premia as investors reassess underlying policy fundamentals could result in capital account pressures and undermine Belarus's access to capital markets. • Pressure on external bank funding could lead to FX liquidity pressures and possibly curtail financial services in Belarus.	**Medium** • Investors could reassess risks of holding Belarusian assets, undermining market access and resulting in abrupt external adjustment through depreciation. • Russian banks could come under pressure, forcing accelerated deleveraging in Belarus. • Confidence in the domestic financial sector could be weakened, increasing banks' credit and FX liquidity risks. • NPLs could increase further, threatening solvency of the banking system.	• A flexible exchange rate remains key to cushion the shock (limit interventions to dampening excessive volatility). • Tighten monetary policy if needed for financial stability. • The NBRB could provide liquidity support to solvent banks. • Fiscal policy should remain conservative to counter BOP pressures.
3. Weaker-than-expected global growth; slower than anticipated results from Belarus's external economic integration efforts	**Low/Medium** • Significant slowdown in China could result in weak domestic demand, suppress commodity prices, roil global financial markets, and reduce global growth. **High /Medium** • Structural slowdown in key advanced and emerging economies, especially Russia, could undermine medium-term growth in emerging markets, as easy global financial conditions come to an end alongside insufficient reform progress. • Changes in the pace of external economic integration tied to WTO accession, EEU integration, the China Belt/Road initiative, and other factors.	**Medium** • Financial volatility raises risk aversion, causing re-pricing of Belarus's risks. **Medium** • Significant dependency on trade with and financing from Russia could open significant financing gaps and undermine growth in Belarus.	• Flexible exchange rate remains key to cushion the shock (limit interventions to dampening excessive volatility). • Structural reforms should be advanced to improve economic efficiency and enhance economic diversification. • Seek bilateral support and TA to help push the integration agenda.

Risk	Relative Likelihood and Transmission Channels	Expected Impact of Risk	Policy Recommendations
4. Larger-than-expected liabilities from quasi-fiscal activities	**High** • Estimated liabilities in the SOE sector are highly uncertain, and could be larger (or smaller) than preliminary estimates.	**High** • Losses (or better performance could translate into higher (lower) public debt, including from state support of strategic SOEs, or indirectly through recaps of state-owned banks with SOE-related losses.	• Further fiscal adjustment to achieve debt targets. Pursue faster and broader structural reforms in the SOE sector to improve monitoring (e.g., for SOE fiscal risk assessment), governance, and performance.
5. Uneven domestic policy implementation	**Medium** • Political consensus could break down over the direction, depth, and pace of reforms, leading to a reversion to greater government involvement in the economy. • Outward labor migration to Russia, Poland, and other destinations could exacerbate the already worsening demographic situation, but generate inward FX remittances.	**High** • This would stimulate near-term growth, but risk fueling yet another unsustainable macro-financial feedback loop. This would increase vulnerabilities and crisis risks, and lower growth prospects. • Growth, and the already struggling social security system, would suffer, though FX reserves would receive some support from remittances.	• Tightening of macro policies may be needed to address macroeconomic imbalances. But this would need to be balanced against a likely renewed wave of rising NPLs in the corporate sector from tighter policies, that would hurt banking sector balance sheets. • Renewed focus on stemming the feedback loop would be needed, following long-standing staff recommendations. • Supplementary financial stability policies might be needed.

1/ The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the sources of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex V. Selected Topics

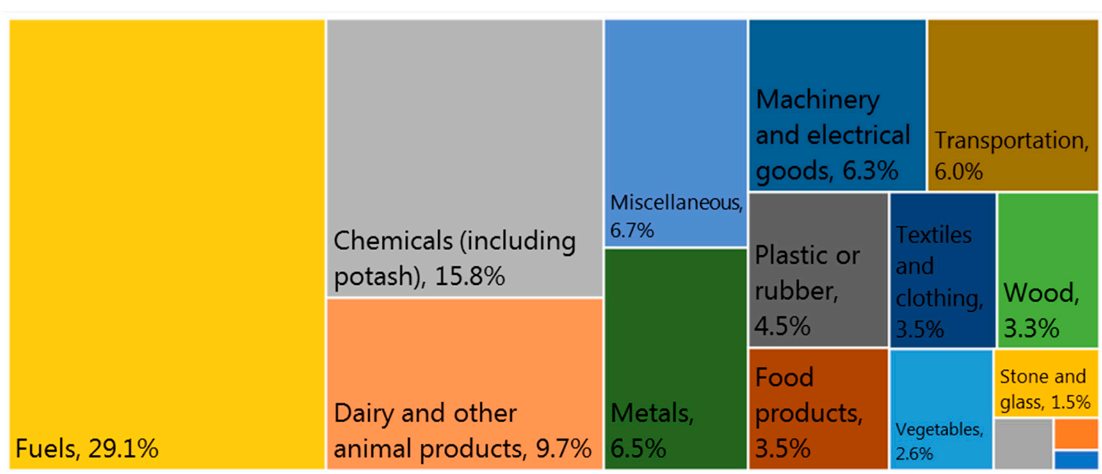
A. Export Diversification in Belarus

1. Belarus's economy remains undiversified. By product type, Belarusian goods exports are relatively concentrated in petroleum products and potash (Figure A1). Exports of other (diversified) goods are largely to Russia, implying concentration by destination market as well. The Hirschman-Herfindahl market concentration index (Figure A2) indicates Belarusian trade patterns are significantly more concentrated than those of peer countries. Participation in global value chains (GVCs) is low. A bright spot is the strong growth in the services sector, notably IT.

2. The degree of export market concentration implies several sources of vulnerability. Higher degrees of concentration (and lower diversification) are associated with higher growth volatility. Therefore, Belarus's higher concentration has increased its vulnerability to risks of the type that materialized in the past three years: a growth slowdown in Russia through the trade channel; disruptions to the energy market, including volatility in pricing; and falls in the price of other key exports—potash prices fell by 36 percent in 2016, leading to a loss of more than 1 percent of GDP in export earnings.

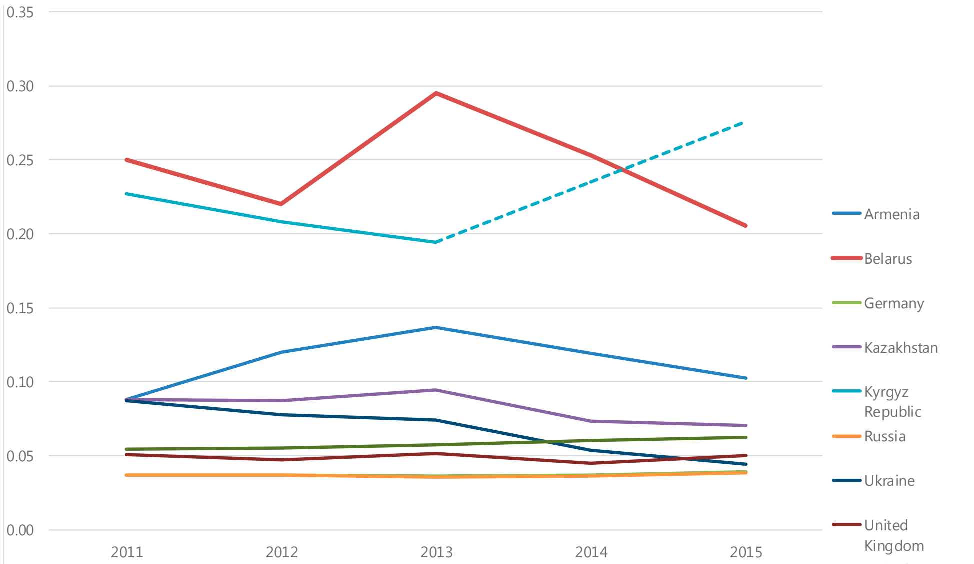
3. Achieving more diversified trade will depend not only on greater competitiveness, but also on steps to ease barriers to trade outside traditional markets. Belarus has lowered tariffs in recent years, including in the framework of the 5-member Eurasian Economic Union (EEU), and is seeking accession to the World Trade Organization (WTO). Further EEU integration could lower nontariff barriers and increase opportunities within the region, but with attendant risk of less rather than more diversified trade unless part of a wider strategy. Logistical barriers to internal and external trade appear manageable for established firms but may be significant for new entrants; new business formation has so far been low (Figure A3). This puts a premium on business environment reforms that encourage new market entrants, inward direct investment, and GVC participation.

Figure AV.1. Belarusian Goods Exports—Breakdown by Product Type
(2015, in percent of total)



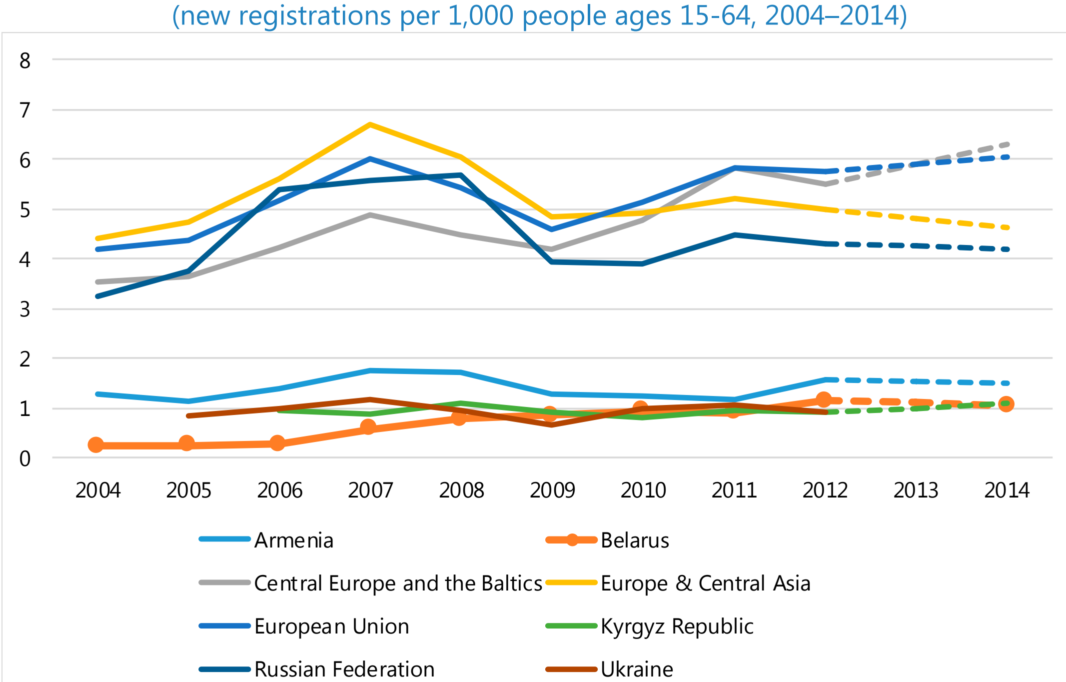
Source: World Bank WITS database – UNSD COMTRADE

Figure AV.2. Belarus: Trade Diversification, Belarus and Selected Countries: Hirschman-Herfindahl Market Concentration Index



Source: WITS - UNSD COMTRADE http://wits.worldbank.org
Notes: Germany, Russia: series values for this chart are very close and may appear to overlap.
Kyrgyz Republic: missing value for 2014 (dashed line between 2013 and 2015).

Figure AV.3. Belarus and Selected Countries: New Business Density
(new registrations per 1,000 people ages 15-64, 2004–2014)



Source: World Bank Entrepreneurship Survey and database. Note: missing values for 2013

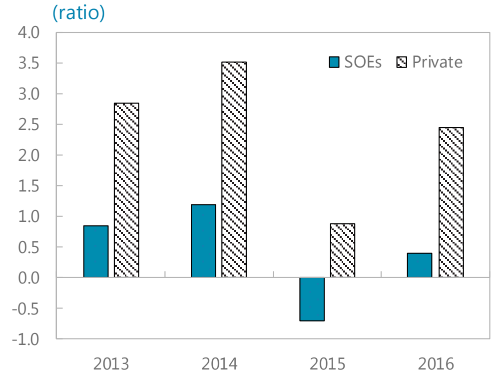
B. Financial Performance of SOEs and Private Companies in Belarus

4. Belarus has relied heavily on SOEs as a driving force of its economic growth and development.[1] The sector receives extensive support from various channels (text chart). However, SOE financial performance, as well as broader macroeconomic indicators (e.g., productivity indicators) suggest that continued reliance on this sector as an engine of growth can hold back Belarus's economic development and, through their corrosive effect on policy buffers, leave Belarus vulnerable to shocks. This track record also invokes questions about the best use of public resources.

5. A staff assessment of SOE performance (including relative to private companies) was conducted using various data sources.[2] It also draws on studies of other countries' experiences related to the role of SOEs in the economy, SOE performance, and SOE sector reforms.

6. SOE performance in Belarus lags that of private companies. In addition to lower efficiency and effectiveness (on average), poorly performing SOEs have generated risks to fiscal and financial stability through macro-financial linkages. The relatively inferior performance of SOEs is visible in sectors of high importance for the economy - manufacturing, agriculture and construction. The agriculture sector shows particularly significant weaknesses (text chart).

Agriculture: ROA
(ratio)



Sources: Belstat and IMF staff calculations.

7. Findings on SOE performance in Belarus are broadly in line with results of studies for other countries in the region. However, the SOE sector in Belarus is relatively large in comparison. Its prominence in the Belarusian economy and the tight macro-financial links magnifies concerns that, absent deep reforms, problems in the sector will continue, with significant negative economic consequences.

8. Deep reforms would help overhaul the SOE sector and transform it from being a drag on fiscal resources to a source of income and growth, and a more diversified export engine. Drawing on other countries' experiences, the reforms should be based on a comprehensive SOE reform strategy, and be supported by more efficient SSNs and reforms in other sectors.

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[1] SOEs are defined as fully owned by the state (republican and local levels) or with any state's share in the ownership.

[2] The analysis is based on data on medium and big non-financial companies (i.e., SOEs and private companies with the average number of employees above 251 in a calendar year), aggregated by economic sectors. In addition, a dataset including individual data of about 560 SOEs 39 indicators, including 100 highly indebted in foreign currency SOEs additional indicators on foreign currency revenues and long-term liabilities was used. The unavailability of data on individual private companies (due to confidentiality reasons) prevented any in-depth comparison of performance of private companies and SOEs. *Data source*: Belstat and the NBRB.

Figure AV.4: Belarus: Main Forms of State Support to SOEs

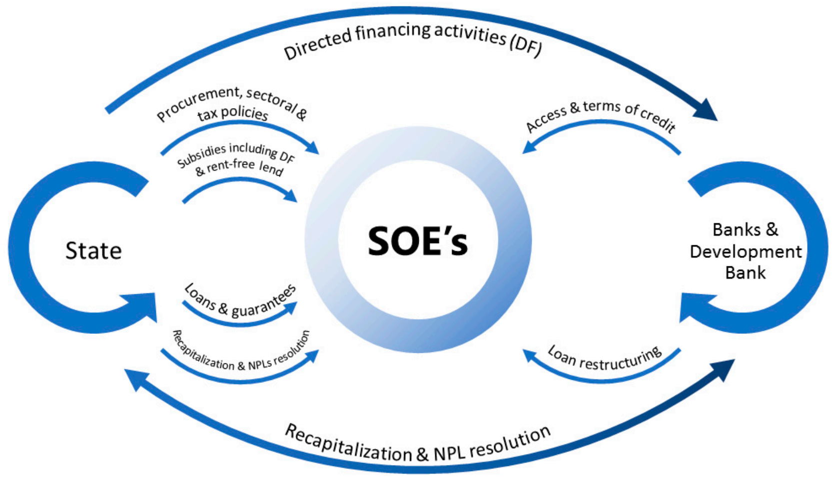
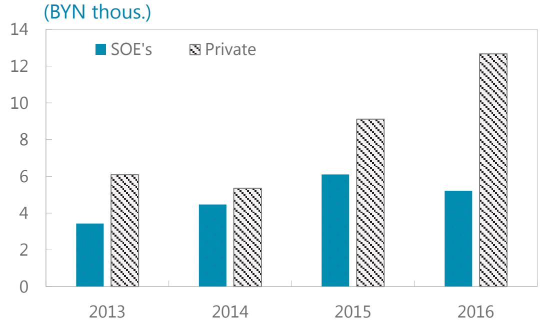


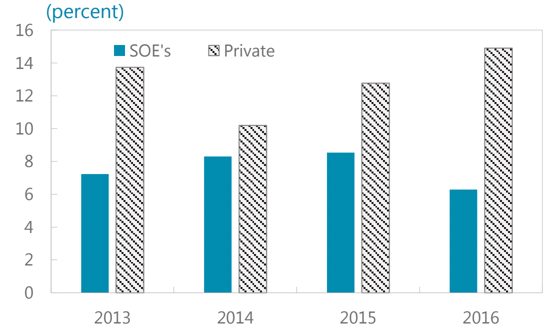
Figure AV.5. Belarus: SOE and Private Sector Performance in Selected Sectors

Manufacturing: Operating Profit per Worker
(BYN thous.)



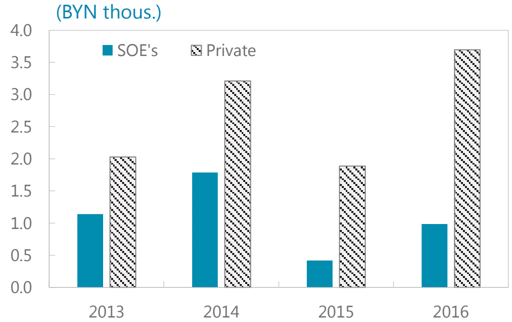
Sources: Belstat and IMF staff calculations.

Manufacturing: Return on Capital Employed
(percent)



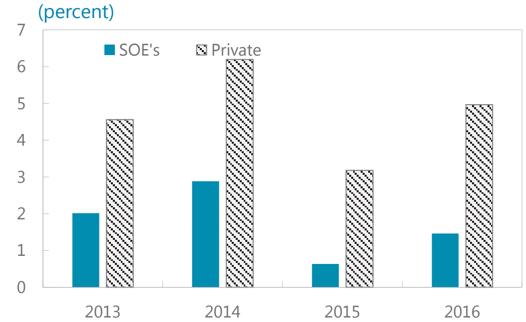
Sources: Belstat and IMF staff calculations.

Agriculture: Operating Profit per Worker
(BYN thous.)



Sources: Belstat and IMF staff calculations.

Agriculture: Return on Capital Employed
(percent)



Sources: Belstat and IMF staff calculations.

C. Fiscal Rules in Belarus

9. Recent fiscal pressures in Belarus reflect weaknesses in the fiscal framework. Despite efforts to maintain a balanced budget, public and publicly-guaranteed (PPG) debt has continued to rise. This reflects the presence of fragmented fiscal accounting and monitoring, deficiencies in medium-term planning and debt management, and inconsistent fiscal rules.

10. Belarus has a complex set of fiscal rules in place:

a) *a balanced-budget rule for the state budget—which excludes the NPP project, extra-budgetary funds (SPF), and quasi-fiscal operations (recaps and guarantees);*

b) *a medium-term central (general) government debt ceiling of 45 (50) percent of GDP that include NPP and project loans from China, but exclude guarantees;*

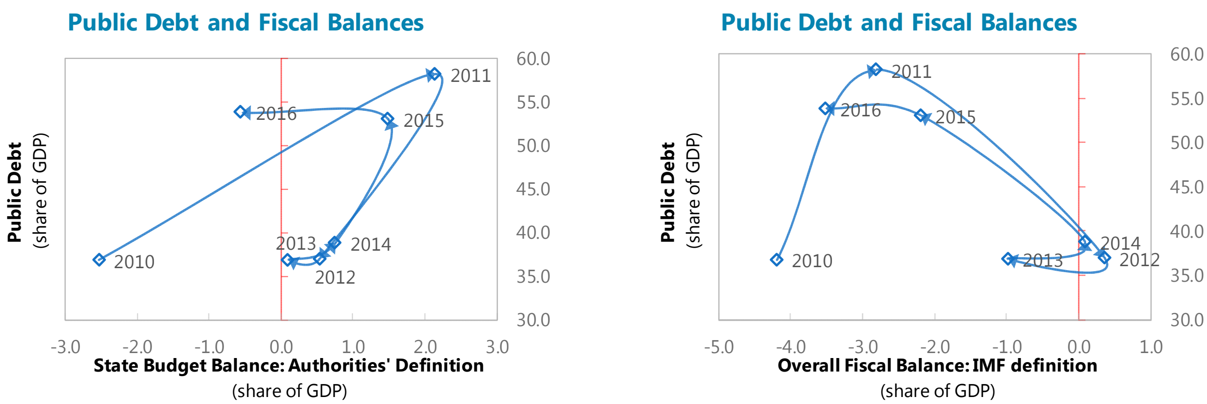
c) *at least 50 percent of annual public debt repayments should be covered by non-debt creating sources;*

d) *a commitment to use all proceeds from export custom duties on crude oil and petroleum products for foreign currency public debt principal and interest payments;*

e) *prohibition on net new issuance of government guarantees on domestic corporate domestic debt;*

f) *additional targets, e.g. a five-year moratorium on new taxes and a medium-term objective to* maintain state tax revenues below 26 percent of GDP.

Figure AV.6. Public Debt and Overall Fiscal Balances



Source: World Economic Outlook.

Source: World Economic Outlook.

11. There are several shortcomings with these rules: *(a)* The coverage of the budget balance definition is very narrow. *(b)* There is no clear relationship or consistency among the rules, such as the link between the state budget balance target or tax revenue cap and the debt ceilings. *(c)* There is no operational rule or adjustment mechanism in place that is linked to the debt ceiling.
(d) Medium-term fiscal planning is a key weakness, with no strategic planning, leading to inadequate

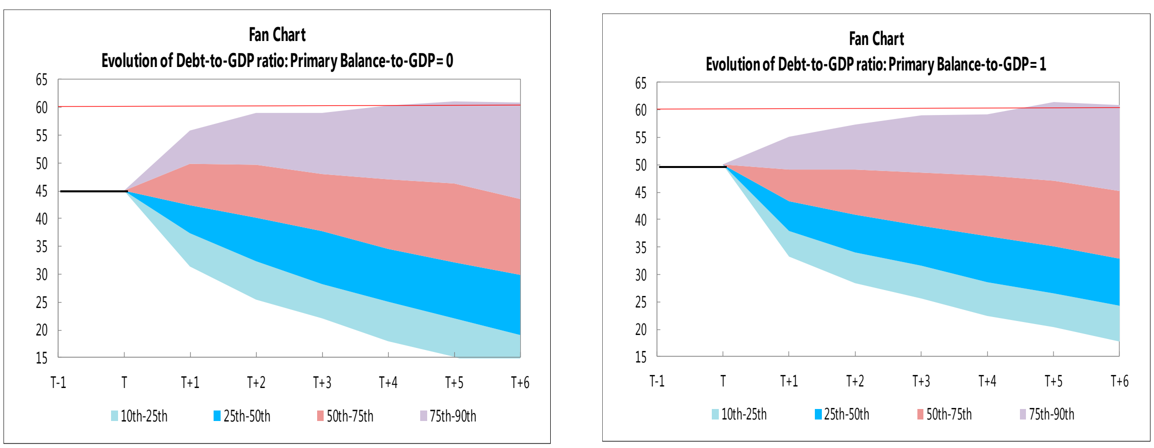
fiscal buffers during economic downturns. *(e)* There is no clear single medium-term fiscal anchor to ensure fiscal sustainability, and forecasting capacities are weak. These weaknesses have contributed to a procyclical bias.

12. A more comprehensive budget balance measure that is consistent with debt dynamics is recommended. The authorities should:

- **Introduce a more comprehensive PPG debt anchor targeting a safe debt level, linked to a more comprehensive budget balance measure.** This will help anchor medium-term fiscal policy, and allow greater ability to manage shocks. The debt anchor should include obligations of all levels of government, including extra-budgetary funds (EBFs) and government guarantees. The PPG debt target should be set at a prudent level to allow for macroeconomic shocks (i.e., include a buffer). For Belarus—based on historic and country specific data, and taking into account necessary buffers—the safe level of medium-term PPG debt is estimated at around 45-50 percent of GDP.[13] The deficit measure should include all debt-creating components (see Annex III).

Figure AV.7. Simulation for Debt Development

(Debt=45/50 percent of GDP at T)



Source: IMF staff calculations.

Note. The underlying assumptions for average macroeconomic variables over the simulation periods for both fan charts are: (i). annual real GDP growth at 3 ¼ percent; (ii). effective real interest rates at -13 percent; (iii). annual change in real exchange rates at -1.9 percent (depreciation).

- **Adopt an operational fiscal target, linked to the safe PPG debt level in the medium term (taking into account the economic cycle).** This could be a budget balance rule or expenditure ceiling, supported by sound medium-term macro-fiscal forecasting and planning. The measure should be comprehensive, including all levels of the government and quasi fiscal activities. In the short term, Belarus could continue to use its current rule of targeting budget balances, but based on a more comprehensive measure and linked to a debt path consistent with the debt anchor. A multi-year expenditure ceiling rule (linked to the debt objective) could be a more practical and

[13] Historically, debt distress occurs when debt is approaching 60 percent of GDP. High volatility in the past, coupled with historically high levels of primary balance suggests that a 10–15 percent of GDP buffer is needed to ensure that debt remains below the distress level with high certainty.

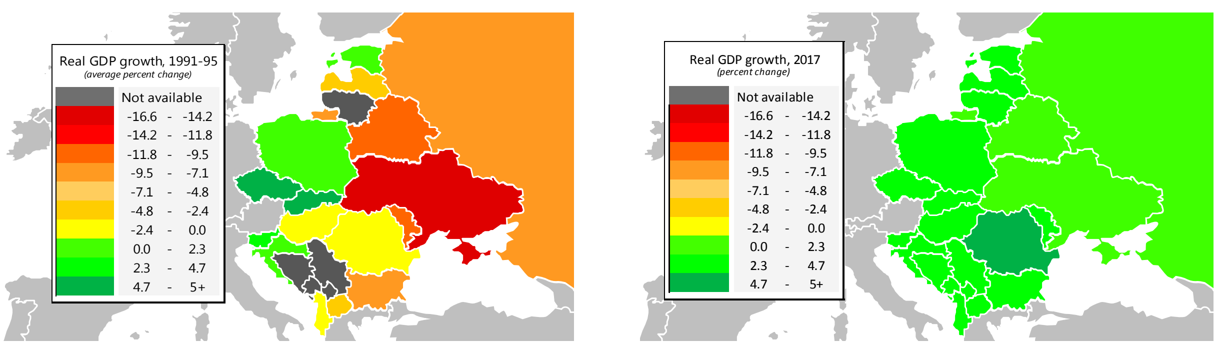
desirable option in the medium-term, but would benefit from further analysis (and possible TA) to help calibrate the rule.

- **Adopt additional mechanisms to ensure credibility**. These could include: (a) an error-correction adjustment mechanism to ensure that corrective measures are taken to prevent debt from breaching the debt target (e.g. automatic spending freeze); (b) escape clauses allowing revisions to the planned path under certain conditions, e.g. national emergencies or significant changes in underlying assumptions; and (c) supportive institutions. The latter should include strengthening medium-term planning and fiscal risk assessment. Commitment of policy makers to maintain the fiscal anchor is also essential.

D. Labor Implications of SOE Reform in Belarus

13. The possibility of significant labor shedding in the context of SOE reform in Belarus is a matter of deep concern—and a key political argument made for delaying reforms. This concern is based in part on the experience of other countries, where restructuring of SOEs has often been accompanied by decreases in employment. Moreover, evidence from several studies shows that SOEs in Belarus often have more staff (and tend to play a role of "employer of last resort"[14]) and are less efficient, compared with the similar private enterprises (Cuaresmo, et al. (2012), World Bank (2012), and Annex V-B).

Figure AV.8. External Environment (Growth) in the Region

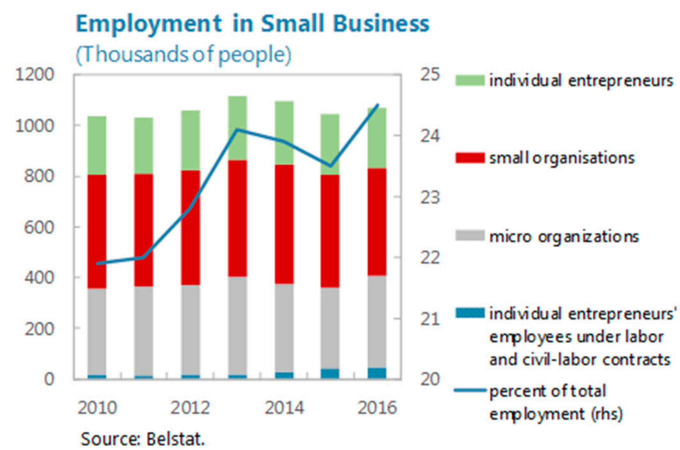


Sources: IMF WEO, Haver, Eurostat, and IMF staff calculations.

14. However, the impact of significant SOE restructuring for the labor market might turn out to be much less severe than in Central and Eastern European countries in the 1990s. First, many of the urgent macroeconomic reforms during the initial period of transition to the market economy have already taken place in Belarus. Second, the current external environment facing Belarus is much more favorable than in the 1990s (text chart). Third, the private sector in Belarus today is far more developed than most countries undergoing transition in the 1990s, providing better absorption capacity of any dismissed SOE workers.

[14] Ehrke et. al (2014), p.10

15. Reforms aimed at eliminating barriers for job creation in the private sector and its development are of special importance. Strong private sector employment growth would help absorb redundant workers from SOEs. Therefore, the authorities' current efforts to improve the business climate deserve support, and should be expanded to strengthen property rights, increase competition, and provide a level playing field with state-owned ones. The goal of equal treatment of enterprises of any type of ownership not only regarding state financial support, but also in other spheres of economic relationships should be actively pursued.



16. A well-designed and sufficiently financed system of social safety nets can help mitigate the adverse effects of SOE restructuring on employment. Based on available data on SOEs staff headcount and staff headcount by types of ownership, staff estimates that the fiscal costs of policy response, including the enhanced social safety nets proposed in recent years by Fund staff, during even a deep SOE sector restructuring would be manageable (not exceeding 1.5 percent of GDP per year, and likely less), even if the restructuring happens in a rather short period. The improved allocation of resources as well as the reduced state support in various other forms should increase the effectiveness of SOEs and reduce the expenditures of the state. At the same time, more efficient SSNs would provide redundant employees with a sufficient level of social protection during the job search. The efficiency of both passive and active labor market policies should be evaluated on a regular basis based on statistical data and information available to the authorities. The social protection agencies as well as local authorities should cooperate closely with the potential employers from the private sector.

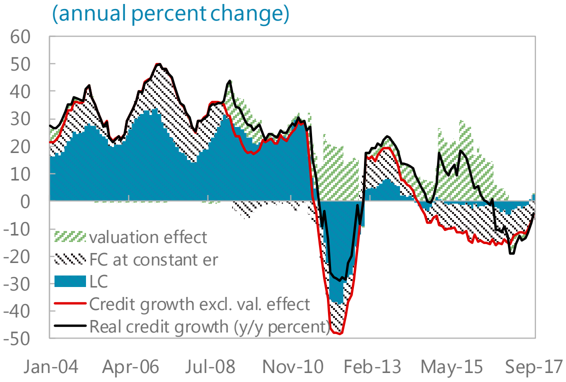
E. Credit Growth in Belarus

17. The growth in real credit to the economy in Belarus remains negative, despite the economic recovery now underway. While it is too early to determine if Belarus is entering a period of credit-less recovery, there appear to be many supply and demand factors that are pointing to prolonged weaknesses in credit growth.

18. About one in five recessions are followed by credit-less recoveries, where real credit growth remains negative in the first three years of the economic recovery. They tend to be preceded by a credit boom and bust and/or banking crisis, where banks' balance sheets are impaired. Recovery in output under credit-less recoveries is found to be weaker and protracted, on average a third lower (Abiad, Dell'Ariccia and Li, 2011).

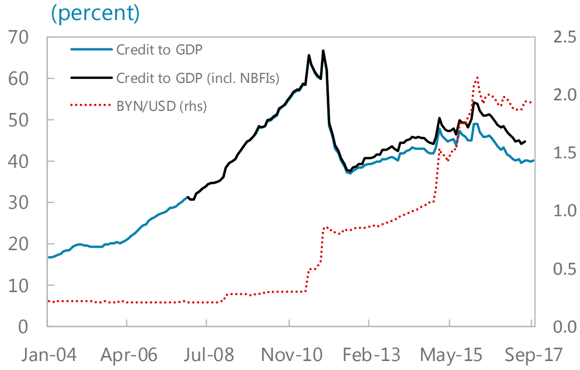
19. Belarus has experienced rapid growth in credit in the past decade and a half, backed by strong economic growth but also supported by state policies (e.g. annual growth targets of bank credit, government directed lending, and the caps on the lending and deposit rates in domestic currency). These distortive measures, some of which have been scaled back or eliminated over the past two years, have fueled credit growth and resulted in an inefficient resource allocation especially towards SOEs. Prior to the 2015–16 recession, real credit growth averaged 20 percent, and the credit-to-GDP ratio increased from 16 percent at end-2002 to a peak of 66 percent in late-2011, before dropping in the context of a series of currency devaluations and resuming more moderate growth thereafter.

Real Credit Growth
(annual percent change)



Source: The NBRB and IMF staff calculations.

Credit to GDP
(percent)



Source: The NBRB and IMF staff calculations.

20. In 2016, with the economy in a second year of recession, the impact of pent-up distortions started to materialize and real credit growth turned negative in May 2016. Key factors contributing to the negative growth include:

- *Tight lending conditions at banks*, reflecting weakened bank credit quality, lower profitability, and tighter regulatory requirements. Furthermore, a government initiative to remove problem assets from the banking sector resulted in the reduction of the stock of bank lending by BYN2.7bn (around 2.7 percent of GDP).
- *Corporate financial performance deterioration and more impaired balance sheets.* More recently, the lack of responsiveness of corporate credit to lower lending rates is indicative of a lack of investment and a reduced capacity to take on debt.

21. Experiences in the Baltic countries indicate that credit-less economic recovery is not always weak, if the corporate sector adjusts sharply and rapidly to shed excess capacity and reduce leverage and regain competitiveness (Bakker and Korczak, 2017). Given the lack of progress in corporate restructuring and balance sheet repair in Belarus, credit (and the economic recovery) will more likely be anemic. Resorting to further distortive measures to fuel credit growth, for example by increasing directed/subsidized lending, could boost near-term growth, but would increase risks of a further deterioration in banks' asset quality in the future.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

November 29, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The European Department (in consultation with other departments and the World Bank).

CONTENTS

FUND RELATIONS

(As of October 31, 2017)

Membership Status: Joined July 10, 1992; Article VIII

General Resources Account

	SDR million	Percent of Quota
Quota	681.50	100.00
Fund holdings of currency	681.50	100.00
Reserve Tranche Position	0.02	0.00

SDR Department	SDR million	Percent of Allocation
Net cumulative allocation	368.64	100.00
Holdings	371.79	100.85

Outstanding Purchases and Loans None

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	01/12/2009	03/30/2010	2,269.52	2,269.52
Stand-By	09/12/1995	09/11/1996	196.28	50.00

Projected Payments to the Fund[1]

Forthcoming (SDR Million; based on existing use of resources and present holdings of SDRs)

	2017	2018	2019	2020	2021
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

[1] When a member has an overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements

The currency of Belarus is the Belarusian ruble (BYN), which was introduced in 1994. The de jure exchange rate regime is a managed float. The de facto exchange rate arrangement is classified by Fund staff as other managed from a crawl-like arrangement, effective January 9, 2015. The NBRB does not publish data on its interventions. On July 1, 2016, the Belarusian ruble was rebased, dropping four zeros from the bilateral exchange rate with the dollar.

Belarus is an Article VIII member and maintains an exchange system free of exchange restrictions and multiple currency practices.

Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on September 2, 2016. The report was published:
http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Belarus-Staff-Report-for-the-2016-Article-IV-Consultation-Press-Release-Staff-44279

Use of Fund Resources:

On January 12, 2009, the Executive Board approved a 15-month SBA in the amount of SDR 1.6 billion (US$2.5 billion, 418.8 percent of quota) (Country Report No. 09/109). An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (Country Report No. 09/260), bringing the Fund's financial support to SDR 2.3 billion (US$3.5 billion, 587.3 percent of quota). The final review was completed on March 26, 2010. Total disbursements under the program amounted to SDR 2.3 billion (US$3.5 billion).

FSAP Participation, ROSCs, and OFC Assessments:

A joint IMF-WB Stability and Development FSAP mission took place in April 2016.

A World Bank led FSAP Development Module took place in February 2014.
An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30),
http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0.

Two FSAP missions took place in 2004 and an FSSA report was published on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed assessment reports were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on

http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
The Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190, http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0).

The fiscal ROSC was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0 and the data ROSC on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0.

Technical Assistance, 2010–17

Department Counterpart	Subject	Timing
MCM	Monetary Policy Modeling	November 2017
MCM	Monetary Policy Modeling	September 2017
MCM	Monetary Policy Modeling	May–June 2017
MCM	ELA and Reserve Requirement	February–March 2017
MCM	Monetary Policy Modeling	February–March 2017
MCM	Monetary Policy Modeling	November–December 2016
MCM	Asset Quality Review Oversights	July–August 2016
MCM	Central bank capital	November 2015
MCM	Liquidity forecasting and management	April 2015
MCM	Monetary targeting and foreign exchange interventions	March–April 2014
MCM	Monetary policy strategy and implementation	May–June 2013
MCM	Risk Based Supervision	July 2012
MCM	Bank Supervision	February–March 2012
MCM	TA on Development Bank	October–November 2011
MCM	Bank Supervision	October 2011
MCM	Risk Based Supervision	April 2011
MCM	Banking supervision: on-site inspections	September 2010
MCM	Banking Supervision: early warning system, risk management	March–April 2010
MCM	Strengthening central bank autonomy	March 2010
FAD	Streamlining Tax Expenditures and Revenue Mobilization	March 2017
FAD	Developing a Reform Strategy for SOEs	November 2016
FAD	Oversight and Management of SOEs	June 2016
FAD	Options to Streamline Tax Expenditures and Revenue Forecasting	March 2016
FAD	Fiscal Risks and Quasi Fiscal Activities	July 2015
FAD	Social Safety Nets	November 2011
FAD	Program budgeting and medium-term framework	March–April 2011
FAD	Tax administration	September 2010
FAD	Tax policy	April 2010
FAD	Expenditure rationalization	March 2010
STA	Government Finance Statistics	November 2017
STA	Price statistics	March–April 2014

Department Counterpart	Subject	Timing
STA	National accounts statistics	September–October 2013
STA	Government finance statistics	July–August 2013
STA	National accounts statistics	April 2013
STA	Multitopic Statistics Mission	October–November 2010

RELATIONS WITH THE WORLD BANK GROUP

A. The World Bank Group Strategy

1. **The World Bank Group (WBG) Country Partnership Strategy (CPS) for FY 2014–17 was discussed by the WBG Board of Executive Directors in June 2013.** The CPS supported Belarus to improve: (i) competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the state-owned enterprise (SOE) sector, and promoting private and financial sector development and integration into the global economy; (ii) the quality and efficiency of public infrastructure services, use of agricultural and forestry resources, and global benefits of public goods; and (iii) human development outcomes through better education, health, and social services. The WBG program included Advisory Services and Analytics (ASA), investment lending by the World Bank and investments in the private sector by the IFC. The new Country Partnership Framework for FY2018–2021 will be discussed by the WBG Board of Executive Directors in early 2018.

2. **WBG lending is focused on investment lending in sectors with an adequate and improving policy framework, a sufficient knowledge base, a solid implementation track record and demonstrated government commitment.** Lending operations support investments in private sector development, public financial management (PFM) systems, forest management, energy efficiency, district heating, water supply/sanitation, education, health, and transport. Particularly noteworthy was approval of the WBG's first-ever Health Sector Modernization Project to Belarus in late 2016. Since the approval of the CPS, Belarus's portfolio has grown rapidly, from US$457.5 million in June 2013 to US$931 million as of September 2017, in addition to US$8.9 million recipient executed trust funds.

3. **The WBG also supports a program of analytical and advisory activities**. Core diagnostics around critical developmental issues continue, including structural reforms, fiscal, PFM, social assistance, foreign trade, private and financial sector development, and the regional economic situation. These advisory and technical engagements—many of them of a programmatic nature—underpin the policy dialogue in critical reform areas, supporting the government in designing and implementing policies to achieve stated objectives of economic modernization and strengthened competitiveness. Analyses in such areas as municipal services, utility tariff reform, forestry, education and health underpin ongoing and future investment operations.

4. **The IFC supports private sector development and energy efficiency improvements through a combination of investments and advisory work.** The IFC program in Belarus supports: (i) trade

development in critical sectors such as agriculture, with a strategic focus on small and medium-sized exporters and importers; (ii) micro, small, and medium-sized enterprises' (MSMEs) access to finance; (iii) investments into energy efficiency improvements; and (iv) advisory work on regulatory simplification, including in agriculture and forestry. Agriculture remains a priority sector, with support directed at improvements in agricultural output and efficiency, access to finance, the regulatory environment, and food safety standards. The IFC is also helping to increase competitiveness and export potential of Belarusian food producers through implementation of international food safety standards. The IFC's outstanding portfolio in Belarus is US$95.30 million, as of June 2017. The IFC has so far invested about US$270 million in long-term projects in various sectors of Belarus economy and has also provided US$427 million in short-term finance via its Global Trade Finance Program.

5. MIGA has underwritten two projects in Belarus, pertaining to US$143.2 million guarantees (US$118.9 million, currently active, has recently been added to MIGA's portfolio). Going forward, MIGA remains open to support foreign direct investment into Belarus. Two legal agreements with MIGA (on the use of local currency and on the legal protection of guaranteed foreign investments) are now in place.

B. IMF-World Bank Group Collaboration in Specific Areas

6. The IMF and WBG teams will continue to work closely in delivering their assistance. The IMF plays a key role at the macro level and in macro-critical structural reforms, while the World Bank Group focuses on the structural reform agenda, business regulatory environment and investment climate, energy efficiency, infrastructure, human development, and social and environmental issues. Examples of close cooperation and coordination between the World Bank Group and the Fund include the energy sector, the financial sector, the SOE sector, and social safety net reforms.

Areas in Which the World Bank Group Leads

7. Structural reforms and private business development. The World Bank continues to support the design and implementation of structural reforms by providing targeted analytical and advisory support on further liberalization of factor and product markets to support a more efficient allocation of resources in the economy, transformation of SOEs, and enhancing private sector growth, including in the services sector. In addition, the WBG is implementing Technical Assistance (TA) on privatization (which was initiated during the previous CPS and is largely funded through a donor Trust Fund) to provide advice on legal and institutional instruments and implementation capacity to successfully launch an enterprise privatization program that is on par with international best practice. The WBG implements private sector development TA that supports the government in establishing an effective system for the promotion of small and medium-sized enterprises. In addition, the IFC will continue to deliver an active advisory program around challenges facing the private sector and international "best practices" for improving the regulatory environment and investment climate.

8. Social assistance programs. The WBG continues to provide assistance on conducting simulations of targeting accuracy, and fiscal and poverty impact of household utility subsidy programs required to cope with utility tariff increases. In addition, the Bank is planning to provide technical assistance to strengthen the unemployment benefit framework in Belarus.

9. Energy sector. Currently, two energy efficiency projects are being implemented in Belarus with World Bank financial support: (i) Energy Efficiency Project (EEP) (US$215 million); and (ii) Biomass District Heating Project (US$90 million).

10. Road transport. The Road Upgrading and Modernization Project (US$150 million) aimed at developing Belarusian transport infrastructure on a strategic route, the Trans-European Transport Corridor IX connecting the Black Sea with the Baltic countries, was successfully completed in May 2016. A new Transit Corridor Improvement Project (US$250 million) supports improving transport connectivity, border crossing procedures, and safety for domestic and international road users on selected sections of the M6 Corridor.

11. Environment. The Bank supports Belarus's efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. Progress is being made towards achieving improved water, wastewater and solid waste management services under the Water Supply and Sanitation Project (US$150 million) and the Solid Waste Management Project (US$42.5 million).

12. Forestry Development. In 2015, the Bank approved a US$40.71 million loan to Belarus for a Forestry Development Project to enhance sylvicultural management and reforestation and afforestation, increase the use of felling residues, and improve the contribution of forests to the public good.

13. Education. A US$50 million Education Modernization Project, the first Bank operation supporting the human development area, is aimed at improving access to a quality learning environment in 120 general secondary schools and strengthening student assessment and education management information systems in the country.

14. Health. In 2016, the Bank approved a US$125 Health Sector Modernization Project which supports: (i) establishment of e-health and clinical decision-support systems; (ii) improvement of clinical competencies of health care providers in non-communicable disease management; and (iii) support the modernization of neonatal care at the republican center of mother and child.

Areas of Shared Responsibility

15. Macroeconomic development. The two institutions discuss and/or consult with each other in the preparation of the macroeconomic framework, as well as in the preparation of analytical pieces on macro-growth issues. They also consult and coordinate their respective analyses in structural areas, including restructuring of SOEs, energy tariffs and social assistance, improving the business environment, and strengthening the financial sector.

16. Financial sector. The Fund and the Bank jointly support the authorities in addressing key vulnerabilities in the financial sector and designing needed reforms. The IMF and the Bank are collaborating in financial sector monitoring, including on key developments, such as the Development Bank. The World Bank maintains an active dialogue with the authorities on financial consumer protection and financial literacy, deposit insurance, bank resolution, bank accounting standards, creation of collateral registry for movable assets and the overall development of the financial sector, including through a joint FSAP Development Module, completed in May 2014 and updated in 2016. In April 2016, an IMF and World Bank mission conducted an assessment under the full FSAP, focusing on financial sector risks and vulnerabilities, financial sector oversight, and financial safety nets arrangements. Medium-term issues, including governance of state-owned banks, insolvency and creditor rights, and digital innovations, are also being addressed. The IMF provided technical advice for the NBRB's independent diagnostic studies of banks during 2016-17.

17. Public Financial Management. The IMF and the WBG continue to provide TA to improve public financial management systems in Belarus. To assess the current state of PFM performance, the Bank has updated the Public Expenditure and Financial Accountability (PEFA) assessment. The PEFA underpinned the preparation of the Public Financial Management (PFM) Modernization Project, and in March 2016, a US$10 million loan was provided to improve the policy alignment of the budget, consolidate cash balances, improve budget transparency, and lay the foundations for implementation of an Integrated Financial Management Information System (the first in a series of two loans).

Areas in which the IMF Leads

18. The IMF is actively engaged with the authorities in discussing their macroeconomic program and policies, providing policy advice, technical assistance, and related support, including in the areas of tax policy (including risks and transparency), monetary policy and operations, fiscal risks (including related issues on SOE reforms) and transparency, and economic and financial statistics. The IMF is leading the dialogue on monetary and exchange rate policies, and overall fiscal policies.

19. The IMF analysis in these areas serves as an input to the Bank's policy advice. The IMF and Bank teams have regular consultations, and Bank staff take part in IMF Article IV Consultation meetings. This helps to ensure consistency of policy recommendations by the two institutions.

Questions may be referred to Karlis Smits (Senior Economist, World Bank, 202-788-7652), and Kiryl Haiduk (Country Economist, World Bank, 375-17-3591955), and Maryna Sidarenka (Economist, World Bank, +375-17-3591958).

STATISTICAL ISSUES

(As of October 31, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National Accounts: The National Statistical Committee of the Republic of Belarus (BelStat) compiles and disseminates quarterly and annual GDP estimates at current and constant prices. The quality of the estimates is good. BelStat compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. Since 2008, Belstat has been compiling regional GDP estimates. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements. Until April 2016, Belarus participated in the STA project for the Sustainable Compilation of Real Sector Statistics in Eastern Europe, funded by the Government of Japan, and received technical assistance and support from a statistics advisor resident in Moldova. BelStat has made good progress to date in implementing the concepts and methods of the 2008 SNA and in improving the compilation of the national accounts as needed.
Price Statistics: The CPI covers 31 towns and the PPI covers the entire territory of the Republic of Belarus with about 19,000 price quotations for representative goods of different kinds of economic activity. They are published monthly. Belstat also publishes indices for foodstuffs, nonfood goods, and services. For the CPI, the structure of the population's expenditures of the year 2015 is used as weights for the current year. The current PPI weights refer to the year 2014. For the most part, Belstat is producing the CPI and PPI in accordance with international standards and best practices as noted in the CPI and PPI Manuals.

Government Finance Statistics: Government finance statistics are compiled in broad compliance with the Government Finance Statistics Manual 2001 (GFSM 2001). The authorities provide timely information up to the General Government level which includes data on Revenue, Expense, Transactions in assets and liabilities, balance sheet (financial, non-financial assets and liabilities), and Expenditure by functions of government (COFOG). The authorities also send quarterly information on Revenue, Expense and Transactions assets and liabilities to the General Government level. Areas that need improvement include classification of some revenue and, in particular, expenses (for example, subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; balance sheet data, valuation of assets and liabilities (at nominal or market value); and, most importantly, compilation of data for public corporations. A GFS mission took place in November 2017.
Monetary and Financial Statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following the methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). The NBRB reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations, and 5SR for monetary aggregates on a monthly basis with a lag of less than one month, and SRF 4SR for the other financial corporations on a quarterly basis with a lag of two months, for publication of monetary data in the IMF's International Financial Statistics.
Financial Sector Surveillance: Belarus reports the 12 core financial soundness indicators (FSIs) and 12 of the 13 encouraged FSIs for deposit takers, 2 FSIs for other financial corporations, 2 FSIs for households, and 4 FSIs for real estate markets on a quarterly basis with one quarter lag for posting on the IMF's FSI website.
External Sector Statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the BPM6 format dating back to 2000 (data in the BPM5 format for 1996–2011 are also disseminated). The coverage and methodological soundness of the external sector statistics are fully in line with international standards and their timeliness and serviceability meet the SDDS requirements.
SDR Holdings: Currently liabilities for SDR allocations are included only in the external sector statistics under the general government and are accounted neither on the NBB balance sheet nor on the MOF balance sheet. The Fund advice to the authorities is to recognize the liability as the MoF's responsibility and that the MoF puts it as a memo item in the government accounts until the full implementation of GFS2014.

II. Data Standards and Quality	
Belarus subscribed to the Special Data Dissemination System (SDDS) on December 22, 2004 and has been in compliance with SDDS since then.	A data ROSC report was published on February 1, 2005.

Table of Common Indicators Required for Surveillance

(As of October 31, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Data Quality Accuracy and Reliability[10]
Exchange Rates	October 2017	10/30/2017	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	October 2017	10/15/2017	D/W/M	W/M	M		
Reserve/Base Money	October 2017	10/15/2017	D/W/M	W/M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	October 2017	10/15/2017	W/M	M	M		
Central Bank Balance Sheet	October 2017	10/15/2017	D/W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	October 2017	10/15/2017	W/M	M	M		
Interest Rates[2]	October 2017	10/29/2017	D/W/M	D/W/M	D/W/M		
Consumer Price Index	October 2017	10/25/2017	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q2/17	09/05/2017	Q	Q	N/A	LO, LNO, O, O	O, O, O, O, NO
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2 2017	10/31/2017	M	M	M		
External Current Account Balance	Q2 2017	9/20/2017	Q	Q	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Q2 2017	9/20/2017	M	M	M		
GDP/GNP	Q2 2017	10/31/2017	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q2 2017	09/15/2017	Q	Q	Q		
International Investment Position[6]	Q2 2017	09/15/2017	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Including external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] Reflects the assessment provided in the data ROSC published February 1, 2005 and based on the findings of the mission that took place during March 23 to April 7, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and valid.

**Statement by Ms. Erbenova, Executive Director for the Republic of Belarus and Mr. Zaborovskiy, Advisor to the Executive Director
December 13, 2017**

On behalf of the Belarusian authorities, we thank staff for the useful and constructive discussions during the Article IV mission and the report reflecting their findings and recommendations. The authorities broadly agree with the staff's assessment of the Belarusian economic and financial developments although with some differences in views on the pace, timing and scope of structural reforms as well as the fiscal stance of the economy.

Economic developments

The Belarusian economy is recovering from a 2-year recession caused by the multiple negative shocks it faced since the end of 2014, including a sharp drop of external demand and export prices, sanctions against Russia, and geopolitical uncertainty in the region. GDP growth has accelerated to 2 percent in January-October 2017 driven by strong export growth (18.2 percent in January-September 2017 year-on-year) on the back of the ongoing recovery in the main trading partners as well as a modest rebound in consumption and investment.

The authorities' macroeconomic policies have helped restore macroeconomic stability, subdue inflation and replenish the FX-reserves, create some budget space to support economic recovery and reduce accumulated imbalances. The policy mix included fiscal consolidation, a gradual reduction of directed lending, enhanced control of money supply, transition to a more flexible exchange rate regime, and alignment of the wage increase in line with the rise in labor productivity. The authorities expect GDP to grow by 2 percent this year and 3.5 percent next year as economic policy, favorable external conditions and the effects from structural measures contribute to the closing of the output gap. Inflation is expected to decrease to 5.5 percent in 2017 (the lowest since 1991), down from 10.6 percent last year. The current account deficit narrowed to 1.5 percent of GDP in the 3Q of 2017 (from 3.0 percent of GDP in the same period of 2016 and 7.8 percent of GDP on average during 2010-2015) and the FX-reserves amounted to US$ 7.4 bn as of November 1, (an increase of US$ 2.5 bn or 50 percent in 2017) corresponding to 2.6 months of imports. The authorities are aware that ensuring sustained, broad-based medium-term growth requires continued policy efforts.

Fiscal developments

Fiscal policy is targeting a budget surplus based on a medium-term budget framework. The budget surplus of the general government as defined by the authorities amounted to 5.3 percent of GDP and the central government budget surplus to 3.9 percent of GDP in January-October of 2017. The state budget balance as defined by staff shows a deficit of 3.0 percent of GDP, driven mostly by the staff estimates of the impact of construction of the new nuclear power plant (NPP) and off-balance operations projected by staff. The broader measure of fiscal balance which includes off-balance operations and is being used as a quantitative performance criterion in the program for Belarus supported by the Eurasian Fund for Stabilization and Development (EFSD) showed a surplus of 3.8 percent of GDP in January-August 2017 (compared with a surplus of 1.9 percent of GDP in the same period in 2016 and a deficit of 6.2 percent of GDP on average during 2010-2015). Concerning the capital investments related to the NPP, which are financed by an export loan from the Russian Federation, the authorities underline that the loan is transferred to a Special Purpose Vehicle (SPV) which is responsible for servicing it and that staff's projection on the fiscal balance should be consistent with those made for other countries implementing similar capital-intensive projects. The authorities stay committed to the prudent fiscal policy stance and, with the Fund's technical assistance currently underway, aim to strengthen the fiscal risk assessment framework and reconcile different measures of fiscal balance.

To reduce tax expenditures and increase budget revenues, extensive measures have been implemented in 2015-2017 including (i) an increase in the personal income tax rate from 12 percent to 13 percent; (ii) an increase in the corporate profit tax rate for banks and insurance companies from 18 percent to 25 per cent; (iii) an increase in the VAT rate for telecommunication services from 20 percent to 25 percent and removal of VAT benefits for local public transportation services as well as VAT exemptions for sale of gas and electricity services to households; (iv) a rise in excise rates on fuel by 50 percent; and cigarettes by an average 38 percent; (v) a possibility for the local Councils of Deputies to increase the tax rates on real estate and land by 2.5 times for certain categories of taxpayers which has been widely used to increase revenues of regional budgets.

The pension reform, targeting improved fiscal sustainability, has advanced. The retirement age is being incrementally increased over six years starting in January 2017 for men from 60 to 63 and for women from 55 to 58 years, while the minimum contribution term will be increased to 20 years. The reform also encourages employers and employees to engage in additional voluntary saving schemes for a better retirement income.

Public debt is moderate at 40 percent of GDP as of November. The draft budget law for 2018 has been submitted to Parliament in December and sets the central government budget surplus at 0.6 percent of GDP based on a conservative and risk-based approach to the revenue forecasting. The budget surplus in 2018 is expected to be higher than estimated if the external conditions do not deteriorate. To strengthen the public debt management framework the government approved a five-year Debt Management Strategy (DMS) aimed at reducing vulnerabilities, diversifying funding sources and avoiding a significant concentration of payments. According to the fiscal rule set out in the DMS, at least 50 percent of the government obligations due in the respective calendar year should be repaid using non-debt-creating budget revenue. The DMS also puts a 45 percent cap to the public-debt-to-GDP ratio. Unlike staff, the authorities consider this fiscal framework as strong enough to preserve debt sustainability and fully and timely meet payment obligations which is proven by Belarus' credit history.

In cooperation with the World Bank a new Public Financial Management Modernization Project has been launched aiming to improve the policy alignment of the budget, consolidate cash balances, improve budget transparency and lay the foundations for an integrated financial Management Information System. The first phase of the project is expected to be completed by the end of 2018 as a critical part of the ongoing budget reform.

Monetary policy and financial stability

Tight monetary policy combined with a more flexible exchange rate regime helped to restore macroeconomic stability and bring inflation down to the lowest historical level and far below the 9 percent policy target of the National Bank of the Republic of Belarus (NBRB) for 2017. As inflation has steadily declined from 9.5 percent year-on-year in January 2017 to 5.3 percent in October, the NBRB has gradually reduced its policy rate from 18 to 11 percent while preserving the attractiveness of savings in the national currency and managing the inflation expectations. The inflation target for 2018 is set at 6 percent with a tolerance band of plus/minus one percentage point.

To strengthen the operational independence of the NBRB and reduce the political interference to its decision making, the mandate of the National Bank has been amended on April 6, 2017 to include financial and price stability as its main objectives. The medium-term inflation target is set at 5 percent and expected to be reached sustainably in 2020 against the backdrop of further increases in regulated tariffs for housing and communal services to attain full cost-recovery. The NBRB is preparing for the eventual transition to a full-fledged inflation targeting framework supported by the ongoing Fund TA on monetary policy modelling and communication and the EU funded twinning project set to start in January 2018.

The comprehensive road-map for implementation of the 2016 FSAP recommendations has been jointly approved by the NBRB and the government. The Financial Stability Council (FSC) together with the working committee for the development of the financial market crisis resolution mechanism were established in June 2016. TA projects supported by the WB on banks resolution and deposit insurance framework improvements have been launched and drafts of the reform proposals are expected to be approved by the FSC in the first half of 2018.

In 2015-2016 the NBRB revoked licenses from 5 banks which were unable to meet the new supervisory and regulatory requirements implemented by the NBRB following the FSAP. The remaining 24 banks are well capitalized. The reported system-wide capital adequacy ratio stands at 19 percent as of October, and remains comfortably above the regulatory norms of 11.25 percent. The independent Asset Quality Review (AQR) has been completed for the nine largest banks in 2016 and the 15 remaining banks in 2017 and confirmed that they should be able to withstand possible downside risks.

The non-performing loans (defined as loans past due for over 90 days as well some other high-risk loans) ratio peaked at 4 percent in January 2017. Under a more conservative NBRB indicator (defined as loans past due for over 90 days, high-risk loans, prolonged and overdue loans up to 90 days as well as term loans to borrowers with signs of financial instability), NPLs reached 12.8 percent in January, up from 6.8 percent in January 2016, and 4.4 percent in January, 2015. The Asset Management Company (AMC) for loans to the agricultural sector which account for the most significant part of problem assets has been established and the first phase of the asset transfer was recently completed. In addition, the NBRB and the government started to create a market for distressed assets and have requested TA on this issue from the IMF.

The banking system is now in a structural liquidity surplus and banks' deposit funding has experienced healthy growth backed by the increase of fixed term deposits which were introduced in 2015. With the economy recovering, bank lending turned mildly positive in 2017, with loan volume increasing at an average of 3.5 percent.

De-dollarization remains an important policy objective. Dollarization of deposits, though still high, has fallen from 74 percent in November 2015 to 69 percent in November 2017. The reserve requirement for foreign currency deposits was increased to 11 percent from 7.5 percent in February 2017, and further to 15 percent in July 2017. To support the de-dollarization efforts, the NBRB decided to further increase the reserve requirement for foreign currency deposits to 17 percent starting in January 2018. The NBRB tightened the requirements for FX lending by banks to unhedged borrowers and at the same time further lowered the surrender requirement for exporters from 20 to 10 percent of revenue, effective from 1 October 2017. The full elimination of the mandatory sale of foreign exchange from export receipts is expected in 2018.

A gradual privatization of state-owned banks has been launched. The third and the fourth largest state-owned banks (Belinvestbank and Moscow-Minsk bank) are expected to be privatized by January 2020. The Government and NBRB intend to sell no less than 75 percent of shares to a strategic investor.

Structural reforms and labor market

With the economic recovery ongoing, the structural measures to enhance competitiveness, boost the private sector and improve resource allocation are high on the authorities' agenda. The Belarus social and economic development program for 2016-2020 as well as the government's detailed action plan focus on increasing the flexibility of the economy and on raising the efficiency of resource allocation. The key measures under the action plan include improving the business environment, private sector support, promotion of competition, expansion of commercial lending to the economy, restructuring of SOEs, optimization of the energy sector and utilities and other important steps to boost the competitiveness of the Belarusian economy. Recent measures include the improved cost recovery of utilities, the abolition of price controls on socially important goods and services, the phasing out of volume targets for state-owned enterprises (SOEs) and the start of a gradual SOEs reform, the wind-down of directed lending, social safety nets improvement and product markets liberalization.

In 2018, the full cost recovery is expected to be achieved by all tariffs for housing and communal services except heating. During the last two years, household tariffs for electricity and heating were increased by 30 and 69 percent respectively, and basic household tariffs for water supply and water treatment by more than 3.8 times, notwithstanding the significant fall in real wages. These measures helped boosting cost recovery level up to 70 percent by the end of 2017, from less than 30 percent in 2014. While staff recommended to achieve the full cost recovery for all utility tariffs within two years, the government prefers to consider further increases of heating tariffs only along with the comprehensive restructuring of the existing outdated and inefficient system of centralized heating inherited from the former USSR. Thus, all tariffs except for heating are expected to be increased in 2018 to the full cost recovery level, and the further increase of heating tariffs is linked with the cost reduction measures and restructuring of the centralized heating supply system which have been announced by the government. The Belarusian heating and communal sector restructuring is the main priority of all IFIs engagements in Belarus, including with the WB, the EBRD, the EIB and the Eurasian Development Bank to facilitate the investment in its modernization and intensify public-private partnerships.

The government is proceeding with the gradual SOEs reform which includes restructuring and consolidation of SOEs, disposal of non-core SOE businesses/assets, mixed ownership reform through IPOs and attracting private investment, along with a phased reduction in directed lending. While there is broad concordance between the authorities and staff on the direction of the SOEs reform, the authorities envision a different timeline, scope and sequencing of measures. Staff recommends fast and wide-ranging measures including the front-loaded and speedy transfer of state-owned assets to the supervision of the State Property Committee and the adoption of the comprehensive legislative package on the SOEs reform. The government prefers to formulate more granular measures based on a case-by-case approach for different industries that would allow for a build-up of domestic capacity on corporate governance and reduce negative social consequences of SOEs restructuring. To this effect, it has launched several pilot projects in collaboration with the EBRD. The large-scale privatization or closure of SOEs is not considered the appropriate approach at this juncture and the main focus lies on improving SOEs' efficiency, reducing cost and over-employment, attracting private investors to diversify ownership structure and establishing investment and cost discipline, all with the aim of making SOEs stronger and more competitive.

Along with the banking sector, the gradual privatization process of non-financial state-owned companies has been relaunched. Pursuant to the Presidential Oder No. 116rp of 19 July 2017, the initial public offering at the Belarusian stock-exchange was approved for five medium-sized SOEs considered as pilot-projects for the competitive and transparent ownership reform. The memorandum between the State Property Committee and the EBRD was signed to further promote pre-privatization restructuring and improvement of corporate governance. Additionally, ownership of 238 SOEs was transferred from the central government to local authorities to launch the small and medium-scale privatization at the regional level.

Progress in the implementation of structural reforms was reflected in the World Bank's *Doing Business 2018 report*, in which Belarus ranks 38th out of 190 economies. Belarus improved its business climate among others by establishing a one-stop shop for getting connection to electricity grids, reforming its land administration system and facilitating the transfer of property rights. Furthermore, the credit history bureau has been launched and measures to protect minority investors have been implemented by the government, including the introduction of remedies in cases where related-party transactions are harmful to the company and requirements for greater corporate transparency. The average import tariff has been reduced from 8.5 percent in 2015 to 4.7 percent in 2017 and the negotiation process on WTO accession has been relaunched.

On November 23, 2017, the Decree on Entrepreneurship Development was signed by the President as another step to improve the business climate and support private business development. The Decree (i) replaced the authorization regime with a notification for starting up a private business in spheres where about 95 percent of Belarusian small and medium private companies are concentrated; (ii) simplified significantly the general requirements for business operations including those set by the local authorities; (iii) scraped a large number of requirements for certificates, approvals, and permit documents.

Final remarks

The Belarusian authorities are grateful for the fruitful discussions in Minsk and the constructive cooperation with the IMF which contributed to the successful economic rebalancing and anchored the structural policy agenda. The authorities appreciate staff's recommendations which they are studying carefully and are planning to accommodate to the extent possible. They look forward to the continued intensive policy dialog with IMF management and staff.