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Republic of Belarus: 2001 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; 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 2001 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 9, 2001**, 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 December 19, 2001**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- the Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 23, 2002 discussion of the staff report that concluded the Article IV consultation;

- a statement by the Executive Director for the Republic of Belarus;

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

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for the 2001 Consultation
with the Republic of Belarus

Approved by Mohammad Shadman-Valavi and Leslie Lipschitz

December 19, 2001

Discussions for the 2001 Article IV consultation and two reviews under the Staff-Monitored Program (SMP) were held in Minsk during July 25–August 7 and October 30–November 9, 2001. Staff representatives included Marta Castello Branco, Zeljko Bogetic, Jean-Jacques Hallaert, Alfred Schipke, Joerg Zeuner (all EU2), Deborah Siegel (LEG), Marcel Maes (MAE consultant), and Mark Horton, the Fund resident representative for Belarus, stationed in Vilnius. John Odling-Smee joined the team during November 5–6. Willy Kiekens (Executive Director for Belarus) and Johann Prader (Alternate Executive Director) attended some of the meetings.

The missions met with Prime Minister Novitsky, First Deputy Prime Minister Kobiakov, National Bank of Belarus (NBB) Chairman Prokopovich, Finance Minister Korbut, Economy Minister Shimov, Labor and Social Protection Minister Morova, Statistics Minister Zinovsky, former Prime Minister Yermoshin, former Minister of Privatization Nowak, other senior officials, representatives of Parliament and commercial banks, and members of the diplomatic community. President Lukashenka was re-elected on September 9, 2001, securing about 75 percent of the vote. The OSCE monitors reported that the elections failed to meet democratic standards. Western countries and European organizations have not recognized the results.

In concluding the last consultation on October 13, 2000 (SM/00/216), Executive Directors welcomed the improvement in economic policies, including the exchange rate unification in September 2000. They urged the authorities to translate their recognition of the need for fundamental reforms into firm commitments and credible actions. Most Directors considered that discussions on financial support from the Fund should be preceded by a satisfactory track record of policy implementation under an SMP.

A six-month SMP covering the period April 1–September 30, 2001 was approved by Management on April 12, 2001 (EBS/01/58). Subsequently, the authorities' Letter of Intent and Memorandum of Economic and Financial Policies were posted on the web sites of the Fund and the NBB, and released to the press in Belarus. On November 5, 2001, Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 (EBD/01/116). Fund relations and technical assistance are summarized in Appendix I.

The World Bank is preparing a new Country Assistance Strategy for Board consideration in early 2002. In June 2001, the Board approved a $22.6 million loan to improve heating and insulation in public schools, hospitals, orphanages, and homes for the elderly (Appendix II).

Data needed for Fund surveillance have been provided on a timely basis. However, coverage and quality of some basic statistics remain deficient (Appendix III). The staff conducted a Technical Consultation with the authorities. They have identified as priority areas: tax reform, securities market development, monetary operations, banking sector reform, and improvement of national accounts statistics (Appendix IV).

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EXECUTIVE SUMMARY

Economic policies and developments improved markedly in 2001, relative to performance in the 1990s. This progress came on the heels of exchange rate unification in September 2000 and benefited from significant success in implementing a Staff-Monitored Program (SMP) with the Fund, covering the period April 1-September 30, 2001.

Macroeconomic developments in 2000-01 have been mixed. Inflation continued to fall and the external current account posted a surplus at end-June 2001. However, gross official reserves still cover less than one month of imports. Moreover, real output growth is decelerating, reflecting insufficient economic restructuring, an increasingly obsolete capital stock, and an unfavorable business environment. These longstanding problems have been compounded by substantial wage increases during the last two years.

Financial policies have been adversely affected by unsustainable wage policies. After a significant tightening in 2000, fiscal policy was loosened in 2001 to accommodate increases in budgetary sector wages. Economy-wide average wages also grew substantially. Monetary policy was tightened in 2000–01, but was more expansionary than envisaged, especially in 2001, following the spring wage hike.

Some steps were made to initiate structural reforms in 2001, but the outstanding agenda remains large. The authorities made headway in foreign exchange liberalization and started to dismantle the extensive system of price controls. In addition, Decree No. 40 (allowing extra judicial seizure of property) was revoked, a new investment code was adopted, and a strategy for the implementation of a targeted social safety net was approved.

Despite significant progress, SMP implementation fell short of fulfilling the track record deemed necessary to initiate discussions on an SBA. All monetary targets and most structural benchmarks were met. However, the fiscal program deviated markedly from SMP commitments, owing largely to expansionary wage policies. The authorities felt that SMP performance had been stronger than acknowledged by the staff and noted the important role of the SMP in steering policies in the right direction.

The staff stressed the need to address the growing imbalances in the real sector to improve the medium-term outlook. Failure to restructure enterprises and accelerate market reforms could reverse stabilization gains, rekindle high inflation, and damage growth prospects. The authorities confirmed their plans to accelerate structural reforms in 2002.

The staff could not support the authorities' financial program for 2002. The staff urged the authorities to adopt consistent and sound macroeconomic policies for 2002, including wage moderation. Without the proposed revisions in the macroeconomic framework, there is a danger of a further buildup of arrears and inflationary expectations. In addition, the exchange rate could come under pressure, undermining the credibility earned with exchange rate unification and liberalization of the exchange market.

I. BACKGROUND TO THE DISCUSSIONS

A. Overview

1. Economic policies and developments in 2001 continued to improve markedly, particularly when compared with Belarus's track record in the mid- and late-1990s. This progress came on the heels of the exchange rate unification in September 2000[1] and benefited from significant success in implementing a Staff-Monitored Program (SMP) with the Fund. During the past year the authorities made headway in further liberalizing the foreign exchange market, stabilizing the exchange rate, and reducing inflation; they also took steps to liberalize prices and initiate other structural reforms. At the same time, a policy of raising wages to unaffordable levels—in line with the President's pre-election promises—undermined progress achieved in stabilization.

2. While inflation and current account developments have been relatively favorable, the situation in the real sector remains difficult, clouding prospects for 2002 and beyond. This reflects the strained financial situation of enterprises and banks due to insufficient economic restructuring, an increasingly obsolete capital stock, and an unfavorable business environment. These longstanding problems have been compounded by substantial wage increases during the last two years. Against that background, the fiscal situation is becoming increasingly fragile, given the trend toward lower revenue, a higher budgetary wage bill, and a dearth of non-inflationary sources of deficit financing. Pressure on the budget has in turn led the National Bank of Belarus (NBB) to ease monetary policy, against a generally tighter stance since the exchange rate unification. Balance of payments developments have been positive but remain uncertain.

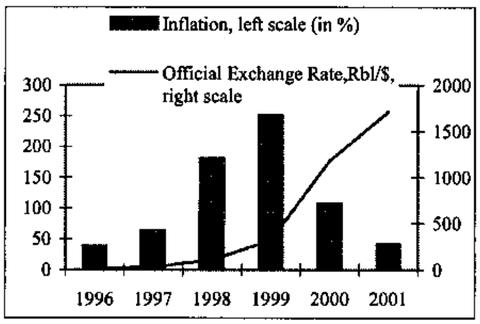
B. Economic Developments in 2000–01

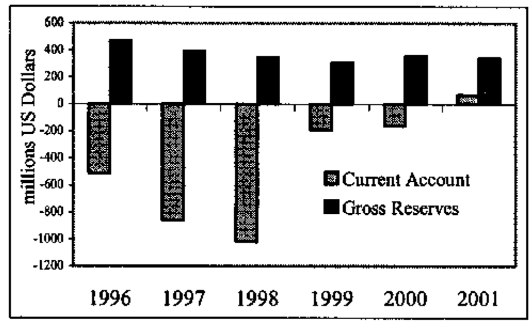
3. Inflation has receded during the past couple of years, but economic growth is decelerating (Figure 1 and Table 1). **Real GDP** grew by 3 percent in January–October 2001, compared to 5 percent during the same period in 2000 (and 6 percent for 2000 as a whole). However, measured output growth in 2001 masks an underlying weakening of economic activity, as suggested by the rising levels of inventories, non-cash transactions and domestic arrears, the low level of profits and investment, and sagging competitiveness. Despite some price liberalization, **inflation** continued the downward trend initiated at the end of 1999. Year-on-year CPI inflation dropped from 108 percent in December 2000 to 47 percent

[1] After several steps to liberalize the foreign exchange market since late-1999, a unified exchange rate for the Belarusian rubel was introduced on September 14, 2000.

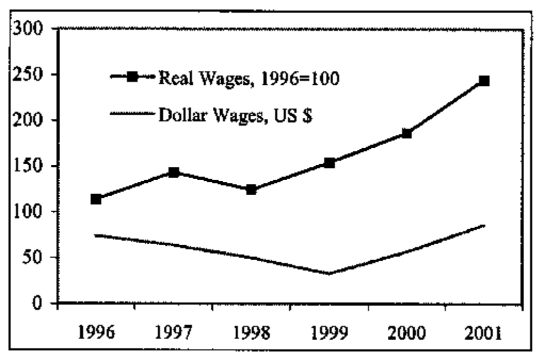
Figure 1. Belarus: Selected Indicators, 1996-2001

Inflation and current account developments have been relatively favorable ...

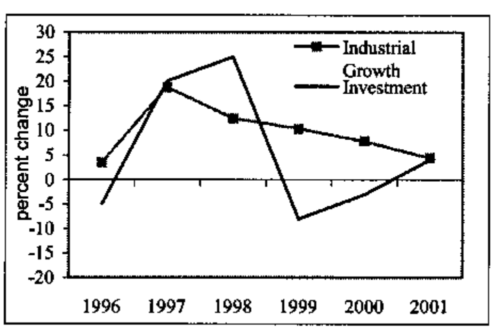


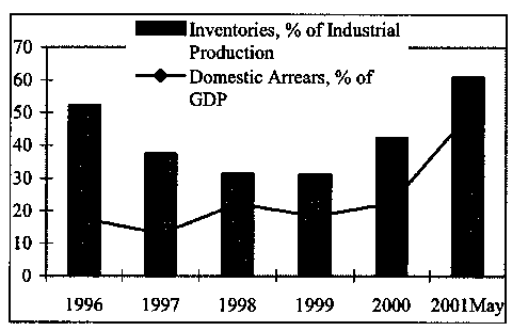


but measured growth is decelerating ...



... and domestic economic activity ... ***... is weakening.***





Source: Belarusian authorities; and Fund staff estimates.

in October 2001.[2] However, monthly inflation picked up recently (from 0.8 percent in August to 3.6 percent in October) owing to further price liberalization, wage increases, monetary easing in the second quarter, and administrative price increases that had been postponed until after the September election.

4. The external **current account** improved markedly. The deficit narrowed to \$162 million (1.3 percent of GDP) in 2000, mainly due to a significant recovery in agricultural exports (on account of good weather) and a pickup in transit services receipts. A surplus of \$240 million (4.5 percent of GDP) was posted during the first half of 2001 because of large exports to Russia and a fall in imports, partly due to lower energy prices. This turnaround in the current account did not reflect improved competitiveness (Box 1). The current account is expected to be close to balance in the third quarter. Gross **official reserves** increased by \$48 million in 2000, reaching \$357 million at end-December. They dropped to \$338 million at end-September 2001 (0.7 months of imports), as the NBB intervened to keep the exchange rate within the targeted band during the summer, when demand for dollars increased on account of higher wage incomes. At the same time, the disbursement of the first tranche (\$54 million) of a stabilization loan from the Central Bank of Russia (CBR) helped ease pressures on the exchange market. During 2000 Belarus remained current on its external energy payments. After declining by \$45 million in 2000, the stock of energy-related arrears picked up in the first half of 2001, albeit on a much smaller scale.

5. Following the exchange rate unification, the NBB effectively shifted to targeting the rubel/dollar **exchange rate**. In addition, at the end of 2000 the authorities announced the adoption of an "adjustable" crawling peg (in fact a *crawling band*) vis-à-vis the Russian ruble, in line with the objective of achieving a monetary union with Russia by 2005. The new system featured a band of 2 percentage points around central parity (recently enlarged to 5 percentage points) and pre-announced monthly devaluations, revised each quarter. So far, this has allowed the targeting of both rates to be compatible. The rubel depreciated against the dollar by 2.5 percent per month on average during January–November 2001, somewhat slower than envisaged, reflecting the unexpected external current account surplus in the first half of the year and NBB intervention. A 5.2 percent depreciation of the real effective exchange rate was observed during January–September 2001. However, it remains overvalued, given the steep real appreciation of the parallel rate prior to exchange rate unification (Figure 2). Since the unification, exchange rate deviations between the daily auction and the over-the-counter interbank market have remained within a 2-percent margin.

[2] This relatively favorable performance reflects the lower-than-expected depreciation of the rubel against the dollar, a tight monetary policy in the first quarter, and a drop in import prices. Higher inventories and increased use of barter in domestic transactions may also have contributed to dampen price increases.

Box 1. External Competitiveness Weakens 1/

The exchange rate unification is likely to have improved the situation of the export sector somewhat, since it eliminated an implicit tax on export transactions. Prior to the exchange rate unification, 30 percent of foreign exchange proceeds from international current transactions had to be surrendered at the overvalued official exchange rate.

Empirical evidence suggests that strong export growth in 2000 and early-2001 may be reversed quickly, mainly depending on Russia's growth performance:

- Trade data show that exports have benefited from Russia's economic recovery only in those industries where the country has a quasi-monopolistic share in the markets of Russia and other CIS countries (for example, vehicles, machinery, textiles, and chemical products).

- Labor cost index-based measures of external competitiveness indicate that the Belarusian exporters have been *losing* ground markedly against their main competitors in recent years.

- Price index-based indicators using the parallel market exchange rate until September 2000 (the date of exchange rate unification) point strongly in the same direction.

By contrast, price index-based indicators using the official exchange rate point to a moderate *improvement* of Belarus's external position. However, this result is likely to be distorted by price and exchange rate data, reflecting significant price controls and the existence of exchange controls until 2000.

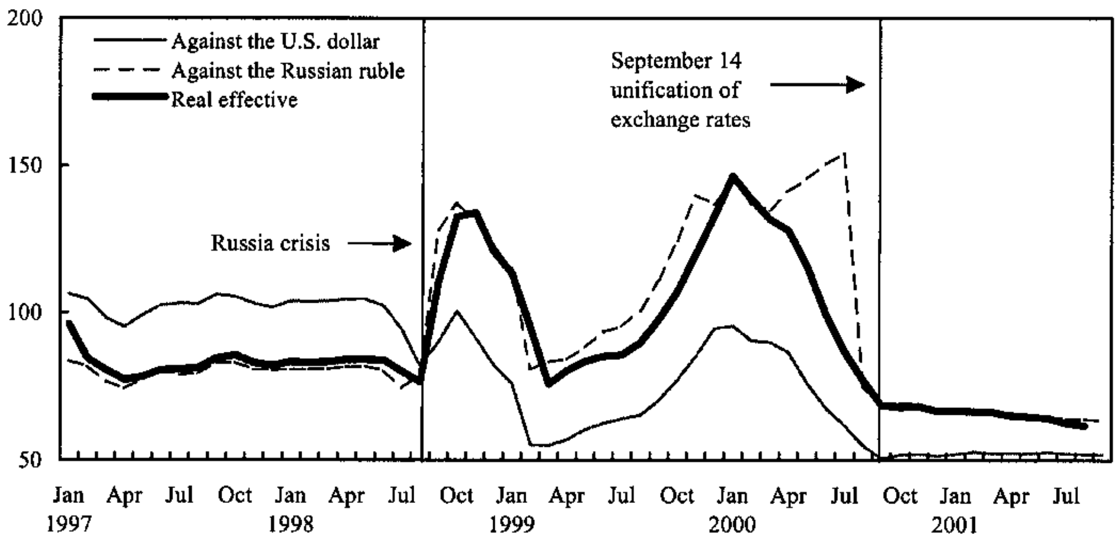
1/ This box summarizes Chapter II of the Selected Issues Paper.

6. **Real wages** rose steadily during 2000–01. Budgetary sector wages were boosted in three steps between March and July 2001, reaching an average of $88 in September, within the overall drive to fulfill the Presidential promise of a $100 average monthly wage in the budgetary sector by the end of the year. Economy-wide average wages also rose sharply, reaching the equivalent of $97 per month at end-September 2001, compared to $76 at end-2000.[3] This policy had a negative impact on the budget as well as on enterprise profitability and investment activity, since in practice enterprises were not allowed to reduce employment. As a consequence, it encouraged enterprises to defer tax payments and triggered a generalized accumulation of domestic payments arrears (Box 2).

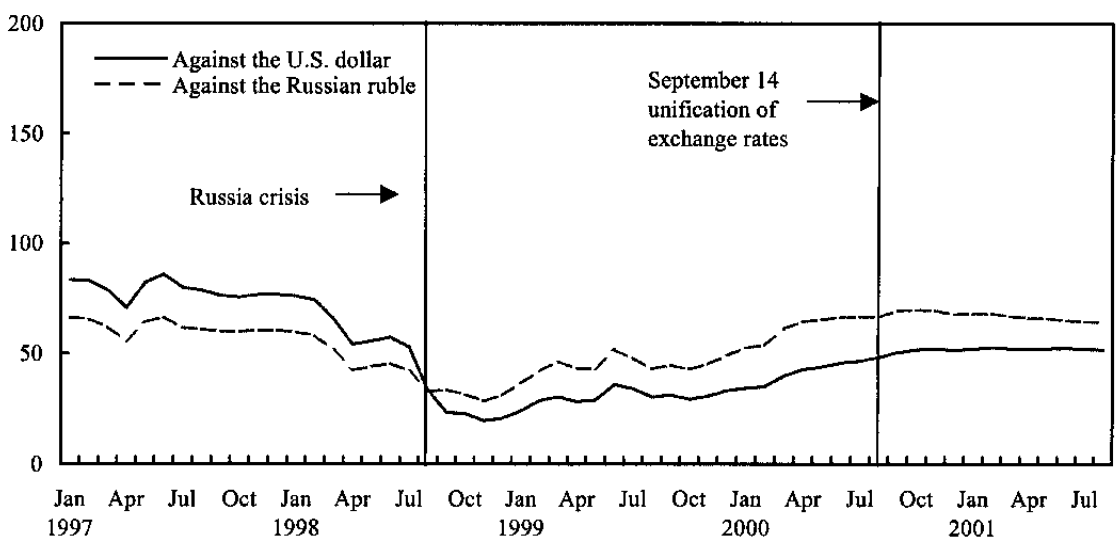
[3] The presidential promise for a $100 economy-wide average wage was achieved in August 2001.

Figure 2. Belarus: Real Exchange Rate Developments, January 1997-September 2001 1/
(Index, 1995=100)

Official Rates



Parallel Rates 2/



Source: National Bank of Belarus; and Fund staff estimates.

1/ An increase indicates an appreciation.
2/ The "parallel market rate" used here is the interbank noncash market rate. Until October 1998, this rate was based on the Moscow interbank market rate.

Box 2. Wage Policy 1/

Since 1997 real wages in Belarus have risen steadily, doubling their 1996 level in 2001, despite a significant slowdown in output growth—real output grew much less rapidly during the same period (by a cumulative 32 percent). Real wage growth accelerated in 2001, following the President's promise to lift the average monthly wage to the rubel equivalent of $100. In the budgetary sector, the wage bill increased from 6 percent of GDP in 2000 to an estimated 9 percent in 2001. At the same time, labor productivity has lagged behind real wage increases.

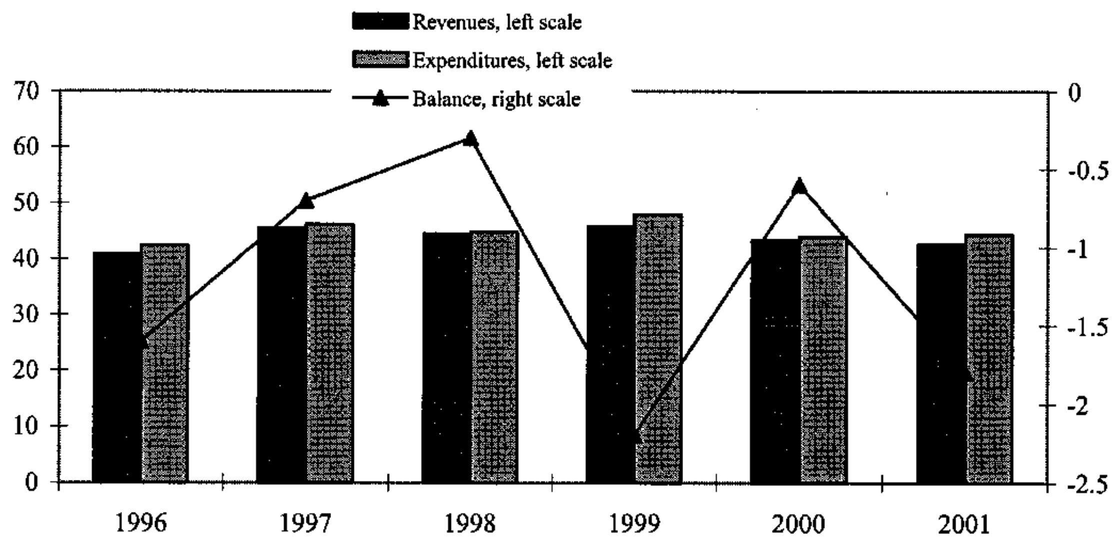
Raising wages to an arbitrary target of $100, in the absence of a corresponding gain in productivity and of enterprise flexibility to lay off workers, has put pressure on the budget, enterprises, foreign exchange market, and inflation.

- This wage policy undermined the ability of enterprises and banks to pay taxes and to contribute to social funds, led to a squeeze of other budgetary expenditures, and resulted in a larger fiscal deficit.
- The higher wage bills cut significantly into enterprise profits, thereby reducing investment.
- The additional wage income put pressure on the exchange market as households' demand for dollars increased. NBB intervention to keep the exchange rate stable led to reserve losses.
- Thus far, households have largely saved their recently acquired foreign exchange. However, spending of these funds in the coming months could erode the recent progress in fighting inflation. If monetary policy were tightened to avoid price increases, this could lead to a further accumulation of arrears.

1/ This box summarizes Chapter III of the Selected Issues Paper.

7. After a significant tightening in 2000, **fiscal developments** in 2001 have been shaped by efforts to cut expenditures to offset increases in budgetary wages. While the consolidated fiscal deficit (cash basis) was limited to 0.6 percent of GDP in 2000, it is projected to increase to around 1.8 percent in 2001 (Figure 3). At the same time, expenditure arrears started to accumulate since the beginning of the year, particularly at the local government level; tax arrears also gathered pace. Revenues have been below expectations, especially with regard to value added and profit taxes, partly due to higher-than-anticipated demand for VAT refunds and falling enterprise profitability. The balance of the Social Protection Fund has deteriorated recently as a result of declining contributions, delayed transfers from the central

Figure 3. Belarus: Consolidated Revenues, Expenditures, and Fiscal Balance, 1996-2001



Source: Belarusian authorities, and Fund staff estimates.

government, and rising expenditure obligations (mostly related to an increase in the pension/wage ratio).[4]

8. The **monetary policy** stance was tightened in 2000–01. Nevertheless, it was more expansionary than envisaged during the second half of 2000 and the second quarter of 2001. The former reflected a buildup of international reserves and an increase in the money multiplier due to a deterioration of compliance with statutory reserve ratios, related to banks' extension of directed credits to agriculture at the instruction of the government. Monetary expansion in the second quarter of 2001 reflected a jump in cash in circulation and household rubel deposits with banks, following the spring wage hike and enterprises' switch to cash settlement.[5] Money growth slowed down again in the third quarter, reflecting NBB net sales of foreign exchange to households, but is expected to pick up toward the end of 2001 to accommodate additional government financing needs. After the exchange rate unification, some remonetization took place, reflecting increased confidence and the maintenance of positive real interest rates on rubel deposits.

9. Some steps were made to initiate **structural reforms**, but the outstanding agenda remains large. In particular, the authorities made major headway in foreign exchange liberalization and started to dismantle the extensive system of price controls. In addition,

[4] The contribution arrears are related to the recent wage increases, which aggravated the financial situation of enterprises.

[5] Enterprise deposits in rubels fell by about 25 percent in real terms during January-September 2001.

Decree No. 40, allowing extra judicial seizure of property from individuals responsible for damage to the State, was revoked in mid-November 2001. A new investment code was adopted in October 2001, providing new safeguards for domestic and foreign investment. A strategy for implementing a targeted social safety net during the period 2001–03 was developed in cooperation with the World Bank to streamline the current system of subsidies and privileges and to improve cost effectiveness. A pilot project is to be implemented during 2002. Despite recent efforts to improve cost-recovery and cut subsidies, the latter remain sizeable (Box 3).

Box 3. Subsidies at a Glance 1/

Belarus operates an extensive and costly system of direct and implicit subsidies that reduces fiscal transparency and misallocates resources. Consumer subsidies tend to be poorly targeted, while producer subsidies favor certain privileged sectors (e.g., agriculture and construction). Cross subsidies represent transfers from enterprises to households via differential tariffs. With the exchange rate unification in September 2000, large subsidies implicit in the multiple exchange rate system were eliminated. However, remaining subsidies are pervasive. Staff estimates of selected subsidies are given below (as percent of GDP, for 2000).

1. Direct budgetary subsidies (about 2 percent).
2. Implicit gas import subsidy (up to 13½ percent).
3. Implicit consumer subsidies (6–7 percent).
   a. price controls.
   b. underpricing of utility tariffs.
   c. noncash subsidies (free provision) to limit households' utilities expenditures.
   d. free communal services for certain groups of the population.
   e. cross subsidies.
4. Implicit producer subsidies (8–9 percent).
   a. tax preferences.
   b. interest rates subsidies.
   c. directed credits via commercial banks.
   d. tax and energy arrears.
   e. non-performing loans.

Cost estimates for different groups of subsidies are not additive. For example, the gas import subsidy is reflected in domestic consumer subsidies on electricity, gas, and heating. The implicit gas import subsidy from Russia also benefits Belarus's energy, electricity, and heating companies, as well as domestic consumers, who pay below-market prices for energy. At the same time, some producer subsidies have cross-subsidizing elements reflected in the corresponding category of consumer subsidies.

1/ This box summarizes Chapter IV of the Selected Issues Paper.

10. The **banking sector** remains fragile. The already weak financial position of commercial banks was aggravated in 2001 by the deteriorating situation of their main corporate clients. While short-term vulnerabilities remain limited in light of continued widespread government ownership and financial support, the current situation is not sustainable (Box 4).

Box 4. Banking Sector Remains Fragile

The Belarusian banking sector is dominated by six core banks—Belarusbank, Agroprombank, Promstroibank, Vnesheconombank, Priorbank, and Belinvestbank. These banks account for about 90 percent of total banking system assets, 90 percent of enterprise lending, and almost 100 percent of lending to households. More than 90 percent of household deposits are held with the core banks. The state directly owns a majority share in three of these banks and a significant minority share in the others. The NBB itself continues to maintain shares in several of them. Banking sector assets amounted to less than 30 percent of GDP at the end of 2000, according to the authorities.

The financial situation of banks continues to deteriorate. Bad loans increased by 48 percent during January–September 2001, reaching about 15 percent of total loans. At the same time, the loan provisioning classification system underestimates the extent of impaired assets. Government guarantees given to banks have often not been honored and some banks face increasing risks of defaults on agriculture-related lending. Additional pressure has come on the heels of recent wage increases, since some enterprises have reportedly borrowed to meet their higher wage bills.

Despite a weakening of the banking sector, short-term vulnerabilities remain limited in light of continued widespread government ownership and financial support. While the banks' capital base increased by 10 percent during the first six months of 2001, partly owing to a Rbl 26 billion capital injection by the NBB, in May 2001 the direct and indirect government ownership of 15 banks was still equivalent to more than 96 percent of authorized capital. Major banks have been repeatedly "recapitalized" and the NBB routinely provides liquidity support to troubled institutions.

Serious long-term vulnerabilities can only be addressed adequately by restructuring the corporate sector and reducing both government majority ownership of bank equity and the authorities' involvement in bank management. A number of recent regulatory and supervisory improvements, while welcome, are not likely to halt or reverse the process of deterioration of the banking sector.

The authorities' recent Banking Development Program for 2001–10 recognizes these problems, but falls short of presenting a comprehensive set of adequate structural reforms in the financial and corporate sectors.

11. Despite some liberalization, Belarus's **trade regime** continues to be rated 8 under the Fund's trade restrictiveness index. This rating results from an unweighted average tariff rate of 12 percent in 2001, combined with: (i) export quotas; (ii) export licensing requirements; (iii) export price controls; and (iv) foreign exchange surrender requirements. Since the last Article IV consultation, the weighted average tariff rate has decreased by one percentage point (to 9½ percent); foreign exchange restrictions on international current transactions have been removed; and the ceiling on the mark-up on imported goods has been withdrawn. The

authorities are considering shortening the list of activities subject to licensing and removing the surrender requirement on Russian ruble transactions. Belarus has almost fully harmonized its tariff structure with Russia and is currently in the process of unifying its tariffs with some other members of the Eurasian Economic Association. A third round of negotiations for WTO accession took place in 2001; the authorities are working on amendments to the requisite legislation.

II. Performance under the SMP (April 1–September 30)

12. The six-month SMP played a positive role in steering economic policies toward macroeconomic stabilization and market reforms in 2001. A considerable tightening of financial policies contributed to a marked decline in inflation and relative exchange rate stability. The liberalization of the foreign exchange market achieved during the SMP period allowed Belarus to accept the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on November 5, 2001. Some progress was made in structural reforms, including price liberalization. However, there were slippages in the fiscal area, largely as a result of aggressive wage policies that attempted to raise wages beyond the levels justified by productivity gains. Despite significant progress on a number of fronts, SMP implementation fell short of establishing the track record necessary to initiate discussions on a Stand-By Arrangement (Tables 2 and 3).

13. All end-June and end-September monetary targets were met. Net lending to the government by commercial banks was in line with the SMP, but NBB lending to the government exceeded program assumptions. A large buildup in banks' deposits with the NBB during the SMP period helped achieve the end-September target on NBB net domestic credit. Rubel broad money growth exceeded somewhat the indicative targets under the SMP, as detailed in paragraph 8. Gross reserves fell by $34 million during the SMP period, as envisaged under the SMP. Repayments to the Fund ($31 million) were made on schedule.

14. The fiscal program was thrown off track by expansionary wage policies. While the end-June fiscal deficit target was met, the targets for tax and expenditure arrears were missed. Despite efforts to contain non-wage expenditures, the consolidated fiscal deficit (cash basis) exceeded the end-September target by 0.4 percent of January–September GDP. Central government expenditure arrears exceeded the target by 0.5 percent of same period GDP, while the target for consolidated tax arrears was missed by a small margin. At the same time, local government expenditure arrears (not formally monitored under the SMP) increased by about 0.8 percent of period GDP during January–September. While utility tariffs were raised sharply during the SMP period, local subsidies for communal services and transportation were not cut as expected.

15. As in 2000, the fiscal deficit was financed mainly by net credits from the NBB, given the government's difficulties in borrowing from other domestic or external sources. In mid-2001, the first tranche ($30 million) of a loan from the Russian government was disbursed. The government also issued modest amounts of short-term dollar-denominated bonds, mainly to Russian investors and local banks.

16. Most structural benchmarks were met, albeit with a delay in a few cases (Table 3). The structural benchmarks related to monetary and credit policies, the banking sector, privatization and the business environment, wage liberalization, and agriculture were met. Except for one temporary exemption, all *ad hoc* exemptions to the surrender requirement were removed in early November 2001. Exchange restrictions on cash bureaus, the interbank market, and the non-resident market were removed.[6] Regarding fiscal policy, the revised 2001 budget was not in line with the fiscal program committed under the SMP.

17. Significant progress was made on price liberalization, although SMP requirements were not fully met. Four structural benchmarks were fully implemented, and two benchmarks related to the liberalization of prices of socially important goods were partially implemented (the list of controlled goods was reduced by 45 percent instead of the minimum 73 percent agreed).[7] The liberalization of at least 15 goods and services under ministerial price control is now expected to be completed by the end of 2001. As a result of the liberalization measures, the number of consumer goods and services subject to price controls was reduced from a weighted 27–30 percent of the CPI basket at the beginning of 2001 to 20–22 percent by end-November.[8] The authorities are planning further price liberalization in 2002.

18. The information provided to the staff showed that, following the gradual lifting of limits on exchange transactions, there were no further restrictions subject to approval under the Fund's jurisdiction, and the authorities have accepted obligations of Article VIII, sections 2, 3, and 4. Segmentation between various exchange markets has been largely eliminated and the NBB has modified its policy for payments and transfers for international current transactions on behalf of the government. While the surrender requirement must be conducted at the Belarus Currency and Stock Exchange, this does not give rise to a multiple currency practice, since it is the NBB's policy, through market participation, to maintain exchange rate deviations between market segments within a 2-percent margin. Consequently, no multiple currency practices remain.

19. The authorities felt that Belarus's performance under the SMP had been stronger than acknowledged by the staff. They noted the important role of the SMP in steering policies in the right direction, but emphasized their efforts to meet SMP targets during an election year. They observed that most structural benchmarks had been met and that the delays in completing a few of them had been due to administrative hurdles associated with the change in government following the presidential election; most of the delayed measures were

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[6] The Moscow Interbank Currency Exchange (MICEX) resumed trading in Belarusian rubels in November 2001. The rubel ceased to be traded in the MICEX following the March 1998 currency crisis.

[7] The authorities claim full implementation of these measures. The staff could not agree because the authorities consider "services" as encompassing 9 items, while the SMP considers "services" as one single item.

[8] These figures are not strictly comparable with SMP commitments (18–20 percent) owing to changes in weights in the CPI basket in June 2001.

implemented in November and the remaining benchmarks on price liberalization are expected to be put in place before end-2001. The authorities also claimed that the fiscal slippages under the SMP were relatively small, and did not warrant an overall negative assessment of program performance. Furthermore, the wage increases, although clearly linked to the presidential elections, were also intended to allow for a sharp reduction of utility cross-subsidies and budgetary subsidies for transportation. While the authorities vowed to pursue the policies recommended by the staff, they lamented that the lack of external financial support would make their task more difficult. The staff acknowledged the authorities' efforts to comply with policy commitments and their relative success in implementing the SMP under the circumstances. The staff added, however, that the policy of targeting an unaffordable level of dollar wages was inconsistent with the SMP, and could in time compromise stabilization efforts and growth prospects in Belarus. Moreover, most understandings under the fiscal program had not been implemented. Therefore, it was not possible to consider the six-month track record as fully satisfactory.

III. Policy Discussions

A. Overview

20. Policy discussions focused on the need to: (i) address without delay the growing imbalances in the real sector to improve the medium-term outlook; and (ii) adopt consistent and sound macroeconomic policies in 2002 to preserve and extend stabilization gains.

21. The mission stressed that failure to restructure enterprises and accelerate market reforms could reverse hard-won stabilization gains, rekindle high inflation, and damage growth prospects. The authorities noted their intention, underpinned by various presidential statements, to step up privatization and the liberalization of the economy. They also pledged to continue their efforts to bring down inflation via tight financial policies. The new government would present an economic program along these lines to Parliament in December 2001. The mission welcomed the authorities' plans to move forward with market reforms, but urged them to take concrete measures without delay to build much-needed credibility.

22. The mission reviewed the authorities' macroeconomic framework for 2002 and noted inconsistencies between targets and policies. Their framework differs significantly from the staff's projections (Tables 4–6) in the following areas: (i) the authorities' projections of GDP growth, FDI, and privatization receipts appear to be overly optimistic; (ii) their planned wage increases are excessive, both from the point of view of productivity growth and availability of budgetary financing; and (iii) the targeted fiscal deficit (1.5 percent of GDP) and, in particular, the projected NBB credit to government, are inconsistent with the inflation target. In addition, the authorities' stated preference for an exchange rate anchor is not backed by appropriately tight fiscal and wage policies.

23. The authorities insisted that their 2002 program was internally consistent, while including sufficiently ambitious growth and wage targets to motivate good performance. They expressed confidence that their plans for accelerating privatization and liberalizing the economy would help attract foreign investment, finance the budget deficit, and achieve a high rate of growth as early as 2002. They also noted that the planned wage increases for 2002 would be modest compared to 2001, and would be implemented together with offsetting cuts in cross-subsidies currently favoring households. They pointed out that NBB credit was essential for the government's housing construction program, but was already projected to drop significantly as a percentage of GDP in 2002, in line with monetary targets. Finally, they added that support for a relatively fixed exchange rate under the proposed crawling band would be provided through a credit line from the CBR, and foreign direct investment.[9] They also counted on a sizeable current account surplus, in contrast to the small deficit projected by the staff, to support their exchange rate target.

24. The mission pressed the authorities to adopt the new methodology for compiling the industrial production index (developed with Fund assistance) and thus avoid the current GDP overestimation in official statistics. While the new indices are being compiled, the authorities could not commit to a specific date for their publication, since further technical work was needed. They explained that their 5-year social development plan (including forecasts for all 118 districts of Belarus) was based on the old methodology, and that calculation of industrial production indices at the district level was still not possible under the new methodology.

B. Fiscal and Monetary Policies

25. The staff considered that the slippages in fiscal performance during the past year unveiled weaknesses in overall economic policy. Despite a continued reduction in the adjusted overall fiscal deficit (including quasi-fiscal operations), the cash deficit has started to rise and arrears have accumulated. This has been accompanied by a sharp increase in the wage bill, a rapid decline in capital expenditures, and shorter maturities of government securities. As a first step to strengthen the public finances, the mission recommended revising the draft 2002 budget before it was passed into law (in late December 2001) to incorporate more realistic macroeconomic assumptions and to improve the composition of public expenditures. In particular, the mission cautioned that basing the budget on overly optimistic growth assumptions (4–5 percent GDP growth, compared to 1.5 percent projected by the staff) would set the stage for revenue shortfalls and expenditure arrears. To reach consistency with monetary targets, the overall fiscal deficit would need to be limited to the level of available financing, which the staff projected at 0.7 percent of GDP—about half of the deficit targeted by the authorities. At the same time, the mission welcomed the authorities' plans to ease the tax burden on enterprises, improve cost recovery on housing and utilities, rationalize the state administration workforce, and include off-budgetary funds in the 2002 budget.

[9] An agreement on a credit line of Rub 1.5 billion was reached on November 30, 2001.

Fiscal transparency should be further improved by bringing any remaining special funds, including financial activities and transactions accruing to the Presidential Administration (usually referred to as the Presidential Fund), into the budget. Given the declining trend in budgetary revenues, the staff advised the authorities to carefully time the targeted cutback of the tax burden.[10]

26. The mission stressed the need for productivity-oriented wage policies. The planned wage increases for 2001–02 were not consistent with the objective of avoiding inflationary financing and curtailing budgetary arrears. In addition, the practice of targeting wages in dollar terms should be abandoned. The staff argued strongly for a more modest wage increase in 2002, so as to bring down the budgetary wage bill relative to GDP. As a first step in this direction, the staff urged the authorities to drop their plans to raise wages in December 2001. Finally, the authorities should explicitly authorize enterprises to set their wages independently of budgetary wage policies.

27. The authorities conceded that wage pressures were the most significant factor affecting fiscal performance in 2001, but remarked that they also had to struggle with some defaults on government-guaranteed loans and with higher-than-anticipated demand for VAT refunds.[11] They recalled that the 2001 was an election year and indicated that the wage increase planned for December would have to be implemented.[12] However, wage hikes in 2002 would be much more modest. The authorities were also more optimistic on revenue prospects for 2002, based on their higher output growth assumption.

28. A tighter monetary policy than envisaged by the NBB would be needed in 2002 to underpin the authorities' inflation target (20–27 percent). The authorities' targets for NBB credit to the government (about 0.7 percent of GDP) and overall money growth (about 40 percent) are not consistent with their inflation objective. The staff projected a more modest increase in NBB credit to government (0.3 percent of GDP), consistent with money growth of 28 percent and an inflation rate of 26 percent. Since most NBB credit to the government is earmarked for housing construction, the staff recommended a significant scaling down of that program, allowing a greater degree of private sector financing of housing construction. The authorities insisted that the provision of affordable housing to the population was an essential element of their development strategy.

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[10] In line with efforts to unify tax regulations in Belarus and Russia, the profit tax rate would be lowered from 30 percent to 24 percent in 2002.

[11] Belarus is under a country-of-origin principle VAT system with Russia. The switch to a system based on the destination principle could bring additional revenues ranging from 1–1.5 percent of GDP (if all imports were included in the tax base) to 0.2–0.3 percent of GDP (if all bilateral energy trade were exempted). The latter case appears more likely.

[12] Indeed, the minimum wage was raised by 33 percent on December 1, 2001.

C. Exchange Rate Policy

29. The authorities expressed a strong preference for exchange rate targeting. They believed that exchange rate unification, the liberalization of the exchange market, and the policy of targeting the exchange rate had considerably enhanced central bank credibility. They argued that, compared to monetary aggregates, an exchange rate target was more transparent and easier to monitor. In addition, monetary targeting was less effective in a country such as Belarus, where there were no clear transmission mechanisms of monetary impulses. In their view, a change to targeting monetary aggregates—which had not worked well in the mid-1990s—could ignite inflationary and devaluation expectations and result in a loss of credibility.

30. While sympathetic to the authorities' arguments, the mission pointed out that the appropriate supporting policies to ensure successful exchange-rate based disinflation were not in place in Belarus. The use of an exchange rate anchor would require a strict fiscal stance, an adequate level of reserves, a substantial acceleration of structural reforms to ensure export competitiveness, and more flexibility in labor policies, all of which were missing. On the contrary, overall economic policies appeared to run counter to a fixed exchange rate approach. The staff was also concerned about the implications of the authorities' combined policies of exchange rate and wage targeting for external competitiveness, which seemed to be deteriorating. Under the circumstances, the staff urged the authorities to adopt a more flexible exchange rate policy. The rate of crawl and the band should be sufficient to avoid an exchange rate overvaluation.

31. The authorities conceded that the current policy could have negative implications for export competitiveness, but expressed hope that acceleration of structural reforms would moderate this effect. Indeed, after using exchange rate unification to successfully push for price and exchange rate stability, the NBB hoped to use exchange rate stability and the integration process with Russia to push for structural reforms. The authorities also noted that their exchange rate policy was relatively flexible, given the allowable band and the quarterly review of monthly targets. The NBB's monetary policy guidelines aimed at avoiding a real appreciation vis-à-vis the Russian ruble, which would entail a small appreciation against the dollar. They added that, with very limited capital account convertibility, there was little risk of speculative capital flows, which would indeed require a more comfortable reserves cushion. At the same time, restricted capital convertibility would restore some of the independence of monetary policy, even in an exchange rate targeting framework.

D. Structural Policies

32. The mission urged the authorities to move decisively on structural reforms. Top priorities would be to complete price liberalization and remove impediments to private sector development. Measures to improve the business environment, enforce hard-budget constraints, increase the transparency of fiscal policy, ensure legislative stability, and generally reduce government interference would, in due course, encourage investment and growth.

33. The authorities confirmed their plans to accelerate structural reforms in 2002. They noted that the lack of investment was a major constraint for economic development in Belarus and were determined to improve the climate for private business. The new government planned to reduce administrative pressures, obstacles and interference, and encourage development of small and medium-sized enterprises. The intention was to complete price liberalization (leaving under control only natural monopolies and a narrow range of socially important goods), raise cost-recovery[13], reduce cross-subsidies in utility pricing, ease registration and licensing requirements, and cut the tax burden on enterprises.

34. The mission was encouraged by the authorities' statements, but urged them to be more concrete and ambitious. The staff recommended deeper and across-the-board subsidy cuts to encourage investment and growth and ensure a level playing field. At the same time, the authorities should speed up the implementation of a targeted social safety net. The mission urged the authorities to make their privatization plans public at the earliest opportunity and to seek advice from the World Bank and EBRD before embarking on large-scale privatization. In light of the experience of other countries, the adoption of transparent procedures and competitive sales would be key to achieving positive results in the privatization process.

IV. Medium-Term Outlook and the Balance of Payments

35. Medium-term economic prospects to a large extent depend on the terms of the planned economic integration with Russia and on Russia's growth performance. They are also sensitive to the government's wage policies and ability to implement structural reform. To illustrate medium-term prospects, the staff prepared two scenarios, based on a slow-adjustment path and an accelerated-adjustment path (Appendix V). Both scenarios assume the same economic conditions in Russia but only the latter ensures the convergence needed for a monetary union in 2005. While implementation of the December 1999 Union Treaty continues to be complicated by differences in economic structure and economic policies in the two countries, the process of integration with Russia may encourage market reforms.[14] While the impact of lower oil prices in 2001 has been taken into account in the projections, the downside risks would be amplified by further drops in oil prices and any increase in the negotiated price of natural gas, imported from Russia. The resulting deterioration in the current account would require tighter fiscal policy and more exchange rate flexibility.

36. Under current policies, medium-term balance of payments prospects are clouded by low competitiveness and external financing constraints. While the accumulation of external payments arrears and large swings in suppliers' credits would help overcome financing difficulties in the short-run, large financing gaps can only be prevented with continued strong

[13] The authorities plans for 2002 include raising cost recovery to 40 percent, from 15 percent in early 2001.

[14] For an analytical review of the planned monetary union with Russia, see Chapter V of the Selected Issues Paper.

Russian demand for Belarusian industrial goods. Belarus's competitiveness in international markets continues to suffer from insufficient enterprise restructuring, high labor costs, and administrative obstacles to exports. The dependence on the Russian market and Russian financing sources implies long-term vulnerabilities, as evidenced by the 1998 crisis.

37. Both debt and debt service levels continue to be moderate by international comparison. However, the outlook is fragile in light of the low level of official reserves and high levels of short-term debt and arrears. Other than the third tranche ($52 million) of a CBR stabilization loan and the third tranche ($42 million) of a loan from the Russian government, little external financing is likely to be forthcoming in 2002, in contrast to the authorities' more optimistic projections. In view of its relatively low debt burden and good repayment record, the staff expects that Belarus will continue to meet its obligations to the Fund in a timely fashion.

V. Staff Appraisal

38. Following the successful unification of exchange rates in September 2000, the Belarusian authorities stepped up their efforts to adopt sound macroeconomic policies and initiate market reforms. Positive results were achieved in price and exchange rate stabilization, and all exchange restrictions on international current transactions were removed. In addition, the authorities started to dismantle the extensive price control system, phase out directed credits, improve the business environment, and put in place a targeted social safety net. Finally, the recent revocation of Decree No. 40, allowing extra judicial seizure of property, is an important signal of the authorities' intention to accelerate structural reforms.

39. Against that background, the government's attempt to put in place a wage-led development strategy is a major setback. The policy of targeting dollar wages higher than can be afforded by productivity gains has already undermined fiscal performance, weakened the fragile enterprise sector, and fostered a—hitherto absent—nonpayments culture. Most importantly, looking ahead, this policy jeopardizes medium-term growth prospects. Therefore, the staff strongly urges the authorities to reconsider the wage policy and to refrain from setting wage targets in foreign currency terms.

40. Nevertheless, significant progress was achieved under the SMP in certain areas. The staff agrees with the authorities that the SMP played an important role in providing a framework for policy implementation, supporting the momentum for reform, and enhancing NBB credibility. During the six-month program, all monetary targets were achieved and the structural benchmarks were largely implemented. However, the decision to raise dollar wages beyond the levels that the economy could afford was inconsistent with the SMP. As a result, the fiscal program departed significantly from SMP commitments and the track record of policy implementation was not as good as it might have been.

41. The staff could not support the authorities' financial program for 2002. Since the authorities' projections of key macroeconomic parameters were not considered realistic by

the staff, negotiations on a possible track-record SMP for the first half of 2002 stalled. Against that background, discussions on a concrete structural reform program could not advance. The staff urges the authorities to reconsider their macroeconomic framework and revise the 2002 budget, monetary policy guidelines and other projections along the lines proposed by the staff. In particular, the wage bill would need to be brought in line with economic and financial realities.

42. Without these revisions, there is a clear danger of a further buildup of arrears, additional pressure on the budget, enterprises, and banks, and increased expectations of monetary easing. In addition, the exchange rate could come under pressure and the credibility earned with exchange rate unification and liberalization of the exchange market could be lost. At the same time, the authorities should use the flexibility allowed under the crawling band arrangement to avoid a further erosion in external competitiveness. Given the economy's high degree of openness, the acceleration of structural reforms would be crucial in that regard.

43. While macroeconomic developments have been relatively favorable, the downside risks remain large in the medium-term. The growing imbalances in the real sector need to be addressed without delay to avoid a reversal of the recent progress in stabilization and liberalization. The structural reform agenda is extensive and challenging. In the immediate future, there is a pressing need to complete price liberalization, level the playing field for businesses, accelerate privatization, and reduce government interference in the economy. Banking reform also needs to be tackled, together with enterprise restructuring. At a general level, the authorities and Parliament have come to recognize that higher investment and growth can only be achieved through market reforms, and there is a growing public debate on these issues. Nevertheless, the authorities' ability to show a credible commitment to a comprehensive and consistent reform program has still to be established.

44. The staff commends the authorities for the liberalization of the exchange market. In view of the removal of all exchange restrictions on international current transactions, the staff welcomes the authorities' acceptance of the obligations of Article VIII, sections 2, 3, and 4 on November 5, 2001.

45. While the compilation of balance of payments statistics and national accounts has been improving steadily, the quality of some basic statistics is still deficient. Fiscal reporting has improved markedly, but there is still a need to expand coverage of fiscal data, especially to include off-budget transactions—such as the Presidential Fund—which mask the overall fiscal picture. Official GDP figures are overestimated by the current method of measuring industrial output; the new method should be adopted as soon as possible. The authorities should address these problems urgently to improve the quality of policy formulation.

46. The Belarusian authorities have made important moves toward market reform. However, substantial effort will be required to sustain the momentum for reform, adopt consistent and sustainable policies, and build consensus around reform programs. Policy and technical advice from the Fund has an important role to play at this juncture. In particular, the

macroeconomic framework and structural reform program proposed by the staff would go a long way toward ensuring policy consistency and placing the economy onto a sustainable growth path.

47. The next Article IV Consultation with Belarus is expected to be held on the standard 12-month cycle.

Table 1. Belarus: Selected Economic Indicators, 1996-2002

	1996	1997	1998	1999	2000	2001 Est Jan-Sept.	2001 Proj Dec SMP	2001 Proj Dec Rev	2002 Auth. Dec.	2002 Proj Dec
	(Percentage change, unless otherwise indicated)									
Output										
Gross domestic product (in millions of U.S. dollars) 1/	14,361	14,006	15,116	12,099	12,728	8,737	11,758	11,772	...	12,125
Real GDP 2/	2.8	11.4	8.4	3.4	5.9	3.0 7/	2.5	3.0	4.0-5.0	1.5
Industrial production	3.5	18.8	12.4	10.3	7.8	4.4 7/	...	...	5-6	...
Prices and wages										
Consumer prices										
Average	53	64	73	294	169	68 7/	65	60	28-32	31
End-of-period	39	63	182	251	108	33 7/	51	42	20-27	26
Wages										
Real average monthly wage (1996=100)	100	114	138	144	163	207	...	...	...	...
Average monthly wage (in U.S. dollars) 3/	74	64	50	33	57	86	...	...	120	...
	(In rubels per U.S. dollar)									
Exchange rates 4/ 8/										
Official										
Average	13	26	46	250	717	1,353 7/	...	1,386	...	1,850
End-of-period	16	31	107	320	1,180	1,510 7/	...	1,620	1860-1920	2,000
Parallel 5/										
Average	17	35	135	583	1,028	1,353 7/	...	1,386	...	...
End-of-period	26	41	425	905	1,180	1,510 7/	...	1,620	...	...
	(In percent of GDP)									
General government finance 6/										
Revenue	40.8	45.5	44.5	45.7	43.3	46.7	43.9	42.6	45.7	41.3
Expenditure	42.4	46.2	44.8	47.9	43.9	47.8	45.3	44.4	47.2	42.0
Balance	-1.6	-0.7	-0.3	-2.2	-0.6	-1.1	-1.4	-1.8	-1.5	-0.7
	(Percentage change, unless otherwise indicated)									
Money and credit										
Annual average velocity (rubel broad money)	11	12	11	18	20	20	19	19	...	18
NBB net credit to general government	65	66	289	186	88	105	90	160 9/	19	-1
Reserve money	78	108	163	178	123	93	46	83	34	25
Rubel broad money	67	103	130	195	124	55	51	71	39	28
Refinance rate (percent per annum, end-of-period)	35	42	48	110	90	48	...	...	...	...
	(In millions of U.S. dollars, unless otherwise indicated)									
Balance of payments and external debt										
Exports of goods	5,790	7,383	7,138	5,646	6,987	3,639 8/	7,335	7,314	7,790	7,525
Imports of goods	6,939	8,718	8,488	6,216	7,825	3,755 8/	7,981	7,694	8,190	8,197
Current account balance	-516	-788	-866	-194	-162	240 8/	57	193	185	-53
As percent of GDP	-3.7	-5.8	-6.1	-1.6	-1.3	4.6 8/	0.5	1.6	1.4	-0.4
Net international reserves	51	89	24	54	137	226	154	154	234	202
Gross official reserves	369	394	345	309	357	338	343	343	453	361
In months of imports	0.6	0.5	0.5	0.6	0.5	0.7	0.5	0.5	0.7	0.5
Medium- and long-term debt (as percent of GDP)	6.9	7.4	7.2	7.6	7.1	7.3 8/	8.8	7.9	...	7.6
Short-term debt (as percent of GDP)	7.2	8.6	10.3	12.9	11.0	12.7 8/	13.8	11.2	...	10.6
	(In percent of GDP)									
Savings and investment										
Gross domestic savings	20.1	22.2	20.0	20.8	23.5	...	...	...	...	...
Gross domestic investment	23.5	26.8	26.7	22.9	22.7	...	...	...	...	...

Sources: Belarusian authorities; and Fund staff estimates.

1/ Valued at the official exchange rate.

2/ The Belarusian national accounts overstate real growth by about 1-2 percent. A new industrial production index, which would correct the estimates is calculated but not published.

3/ Valued at the parallel exchange rate and on a period-average basis.

4/ Exchange rates reflect the authorities' decision to drop three zeros from the rubel denomination, effective January 1, 2000.

5/ The parallel rate is the offshore rate in Moscow until 1997 and the domestic noncash interbank rate outside the Belarus Currency and Stock Exchange from 1998 until the unification of exchange rates in September 2000.

6/ Consolidated budget; includes an adjustment for the discrepancy between actual monetary and fiscal data during 1996-99.

7/ January-October

8/ January-June.

9/ Including Rbl 26 billion for the recapitalization of Belarusbank.

Table 2. Belarus: Quantitative Targets for the Staff-Monitored Program, April 1-September 30, 2001 1/

(In millions of rubels, unless otherwise indicated; end-period data)

	2000	2001							
	Actual	Actual			Revised Program Targets				Rev. Proj.
	Dec	Mar	Jun	Sep	Mar 2/	Jun	Sep	Dec 2/	Dec
1. Ceiling on the stock of net domestic credit of the National Bank of Belarus 3/	330,793	332,372	369,686	381,576	379,937	412,759	421,827	429,546	467,068
2. Ceiling on the general government balance (−/-) 4/	-55,362	-32,847	-66,619	-128,968	-8,847	-72,101	-82,072	-218,012	-300,623
2a. Sub-ceiling on the increase in net bank credit to general government 3/ 4/ 5/ 6/	39,866	-12,386	-14,399	27,685	0	10,000	30,000	60,000	65,000
3. Floor on net international reserves of the National Bank of Belarus (in millions of U.S. dollars)	137	160	209	168	124	131	147	154	154
4. Ceiling on the outstanding stock of tax arrears to the government	43,000	73,000	101,981	102,334	63,764	87,363	100,000	98,800	98,800
5. Ceiling on the outstanding stock of expenditure arrears of the government	47,800	47,000	77,000	105,442	52,000	47,000	47,000	56,000	90,700
Memorandum item:									
Rubel broad money, within period average monthly change (in percent)	7.0	4.0	6.2	5.0	4.8	4.6	4.4	3.5	4.3

1/ For definitions of the variables that constitute quantitative targets, see Annex II of the Memorandum of Economic and Financial Policies (MEFP) attached to EBS/01/58 (April 23, 2001). The end-December 2000 data and the program ceilings on the stock of net domestic credit of the National Bank of Belarus, the increase in net bank credit to general government, as well as the floor on net international reserves of the National Bank of Belarus are revised compared to the MEFP to reflect adoption of a new chart of accounts for the commercial banks.

2/ Indicative.

3/ For the purpose of this calculation, any foreign components are valued at the program exchange rate of Rubel 1,180 per $1.

4/ Cumulative from January 1, 2001.

5/ Excluding government lending funds.

6/ Actual data include securities issued for honoring called state guarantees.

Table 3. Belarus: Structural Benchmarks under the SMP, March-September 2001.

Measure	Timing	Status
Price liberalization		
• Reduce the list of monopolies by 5 entities (20 percent).	April 30, 2001	Completed
• Remove the ceiling on the mark-up on imported goods and services.	April 30, 2001	Completed
• Withdraw at least 5 items from the list of socially important goods and services, the prices of which are regulated by local governments (33 percent).	June 30, 2001	Partially Completed
• Reduce the list of remaining monopolies by 5 entities (33 percent).	August 31, 2001	Completed
• Liberalize prices of at least 6 groups of socially important goods and services, which are under the control of the Ministry of Economy (60 percent).	August 31, 2001	Partially Completed
• Reduce the list of goods and services under ministerial price control by at least 15 items (20 percent).	September 30, 2001	Delayed
• Liberalize export prices for those goods and services for which domestic controls have been lifted.	September 30, 2001	Completed
• Agree with IMF staff on a schedule to eliminate the remaining price restrictions.	September 30, 2001	Delayed 1/
Monetary and credit policies		
• Maintain the effective reserve to deposit ratio at a minimum of 10.8 percent for domestic currency deposits and at 8.5 percent for foreign currency deposits.	Continuous	On track
• Refrain from granting any additional exemptions to the reserve requirements.	Continuous	On track
Exchange rate policy		
• Remove restrictions on purchases of foreign exchange by households in excess of $300 per day per exchange office.	March 31, 2001	Completed
• Remove restrictions on: (a) over-the-counter transactions in foreign exchange between authorized banks and corporations and unincorporated businesses; and (b) foreign exchange transactions between resident banks and non-resident banks and corporations.	June 30, 2001	Completed
• Eliminate all exemptions to the surrender requirement, except for those specified in Presidential Decree No. 311.	June 30, 2001	Completed in early November
• Grant no new exemptions to the foreign exchange surrender requirement.	Continuous	Off track 2/

1/ A schedule was presented to Fund staff at end-September but has not been agreed.
2/ Granted exemptions expired at the end of the program period (end-September 2001).

Fiscal policy and social safety net		
• Revise the 2001 budget to include explicitly all required support to the agricultural sector, and the agreed fiscal measures along the lines of Table 7 of EBS/01/58 (April 23, 2001).	May 15, 2001	Off track
• Design, in close cooperation with the World Bank, a pilot program for a unified system of social assistance.	September 30, 2001	Completed
• Provide monthly budget data according to economic and functional classification for the Republican budget and quarterly data for the local governments.	Continuous	On track
Banking sector		
• Transfer NBB equity holdings in Belarusbank and Belagroprombank to the Government.	March 31, 2001	Completed
• Establish a schedule for the reduction of NBB shares in other banks by end-2001.	June 30, 2001	Completed
• Establish a schedule for reducing current limits on connected lending from 83 percent to 25 percent of capital for all related parties by end-2002.	June 30, 2001	Completed
• Establish a schedule to adopt International Accounting Standards (IAS) for auditing the six major banks. Apply the accounting standard No. 29 for Accounting under Hyper-Inflation from May 2001.	June 30, 2001	Completed
Privatization and business environment		
• Submit to the Administration of the President of the Republic of Belarus a draft decree of the President of the Republic of Belarus on revocation of Decree of the President of the Republic of Belarus No. 40 dated November 23, 1999 "On some measures on reimbursement of damages caused to the state."	April 30, 2001	Completed 3/
• Recommend to parliament to accelerate the adoption of the draft law on licensing.	June 30, 2001	Completed
• Submit to the Parliament the draft law "On divestment and privatization of state-owned property in the Republic of Belarus" which would stipulate widening of the range of means of privatization and rights of the Ministry of State Property and Privatization, as well as the legislative norms that will allow to suspend the Presidential Decree No. 591 on 'the golden share rule."	June 30, 2001	Completed
• Adopt a normative act on completion of divestiture and privatization of small scale enterprises (retail trade, public catering, and household services) in the six oblast centers by end-2001, and in the rest of the Republic of Belarus by end-2002.	June 30, 2001	Completed

3/ With a delay. The decree was revoked on November 13, 2001.

Wage liberalization		
• Analyze the efficiency of Presidential Decree No. 92 and submit to the government proposals on liberalizing the wage policy for state-owned economic entities.	March 31, 2001	Completed
• Submit to the government proposals for increasing the flexibility of the wage system in the budget sphere.	June 30, 2001	Completed
• Submit to the government proposals on the transition to forward-looking indexation of income of the population.	June 30, 2001	Completed
Agriculture		
• Prepare an agricultural reform program and start implementing it in 2001.	March 31, 2001	Completed
• Draft proposals on the reduction of the assortment and volumes of purchases of agricultural products on state order with their further incorporation in the draft projections for social and economic development of the Republic of Belarus for 2002.	June 30, 2001	Completed

Source: Table 6 of EBS/01/58 (April 23, 2001).

Table 4. Belarus: Monetary Accounts, 2000-02
(In millions of Belarussian rubels, unless otherwise indicated; end-of-period)

	2000	2001			2001					2002			
	Actual	Actual			SMP 1/				Rev. Proj.	Staff Proj.			
	December	March	June	September	March	June	September	December	December	March	June	September	December
Accounting exchange rate (Rbl/US$)	1,180	1,293	1,380	1,477	1,297	1,469	1,652	1,750	1,620	1,772	1,867	1,930	2,000
National Bank of Belarus													
Net foreign assets	177,581	236,610	342,600	365,975	180,304	213,309	266,357	294,271	277,442	320,521	345,348	383,008	418,039
in mln. $	150	183	248	248	139	145	161	168	171	181	185	198	209
Net foreign assets (convertible)	175,270	235,567	299,205	258,327	177,992	210,998	264,046	291,959	270,271	313,350	338,177	375,837	410,868
in mln. $	149	182	217	175	137	144	160	167	167	177	181	195	205
Foreign assets	420,993	480,650	570,984	498,959	427,327	493,398	555,194	600,379	555,779	598,680	649,447	676,731	721,275
Foreign liabilities	-245,723	-245,083	-271,779	-240,632	-249,335	-282,400	-291,148	-308,419	-285,508	-285,330	-311,269	-300,894	-310,407
Net foreign assets (nonconvertible)	2,311	1,042	43,395	107,648	2,311	2,311	2,311	2,311	7,171	7,171	7,171	7,171	7,171
Net domestic assets	237,060	230,889	314,462	435,285	281,251	320,606	326,190	309,396	482,648	493,592	515,231	514,438	529,842
Net domestic credit	375,687	399,880	490,670	578,396	444,292	507,516	539,138	557,065	667,211	689,229	722,606	734,255	762,849
Net credit to government	261,058	303,327	364,726	403,764	309,211	355,196	375,738	388,093	491,685	487,642	504,274	483,861	507,122
in national currency to central gvt	135,947	210,912	259,941	278,894	192,447	222,947	253,447	258,547	353,947	363,947	373,947	393,947	413,947
Claims on banks	107,082	88,773	117,880	166,489	127,533	144,773	155,852	161,424	167,849	193,929	211,205	243,487	249,039
Other items, net	-138,627	-168,991	-176,208	-143,111	-163,041	-186,910	-212,948	-247,669	-184,563	-195,637	-207,375	-219,817	-233,006
Reserve money	414,641	467,498	657,062	801,260	461,554	533,915	592,547	603,666	760,091	814,113	860,580	897,446	947,881
Currency outside banking system	238,796	246,660	364,294	406,839	248,547	291,214	298,980	308,078	435,316	457,111	477,032	492,298	523,638
Required reserves	120,610	159,639	187,988	208,093	149,599	169,789	210,258	204,048	228,218	250,309	271,452	289,585	304,685
Correspondent accounts and vault cash	22,876	21,343	29,532	34,439	24,118	25,426	26,806	28,710	39,466	44,399	46,664	48,063	49,746
Time deposits, NBB securities, and deposits of nonbanks	32,359	39,856	75,248	151,888	39,290	47,486	56,503	62,830	57,091	62,294	65,432	67,499	69,812
Excess reserves, excl. correspondent accounts and vault cash	22,018	33,988	71,168	148,385	27,842	34,754	42,358	47,258	53,364	58,542	61,665	63,721	66,024
Deposits of other sectors (excluding central government)	10,341	5,869	4,080	3,504	11,448	12,732	14,145	15,572	3,727	3,752	3,767	3,777	3,788
Banking System													
Net foreign assets	431,968	481,806	574,421	485,045	455,859	519,986	606,144	651,789	593,876	674,405	718,589	769,085	842,399
Net foreign assets (convertible)	388,771	463,561	561,223	483,783	412,663	476,789	562,947	608,593	563,383	641,051	683,447	732,758	804,754
Net foreign assets (nonconvertible)	43,196	18,245	13,197	1,261	43,196	43,196	43,196	43,196	30,493	33,354	35,142	36,328	37,645
Net domestic assets	1,154,556	1,265,063	1,489,818	1,753,443	1,345,553	1,554,899	1,756,979	1,860,890	1,955,574	2,105,272	2,246,984	2,359,544	2,462,671
Net domestic credit	1,733,558	1,947,924	2,218,542	2,522,910	2,105,588	2,412,983	2,717,238	2,923,017	2,893,667	3,131,384	3,328,107	3,477,150	3,620,812
Net credit to general government	223,403	207,552	226,412	272,201	280,020	348,449	402,231	451,676	464,757	461,944	474,375	445,892	458,708
Net credit to government (including local gov. deposits)	181,201	162,907	177,001	223,029	237,819	306,247	360,030	409,474	418,391	415,577	428,008	399,526	412,341
Claims on economy	1,510,155	1,740,372	1,992,130	2,250,710	1,825,567	2,064,534	2,315,006	2,471,341	2,428,910	2,669,440	2,853,733	3,031,258	3,162,104
Other items, net	-579,002	-682,861	-728,724	-769,467	-760,035	-858,084	-960,259	-1,062,127	-938,094	-1,026,112	-1,081,124	-1,117,605	-1,158,140
Broad money	1,586,524	1,746,869	2,064,238	2,238,488	1,801,412	2,074,885	2,363,122	2,512,679	2,549,449	2,779,677	2,965,573	3,128,630	3,305,071
Rubel broad money	637,960	718,204	917,354	992,512	733,654	836,366	936,730	965,234	1,090,912	1,160,359	1,234,226	1,312,796	1,396,367
Currency outside banks	238,796	246,660	364,294	406,839	248,547	291,214	298,980	308,078	435,316	457,111	477,032	492,298	523,638
Domestic currency deposits	399,164	471,543	553,059	585,673	485,107	545,152	637,750	657,156	655,596	703,248	757,194	820,497	872,730
Foreign currency deposits	948,564	1,028,666	1,146,885	1,245,976	1,067,758	1,238,519	1,426,393	1,547,445	1,458,537	1,619,319	1,731,347	1,815,834	1,908,703
Memorandum items:													
Annual rubel broad money growth (in percent)	124	...	...	...	...	...	...	51	71	...	...	...	28
Annual rubel broad money velocity	20.0	...	...	...	...	...	...	19.3	18.9	...	...	...	18.0
Rubel NBB NDC (in millions of rubels)	188,503	240,241	299,540	355,457	259,300	297,991	329,944	335,461	431,295	461,687	474,091	517,533	541,666
Rubel reserve money (in millions of rubels)	317,733	358,099	509,419	538,845	347,511	398,575	433,717	423,695	584,368	619,869	653,779	681,451	721,757
Broad money multiplier	4.2	4.1	3.5	3.4	4.3	4.3	4.4	4.6	3.6	3.7	3.7	3.8	3.8
CBR stabilization loan (in millions of U.S. dollars)	....	0.0	0.0	0.0	54.0	0.0	0.0	0.0	53.0	53.0	0.0	0.0	0.0
NBB NDC net of excess reserves, at Rbl 1180 per US$	330,793	332,372	369,686	380,576	379,937	412,759	421,827	429,546	523,306	...	...	...	...
Net DMB lending to government, at Rbl 1180 per US$ 2/ 3/	39,866	27,480	25,467	67,551	39,866	49,866	69,866	99,866	74,866	84,866	94,866	114,866	134,866
NBB gross official reserves (in millions of U.S. dollars)	357	372	414	338	329	336	336	343	343	338	348	351	361
NBB net international reserves (in millions of U.S. dollars)	137	157	209	168	124	131	147	154	154	164	174	192	202
Reserve money (within-period monthly average change, in percent)	7.7	3.8	7.3	6.1	3.4	4.1	3.8	2.9	5.2	...	...	...	1.9
Rubel broad money (within-period monthly average change, in percent)	7.0	4.0	6.2	5.0	4.8	4.6	4.4	3.5	4.6	2.1	2.1	2.1	2.1

Sources: National Bank of Belarus; and Fund staff estimates.

1/ Revised due to changes in the chart of accounts of commercial banks as of January 1, 2001.
2/ Excluding government lending funds.
3/ Actual data includes securities issued for honoring called state guarantees.

Table 5. Belarus: Summary of General Government Operations, 1999-2002

(In percent of GDP; unless otherwise indicated)

	1999	2000	2001				2001 SMP projection				2002				
	actual	revised	Rev. budget	Jan-Jun	Jan-Sep	-Oc	Jan-Jun	Jan-Sep	Jan-Dec	Rev. Dec	Draft budget	Jan-March	Jan-June	Jan-Sep	Jan-Dec
1. State budget															
Total revenue, including budgetary funds	36.5	34.9	36.0	35.8	34.2		31.8	30.3	34.6	32.7	33.9	33.2	32.8	31.4	31.9
Revenue and transfers, excl. budgetary funds	30.4	28.4	29.8	29.2	27.8		26.5	25.3	28.9	27.4	27.5	28.5	27.7	26.5	26.7
Current revenue	29.9	27.9	29.0	28.7	27.4		26.0	24.8	28.3	27.1	26.9	28.4	27.2	26.1	26.4
Current tax revenue	27.9	26.7	27.8	27.4	26.1		25.2	24.0	27.1	26.1	25.4	27.5	26.2	25.0	25.4
Current nontax revenues	2.1	1.2	1.3	1.3	1.3		0.9	0.8	1.2	1.0	1.5	0.9	1.0	1.0	1.0
Capital revenue	0.3	0.4	0.7	0.5	0.4		0.5	0.5	0.6	0.3	0.7	0.1	0.5	0.4	0.3
Revenue of republican budgetary funds	3.1	6.5	6.2	6.5	6.4		5.3	5.1	5.7	5.3	6.3	4.7	5.1	4.9	5.2
Total expenditure, incl. budgetary funds and net lending by function, of which:	39.7	35.5	37.6	36.5	35.2		36.7	33.0	38.0	34.6	35.4	33.8	33.1	31.8	32.5
Defense	1.0	1.0	1.0	1.0	1.1		1.2	1.0	0.9	1.0	1.1	0.8	0.8	0.9	0.9
Housing	2.8	2.7	2.8	2.7	2.7		2.8	2.7	2.7	2.7	2.6	2.4	2.4	2.3	2.4
Education	6.4	6.2	5.7	7.1	6.4		7.3	5.8	5.7	6.0	6.7	5.6	5.5	5.3	5.4
Health	5.2	5.0	5.3	5.2	5.1		5.5	4.7	5.0	4.8	5.4	4.2	4.2	4.2	4.3
Expenditure of budgetary funds	5.6	6.1	6.3	5.9	5.7		3.4	4.6	5.7	5.8	6.2	5.2	5.1	5.0	5.2
Total expenditure, incl. budgetary funds and net lending economic classification, of which:	39.5	35.5	37.6	36.5	35.2		36.7	33.0	38.0	34.6	35.4	33.8	33.1	31.8	32.5
Wages and salaries	7.6	7.6	10.0	10.6	10.2		...	...	9.8	11.6	11.5	7.0	9.2	9.8	10.6
Goods and services	10.3	9.6	8.7	8.6	...		...	...	8.7	7.8	8.3	8.0	6.8	6.5	6.7
Interest	0.7	0.8	0.7	0.6	...		...	...	0.8	0.7	0.7	0.7	0.8	0.8	0.8
Subsidies and transfers	9.6	8.5	10.2	8.7	8.6		...	...	7.8	7.0	8.7	7.3	6.3	6.0	5.2
Capital expenditures	11.2	8.3	7.5	6.7	...		...	...	7.6	6.8	5.7	5.7	7.1	6.8	7.0
Net lending	0.1	0.6	0.6	1.2	...		...	...	0.5	0.5	0.6	0.9	0.7	0.6	0.5
2. Social protection fund															
Revenue	11.3	8.5	9.8	11.7	12.5		14.0	11.1	10.0	11.3	13.5	11.0	10.7	10.7	10.9
Expenditure	10.3	8.4	9.6	11.9	12.2		13.7	10.9	9.8	11.2	13.5	10.8	11.0	10.9	11.1
3. Consolidated budget 1/															
Revenue	45.7	43.3	42.8	47.4	46.7		43.1	39.3	42.7	42.6	45.7	42.4	41.8	40.6	41.3
Expenditure 2/	47.9	43.9	47.2	48.4	47.7		46.9	42.4	45.9	44.4	47.2	42.9	42.3	41.2	42.0
Underlying balance	-2.2	-0.6	-1.4	-0.9	-1.1		-3.7	-3.0	-3.1	-1.8	-1.5	-0.5	-0.6	-0.6	-0.7
new fiscal measures	...	0.0	0.0	...	...		2.4	2.2	1.7	...	...	1.3	1.1	0.8	0.8
Balance	-2.2	-0.6	-1.4	-0.9	-1.1		-1.3	-0.8	-1.4	-1.8	-1.5	-0.5	-0.6	-0.7	-0.7
Financing	2.2	0.6	1.4	0.9	1.1		1.3	0.8	1.4	1.8	1.5	0.5	0.6	0.7	0.7
Foreign financing, net	-0.3	-0.6	0.3	-0.4	0.2		-0.5	-0.5	0.2	0.0	0.6	-0.1	0.0	0.0	0.1
Domestic financing, net 3/	2.5	1.2	1.2	1.4	0.9		1.8	1.3	1.2	1.4	1.0	0.6	0.6	0.6	0.7
Financing gap	0	0	0	0	0		0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Wage bill 4/	6.0	6.0	8.4	7.8	7.4		8.6	8.0	7.6	9.1	9.0	10.8	9.7	8.9	8.6
Quasi-fiscal balance	-3.5	-1.4	...	...	-0.3		...	-0.4	-0.5	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Adjusted overall balance including quasi-fiscal balance	-5.7	-2.0	...	...	-1.4	...		-1.1	-1.9	-2.1	-1.7	-0.5	-0.6	-0.7	-0.8
Consolidated tax arrears	...	0.5	...	1.5	0.9		1.6	1.0	0.6	0.6	...	...	...	...	...
Central government expenditure arrears	...	0.5	...	1.1	0.9		0.9	0.5	0.4	0.6	...	...	...	...	...
Local government expenditure arrears	...	0.5	...	...	1.2		...	...	...	...	...	...	...	...	...
GDP (in millions of rubels)	2,890,320	9,125,600	16,500,000	7,028,000	11,736,000		5,514,473	10,410,181	15,468,787	16,316,000	22,250,000	4,458,000	9,923,000	16,389,000	22,415,000

Sources: Belarusian Ministry of Finance; and Fund staff estimates.

0.97

1/ Excluding transfers between different levels of government. Consolidated balance does not add up to the underlying balance and the difference between revenues and expenditures of the social protection fund (SPF) due to inter-governmental consolidations involving budgetary funds, local budget funds, and SPF.

2/ For actual 2001 data, expenditures were adjusted for a drawdown of government deposits.

3/ For 2002, staff revised projection includes Rbl 30 billion in privatization revenues. The 2002 budget includes Rbl 130 billion in capital revenues above the line.

4/ 2001 revised projection is based on the increase in wages on April 1 and July 1 2001and a planned increase on December 1. For 2002 revised projection, the wage bill is assumed to increase by 4.6 percent and 1. percent in the second and third quarter, respectively.

Table 6. Belarus: Balance of Payments, 2000-02 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001						2002				
	Actual	Actual			Projections			Pojections				
	Jan-Dec	Q1	Q2	Jan-Jun	Q3	Q4	Jan-Dec	Q1	Q2	Q3	Q4	Jan-Dec
Current account balance	-161.9	214.2	25.6	239.8	-25.8	-21.2	192.8	1.2	-39.1	-25.0	10.0	-53.0
Merchandise trade balance	-838.1	53.8	-170.5	-116.7	-105.3	-158.0	-380.0	-158.6	-196.0	-181.3	-135.8	-671.7
Exports	6,986.8	1,777.0	1,861.5	3,638.5	1,899.0	1,776.5	7,314.0	1,787.6	1,858.8	1,916.1	1,963.0	7,525.4
Imports	-7,824.9	-1,723.2	-2,032.0	-3,755.2	-2,004.3	-1,934.5	-7,694.0	-1,946.2	-2,054.8	-2,097.4	-2,098.8	-8,197.1
Services (net)	561.0	126.8	152.0	278.8	93.6	127.6	500.0	131.8	128.9	119.5	123.2	503.4
Income (net)	-41.9	-8.3	-9.8	-18.1	-24.1	-8.5	-50.8	-3.2	-12.8	-7.2	-16.9	-40.1
Transfers (net)	157.1	41.9	53.9	95.8	10.0	17.8	123.6	31.2	40.8	44.0	39.4	155.4
Capital and financial accounts	209.2	-64.9	76.8	11.9	-88.7	-24.8	-101.6	44.8	49.2	42.4	0.0	46.8
Capital account	41.9	9.8	5.1	14.9	5.6	13.8	34.3	8.9	8.9	8.9	8.9	35.4
Financial account	167.3	-74.7	71.7	-3.0	-94.2	-38.6	-135.9	-53.6	40.3	33.6	-8.9	11.4
Direct investment (net)	89.9	12.4	19.8	32.2	13.4	38.4	84.0	18.5	54.1	49.6	24.0	146.3
Portfolio investment (net)	60.4	7.0	22.7	29.7	-48.0	-10.7	-29.0	-2.8	-2.8	-2.8	-2.8	-11.0
Trade credits (net)	-36.5	-110.3	30.5	-79.8	-30.2	-10.0	-120.0	-18.0	-18.6	-19.0	-19.3	-75.0
Loans (net)	114.5	-9.9	38.9	29.0	6.9	-40.6	-4.6	1.8	1.9	1.9	1.9	7.5
Assets	3.3	2.4	-0.2	2.2	-2.0	-0.2	0.0	-0.5	-0.5	-0.5	-0.5	-2.0
Liabilities	111.2	-12.3	39.1	26.8	8.9	-40.4	-4.6	2.3	2.4	2.4	2.4	9.5
Public sector	-37.2	-5.7	-10.9	-16.6	12.2	-43.8	-48.2	-8.3	-8.5	-8.7	-8.8	-34.3
Disbursements	16.0	2.5	1.9	4.4	30.0	35.6	70.0	13.0	44.6	11.0	14.4	83.0
Amortization	-53.2	-8.2	-12.8	-21.0	-17.8	-79.4	-118.2	-28.2	-29.2	-29.7	-30.2	-117.3
Other sectors	148.4	-6.6	50.0	43.4	-3.3	3.5	43.6	10.5	10.9	11.1	11.3	43.8
Other (net)	-61.0	26.1	-40.2	-14.1	-36.3	-15.8	-66.2	-53.2	5.7	3.8	-12.7	-56.4
Errors and omissions	128.9	-153.5	-23.1	-176.6	0.0	0.0	-176.6	0.0	0.0	0.0	0.0	0.0
Overall balance	176.2	-4.2	79.3	75.1	-114.5	-46.0	-85.4	-43.6	10.0	17.4	10.0	-6.2
Financing	-176.2	4.2	-79.3	-75.1	114.5	46.0	85.4	43.6	-10.0	-17.4	-10.0	6.1
Gross official reserves	-75.6	-19.6	-44.7	-64.3	77.7	-7.0	6.4	5.2	-10.0	-2.8	-10.0	-17.6
Unadjusted for valuation changes	-48.0	-15.0	-42.0	-57.0	77.7	-7.0	13.7	5.2	-10.0	-2.8	-10.0	-17.6
Use of Fund resources	-55.8	-15.1	0.0	-15.1	-15.2	0.0	-30.3	-14.7	0.0	-14.7	0.0	-29.3
Loan from Central Bank of Russia 2/	...	0.0	0.0	0.0	52.0	53.0	105.0	53.0	0.0	0.0	0.0	53.0
Exceptional financing 3/	-44.8	38.9	-34.6	4.3	0.0	0.0	4.3 4/	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: 5/												
Current account (as percent of GDP)	-1.3	8.4	0.9	4.4	-0.8	-0.7	1.6	0.0	-1.3	-0.7	0.3	-0.4
Trade balance (as percent of GDP)	-6.6	2.1	-5.9	-2.1	-3.2	-5.3	-3.2	-6.1	-6.5	-5.3	-4.4	-5.5
Overall balance (as percent of GDP)	1.4	-0.2	2.7	1.4	-3.5	-1.5	-0.7	-1.7	0.3	0.5	0.3	-0.1
Gross official reserves	356.8	371.7	413.8	413.8	336.1	343.1	343.1	337.9	347.9	350.6	360.6	360.6
In months of imports of goods	0.5	0.6	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Medium- and long term debt	902.6	862.2	839.0	839.0	...	...	930.3	...	...	...	...	917.2
(as percent of GDP)	7.1	7.3	7.1	7.1	...	...	7.9	...	...	...	...	7.6
Short-term debt	1,396.0	1,370.6	1,456.5	1,456.5	...	...	1,321.1	...	...	...	...	1,292.3
(as percent of GDP)	11.0	11.6	12.4	12.4	...	...	11.2	...	...	...	...	10.7
Debt-service ratio												
(as percent of exports of GNFS)	1.7	1.4	0.9	1.1	...	...	2.5	...	...	...	...	2.4
(excluding bartered exports)	1.7	...	...	...	...	...	2.5	...	...	...	...	2.4
Reserve adequacy (in percent)												
(ratio of reserves to next year's imports)	4.6	4.5	5.0	5.0	...	...	4.2	...	...	...	...	4.6
(ratio of reserves to short-term debt)	25.6	27.1	28.4	28.4	...	...	26.0	...	...	...	...	27.9
(ratio of rubel M2 to reserves)	151.8	149.4	160.7	160.7	...	...	171.3	...	..	...	...	163.0

Sources: Belarusian authorities; and Fund staff estimates.

1/ Revised data for 1999 and 2000 reflect the adjustment of all (current and financial account) transactions denominated in Belarusian rubels for the difference between the accounting exchange rate (the official exchange rate) and the actual exchange rate used in the transaction.

2/ Stabilization loan from Russia in preparation for monetary union.

3/ All accumulation, repayment, and forgiveness of arrears.

4/ The authorities' original plan to reduce external payments arrears by $30 million during 2001 went off-track with the accumulation of new, energy-related arrears of $48 million during the first quarter. Earmarked finds of $30 million, related to the disbursement of a loan from Russia, were spent on the repayment of arrears during the second quarter.

5/ Ratios for 1999 reflect the steep devaluation of the exchange rate.

Q:\DATA\UW\BLR\GEN\[SR 2001 tables.xls]Table 6

Fund Relations
As of November 3, 2001

I. **Membership Status**: Joined July 10, 1992; Article VIII

II. **General Resources Account**:	**SDR million**	**Percent of Quota**
Quota	386.40	100.0
Fund holdings of currency	450.66	116.6
Reserve position in Fund	0.02	0.0

III. **SDR Department**:	**SDR million**	**Percent of Allocation**
Holdings	0.31	N/A

IV. **Outstanding Purchases and Loans**:	**SDR million**	**Percent of Quota**
Systemic Transformation	64.26	16.6

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Stand-by	09/12/1995	09/11/1996	196.28	50.00

VI. **Projected Obligations to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue 10/31/2000	Forthcoming				
		2001	2002	2003	2045	2005
Principal		0.0	23.4	23.4	11.7	5.8
Charges/Interest		0.0	1.5	0.8	0.3	0.0
Total		0.0	24.9	24.2	12.0	5.8

VII. **Implementation of HIPC Initiative**:

N/A

VIII. **Safeguards Assessments**:

N/A

IX. **Exchange Arrangements**:

1. As of August 20, 1994, the Rubel (Rbl) became the unit of account replacing the Belarusian ruble, which was formally recognized as the sole legal tender only on May 18, 1994. The conversion took place at the rate of 10 Belarusian rubles = 1 rubel. The authorities decided to drop three zeroes from the rubel denomination as of January 1, 2000. The exchange rate for the U.S. dollar was Rbl 1,562 on December 14, 2001.

2. In mid-September 2000, the official exchange rate was unified with the market-determined rate resulting from daily auctions at the Belarus Currency and Stock Exchange. Since then, the official rate on any day is equal to the closing rate of the previous trading day. In line with the objective to reach monetary union with Russia by 2005, the authorities adopted a crawling band vis-à-vis the Russian ruble in January 2001, with monthly rates of devaluation that are revised quarterly and a band of currently 5 percentage points around central parity. On November 5, 2001, Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. During the same month, the NBB suspended all *ad hoc* exemptions from the 30 percent surrender requirement.

X. **UFR/Article IV Consultation**:

4. The eighth Article IV consultation was concluded on October 13, 2000. Belarus has been placed on a 12-month consultation cycle. Visits since have included:

Staff visit	November 22–December 5, 2000
Staff visit	February 13–February 20, 2001
Staff visit	May 14–May 18, 2001
Article IV consultation discussions	July 25–August 7, 2001
Article IV consultation discussions	October 30–November 9, 2001

XI. **FSAP Participation, ROSCs, and OFC Assessments**:

N/A

XII. **Technical Assistance, January 1999–November 2001**:

	Department Counterpart	Subject	Timing
Missions	FAD	Budget law and budget preparation	June 13–26, 2001
	FAD	Future development of the treasury	January 15–26, 2001
	FAD	Social safety net issues	March 9–23, 1999
	MAE	Banking supervision	February 11–13, 1999
	MAE	Preliminary assessment of the banking system	February 11–13, 1999
	STA	Money and banking statistics	October 25–November 7, 2000
	STA	Multisector statistics (report of the resident advisor)	August 7, 1996–August 6, 2000
	STA	National accounts statistics	August 16–26, 1999 August 23–September 6, 2000
Resident Advisors	STA	Mr. Umana (General Statistics Advisor)	August 1996–August 2000

XIII. **Resident Representatives**:

5. A resident representative office was opened in Minsk on October 5, 1992. The Fund's resident representative was recalled on June 30, 1998, and Belarus is now covered jointly with Lithuania from Vilnius. The current resident representative, Mr. Mark Horton, began his term in October 1999.

RELATIONS WITH THE WORLD BANK

1. Belarus joined the World Bank in July 1992. The World Bank subsequently prepared a number of studies focusing on the environment, the labor market, the agricultural sector, and the energy sector. A poverty-monitoring study, and reports on enterprise, transport, and financial sectors were completed.

2. Several technical assistance and institution-building activities were also undertaken in high priority areas. Grants from the World Bank's Institutional Development Facility were approved in support of the development of the legal and methodological framework for privatization and demonopolization, the strengthening of public procurement legislation, the modernization of the legal system, and the development of a targeted social assistance system. A grant of $1 million from the Global Environment Facility was also approved to finance a forest biodiversity protection project in the *Belovezhskaya National Park* and another $6.9 million grant was approved to assist in the phasing out of ozone-depleting substances. The Bank has also coordinated the use of bilateral trust funds to provide policy advice on targeted social protection and general macroeconomic issues. Since 1992, Belarus obtained approximately $14 million in grant financing.

3. During 1993–94, the World Bank provided financial assistance for: (i) an Institution Building Loan ($8.3 million) to strengthen economic management; (ii) a Rehabilitation Loan ($120 million) to support the government's reform program; and (iii) a Forestry Development Project ($33 million) to strengthen forestry maintenance, research and development.

4. By end-1995, serious concerns were raised about the government's willingness to deliver on policy reforms and to its commitment to the development objectives of particular projects. Four projects: the Private Enterprise Development Loan, the Petroleum Sector Development Loan, the Electricity Rehabilitation Project, and the Pripyat River Priority Infrastructure Project, were brought to an advanced state of preparation, only to be canceled when the government decided that it was either not interested in borrowing for those purposes or unwilling to carry out the reforms required to support them. In March 1996, a decision was taken to stop all project preparation activity since lack of progress on policy reforms had reduced the World Bank's ability to deliver projects satisfactorily. In 1997, policy discussions improved, leading to the signing of a Memorandum of Understanding (MOU), which outlined specific reforms to be undertaken. Project preparation was also restarted contingent on reform progress under the MOU. However, little progress was achieved in the framework of the MOU. The Country Assistance Strategy (CAS), discussed by the World Bank Board on January 21, 1999, confirmed the Bank's strategy to focus on non-lending services, pending progress in economic reforms. Liberalization of the exchange rate was set up as trigger for moving into a *low case* lending (one project per year) scenario.

5. Bank relations with Belarus have been improving since 2000, with a successful dialogue on social protection, environment and on conditions for improvement of the

business environment. The unification of the exchange rate in September 2000, the 1999 CAS trigger, allowed the Bank to proceed with the preparation of the $28 million Social Infrastructure Retrofitting Project (retrofitting of 600 schools and hospitals), approved on June 5, 2001.

6. The Bank is currently developing a new CAS for 2002–04, which will be presented to the Board of Directors in early 2002. The proposed CAS would be centered around the following issues:

- Advisory activities on reform, particularly with regard to the business environment and social policies, and to nurture involvement of civil society;
- Lending concentrated in three areas:
    - Global Public Goods;
    - Mitigation of social risks, including the consequences of Chernobyl disaster and the lack of greater social inclusiveness; and
    - Fostering private sector development through a better business and investment environment.

7. The proposed CAS will have two lending scenarios—*low case* and *base case*. Under the *low case* scenario, lending would be concentrated essentially on Global Public Goods areas and projects directly targeted to the poorest segments of society, and limited to $120 million (excluding Global Environmental Fund). Under the *base case*, lending would reach up to $260 million for the three-year period. Lending under the base case would only commence after the government has accumulated a one-year track record in improving the business environment and some measures on fiscal transparency. A *high case* is not envisaged at present.

STATISTICAL ISSUES

(As of November 30, 2001)

1. While some weaknesses remain in the economic database in Belarus, the authorities—with the help of technical assistance from the Fund—have made significant efforts and improvements over the past years in a number of key areas, as described below. The Ministry of Statistics publishes a large amount of data and has a predetermined publication schedule. The provision of data over the last year has generally been adequate for the analysis of economic developments on a regular basis (Table 1). Data are usually provided through the Resident Representative's office, in a timely fashion.

2. The country's *IFS* page has been published since November 1996 and is updated regularly on a monthly basis. A Statistics Law was voted by parliament and signed by the president in February 1997. A multisector statistical advisor sponsored by the Fund was in place from August 1996–August 2000. He has not been replaced.

A. National Accounts

3. The Ministry of Statistics and Analysis, with technical assistance from the OECD and the IMF, has switched to the System of National Accounts 1993 (SNA 1993) for compiling national accounts statistics, and has discontinued the calculation of net material product. A first set of quarterly national accounts was published in January 1996 and annual updates of quarterly estimates are published once a year. A full set of annual national accounts has been prepared for 1990–2000. Intertemporally comparable volume measures of quarterly GDP estimates, back to 1992, continued to be published.

4. GDP figures are likely to be distorted by the underreporting of the newly emerging sectors, in particular services, and an active informal sector. A systematic upward bias in measuring industrial output has also led to some inaccuracy in GDP estimates. In addition, problems remain in calculating holding gains from inventories, and hence profits, because of inadequate accounting practices by enterprises. Problems continue to exist in measuring the capital stock and depreciation. Estimates of GDP by expenditure categories are still uncertain. However, the method of measuring industrial output has been changed and should lead to publishing revised GDP data series.

B. Prices

5. Data on Consumer Price Indices (CPI, both weekly and monthly) and the Producer Price Index (PPI) are being reported to the Fund on a timely basis. Both indices were developed with substantial technical assistance from the Fund. As regards the PPI, in January 1995 a Laspeyres formula recommended by the Fund was adopted. Other recommendations, such as inclusion of exports, adequate specification of items, and better selection of representative products and prices, have either been adopted or are in the process of being adopted. During January 1997–January 1999, PPI was compiled using the 1995 weights. The final 1999 data will be based on revised 1998 production weights.

C. Government Finance Statistics

6. Government finance data on revenue and expenditure are provided for the state budget on a monthly basis and for the social protection fund on a quarterly basis. A new plan of budget accounts, which conforms to the GFS manual methodology, has been implemented from January 1998; a number of extrabudgetary accounts have been incorporated into the budget since the start of 1998. Central and local government annual data for 1992–2000 were published in the 2001 *GFS Yearbook*. Monthly data to December 2000, covering the budget sector, excluding social security, are published in *IFS*. Monthly revenue and expenditure data are usually provided to the area department within six weeks. Since the first quarter of 2001, economic classification of fiscal data is reported to the Fund.

7. The Ministry of Finance compiles monthly data on tax arrears. The further implementation of the Treasury project holds out the promise of significant improvements in preparing regular and timely reports on spending commitments and deliveries.

8. Detailed information on domestic bank financing of general government institutions is compiled by the National Bank of Belarus (NBB). Data covering foreign financing of general government institutions as well as government debt and debt guarantees, have improved significantly since the establishment of a debt unit in the Ministry of Finance. This has led to an improvement in reconciling spending and revenue records with financing data, although some discrepancies still remain. The system to record details of domestic debt as well as contingent liabilities should be improved.

D. Monetary Statistics

9. Monthly data for operational purposes are provided on the balance sheet of the NBB and the monetary survey usually with a lag of no more than one month. Monetary data for publication in IFS are reported with a lag of one to three months. With help from STA, the NBB has set up a compilation unit and has made significant progress in improving the quality of monetary statistics. A new accounting system for the NBB and the commercial banks was introduced on January 1, 1996. A revision of the chart of accounts should be completed by end-2001.

10. Interest rate data on bank deposits and credits, as well as data on NBB credit auctions and the placement of NBB and government securities, are provided with a one-month lag.

11. The NBB also reports to the Fund, with a few days lag, information on the exchange rate.

12. There continue to be some difficulties in reconciling budget financing data from the Ministry of Finance with data on net credit to government derived from the banking system because of the existence of extrabudgetary funds that are not accounted for in general government operations. In case of discrepancies, the Fund staff relies on banking data.

E. Balance of Payments Statistics

13. Belarus has benefited from technical assistance from the Fund in the area of balance of payments statistics. Quarterly balance of payments and international investment position statements are now published regularly in the *BPM5* format on a timely basis.

14. There have been major improvements to the basic data sources in recent years, which have led to improvements in the coverage of balance of payments data. These include: (i) the introduction in January 2000 of a closed International Transactions Recording System (ITRS); (ii) the use of enterprise surveys to supplement the ITRS data; (iii) the development of models to supplement data sources considered to be deficient (particularly the Ministry of Statistics and Analysis (MSA) commodity flow model for estimating unrecorded merchandise trade); and (iv) the introduction in February 2000 by the State Customs Committee (SCC) of new customs declaration forms for trade with Russia, with whom Belarus has a customs union.

15. Foreign trade data are prepared monthly, with a lag of about six weeks. There are two main sources of information on trade: the MSA, which conducts a monthly survey of enterprises, and the SCC, which collects customs data.

16. In the past the SCC data missed much of the "shuttle trade" conducted by individuals and entrepreneurs as well as outright smuggling, for which no estimate is made. Given that a large part of unrecorded merchandise trade with Russia is thought to be conducted by entrepreneurs, the recent introduction of the SCC customs declaration form for trade with Russia (which covers both entrepreneurs and enterprises), is expected to result in a significant improvement in the coverage of the data on "shuttle trade" with Russia. It is thought that many imports into Belarus are re-exported to Russia. Estimates for these re-exports and other nonreported exports to Russia are regularly prepared by the MSA based on the detailed commodity flow models referred to above.

17. Information on services is now quite detailed. Data on transfers are also quite extensive. Scheduled interest and amortization payments on public sector debt are tracked by the Ministry of Finance, and timely information is also available on arrears on government and government-guaranteed debt. However, the data sources for estimating workers' remittances transfers and data on income from employee compensation need improvement.

18. Disbursements of official loans are recorded accurately by the NBB via bank records. However, foreign direct investment (FDI) is not well-captured in the balance of payments estimates at present. Short-term capital flows, including changes in the balance of inter-enterprise arrears, are subject to considerable uncertainty, although errors and omissions have been reduced substantially. A recent technical assistance mission provided advice on the format of a new enterprise survey for FDI and financial account transactions designed to address these issues.

19. Gross and net official reserves are now available on a daily basis, generally with little or no lag. The net foreign assets position of the commercial banks is compiled monthly, with a lag of one month.

20. Since August 1998, Belarus has been reporting its annual and quarterly balance of payments to STA for publication. Publication started in the October 1998 issue of *IFS*. Quarterly international investment position statements are now also reported to STA for publication.

Table 1. Belarus: Core Statistical Indicators
(as of December 1, 2001)

	Exchange rates	International Reserves	Central Bank Balance Sheet	Reserve Base Money	Broad Money	Interest Rates	Consumer Price Index	Export/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	Nov. 31, 2001	Oct. 2001	Oct. 2001	Oct. 2001	Oct. 2001	Oct. 2001	Oct. 2001	Sep. 2001	Sep. 2001	Oct. 2001	Sep. 2001	Sep. 2001
Date received	Nov. 31, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 25, 2001	Nov. 23, 2001	Nov. 23, 2001	Nov. 23, 2001
Frequency of data	D	M	M	M	M	M	M	M	Q	M	M	M
Frequency of reporting	W	M	M	M	M	M	M	V	V	M	M	V
Source of updating	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	E	E	E	E	E	E	C	E	E	E	C	E
Confidentiality	C	B	B	B	B	C	C	C	C	C	C	B
Frequency of Publication 1/	D	N/A	N/A	N/A	N/A	N/A	M	Q	Q	M	M	N/A

1/ Some data (for instance, fiscal data) are partially published by the authorities but cannot be used in the format in which they are being published.

Explanation of abbreviations:
Frequency of data, reporting and publication: D-daily, W-weekly, M-monthly, V-irregularly in conjunction with staff visits, N/A-none.
Source of date: A-direct reporting by National Bank, Ministry of Finance, Ministry of Statistics and Analysis or other official agency.
Mode of reporting: C-cable or facsimile, E-electronically. Most data are provided to the Resident Representative's office and then forwarded to Headquarters.
Confidentiality: B-for use by the staff and the Executive Board, C-unrestricted use.

Technical Consultation Note

1. This note consolidates the description and assessment of technical assistance (TA) departments (FAD, LEG, MAE and STA) regarding technical assistance provided to Belarus during the last three years. It also covers future TA needs.

A. Fiscal Issues

2. FAD has provided technical assistance to Belarus on public expenditure management, expenditure policy, and revenue administration. The majority of this technical assistance took place in the early 1990s. FAD has recently been active only in public expenditure management and expenditure policy. Three mission reports were produced since 1999.[15] Additional technical assistance in the area of tax reform, and development of the government's securities market is needed.

Public Expenditure Management

3. In early 2001, a treasury mission found that the Belarusian authorities had made substantial progress in developing their treasury system. Following the recommendations of a 1993 FAD report on setting up the treasury and with the assistance of a resident advisor from 1994 to 1996, the authorities developed a treasury covering the payments of all ministries, with the exception of the "power ministries" (mainly Defense and Interior), including the registration of all commitments. The treasury has ambitious plans in the near future to extend its coverage to all ministries, to the revenue accounts, and to the budgets of subordinate levels of government.

4. While endorsing the main thrust of these plans, the mission stressed the need to develop a more comprehensive accounting system that meets international standards and to introduce more flexible software applications to support it. The mission recommended a move away from the present system of almost daily cash rationing to a system of financial planning based on quarterly or monthly commitment limits. The mission also advised that the treasury's development would be hindered if parallel improvements in other aspects of budget management were not undertaken—in particular, a major revision of the present legal framework for budget management and improved budget preparation techniques.

5. This recommendation led to a further request for TA, which was met with a mission on budget law in June 2001. In addition to providing a draft of a new budget system law, the mission recommended a number of critical reforms: (i) making the general government budgets comprehensive by removing extensive extra budget operations; (ii) improving resource allocation strategies by eliminating *ad-hoc* earmarked and reserve funds; (iii) strengthening macro-fiscal forecasting and realistic budget planning; (iv) enhancing transparency at all stages of public

[15] *Republic of Belarus: Protecting the Vulnerable During Price and Exchange Rate Liberalization* by S. Gupta, M.Verhoeven, L. de Mello and R. Gillingham, May 1999; *Belarus: Future Development of the Treasury* by J Diamond, O. Hovland and J. Platais, May 2001; and *Belarus: Public Expenditure Management: Strengthening the Legal Framework and Budget Preparation* by P. Desai, V. Thuronyi and M. Davies, October 2001.

expenditure management; and (v) establishing an independent audit of government fiscal operations.

Expenditure Policy

6. A mission in 1999 advised the Belarusian authorities on strengthening social safety nets in the context of a planned exchange rate and price liberalization. The mission showed that it was feasible to shield low-income households from adverse consequences of higher prices as well as secure small budgetary savings. The authorities showed interest in implementing a number of the policy options identified in the report rather quickly, especially those that did not require a change in the budget law. No future technical assistance has taken place in this area since 1999, nor is any planned in the immediate future.

B. Legal Issues

7. Assistance from LEG during the past few years included comments on a draft insolvency law (April–May 1999), provided in coordination with the World Bank, as well as on the draft Banking Code (1998–99). The Banking Code became effective on January 1, 2001, followed by the insolvency law on February 1, 2001.

8. Additional diagnostic is needed to determine future TA needs. Some assistance might be needed as a follow-up of the recent FAD/LEG mission (June 2001), which focused on advising on specific amendments to the law on the budget system and improved budget preparation techniques.

9. In July-August 2001, overlapping with the Article IV discussion, LEG conducted a comprehensive review of the exchange system in view of the governments' interest in accepting the obligations of Article VIII of the Fund's Articles of Agreement.

C. Monetary and Banking Issues

10. Technical assistance support has been limited in the monetary and banking area. There were only two brief staff visits during the last few years (July 1997 and February 1999). In addition, MAE staff and one MAE consultant participated in the 2000 and 2001 Article IV discussions, to provide an assessment of banking sector conditions. A future technical assistance program would need to reflect Belarus' significant TA needs. Immediate priorities would include bank restructuring, monetary operations and liquidity forecasting.

11. Major restructuring of the banking sector appears to be needed. The banking sector in Belarus is dominated by large, state-owned banks. These banks are seriously capital deficient, in part as a result of their being used to carry out a range of quasi-fiscal activities, especially the extension of loss-making and often irrecoverable loans to the agricultural sector. TA should , therefore, include changing the government's relationship with the banking sector and privatizing any state-owned banks that are found to be potentially profitable and may have a systematic role. Others should be closed.

12. The authorities have requested a multitopic technical assistance mission to improve NBB operations. Their request includes the following priority areas: (i) monetary operations; (ii) NBB organization; (iii) forecasting of monetary aggregates; (iv) liquidity forecasting, (v) bank restructuring; and (vi) sequencing for liberalization of the capital account. The authorities have received confirmation from MAE that a mission could be scheduled in early 2002.

D. Statistical Issues

13. Substantial technical assistance has been provided to Belarus in the areas of balance of payments, government finance, national accounts and monetary and financial statistics. Five mission reports were produced during the 1999–2001 period.[16] From August 1996 through August 2000, a multisector statistics advisor was resident in Minsk. His activities focused on balance of payments and national accounts statistics.

14. Regarding **balance of payments statistics,** the November 2000 STA mission found that the NBB had made substantial efforts to implement the recommendations of the fifth edition of the *Balance of Payments Manual.* As a result, quarterly balance of payments and international investment position (IIP) statements are now published regularly according to *BPM5* classification on a timely basis, with the exception of the methodology used for foreign direct investment (FDI). There have been major improvements in the basic data sources in recent years, including: (i) the introduction in 2000 of a closed International Transactions Recording System (ITRS), which the mission found to be fully in line with international practices; (ii) the use of NBB surveys to supplement the ITRS; (iii) the introduction of data models, such as the Ministry of Statistics and Analysis (MSA) commodity flow model for estimating unrecorded merchandise trade data, to supplement data sources that had been judged to be deficient; and (iv) the introduction of new declaration forms for trade with Russia, with which Belarus has a customs union. The mission examined in detail all the data sources used to compile the balance of payments and IIP data and found that, with the exception of those for workers remittances, and employee compensation, the data sources were generally acceptable. A number of the mission recommendations have already been implemented, and it is expected that most will have been implemented by the end of 2001 or early 2002. In the light of this progress, STA do not envisage any further TA at this time.

15. Regarding **government finance statistics,** the multisector statistics advisor assisted the authorities in preparing a new plan of fiscal accounts according to the *1986 GFS Manual,* including government expenditures classified by economic type. Regular publication of GFS data in *IFS* began with the August 1999 issue. No technical assistance in GFS is scheduled.

16. Regarding the **national accounts,** the first of the two most recent missions (August 1999) assessed developments of source data and compilation procedures for the quarterly and annual estimates of national accounts. It helped the authorities to improve the reconciliation procedures

[16] These include reports on Money and Banking Statistics (February 2001); Balance of Payments Statistics (January 2001); National Accounts Statistics (December 1999 and May 2000) and a report by the resident advisor (November 2000).

between quarterly and annual estimates, seasonal adjustment, and presentation of the data. The mission also reviewed data sources and procedures for the compilation of short-term indicators. Although improvements had been made in the collection and processing of basic statistics, the quality of some of them still raised concern. For example, the industrial production index was found to systematically overstate the production growth rate. Other issues related to problems in the measurement of trade with Russia and the compilation of unit value indices of exports and imports.

17. The mission concluded that a large number of methodological improvements in the compilation of GDP estimates at current and constant prices were desirable, for both the production and the expenditure approaches. The production of housing services was found to be significantly underestimated, while a less significant downward adjustment of manufacturing output (and hence value added) was required to eliminate holding gains stemming from the use of reported accounting data on inventories. Improvements were also needed in the calculations of value added at constant prices for some industries and for taxes on products. Regarding the compilation of GDP by expenditure, problems were found with the estimates of changes in inventories and of gross fixed capital formation. Though data sources and methods for the compilation of household consumption expenditure at current prices were sound, improvements in the compilation at constant prices required deflation at a more disaggregated level. Furthermore, the lack of appropriate price indices for foreign trade posed a serious problem for the accuracy of GDP estimates by expenditure at constant prices. The mission prepared a short-term work program to implement a series of recommendations for improving GDP compilation.

18. The latest mission, conducted during August/September 2000, found that most of these recommendations had been successfully implemented, and encouraged the authorities to revise the official figures accordingly. A thorough review of the procedures for compiling a new industrial production index was undertaken, and the mission provided detailed recommendations for the validation of the new index before its official release. The authorities have postponed the release of the new figures, which was expected for the beginning of 2001. A follow-up mission is necessary to help the authorities carry out the agreed program for the compilation of supply and use tables, as well as for a final review of the implementation of earlier recommendations. Due to lack of resources, STA responded to a recent request that a follow-up mission would have to be delayed, probably until a later date in FY 2003.

19. During the Article IV consultation, the authorities described priorities for technical assistance, notably in the area of national accounts. Fund assistance was requested to review the compilation of GDP according to expenditures and output. The Ministry of Statistics and Analysis was also interested in reviewing with IMF advisors some other "sub-accounts", including financial accounts and accounts on the environment. A longer-term goal of the Ministry was to improve the coverage of regional level indicators. Finally, the authorities indicated that a review of compilation of prices indices for foreign trade would be useful.

20. Regarding **monetary and financial statistics**, a late-2000 STA mission found that the institutional coverage of the monetary statistics compiled by the NBB included all depository corporations operating in Belarus and, therefore, was adequate for compiling data for the

Depository Corporations Survey as recommended in the *Monetary and Financial Statistics Manual (MFSM)*. The reporting to EU2 and STA is fully harmonized, with the same set of monetary statistics tables provided by the authorities to both departments.

21. However, the mission also found that the accounts of the NBB did not conform to the recommendations of the *MFSM* regarding the sectorization of interest accruals, valuation of monetary gold at the end-of-period market prices, and the treatment of the securities repurchase agreements as collateralized loans. In addition, major discrepancies in reciprocal claims and liabilities among commercial banks indicated major data classification problems and serious distortions to the monetary aggregates. The mission recommended that the authorities undertake a concerted effort to investigate the interbank positions of the commercial banks to identify and eliminate the causes of major discrepancies. The mission and the authorities agreed on an action plan for the implementation of the recommendations. There are no plans for TA in this area in the near future.

MEDIUM-TERM OUTLOOK

1. This Appendix presents two alternative medium-term scenarios. The first assumes significant fiscal consolidation, economic restructuring, and progress toward market reforms. The second is based on a slow adjustment path and slow implementation of structural reforms (Tables 1 and 2, and Figures 1 and 2).

2. In both scenarios, given the openness of Belarus and the large share of trade with Russia, the growth prospects of the country are directly linked to developments in Russia. In particular, because they affect the Russian economy, changes in oil prices might have a significant impact. The drop in oil prices experienced in 2001 has been taken into account in the projections, but those would have to be revised in case of further declines in oil prices. Besides international developments, current account as well as growth prospects would be influenced by the implementation of structural reforms, in particular those that affect export competitiveness. Wage policies are also key for sustainable growth.

F. Rapid Adjustment Scenario

3. Under the first scenario, the authorities would undertake market-oriented structural reforms on a significant scale while continuing to pursue macroeconomic stabilization. Sufficient fiscal consolidation would be undertaken so that in 2003 the consolidated government budget would be balanced and would post a small surplus in following years. While the initial fiscal deficit is not large in comparison to other transition economies, the target to reach a surplus in the medium term is related to two factors. Belarus is among the least transformed economies in the region as reflected by the high level of taxation. Therefore, the government continues to absorb a large share of domestic resources. Virtual absence of foreign financing for the budget means that fiscal deficits have to be financed domestically. As a result, fiscal deficits would imply even less available resources for the private sector. Moreover, the planned monetary union with Russia—and therefore the inability to use monetary and exchange rate policies as instruments—points to the need for eliminating fiscal deficits. It is also assumed that both the level of taxation and government spending would be reduced to ensure that Belarus does not lose competitiveness further, given Russia's intention to lower its own level of taxation over time.

4. As a result of the fiscal surplus, credit to the government would be eliminated and more resources would be available for enterprise restructuring. In addition, given the expected improvement in the business environment and the launching of privatization, net private inflows of capital would increase. The need to improve the capital stock as well as a substantially higher output growth rate would lead to higher imports and a current account deficit. However, the deterioration of the current account balance would be relatively limited because exports would be stimulated by the impact of restructuring on competitiveness together with productivity gains. The decrease in gross convertible reserves would be limited because the current account deficit would largely be financed by net inflows of private capital.

5. The elimination of bank credit to the government would help reduce inflation. The projections assume that the National Bank of Belarus (NBB) would continue reducing inflation in order to prepare the country for a monetary union with Russia scheduled for 2005 and target—among other things—a convergence of inflation rates. To accomplish this goal, the NBB would gradually lower money growth. Since the Belarusian economy is highly dollarized and barter trade still widespread, the scenario assumes an increase in real money demand over the projection horizon.

G. Slow Adjustment Scenario

6. The slow adjustment scenario assumes continuation of current policies. Fiscal consolidation would be slow, as well as the restructuring process and the improvement of the business environment. Due to the lack of restructuring, the financial situation of enterprises and their competitiveness would deteriorate further, keeping investments at a low level. Enterprise capital would become more obsolete, preventing any sustainable high growth rate, despite the positive growth developments in Russia (Belarus's largest trading partner). As a result, it is expected that growth would remain at the low level projected for 2002 (1.5–2.0 percent).

7. Eventually, macroeconomic stabilization would be jeopardized: the fiscal balance and the current account would deteriorate. A faster decline in revenue due to slower growth as well as expenditure rigidities would raise the fiscal deficit. Capital expenditures would be squeezed by the need to cover current expenditures. The current account would deteriorate reflecting mainly the loss of competitiveness both abroad and domestically.

8. Since no foreign capital inflows would be available to finance the fiscal and current account deficits, net credit to the government would have to increase, halting the process of reducing money supply, thus fueling inflation. The objective of convergence of inflation rates with Russia would not be met under this scenario. Lastly, due to the deterioration of the balance of payments, gross official reserves would shrink substantially.

Table 1. Belarus: Medium-Term Outlook - Summary Indicators
Rapid Adjustment Scenario, 2002-07

	Projected	Projected				
	2002	2003	2004	2005	2006	2007
	(In percent change)					
Real sector						
GDP (real growth)	1.5	2.1	3.4	4.6	5.0	5.4
Consumer price inflation (end of period)	26.0	12.6	7.2	5.9	5.6	5.4
	(In millions of U.S. dollars; unless otherwise indicated)					
External sector						
Current account (in percent of GDP)	-0.4	-0.6	-2.0	-2.7	-3.1	-2.3
Current account	-53	-73	-268	-370	-455	-369
Exports of goods	7,525	8,044	8,690	9,191	9,606	10,131
Imports of goods	-8,197	-8,849	-9,805	-10,500	-11,074	-11,614
	(In percent of GDP)					
Public sector 1/						
General government revenue	41.3	39.9	38.9	37.9	37.5	37.1
General government expenditure	42.0	39.9	38.9	37.9	37.4	36.9
General government balance	-0.7	0.0	0.0	0.1	0.1	0.2
Memorandum items:						
Broad money growth (in percent change, end-of-period)	29.6	15.1	9.0	7.5	7.2	7.1
External public sector debt (in percent of GDP)	6.6	6.7	6.4	5.8	5.2	4.6
Gross convertible reserves (in million $)	361	403	348	307	259	301
Nominal GDP (in billion of rubels)	22,415	26,103	29,361	32,983	37,054	41,671

Sources: Belarusian authorities; and Fund staff estimates.

1/ Including Social Protection Fund.

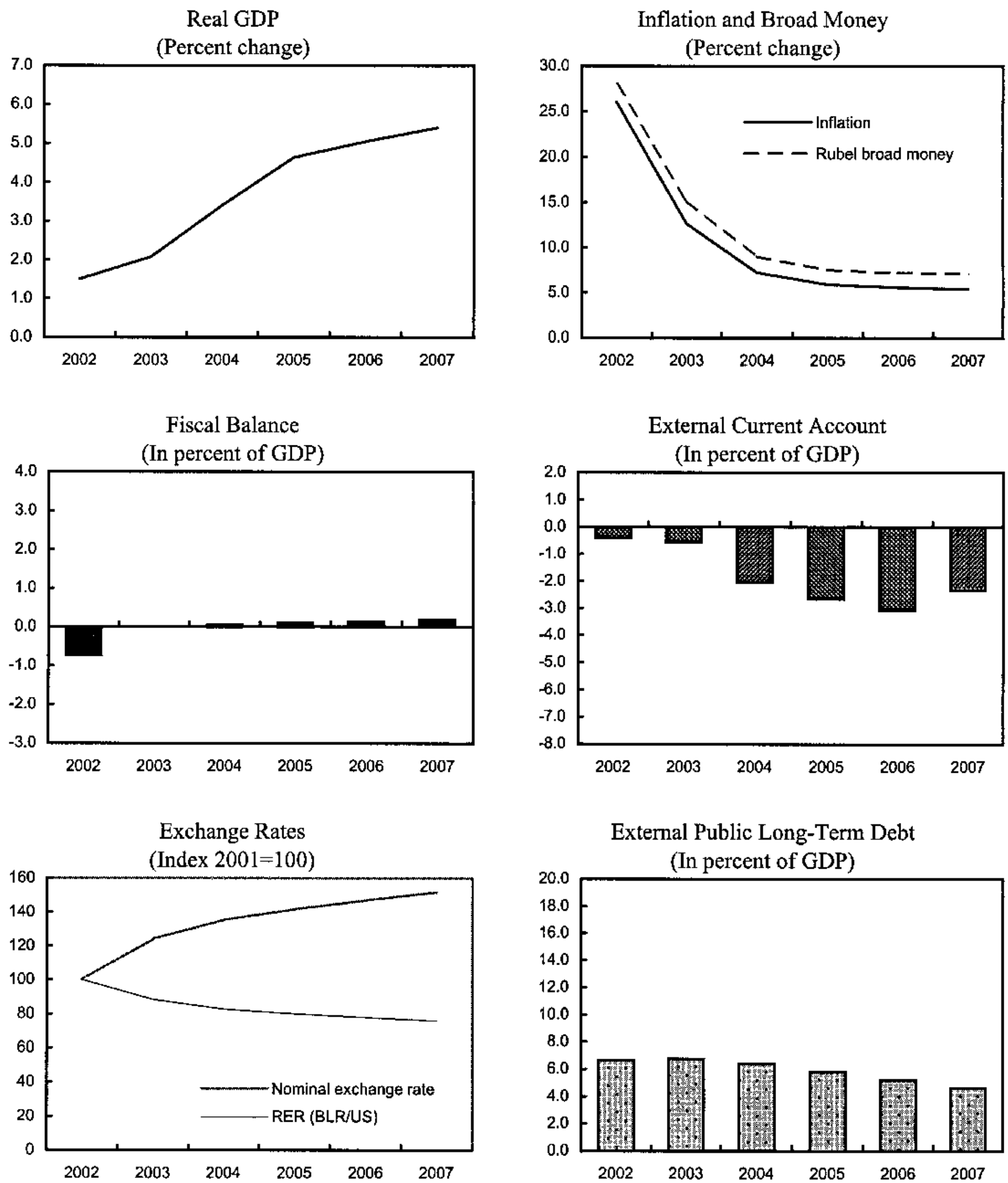
Table 2. Belarus: Medium-Term Outlook - Summary Indicators
Slow Adjustment Scenario, 2002-07

	Projected	Projected				
	2002	2003	2004	2005	2006	2007
	(In percent change)					
Real sector						
GDP (real growth)	1.5	2.3	2.4	2.5	2.3	2.1
Consumer price inflation (period average)	26.0	19.4	18.5	18.6	18.7	19.1
	(In millions of U.S. dollars; unless otherwise indicated)					
External sector						
Current account (in percent of GDP)	-0.4	0.0	-0.4	-1.0	-1.4	-1.7
Current account	-53	1	-53	-147	-218	-278
Exports of goods	7,525	7,816	8,032	8,049	8,039	8,017
Imports of goods	-8,197	-8,565	-8,950	-9,164	9,340	-9,509
	(In percent of GDP)					
Public sector 1/						
General government revenue	41.3	39.4	38.1	36.7	35.9	35.0
General government expenditure	42.0	40.0	39.0	38.0	37.4	36.9
General government balance	-0.7	-0.6	-0.9	-1.3	-1.6	-1.9
Memorandum items:						
Broad money growth (in percent change, end-of-period)	29.6	20.1	19.7	18.8	19.0	19.9
External public sector debt (in percent of GDP)	6.6	6.4	5.8	5.2	4.7	4.2
Gross convertible reserves (in million $)	361	415	434	367	239	62
Nominal GDP (in billion of rubels)	22,415	27,678	33,938	41,633	50,967	62,582

Sources: Belarusian authorities; and Fund staff estimates.

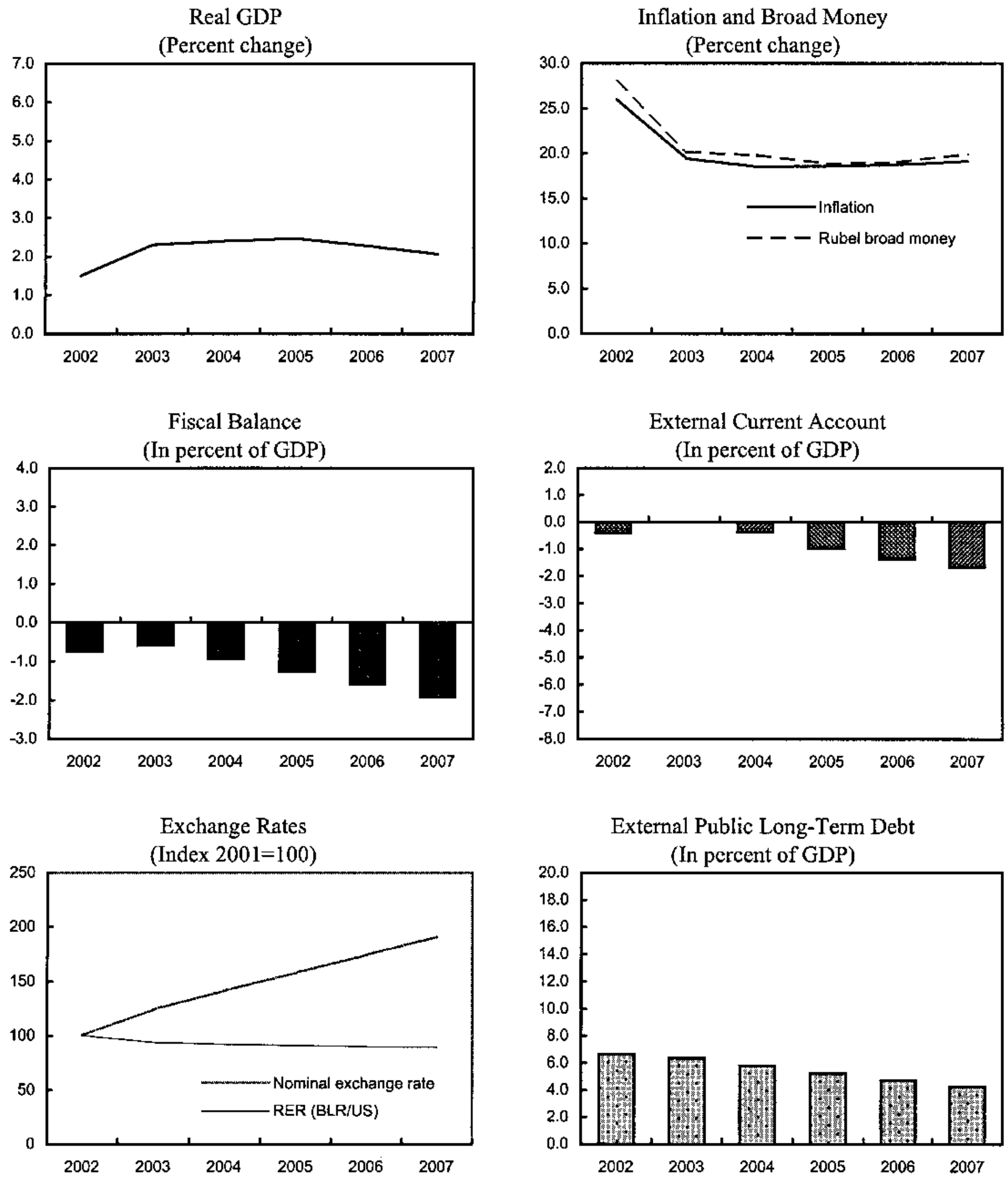
1/ Including Social Protection Fund.

Figure 1. Belarus: Medium-Term Outlook -- Rapid Adjustment Scenario, 2002-07



Sources: Belarusian authorities; and Fund staff estimates.

Figure 2. Belarus: Medium-Term Outlook -- Slow Adjustment Scenario, 2002-07



Sources: Belarusian authorities; and Fund staff estimates.

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

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

IMF Concludes 2001 Article IV Consultation with the Republic of Belarus

On January 23, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Belarus.[1]

Background

During the past year the authorities made headway in further liberalizing the foreign exchange market, stabilizing the exchange rate and reducing inflation; they also took steps to liberalize prices and initiate other structural reforms. At the same time, a policy of raising wages to unaffordable levels during an election year undermined progress achieved in stabilization.

Inflation receded during 2000–01, but economic growth is decelerating. Real GDP grew by 3 percent in January–October 2001, compared to 5 percent during the same period in 2000.[2] Measured output growth, especially in 2001, masks an underlying weakening of economic activity, as suggested by the rising levels of inventories, noncash transactions, and domestic arrears, the low level of profits and investment, and sagging competitiveness. Year-on-year CPI inflation continued to decline, dropping from 108 percent in December 2000 to 47 percent in October 2001. However, monthly inflation picked up in the second half of 2001, reflecting wage increases, monetary easing and some price liberalization. The external current account improved markedly during 2000–01, turning into a surplus of $240 million (4.5 percent of GDP) at end-June 2001, partly owing to a strong export performance during the first quarter. Gross reserves increased during 2000–01, but still cover less than one month of imports.

[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. 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. This PIN summarizes the views of the Executive Board as expressed during the January 23, 2002 Executive Board discussion based on the staff report.

[2] The preliminary official estimate puts GDP growth in 2001 at 4.1 percent.

Following the exchange rate unification in September 2000, the National Bank of Belarus (NBB) shifted to a crawling band exchange rate system, with the Belarusian rubel/Russian ruble exchange rate as the nominal anchor. Several liberalization measures led to further deepening of the foreign exchange market. Consequently, the Republic of Belarus, on November 5, 2001, accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, which ensures convertibility of current account transactions. The exchange rate remained relatively stable during 2001.

Real wages rose steadily during 2000–01. This policy had a negative impact on enterprise profitability, investment, and the budget. After a significant tightening of fiscal policy in 2000, fiscal developments in 2001 were shaped by efforts to cut expenditures to offset increases in budgetary wages. While the consolidated fiscal deficit (cash basis) was limited to 0.6 percent of GDP in 2000, it is projected at around 1.8 percent in 2001. Expenditure arrears started to accumulate since the beginning of the year, particularly at the local government level; tax arrears also gathered pace.

The monetary policy stance was tightened in 2001. Nevertheless, it was more expansionary than envisaged in 2001 due to a jump in cash in circulation and household rubel deposits with banks, following the spring wage hike and enterprises' move to cash settlement. After the exchange unification, some remonetization took place, reflecting increased confidence and the maintenance of positive real interest rates in rubel deposits.

Some steps were made to initiate structural reforms during 2001, but the outstanding agenda remains large. In particular, the authorities made major headway in foreign exchange liberalization and started to dismantle the extensive system of price controls. In addition, a new investment code was adopted in October 2001, providing new safeguards for domestic and foreign investment. A strategy for implementing a targeted social safety net was developed in cooperation with the World Bank. Presidential Decree No. 40, allowing extra judicial confiscation of property, was revoked in November 2001.

Significant progress was achieved under a Staff-Monitored Program (SMP), covering April 1–September 30, 2001. Monetary/exchange rate policy were implemented successfully and the benchmarks for structural reforms were largely met. However, the fiscal program deviated markedly from SMP commitments largely due to expansionary wage policies. As a result, the six-month track record required to initiate discussions on a Stand-By Arrangement was not fulfilled. Nevertheless, the SMP played a positive role in steering economic policies toward macroeconomic stabilization and market reform during the past year.

Executive Board Assessment

Executive Directors were pleased to note that the authorities had made important moves toward sound macroeconomic policies and market reforms. Directors welcomed the positive results that were achieved in price and exchange rate stabilization, and first steps toward phasing out directed credits, improving the business environment, and putting in place a targeted social safety net. They considered that the revocation of Presidential Decree No. 40 was an important signal of the authorities' commitment to structural reforms. Directors particularly welcomed the liberalization of the exchange market and the authorities' acceptance of obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement, on payments and transfers for current international transactions.

However, Directors expressed concern about the government's approach to wage setting and its macroeconomic implications. They urged the authorities to refrain from setting wage targets in foreign currency terms and cautioned against targeting wages higher than could be afforded on productivity grounds. While the authorities had taken steps to partially offset the impact of the wage increases, their magnitude had been such as to undermine fiscal performance, slow the progress that had been made in lowering inflation, and weaken the fragile enterprise sector. The wage increases could also jeopardize medium-term growth prospects. More generally, Directors urged the authorities to adopt a coherent program of policies designed to lay the foundations for a market economy and macroeconomic stability.

Directors were encouraged by the progress achieved in certain areas under the SMP. The SMP had provided a framework for policy implementation, supported the momentum of reform, and enhanced the credibility of the NBB. They noted that all monetary targets had been achieved and that the measures envisaged in the structural benchmarks had largely been implemented. Directors found it unfortunate, however, that the fiscal program had departed from SMP commitments largely because of the increases in wages that had been granted, and the record of policy implementation had not been fully satisfactory. At the same time, some Directors considered that the overall fiscal effort had been a step in the right direction, and that substantial progress had been made on a number of fronts. Directors encouraged the authorities and the staff to develop a new monitoring framework that could lead to future Fund support. A few Directors could support starting negotiations on a Stand-By Arrangement.

Directors advised the authorities to review their fiscal objectives and policies for 2002 to ensure in particular that the wage bill was consistent with likely productivity developments in the economy. Otherwise there might be a danger of a further buildup of arrears, additional pressure on the budget, enterprises, and banks, and increased expectations of monetary easing. Directors advised the authorities to use the flexibility allowed under the crawling band arrangement to avoid a further erosion in external competitiveness. Directors emphasized, however, that a sound fiscal position was the bedrock of a successful and credible exchange rate policy, and would be an essential condition for any future currency arrangement the authorities might consider. It was also emphasized that the acceleration of structural reforms would contribute significantly to enhancing economic efficiency and external competitiveness.

Directors noted with concern that the downside risks remained large in the medium-term. They underscored that structural imbalances in the real sector would need to be addressed without delay to avoid reversal of the recent progress in stabilization and liberalization. In their view, the reform agenda remained extensive and challenging, and the authorities were urged to complete price liberalization, level the playing field for businesses, accelerate privatization, and reduce government involvement in the economy. Directors expressed concern about the fragile banking sector and agreed that a comprehensive framework for reforming the enterprise and banking sectors was needed. The authorities were urged to adopt anti-money laundering and anti-terrorism financing legislation, as recommended by the IMFC.

Directors regretted that negotiations on a possible track-record SMP for the first half of 2002 had stalled. Directors encouraged the staff and the authorities to resolve their differences of view on the sustainability of the reform program in Belarus, with the objective of restarting discussions on an appropriate macroeconomic framework and a set of reform measures. Sustained progress over an appropriate period of time would be a prerequisite for consideration of the authorities' request for financial support from the Fund. In the meantime, Directors supported continued technical assistance from the Fund to Belarus.

Directors were pleased that the compilation of balance of payments statistics and national accounts had been steadily improving. They regretted, however, that coverage and quality of some basic statistics were still deficient. They highlighted that the coverage of fiscal data would need to be expanded urgently, and with a view to greater transparency, off-budget transactions, such as the Presidential Fund, should be included in the accounts. They added that the new and more accurate method of measuring industrial output should be adopted as soon as possible.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Belarus is also available.

The Republic of Belarus: Selected Economic Indicators

	1998	1999	2000	2001 (Jan-Sept.)
		(Percentage change)		
Real Economy				
Real GDP	11.4	3.4	5.9	3.0
CPI (end-of-period)	182	251	108	28
Money and Credit				
Reserve money	163	178	123	93
Rubel broad money	130	195	124	55
NBB rubel net domestic credit	194	101	52	89
Refinance rate (end-of-period)	48	110	85	48
		(In percent of GDP, unless otherwise indicated)		
Public finance				
Revenue	44.5	45.7	43.3	46.7
Expenditure	44.8	47.9	43.9	47.8
Balance	-0.3	-2.2	-0.6	-1.1
Adjusted balance 1/	-3.3	-5.7	-2.0	-1.4
Balance of Payments				
Current Account	-6.1	-1.6	-1.3	4.5 2/
Gross international reserves				
In millions of U.S. dollars	345	309	357	338
In months of imports	0.5	0.6	0.5	0.7
Exchange rate (end-of-period) 3/				
Exchange rate regime		Crawling band		
Official exchange rate (rubel per U.S. dollar)	107	320	1180	1510
Parallel exchange rate (rubel per U.S. dollar)	425	905	1180	1510

Sources: Data provided by the authorities and IMF staff estimates.

1/ Including quasi-fiscal operations.
2/ January-June.
3/ Exchange rates reflect the authorities' decision to drop three zeros from the rubel denomination, effective January 1, 2000.

**Statement by Willy Kiekens, Executive Director and Mikhail Nikitenko, Assistant to Executive Director for the Republic of Belarus
January 23, 2002**

Economic Developments

As the staff points out, in 2001 the economic policies and developments in Belarus continued their marked improvement; and the authorities have implemented a staff monitored program (SMP) with significant success.

Real GDP grew by 4.1 percent in 2001, which was better than the 3 percent projected by the staff. Over the last six years, real GDP has grown cumulatively by more than 40 percent.

Average inflation dropped from 169 percent in 2000 to slightly above 60 percent in 2001, reaching 46.1 percent in December of that year, which is more than that the 42 percent projected by the staff.

The general government deficit was 1.6 percent of GDP, lower than the 1.8 percent projected by the staff. Including the quasi-fiscal balance, the 2001 deficit was 1.9 percent of GDP, slightly lower than the 2 percent deficit for this indicator in 2000. The stock of expenditure arrears of the central and local governments combined increased by 0.8 percent of GDP in 2001. The disciplined fiscal policy which Belarus has consistently pursued in past years resulted in a low public debt of about 7 percent of GDP, almost entirely foreign, namely $761 million in June 2001, of which $311 million was owed to IFIs. Over the last five years, the net principal repaid to the IFIs was $211 million (see Tables 24 and 44 of the Selected Issues Paper). Belarus has also reduced its stock of arrears for gas purchases from $308 million in January 2000 to $195 million in June 2001 (see Table 46 of the Selected Issues Paper).

The current account improved from a deficit of 1.3 percent of GDP in 2000 to an estimated deficit of 0.4 percent of GDP in 2001. The total external debt edged up from 18 percent of GDP in 2000 to 19 percent in 2001. Gross foreign reserves remain low at about 0.7 months of imports.

Output Growth--Commentary on the Staff's Remarks.

The staff observes that Belarus's output growth masks an underlying weakening of economic activity, because of rising inventories, increased barter and domestic arrears, low levels of profits and investment, and sagging competitiveness.

However, Table 7 of the Selected Issues Paper shows that during the first half of 2001 average inventories of industrial enterprises stood at 64 percent of monthly output, compared

with an average of 62.8 percent the year before and of 66 percent during the last five years. Admittedly, for 2001 we only have numbers for the first two quarters. Reliable comparisons would require quarterly data for those earlier years, which the staff paper does not provide. For similar reasons, Table 18 on enterprise profits and Table 19 on inter-enterprise arrears and the barter economy must be interpreted with caution.

As to investments, detailed in Table 5 of the Selected Issues Paper, the significance of their behavior is harder to assess. The significant drop of investments in the early stages of the transition process is a well known phenomenon, due *inter alia* to the considerable improvement of the efficiency of investments over those made in command economies. Belarus's transition is not yet far enough advanced to support definitive conclusions based on the shrinking share of investment in GDP.

And as to Belarus's competitiveness, the balance of payments in Table 6 of the staff paper shows merchandise exports growing in 2001 by 4.7 percent in dollar terms, and the trade deficit narrowing from $838 million in 2000 to $380 million in 2001. Box 1 acknowledges the strong export growth in 2000 and early 2001, but ascribes this growth to Belarus's "quasi-monopolistic share in the markets of Russia and other CIS countries (for example, vehicles, machinery, textiles, and chemical products)" (sic!). At the same time, Table 41 of the Selective Issues Paper on the direction of trade shows that Belarus's exports to the CIS countries, as a share of total exports, fell from 74 percent (65 percent for Russia alone) until 1998 to 60 percent (52 percent for Russia alone) since 1999, showing that Belarus's exports to western countries increased from 25 percent to a stable 40 percent of its total exports for the last three years. This shows that Belarus's growth was export driven.

Monetary and Exchange Rate Policies

The multiple exchange rate system was abolished on September 14, 2000, as a prior action for starting negotiations on a staff monitored program. This was a bold action and major accomplishment. It eliminated serious distortions which were primarily damaging to exports and subsidizing certain imports, especially oil and gas.

The authorities abolished all restrictions on current payments and on November 5, 2001, accepted the obligations of Article VIII, Sections 2, 3, and 4.

Since the beginning of 2000, and in spite of the move toward exchange rate unification and the rapid devaluation of the official exchange rate, the parallel exchange rate has been broadly stable, which represents a considerable real appreciation. Since the unification of the exchange market, the central bank has been following a crawling band *vis-à-vis* the Russian ruble, initially with a width of 2 percentage points around central parity, recently enlarged to 5 percentage points. Against the US dollar, the rubel depreciated by a monthly average of 2.5 percent, resulting in a 5.2 percent depreciation of the real effective exchange rate during the first nine months of 2001.

Monetary policy has been tight, in line with the staff monitored program and resulting in a considerable reduction of inflation, as mentioned above.

Belarus intends to maintain limited capital account convertibility to avoid speculative capital flows and excessive exchange rate volatility, protect international reserves, and keep monetary policy sufficiently independent.

The unification of the exchange rate and the maintenance of positive real interest rates enhanced the central bank's credibility and stimulated some remonetization.

Fiscal Policies

Fiscal policies have been tight in 2001, notwithstanding a substantial increase in the public sector wage bill from 6 percent of GDP to 9 percent, and the additional budgetary support to agriculture following 2001's reduction of the previous support by directed credits. These additional outlays have been offset by a reduction in goods and services purchased by the government (by 1.8 percent of GDP), a reduction of subsidies and transfers (by 1.5 percent of GDP), and capital expenditures (by 1.5 percent of GDP). As a result, the general government deficit could be limited to 1.6 percent of GDP, slightly above the 1.4 percent of GDP targeted in the macro framework of the SMP.

In 2001, the government also reduced its quasi-fiscal deficit by 1.4 percent of GDP in 2000 to 0.3 percent. It also increased the expenditures of the Social Protection Fund by 2.8 percent of GDP.

Total revenues in 2001 reached about 42.6 percent of GDP, 0.7 percent lower than the year before.

The budget for 2002 targets a deficit of 1.5 percent of GDP, which the staff projects as 0.7 percent of GDP, due to a lack of financing. The budget assumes a real output growth of 4-5 percent, broadly in line with the outcome of 2001. But the staff believes that output will grow by only 1.5 percent, and that revenues are therefore being overestimated.

The authorities think its growth figures and the 2002 budget are realistic. In any case, as in the past they are committed to reduce expenditures if the revenues fall short of their expectations. If past experience is any guide, we can be sure that fiscal policy in 2002 will be very disciplined.

The Selected Issues Paper contains two noteworthy studies, on subsidies and on the tax system. Table 1 on page 36 illustrates the rapid decline of explicit and implicit subsidies since 1998, with the unification of the exchange rate in September 2000, foreign exchange subsidies, amounting to more than 7 percent of GDP in 1998, completely disappeared in 2001.

Wage Policies

A shown in Table 1 of the staff paper, average monthly wages in US dollars rose from \$57 in 2000 to \$86 during the first nine months of 2001, a 50 percent increase that comes on top of a 70 percent increase between 1999 and 2000. High as these raises seem, they followed a 55 percent decline between 1996 and 1999. All in all, the average dollar wage level in 2001 was about 16 percent above its 1996 level, a period during which real GDP grew by more than 40 percent.

The wage increases of 2001 came shortly after a period when energy prices for households had risen by 650 percent, 10 times the inflation rate, because of the unification of the exchange rates in September 2000 and the reduction of government subsidies. The raises in salaries were to a large extent necessary to offset these price increases and declining subsidies, including those for housing and public transportation. Indeed, the fiscal accounts show how the 3 percent increase in the government wage bill has been offset by a 1.5 percent of GDP reduction of subsidies and transfers.

The planned increases of public sector wages had been accepted by staff as part of a program which it viewed as "a consistent policy package" (paragraph 30 of EBS/01/58), although the staff warned in paragraph 31 that "the medium term prospects could be clouded by the government's attempts to raise living standards by setting arbitrary targets for real wage levels" (see also paragraph 22 of the staff report and paragraph 9 of the Letter of Intent in EBS/01/58).

The staff's strong criticism of the wage increase during the Article IV consultation therefore came as a surprise to the authorities. It seems to them unfair as having contributed to the staff's finding that the SMP has not established a sufficient track record to justify beginning to negotiate a stand-by arrangement.

Structural Policies

Belarus has made progress with structural reforms in line with its SMP.

As mentioned above, the exchange rate system has been unified and restrictions on current transactions abolished.

Prior to the SMP, a weighted 28 percent of the CPI basket was subject to price controls. After implementation of the program, including its prior actions, the weighted share of price controlled goods in the basket was reduced by almost one-third. Out of the total number of price controlled goods and services, the number whose prices have been liberalized is far larger than one-third. They include 70 percent of the socially important goods, 40 percent of goods and services initially classified as delivered by monopolies, and 20 percent of the so-called "strategic goods."

In addition to liberalizing prices, significant steps have been taken toward phasing out directed credits, strengthening the banking system, enhancing fiscal transparency, improve the business environment, and putting in place a more effective and better targeted social safety net. A new investment code gives better protection to both domestic and foreign investors. Important steps have also been taken in accordance with the agreements with Russia on establishing a monetary union by 2005 and increasing the convergence between their two economies.

More structural reforms are needed. The authorities intend to reduce the tax burden on enterprises, increase the cost recovery on housing and utilities, rationalize the civil service, and bring off-budgetary funds into the budget. The pace of privatization will be stepped up.

The World Bank is finalizing a new Country Assistance Strategy for Belarus. In the base-case scenario, the World Bank could lend $270 million between 2002 and 2004, *inter alia* to foster private sector development by improving the business and investment climate. Access to these loans will require Belarus to continue removing obstacles to business activity and increasing accountability in the use of public resources. Under the high-case scenario, the World Bank's assistance for structural reforms would require Belarus to have a program with the IMF.

Review of the Implementation of the Staff Monitored Program

We are pleased that the staff acknowledges that the SMP has been implemented with significant success.

All of the end-June and end-September monetary targets were met. However, the staff points to slippages in the fiscal area, largely as a result of wage policies. The authorities admit that the fiscal target was not fully met. But they stress that their fiscal management was very disciplined overall. The shortfall was only 0.2 percent of GDP. The quasi-fiscal deficit was substantially reduced by comparison with previous years, and central government expenditure arrears did not substantially differ from last year's.

All of the 30 structural benchmarks were fully met except six: two were partially met; two were late, and two are considered by the staff to be off track. However, the authorities disagree with the staff's interpretation that two of the benchmarks on price liberalization were only partly met. The difference of views arises because the staff assigns all communal services to a single category, while the authorities consider them to belong to different categories when they are different in nature but are provided by the same authority. The authorities do recognize their failure to include all agricultural support in the budget, which had a positive effect on the fiscal balance of about 0.3 percent of GDP. As to the prohibition on granting new exemptions to the foreign currency surrender requirement, only a few marginal exemptions were granted. which lapsed in September 2001.

The Belarusian authorities thus considered their implementation of the SMP as very successful. It followed on the implementation of strong prior actions, particularly the unification of the exchange rate and measures to improve fiscal transparency. It achieved a gradual but significant price liberalization, a complete liberalization of the exchange rate regime, further progress with macroeconomic stabilization, and an improved business environment and fiscal transparency. They disagree with the staff's conclusion that "the SMP implementation fell short of establishing the track record necessary to initiate discussions on a stand-by arrangement." They would like to request that the Board reverse this staff assessment.

Future Relations Between Belarus and the Fund

Belarus has not received financial assistance from the Fund since its stand-by arrangement was ruled off-track in 1995 because substantial capital inflows were not sterilized and the central bank stabilized the exchange rate to avoid a substantial appreciation that would have hurt Belarus's exports which then amounted to 40 percent of GDP.

The Fund's resident representative was recalled in 1998 from Belarus. The country is now covered by the resident representative in Lithuania. While the authorities acknowledge the good work done from Vilnius by Mr. Horton, they believe that a resident representative stationed in Minsk would be more effective.

Belarus received technical assistance (TA) which is described in Appendix IV of the staff paper. This review shows that Belarus has made good use of the TA it has received. The staff acknowledges that additional TA is needed, *inter alia* in the area of tax reform, development of the government securities markets, the restructuring of the banking sector for which significant TA is needed, and in the area of national accounts.

The most disappointing aspect of Belarus's relations with the Fund is the lack of financial support. Ever since the Russian crisis and the drought hit Belarus hard in 1998, the government has been desperately seeking such support. A monitored program in 1998-1999 was deemed unsatisfactory, as was last year's SMP. The staff seems to be tired of negotiations when they write in paragraph 19 of their report that the authorities "lamented that the lack of external support would make their task more difficult."

Even more, a follow-up SMP is now considered by the staff to be unacceptable because the authorities did not agree to lower their growth forecast for 2002 from 4-5 percent to the staff's projection of 1.5 percent, although they would certainly have been willing to take contingency measures to ensure reaching the fiscal targets if revenue fell short. And although reasonable people can differ about a growth forecast for Belarus, the authorities' reluctance to accept the staff's projection must be understood as due to their disappointment about the harsh assessment of their SMP implementation and the staff's consistently and substantially underestimated forecasts of Belarus's growth performance in the last five years.

Be that as it may, the Belarusian authorities understand the need to continue disciplined macroeconomic policies and structural reforms in order to improve the business climate for both domestic and foreign investors, and the living conditions of the people. They hope that the Executive Board will encourage management to build constructive relations with Belarus, with a view to providing financial support and technical assistance.