April 2003
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Republic of Belarus: 2003 Article IV Consultation—Staff Report; Staff Statement; 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 2003 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 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 10, 2003,** 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 March 27, 2003.** 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.

- a staff statement of **April 16, 2003** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its April 16, 2003 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
Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation with the Republic of Belarus

Approved by José Fajgenbaum and Martin Fetherston

March 27, 2003

Discussions for the 2003 Article IV consultation were held in Minsk during January 28–February 10, 2003. The staff team comprised Thomas Richardson (head), Etibar Jafarov, Martin Sommer, Roman Zytek (all EU2), and Zuzana Brixiova, resident representative for Belarus and Lithuania. Mr. Kiekens, Executive Director for Belarus, participated in some of the meetings.

The mission met with the National Bank of Belarus (NBB) Chairman Prokopovich, Deputy Prime Minister and Minister of Economy Kobiakov, Finance Minister Korbut, and other senior officials, including from the presidential administration. The mission also met with members of parliament, representatives of commercial banks and the diplomatic community, and liaised with the World Bank office in Minsk. The mission attended a meeting of the OSCE delegation with the diplomatic community.

In concluding the last consultation on January 23, 2002, Executive Directors noted 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 the first steps toward phasing out directed credits, improving the business environment, and putting in place a targeted social safety net. However, Directors expressed concern about the government's approach to wage setting and its macroeconomic implications. They advised the authorities to ensure that wage increases were consistent with likely productivity developments in the economy. Directors regretted that negotiations on a possible SMP for the first half of 2002 had stalled and stressed that sustained progress over an appropriate period of time would be a prerequisite for consideration of the authorities' request for financial support from the Fund. They encouraged staff to remain engaged with the Belarusian authorities, including by providing technical assistance where appropriate. In the course of the Article IV consultation mission, as well as during staff visits in April and September 2002, the staff discussed with the authorities the possibility of adjusting macroeconomic policies and accelerating structural reforms to permit negotiations on a successor SMP. These discussions have been unsuccessful so far.

Belarus has accepted the obligations of Article VIII, Sections 2, 3, and 4. (Fund relations and technical assistance are summarized in Appendix I). The World Bank approved a Country Assistance Strategy for Belarus on March 14, 2002. The CAS envisions *low case* and *base case* lending scenarios for up to $140 million and $270 million, respectively, during a three-year period. (Appendix II).

The authorities agree to publication of this staff report. Data needed for Fund surveillance have been provided on a timely basis. However, the quality of some basic official statistics remains deficient. The authorities have made significant progress in preparing to subscribe to SDDS (Appendix III).

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EXECUTIVE SUMMARY

During the past several years, Belarus has made noticeable progress in some areas. Inflation in 2002 was the lowest since Belarus became independent—although it remained the highest in the CIS. Fiscal and monetary policies were tighter in 2002 than in previous years. Price liberalization has expanded, while energy sector cross-subsidization has been reduced and cost recovery has sharply increased.

Nevertheless, Belarus remains among the least reformed of the transition countries. The economy remains predominantly state-owned and impediments to private sector development are overwhelming. There has been relatively little foreign direct investment and the economy remains dependent on Russia for subsidized imports of energy. External competitiveness has weakened, largely because of administrative wage increases not matched by productivity growth and a substantial real appreciation of the rubel since mid-2001.

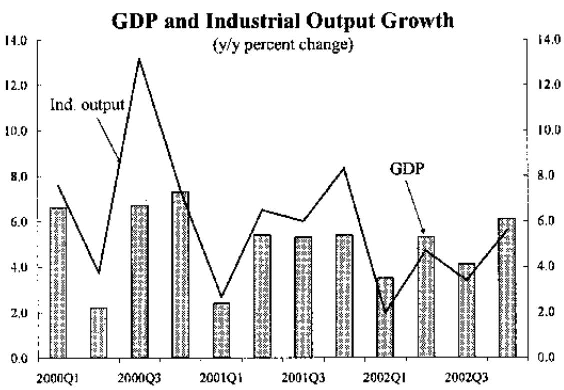
Although exchange rate unification has held since late 2000, the exchange rate regime needs rethinking. As part of an agreement to establish a currency union with Russia, the authorities pre-announce a crawling band against the Russian ruble. (The existing agreement envisages a hard peg of the Belarusian rubel to the ruble in 2004.) However, in practice they target the U.S. dollar and seek to implement the president's promises of economy-wide average wage levels set in dollar terms. Regardless of whether or not a peg/currency union is imminent, there is a need to restore lost external competitiveness and rebuild international reserves.

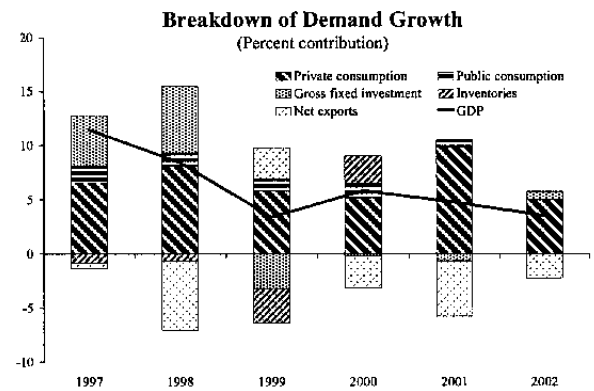
The mission does not take a view on the merits of monetary integration with Russia. The theory of optimal currency areas notwithstanding, this is fundamentally a political issue. A hard peg or ruble-ization would, however, have strong implications for the fiscal stance and structural reforms. The authorities should be mindful of the risks of implementing macroeconomic policies that are not consistent with the chosen exchange rate regime.

Despite the authorities' request for immediate negotiations on an SBA, the staff continues to believe a successful track record of sound economic policies is needed. The authorities do not at present favor a second SMP, and argue that there is no need for a sustained period of good macroeconomic policy before negotiations could begin on an SBA. However, the authorities do not agree with the mission on the appropriate stance of macroeconomic policies. On current policies, the staff projects growth of about 3½ percent and inflation of just under 30 percent in 2003. The mission believes that Belarus needs to tighten fiscal and monetary policies considerably, as well as implement supportive structural reforms, in order to reduce inflation markedly and set the stage for higher growth in the medium term.

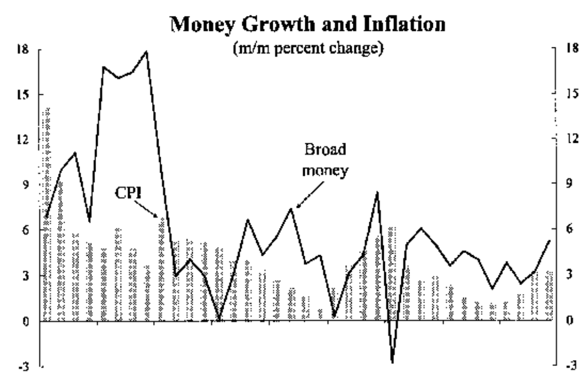
I. Economic Developments in 2002 and Early 2003

1. **Macroeconomic performance in 2002 was mixed.** Driven by consumption, reported real GDP growth was 4.7 percent, similar to the 2001 level.[1] Industrial production rose by 4.3 percent, led by external demand for oil products, while the government-financed housing program fueled the construction sector. Services expanded by 7.1 percent, but agriculture performed weakly, growing by only 1.5 percent. The large administrative wage increases in late 2001—combined with a substantial real appreciation of the rubel—adversely affected corporate finances and the balance of payments. Public finances also weakened, and inventories of unsold goods and domestic payments arrears increased. Official reserves rose sharply at end-year, owing largely to one-off factors. In the absence of these inflows—which included one very large privatization transaction—the level of reserves would have remained critically low.



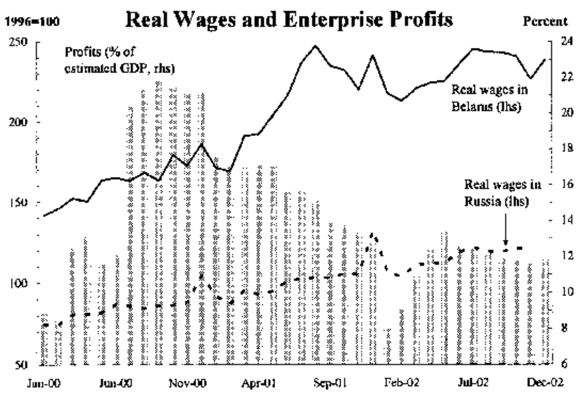


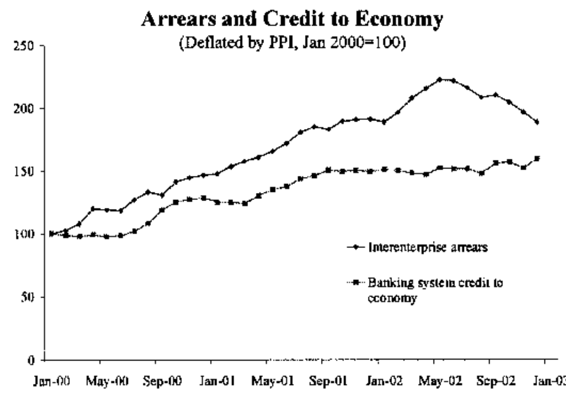
2. **Inflation continued its downward trend, although it is still the highest among the countries of the Commonwealth of Independent States (CIS).** The 12-month rate of inflation fell from 46 percent during 2001 to about 35 percent during 2002, reflecting comparatively tight fiscal and monetary policies in the first three quarters of the year, as well as relative exchange rate stability. Inflation picked up late in the year and during Q1 2003 owing to seasonal factors, increases in administered prices, and a significant relaxation in the stance of fiscal and monetary policy following the September 30 conclusion of a financial program agreed with Russia.



[1] Growth rates would be at least 1 percent lower if internationally accepted methodology were used (Appendix III).

3. **Administrative wage increases in late 2001 undermined external competitiveness and the finances of the corporate and public sectors in 2002.** Real wages grew by 31 percent (y-o-y) during 2001 and by a further 8 percent during 2002.[2] (Real productivity growth was about 5 percent in 2001 and 6½ percent in 2002.) Enterprises came under particular pressure to clear wage arrears at end-year, even at the expense of higher interenterprise arrears. Sharply increased costs meant that corporate profits declined precipitously, while the share of loss-making companies in industry rose. Officially, employment fell by 1.8 percent during 2002 while the unemployment rate increased from 2.3 percent to 3 percent. As much as 10 percent of the work force was underemployed, and the number of available vacancies fell by 25 percent.





4. **Fiscal policy was marked by weak revenue performance and tight financing constraints.** Weak enterprise profitability meant that corporate income and payroll taxes were particularly soft, though VAT receipts were relatively buoyant, owing to strong consumption growth. Government expenditure continued to be affected by the 2001 wage increases and the commitment to maintain or increase spending on priority social areas. At the same time, the poor performance of the agriculture sector and the need to prop up commercial banks put an additional burden on public finances. The fiscal balance, after remaining reasonably tight for most of 2002,

General Government Fiscal Developments
(In percent of GDP)

	2000	2001	2002 Prelim.
Revenue	45.7	44.9	44.0
Expenditure (cash)	45.9	46.8	45.8
Noninterest	45.0	46.1	45.2
Primary balance (cash)	0.7	-1.2	-1.2
Overall balance (cash)	-0.2	-1.9	-1.8
Overall balance (accrual)	-1.0	-3.1	-1.9
Memorandum item			
Change in arrears	0.8	1.2	0.1

Sources: MoF and IMF staff estimates.

[2] Before re-election in September 2001, President Lukashenko promised that average monthly wages would rise above US$100 by end-2001 (achieved, at $106), above $125 by end-2002 (missed modestly, at $115) and to at least $250 by end-2005. The authorities seem to have abandoned the practice of targeting wages in dollar terms, but have made no public announcement to this effect.

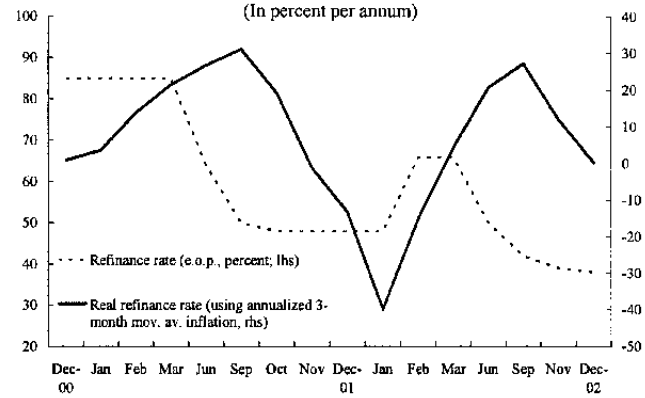
expanded in December to yield a cash deficit of 1.8 percent of GDP for the year (1.9 percent on an accrual basis, as substantial arrears were not accumulated). The authorities have been unable to place significant net amounts of domestic or external government debt. Quasi-fiscal activities continue to impose a heavy burden on the economy, and progress with tax reform has been mixed. Although Part I of the new Tax Code is in place, plans to phase out the highly distortionary turnover tax have been postponed to ensure continued funding to the agriculture sector. In early December the government received proceeds from a hastily-arranged sale of its 11 percent stake in a major oil company, Slavneft.[3]

5. **The authorities took strong measures to stabilize the finances of the Social Protection Fund (SPF).** The administrative wage increases in late 2001 undermined compliance on SPF taxes and caused statutory benefits to grow. After making unplanned transfers from the central government of about ¾ percent of GDP during the first half of the year, the authorities delayed indexation of benefits and broadened the tax base to include self-employed entrepreneurs. As a result, the SPF posted a small overall surplus for the year as a whole.[4]

6. **Monetary policy in 2002 was tighter than in 2001.** There was also some remonetization, reflecting a region-wide phenomenon.[5] Reserve money growth slowed to 32 percent (from 103 percent in 2001), as the NBB sterilized excess liquidity in the first quarter and then loosened the stance of monetary policy during the second quarter (for the sowing season) and again toward end-year to accommodate additional government financing needs.[6] Rubel broad money grew by more than 60 percent (compared to 97 percent in 2001), owing in part to lower reserve requirements on household rubel deposits (as well as lower effective reserve requirements overall). Indeed, household rubel deposits more than doubled in nominal terms as interest rates were held at very high levels until late in the year. The NBB gradually reduced the nominal refinance rate from 66 percent in January to 38 percent in November, keeping it at

Nominal and Real Refinance Rate

(In percent per annum)



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[3] Russia's Sibneft (the only bidder) paid $207 million, or 1.6 percent of GDP.

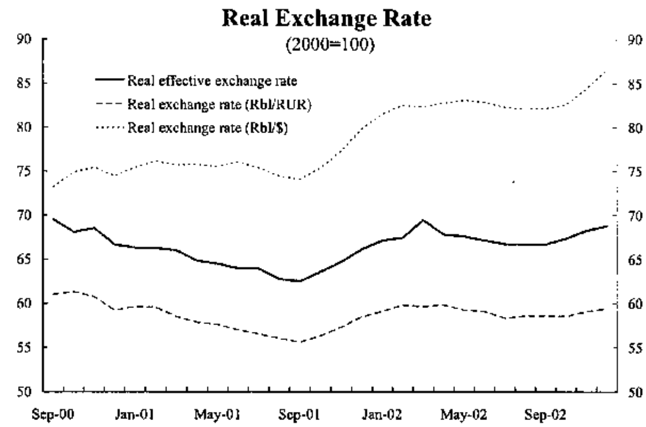
[4] Chapter I of the Selected Issues papers considers pension system reform.

[5] Rubel broad money velocity fell by 12 percent during 2002. Chapter II of the Selected Issues papers investigates trends in money demand in Belarus.

[6] Of the increase in reserve money, 56 percent was due to direct NBB credit to government, most of which was earmarked for housing construction.

or above 20 percent in real terms during Q2 and Q3. However, real interest rates were allowed to fall below zero by end-year as inflation picked up once again.[7]

7. **The exchange rate regime has become a source of vulnerability for Belarus.** The NBB formally describes its exchange rate policy as a crawling band against the Russian ruble, in part because the authorities are aiming to establish a monetary union with Russia by 2005. De facto, however, the authorities seek to anchor inflationary expectations by identifying the band in terms of the U.S. dollar, a practice that had limited implications in 2002, due to the relative stability of the ruble/dollar rate. (Given the president's commitment to average wage targets set in U.S. dollar terms, the monetary authorities face political pressure to engineer a real appreciation.) Moreover, 60–70 percent of banking system deposits are denominated in foreign currency, contributing to a "fear of floating." As a result, by end-February 2003 the rubel had risen in real terms against the U.S. dollar by 20 percent since September 2001 (and by 6 percent against the ruble), undermining competitiveness and thus risking a deterioration in the balance of payments and a continued erosion of reserves.[8]



8. **The balance of payments situation remains precarious.** The external current account deficit, at US$279 million (2.0 percent of GDP), was almost unchanged compared to 2000–01, as weak FDI and other financing flows constrained imports. The merchandise trade deficit widened, particularly vis-à-vis Russia and Ukraine, as enterprises in these countries have become more competitive and are no longer so willing to engage in barter (e.g., Belarusian tractors for Russian gas). The trade balance improved relative to non-CIS countries, mainly due to increased exports of oil products. The overall balance of payments recorded a $167 million surplus,

Direction of Trade
(In billions of U.S. dollars)

	2000	2001	2002 Prelim.	2002 Percent Increase over 2001
Exports	7.3	7.4	8.1	8.7
Russia	3.7	4.0	4.1	2.4
Rest of CIS	0.7	0.5	0.4	-23.3
Rest of world	2.9	3.0	3.6	23.0
Imports	8.6	8.2	9.0	9.8
Russia	5.6	5.3	5.8	9.3
Rest of CIS	0.5	0.4	0.4	4.1
Rest of world	2.6	2.5	2.8	11.8

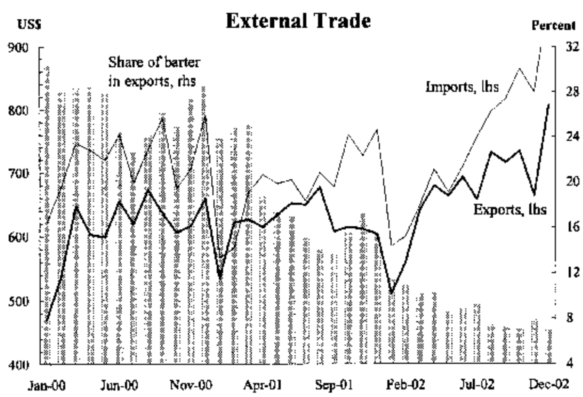
Source: Ministry of Statistics.

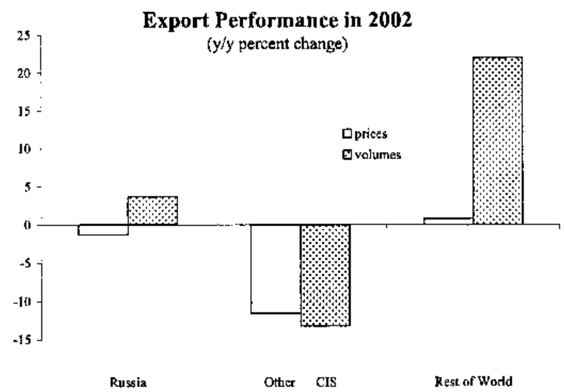
[7] Many borrowers, including the agriculture and housing sectors, continued to benefit from very low, negative in real terms, preferential rates.

[8] The spread between the official and curb market exchange rates remains well below 2 percent. There were reports at mid-year that some local governments—in violation of NBB and national government policy—had attempted informally to limit the size of foreign exchange purchases by individuals. The NBB quickly put a stop to these attempts, and there is no evidence that any restrictions are in place at present.

mainly because of large capital inflows in December, when the government sold its share in Slavneft and received a disbursement of $40 million from the Russian government earmarked for settling arrears to Russian energy suppliers. Gross official reserves remained at extremely low levels until December, when they rose to $601 million (0.8 months of imports) following the deposit by the government of the privatization proceeds from the sale of Slavneft.[9] (Although fragile, the reserves position is bolstered by a 30 percent compulsory surrender requirement on exporters.[10]) Arrears on Russian gas were flat until late in the year, when commercial banks were pressed to finance repayment of arrears by Beltransgaz. As a result, overall arrears fell by $110 million during 2002, of which $73 million was for gas.

9. **Lower prices for gas supplied by Russia's Gazprom mask some of the underlying BoP deterioration.** Under the terms of an agreement reached in early 2002, Gazprom lowered the price of gas from $29 to about $24 per 1,000 m^3. However, Belarus used up the annual quota of gas permitted under this agreement (10.6 billion m^3) by early November, and had to pay about $40 per 1,000 cubic meters for additional deliveries through the end of the year. (The value of the implicit subsidy provided to Belarus in this fashion during June–October was about 1.2 percent of contemporaneous GDP.)





10. **There have been some positive steps in the area of trade policy.** The trade regime continues to be rated 8 under the Fund's trade restrictiveness index. This rating is consistent with an unweighted average tariff of 14.7 percent, combined with (i) export quotas, (ii) export licensing requirements, (iii) export price controls, and (iv) foreign exchange surrender requirements. The weighted average tariff now stands at 9.8 percent. The range of goods subject to export price controls has been reduced modestly. Moreover, 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

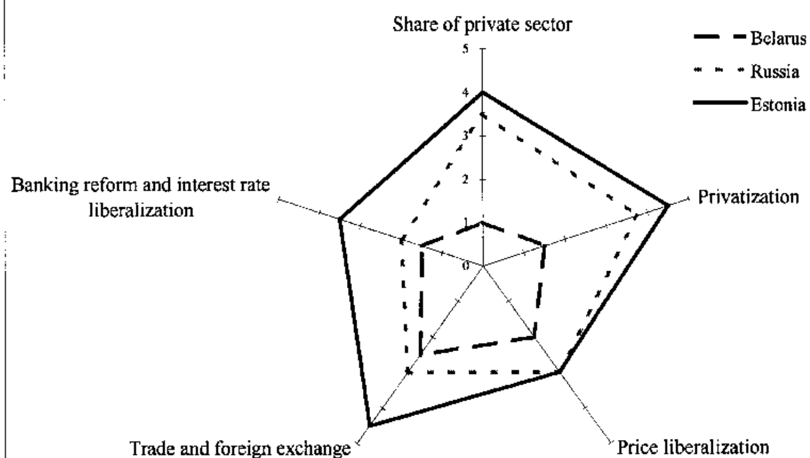
[9] Had it not been for the one-off capital inflows in December, reserves would have remained at about 0.5 months of imports at end-year.

[10] Exporters surrender well above 30 percent of foreign exchange receipts in practice.

structure with Russia, and a fourth round of negotiations on WTO accession took place in early 2003; the authorities are now working on a checklist of outstanding issues. Belarus is not considered a market economy by a number of major trading partners.

11. **The banking sector remains fragile.** The foreign asset cover of commercial bank foreign currency deposits has fallen to very low levels (Box 1) and the banking system has incurred net losses in last two years. The six largest banks (five of which are state-owned) have often been forced to lend to priority sectors/enterprises, and may have asset portfolios of dubious quality.[11] As a consequence, the government supports these banks through periodic capital injections. Although elimination of directed lending was a condition of the SMP, the largest banks were required to lend to agricultural processing enterprises during the summer, as well as to finance the clearance of enterprise wage arrears and debt to Russian energy suppliers at end-year. The authorities report that the ratio of non-performing to total loans fell from 14.4 percent at end-2001 to 8.3 percent at end-2002. However, given weak corporate profitability, the staff believes that the quality of bank assets may have actually deteriorated during 2002. This worsening in bank assets suggests that currency mismatches may be growing as well.

Reform Progress



Source: EBRD Transition Report 2002.
Note: Minimum score (little progress) is 1 and maximum score is 4.5 ("4+") except for the share of private sector, which is re-normalized between 0 and 5. The privatization indicator is an average of the small-scale and large-scale privatization scores.

[11] Austria's Raiffeisen has recently acquired a majority stake in the only significant private bank, Priorbank.

Box 1. Financial and Corporate Sector Vulnerability

Financial sector vulnerability indicators tell a mixed story. On paper, capital adequacy seems good and the reported share of non-performing loans is declining. However, corporate sector profitability has been badly affected by administrative wage increases and real appreciation of the rubel, suggesting that bank assets may be rather more impaired than official indicators show. In addition, the high level of dollarization suggests a significant risk of currency mismatches. Continued real increases in commercial bank credit to the economy (80 percent of which consists of state enterprises) and the authorities' renewed resort to directed credits in mid-2002 suggest that official data on financial sector health should be treated with caution.

Belarus: Selected Financial and Corporate Sector Indicators (2000–02)
(In percent unless otherwise indicated)

	2000	2001	2002
Banking sector 1/			
Capital adequacy			
Risk-based capital asset ratio (capital over risk-weighted assets)	24.4	20.7	24.2
Asset quality			
Share of non-performing loans in total loans	15.2	14.4	8.3
Required provisions against NPL	9.2	9.1	5.8
Actual provisions against NPL	7.1	5.2	1.7
Earnings and profitability			
Return on equity	4.8	4.9	4.4
Return on total assets (with actual loan loss provisioning)	1.0	0.8	1.0
Adjusted return on total assets (with full loan loss provisioning) 2/	0.1	-0.3	-0.3
Return on credits	1.3	0.9	0.5
Liquidity			
Liquidity ratio	...	...	67.3
Deposits/M2	84.9	78.6	80.9
NBB credit to banks (as percent of GDP)	1.2	1.1	1.0
Domestic loans/deposits (com. banks only) 3/	112	124	128
Loans/total assets (com. banks only)	67.9	39.1	39.1
Foreign exchange risk (com. banks only)			
Share of foreign exchange loans in total domestic lending	58.6	60.1	57.4
Share of foreign exchange deposits in total deposits	70.4	65.9	60.5
Market assessment			
Credit rating	C	C	C 4/
Corporate sector			
Overdue payables (as percent of GDP)	22.4	21.2	18.1
Profitability ratio	13.2	7.8	8.7
Share of firms reporting losses	22.3	33.4	34.9
Memorandum item:			
Credit to the economy/GDP	16.5	14.9	16.0

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

1/ Books of the major banks are usually audited by local branches of internationally reputable audit companies.
2/ Using the authorities' definition of required loan loss provisioning.
3/ Domestic loans excluding (net) lending to the government and the NBB.
4/ Fitch ratings for short-term debt of Belarusbank and Priorbank. In October 2002, Fitch withdrew the rating for Priorbank.

12. **With a few exceptions, structural reforms have largely stalled since 2001**. The key exception is the reduction in energy sector cross-subsidization, as utility tariffs and rental payments were increased by an average of 190 percent over the course of the year. Indeed, the authorities have argued that the wage increases in 2001 were needed so that household utility tariffs could be increased in 2002 (Box 2 discusses this assertion).[12] Some progress was also achieved in price liberalization, and a recent draft decree would reportedly reduce the number of activities requiring licenses sharply.[13]

13. **The business environment continues to be among the least hospitable in the region**. The tax and regulatory regimes are overbearing and—more important—unstable. The economy is still overwhelmingly state-owned, but the authorities are beginning to corporatize firms at a faster rate than in the past, and are moving toward large-scale privatization. In addition to the sale of the Slavneft stake, the Belarusian parliament recently approved the possible privatization of Beltransgaz. Moreover, the authorities are near to completing the corporatization of a number of large petrochemical companies, and have announced terms and conditions for the sale of stakes in five large enterprises in the sector (Box 3). Nevertheless, the regulation permitting the President to introduce the "golden share" in a company *after* it has been privatized remains in force.[14]

II. Economic Integration with Russia

14. **Prospects for monetary integration of Russia and Belarus are unclear.** Although it is not obvious that Russia and Belarus form an optimal currency area, cultural and political affinities between the two states are strong.[15] However, it will be very difficult for Belarus to achieve the fiscal and structural adjustment (including labor market flexibility) needed to underpin a hard peg or ruble-ization according to the existing timetable (Box 4).

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[12] Administrative price increases contributed to inflation during some months of 2002 and early 2003. The discussion of core inflation in Chapter III of the Selected Issues papers suggests that as much as 12 percent of the y-o-y inflation in 2002 may be attributed to supply shocks such as administrative price hikes.

[13] The authorities have met most of the conditions under the SMP on price liberalization (though the list of prices subject to ministerial control still exceeds the SMP ceiling).

[14] The President may issue a decree giving the government effective control in any firm in which the state retains even one share, even if this was not foreseen at the time the enterprise was incorporated.

[15] See Chapter IV of the Selected Issues papers, which updates "Belarus-Russia Monetary Union," Chapter V of SM/02/9 (01/04/02), pp. 47–57.

Box 2. Wage Policy and Increases in Utility Tariffs

Household utility tariffs were raised sharply in 2002, but from very low levels. Average utility prices grew by 190 percent during 2002, much faster than consumer inflation. While utility payments made up only about 5 percent of consumption expenditures in 2001, they reached 10 percent in 2002, thereby returning to the level of 1995 when the authorities began implementing "socially-oriented" policies. In Russia and Estonia, consumers spend on utilities about 10 percent and 15 percent of their expenditures, respectively.

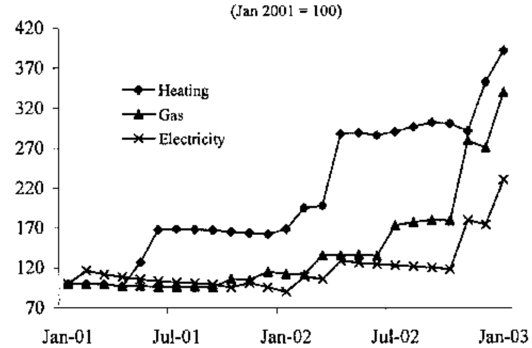
Tariff hikes have been more than compensated by wage increases. Real wages grew by 31 percent in 2001 and by an additional 8 percent in 2002, compared with GDP growth of less than 5 percent in each year. Based on winter utility rates, the December payment for a two-bedroom apartment occupied by three persons (two of which are wage earners) was about Rbl 56,000 in 2002, up from Rbl 19,000 in 2001 (summer tariffs are around 55 percent of winter tariffs). Nominal wages rose by approximately Rbl 46,000 per person after taxes, suggesting that this household spent about 30 percent of its incremental wage income on utility payments. However, taking into account that some energy prices rose substantially only in November and December, this household actually spent just 15 percent of its incremental after-tax wages on utility payments. Importantly, in 2003 the household will face the higher tariffs for the full year.

A similar conclusion emerges from the analysis of aggregate data. Household money income grew from Rbl 12.5 trillion in 2001 to Rbl 19.2 trillion in 2002. Utility payments rose by estimated Rbl 700 billion last year. Therefore, the population spent on average about 12 percent of their incremental after-tax monetary income on additional utility payments.

The foregoing does not imply that higher tariffs were easy for the poor to bear. However, targeting of social assistance—including means-tested lifeline tariffs—would have been far cheaper than an administrative economy-wide wage hike.

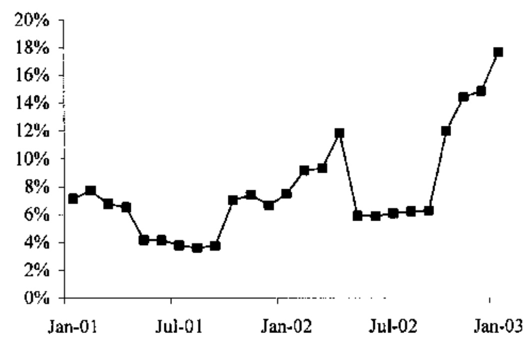
Real Utility Prices

(Jan 2001 = 100)



Sources: Ministry of Economy and IMF staff estimates.

Share of Utility Payments in Disposable Income



Note: Summer tariffs in effect during May-September.
Sources: Ministry of Economy and IMF staff estimates.

Household Utility Payments

	Dec 2000	Dec 2001	Dec 2002
Total (winter tariffs)	10,038	19,072	56,217
Total (summer tariffs)	6,380	10,374	30,737
of which:			
Electricity	2,160	2,880	7,080
Gas	462	777	2,475
Heating	3,648	8,688	26,401
Hot water	1,104	2,622	7,680
Household gross wage	175,400	332,400	441,800
Household net wage	149,090	282,540	375,530

Note: A household has three members (two wage-earners) living in a two-room apartment.
Sources: Ministry of Economy and IMF staff estimates.

Box 3. Government Plans for Large Scale Privatization in 2003

Relative to other transition countries, progress with privatization has been very slow in Belarus. Over 1500 enterprises were corporatized (transformed into joint stock companies) from 1991 to January 1, 2003, but still only 20 percent of GDP was produced in the private sector in 2001, the lowest share among all transition countries. The authorities count corporatized and partially privatized enterprises in the private sector, meaning the official statistics overstate the private sector contribution to GDP (putting it at almost 50 percent in 2001).

The government has announced plans to auction 43 percent stakes in four petrochemical companies in early 2003: the *Naftan* oil refinery (with a price floor of US$476 million); the *Polimir* polymer plant (US$311 million); Grodno *Azot*, a nitrogen fertilizer manufacturer (US$293 million), and Grodno *Khimvolokno*, a chemical fiber maker (US$71 million). The winners would acquire (for cash, not barter) 20 percent of shares in 2003, 10 percent in 2004 and the remainder in 2005. The government has placed a number of restrictions on the buyers: they would have to invest an amount equal to the sale price, while maintaining social guarantees and all social infrastructure currently owned by the enterprise, and they may not cut jobs. Some observers have argued that these conditions, and the minimum prices, could discourage potential buyers.

The authorities have also announced plans to corporatize large enterprises in other industries. The government intends to corporatize Beltransgaz by April, and transform it into a Belarusian-Russian joint venture with Gazprom by July. In addition, other firms to be corporatized and privatized include the scientific and production association Integral, the Kirov Automobile Factory in Mogilyov, the glass factory Neman, and the Minsk Computing Equipment Factory.

15. **Presidents Lukashenko and Putin have disagreed publicly about political and monetary integration.** President Lukashenko—traditionally seen as the one pressing most aggressively for unification—was apparently caught off-guard by President Putin's offer to accelerate the process in August. Russia proposed that Belarus "ruble-ize" ahead of schedule in 2004, and suggested two options for political integration, depending on the outcome of a referendum in both countries: incorporation of Belarus into the Russian Federation or an approach similar to the European Union. President Lukashenko rejected both options, preferring a vaguely defined "Union State" that ensures continued sovereignty for Belarus.

III. Policy Discussions

A. Overview

16. **Responsiveness to Board recommendations has been mixed**. In the context of the last consultation, Executive Directors recommended that the authorities refrain from setting unsustainable wage targets, including in foreign currency terms. In practice, the authorities seem to be moving away from setting wage targets in foreign currency terms, but continue to target real wage growth that is based on unrealistic expectations for productivity. Directors also advised the authorities to use the flexibility allowed under the crawling band arrangement to avoid a further erosion in external competitiveness; however, the real appreciation of the rubel has continued. Finally, Directors emphasized the importance of

structural reforms, including price liberalization, improving the business environment, and accelerating privatization. Some progress with price liberalization took place, and significant measures were taken with respect to removal of energy sector cross subsidization.

Box 4. Progress Toward Monetary Unification of Belarus and Russia

Negotiations on monetary union have been protracted. Following a 1999 treaty on creation of a Union State, the authorities in both countries signed a Joint Action Plan on monetary unification (JAP) in June 2002. The JAP envisages a hard peg of the Belarusian rubel to the Russian ruble in 2004 and "ruble-ization" in 2005. In this context, the CBR opened a Rub 4.5 billion credit line to the NBB, conditioned on performance against an agreed financial program. Rub 1.5 billion was disbursed in 2001 (and rolled over in 2002), and the other two tranches were disbursed in 2002. All three tranches fall due in 2003; they could be rolled over again, but there is no agreement on a financial program for 2003.

The JAP also envisages a broad agenda of fiscal and structural measures. Tax law and fiscal policy are to be harmonized with those of Russia by 2004, including elimination of direct NBB credit to government. Trade and customs policy is already largely harmonized, but difficult structural reforms are envisaged in a number of areas.

There is not full agreement about the mechanics of currency unification. Although the NBB acknowledges the need for a "single emission center," they do not agree that this center should be the CBR. They would prefer to create a new institution to oversee monetary policy for the currency area. Russia categorically rejects this idea, and is adamant that CBR independence not be undermined. In recent press remarks, NBB officials have indicated that, although they plan to peg to the ruble on January 1, 2004, they may postpone currency union for several years.

The NBB is considering conversion to the ruble at an appreciated exchange rate, specifically a purchasing power parity (PPP) rate that is about 40 percent more appreciated than the current market rate. In light of possible real appreciation of the Russian ruble over the medium term, the mission strongly cautioned the NBB against adopting an overvalued conversion rate that would undermine export competitiveness and growth.

17. **The 2003 discussions focused on the following:** (i) the policy implications of fixing the exchange rate to the Russian ruble on January 1, 2004, and joining a currency union with Russia on January 1, 2005; (ii) macroeconomic policies in 2003 and over the medium-term; (iii) external and domestic vulnerabilities, particularly in the banking sector; and (iv) IMF relations, including forms of technical cooperation.

18. **The mission did not take a position on whether or not Belarus should join a currency union with Russia.** Rather, it sought to ensure that policymakers understood the implications for fiscal and monetary policies of a peg or a currency union. In this context, the staff argued that the authorities' projections for 2003 were built on a macroeconomic framework that relies on overoptimistic assumptions for GDP growth, exports, FDI, and money demand. The mission urged the authorities to tighten monetary and fiscal policies to bring inflation closer to the levels expected in Russia (8 percent in 2004), as well as to

accelerate structural reforms well ahead of pegging. In particular, the staff expressed concern that direct NBB financing of the budget deficit would continue throughout 2003, and urged the authorities to abstain from directing commercial bank credit to priority sectors or objectives.

19. **The Belarusian authorities continue to favor a gradual approach to reform and macroeconomic stabilization.** While gradualism might be a feasible (if decidedly less than optimal) approach under normal circumstances in Belarus, the prospect of currency union with Russia makes it a very poor strategy at present. Thus, the mission emphasized the urgency of adjusting macroeconomic policies to underpin the planned exchange rate peg.

B. Outlook for 2003

20. **The mission argued that the authorities' projection of 6–6 ½ percent growth in 2003 is overoptimistic**, noting particularly the fact that key trading partners are expected to grow much more slowly. The mission presented two alternative projections—a **baseline** (current policies) and a **reform** scenario, with the latter indicating the size of the adjustment needed to underpin an exchange rate peg on January 1, 2004. Under the staff's baseline scenario, growth would only be 3½ percent.[16] Under the reform scenario, real GDP growth would be 2 percent in 2003, given the need for a considerable fiscal and monetary adjustment to bring inflation down and to make the exchange rate peg sustainable. This lower rate of growth is more than compensated over the medium term, however. (See Appendix IV.) The experience of neighboring transition countries suggests that robust economic growth will only begin once macroeconomic stabilization takes root and structural reforms are implemented.

Key Economic Aggregates and Projections, 2001-03

		2002	2003		
				IMF Staff	
	2001	Prelim.	Auth.	Baseline	Reform
	(Percentage change; end-of-period)				
Real GDP	4.7	4.7	6.0-6.5	3.5	2.0
CPI	46.1	34.8	18-24	27.0	17.0
RER vs. U.S. dollar	7.5	8.3	-1.0	1.4	-6.6
RER vs. ruble	-1.0	1.6	-8.9	-6.7	-14.1
Real effective exchange rate	-0.8	4.0	-6.0	-3.7	-11.3
Rubel reserve money	114	40	35-42	38	29
Rubel broad money	97	60	28-35	35	25
	(In percent of GDP)				
Current account balance	-2.3	-2.0	-1.4	-2.4	-1.4
Gen. govt. balance (commitment)	-3.1	-1.9	-2.7	-4.0	-0.2
	(In millions of U.S. dollars)				
NFA of the NBB	229	441	283-319	320	450
FDI (net)	96	338	565	156	176

Sources: Belarusian authorities and IMF staff estimates.

21. **The authorities are unwilling to revise macroeconomic policies and objectives for 2003**, arguing that to do so would undermine the 2001–05 economic development plan. Specifically, they fear that elimination of direct central bank financing of housing construction in 2003 would cut real GDP growth, and assert that the required fiscal adjustment would be difficult to accomplish without limiting expenditure in politically

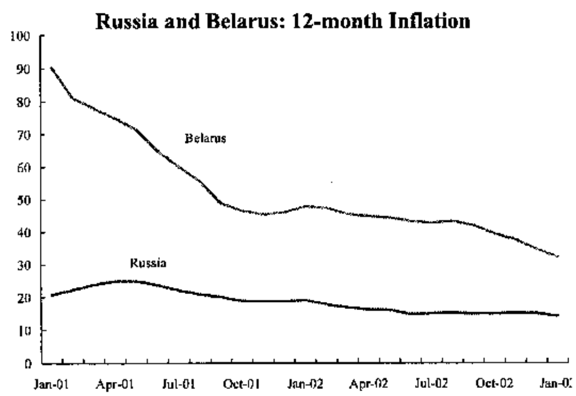
[16] The staff projects GDP growth in 2003 of 3½ percent for Russia and 1.4 percent for the Euro zone.

sensitive areas, such as agriculture, education and health care, where the authorities have announced ambitious targets for increased real spending in 2003–04. The authorities do not seem fully convinced of the need to harmonize macroeconomic policies with those of Russia before pegging the exchange rate.

C. Fiscal and Monetary Policies

22. **The mission argued that—on current policies—inflation during 2003 is likely to be 27 percent**, well above the authorities' target (18 percent–24 percent) and the target in Russia (10 percent–12 percent). The authorities argue that the remonetization of the economy and accommodation of the inflation objective will require rubel reserve money growth of 38 percent (and the resulting rubel broad money growth of 35 percent).

23. **The staff proposed a considerably lower expansion in reserve money to bring inflation to 17 percent by end-2003**, the level required to ensure that Belarusian inflation in Q4 is approximately in line with that of Russia. Under this reform scenario, rubel reserve money growth would have to be about 15 percent, primarily by limiting NBB credit to government. Rubel broad money growth would likely be about 25 percent, in line with a growth in banking system credit to the economy of about 21 percent.



24. **The mission emphasized that an exchange rate peg would not be durable without supportive fiscal policies.** The authorities project a significant increase in VAT receipts in their 2003 budget, and an even larger increase in payroll tax contributions to the SPF. The mission expects revenue performance in 2003 to be broadly similar to that of 2002, while expenditure commitments in the budget are up sharply.[17] In order to support the peg, the mission proposed an adjustment in the budget deficit of about 4 percent of GDP (commitment basis), relative to the baseline scenario.

25. **In the staff's view, most of this adjustment should come on the expenditure side,** given the already high tax burden in Belarus. The mission stressed that, instead of large cuts in social spending, the adjustment should be focused on reducing subsidies to agriculture, and scaling back the housing construction program, road construction, and budgetary lending.

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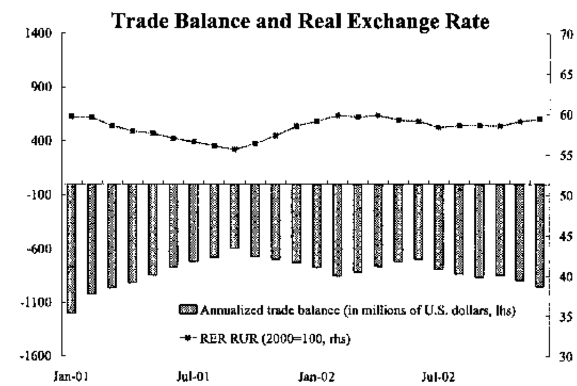
[17] The 2003 budget includes substantial real increases in spending on health, education and social policies. It includes no provision for budgetary lending, which was a major source of unbudgeted expenditure in 2002.

Targeting of social assistance should be improved.[18] In this context, staff encouraged the authorities to implement as rapidly as possible the key recommendations of the World Bank Public Expenditure Review.

D. Exchange Rate Policy

26. **The mission argued that the rubel is currently overvalued.** Since September 2001, the real effective exchange rate has risen by 10 percent. Indeed, over the past two years real wages have grown by about 42 percent while productivity growth was only 12 percent. Restoring competitiveness at this stage is particularly important in light of plans to peg the rubel to the ruble on January 1, 2004. Once pegged, the rubel would be expected to remain so until a currency union is in place, and it is certainly possible that the Russian ruble will appreciate in real terms over the medium term, exacerbating the effect of any misalignment at the time of the pegging.

27. **The mission urged the authorities to aim for some real depreciation of the rubel** in order to restore competitiveness lost over the past 18 months. This could be achieved by holding to the pre-announced nominal crawling band for 2003, while implementing policies geared at reducing inflation to the target proposed under the reform scenario. The authorities were not uniformly persuaded that the external competitiveness lost over the past two years needs to be restored.



28. **There was more agreement, however, on the need to reorient the exchange rate regime itself.** Although the de jure target of the exchange rate crawling band regime is the Russian ruble, de facto the authorities target the U.S. dollar. About 60 percent of Belarusian trade is with Russia and the two economies are highly integrated. Moreover, the two countries have signed an interstate agreement envisaging currency union in less than two years. The authorities indicated that they agree with the need to bring the de facto regime in line with the de jure regime.

[18] The SPF budget for 2003 envisages a significant increase in benefits, while the staff suggested that SPF spending be held to about the level of 2001–02. Moreover, significant reforms will be needed in the medium term, and these will require additional resources (see Box 5 below).

E. Structural Policies

29. **The mission noted that while supportive monetary and fiscal policies are *necessary* for a pegged exchange rate to be sustainable, they are not *sufficient*.** Staff argued that deep structural reforms are needed to help the Belarusian economy adjust over time to changing international conditions, including the expected increase in energy prices. Labor markets need to become much more flexible, including by streamlining the existing administratively determined wage tariff classifications, and by allowing enterprises to lay off redundant workers in order to improve productivity. The authorities agree that structural reforms are needed, but are constrained by the need to support well publicized social objectives. Nevertheless, the authorities seem to have abandoned the practice of targeting average wages in dollar terms, but are reluctant to announce this change to the public.

30. **The mission and the authorities broadly agree on the need to improve the environment for private business in Belarus.** The chief barriers to private sector activity seem to be (i) the unstable legal and administrative framework; (ii) the excessive—and again unstable—tax burden; and (iii) the pervasive culture of state intervention and inspections. Thus, for instance, the mission urged the authorities to streamline the licensing regime substantially, and a long-awaited presidential decree doing so is expected to be issued shortly. Over the medium term, however, these measures will not be effective unless supported by an effective civil service reform.

31. **Privatization is essential to stimulate investment and to make the enterprise sector more market oriented.** The staff argued that it would be particularly important to ensure that the privatization process be transparent and competitive, and suggested that this outcome would be facilitated by employing internationally recognized consultants to advise in this process. The mission advised that large government holdings, including Beltransgaz, be subjected to an independent audit by an internationally-reputable firm before their privatization (including through any debt-equity swap for gas arrears).[19] The staff welcomed progress with corporatization, and encouraged the authorities to complete the process of administratively separating enterprises from branch ministries. The mission urged that small scale privatization be accelerated, and recommended elimination of the decree allowing the president to issue a golden share *after* a firm has been privatized. The authorities recognize the need to address these concerns, and are preparing draft legislation that would make it impossible to issue the golden share in a firm unless that had been foreseen at the time of incorporation.

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[19] For the time being, privatization proceeds are being saved on a special ministry of finance account, and the staff suggested that consideration be given to creation of a privatization fund, with the use of these proceeds perhaps linked to key structural reforms, such as that of the pension system (Box 5).

Box 5. A Privatization Fund for Belarus?

Several developing and transition countries have set up privatization funds to ensure prudent and transparent use of privatization proceeds, and therefore public support for large scale privatizations. The mission discussed the possibility of creating a privatization fund in Belarus, possibly geared to financing key structural reforms, such as that of the pension system.

Establishing a successful privatization fund Privatization funds have been established to mitigate the volatility and unpredictability of privatization proceeds ("stabilization" funds) as well as to save part of the revenues for future generations, for example for financing pension reforms ("savings" funds).

They are not uncontroversial, however. Some analysts believe the creation of privatization funds poses a danger to the integrity of the budget process. Accordingly, best practices for the management of privatization proceeds would seem to include the following:

- The privatization fund should be an integral part of the budget; placing it off-budget tends to limit control and reduce transparency in recording and use of revenues.
- Strict and transparent audit guidelines and rules for fund management are needed, with clear oversight arrangements involving parliament.
- To ensure transparency, privatization transactions should be recorded on gross basis, with privatization-related expenditures (such as debt relief by the government) listed explicitly.
- Privatization is a transfer of assets, and proceeds from it should be treated as financing item in the fiscal accounts.

Experience of Lithuania While not without setbacks, the overall progress with privatization in Lithuania has been good. Between 1991 and 2002, the share of the private sector in GDP increased from 10 percent to 75 percent–80 percent. A privatization fund (PF) was established in 1995. In 2000 the PF was incorporated in the budget and is administered according to the best practices above. PF resources may be used for stabilization purposes and could in the future contribute to financing the pension reform.

Lithuania: Privatization Fund (in percent of GDP)

	1996	1997	1998	1999	2000	2001	2002
Revenue	0.0	0.2	5.3	1.1	1.8	1.2	0.6
Expenditure	0.0	0.0	2.0	3.9	0.8	2.7	0.7
o/w: savings restitution			1.0	2.4	0.0	0.0	0.1
transfers to the Reserve (Stabilization) Fund						2.3	0.2
other expenditure	0.0	0.0	1.0	1.5	0.7	0.4	0.3
Stock at end-year	0.0	0.2	3.4	0.7	1.6	0.0	0.0

In addition to establishment of the privatization fund, other factors contributed to the success of privatization and attraction of foreign investment in the late 1990s: offering majority stakes in state owned enterprises (including in strategic industries such as telecommunications, energy, transport); creation of a sole agency in charge of management and privatization of the state property; and use of independent, reputable consultants—especially when privatizing "strategic enterprises."

32. **The mission urged faster efforts to reform the agriculture sector.** The authorities are very concerned about the colossal sums being channeled into agriculture (including through preferential taxes), and the president has pushed for reforms to make the sector more efficient. In this regard, the mission welcomed efforts to corporatize state farms (*sovkhozy*), while stressing that a more comprehensive reform program was needed. The authorities seem to agree with this diagnosis, but are uncertain about how to accomplish the task.

33. **Much has been done to eliminate energy sector cross subsidization and to improve cost recovery.** In particular, the mission welcomed the very significant increase in cost recovery ratios (from below 30 percent in early 2002 to 60 percent in early 2003). But increases in cost recovery need to go further, and the authorities are well aware that the Belarusian energy sector is still in need of significant reform (including by creating appropriately independent regulatory bodies). The authorities see that pressure to address institutional weaknesses in the energy sector will grow as WTO accession draws nearer.

34. **The mission urged the authorities to take early action to address financial sector vulnerabilities,** particularly in the run up to currency union with Russia. A long term solution needs to go hand in hand with reform of the corporate sector itself, including through privatization.[20] However, in the short run the mission noted that the authorities should move to tighten prudential regulations, including by (i) seeking to limit lending in foreign currency (to firms with identifiable and adequate sources of foreign currency income), (ii) guarding against bad loans stemming from political pressure; (iii) ceasing the practice of providing loans at preferential interest rates, and (iv) avoiding distress borrowing when firms seek to meet administrative targets, including to clear wage arrears. In particular, the mission urged that directed credits in all forms should once again be eliminated. The authorities seem concerned about the health of the banking sector, and have pressed for an early FSAP.

F. IMF Relations and Data Issues

35. **The authorities would like the Fund to support their program through a stand-by arrangement**, and believe that it would be appropriate to move at this time to negotiations on an SBA. They argue that a new SMP or analogous track record period is not necessary because performance under the 2001 SMP was adequate. In contrast, the staff considers that performance under the 2001 SMP was disappointing, particularly in the fiscal area, where the deficit exceeded the program target by 60 percent. More importantly, the mission and the authorities disagree sharply about the appropriate stance of fiscal and monetary policies going forward. The staff believes that a sustained period of successful macroeconomic policy performance—preferably in the form of an SMP—continues to be merited.

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[20] For example, the commercially-oriented portions of the state-owned banks could be privatized, with their quasi-fiscal activities transferred to a dedicated institution or the budget.

36. **The authorities have shown strong interest in expanding technical cooperation with the Fund**. Indeed, Belarus has a good record of implementing TA. An FAD tax policy mission advised on the draft tax code in March, and a fiscal ROSC mission will review the budget system in late April. An MAE mission consulted with the Belarusian and Russian authorities on technical aspects of setting up a currency union in early April.[21]

37. **Some key macroeconomic indicators continue to be compiled using outdated methodology**, despite the authorities' generally good record of production and dissemination of statistical data (Appendix III). The mission urged the authorities to adopt a new methodology for compiling the industrial production index that was developed with assistance from STA, as this would reduce overestimation of GDP in official statistics. However, the authorities continue to argue that the socio-economic development plan for 2001–05 (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 is still not possible under the new methodology.

38. **The authorities are close to seeking subscription to SDDS.** They have drafted and posted on their web sites SDDS-like metadata templates, publish data release calendars, and disseminate most data with a frequency and timeliness close to that recommended by the SDDS.

39. **The mission discussed with the authorities their response to the AML/CFT questionnaire.** Although Belarus has not established a full-fledged and internationally recognized Financial Intelligence Unit, they are in the process of implementing the key 1999 and 2000 UN Conventions, and seem to be implementing UN Security Council Resolution 1373. The authorities are considering requesting assistance from the Fund on drafting new AML legislation.

IV. Medium-Term Outlook and the Balance of Payments

40. To illustrate medium-term prospects, the staff prepared and discussed with the authorities two scenarios for the period to 2008 (Appendix IV). Both scenarios assume the same external economic conditions, as well as a fixed peg of the Belarusian rubel to the Russian ruble starting January 1, 2004.

41. **Staff medium-term projections highlight the urgency of macroeconomic adjustment.** Under the baseline (current policies) scenario, medium-term balance of payments prospects are clouded by low competitiveness and external financing constraints. The initial exchange rate overvaluation—along with insufficient enterprise restructuring, high labor costs, and administrative obstacles to exports—contributes to further losses in competitiveness, and leads to stagnant growth caused by import compression (and possibly a

[21] The NBB has volunteered to undergo a Safeguards Assessment.

modest build-up of external arrears and debt contracted on commercial terms). Under the reform scenario, the stance of monetary and fiscal policy is tightened significantly in 2003, and the share of government in the economy is gradually brought down to levels closer those in Russia. Growth would be expected to rebound strongly under this scenario.

42. **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 share of short-term debt and arrears. Assuming that privatization transactions are carried out in a carefully-prepared, transparent and competitive manner, relatively little FDI or external financing is likely to be forthcoming in 2003. The authorities are confident that these privatizations will be attractive to investors, and thus have more optimistic projections regarding FDI. 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

43. **Over the past two years, the Belarusian authorities have made noticeable improvements in a number of areas.** In the energy sector, cross-subsidization has been reduced and cost recovery has greatly increased, while the scope of price liberalization has expanded and a new provision streamlines the registration of small enterprises. A crisis in the pension system was averted last year through strong and unpopular measures, and inflation continues the gradual decline of previous years.

44. **However, Belarus continues to have the highest inflation in the CIS.** This outcome stems from weak macroeconomic policies and has contributed to a loss of external competitiveness. The financial system is fragile, and in this regard it is particularly regrettable that directed credits have reappeared, as their elimination was a key achievement of the 2001 SMP.

45. **The authorities' projections for 2003 are both overoptimistic and insufficiently ambitious.** Their real GDP growth targets are well in excess of those in major trading partners, and they project levels of foreign direct investment that do not seem plausible. Moreover, the current pace of disinflation is not consistent with the planned pegging of the exchange rate to the Russian ruble on January 1, 2004.

46. **Exchange rate policy and the exchange rate regime itself—particularly in light of the relations envisaged with Russia—are the key challenges facing the authorities at the present time.** The choice of whether and when to peg to the Russian ruble and then to "ruble-ize" is fundamentally a political decision the Belarusian authorities will have to make. But either decision has economic consequences, and it will be important for the authorities to ensure that macroeconomic policies are consistent with the exchange rate regime they settle upon, and that the level of the exchange rate is appropriately competitive.

47. **The Belarusian rubel is somewhat overvalued at present.** Competitiveness lost through the real appreciation that has taken place over the past 18 months has impacted corporate profitability and led to tax and wage arrears. The urgency of taking action to restore competitiveness is heightened by the fact that in less than a year the rubel is likely to be pegged to the Russian ruble, a currency that—as a result of expected gains in productivity— could be marked by substantial real appreciation over the medium term.

48. **Monetary policy needs to be tightened in order to bring inflation down at a faster pace than currently envisaged by the authorities**—even if they were to decide not to peg the exchange rate. However, in light of the proposed peg, it is essential to reduce inflation to near Russian levels by the end of this year. Indeed, if monetary and fiscal policies are not tightened at this stage and the rubel continues to appreciate in real terms, the 2004 peg could cause the same social disruptions the authorities have sought to avoid through gradualism in the 1990s.

49. **Tighter monetary policy and the need to regain competitiveness should be supported by significant fiscal adjustment.** The adjustment should come on the expenditure side, given the already high tax burden in Belarus. With general government expenditure at nearly 50 percent of GDP, the necessary expenditure adjustments appear feasible without disproportionate cuts in social spending. Areas for such reductions include: subsidies to agriculture; the housing construction program; road construction, where a more cautious approach could be taken; and budgetary lending. Holding Social Protection Fund expenditures as a share of GDP to about the level of 2002 would generate savings relative to the 2003 budget.

50. **Deep structural reforms would also be needed to raise productivity and support the exchange rate.** Chief among these reforms would be efforts to make the labor market more flexible, particularly by allowing state enterprises to lay off redundant workers. Wage policy should reflect growth in labor productivity, while the target of $250/month by 2005—which is formally still in place—remains unrealistic and would contribute to lower growth and higher unemployment.

51. **It is essential to improve the environment for private business in Belarus.** The chief barriers to private sector activity seem to be (i) the unstable legal and administrative framework; (ii) the excessive—and again unstable—tax burden; and (iii) the pervasive culture of state intervention and inspections. Businesses will not invest if they cannot plan on a stable environment, and excessive state inspections create tremendous potential for corruption, and thereby raise the cost of doing business. Thus, there is a need to streamline the licensing regime substantially.

52. **Privatization would stimulate investment and make the enterprise sector more market-oriented.** It is particularly important to ensure that the privatization process be transparent and competitive, an outcome that would be facilitated by employing internationally recognized consultants to advise in the process. Progress with corporatization

is long overdue, and the authorities are encouraged to complete the process and to wean public enterprises from state subsidies. The authorities are urged to eliminate the golden share in its current form, as this would encourage foreign direct investment in Belarus. Finally, small scale privatization should be accelerated.

53. **Early action is needed to address vulnerabilities in the financial sector.** The importance of doing so quickly is heightened by the possibility that tighter monetary policy could exacerbate weaknesses in the banks. In the short run, prudential regulations should be tightened and directed lending needs to be avoided. Looking to the future, the authorities are encouraged to initiate preparation of a comprehensive program to restructure the financial and corporate sectors. Piecemeal privatization and ad hoc bank recapitalization will not solve the deep-seated problems of the Belarusian real and banking sectors. A comprehensive reform program, drawn up with assistance from the IFIs and the international community more broadly, could provide a useful roadmap for guiding the difficult reforms that lie ahead.

54. **A sustained period of positive macroeconomic performance continues to be merited before negotiations on a stand-by arrangement (SBA) could begin.** Performance under the 2001 SMP was not entirely satisfactory, and the authorities need to change macroeconomic policies decisively in a way that is consistent with the proposals noted above. In the staff's view, a successful track record period (with appropriate prior actions) of at least three quarters—preferably in the context of an SMP—would be essential prior to the use of Fund resources by Belarus.

55. **The mission strongly supports expansion of technical assistance and related forms of collaboration with Belarus.** The emphasis on expanding technical collaboration seems appropriate in this case, given that Belarus has a good record of implementing IMF technical assistance recommendations. Although there are some weaknesses, the quality of data provision is generally adequate for surveillance purposes. The Belarusian authorities are particularly encouraged to apply for subscription to the IMF's Special Data Dissemination Standard.

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

Table 1. Belarus: Selected Economic Indicators, 1999-2003

	1999	2000	2001	2002	2003		
				Prelim.	Auth.	Staff Proj. 1/	
						Baseline	Reform
	(Annual change in percent, unless otherwise indicated)						
Output							
GDP (nominal in billions of rubels)	3,026	9,134	17,173	25,518	32,900	34,104	32,577
Real GDP 2/	3.4	5.8	4.7	4.7	6.0-6.5	3.5	2.0
Industrial production	10.3	7.8	5.9	4.3	4.5-5.0	...	...
Prices and wages							
GDP deflator	316.8	185.3	79.5	41.9	18-22	...	...
Consumer prices, eop	251.2	107.5	46.1	34.8	18-24	27.0	17.0
Producer prices, eop	245.1	168.0	39.1	42.7	...	...	...
Wages (thousands of rubles per month)	19.7	59.4	125.0	191.8	244-255	...	...
Real average monthly wage (1996=100)	144.0	163.0	214.0	231.9	245.8	...	...
Average monthly wage (in U.S. dollars)	78.7	82.8	90.3	107.3	125.0	...	...
Exchange rates (rubels per U.S. dollar)							
Average	250	717	1,383	1,784	2,085-2,135	2,135	2,135
End-of-period	319	1,180	1,580	1,920	2,250-2,350	2,350	2,350
	(In percent of GDP)						
General government finances 3/							
Revenue	45.3	45.7	44.9	44.0	45.5	44.0	43.7
Expenditure (cash)	47.3	45.9	46.8	45.8	48.2	45.6	44.9
Expenditure (commitment)	...	46.7	48.1	45.9	48.2	48.0	43.9
Balance (cash)	-2.0	-0.2	-1.9	-1.8	-2.7	-1.7	-1.1
Balance (commitment)	...	-1.0	-3.1	-1.9	-2.7	-4.0	-0.2
	(12-month change in percent, unless otherwise indicated)						
Money and credit							
Annual average broad money velocity (level)	8.4	8.7	8.2	7.8	...	7.4	7.4
Annual average rubel broad money velocity (level)	15.9	19.8	18.2	15.7	14.01-14.1	14.6	14.5
NBB rubel net domestic credit	219.4	48.4	156.5	31.0	...	37.8	8.3
NBB net credit to general gov't (in bn of rubels) 4/	90.2	122.4	205.2	-302.4	152	261.7	-4.5
Reserve money	178.4	124.3	102.8	32.0	35-42 5/	21.6	15.0
Banking system net domestic credit	143.2	188.1	66.4	53.7	...	39.3	23.1
Rubel broad money	195.1	124.1	96.9	59.6	28-35	35.0	25.0
Refinance rate (percent per annum, end-of-period)	120.0	85.0	48.0	38.0 6/	29-34	...	...
	(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments and external debt							
Exports of goods	5,646	6,641	7,256	7,682	8,132	7,901	7,963
Imports of goods	-6,126	-7,525	-8,063	-8,632	-8,884	-8,956	-8,868
Current account balance	-194	-323	-285	-279	-211	-377	-209
As percent of GDP	-1.6	-2.5	-2.3	-2.0	-1.4	-2.4	-1.4
Net international reserves	54.0	137.1	185.1	435.0	...	303.9	433.9
Gross official reserves 7/	309.0	356.8	352.1	600.9	...	437.9	567.9
In months of imports of goods and services	0.6	0.5	0.5	0.8	...	0.5	0.7
Medium- and long-term debt (as percent of GDP)	5.5	5.2	6.8	7.0	...	7.9	8.2
Short-term debt (as percent of GDP)	12.7	10.6	12.9	12.4	...	11.3	11.4

Sources: Belarusian authorities; and Fund staff estimates.

1/ As of March 2003.
2/ The Belarusian national accounts overstate real growth by about 1-2 percentage points. A new industrial production index, which would correct the estimates is calculated but not published.
3/ Consolidates the state government and Social Protection Fund budgets.
4/ Flow during year. Includes revaluation of net lending in foreign currency. For the authorities' projection for 2003, in domestic currency only.
5/ Rubel reserve money.
6/ Since November 21, 2002.
7/ Based on NBB balance sheet data.

Table 2. Belarus: Fiscal Indicators and Projections, 1999-2003
(In billions of rubels, unless otherwise indicated)

	1999	2000	2001	2002	2003		
				Prel.	Authorities Budget	IMF baseline proj.	IMF reform proj.
1.State (Republican and local) budget							
Revenue o/w	1,052	3,173	5,735	8,232	10,703	11,059	10,538
Personal income tax	89	277	534	773	1,078	1,054	968
Profit tax	142	395	637	646	975	872	827
VAT	262	818	1,447	2,181	3,149	2,939	2,745
Expenditure (cash) o/w	1,143	3,236	6,023	8,688	11,643	11,356	10,887
Transfer to the SPF	8	8	5	80	140	140	140
Defense	30	89	184	255	303	341	318
Law, order and security	54	165	333	455	599	609	565
Agriculture	37	87	146	177	260	237	212
Housing	81	249	450	611	732	817	643
Education	186	562	1,110	1,730	2,297	2,312	2,217
Health, sports and physical education	151	455	873	1,256	1,805	1,830	1,624
Social policies	39	107	249	443	687	649	573
Servicing of state debt	23	82	125	154	176	206	182
Budgetary loans	78	78	164	476	13	569	-19
Expenditure of budgetary funds	162	558	996	1,322	1,846	1,767	1,674
Expenditure (accrual basis 1/)	...	3,313	6,237	8,713	11,643	12,166	10,574
Balance (cash) 2/	-90	-63	-289	-456	-940	-297	-350
Balance (accrual 1/)	...	-140	-502	-481	-940	-1,107	-36
2. Social Protection Fund							
Revenue	326	1,010	1,984	3,065	4,400	4,078	3,854
o/w: from the Republican budget	8	8	5	80	140	140	140
Expenditure	297	962	2,021	3,071	4,350	4,350	3,867
Balance (cash)	29	48	-37	-6	50	-271	-14
3. General government							
Revenue	1,370	4,175	7,714	11,217	14,963	14,997	14,252
Expenditure (cash)	1,432	4,190	8,039	11,680	15,853	15,565	14,615
Expenditure (accrual basis 1/)	...	4,267	8,252	11,705	15,853	16,376	14,301
Balance (cash) 2/	-62	-15	-326	-463	-890	-568	-363
Balance (accrual 1/)	...	-92	-539	-488	-890	-1,378	-50
4. Statistical discrepancy	3	-6	-30	-96	0	0	0
5. Financing (cash), o/w 2/	65	9	296	367	890	568	363
Privatization	3	8	12	427	446	90	138
Foreign financing, net	-9	-14	20	24	307	38	38
Domestic financing, net	71	15	264	-84	137	440	187
Banking system	71	8	261	-84	149	400	142
Central bank (incl. IMF)	69	6	182	-256	88	325	67
Deposit money banks (incl. SPF)	2	3	79	172	62	75	75
Nonbank	20	7	3	0	-12	40	45
Memorandum items:							
Changes in expenditure arrears	...	77	213	19	0	810	-314
GDP (trillion of rubels)	3.0	9.1	17.2	25.5	32.9	34.1	32.6
Stock of expenditure arrears	3	99	313	332	629	1,142	18
Stock of tax arrears	9	42	134	219	...	335	225
Bank recapitalization	...	...	26	156	...	...	...

Source: Ministry of Finance, SPF, and IMF staff estimates.

1/ Includes changes in expenditure arrears.

2/ The actual deficits for 1999-2001 from above the line include all the closing expenditure for the year carried out in January of the following year and correspond to the authorities fiscal year reports. The deficit values from the financing side include January closing expenditure in the year they were actually paid. For 2002 the deficit above the line excludes closing operations.

Table 3. Belarus: Fiscal Indicators and Projections, 1999-2003
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003		
				Prel.	Authorities Budget	IMF baseline proj.	IMF reform proj.
1.State (Republican and local) budget							
Revenue o/w	34.8	34.7	33.4	32.3	32.5	32.4	32.3
Personal income tax	3.0	3.0	3.1	3.0	3.3	3.1	3.0
Profit tax	4.7	4.3	3.7	2.5	3.0	2.6	2.5
VAT	8.7	9.0	8.4	8.5	9.6	8.6	8.4
Expenditure (cash) o/w	37.8	35.4	35.1	34.0	35.4	33.3	33.4
Transfer to the SPF	0.3	0.1	0.0	0.3	0.4	0.4	0.4
Defense	1.0	1.0	1.1	1.0	0.9	1.0	1.0
Law, order and security	1.8	1.8	1.9	1.8	1.8	1.8	1.7
Agriculture	1.2	1.0	0.9	0.7	0.8	0.7	0.7
Housing	2.7	2.7	2.6	2.4	2.2	2.4	2.0
Education	6.1	6.2	6.5	6.8	7.0	6.8	6.8
Health, sports and physical education	5.0	5.0	5.1	4.9	5.5	5.4	5.0
Social policies	1.3	1.2	1.4	1.7	2.1	1.9	1.8
Servicing of state debt	0.8	0.9	0.7	0.6	0.5	0.6	0.6
Budgetary loans	2.6	0.9	1.0	1.9	0.0	1.7	-0.1
Expenditure of budgetary funds	5.3	6.1	5.8	5.2	5.6	5.2	5.1
Expenditure (accrual basis 1/)	...	36.3	36.3	34.1	35.4	35.7	32.5
Balance (cash) 2/	-3.0	-0.7	-1.7	-1.8	-2.9	-0.9	-1.1
Balance (accrual 1/)	...	-1.5	-2.9	-1.9	-2.9	-3.2	-0.1
2. Social Protection Fund							
Revenue	10.8	11.1	11.6	12.0	13.4	12.0	11.8
o/w: from the Republican budget	0.3	0.1	0.0	0.3	0.4	0.4	0.4
Expenditure	9.8	10.5	11.8	12.0	13.2	12.8	11.9
Balance (cash)	1.0	0.5	-0.2	0.0	0.2	-0.8	0.0
3. General government							
Revenue	45.3	45.7	44.9	44.0	45.5	44.0	43.7
Expenditure (cash)	47.3	45.9	46.8	45.8	48.2	45.6	44.9
Expenditure (accrual basis 1/)	...	46.7	48.1	45.9	48.2	48.0	43.9
Balance (cash) 2/	-2.0	-0.2	-1.9	-1.8	-2.7	-1.7	-1.1
Balance (accrual 1/)	...	-1.0	-3.1	-1.9	-2.7	-4.0	-0.2
4. Statistical discrepancy	0.1	-0.1	-0.2	-0.4	0.0	0.0	0.0
5. Financing (cash), o/w 2/	2.1	0.1	1.7	1.4	2.7	1.7	1.1
Privatization	0.1	0.1	0.1	1.7	1.4	0.3	0.4
Foreign financing, net	-0.3	-0.2	0.1	0.1	0.9	0.1	0.1
Domestic financing, net	2.3	0.2	1.5	-0.3	0.4	1.3	0.6
Banking system	2.3	0.1	1.5	-0.3	0.5	1.2	0.4
Central bank (incl. IMF)	2.3	0.1	1.1	-1.0	0.3	1.0	0.2
Deposit money banks (incl. SPF)	0.1	0.0	0.5	0.7	0.2	0.2	0.2
Nonbank	0.7	0.1	0.0	0.0	0.0	0.1	0.1
Memorandum items:							
Changes in expenditure arrears	...	0.8	1.2	0.1	0.0	2.4	-1.0
GDP (trillion of rubels)	3.0	9.1	17.2	25.5	32.9	34.1	32.6
Stock of expenditure arrears	0.1	1.1	1.8	1.3	1.9	3.3	0.1
Stock of tax arrears	0.3	0.5	0.8	0.9	...	1.0	0.7
Bank recapitalization	...	...	0.2	0.6	...	...	...

Source: Ministry of Finance, SPF, and IMF staff estimates.

1/ Includes changes in expenditure arrears.

2/ The actual deficits for 1999-2001 from above the line include all the closing expenditure for the year carried out in January of the following year and correspond to the authorities fiscal year reports. The deficit values from the financing side include January closing expenditure in the year they were actually paid. For 2002 the deficit above the line excludes closing operations.

Table 4. Belarus: Monetary Accounts, 2001-03 **(Baseline scenario)**
(In millions of Belarussian rubels, unless otherwise indicated; end-of-period)

	2001	2002					2003				
	Actual	Actual				Auth. proj.	Staff proj.				Auth. proj.
	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.
Accounting exchange rate (Rbl/US$)	1,580	1,707	1,800	1,865	1,920	1,920	2,028	2,135	2,243	2,350	2,250-2350
National Bank of Belarus											
Net foreign assets	362,004	338,753	370,474	356,982	847,095	...	721,230	726,888	729,243	751,783	...
in mln. $	229.1	198.4	205.8	191.4	441.2	240.0	355.7	340.5	325.2	319.9	283-319
Net foreign assets (convertible)	365,947	351,786	400,525	350,280	870,383	...	745,949	752,873	756,489	757,092	...
in mln. $	231.6	206.1	222.5	187.8	453.3		367.9	352.6	337.3	322.2	
Foreign assets	629,807	615,216	705,488	655,435	1,188,848	...	1,049,983	1,073,026	1,057,078	1,072,090	...
Foreign liabilities	-263,859	-263,430	-304,964	-305,154	-318,465	...	-304,033	-320,153	-300,589	-314,999	...
Net foreign assets (nonconvertible)	-3,943	-13,033	-30,051	6,702	-23,288	...	-24,719	-25,985	-27,246	-5,308	...
Net domestic assets	483,708	476,620	572,937	596,121	269,179	...	370,234	464,550	549,148	605,195	...
Net domestic credit	662,380	681,482	792,821	830,647	439,286	...	549,865	653,705	747,827	810,399	...
Net credit to government	469,246	456,190	538,623	540,924	166,820	...	252,309	309,980	335,837	399,537	...
in national currency	406,828	402,104	428,637	444,805	548,108	582,828	606,108	644,108	682,108	720,108	734,828
in foreign currency	62,418	54,086	109,985	96,119	-381,288	...	-353,799	-334,128	-346,271	-320,570	...
Claims on banks	180,557	211,503	238,430	272,924	255,447	...	280,537	326,706	394,971	393,842	...
Other claims on economy	12,577	13,789	15,768	16,799	17,019	...	17,019	17,019	17,019	17,019	
Other items, net	-178,672	-204,862	-219,884	-234,526	-170,107	...	-179,631	-189,155	-198,679	-205,204	...
Reserve money	845,712	815,373	943,411	953,103	1,116,274	...	1,091,464	1,191,437	1,278,390	1,356,978	...
Rubel Reserve money	680,305	666,268	803,325	835,894	953,278	928,000	992,332	1,108,400	1,213,596	1,317,214	1,249,000-1,317,000
Currency outside banking system	512,211	488,880	583,248	568,307	650,020	...	628,526	698,695	756,400	808,942	...
Required reserves	233,872	214,483	214,318	216,991	289,962	...	335,495	365,293	394,750	421,220	...
in national currency	120,260	100,555	116,391	138,488	217,054	...	276,753	322,651	370,144	421,220	...
in foreign currencies	113,612	113,928	97,927	78,503	72,908	...	58,742	42,642	24,606	0	...
Correspondent accounts and vault cash	45,825	43,556	63,352	73,638	68,546	...	69,231	69,231	69,231	69,231	...
Time depos., NBB sec., and depos. of nonbanks	53,804	68,454	82,492	94,167	107,747	...	58,211	58,218	58,009	57,586	...
Banking System											
Net foreign assets	533,790	594,931	622,375	663,914	828,811	...	700,260	703,624	703,636	723,789	...
Net foreign assets (convertible)	535,707	616,687	651,568	672,602	894,349	...	771,257	779,522	784,480	786,425	...
Foreign assets	1,024,196	1,082,465	1,225,132	1,315,124	1,602,300	...	1,486,583	1,532,776	1,539,977	1,578,138	...
Foreign liabilities	-488,489	-465,778	-573,564	-642,522	-707,952	...	-715,326	-753,254	-755,497	-791,713	...
Net foreign assets (nonconvertible)	-1,917	-21,756	-29,193	-8,689	-65,538	...	-70,997	-75,898	-80,844	-62,636	...
Net domestic assets	2,076,391	2,229,162	2,587,022	2,869,102	3,097,787	...	3,480,361	3,867,617	4,227,651	4,591,902	...
Net domestic credit	2,834,078	3,200,367	3,565,449	3,948,291	4,355,053	...	4,789,021	5,232,663	5,649,429	6,066,836	...
Net credit to general government	274,642	465,011	550,538	499,551	262,369	...	381,437	472,687	532,123	629,403	...
in national currency	44,378	207,602	252,593	167,319	378,807	341,378	455,557	512,307	569,057	625,807	568,378
in foreign currency	230,264	257,409	297,946	332,232	-116,438	...	-74,120	-39,620	-36,934	3,595	...
Claims on economy	2,559,436	2,735,356	3,014,911	3,448,740	4,092,684	...	4,407,584	4,759,976	5,117,305	5,437,434	...
Other items, net	-757,687	-971,205	-978,427	-1,079,189	-1,257,266	...	-1,308,660	-1,365,046	-1,421,778	-1,474,935	...
Broad money	2,610,181	2,824,092	3,209,397	3,533,016	3,926,600	...	4,180,621	4,571,241	4,931,287	5,315,691	...
Rubel broad money	1,249,026	1,324,976	1,605,819	1,774,967	1,992,961	1,995,000	2,103,237	2,312,105	2,492,246	2,690,497	2,553,000-2,693,000
Currency outside banks	512,211	488,880	583,248	568,307	650,020	...	628,526	698,695	756,400	808,942	...
Domestic currency deposits	698,868	799,661	976,423	1,142,003	1,253,127	...	1,384,897	1,522,428	1,641,044	1,771,584	...
Bank securities (outside bank circul.), in rubel	37,947	36,435	46,149	64,657	89,814	...	89,814	90,982	94,803	109,971	...
Foreign currency deposits	1,353,405	1,490,531	1,597,436	1,742,027	1,923,222	...	2,066,384	2,247,553	2,426,874	2,612,444	...
in $ mln	856.6	873.2	887.5	934.1	1,001.7		1,019.2	1,052.7	1,082.2	1,111.7	
Bank securities (outside bank circul.), in FOREX	7,750	8,585	6,142	16,022	10,417	...	11,000	11,583	12,166	12,750	...
Memorandum items:											
12-month % change in broad money 2/	64.5	61.7	55.5	57.8	50.4	...	48.0	44.8	41.2	35.4	...
12-month % change in rubel broad money 2/	96.9	84.5	75.0	78.8	59.6	59.7	58.7	47.2	41.4	35.0	28-35
12-month % change in reserve money 2/	102.8	74.4	43.6	19.0	32.0	...	33.9	26.3	30.6	21.6	...
12-month % change in rubel reserve money 2/	114	86.1	57.7	55.1	40.1	36.4	48.9	40.1	40.3	38.2	35-42
12-month % change in claims on economy 2/	69	57.2	51.3	53.2	59.9	...	61.1	57.8	50.2	32.9	...
Annual rubel broad money velocity 2/ 3/	18.2	18.4	16.6	16.8	15.7	15.7	15.7	14.9	14.9	14.6	14.01-14.04
Annual broad money velocity 2/ 3/	8.2	8.2	7.9	8.1	7.8	...	7.7	7.5	7.5	7.4	...
Rubel NBB NDC (in millions of rubels)	485,045	484,287	519,892	541,336	635,565	...	722,497	792,797	878,036	904,555	...
Broad money multiplier	3.09	3.46	3.40	3.71	3.52	...	3.83	3.84	3.86	3.92	...
Rubel broad money multiplier	1.84	1.99	2.00	2.12	2.09	...	2.12	2.09	2.05	2.04	...
CBR stabilization loan (net, in millions of $)	0.0	0.0	47.8	0.0	...	...	0.0	-47.2	-47.2	-47.0	...

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

1/ Revised due to changes in the chart of accounts of the NBB as of January 1, 2002.
2/ Numbers for 2001 are based on the old chart of accounts of the NBB; the changes in the chart of accounts led to a break in the time series.
3/ Defined as annual GDP divided by average broad (rubel broad) money for the year.

Table 5. Belarus: Monetary Accounts, 2001-03 **(Reform scenario)**
(In millions of Belarussian rubels, unless otherwise indicated; end-of-period)

	2001	2002					2003				
	Actual	Actual				Auth. Proj.	Staff proj.				Auth. proj.
	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.
Accounting exchange rate (Rbl/US$)	1,580	1,707	1,800	1,865	1,920	1,920	2,028	2,135	2,243	2,350	2,250-2350
National Bank of Belarus											
Net foreign assets	362,004	338,753	370,474	356,982	847,095	...	759,753	842,178	935,553	1,057,283	...
in mln. $	229.1	198.4	205.8	191.4	441.2	240.0	374.7	394.5	417.2	449.9	283-319
Net foreign assets (convertible)	365,947	351,786	400,525	350,280	870,383	...	784,472	868,163	962,799	1,062,592	...
in mln. $	231.6	206.1	222.5	187.8	453.3	...	386.9	406.6	429.3	452.2	
Foreign assets	629,807	615,216	705,488	655,435	1,188,848	...	1,088,505	1,188,316	1,263,388	1,377,590	...
Foreign liabilities	-263,859	-263,430	-304,964	-305,154	-318,465	...	-304,033	-320,153	-300,589	-314,999	...
Net foreign assets (nonconvertible)	-3,943	-13,033	-30,051	6,702	-23,288	...	-24,719	-25,985	-27,246	-5,308	...
Net domestic assets	483,708	476,620	572,937	596,121	269,179	...	323,813	313,633	286,843	226,724	...
Net domestic credit	662,380	681,482	792,821	830,647	439,286	...	503,920	503,740	482,450	437,330	...
Net credit to government	469,246	456,190	538,623	540,924	166,820	...	251,975	234,542	181,425	162,281	...
in national currency	406,828	402,104	428,637	444,805	548,108	582,828	580,774	580,774	580,774	580,774	734,828
in foreign currency	62,418	54,086	109,985	96,119	-381,288	...	-328,799	-346,232	-399,350	-418,494	...
Claims on banks	180,557	211,503	238,430	272,924	255,447	...	234,925	252,179	284,006	258,031	...
Other claims on economy	12,577	13,789	15,768	16,799	17,019	...	17,019	17,019	17,019	17,019	...
Other items, net	-178,672	-204,862	-219,884	-234,526	-170,107	...	-180,107	-190,107	-195,607	-210,607	...
Reserve money	845,712	815,373	943,411	953,103	1,116,274	...	1,083,565	1,155,811	1,222,395	1,284,007	...
Rubel Reserve money	680,305 0	666,268	803,325	835,894	953,278	928,000	988,489	1,074,908	1,155,359	1,232,493	1,249,000-1,317,000
Currency outside banking system	512,211	488,880	583,248	568,307	650,020	...	626,498	672,151	711,029	742,711	...
Required reserves	233,872	214,483	214,318	216,991	289,962	...	334,023	358,179	381,204	401,534	...
in national currency	120,260	100,555	116,391	138,488	217,054	...	275,280	315,537	356,598	401,534	...
in foreign currencies	113,612	113,928	97,927	78,503	72,908	...	58,742	42,642	24,606	0	...
Correspondent accounts and vault cash	45,825	43,556	63,352	73,638	68,546	...	68,888	69,233	69,579	69,927	...
Time depos., NBB sec., and depos. of nonbanks	53,804	68,454	82,492	94,167	107,747	...	54,156	56,248	60,583	69,835	...
Banking System											
Net foreign assets	533,790	594,931	622,375	663,914	828,811	...	738,782	818,914	909,946	1,029,289	...
Net foreign assets (convertible)	535,707	616,687	651,568	672,602	894,349	...	809,780	894,812	990,790	1,091,925	...
Foreign assets	1,024,196	1,082,465	1,225,132	1,315,124	1,602,300	...	1,525,106	1,648,066	1,746,287	1,883,638	...
Foreign liabilities	-488,489	-465,778	-573,564	-642,522	-707,952	...	-715,326	-753,254	-755,497	-791,713	...
Net foreign assets (nonconvertible)	-1,917	-21,756	-29,193	-8,689	-65,538	...	-70,997	-75,898	-80,844	-62,636	...
Net domestic assets	2,076,391	2,229,162	2,587,022	2,869,102	3,097,787	...	3,404,982	3,597,024	3,764,861	3,887,355	...
Net domestic credit	2,834,078	3,200,367	3,565,449	3,948,291	4,355,053	...	4,713,641	4,962,070	5,186,639	5,362,290	...
Net credit to general government	274,642	465,011	550,538	499,551	262,369	...	381,104	397,249	377,711	392,146	...
in national currency	44,378	207,602	252,593	167,319	378,807	341,378	430,224	448,974	467,724	486,474	568,378
in foreign currency	230,264	257,409	297,946	332,232	-116,438	...	-49,120	-51,724	-90,013	-94,328	...
Claims on economy	2,559,436	2,735,356	3,014,911	3,448,740	4,092,684	...	4,332,538	4,564,821	4,808,929	4,970,144	...
Other items, net	-757,687	-971,205	-978,427	-1,079,189	-1,257,266	...	-1,308,660	-1,365,046	-1,421,778	-1,474,935	...
Broad money	2,610,181	2,824,092	3,209,397	3,533,016	3,926,600	...	4,143,764	4,415,938	4,674,807	4,916,644	...
Rubel broad money	1,249,026	1,324,976	1,605,819	1,774,967	1,992,961	1,995,000	2,097,299	2,247,624	2,376,573	2,491,201	2,553,000-2,693,000
Currency outside banks	512,211	488,880	583,248	568,307	650,020	...	626,498	672,151	711,029	742,711	...
Domestic currency deposits	698,868	799,661	976,423	1,142,003	1,253,127	...	1,380,987	1,479,970	1,564,877	1,640,355	...
Bank securities (outside bank circul.), in rubel	37,947	36,435	46,149	64,657	89,814	...	89,814	95,503	100,666	108,135	...
Foreign currency deposits	1,353,405	1,490,531	1,597,436	1,742,027	1,923,222	...	2,035,465	2,156,731	2,286,068	2,412,694	...
in $ mln	856.6	873.2	887.5	934.1	1,001.7	...	1,003.9	1,010.2	1,019.4	1,026.7	...
Bank securities (outside bank circul.), in FOREX	7,750	8,585	6,142	16,022	10,417	...	11,000	11,583	12,166	12,750	...
Memorandum items:											
12-month % change in broad money 2/	64.5	61.7	55.5	57.8	50.4	...	46.7	39.9	33.8	25.2	...
12-month % change in rubel broad money 2/	96.9	84.5	75.0	78.8	59.6	59.7	58.3	43.1	34.8	25.0	28-35
12-month % change in reserve money 2/	102.8	74.4	43.6	19.0	32.0	...	32.9	22.5	24.9	15.0	...
12-month % change in rubel reserve money 2/	114	86.1	57.7	55.1	40.1	36.4	48.4	35.9	33.5	29.3	35-42
12-month % change in claims on economy 2/	69	57.2	51.3	53.2	59.9	...	58.4	51.3	41.2	21.4	...
Annual rubel broad money velocity 2/ 3/	18.2	18.4	16.6	16.8	15.7	15.70	15.7	15.2	14.8	14.5	14.01-14.1
Annual broad money velocity 2/ 3/	8.2	8.2	7.9	8.1	7.8	...	7.7	7.7	7.5	7.4	...
Rubel NBB NDC (in millions of rubels)	485,045	484,287	519,892	541,336	635,565	...	688,046	697,636	721,799	688,160	...
Broad money multiplier	3.09	3.46	3.40	3.71	3.52	...	3.82	3.82	3.82	3.83	...
Rubel broad money multiplier	1.84	1.99	2.00	2.12	2.09	...	2.12	2.09	2.06	2.02	...
CBR stabilization loan (net, in millions of $)	0.0	0.0	47.8	0.0	0.0	...	0.0	-47.2	-47.2	-47.0	...

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

1/ Revised due to changes in the chart of accounts of the NBB as of January 1, 2002.

2/ Numbers for 2001 are based on the old chart of accounts of the NBB; the changes in the chart of accounts led to a break in the time series.

3/ Defined as annual GDP divided by average broad (rubel broad) money for the year.

Table 6. Belarus: Balance of Payments, 2000-03 (**Baseline scenario**)
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002						2003					
	Year	Year	Q1	Q2	Q3	Q4	Year	*Year*	Q1	Q2	Q3	Q4	Year	*Year*
				Act.		Prel.	Prel.	*Auth. proj.*			Staff proj.			*Auth. proj.*
Current account balance	-323.1	-285.2	-20.7	109.3	-127.2	-240.1	-278.7	*8.0*	-34.2	54.3	-160.8	-236.4	-377.2	*-211.0*
Merchandise trade balance	-884.1	-806.9	-190.5	-55.6	-300.3	-403.6	-950.0	*-538.0*	-211.8	-106.0	-329.0	-408.5	-1,055.3	*-752.0*
Exports	6,640.5	7,256.2	1,583.0	1,970.2	2,056.1	2,072.9	7,682.2	*7,727.0*	1,636.6	2,008.3	2,110.8	2,145.2	7,900.8	*8,132.0*
Imports	-7,524.6	-8,063.1	-1,773.5	-2,025.8	-2,356.4	-2,476.5	-8,632.2	*-8,265.0*	-1,848.4	-2,114.3	-2,439.8	-2,553.6	-8,956.1	*-8,884.0*
Services (net)	453.0	410.4	127.4	122.2	124.0	123.2	496.8	*442.0*	133.9	130.0	124.9	130.5	519.3	*464.0*
Income (net)	-46.7	-42.8	-1.3	1.8	-3.0	-4.0	-6.5	*-42.0*	-0.5	-4.6	-1.7	-2.7	-9.6	*-43.0*
Transfers (net)	154.7	154.1	43.7	40.9	52.1	44.3	181.0	*146.0*	44.3	34.8	45.0	44.3	168.4	*120.0*
Capital and financial accounts	209.5	306.3	-83.3	77.0	29.7	452.7	476.1	*-37.6*	-11.2	-22.3	166.4	233.5	366.4	*304.9*
Capital account	69.4	56.3	17.2	9.7	6.6	6.7	40.2	*53.0*	12.9	9.8	7.8	14.7	45.2	*50.0*
Financial account	140.1	250.0	-100.5	67.3	23.1	446.0	435.9	*-90.6*	-24.1	-32.1	158.6	218.8	321.2	*254.9*
Direct investment (net)	118.6	95.5	32.4	27.3	51.0	227.6	338.3	*185.0*	39.4	36.6	38.8	40.7	155.5	*565.0*
Portfolio investment (net)	44.4	-34.9	5.2	7.5	-8.3	-11.1	-6.7	*-29.3*	-11.3	-8.5	11.0	0.8	-8.0	*-8.0*
Trade Credits (net)	-69.7	-55.6	-178.8	10.3	0.7	115.6	-52.2	*-197.4*	-54.0	-32.4	-35.2	-19.4	-141.0	*-185.0*
Loans (net)	107.8	261.9	40.5	40.7	46.8	45.7	173.7	*95.8*	-9.1	-6.5	168.0	183.3	335.6	*-52.2*
Assets	1.6	-21.2	-5.7	-8.3	-1.4	17.2	1.8	*-1.0*	0.0	0.0	0.0	0.0	0.0	*-1.0*
Liabilities	106.2	283.1	46.2	49.0	48.2	28.5	171.9	*96.8*	-9.1	-6.5	78.0	100.7	163.0	*-51.2*
Newly contracted debt (net)	...	...	...	...	...	...	...	...	...	...	90.0	82.6	172.6	...
Other (net)	-61.0	-16.9	0.2	-18.5	-67.1	68.2	-17.2	*-144.7*	10.9	-21.3	-24.0	13.4	-21.0	*-64.9*
Errors and omissions	238.8	-99.6	47.4	-163.2	81.1	4.0	-30.7	*2.5*	0.0	0.0	0.0	0.0	0.0	*0.0*
Overall balance	125.2	-78.5	-56.6	23.1	-16.4	216.6	166.7	*-27.1*	-45.4	32.0	5.6	-2.9	-10.8	*93.9*
Financing	-125.2	78.5	56.6	-23.1	16.4	-216.5	-166.6	*27.1*	45.4	-31.9	-5.6	2.9	10.8	*-93.9*
Gross official reserves	-75.6	5.2	31.9	-35.3	55.4	-173.3	-121.3	*-17.5*	101.3	15.3	31.2	15.2	163.0	*-49.1*
Use of Fund resources	-55.8	-29.8	-14.5	0.0	-15.5	-0.2	-30.2	*-30.0*	-15.9	0.0	-15.9	0.0	-31.8	*-29.8*
Short-term loans	...	68.4	-0.1	47.8	0.0	47.1	94.8	*74.2*	0.0	-47.2	-47.2	-47.0	-141.4	*0.0*
O/w: Central Bank of Russia 1/	...	*50.0*	...	*47.8*	...	47.2	*95.0*	*100.0*	...	*-47.2*	*-47.2*	*-47.0*	*-141.4*	...
Exceptional financing 2/	6.2	34.7	39.3	-35.6	-23.5	-90.1	-109.9	*0.4*	-40.0	0.0	26.3	34.7	21.0	*-15.0*
Memorandum items:														
Current account (as percent of GDP)	-2.5	-2.3	-0.7	3.2	-3.1	-6.4	-2.0	*0.1*	-1.0	1.4	-3.5	-5.7	-2.4	*-1.4*
Trade balance (as percent of GDP)	-6.8	-6.5	-6.5	-1.6	-7.4	-10.7	-6.7	*-3.8*	-6.4	-2.7	-7.2	-9.9	-6.6	*-4.9*
Overall balance (as percent of GDP)	1.0	-0.6	-1.9	0.7	-0.4	5.7	1.2	*0.2*	-1.4	0.8	0.1	-0.1	-0.1	*-0.6*
Y-o-y growth in exports of goods (in percent)	17.6	9.3	-9.6	8.2	8.4	16.0	5.9	*6.5*	3.4	1.9	2.7	3.5	2.8	*5.2*
Y-o-y growth in imports of goods (in percent)	21.0	7.2	0.0	2.2	13.7	10.8	7.1	*2.5*	4.2	4.4	3.5	3.1	3.8	*7.5*
Gross official reserves 3/	356.8	352.1	325.8	355.4	320.2	600.9	600.9	...	499.6	484.3	453.1	437.9	437.9	...
In months of imports of goods and services	0.5	0.5	0.5	0.5	0.4	0.7	0.8	...	0.8	0.6	0.5	0.5	0.5	...
Medium and long-term debt	674	843	...	...	...	...	993	...	...	...	...	...	1,251	...
(as percent of GDP)	5.2	6.8	...	...	...	...	7.0	...	...	...	...	...	7.9	...
Short-term debt (exc. portfolio)	1,379.1	1,585.0	...	...	...	...	1,763.7	...	1,709.6	1,711.9	1,773.9	1,797.8	1,797.8	...
(as percent of GDP)	10.6	12.9	...	...	...	...	12.4	...	...	...	...	...	11.3	...
Debt service ratio	4.2	3.5	4.0	2.9	5.2	...	3.9	...	5.0	3.6	4.1	4.0	4.1	...
Public and public-guaranteed debt service ratio	1.7	1.2	1.7	0.7	3.0	...	2.2	...	3.3	2.2	2.4	2.2	2.5	...
External arrears 4/	274.3	309.0	348.3	312.7	289.2	199.1	199.1	...	159.1	159.1	185.4	220.1	220.1	...
In percent of GDP	2.1	2.5	...	...	...	...	1.4	...	...	...	...	...	1.4	...

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. In 2003, the loan is assumed to be repaid.
2/ Includes accumulation, repayment, and forgiveness of arrears.
3/ Based on the NBB balance sheet data.
4/ As of end-June 2002, external arrears included US$267 million for gas supplies to Russia (to GazProm and Itera by Beltransgaz) ; and US$22 million and US$24 million for electricity to Russia and Lithuania respectively.

Table 7. Belarus: Balance of Payments, 2000-03 **(Reform scenario)**
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002						2003					
	Year	Year	Q1	Q2	Q3	Q4	Year	*Year*	Q1	Q2	Q3	Q4	Year	*Year*
			Act.			Prel.		*Auth. proj.*	Staff proj.					*Auth. proj.*
Current account balance	-323.1	-285.2	-20.7	109.3	-127.2	-240.1	-278.7	*8.0*	-12.4	76.8	-58.9	-214.9	-209.4	*-211.0*
Merchandise trade balance	-884.1	-806.9	-190.5	-55.6	-300.3	-403.6	-950.0	*-538.0*	-168.3	-72.3	-277.1	-387.6	-905.3	*-752.0*
Exports	6,640.5	7,256.2	1,583.0	1,970.2	2,056.1	2,072.9	7,682.2	*7,727.0*	1,654.8	2,052.1	2,121.2	2,134.6	7,962.7	*8,132.0*
Imports	-7,524.6	-8,063.1	-1,773.5	-2,025.8	-2,356.4	-2,476.5	-8,632.2	*-8,265.0*	-1,823.0	-2,124.4	-2,398.3	-2,522.2	-8,867.9	*-8,884.0*
Services (net)	453.0	410.4	127.4	122.2	124.0	123.2	496.8	*442.0*	120.2	122.4	162.7	135.1	540.4	*464.0*
Income (net)	-46.7	-42.8	-1.3	1.8	-3.0	-4.0	-6.5	*-42.0*	1.3	-8.3	10.4	-17.0	-13.7	*-43.0*
Transfers (net)	154.7	154.1	43.7	40.9	52.1	44.3	181.0	*146.0*	34.4	35.0	45.2	54.5	169.1	*120.0*
Capital and financial accounts	209.5	306.3	-83.3	77.0	29.7	452.7	476.1	*-37.6*	-40.2	0.9	143.8	293.4	398.0	*304.9*
Capital account	69.4	56.3	17.2	9.7	6.6	6.7	40.2	*53.0*	14.7	11.3	9.4	19.7	55.1	*50.0*
Financial account	140.1	250.0	-100.5	67.3	23.1	446.0	435.9	*-90.6*	-54.9	-10.4	134.4	273.7	342.9	*254.9*
Direct investment (net)	118.6	95.5	32.4	27.3	51.0	227.6	338.3	*185.0*	34.4	36.6	52.8	51.7	175.5	*565.0*
Portfolio investment (net)	44.4	-34.9	5.2	7.5	-8.3	-11.1	-6.7	*-29.3*	-11.3	-8.5	11.0	0.8	-8.0	*-8.0*
Trade Credits (net)	-69.7	-55.6	-178.8	10.3	0.7	115.6	-52.2	*-197.4*	-79.0	-9.2	-55.7	2.8	-141.1	*-185.0*
Loans (net)	107.8	261.9	40.5	40.7	46.8	45.7	173.7	*95.8*	-9.1	-6.5	165.2	187.9	337.4	*-52.2*
Assets	1.6	-21.2	-5.7	-8.3	-1.4	17.2	1.8	*-1.0*	0.0	0.0	0.0	0.0	0.0	*-1.0*
Liabilities	106.2	283.1	46.2	49.0	48.2	28.5	171.9	*96.8*	-9.1	-6.5	78.0	100.7	163.0	*-51.2*
Newly contracted debt (net)	...	...	...	...	...	...	...	...	...	...	87.2	87.2	174.4	...
Other (net)	-61.0	-16.9	0.2	-18.5	-67.1	68.2	-17.2	*-144.7*	10.1	-22.7	-38.9	30.5	-21.0	*-64.9*
Errors and omissions	238.8	-99.6	47.4	-163.2	81.1	4.0	-30.7	*2.5*	0.0	0.0	0.0	0.0	0.0	*0.0*
Overall balance	125.2	-78.5	-56.6	23.1	-16.4	216.6	166.7	*-27.1*	-52.6	77.7	85.0	78.5	188.5	*93.9*
Financing	-125.2	78.5	56.6	-23.1	16.4	-216.5	-166.6	*27.1*	52.6	-77.7	-84.9	-78.5	-188.5	*-93.9*
Gross official reserves	-75.6	5.2	31.9	-35.3	55.4	-173.3	-121.3	*-17.5*	82.3	-19.7	-6.8	-22.8	33.0	*-49.1*
Use of Fund resources	-55.8	-29.8	-14.5	0.0	-15.5	-0.2	-30.2	*-30.0*	-15.9	0.0	-15.9	0.0	-31.8	*-29.8*
Short-term loans	...	68.4	-0.1	47.8	0.0	47.1	94.8	*74.2*	0.0	-47.2	-47.2	-47.0	-141.4	*0.0*
O/w: Central Bank of Russia 1/	...	*50.0*	*47.8*	*47.8*	*47.8*	*47.2*	*95.0*	*100.0*	...	*-47.2*	*-47.2*	*-47.0*	*-141.4*	...
Exceptional financing 2/	6.2	34.7	39.3	-35.6	-23.5	-90.1	-109.9	*0.4*	-13.8	-10.8	-15.0	-8.7	-48.3	*-15.0*
Memorandum items:														
Current account (as percent of GDP)	-2.5	-2.3	-0.7	3.2	-3.1	-6.3	-2.0	*0.1*	-0.4	2.0	-1.4	-5.6	-1.4	*-1.4*
Trade balance (as percent of GDP)	-6.8	-6.5	-6.5	-1.6	-7.4	-10.7	-6.7	*-3.8*	-5.1	-1.9	-6.4	-10.2	-6.0	*-4.9*
Overall balance (as percent of GDP)	1.0	-0.6	-1.9	0.7	-0.4	5.7	1.2	*0.2*	-1.6	2.0	2.0	2.1	1.2	*-0.6*
Y-o-y growth in exports of goods (in percent)	17.6	9.3	-9.6	8.2	8.4	16.0	5.9	*6.5*	4.5	4.2	3.2	3.0	3.7	*5.2*
Y-o-y growth in imports of goods (in percent)	21.0	7.2	0.0	2.2	13.7	10.8	7.1	*2.5*	2.8	4.9	1.8	1.8	2.7	*7.5*
Gross official reserves 3/	356.8	352.1	325.8	355.4	320.2	600.9	600.9	...	518.6	538.3	545.1	567.9	567.9	...
In months of imports of goods and services	0.5	0.5	0.5	0.5	0.4	0.7	0.8	...	0.8	0.7	0.6	0.6	0.7	...
Medium and long-term debt	674	843	...	...	...	...	993	...	...	...	...	...	1,253	...
(as percent of GDP)	5.2	6.8	...	...	...	...	7.0	...	...	...	...	...	8.2	...
Short-term debt (exc. portfolio)	1,379.1	1,585.0	...	...	...	...	1,763.7	...	1,710.2	1,725.0	1,745.5	1,728.7	1,728.7	...
(as percent of GDP)	10.6	12.9	...	...	...	...	12.4	...	...	...	...	...	11.4	...
Debt service ratio	4.2	3.5	4.0	2.9	...	...	3.9	...	5.0	3.6	4.0	4.1	4.2	...
Public and public-guaranteed debt service ratio	1.7	1.2	1.7	0.7	...	...	2.2	...	3.2	2.1	2.3	2.3	2.5	...
External arrears 4/	274.3	309.0	348.3	312.7	289.2	199.1	199.1	...	185.3	174.5	159.5	150.8	150.8	...
In percent of GDP	2.1	2.5	...	...	...	...	1.4	...	...	...	...	...	1.0	...

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. In 2003, the loan is assumed to be repaid.

2/ Includes accumulation, repayment, and forgiveness of arrears.

3/ Based on the NBB balance sheet data.

4/ As of end-June 2002, external arrears included US$267 million for gas supplies to Russia (to GazProm and Itera by Beltransgaz) ; and US$22 million and US$24 million for electricity to Russia and Lithuania respectively.

Table 8. Belarus: Medium Term Macroeconomic Framework, 2000-08 (Baseline and Reform Scenarios)

	2000	2001	2002 Prel.	2003	2004	2005	2006	2007	2008
						Baseline			
Foreign savings 1/	-2.5	-2.3	-2.0	-2.4	-3.1	-3.6	-3.5	-3.2	-2.9
Gross national saving	20.2	19.5	20.5	19.6	17.9	17.4	17.5	17.8	18.1
Nongovernment	12.1	14.9	16.8	15.8	14.8	14.7	15.0	15.4	15.8
Government 2/	8.1	4.6	3.7	3.8	3.1	2.7	2.5	2.4	2.3
Gross investment and inventories	22.8	21.9	22.5	22.0	21.0	21.0	21.0	21.0	21.0
Nongovernment investment	14.4	15.3	17.0	16.6	16.9	17.3	17.3	17.4	17.6
Government fixed capital formation 3/	8.3	6.5	5.5	5.5	4.1	3.8	3.7	3.6	3.4
Change in inventories (in percent of GDP)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memorandum item:									
Nongovernment savings-investment balance	-2.5	-0.5	-0.3	-0.8	-2.3	-2.6	-2.4	-2.1	-1.9
Government savings-investment balance	-0.2	-1.9	-1.8	-1.7	-0.9	-1.1	-1.2	-1.2	-1.2
Revenues	45.7	44.9	44.0	44.0	43.5	43.1	42.7	42.3	41.9
Expenditures and net lending	45.9	46.8	45.8	45.6	44.5	44.2	43.9	43.5	43.0
Real GDP growth rate	5.8	4.7	4.7	3.5	3.0	2.0	2.3	2.5	2.5
Inflation (annual average rate)	168.6	61.1	42.6	29.2	18.3	11.8	6.9	4.5	3.5
						Reform			
Foreign savings 1/	-2.5	-2.3	-2.0	-1.4	-0.8	-1.3	-2.1	-2.9	-3.7
Gross national saving	20.2	19.5	20.5	19.6	21.2	21.7	21.9	22.1	21.3
Nongovernment	12.1	14.9	16.8	14.5	16.3	17.1	17.7	18.2	17.7
Government 2/	8.1	4.6	3.7	5.1	4.9	4.6	4.2	3.9	3.6
Gross investment and inventories	22.8	21.9	22.5	21.0	22.0	23.0	24.0	25.0	25.0
Nongovernment investment	14.4	15.3	17.0	14.8	16.2	17.4	18.8	20.1	20.5
Government fixed capital formation 3/	8.3	6.5	5.5	6.2	5.8	5.6	5.2	4.9	4.5
Change in inventories (in percent of GDP)	0.1	0.1	0.1	-1.5	-1.5	-1.0	0.0	0.0	0.0
Memorandum item:									
Nongovernment savings-investment balance	-2.5	-0.5	-0.3	1.2	1.7	0.7	-1.1	-1.9	-2.7
Government savings-investment balance	-0.2	-1.9	-1.8	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0
Revenues	45.7	44.9	44.0	43.7	42.3	40.7	38.7	36.4	34.1
Expenditures and net lending	45.9	46.8	45.8	44.9	43.3	41.7	39.6	37.4	35.1
Real GDP growth rate	5.8	4.7	4.7	2.0	3.0	4.0	5.0	6.0	6.0
Inflation (annual average rate)	168.6	61.1	42.6	25.5	12.7	8.0	6.0	4.5	3.5

Sources: Belarus authorities; and Fund staff estimates.

1/ External current account deficit.

2/ Government revenues do not include privatization receipts.

3/ Including net lending.

Table 9. Belarus: Balance of Payments, 2000-08 (**Baseline scenario**)
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002		2003		2004	2005	2006	2007	2008
			Prel.	*Auth. proj.*	Staff proj.	*Auth. proj.*			Staff proj.		
Current account balance	-323.1	-285.2	-278.7	*8.0*	-377.2	*-211.0*	-532.9	-694.5	-698.1	-682.7	-649.3
Merchandise trade balance	-884.1	-806.9	-950.0	*-538.0*	-1,055.3	*-752.0*	-1,179.4	-1,315.3	-1,300.6	-1,255.5	-1,193.4
Exports	6,640.5	7,256.2	7,682.2	*7,727.0*	7,900.8	*8,132.0*	8,124.8	8,323.6	8,585.2	8,856.1	9,140.2
Imports	-7,524.6	-8,063.1	-8,632.2	*-8,265.0*	-8,956.1	*-8,884.0*	-9,304.2	-9,638.9	-9,885.8	-10,111.6	-10,333.5
Services (net)	453.0	410.4	496.8	*442.0*	519.3	*464.0*	525.9	529.9	549.0	567.8	587.9
Income (net)	-46.7	-42.8	-6.5	*-42.0*	-9.6	*-43.0*	-46.6	-73.1	-109.8	-150.6	-191.7
Transfers (net)	154.7	154.1	181.0	*146.0*	168.4	*120.0*	167.2	163.9	163.3	155.6	147.8
Capital and financial accounts	209.5	306.3	476.1	*-37.6*	366.4	*304.9*	463.3	642.5	668.1	652.7	619.3
Capital account	69.4	56.3	40.2	*53.0*	45.2	*50.0*	43.8	41.2	38.3	35.2	32.1
Financial account	140.1	250.0	435.9	*-90.6*	321.2	*254.9*	419.4	601.3	629.8	617.5	587.2
Direct investment (net)	118.6	95.5	338.3	*185.0*	155.5	*565.0*	151.8	155.4	155.4	155.4	155.4
Portfolio investment (net)	44.4	-34.9	-6.7	*-29.3*	-8.0	*-8.0*	0.0	0.0	0.0	0.0	0.0
Trade Credits (net)	-69.7	-55.6	-52.2	*-197.4*	-141.0	*-185.0*	-52.5	-53.9	-55.6	-57.2	-58.9
Loans (net)	107.8	261.9	173.7	*95.8*	335.6	*-52.2*	334.7	515.7	545.9	534.3	505.7
Assets	1.6	-21.2	1.8	*-1.0*	0.0	*-1.0*	0.0	0.0	0.0	0.0	0.0
Liabilities	106.2	283.1	171.9	*96.8*	163.0	*-51.2*	77.0	6.9	37.1	27.1	27.1
Newly contracted debt (net)	...	...	...	...	172.6	...	257.7	508.8	508.8	507.2	478.6
Other (net)	-61.0	-16.9	-17.2	*-144.7*	-21.0	*-64.9*	-14.5	-15.8	-16.0	-15.0	-15.0
Errors and omissions	238.8	-99.6	-30.7	*2.5*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0
Overall balance	125.2	-78.5	166.7	*-27.1*	-10.8	*93.9*	-69.6	-52.0	-30.0	-30.0	-30.0
Financing	-125.2	78.5	-166.6	*27.1*	10.8	*-93.9*	69.6	52.0	30.0	30.0	30.0
Gross official reserves	-75.6	5.2	-121.3	*-17.5*	163.0	*-49.1*	55.5	30.0	0.0	0.0	0.0
Use of Fund resources	-55.8	-29.8	-30.2	*-30.0*	-31.8	*-29.8*	-15.9	-8.0	0.0	0.0	0.0
Short-term loans	...	68.4	94.8	*74.2*	-141.4	*0.0*	0.0	0.0	0.0	0.0	0.0
O/w: Central Bank of Russia 1/	...	*50.0*	*95.0*	*100.0*	*-141.4*	...					
Exceptional financing 2/	6.2	34.7	-109.9	*0.4*	21.0	*-15.0*	30.0	30.0	30.0	30.0	30.0
Memorandum items:											
Current account (as percent of GDP)	-2.5	-2.3	-2.0	*0.1*	-2.4	*-1.4*	-3.1	-3.6	-3.5	-3.2	-2.9
Trade balance (as percent of GDP)	-6.8	-6.5	-6.7	*-3.8*	-6.6	*-4.9*	-6.8	-6.9	-6.4	-5.9	-5.4
Overall balance (as percent of GDP)	1.0	-0.6	1.2	*0.2*	-0.1	*-0.6*	-0.4	-0.3	-0.1	-0.1	-0.1
Y-o-y growth in exports of goods (in percent)	17.6	9.3	5.9	*6.5*	2.8	*5.2*	2.8	2.4	3.1	3.2	3.2
Y-o-y growth in imports of goods (in percent)	21.0	7.2	7.1	*2.5*	3.8	*7.5*	3.9	3.6	2.6	2.3	2.2
Gross official reserves 3/	356.8	352.1	600.9	...	437.9	...	382.4	352.4	352.4	352.4	352.4
In months of imports of goods and services	0.5	0.5	0.8	...	0.5	...	0.5	0.4	0.4	0.4	0.4
Medium and long-term debt	674	843	993	...	1,251	...	1,743.8	2,109.4	2,590.4	3,069.7	3,520.4
(as percent of GDP)	5.2	6.8	7.0	...	7.9	...	10.0	11.0	12.8	14.5	15.9
Short-term debt (exc. portfolio)	1,379.1	1,585.0	1,763.7	...	1,797.8	...	1,922.3	2,025.0	1,935.3	2,052.7	2,169.7
(as percent of GDP)	10.6	12.9	12.4	...	11.3	...	11.1	10.6	9.6	9.7	9.8
Debt service ratio	4.2	3.5	3.9	...	4.1	...	4.5	4.0	3.2	3.1	2.9
Public and public-guaranteed debt service ratio	1.7	1.2	2.2	...	2.5	...	2.0	1.5	0.9	0.7	0.7
External arrears 4/	274.3	309.0	199.1	...	220.1	...	250.1	280.1	310.1	340.1	370.1
In percent of GDP	2.1	2.5	1.4	...	1.4	...	1.4	1.5	1.5	1.6	1.7

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. In 2003, the loan is assumed to be repaid.

2/ Includes accumulation, repayment, and forgiveness of arrears.

3/ Based on the NBB balance sheet data.

4/ As of end-June 2002, external arrears included US$267 million for gas supplies to Russia (to GazProm and Itera by Beltransgaz) ; and US$22 million and US$24 million for electricity to Russia and Lithuania respectively.

Table 10. Belarus: Balance of Payments, 2000-2008 **(Reform scenario)**
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002		2003		2004	2005	2006	2007	2008
			Prel.	*Auth. Proj.*	Staff proj.	*Auth. Proj.*			Staff proj.		
Current account balance	-323.1	-285.2	-278.7	*8.0*	-209.4	*-211.0*	-132.9	-224.8	-380.5	-588.3	-797.6
Merchandise trade balance	-884.1	-806.9	-950.0	*-538.0*	-905.3	*-752.0*	-854.0	-959.2	-1,130.1	-1,329.7	-1,545.2
Exports	6,640.5	7,256.2	7,682.2	*7,727.0*	7,962.7	*8,132.0*	8,296.0	8,664.7	9,090.2	9,541.6	10,020.8
Imports	-7,524.6	-8,063.1	-8,632.2	*-8,265.0*	-8,867.9	*-8,884.0*	-9,150.0	-9,624.0	-10,220.3	-10,871.3	-11,566.0
Services (net)	453.0	410.4	496.8	*442.0*	540.4	*464.0*	573.0	596.6	621.4	645.5	670.4
Income (net)	-46.7	-42.8	-6.5	*-42.0*	-13.7	*-43.0*	-19.8	-25.6	-32.9	-67.5	-88.4
Transfers (net)	154.7	154.1	181.0	*146.0*	169.1	*120.0*	168.0	163.5	161.2	163.4	165.6
Capital and financial accounts	209.5	306.3	476.1	*-37.6*	398.0	*304.9*	408.8	437.7	596.3	828.3	1,067.6
Capital account	69.4	56.3	40.2	*53.0*	55.1	*50.0*	50.7	52.0	54.7	58.7	62.8
Financial account	140.1	250.0	435.9	*-90.6*	342.9	*254.9*	358.2	385.7	541.6	769.6	1,004.9
Direct investment (net)	118.6	95.5	338.3	*185.0*	175.5	*565.0*	206.8	290.4	400.4	530.4	765.3
Portfolio investment (net)	44.4	-34.9	-6.7	*-29.3*	-8.0	*-8.0*	2.0	3.0	8.0	10.0	15.0
Trade Credits (net)	-69.7	-55.6	-52.2	*-197.4*	-141.1	*-185.0*	-133.1	-125.5	-118.4	-111.5	-104.8
Loans (net)	107.8	261.9	173.7	*95.8*	337.4	*-52.2*	301.7	236.8	270.6	358.7	347.3
Assets	1.6	-21.2	1.8	*-1.0*	0.0	*-1.0*	0.0	0.0	0.0	0.0	0.0
Liabilities	106.2	283.1	171.9	*96.8*	163.0	*-51.2*	77.0	6.9	37.1	27.1	27.1
Newly contracted debt (net)	...	...	...	...	174.4	...	224.7	229.9	233.5	331.6	320.2
Other (net)	-61.0	-16.9	-17.2	*-144.7*	-21.0	*-64.9*	-19.2	-19.0	-19.0	-18.0	-18.0
Errors and omissions	238.8	-99.6	-30.7	*2.5*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0
Overall balance	125.2	-78.5	166.7	*-27.1*	188.5	*93.9*	275.9	213.0	215.8	240.0	270.0
Financing	-125.2	78.5	-166.6	*27.1*	-188.5	*-93.9*	-275.9	-213.0	-215.8	-240.0	-270.0
Gross official reserves	-75.6	5.2	-121.3	*-17.5*	33.0	*-49.1*	-135.0	-170.0	-190.0	-240.0	-270.0
Use of Fund resources	-55.8	-29.8	-30.2	*-30.0*	-31.8	*-29.8*	-15.9	-8.0	0.0	0.0	0.0
Short-term loans	...	68.4	94.8	*74.2*	-141.4	*0.0*	-35.0	0.0	0.0	0.0	0.0
O/w: Central Bank of Russia 1/	...	*50.0*	...	*100.0*	-141.4	...	...	...	...	...	...
Exceptional financing 2/	6.2	34.7	-109.9	*0.4*	-48.3	*-15.0*	-90.0	-35.0	-25.8	0.0	0.0
Memorandum items:											
Current account (as percent of GDP)	-2.5	-2.3	-2.0	*0.1*	-1.4	*-1.4*	-0.8	-1.3	-2.1	-2.9	-3.7
Trade balance (as percent of GDP)	-6.8	-6.5	-6.7	*-3.8*	-6.0	*-4.9*	-5.4	-5.6	-6.1	-6.7	-7.2
Overall balance (as percent of GDP)	1.0	-0.6	1.2	*0.2*	1.2	*-0.6*	1.7	1.2	1.2	1.2	1.3
Y-o-y growth in exports of goods (in percent)	17.6	9.3	5.9	*6.5*	3.7	*5.2*	4.2	4.4	4.9	5.0	5.0
Y-o-y growth in imports of goods (in percent)	21.0	7.2	7.1	*2.5*	2.7	*7.5*	3.2	5.2	6.2	6.4	6.4
Gross official reserves 3/	356.8	352.1	600.9	...	567.9	...	702.9	872.9	1,062.9	1,302.9	1,572.9
In months of imports of goods and services	0.5	0.5	0.8	...	0.7	...	0.9	1.1	1.2	1.4	1.6
Medium and long-term debt	843	843	992.8	...	1,253	...	1,712.6	1,799.3	2,032.7	2,364.3	2,684.5
(as percent of GDP)	6.5	6.8	7.0	...	8.2	...	10.8	10.5	11.0	11.8	12.4
Short-term debt (exc. portfolio)	1,585.0	1,585.0	1,763.7	...	1,728.7	...	1,653.8	1,628.4	1,651.0	1,697.5	1,531.8
(as percent of GDP)	12.1	12.9	12.4	...	11.4	...	10.5	9.5	9.0	8.5	7.1
Debt service ratio	4.2	3.5	3.9	...	4.1	...	3.9	3.5	3.0	3.0	3.1
Public and public-guaranteed debt service ratio	1.7	1.2	2.2	...	2.5	...	1.9	1.4	0.8	0.8	0.8
External arrears 4/	274.3	309.0	199.1	...	150.8	...	60.8	25.8	0.0	0.0	0.0
In percent of GDP	0.0	0.0	1.4	...	1.0	...	0.4	0.2	0.0	0.0	0.0

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. In 2003, the loan is assumed to be repaid.

2/ Includes accumulation, repayment, and forgiveness of arrears.

3/ Based on the NBB balance sheet data.

4/ As of end-June 2002, external arrears included US$267 million for gas supplies to Russia (to GazProm and Itera by Beltransgaz); and US$22 million and US$24 million for electricity to Russia and Lithuania respectively.

BELARUS: FUND RELATIONS
As of February 28, 2003

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	386.40	100.00
Fund holdings of currency	415.61	107.56
Reserve position in Fund	0.02	0.01

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Holdings	0.20	n.a.

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Systemic transformation	29.21	7.56

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):

	Forthcoming			
	2003	2004	2005	2006
Principal	11.68	11.68	5.84	
Charges/interest	0.46	0.28	*	
Total	12.14	11.96	5.84	

*/ Less than SDR 50,000.

VII. Implementation of HIPC Initiative:

Not applicable.

VIII. Safeguards Assessments:

Not applicable.

IX. Exchange Arrangements:

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 1,950 on January 31, 2003.

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. (However, de facto the authorities identify the band in terms of the US dollar.) 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:

The ninth Article IV consultation was concluded on January 26, 2001. Belarus has been placed on a 12-month consultation cycle. Visits since have included:

Staff visit	April 17–April 27, 2002
Staff visit	September 4–September 18, 2002
Article IV consultation discussions	January 28–February 10, 2003

XI. FSAP Participation, ROSCs, and OFC Assessments:

Not applicable.

XII. Technical Assistance, January 1999–December 31, 2002:

	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	Assessment of Foreign Exchange Markets and Operations and Reserve Management	June 2–10, 2002
	MAE	Assessment of monetary and foreign exchange policy and operations and central bank organization	April 10–22, 2002
	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:

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, Ms. Zuzana Brixiova, began her term in October 2002.

BELARUS: RELATIONS WITH THE WORLD BANK

1. Belarus joined the World Bank in July 1992, and World Bank relations with Belarus have generally paralleled those of the IMF. Under the 1999 Country Assistance Strategy (CAS), liberalization of the exchange rate was a trigger for moving to a *low case* lending (one project per year) scenario. Thus, unification of the exchange rate in September 2000 allowed the Bank to proceed with the preparation of a $28 million Social Infrastructure Retrofitting Project (energy efficiency measures at 600 schools and hospitals), approved on June 5, 2001.

2. The Bank has completed a new CAS for 2002–04 in February 2002. The CAS was 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: (i) global public goods; (ii) mitigation of social risks, including the consequences of Chernobyl disaster and the lack of greater social inclusiveness; and (iii) fostering private sector development through a better business and investment environment.

3. The CAS has two lending scenarios—*low case* and *base case*. Under the *low case* scenario, lending would be concentrated essentially on Global Public Goods (i.e., TB/HIV infections prevention, environmental protection) and projects directly targeted to the poorest segments of society, and is limited to $140 million (excluding grants from the Global Environmental Facility). Under the *base case*, lending would reach up to $270 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 fiscal transparency. A *high case* is not envisaged at present.

4. In early 2002 the World Bank—with participation from Fund staff—launched a Public Expenditure Review (PER). The PER mission in April made a seminar presentation of its findings and left a preliminary report with the authorities. The PER's objective was to assess the degree to which Belarus's budget system meets the principal goals of public resource management. The report focused on broad systemic issues, rather than delving deeply into sector-specific issues. The report made recommendations to strengthen fiscal sustainability, improve the budget process, and increase the allocative efficiency of budgetary spending. The report included a detailed action plan for strengthening the Belarusian budget system, and the final PER report was presented in Minsk during January 23–25, 2003.

BELARUS: STATISTICAL ISSUES

(As of January 10, 2003)

1. While some weaknesses remain in the statistical system of 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 signed by the President in February 1997. A multisector statistical advisor sponsored by the Fund was in place from August 1996 to August 2000.

3. The authorities are considering subscribing to the IMF's Special Data Dissemination Standard (SDDS), and the Ministry of Statistics has set up a working group to support the process.

National Accounts

4. The Ministry of Statistics and Analysis, with technical assistance from the OECD and the IMF, switched to the *System of National Accounts 1993* (*1993 SNA*), and has discontinued the calculation of net material product. A first set of quarterly national accounts was published in January 1996 and is presently complied and disseminated in a timely fashion. Annual revisions of quarterly estimates are published once a year. A full set of annual national accounts has been prepared for 1990–2000. Inter-temporally comparable volume measures of quarterly GDP estimates, back to 1992, continue to be published.

5. 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 significant inaccuracy in GDP estimates. In addition, problems remain in calculating holding gains from inventories. Problems continue to exist in measuring the capital stock and consumption of fixed capital. Estimates of GDP by expenditure categories are still uncertain. The authorities prepare an alternative series on industrial output that corrects some of the above problems, but this data, and the requisite revisions to GDP, are not published.

Prices

6. 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. Since January 2001, the PPI has been compiled using the 1999 weights. The 2003 data will be based on the 2001 production weights.

Government Finance Statistics

7. The Ministry of Finance compiles detailed monthly data on tax and expenditure arrears by government level (central and local). 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 NBB in coordination with the Ministry of Finance. Data covering foreign financing of general government institutions as well as government domestic and foreign debt and debt guarantees, have improved significantly in the past year. This has led to an improvement in reconciling spending and revenue records with financing data, although some discrepancies still remain. The system to record contingent liabilities should be improved.

9. Government finance data on revenue and expenditure are provided for the consolidated state budget (republican and local governments) on a monthly basis, about three to four weeks following the end of the reference period. The economic classification of monthly expenditure has been available since the first quarter of 2001 for the republican budget, but only quarterly for the consolidated state budget. Social Protection Fund statistics are reported only on a quarterly basis and with a delay of about six weeks. 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 1992–2001 were published in the 2002 *GFS Yearbook*. Monthly data have not been published in *IFS*.

Monetary Statistics

10. With help from STA, the NBB has made significant progress in improving the quality of monetary statistics. The balance sheet of the NBB and the monetary survey are provided usually with a lag of no more than two weeks, with the NBB monthly balance sheet available on about 5th of the month following the reference period. Monetary data for publication in *IFS* are reported with a lag of 3–4 weeks as the NBB insists on revaluing its Fund positions

according to TRE instructions. Data reporting benefited from the revisions to the banks' chart of accounts in December 2001.

11. 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 not accounted for in general government operations. In case of discrepancies, the Fund staff relies on banking data.

12. 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. The exchange rate data are readily available on the NBB's web site. They are also periodically reported to the Fund in electronic file.

External Sector

13. The NBB publishes quarterly balance of payments and international investment position statements in the *BPM5* format on a regular basis. The MSA publishes monthly foreign trade data, with a lag of about six weeks. Scheduled interest and amortization payments on public sector debt are tracked by the Ministry of Finance, and timely information is available on arrears on government and government-guaranteed debt. The overall quality and timeliness of these data is satisfactory.

14. Weaknesses in the balance of payments compilation include weak coverage of (i) foreign direct investment (FDI) and (ii) workers' remittances, transfers, and data on income from employee compensation. The surveys used by the MSA are complex and do not provide all needed information, for example, reinvested earnings in case of FDI. The November 2000 technical assistance mission provided advice on the format of a new enterprise survey for FDI and financial account transactions designed to address these issues. In addition, the MSA seems not to have enough authority to collect data on oil products processed in Belarus on behalf of nonresidents that are not subsequently re-exported, which causes balance of payments classification problems and may also be adversely affecting net errors and emissions.

15. Data on international reserves are not yet reported on the template on international reserves and foreign currency liquidity. While overall data on public external debt are readily available, and a number of improvements have been made, there are gaps in the data. Public external debt lacks a maturity breakdown and debt service schedule. The coverage of corporate sector debt need to be improved, and private debt service data need to be compiled and disseminated.

16. Since August 1998, Belarus has been reporting its annual and quarterly balance of payments to STA for publication. Quarterly international investment position statements are also reported to STA for publication.

Table 1. Belarus: Core Statistical Indicators
(as of March 17, 2003)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve Base Money	Broad Money	Interest Rates	Consumer Price Index	Export/ Imports	Current Account Balance	Overall Government Balance 2/	GDP/ GNP	External Debt/ Debt Service 3/
Date of latest observation	3/17/03	3/1/03	3/1/03	3/1/03	2/1/03	2/1/03	Feb. 2003	Jan. 2003	Q3 2002	Jan. 2003 1/ Dec. 2002 1	Jan. 2003	Sept. 2003
Date received	3/17/03	3/13/03	3/13/03	3/13/03	3/1/03	3/1/03	3/14/03	2/19/03	12/10/02	2/25/03	2/19/03	12/10/02
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	M	Q	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	E	E	E	E	E	E
Confidentiality	C	B	B	B	B	C	C	C	C	C	C	B
Frequency of publication 4/	D	M	M	M	M	D-M	M	M	Q	M-Q	M	N/A

1/ The data on central bank foreign assets and liabilities are reported monthly with minimum delay. The data on net international reserves have been reported with varying frequency and often significant delay; however, starting in February the authorities began posting gross reserve data on the central bank SDDS-like web page.
2/ The consolidated central and local government fiscal data with functional classification of expenditure are available monthly, economic classification is available monthly for the central government only and quarterly for the consolidated government; the data for the Social Protection Fund are compiled and reported only quarterly.
3/ Debt data have been reported quarterly with a 2 to 3-month delay.
4/ 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, Q-quarterly, 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.

BELARUS: MEDIUM-TERM OUTLOOK

1. This appendix presents two medium-term scenarios for the period to 2008. Importantly, in both cases it is assumed that **monetary integration with Russia** (or at least a peg—at the prevailing market exchange rate—that is sustained for the projection period) is accomplished in 2004.

Baseline scenario

2. Under the baseline scenario, it is assumed that adjustment efforts and structural reforms continue to be slow, leading to lower growth rates and increased external vulnerability. In this case, monetary union implies importing Russian levels of inflation but not significant structural reforms.

3. In the absence of deep structural reforms, **real economic growth** rates would gradually decline to about 2.5 percent per annum over the medium term. Government investment per se would need to decline under the fiscal discipline imposed by the pegged exchange rate, so investment would depend increasingly on state-directed credit through the banking system—if the environment for private sector activity does not improve.

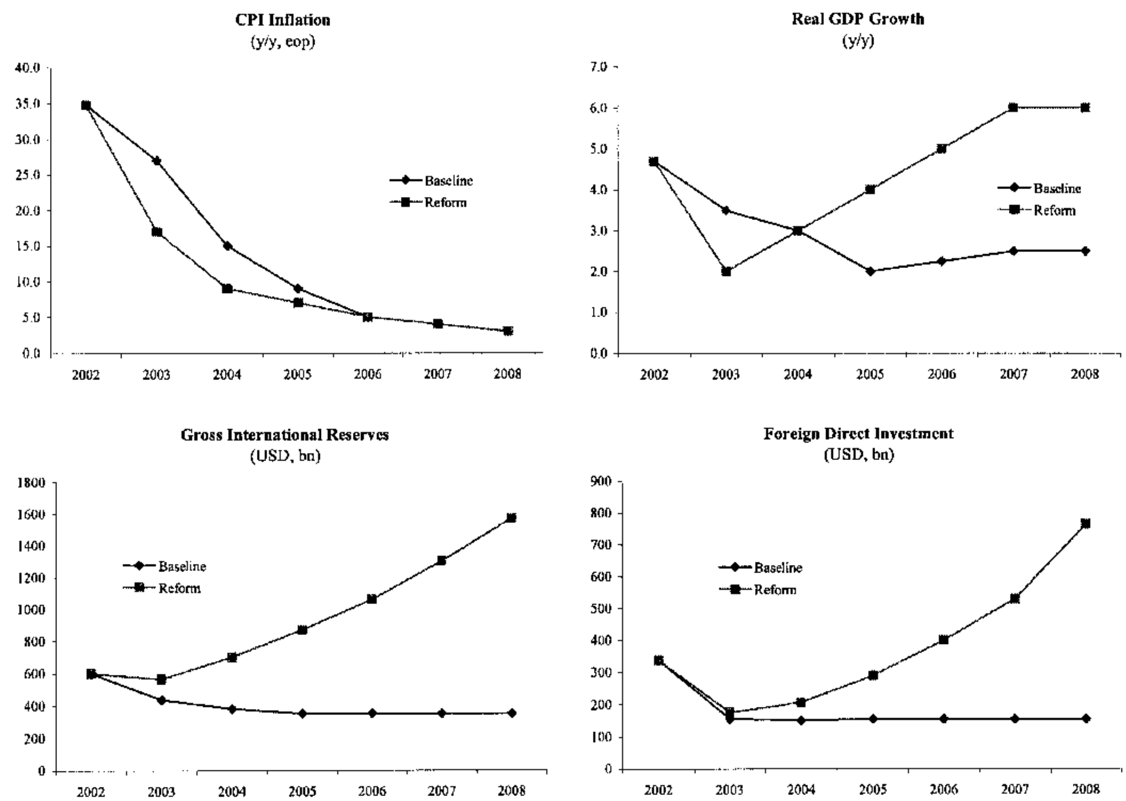
4. Under the baseline scenario, **fiscal policy** is moderately tight. In particular, given the currency union (preceded by a hard peg to the ruble in 2004), the cash deficit is constrained by lack of financing (it is assumed that privatization either continues to stall or does not yield significant proceeds to the budget). However, while cash deficits would remain in the neighborhood of 1 percent–1½ percent of GDP, domestic arrears accumulation would continue, leading to commitments based deficits that are about 3 percent of GDP higher. Despite pressure for tax reform, the overall revenue yield would remain at about 42 percent–43 percent of GDP (well above the level of neighboring countries). Public expenditure reforms are assumed not to take hold, and government investment would continue to fall. Thus, fiscal policy would contribute to slow economic growth.

5. Owing to monetary unification, **monetary policy** decisions are largely assumed to be ceded to Russia by 2004, and inflation is assumed to come down gradually to Russian levels by 2006. In itself, the resulting tighter monetary policy would imply some adjustment to fiscal policy (including identifying non-NBB financing of the housing construction program).

6. The **balance of payments** continues to be precarious. Export growth is expected to be supported by modest growth in Russia. But the initial exchange rate overvaluation—combined with the likely real appreciation of the ruble—leads to lower investment, weak profitability and household incomes, and thus moderates import demand. The current account deficit of the balance of payments is also assumed to be limited by lack of financing, including from the Central Bank of Russia. Reserve losses and exceptional financing (arrears for gas deliveries) would be eliminated gradually (given Russian reluctance to permit new accumulation of arrears), but external debt on relatively commercial terms might be available

(say, tied to gas deliveries). The stock of medium and long term debt is assumed to rise to about 16 percent of GDP.[22]

Belarus: Medium Term Scenarios



Reform scenario

7. Under the reform scenario, growth would be expected to decline in 2003–04. Then, as in other transition countries, the reform process would be expected to contribute to robust rates of economic growth (5–6 percent per annum) and reduced external vulnerability. Investment growth in the reform scenario would be financed by domestic as well as by moderate foreign savings.[23]

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[22] The relatively low current level of external debt—although it largely stems from lack of access to international capital markets—affords Belarus a small cushion against external shocks.

[23] FDI would grow, but not faster than in many neighboring CIS countries that are now relatively well-advanced with reforms (e.g., Russia).

8. Given monetary integration, **fiscal and monetary policies** would have to be tighter than in the baseline. However, in this case, the tighter policies would be underpinned by supportive institutional and structural reforms. The cash fiscal deficit would need to remain at around 1 percent of GDP (financed by modest treasury bills sales and by privatization proceeds), but significant adjustment on the expenditure side would curtail the growth of arrears and allow the revenue-to-GDP ratio to fall toward Russian levels.

9. The **balance of payments** would improve initially, given tighter fiscal policies (and trade creation with Russia following monetary unification). But the current account should widen toward the end of the projection period as FDI and other inflows respond to reforms in Belarus. At 1½ months of imports by 2007, reserve accumulation would allow a reduction in external vulnerability. The stock of medium and long term external debt would rise toward 12 percent–13 percent of GDP.

Statement by the IMF Staff Representative
April 16, 2003

1. This statement provides information that has become available since the staff report was circulated; it does not alter the thrust of the staff appraisal.

2. **Economic growth prospects have improved somewhat.** Relative to the conditions prevailing at the time of the mission, higher oil prices and the resulting improvement in Russian economic performance have prompted staff to project growth in Belarus of about 4 percent during 2003 (as compared with a baseline projection of 3½ percent in the staff report). Staff baseline projections for growth in 2004 and 2005 are now 3½ percent and 2¼ percent, respectively (compared to 3 percent and 2 percent previously), with forecasts for the remainder of the medium term unchanged.

3. **Cumulative inflation through the first quarter was 8.2 percent, broadly in line with staff baseline projections for 2003.** Regrettably, the authorities have recently announced a freeze on household utility prices until the end of 2003; cost recovery levels are likely to fall as a result, given the high level of inflation in Belarus.

4. **Revised balance of payment data suggest the current account deficit was somewhat wider in 2002.** Preliminary data had indicated a deficit of 2 percent of GDP, while more recent estimates yield a deficit of 2½ percent of GDP, reflecting a downward revision of the surplus on the services account.

5. **A recent technical assistance mission from MAE discussed aspects of monetary union with the Belarusian and Russian authorities.** The mission emphasized the importance of ensuring that fiscal and monetary policies are consistent with an exchange rate peg, and noted the urgency of addressing financial sector fragilities in the context of a monetary union. It underscored the challenge of implementing the needed macroeconomic adjustment and structural reforms within an agreed timetable for monetary union.

6. **There has been some progress in the area of privatization**. The authorities have completed the corporatization of the natural gas transit and distribution company Beltransgaz, and a joint venture with Russia's Gazprom is expected to be created later this year. The authorities have also announced the timetable for a tender for stakes in four arge petrochemical enterprises, with minority holdings expected to be auctioned during May–June 2003. Raiffeisen Zentralbank of Austria, which now holds a majority stake in the largest private bank in Belarus, PriorBank, has announced its intention to purchase the bank outright.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/56
FOR IMMEDIATE RELEASE
April 30, 2003

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

IMF Concludes 2003 Article IV Consultation with the Republic of Belarus

On April 16, 2003 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Belarus.[1]

Background

Belarus made noticeable progress in some areas of economic reform over the past several years, but overall macroeconomic performance in 2002 was mixed. Inflation in 2002 was the lowest since Belarus became independent, yet it remains the highest in the Commonwealth of Independent States. Fiscal and monetary policies were tighter in 2002 than in previous years. Reported real GDP growth was 4.7 percent, similar to the 2001 level. However, large administrative wage increases in late 2001—combined with a substantial real appreciation of the rubel—adversely affected corporate finances and the balance of payments.

Fiscal policy was marked by weaker revenue performance and tight financing constraints. Government expenditure continued to be affected by the 2001 wage increases and the commitment to maintain or increase spending on priority social areas. The fiscal balance, after remaining tight for most of 2002, expanded in December to yield a cash deficit of 1.8 percent of GDP for the year. While the authorities took strong measures to stabilize the finances of the Social Protection Fund, quasi-fiscal activities continue to impose a heavy burden on the economy, and progress with tax reform has been mixed.

[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.

Monetary policy in 2002 was tighter than in previous years and there has been some remonetization, which has been a region-wide phenomenon. Rubel broad money grew by more than 60 percent, and household rubel deposits more than doubled in nominal terms as interest rates were held at very high levels until late in the year.

The real appreciation of the rubel had an impact on the competitiveness of Belarusian exports. From September 2001 to end-February 2003, the rubel rose by 20 percent in real terms against the U.S. dollar and by 6 percent against the Russian ruble. The balance of payments situation therefore remained relatively weak. The current account deficit, at US$279 million (2.0 percent of GDP), was almost unchanged compared to 2000–01, while the overall balance of payments recorded a $167 million surplus, mainly because of large capital inflows in December. Gross official reserves remained at extremely low levels until December, when they rose to $601 million (0.8 months of imports) following one large privatization transaction.

Current plans for monetary union with Russia envisage a peg of the Belarusian rubel to the Russian ruble in January 2004, and currency union in January 2005. While the two countries have made some progress in aligning customs duties, the Belarusian authorities will need to implement a substantial adjustment in macroeconomic policies if inflation is to be brought down to Russian levels by the start of next year.

The record of structural reforms continues to be mixed. Energy sector cross-subsidization has been reduced, as utility tariffs and rental payments were increased by an average of 190 percent over the course of 2002. Some progress was also achieved in price liberalization, and a recent draft decree would reportedly reduce the number of activities requiring licenses sharply. But 80 percent of GDP is still produced by the state sector, and the "golden share" rule remains in place, effectively allowing the state to take over any firm that is not fully privatized.

Under current policies, the outlook for 2003 is broadly similar to the outcome for 2002. Inflation is expected at around 27 percent, and real GDP growth is likely to slow modestly to about 4 percent.

Executive Board Assessment

Directors noted that the Belarusian authorities have made noticeable progress in policy implementation in several areas. They have tightened fiscal and monetary policies, and they have been implementing a number of structural reforms, most notably reduced cross-subsidization and raised cost recovery in the energy sector, trade reform, price liberalization, privatization, streamlined registration requirements for small enterprises, and politically difficult measures to avert a crisis in the pension system. As a result, economic growth has been maintained and inflation declined further in 2002.

Nevertheless, Directors emphasized that major economic challenges lie ahead. In particular, they stressed the need to continue to strengthen the macroeconomic framework in order to further reduce inflation, increase external competitiveness, and prepare the way for the planned currency union with Russia. These efforts would need to be complemented with more vigorous implementation of structural reforms to raise productivity, improve the environment for private business, and address vulnerabilities in the financial sector. In this regard, most Directors cautioned that the authorities' macroeconomic projections for 2003 may be optimistic—especially concerning real GDP growth, foreign direct investment, and re-monetization of the economy.

Directors considered that the current policy mix is not consistent with plans to peg the Belarusian rubel to the Russian ruble. They stressed that macroeconomic policies need to be consistent with the exchange rate regime, and that the exchange rate ought to be appropriately competitive at the time it is fixed to the ruble. In this regard, most Directors agreed that the Belarusian rubel is somewhat over-valued at present, and called for more rapid disinflation and maintenance of the pre-announced path for depreciation of the rubel to restore lost competitiveness. They urged tighter monetary and fiscal policies, aggressive economic liberalization and formal elimination of U.S. dollar wage targets to bring inflation down.

On fiscal policy, Directors put particular emphasis on expenditure rationalization in view of the relatively large size of the government. They recommended a reduction in subsidies to agriculture, housing and road construction, a cutback in budgetary lending, and immediate elimination of central bank financing of the government budget deficit. They also called for increased budgetary transparency.

Directors encouraged the authorities to take action to reduce vulnerabilities in the financial sector, including tightening of prudential regulations. They particularly regretted the reappearance of directed credits, whose elimination had been a key achievement of the 2001 Staff-Monitored Program. Directors supported preparation of a comprehensive reform and privatization program for the corporate and financial sectors. Directors also welcomed the authorities' request for an early Financial Sector Assessment Program, their intention to undertake a safeguards assessment of the central bank, and their efforts to enforce and strengthen legislation to combat money laundering and terrorism financing, and stressed the importance of central bank independence.

Directors believed that increased labor market flexibility, particularly by allowing state enterprises to lay off redundant workers, would greatly help to raise productivity and support the exchange rate peg. They advised that wage policy be driven principally by growth in labor productivity. Directors also observed that the environment for private business in Belarus needs to be improved in order to promote foreign and domestic investment. To this end, they encouraged elimination of legal and administrative barriers to private sector activity, increased stability of the legal and administrative framework, a reduction of the tax burden, and curtailment of state intervention and inspections.

Directors welcomed the authorities' plans to accelerate large-scale privatization. At the same time, they underscored the importance of ensuring the transparency and effectiveness of the privatization process. Directors again urged elimination of the "golden share" rule, as this would help to encourage foreign direct investment in Belarus.

Most Directors continued to emphasize that a good track record of policy implementation of a critical mass of reforms would be required before negotiations on a Stand-By Arrangement could begin. Such a track record could be established in the context of a staff-monitored program. However, a few Directors felt that the authorities have made sufficient progress in policy implementation to warrant immediate negotiations on possible Fund financial assistance to Belarus.

Directors supported expansion of technical assistance and related forms of collaboration with Belarus, given the authorities' good record of implementing past IMF technical assistance recommendations. They welcomed the authorities' efforts to increase the dissemination of statistical information and their plans to subscribe to the IMF's Special Data Dissemination Standard.

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 2003 Article IV Consultation with the Republic of Belarus is also available.

Republic of Belarus: Selected Economic Indicators

	1999	2000	2001	2002 Preliminary
	(Annual change in percent, unless otherwise indicated)			
Real economy				
GDP (nominal in billions of rubels)	3,026	9,134	17,173	25,518
Real GDP	3.4	5.8	4.7	4.7
Industrial production	10.3	7.8	5.9	4.3
CPI (end-of-period)	251.2	107.5	46.1	34.8
Real average monthly wage (1996=100)	144.0	163.0	214.0	231.9
Average monthly wage (in U.S. dollars)	78.7	82.8	90.3	107.3
Money and credit				
Reserve money	178.4	124.3	102.8	32.0
Rubel broad money	195.1	124.1	96.9	59.6
Banking system net domestic credit	143.2	188.1	66.4	53.7
Refinance rate (percent per annum, end-of-period)	120.0	85.0	48.0	38.0
	(In percent of GDP)			
General government finances 1/				
Revenue	45.3	45.7	44.9	44.0
Expenditure (cash)	47.3	45.9	46.8	45.8
Expenditure (commitment)	...	46.7	48.1	45.9
Balance (cash)	–2.0	–0.2	–1.9	–1.8
Balance (commitment)	...	–1.0	–3.1	–1.9
	(In millions of U.S. dollars unless otherwise indicated)			
Balance of payments and external debt				
Current account balance	–194	–323	–285	–279
As percent of GDP	–1.6	–2.5	–2.3	–2.0
Gross international reserves	309.0	356.8	352.1	600.9
In months of imports of goods and services	0.6	0.5	0.5	0.8
Medium- and long-term debt (as percent of GDP)	5.5	5.2	6.8	7.0
Short-term debt (as percent of GDP)	12.7	10.6	12.9	12.4
	(Rubels per U.S. dollar)			
Exchange rates				
Average	250	717	1,383	1,784
End-of-period	319	1,180	1,580	1,920

Sources: Data provided by the authorities and IMF staff estimates.
1/ Consolidates the state government and Social Protection Fund budgets.

Statement by Willy Kiekens, Executive Director for the Republic of Belarus and Mikhail Nikitsenka, Assistant to the Executive Director
April 16, 2003

Economic Developments

Because of tight monetary and fiscal policies, and progress with structural reforms, including the unification of the exchange rate in late 2000, economic performance has markedly improved. This trend is continuing in 2003.

Inflation is declining steadily. Last year it reached its lowest level since independence, 35 percent, and would have been only 23 percent had it not been for the sharp utility price increases.

Real output growth was 4.7 percent last year, much better than the staff's projection of 1.5 percent. *Per capita* GDP in dollar terms grew by 16 percent, to reach $1,438 in 2002.

The external accounts are improving as well. Total exports in dollars grew by 9.5 percent, but exports to non-CIS countries grew at the brisk rate of 23 percent, and now represent 44 percent of Belarus's exports. This is testimony to Belarus's improving competitiveness in the EU and elsewhere. As a result, the central bank's net foreign assets more than doubled to reach $441 million by the end of last year.

Monetary and Exchange Policies

Money demand is increasing because of declining inflation, the relative stability of the exchange rate, and the robust growth of real GDP. In consequence, barter trade is declining and financial assets are increasing. The assets of the banking system grew by 66 percent in 2002. Household rubel deposits more than doubled because of high real interest rates and growing confidence in the currency. After the liberalization of the exchange markets, the volume of exchange transactions in the banking system almost doubled. Non-performing loans dropped to 8.3 percent of total loans, down from 14.4 percent at the end of 2001.

The staff recommends replacing the crawling band with a more flexible regime. But the export performance mentioned above shows that Belarus is gaining, rather than losing, competitiveness, and this casts doubt on the staff's recommendation. The authorities believe that the exchange rate stability achieved with the crawling band has contributed to Belarus's good export performance. We would like to see the relevant paragraph of the draft Public Information Note changed to this effect.

Fiscal Policies

Last year's general government deficit was 0.4 percent of GDP, including the privatization proceeds from Slavneft, of about 1 percent of GDP. This figure is lower than the preliminary figure of 1.9 percent of GDP mentioned in the staff report. This shows Belarus's continuing adherence to exemplary fiscal discipline. Since 1995, the fiscal deficit has never exceeded 2 percent of GDP. As can be seen in the Statistical Annex, public debt reached about 6.6 percent of GDP, of which 1 percent was domestic debt and 5.6 percent foreign debt.

Adherence to fiscal discipline was demonstrated once more when, last summer, the viability of the pension system was restored by forceful reform measures that increased revenues and reduced outlays.

Structural Policies

The authorities disagree with the staff's conclusion that "structural reforms have largely stalled since 2001." Last year two large privatizations were completed. A major share in the petrochemical company Slavneft was sold to a Russian company. More than half of the shares of Prior Bank, Belarus's third largest bank, were sold to Raiffeisen AG of Austria, which is now in the process of acquiring the rest. The parliament recently approved the privatization of the pipeline and distribution company Beltransgaz. A number of other companies have been privatized, with the participation of foreign investors and the IFC.

There are 28 banks operating in Belarus. Five are wholly owned by foreigners. In seven others, more than half the capital is owned by foreigners.

Other reforms were also implemented during 2002. Cross-subsidization was sharply reduced. In consequence, utility prices had to be increased by an average of 190 percent. This was the first time the prices were sharply increased during winter. Cost recovery increased from below 30 percent in early 2002 to 60 percent this year. Utility payments increased from 5 percent of household spending to 10 percent.

Enterprise profitability increased from 7.8 percent in 2001 to 8.7 percent in 2002. At the same time, the reduction of subsidies had to be cushioned by salary increases.

Last year, the process of establishing and liquidating enterprises was greatly simplified. Many restrictions and regulations were abolished. Bankruptcy procedures have become quite widespread. Last year the courts considered more than 1000 bankruptcy cases.

The agricultural sector is also being reformed. In 2002, more than 200 collective and state farms were already transformed into joint stock companies, many farms were also leased to local residents, acquired by private farmers or reorganized through bankruptcy procedures.

Other important progress was made with small enterprise privatization, extended price liberalization, and procurement reforms.

Belarus's attractiveness to foreign direct investment is shown by the fact that last year, 530 enterprises wholly or partly foreign-owned were registered, making a total of almost 4000. In 2002, Belarus received $338 million in foreign direct investment, more than three times the $96.2 million received in 2001.

In addition, there was considerable progress in harmonizing Belarus's structural reforms with those of Russia in anticipation of a monetary union between the two. According to the staff, the result was "significant improvements in institutions and the business environment."

Relations Between Belarus and the Fund

The authorities are surprised by the staff's assessment (paragraph 35 of the Staff Report) that "performance under the 2001 SMP was disappointing." This contradicts last year's Article IV summing up, which said that Directors agreed that "all monetary targets had been achieved and that the measures envisaged in the structural benchmarks had largely been implemented" and that "a few Directors could support starting negotiations on a Stand-By Arrangement."

This year's negative assessment of the SMP also contradicts the conclusions of last year's Staff Report, which said that the "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 staff had also noted that most structural benchmarks were met and that the consolidated fiscal deficit target exceeded the SMP target by only 0.4 percent of GDP.

Given the substantial success of the 2001 SMP program, and the recognition in this year's Staff Report that monetary and fiscal policies were further tightened and structural reforms have made further progress in 2002, and taking account of the positive macroeconomic performance of the last four years, the authorities do not want a second SMP. They view the economic results of the last year as a continuation of their good track record, sufficient to justify beginning negotiations for a stand-by arrangement.

A frequent source of disagreement during discussions with the staff is forecasts regarding indicators, especially GDP growth. The staff is usually very conservative when estimating future growth. Last year's GDP growth exceeded the staff's projection by a factor of three. This is a pattern: during the last six years, actual GDP growth in Belarus was at least three times higher than projected in the Staff Reports.

The staff argues that the authorities' real GDP targets are much higher than those of its main trading partners, and are based on projected levels of foreign investment that are not plausible. Now, practical experience once more confirms Belarus's ability to outperform the growth performances of its trading partners. In 1998, with Russia's economy in crisis, Belarus recorded GDP growth of 8.4 percent. For 2003, the staff projects FDI of only $156 million, notwithstanding the above cited investment in Beltransgaz, and other substantial foreign investments in the brewing and software sectors.

The authorities do not share the generally pessimistic assessment of Belarus's macroeconomic situation, especially in light of the global downturn and the fragility of other CIS countries, some of which have received substantial financial support from the Fund.

During the Article IV consultation in Minsk, the central bank governor asked the mission to inform the Executive Board about his plan to request a stand-by arrangement on the basis of the program of economic policies agreed with Russia in preparation for a monetary union between the two countries in 2005. As described in the Selected Issues paper, this Joint Action Plan contains quantitative targets like those in IMF programs, such as a ceiling on net domestic assets, a floor on net international reserves, a target for reserve money growth, and adjusters to allow for unplanned capital inflows. The Joint Action Plan also includes important structural measures described in the Selected Issues Paper. Unfortunately the mission took no position on this agreement.

The Belarusian authorities are grateful for the expanded technical assistance provided in accordance with last year's recommendations. This assistance included expert missions in the areas of monetary operations, tax policy, creation of a monetary union, and fiscal transparency, to name the most important. Belarus has made good use of technical cooperation with the Fund and looks forward to its continuation.

The Belarusian authorities are determined to continue adequately tight monetary and fiscal policies. They will expand privatization and further liberalize the economy to improve the business climate and accelerate growth. They hope the Executive Board will make a fair assessment of macroeconomic developments in Belarus, and that the Fund's relations with Belarus can be put on a more constructive basis, enabling it to receive Fund financial assistance in the near future. A comprehensive program drawn up with assistance from the Fund would provide a useful road map for the difficult reforms that lie ahead.