May 2004
IMF Country Report No. 04/141

Republic of Belarus: 2004 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 2004 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 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 9, 2004,** 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 April 22, 2004.** 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 **May 7, 2004** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its May 7, 2004 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 2004 Article IV Consultation

Prepared by the Staff Representatives for the
2004 Consultation with the Republic of Belarus

Approved by Carlo Cottarelli and Anthony R. Boote

April 22, 2004

The 2004 Article IV consultation discussions were held in Minsk during January 26–February 9, 2004. The team—T. Richardson (head), V. Bacalu, E. Jafarov, J. Vacher (all EUR), and Z. Brixiova (resident representative for Belarus and Lithuania)—was assisted by J. Lyskova and E. Kovalenko of the Minsk office. W. Kiekens, the Executive Director, and M. Nikitsenka, the Belarusian representative to the World Bank Executive Board, took part in some of the discussions. The mission met with National Bank of Belarus (NBB) Chairman Prokopovich, Deputy Prime Minister Kobiakov, Minister of Economy Zaichenko, Finance Minister Korbut, and other senior officials. The mission also met with members of parliament, NGOs, trade unions (both official and independent), representatives of commercial banks and industry, and liaised with the World Bank office in Minsk.

Belarus has accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement (Appendix I). The authorities intend to permit publication of this report.

Data needed for Fund surveillance have been provided on a timely basis, and the authorities announced their intention to subscribe to the SDDS. Although data dissemination is improving, the quality of some basic (particularly national accounts) statistics is problematic (Appendix V). Draft SDDS web pages are viewable (in Russian only) at:

National Bank of Belarus..http://www.nbrb.by/statistics/Sstandard/data.asp,
Ministry of Finance..http://ncpi.gov.by/minfin/SDDSr/Y2003/M_2003.html
Ministry of Statistics and Analysis.......................... http://www.president.gov.by/Minstat/ru/specst/main.htm

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EXECUTIVE SUMMARY

Belarus continues to pursue a gradual approach to economic reforms, hoping in this way to mitigate the social costs of transition. Recorded real GDP growth was robust during 2003, though the staff has growing concerns about the reliability of the official national accounts data. Inflation declined modestly, but remains the highest in the region, reflecting lax fiscal and monetary policies. The fiscal stance continued to be constrained by lack of financing, and quasi-fiscal activities—including directed lending—remained pervasive, raising concerns about the health of the banking system. Structural reforms have largely stalled.

Prospects for establishing a currency union between Belarus and Russia seem to be dimming, and the current timetable (introduction of the Russian ruble in 2005) now appears unlikely. While this process is fundamentally political rather than economic, the Belarusian authorities recognize that entering a currency union will necessitate significant changes in monetary and fiscal policies, as well as faster structural reforms. At the same time, delays in privatizing Belarusian energy sector firms have led Russia to curtail subsidized deliveries of natural gas.

Policy issues and discussions

The authorities target rapid real GDP growth in 2004, as they seek to achieve the ambitious objectives of the president's socio-economic program for 2001–05. They hope to secure 9–10 percent real growth by tightening administrative control over the economy while also encouraging development of small and medium size enterprises. By contrast, the staff projects more modest growth broadly in line with projections for their main trading partners, including Russia.

The authorities do not agree that tighter fiscal and monetary policies will be needed to deliver further disinflation in 2004. They believe that rapid remonetization will continue, and feel that the fiscal stance is prudent given the modest deficit and level of government debt. The staff is less optimistic regarding the likely improvement in money demand, and is concerned that substantial quasi-fiscal deficits will eventually be reflected in higher public debt.

The exchange rate regime has begun to show signs of strain. Although de jure tied to the Russian ruble, de facto the authorities' crawling band regime has focused on the dollar. The authorities have announced they will discontinue this practice in 2004, but the experience of the first several months of the year suggests they may be reluctant to do so. Moreover, the staff feels it would be inadvisable to enter the currency union before supportive macroeconomic policies and structure reforms are in place.

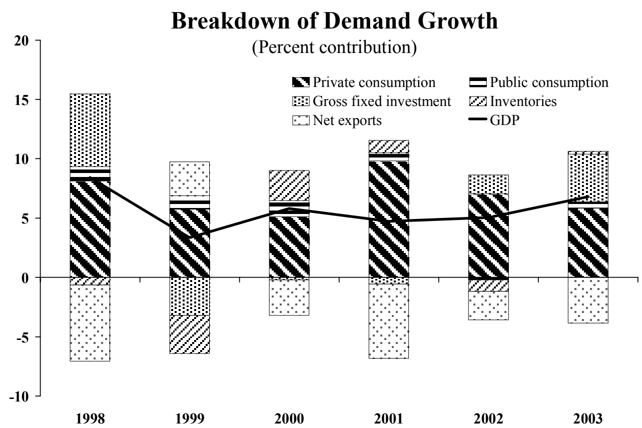
The authorities, particularly in the presidential administration, are ambivalent about the need to accelerate structural reforms. In the staff's view, priority areas include the energy sector, the business environment, agriculture, labor markets, public administration and public enterprise reform and privatization. Weaknesses in the banking system should also be addressed urgently.

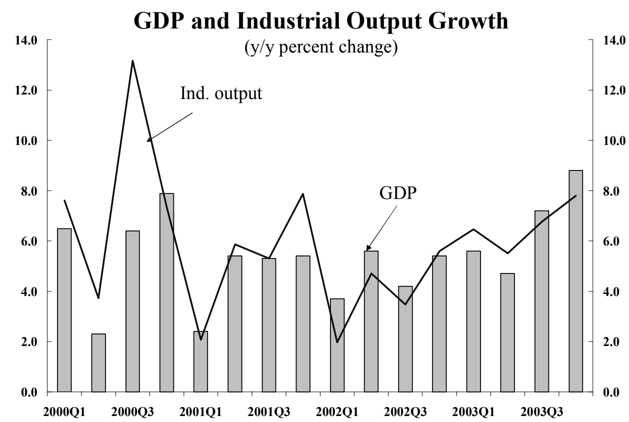
The authorities have withdrawn their request for discussions on a Stand-By Arrangement. They have long resisted another track record period or SMP, which the staff has recommended, and have concluded that their relationship with the IMF should instead emphasize economic policy consultations and technical assistance in the Fund's areas of expertise, which they highly value.

I. Background and Recent Developments

1. **President Lukashenko continues to dominate political life in Belarus.** Under the constitution, he would not be allowed to serve beyond his current term, which extends to 2006. However, the opposition seems weak and the president is reportedly preparing a referendum amending the constitution such that he could run for a third term.

2. **Macroeconomic performance in 2003 was mixed.** Driven by consumption and public investment (especially on housing construction), officially reported real GDP grew by about 6¾ percent in 2003, as did industrial production and agricultural output.[1] However, there are growing concerns about the reliability of national accounts statistics, in addition to persistent methodological differences with international practice.[2] Rosy macroeconomic data notwithstanding, the financial situation of the enterprise sector continues to be very difficult, as indicated by high inventory levels and the fact that almost half of industry (and two thirds of agriculture) are reporting losses.





3. **Although headline inflation continued to decline gradually, core inflation began to creep up during the second half of 2003.**[3] As monetary policy loosened, the authorities employed administrative measures late in the year—including slower increases in utilities

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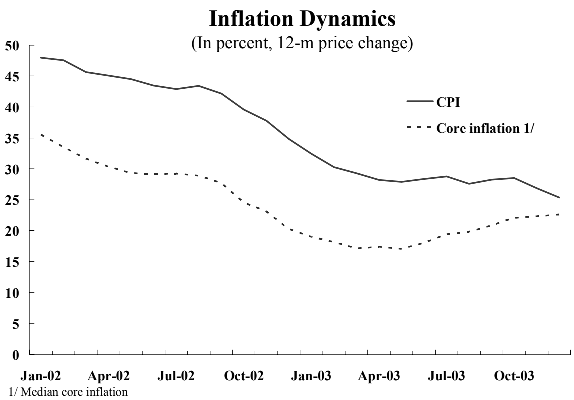
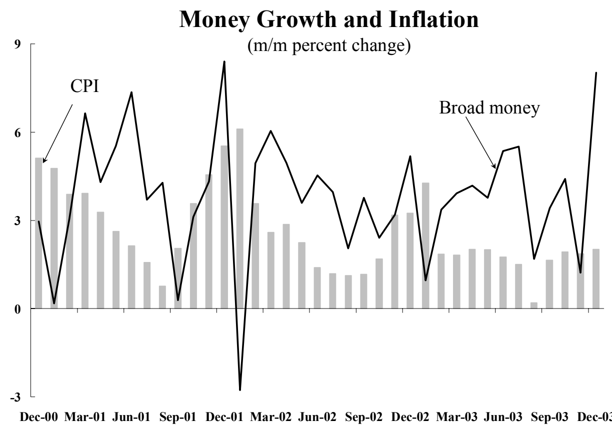
[1] Belarus was one of the wealthiest republics of the USSR, and it continues to report comparatively good poverty indicators.

[2] The staff has repeatedly urged the authorities to publish the alternative estimates of industrial production and GDP that were developed in consultation with the IMF's Statistics Department. These estimates indicate that official figures are likely to have overstated growth by at least 1 percentage point.

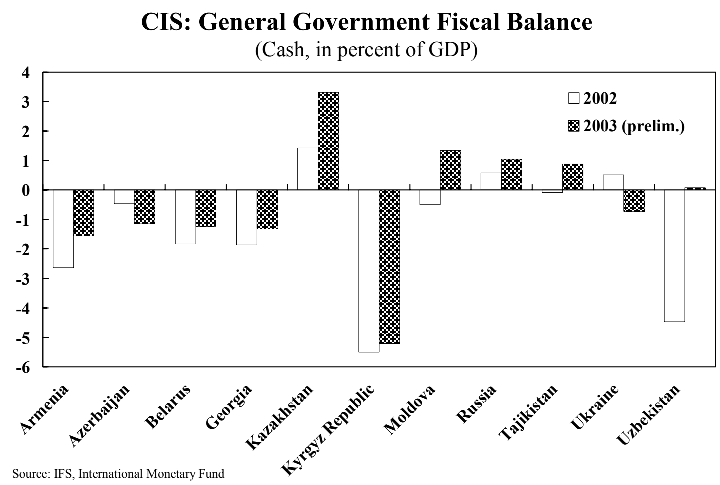
[3] Defined as median core inflation, which is based on the median price change in the sample of commodities contained in the CPI basket.

prices and a narrowing of retail trade mark-ups—to limit the headline figure. Real wage growth fell from about 8 percent in 2002 to 3 percent in 2003.





4. **The authorities have constrained fiscal deficits to available financing**. During 2003, the general government cash deficit was only 1¼ percent of GDP (1 percent on a commitment basis), reflecting disappointing privatization receipts as well as limited access to external financing. Revenue was supported by buoyant property taxes and customs duties, while profit taxes underperformed (the latter reflecting the deteriorating financial condition of enterprises). Budgetary outlays on agriculture picked up, as the authorities sought to compensate for losses in the farm sector. Quasi-fiscal activities remained significant, including widespread directed lending to state enterprises, for investment and also for clearance of tax and wage arrears.[4] The staff has no information on resources under the control of the administrative department of the presidential administration.

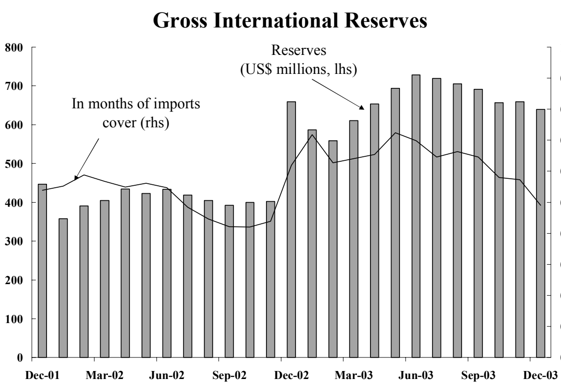


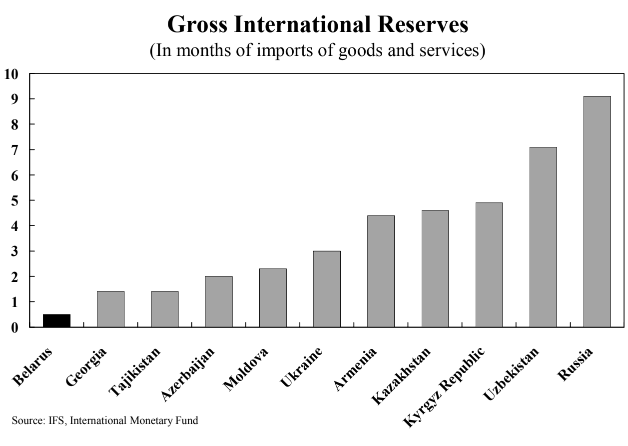
5. **The balance of payments situation remains difficult**. The current account recorded a deficit of about 2.6 percent of GDP in 2003, about the same as in 2002, and the merchandise trade deficit remained at 6.2 percent of GDP. Trade turnover rose very sharply

[4] Data limitations prevent the staff from assessing the deficit of the public enterprise sector, though it is undoubtedly significant.

on high energy prices, as demand for oil products exports—and thus crude oil imports—was high. (A significant portion of the USSR's oil processing capacity was located in Belarus.) Nevertheless, the energy prices Belarus faces (particularly for natural gas) rose on average by about 20 percent in 2003. [5] FDI was low as privatization stalled, but high interest rates attracted some short-term capital from Russia. Gross international reserves jumped in late 2002 (following a large privatization sale), but since then have remained at about ½ month of imports.

6. **The exchange rate regime began to show signs of strain in 2003.** Belarus has a crawling band regime that is de jure linked to the Russian ruble, but which de facto tracks the U.S. dollar. Despite warnings from the staff about the impossibility of pursuing an overdetermined system for long, their approach did prove useful in bringing down inflation during 2001–02.[6] It worked because the Central Bank of Russia (CBR) was also targeting the dollar, but it became less sustainable as the Russian ruble began to appreciate in 2003. Thus, the rubel appreciated by 9½ percent in real terms against the dollar during 2003, while depreciating by almost 10 percent vis-à-vis the ruble. (The real effective exchange rate depreciated by 7½ percent.[7])





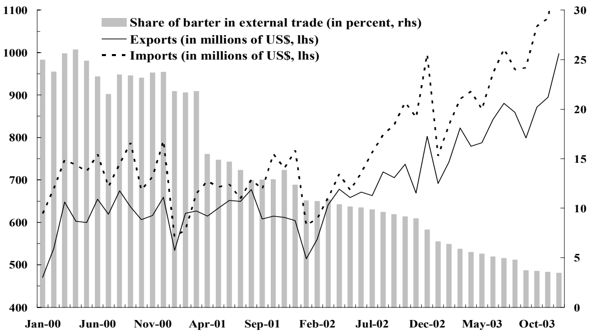
[5] The terms of trade worsened marginally during 2003, and there was little change in the trade regime over this period. WTO discussions are proceeding slowly (pending Russia's application), while the impact of regional arrangements (Eurasian Economic Community and related groupings of CIS states) remains unclear.

[6] High levels of liability dollarization in the banking system may also contribute to the authorities' fear of floating against the dollar.

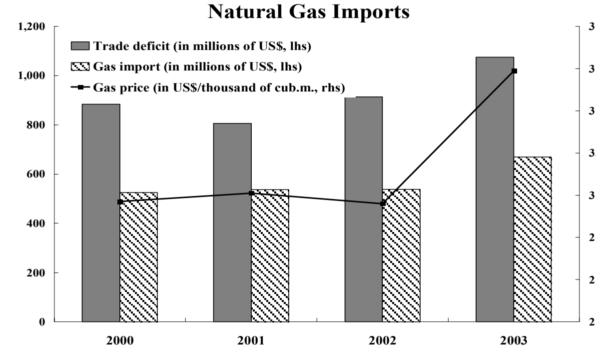
[7] The REER tracks the ruble, as Russia accounts for about 60 percent of Belarusian trade.

Belarus: External Trade Developments

External Trade

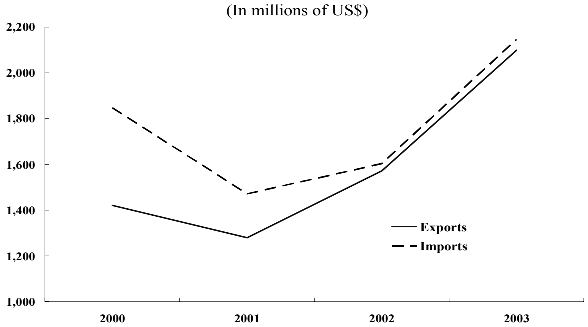


Natural Gas Imports

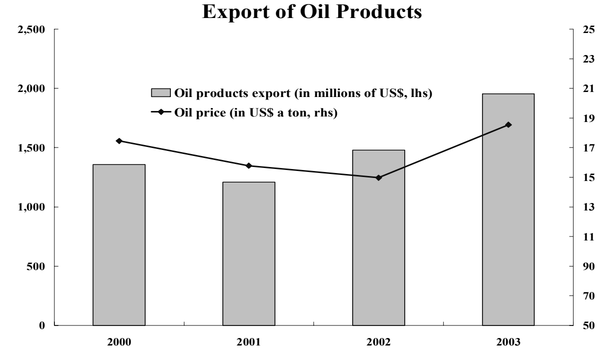


Trade in Oil and Oil Products

(In millions of US$)

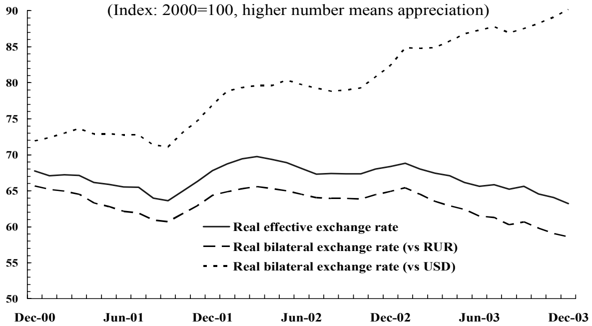


Export of Oil Products



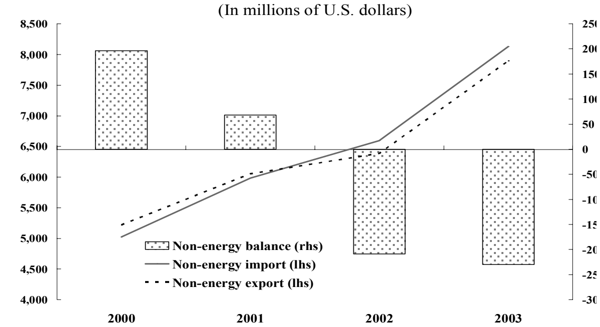
Real Exchange Rate

(Index: 2000=100, higher number means appreciation)



Non-Energy Trade

(In millions of U.S. dollars)



Sources: Ministry of Statitstics and Analysis, NBB, and Fund staff estimates.

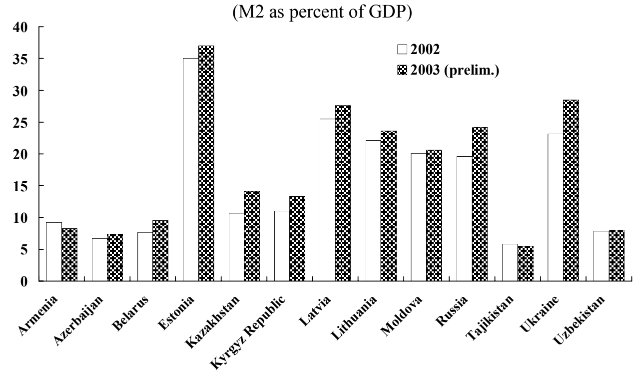
7. **Growing demand for money contributed to gradual disinflation despite relatively lax monetary policy.** Led by increases in NFA and credit to government, reserve money grew by about 50 percent in 2003, giving rise to the underlying pressure seen in the core inflation numbers. Moreover, the budget was modified at the end of December to permit the NBB to double the flow of inflationary budget financing in 2003; as a result two thirds of the reserve money growth stemmed from credit to government. CPI inflation declined despite these large increases, as rubel broad money velocity fell by 17½ percent. The NBB reduced the refinance rate from 38 percent at end-2002 to 23 percent at present (still positive in real terms).

Contribution to Reserve Money Growth
(quarter-on-quarter, in percent)

	2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Reserve money	-3.6	15.7	1.0	17.1	-0.4	23.4	5.4	16.6
Net foreign assets	-2.7	3.9	-1.4	51.3	-6.9	28.5	-4.2	2.3
Net credit to government	-1.5	10.1	0.2	-39.1	8.4	-7.0	6.1	17.2
Net domestic assets, net of credit to government	0.7	1.7	2.2	4.9	-1.9	2.0	3.5	-3.0

Source: National Bank of Belarus

Monetization
(M2 as percent of GDP)



Source: IFS, International Monetary Fund

8. **Despite good reported soundness indicators, the banking sector is increasingly vulnerable.** With 80 percent of the banking system being state-owned, and at least ¾ of banking system exposure to state-owned enterprises, the government's role in the financial sector remains considerable.[8] Notwithstanding their commitment under the 2001 SMP to eliminate directed lending, the president and the cabinet have continued to issue decrees and resolutions "recommending" quantitative lending targets to the six largest banks for favored projects, regions and sectors. At the same time, senior officials, including the president, have also become concerned about the level of non-performing loans (NPLs). As a result, the NBB required banks to ensure that the level of NPL fell below specific thresholds by end-2003. These thresholds were indeed met, with NPLs reportedly falling from 14.4 percent of loan portfolio at end-2001 to less than 4 percent at end-2003. Much of the improvement was due to portfolio growth, but the authorities also attribute it to strengthened payments discipline and the weaker dollar (which made it easier to repay foreign currency loans). The staff, however, fears that much of the reduction in NPLs was due instead to "evergreening" (replacing NPLs with new loans). Capital adequacy ratios and liquidity are reported at satisfactory levels as well, though underprovisioning is substantial.[9] With full loan

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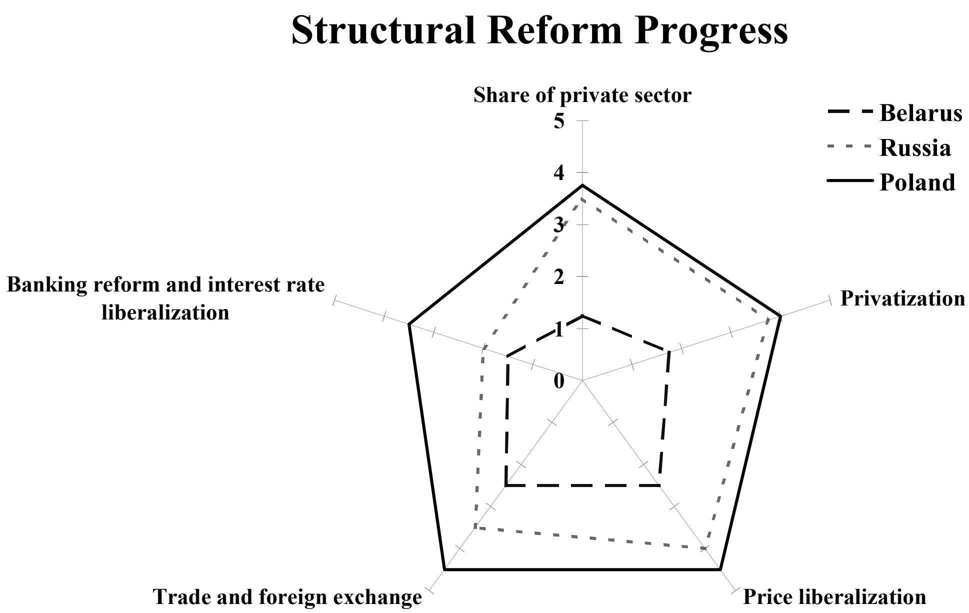
[8] The presidential administration has recently proposed a decree requiring SOEs to move their deposits to state banks, which could have adverse implications for private banks.

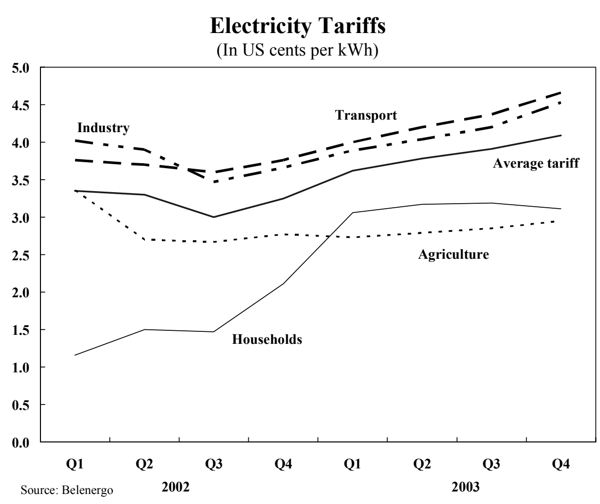
[9] The authorities have made substantial capital injections to Belarusbank and Belagroprombank in each of the past three years.

provisioning, the banking system would have reported losses during three of the past four years. As the number of loss-making enterprises is large, the staff has expressed concern about the quality of asset classification and overall risk management techniques (Box 1).

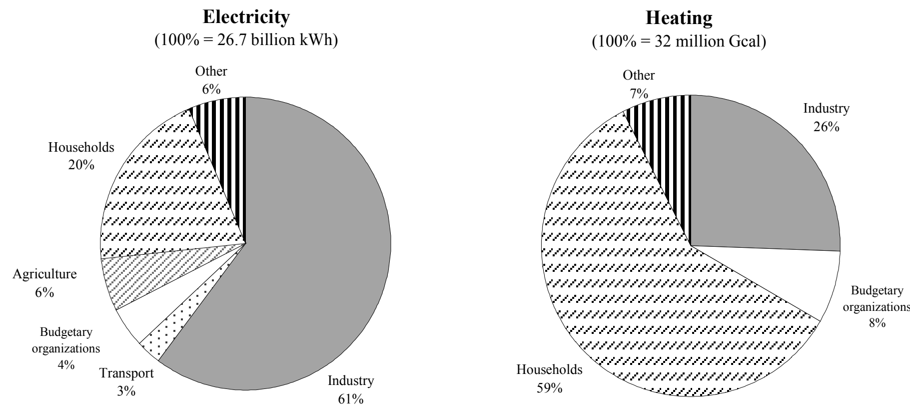


Source: EBRD Transition Report 2003.
Note: Minimum score (little progress) is 1 and maximum score is 4.5 ("4+") except for the share of private sector, which is re-normalized between 0 and 5. The privatization indicator is an average of the small-scale and large-scale privatization scores.

9. **With a few exceptions, structural reforms seem to have stalled.** Energy sector cost recovery levels—particularly for households—rose significantly in 2002 and early 2003, and collections improved. But utility tariff increases slowed subsequently, and favored enterprises or sectors continue to face preferential utility tariffs. The business environment remains difficult, although the licensing regime for small businesses was streamlined. The size of the public sector is estimated at about 80 percent of GDP, and privatization has not progressed, including for the seven largest petrochemical firms. Staff advice to the contrary notwithstanding, a recent presidential decree substantially expanded the scope of the golden share (Box 2). Similarly, the bankruptcy law was changed to make it more difficult to restructure insolvent enterprises.



Energy Consumption, 2003
(In percent of total)



Source: Belenergo

II. POLICY DISCUSSIONS

10. **High inflation and delayed structural reforms are the key problems Belarus faces**, as they are likely to undermine growth over the medium term. Ultimately, the source of the high inflation is fiscal policy—including quasi-fiscal activities—since lax monetary policy essentially accommodates the needs of public finance. At the same time, the low level of reserves gives rise to significant external vulnerability, particularly in light of the Belarusian exchange rate regime. Although progress toward a currency union with Russia dominated the 2003 discussions, there is much less momentum in this direction at present (Box 3).

11. **Against this background, the discussions centered on the following questions:**

- Is the authorities' macroeconomic framework realistic and appropriate?
- Is there a need for monetary and fiscal policy adjustment in order to deliver lower inflation, reduce vulnerability and set the stage for stronger medium-term growth? If so, how large should the adjustment be?
- What is the appropriate exchange rate regime, particularly if prospects for a currency union are diminishing? and
- What should be the authorities' structural reform priorities, given that Belarus lags behind its neighbors in almost all areas?

Box 1. Financial and Corporate Sector Vulnerability

Financial sector vulnerability indicators are belied by weak corporate sector figures. On paper, the share of non-performing loans is declining, but corporate sector profitability is weak, suggesting that bank assets may be more impaired than official indicators show. In addition, the high level of dollarization suggests a significant risk of currency mismatches, as many borrowers of foreign currency have largely rubel receipts.

Belarus: Financial Soundness Indicators for the Banking and Corporate Sectors (2000-03)
(In percent unless otherwise indicated)

	2000	2001	2002	2003
Banking sector 1/				
Capital Adequacy				
Regulatory capital to risk-weighted assets	24.4	20.7	24.2	27.3
Regulatory Tier 1 capital to risk weighted assets	13.3	11.1	19.2	21.6
Asset Quality				
Share of non-performing loans in total loans	15.2	14.4	8.3	3.7
Required provisions against NPL	87.1	69.8	55.9	56.8
Actual provisions against NPL	67.6	40.1	15.5	28.3
Large exposures to capital ratio	...	149.4	102.9	107.8
Earnings and profitability:				
Return on equity	4.8	4.9	4.4	6.1
Return on total assets (with actual loan loss provisioning)	1.0	0.8	1.0	1.53
Adjusted return on total assets (with full loan provisioning) 2/	-0.6	-1.8	-1.8	0.2
Liquidity				
Liquidity ratio	...	...	1.4	1.2
Deposits/M2	61.7	59.0	67.4	72.8
NBB credit to banks (as percent of GDP)	1.2	1.1	1.0	0.9
Domestic loans/deposits 3/	115.1	124.2	125.9	138.6
Foreign exchange risk				
Share of foreign exchange loans in total domestic lending	76.2	67.7	62.8	57.0
Share of foreign currency denominated liabilities in total liabilities	72.3	66.0	60.6	59.0
Market assessment				
Credit rating 4/	C	C	C	C
Corporate sector				
Overdue payables (as percent of GDP)	22.4	21.2	17.7	13.7
Profitability ratio	13.1	7.8	8.7	9.1
Share of firms reporting losses	22.3	33.4	34.9	27.2
Memorandum item:				
Credit to the economy/GDP	16.5	14.8	15.7	17.7

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 governement and the NBB.
4/ Fitch ratings for short-term debt of Belarusbank and Priorbank.

Box 2. The Golden Share in Belarus

The golden share mechanism in Belarus differs sharply from international practice. In particular, the Belarusian authorities appear to be alone in retaining the right to issue a golden share *after* a firm has been incorporated and privatized. Moreover, in most countries the state is usually permitted to exercise its golden share powers to affect only a limited range of actions taken by a firm's board of directors. For example, in the UK, France and New Zealand, golden share powers have only entitled the state to veto sales of large shareholdings to third parties, and then normally only for reasons of national security.

The golden share was introduced in Belarus in 1997, reportedly in order to protect the interests of the state (especially in the areas of defense and safety). The decree stipulated that the golden share could be introduced into any company where the state owns at least one share (even if not stipulated at the time of incorporation) and allowed the state to veto shareholders' decisions on restructuring and liquidation of the enterprise, changing its capital, use of net profits, and appointment of the manager. By end-2003, the golden share had been introduced in about 25 enterprises, many of which had little to do with national defense. For example, in 2000 the state used the golden share to block the sale of a 51 percent stake in a confectionary factory (in which the state share was only 2.5 percent).

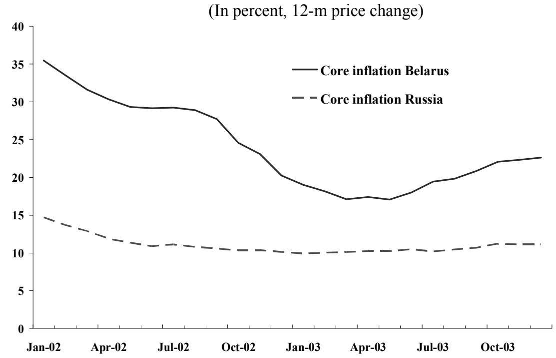
During the past two years, the authorities have considered proposals to limit, if not eliminate, the use of the golden share.[*] Specifically, it was suggested that the golden share be limited to strategic enterprises, that it only be introduced at the corporatization stage, and then only for a specified period. However, on March 1, 2004, the president signed a decree substantially expanding its scope. Under the decree, the state can not only veto, but also take independent decisions in enterprises with a golden share, including in operational matters, and the share can now be introduced in all companies which were initially state-owned, even if 100 percent private.

[*] Progress toward abolition of the golden share was a structural benchmark under the 2001 SMP.

A. Economic Integration with Russia

12. **The staff maintained an agnostic view of the long-run merits of a currency union with Russia, but stressed that the timing is critical if it goes forward**. As in the past, the staff argued that the long-run cost-benefit calculus is not clear on purely economic grounds (thus, the decision is mostly political). However, the staff and the authorities agreed that it would be inadvisable to enter the currency union before supportive fiscal and structural

Core Inflation in Belarus and Russia
(In percent, 12-m price change)



policies are in place. The staff argued that these policies are plainly not in place; in particular, core inflation remains well above that of Russia, while structural reforms lag well behind.[10]

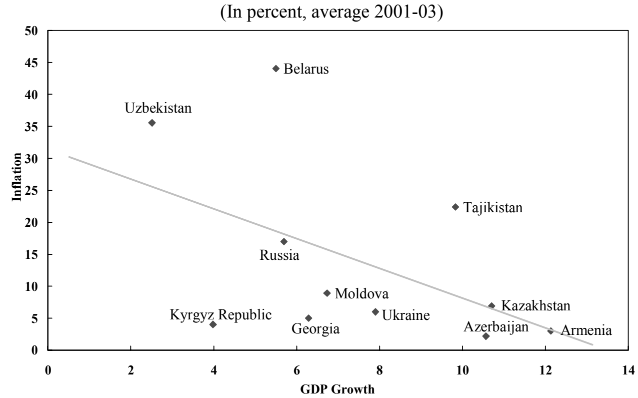
B. Outlook for 2004

13. **The authorities noted that they target extremely robust economic growth in 2004.** In line with the ambitious 2001–05 plan set by President Lukashenko, real GDP growth is *targeted* (not *projected*) at 9–10 percent in 2004. Fixed investment is to grow by 18–20 percent, while at the same time enterprises (both public and private) are being pressed to ensure that average wages rise from about $130/month at present to $190/month by end-year.[11] The authorities argued that their growth targets were achievable if administrative measures were taken to tap "hidden reserves" in the economy. They also placed high hopes on a new government program to improve the business environment—though some measures in the program (e.g., streamlining the golden share) have already been rejected.

14. **The staff considered the authorities' 2004 growth objectives too optimistic, arguing that they are based on an inconsistent macroeconomic framework.** First, the external environment is not conducive to a sharp jump in the growth rate, as key trading partners are growing more slowly than the authorities project for Belarus, while the terms of trade (especially for energy) are worsening. Second, the wage growth objective—which could well be scaled back in the end, given its implausibility—would undermine enterprise profitability and public finances. Finally, the authorities' robust investment projections do not seem financeable, as (i) almost half the enterprise sector is loss-making, (ii) the authorities program a modest monetary tightening, and (iii) external financing is lacking. The staff also noted that years of high inflation have reduced growth prospects in Belarus. In the CIS, only Uzbekistan (which also had high inflation) and the Kyrgyz Republic (which suffered from a drought and a mining disaster) have had lower

GDP Growth and Inflation

(In percent, average 2001-03)



[10] It is uncertain whether the benefits of a currency union, including lower transaction costs, would exceed the potential costs, including the fact that external shocks are likely to be asymmetric. Further, as a commodity exporter, Russia's currency could appreciate significantly over the medium term, giving rise to possible Dutch disease effects in Belarus (IMF Country Report No. 03/117).

[11] The five-year plan calls for an increase in wages from below $100/month in 2001 to $250 by end-2005.

Box 3. Belarus-Russia: Status of the Currency Union

There was only moderate progress toward establishing the currency union during 2003. A key technical agreement was initialed in August on converting to the Russian ruble during the first half of 2005. Under this agreement, two Belarusian representatives would be appointed to the CBR Board of Directors, and a short-term CBR loan of up to Rub 20 billion ($650 million) could be available to the NBB to ensure stability in the payments system. In addition, a bilateral credit to the government is under consideration (subject to ceilings on debt and deficits). The agreement postponed a decision about the conversion exchange rate, but most observers expect it to be at or close to the market rate.

At the same time, the authorities in both countries are sending mixed signals about their readiness to create a currency union. On paper, they still confirm the agreed timetable, which envisages a peg of the Belarusian rubel to the Russian ruble in mid-2004 and “ruble-ization” from January 2005. However, President Lukashenko has repeatedly asserted that he will not give up the rubel without additional financial commitments. For their part, senior Russian officials have suggested the currency union be pushed back to 2006. Russia has also stepped up the financial pressure on Belarus, chiefly in the form of higher delivery prices for natural gas. Indeed, Gazprom disrupted deliveries to Belarus twice during early 2004, citing persistent payments arrears.

Privatization of Beltransgaz is a major stumbling block. A 2002 agreement granted Belarus access to natural gas from Gazprom at internal Russian prices, conditional on the sale of a significant stake in the gas transport and distribution firm Beltransgaz. President Lukashenko has since put up hurdles to divestiture of Beltransgaz, and Gazprom, in turn, has threatened to raise gas delivery prices substantially in 2004 (in which case Beltransgaz would raise transit fees paid by Gazprom).

Belarus-Russia: Natural Gas Trade in 2004

(In millions of US dollars)

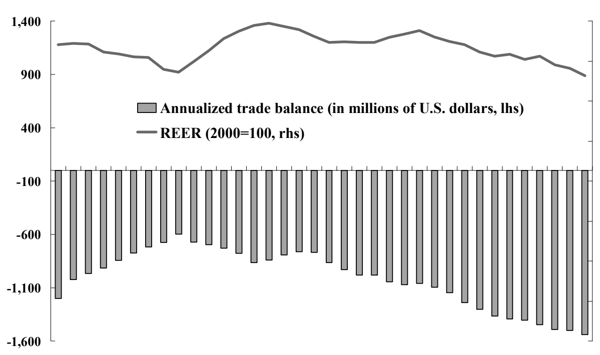
	At 2003 prices	At prices applied to trade with Ukraine	At prices applied to trade with Poland
Natural gas imports (1)	757	900	1206
Gas transit fees paid by Gazprom (2)	90	132	182
Net payment by Belarus (1-2)	668	769	1024
In percent of GDP	*3.6*	*4.1*	*5.5*
In percent of exports	*7.1*	*8.2*	*10.9*

Sources: Belarusian authorities and IMF staff estimates growth since 2001. The staff welcomed the market-oriented elements of the government plan to achieve the growth targets, but remained skeptical that it would contribute several percentage points to growth in 2004, particularly in view of the fact that similar programs have been promulgated—to little effect—in each of the past several years.

15. **On *current policies*, the staff projected growth at 4.8 percent—about one half the authorities' target**, owing mainly to weaker investment (given the authorities' planned wage hikes) and a deteriorating current account. Under the staff's **reform scenario**, growth would be still lower in 2004—about 4.0 percent—given the need for tighter macroeconomic policies, but would rise over the medium term (Table 5). In both cases, it is assumed that the crawling band exchange rate regime is retained at least through end-2005. The mission argued that on current policies inflation during 2004 is likely to be around 22 percent, well above the authorities' target, given the substantial monetary impulse in late December 2003.

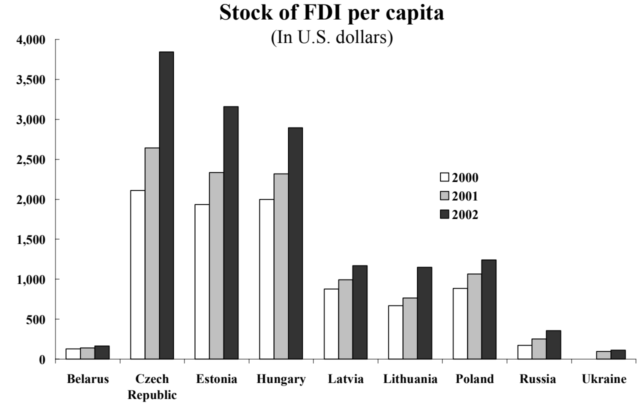
16. **The staff and the authorities agreed that the trade balance is likely to deteriorate in 2004.** On current policies, the staff projected both the current account and the trade balance to weaken by just under 1 percent of GDP, of which about 0.5 percent is due to the impact of moving natural gas trade to the prices that now apply to Ukraine. The staff forecasted a modest additional deterioration because of lost competitiveness owing to excessive wage growth and delayed structural reforms, which have undermined needed investment inflows, as well as a loss of international reserves.[12] The authorities' projections did not differ sharply from those of the staff—except for the loss of reserves.

Trade Balance and Real Effective Exchange Rate



Stock of FDI per capita

(In U.S. dollars)



Source: IFS, International Monetary Fund

[12] The EU is investigating reported violations of freedom of association for trade unions in Belarus. A positive finding could lead to revocation of Belarusian access to the EC Generalized System of Tariff Preferences.

Belarus: Macroeconomic Projections

	2002	2003	2004		
			Auth.	Current Policies	Reform Scenario
Real GDP growth rate	5.0	6.8	9-10	4.8	4.0
CPI (e.o.p., in percent)	34.8	25.4	14-18	21.8	16
Real exchange rate (vs.$) 1/	8.3	9.4	1.0-2.4	14.1	2.4
Real exchange rate (vs. RUR) 1/	1.4	-9.7	...	4.0	-6.7
Current account balance (% of GDP)	-2.6	-2.6	...	-3.5	-2.7
Net FDI ($ million)	453.3	114.2	318.5	140.9	273.7
Fiscal balance (cash, % of GDP)	-1.8	-1.4	-1.5	-1.0	-0.3
Fiscal balance (commitment, % of GDP)	-1.9	-1.1	-1.5	-3.1	0.2
Rubel broad money growth rate	59.6	71.0	26-29	27.1	22.5

1/ Growth rate, e.o.p.

C. Fiscal Policy

17. **By comparison with other transition countries, the authorities viewed their forecast 2004 fiscal deficit (1½ percent of GDP) as being appropriately tight**. They noted that government debt is low by any standard and is declining, and emphasized that the cash deficit has not exceeded 2 percent of GDP in recent years. By contrast, the staff argued that without fiscal measures beyond those embedded in the budget, pressures to increase agricultural spending and budgetary lending to the economy could drive the deficit to about 3 percent of GDP on a commitment basis (albeit 1 percent in cash terms, as the government would run arrears). The mission pressed for a balanced budget, arguing that contingent liabilities have long been building in the banking system (as quasi-fiscal lending to agriculture and industry will eventually be converted to government debt). The mission also pointed to the lack of non-inflationary financing; the reserve money base is so small that financing even a deficit of 1 percent of GDP would involve excessive monetary creation.[13]

General Government Fiscal Developments
(percent of GDP)

	2001	2002	2003	2004		
				Autho-rities	Current Policies	Staff Reform
Revenue	44.9	42.8	44.7	41.9	41.2	40.8
Expenditure (cash)	46.8	44.7	46.1	43.4	42.2	41.1
Noninterest	46.1	44.1	45.6	42.9	41.7	40.6
Primary balance (cash)	-1.2	-1.2	-0.9	-1.0	-0.5	0.1
Overall balance (cash)	-1.9	-1.8	-1.4	-1.5	-1.0	-0.3
Overall balance (accrual)	-3.1	-1.9	-1.1	-1.5	-3.1	0.2
Memorandum item						
Change in arrears	1.2	0.1	-0.3	...	2.1	-0.5

Sources: MoF and staff estimates.

[13] Under a longstanding commitment to Russia, from 2004 the NBB should no longer provide direct credit to government.

Box 4. Belarusian Responsiveness to IMF Policy Advice

In concluding the last Article IV consultation on April 16, 2003, Directors emphasized the need to strengthen the policy framework in order to further reduce inflation and increase external competitiveness. They considered the current policy mix to be inconsistent with plans to peg the Belarusian rubel to the Russian ruble. Directors urged elimination of dollar wage targets and placed particular emphasis on expenditure rationalization in view of the large size of the government. They encouraged the authorities to reduce vulnerabilities in the financial sector and regretted the reappearance of directed lending. Directors stressed the need to improve business environment, including by eliminating the "golden share" rule. Directors emphasized that a good track record of policy implementation would be a prerequisite for a possible Fund financial assistance to Belarus, and supported expansion of technical assistance and related forms of collaboration with Belarus.

The authorities' responsiveness to Board recommendations has been mixed. Despite the call to tighten policies to bring inflation down more rapidly, they were *loosened* late in the year during 2002 and 2003. Wage growth was relatively moderate during 2003, but the authorities' plans for 2004 represent a return to imprudent practices. Regarding elimination of direct NBB financing of the budget and emphasizing expenditure reductions, the 2004 budget represents a step in the right direction. However, there has been little movement in key areas of structural reform; privatization has stalled, the "golden share" has been expanded (not eliminated), and the business environment has not improved.

Monetary and fiscal targets and actual performance

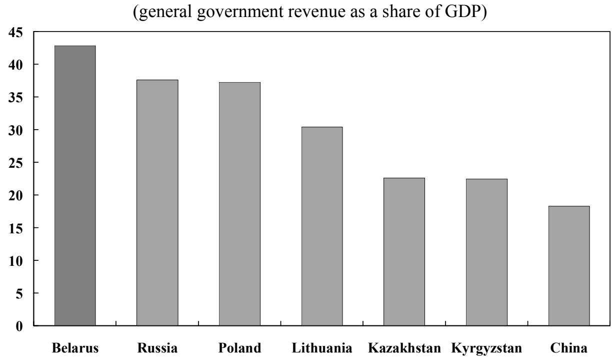
	2002			2003		
	Auth. Plan	IMF advice	Actual	Auth. Plan	IMF advice	Actual
Gen. govt. cash deficit (BLR bil.)	-334	-157	-479	-890	-363	-446
Gen. govt. accrual deficit (BLR bil.)	-334	-157	-532	-890	-50	-342
Rubel reserve money (% growth)	34-111	32	40	35-42	29	72
Rubel broad money (% growth)	39-117	28	60	28-35	25	71

Source: Belarusian authorities and IMF staff estimates (IMF Country Reports 02/23 and 03/117)

18. **The authorities and the staff agreed on the need for government downsizing**. The 2004 budget eliminates the sales tax and matches the VAT rate reduction in Russia from 20 percent to 18 percent, yielding (with other measures) an estimated revenue loss in 2004 of 3½ percent of GDP. (See chapter II of the selected issues papers.) While the authorities emphasized tax competition with Russia as a driving factor, the staff argued that Belarus has the largest and arguably least-reformed government sector in the region. Under the

Size of Government in 2002

(general government revenue as a share of GDP)



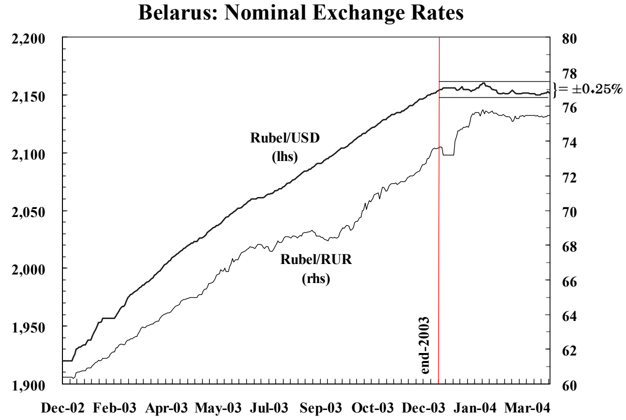
Source: IFS

reform scenario, expenditure cuts would need to sum to about 3 percent of GDP relative to current policies, or about 1 percent of GDP beyond those already in the budget.[14] The staff recommended additional reductions in subsidies (including reduction in support to collective farms) and the ill-designed housing construction program, as well as zero budgetary lending and more modest road construction. In addition, the mission suggested that education spending return to the level of 2002 as a share of GDP, supported by public sector wage restraint.[15] Despite the large scale of fiscal consolidation, social spending (including pensions) would remain adequate at about 25 percent of GDP.

D. Monetary and Exchange Rate Policy

19. **Discussions on the exchange rate regime focused on the appropriate choice of a target currency.** Before the mission, the authorities announced that in 2004 they would target only the ruble within the crawling band (and not the dollar). The staff supported this step, despite high levels of dollarization, because the Belarusian economy is closely tied to that of Russia, and because the currency union could materialize eventually. However, the authorities have subsequently indicated their intention to continue tracking the dollar for the time being. Indeed, since the beginning of the year, the rubel has fluctuated within a very tight band around the end-2003 rate. Although the Russian ruble has also moved very little against the dollar during February–March, the staff has warned of the danger that expectations in Belarus could form around a soft peg to the dollar.

Belarus: Nominal Exchange Rates



20. **Moreover, the NBB indicated that they are still inclined to introduce a peg to the ruble in July,** notwithstanding the concerns of the staff regarding the need to put appropriate fiscal and structural policies in place beforehand. The mission suggested maintaining the crawling band regime against the ruble, with the rate of crawl designed to help rebuild reserves and to ensure that competitiveness does not suffer if the Russian ruble appreciates in

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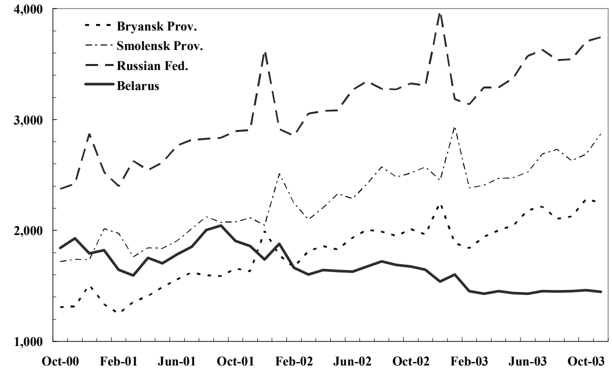
[14] The budget envisages significant cuts in agricultural spending, housing and communal services, and net repayments of old budgetary loans. However, the budget has recently been amended to accommodate higher spending on housing—financed by additional domestic borrowing.

[15] The mission pressed the authorities to refrain from targeting wages in dollar terms.

2004.[16] Under the reform scenario, therefore, the rubel is projected to depreciate against the ruble by about 6½ percent in real terms (following a 10 percent decline in 2003), which—supported by tighter fiscal and monetary policies—is broadly sufficient to counter the adverse movement in the terms of trade occasioned by Russia's increase in prices for natural gas. However, the authorities resisted even this much depreciation, downplaying the risk of low reserves and arguing that exchange rate pass-through is very high, while the real effective exchange rate has already adjusted significantly during 2003.[17] They noted, moreover, that real wage growth in Belarus no longer outstrips that of key border regions of Russia.

Real average monthly wages
(In Russian rubles)



21. **The authorities did not agree with the staff on the need to tighten their monetary program for 2004.** Given the rate of crawl under the reform scenario, the staff pressed for a revision of the monetary program to offset the impact of the large monetary impulse which took place on December 30, 2003. Although the authorities acknowledged that the December revised budget (financed by extra NBB credit) will have additional inflationary consequences in 2004, they placed their hopes on a faster-than-expected increase in money demand. The staff was less sanguine about the prospects for continued growth in money demand. At the same time, the authorities recognized that administrative measures were an important factor explaining the slowdown in inflation at end-2003, and acknowledged the staff's view that these steps are an inefficient and ultimately futile way to disinflate. However, they also felt obligated to deliver on the inflation objective in the approved macroeconomic framework for 2004, and thus may resort to them again.

E. Structural Policies

22. **The authorities were ambivalent about the need for deep, market-oriented structural reforms.** A number of senior officials, including in the presidential administration, were not convinced of this need, explaining that they wished to avoid mistakes made by neighboring countries, and ensure that any reform measures they undertake will not lead to a worsening in the standards of living. On the other hand, many officials in the government and the NBB agreed with the staff that there is a need to

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[16] The staff also noted that the possible currency union argues for building a modest competitive margin into the rate of crawl, given the medium-term prospects for real appreciation in Russia.

[17] Chapter III of the selected issues papers discusses estimates of exchange rate pass through.

accelerate structural reforms, not only to promote growth and competitiveness, but also to prepare for the possible currency union.

23. **On many questions, the authorities agreed with the staff that reform is necessary, but disagreed on the pace or timing of the measure.** In other areas, there was simply disagreement about the need for reform at all. The staff particularly emphasized the following areas:

Belarus: Structural Reform Priorities

Proposed structural reform	Authorities' reaction
Extending energy sector reform by introducing independent regulation and by raising cost recovery levels, especially for enterprises.	Although they agreed that further cost recovery increases are important, the authorities were also concerned not to undermine disinflation.
Redesigning the housing construction program to target needy groups in a more cost-effective manner.	The authorities felt the housing construction program has appropriately supported economic activity over the past three years.
Undertaking agricultural reform, beginning with allowing private ownership of land and streamlining of rural income support from the budget.	Although the authorities recognized the enormous size of transfers to agriculture, they resisted politically sensitive measures to scale them back.
Improving labor market flexibility.[18]	The authorities acknowledged that labor-market flexibility is essential under a pegged exchange rate regime, but they also felt constrained by the wage increases specified in the five-year plan.
Bolstering the medium-term fiscal consolidation by undertaking a thorough civil service and public administration reform.	The authorities were aware that similar measures are being undertaken in Russia, but have not begun to prepare them in Belarus.
Improving public enterprise management, including through further corporatization and trust management arrangements.	Apart from a few cases of trust management, the authorities have concentrated on the initial stage of corporatization—that is, separating SOEs from the branch ministries.

[18] Labor market developments are discussed in chapter I of the selected issues papers.

Proposed structural reform	Authorities' reaction
Eliminating the "golden share" provision.	The presidential administration considers it an important safeguard of workers' rights.
Accelerating privatization, including by using internationally-reputable advisors in preparing large tenders.	Belarus and Russia have agreed to employ an international firm to assess the value of Beltransgaz. Otherwise, the authorities did not consider it cost-effective to hire foreign advisors.
Improving the business environment by limiting ad hoc inspections and regulations, ensuring stability of the legal system, and by developing a timetable to move accounting standards to IAS.	The authorities recognized the importance of improving the business environment.

24. **The mission emphasized that weaknesses in the banking sector need to be addressed urgently**, and urged the authorities to tighten prudential regulations, including by limiting lending in foreign currency (particularly for firms without foreign-exchange earnings), preventing "evergreening" (¶8), and by refraining from all forms of directed lending. Rapid credit growth needs to be kept under close watch in Belarus, as elsewhere in the region. Moreover, the staff argued that the lack of restructuring of loss-making public enterprises is the source of most problems in the banking sector, and urged the authorities to consider a comprehensive program of corporate and financial sector reform.[19] The authorities pointed to excellent vulnerability indicators, and noted that foreign exchange exposure limits have recently been tightened. They are looking forward to the FSAP later in 2004, which could aid the design of a financial sector reform program.

F. IMF Relations

25. **The authorities withdrew their request for a Stand-By Arrangement,** in recognition of longstanding disagreements with the staff regarding appropriate macroeconomic policies. The staff had noted that a program would in any case require a prior track record of successful policies (possibly an SMP). At the same time, the authorities reconfirmed their interest in continued technical cooperation with the Fund, and responsiveness in this area has generally been good (Appendix II).

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[19] The reform program would include corporate sector restructuring and eventual bank privatization—as improvements in the prudential framework permit. Chapter IV of the selected issues papers considers financial sector reform issues.

26. **A voluntary safeguards assessment was conducted in December.** Although potential users of IMF resources have long been encouraged to undertake a voluntary safeguards assessment, Belarus is the first member country to do so. The staff noted significant vulnerabilities in the safeguards framework, including in the areas of the legal structure and independence of the NBB, internal and external audit, and financial reporting (including the need to publish IFRS-based financial statements). The authorities found the safeguards assessment useful and have provided detailed comments on the assessment. In some areas they have begun to implement the staff's recommendations; in other areas, they are considering the most appropriate steps to address the shortcomings identified by the staff.

G. Medium-Term Outlook

27. **The mission argued that, on current policies, Belarusian medium-term prospects are not bright.** Although subject to considerable uncertainty, the staff projects growth to slow to about 2½ percent, as investment stagnates and FDI fails to materialize.[20] Reserves cannot fall much below their current level, meaning the balance of payments deficit would need to be financed by arrears accumulation. In the absence of even this form of financing, import compression would further undermine growth.

28. **The authorities were generally not convinced that macroeconomic adjustment and structural reform in the short run would yield better outcomes over the medium term.** Under the reform scenario, the staff argued growth rates would stabilize at about the levels expected in Russia (4½ percent), supported by a higher savings rate and stronger investment, particularly by the non-government sector. The current account deficit would become more sustainable, with stronger FDI inflows and higher international reserves. The authorities felt that the trade-off between reform now and growth later is a false one, and explained that their priority is to deliver on the promises in the plan for 2001–05. Baseline debt sustainability (DSA) projections (tables 6 and 7) indicate a modest build-up of external debt through 2008, though the debt dynamics are explosive under some stress test scenarios (mainly owing to projecting forward the high volatility of the 1993–2003 base period). Although the public debt dynamics generally do not give rise to concerns (table 8), under some stress test scenarios the debt could approach uncomfortable levels. Nevertheless, these scenarios are subject to a high degree of uncertainty, further underscoring the need for fiscal consolidation.

29. **The medium-term outlook is subject to a number of down-side risks.** First, an unexpected sharp revenue decline could result from transition-related fiscal adjustment (as in other FSU countries) or from tax harmonization with Russia. Second, Belarus is vulnerable to external shocks, particularly those coming from Russia, which itself faces risks associated with oil price volatility. Third, demographic factors make pension reform a priority. Fourth,

[20] Both the reform and current policies scenarios assume that Belarus will import Russian monetary conditions beginning in 2006—either via a peg or by entering the currency union.

external financing is subject to large uncertainties, as the Eurobond market may have little appetite for Belarusian debt. Finally, Gazprom could raise gas delivery prices to the levels now paid by Poland, while the low level of official reserves and the high share of short-term debt (and arrears) are of concern. Nevertheless, in view of the relatively low debt burden and good repayment record, the staff expects that Belarus will continue to meet its obligations to the Fund (which end in 2005) in a timely fashion.

III. Staff Appraisal

30. **In a number of areas, Belarus has recorded significant achievements over the past 2–3 years.** First, growth has been robust, however measured, while the fiscal and current account deficits have been modest by regional standards. Second, inflation has continued to decline and exchange rate liberalization has been consolidated. Third, energy sector cost recovery levels have increased, and cross subsidization has been reduced. Finally, poverty and inequality indicators have continued to perform well by transition country standards.

31. **Nevertheless, medium-term growth prospects continue to be jeopardized by the highest inflation in the region and the slow pace of structural reform.** The observed disinflation stems less from prudent macroeconomic polices than from a region-wide trend to remonetization, as well as administrative measures and the effects of a nominal anchor defined in terms of the dollar. Achieving a breakthrough to the levels of inflation of neighboring countries must be a key objective of the authorities going forward. Similarly, robust medium-term growth is unlikely without structural reforms to improve the performance of public enterprises and enhance the business environment.

32. **The authorities could be losing an important window of opportunity**. Belarus is still at the beginning of the transition process, and the authorities should seek to make progress while the external environment is relatively favorable. At present, the regional process of remonetization, combined with low levels of debt (and a large stock of privatizable assets), could permit the authorities to manage the costs of transition much more easily than was the case for neighboring countries in the mid-1990s.

33. **In that context, the authorities' macroeconomic framework for 2004 is not appropriate.** Its assumptions for growth and investment are derived from the 2001–05 plan, rather than from unbiased economic projections, and are not supported by consistent fiscal and monetary policies. In particular, it is regrettable that the authorities have again resorted to targeting unrealistic wage growth in dollar terms. Attempting to hike average wages to $190/month will undermine enterprise finances, reduce private sector investment, and drive firms to run tax arrears (as was the case in early 2002).

34. **Tighter monetary and fiscal policies would be needed in order to reduce inflation to the authorities' target range.** Elimination of direct NBB financing to the budget is long-overdue, and should not simply be replaced by additional policy lending through the banking

system. Expenditure rationalization is called for in order to buttress the fiscal adjustment envisaged in the budget, as well as to conform to the available level of financing.

35. **Although the decision on whether or not to join the currency union with Russia is more political than economic, it will be important to get the timing right if the process goes ahead**. Belarus should neither peg nor consider joining the currency union until fiscal and monetary policies have adjusted appropriately, supported by deep structural reforms.

36. **The crawling band regime affords the flexibility to ensure competitiveness and strengthen the reserve position.** Given the importance of Russia in bilateral trade, it is appropriate—both de jure and de facto—to set the band in terms of the ruble, rather than the dollar. But the rate of crawl should take into account possible movements of the ruble over the medium term, as well as possible financial sector vulnerabilities. Indeed, despite relatively favorable debt dynamics, the balance of risks over the medium term is negative, underscoring the need for an early change in economic policies.

37. **A number of important structural reforms would be needed,** chiefly elimination of the "golden share" rule, which serves as a strong disincentive to investors—both foreign and domestic. In addition to privatization and public enterprise reform, it will be important to ensure stability of the legal framework, move forward with accounting reform, and minimize unnecessary inspections and interference in small and medium-sized enterprises. Finally, weaknesses in the financial sector should be addressed as a priority.

38. **The staff supports strengthened technical cooperation between the IMF and Belarus.** Belarus generally has a good record of implementing TA recommendations, and the authorities are encouraged to continue working toward addressing the shortcomings identified by MFD, fiscal and data ROSC missions.

39. **There are weaknesses in some areas of economic data**, particularly the national accounts, which appear to overstate real economic growth. Nevertheless, these shortcomings are relatively well-understood, with predictable signs, meaning the quality of data is generally adequate for IMF surveillance purposes. It is hoped that the process of SDDS subscription will contribute to improvements in the statistical area.

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

Table 1. Belarus: Selected Economic Indicators, 2001-04

	2001	2002	2003	2004		
			Prel.	Auth.	Staff Proj.	
					Current Policies	Reform
Output						
GDP (nominal in billions of rubels)	17,173	26,138	35,930	45,300	46,165	45,061
Gross domestic product (in billions of U.S. dollars)	12.4	14.7	17.5	...	21.2	20.2
Real GDP 1/	4.7	5.0	6.8	9.0-10.0	4.8	4.0
Industrial production	5.9	4.5	6.8	9.0-10.0	...	...
Prices and wages						
GDP deflator (y-o-y)	79.5	41.9	28.7	14-18	22.6	20.7
Consumer prices, eop (y-o-y)	46.1	34.8	25.4	14-18	21.8	16.0
Consumer prices, aop	61.1	42.6	28.4	...	22.7	20.8
Producer prices, eop (y-o-y)	39.1	42.7	28.6	...	...	...
Wages (thousands of rubels per month)	125.0	191.6	253.5	321-338	...	...
Real average monthly wage (1996=100)	214.0	231.9	238.7	...	...	...
Average monthly wage (in U.S. dollars)	90.3	107.3	123.3	150.0	...	...
Exchange rates						
Rubel/USD (average)	1,383	1,784	2,052	...	...	...
Rubel/USD (end-of-period)	1,580	1,920	2,156	2260-2390	...	...
Rubel/Ruble (RUR) (average)	47	57	67	...	...	...
Rubel/Ruble (RUR) (end-of-period)	52	60	73	76.5-77.2	...	...
	(In percent of GDP)					
General government finances 2/						
Revenue	44.9	42.8	44.7	41.9	41.2	40.8
Expenditure (cash)	46.8	44.7	46.1	43.4	42.2	41.1
Expenditure (commitment)	48.1	44.7	45.8	43.4	44.3	40.6
Balance (cash)	-1.9	-1.8	-1.4	-1.5	-1.0	-0.3
Balance (commitment)	-3.1	-1.9	-1.1	-1.5	-3.1	0.2
	(12-month change in percent, unless otherwise indicated)					
Money and credit						
Annual average broad money velocity (level)	8.2	8.0	7.1	...	6.7	6.7
Annual average rubel broad money velocity (level)	18.3	16.1	13.3	...	11.9	11.9
NBB rubel net domestic credit	156.5	31.0	42.1	...	59.6	-0.7
NBB net credit to general government (in billions of rubels) 3/	216.9	-301.4	348.7	0.0	74.9	-57.4
Reserve money 4/	108.3	32.0	51.1	24-27	21.9	14.5
Banking system net domestic credit	67.4	53.7	68.9	...	24.5	15.4
Rubel broad money	100.2	59.6	71.0	26-29	27.1	22.5
Refinance rate (percent per annum, end-of-period)	48.0	38.0	28.0	13-18	...	...
	(In millions of U.S. dollars, unless otherwise indicated)					
Balance of payments and external debt						
Exports of goods	7,334	7,965	10,010	10,610	10,419	10,554
Imports of goods	-8,141	-8,879	-11,085	-12,040	-11,909	-11,878
Current account balance	-435	-378	-451	-765	-748	-553
As percent of GDP	-3.5	-2.6	-2.6	...	-3.5	-2.7
Net international reserves	192.4	290.7	328.2	...	207.9	435.9
Gross official reserves	359.4	456.6	473.5	...	337.3	565.3
In months of imports of goods and services	0.5	0.6	0.5	...	0.3	0.6
Medium- and long-term debt (as percent of GDP)	6.6	6.8	6.2	...	6.8	7.2
Short-term debt (as percent of GDP)	13.2	14.3	13.2	...	12.2	12.3

Sources: Belarusian authorities; and Fund staff estimates.

1/ The Belarusian national accounts overstate real growth by about 1-2 percent. A new industrial production index, which would correct the estimates is calculated but not published.
2/ Consolidates the state government and Social Protection Fund budget.
3/ Flow during year. Includes revaluation of net lending in foreign currency. For the authorities' projection, in domestic currency only.
4/ For the authorities' projections, rubel reserve money.

Table 2a. Belarus: Fiscal Indicators and Projections, 2001-04
(In billions of rubels, unless otherwise indicated)

	2001	2002	2003				2004		
			Q1	H1	Jan.-Sept.	Jan-Dec. prelim.	Authorities Budget	Current Policies	Staff Reform
1.State (Republican and local) budget									
Revenue	5,735	8,209	2,390	5,379	8,603	12,154	13,666	13,896	13,377
Personal income tax	534	773	212	441	703	1,024	1,381	1,382	1,205
Profit tax	637	643	191	391	659	934	1,179	1,152	1,234
VAT	1,447	2,165	597	1,271	2,042	2,895	3,410	3,415	3,390
Excises	442	592	140	362	595	838	1,055	1,076	1,181
Property tax	237	390	134	341	539	729	714	749	839
Customs duties	300	524	193	476	706	957	1,216	1,221	1,143
Other	1,104	1,651	500	1,118	1,820	2,603	2,331	2,450	2,430
Revenue of budgetary funds	1,033	1,470	422	979	1,539	2,174	2,381	2,452	1,955
Expenditure (cash)	6,023	8,681	2,348	5,425	8,670	12,646	14,316	14,317	13,548
Defense	184	260	76	161	261	377	403	485	394
Law, order and security	333	461	139	293	452	654	815	841	672
Agriculture	146	179	61	189	330	520	328	744	357
Housing and communal services	450	612	161	365	633	941	739	912	821
Education	1,110	1,738	504	1,115	1,624	2,343	2,933	3,012	2,984
Health, sports and physical education	873	1,270	343	769	1,217	1,810	2,247	2,134	2,072
Social policies	249	443	137	311	446	615	1,082	1,210	748
Servicing of state debt	125	154	43	94	136	176	241	208	203
Budgetary loans	164	382	56	60	220	168	-144	252	0
Other	1,608	1,849	476	1,097	1,822	3,005	3,330	3,120	3,240
Expenditure of budgetary funds	996	1,351	321	859	1,389	1,933	2,341	2,382	1,821
Expenditure (accrual) 1/	6,237	8,700	2,316	5,312	8,529	12,541	14,316	15,299	13,311
Balance (cash) 2/	-289	-472	42	-45	-67	-492	-649	-421	-171
Balance (accrual) 1/	-502	-492	74	67	74	-387	-649	-1,403	66
2. Social Protection Fund									
Revenue	1,984	3,055	852	1,811	2,828	3,978	5,396	5,587	5,026
o/w:from the Republican budget	5	70	16	48	52	57	100	465	40
Expenditure	2,021	3,061	863	1,810	2,812	3,988	5,437	5,627	5,003
Balance (cash)	-37	-6	-10	1	16	-10	-41	-40	23
3. General government									
Revenue	7,714	11,194	3,227	7,142	11,379	16,075	18,962	19,018	18,363
Expenditure (cash)	8,039	11,673	3,195	7,186	11,430	16,577	19,653	19,479	18,511
Expenditure (accrual) 1/	8,252	11,692	3,163	7,073	11,289	16,473	19,653	20,461	18,274
Balance (cash) 2/	-326	-479	31	-44	-51	-502	-690	-461	-148
Balance (accrual) 1/	-539	-498	64	68	90	-397	-690	-1,443	89
4. Statistical discrepancy 2/	-30	114	93	41	163	64	0	0	0
5. Financing (cash) 2/	296	593	61	85	213	566	690	461	148
Privatization	12	427	8	16	24	36	100	40	120
Foreign financing, net	20	29	-49	-26	-19	-50	487	40	40
Domestic financing, net	264	137	103	95	208	580	103	381	-12
Banking system	261	-4	36	-71	17	453	...	186	4
Central bank (incl. IMF)	182	-256	13	-70	11	257	0	86	-36
Deposit money banks (incl. SPF)	79	252	23	-1	5	196	...	100	40
Nonbank	3	141	67	167	191	127	...	196	-16
Memorandum items:									
Wages and SPF contributions	1,613	2,642	764	1,695	2,522	3,618	...	5,708	4,507
Change in expenditure arrears	213	19	-33	-112	-141	-105	...	982	-237
Stock of expenditure arrears	313	332	299	220	191	227	...	1,243	24
Government debt (trillions of rubels)	2.2	3.0	3.1	3.2	3.5	3.8	...	4.2	3.9
o/w: external (millions of US$)	763	813	786	769	741	736	...	755	753
GDP (trillions of rubels)	17.2	26.1	6.9	15.4	25.6	35.9	45.3	46.2	45.1

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

1/ Includes changes in expenditure arrears.

2/ The actual deficits 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.

Table 2b. Belarus: Fiscal Indicators and Projections, 2001-04
(In percent of GDP, unless otherwise indicated)

	2001	2002	2003				2004		
			Q1	H1	Jan.-Sept.	Jan-Dec. prelim.	Authorities Budget	Current Policies	Staff Reform
1.State (Republican and local) budget									
Revenue	33.4	31.4	34.6	35.0	33.7	33.8	30.2	30.1	29.7
Personal income tax	3.1	3.0	3.1	2.9	2.7	2.9	3.0	3.0	2.7
Profit tax	3.7	2.5	2.8	2.5	2.6	2.6	2.6	2.5	2.7
VAT	8.4	8.3	8.6	8.3	8.0	8.1	7.5	7.4	7.5
Excises	2.6	2.3	2.0	2.4	2.3	2.3	2.3	2.3	2.6
Property tax	1.4	1.5	1.9	2.2	2.1	2.0	1.6	1.6	1.9
Customs duties	1.7	2.0	2.8	3.1	2.8	2.7	2.7	2.6	2.5
Other revenue	6.4	6.3	7.2	7.3	7.1	7.2	5.1	5.3	5.4
Revenue of budgetary funds	6.0	5.6	6.1	6.4	6.0	6.0	5.3	5.3	4.3
Expenditure (cash)	35.1	33.2	34.0	35.3	33.9	35.2	31.6	31.0	30.1
Defense	1.1	1.0	1.1	1.0	1.0	1.0	0.9	1.1	0.9
Law, order and security	1.9	1.8	2.0	1.9	1.8	1.8	1.8	1.8	1.5
Agriculture	0.9	0.7	0.9	1.2	1.3	1.4	0.7	1.6	0.8
Housing and communal services	2.6	2.3	2.3	2.4	2.5	2.6	1.6	2.0	1.8
Education	6.5	6.6	7.3	7.3	6.4	6.5	6.5	6.5	6.6
Health, sports and physical education	5.1	4.9	5.0	5.0	4.8	5.0	5.0	4.6	4.6
Social policies	1.4	1.7	2.0	2.0	1.7	1.7	2.4	2.6	1.66
Servicing of state debt	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.5
Budgetary loans	1.0	1.5	0.8	0.4	0.9	0.5	-0.3	0.5	0.0
Other	9.4	7.1	6.9	7.1	7.1	8.4	7.4	6.8	7.2
Expenditure of budgetary funds	5.8	5.2	4.6	5.6	5.4	5.4	5.2	5.2	4.0
Expenditure (accrual) 1/	36.3	33.3	33.5	34.6	33.4	34.9	31.6	33.1	29.5
Balance (cash) 2/	-1.7	-1.8	0.6	-0.3	-0.3	-1.4	-1.4	-0.9	-0.4
Balance (accrual) 1/	-2.9	-1.9	1.1	0.4	0.3	-1.1	-1.4	-3.0	0.1
2. Social Protection Fund									
Revenue	11.6	11.7	12.3	11.8	11.1	11.1	11.9	12.1	11.2
o/w: from the Republican budget	0.0	0.3	0.2	0.3	0.2	0.2	0.2	1.0	0.1
Expenditure	11.8	11.7	12.5	11.8	11.0	11.1	12.0	12.2	11.1
Balance (cash)	-0.2	0.0	-0.2	0.0	0.1	0.0	-0.1	-0.1	0.1
3. General government									
Revenue	44.9	42.8	46.7	46.5	44.5	44.7	41.9	41.2	40.8
Expenditure (cash)	46.8	44.7	46.2	46.8	44.7	46.1	43.4	42.2	41.1
Expenditure (accrual) 1/	48.1	44.7	45.8	46.1	44.2	45.8	43.4	44.3	40.6
Balance (cash) 2/	-1.9	-1.8	0.5	-0.3	-0.2	-1.4	-1.5	-1.0	-0.3
Balance (accrual) 1/	-3.1	-1.9	0.9	0.4	0.4	-1.1	-1.5	-3.1	0.2
4. Statistical discrepancy 2/	-0.2	0.4	1.3	0.3	0.6	0.2	0.0	0.0	0.0
5. Financing (cash) 2/	1.7	2.3	0.9	0.6	0.8	1.6	1.5	1.0	0.3
Privatization	0.1	1.6	0.1	0.1	0.1	0.1	0.2	0.1	0.3
Foreign financing, net	0.1	0.1	-0.7	-0.2	-0.1	-0.1	1.1	0.1	0.1
Domestic financing, net	1.5	0.5	1.5	0.6	0.8	1.6	0.2	0.8	0.0
Banking system	1.5	0.0	0.5	-0.5	0.1	1.3	...	0.4	0.0
Central bank (incl. IMF)	1.1	-1.0	0.2	-0.5	0.0	0.7	0.0	0.2	-0.1
Deposit money banks (incl. SPF)	0.5	1.0	0.3	0.0	0.0	0.5	...	0.2	0.1
Nonbank	0.0	0.5	1.0	1.1	0.7	0.4	...	0.4	0.0
Memorandum items:									
Wages and SPF contributions	9.4	10.1	11.1	11.0	9.9	10.1	...	12.4	10.0
Change in expenditure arrears (current year GDP)	1.2	0.1	-0.5	-0.7	-0.6	-0.3	...	2.1	-0.5
Stock of expenditure arrears (12 month GDP)	1.8	1.3	1.1	0.7	0.6	0.6	...	2.7	0.1
Government debt/GDP	12.5	11.4	11.0	10.5	10.4	10.4	...	9.1	8.7
o/w: external debt/GDP	7.0	6.1	5.5	5.1	4.7	4.4	...	3.6	3.9
GDP (trillions of rubels)	17.2	26.1	6.9	15.4	25.6	35.9	45.3	46.2	45.1

Source: Ministry of Finance, SPF, and IMF staff estimates.
1/ Includes changes in expenditure arrears.
2/ The actual deficits 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.

Table 3a. Belarus: Monetary Accounts, 2002-04 **(Current Policies)**
(In millions of Belarussian rubels, unless otherwise indicated; end-of-period)

	2002	2003				2004				
	Dec	Mar	Jun	Sep	Dec	Mar.	Jun.	Sep.	Dec.	Dec.
						Staff projections				Auth. proj.
Accounting exchange rate (Rbl/US$)	1,920	1,996	2,060	2,108	2,156	2,169	2,166	2,178	2,200	2,260-2,390
National Bank of Belarus										
Net foreign assets	922,017	845,165	1,161,941	1,104,566	1,138,497	1,082,249	1,005,300	945,916	889,942	…
in mln. $	480.2	423.4	564.0	524.0	528.1	499.0	464.1	434.3	404.5	355-620
Net foreign assets (convertible)	945,254	917,868	1,189,659	1,141,007	1,059,545	1,015,960	938,564	878,243	821,019	…
Net foreign assets (nonconvertible)	-23,237	-72,703	-27,718	-36,441	78,952	66,290	66,736	67,674	68,923	…
Net domestic assets	194,257	267,001	210,723	342,038	548,374	706,832	920,286	1,040,525	1,166,571	…
Net domestic credit	440,293	574,283	518,796	640,545	872,140	1,031,028	1,244,034	1,366,067	1,495,401	…
Net credit to government	167,826	262,029	183,765	267,148	516,489	522,985	553,383	564,503	591,416	…
Claims on banks	255,447	294,863	317,196	355,233	332,130	484,521	664,130	772,042	871,464	…
Other claims on economy	17,019	17,391	17,835	18,164	23,521	23,521	26,521	29,521	32,521	…
Other items, net	-246,036	-307,282	-308,074	-298,507	-323,766	-324,196	-323,748	-325,542	-328,830	…
Reserve money	1,116,274	1,112,165	1,372,664	1,446,604	1,686,871	1,789,081	1,925,586	1,986,441	2,056,513	…
Rubel Reserve money	953,278	1,013,677	1,297,017	1,377,299	1,642,734	1,763,327	1,917,195	1,973,648	2,041,391	2,036,990-2,086,272
Banking System										
Net foreign assets	903,733	979,396	1,278,602	1,155,794	1,004,947	947,808	870,960	810,741	753,312	…
Net foreign assets (convertible)	969,220	1,087,873	1,304,465	1,188,824	936,356	892,027	814,803	753,796	695,315	…
Net foreign assets (nonconvertible)	-65,487	-108,477	-25,863	-33,031	68,592	55,781	56,156	56,945	57,997	…
Net domestic assets	3,020,014	3,265,259	3,557,341	4,214,525	5,127,360	5,621,948	6,197,033	6,497,980	6,810,866	…
Net domestic credit	4,356,061	4,842,601	5,262,152	5,958,154	7,355,328	7,863,614	8,460,598	8,799,086	9,160,215	…
Net credit to general government	343,056	512,114	339,834	326,515	977,092	1,011,356	1,066,116	1,104,786	1,161,374	…
Claims on economy	4,013,005	4,330,487	4,922,318	5,631,640	6,378,236	6,852,258	7,394,483	7,694,300	7,998,841	…
Other items, net	-1,336,047	-1,577,342	-1,704,810	-1,743,629	-2,227,968	-2,241,666	-2,263,565	-2,301,106	-2,349,349	…
Broad money	3,923,747	4,244,655	4,835,943	5,370,319	6,132,307	6,569,757	7,067,993	7,308,721	7,564,178	...
Rubel broad money	1,992,870	2,177,797	2,621,933	2,922,284	3,408,326	3,690,719	4,062,977	4,178,157	4,331,592	4,297,485-4,399,806
Foreign currency deposits	1,920,460	2,055,228	2,204,950	2,433,170	2,704,899	2,862,616	2,988,617	3,114,075	3,215,930	…
Bank securities (outside bank circul.), in FOREX	10,417	11,630	9,060	14,864	16,323	16,421	16,399	16,489	16,656	…
Precious metals in deposits	...	...	...	...	2,759	...	...	...	...	...
Memorandum items:										
12-month % change in broad money	50.3	50.3	50.7	52.0	56.3	54.8	46.2	36.1	23.3	…
12-month % change in rubel broad money	59.6	64.4	63.3	64.6	71.0	69.5	55.0	43.0	27.1	26-29
12-month % change in reserve money	32.0	36.4	45.5	51.8	51.1	60.9	40.3	37.3	21.9	…
12-month % change in rubel reserve money	40.1	52.1	61.5	64.8	72.3	74.0	47.8	43.3	24.3	24-27
12-month % change in claims on economy 1/	56.8	58.3	63.3	63.3	58.9	58.2	50.2	36.6	25.4	26-31
Annual rubel broad money velocity 2/	16.1	16.1	14.4	14.1	13.3	12.9	12.1	12.2	11.9	…
Annual broad money velocity 2/	8.0	8.0	7.6	7.4	7.1	7.0	6.8	6.8	6.7	…
Broad money multiplier	3.52	3.82	3.52	3.71	3.64	3.67	3.67	3.68	3.68	…
Rubel broad money multiplier	2.09	2.15	2.02	2.12	2.07	2.09	2.12	2.12	2.12	2.11
CBR stabilization loan (net, in millions of $) 3/	…	…	…	…	…	...	-51.8	-52.2	-52.6	…

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

1/ For the authorities projection for 2004, increases in rubel claims.

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

3/ In 2001-2002, the CBR disbursed Rub 4.5 billion (about US$146 million).

Table 3b. Belarus: Monetary Accounts, 2002-04 **(Reform Scenario)**
(In millions of Belarussian rubels, unless otherwise indicated; end-of-period)

	2002	2003				2004				
	Dec	Mar	Jun	Sep	Dec	Mar.	Jun.	Sep.	Dec.	Dec.
						Staff proj.				Auth. proj.
Accounting exchange rate (Rbl/US$)	1,920	1,996	2,060	2,108	2,156	2,186	2,214	2,239	2,288	2,260-2,390
National Bank of Belarus										
Net foreign assets	922,017	845,165	1,161,941	1,104,566	1,138,497	1,204,866	1,280,370	1,355,704	1,448,733	…
in mln. $	480.2	423.4	564.0	524.0	528.1	551.2	578.3	605.5	633.2	355-620
Net foreign assets (convertible)	945,254	917,868	1,189,659	1,141,007	1,059,545	1,137,595	1,211,759	1,285,709	1,375,524	…
Net foreign assets (nonconvertible)	-23,237	-72,703	-27,718	-36,441	78,952	67,272	68,611	69,995	73,209	…
Net domestic assets	194,257	267,001	210,723	342,038	548,374	560,073	585,695	543,933	483,467	…
Net domestic credit	440,293	574,283	518,796	640,545	872,140	886,810	916,618	875,593	822,385	…
Net credit to government	167,826	262,029	183,765	267,148	516,489	490,735	487,027	465,942	459,066	…
Claims on banks	255,447	294,863	317,196	355,233	332,130	372,554	406,069	388,129	343,798	…
Other claims on economy	17,019	17,391	17,835	18,164	23,521	23,521	23,521	21,521	19,521	…
Other items, net	-246,036	-307,282	-308,074	-298,507	-323,766	-326,737	-330,923	-331,659	-338,918	…
Reserve money	1,116,274	1,112,165	1,372,664	1,446,604	1,686,871	1,764,939	1,866,065	1,899,637	1,932,200	…
Rubel Reserve money	953,278	1,013,677	1,297,017	1,377,299	1,642,734	1,738,983	1,857,489	1,886,485	1,916,473	2,036,990-2,086,272
Banking System										
Net foreign assets	903,733	979,396	1,278,602	1,155,794	1,004,947	1,069,298	1,142,990	1,216,675	1,306,395	…
Net foreign assets (convertible)	969,220	1,087,873	1,304,465	1,188,824	936,356	1,012,691	1,085,256	1,157,777	1,244,792	…
Net foreign assets (nonconvertible)	-65,487	-108,477	-25,863	-33,031	68,592	56,607	57,734	58,899	61,603	…
Net domestic assets	3,020,014	3,265,259	3,557,341	4,214,525	5,127,360	5,490,149	5,921,440	6,066,764	6,044,284	…
Net domestic credit	4,356,061	4,842,601	5,262,152	5,958,154	7,355,328	7,749,188	8,234,415	8,430,856	8,485,114	…
Net credit to general government	343,056	512,114	339,834	326,515	977,092	967,718	979,961	974,189	987,725	…
Claims on economy	4,013,005	4,330,487	4,922,318	5,631,640	6,378,236	6,781,470	7,254,454	7,456,667	7,497,388	…
Other items, net	-1,336,047	-1,577,342	-1,704,810	-1,743,629	-2,227,968	-2,259,039	-2,312,975	-2,364,092	-2,440,830	…
Broad money	3,923,747	4,244,655	4,835,943	5,370,319	6,132,307	6,559,447	7,064,430	7,283,439	7,350,679	...
Rubel broad money	1,992,870	2,177,797	2,621,933	2,922,284	3,408,326	3,657,844	3,992,821	4,065,196	4,176,406	4,297,485-4,399,807
Foreign currency deposits	1,920,460	2,055,228	2,204,950	2,433,170	2,704,899	2,885,053	3,054,847	3,201,291	3,156,951	…
Bank securities (outside bank circul.), in FOREX	10,417	11,630	9,060	14,864	16,323	16,550	16,762	16,951	17,322	…
Precious metals in deposits	...	...	...	...	2,759	...	...	...	...	
Memorandum items:										
12-month % change in broad money	50.3	50.3	50.7	52.0	56.3	54.5	46.1	35.6	19.9	…
12-month % change in rubel broad money	59.6	64.4	63.3	64.6	71.0	68.0	52.3	39.1	22.5	26-29
12-month % change in reserve money	32.0	36.4	45.5	51.8	51.1	58.7	35.9	31.3	14.5	…
12-month % change in rubel reserve money	40.1	52.1	61.5	64.8	72.3	71.6	43.2	37.0	16.7	24-27
12-month % change in claims on economy 1/	56.8	58.3	63.3	63.3	58.9	56.6	47.4	32.4	17.5	26-31
Annual rubel broad money velocity 2/	16.1	16.1	14.4	14.1	13.3	13.0	12.2	12.3	11.9	…
Annual broad money velocity 2/	8.0	8.0	7.6	7.4	7.1	7.0	6.8	6.8	6.7	…
Broad money multiplier	3.52	3.82	3.52	3.71	3.64	3.72	3.79	3.83	3.80	…
Rubel broad money multiplier	2.09	2.15	2.02	2.12	2.07	2.10	2.15	2.15	2.18	2.11
CBR stabilization loan (net, in millions of $) 3/	…	…	…	…	…	...	-52.1	-52.5	-53.8	…

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

1/ For the authorities projection for 2004, increases in rubel claims.

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

3/ In 2001-2002, the CBR disbursed Rub 4.5 billion (about US$146 million).

Table 4a. Belarus: Balance of Payments, 2001-04 **(Current Policies)**
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003					2004					
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
			Actual		Preliminary			Staff proj.					Auth. proj.
Current account balance	-434.9	-377.5	-26.6	-77.4	-187.5	-159.6	-451.1	-113.4	-143.6	-215.2	-276.2	-748.4	-765.0
Merchandise trade balance	-806.7	-914.3	-163.8	-239.0	-296.7	-375.8	-1,075.3	-252.4	-338.4	-405.5	-494.2	-1,490.6	-1,430.0
Exports	7,334.1	7,964.7	2,281.8	2,436.8	2,590.3	2,700.8	10,009.7	2,375.0	2,536.4	2,696.1	2,811.1	10,418.6	10,610.0
Imports	-8,140.8	-8,879.0	-2,445.6	-2,675.8	-2,887.0	-3,076.6	-11,085.0	-2,627.4	-2,874.8	-3,101.7	-3,305.4	-11,909.2	-12,040.0
Services (net)	260.5	391.8	133.3	110.5	84.2	162.0	490.0	143.0	153.9	179.1	174.3	650.3	525.0
Income (net)	-42.8	-28.6	-14.6	0.2	-5.7	-5.7	-25.8	-17.1	-6.3	-17.7	-19.8	-60.8	-30.0
Transfers (net)	154.1	173.6	18.5	50.9	30.7	59.9	160.0	13.0	47.2	29.0	63.5	152.7	170.0
Capital and financial accounts	321.3	535.2	112.4	-13.5	113.0	152.0	363.9	59.1	130.3	203.1	293.0	685.5	812.9
Capital account	56.3	52.7	17.4	15.3	15.1	16.0	63.8	17.2	15.1	14.9	16.9	64.0	65.0
Financial account	265.0	482.5	95.0	-28.8	97.9	136.0	300.1	41.9	115.3	188.2	276.1	621.5	747.9
Direct investment (net)	95.5	453.3	40.6	-10.1	59.4	24.3	114.2	30.9	34.3	41.1	34.6	140.9	318.5
Portfolio investment (net)	-19.9	-9.1	1.7	22.9	-8.6	-11.8	4.2	-4.3	-4.3	-4.3	-4.3	-17.3	27.0
Trade Credits (net)	-55.6	-65.1	8.1	55.9	61.9	-2.7	123.2	1.1	39.9	43.3	32.2	116.4	135.0
Loans (net)	261.9	221.1	-31.5	-16.6	36.2	22.3	10.4	-20.6	72.8	119.4	200.8	372.4	207.4
Other (net)	-16.9	-117.7	76.1	-80.9	-51.0	103.9	48.1	34.8	-27.3	-11.3	12.9	9.0	60.0
Errors and omissions	35.1	-60.7	-15.3	136.3	50.4	6.7	178.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-78.5	97.0	70.5	45.4	-24.1	-0.9	90.9	-54.3	-13.3	-12.1	16.8	-63.0	47.9
Financing	78.5	-97.0	-70.5	-45.4	24.1	0.9	-90.9	54.3	13.3	12.1	-16.8	63.0	-47.9
Gross official reserves	5.2	-100.9	5.7	-57.1	57.1	-4.1	1.6	33.1	35.1	38.0	30.0	136.2	-30.5
Use of Fund resources	-29.8	-30.0	-16.0	0.0	-16.0	0.0	-32.0	-8.7	0.0	-8.7	0.0	-17.4	-17.4
Short-term loans	68.4	88.7	-5.1	0.0	20.2	0.0	15.1	0.0	-51.8	-52.2	-52.6	-156.6	...
O/w: Central Bank of Russia 1/	51.6	94.9	...	...	...	...	...	...	-51.8	-52.2	-52.6	-156.6	...
Exceptional financing 2/	34.7	-54.8	-55.1	11.7	-37.2	5.0	-75.6	30.0	30.0	35.0	5.8	100.8	...
Memorandum items:													
Current account (as percent of GDP)	-3.5	-2.6	-0.8	-1.9	-3.8	-3.3	-2.6	-2.7	-2.8	-3.5	-4.6	-3.5	...
Trade balance (as percent of GDP)	-6.5	-6.3	-4.6	-5.7	-6.0	-7.8	-6.2	-6.1	-6.7	-6.7	-8.3	-7.0	...
Overall balance (as percent of GDP)	-0.6	0.7	2.0	1.1	-0.5	0.0	0.5	-1.3	-0.3	-0.2	0.3	-0.3	...
Y-o-y growth in exports of goods (in percent)	10.4	8.6	39.3	22.3	23.1	21.1	25.7	4.1	4.1	4.1	4.1	4.1	6.0
Y-o-y growth in exports of non-oil goods (in percent)	4.6	6.1	...	...	...	...	20.8	...	...	...	...	3.9	...
Y-o-y growth in imports of goods (in percent)	8.2	9.1	38.5	30.9	22.0	13.8	24.8	7.4	7.4	7.4	7.4	7.4	8.6
Y-o-y growth in imports of non-oil goods (in percent)	-3.4	10.8	...	...	...	...	23.9	...	...	...	...	4.4	...
Gross official reserves	359.4	456.6	462.7	525.8	459.2	473.5	473.5	440.4	405.4	367.3	337.3	337.3	…
In months of imports of goods and services	0.5	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.3	0.3	0.3	…
Medium and long-term debt	817	991	1,019	1,049	1,083	1,089	1,089	...	...	...	...	1450.4	…
(as percent of GDP)	6.6	6.8	...	...	...	...	6.2	...	...	...	...	6.8	…
Short-term debt (exc. portfolio)	1,630.3	2,086.9	2,047.2	2,081.8	2,167.1	2,385	2,304.2	...	...	...	...	2,592.0	…
(as percent of GDP)	13.2	14.3	...	...	...	...	13.2	...	...	...	...	12.2	…
Debt service ratio (as percent of exports of goods and services)	3.4	4.1	...	...	...	...	4.6	...	...	...	...	3.4	…
Public and public-guaranteed debt service ratio													
(as percent of exports of goods and services)	1.3	1.6	1.0	2.5	2.6	3.4	2.4	...	...	...	...	1.7	…
External arrears 3/	488.5	433.7	378.6	390.3	353.1	358.1	358.1	388.1	418.1	453.1	458.9	458.9	...
In percent of GDP	4.0	3.0	...	...	...	...	2.1	...	...	...	...	2.2	...

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. The loan is assumed to be repaid by end-2004.
2/ Includes accumulation, repayment, and forgiveness of arrears.
3/ As of end-2002, external arrears included US$214 million for gas, US$12.8 million for oil and oil products, US$54 million for electricity, US$152.6 million for the other goods, and $0.5 million on public and public guaranteed debt.

Table 4b. Belarus: Balance of Payments, 2001-04 **(Reform Scenario)**
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003					2004				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
			Actual		Preliminary			Staff proj.				
Current account balance	-434.9	-377.5	-26.6	-77.4	-187.5	-159.6	-451.1	-70.8	-85.2	-154.3	-242.5	-552.8
Merchandise trade balance	-806.7	-914.3	-163.8	-239.0	-296.7	-375.8	-1,075.3	-214.7	-287.4	-351.9	-470.0	-1,324.0
Exports	7,334.1	7,964.7	2,281.8	2,436.8	2,590.3	2,700.8	10,009.7	2,405.9	2,579.9	2,731.2	2,837.2	10,554.3
Imports	-8,140.8	-8,879.0	-2,445.6	-2,675.8	-2,887.0	-3,076.6	-11,085.0	-2,620.6	-2,867.3	-3,083.1	-3,307.3	-11,878.2
Services (net)	260.5	391.8	133.3	110.5	84.2	162.0	490.0	149.0	161.3	186.9	181.3	678.6
Income (net)	-42.8	-28.6	-14.6	0.2	-5.7	-5.7	-25.8	-18.4	-6.4	-18.5	-17.4	-60.7
Transfers (net)	154.1	173.6	18.5	50.9	30.7	59.9	160.0	13.2	47.3	29.2	63.6	153.3
Capital and financial accounts	321.3	535.2	112.4	-13.5	113.0	152.0	363.9	98.5	179.2	249.5	343.2	870.4
Capital account	56.3	52.7	17.4	15.3	15.1	16.0	63.8	16.8	14.7	14.5	18.4	64.4
Financial account	265.0	482.5	95.0	-28.8	97.9	136.0	300.1	81.7	164.5	235.0	324.8	806.0
Direct investment (net)	95.5	453.3	40.6	-10.1	59.4	24.3	114.2	56.4	68.9	73.4	75.0	273.7
Portfolio investment (net)	-19.9	-9.1	1.7	22.9	-8.6	-11.8	4.2	10.2	10.2	10.2	10.2	40.8
Trade Credits (net)	-55.6	-65.1	8.1	55.9	61.9	-2.7	123.2	0.9	39.9	43.3	32.4	116.5
Loans (net)	261.9	221.1	-31.5	-16.6	36.2	22.3	10.4	-20.6	72.8	119.4	194.3	366.0
Other (net)	-16.9	-117.7	76.1	-80.9	-51.0	103.9	48.1	34.8	-27.3	-11.3	12.9	9.0
Errors and omissions	35.1	-60.7	-15.3	136.3	50.4	6.7	178.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-78.5	97.0	70.5	45.4	-24.1	-0.9	90.9	27.7	94.0	95.2	100.8	317.6
Financing	78.5	-97.0	-70.5	-45.4	24.1	0.9	-90.9	-27.7	-94.0	-95.2	-100.8	-317.6
Gross official reserves	5.2	-100.9	5.7	-57.1	57.1	-4.1	1.6	-18.9	-26.9	-19.0	-27.0	-91.8
Use of Fund resources	-29.8	-30.0	-16.0	0.0	-16.0	0.0	-32.0	-8.7	0.0	-8.7	0.0	-17.4
Short-term loans	68.4	88.7	-5.1	0.0	20.2	0.0	15.1	0.0	-52.1	-52.5	-53.8	-158.4
O/w: Central Bank of Russia 1/	51.6	94.9	...	...	...	...	...	...	-52.1	-52.5	-53.8	-158.4
Exceptional financing 2/	34.7	-54.8	-55.1	11.7	-37.2	5.0	-75.6	0.0	-15.0	-15.0	-20.0	-50.0
Memorandum items:												
Current account (as percent of GDP)	-3.5	-2.6	-0.8	-1.9	-3.8	-3.3	-2.6	-1.7	-1.8	-2.7	-4.4	-2.7
Trade balance (as percent of GDP)	-6.5	-6.3	-4.6	-5.7	-6.0	-7.8	-6.2	-5.3	-5.9	-6.1	-8.6	-6.6
Overall balance (as percent of GDP)	-0.6	0.7	2.0	1.1	-0.5	0.0	0.5	0.7	1.9	1.6	1.8	1.6
Y-o-y growth in exports of goods (in percent)	10.4	8.6	39.3	22.3	23.1	21.1	25.7	5.4	5.9	5.4	5.1	5.4
Y-o-y growth in exports of non-oil goods (in percent)	4.6	6.1	...	...	...	...	20.8	...	...	...	...	5.6
Y-o-y growth in imports of goods (in percent)	8.2	9.1	38.5	30.9	22.0	13.8	24.8	7.2	7.2	6.8	7.5	7.2
Y-o-y growth in imports of non-oil goods (in percent)	-3.4	10.8	...	...	...	...	23.9	...	...	...	...	4.2
Gross official reserves	359.4	456.6	462.7	525.8	459.2	473.5	473.5	492.4	519.4	538.3	565.3	565.3
In months of imports of goods and services	0.5	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6
Medium and long-term debt	817	991	1,019	1,049	1,083	1,089	1,089	...	...	...	...	1443.9
(as percent of GDP)	6.6	6.8	...	...	...	...	6.2	...	...	...	...	7.2
Short-term debt (exc. portfolio)	1,630.3	2,086.9	2,047.2	2,081.8	2,167.1	2,385	2,304.2	...	...	...	...	2,471.3
(as percent of GDP)	13.2	14.3	...	...	...	...	13.2	...	...	...	...	12.3
Debt service ratio (as percent of exports of goods and services)	3.4	4.1	...	...	...	...	4.6	...	...	...	...	3.3
Public and public-guaranteed debt service ratio												
(as percent of exports of goods and services)	1.3	1.6	1.0	2.5	2.6	3.4	2.4	...	...	...	...	1.4
External arrears 3/	488.5	433.7	378.6	390.3	353.1	358.1	358.1	358.1	343.1	328.1	308.1	308.1
In percent of GDP	4.0	3.0	...	...	...	...	2.1	...	...	...	...	1.5

Sources: Belarus authorities and IMF staff estimates.

1/ Stabilization loan from Russia in preparation for monetary union. The loan is assumed to be repaid by end-2004.
2/ Includes accumulation, repayment, and forgiveness of arrears.
3/ As of end-2002, external arrears included US$214 million for gas, US$12.8 million for oil and oil products, US$54 million for electricity, US$152.6 million for the other goods, and $0.5 million on public and public guaranteed debt.

Table 5. Belarus: Medium Term Macroeconomic Framework, 2000-09
(in percent of GDP unless otherwise specified)

	2000	2001	2002	2003 Est.	2004	2005	2006	2007	2008	2009
					Current Policies					
Foreign savings 1/	-2.5	-3.5	-2.6	-2.6	-3.5	-3.8	-3.9	-3.9	-3.8	-3.8
Gross national saving	20.2	18.3	19.9	19.9	17.0	16.7	16.6	16.6	16.7	16.7
Nongovernment	12.1	15.0	16.0	15.0	16.2	16.1	16.1	16.2	16.3	16.4
Government 2/	8.1	3.3	4.0	4.9	0.8	0.6	0.5	0.4	0.4	0.3
Gross investment and inventories	22.8	21.9	22.5	22.5	20.5	20.5	20.5	20.5	20.5	20.5
Nongovernment investment	14.4	15.3	16.4	16.7	16.6	16.8	16.8	16.9	16.9	17.0
Government fixed capital formation	8.3	6.5	6.1	5.8	3.9	3.8	3.7	3.6	3.6	3.5
Change in inventories	0.1	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	-0.4	-0.6	-1.8	-0.5	-0.8	-0.8	-0.8	-0.7	-0.7
Government savings-investment balance	-0.1	-3.2	-2.1	-0.9	-3.1	-3.1	-3.2	-3.2	-3.2	-3.2
Revenues	45.8	44.9	42.8	44.7	41.1	41.0	40.9	40.8	40.7	40.6
Expenditures and net lending	45.9	48.1	44.9	45.6	44.2	44.1	44.1	44.0	43.9	43.8
Real GDP growth rate	5.8	4.7	5.0	6.8	4.8	3.5	3.0	2.5	2.5	2.5
Inflation (annual average rate)	168.6	61.1	42.6	28.4	22.7	13.6	7.6	5.3	4.7	4.5
					Reform					
Foreign savings 1/	-2.5	-3.5	-2.6	-2.6	-2.7	-2.9	-2.7	-2.9	-3.1	-3.4
Gross national saving	20.2	18.3	19.9	19.9	19.3	20.1	21.3	22.1	22.4	22.6
Nongovernment	12.1	15.0	16.0	15.0	13.7	14.6	16.2	17.3	17.7	18.5
Government 2/	8.1	3.3	4.0	4.9	5.6	5.5	5.1	4.8	4.7	4.1
Gross investment and inventories	22.8	21.9	22.5	22.5	22.0	23.0	24.0	25.0	25.5	26.0
Nongovernment investment	14.4	15.3	16.4	16.7	16.7	17.8	18.9	20.0	20.6	21.7
Government fixed capital formation	8.3	6.5	6.1	5.8	5.3	5.2	5.1	5.0	4.9	4.3
Change in inventories	0.1	0.1	0.1	0.1	-0.3	-0.1	0.0	0.0	0.0	0.0
Memorandum item:										
Nongovernment savings-investment balance	-2.5	-0.4	-0.6	-1.8	-2.7	-3.1	-2.7	-2.7	-2.9	-3.2
Government savings-investment balance	-0.1	-3.2	-2.1	-0.9	0.3	0.3	0.0	-0.2	-0.2	-0.2
Revenues	45.8	44.9	42.8	44.7	40.7	39.7	38.7	37.7	36.7	35.7
Expenditures and net lending	45.9	48.1	44.9	45.6	40.4	39.4	38.7	37.9	36.9	35.9
Real GDP growth rate	5.8	4.7	5.0	6.8	4.0	3.5	3.8	4.5	4.5	5.0
Inflation (annual average rate)	168.6	61.1	42.6	28.4	20.8	12.0	6.8	5.2	4.5	3.8

Sources: Belarus authorities; and Fund staff estimates.
1/ External current account deficit.
2/ Government revenues do not include privatization receipts.

Table 6. Belarus: Medium Term External Indicators
(In millions of U.S. dollars, unless otherwise indicated)

			Staff Projections						
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Current Policies scenario									
Current account balance	-434.9	-377.5	-451.1	-748.4	-925.3	-1,032.8	-1,033.9	-1,021.2	-1,033.8
Merchandise trade balance	-806.7	-914.3	-1,075.3	-1,490.6	-1,665.9	-1,764.0	-1,734.7	-1,719.3	-1,709.0
Exports	7,334.1	7,964.7	10,009.7	10,418.6	10,596.7	10,907.8	11,295.4	11,700.3	12,119.2
Imports	-8,140.8	-8,879.0	-11,085.0	-11,909.2	-12,262.6	-12,671.8	-13,030.1	-13,419.5	-13,828.2
Services (net)	260.5	391.8	490.0	650.3	685.4	710.8	747.2	785.6	817.4
Capital account	56.3	52.7	63.8	64.0	61.4	58.6	57.8	57.0	56.2
Financial account	265.0	482.5	300.1	621.5	812.7	894.2	926.1	889.2	877.7
Direct investment (net)	95.5	453.3	114.2	140.9	145.7	145.6	145.5	145.4	145.3
Loans (net)	261.9	221.1	10.4	372.4	560.6	687.9	666.8	676.1	612.3
Financing	78.5	-97.0	-90.9	63.0	51.2	80.0	50.0	75.0	100.0
Gross official reserves	5.2	-100.9	1.6	136.2	30.0	30.0	0.0	0.0	0.0
Memorandum items:									
Current account (as percent of GDP)	-3.5	-2.6	-2.6	-3.5	-3.8	-3.9	-3.9	-3.8	-3.8
Gross official reserves	359.4	456.6	473.5	337.3	307.3	277.3	277.3	277.3	277.3
In months of imports of goods and services	0.5	0.6	0.5	0.3	0.3	0.3	0.3	0.2	0.2
Medium and long-term debt	816.7	991.4	1,089.4	1,450.4	1,957.1	2,608.0	2,991.9	3,613.0	4,170.2
(as percent of GDP)	6.6	6.8	6.2	6.8	8.0	10.0	11.3	13.5	15.4
Short-term debt (exc. portfolio)	1,630.3	2,086.9	2,304.2	2,592.0	2,822.3	3,050.4	3,316.3	3,560.6	3,882.0
(as percent of GDP)	13.2	14.3	13.2	12.2	11.5	11.7	12.5	13.3	14.4
Reform Scenario									
Current account balance	-434.9	-377.5	-451.1	-552.8	-643.0	-615.2	-692.6	-744.8	-849.4
Merchandise trade balance	-806.7	-914.3	-1,075.3	-1,324.0	-1,439.6	-1,450.6	-1,522.2	-1,595.9	-1,699.4
Exports	7,334.1	7,964.7	10,009.7	10,554.3	10,884.6	11,353.8	11,852.3	12,374.0	12,947.2
Imports	-8,140.8	-8,879.0	-11,085.0	-11,878.2	-12,324.2	-12,804.4	-13,374.5	-13,969.9	-14,646.6
Services (net)	260.5	391.8	490.0	678.6	732.7	788.8	832.8	880.4	922.7
Capital account	56.3	52.7	63.8	64.4	59.8	58.5	61.5	64.7	68.7
Financial account	265.0	482.5	300.1	806.0	871.9	886.7	961.0	948.2	980.7
Direct investment (net)	95.5	453.3	114.2	273.7	278.4	278.3	278.1	278.0	277.8
Loans (net)	261.9	221.1	10.4	366.0	448.2	509.1	529.4	561.4	540.1
Financing	78.5	-97.0	-90.9	-317.6	-288.8	-330.0	-330.0	-268.1	-200.0
Gross official reserves	5.2	-100.9	1.6	-91.8	-200.0	-250.0	-250.0	-200.0	-200.0
Memorandum items:									
Current account (as percent of GDP)	-3.5	-2.6	-2.6	-2.7	-2.9	-2.7	-2.9	-3.1	-3.4
Gross official reserves	359.4	456.6	473.5	565.3	765.3	1,015.3	1,265.3	1,465.3	1,665.3
In months of imports of goods and services	0.5	0.6	0.5	0.6	0.7	1.0	1.1	1.3	1.4
Medium and long-term debt	816.7	991.4	1,089.4	1,443.9	1,838.3	2,310.3	2,556.8	3,063.2	3,548.3
(as percent of GDP)	6.6	6.8	6.2	7.2	8.4	10.1	10.9	12.6	14.3
Short-term debt (exc. portfolio)	1,630.3	2,086.9	2,304.2	2,471.3	2,614.2	2,732.8	2,890.3	3,014.9	3,261.1
(as percent of GDP)	13.2	14.3	13.2	12.3	12.0	12.0	12.3	12.4	13.1

Sources: NBB, Ministry of Statistics, and IMF staff estimates.

Table 7. Belarus: External Debt Sustainability Framework, 1998-2009
(In percent of GDP, unless otherwise indicated)

		Actual													
		1998	1999	2000	2001	2002	2003	10-Year Historical Average	10-Year Standard Deviation	2004	2005	2006	2007	2008	2009
1	**External debt**	16.5	18.4	16.7	19.7	21.0	19.4			**19.0**	**19.5**	**21.6**	**23.8**	**26.8**	**29.8**
2	Change in external debt	1.2	1.9	-1.7	3.0	1.3	-1.6			-0.4	0.4	2.2	2.2	2.9	3.0
3	Identified external debt-creating flows (4+8+9)	4.2	2.1	0.8	3.2	-1.3	0.8			2.3	2.8	3.0	3.0	2.8	2.8
4	Current account deficit, excluding interest payments	6.2	1.1	2.1	3.0	2.2	2.1			3.1	3.3	3.3	3.1	2.8	2.7
5	Deficit in balance of goods and services	6.7	2.1	3.5	4.4	3.6	3.3			4.0	4.0	4.0	3.7	3.5	3.3
6	Exports	46.9	52.9	60.0	67.9	63.2	65.6			56.9	50.3	48.6	49.8	51.0	52.4
7	Imports	53.6	55.0	63.5	72.3	66.8	68.9			60.9	54.3	52.7	53.6	54.5	55.7
8	Net non-debt creating capital inflows (negative)	-1.3	-3.6	-0.9	-0.7	-0.9	-0.6			-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
9	Automatic debt dynamics 1/	-0.6	4.6	-0.4	0.9	-2.6	-0.7			-0.4	-0.1	0.1	0.2	0.4	0.5
10	Contribution from nominal interest rate	0.6	0.5	0.5	0.5	0.4	0.5			0.4	0.4	0.6	0.8	1.0	1.2
11	Contribution from real GDP growth	-1.2	-0.7	-1.0	-0.8	-0.8	-1.2			-0.8	-0.6	-0.5	-0.5	-0.6	-0.7
12	Contribution from price and exchange rate changes 2/	0.0	4.8	0.1	1.2	-2.2	...			...	...	...	...	...	...
13	Residual, incl. change in gross foreign assets (2-3) 3/	-3.1	-0.2	-2.5	-0.2	2.6	-2.4			-2.6	-2.3	-0.8	-0.7	0.1	0.3
	External debt-to-exports ratio (in percent)	35.2	34.8	27.8	29.0	33.2	29.6			33.4	38.7	44.5	47.9	52.5	57.0
	Gross external financing need (in billions of US dollars) 4/	2.3	1.9	1.9	1.9	2.0	2.5			3.1	3.6	4.2	4.7	5.2	5.8
	in percent of GDP	14.9	15.3	14.9	15.2	13.7	14.5			14.4	14.8	15.9	17.7	19.5	21.4
	Key Macroeconomic Assumptions														
	Real GDP growth (in percent)	8.4	3.4	5.8	4.7	5.0	6.8	2.5	7.8	4.8	3.5	3.0	2.5	2.5	2.5
	GDP deflator in US dollars (change in percent)	-0.3	-22.6	-0.5	-6.9	12.4	11.9	20.8	48.0	15.8	11.7	3.4	-1.4	-1.2	-1.7
	Nominal external interest rate (in percent)	3.9	2.4	2.9	3.0	2.3	2.7	2.9	1.0	2.6	2.6	3.5	3.6	4.3	4.3
	Growth of exports (US dollar terms, in percent)	-9.4	-9.8	19.4	10.4	9.8	23.9	20.8	28.1	5.3	2.2	3.0	3.6	3.6	3.5
	Growth of imports (US dollar terms, in percent)	-6.6	-18.0	21.5	11.1	9.0	23.3	18.7	25.8	7.2	3.1	3.4	2.8	3.0	3.0
	Current account balance, excluding interest payments	-6.2	-1.1	-2.1	-3.0	-2.2	-2.1	-3.8	2.3	-3.1	-3.3	-3.3	-3.1	-2.8	-2.7
	Net non-debt creating capital inflows	1.3	3.6	0.9	0.7	0.9	0.6	1.2	1.1	0.5	0.4	0.4	0.4	0.4	0.4
										Stress Tests for External Debt Ratio					
	B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005									**19.4**	**20.1**	**22.3**	**24.5**	**27.5**	**30.6**
	B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005									**22.3**	**25.8**	**27.5**	**29.3**	**32.1**	**35.1**
	B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2005									**77.1**	**294.3**	**277.0**	**256.8**	**255.2**	**254.9**
	B4. Non-interest current account is at historical average minus two standard deviations in 2004 and 2005									**24.3**	**29.1**	**31.0**	**33.4**	**36.7**	**40.1**
	B5. Combination of 2-5 using one standard deviation shocks									**34.4**	**55.6**	**62.0**	**68.5**	**77.1**	**86.0**
	B6. One time 30 percent nominal depreciation in 2004									**24.6**	**24.1**	**25.9**	**27.8**	**30.6**	**33.6**

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

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

3/ For projection, line includes price and exchange rate changes

Table 8. Belarus: Public Sector Debt Sustainability Framework, 1998-2009
(In percent of GDP, unless otherwise indicated)

	Actual								Projections						
	1998	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
									I. Baseline Projections						**Debt-stabilizing primary balance 10/**
1 **Public sector debt 1/**	20.3	15.0	15.0	12.5	11.4	10.4			**9.1**	**11.3**	**13.8**	**16.5**	**19.0**	**21.4**	**1.4**
o/w foreign-currency denominated	16.3	10.5	10.5	8.8	8.0	7.3			5.5	6.8	8.3	9.9	11.4	12.8	
2 Change in public sector debt	7.9	-5.3	0.0	-2.5	-1.1	-1.0			-1.3	2.2	2.6	2.6	2.5	2.4	
3 Identified debt-creating flows (4+7+12)	48.1	-8.5	-8.6	-2.8	1.1	0.0			0.8	1.8	2.2	2.3	2.2	2.0	
4 Primary deficit	-0.3	1.3	-0.8	1.2	1.3	0.6			2.6	2.2	2.0	1.9	1.7	1.5	
5 Revenue and grants	42.8	43.7	45.8	44.9	42.8	44.7			41.1	41.0	40.9	40.8	40.7	40.6	
6 Primary (noninterest) expenditure	42.4	45.0	45.0	46.1	44.1	45.3			43.7	43.2	42.9	42.7	42.4	42.1	
7 Automatic debt dynamics 2/	48.3	-9.9	-7.9	-4.2	-2.4	-1.6			-1.9	-0.5	0.1	0.3	0.4	0.4	
8 Contribution from interest rate/growth differential 3/	-5.2	-14.9	-9.2	-6.3	-3.8	-2.5			-1.9	-0.5	0.1	0.3	0.4	0.4	
9 Of which contribution from real interest rate	-4.7	-14.7	-8.9	-5.9	-3.3	-2.0			-1.5	-0.2	0.4	0.7	0.8	0.9	
10 Of which contribution from real GDP growth	-0.5	-0.2	-0.3	-0.4	-0.4	-0.6			-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	
11 Contribution from exchange rate depreciation 4/	53.5	5.0	1.3	2.1	1.3	0.9			0.4	0.1	0.3	0.6	0.6	0.7	
12 Other identified debt-creating flows	0.1	0.1	0.1	0.2	2.2	0.9			0.1	0.1	0.1	0.1	0.1	0.1	
13 Privatization receipts (negative)	0.1	0.1	0.1	0.1	1.6	0.1			0.1	0.1	0.1	0.1	0.1	0.1	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.2	0.6	0.8			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	-40.2	3.2	8.6	0.4	-2.2	-1.0			-2.2	0.3	0.4	0.4	0.4	0.4	
Public sector debt-to-revenue ratio 1/	47.6	34.4	32.8	27.9	26.7	23.4			22.1	27.4	33.8	40.3	46.7	52.7	
Gross financing need 6/	10.8	8.7	5.1	6.3	6.9	6.4			8.9	9.2	10.0	10.6	11.4	11.6	
in billions of U.S. dollars	1.6	1.1	0.6	0.8	1.0	1.1			1.9	2.2	2.6	2.8	3.1	3.1	
Key Macroeconomic and Fiscal Assumptions							Historical Average	Standard Deviation							Projected Average
Real GDP growth (in percent)	8.4	3.4	5.8	4.7	5.0	6.8	6.0	2.8	4.8	3.5	3.0	2.5	2.5	2.5	3.1
Average nominal interest rate on public debt (in percent) 7/	11.0	16.1	18.1	9.1	6.7	7.2	10.6	4.4	5.5	11.7	11.5	10.5	9.8	9.5	9.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-65.5	-300.9	-167.2	-70.4	-38.3	-21.5	-96.6	93.4	-17.1	-1.9	3.9	5.2	5.1	5.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-90.3	-53.0	-23.3	-25.3	-17.7	-13.1	-39.5	25.8	-5.6	-1.6	-3.9	-6.3	-5.7	-5.9	...
Inflation rate (GDP deflator, in percent)	76.6	317.0	185.3	79.5	45.0	28.7	107.2	97.1	22.6	13.6	7.6	5.3	4.7	4.5	9.7
Growth of real primary spending (deflated by GDP deflator, in percent)	4.2	9.5	5.8	7.3	0.5	9.7	6.7	11.6	1.1	2.2	2.4	1.8	1.9	1.8	1.9
Primary deficit	-0.3	1.3	-0.8	1.2	1.3	0.6	0.5	0.8	2.6	2.2	2.0	1.9	1.7	1.5	2.0
A. Alternative Scenarios									**II. Stress Tests for Public Debt Ratio**						**Debt-stabilizing primary balance 10/**
A1. Key variables are at their historical averages in 2004-09 8/									**9.1**	**2.2**	**0.9**	**0.5**	**0.4**	**0.3**	**-0.2**
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation									**9.1**	**11.6**	**14.3**	**17.0**	**19.6**	**22.1**	**1.4**
B. Bound Tests															
B1. Real interest rate is at 2004 projection plus two standard deviations in 2005 and 2006									**9.1**	**18.3**	**35.3**	**38.6**	**42.4**	**46.0**	**2.9**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006									**9.1**	**12.9**	**18.3**	**23.7**	**29.2**	**34.6**	**2.2**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006									**9.1**	**11.2**	**13.9**	**16.5**	**19.1**	**21.5**	**1.4**
B4. Combination of 2-4 using one standard deviation shocks									**9.1**	**10.3**	**11.5**	**14.0**	**16.3**	**18.6**	**1.2**
B5. One time 30 percent real depreciation in 2005 9/									**9.1**	**15.2**	**17.9**	**20.8**	**23.6**	**26.2**	**1.7**
B6. 10 percent of GDP increase in other debt-creating flows in 2005									**9.1**	**21.3**	**24.1**	**27.4**	**30.6**	**33.7**	**2.1**

1/ Gross general government debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ Untill 2003, derived as nominal interest expenditure divided by previous period debt stock. For 2004 on, assumes new debt pays at a real interest rate of 3 percent.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

FUND RELATIONS

As of January 31, 2004

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	398.08	103.02
Reserve position in Fund	0.02	0.01

III. SDR Department:	SDR million	Percent of Allocation
Holdings	0.12	n.a.

IV. Outstanding Purchases and Loans:	SDR million	Percent of Quota
Systemic transformation	11.68	3.02

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				
	2004	2005	2006	2007	2008
Principal	5.84	5.84			
Charges/Interest	0.25	0.03			
Total	6.09	5.87			

VII. Safeguards Assessments:

As there is no arrangement in place, under the Fund's safeguards assessments policy, the National Bank of Belarus (NBB) is not subject to a full safeguards assessment. However, as a potential borrower, the NBB requested a voluntary safeguards assessment, and an on-site assessment was conducted in December 2003.. The assessment concluded that significant vulnerabilities exist in the safeguards framework, especially in the areas of the legal structure and independence, external and internal audit, and in financial reporting. The assessment made specific recommendations to correct the identified shortcomings. The authorities have begun to take steps to address some of these issues, and are considering appropriate measures to address the remaining concerns.

VIII. 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 2,151 on March 11, 2004.

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

IX. UFR/Article IV Consultation:

The tenth Article IV consultation was concluded on April 16, 2003. Belarus has been placed on a 12-month consultation cycle. Visits since have included:

Staff visit	September 1–9, 2003
Article IV Consultation mission	January 26–February 9, 2004

X. FSAP Participation, ROSCs, and OFC Assessments:

A fiscal ROSC mission took place in March 2003, with the report expected to be finalized in Q2 2004. A data ROSC mission took place in March 2004, with the report expected to be finalized in Q2 2004 as well. An FSAP is expected later this year.

XI. Technical Assistance, 2000–04:

	Department Counterpart	**Subject**	**Timing**
Missions	FAD	Budget Code and other issues in public expenditure management	March 1-12, 2004
	FAD	Tax policy	March 19-April 1, 2003
	FAD	Public expenditure management	June 12–27, 2001

	MFD	Bank supervision and restructuring	December 1–12, 2003
	MFD	Issues in Monetary Unification with Russia	April 2–11, 2003
	MFD	Assessment of foreign exchange markets and operations and reserve management	June 2–10, 2002
	MFD	Assessment in monetary and foreign exchange policy and operations and central bank organization	April 10–22, 2002
	STA	Balance of payments	August 20–September 3, 2003
	STA	Balance of payments	November 13–24, 2000
	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 23–September 6, 2000
Resident Advisors	STA	Mr. Umana (General Statistics Advisor)	August 1996–August 2000

XII. 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

IMF Technical Assistance and Related Cooperation

The authorities have generally been quite receptive to technical assistance (TA) and related forms of cooperation. TA and related activities since the last Article IV mission include:

Fiscal Affairs Department

- *Tax policy* (March 2003)—advised on the draft tax code, recommending elimination of turnover taxes and suggesting measures to compensate for the revenue loss from reducing the VAT rate.
- *Fiscal ROSC* (April 2003)—assessed fiscal transparency in Belarus, noting the exceptional number of quasi-fiscal activities permitted in the budget system.
- *Budget code and budget classification* (March 2004)—reviewed the draft budget code, and proposed steps to move budget classification in line with the 2001 GFS Manual.

Monetary and Financial Systems Department

- *Technical aspects of currency union* (April 2003)—advised the authorities in Minsk and in Moscow on technical requirements for a successful currency union, including the need for appropriately supportive fiscal policies.
- *Bank supervision and bank restructuring* (December 2003)—noted the lack of operational independence of the NBB and recommended elimination of directed lending, while advising on steps to improve banking supervision.

Statistics Department

- *Balance of payments statistics* (August 2003)—reviewed changes in BOP statistics.
- *Data ROSC* (March 2004)—assessed data quality and data dissemination, and outlined the steps Belarus would need to take in order to subscribe to the SDDS.

Legal Department

- *AML/CFT legislation* (July 2003)—advised on the priority steps the authorities can take to bring Belarusian legislation in line with international practice.

RELATIONS WITH THE WORLD BANK

Partnership in Belarus' Development Strategy

1. The World Bank Group program in Belarus was rather limited during the period 1995–2000, and the FY99 Country Assistance Strategy (CAS) set a strict trigger (exchange rate unification) for the resumption of IBRD lending. The trigger was met in September 2000, leading to an improvement in the quality and intensity of the dialogue between Belarus and the Bank. The current CAS was approved in 2002 to advance cooperation with Belarus in critical areas, help the country open up its economy and society, minimize social and environmental risks, and address global public good concerns. CAS implementation, however, has been neither smooth nor satisfactory and has recently encountered major setbacks in reaching agreed program objectives.

IMF-World Bank Collaboration in Specific Areas

2. The Bank and Fund teams work closely in Belarus and maintain an extremely good relationship. The IMF plays a key role at the macro level, while the World Bank focuses on the structural agenda, social and environmental issues. The Bank and the Fund teams work as complements and carry out joint activities on the key fiscal and structural issues. The joint work on the Public Expenditure and Institutional Review (PEIR) is an example of excellent cooperation between the two institutions. There are other joint activities planned, i.e., on FSAP and a Country Economic Memorandum.

Areas in which the World Bank leads

3. **Social sphere.** The second *Poverty Assessment* (PA) was launched in the Fall of 2002. The study objectives were to update the understanding of the evolution of poverty, inequality, vulnerability and opportunities as compared to the first PA (1996), to analyze more deeply the non-income dimensions of poverty, to assess the poverty reduction impact of various public subsidies, to build local capacity in order to improve poverty measurement and analysis and its use in policy formulation, and to provide policy recommendations that can assist Belarus in consolidating and accelerating its economic transformation while caring for the most vulnerable. For Belarus, the PA could lay the basis for strengthening its social policy agenda, developing a concrete and prioritized Poverty Reduction Strategy and improving poverty monitoring. The PA will be discussed with the government at the end of FY04.

4. The World Bank technical engagement with Belarus has generated a significant amount of analysis in areas of relevance to the assessment of poverty and living conditions in the country. A strong platform for technical collaboration on poverty issues was provided by technical assistance under the *IDF grant for Strengthening of the Capacity of the Ministry of Social Protection in Policy Formulation and Analysis* for preparation and introduction of targeted social assistance program (TSAP). The Grant was implemented successfully during

2000–03 and completed in June 2003. Since then, there has been no progress in the dialogue on the TSAP agenda.

5. Driven by demographic and socio-economic factors, Belarus faces a need for deep reforms in the pension system. In the Fall of 2003, the World Bank team initiated a *Pension Policy Dialogue* to analyze the current pension system and discuss pension reform options. The major directions of this work, agreed with the government and to be carried out during FY 2004, include: offering Belarus the menu of strategies that have been tried and proven likely to work in other countries and particularly in neighboring ECA countries: assisting with analytical and simulation work, as well as developing communication/education strategies. To assist in the long-term projections for the main pension reform alternatives under consideration, the World Bank will provide training in a pension reform model (PROST).

6. **Health sector.** Building on the dialogue initiated by the preparation of the Tuberculosis and AIDS prevention project, the Bank has considered options for more general reform in the health sector. A *Health Policy Note* was prepared in 2001 and revealed a number of inefficiencies in the sector, which provided the basis for reform recommendations. The TB/AIDS project was designed as the first lending operation under the new CAS to assist Belarus in meeting the challenges posed by the spread of TB and HIV/AIDS. Although more than three years have been spent on preparation and project fine-tuning, the Government recently informed the Bank of its decision not to borrow for the stated purposes.

7. **Energy sector.** The *Social Infrastructure Retrofitting Project* (US$22.6m) aims to assist in the rehabilitation of the heating system, thermal insulation, and lighting in over 450 public buildings across the country. The project targets schools, hospitals, orphanages, and community homes for the elderly and the disabled. It also includes measures to reduce energy consumption.

8. **Environment.** Belarus has made good progress in the protection of environment. However, the country is still facing many environmental problems, including coping with the legacy of the Chernobyl catastrophe. The Chernobyl theme occupies a central role in the current CAS. The *Chernobyl review* identified the key problems caused by the Chernobyl accident, analyzed the existing government mitigation programs and provided the government and donor community with recommendations on improving these programs. The report drew upon previous work by the Bank, such as the *Environment Sector Review*, which examined in detail the environmental and agricultural consequences of Chernobyl, and provided the basis for possible World Bank support.

9. The *PHRD Climate Change Pilot* project (supported by the Japanese Climate Change Initiatives Grant, approved in 2003) is aimed at demonstrating opportunities for greenhouse gas (GHG) emission abatement through energy efficiency and renewable energy utilization in the supply of heat and hot water to social sector buildings, and assisting the Belarusian government with the development and implementation of emission standards for biomass-fired boilers, thereby removing an institutional barrier to broader introduction of energy supply based on biomass fuel.

10. After a two-year dialogue and preliminary activities in cooperation with the UNEP Chemicals and the World Bank, Belarus has recently ratified the Stockholm Convention on Persistent Organic Pollutants (POPs). As required by the Convention, Belarus needs to develop a National Implementation Plan. The government and the Bank team are currently drafting an Enabling Activity Proposal for the Global Environment Facility (GEF) POPs Program.

11. The Bank views *Information and Communication Technologies* (ICT) as a powerful instrument for development, and has already provided resources and support for several grants extended through the Information for Development Program (InfoDev). The recently prepared *ICT Infrastructure and E-Readiness Assessment* (2003) evaluates the level of ICT development in Belarus and its readiness to integrate with the network world.

Areas of shared responsibility

12. **Private sector development.** The most challenging reform agenda for Belarus is in the area of structural reforms and private business development. During the last two years a reduction in cross-subsidization and progress in price liberalization has taken place. However, no further serious advances in the area of structural reforms have been observed. Small-scale privatization is yet to be completed and there is very little progress in large-scale privatization. The share of the private sector in GDP is about 25 percent—the lowest among all transition economies. Despite some improvements in business regulations (first of all, streamlining of licensing procedure), the business environment remains unfavorable. The Bank Group seeks to improve the general environment for the creation and operation of private business in Belarus through technical assistance, policy dialogue and ESW. The Bank and the IFC conducted a number of studies including *Improving the Business Environment* and *Costs of Doing Business Surveys* to track the developments in this area, define impediments to private business development and provide policy recommendations. The Fund focuses on macroeconomic policies aimed at sustainable growth and encouraging private sector development. The Fund also provides technical assistance to improve taxation, banking regulations and banking supervision.

13. **Public expenditure management**. The current CAS attaches great importance to fiscal issues, emphasizing the goals of greater effectiveness, transparency, and accountability in the use of public resources. In 2003 the World Bank with the IMF participation completed the first *Public Expenditure and Institutional Review* (PEIR) for Belarus. It is mainly focused on broad systemic questions rather than sectoral issues and provides a number of recommendations to strengthen fiscal sustainability, improve the budget process, and increase the allocative efficiency of budgetary spending. The report includes a detailed Action Plan for strengthening the Belarusian budget system. The Review draws upon the IMF reports (*Future Development of Treasury* and *Public Expenditure Management: Strengthening the Legal Framework and Budget Preparation*) as well as on preliminary work for a *Country Financial Accountability Assessment*.

14. An *IDF Grant for Public Expenditure Management* (US$250,000) was approved in early 2003 to support the development of institutional capacity of the Government of Belarus —in particular, the Ministry of Finance—in the area of budget management. The government has failed to make this Grant effective. The Bank with the participation of the Fund staff organized a seminar on Public Expenditure Management in Belarus in December 2003 to discuss reform priorities in this area.

15. The IMF has provided continuous Technical Assistance to Belarus in the area of public expenditure management. The government (ministry of finance) has determined the following priority areas: modernization of budget classification, Budget Code preparation, MTEF, reform of inter-budgetary fiscal relations, and development of sectoral strategies. Most of these areas were supposed to be covered by the IDF grant. In the absence of the Grant the Bank will be in position to provide assistance on a very limited scale.

16. **Financial sector.** Analysis of the financial sector is an area of joint responsibility. The government and the National Bank of Belarus sent requests to the IMF and the Bank to undertake an *FSAP.* The FSAP preparation has been agreed in principle, but has yet to be scheduled. The Bank and the IMF also carry out joint responsibility for providing assistance to Belarus in the prevention of anti-money laundering and combating financing of terrorism.

Areas in which the IMF leads

17. The IMF is actively engaged with the Authorities in discussing the macroeconomic program providing them with technical assistance and related support, including on economic and financial statistics, tax policy, monetary operations and fiscal transparency. The IMF is leading the dialogue on setting the objectives for monetary and exchange rate policies, public debt management, overall budget envelope and tax policy. The IMF is also actively involved in the talks with the government regarding the steps and timetable required for pegging to the Russian ruble and entering a currency union with Russia.

18. The IMF analysis in these areas serves as inputs into the Bank policy advice. The Bank and the IMF teams have regular consultations and the Bank staff takes part in the IMF Article IV consultation missions. This helps to ensure a consistency of the policy recommendations by the two institutions.

The World Bank Group Strategy

19. Belarus joined the World Bank in July 1992. Bank relations with Belarus have generally paralleled those of the IMF. Under the 1999 CAS, liberalization of the exchange rate was set as 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 $22.6m Social Infrastructure Retrofitting Project, approved on June 5, 2001.

20. The current CAS for 2002–04 was completed in February 2002. The CAS centers around the following issues:

- Advisory activities on reform, particularly with regard to 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 the Chernobyl disaster and the lack of greater social inclusiveness; and (iii) fostering private sector development through a better business and investment environment.

21. The CAS has two lending scenarios—a *low case* and a *base case*. Under the *low case* scenario, lending would be concentrated essentially on global public goods (i.e., TB/HIV prevention, environmental protection) and projects directly targeted to the poorest segments of society, and is limited to $140m (excluding grants from the Global Environmental Facility). Under the *base case*, lending would reach up to $270m 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. Belarus is currently in the low case.

22. To date, loans to Belarus total $190.6m. (on a commitment basis), and $15m. has been provided in the form of grants. The IBRD Belarus active portfolio has one ongoing operation—*Social Sector Energy Retrofitting Project* totaling $22.6m.

23. Non-lending activities include grants and analytical work. The most recent work includes the Chernobyl Review (*Belarus: Chernobyl Review*, Report No.23883-BY, July 15, 2002), a Public Expenditure and Institutional Review (*Belarus: Strengthening Public Resource Management*, Report No.26041-BY, June 20, 2003) and a Poverty Assessment Update (*Belarus Poverty Assessment: Preparing for the Future*, Report No.27431-BY, being finalized). The preparation of *Country Economic Memorandum* is planned for FY 2004–05.

24. One of the key objectives of the current Belarus CAS is to help the *development of civil society* through information dissemination, dialogue with the government and involvement of the civil society organizations (CSOs) in Bank supported activities. The Bank maintains the on-going dialogue with CSOs on the CAS priorities. The Bank also implements a number of civil society capacity building programs, such as the annual *Small Grants Program* and *Development Marketplace*, aimed at empowering small communities development, encouraging the inter-sector partnership, establishing basic mechanisms for cooperation of CSOs with local authorities to be improved over time and used as best practices.

25. **The IFC activities in Belarus.** The IFC strategy for Belarus is to foster the private sector development through technical assistance and lending operations. The IFC began its work in Belarus with technical assistance to the government in devising and implementing an auction based privatization model in the retail sector in 1993. The IFC facilitated the privatization of more than 1,100 enterprises in 35 cities and regions of Belarus. To assist the newly-privatized businesses at the initial stage of their operation, it launched a *Post Privatization Project* in 1995, under which local business support centers were created.

26. Since 1997 Belarus has halted the process of privatization and restructuring of industrial property. Private business in the country is represented mainly by small and medium enterprises (SMEs). IFC technical assistance efforts are aimed at creating an enabling environment for SME growth. To this end, in 2002 the IFC started a two-year *Business Associations Capacity Building project*. The project focuses on improvenemt of business associations mangement and strengthening their lobbying and advocacy capacity. The IFC also interacts directly with government and local administrations to improve policies and legislation affecting the SME sector and investment climate in general. The corporation is a founder and active participant in the Foreign Investment Advisory Council, an advisory body to the Council of Ministers of Belarus. As of January 2004, the IFC has implemented five technical assistance projects totaling $9.4m. In the banking sector, the IFC provides long-term funding to local banks to strengthen their balance sheet and to help them better meet the needs of SME sector in Belarus. In June 2003 the IFC extended a five-year $14m loan to Priorbank for on-lending to private enterprises.

27. Given the recent problems in the CAS implementation and attaining agreed objectives, the Bank has communicated to the Belarus Authorities that it will prepare the Strategy Completion Report by the end of the FY04 and will attempt to identify possible areas for cooperation in the nearest future.

Questions may be referred to Deborah Wetzel (202 473 1698) or Sergiy Kulyk (202 458 4068).

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

1. Belarus joined the EBRD in June 1992. The first country strategy papers, those of October 1992 and 1994, focused on identifying the main sectors in which the Bank could operate in Belarus. These included energy, the financial sector (especially support for SME's) as well as supporting privatization and restructuring in the private sector. By the time of the third country strategy in March 1995, the Board had approved six loans, mainly for public sector projects. However, the Bank drew attention to the slow pace of reforms that was affecting the volume of its activities.

2. An interim strategy was prepared in June 1996. This noted the satisfactory progress with the projects signed to date, but reiterated the concerns over the slow pace of reform and the resulting difficulties for the Bank in financing additional projects. In this strategy the Bank introduced two scenarios, the distinction between the base and high case reflected the speed with which the government adopted market-oriented reforms.

3. In the October 1997 strategy paper, the Board of the EBRD reflected the international community's concerns over political developments in Belarus. Three scenarios were identified for the future scale of EBRD activities—a base case, which reflected the continuation of current conditions, and an intermediate and high case which reflected progress towards implementing market oriented policies and resolving the political issues. The Board decided that no sovereign projects would be approved under the base case. Attention would, therefore, be focused on the promotion of the private sector (mainly the financial sector, SMEs, Turn Around Management—TAM and the provision of direct financing to commercial banks to enable them to on-lend to the private sector).

4. This approach was largely endorsed in the following strategy paper, approved by the Board in December 1999. The Bank, however, also proposed to provide direct financing to commercial entities under the Direct Investment Facility (DIF) and considered the case for lending to micro-enterprises. The next strategy, approved in April 2001, drew attention to the Board's concerns over Belarus' inadequate compliance with Article 1 of the Agreement establishing the EBRD. The EBRD reverted to two scenarios on this occasion, with the emphasis on a continuation of SME and micro lending, the TAM program, as well as an expansion of the Trade Facilitation Program (TFP) under the base case.

5. The current strategy for Belarus was approved by the Board in April 2002 and stressed the concerns over the political situation and the slow pace of economic reform. Three alternative scenarios were outlined for the Bank's operations, referred to as the baseline, intermediate and regular scenario. This approach made the extent and nature of the EBRD's operations mainly dependent on the willingness of the Belarus authorities to deliver improvements in both the political and economic spheres. A number of specific benchmarks were included in the strategy paper to enable the extent of such progress to be measured.

6. Since this Strategy was approved, the Bank has continued to operate under the baseline scenario. Thus, the Bank has focused on developing business initiatives in the private sector, especially support for SMEs as well as micro lending, making selective direct investments in local and foreign-owned private companies including through the DIF. There has also been assistance through the TFP as well as the TAM. In addition the Bank has continued its policy dialogue with both the government and the National Bank of Belarus over various aspects of the reform program. It has also participated in the recently formed Foreign Investor Advisory Council (FIAC).

7. By the end of 2003, the EBRD had signed nine projects in Belarus (although one project has been fully repaid). The total project value was Euro 232.4 million. These projects amount to a historical net business volume for the EBRD of Euro 157.8 million. Of this amount Euro 57.5 million represented the Portfolio (operating assets plus undrawn commitments), of which 39 percent were assigned to the private sector and 61 percent to the state sector. Operating assets amounted to Euro 45.5 million at end-2003.

8. The EBRD has signed five public sector projects in the transport, agribusiness, power generation and telecommunications sectors (the last of these was fully repaid in 2002). In addition in November 1994 the EBRD signed a loan for a credit line of Euro 25.8 million for participating commercial banks (currently two) to provide medium to long-term hard currency loans to SMEs in the private sector. In June 2000, a micro lending component was added to the line of credit. By the end of 2003 more than 70 SMEs and almost 1000 micro enterprises had benefited from the line of credit. The credit line has been supported by technical assistance provided by a limited number of donors. Of the four non-sovereign projects, the main emphasis has been on support for the banking sector. In 1998, the EBRD made an equity investment in the largest private bank in Belarus—Priorbank. A major western commercial bank subsequently purchased a majority stake in Priorbank (in 2002). Last year the EBRD arranged an international syndicated loan for Priorbank—the first such transaction for a Belarus borrower.

9. The EBRD will prepare a new country strategy for Belarus during 2004.

STATISTICAL ISSUES
(As of April 1, 2004)

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 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. A national coordinator is expected to be appointed in the near future.

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 discontinued the calculation of net material product. A first set of quarterly national accounts was published in January 1996 and is continuously updated on a timely basis. Quarterly national accounts data are published in the IFS. A full set of annual national accounts has been prepared for 1990–2002.

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 1999 weights; and beginning with 2003 data, with 2001 production weights.

Government Finance Statistics

7. Government finance data on revenue and expenditure in the functional classification are provided for the consolidated state budget (republican and local governments) on a monthly basis, about 3 to 4 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 extra budgetary accounts have been incorporated into the budget since the start of 1998. Central and local government annual data for 1992–2000 were published in the 2001 *GFS Yearbook*. Monthly data, covering the budget sector, excluding social security, are published in *IFS*.

8. 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.

9. Detailed information on domestic bank financing of general government institutions is compiled by the NBB in coordination with the MoF. 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.

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 usually provided with a lag of no more than two weeks, with the NBB monthly balance sheet available on about fifth of the month following the reference period, but monetary data for publication in *IFS* are reported with a lag of about 2 months.

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 extra budgetary 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. Exchange rate data is readily available on the NBB's web site, and periodically reported to the Fund in electronic file.

Balance of Payments Statistics

13. The overall quality and timeliness of data is satisfactory. 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. Gross and net official reserves are now available on a bi-weekly basis, generally with little or no lag. The net foreign assets position of the commercial banks is compiled monthly, with minimum delay. 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.

14. The August/September 2003 technical assistance mission noted that most of the November 2000 mission report recommendations had been implemented. Among others, the International Transactions Reporting System has been broadened to permit a more accurate classification of external transactions, while coverage and reporting forms for enterprise surveys were also improved.

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

Table 1. Belarus: Core Statistical Indicators
(As of April 1, 2004)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance 2/	GDP/ GNP	External Debt/Debt Service 3/
Date of latest observation	03/18/04	03/01/04	12/31/03	01/30/04	01/30/04	02/29/04	02/04	01/01/04	10/01/03	01/01/04	02/01/04	10/01/03
Date received	03/19/04	03/02/04	01/30/04	02/10/04	02/10/04	03/26/04	02/18/04	02/18//04	10/07/03	01/27/04	02/18/06	10/07/03
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	V	M	M	V
Source of updating	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	E	E	E	E	E	E	C	E	E	E	E	E
Confidentiality	C	B	B	B	B	C	C	C	C	C	C	B
Frequency of publication 4/	D	N/A	M	M	M	D-M	W	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.

Statement by the IMF Staff Representative
May 7, 2004

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. **Although growth was reportedly robust in early 2004, so was inflation.** On official data, real GDP grew by 9.3 percent in Q1 (year-on-year, yoy), driven by industrial production (itself up by 13 percent). Inventories fell slightly, but the share of loss-making enterprises remained high at 46 percent. Inflation stayed at 22 percent (yoy). Preliminary data suggest that strong growth in external trade turnover continued; goods and services exports in January–February grew by 23 percent over the same period of 2003, while imports grew by 15 percent. International reserves crept up slightly. (The authorities intend to bring gross reserves to about $1 billion—one month of imports—by year-end.)

3. **Fiscal policies for 2004 have been loosened somewhat**. Although the fiscal stance was quite tight during Q1 (the general government cash surplus is estimated at over 3 percent of quarterly GDP), the 2004 budget has been amended twice since initial passage in December. The deficit target for the year has been increased by 0.3 percentage points of GDP, mainly to accommodate spending on subsidized housing in rural areas, and is now just under 2 percent.

4. **The exchange rate anchor has helped to restrain inflation, despite relatively loose monetary policy.** Reserve money grew by 71 percent (yoy) at end-March, and broad money by 50.3 percent. To some extent, stronger money demand is due to the fact that the exchange rate has been essentially fixed against the dollar since January 1, 2004. Although the currency union with Russia seems increasingly unlikely to materialize in 2005, the authorities still say they intend to peg to the Russian ruble on July 1, 2004 (albeit within a ±5 percent band).

5. **Progress with structural reforms continues to be mixed.** In a positive development, the Social Protection Fund has been brought into the budget and, from April 1, 2004, its accounts are being serviced by the treasury system. Also, the proposal to require public enterprises to shift their bank accounts to state commercial banks (SCBs) seems to have been shelved (though some smaller enterprises have moved their accounts to SCBs voluntarily). On the other hand, a March presidential decree rescheduled all of the tax and energy debt of the agricultural sector on very favorable terms, while under another decree bankruptcy was prohibited for 183 strategically important enterprises.

6. **The authorities are implementing measures proposed by a recent STA data ROSC mission,** as they hope to subscribe to the SDDS fairly quickly. In particular, the reserves template is now on the NBB website (http://www.nbrb.by/statistics/Sstandard/report.pdf), though STA has not reviewed it. Similarly, long-term time series price indices are now posted by the Ministry of Statistics (http://www.president.gov.by/Minstat/en/specst/price3.htm).

Statement by Willy Kiekens, Executive Director for Republic of Belarus
Mikhail V. Nikitsenka, Advisor to Executive Director
May 7, 2004

Economic Developments

Disciplined fiscal management and tighter monetary policies have enabled Belarus to continue the steady growth of recent years.

The staff paper points out that Belarus' "growth has been robust, however measured." Real GDP grew by 6.8 percent in 2003. This is a good performance, even if it turns out that the staff is correct in thinking that the official figures probably overstate growth by at least 1 percentage point. It is also important that this GDP growth was mostly export-driven.

Belarus leads the CIS region in economic openness. It is one of the ten most open economies in Europe. Average year-to-year export growth for the last four years was 15.5 percent. Total exports grew by 24.2 percent in 2003, to $10.0 billion or about 60 percent of GDP. The share of exports going to non-CIS destinations has grown to 45 percent, showing an enhanced competitiveness on international markets. These trends have continued in 2004 despite a further worsening of the terms of trade caused by higher gas prices.

Although the 2003 current account balance showed a deficit of 2.6 percent of GDP, it was still the lowest among non-energy producing CIS countries and central European countries. The balance turned positive in January-February 2004. Other important external accounts, such as official reserves, net foreign assets of the National Bank, foreign debt, and external arrears, also registered quite positive outcomes.

Monetary and Exchange Rate Policies

A major factor in Belarus' growing competitiveness in external markets was its declining inflation. Despite another increase in utility prices, the inflation rate continued to fall. The 2004 target is 14-18 percent. Inflation in the first quarter of 2004 was half of that in the same period last year.

Exchange rate stability under the crawling peg also helped to improve the external accounts.

The combination of lower inflation, a relatively stable exchange rate, and robust real GDP growth was responsible for the significant improvement of broad money demand. The level of monetization of the economy increased further in 2003, while domestic broad money, total broad money, and credit to the economy increased substantially. On the other hand, the share of barter transactions declined from 43.8 percent in 2001 to 26.9 percent in 2003.

The assets of the banking system grew in 2003 by 53.8 percent and have continued to grow in 2004. Household deposits in local currency increased by 81.2 percent last year and by 23.8 percent in the first quarter of 2004. This is substantially higher than the growth of deposits in hard currencies, which grew by 40.8 percent and 3.5 percent during the same periods. Positive real interest rates boosted confidence in the rubel, as did the accumulation of foreign currencies and gold by the National Bank. These reserves stood at $594.8 million at end of last year.

The data in Box 1 of the staff report clearly show that practically all measures of financial soundness in the banking sector--capital adequacy, asset quality, profitability, liquidity, and foreign exchange risk--have improved substantially over the last four years. The share of non-performing loans in the total loans of the banking system fell from 14.4 percent at the end of 2001 to 8.3 percent at the end of 2002, and has fallen further to less than 4 percent in 2003.

The authorities know that the banking system needs a lot of improvement. They are confident that the FSAP later this year will significantly contribute to a new financial sector reform program. The authorities also accept and began to implement the recommendations of the Fund's safeguards assessment conducted in December 2003, when Belarus became the first country to volunteer for it.

Fiscal Policies

Last year's deficit of 1.2 percent of GDP and the substantial surplus achieved in the first quarter of 2004 show that Belarus maintains fiscal discipline. Since 1995 the consolidated budget deficit has never exceeded 2 percent.

In 2004 revenue collection is buoyant, which allowed the reduction of debt levels to the National Bank and commercial banks. For the 2004 budget, the government has followed staff's advice to substantially reduce subsidies for agricultural, housing and communal services. This year the total tax level is already 1.6 percent of GDP below the level of last year. The sales tax has been eliminated. Following Russia’s example, VAT rates have been reduced from 20 to 18 percent. The government no longer has access to central bank credit.

Public debt is about 6.2 percent of GDP, low by any standard.

In considering Belarus’ budget performance we should always bear in mind the costs related to the Chernobyl disaster which is expected to exceed over time ten times Belarus' annual GDP.

Structural Policies

In 2003 the authorities continued strong efforts to reduce and eliminate cross subsidization. Utility cost recovery ratios increased further from 40 percent to 50 percent. These efforts improved enterprise profitability, from 7.8 percent of produced value in 2001 to 9.1 percent in 2003. Also from 2002 to 2003 the share of loss making enterprises fell from

34.9 percent to 27.2 percent, and inter-enterprise arrears shrank from 17.7 to 13.7 percent. The cuts in cross subsidization required a further salary increase to cushion the social consequences of the sharp increase in utility prices.

The efforts to harmonize the conditions in Belarus with those in Russia have further improved institutions' and business' conditions, including the licensing and taxation of small businesses.

The chart on page 16 of the staff report shows that in the period 2000-2002 Belarus received more FDI per capita than Ukraine and not substantially less than Russia. However, FDI in Belarus is much lower than in the EU accession countries.

Relations between Belarus and the Fund.

Given the last four years of successfully implementing the Fund's recommendations, the authorities do not favor a new Staff Monitored Program, but consider their track-record as sufficient for starting negotiations for a Stand-By Arrangement.

The authorities would have preferred an agreement with the Fund on a program of continued reforms. However, because of the improvements in the economy, as explained in this statement, they no longer request a financial arrangement.

As has happened before, they disagree with the staff on two issues: the pace of reform and the projections for future periods. As for the pace of reform, the authorities prefer a strategy of gradual transformation with a minimum of social damage. They insist that a country has the right to choose the pace of its economic reforms, and have shown why gradualism is the best way for Belarus to achieve economic stability and maintaining high social standards. Belarus' per capita GDP has grown to $1,765 and the government actively pursues such social goods as poverty reduction, education, and health care, which rank among the best in CIS region.

As for the projections, the staff usually makes a pessimistic assessment about the possible rate of GDP growth. Last year again, Belarus' actual GDP growth was much stronger than forecast, even though the staff corrected its forecast upward in the middle of the year. This year, first quarter data show GDP growth of 9.3 percent and export growth of 21.1 percent, confirming that Belarus' actual performance is at least twice as good as the staff expected. In several years, Belarus' GDP performance has exceeded the staff's projection by a factor of three.

The staff argues that the authorities' real GDP targets are much higher than those of its major trading partners. But experience confirms that the performance of Belarus' trading partners does not always provide a good benchmark for projecting Belarus' performance.

The staff's projections are also influenced by Belarus' very limited external financing, which cannot support higher growth. The authorities disagree with the staff's passive approach to identifying the sources of growth. The staff overlooks the increasingly important positive export performance, as well as Belarus' ability to concentrate its internal resources on the task of renovating its industrial potential. The authorities wish the staff would use a broader approach when projecting Belarus' growth trends, which would make their forecasts more reliable.

Although the authorities do not entirely agree with staff's overall view of the macroeconomic situation in Belarus, they are very grateful for the technical assistance provided as a result of last year's consultation. They have made good use of the Fund's technical assistance and look forward to its continuation.

Finally, we wish to touch on the role of the Fund's resident representative in maintaining dialog between Belarus and the IMF. Belarus had no program with Fund for almost ten years. The location of the nearest Fund representation in Vilnius during most of that period made the relations with the Fund less than optimal. Now that Lithuania has joined the EU there may be a good occasion to move the resident representative's office to Minsk. This could help improve the dialog between the Fund and Belarus. The benefits of moving the resident representative to Belarus will definitely outweigh the cost. Our Belarusian authorities are firmly committed to continue policies aimed at further tightening monetary and fiscal discipline, expanding privatization, and liberalizing the economy, in order to improve the business climate and accelerate economic growth. They hope the Executive Board will make an accurate assessment of macroeconomic developments in Belarus, and encourage the Management to base the Fund's relationship with Belarus on comprehensive assistance aimed at helping the country further strengthen its economic stabilization and reform.

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IMF Concludes 2004 Article IV Consultation with the Republic of Belarus

On May 7, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Belarus.[1]

Background

Macroeconomic developments in 2003 were mixed. Although in real terms GDP, industrial production and agriculture all grew by 6.8 percent—according to official data prepared on Belarusian national methodology—growth would be lower on international methodology. Despite high recorded economic growth figures, the financial situation of the industrial sector continues to be difficult, as indicated by high inventory levels and the fact that one third of industry (and 60 percent of agriculture) reported losses in 2003.

Although gradual disinflation continued in 2003, Belarus continues to have the highest inflation in the region. Moreover, core inflation, which excludes the impact of administrative price changes, began to grow more rapidly during the second half, suggesting that the reduction in inflation to 25 percent (December to December) was partly due to administrative measures, such as delayed increases in utilities prices and a narrowing of retail trade mark-ups. Within the authorities' crawling band exchange rate regime, the Belarusian ruble appreciated in real terms against the dollar, but depreciated in real terms against the Russian ruble as well as in real effective terms. Nevertheless, the trade balance has remained weak, in part as a result of

[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.

higher energy prices (especially for natural gas). International reserves remain very low at about a half-month of imports.

Fiscal policy was fairly tight during 2003, due mainly to limited sources of available financing, such as privatization proceeds. The general government cash deficit is estimated at 1¼ percent of GDP, and budgetary arrears of 0.3 percent were repaid. However, quasi-fiscal activities remained significant, including widespread directed lending through the banking system, energy sector cross-subsidization and ad hoc tax preferences.

However, monetary policy was lax, as rubel broad money and rubel reserve money both grew by more than 70 percent. In particular, inflationary financing from the National Bank of Belarus (NBB) to the government—which will be eliminated in 2004—was expanded very substantially during the last days of the year. Further, a substantial portion of banking system credit was issued under the influence of government or presidential decisions, raising questions about the health of the banking system and the reliability of financial sector vulnerability indicators.

Structural reforms seem to have stalled. Increases in energy sector cost recovery levels and a reduction of the number of activities requiring licenses are welcome. However, privatization has slowed, and the private sector share of GDP remains at around 20 percent. Further, the “golden share” rule—which is unique in Belarus, in that it may be declared after a firm has been privatized—not only remains in place, but has been expanded. The poor business environment, including the golden share, reduces the flow of foreign investment to Belarus and discourages private sector investment.

The outlook for 2004 is uncertain. Under current policies, inflation is expected at around 22 percent, and real GDP growth is likely to slow to about 4¾ percent. However, the external environment—particularly growth in the Baltics and CIS states—is favorable, while on the other hand the era of subsidized deliveries of natural gas from Russia seems to be coming to an end.

Executive Board Assessment

Directors welcomed the achievements of the past year, including strong growth, gradual disinflation, and progress in several areas of structural reform. Nevertheless, they observed that Belarus faces a number of medium term economic challenges, including reducing the size of the government and making further progress toward a market-based economy, private-sector-led economic growth, and macroeconomic stability. Directors stressed that meeting these challenges will require a strengthening of macroeconomic policies and a quickening of the pace of structural reform. Noting that neighboring countries are growing rapidly, external debt is low, and remonetization in Belarus is proceeding well, Directors considered that adjustment costs should be manageable for Belarus at this juncture.

Accordingly, Directors urged the authorities to tighten monetary and fiscal policies in 2004 to further reduce inflation and establish conditions for sustained high growth. Directors considered that a tighter fiscal stance is also warranted by the limited availability of noninflationary financing and the need to bring the size of government to a more manageable level and more in line with that in neighboring countries. They welcomed efforts to reduce the tax burden in 2004, and encouraged further efforts in this direction, but urged that expenditure be cut also to reduce the budget deficit. In this regard, they considered that the planned dollar wage increase in 2004 is likely to adversely affect external competitiveness and public enterprise finances. Directors commended Belarus for achieving relatively good poverty indicators. However, they felt that general government spending, which amounts to nearly half of GDP, could be significantly lowered without undermining the authorities' social objectives.

Directors welcomed the elimination in 2004 of direct financing of the budget deficit by the NBB. At the same time, they advised the authorities to discontinue the practice of directed lending through the banking system to finance quasi-fiscal deficits. They stressed that priority should be given to strengthening the banking system, including through loan-loss provisioning in view of sizeable non-performing loans, better loan classification, and tightened prudential regulations. In this context, they welcomed the forthcoming Financial Sector Assessment Program. They noted that weaknesses in the public enterprise sector are a source of vulnerability in the banking sector, and urged implementation of a comprehensive program of corporate and financial sector reform. This should include privatization or closure of state-owned banks and a strengthening of efforts to combat money laundering and terrorism financing, including through legislation consistent with international standards and the establishment of a well-functioning financial intelligence unit.

Directors recommend that, if the authorities decide to peg the exchange rate, appropriate fiscal policies and structural reforms should be in place. They considered that, with foreign reserves equivalent to only two weeks of imports, a fixed exchange rate would make Belarus vulnerable to external shocks. Needed reforms would include strengthening the legal structure, independence, and auditing and financial reporting of the NBB, as recommended in the safeguards assessment that was undertaken at the request of the authorities. A number of Directors also cautioned against a currency union with Russia before closer macroeconomic convergence is achieved and a firmer commitment is made to move towards market-based policies. Some other Directors emphasized that a currency union would be consistent with Belarus' high degree of economic integration with Russia and could lead to stronger economic policies.

Directors encouraged the authorities to accelerate structural reform—including elimination or modification of the "golden share" rule, which they considered a significant impediment to investment in Belarus. They urged the authorities to make progress with privatization and improve the business environment, particularly by reducing unnecessary inspections and regulation of small and medium-sized enterprises. Directors advised against repeatedly forgiving the debts of the agricultural sector, in order to create incentives for an improvement in the performance of that sector. Directors called for an improvement of fiscal transparency, including by reducing the quasi-fiscal activities of the government, following the recommendations of the fiscal Reports on the Observance of Standards and Codes (ROSC). They also considered trade liberalization to be a priority, given that a number of non-tariff barriers are still in effect.

Directors supported active technical cooperation between the IMF and Belarus, recognizing that Belarus has a generally good record of implementation of technical assistance. They welcomed plans to subscribe to the IMF’s Special Data Dissemination Standard, and the authorities’ intention to implement the recommendations of the data ROSC. These and other efforts will help improve the quality of Belarusian official statistics.

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 2004 Article IV Consultation with the Republic of Belarus is also available.

Republic of Belarus: Selected Economic Indicators

	2000	2001	2002	2003 Preliminary
	(Annual change in percent, unless otherwise indicated)			
Real economy				
GDP (nominal in billions of rubels)	9,134	17,173	26,138	35,930
Real GDP	5.8	4.7	5.0	6.8
Industrial production	7.8	5.9	4.5	6.8
CPI (end-of-period)	107.5	46.1	34.8	25.4
Real average monthly wage (1996=100)	163.0	214.0	231.9	250.6
Average monthly wage (in U.S. dollars)	82.8	90.3	107.3	123.6
Money and credit				
Reserve money	124.3	102.8	32.0	49.9
Rubel broad money	124.1	96.9	59.6	71.1
Banking system net domestic credit	188.1	66.4	53.7	74.7
Refinance rate (percent per annum, end-of-period)	85.0	48.0	38.0	28.0
	(In percent of GDP)			
General government finances 1/				
Revenue	45.8	44.9	42.8	44.7
Expenditure (cash)	45.9	46.8	44.7	45.9
Expenditure (commitment)	46.8	48.1	44.9	45.6
Balance (cash)	-0.1	-1.9	-1.8	-1.2
Balance (commitment)	-0.9	-3.1	-2.0	-1.0
	(In millions of U.S. dollars unless otherwise indicated)			
Balance of payments and external debt				
Current account balance	-338	-435	-378	-451
As percent of GDP	-2.6	-3.5	-2.6	-2.6
Gross international reserves	356.8	359.4	456.6	473.5
In months of imports of goods and services	0.5	0.5	0.6	0.5
Medium- and long-term debt (as percent of GDP)	5.1	6.6	6.8	6.2
Short-term debt (as percent of GDP)	11.1	13.2	14.3	13.2
	(Rubels per U.S. dollar)			
Exchange rates				
Average	717	1,383	1,784	2,052
End-of-period	1180	1,580	1,920	2,156

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