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Republic of Belarus: First Review Under the Stand-By Arrangement, and Request for a Waiver of Performance Criterion, Augmentation of Access, and Modification of Performance Criteria—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion

In the context of the first review under the Stand-By Arrangement for the Republic of Belarus and the request for a waiver of performance criterion, augmentation of access, and modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for Republic of Belarus: First Review Under the Stand-By Arrangement, and Request for a Waiver of Performance Criterion, Augmentation of Access, and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on June 10, 2009, with the officials of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 19, 2009. 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 supplement of June 19, 2009, providing an update of the assessment of the risks to the Fund and the Fund's liquidity position.

- A staff statement of June 29, 2009 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 29, 2009 discussion of the staff report that completed the review.

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

First Review Under the Stand-By Arrangement, and Request for a Waiver of Performance Criterion, Augmentation of Access, and Modification of Performance Criteria

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Michele Shannon

June 19, 2009

Executive Summary

- **Stand-By Arrangement.** A 15-month Stand-By Arrangement (SBA) in the amount of SDR 1.6 billion ($2.5 billion, 418.8 percent of quota) was approved by the Executive Board (IMF Country Report No. 09/109) on January 12, 2009, and a first purchase of SDR 517.8 million was made following the Board meeting.

- **Program Status.** All end-March 2009 quantitative and continuous performance criteria and structural benchmarks were met, except for the net international reserves (NIR) target, which was missed by $221 million. A sharp fall in demand for Belarus's exports and a worsening of the capital account has led to the re-emergence of a substantial financing gap for 2009 (Tables 1–5). The authorities have committed to adjust exchange rate and monetary policies, to maintain a balanced budget despite lower revenue, and to deepen their structural reform efforts. The combination of these measures will reduce but not entirely close the financing gap. The authorities are therefore requesting an augmentation of the SBA by SDR 651.399 million (168.6 percent of quota) in conjunction with the completion of the first review. With the augmentation, the second tranche, subject to completion of this review, will amount to SDR 437.930 million. The staff supports this request, and the authorities' request for completion of the first review.

- **Discussions.** Discussions were held in Minsk during April 29–May 13 and continued through the resident representative's office during late May and early June. The staff met with the Deputy Prime Minister, Mr. Kobiakov; the Governor of the National Bank of the Republic of Belarus, Mr. Prokopovich; the Minister of Finance, Mr. Kharkovec; the Minister of Economy, Mr. Zaichenko; and other senior officials.

- **Staff.** The staff team comprised Messrs. Jarvis (head), Ding, and Kovtun (all EUR), Ms. Mitra (SPR), and Mr. Wane (FAD). Mr. Kiekens participated in the final discussions. Ms. Koliadina, the resident representative, assisted the mission.

- **Publication.** The staff report will be published.

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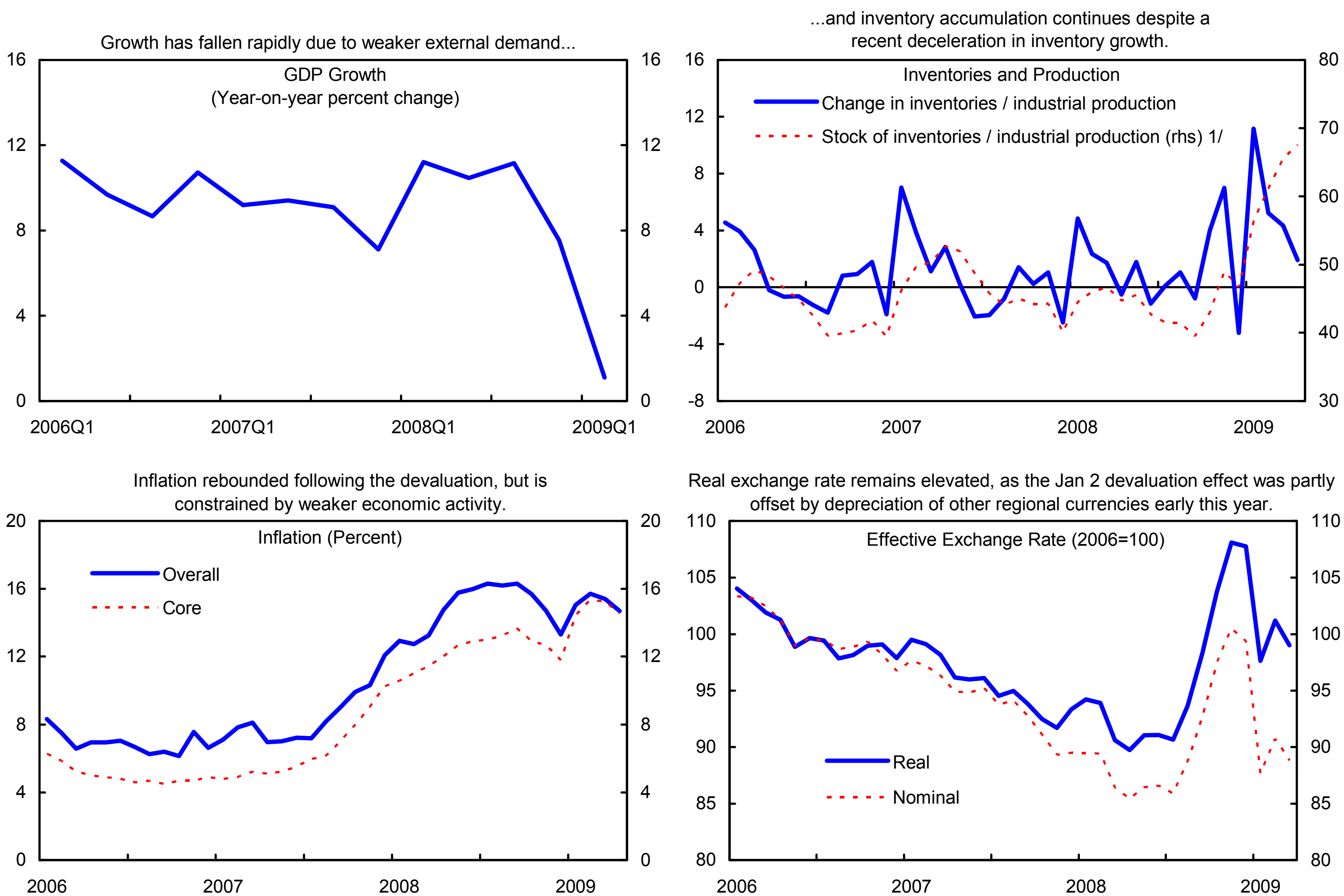
I. Recent Developments and Program Performance

1. **Belarus's strong program has been undermined by external shocks and inconsistent implementation, but the authorities' recent actions will reinforce it.** The program supported by the SBA helped Belarus to weather a difficult first quarter of 2009. The 20 percent devaluation of the rubel against the U.S. dollar on January 2 and the adoption of a peg to a basket of currencies significantly improved Belarus's external competitiveness.[1] Maintenance of a balanced budget, despite a sharp fall in revenue, was crucial in supporting macroeconomic stability. The authorities have been confronted by extraordinary external shocks, and their response has sometimes been hesitant and inconsistent, especially in the area of monetary policy. However, in recent weeks, the authorities have renewed and deepened their commitment to stability and sustainability.

2. **The deterioration of the global economy hit output and the balance of payments hard in the first quarter.** Economic activity slowed significantly in response to a decline in external demand. GDP grew by 1.1 percent year-on-year in the first quarter, compared with an expansion of 11.2 percent a year earlier (Figure 1). Industrial output fell by 4.5 percent despite substantial accumulation of inventories, reflecting lower exports. Consumer prices increased by 6.5 percent in the first four months, and 14.7 percent in the 12 months up to April, partly as a result of the step devaluation and increase in communal service tariffs early in the year. However, monthly inflation in April fell to 0.4 percent, as the negative output gap began to depress prices. Flagging demand from major trading partners contributed to an increase in current account deficit in the first quarter to \$1.86 billion from \$0.4 billion a year earlier (Figure 2). The first-quarter deficit was projected at \$0.8 billion in the program.

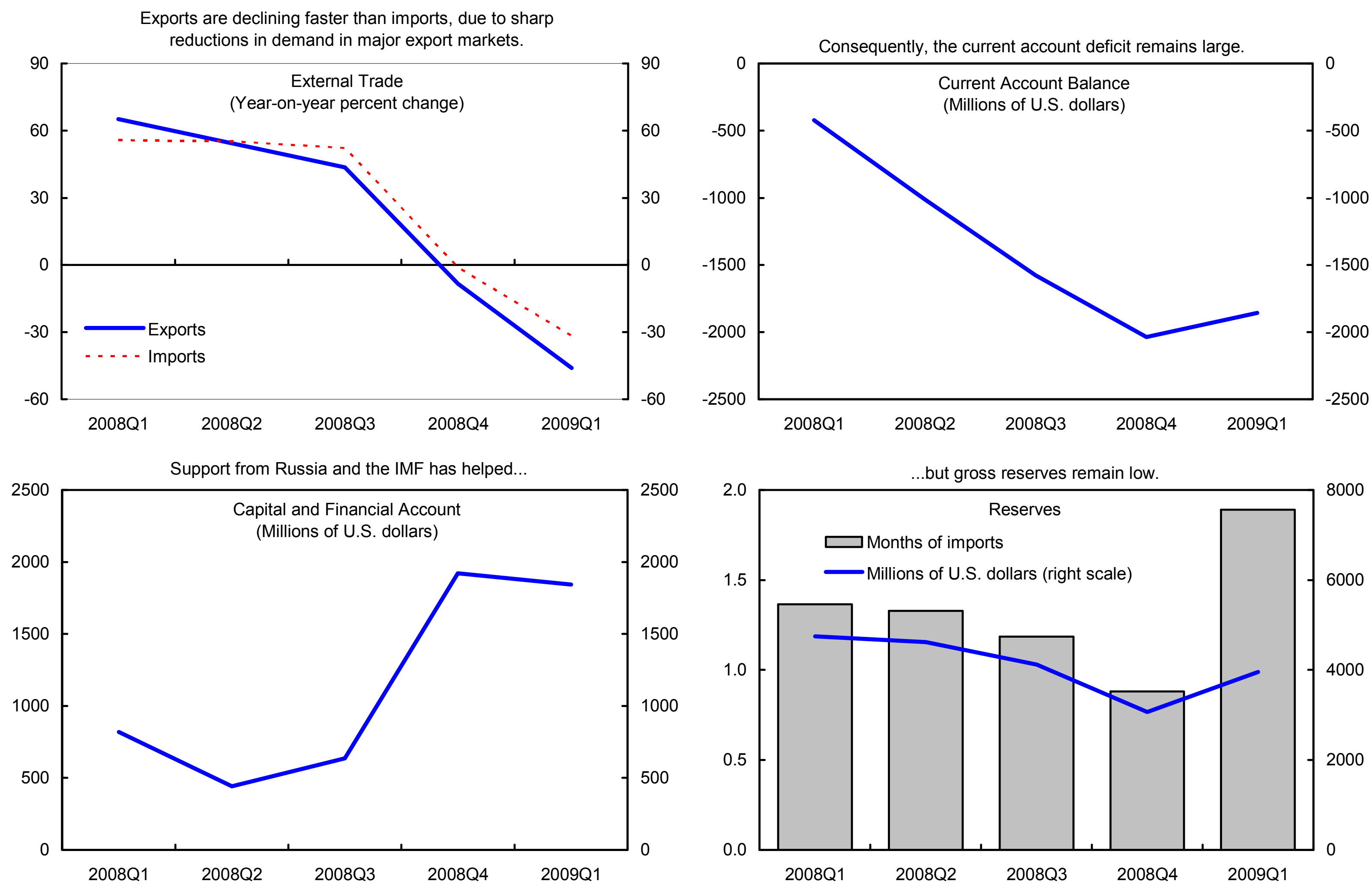
[1] The basket consists of the U.S. dollar, the euro, and the Russian ruble, with equal weights. The Belarusian rubel is allowed to fluctuate by ±5 percent around the central parity.

Figure 1. Belarus: Real Sector, 2006–09



Sources: Belarus authorities; and IMF staff calculations.
1/ Lagged 12-month moving average of industrial production.

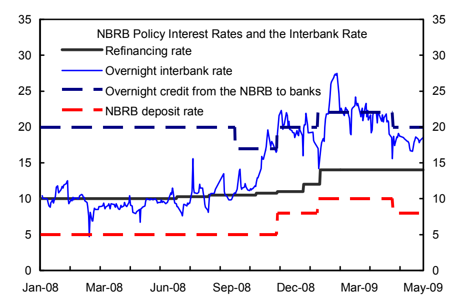
Figure 2. Belarus: External Sector, 2008–09



Sources: Belarus authorities; and IMF staff estimates.

3. **Belarus has also been adversely affected by cross-currency movements, and a capital account shock.** The depreciation of the Russian ruble against the U.S. dollar early this year hit Belarus in two ways. Because both the Russian ruble and the U.S. dollar are in the currency basket to which the Belarusian rubel is pegged, the Belarusian rubel appreciated against the Russian ruble, causing Belarus's exports to become temporarily more expensive for its major trading partner. At the same time, it fell against the dollar (the main alternative currency for household deposits), complicating the authorities' efforts to instill confidence in the new exchange rate regime. This, combined with initial uncertainty following the January 2 devaluation, led many households to switch from rubel to foreign exchange deposits, leading to an increase in deposit dollarization from 39 percent at end-2008 to 53 percent by end-March (Figure 3).[2] Private sector financial flows were slightly higher than expected, with FDI roughly in line with projections and lower commercial bank rollover rates on external loans more than offset by higher trade credit inflows. Nonetheless, the higher current account deficit and deposit switching caused a shortfall in NIR against the end-March program target by $221 million. Moreover, NIR continued to decline in the second quarter by about $1 billion (versus a projected increase in the original program), reflecting in part the continued effects of lower exports and renewed capital outflows due to public uncertainty about economic prospects.

4. **The authorities were sometimes slow to react and hesitant to use policy instruments in response to the worse-than-projected external environment.** The National Bank of the Republic of Belarus (NBRB) initially allowed the exchange rate to appreciate against the central parity, despite loss of reserves, in an attempt to limit currency substitution by keeping the dollar/rubel exchange rate as stable as possible. Under pressure to support liquidity and to permit banks to supply credit to the economy, the authorities have also been slow to tighten monetary policy. Indeed, on April 15, the NBRB cut the interest rate on overnight liquidity support by 2 percentage points, signaling a somewhat looser policy stance. Credit to the economy (measured at program exchange rates) increased by 5.4 percent during the first four months of 2009. Much of this increase was in subsidized credits for residential housing and construction.[3] There was also a considerable build up of inventories in January and February, as many state-owned enterprises kept producing to meet government-set targets even though, due to the fall in export demand, they could not sell what they produced.

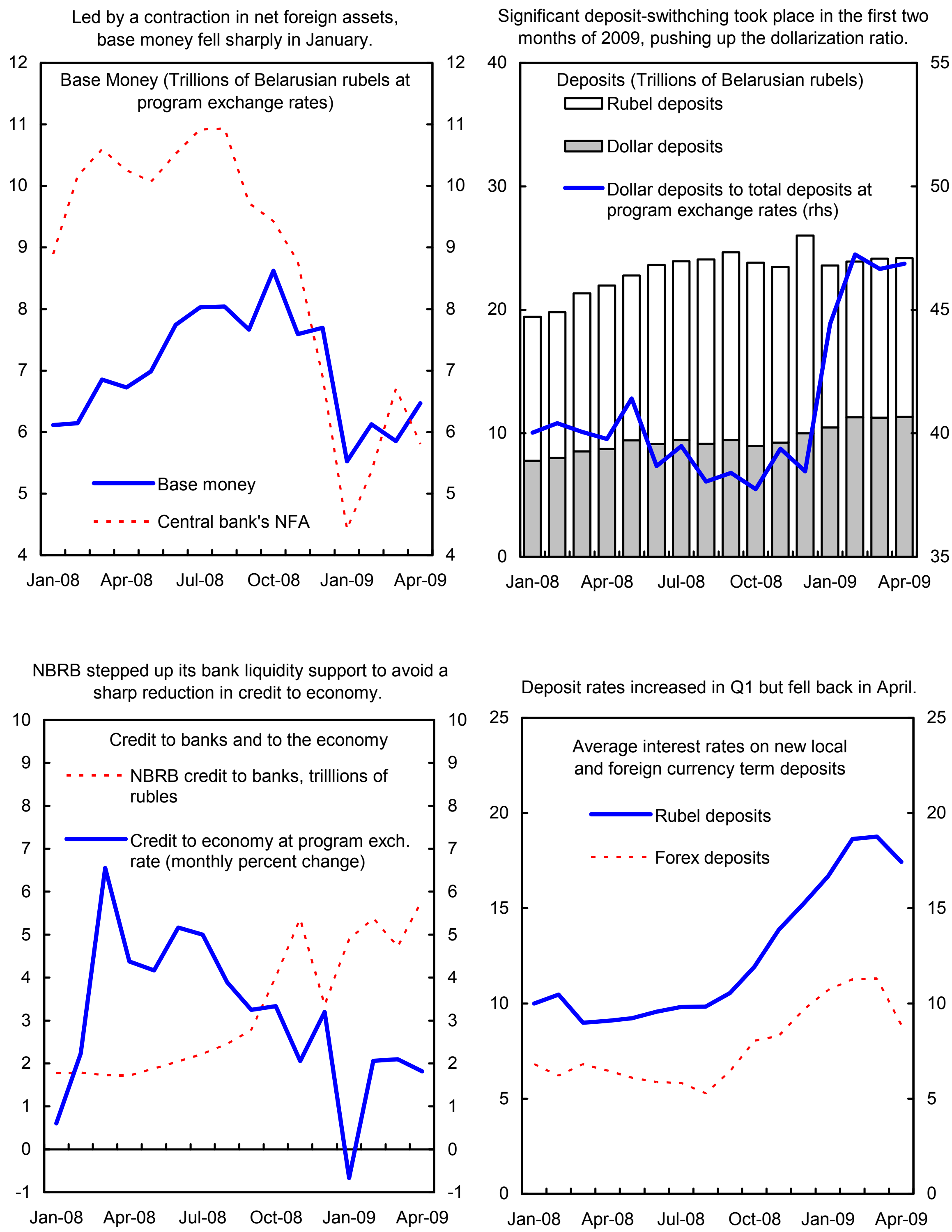


Sources: Belarus authorities; and IMF staff estimates.

[2] The increase in dollarization is quoted at current exchange rates. Excluding the revaluation effect, the dollarization ratio increased to 47 percent.

[3] Households pay below market rates (1–5 percent) to banks, and banks are compensated from the budget for the difference between the subsidized interest rate and an open "market" rate calculated as the refinancing rate plus 3 percentage points.

Figure 3. Belarus: Monetary Developments, 2008–09



Sources: NBRB; and IMF staff calculations.

5. **In other respects the authorities acted forcefully to support the program.**

- *They met the fiscal performance criterion despite much lower revenue.* Profit taxes and customs duties were particularly hard hit. Total profits in the economy declined by 17 percent in Q1 2009 compared with Q1 2008, leading to a 20 percent fall in profit tax revenue (Figure 4). Duties on oil exports were affected by the fall in prices and cuts in rates (necessary under Belarus's agreements with Russia), and import tariff revenue fell along with imports. In response, expenditures on goods and services were cut, except for purchases for education and health. Investment projects were cancelled or postponed, unless they were already close to completion or in priority areas.

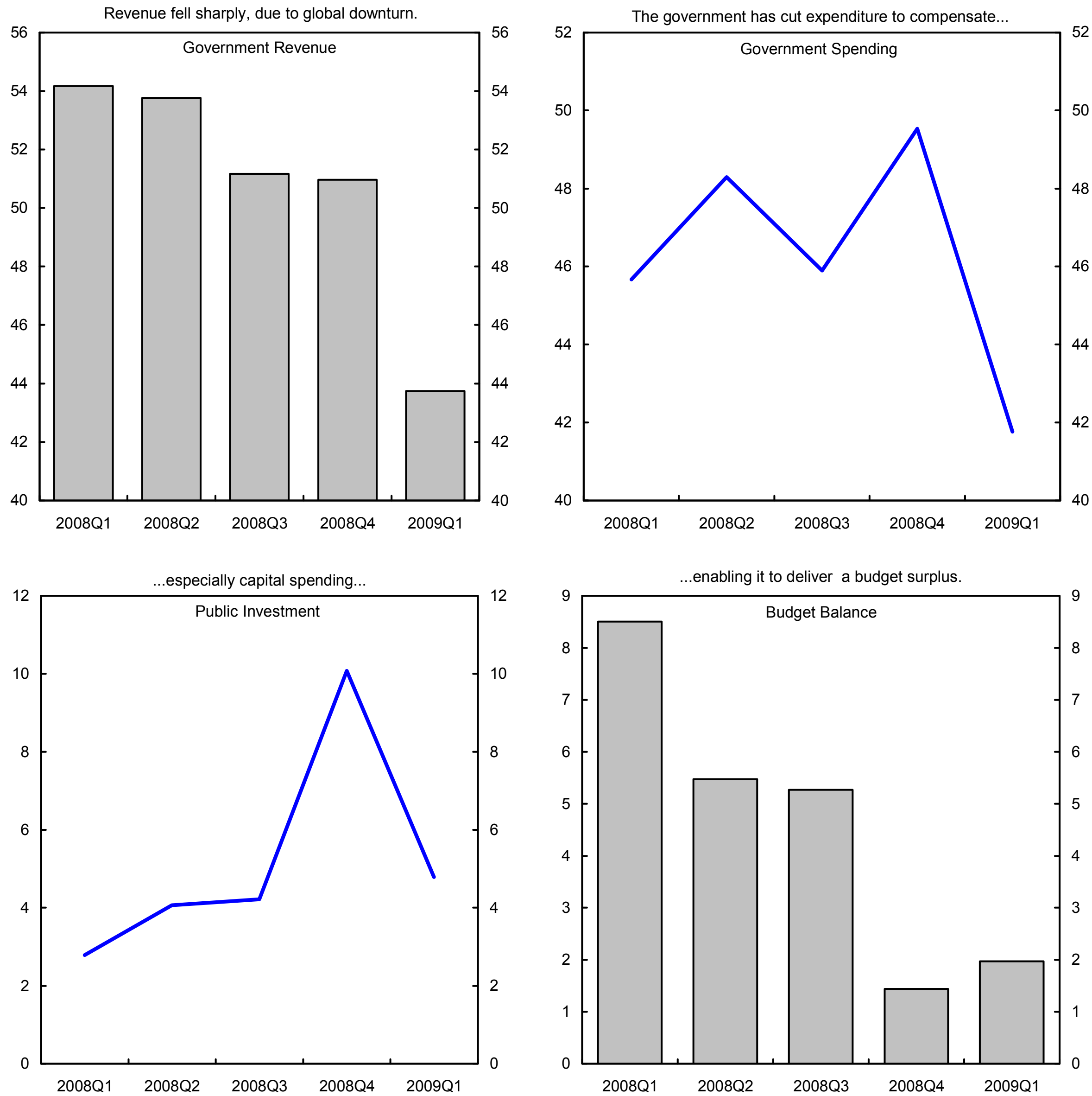
- *They met the NDA performance criterion.* Although monetary policy was not tight enough to offset the effects of the external shock on NIR, the authorities did keep credit tight enough to enable them to meet the end-March NDA performance criterion.

- *They have pursued agreed structural reforms.* The authorities have discontinued the practice of placing central and local government deposits in commercial banks and engaging in directed lending using these deposits. They have not extended the regulatory act imposing a general ceiling on monthly prices increases of ½ percent, thereby meeting the structural benchmark for end-March. They have also reduced the number of goods and services subject to price regulation, and are no longer announcing medium-term wage targets.

6. **The financial sector has so far weathered the crisis well, though banks' financial soundness indicators have deteriorated (Table 6).** The average capital adequacy ratio (CAR) declined by 1.6 percentage points to 20.2 percent. The nonperforming loan (NPL) ratio almost doubled to 1.1 percent, and, while it remains relatively low, it may rise as the recession impacts more firms and as the NBRB brings its NPL classification closer to international practice. Banks lost 20 percent of their rubel deposits during the first quarter, but a corresponding increase in foreign exchange deposits and timely rubel liquidity support by the NBRB averted potential liquidity problems. However, strains in banking system liquidity continue: as of end-March, a few large state-owned banks did not meet prudential norms for the ratio of liquid assets to total assets or the short-term liquidity ratio.

Figure 4. Belarus: Fiscal Developments, 2008–09 1/

(Percent of GDP)



Sources: Belarus Authorities; and IMF staff estimates.
1/ General government. Cumulative for the year.

II. Policy Discussions

A. Macroeconomic Framework

7. **The deterioration in the external outlook gives rise to large financing gaps in 2009 and 2010.** The sharp decline in projected export demand in partner countries is expected to be only partially offset by reduced imports stemming from domestic demand contraction. The current account deficit would rise to almost 10 percent of GDP in 2009, and remain above 5 percent in the medium term. The capital account would also worsen slightly because of lower-than-projected rollover of syndicated loans and parent bank financing to Belarusian subsidiaries, and because, absent policy tightening, no significant reversal of currency substitution can be expected. On unchanged policies, gross reserves at end-2009 are expected to be about $2½ billion lower than originally targeted. There would also be a large shortfall in reserves in 2010, and reserve coverage would fall further over the medium term.

8. **Discussions on how to close the financing gap focused on finding the right balance between financing and adjustment and among different means of adjustment.** The authorities recognize that the deterioration in the outlook for major trading partners was likely to have long-term effects, which would need to be offset by adjustment. But they also believe that some of the worsening is likely to be temporary, meriting increased financing. With regard to the means of adjustment, the authorities wished to avoid any major changes in the newly adopted exchange rate regime. They also emphasized that the commitment to the balanced budget is an important policy anchor. At the same time, they saw limits to the extent to which monetary policies could be tightened, given the needs of the real economy, and the desire to avoid massive bankruptcies and employment loss. The staff noted that this approach put a heavy burden on fiscal policy adjustment. The staff further noted that alternative approaches involving some loosening of fiscal policy and greater exchange rate and monetary policy adjustment could also close the financing gap. However, the staff recognized that the authorities' continued reliance on the balanced budget was consistent with their demonstrated ability to deliver on planned fiscal adjustment. The staff also considered that the combination of continued fiscal tightening, tight monetary policy and modest exchange rate depreciation under the authorities' preferred approach would be sufficient to alleviate pressures on international reserves and restore external stability.

9. **The agreed-upon approach involves adjustment making use of all major policy instruments**. The authorities will maintain current fiscal policies, but allow the rubel to depreciate within the exchange rate band, tighten monetary policy, and step up structural reforms. (Prior actions, quantitative and continuous performance criteria, as well as structural benchmarks, are listed in Tables 2 and 3 in the Letter of Intent (LOI).)

- Early exchange rate depreciation (compared to the more gradual depreciation through 2009 which the authorities were planning) is expected to contribute to a decline in the current account deficit to 7.8 percent of GDP in 2009, and to below 6 percent of GDP in 2010.

- A tighter monetary policy in 2009 will result in lower monetary aggregates, and near-zero real growth of credit to the economy.

- The balanced budget target will help contain domestic demand.

Taken together, these measures are projected to improve the balance of payments by about $1.5 billion. With the proposed augmentation of the SBA and additional financing from the World Bank, this would be sufficient to close the 2009 financing gap (Table 7).[4] Structural reform, notably a stepped up privatization program, will improve the prospects for growth and the balance of payments in 2010 and in the medium term.

Closing the 2009 Financing Gap

Measures	Impact (billions of U.S. dollars)
5 percent exchange rate depreciation	0.51
Monetary and fiscal policy tightening	
Currency substitution decline (in response to increased interest rates)	0.38
Reduced domestic demand	0.61
Total	1.50
Additional external financing	Amounts (billions of U.S. dollars)
Augmentation of SBA	0.75
World Bank Development Policy Loan	0.20
Total	0.95

Source: IMF staff estimates.

10. **These policies, which are described in more detail below, are expected to stabilize the economy, increase reserves and ensure medium-term sustainability.** GDP in 2009 would contract by about 3 percent, reflecting the adverse external environment and declining domestic demand, but with some restoration of external competitiveness, the economy would recover faster in 2010 to about 2½ percent. In the medium term, as structural reforms take root, growth would increase. Inflation would fall to 11 percent at the end of 2009, as tighter monetary policy more than offsets the impact of more depreciation, and would fall to single digits from 2010 onward. Improved competitiveness, stemming from increased exchange rate flexibility and structural reforms, combined with fiscal discipline ensures medium-term sustainability through stronger current account balances and low public debt. The improvement in the external current account and inflow of privatization-induced FDI would lead to increased reserves coverage.[5]

[4] Because the measures will affect the balance of payments only over time, a further fall in NIR is projected for end-June. However, NIR is expected to stabilize and (with the augmentation from the Fund) gross reserves will increase in the second half of the year, so that by end-December reserves would reach the level originally targeted in the program.

[5] A financing gap of about $820 million would remain beyond the program period in 2010. This could be filled by additional bilateral and multilateral financing.

B. Exchange Rate and Monetary Policies

11. **The exchange rate depreciation will facilitate adjustment of the current account and alleviate pressure on reserves (Box 1).** Maintaining the rate at the current central parity would not address the competitiveness issue that has emerged, and in the long run would not allow the maintenance of exchange rate stability as this ultimately depends on the balance of payments being sustainable. The authorities have therefore taken advantage of the flexibility embedded in the current exchange rate band by depreciating by nearly 5 percent relative to the central parity in May-June. The updated stress test on banks shows that the effects of this adjustment on commercial banks are manageable (Box 2).

12. **The NBRB plans to tighten monetary policy to support the necessary external adjustment.** Broad money and reserve money growth in 2009 will be lower than in the original program, due to lower projected output and some increase in velocity. Reflecting this, the NDA targets have been revised upward, but by less than the rubel equivalent of the projected shortfall in NIR (quantitative PC, LOI ¶11 and LOI Table 2). Central bank credit to commercial banks and credit to the economy would grow in nominal terms, but real growth in credit to the economy would still be close to zero. Slowing domestic demand would support external adjustment.

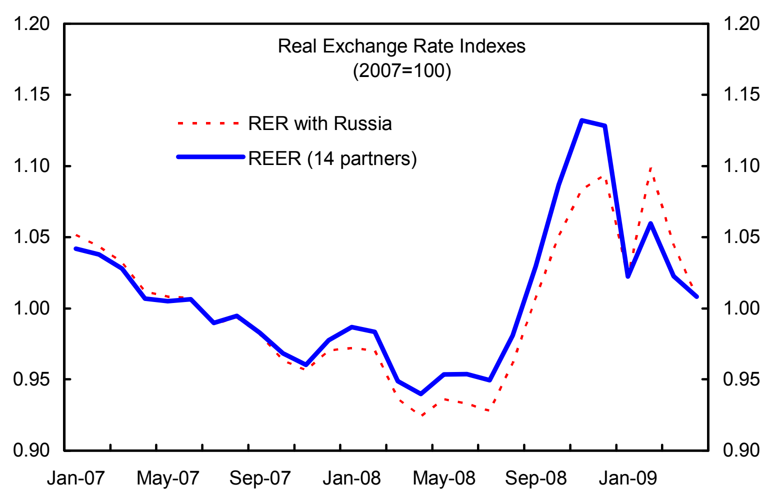
13. **To support tighter monetary policy, the NBRB will also act to increase interest rates.** To increase the spread between rubel and foreign exchange interest rates and facilitate a switch back to rubel deposits, the NBRB has recommended that commercial banks raise rubel interest rates on new term deposits of households to levels 2 percentage points above average levels for March, and has reversed the 2 percentage point cut in the interest rate on overnight lending by the central bank (which forms the upper limit of the interest rate corridor) (prior actions, LOI ¶11 and LOI Table 3). The NBRB will also manage liquidity in Lombard auctions to ensure that tight NDA targets are met. Interest rates could be gradually reduced as confidence is restored and exchange market stability is achieved.

Box 1. Real Effective Exchange Rate: How Much Adjustment is Enough?

External stability requires a credible exchange rate regime supported by a consistent domestic policy mix. The staff's analysis suggests that the depreciation in the nominal exchange rate that has taken place during May and June, if supported by strong domestic policies, will be sufficient to alleviate pressures on international reserves and restore external stability.

Based on the exchange rate prevailing at end-April and the authorities' policy intentions at that time, standard exchange rate assessments suggested that the real effective rate was marginally above its equilibrium level. The current account norm for Belarus was estimated at -3.6 to -4.7 percent of GDP (Box 1 in IMF Country Report No. 09/109, page 11), and the current estimate of the underlying current account deficit was close to 6 percent of GDP. Based on this assessment, the REER was 4–6.5 percent above its equilibrium level. Given the changing macroeconomic environment and recent policy measures, the assessment of the exchange rate may change once the situation stabilizes.

The strengthening of polices in the program, combined with the adjustment of the nominal exchange rate since end-April brings the REER close to the medium-term equilibrium level. At the end of April, the real effective exchange rate, which is a basic indicator of price competitiveness of Belarusian exports, was only 6 percent above its pre-crisis (July 2008) level. The depreciation of the rubel within the exchange rate band since then, as well as recent sizeable appreciation of the Russian ruble, is sufficient to fully offset the real appreciation observed since August 2008. Prudent wage policies envisaged under the program would restrain wage costs and, combined with tight monetary polices to keep inflation low, will boost the competitiveness of Belarusian products. Thus, the combination of adjustment measures envisaged in the program would result in a sustainable medium-term current account.



Source: IMF staff estimates.

Box 2. Banking System Stress Tests

Stress tests based on end-March data indicate that while the capital adequacy ratio would remain above prudential norms under most shock assumptions, a run on deposits would threaten banking system stability.

Sensitivity tests indicate that regulatory capital would deteriorate in case of a sizeable increase in NPLs but still remain above its statutory norm, and that the direct market risks would be limited. The capital adequacy ratio (CAR) would remain above 13 percent after an increase in nonperforming loans by 15 percentage points, close to 20 percent after a 20 percent devaluation and close to 20 percent after a 3 percent upward shift in the rubel yield curve. The table below illustrates the impact on banks by ownership type.

Stress-tests based on macro scenarios suggest that CARs can withstand the policies agreed in the revised program well, but would deteriorate significantly in a scenario with stronger depreciation. Under agreed policies (a modest depreciation, a 2 percent increase in rubel deposit rates and a 5 percentage points increase in NPLs), the CAR would remain above statutory norms in all banks with the system-wide ratio of above 17 percent. In a more drastic scenario (20 percent depreciation, 5 percent increase in the rubel interest rates and a 10 percentage points increase in NPLs), CARs in three banks—representing 12 percent of the total banking system assets—would fall below the norm while the system-wide ratio slide to 15 percent. As current CARs are most likely overstated given imperfections in current loan classification (which is to be remedied by September), a reduction in the CAR by 5 percent in the second scenario poses considerable risk to financial system stability, indicating the need for contingency plans.

CAR Stress Tests, end-March 2009

	Actual	Sensitivity Tests			Macroeconomic Scenarios	
		15 pp increase in NPL	20 percent depreciation	Rubel interest rates increase by 300 bp	Adjustment scenario	Devaluation scenario
Total banking system	20.1	13.8	20.0	19.8	17.6	15.1
State owned banks	19.5	13.0	19.2	19.1	17.1	15.0
Foreign owned banks	21.2	15.6	22.1	21.5	18.3	14.6
Private banks	32.1	28.1	32.3	31.8	31.0	29.1

A major vulnerability of Belarus's banking system stems from the precarious liquidity situation. The liquidity stress tests indicate that a 10 percent withdrawal of rubel liabilities would bring the ratio of liquid to total assets below the statutory norm in 4 banks (70 percent of banking system assets). Two banks (45 percent of the banking system assets) would not comply with the current liquidity norm. Also, the system-wide short-term liquidity ratio would fall to 83 percent (against the statutory norm of 100 percent). "Deposit-switching"—similar to what was observed after January devaluation—would be less detrimental for liquidity condition, but would increase foreign exchange exposure (many banks would not comply with the norms on the net open foreign exchange position). Raising the average interest rate on rubel deposits as well as reducing devaluation expectations are expected to stimulate accumulation of rubel deposits and alleviate banks' liquidity problems.

Liquidity Stress Tests, end-March 2009

	Aggregated Liquidity Ratios 1/				Distribution of Banks' Individual Liquidity Ratios					
	All	SOB	FB	PB	Number			Share in total assets		
Current liquidity ratio (prudential minimum: 70)					0-70	70-100	>100	0-70	70-100	>100
Actual	112	97	153	166	0	4	27	0	48	52
Stressed: withdrawal of 10 percent of domestic liabilities	90	69	148	153	2	4	25	46	27	28
Stressed: withdrawal of 25 percent of liabilities to non-residents	78	59	109	179	8	4	19	77	3	21
Ratio of liquid assets to total assets (prudential minimum: 20)					0-20	20-30	>30	0-20	20-30	>30
Actual	21	18	32	37	2	7	22	63	13	24
Stressed: withdrawal of 10 percent of domestic liabilities	17	13	29	34	4	11	16	70	17	13
Stressed: withdrawal of 25 percent of liabilities to non-residents	20	17	23	56	10	4	17	86	9	6

1/ Sub-groups by ownership are state owned banks (SOB), foreign banks (FB) and private banks (PB).

C. Fiscal Policy

14. **Revenue is projected to be lower than programmed by 5½ percent of GDP as a result of adverse exogenous shocks**. The reduction of revenue from customs duties on oil exports (3 percent of GDP) reflects the significant cut in rate applied by Russia. Profit tax, personal income tax, and VAT collections will be affected by lower profits, income, and consumption. Tax reforms, which are being implemented to improve the structure of the tax system and to reduce the burden of taxation on enterprises, will cause further revenue losses. The profit tax rate will be reduced by 4 percentage points to 20 percent (0.7 percent of GDP), and several small taxes and fees will be eliminated, including the local sales tax on goods and services (½ percent of GDP). To contain the revenue shortfall, the VAT rate will be increased by 4 percentage points (1 percent of GDP), and the authorities plan to reduce exemptions.[6] In addition, excise rates on selected goods were raised by 10 percent in June. The staff believes that the revenue measures taken by the authorities are an appropriate response to the crisis. The reduced profit tax rate will support domestic production through better profitability, while the higher VAT rate will support revenue. In the context of the authorities' medium-term reform program to reduce the tax burden, consideration could be given to reducing the VAT rate to levels applied in the region. Revenue losses from this could be offset by reducing exemptions and the number of goods subject to lower VAT rates.

15. **Expenditure cuts will focus on investment and other untargeted current expenditures**. Public investment will decline by 4 percentage points of GDP compared with 2008, due to a stricter selection of projects guided by the completion rate of projects and the need to safeguard investment in social and growth-enhancing sectors. Savings on goods and services (1 percent of GDP) will be achieved by rationalization measures. The authorities also decided to postpone any wage increase to September at the earliest (0.2 percent of GDP). However, with World Bank support, targeted social assistance programs will be improved to shield the poorest from the impact of the crisis by (i) increasing the income eligibility threshold; (ii) extending the duration of the assistance; and (iii) including into these programs the housing and utility allowance program. The staff welcomed the measures taken by the authorities, and called on them to reduce generalized subsidies on interest rates, utilities and transportation, and scale up income-based targeted assistance. In that regard, World Bank assistance will be important.

16. **The coverage of the performance criterion is expanded to cover local governments (quantitative PC—LOI ¶12 and LOI Table 2)**. The original program was designed based on the assumption that local governments' budgets will also be balanced. However, local governments accumulated surpluses in 2008, which they are entitled to use to finance expenditure in 2009. To reflect the full effect of fiscal policy on the economy, the authorities and staff agreed to base the revised target on the general government balance, but

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[6] The estimates of the impact of revenue measures are for 2009 only. Full-year effects would be greater.

to include an adjustor capped at 1 percent of GDP, for local governments' deficits. The budget target will also now include the Social Protection Fund, which is projected to be in balance for the year as a whole.

D. Deepening Structural Reform

17. **The original program contained several important structural measures in the areas of financial sector reform and of price liberalization.** Key measures in the financial sector included the elimination of new directed lending financed with government deposits (continuous structural benchmark—LOI ¶17, bullet 2); starting the process of privatizing the state-owned banks (structural benchmark—LOI ¶17, bullet 3); and a commitment to bring loan classification and provisioning into line with international best practices. The program also included measures to promote price and wage liberalization, notably the discontinuation of the ½ percent ceiling on monthly price increases (structural benchmark—LOI ¶2, bullet 4). Each of these was reflected in structural benchmarks.

Prior Actions and Structural Benchmarks

Original Program	First Review	Justification for New Conditions
I. Prior Actions		
Re-peg the exchange rate to a basket of currencies consisting of the U.S. dollar, the Russian ruble and the Euro, and apply a band of ± 5 percent around the central parity (met).	Raise the NBRB overnight credit rate by 2 percentage points to 22 percent.	To tighten monetary policy by raising the cost of the NBRB lending facilities which also influences the interbank rate.
Eliminate additional deposit transfers from the central and local governments to commercial banks (met).	Recommend to commercial banks that they maintain an average interest rate on new term deposits of households of at least 21.6 percent, 2 percentage points higher than the average level for March 2009.	To facilitate a switch from foreign exchange to rubel deposits, as well as support a tighter monetary policy.
Legal approval of a central government budget with a zero deficit by a Presidential decree (met).		
Limit the wage increase for budgetary workers in November 2008 to 5.3 percent (met).		
Abolish the interest rate ceiling for rubel lending to the corporate sector by the President adopting an appropriate Resolution (met).		
II. Structural Benchmarks		
Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization.	Retained.	
Eliminate the regulatory act imposing a general ceiling on monthly prices increases of ½ percent.	Met.	
In line with FSAP recommendations, bring loan classification practices in line with best international practices.	Retained. Method of implementation agreed.	
Refrain from approving any new directed lending programs financed with budget deposits (continuous).	Retained.	
	Submit to the Head of State a draft Decree on establishing a Privatization Agency.	To add impetus to the authorities' privatization program by raising the status and clarifying the powers and mandate of the unit in charge of privatization.
	Prepare draft amendments and supplements to the Statute of the NBRB with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB.	A critical foundation for ensuring the effectiveness of the NBRB's internal and external audit mechanisms and the control systems, based on the Safeguards Assessment.

18. **The revised program goes beyond this in several respects.**

- ***A stepped-up privatization effort***. The government, working with the World Bank, will submit a draft Privatization Law to Parliament by September 2009 (structural benchmark—LOI ¶21). They will also submit to the President, by September, a draft decree on establishing a Privatization Agency charged with preparing enterprises for privatization, with power to hire advisors from banks, accounting firms, and other private companies to support the process. The Agency, once established, will consult with the World Bank and identify, by November 2009, five large SOEs as candidates for privatization. It will further select a reputable financial advisor to facilitate the process, with the aim of offering the controlling stakes in these SOEs for sale through an open, international, transparent, and competitive tender by February 2010.

- ***Improving NBRB governance.*** To address weaknesses in the NBRB's legal framework and accounting procedures identified in the Safeguards Assessment, the authorities have agreed to take several measures. The most important are: (i) adopting by end-2009 amendments and supplements to the NBRB Statute and the Banking Code aimed at improving the NBRB's financial and operational independence (structural benchmark—¶19); and (ii) commissioning quarterly audits of the data underlying the NIR and NDA performance criteria. An audit of the end-March data has already been conducted, and minor inconsistencies in the calculation of exchange rates have been corrected.

- ***Improving the regulatory and supervisory frameworks.*** Assisted by Fund TA, the NBRB has agreed specific measures to bring loan classification in line with international practices (structural benchmark—LOI ¶16, bullet 3). This measure will allow an objective assessment of financial sector soundness.

- ***Structural reforms supporting business and investment.*** The authorities are committed to reducing further the list of social goods and services subject to administrative price controls. They will also take steps to stop the application of mandatory wage policy and output and employment targets to companies in which the government has a minority shareholding.

E. Risks

19. **There are risks that a further deterioration in the global outlook or a substantial depreciation of the Russian ruble could worsen the balance of payments**. If the global recession is longer or deeper than projected, Belarus's exports, output and fiscal revenue will be hit harder. If the Russian ruble depreciates again, Belarus could be caught in the same situation as in January, with appreciation against the Russian ruble causing problems in the current account, and depreciation against the dollar reducing confidence in the currency. On the other hand, there are upside risks to the global outlook, and the Russian ruble could appreciate further. Moreover, the authorities have shown that they have the capacity to take

additional measures if necessary to ensure the achievement of the program objectives, and the authorities have committed to use the flexibility available to them under their exchange rate regime and to tighten monetary policy as necessary to minimize reserve losses**.**

20. **Risks from a shortfall in projected external finance are limited.** The only finance expected to come in under the program is the final $500 million of a $2 billion loan from Russia, which the Russian authorities have indicated that they expect to disburse in 2009, and a $200 million Development Policy Loan from the World Bank. Belarus has also agreed a swap agreement with China for close to $3 billion. However, the impact on the balance of payments is expected to be limited, as this is essentially a mutual trade finance agreement, and Belarus's trade deficit with China is modest. Rollover rates on commercial debt need to be monitored closely, though the remaining repayments falling due in 2009 are only about $1 billion. A greater risk comes from additional currency substitution, though higher deposit interest rates will help to mitigate this risk. There is also the possibility of Belarus obtaining more financial support. In particular, Belarus's new membership of the EU's Eastern Partnership increases opportunities for closer trade and financial ties with, and financial support from, the European Union.

21. **Policy slippages pose a greater risk.** The authorities' response to the crisis has not always been consistent or orthodox. The government has clung too long to output targets and revenue projections framed in 2008, distorting the activities of state enterprises, and complicating economic policy making.[7] Some policies, while unorthodox, have been a sensible reaction to the crisis, for example, instituting shorter working weeks and unpaid vacations to avoid laying off workers. On the other hand, another anti-crisis measure, increased recourse to subsidized credit for construction, has budgetary costs, and if extended too broadly could crowd out lending to the private sector. The authorities have agreed to consult closely with staff on policies in the remainder of the program. The Article IV Consultation, which will take place at the same time as the second review, will also offer an opportunity to discuss policies in a broader context.

III. Program Modalities, Capacity To Repay and Safeguards Assessment

22. **The attached Letter of Intent describes the authorities' progress in implementing their economic program, and sets out policy commitments for 2009 and beyond**.

[7] For example, the revised budget still contains outdated revenue projections aimed at encouraging ambitious collection efforts. Spending by line ministries is capped in accordance with agreed projections, with the difference between the inflated revenue projections and the realistic expenditure limits being put into the Presidential Reserve Fund. The authorities have agreed that should higher revenue materialize, spending from this fund would be on items (especially investment spending) already approved by parliament in the previous budget.

- The authorities request a waiver of nonobservance of the end-March NIR performance criterion, based on corrective actions taken or planned in response to less favorable external environment, including allowing depreciation of the exchange rate within the band and tightening monetary policy.

- The authorities, following discussion with staff, also request a modification of the performance criteria for end-June 2009 to reflect the revised macroeconomic framework. The LOI also sets performance criteria for end-September 2009, as well as indicative targets for end-December 2009.

- The authorities agreed to establish some of their reform commitments as new structural benchmarks. Specifically, the authorities will submit to the Head of State a draft decree on establishing a Privatization Agency, by September 30, 2009 (LOI ¶21). Also, following the safeguards assessment recommendations, the authorities will prepare, by end-December 2009, amendments to the NBRB Statute and the Banking Code in consultation with the Legal Department of the Fund to ensure the operational and financial independence of the NBRB (LOI ¶19).

23. **Based on the policy adjustments described above, the authorities requested an augmentation of the SBA by $1 billion.** Spread evenly across the remaining disbursements, this would close the financing gap in 2009. The augmentation would result in total access of 587 percent of quota, of which 474 percent of quota would be disbursed in 2009. The staff's assessment is that Belarus meets the exceptional access criteria (Box 3), and the program would leave Belarus in a position to discharge its obligations to the Fund in a timely manner.

Schedule of Purchases Under the Augmented Stand-By Arrangement

	Amount of Purchase		Conditions
Date Available	Millions of SDRs	Percent of quota	
January 12, 2009	517.798	134.006	Board approval of Stand-by Arrangement (completed)
May 15, 2009	437.930	113.336	Observance of end-March 2009 performance criteria and completion of first review
August 15, 2009	437.930	113.336	Observance of end-June 2009 performance criteria and completion of second review
November 15, 2009	437.930	113.336	Observance of end-September 2009 performance criteria and completion of third review
February 15, 2010	437.929	113.336	Observance of end-December 2009 performance criteria and completion of fourth review
Total	**2,269.517**	**587.349**	

Source: IMF staff calculations.

Box 3. Exceptional Access Criteria

Belarus's exceptional financing needs stem from the current account shocks it is experiencing, with the situation aggravated by capital account pressures. In such cases the Fund's exceptional access framework requires the proposed access be justified in light of all four of the following substantive criteria. Based on staff assessment, Belarus meets all the criteria.

Criterion 1—The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits. Belarus is currently experiencing exceptional current account pressures from a sharp decline in its exports, stemming from the global financial crisis. Lower rollover of bank credit and faltering prospects for FDI are expected to result in a significant decline in capital inflows. Supporting the authorities' adjustment program and rebuilding the reserves position requires Fund financing beyond normal access levels.

Criterion 2— A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term (Appendix Tables I.1–I.2). Preliminary calculations by staff indicate that there is a high probability that debt will remain sustainable. Belarus's public debt—about 14 percent of GDP in 2008—is low. Furthermore, curtailed access to debt financing and the expected adjustment in the current account would help maintain public debt at sustainable levels. Standard tests indicate that Belarus's debt situation remains manageable even with a further 30 percent depreciation.

Criterion 3—The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding. Belarus's primary sources of financing are: access to bilateral loans, access of foreign bank subsidiaries to their parents banks, and FDI. Successful implementation of the program could allow Belarus to gain access to private capital markets, including through the sale of shares of enterprises to be privatized, by the time repurchase obligations to the Fund become due. A structural benchmark aimed at improving the privatization process has been added for the completion of the first review. In addition, the current account adjustment and expected recovery in Belarus's main trading partners should place the economy on a stronger footing by the end of the SBA.

Criterion 4—The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment. The policies supported by the SBA suggest a strong prospect for success. The authorities continue to take strong policy measures, including further exchange rate adjustment, and are committed to a balanced budget, which demonstrate the authorities' commitment and capacity to deliver. Risks to the program and ways in which these risks can be mitigated are discussed in paragraphs 19-21.

24. **The proposed access is high, but Belarus's capacity to repay the Fund is adequate (Tables 8–10).** The level of Fund credit outstanding (including the requested augmentation) will be almost 48 percent of gross reserves at its peak in 2010. However, Belarus's relatively low levels of external debt and the absence of outstanding Fund exposure prior to the current SBA mitigate risks to the Fund. Additional comfort stems from the fact that the low levels of public debt reflect the government's longstanding commitment to macroeconomic stability, reflected in sound fiscal policy.

25. **The updated safeguards assessment of the NBRB was completed in May 2009.** The assessment found that risks have increased since the voluntary 2004 assessment. The safeguards report recommends: (i) the adoption of a new law that provides operational and financial independence for the NBRB to ensure the effectiveness of the NBRB's internal and external audit mechanism and the control systems; (ii) special audits of NIR and NDA data to reduce the risk of misreporting; (iii) divestiture of NBRB's investment in non-financial subsidiaries; and (iv) publication of the audited IFRS financial statements. The NBRB concurred with the assessment's main findings and recommendations, and is taking concrete steps to address the weaknesses.

IV. Staff Appraisal

26. **The program approved in January was strong, but it was quickly overtaken by events.** The key measures in the program—the initial devaluation and re-pegging of the rubel to a basket of currencies; the tightening of monetary policy; and the agreements on a balanced budget and wage restraint—have been essential in maintaining stability. Belarus would have been in a much worse position without them. But the beneficial effects of these policies have been reduced by a sharp fall in external demand and by cross-currency movements which damaged competitiveness and made it difficult to establish exchange rate stability.

27. **The authorities were sometimes hesitant in responding to shocks, but have also demonstrated their commitment to the program in difficult circumstances.** The authorities' initial reactions to the external shock—allowing exchange rate appreciation within the band while they were losing reserves, and delaying adjustment to falling external demand by allowing inventory accumulation—were less than assured. However, they have shown resolve in ensuring that the fiscal and NDA targets were met, have been receptive to staff advice, and recently have shown a strong capacity to adjust their policies.

28. **The authorities' adjustment strategy, based on using all policy instruments to reduce the financing gap, is well founded.** The authorities could have chosen a different policy mix, for example one which placed less reliance on fiscal adjustment and involved a larger adjustment in the exchange rate. However, they took the view that both the balanced budget and continuity in the exchange rate regime were important for public confidence.

Having chosen this strategy, they have been prepared to undertake the adjustment needed in each of the policy areas to make the strategy a success.

29. **In addition to the traditional instruments of adjustment, authorities' strategy includes stepped-up efforts towards liberalizing the economy and preparing for privatization.** The authorities have already lessened the extent of price controls and restrained their involvement in the functioning of the financial system. More efforts are planned—the authorities' plan to set up a privatization agency is an important step forward.

30. **Strong implementation of policies will now be essential.** The authorities must be prepared to use the flexibility that their exchange rate regime permits to the extent necessary to protect reserves. They must resist the temptation to reduce interest rates before confidence in the currency has been established. They must be prepared to keep credit and expenditure tight even if there is domestic pressure to loosen policies prematurely. The reward for such consistency will be greater credibility, and greater freedom of action in macroeconomic policy over the longer term.

31. **Serious risks remain, but there are also encouraging signs.** It is notable that many of the risks identified when the program was approved have materialized—including sharp cross-currency movements and a sharper slowdown in Belarus's major trading partners. These risks remain, although they seem to have receded recently. The greatest risk to the program is now likely to be inconsistent policy implementation. The authorities' desire to mitigate the worst consequences of the global crisis on their businesses and workers is clear. But they need to be careful not to use mechanisms which will add to problems instead of solving them. In this regard, the authorities should limit their use of subsidized lending, which has significant budgetary costs and could crowd out lending at market rates. On the other hand, the intensification of privatization efforts offers the prospect of improvements to productivity in enterprises that are privatized and in enterprises whose managers are preparing for privatization, and of improvements in the balance of payments from higher foreign direct investment. It is important that the authorities follow through on their intentions to pursue this and other structural reforms. The upcoming Article IV Consultation, which will coincide with the second program review, will have a special focus on structural reform.

32. **The staff supports the authorities' request for completion of the first review under the Stand-By Arrangement and for an augmentation of the arrangement.** The staff also supports the authorities' request for a waiver of the end-March NIR performance criterion and for modification of the end-June performance criteria. The staff welcomes the authorities' renewed commitment to exchange rate flexibility and monetary tightening, their continued commitment to fiscal adjustment, and their willingness to deepen structural reform policies. The staff believes that completion of the first review and augmentation of the arrangement by $1 billion is warranted given the increase in the financing gap and the strong efforts the authorities are making to solve their problems.

Table 1. Belarus: Selected Economic Indicators, 2007–14

(Adjustment Scenario)

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Rev. Prog.	Prog.	Proj.	Proj.			
	(Annual percentage change, unless otherwise specified)									
National accounts										
Real GDP	8.6	10.0	1.4	-3.3	2.3	2.6	4.1	5.1	6.0	7.0
Total domestic demand	13.5	16.1	-2.2	-4.7	1.3	1.8	3.0	5.5	7.2	8.6
Consumption	9.7	12.2	-0.7	-3.5	1.4	1.8	2.2	4.5	6.1	8.1
Private	13.4	15.9	-1.0	-2.0	1.5	1.0	2.0	4.9	6.9	9.4
Public	-0.5	0.3	0.0	-9.0	1.0	5.0	3.0	3.0	3.0	3.0
Investment	21.9	23.9	-4.9	-7.0	1.0	1.8	4.6	7.4	9.3	9.3
Of which: fixed	21.1	23.1	-5.0	-8.0	1.0	2.0	5.0	8.0	10.0	10.0
Net exports 1/	-1.5	-7.7	3.9	2.2	0.9	0.5	0.7	-1.1	-2.1	-2.7
Consumer prices										
End of period	12.1	13.3	11.5	11.0	8.0	6.8	6.8	6.8	6.8	6.8
Average	8.4	14.8	15.7	13.5	6.1	6.7	6.8	6.8	6.8	6.8
Monetary accounts										
Reserve money	38.4	11.7	14.5	-9.0	…	14.3	…	…	…	…
Rubel broad money	35.0	22.5	16.9	-3.2	…	21.5	…	…	…	…
Credit growth to the economy at program exchange rate	…	53.6	11.7	11.0	…	10.5	…	…	…	…
	(Percent of GDP)									
External debt and balance of payments										
Current account	-6.8	-8.4	-5.4	-7.8	-3.6	-5.5	-4.7	-3.9	-3.5	-3.0
Trade balance	-9.0	-10.1	-8.7	-10.1	-7.4	-8.0	-7.4	-6.9	-7.0	-6.7
Exports of goods	53.7	54.8	52.5	51.3	54.1	54.4	55.2	55.8	56.1	56.4
Imports of goods	-62.7	-64.9	-61.2	-61.4	-61.5	-62.3	-62.6	-62.7	-63.1	-63.1
Gross external debt	27.7	24.5	32.4	38.8	33.9	40.4	37.7	34.7	31.6	29.5
Public 2/	6.5	6.9	11.8	17.0	13.1	19.6	18.3	16.2	13.1	10.9
Private (mostly state-owned-enterprises)	21.2	17.6	20.6	21.7	20.8	20.8	19.4	18.5	18.5	18.6
Savings and investment										
Gross domestic investment	34.1	36.4	32.9	34.2	32.8	34.0	34.1	34.8	35.8	36.5
Public	8.5	10.1	8.0	6.2	9.5	6.3	6.3	6.3	6.3	6.3
Private	25.6	26.4	24.9	28.0	23.3	27.7	27.8	28.5	29.5	30.2
National saving	27.3	28.1	27.5	26.4	29.2	28.5	29.5	31.0	32.3	33.6
Public	8.9	11.4	8.3	6.2	8.8	5.6	5.1	5.6	6.1	6.6
Private	18.4	16.6	19.2	20.2	20.4	22.9	24.3	25.3	26.2	27.0
Public sector finance										
Republican and local government balance	-0.6	0.0	0.0	0.0	-1.0	-1.0	-1.5	-1.0	-0.5	0.0
General government balance	0.4	1.4	0.3	0.0	-0.7	-0.7	-1.2	-0.7	-0.3	0.3
Revenue	49.5	51.0	48.9	43.2	48.5	44.1	42.7	42.5	42.3	42.2
Expenditure	49.0	49.6	48.6	43.2	49.2	44.8	43.9	43.2	42.5	41.9
Of which										
Wages	8.0	6.7	6.4	6.5	6.4	6.5	6.2	6.2	6.2	6.2
Subsidies and transfers	10.5	11.6	9.6	10.0	8.8	9.2	8.8	8.4	8.0	7.6
Investment	8.5	10.1	8.0	6.2	9.5	6.3	6.3	6.3	6.3	6.3
	(Annual percentage change, unless indicated otherwise)									
Memorandum items:										
Nominal GDP (trillions of rubels)	97.2	128.8	151.6	145.2	166.0	161.8	183.3	209.7	242.0	281.7
Term of trade	-1.6	9.2	-3.5	-1.1	1.6	2.8	-0.4	2.3	2.5	3.7
Real effective exchange rate	-4.5	0.6	-4.8	0.3	-3.5	-3.7	-2.5	-1.3	0.3	0.3
Official reserves (billions of U.S. dollars)	4.2	3.1	5.2	5.2	8.1	7.3	8.5	10.3	12.5	15.8
Official reserves (months of imports of goods and services)	1.6	0.9	1.7	1.9	2.3	2.4	2.5	2.7	2.8	3.0
Official reserves (percent of short-term debt)	56.8	42.9	62.2	74.5	91.5	99.5	112.1	127.0	142.1	163.4

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.

2/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 2. Belarus: Balance of Payments, 2007–14

(Adjustment Scenario)

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Rev. Prog.	Prog.	Proj.	Proj.			
					(Millions of U.S. dollars)					
Current account	-3,060	-5,049	-3,116	-3,864	-2,276	-2,955	-2,831	-2,684	-2,834	-2,775
Trade balance (goods)	-4,071	-6,111	-4,928	-5,009	-4,627	-4,282	-4,510	-4,785	-5,679	-6,298
Energy balance	-1,705	-1,770	-2,580	-1,991	-2,502	-1,175	-2,263	-2,170	-2,351	-2,520
Nonenergy balance	-2,366	-4,342	-2,349	-3,018	-2,125	-3,107	-2,247	-2,614	-3,327	-3,778
Exports	24,329	33,043	30,060	25,398	33,881	29,155	33,567	38,924	45,183	52,915
Of which: energy exports	8,278	12,112	7,477	8,563	9,174	10,368	11,526	12,632	13,630	14,744
Imports	-28,400	-39,155	-34,988	-30,406	-38,508	-33,437	-38,077	-43,708	-50,862	-59,213
Of which: energy imports	-9,983	-13,881	-10,057	-10,554	-11,675	-11,543	-13,790	-14,802	-15,981	-17,263
Services	1,233	1,660	2,343	1,698	3,048	1,921	2,474	3,201	4,126	5,016
Receipts	3,254	4,260	4,882	3,663	5,907	4,088	4,877	6,062	7,578	9,167
Payments	-2,021	-2,601	-2,539	-1,965	-2,859	-2,167	-2,403	-2,861	-3,452	-4,151
Income, net	-411	-789	-798	-821	-961	-858	-1,048	-1,391	-1,617	-1,885
Transfers, net	189	192	267	267	264	264	254	291	336	392
Capital and financial accounts	5,292	3,816	2,130	3,036	3,983	4,359	4,094	5,005	6,704	7,238
Capital account	92	143	125	125	190	180	124	142	164	191
Financial account	5,200	3,673	2,005	2,911	3,793	4,179	3,970	4,864	6,540	7,047
Overall FDI, net	1,770	2,143	1,523	1,517	2,011	2,302	2,544	3,011	3,717	3,804
Portfolio investment, net	-39	8	20	29	0	0	0	0	0	0
Trade credits, net	690	-50	250	570	450	400	100	100	100	100
Loans, net	3,541	2,085	-203	897	1,124	831	1,068	1,492	2,460	2,870
Government and monetary authorities, net	1,956	1,266	121	1,327	581	581	640	691	908	833
Banks, net	966	603	-253	-568	152	252	158	274	576	812
Other sectors, net	619	519	-71	137	390	-3	271	526	976	1,225
Other (excluding arrears), net 1/	-763	-514	416	-103	208	647	258	261	263	273
Of which: currency substitution	…	-250	580	-553	200	640	0	0	0	0
Errors and omissions	505	106	250	0	250	0	0	0	0	0
Overall balance	2,737	-1,127	-736	-828	1,957	1,404	1,263	2,321	3,871	4,463
Financing	-2,737	1,127	736	828	-1,957	-1,404	-1,263	-2,321	-3,871	-4,463
Reserves ("-" denotes an increase)	-2,778	1,003	-2,339	-2,143	-2,382	-2,061	-1,263	-1,778	-2,228	-3,280
Net use of Fund resources	0	0	2,075	2,771	425	657	0	-544	-1,642	-1,183
Other donors and exceptional financing items 2/	42	124	1,000	200	0	0	0	0	0	0
Memorandum items:										
Stock of reserves	4,182	3,061	5,204	5,204	8,085	7,265	8,528	10,305	12,534	15,814
Shortfall in gross reserves	...	...	...	0	...	820	...	...	...	...
Reserves in months of imports of goods and services	1.6	0.9	1.7	1.9	2.3	2.4	2.5	2.7	2.8	3.0
Reserves as a percentage of short-term debt	56.8	42.9	62.2	74.5	91.5	99.5	112.1	127.0	142.1	163.4
Real effective exchange rate (period average), ("+" denotes appreciation)	-4.5	0.6	-4.8	0.3	-3.5	-3.7	-2.5	-1.3	0.3	0.3
Export volume, percent change	5.2	1.7	3.1	-7.7	1.8	1.6	6.1	6.9	7.1	6.7
Import volume, percent change	7.2	14.6	-3.2	-10.5	0.2	0.4	4.2	7.6	9.2	9.6
Domestic demand growth, in percent	13.5	16.1	-2.2	-4.7	1.3	1.8	3.0	5.5	7.2	8.6
Partner country growth (in percent)										
Russia	8.1	5.6	-1.0	-6.0	0.0	0.5	3.4	4.5	4.8	5.0
EU	3.1	1.1	…	-4.0	…	-0.3	1.7	2.4	2.6	2.7

Table 2. Belarus: Balance of Payments, 2007–14 1/ (concluded)

(Adjustment Scenario)

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Rev. Prog.	Prog.	Proj.	Proj.			
					(Percent of GDP)					
Current account	-6.8	-8.4	-5.4	-7.8	-3.6	-5.5	-4.7	-3.9	-3.5	-3.0
Trade balance	-9.0	-10.1	-8.6	-10.1	-7.4	-8.0	-7.4	-6.9	-7.0	-6.7
Of which: energy balance	-3.8	-2.9	-4.5	-4.0	-4.0	-2.2	-3.7	-3.1	-2.9	-2.7
Nonenergy balance	-5.2	-7.2	-4.1	-6.1	-3.4	-5.8	-3.7	-3.8	-4.1	-4.0
Exports	53.7	54.8	52.5	51.3	54.1	54.4	55.2	55.8	56.1	56.4
Of which : energy exports	18.3	20.1	13.1	17.3	14.6	19.3	18.9	18.1	16.9	15.7
Imports	-62.7	-64.9	-61.2	-61.4	-61.4	-62.3	-62.6	-62.7	-63.1	-63.1
Of which: energy imports	-22.0	-23.0	-17.6	-21.3	-18.6	-21.5	-22.7	-21.2	-19.8	-18.4
Capital and financial accounts	11.7	6.3	3.7	6.1	6.4	8.1	6.7	7.2	8.3	7.7
Capital account	0.2	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Financial account	11.5	6.1	3.5	5.9	6.1	7.8	6.5	7.0	8.1	7.5
Overall FDI	3.9	3.6	2.7	3.1	3.2	4.3	4.2	4.3	4.6	4.1
Portfolio investment, net	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits, net	1.5	-0.1	0.4	1.2	0.7	0.7	0.2	0.1	0.1	0.1
Loans, net	7.8	3.5	-0.4	1.8	1.8	1.5	1.8	2.1	3.1	3.1
Government and monetary authorities, net	4.3	2.1	0.2	2.7	0.9	1.1	1.1	1.0	1.1	0.9
Banks, net	2.1	1.0	-0.4	-1.1	0.2	0.5	0.3	0.4	0.7	0.9
Other sectors, net	1.4	0.9	-0.1	0.3	0.6	0.0	0.4	0.8	1.2	1.3
Other (excluding arrears), net 1/	-1.7	-0.9	0.7	-0.2	0.3	1.2	0.4	0.4	0.3	0.3
Errors and omissions	1.1	0.2	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Overall balance	6.0	-1.9	-1.3	-1.7	3.1	2.6	2.1	3.3	4.8	4.8
Financing	-6.0	1.9	1.3	1.7	-3.1	-2.6	-2.1	-3.3	-4.8	-4.8
Reserves ("-" denotes an increase)	-6.1	1.7	-4.1	-4.3	-3.8	-3.8	-2.1	-2.6	-2.8	-3.5
Net use of Fund resources	0.0	0.0	3.6	5.6	0.7	1.2	0.0	-0.8	-2.0	-1.3
Other donors and exceptional financing items 2/	0.1	0.2	1.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Unfinanced gap under the program	...	...	0.0	...	0.8	...	...	...	...	...
Shortfall in gross reserves	...	...	...	0.0	...	1.5	...	...	...	...

Sources: Belarus authorities; and IMF staff estimations.
1/ Includes projections of unaccounted flows of $250 million for 2009 onwards. Previously, recorded under errors and omissions.
2/ In 2009, Russia's budget support of $1 billion is included as other donors' financing in the program column, but as government loan in the projection column.

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10

(Adjustment scenario; trillions of Belarusian rubels, unless otherwise indicated)

	2007	2008	2009					2010	
			Mar.	Jun.	Sep.	Dec.			
			Est.	Rev. Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Proj.
1.State (republican and local) budget									
Revenue	36.6	50.9	9.9	20.8	33.1	57.0	46.3	61.4	52.7
Personal income tax	3.1	4.2	1.1	2.1	3.1	5.0	4.1	5.5	4.6
Profit tax	3.8	6.0	0.9	2.5	3.8	7.0	5.0	7.4	5.2
VAT	8.7	11.4	2.8	5.8	10.0	14.0	14.6	14.5	16.9
Excises	3.0	3.9	0.7	2.0	3.3	4.7	4.4	4.9	4.9
Property tax	1.5	1.3	0.4	0.6	0.9	2.4	1.2	2.4	1.1
Customs duties	6.3	10.6	1.5	3.3	5.2	12.0	7.1	13.4	8.9
Other	3.7	7.8	1.5	2.8	4.2	7.6	6.1	9.1	6.8
Revenue of budgetary funds	6.5	5.7	1.0	1.8	2.7	4.2	3.7	4.2	4.1
Expenditure (economic classification) 1/	37.2	50.9	9.4	20.6	32.6	57.0	46.3	63.0	54.3
Wages and salaries	7.7	8.6	2.1	4.5	7.1	9.7	9.5	10.6	10.5
Social protection fund contributions	2.1	2.3	0.6	1.3	2.0	2.7	2.7	3.0	3.0
Goods and services	6.8	8.7	1.9	4.5	6.7	11.3	9.3	12.5	11.5
Interest	0.4	0.7	0.3	0.8	1.2	1.7	1.7	1.1	1.8
Subsidies and transfers	10.2	14.9	3.5	6.5	10.2	14.6	14.5	14.6	14.9
Capital expenditures	8.2	13.0	1.5	3.5	6.1	12.1	9.1	15.8	10.2
Of which: capital transfers to banks	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending 2/	1.8	2.6	-0.4	-0.8	-1.1	1.0	-1.6	1.7	0.8
Other	0.0	0.0	0.0	0.4	0.5	3.8	1.2	3.8	1.5
Balance (economic classification) 3/	-0.6	0.0	0.5	0.2	0.5	0.0	0.0	-1.7	-1.6
Noncash bank restructuring measures	0.6	2.0	0.0	0.0	0.0	0.0	0.0	1.7	1.6
Net lending to financial institutions	1.7	4.3	…	…	…	…	…	…	…
Augmented balance	-2.9	-6.3	0.5	0.2	0.5	0.0	0.0	-3.3	-3.2
2. Social protection fund									
Revenue	11.4	14.7	3.6	8.2	12.3	17.1	16.4	19.1	18.7
Expenditure	10.4	13.0	3.3	7.7	11.8	16.7	16.4	18.7	18.2
Balance (cash)	1.0	1.7	0.3	0.5	0.5	0.4	0.0	0.5	0.4
Balance of the general government	0.4	1.7	0.8	0.7	1.0	0.4	0.0	-1.2	-1.2
Augmented balance of the general government	-1.9	-4.6	0.8	0.7	1.0	0.4	0.0	-2.9	-2.8
Statistical discrepancy	...	...	-0.1	...	...	...	...	...	...
3. Financing (cash) 3/	1.9	4.6	-0.7	-0.7	-1.0	-0.4	0.0	2.9	2.8
Privatization	2.5	1.3	1.7	1.7	2.4	1.8	3.1	3.3	4.4
Foreign financing, net	3.1	3.0	1.4	3.1	3.9	2.6	4.4	2.6	1.9
Domestic financing, net	-3.7	0.3	-3.8	-5.5	-7.3	-4.9	-7.5	-3.1	-3.4
Banking system	-1.9	-1.6	-3.8	-5.4	-6.9	-3.0	-7.1	-5.5	-3.9
Central bank	-4.0	0.2	-4.8	-6.4	-8.1	-3.0	-8.4	-5.5	-3.9
Deposit money banks (including SPF)	2.1	-1.8	-0.8	-0.9	-0.8	0.0	-0.6	0.0	0.0
Revaluation effect	...	...	1.8	1.9	1.9	...	2.0	...	...
Nonbank 4/	-1.8	1.9	-0.1	-0.1	-0.4	-1.9	-0.4	2.4	0.5
4. Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Contingent liabilities	7.2	23.0	21.5	20.0	18.5	21.6	20.8	19.3	18.8
Government guarantee of commercial banks' credit	7.2	9.5	7.6	5.7	3.8	5.7	5.7	1.9	1.9
Government guarantees of household deposits	0.0	13.4	13.8	14.3	14.7	15.9	15.1	17.4	16.8
GDP	97.2	128.8	145.2	145.2	145.2	151.6	145.2	166.0	161.8

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10 1/ (concluded)

(Adjustment scenario; percent of GDP, unless otherwise indicated)

	2007	2008	2009					2010	
			Mar.	Jun.	Sep.	Dec.			
			Est.	Rev. Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Proj.
1.State (republican and local) budget									
Revenue	37.7	39.5	6.8	14.4	22.8	37.6	31.9	37.0	32.6
Personal income tax	3.2	3.2	0.8	1.4	2.1	3.3	2.8	3.3	2.8
Profit tax	3.9	4.7	0.7	1.7	2.6	4.6	3.4	4.5	3.2
VAT	8.9	8.8	2.0	4.0	6.9	9.2	10.1	8.8	10.5
Excises	3.1	3.0	0.5	1.4	2.2	3.1	3.0	2.9	3.0
Property tax	1.6	1.0	0.3	0.4	0.6	1.6	0.8	1.4	0.7
Customs duties	6.5	8.2	1.0	2.3	3.6	7.9	4.9	8.1	5.5
Other	3.8	6.1	1.0	1.9	2.9	5.0	4.2	5.5	4.2
Revenue of budgetary funds	6.7	4.4	0.7	1.2	1.9	2.8	2.6	2.5	2.6
Expenditure (economic classification) 1/	38.3	39.5	6.5	14.2	22.5	37.6	31.9	38.0	33.6
Wages and salaries	8.0	6.7	1.5	3.1	4.9	6.4	6.5	6.4	6.5
Social protection fund contributions	2.2	1.8	0.4	0.9	1.4	1.8	1.8	1.8	1.8
Goods and services	7.0	6.7	1.3	3.1	4.6	7.5	6.4	7.5	7.1
Interest	0.4	0.6	0.2	0.5	0.8	1.1	1.1	0.7	1.1
Subsidies and transfers	10.5	11.6	2.4	4.5	7.0	9.6	10.0	8.8	9.2
Capital expenditures	8.5	10.1	1.0	2.4	4.2	8.0	6.2	9.5	6.3
Of which: capital transfers to banks	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending 2/	1.8	2.0	-0.3	-0.6	-0.8	0.7	-1.1	1.0	0.5
Other	0.0	0.0	0.0	0.3	0.3	2.5	0.8	2.3	0.9
Balance (economic classification) 3/	-0.6	0.0	0.3	0.1	0.3	0.0	0.0	-1.0	-1.0
Noncash bank restructuring measures	0.6	1.6	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Net lending to financial institutions	1.8	3.4	…	…	…	…	…	…	…
Augmented balance	-3.0	-4.9	0.3	0.1	0.3	0.0	0.0	-2.0	-2.0
2. Social Protection Fund									
Revenue	11.8	11.4	2.5	5.7	8.5	11.3	11.3	11.5	11.5
Expenditure	10.7	10.1	2.3	5.3	8.1	11.0	11.3	11.3	11.3
Balance (cash)	1.1	1.3	0.2	0.3	0.3	0.3	0.0	0.3	0.3
Balance of the general government	0.4	1.4	0.6	0.5	0.7	0.3	0.0	-0.7	-0.7
Augmented balance of the general government	-1.9	-3.5	0.6	0.5	0.7	0.3	0.0	-1.7	-1.7
Statistical discrepancy	...	...	-0.1	...	...	...	...	...	...
3. Financing (cash) 3/	1.9	3.5	-0.5	-0.5	-0.7	-0.3	0.0	1.7	1.7
Privatization	2.6	1.0	1.2	1.2	1.7	1.2	2.1	2.0	2.7
Foreign financing, net	3.2	2.3	1.0	2.1	2.7	1.7	3.1	1.6	1.2
Domestic financing, net	-3.8	0.2	-2.6	-3.8	-5.0	-3.2	-5.2	-1.8	-2.1
Banking system	-2.0	-1.2	-2.6	-3.7	-4.8	-2.0	-4.9	-3.3	-2.4
Central bank	-4.1	0.1	-3.3	-4.4	-5.6	-2.0	-5.8	-3.3	-2.4
Deposit money banks (including SPF)	2.1	-1.4	-0.5	-0.6	-0.5	0.0	-0.4	0.0	0.0
Revaluation effect	…	…	1.2	1.3	1.3	…	1.4	…	…
Nonbank 4/	-1.9	1.5	-0.1	-0.1	-0.3	-1.2	-0.3	1.5	0.3
Memorandum items:									
Contingent liabilities	7.4	17.8	14.8	13.8	12.7	14.3	14.4	11.7	11.6
Government guarantee of commercial banks' credit	7.4	7.4	5.3	3.9	2.6	3.8	3.9	1.1	1.2
Government guarantees of household deposits	0.0	10.4	9.5	9.8	10.1	10.5	10.4	10.5	10.4
GDP (trillions of rubels)	97.2	128.8	145.2	145.2	145.2	151.6	145.2	166.0	161.8

Sources: Ministry of Finance; SPF; and IMF staff estimates.

1/ Includes changes in expenditure arrears.
2/ The 2009 projection excludes project financing attracted before the approval of the program, which was not included in the financing projections.
3/ The actual deficits 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 includes January closing expenditure in the year they were actually paid.
4/ Includes statistical discrepancy up to 2008.

Table 4. Belarus: Monetary Authorities' Accounts, 2007–09

(Adjustment scenario; billions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009			
			Mar.	Jun.	Sep.	Dec.
			Prel.	Revised program 1/		
Reserve money	6,896	7,703	5,883	6,308	6,638	7,013
Rubel reserve money	6,876	7,266	5,757	6,183	6,513	6,887
Currency outside banks	3,323	3,836	3,093	3,233	3,379	3,581
Required reserves	1,686	2,245	1,727	1,862	1,952	2,054
Time deposits, NBB securities, and nonbank deposits	1,866	1,185	937	1,088	1,182	1,253
Foreign currency reserve money	21	437	126	126	126	126
Net foreign assets	9,056	7,043	8,861	7,606	7,192	7,192
Billions of U.S. dollars	4.21	3.20	3.12	2.52	2.39	2.38
Net foreign assets (convertible)	9,056	5,772	7,794	6,471	6,058	6,058
Billions of U.S. dollars	3.58	2.62	2.75	2.14	2.01	2.01
Foreign assets	10,361	8,006	12,287	13,259	14,854	16,837
Billions of U.S. dollars	4.82	3.64	4.33	4.39	4.93	5.58
Of which gross international reserves	8,992	6,734	11,220	12,124	13,720	15,702
Billions of U.S. dollars	4.18	3.06	3.96	4.02	4.55	5.20
Foreign liabilities	1,305	963	3,426	5,653	7,662	9,644
Billions of U.S. dollars	0.61	0.44	1.21	1.87	2.54	3.20
Of which: use of IMF credit (billions of U.S. dollars)	0.00	0.00	0.77	1.44	2.11	2.76
Net domestic assets	-2,159	659	-2,979	-1,297	-554	-179
Memo: Net domestic assets at program exchange rates	-2,185	791	-882	799	1,386	1,757
Net domestic credit	-1,248	1,233	-2,057	-561	187	556
Net credit to general government	-4,189	-3,965	-8,779	-10,352	-12,069	-12,409
Net credit to local government and state enterprises	0.0	0.1	-0.1	-0.1	-0.1	-0.1
Net credit to central government	-4,189	-3,965	-8,779	-10,352	-12,069	-12,409
Claims on government (loans and government securities)	1,652	1,710	4,171	6,321	8,330	10,311
Deposits of central government	5,841	5,675	12,950	16,673	20,399	22,720
Credit to economy	2,941	5,197	6,722	9,791	12,256	12,965
Credit to banks	1,804	3,359	4,714	7,723	10,127	10,776
National currencies	1,555	3,086	4,381	7,368	9,773	10,421
Foreign currencies	250	272	334	355	354	355
Billions of U.S. dollars	0.12	0.12	0.12	0.12	0.12	0.12
Credit to nonbanks	1,137	1,839	2,008	2,068	2,128	2,189
Claims on private sector	1,107	1,828	1,997	2,057	2,118	2,178
Net credit to nonfinancial public enterprises	22	1	1	1	1	1
Net credit to other financial institutions	8	10	10	10	10	10
Other items, net	-911	-574	-922	-736	-740	-735
Memorandum items:						
Changes in NIR according to TMU definition (millions of U.S. dollars) 2/						
Program 3/	...	...	-1,010	-486	-647	-647
Revised program	...	...	-1,231	-1,819	-1,938	-1,937
Difference	...	...	221	1,333	1,291	1,290
Of which: due to accumulation of domestic liabilities	...	...	582	582	582	582
Changes in NDA according to the TMU definition 2/						
Program 3/	...	...	1,152	780	1,566	1,709
Revised program	...	...	915	2,603	3,190	3,562
Difference	...	...	-237	1,823	1,624	1,853
12-month percent change in reserve money	38.4	11.7	-14.2	-18.5	-13.4	-9.0
Velocity	5.8	6.3	8.1	8.0	7.6	7.3
Ruble broad money multiplier	2.4	2.8	2.9	2.8	2.9	2.9
Currency-to-deposit ratio	0.25	0.23	0.23	0.24	0.23	0.23
Real GDP growth (annual)	8.6	10.0	...	...	...	-3.3
End-of-period CPI inflation (year-on-year percent change)	12.1	13.3	15.4	14.7	12.0	11.0

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

1/ Projections are shown at the current exchange rates.
2/ Cumulative flow since end-November 2008.
3/ Performance criterion as discussed in IMF Country Report No. 09/109. 2009Q1 performance criterion was adjusted in accordance with the adjustment mechanism specified in the TMU.

Table 5. Belarus: Monetary Survey, 2007–09

(Adjustment scenario; billions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009			
			Mar.	Jun.	Sep.	Dec.
				Revised program 1/		
Broad money (M3)	24,506	30,961	31,808	31,921	31,715	33,042
Memo: Broad money (M3) at program exchange rates	24,528	30,753	28,155	27,762	28,026	29,287
Rubel broad money (M2)	16,770	20,545	16,591	17,349	18,767	19,888
Currency in circulation	3,323	3,836	3,093	3,233	3,379	3,581
Domestic currency deposits	12,415	16,004	12,882	13,471	14,691	15,569
Domestic currency securities	1,032	705	616	644	697	739
Foreign currency deposits	7,670	10,204	14,825	14,180	12,556	12,761
Bank securities in foreign currency	66	212	392	392	392	392
Memorandum items: total deposits	20,085	26,208	27,707	27,652	27,247	28,330
Net foreign assets	6,388	3,099	4,620	3,770	3,809	4,088
Billions of U.S. dollars	2.97	1.41	1.63	1.25	1.26	1.35
NFA of central bank	9,056	7,043	8,861	7,606	7,192	7,192
NFA of deposit money banks	-2,668	-3,945	-4,241	-3,836	-3,384	-3,104
Net domestic assets	18,124	27,865	27,190	28,151	27,906	28,953
Net domestic credit	25,816	39,157	39,544	40,319	40,078	41,120
Net credit to general government	-5,822	-9,791	-15,278	-17,047	-18,647	-18,874
Net credit to central government	-6,165	-9,390	-14,975	-16,597	-18,197	-18,424
Claims on central government	4,363	7,039	8,990	11,139	13,148	15,130
Deposits of the central government	10,528	16,429	23,965	27,736	31,345	33,554
Net credit to state and local governments	343	-401	-302	-450	-450	-450
Credit to economy	31,638	48,948	54,822	57,367	58,725	59,994
Memo: Credit to economy at program exchange rates	31,671	48,643	50,346	51,458	52,870	54,000
Net credit to public nonfinancial corporations	7,399	11,408	13,137	12,823	13,177	13,414
Claims on private sector	24,096	37,159	41,258	44,091	45,083	46,108
Claims on other financial corporations	143	380	426	452	464	472
Other items, net	-7,693	-11,292	-12,353	-12,168	-12,172	-12,167
Capital	8,299	13,037	14,084	13,899	13,902	13,897
Other net assets	606	1,745	1,731	1,731	1,731	1,731
Other liabilities not included in broad money	5	3	3	0	0	0
Memorandum items:						
12-month percent change in broad money at program exchage rate	39.8	25.4	11.3	-2.3	-6.9	-4.8
12-month percent change of credit to economy at program exchange rate	46.9	53.6	45.1	29.7	18.3	11.0
Quarter-on-quarter percent change in credit to economy at program exchange rate	…	8.8	3.5	2.2	2.7	2.1
Deposits of the central and local governments in commercial banks at program exchange rate	5,022	12,081	11,647	11,619	11,509	11,398
Dollarization ratio	38	39	54	51	46	45

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Banking Sector Soundness Indicators, 2006–09

	2006	2007	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Capital adequacy							
Regulatory capital (percent of risk-weighted assets) 1/	24.4	19.3	17.9	17.1	16.5	21.8	20.2
Regulatory Tier I (percent of risk-weighted assets)	17.4	14.0	13.3	12.9	12.1	16.9	15.6
Total capital (percent of total assets)	17.8	15.9	14.8	14.3	13.8	17.4	17.1
Asset composition and quality							
NPLs (percent of total loans)	1.2	0.7	0.7	0.7	0.6	0.6	1.1
Provisions (percent of NPLs)	51.3	61.5	59.1	58.7	60.9	70.0	65.5
NPLs net of provisions (percent of regulatory capital)	6.1	3.8	4.2	4.2	3.7	2.3	3.7
FX loans (percent of total loans)	33.8	37.6	37.6	37.3	34.7	30.9	33.9
Loans to state-owned enterprises (percent of total) 2/	25.4	22.4	22.2	21.3	20.9	22.6	23.2
Sectoral distribution of loans (percent of total)							
Industry	27.3	26.9	26.9	26.2	25.8	27.4	29.0
Agriculture	14.6	14.4	14.8	14.7	15.3	15.5	14.9
Trade	7.7	8.1	8.8	7.8	7.7	7.0	6.8
Construction	2.2	2.7	2.7	3.1	3.6	3.3	3.5
Households	27.8	27.5	27.4	27.7	28.2	28.1	27.2
Other	20.4	20.4	19.4	20.5	19.4	18.7	18.6
Profitability							
Return on assets (after tax)	1.7	1.7	1.7	1.8	1.7	1.4	1.5
Return on equity (after tax)	9.6	10.7	11.3	11.9	12.0	9.6	10.2
Interest margin to gross income	38.9	40.7	40.3	38.8	37.1	35.7	32.1
Noninterest expenses to gross income	75.6	74.0	73.2	72.6	73.3	77.8	77.9
Liquidity							
Liquid assets to total assets 3/	24.1	22.6	24.7	21.9	20.7	23.2	21.0
Instant liquidity ratio 4/	128.9	104.1	115.8	110.9	113.9	108.8	155.5
Current liquidity ratio 5/	96.7	98.8	110.6	97.5	91.8	102.0	112.4
Loans to deposits	135.0	144.3	147.7	152.4	165.2	170.8	181.4
Foreign exchange deposits to total deposits	34.7	38.2	39.9	38.3	37.9	38.9	53.5
Foreign exchange liabilities to total liabilities	41.2	44.7	46.6	44.5	40.8	38.7	48.1
Market risks							
Net open position in FX (percent of capital) 6/	9.5	4.8	5.6	4.2	3.4	9.3	9.0

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

1/ The prudential norm is 8 percent.
2/ State-owned enterprises are defined as enterprises with a 100 percent state ownership.
3/ The definition of liquid assets was broadened from 1/1/2004 to include all assets with a remaining maturity of less than 1 month. The prudential norm is 20 percent.
4/ Ratio of demand assets to demand liabilities. Current prudential norm is 20 percent.
5/ Assets/liabilities with a remaining maturity of less than 1 month. Current prudential norm is 70 percent.
6/ The prudential norm is 20 percent.

Table 7. Belarus: Financing Requirements under the Program, 2009–10

(Millions of U.S. dollars)

	2009 Proj.	2010 Proj.
Financing needs	-6,816	-4,232
Current account balance	-3,864	-2955
Trade credits (assets)	-400	-200
Amortization of medium- and long-term loans	-757	-935
Short-term loans	-1,692	-788
Other investment (net)	-103	647
Financing sources	3,845	2,754
Capital account	125	180
FDI (net)	1,517	2,302
Portfolio investment (net)	29	0
Trade credits (liabilities)	970	600
Medium- and long-term loans	2,523	1,842
Short-term loans	824	712
Errors and omissions	0	0
Targeted increase in reserves	-2,143	-2,881
Financing gap	-2,971	-1,478
Financing		
IMF	2,771	657
World Bank	200	0
Unfilled	0	820

Source: IMF staff calculations.

Table 8. Belarus: Indicators of External Vulnerability, 2005–09

	2005	2006	2007	2008	2009 Proj.
CPI inflation (end year)	7.9	6.6	12.1	13.3	11.0
Export volume of goods (percent change)	-1.2	8.3	5.2	1.7	-7.7
Import volume of goods (percent change)	-3.1	21.7	7.2	14.6	-10.5
Current account balance (percent of GDP)	1.4	-3.9	-6.8	-8.4	-7.8
Capital and financial account balance (millions of U.S. dollars)	-20	1,745	5,292	3,816	3,036
Of which					
Foreign direct investment, net	303	351	1,770	2,143	1,517
Trade credits, net	-546	158	690	-50	570
Official Liabilities, net	19	-50	2,106	1,241	4,298
Liabilties of the banking sector, net	220	502	1,075	531	-581
Non-bank private liabilities (excl. trade credits) 1/	177	493	722	495	-49
Gross official reserves (millions of U.S. dollars)	1,297	1,383	4,182	3,061	5,204
Months of imports of goods and nonfactor services	0.9	0.7	1.6	0.9	1.9
Percent of broad money	22.2	16.9	36.7	21.8	47.5
Gross total external debt (millions U.S. dollars)	5,130	6,847	12,548	14,759	19,186
Percent of GDP	17.0	18.5	27.7	24.5	38.8
Percent of exports of goods and nonfactor services	28.4	30.8	45.5	39.6	66.0
Gross short-term external debt (millions of U.S. dollars)	3,299	4,382	7,362	7,141	6,986
Percent of gross total external debt	64	64	59	48	36
Percent of gross official reserves	254	317	176	233	134
Debt service ratio (percent) 2/	3.6	2.4	3.1	4.0	4.8
REER appreciation (CPI based, period average)	0.0	-2.0	-4.5	0.6	0.3
Capital adequacy ratio (percent) 3/ 4/	26.7	24.4	19.3	21.8	20.2
Nonperforming loans (percent of total) 4/	1.9	1.2	0.7	0.6	1.1
Banks' net foreign asset position (percent of regulatory capital) 4/	13.1	9.5	4.8	9.3	9.0
Real broad money (percent change) 5/	31.8	30.6	24.9	11.5	-3.9
Real credit to economy (percent change) 5/ 6/	25.2	48.5	31.2	36.6	0.0

Sources: Belarus authorities; and IMF staff estimates and projections.

1/ Includes loans, currency and deposits and other flows.
2/ Interest plus medium- and long-term debt repayments in percent of exports of goods and services.
3/ Regulatory capital in percent of risk-weighted assets.
4/ Values for 2009 are as of March 2009.
5/ Deflated by the CPI.
6/ Value for 2009 shown at program exchange rates.

Table 9. Belarus: Capacity to Repay the Fund, 2009-2014 1/

	2009	2010	2011	2012	2013	2014
Fund repurchases and charges						
Millions of SDRs	15.1	52.3	55.1	413.3	1,115.0	783.8
Millions of U.S. dollars	22.9	79.4	83.5	627.0	1,695.5	1,194.0
Percent of exports of goods and nonfactor services	0.1	0.2	0.2	1.4	3.2	1.9
Percent of total debt service 2/	1.6	5.0	4.4	21.6	37.3	26.5
Percent of quota	3.9	13.5	14.3	107.0	288.6	202.8
Percent of gross international reserves	0.4	1.1	1.0	6.1	13.5	7.5
Fund credit outstanding						
Millions of SDRs	1,831.6	2,269.5	2,269.5	1,911.1	831.1	54.7
Millions of U.S. dollars	2,791.4	3,439.2	3,439.2	2,902.2	1,264.8	83.4
Percent of exports of goods and nonfactor services	9.6	10.3	8.9	6.5	2.4	0.1
Percent of quota	474.0	587.3	587.3	494.6	215.1	14.2
Percent of gross international reserves	53.6	47.3	40.3	28.2	10.1	0.5
Memorandum items:						
Exports of goods and nonfactor services (millions of U.S. dollars)	29,060	33,243	38,444	44,985	52,761	62,082
Debt service (millions of U.S. dollars)	1,401	1,581	1,901	2,903	4,549	4,498
Quota (millions of SDRs)	386.4	386.4	386.4	386.4	386.4	386.4
Quota (millions of U.S. dollars)	586.3	586.2	585.2	586.2	587.6	588.6
Gross international reserves (millions of U.S. dollars)	5,204	7,265	8,528	10,305	12,534	15,814
U.S. dollars per SDR (period average)	1.517	1.517	1.515	1.517	1.521	1.523
U.S. dollars per SDR (eop)	1.524	1.515	1.515	1.519	1.522	1.525

Source: IMF staff calculations.

1/ Assumes repurchases are made on obligations schedule.
2/ Debt service includes interest on the entire debt stock and amortization of medium-and long-term debt.

Table 10. Belarus: Proposed Access, 2009–10

		Normal Access Cases					High-Access Cases 1/				
	Proposed Arrangement	Proposed Arrangement (Percentile)	20th Percentile (Ratio)	80th Percentile (Ratio)	Average	Median	Proposed Arrangement (Percentile)	20th Percentile (Ratio)	80th Percentile (Ratio)	Average	Median
Access											
Millions of SDRs	2,270	97	34	406	357	128	33	1,449	12,943	7,804	6,662
Average annual access	470	100	20	51	40	35	79	152	500	331	248
Total access in percent of: 3/											
Actual quota	587	100	30	75	63	49	57	300	901	628	505
Calculated quota	787	100	26	99	72	50	73	283	897	612	555
Gross domestic product	7	99	0.7	2.7	1.8	1.3	64	2.8	8.7	7.9	5.3
Gross international reserves	65	87	5	43	41	13	71	27	85	78	49
Exports of goods and nonfactor servic	12	88	1.9	6.9	5.5	3.9	26	10.7	37.5	29.1	19.9
Imports of goods and nonfactor servic	10	92	1.7	6.4	4.8	3.6	22	9.6	36.3	28.3	19.0
Total debt stock											
Of which: Public	31	...	...	...	...	...	80	8	31	21	13
External	18	97	2	6	4	3	83	7	17	13	12
Short-term 4/	48	...	...	...	...	...	64	20	78	92	32
M2	31	95	1	11	100	4	85	7	29	24	13

Sources: Executive Board documents; MONA database; and IMF staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ Based on scenario analysis (Scenario I) from Review of the Adequacy of and Options for Supplementing Fund Resources.

3/ The data used to calculate ratios is the actual value for the year prior to approval for public and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables

4/ Refers to residual maturity.

Appendix Table I.1. Belarus: External Debt Sustainability Framework, 2004–14

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing noninterest current account
Baseline: external debt	21.8	17.0	18.5	27.7	24.5	38.8	40.4	37.7	34.7	31.6	29.5	-6.9
Change in external debt	-1.7	-4.8	1.5	9.2	-3.2	14.3	1.6	-2.7	-3.0	-3.1	-2.1	
Identified external debt-creating flows (4+8+9)	-0.4	-7.9	-0.2	-0.2	-1.8	5.5	0.4	-0.8	-2.0	-2.8	-2.8	
Current account deficit, excluding interest payments	4.9	-1.8	3.5	6.2	7.5	6.5	4.3	3.4	2.5	2.2	1.7	
Deficit in balance of goods and services	6.6	-0.7	4.1	6.3	7.4	6.7	4.4	3.3	2.3	1.9	1.4	
Exports	69.1	59.8	60.2	60.9	61.9	58.7	62.0	63.2	64.5	65.5	66.1	
Imports	75.6	59.1	64.3	67.2	69.2	65.4	66.4	66.5	66.8	67.4	67.5	
Net non-debt creating capital inflows (negative)	-0.6	-1.0	-1.0	-3.6	-3.3	-3.2	-4.2	-4.0	-4.2	-4.5	-3.9	
Automatic debt dynamics 1/	-4.7	-5.1	-2.7	-2.8	-6.1	2.3	0.3	-0.3	-0.3	-0.5	-0.6	
Contribution from nominal interest rate	0.4	0.3	0.4	0.6	0.8	1.3	1.2	1.2	1.4	1.3	1.3	
Contribution from real GDP growth	-2.1	-1.5	-1.4	-1.3	-2.1	1.0	-0.9	-1.5	-1.7	-1.8	-1.9	
Contribution from price and exchange rate changes 2/	-3.0	-3.9	-1.7	-2.1	-4.8	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.3	3.0	1.7	9.4	-1.4	8.7	1.2	-1.8	-1.0	-0.4	0.7	
External debt-to-exports ratio (percent)	31.6	28.4	30.8	45.5	39.6	66.0	65.1	59.6	53.8	48.2	44.5	
Gross external financing need (billions of U.S. dollars) 4/	4.2	3.6	5.1	8.1	13.4	11.8	10.9	11.3	12.2	14.5	14.9	
Percent of GDP	18.4	12.0	13.9	17.8	22.2	23.8	20.3	18.6	17.6	18.0	15.9	
Scenario with key variables at their historical averages 5/						23.9	22.4	20.1	18.5	17.2	16.4	-5.0
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-3.3	2.6	4.1	5.1	6.0	7.0	
GDP deflator in U.S. dollars (percent change)	14.3	21.5	11.2	12.8	21.1	-15.1	5.6	9.0	9.0	9.0	8.9	
Nominal external interest rate (percent)	1.9	2.0	2.7	3.8	4.1	4.4	3.4	3.4	4.1	4.3	4.6	
Growth of exports (U.S. dollar terms, percent)	35.5	15.2	23.1	24.0	35.2	-22.1	14.4	15.6	17.0	17.3	17.7	
Growth of imports (U.S. dollar terms, percent)	40.4	3.9	33.1	28.0	37.3	-22.5	10.0	13.7	15.0	16.6	16.7	
Current account balance, excluding interest payments	-4.9	1.8	-3.5	-6.2	-7.5	-6.5	-4.3	-3.4	-2.5	-2.2	-1.7	
Net nondebt creating capital inflows	0.6	1.0	1.0	3.6	3.3	3.2	4.2	4.0	4.2	4.5	3.9	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GNP 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 $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

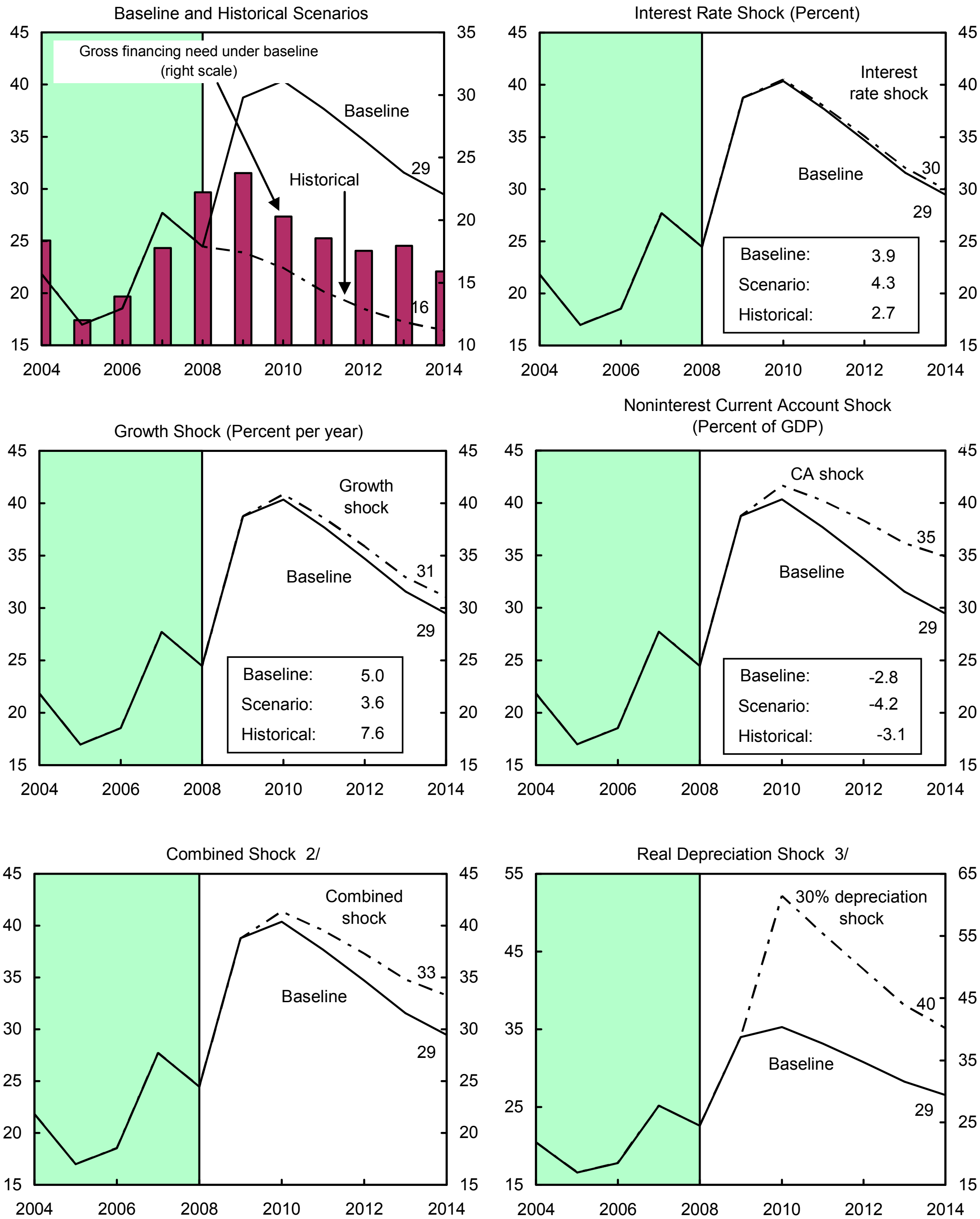
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period. Differs slightly from external financing requirement in Staff Report because includes official transfers and IMF repurchases but excludes increase in portfolio and other investment assets.

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

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

Appendix Figure I.1. Belarus: External Debt Sustainability: Bound Tests of the Program Scenario 1/ (External debt in percent of GDP)



Source: IMF staff estimates.

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

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

3/ One-time real depreciation of 30 percent occurs in 2009.

Appendix Table I.2. Belarus: Public Sector Debt Sustainability Framework, 2004–14

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Baseline: public sector debt 1/	9.1	8.3	8.8	11.5	13.7	23.7	25.0	23.1	20.4	16.8	14.0	-2.8
Of which: foreign-currency denominated	3.6	2.6	2.3	6.5	6.9	17.0	19.6	18.3	16.2	13.1	10.9	
Change in public sector debt	-1.3	-0.8	0.5	2.7	2.3	9.9	1.4	-1.9	-2.7	-3.7	-2.7	
Identified debt-creating flows (4+7+12)	-1.6	-0.9	-0.9	-3.8	-3.5	-3.7	-3.4	-3.8	-4.0	-4.4	-4.2	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	-1.1	-0.4	0.1	-0.3	-0.7	-1.2	
Revenue and grants	46.0	47.4	49.1	49.5	51.0	43.2	44.1	42.7	42.5	42.3	42.2	
Primary (noninterest) expenditure	45.5	47.7	47.3	48.6	49.0	42.0	43.7	42.9	42.2	41.6	41.0	
Automatic debt dynamics 2/	-2.1	-1.9	-1.1	-1.2	-2.1	-0.4	-1.3	-1.9	-1.9	-1.8	-1.4	
Contribution from interest rate/growth differential 3/	-2.2	-1.9	-1.1	-1.2	-2.2	-0.4	-1.3	-1.9	-1.9	-1.8	-1.4	
Of which: contribution from real interest rate	-1.3	-1.2	-0.4	-0.6	-1.4	-0.8	-0.8	-1.0	-0.9	-0.7	-0.4	
Of which: contribution from real GDP growth	-0.9	-0.6	-0.7	-0.6	-0.9	0.4	-0.5	-0.9	-1.0	-1.1	-1.0	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.1	...	...	...	...	...	...	
Other identified debt-creating flows	1.1	0.7	2.0	-1.8	0.6	-2.1	-1.7	-2.1	-1.8	-2.0	-1.6	
Privatization receipts (negative)	-0.1	-0.1	1.2	-2.6	-1.0	-2.1	-2.7	-2.6	-2.3	-2.5	-2.1	
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	
Other (specify, e.g. bank recapitalization)	1.1	0.8	0.9	0.8	1.6	0.0	1.0	0.5	0.5	0.5	0.5	
Residual, including asset changes (2-3) 5/	0.3	0.0	1.4	6.5	5.8	13.6	4.8	1.9	1.3	0.8	1.4	
Public sector debt-to-revenue ratio 1/	19.7	17.4	17.9	23.2	27.0	54.8	56.8	54.1	48.0	39.7	33.2	
Gross financing need 6/	0.8	1.3	-1.0	0.1	-1.0	0.3	1.0	1.5	1.2	1.1	1.0	
Billions of U.S. dollars	0.2	0.4	-0.4	0.1	-0.6	0.2	0.6	0.9	0.8	0.9	0.9	
Scenario with key variables at their historical averages 7/						23.7	22.3	18.1	14.3	10.5	8.3	-2.7
Scenario with no policy change (constant primary balance) in 2008–13						23.7	27.0	25.9	24.4	22.2	21.2	-3.4
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-3.3	2.6	4.1	5.1	6.0	7.0	
Average nominal interest rate on public debt (percent) 8/	6.4	5.2	5.5	5.6	6.7	9.4	5.3	4.8	4.9	5.2	6.4	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-14.0	-16.0	-5.3	-7.2	-13.9	-7.1	-3.4	-4.0	-3.9	-3.6	-2.4	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	-0.6	0.8	0.6	-0.5	-2.3	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	20.4	21.2	10.7	12.8	20.5	16.5	8.7	8.8	8.8	8.8	8.8	
Growth of real primary spending (deflated by GDP deflator, percent)	7.5	14.9	9.1	11.8	11.1	-17.0	6.7	2.1	3.5	4.5	5.5	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	-1.1	-0.4	0.1	-0.3	-0.7	-1.2	

1/ Gross debt of general government (including guarantees) and of monetary authorities.

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.

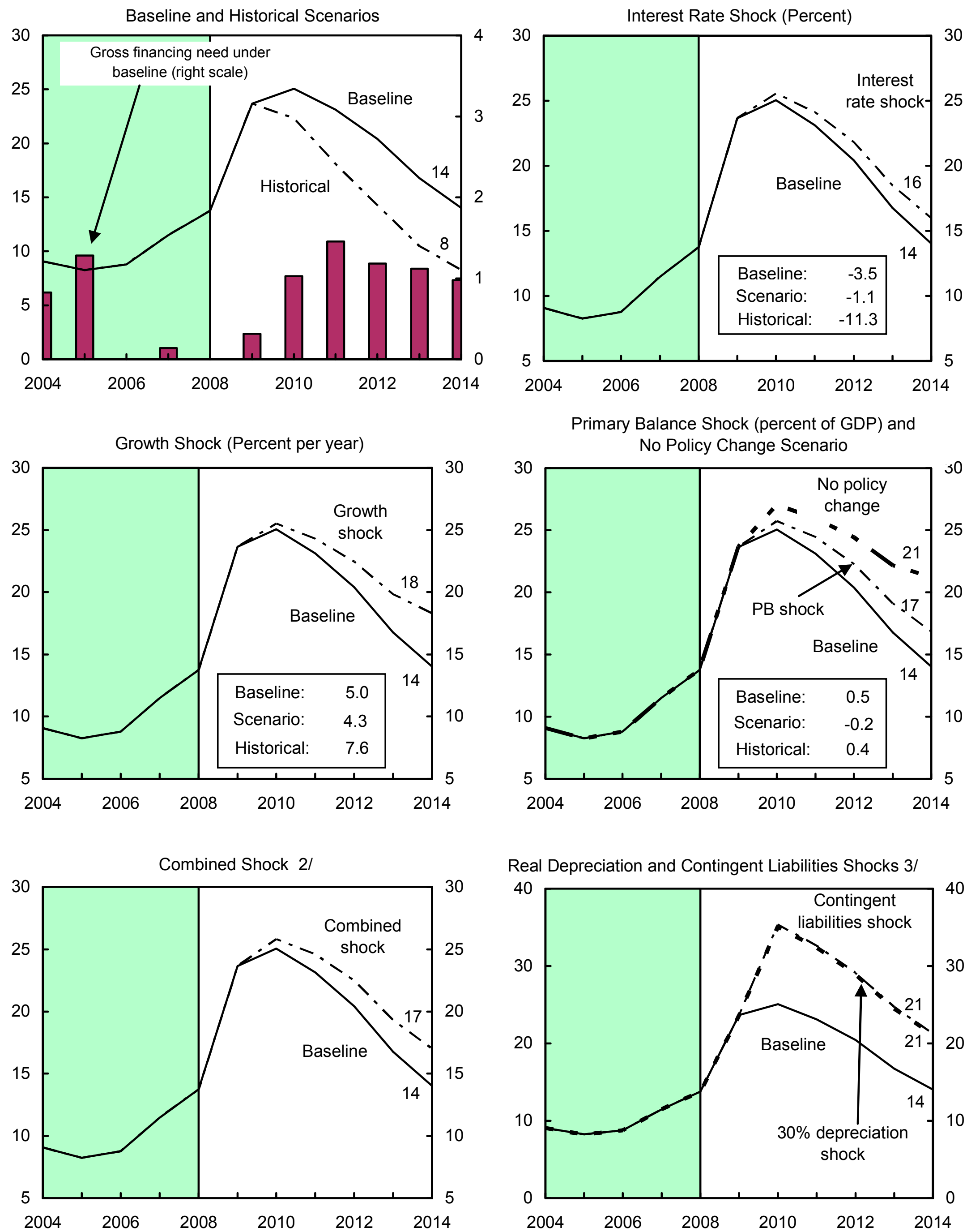
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Appendix Figure I.2. Belarus: Public Debt Sustainability: Bound Tests of Program Scenario 1/ (Public debt in percent of GDP)



Sources: IMF staff estimates.

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

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX II

Minsk, June 19, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC, 20431 U.S.A.

Dear Mr. Strauss-Kahn:

1. This letter describes the economic policies and objectives of the authorities of the Republic of Belarus for the remainder of 2009 and for 2010. The current letter supplements and amends the commitments made in late 2008 under the Stand-By Arrangement (SBA) with the International Monetary Fund. Based on the policies we have pursued since the initiation of the SBA and a worsened external environment, we request the completion of the first program review under the SBA and an augmentation of the SBA.

2. During the period since the Executive Board's approval of the SBA, we have pursued policies consistent with the program commitments:

- The NBRB has kept the rubel within the band of ±5 percent relative to the new basket of currencies consisting of the U.S. dollar, euro, and Russian ruble, following the 20 percent step devaluation of January 2, 2009.

- We met the quantitative target for the cash surplus of the Republican government, cutting government expenditure to compensate for substantial loss of revenue caused by lower than projected output. We have also approved a balanced budget, which we will achieve through firm control over expenditure.

- We have maintained a tight monetary policy, and met the quantitative net domestic assets (NDA) target for end-March.

- We met the end-March structural benchmark on price liberalization, raised utility prices, reduced public sector wages, discontinued the practice of placing central and local government deposits in commercial banks, eliminated the interest rate ceiling for rubel loans extended to the corporate sector by means of getting a relevant decision of the President adopted, and maintained positive real interest rates.

- The end-March net international reserves (NIR) target was narrowly missed, mostly due to net foreign exchange purchases by the population in the domestic market, following the January 2nd devaluation.

- In the first quarter of 2009, we managed to maintain economic and financial stability in general. GDP growth was at the level of 1.1 percent, compared to the first quarter of 2008.

- In future, we intend to strictly adhere to our commitments under the program.

3. Since the program was approved in January the external environment has deteriorated significantly. Demand in the countries which are our major trading partners fell sharply in the first quarter, and the recent World Economic Outlook projects that output and hence demand for imports in these countries will be significantly lower than previously projected in 2009. The depreciation of major trading partners' currencies, most notably the Russian ruble, has eroded the competitiveness gains from the devaluation of the Belarusian rubel.

4. The deterioration in the external environment has so far made it impossible for us to meet the program objective of improving Belarus's external position. To rectify this situation, we intend to take corrective measures as outlined below. We request an augmentation of the SBA by SDR 651.399 million (equivalent of about $1 billion, or 168.6 percent of quota). Table 1 describes the augmented disbursement schedule. We also request a waiver of the NIR performance criterion for end-March, and modifications of performance criteria for end-June to make them consistent with the revised macroeconomic framework. Performance criteria through end-September and structural benchmarks are summarized in Tables 2 and 3. The second review will be held after August 15, 2009.

5. We believe that the policies set out in this letter are adequate to achieve the objectives of the program. As is standard under all IMF arrangements, we will continue to consult with the IMF on adoption of new measures, and in advance of revisions to the policies described in this letter. We will consult with Fund staff about the appropriate policy response if gross reserves fall below agreed levels. We will also continue to provide the Fund with information as required to monitor progress on program implementation. We will consult with the Fund on our economic policies after the expiration of the arrangement, in line with the Fund's policies on such consultations. Finally, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

I. Program Objectives and Macroeconomic Framework

6. Our key objectives remain to contain the effects on Belarus of the global crisis, to reduce vulnerability to future external shocks, and to provide a sound basis for sustainable growth. We will achieve these objectives by additional measures to address current account imbalances, combined with adequate safety net measures to protect the most vulnerable, and by initiating structural reforms which will promote foreign direct investment and growth.

7. Following the regional economic trend, our economy slowed down significantly in the first quarter of the year. Meanwhile, if the current economic environment remains unchanged, GDP is expected to contract by about 3 percent in 2009. Consumer prices

increased in January following the step devaluation. Consistent with our tight fiscal and monetary policy stances, the monthly rate of inflation has since declined, and end-of-period inflation in 2009 is now expected to be about 11 percent.

8. The balance of payments has been hit hard by external developments but is expected to stabilize in the remaining quarters of 2009. During Q1 2009, exports were only about half of their Q1 2008 level. Nevertheless, corrective measures will enable us to reduce the current account deficit to 7¾ percent of GDP in 2009 and further to 5½ percent of GDP in 2010. An intensification of structural reforms, especially our privatization program, is expected to stimulate new foreign direct investment by 2010. We expect that these policy adjustments, together with additional financing, will allow us to achieve a level of gross reserves of 1.9 months of imports of goods and services, close to what was originally envisaged under the program.

9. We expect the economy to prosper in the medium term, propelled by sound policies and global economic recovery. Growth should resume in 2010 and strengthen over the medium term, supported by structural reforms. Inflation is expected to be reduced further. Moderate current account deficits and improved capital inflows are expected to lead to continued reserve accumulation.

II. Monetary and Exchange Rate Policies

10. Implementing a credible exchange rate regime remains a cornerstone of our program. We introduced a peg to a currency basket with a ±5 percent band around the central parity on January 2. In the period ahead, we intend to make more use of the flexibility within the band in order to support adjustment in the current account. This will help us meet targeted levels of reserves, which would continue to be reflected in NIR floors **(quantitative performance criterion)**.

11. We tightened monetary policy substantially in January, and have adhered to our program commitment to maintain NBRB interest rates positive in real terms. However, we have concluded that the stance of monetary policy needs to be tighter to support the exchange rate regime and to keep inflation low. To this end, we propose to set NDA ceilings **(quantitative performance criterion)** for the remainder of the year consistent with the objective of limiting end-of-year inflation to 11 percent. We also believe that it is necessary to increase rubel deposit interest rates, to encourage a reversal of the significant shift from rubel to foreign exchange deposits that took place in January and February. We therefore recommended to commercial banks that they maintain an average interest rate on new term deposits of households of at least 21.6 percent, 2 percentage points higher than the average level for March 2009 (**prior action**). This measure would be supported by tight limits on the supply of liquidity offered by the NBRB, including through Lombard auctions. To support this objective, we have also raised the overnight credit rate by 2 percentage points (**prior action**). During the second half of 2009, if the NIR and NDA targets under the program are

met and further increases in the share of rubel time deposits take place, we will reduce recommended and policy interest rates, while keeping them positive in real terms.

III. Fiscal Policy

12. We are committed to the balanced general government budget—including local governments' budgets and the Social Protection Fund, and excluding bank recapitalization operations (up to minimum regulatory capital adequacy norms)—in 2009. Our revised budget was approved by the President on May 28. Fiscal performance will continue to be monitored by **a quantitative performance criterion**.

13. We are undertaking the following key steps to meet our target of zero-deficit budget:

- *Improving the tax system and the structure of taxes and fees*. We will eliminate two earmarked taxes and the local tax on sales of goods in retail trade, and reduce the profit tax rate from 24 percent to 20 percent. To offset the revenue loss resulting from these measures, we will also increase the VAT rate from 18 percent to 22 percent.

- *Maintaining tight wage policies.* We have decided not to increase public sector wages before September 2009. A decision on wages will be made later in the year based on budget performance and economic developments.

- *Reducing capital expenditure.* Capital expenditure was limited to 1.5 trillion rubels in Q1 2009 and we intend to limit it to 9.1 trillion rubels (6.2 percent of GDP) in 2009. We will spend up to 50 percent of foreign-financed project resources in excess of program projections for new financing. Additional resources from international financial institutions and for projects initiated before the original program will be exempt from this limit.

- *Reducing untargeted subsidies and transfers:* As our communal service tariffs have not kept pace with rising input costs, we raised tariffs charged to households from 141,862 rubels to 162,862 rubels in January 2009. We intend to take further measures in 2009 to bring down fiscal subsidies on household utilities. This could include lowering costs. If a wage increase is approved later in the year, household utility tariffs would also be increased again. Additional measures will be taken to improve the cost recovery ratio in 2010. Transportation tariffs will also be increased to reflect inflation.

- We will seek further savings through reduction of expenditure on goods and services, while maintaining spending on health and education and ensuring that arrears are not accumulated.

If revenues exceed spending appropriations for line ministries, they will be allocated to the Presidential Reserve Fund, and will be used to restore cuts in the originally approved budget, primarily in public investment.

14. Targeted social spending will be increased in 2009 to limit the costs of adjustment to the most vulnerable. We will approve by end-June 2009 a decree to (i) raise the income-based eligibility criterion for lump-sum allowances to 150 percent of the minimum subsistence budget, and (ii) enlarge access to monthly allowances to all families with gross income below the minimum subsistence budget (243,000 rubels per month per capita). We will also consult with the World Bank about further measures to improve targeted social assistance.

15. We have been developing plans for an agency that would facilitate leasing of equipment by our exporters, with a planned capital injection of 400 billion rubels. In accordance with internationally established practice, the initial capital injection will be treated as a financing operation that will not increase the government deficit. The agency is expected to be launched in October 2009; understandings on the budgetary treatment of its operations will be agreed with the IMF by the time of the second review.

IV. Financial Sector Policies

16. We have taken a number of measures to strengthen the financial system:

- We began to formalize the institutional framework for dealing with a potential financial crisis. We have drafted a Memorandum of Understanding between the Ministry of Finance, the Ministry of Economy, the NBRB and the new Agency for Deposit Guarantee. We intend to adopt this Memorandum by end-June 2009.

- We have practically eliminated uncollaterized liquidity support to banks. We recognize that this support must remain truly exceptional and will generally avoid using this instrument.

- We have recently received IMF technical assistance to help us meet the **structural benchmark** of bringing our loan classification and provisioning requirements in line with best international practices. Based on this assistance, we will, by end-September 2009, pass amendments to the *Instruction on the Procedure of Formation and Use by Banks and Nonbank Credit and Financial Institutions of Reserves to Cover Potential Losses for On- and Off-Balance Sheet Transactions* aimed at bringing it in compliance with the best international practice. We will also take other measures in order to implement recommendations of the Loan Classification and Provisioning technical assistance mission, including in particular (i) cancellation of partial provisioning for long-term loans; (ii) application of a unified classification of a borrower's debts under all loan contracts; and (iii) elimination of the possibility of privileged classification of loans restructured on decisions of the President and the

Government. We will be taking practical steps to establish the Financial Development Agency and transfer to it banks' loans issued under Government and local executive and administrative bodies' guarantees.

17. We are also taking a number of measures relating to government involvement in the financial system. Key measures are:

- *Disengaging NBRB from non-core business.* In line with program commitments, NBRB's direct or equity financing of non-financial organizations will remain within the ceiling of 350 billion rubels in 2009. We will not extend new loans to, or make equity investment in, non-financial organizations in 2010. Furthermore, by end-December 2009 we will develop an action plan for sales to foreign investors of all NBRB nonfinancial subsidiaries and associated companies.

- *Curbing directed lending function of the government.* We have amended relevant legislation to prohibit the central and local governments from making any additional transfers to their deposit accounts with the commercial banks and we will transfer the existing stock of these deposits back to NBRB accounts in line with the schedule for repayment of the corresponding loans. An exception will be made for certain central and local government demand deposits held for operational purposes. We will continue to refrain from approving any new directed lending programs financed with budget deposits (**structural benchmark**).

- *Bank privatization.* We are looking for a strategic investor to buy the majority shareholdings in two state banks (OJSC Belpromstroibank and OJSC Belinvestbank) and minority holdings in JSSB Belarusbank and OJSC Belagroprombank as soon as market conditions permit. By end-August 2009, we will engage a qualified, experienced and reputable consultant, on a competitive basis, to assist us in preparing state-owned banks for partial or full privatization (**structural benchmark**).

18. With regard to recapitalization of banks we allocated 3 trillion rubels to the equity funds of state banks in December 2008. We currently have no plans to further recapitalize state banks. We will discuss in the context of the second review indicators based on statutory norms that should guide any future such recapitalization. Should recapitalization issues arise in private banks, we will use our existing framework, including negotiations with shareholders, liquidation and nationalization (supported by government resources), as appropriate, to rapidly resolve the issues.

19. We are implementing the recommendations of the safeguards assessment. To provide reassurance that data compliance related to quantitative PCs were met, the end-March quantitative PCs relating to NIR and NDA have been audited by international accountants. The NBRB will continue quarterly auditing of the data by international accountants. To improve transparency in our financial policies, NBRB's financial statements are prepared

using both national reporting standards and the IFRS. Both sets of the NBRB's financial statements for 2008 have been approved by the NBRB Board and confirmed by the *Ernst and Young* auditing company with a separate audit opinion issued for each of them. Building on recommendations of the 2004 and 2009 Safeguards Assessments, we will, by the end of 2009, prepare draft amendments and supplements to the Statute of the NBRB approved by Decree of the President of the Republic of Belarus #320 dated June 13, 2001 with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (**structural benchmark**). In this context we intend to seek assistance from the IMF's Legal Department.

V. Policies to Improve Business Climate

20. We believe that intensification of structural reform will raise growth and improve the balance of payments over the medium term. We stand by our commitment to reduce administrative control of wages and prices. In addition to not extending the regulatory act imposing a general ceiling of monthly price increases, we have reduced the number of products subject to price controls and we are no longer announcing medium-term wage targets. We will take the necessary legal steps to stop the application of mandatory wage policy to companies in which the government does not have majority control in 2010.

21. We intend to deepen and accelerate our program of privatization. To this end, we have prepared a draft Privatization Law, and are currently incorporating comments from the World Bank. We intend to submit this law to Parliament by September 30, 2009. To add impetus to the process, we will submit to the Head of State a draft Decree on establishing a Privatization Agency by September 30, 2009 (**structural benchmark**). The agency would be tasked with preparing enterprises for privatization, would have the power to hire advisors from banks, accounting agencies, and other private companies as necessary to support the process. Its immediate goal would be to: (i) identify, by November 30, 2009, in consultation with the World Bank, five large SOEs as candidates for privatization; (ii) select a reputable financial advisor; and (iii) offer the controlling equity stakes in these SOEs for sale through an open, international, transparent, and competitive tender by February 28, 2010.

22. We also intend to step up our efforts to increase the scope for private sector activity, open the economy to FDI and improve the business climate. We will also exclude all companies in which the government has a minority share from fulfilling all quantitative targets, including output and employment targets. The government's right in such companies will not extend beyond the rights of all minority shareholders.

Sincerely yours,

/s/	/s/
S.S. Sidorsky	P.P. Prokopovich
Prime Minister	Governor of the National Bank
of the Republic of Belarus	of the Republic of Belarus

Table 1. Belarus: Schedule of Purchases Under the Augmented Stand-By Arrangement

Date Available	Amount of Purchase		Conditions
	In millions of SDRs	In percent of quota	
January 12, 2009	517.798	134.006	Board approval of Stand-by Arrangement (completed)
May 15, 2009	437.930	113.336	Observance of end-March 2009 performance criteria and completion of first review
August 15, 2009	437.930	113.336	Observance of end-June 2009 performance criteria and completion of second review
November 15, 2009	437.930	113.336	Observance of end-September 2009 performance criteria and completion of third review
February 15, 2010	437.929	113.336	Observance of end-December 2009 performance criteria and completion of fourth review
Total	**2,269.517**	**587.349**	

Source: Fund staff calculations.

Table 2. Belarus: Quantitative and Continuous Performance Criteria under SBA approved on January 12, 2009 1/

	March, 2009			June, 2009		Sep., 2009		Dec., 2009	
	Program PC	Adjusted PC	Actual	Program PC	Revised PC	Program proj.	PC	Program proj.	Indicative target
I. Performance criteria									
Ceiling on the cash deficit of the general government (billions of Belarusian rubels, - implies a surplus) 2/ 3/	-400	…	-708	-400	-700	-1,100	-1,000	0	0
Floor on net international reserves of the NBRB (millions of U.S. dollars) 4/	-510	-1,010	-1,231	-486	-1,819	-647	-1,938	-647	-1,937
Ceiling on net domestic assets of the NBRB (billions of Belarusian rubels) 4/	74	1,152	915	780	2,603	1,566	3,190	1,709	3,562
II. Continuous performance criteria									
Non-accumulation of external payments arrears.									
Prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions.									
Prohibition on the introduction or modification of multiple currency practices.									
Prohibition on the conclusion of bilateral payments agreements that are inconsistent with Article VIII.									
Prohibition on the imposition or intensification of import restrictions for balance of payments reasons.									
III. Benchmarks for calculating adjustors (cumulative flows from end-December 2008)									
3.1 Adjustor for the net international reserves (millions of US dollars)									
External privatization receipts	625	…	625	646	627	667	853	688	1,074
NBRB balance of payments financing other than IMF	0	…	0	0	0	0	0	0	0
General government budget support	1,000	…	500	1,000	1,000	1,000	1,200	1,000	1,200
3.2 Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels unless indicated otherwise)									
General government budget support	2,650	…	1,440	2,650	2,911	2,650	3,514	2,650	3,514
General government project support for projects initiated after January 2009	187	…	86	374	293	560	506	747	718
Of which: IFI project support	47	…	7	94	59	141	113	188	166
Bank recapitalization	0	...	0	0	0	0	0	0	0
Local government's cash deficit	…	…	…	…	0	…	0	…	0
Memorandum: General government project support for projects initiated after January 2009 (millions of US dollars)	71	…	31	141	102	212	172	282	243

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

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU). Performance criteria for end-December 2009 will be set at the time of the second review.
2/ Cumulative flows from end-December 2008.
3/ End-March and end-June performance criteria on the ceiling of the government deficit are not subject to an automatic adjustment.
4/ Cumulative flows from end-November 2008 at program exchange rates.

Table 3. Belarus: Prior Actions and Structural Benchmarks Under the Stand-by Arrangement

I. Prior Actions	**Status**
Raise the NBRB overnight credit rate by 200 basis points to 22 percent (LOI ¶11).	met
Recommend to commercial banks that they maintain an average interest rate on new term deposits of households of at least 21.6 percent, 2 percentage points higher than the average level for March 2009 (LOI ¶11).	met
II. Structural Benchmarks	**Date**
Refrain from approving any new directed lending programs financed with budget deposits (LOI ¶17).	Continuous
Eliminate the regulatory act imposing a general ceiling on monthly price increases of 1/2 percent.	March 31, 2009 (met)
Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization (LOI ¶17).	August 31, 2009
Submit to the Head of State a draft Decree on establishing a Privatization Agency (LOI ¶21).	September 30, 2009
In line with FSAP recommendations, bring loan classification and provisioning requirements in line with best international practices (LOI ¶16).	September 30, 2009
Prepare draft amendments and supplements to the Statute of the NBRB with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (LOI ¶19).	December 31, 2009

BELARUS—TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

June 19, 2009

1. This memorandum sets out the understandings between Belarus's authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets. These performance criteria and indicative targets are reported in Table 2 of the Letter of Intent (LOI) dated June 19, 2009.

2. The definitions of these quantitative targets and the adjustment mechanisms are described in Section I below. Reporting requirements are specified in Section II.

3. The exchange rates and the price of gold to be used for the purpose of monitoring the program are in Table 1 of this attachment, and benchmarks for privatization proceeds and government foreign borrowing in Table 2.

I. QUANTITATIVE TARGETS

A. Floor on Net International Reserves of the National Bank of the Republic of Belarus (NBRB)

Definition

4. Net international reserves (NIR) of the NBRB are defined as the difference between usable gross international reserve assets and reserve liabilities, evaluated in U.S. dollars at the program exchange rates (Table 1). Usable gross international reserve assets comprise all reserve assets of the NBRB denominated in foreign convertible currencies, to the extent that they are readily available for intervention in the foreign exchange market and held in first-rank international banks or as securities issued by G-7 countries. Excluded from usable reserves are:

- any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically);
- any precious metals or metal deposits, other than monetary gold, held by the NBRB;
- any reserve assets that are: (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities); or (iii) frozen; and
- any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because of lack of quality or lack of liquidity that limits marketability at the book price.

5. For the purpose of this program, reserve liabilities comprise:

- all short-term liabilities of the NBRB vis-à-vis nonresidents with an original maturity of one year or less;
- all foreign exchange liabilities to resident entities (e.g. claims in foreign exchange of domestic banks on the NBRB) excluding (i) foreign exchange liabilities to the general government, to the Agency for Deposit Guarantee, and (ii) the NBRB's foreign exchange transitory accounts;
- the stock of IMF credit outstanding; and
- the nominal value of all derivative positions[1] of the NBRB and government, implying the sale of foreign currency or other reserve assets against domestic currency.

6. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBRB shall be valued at program exchange rates, as described in **paragraph 3** above. On this basis, and consistent with the definition above, the stock of NIR amounted to $2,541 million on November 30, 2008. In addition, a purchase from the IMF will be reflected in the stock of IMF credit outstanding on the same day when the purchase is reflected in the gross international reserves.

Adjustment mechanism

7. The floor on the NIR of the NBRB is subject to an automatic adjustor, based on deviations of external balance of payments support (defined as disbursements from bilateral and multilateral creditors to the NBRB), or external Republican government[2] budget support and privatization proceeds from program projections (Table 2 of the LOI).

A. If the proceeds from external balance of payments support to the NBRB (in U.S. dollars evaluated at program exchange rates):

a) cumulatively exceeds program projections, the floor on the NIR of the NBRB will be adjusted upward by 100 percent of the excess in external balance of payments support; and

b) in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any

[1] This refers to the notional value of the commitments, not the market value.

[2] As defined in paragraph 12 below.

quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

B. If the proceeds from external Republican government budget support and external privatization proceeds (valued in U.S. dollars at program exchange rates):

cumulatively exceed program projections, the floor on the NIR of the NBRB will be adjusted upwards by 50 percent of the excess in external budget support and privatization proceeds; and

in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, and 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

- If Belarus participates in any SDR allocation(s) between March 31, 2009 and any subsequent test dates, this target will be adjusted upwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date, measured at program exchange rates.

B. Ceiling on Net Domestic Assets of the NBRB

Definition

9. Net domestic assets (NDA) of the NBRB is defined as the difference between the NBRB's monetary base, as defined by the NBRB's methodology as of March 31, 2009, and NIR. The NIR of the NBRB is defined as in paragraph 4 above.

10. Performance against the NDA target will be measured at program exchange rates. On this basis, and consistent with the definition above, the NBRB's NDA amounted to RBL 2,112 billion on November 30, 2008.

Adjustment mechanism

11. The ceiling on the NDA of the NBRB is subject to an automatic adjustor, based on adjustment of the NIR of the NBRB, as stipulated in paragraphs 7 and 8 above.

C. Ceiling on the Cash Deficit of the General Government

Definitions

12. The general government includes the Republican government and local governments. The Republican government is defined as the central government ministries, the funds included in the Republican budget, including the National Development Fund and the Social Protection Fund. In case the government establishes new extrabudgetary funds, they will be integrated into the Republican government.

13. The cash deficit of the general government will be measured from the financing side as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.

(i) Net domestic financing consists of bank and nonbank financing to the general government and will be defined as follows:

- i. The change in the claims on the general government of commercial banks minus the change in deposits held by the general government in commercial banks, net of revaluation effect for foreign currency deposits.

- ii. The change in the claims on the general government of the NBRB minus the change in deposits of the general government held at the NBRB in RBLs and foreign currency, net of revaluation effect for foreign currency deposits.

- iii. Net claims on the general government of the commercial banks and the NBRB will be monitored based on the monetary survey prepared by the NBRB.

- iv. Also included are any other liability instruments issued by the general government, for example, promissory notes, any other increase in liability of the general government to domestic nonbank institutions.

- v. Net sales of Treasury bills, bonds, or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liability of the general government to domestic nonbank institutions.

(ii) Net external financing is defined as:

- i. Total of loans disbursed to the general government for general budget support and project financing (capital expenditure and net lending), the change in the stock of outstanding international bonds, net change in external arrears, change in the accounts of the Republican government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the general government.

ii. Amortization to external creditors via third parties is accounted for at the time and in the amount of payment by the budget to the third party, rather than at the time of recognition of amortization by the external creditor.

(iii) Privatization receipts:

i. The privatization receipts of the general government consist of all transfers of monies received by the Ministry of Finance in connection with the sale of general government assets, including privatization proceeds, which were transferred to the National Development Fund.

ii. This includes receipts from the sales of shares, the sale of assets and the sale of licenses with duration of 10 years and longer.

14. For the purposes of measuring the deficit of the general government, all flows to/from the budget in foreign currency will be converted into RBLs at the official exchange rate prevailing at close of business on the date of the transaction. On this basis, and consistent with the definition above, the cash deficit of the general government in the first quarter of 2009 amounted to -708 billion rubels.

Adjustment mechanism

15. The ceilings on the cash deficit of the general government for end-September and end-December are subject to automatic adjustors, based on deviations of external budget and project support from program projections (Table 2 of the LOI). If the total proceeds from external budget and project support (excluding from international financial institutions and projects initiated before the original program) to the general government budget (in RBLs converted at the official exchange rate on the days of its receipt):

- Cumulatively exceed program projections, the ceiling on the cash deficit of the general government will be adjusted upwards by 50 percent of the excess in budget and project support to the government.

- Cumulatively falls short of program projections, the ceiling on the cash deficit of the general government will be adjusted downward by 50 percent of the shortfall in the previous quarter, if any. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall, if any, for the previous quarter in calculating the adjusted target.

- For project support from international financial institutions, if disbursements in foreign currency exceed (fall short of) program projections, the ceiling on the cash deficit of the general government will be adjusted upwards (down) by 100 percent of the excess (shortfall) in project support.

- For project support for projects initiated before the original program was approved, the ceiling on the cash deficit of the general government will be adjusted upwards by 100 percent of the excess in project support. The adjustor for such projects is capped at $353 million.

16. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor for recapitalization of banks. Specifically, the ceiling on the deficit will be adjusted upward for the amount of funds provided by the Republican budget to banks to bring their regulatory capital to minimum statutory levels.

17. Total annual adjustor for higher-than-programmed international financial assistance, including project support for projects initiated before the original program was approved, is capped at 1.8 percent of GDP.

18. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor for local governments' deficit financed with surpluses accumulated in 2008. Total annual adjustor for the deficits of local governments is capped at RBL 1.4 trillion.

D. Continuous Performance Criteria on Nonaccumulation of External Arrears

19. During the period of arrangement, the Republican government and the NBRB will not accumulate any new external payments arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the Republican government and the NBRB beyond 30 days after the due date. The performance criterion on nonaccumulation of external arrears is continuous.

II. Reporting Requirements

A. National Bank of the Republic of Belarus

20. The NBRB will provide to the IMF an aggregate balance sheet for the NBRB, as well as the monetary survey of the NBRB, banks and the banking system of the Republic of Belarus, on the 1st, 8th, 15th, and 22nd days of each month.

21. The NBRB will provide to the IMF on a weekly and monthly basis, no later than the 25th of the following month, the full breakdown of NBRB accounts included in net international reserves (defined in paragraph 4), at both actual and program exchange rates.

22. The NBRB will provide to the IMF on a weekly basis a data sheet on currency operations including government foreign receipts and payments, breakdown of interbank market operations by currencies, explanations for main currency flows. The NBRB will also provide daily information on exchange market transactions, including exchange rates.

23. The NBRB will provide to the IMF, on a monthly basis, a projection for external payments falling due in the next twelve months.

24. The NBRB will provide to the IMF, on a quarterly basis, the stock of external debt in the format of the *IMF Debt Statistics Manual*, Table 4.1. (http://www.imf.org/external/pubs/ft/eds/eng/guide/index.htm).

25. The NBRB will provide to the IMF, on a monthly basis, no later than 25 days after the end of the month, financial soundness indicators for the banking sector in an agreed format, as well as the level of compliance of bank performance with the indicative parameters of banking sector development set by the Republic of Belarus monetary policy guidelines.

26. The NBRB will provide to the IMF consolidated bank balance sheet and also information about assets subject to credit risk broken down on five groups of risk on a quarterly basis, no later than 30 days after the end of the quarter.

27. The NBRB will provide preliminary monthly balance of payments data in electronic format no later than 48 days after the end of the month.

28. The NBRB will inform IMF staff of any changes to reserve requirements for deposit money banks. The NBRB will communicate in writing to the IMF staff any changes in accounting conventions and valuation principles incorporated into the balance sheet data and will notify the staff before introducing any change to the Charts of Accounts of the NBRB and the Commercial Banks, as well as changes in the reporting forms.

B. Ministry of Finance

29. The Ministry of Finance will continue to provide to the IMF in electronic form monthly treasury reports, including revenue and expenditure figures of the consolidated Republican government budget and local budgets no later than 30 days after the end of the month. These reports will provide expenditure data by programs, and on standard functional and economic classifications. Data for local governments will be provided at similar frequency, but only on functional and economic classifications.

30. The Ministry of Finance will continue to report the final fiscal accounts at the end of each fiscal year, no later than March of the following year. These reports will provide expenditure data by programs, as well as based on standard functional and economic classifications.

31. The Ministry of Finance will report any revisions to monthly and annual fiscal reports of the Republican budget within a week after their approval.

32. The Ministry of Finance will continue to provide on its web site the weekly report on the primary treasury bill market, reports on each treasury bill auction, and provide to the IMF the monthly report on treasury bills.

33. The Ministry of Finance will inform IMF staff if the Treasury does not pay interest or principal on treasury bills due to the NBRB, deposit money banks, or nonbank entities and individuals. In such case, the Ministry of Finance will provide information on outstanding interest and principal payments.

34. The Ministry of Finance will provide available data on the stock of budgetary arrears on a monthly basis, no more than 30 days after the end of the month, including separate line items for wages, pensions and social benefits.

35. The Ministry of Finance will provide to the IMF in electronic format, no later than 30 days after the end of each month, monthly information on the amounts and terms of all external debt contracted or guaranteed by the general government.

36. The Ministry of Finance will provide to the IMF in electronic form on a monthly basis, no later than 30 days after the end of the month, (a) data on the outstanding stock of domestic and external debt of the Republican government; and (b) the standard files on planned and actual external debt disbursement, amortization, and interest payments. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

37. The Ministry of Finance and the NBRB will provide data on external and domestic credit to nongovernmental units that is guaranteed by the Republican government or the NBRB on a monthly basis, no later than 30 days after the end of the month.

38. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with the recapitalization of banks. This cost includes the upfront impact on the cash deficit of the Republican government of the recapitalization of banks as well as the costs associated with the payment of interests.

39. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with sponsored loans under state programs, separately identifying the costs associated with subsidized loans extended below refinance rate, and the quarterly data on the amount of central and local government guarantees issued on bank loans.

40. The Ministry of Economy will provide quarterly information on levels of communal service tariffs for population (heating, water supply, sewage, natural gas supply,

maintenance, and rent for a family of three, living in a standard (total of 48 square meters apartment) and level of recovery of services' costs by population in accordance with existing methodology).

41. The Ministry of Finance will provide monthly data on the export leasing agency to be created with government capital injection in 2009. The data include revenue and expenditures of the agency as well as its net deposits in the in banks and any net claims on liabilities.

Table 1. Program Exchange Rates as of End-November, 2008

	Currency	Currency per US dollar unless indicated otherwise
Gold 1/	Gold	$814.5 per troy ounce
SDR 2/	Special Drawing Rights	0.672057
RBL 3/	Belarusian rubel	2,156
RBR 4/	Russian ruble	27.423
EUR 5/	Euro	0.7746

1/ Source: http://www.bankofengland.co.uk.
2/ Rate as of November 28, 2008 (www.IMF.org).
3/ NBRB official rate as of November 30, 2008 disseminated on www.nbrb.by.
4/ CBR official rate as of November 29, 2008, disseminated on www.cbr.ru.
5/ Reference rate as of November 28, 2008, disseminated on www.ecb.int.

Table 2. Assumptions for Calculating Adjustors under the Stand-by Arrangement for 2009

Financing item	Q1	Q2	Q3	Q4
I. Adjustor for the NIR performance criterion (millions of US dollars)				
External privatization proceeds of the general government under the SBA	625.0	2.0	225.9	221.4
NBRB balance of payments financing other than IMF	0	0	0	0
Projected foreign borrowing of the general government related to budget support or BOP financing	500.0	500.0	200.0	0
II. Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels)				
Projected foreign borrowing of the general government related to budget support or BOP financing	1,440.0	1,471.1	603.2	0
General government project support for projects initiated after January 2009	86.1	207.4	212.6	212.3
Of which: from IFIs	6.6	52.4	53.7	53.4
Memorandum items				
General government project support for projects initiated after January 2009, millions of US dollars	31.20	70.50	70.50	70.40
of which from IFI project support, millions of US dollars	2.40	17.80	17.80	17.70

Source: Belarusian authorities.

INTERNATIONAL MONETARY FUND

Republic of Belarus—Update of Assessment of the Risks to the Fund and the Fund's Liquidity Position

Prepared by the Finance and Strategy, Policy, and Review Departments

In consultation with other Departments

Approved by Andrew Tweedie and Michele Shannon

June 19, 2009

1. **This paper updates the assessment of the risks to the Fund and the effect on the Fund's liquidity position arising from the Stand-By Arrangement (SBA) for Belarus in view of its proposed augmentation.**[1] The authorities are requesting an augmentation in an amount equivalent to about SDR 651 million (168.6 percent of quota) of the current 15-month SBA that was approved on January 12, 2009 with access in an amount equivalent to about SDR 1,618 million (418.8 percent of quota), exceeding both annual and cumulative limits. The proposed augmentation would be spread evenly across the remaining four disbursements in an amount equivalent to about SDR 163 million (42.1 percent of quota) (Table 1).

Table 1. Belarus: Proposed Augmentation of the SBA—Access and Phasing

				Percent of quota			
		SDR mn		Purchase		Cumulative	
Availability	Date	Original	Proposed	Original	Proposed	Original	Proposed
2009	January	517.8	517.8	134.0	134.0	134.0	134.0
	May 1/	275.1					
	June (approval)		437.9	71.2	113.3	205.2	247.3
	August	275.1	437.9	71.2	113.3	276.4	360.7
	November	275.1	437.9	71.2	113.3	347.6	474.0
2010	February	275.1	437.9	71.2	113.3	418.8	587.3
	Total	1618.1	2269.5	418.8	587.3	418.8	587.3

Source: Finance Department.

1/ May purchase was not made, and will therefore be available upon approval of the augmentation and completion of the first review.

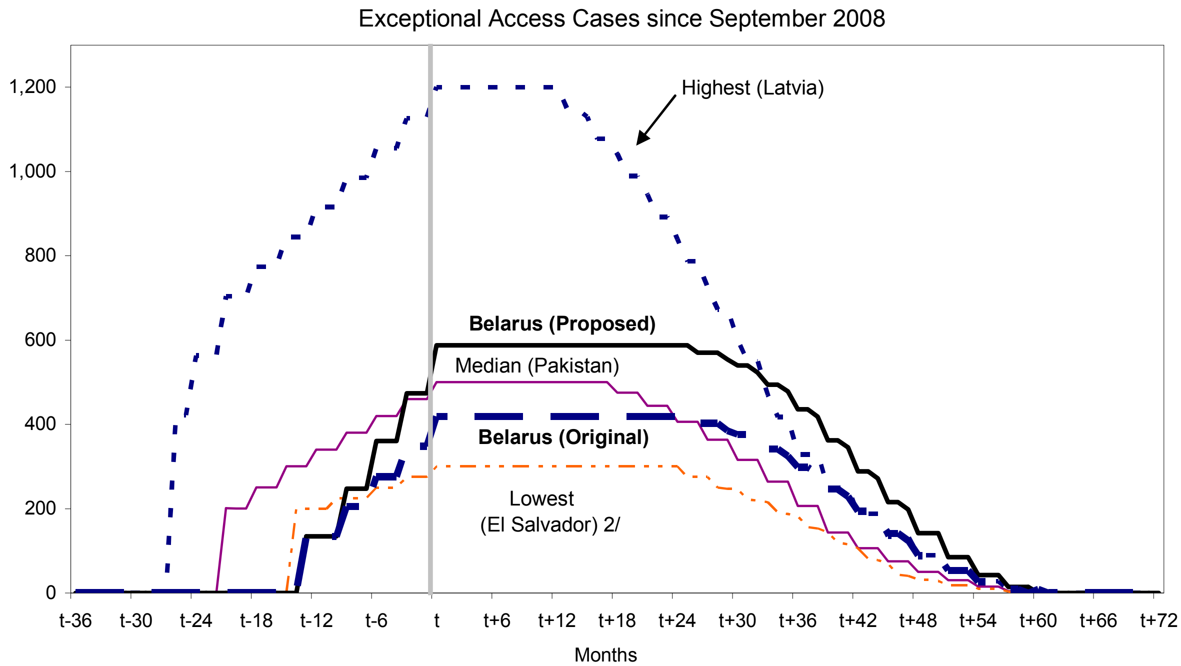
[1] See *Republic of Belarus—Assessment of the Risks to the Fund and the Fund's Liquidity Position* (1/8/2009). Access under the existing arrangement exceeded both the annual and cumulative limits at the time. The Executive Board subsequently doubled the access limits in the GRA to 200 percent of quota annually and 600 percent of quota cumulatively. Under the proposed augmentation, access would exceed the new annual access limit, underpinning the need for an updated assessment.

I. THE AUGMENTED STAND-BY ARRANGEMENT—RISKS AND IMPACT ON FUND'S FINANCES

2. **Several indicators of Fund exposure would deteriorate if all purchases under the proposed augmented SBA are made, also reflecting the weakened economic outlook.**

- Belarus' outstanding use of GRA resources would exceed 200 percent of quota by end-June 2009, and then peak at 587 percent of quota in February 2010. In terms of quota, this projected peak exposure would be above the median peak for recent exceptional access cases (Figure 1).

Figure 1. Fund Credit Outstanding in the GRA around Peak Borrowing 1/
(In percent of quota)



Source: IFS, Finance Department, and IMF staff estimates.

1/ Peak borrowing 't' is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.
2/ The authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized.

- GRA credit outstanding to Belarus would peak at 6.4 percent of GDP by end-2010, at 53.6 percent of reserves by end-2009, and at 15.9 percent of total external debt in 2010 (Table 2), up from 3.9 percent, 39.2 percent, and 11.6 percent, respectively, at the time the SBA was approved.

- Compared with other recent exceptional access cases, peak Fund credit would be slightly above the median relative to GDP, the second highest relative to reserves, and among the highest relative to total external debt (Figure 2).

Table 2. Belarus—Capacity to Repay Indicators 1/

	Jun-09	2009	2010	2011	2012	2013	2014
Exposure and Repayments (In SDR millions)							
GRA credit to Belarus	955.7	1,831.6	2,269.5	2,269.5	1,911.1	831.1	54.7
(In percent of quota)	(247.3)	(474.0)	(587.3)	(587.3)	(494.6)	(215.1)	(14.2)
Charges due on GRA credit 2/		15.1	52.3	55.1	54.9	35.0	7.5
Debt service due on GRA credit 2/		15.1	52.3	55.1	413.3	1,115.0	783.8
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	24.5	38.8	40.4	37.7	34.7	31.6	29.5
External debt, public	6.7	16.7	18.6	17.5	15.5	12.5	10.3
GRA credit to Belarus	2.4	5.6	6.4	5.7	4.2	1.6	0.1
Total external debt service	2.5	2.8	2.9	3.1	4.2	5.6	4.8
Public external debt service	0.6	1.0	1.0	1.0	2.0	3.5	2.5
Debt service due on GRA credit		0.0	0.1	0.1	0.9	2.1	1.3
In percent of Gross International Reserves							
Total external debt	482.1	368.7	298.0	268.9	234.7	202.9	174.8
External debt, public	131.6	158.5	137.4	124.6	104.5	80.1	61.3
GRA credit to Belarus	47.6	53.6	47.3	40.3	28.2	10.1	0.5
Total external debt service	49.3	26.9	21.8	22.3	28.2	36.3	28.4
Public external debt service	11.5	9.1	7.3	6.8	13.3	22.5	15.0
Debt service due on GRA credit		0.4	1.1	1.0	6.1	13.5	7.6
In percent of Exports of Goods and Services							
Total external debt service	4.0	4.8	4.8	4.9	6.5	8.6	7.2
Public external debt service	0.9	1.6	1.6	1.5	3.0	5.3	3.8
Debt service due on GRA credit		0.1	0.2	0.2	1.4	3.2	1.9
In percent of Total External Debt							
GRA credit to Belarus		14.5	15.9	15.0	12.0	5.0	0.3
In percent of Total External Debt Service							
Debt service due on GRA credit		1.6	5.0	4.4	21.6	37.3	26.5
In percent of Total Public External Debt							
GRA credit to Belarus		33.9	34.4	32.4	26.9	12.6	0.9
In percent of Total Public External Debt Service							
Debt service due on GRA credit		4.9	14.9	14.4	45.8	60.2	50.4

Sources: Belarus authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings.
2/ Includes surcharges and service fees.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed augmentation of the SBA. For June 2009, projections for external debt, GDP, gross international reserves, and exports of goods and services are for 2008. Public external debt excludes publicly guaranteed external debt.

3. **The share of the Fund in Belarus' total external debt service increases as a result of the proposed augmentation, though against the backdrop of low external debt obligations, including when compared to recent exceptional access cases.**

- Belarus' projected debt service to the Fund would peak in 2013 at about SDR 1.1 billion, accounting for 37.3 percent of total external debt service (and 60.2 percent of public external debt service), around the median of recent exceptional access cases. However, in terms of exports of goods and services, it would remain relatively low at 3.2 percent, below most recent exceptional access cases.[2]

- Reflecting a relatively moderate total external debt (about 35 percent of GDP on average, less than half of which public), total external debt service would be moderate in terms of exports of goods and services, peaking in 2013 at 8.6 percent, though somewhat high in terms of projected reserves at 36.3 percent.

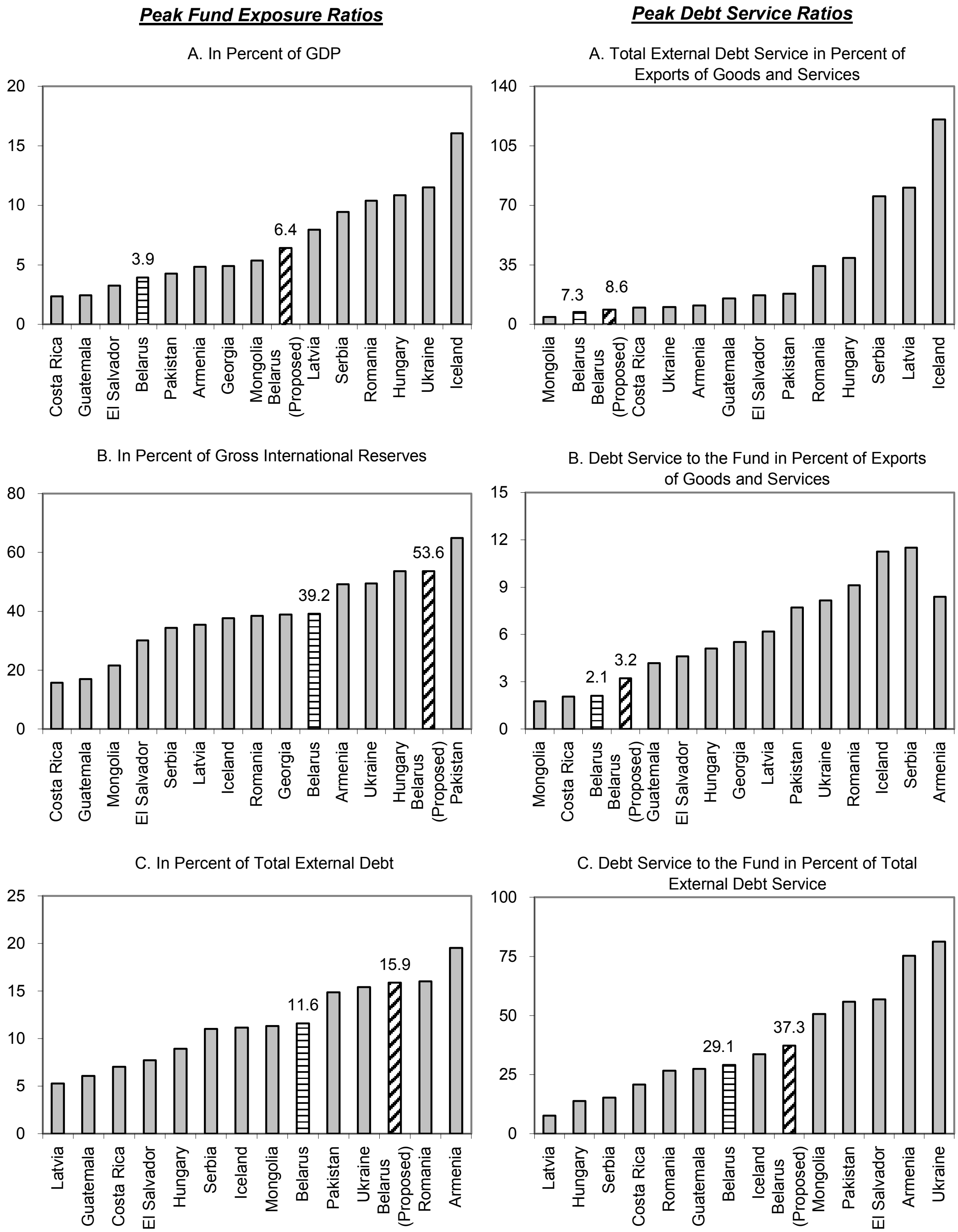
4. **The impact of the augmentation on the Fund's liquidity and burden sharing would be moderate**. The augmentation would reduce the one-year forward commitment capacity (FCC) by SDR 651 million or 2 percent and account for about 9 percent of the Fund's current level of precautionary balances. Charges on the additional GRA obligations would be about SDR 9 million over the next year or slightly above one-fifth of the Fund's estimated residual burden-sharing capacity, currently at about SDR 40 million.

II. Assessment

5. **Financial risks associated with the Stand-By Arrangement for Belarus remain considerable.** At the time of approval, access under the original SBA was perceived as large in terms of the debt service burden it generated in a medium-term context of demanding external financing requirements and the need for substantial current account correction. While the augmentation would have a moderate impact on Fund's finances and Belarus' capacity to repay at the margin, it would add to these already large medium-term external financing requirements. Moreover, there are substantial downside risks to the revised program, in particular a further deterioration in the global outlook or a substantial depreciation of the Russian ruble, and possible policy slippages, which could impair Belarus' capacity to repay. In this context, the authorities' commitment to firm implementation of the program and prompt response to changes in underlying conditions continue to be key to mitigating these risks and safeguarding Fund resources.

[2] Debt service to the Fund is calculated assuming that all purchases and repurchases are made as scheduled and surcharges are calculated according to the current schedule until July 31, 2009 and to the new system of surcharges afterwards.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases



Source: Belarus authorities and IMF staff estimates, and World Economic Outlook.

Statement by the IMF Staff Representative on the Republic of Belarus

June 29, 2009

1. This statement reports on key economic and policy developments since the staff report was finalized. The new information does not alter the thrust of the staff appraisal.

2. **In recent weeks, the authorities took several important actions in the area of exchange rate and monetary policies:**

- *Monetary policy has been tightened.* As indicated in the staff report, the prior actions—raising the NBRB overnight rate by 2 percentage points and issuing a recommendation to banks to increase the rates on new household term deposits by 2 percentage points—have been observed (Appendix II, Table 3). In addition, the authorities are reducing liquidity support to banks to bring Net Domestic Assets (NDA) in line with the proposed revised target.

- *Exchange rate flexibility has been enhanced.* The exchange rate of the rubel against the basket has been gradually lowered to 5 percent below the central parity. On June 22, 2009 the NBRB announced widening of the exchange rate band from ±5 percent to ±10 percent relative to the central parity.

3. **Households and businesses appear to have reacted favorably to the policy changes.** The gradual depreciation of the rubel during June did not trigger a new wave of currency switching: indeed a spike in demand for foreign exchange observed in late May-early June has waned. The upward trend in the stock of household term rubel deposits has resumed, indicating increased public confidence in stability of banks and the rubel. The media response to the widening of the exchange rate band has been generally positive, and there appears to have been no significant increase in foreign exchange purchases by households.

4. **Prospects for external financing during 2009–10 are broadly consistent with the projections in the staff report.** The final $500 million tranche of a $2 billion loan from Russia, originally projected to be disbursed in the second quarter, is now expected to be disbursed in the second half of the year. The authorities have applied for Macro-Financial Assistance from the EU, with a view to bolstering reserves further in late 2009 or 2010.

5. **The corrective actions taken by the authorities offer a good prospect that they will be able to meet the proposed revised performance criteria for end-June.** As of June 24, the level of Net International Reserves (NIR) was about $75 million below the proposed end-June floor, and the level of NDA about 300 billion rubels above the proposed end-June ceiling, after adjusting the targets for the delayed disbursement of the final tranche of the loan from Russia. However, the NBRB has been purchasing foreign exchange, and

NDA is expected to fall as liquidity support extended to finance end-quarter tax payments by businesses is unwound. The authorities appear to be on track to meet the end-June fiscal performance criterion, as the central government has kept up efforts to control spending.

6. **Recently released macroeconomic data illustrate the severity of the external shock and the authorities' attempts to support domestic demand during April-May.** During January-April, exports were 49 percent lower than in 2008 whereas imports fell by only 33 percent, leading to a sharp increase in the trade deficit. However, January-May investment in fixed capital was 18.9 percent higher than in the corresponding period of 2008, in part because of subsidized lending for residential construction. The expansion in investment offset the fall in net exports and contributed to a modest increase in GDP, which grew 1.4 percent year-on-year in January-May. This suggests that the composition of growth during 2009 may differ from that in the staff projections, and that there are some upside risks to the staff's projection of a fall in output for 2009 of about 3 percent. However, since most of the growth in 2008 took place in the second half of the year, it remains likely that output for the full year 2009 will fall. CPI inflation in May amounted to 0.3 percent, reducing 12-month inflation to 13.6 percent.

7. **Some further progress has been achieved in structural reforms.** The authorities liberalized prices on some 40 percent of Belarusian exports. A number of items were excluded from the list of socially important goods and their domestic prices were liberalized. The authorities have also begun working on developing a privatization agency.

Press Release No. 09/241
FOR IMMEDIATE RELEASE
June 29, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Stand-By Arrangement with Belarus, Approves US$679.2 Million Disbursement, and Increases Financial Support to US$3.52 Billion

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Belarus's performance under a program supported by a Stand-By Arrangement (SBA) and increased the financial support to SDR 2.27 billion (about US$3.52 billion), equivalent to 587 percent of Belarus's quota or 7 percent of its GDP. These decisions enable the disbursement of SDR 437.93 million (about US$679.2 million), bringing total disbursements under the program so far to SDR 955.73 million (about US$1.48 billion). The Board also granted a waiver of nonobservance of end-March performance criterion on net international reserves, and approved a modification of the end-June performance criteria.

The original 15-month SDR 1.62 billion (about US$2.51 billion) SBA was approved on January 12, 2009 (see Press Release No. 09/05). The revised arrangement will support the government's economic program and help Belarus to contain the effects of a greater than expected impact from the global financial crisis. To reduce the resulting financing gap, the authorities will maintain a balanced budget in 2009, despite lower revenues; keep monetary policy adequately tight; allow more exchange rate flexibility within a fluctuation band which is now ±10 percent around the parity rate; and deepen structural reforms.

Following the Executive Board's discussion on Belarus, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Belarus's economy has been hit hard by a fall in external demand and volatile cross-currency movements since the program was approved in January. The strengthened adjustment strategy under the revised program responds to these developments. It strikes a balance between additional policy adjustment, using all policy instruments available, and enhanced IMF financial support to close the financing gap during the program period. It also includes stepped up efforts toward liberalizing the economy and preparing for privatization to bolster growth prospects over the medium term.

“The authorities have depreciated the rubel and widened the exchange rate band. These measures should help improve the current account, allow greater exchange rate flexibility, and alleviate pressure on international reserves. The authorities have also tightened monetary policy through increases in policy interest rates and recommendations to commercial banks to increases interest rates on rubel term household deposits. These measures will increase the attractiveness of holding rubel deposits, instill confidence in the currency and help to build central bank credibility. It will be important to maintain tight monetary policy and to resist excessive increases in credit to the economy to boost domestic demand, which could undermine external adjustment.

“The authorities’ decision to continue to pursue a balanced budget for the general government in 2009 despite lower projected revenue is commendable, as is the prudent plan to postpone public sector wage increases. The planned increase in targeted social assistance to the most vulnerable households will help those most severely affected by the crisis.

“The revised program envisages stronger efforts to liberalize the economy and prepare for privatization, which are essential to improve prospects for long-run growth and external stability. Concrete steps include the enactment of a privatization law that conforms to best practices, and the establishment of a privatization agency capable of advancing an ambitious privatization agenda. Other structural measures under the program, including legislative changes to increase the central bank’s independence and plans to reduce further price and wage controls and remove mandatory production and employment targets for private companies, will improve governance and the business climate,” Mr. Kato stated.