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Republic of Belarus: 2009 Article IV Consultation and Second Review Under the Stand-By Arrangement—Staff Report; Informational Annex; Staff Statement; Public Information Notice on the Executive Board Discussion; and Press Release

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 2, 2009, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 5, 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 statement of October 21, 2009, updating information on recent developments.
- A Public Information Notice (PIN).
- A Press Release of October 21, 2009.

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-By Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Michele Shannon

October 5, 2009

Executive Summary

Economic background. Belarus has so far survived the global economic crisis with only limited output loss, but its external position remains vulnerable. The difficult external position reflects the severity of the global crisis, especially the decline in demand for and the price of Belarus's main exports. However, it also reflects delayed adjustment to the fall in exports and more recently the effects of credit expansion under government programs, especially in construction and agriculture.

Program discussions. Fiscal, exchange rate and interest rate policies remain broadly appropriate. The budget targets for 2009 were reaffirmed, and for 2010, the authorities will propose a budget with a modest general government deficit (1.7 percent of GDP). Following the 20 percent devaluation against the U.S. dollar in January 2009, and a subsequent depreciation of 5 percent against a basket of currencies, the exchange rate level appears to be sustainable for the present. Market interest rates are strongly positive in real terms. However, planned increases in credit under government programs threatened the program targets. It was agreed that these plans should be scaled down, and the program now includes a limit on net lending under government programs for the remainder of 2009. Progress is being made on structural reforms agreed under the program. All end-June performance criteria were met. The Belarusian authorities consulted with Fund staff following a decline in reserves in mid-July below targeted levels, and remedial actions were agreed during discussions of the second review. Available data show no clear evidence that any end-September performance criteria will be missed. Staff therefore recommends completion of the second review under the SBA, with a waiver of applicability for end-September performance criteria.

Article IV discussions. For the past decade Belarus has enjoyed high growth founded on high investment levels. But the authorities are well aware that in future the external financing constraint will bite harder, and sustainable growth will require productivity improvements. The staff proposed a menu of reforms to liberalize the economy. The authorities were receptive, though also concerned about the loss of control inherent in liberalization, and the possible social consequences of rapid reform. There was agreement that more foreign direct investment, supported by the stepped up privatization program, could improve productivity and ease the external financing constraint. The authorities reiterated their interest in a successor arrangement to the SBA, incorporating a suitably ambitious structural reform agenda.

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I. Context: The Crisis and The Program

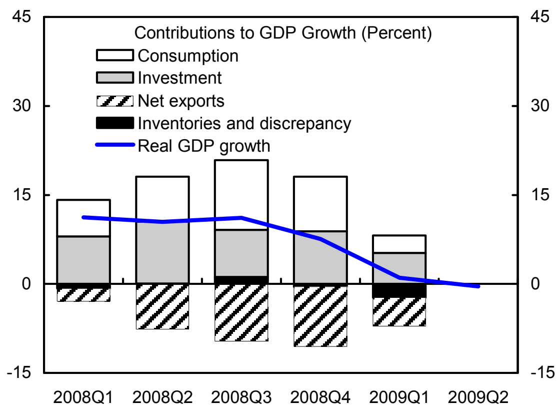
1. **At the outset of the global economic crisis, Belarus was in a highly vulnerable position.** The domestic economy was overheating, and the real effective exchange rate had appreciated sharply during the second half of 2008. The current account deficit was already high and reserves precariously low. Moreover, Belarus's exports were highly concentrated—dominated by exports of manufactured goods to Russia (for which demand fell fast) and oil products to the European Union (for which the price was about to fall precipitously). Households were losing confidence in the currency. Faced with rapidly declining reserves, Belarus turned to the Fund for support.

2. **The Fund-supported program aimed to balance sufficient adjustment to correct external imbalances with sufficient financing to avoid excessive contraction.** The centerpiece of the program was a 20 percent devaluation of the exchange rate and a shift in the peg to a basket of currencies. The exchange rate adjustment was supported by tight income and fiscal policies and increases in interest rates. Fund financing was substantial, and was augmented when it became clear that the fall in Belarus's exports was even larger than had been projected. Recent economic developments suggest that the program has helped to limit the damage from the crisis, but that external adjustment remains limited. The main focus of the discussions on the second review of the SBA was therefore on policy tightening to improve the external position. The main focus of the Article IV Consultation discussions was on the longer term policies needed to produce sustainable growth in a post-crisis world.

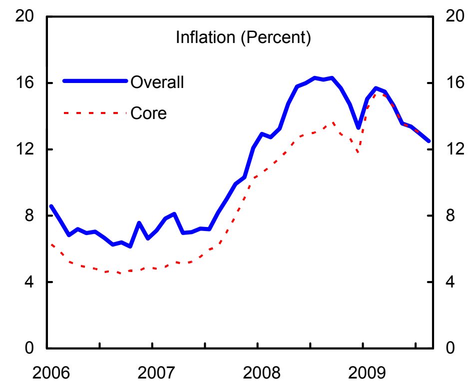
II. Progress So Far: Recent Economic Developments

3. **Belarus has so far not experienced a significant fall in output, despite a sharp fall in external demand**. GDP declined 0.5 percent year-on-year in the first eight months of 2009, as opposed to the 10.9 percent growth registered in the corresponding period in 2008 but still by less than Belarus's main trading partners. Economic activity has been bolstered by strong domestic demand, especially fixed investment which expanded by 16.9 percent, due mainly to housing construction financed under government programs.

4. **Inflation has fallen.** Twelve-month CPI fell to 12.5 percent in August, as the impact of the negative output gap eclipsed the effects of exchange rate depreciation and utility price adjustment early in the year.

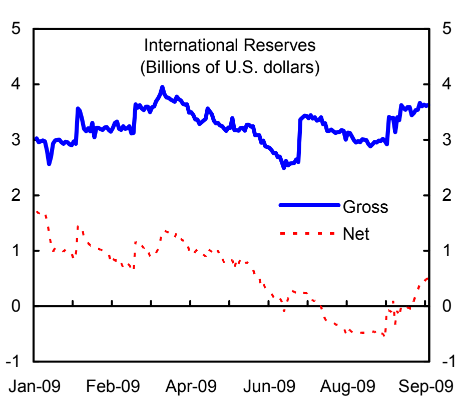


Sources: National Statistical Committee; and IMF staff calculations.

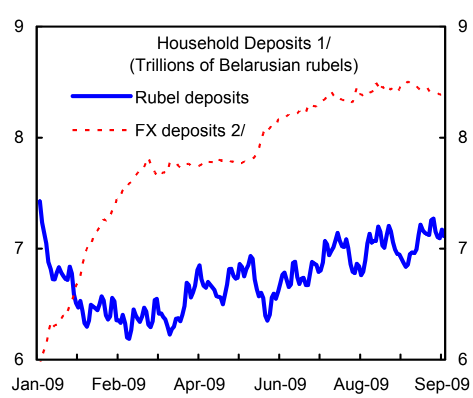


Sources: Belarusian authorities; and IMF staff calculations.

5. **The current account deficit has widened, and international reserves remain low**. Export value contracted by 46 percent year-on-year during the first seven months of 2009, reflecting a sharp reduction in demand, especially by Russia. Imports fell by 35 percent. The energy balance also worsened, as export prices for oil products fell more than import prices of crude oil. The resulting current account deficit ($3.7 billion in the first half of 2009) was partially offset by net financial inflows, including privatization proceeds, trade credits, and government borrowing. Disbursement of the final $500 million tranche of a $2 billion loan from Russia has been delayed. However the Russian authorities expect to make the disbursement later in the year. There will be a $200 million loan from the World Bank. The European Commission will also propose a 200 million Euro loan under the EU's macro financial assistance policy. The rollover rate on debt of the banking system has been about 75 percent, and the risks are limited given the moderate size of scheduled repayments by the banking system ($485 million in the second half of 2009). Currency substitution, which accounted for large reserve loss at the beginning of the year, came to a halt in early June and has been partially reversed since. Gross international reserves began to fall in early July, and declined to below $3 billion in late August. Remedial actions were agreed with staff during discussions on the second review and reserves have begun to recover. Gross reserves have also been boosted by the recent SDR allocations amounting to about $570 million.



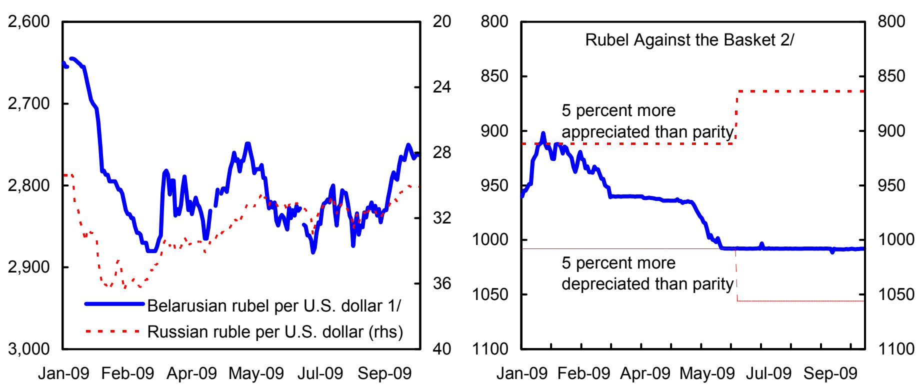
Source: National Bank of the Republic of Belarus.



Source: National Bank of the Republic of Belarus.
1/ Deposits held with the six largest banks operating in Belarus.
2/ Forex deposits shown excluding valuation changes (at constant exchange rate as of January 2).

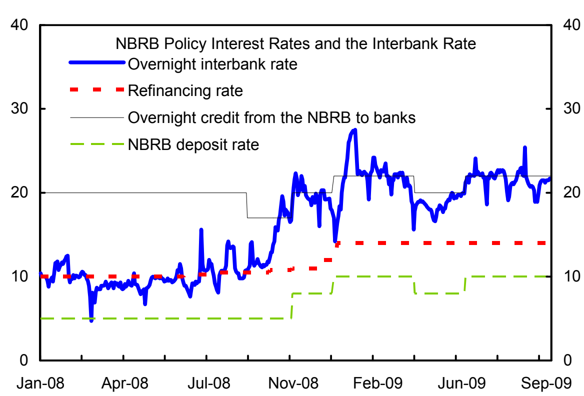
6. **The fiscal adjustment remains strong and on track, with further revenue shortfalls being offset by spending restraint**. The effects of the crisis continue to be felt, especially through lower profit tax and excise revenue. The authorities have responded with cuts in expenditures for goods and services and "other expenditures". As agreed at the time of the first review, local government deficits financed from accumulated surpluses and foreign-financed net lending under projects approved before the program, do not need to be offset by additional adjustment by the central government. As a result, the projected consolidated budget deficit could reach 1.7 percent of GDP in 2009.

7. **The exchange rate has remained broadly stable since end-June.** Following the depreciation of the rubel during May and June, and the widening of the trading band from 5 percent to 10 percent in June, the exchange rate has varied little against the basket of currencies.

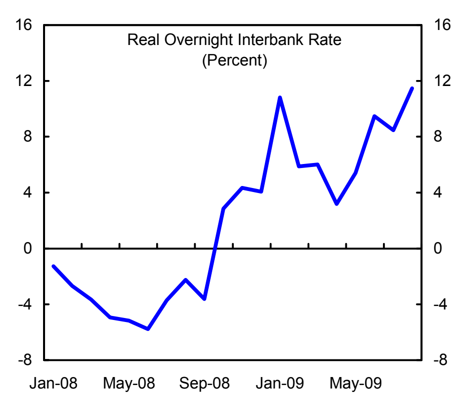


Source: National Bank of the Republic of Belarus.
1/ The Belarusian rubel per U.S. dollar rate as set at the Belarusian Currency and Stock Exchange (BCSE). The BCSE rate is set as the official rate for the following day.
2/ The basket rate is calculated using BCSE exchange rates.

8. **Market interest rates remain high in real terms.** The NBRB increased the interest rate on overnight loans by two percentage points in June, while leaving the refinancing rate unchanged, and interbank interest rates are usually over 20 percent. As inflation subsided, market-determined interest rates increased sharply in real terms.



Sources: Belarusian authorities; and IMF staff estimates.



Sources: Belarusian authorities; and IMF staff calculations.

9. **However, lending under government programs has continued to increase at a high rate (Box 1)**. In the first half of 2009, gross disbursements under government programs were some 40 percent higher than in the corresponding period of 2008. The share of such lending in overall credit to economy increased from 33 percent in December 2008 to 38 percent in July 2009. This lending helped propel high rates of investment and domestic demand and therefore contributed to the loss of reserves.

10. **Financial soundness indicators remain broadly satisfactory except for insufficient liquidity in some banks**. The aggregate capital adequacy ratio has declined slightly, but remains sufficiently high to cope with a variety of potential stress test scenarios (Box 2). Nonperforming loans remain low, though they are expected to increase further. Profitability has slightly decreased. Liquidity indicators are a source of concern, especially for state-owned banks, some of which do not comply with the prudential liquidity ratios. The persistent vulnerability of these banks to liquidity risk stems from their significant involvement in lending under government programs.

III. Riding Out the Storm: Policy Discussions on the Program

A. Macroeconomic Outlook

11. **So long as credit growth is contained, the program targets for 2009 remain within reach.** Based on tight fiscal and monetary policies in the period ahead, supported by the imposition of a limit on credit under government programs, GDP is projected to decline by about 1 percent in 2009. Significant import contraction in the last few months of the year is expected to contain the current account deficit to around 9½ percent of GDP. This, together with financial support from international donors, will help attain the gross reserve target for 2009. For 2010, the aim should be to bring down the current account deficit further to 7 percent of GDP and increase gross reserves to at least $7 billion (about 2½ months of imports). With the expected recovery of external demand, which will facilitate a modest rebound of output in the order of 2 percent, this can be achieved with a fiscal policy stance similar to that of 2009 and a credit increase in line with nominal GDP. However, an unrestrained credit policy would enlarge further the saving-investment gap, leading to a current account deficit of 13 percent of GDP in 2009 and (if continued on a similar scale) 11 percent in 2010, and a cumulative shortfall of gross reserves by end-2010 of about $4 billion compared with the target of the original program. The authorities broadly agreed with this analysis, though they were more optimistic about export prospects and external financing going forward, and favored a smaller reduction in credit growth.

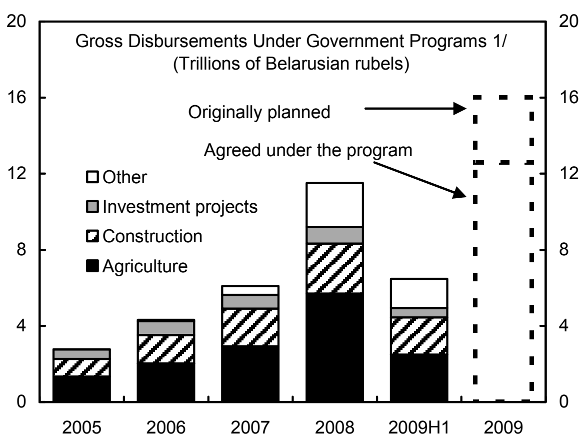
Box 1. Lending Under Government Programs

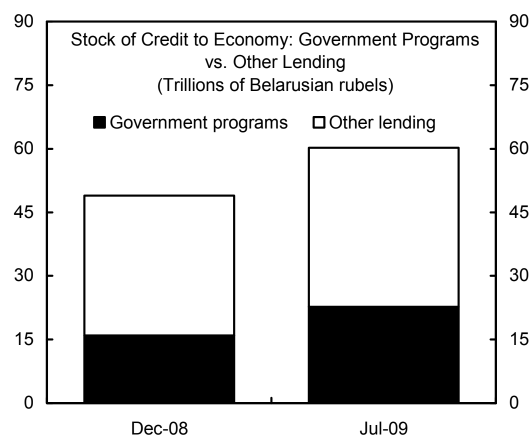
The government is an active player in the financial system, and bank lending under various government programs remains a distinctive feature in Belarus. Government programs are typically implemented via presidential decrees or resolutions of the Council of Ministers which recommend lending to particular projects, sectors, or companies, often at highly subsidized interest rates. Disbursements and repayments are done outside the regular budget process, but a part of the interest payments is subsidized by the budget: borrowers typically pay a subsidized rate to the banks and the government compensates the banks for the difference between the subsidized and the "market" rate which is typically set at a certain margin over the NBRB's refinancing rate. Many of recommended credits carry state guarantees (Box 1 in the 2009 FSAP Update). There has been a sharp increase in lending under government programs over the period of 2005-09, with the bulk of credits going to agriculture and construction.

State-influenced lending is generally distortive. It interferes with the development of a sound risk culture, precluding the proper pricing and efficient allocation of credit in accordance with inherent risk. Such lending also blocks normal monetary policy transmission mechanism by inducing credit expansion at non-market terms.

The Fund staff has consistently expressed concern about these lending programs. In December the authorities agreed not to initiate new programs financed with government deposits and placed a ban on transferring additional government deposits to commercial banks in order to set the stage for transforming state banks into more market-oriented entities. Nevertheless, while overall monetary limits under the program framework were met, lending under government programs continued in early 2009 using non-government deposit financing, prompting expressions of concern in the staff report in the first review of the SBA that subsidized lending crowds out lending to the private sector. Since then, lending under government programs has increased even more rapidly. The share of such lending in overall credit to economy increased from 33 percent at end-2008 to 38 percent in July 2009.

At the same time, under pressure to meet the lending targets specified in decrees and resolutions, banks turned to the NBRB for refinancing. The NBRB supported this lending using mechanisms outside its standard refinancing facilities (via ad hoc decisions of NBRB Board), increasing the stock of such support by some 1.9 trillion rubels (1.4 percent of GDP) in the first half of 2009 and by a similar amount in July-August 2009 (the average interest rate for refinancing of these programs at the end of August averaged to 9.3 percent, negative on a real basis).





Sources: National Bank of the Republic of Belarus; and IMF staff calculations.
1/ The flows in H1 2009 are shown at program exchange rates.

Box 2. Banking System Stress Tests

Stress tests based on the end-June 2009 data show that banks have sufficient capital buffers to withstand the assumed shocks (see table) but are significantly vulnerable to liquidity risk.

Despite a small decrease in the aggregate capital adequacy ratio (CAR) since late 2008, banks would remain sufficiently capitalized in the considered stress test scenarios. In the scenario of an increase in the ratio of nonperforming loans to total loans by 15 percentage points, the aggregate CAR would drop from 19.1 percent to 12.4 percent, which is sufficiently above the prudential minimum of 8 percent. The direct effects of exchange rate or interest rate risk remain insignificant. Stress-tests based on macro scenarios, which the NBRB has recently performed in the context of the region-wide stress testing exercise organized by the IMF staff, also suggest that bank capital would stay above the prudential minimum even in the event of a significant macroeconomic slowdown.

State-owned banks are significantly vulnerable to liquidity risk. As of end-June 2009, the actual current liquidity ratio was 95 percent for the banking sector as a whole, but only 76 percent for state-owned banks, which is only marginally above the prudential minimum of 70 percent. Under the considered stress test assumptions (a 10 percent withdrawal of domestic liabilities or a 25 percent withdrawal of liabilities to nonresidents), state-owned banks as well as the largest banks would end up with the current liquidity ratio below the statutory minimum. The vulnerability of state-owned banks to liquidity risk, which had already been emphasized by the results of stress tests in the past, stems from the significant involvement of these banks in lending under government programs.

Sensitivity Stress Test Assumptions and Results

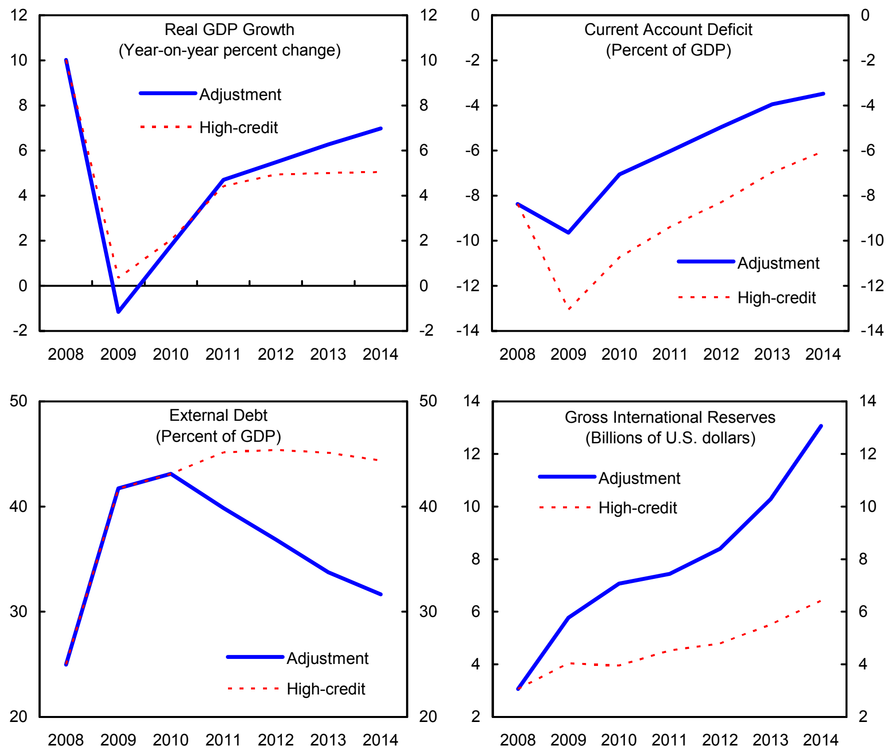
(Based on end-June, 2009 data)

	All banks	State owned banks	Foreign Banks	Private Banks	Largest Banks	Medium banks	Small banks
Actual capital adequacy ratio	19.1	18.1	22.1	31.1	17.8	21.5	38.5
			Stressed Capital Adequacy Ratio				
Increase in the share of problem assets by 15 percentage points	12.4	11.3	15.6	26.2	11.0	14.8	33.7
Depreciation of BYR by 20 percent	18.8	17.6	22.5	31.3	17.4	21.7	38.6
Upward shift in the BYR yield curve by 300 basis points	18.7	17.7	21.9	30.7	17.4	21.4	38.2
Actual current liquidity ratio	94.9	75.9	146.5	168.4	84.9	117.6	191.2
			Stressed Current Liquidity Ratio				
10 percent withdrawal of domestic liabilities	75.1	50.9	141.3	159.5	62.0	109.1	185.3
25 percent withdrawal of liabilities to nonresidents	62.7	34.4	111.7	148.4	51.5	74.5	150.5

Source: National Bank of the Republic of Belarus.

1/ The current liquidity ratio is the ratio of assets with a remaining maturity of less than one month to liabilities with a remaining maturity of less than one month.

Adjustment and High-Credit Scenarios



Source: IMF staff estimates.

12. **Medium-term prospects depend critically on the implementation of structural reforms to improve the country's growth potential and reduce external vulnerability**. Reforms aimed at fostering a dynamic private sector and increasing the role of market in resource allocation would boost productivity and ease external financing constraints (discussed in Section V), realizing a medium-term potential growth of 7 percent. Under this scenario, which also envisages low fiscal deficits and a prudent monetary policy that contains inflation to moderate single-digits, the current account deficit will gradually fall and stabilize at around 3½ percent of GDP. The capital inflows associated with accelerated privatization will help increase gross reserves to cover about three months of imports, providing a buffer against external shocks. Under a more hesitant approach to reforms, the external financing constraint would bite harder, putting constraints on a growth model reliant on high investment. Medium-term growth would be expected to be 2 percentage points lower, reflecting financing constraints and lower productivity growth. External vulnerability will remain, reflected in high current account deficits and external debt. The authorities broadly agreed but emphasized the strengths in their growth model and their ongoing efforts to improve the business environment.

B. Credit, Monetary, and Exchange Rate Policies

13. **A tight credit policy is critical for external sustainability.** Sharp expansion of lending under government programs, mainly to agricultural and construction sectors, has

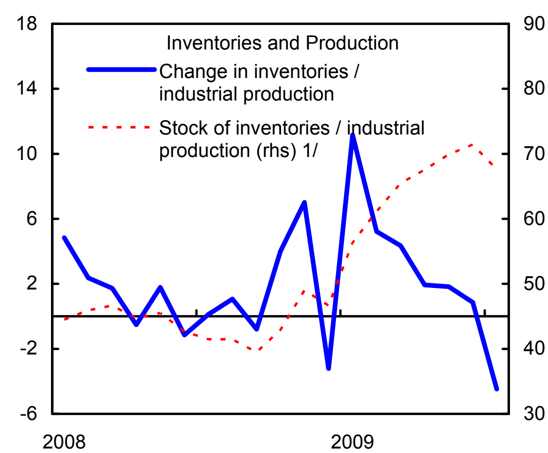
resulted in strong aggregate investment and domestic demand and has put substantial pressure on the current account and international reserves. The authorities originally planned to increase this lending even more in the second half of 2009 arguing that agriculture and construction have low import intensity and therefore could be used as the means for pulling the economy out of the recession. Staff disagreed, noting that such an expansion would have direct and indirect effects on domestic demand, and hence on the balance of payments (see paragraph 11). The authorities accepted these arguments and have agreed to limit lending under government programs to 4 trillion rubels for the second half of 2009.[1] This is necessary to return NDA and NIR to a path consistent with the program objectives, and is also expected to improve banks' liquidity ratios. The limit will initially be implemented through NBRB recommendations to commercial banks. The issues of limits for 2010 will be taken up in the context of discussions of the third review.

Basis for a Limit on Credit under Government Programs in 2009

	High-Credit Scenario	Adjustment Scenario
Net lending under government programs during H2 2009 (trillions of Belarusian rubels)	7.3	4.0
Credit to economy at program exchange rates (percent change)	27.0	17.1
Domestic demand (percent change)	2.9	-1.2
Imports (percent change)	-21.8	-26.0
Financing gap (billions of U.S. dollars)	1.7	0.0

Source: IMF staff calculations.

14. **The authorities will also contain domestic demand in the remainder of 2009 by limiting credit and imports by state enterprises with high levels of inventories.** State enterprises have been slow to respond to the fall in domestic and external demand, in part because they have tried to adhere to output targets set before the crisis. As a result inventories have increased sharply. The NBRB has now issued recommendations to banks to restrict credit to enterprises with high levels of inventories, to curtail their demand for further imports, and the government has required state enterprises to secure authorization for additional imports from supervising ministries. These



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

[1] Given loans already extended in July and August and expected repayments, this will have the effect of limiting gross lending under government programs during September-December 2009 to about three trillion rubels, less than half the original plan.

short-term measures are already bearing fruit and are expected reduce demand for imports by about $400 million in the remainder of 2009, helping the authorities to meet the reserves targets under the program.[2]

15. **The NBRB will continue to use interest rate policy to contain credit and domestic demand.** Market interest rates are now well above the expected rate of inflation, and the authorities would like to begin reducing them. However, they accepted staff advice that such a reduction should await clear evidence that they are on track to meet targets for external reserves and that the process of de-dollarization is well established.

16. **The level of exchange rate appears to be appropriate based on agreed policies (Box 3).**[3] Comparing the current account norm with the staff's medium-term projections implies only a marginal overvaluation of 2 to 4 percent. The external sustainability approach also indicates that the net external asset position can be broadly sustained without a major correction in the exchange rate. At present, given the importance of the nominal exchange rate in shaping public expectations, staff agreed with the authorities that the current exchange rate regime would serve the country well in the near term. However, the staff advised the authorities to make use of flexibility available under the ±10 percent band, especially if reserves targets appear to be at risk for reasons other than insufficiently tight credit policy.

C. Fiscal Policies

17. **The authorities remained committed to fiscal restraint, an important anchor of the adjustment strategy**. They planned to offset the estimated revenue shortfall (0.5 percent of GDP) by savings on unallocated appropriations, goods and services, and investment of the central government. They decided to further defer the wage increase and increase charges for transportation and utilities (which will reduce the need for subsidies) to help rein in spending, making room for a pension increase of up to 10 percent this year. Local budgets' expenditure will be monitored closely and, when possible, kept in line with revenue performance. The authorities remain committed to shielding social sectors from spending cuts.

18. **The deficit limit of 1.7 percent of GDP in the draft 2010 budget is consistent with program objectives**. Under the proposed budget, the tax burden will be reduced by 2½ percent of GDP, mostly by eliminating the turnover tax and local sales taxes. Expenditure on goods and services and investment spending will be reduced. Increases in charges for transportation and utilities in early 2010 will rein in transfers, but interest rate subsidies and those for oil refineries will continue to put pressure on the budget. The wage bill will

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[2] The inventory level dropped in July as enterprises cut production further and stepped up efforts to sell products in response to the introduction of the sales-to-output target set by the government.

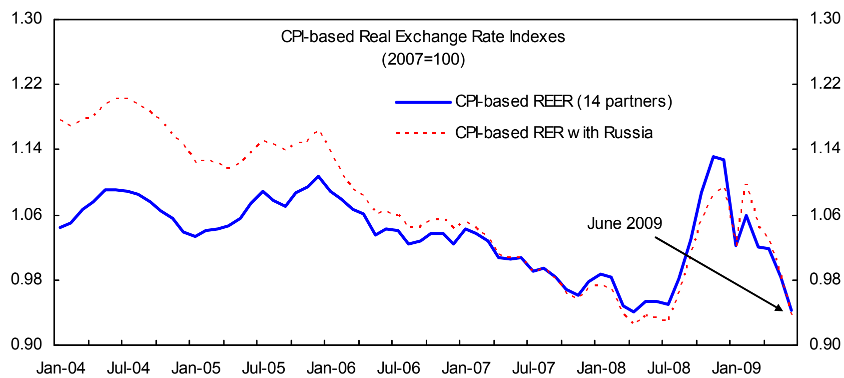
[3] More details are provided in the accompanying Selected Issues Paper: "Is There a Need for Further Adjustment in the Exchange Rate?"

Box 3. Is There a Need for Further Adjustment in the Exchange Rate Regime or Level?

Adopting the currency basket with flexibility around a central parity was well suited for riding out the crisis. The substantial misalignment observed at the end of 2008 has been largely corrected and there is no need for further significant exchange rate adjustment. Sustainability of the current rate, however, is conditional on maintaining tight control of domestic demand.

The switch to the currency basket in January 2009 accompanied by a nominal correction reversed the erosion of competitiveness. The basket preserved the function of a nominal anchor essential for maintaining external stability, but at the same time safeguarded Belarus' competitiveness in the environment of significant volatility of major trading partners' currencies. The band around a central parity provided a cushion for responding to shocks. Until the institutional framework required for a credible alternative nominal anchor is in place, the basket peg will serve to preserve stability.

The CPI-based REER suggests that Belarus experienced a substantial loss of competitiveness in the last half of 2008 but regained it in the first half of 2009 on account of a step devaluation in January and further depreciation in May-June 2009. The ULC-based REER suggests broadly the same conclusions. To the extent that pressure on reserves continues, it comes from insufficiently tight credit policies.



The macroeconomic balance approach suggests only a marginal overvaluation, which, given inherent uncertainty in equilibrium exchange rate assessments, does not provide sufficient ground for recommending another substantial adjustment of the nominal exchange rate. The current account norm (based on the CGER model with Belarus' equilibrium values of regressors), is estimated at -2 to -2.7 percent of GDP. The underlying current account deficit, which is likely to appear in the medium-term if Belarus follows policies agreed under the second review of the program, is 3.5 percent of GDP. This implies a marginal overvaluation of 2-4 percent. If, however, domestic demand policies fail to adjust the underlying current account deficit would be much wider, implying a substantial misalignment of the exchange rate.

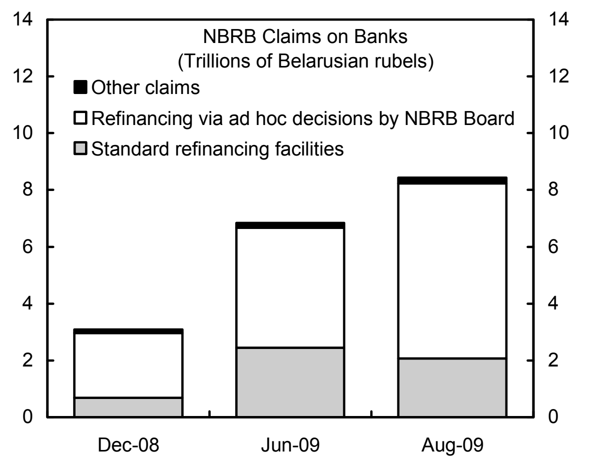
The external sustainability approach leads to a similar qualitative conclusion. Policies outlined in the Letter of Intent would be consistent with stabilizing Belarus' net external asset position (NEAP) at its present level (30 percent of GDP at the end of the first quarter of 2009). Without adjustment in domestic policies, sustaining the present NEAP position would require a REER adjustment of about 15 percent.

increase in line with nominal GDP. A presidential decree to increase targeted assistance will double subsidies and transfers to the poor. The Ministry of Finance will also propose additional investment spending (1.3 percent of GDP), which would restore investment spending to its 2009 level as a share of GDP, but the inclusion of this spending in the 2010 budget is contingent on securing revenue sufficient to offset the effects on the deficit. To this end, a proposal to increase the VAT rate by 3 percentage points is under discussion.[4]

D. Financial Sector Policies

19. **In addition to limiting lending under government programs, discussions focused on the need to reduce government involvement in other aspects of the financial sector.** In particular:

- ***Staff emphasized that NBRB liquidity support to banks on non-market terms should be phased out***. The growth in lending under government programs (para 13) has been significantly funded by the NBRB liquidity support to (state-owned) banks outside standard refinancing facilities. This NBRB refinancing has been extended to banks at the below market interest rates and on non-transparent terms and conditions. The staff expressed concern that this type of bank refinancing goes against the proclaimed intention to disengage the NBRB from non-core business, and distorts effective competition among banks. The authorities believed that providing liquidity support at below market rates is necessary to prevent commercial banks from incurring losses on their lending under government programs. However, they acknowledged the problem, and by end-December 2009 they will agree with IMF staff a schedule for phasing out this support.



Source: National Bank of the Republic of Belarus.

[4] A proposal to increase VAT by 4 percentage points was rejected by the government earlier this year, due to concerns about the effects on enterprises' liquidity, consumers and inflation. The Ministry of Finance will rely on technical assistance from the Fund to address some of these concerns, and also believes that a VAT increase will be more politically palatable when linked to higher infrastructure spending.

- ***There was agreement on the need to enhance NBRB independence***. Following the recommendations of the recent Safeguard Assessment and FSAP Update, the authorities are preparing amendments to key financial sector legislation, including the Statute of the NBRB. These institutional changes should help improve the effectiveness of both banking supervision and monetary policy implementation.

- ***There was also agreement that the NBRB should disengage from non-core business***. To this end, by end-December 2009, the authorities will develop an action plan for sales to private investors of all NBRB non-financial subsidiaries and associated companies.

E. Other Structural Reforms

20. **The authorities and staff agreed on the importance of accelerating the privatization program.** Tangible progress has been achieved in developing a legal framework for privatization to become competitive, transparent, and professionally executed. A draft Privatization Law and a draft decree on establishing a privatization agency will be submitted to the President by September 30, 2009. A privatization agency is expected to become operational shortly after the relevant decree is enacted, focusing on preparing several large enterprises for privatization through an open, international, transparent, and competitive tender by end-February 2010.

21. **Further steps in curtailing the government's involvement in the economy are planned.** The authorities agreed to desist from setting quantitative targets, including for output and employment, in enterprises where the government has only a minority shareholding. The authorities plan to further liberalize prices this year by reducing the number of products subject to price controls and trade margins, consistent with the World Bank recommendations. However, more needs to be done in improving the flexibility in setting wages, as the corporate sector remains subject to the unified pay grading system. The authorities also need to refrain from taking protectionist measures in response to the current crisis.[5]

IV. Program Modalities and Capacity to Repay

22. **The attached Letter of Intent summarizes the progress in implementing the economic program**. All quantitative and continuous performance criteria for end-June were met.[6] As committed in the letter, the authorities suspended the adoption of new government

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[5] In May 2009, Belarus introduced temporary higher import tariffs on two lists of consumer goods that will be effective for six months and nine months, respectively.

[6] Table 2 of the Letter of Intent for the first review erroneously indicated that the end-June performance criterion on the ceiling of the government deficit was not subject to the adjustment mechanism.

lending programs. They also eliminated all instructions that are not consistent with their commitment not to impose a general ceiling on monthly price increases. The structural benchmark to engage a consultant to assist in preparing state-owned banks for privatization was partially met, as the authorities selected an international consultant to assist in the privatization of one bank, and plan to engage consultants for other banks once strategic investors for those banks are identified. The authorities are on track to submit to the Head of State a draft Decree on establishing a Privatization Agency, and bring loan classification and provisioning requirements in line with best international practices, two structural benchmarks for end-September.

23. **The Letter also sets out policy commitments for the remainder of 2009**. With data yet to be released and assessed and no evidence that the performance criteria will not be met, the authorities are requesting a waiver of applicability of the end-September quantitative performance criteria, which is supported by staff. The end-December indicative targets, adjusted upwards (NIR) and downward (NDA) by 100 percent of the equivalent of the amount of the recent SDR allocations, are proposed to be established as the performance criteria.[7] The measures envisaged in the Letter, together with financing from international donors, are expected to bring the gross reserves to targeted levels for the program period. A financing gap of about $300 million had emerged in 2009, but this is now expected to be filled by additional financing from the EU. Thus, the program is fully financed. With regard to 2010 beyond the program period, additional adjustment or financing would still be required to bring reserves up to a more comfortable level. To strengthen the program, an additional structural benchmark is proposed to reflect the authorities' commitment to refrain from imposing quantitative targets on companies that do not benefit from government's financial support and in which the government has only a minority share.

24. **Belarus's capacity to repay the Fund remains adequate.** The level of Fund credit outstanding is expected to reach 49 percent of gross international reserves at its peak in 2010, and Fund repurchases and charges would amount to 37 percent of total debt service in 2013 (Table 9). The risks are manageable given the still moderate level of gross external debt (expected to peak at 43 percent of GDP in 2010 and fall thereafter as the current account deficit declines). Additional comfort stems from the fact that the public debt will remain below 30 percent of GDP even at its peak in 2010, reflecting the government's commitment to sound fiscal policy (Appendix I).

[7] The Technical Memorandum of Understanding accompanying the Letter of Intent updates the definition of NIR by removing a requirement that securities counted towards reserve assets be issued by G-7 countries, thereby bringing the definition closer to practice used in other Fund programs.

V. Looking Beyond the Crisis: Policies to Support Sustainable Growth

25. **Discussions for the 2009 Article IV Consultation were focused on policies that could bring about sustainable growth, and form the basis for a follow-up program.** The starting point in this analysis for the staff is that the world after the crisis will be different. Constrained access to capital markets, as well as the phasing out of energy subsidies from Russia, implies that Belarus should shift its growth model from one based on high capital investment to one based on productivity increases, supported by strong macroeconomic policies. The authorities broadly shared this view, but stressed that the social costs of structural reforms should be minimized, and cautioned against overly rapid change. The staff's views are summarized below, and developed in more detail in the Selected Issues Paper "Belarus: Sources of Recent Growth and Prospects for Future Growth". A rich exchange of views with the authorities also came in a joint NBRB/IMF Seminar held on August 25.[8] It was agreed that an agenda for structural reform that could form the basis for a follow-up Fund program beginning in 2010 would be discussed further during subsequent review missions.

A. Reinventing Belarus's Growth Model

26. **Belarus achieved an average 7.5 percent annual growth in the ten years up to 2008, benefiting from its inherent strengths and favorable external conditions.** High investment-to-GDP ratios and productivity gains from a well-educated and disciplined labor force were the main contributors to growth. Some aspects of the Belarusian economic model are discussed in Box 4. The favorable external environment—including strong growth in Russia and the rest of the world, easy access to the Russian market, and low-cost energy imports from Russia—also allowed the economy to grow rapidly.

27. **However, the global economic crisis has exposed the economy's vulnerability.** The external current account has registered a sizable deficit for most of the past decade as savings fell short of investment, leading to precariously low international reserves. Concentrated exports, destined mainly to the Western European market for oil products and the Russian market for non-energy products, were hard hit when demand in both markets fell drastically as a result of the global financial crisis. The situation was exacerbated by lower world oil prices and reduced subsidies on energy imports.

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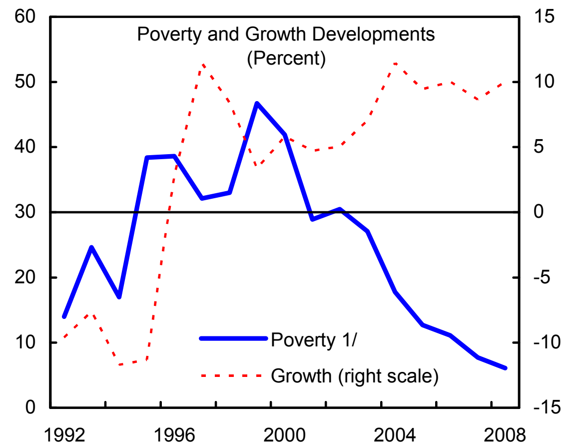
[8] Presentations made at this seminar can be found at: http://www.imf.org/external/country/BLR/rr/index.htm

Box 4. Belarus's Economic Model

Almost two decades after independence, Belarus achieved impressive growth while displaying many features of a planned economy. After a 40 percent decline in output during 1992–95, the government sought stability and to protect jobs and wages by wielding wide administrative controls, including on prices, trade margins, and the exchange rate. Thereafter, Belarus achieved the highest growth and lowest poverty rates of the CIS.

The pro-poor economic model provided ample social benefits, but proved difficult to finance and sustain in the long-run. Growth resumed in 1996 and remained high until 2008, permitting large investments in physical and social infrastructure that helped in turn sustain growth. Its distributional pattern is also found to benefit the poor more than the rich. World Bank simulations imply an elasticity of poverty reduction to economic growth of about 2.5, much higher than in Latin America and the Caribbean or Sub-Saharan Africa. An extensive system of social services and social protection contributed to Belarus's social achievements. However these achievements were supported by expansionary domestic policies that exhausted Belarus's foreign reserves and increased its vulnerability to economic shocks. Moreover, a high tax burden to finance large untargeted subsidies retarded private sector development.



Sources: Belstat; and IMF staff estimates.
1/ Proportion of population with average per capita available resources below the minimum consumer budget.

Wage policies. The policy of setting large wage increases (with dollar-denominated wage targets) has had a positive impact on poverty reduction in Belarus. However, real wage growth has outstripped productivity growth, undermining competitiveness and economic stability.

Social protection. Poor households (with a smaller share of wage income) receive large social protection transfers (child allowances, housing assistance, etc.) and pensions. Social protection transfers averaged about 14 percent of GDP during 2002–09. Quasi-fiscal transfers are also important, with SOEs financing social assets (housing, utilities, schools). Large transfers to loss-making companies and active labor market programs kept unemployment low.

Education and health policies. The social sectors in Belarus are overwhelmingly state financed and use more than a quarter of budget resources (11 percent of GDP). The share of **education** outlays relative to GDP hovers around 6½, significantly more than in OECD countries. This helped form a well trained labor force. With a publicly provided **health** care system and generous benefits, health indicators also rank among the best in Europe and Central Asia. Belarus has one of the lowest infant and under 5 mortality rates, lowest maternal mortality rates, and almost universal immunization rates.

28. **In the longer run, several external constraints are likely to hinder a return to the growth path prior to the current crisis**. Both the GDP levels and potential growth rates of Belarus's main trading partners are likely to be lower in the aftermath of the crisis, reducing external demand for Belarus's products. Belarus would not benefit to the same extent as in the past from preferential prices on oil and gas imports from Russia. Meanwhile, the investment-driven growth model will face pressure as external financing is likely to be less accessible and more costly following the global crisis. There are also indications that the returns from investment have declined, not only because the level of investment is already very high, but because much of recent investment has been in residential construction.

29. **Potential growth is likely to be significantly lower than the pace observed in the recent past**. A study based on the production function approach shows that capital accumulation explained about 70 percent of the growth during 2001–08, while productivity gains contributed 23 percent[9]. However, the growth of both the capital stock and productivity has been declining in recent years. Extrapolation of the recent trends of capital and productivity growth yields a medium-term potential growth rate 2½ percentage points lower than the average for 2001–08. As discussed in the section on the medium-term outlook, external financing constraints following the current crisis would reduce investment growth further, depressing potential growth to around 5 percent. To achieve a medium-term growth of 7 percent, productivity increases averaging 3 percent annually would be required.

Sources of Economic Growth

(Percent)

	1995–2000	2001–08	Potential Growth Estimate
Real GDP growth	3.4	8.3	5.7
Factor accumulation 1/	6.3	6.1	3.8
Labor	-0.9	0.4	0.0
Capital	12.3	10.7	6.9
Solow residual 2/	-2.9	2.2	…
Total factor productivity	-0.7	1.9	1.9
Cyclical factors	-2.2	0.3	…

1/ Accumulation of labor and capital, using factor shares of 0.45 and 0.55 respectively.
2/ Residual from the growth accounting exercise.

30. **The staff argued that Belarus could strengthen its growth factors by carrying out structural reforms**. Experience in other countries that have undergone economic transition shows that better allocation of resources, a larger and more dynamic private sector, and increased use of foreign capital can help boost productivity growth. Belarus has much to gain from market-oriented reforms given that Belarus is still in its early stage of transition, and its structural reforms should focus on yielding state control to market forces, and pushing ahead with privatization. A menu for structural reforms is set out in Box 5.

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[9] See Selected Issues Paper "Belarus: Sources of Recent Growth and Prospects for Future Growth".

Box 5. A Menu for Structural Reforms

Reduction in state intervention in the economy will allow market forces to play a major role in the allocation of resources. **Specific reforms could include:**

- Minimizing price controls so that price signals can direct the flow of resources and help adjust excesses and shortages in the economy;

- Abolishing most retail trade margins in line with the government's agreement with the World Bank;

- Liberalizing wages to reward high productivity, and developing the labor market so that workers can move to jobs where they are most productive;

- Abolishing mandatory quantitative targets at the macroeconomic and enterprise levels as it has become more difficult to manage an increasingly sophisticated economy through central planning; and

- Allowing the banking system to make lending decisions based on the profitability and risks of projects rather than government recommendations.

Productivity growth could also benefit from the emergence of a strong private sector through:

- Simplifying conditions for setting up new private businesses, as experience in other countries indicates that jobs created by the private sector can provide employment opportunities for workers laid off as a result of state enterprise reforms. New businesses might be created by spinning off parts of existing state enterprises;

- Further reducing the regulatory burden on the private sector, and allowing greater flexibility in setting prices, wages and margins;

- Increasing the private sector's access to credit resources by fostering a more competitive financial sector.

An ambitious and transparent privatization agenda that is open to foreign investors would help bring capital, technology, and management and marketing skills. The following measures would facilitate this process:

- Reducing conditions attached to new investment, such as requiring retention of current employees and wage scales;

- Enacting a modern Privatization Law, and establishing a Privatization Agency with powers to prepare enterprises for privatization and hire professionals from the market.

31. **Providing social security can help reduce the negative impact of, and sustain popular support for, structural reforms**. The authorities were concerned about the social impact of structural reform, in particular the risk of high unemployment. The staff accepted the validity of this concern, agreeing that transition had often been painful, but noted that some countries had been able to minimize the social impact, notably China (through promotion of new private enterprises to absorb laid-off workers and development of a social security system)[10] and the Czech Republic (through active labor market policies). The staff also stressed the need to strengthen the social safety net to give subsistence and vocational assistance to the temporary dislocated labor force, until they are re-absorbed by the labor market. Privatization proceeds and fiscal savings from reduced subsidies to inefficient production could help finance the safety net.

32. **While agreeing that structural reforms could improve growth potential, the authorities were cautious about the pace of reform.** The authorities agreed that structural reforms should be the focus of the economic program to lay a solid foundation for medium-term development. However, they were also worried about potential loss of control over the economy, and concerned that the benefits of their current economic model should not be jeopardized by overly rapid change. They also pointed to progress already made, including their recent achievements in improving business climate.[11] They also underlined the need to upgrade technology and raise energy efficiency to increase productivity. The staff noted the authorities' concerns, but also warned that overly gradual approaches to reform had costs. In particular, it will be important to demonstrate to foreign and domestic investors the authorities' commitment to reform, and to realize quickly the macroeconomic benefits associated with transition. To this end, macroeconomic policies should be designed with a view to reducing external vulnerabilities as well as improving growth prospects.

B. Supporting Macroeconomic and Financial Sector Policies

33. **Continuation of a prudent fiscal policy will be important in supporting structural reforms.** The authorities viewed an annual deficit of 1.5 percent of GDP as appropriate, given Belarus's relatively low public debt. A modest deficit would allow the authorities to improve social and physical infrastructure, which would help to attract private investment. Staff stressed that medium-term fiscal policy should support the transition to a more market-oriented economy. Efforts to reduce the tax burden and provide a level playing field for potential investors should be pursued. On the spending side, resources will be needed to pay for unemployment benefits and to retrain laid-off employees and adapt their

[10] See *China's Ownership Transformation: Process, Outcomes, Prospects*, International Finance Corporation, 2005, page 9.

[11] In the *Doing Business 2010* report, Belarus was recognized as one of the top regulatory reformers for the second consecutive year, with its ranking on overall ease of doing business going up from 82 last year to 58.

skills to new demands. Staff also emphasized the need to cut untargeted subsidies, including to loss-making enterprises.

34. **Over the long term, a move toward a more flexible exchange rate regime is warranted.** At present, the peg to a basket of currencies with flexibility around a central parity offers the best prospect of maintaining external stability, due to the lack of an alternative anchor and the importance of the nominal exchange rate in shaping expectations. However, over time, a more flexible exchange rate regime could better enable the economy to handle the mostly real sector shocks to which it is subject. Such a move would require developing a supporting institutional framework, most notably central bank independence. The authorities agreed with this analysis, but also stressed that removing the exchange rate anchor in the environment of pressure on the rate could result in a loss of macroeconomic stability. The NBRB also emphasized the need for further financial market development and improvement of models designed to analyze and forecast monetary and macroeconomic indicators as necessary conditions for development of an alternative nominal anchor, such as an inflation targeting framework.

35. **Increasing the commercial orientation of banks is essential for more efficient allocation of resources**. Currently, loan decisions in the state-dominated banking sector are often subject to explicit or implicit government direction. As a result, banks have limited incentives to innovate or to control costs and risks. Lending under government programs also crowds out other potentially profitable lending. The authorities noted that they were currently considering the modalities of a dedicated agency to address these issues. Initially, such an agency could accumulate existing government program loans that banks would be willing to transfer to it and associated funding in the form of government deposits. Going forward, the modalities of the agency should be discussed with IMF staff. The staff stressed that if such an agency undertook lending, it should be scored as net lending on the budget. The staff also emphasized that lending by such an agency should replace (rather than add to) lending under government programs by commercial banks.

36. **There is also scope for stimulating development of nonbank financial institutions**. As discussed in the FSSA Update (IMF Country Report 09/30, January 2009), capital market development in Belarus could be stimulated by strengthening the legal and regulatory framework covering the protection of minority investor rights, accelerating the existing program of privatization of state-owned enterprises, thereby increasing the supply of traded shares, and enhancing public debt management, thereby establishing a domestic government bond yield curve. A more diversified financial sector would also contribute to a successful business environment and to economic development.

VI. Staff Appraisal

37. **Belarus has so far survived the crisis with very modest output losses, in part because of the strategy of expanding credit for construction and agriculture.** Belarus has experienced a lower output fall than most countries hit by the crisis, despite a huge fall in its exports. In part this is because exchange rate adjustment has reduced the impact of the crisis on the external accounts. But it is also because the authorities have aggressively expanded credit under government programs to sectors they believe are not import intensive.

38. **However, this has come at a price: the current account deficit remains high and reserves low.** The authorities have adhered to a balanced budget and have increased policy interest rates to support the rubel, but credit under government programs is either explicitly subsidized or extended at rates below market interest rates. This credit has increased domestic demand, and hence demand for imports, and resulted in heavy reserves losses in July and August. Consultations on this began in July and continued during the mission for the second review for the SBA.

39. **The main modification of the program is to tighten credit policy.** The authorities now accept that credit policy has to be tightened, and the objectives of building reserves and supporting the exchange rate regime given priority over that of maintaining output. However, the realization has come late, and the authorities' delay in reacting means that a sharp adjustment in credit policies is now required to meet program performance criteria. This should be accompanied by the unwinding of distortionary and non-transparent liquidity support measures.

40. **Credit tightening should be accompanied by strong fiscal and monetary policies and, if needed, flexibility under the exchange rate peg.** The authorities' continuation of a tight fiscal policy is welcome, as is the NBRB's intention to keep interest rates high until there is clear evidence of a turnaround in reserves. The authorities should also be prepared to permit more flexibility in the exchange rate within the widened band during the remainder of 2009, especially if reserves targets are at risk for reasons other than insufficiently tight credit policy.

41. **The proposed 2010 budget can be the foundation for a prudent macroeconomic framework, which will need to involve continued credit restraint.** The authorities plan to limit the consolidated budget deficit for 2009 to the equivalent of 1.7 percent of GDP, which will permit an expansion of credit to the rest of the economy in line with projected nominal GDP growth. To avoid crowding out other lending, the authorities will need to exercise restraint in lending under government programs in 2010.

42. **The Article IV Consultation provided an opportunity to look beyond the crisis and also to get past disagreements on the viability of the authorities' growth model.** The authorities understand well that financing high growth through high investment will be much more difficult after the global crisis, and that past differences of view on the sustainability of

their growth model have now been overtaken by events. A consensus is emerging on the elements of a reform strategy. There is broad agreement that privatization will play an important part in easing the external financing constraint and promoting technological development. There is also growing acceptance of the need for liberalization of the economy, beginning with reducing the burden of regulation and quantitative targets on the private sector. However, this acceptance will compete with the instinct to maintain or add controls, especially in response to a crisis.

43. **The success of reform will ultimately depend on political judgments by the authorities.** There is increasing recognition that an increasingly sophisticated economy and growing links with other economies will require new methods of economic management. This opens the door for development of a detailed reform agenda. The authorities are understandably cautious about the social costs of reform, and protective of their achievements in avoiding some of the pitfalls of transition. Nevertheless, the prospects for high and sustainable growth depend critically on the willingness of the authorities to try new approaches, even if it involves loosening administrative controls on the economy.

44. **A new Fund arrangement could play a supporting role in program design and in easing the financial burden of adjustment.** The improving dialogue between the Fund and Belarus under the program, in collaboration with other international players—especially the World Bank, EBRD and EU—offers an opportunity to shape the reform agenda. International financial support can also ease some of the inevitable costs of transition. Assuming that the current program remains on track, discussions on a successor arrangement could begin during the next review of the SBA and lead to a new agreement in early 2010.

45. **On the basis of the policies set out in the Letter of Intent, the staff recommends completion of the second review of the SBA, with a waiver of applicability for the end-September performance criteria.**

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

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Proj.	Prog.	Proj.	Proj.			
	(Annual percentage change, unless otherwise specified)									
National accounts										
Real GDP	8.6	10.0	-3.3	-1.2	2.6	1.8	4.7	5.5	6.3	7.0
Total domestic demand	13.5	16.1	-4.7	-1.2	1.8	2.4	2.6	4.9	5.7	7.0
Consumption	9.7	12.2	-3.5	-5.3	1.8	3.7	3.5	6.1	6.3	7.7
Private	13.4	15.9	-2.0	-5.3	1.0	4.1	3.9	7.2	7.4	9.1
Public	-0.5	0.3	-9.0	-5.0	5.0	2.2	2.0	2.0	2.0	2.0
Investment	21.9	23.9	-7.0	6.0	1.8	0.4	0.9	2.8	4.6	5.6
Of which: fixed	21.1	23.1	-8.0	6.5	2.0	0.4	1.0	3.0	5.0	6.0
Net exports 2/	-1.5	-7.7	2.2	0.3	0.5	-1.0	1.7	-0.1	-0.2	-0.8
Consumer prices										
End of period	12.1	13.3	11.0	11.0	6.8	8.0	6.0	6.0	6.0	6.0
Average	8.4	14.8	13.5	13.0	6.7	8.3	6.4	6.0	6.0	6.0
Monetary accounts										
Reserve money	38.4	11.7	-9.0	-8.7	14.3	17.9	…	…	…	…
Rubel broad money	35.0	22.5	-3.2	-7.5	21.5	22.3	…	…	…	…
Credit growth to the economy at program exchange rates	…	53.6	11.0	17.1	10.5	11.2	…	…	…	…
	(Percent of GDP)									
External debt and balance of payments										
Current account	-6.8	-8.4	-7.8	-9.6	-5.5	-7.1	-6.0	-5.0	-3.9	-3.5
Trade balance	-9.0	-10.1	-10.1	-11.9	-8.0	-9.2	-8.2	-7.1	-6.2	-5.8
Exports of goods	53.7	54.8	51.3	47.4	54.4	50.4	51.3	51.1	50.9	50.3
Imports of goods	-62.7	-64.9	-61.4	-59.2	-62.3	-59.6	-59.4	-58.2	-57.1	-56.1
Gross external debt	27.7	25.0	38.8	41.7	40.4	43.1	39.9	36.9	33.8	31.6
Public 3/	6.5	6.9	17.0	18.9	19.6	19.8	18.6	16.6	13.5	11.3
Private (mostly state-owned-enterprises)	21.2	18.1	21.7	22.9	20.8	23.4	21.2	20.3	20.2	20.3
Savings and investment										
Gross domestic investment	34.1	36.4	34.2	37.9	34.0	36.7	34.8	33.2	32.1	31.0
Public	8.5	10.1	6.2	7.5	6.3	6.4	6.4	6.4	6.4	6.4
Private	25.6	26.4	28.0	30.5	27.7	30.3	28.3	26.8	25.7	24.6
National saving	27.3	28.1	26.4	28.3	28.5	29.7	28.7	28.3	28.1	27.5
Public	8.9	11.4	6.2	5.7	5.6	4.7	4.5	4.4	4.9	5.0
Private	18.4	16.6	20.2	22.6	22.9	25.0	24.3	23.9	23.2	22.6
Public sector finance										
Republican and local government balance	-0.6	0.0	0.0	-1.7	-1.0	-1.7	-2.0	-2.0	-1.5	-1.5
General government balance	0.4	1.4	0.0	-1.7	-0.7	-1.7	-2.0	-2.0	-1.5	-1.5
Revenue	49.5	51.0	43.2	43.5	44.1	42.6	41.2	41.2	40.8	40.6
Expenditure	49.0	49.6	43.2	45.2	44.8	44.4	43.2	43.2	42.4	42.1
Of which										
Wages	8.0	6.7	6.5	6.6	6.5	6.5	6.2	6.2	6.2	6.2
Subsidies and transfers	10.5	11.6	10.0	10.9	9.2	10.1	9.7	9.6	9.2	9.0
Investment	8.5	10.1	6.2	7.5	6.3	6.4	6.4	6.4	6.4	6.4
	(Annual percentage change, unless indicated otherwise)									
Memorandum items:										
Nominal GDP (trillions of rubels)	97.2	128.8	145.2	140.0	161.8	157.3	178.5	203.3	233.4	269.8
Term of trade	-1.6	9.2	-1.1	0.6	2.8	6.2	-2.3	1.0	0.7	0.8
Real effective exchange rate	-4.5	0.6	0.3	-1.9	-3.7	0.8	0.4	0.4	0.7	0.5
Official reserves (billions of U.S. dollars)	4.2	3.1	5.2	5.8	7.3	7.1	7.4	8.4	10.3	13.1
Official reserves (months of imports of goods and services)	1.6	0.9	1.9	2.2	2.4	2.5	2.3	2.4	2.6	2.9
Official reserves (percent of short-term debt)	56.8	41.1	74.5	81.4	99.5	96.0	99.2	103.5	115.7	134.0

Sources: Belarusian authorities; and IMF staff estimates.

1/ In Tables 1-3, program columns refer to what is agreed during the first review of the Stand-By Arrangement.
2/ Contribution to growth.
3/ 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

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Proj.	Prog.	Proj.	Proj.			
	(Millions of U.S. dollars)									
Current account	-3,060	-5,049	-3,864	-4,728	-2,955	-3,749	-3,631	-3,402	-3,102	-3,163
Trade balance (goods)	-4,071	-6,111	-5,009	-5,823	-4,282	-4,864	-4,934	-4,880	-4,879	-5,238
Energy balance	-1,705	-1,770	-1,991	-3,310	-1,175	-1,824	-2,297	-2,302	-2,257	-2,144
Nonenergy balance	-2,366	-4,342	-3,018	-2,513	-3,107	-3,040	-2,636	-2,577	-2,622	-3,093
Exports	24,329	33,043	25,398	23,224	29,155	26,770	30,908	35,050	40,072	45,658
Of which: energy exports	8,278	12,112	8,563	7,112	10,368	9,525	10,201	10,712	11,622	12,568
Imports	-28,400	-39,155	-30,406	-29,047	-33,437	-31,635	-35,841	-39,929	-44,951	-50,896
Of which: energy imports	-9,983	-13,881	-10,554	-10,422	-11,543	-11,349	-12,498	-13,014	-13,879	-14,712
Services	1,233	1,660	1,698	1,658	1,921	1,721	2,127	2,554	3,025	3,514
Receipts	3,254	4,260	3,663	3,511	4,088	3,762	4,517	5,309	6,206	7,219
Payments	-2,021	-2,601	-1,965	-1,853	-2,167	-2,041	-2,390	-2,756	-3,181	-3,705
Income, net	-411	-789	-821	-830	-858	-867	-1,076	-1,363	-1,576	-1,818
Transfers, net	189	192	267	267	264	262	252	286	328	379
Capital and financial accounts	5,292	3,816	3,036	2,635	4,359	4,377	3,996	4,908	6,640	7,137
Capital account	92	143	125	125	180	180	123	140	160	185
Financial account	5,200	3,673	2,911	2,510	4,179	4,197	3,873	4,768	6,480	6,952
Overall FDI, net	1,770	2,143	1,517	1,220	2,302	2,308	2,426	2,988	3,689	3,771
Portfolio investment, net	-39	8	29	25	0	0	0	0	0	0
Trade credits, net	690	-50	570	140	400	400	100	100	100	100
Loans, net	3,541	2,085	897	854	831	843	1,089	1,420	2,428	2,814
Government and monetary authorities, net	1,956	1,266	1,327	1,378	581	581	738	677	927	833
Banks, net	966	603	-568	-589	252	252	72	210	528	776
Other sectors, net	619	519	137	64	-3	9	280	533	972	1,205
Other (excluding arrears), net 1/	-763	-514	-103	271	647	646	258	260	262	267
Of which: currency substitution	…	-250	-553	-185	640	640	0	0	0	0
Errors and omissions	505	106	0	1,005	0	0	0	0	0	0
Overall balance	2,737	-1,127	-828	-1,088	1,404	629	365	1,506	3,538	3,974
Financing	-2,737	1,127	828	1,088	-1,404	-629	-365	-1,506	-3,538	-3,974
Reserves ("-" denotes an increase)	-2,778	1,003	-2,143	-2,711	-2,061	-1,300	-365	-958	-1,885	-2,785
Net use of Fund resources 2/	0	0	2,771	2,810	657	671	0	-548	-1,653	-1,189
Other donors and exceptional financing items 3/	42	124	200	990	0	0	0	0	0	0
Memorandum items:										
Stock of reserves	4,182	3,061	5,204	5,772	7,265	7,072	7,437	8,395	10,280	13,065
Shortfall in gross reserves 4/	...	...	0	-568	820	1,013	...	...	...	...
Reserves (months of imports of goods and services)	1.6	0.9	1.9	2.2	2.4	2.5	2.3	2.4	2.6	2.9
Reserves (percent of short-term debt)	56.8	41.1	74.5	81.4	99.5	96.0	99.2	103.5	115.7	134.0
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	-4.5	0.6	0.3	-1.9	-3.7	0.8	0.4	0.4	0.7	0.5
Export volume (annual percentage change)	5.2	1.7	-7.7	-17.6	1.6	1.8	7.3	5.8	6.7	6.9
Import volume (annual percentage change)	7.2	14.6	-10.5	-14.4	0.4	2.8	2.6	4.7	5.6	7.0
Domestic demand growth (annual percentage change)	13.5	16.1	-4.7	-1.2	1.8	2.4	2.6	4.9	5.7	7.0

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

	2007	2008	2009		2010		2011	2012	2013	2014
			Prog.	Proj.	Prog.	Proj.	Proj.			
	(Percent of GDP)									
Current account	-6.8	-8.4	-7.8	-9.6	-5.5	-7.1	-6.0	-5.0	-3.9	-3.5
Trade balance	-9.0	-10.1	-10.1	-11.9	-8.0	-9.2	-8.2	-7.1	-6.2	-5.8
Of which: energy balance	-3.8	-2.9	-4.0	-6.7	-2.2	-3.4	-3.8	-3.4	-2.9	-2.4
Nonenergy balance	-5.2	-7.2	-6.1	-5.1	-5.8	-5.7	-4.4	-3.8	-3.3	-3.4
Exports	53.7	54.8	51.3	47.4	54.4	50.4	51.3	51.1	50.9	50.3
Of which: energy exports	18.3	20.1	17.3	14.5	19.3	17.9	16.9	15.6	14.8	13.9
Imports	-62.7	-64.9	-61.4	-59.2	-62.3	-59.6	-59.4	-58.2	-57.1	-56.1
Of which: energy imports	-22.0	-23.0	-21.3	-21.3	-21.5	-21.4	-20.7	-19.0	-17.6	-16.2
Capital and financial accounts	11.7	6.3	6.1	5.4	8.1	8.2	6.6	7.1	8.4	7.9
Capital account	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Financial account	11.5	6.1	5.9	5.1	7.8	7.9	6.4	6.9	8.2	7.7
Overall FDI	3.9	3.6	3.1	2.5	4.3	4.3	4.0	4.4	4.7	4.2
Portfolio investment, net	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits, net	1.5	-0.1	1.2	0.3	0.7	0.8	0.2	0.1	0.1	0.1
Loans, net	7.8	3.5	1.8	1.7	1.5	1.6	1.8	2.1	3.1	3.1
Government and monetary authorities, net	4.3	2.1	2.7	2.8	1.1	1.1	1.2	1.0	1.2	0.9
Banks, net	2.1	1.0	-1.1	-1.2	0.5	0.5	0.1	0.3	0.7	0.9
Other sectors, net	1.4	0.9	0.3	0.1	0.0	0.0	0.5	0.8	1.2	1.3
Other (excluding arrears), net 1/	-1.7	-0.9	-0.2	0.6	1.2	1.2	0.4	0.4	0.3	0.3
Errors and omissions	1.1	0.2	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.0	-1.9	-1.7	-2.2	2.6	1.2	0.6	2.2	4.5	4.4
Financing	-6.0	1.9	1.7	2.2	-2.6	-1.2	-0.6	-2.2	-4.5	-4.4
Reserves ("-" denotes an increase)	-6.1	1.7	-4.3	-5.5	-3.8	-2.4	-0.6	-1.4	-2.4	-3.1
Net use of Fund resources 2/	0.0	0.0	5.6	5.7	1.2	1.3	0.0	-0.8	-2.1	-1.3
Other donors and exceptional financing items 3/	0.1	0.2	0.4	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Unfinanced gap under the program	...	...	...	...	...	...	...	...	...	...
Shortfall in gross reserves 4/	...	...	0.0	-1.2	1.5	1.9	...	...	...	...

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/ Disbursements and repayments are based on the schedule agreed at the time of the first review.

3/ In 2009, Russia's remaining budget support of $500 million is included as government loan in the program column, but as other donors' financing in the projection column. Other donors' financing in the projection column also includes $200 million from the World Bank and the equivalent of about $290 million from the EU.

4/ Projected overperformance in 2009 is due to the SDR allocations.

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

(Trillions of Belarusian rubels, unless otherwise indicated)

	2007	2008	2009							2010	
			Mar.	Jun.		Sep.		Dec.			
			Est.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
1.State (republican and local) budget											
Revenue	36.6	50.9	9.8	20.8	20.5	33.1	33.4	46.3	45.5	52.7	49.1
Personal income tax	3.1	4.2	1.0	2.1	2.1	3.1	3.2	4.1	4.2	4.6	4.7
Profit tax	3.8	6.0	0.9	2.5	2.0	3.8	3.3	5.0	4.6	5.2	5.8
VAT	8.7	11.4	2.8	5.8	5.6	10.0	9.2	14.6	12.3	16.9	15.8
Excises	3.0	3.9	0.7	2.0	1.6	3.3	2.7	4.4	3.8	4.9	4.6
Property tax	1.5	1.3	0.4	0.6	0.8	0.9	1.3	1.2	1.7	1.1	1.1
Customs duties	6.3	10.6	1.5	3.3	3.1	5.2	5.4	7.1	7.8	8.9	8.8
Other	3.7	7.8	1.6	2.8	3.7	4.2	5.5	6.1	7.4	6.8	5.6
Revenue of budgetary funds	6.5	5.7	1.0	1.8	1.7	2.7	2.7	3.7	3.7	4.1	2.7
Expenditure (economic classification) 1/	37.2	50.9	9.7	20.6	22.1	32.6	34.9	46.3	48.0	54.3	51.8
Wages and salaries	7.7	8.6	2.1	4.5	4.7	7.1	7.0	9.5	9.3	10.5	10.3
Social protection fund contributions	2.1	2.3	0.6	1.3	1.3	2.0	1.9	2.7	2.5	3.0	2.8
Goods and services	6.8	8.7	1.9	4.5	3.7	6.7	6.6	9.3	9.3	11.5	9.6
Interest	0.4	0.7	0.3	0.8	0.5	1.2	1.1	1.7	1.6	1.8	2.1
Subsidies and transfers	10.2	14.9	3.5	6.5	7.3	10.2	11.1	14.5	15.3	14.9	15.8
Capital expenditures	8.2	13.0	1.4	3.5	3.7	6.1	7.4	9.1	10.5	10.2	10.1
Of which: capital transfers to banks	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending 2/	1.8	2.6	-0.1	-0.8	0.9	-1.1	-0.6	-1.6	-0.7	0.8	0.4
Other	0.0	0.0	0.0	0.4	0.0	0.5	0.3	1.2	0.3	1.5	0.7
Balance (economic classification) 3/	-0.6	0.0	0.2	0.2	-1.6	0.5	-1.5	0.0	-2.4	-1.6	-2.7
Noncash bank restructuring measures	0.6	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	1.6
Net lending to financial institutions	1.7	4.3	…	…	…	…	…	…	…	…	…
Augmented balance	-2.9	-6.3	0.2	0.2	-1.6	0.5	-1.5	0.0	-2.4	-3.2	-4.3
2. Social protection fund											
Revenue	11.4	14.7	3.6	8.2	7.8	12.3	11.5	16.4	15.4	18.7	18.0
Expenditure	10.4	13.0	3.3	7.7	7.0	11.8	11.1	16.4	15.4	18.2	18.0
Balance (cash)	1.0	1.7	0.3	0.5	0.8	0.5	0.5	0.0	0.0	0.4	0.0
Balance of the general government	0.4	1.7	0.5	0.7	-0.9	1.0	-1.0	0.0	-2.4	-1.2	-2.7
Augmented balance of the general government	-1.9	-4.6	0.5	0.7	-0.9	1.0	-1.0	0.0	-2.4	-2.8	-4.3
Statistical discrepancy	0.0	0.0	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 3/	1.9	4.6	-0.7	-0.7	1.0	-1.0	1.0	0.0	2.4	2.8	4.3
Privatization	2.5	1.3	1.7	1.7	1.5	2.4	1.5	3.1	2.3	4.4	4.3
Foreign financing, net	3.1	3.0	1.4	3.1	2.0	3.9	4.1	4.4	6.8	1.9	1.8
Domestic financing, net	-3.7	0.3	-3.8	-5.5	-2.6	-7.3	-4.6	-7.5	-6.7	-3.4	-1.8
Banking system	-1.9	-1.6	-3.8	-5.4	-2.4	-6.9	-4.2	-7.1	-6.1	-3.9	-2.3
Central bank	-4.0	0.2	-4.8	-6.4	-3.4	-8.1	-5.8	-8.4	-8.1	-3.9	-2.3
Deposit money banks (including SPF)	2.1	-1.8	-0.8	-0.9	-0.7	-0.8	-0.3	-0.6	0.0	0.0	0.0
Revaluation effect	...	...	1.8	1.9	1.6	1.9	1.9	2.0	2.0	...	...
Nonbank 4/	-1.8	1.9	-0.1	-0.1	-0.2	-0.4	-0.4	-0.4	-0.6	0.5	0.5
4. Financing gap	0.0	0.0	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	21.3	20.0	19.7	18.5	18.1	20.8	20.3	18.8	18.3
Government guarantee of commercial banks' credit	7.2	9.5	7.6	5.7	5.7	3.8	3.8	5.7	5.7	1.9	1.9
Government guarantees of household deposits	0.0	13.4	13.7	14.3	14.0	14.7	14.3	15.1	14.6	16.8	16.4
GDP	97.2	128.8	140.0	145.2	140.0	145.2	140.0	145.2	140.0	161.8	157.3

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

(Percent of GDP, unless otherwise indicated)

	2007	2008	2009							2010	
			Mar.	Jun.		Sep.		Dec.			
			Est.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
1.State (republican and local) budget											
Revenue	37.7	39.5	7.0	14.4	14.6	22.8	23.8	31.9	32.5	32.6	31.2
Personal income tax	3.2	3.2	0.7	1.4	1.5	2.1	2.3	2.8	3.0	2.8	3.0
Profit tax	3.9	4.7	0.6	1.7	1.4	2.6	2.3	3.4	3.3	3.2	3.7
VAT	8.9	8.8	2.0	4.0	4.0	6.9	6.6	10.1	8.8	10.5	10.0
Excises	3.1	3.0	0.5	1.4	1.1	2.2	1.9	3.0	2.7	3.0	2.9
Property tax	1.6	1.0	0.3	0.4	0.6	0.6	1.0	0.8	1.2	0.7	0.7
Customs duties	6.5	8.2	1.0	2.3	2.2	3.6	3.9	4.9	5.6	5.5	5.6
Other	3.8	6.1	1.1	1.9	2.6	2.9	3.9	4.2	5.3	4.2	3.6
Revenue of budgetary funds	6.7	4.4	0.7	1.2	1.2	1.9	1.9	2.6	2.6	2.6	1.7
Expenditure (economic classification) 1/	38.3	39.5	6.9	14.2	15.8	22.5	24.9	31.9	34.2	33.6	32.9
Wages and salaries	8.0	6.7	1.5	3.1	3.4	4.9	5.0	6.5	6.6	6.5	6.5
Social protection fund contributions	2.2	1.8	0.4	0.9	0.9	1.4	1.3	1.8	1.8	1.8	1.8
Goods and services	7.0	6.7	1.3	3.1	2.6	4.6	4.7	6.4	6.6	7.1	6.1
Interest	0.4	0.6	0.2	0.5	0.4	0.8	0.8	1.1	1.2	1.1	1.4
Subsidies and transfers	10.5	11.6	2.5	4.5	5.2	7.0	8.0	10.0	10.9	9.2	10.1
Capital expenditures	8.5	10.1	1.0	2.4	2.7	4.2	5.3	6.2	7.5	6.3	6.4
Of which: capital transfers to banks	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending 2/	1.8	2.0	-0.1	-0.6	0.7	-0.8	-0.4	-1.1	-0.5	0.5	0.3
Other	0.0	0.0	0.0	0.3	0.0	0.3	0.2	0.8	0.2	0.9	0.4
Balance (economic classification) 3/	-0.6	0.0	0.1	0.1	-1.2	0.3	-1.1	0.0	-1.7	-1.0	-1.7
Noncash bank restructuring measures	0.6	1.6	0.0	0.0	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	0.1	0.1	-1.2	0.3	-1.1	0.0	-1.7	-2.0	-2.7
2. Social Protection Fund											
Revenue	11.8	11.4	2.6	5.7	5.5	8.5	8.2	11.3	11.0	11.5	11.4
Expenditure	10.7	10.1	2.3	5.3	5.0	8.1	7.9	11.3	11.0	11.3	11.4
Balance (cash)	1.1	1.3	0.2	0.3	0.5	0.3	0.3	0.0	0.0	0.3	0.0
Balance of the general government	0.4	1.4	0.4	0.5	-0.6	0.7	-0.7	0.0	-1.7	-0.7	-1.7
Augmented balance of the general government	-1.9	-3.5	0.4	0.5	-0.6	0.7	-0.7	0.0	-1.7	-1.7	-2.7
Statistical discrepancy	0.0	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 3/	1.9	3.5	-0.5	-0.5	0.7	-0.7	0.7	0.0	1.7	1.7	2.7
Privatization	2.6	1.0	1.2	1.2	1.1	1.7	1.1	2.1	1.7	2.7	2.7
Foreign financing, net	3.2	2.3	1.0	2.1	1.5	2.7	2.9	3.1	4.9	1.2	1.2
Domestic financing, net	-3.8	0.2	-2.7	-3.8	-1.8	-5.0	-3.2	-5.2	-4.8	-2.1	-1.2
Banking system	-2.0	-1.2	-2.7	-3.7	-1.7	-4.8	-3.0	-4.9	-4.3	-2.4	-1.5
Central bank	-4.1	0.1	-3.4	-4.4	-2.4	-5.6	-4.1	-5.8	-5.8	-2.4	-1.5
Deposit money banks (including SPF)	2.1	-1.4	-0.6	-0.6	-0.5	-0.5	-0.2	-0.4	0.0	0.0	0.0
Revaluation effect	…	…	1.3	1.3	1.2	1.3	1.4	1.4	1.4	…	…
Nonbank 4/	-1.9	1.5	-0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-0.4	0.3	0.3
Memorandum items:											
Contingent liabilities	7.4	17.8	15.2	13.8	14.1	12.7	12.9	14.4	14.5	11.6	11.6
Government guarantee of commercial banks' credit	7.4	7.4	5.5	3.9	4.1	2.6	2.7	3.9	4.1	1.2	1.2
Government guarantees of household deposits	0.0	10.4	9.8	9.8	10.0	10.1	10.2	10.4	10.4	10.4	10.4
GDP (trillions of rubels)	97.2	128.8	140.0	145.2	140.0	145.2	140.0	145.2	140.0	161.8	157.3

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

1/ Includes changes in expenditure arrears.

2/ For 2009, net lending excludes project financing committed before the start of the program (US$353 million).

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, 2007–10

(Billions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009					2010
			Mar.	Jun.	Jul.	Sep.	Dec.	
							Proj. 1/	
Reserve money	6,896	7,703	5,883	6,076	6,704	6,657	7,033	8,289
Rubel reserve money	6,876	7,266	5,757	5,789	6,439	6,371	6,747	8,003
Currency outside banks	3,323	3,836	3,093	3,341	3,553	3,300	3,495	3,983
Required reserves	1,686	2,245	1,727	1,430	1,882	2,063	2,336	2,669
Time deposits, NBB securities, and nonbank deposits	1,866	1,185	937	1,018	1,004	1,007	916	1,351
Foreign currency reserve money	21	437	126	286	265	286	286	286
Net foreign assets	9,056	7,043	8,861	5,293	4,463	5,128	6,684	8,634
Billions of U.S. dollars	4.21	3.20	3.12	1.87	1.57	1.74	2.26	2.92
Net foreign assets (convertible)	9,056	5,771	7,795	4,410	3,554	4,213	5,765	7,714
Billions of U.S. dollars	3.58	2.62	2.75	1.55	1.25	1.43	1.95	2.61
Foreign assets	10,361	8,006	12,287	8,400	9,917	12,430	17,982	21,857
Billions of U.S. dollars	4.82	3.64	4.33	2.96	3.48	4.22	6.08	7.38
Of which gross international reserves	8,992	6,734	11,221	7,518	9,008	11,514	17,063	20,937
Billions of U.S. dollars	4.18	3.06	3.96	2.65	3.16	3.91	5.77	7.07
Foreign liabilities	1,305	963	3,426	3,107	5,454	7,301	11,298	13,223
Billions of U.S. dollars	0.61	0.44	1.21	1.10	1.91	2.48	3.82	4.47
Of which: use of IMF credit (billions of U.S. dollars)	0.00	0.00	0.77	0.80	1.48	1.48	2.82	3.47
Net domestic assets	-2,159	659	-2,979	783	2,241	1,528	349	-345
Memo: Net domestic assets at program exchange rates	-2,185	791	-882	1,972	3,250	1,472	639	500
Net domestic credit	-1,248	1,233	-2,057	1,737	3,342	2,421	1,214	509
Net credit to general government	-4,189	-3,965	-8,779	-7,619	-6,182	-9,740	-12,031	-14,350
Net credit to local government and state enterprises	0.0	0.1	-0.1	-0.1	0.2	0.2	0.2	0.2
Net credit to central government	-4,189	-3,965	-8,779	-7,619	-6,182	-9,741	-12,031	-14,350
Claims on government (loans and government securities)	1,652	1,710	4,171	4,512	6,631	6,757	10,748	12,683
Deposits of central government	5,841	5,675	12,950	12,131	12,813	16,498	22,779	27,033
Credit to economy	2,941	5,197	6,722	9,357	9,524	12,161	13,245	14,859
Credit to banks	1,804	3,359	4,714	7,229	7,362	9,995	11,047	12,571
National currencies	1,555	3,086	4,381	6,845	6,959	9,596	10,647	12,170
Foreign currencies	250	272	334	385	403	399	401	401
Billions of U.S. dollars	0.12	0.12	0.12	0.14	0.14	0.14	0.14	0.14
Credit to nonbanks	1,137	1,839	2,008	2,127	2,162	2,166	2,197	2,287
Claims on private sector	1,107	1,828	1,997	2,114	2,143	2,146	2,178	2,268
Net credit to nonfinancial public enterprises	22	1	1	1	7	7	7	7
Net credit to other financial institutions	8	10	10	12	12	12	12	12
Other items, net	-911	-574	-922	-954	-1,101	-892	-866	-854
Memorandum items:								
Changes in NIR according to TMU definition (millions of U.S. dollars) 2/								
Program 3/	...	...	-1,010	-486	…	-647	-647	…
Revised program 4/	…	…	…	-2,321	…	-1,816	-1,388	…
Projected	...	...	-1,231	-2,285	-2,904	-1,815	-1,384	-737
Difference	...	...	221	-36	…	-2	-4	…
Changes in NDA according to the TMU definition 2/								
Program 3/	...	...	1,152	780	…	1,566	1,709	…
Revised program 4/	…	…	…	3,685	…	2,928	2,379	…
Projected	...	...	915	3,330	5,299	2,901	2,349	2,209
Difference	...	...	-237	-356	…	-26	-30	…
12-month percent change in reserve money	38.4	11.7	-14.2	-21.5	-16.4	-13.1	-8.7	17.9
Velocity	5.8	6.3	7.9	8.0	7.7	7.7	7.4	6.8
Ruble broad money multiplier	2.4	2.8	2.9	2.9	2.7	2.8	2.8	2.9
Currency-to-deposit ratio	0.25	0.23	0.23	0.25	0.25	0.24	0.24	0.22
Real GDP growth (annual)	8.6	10.0	...	...	...	...	-1.2	1.8
End-of-period CPI inflation (year-on-year percent change)	12.1	13.3	15.5	13.4	…	11.0	11.0	8.0

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.
4/ Performance criterion as discussed in IMF Country Report No. 09/99. 2009Q2 performance criterion was adjusted in accordance with the adjustment mechanism specified in the TMU.

Table 5. Belarus: Monetary Survey, 2007–10

(Billions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009					2010
			Mar.	Jun.	Jul.	Sep.	Dec.	
						Proj. 1/		
Broad money (M3)	24,506	30,961	31,808	33,189	34,312	34,253	35,685	40,958
Memo: Broad money (M3) at program exchange rates	24,528	30,753	28,155	29,294	30,266	29,883	31,171	36,140
Rubel broad money (M2)	16,770	20,545	16,591	16,962	17,678	17,941	19,001	23,229
Currency in circulation	3,323	3,836	3,093	3,341	3,553	3,300	3,495	3,983
Domestic currency deposits	12,415	16,004	12,882	12,552	13,162	13,664	14,471	17,980
Domestic currency securities	1,032	705	616	1,069	963	977	1,035	1,265
Foreign currency deposits	7,670	10,204	14,825	15,865	16,028	15,706	16,079	17,124
Bank securities in foreign currency	66	212	392	363	605	605	605	605
Memorandum items: total deposits	20,085	26,208	27,707	28,417	29,191	29,370	30,549	35,105
Net foreign assets	6,388	3,099	4,620	179	-1,085	240	3,160	4,342
Billions of U.S. dollars	2.97	1.41	1.63	0.06	-0.38	0.08	1.07	1.47
NFA of central bank	9,056	7,043	8,861	5,293	4,463	5,128	6,684	8,634
NFA of deposit money banks	-2,668	-3,945	-4,241	-5,114	-5,548	-4,888	-3,524	-4,292
Net domestic assets	18,124	27,865	27,190	33,013	35,401	34,013	32,525	36,616
Net domestic credit	25,816	39,157	39,533	44,824	47,232	45,753	44,238	48,318
Net credit to general government	-5,822	-9,791	-15,289	-14,109	-12,990	-15,880	-17,880	-20,199
Net credit to central government	-6,165	-7,219	-13,061	-12,602	-11,399	-15,037	-17,236	-19,556
Claims on central government	4,363	7,039	8,990	8,805	10,605	10,732	14,722	16,658
Deposits of the central government	10,528	14,258	22,050	21,407	22,004	25,769	31,959	36,213
Net credit to state and local governments	343	-2,572	-2,228	-1,507	-1,591	-843	-643	-643
Credit to economy	31,638	48,948	54,822	58,933	60,222	61,633	62,118	68,517
Memo: Credit to economy at program exchange rates	31,671	48,643	50,346	54,321	55,528	56,467	56,979	63,362
Net credit to public nonfinancial corporations	7,399	11,408	13,137	14,143	14,525	14,700	14,998	16,842
Claims on private sector	24,096	37,159	41,258	44,307	45,185	46,403	46,579	51,070
Claims on other financial corporations	143	380	426	483	512	530	540	605
Other items, net	-7,693	-11,292	-12,342	-11,811	-11,831	-11,740	-11,713	-11,702
Capital	8,299	13,037	14,084	14,363	14,365	14,197	14,171	14,159
Other net assets	606	1,745	1,742	2,552	2,534	2,457	2,457	2,457
Other liabilities not included in broad money	5	3	3	3	4	0	0	0
Memorandum items:								
12-month percent change in broad money at program exchage rate	39.8	25.4	11.3	3.1	3.7	-0.8	1.4	15.9
12-month percent change of credit to economy at program exchange rate	46.9	53.6	45.1	36.9	33.3	26.3	17.1	11.2
Quarter-on-quarter percent change in credit to economy at program exchange rate	…	8.8	3.5	7.9	…	4.0	0.9	…
Credit to economy at program exchange rates since the beginning of the year, percent change	43.4	53.6	3.5	11.7	14.2	16.1	17.1	11.2
Deposits of the central and local governments in commercial banks at program exchange rate	5,022	12,081	11,661	10,998	11,261	10,508	10,208	10,205
Dollarization ratio	38.2	38.9	53.5	55.8	54.9	53.5	52.6	48.8

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Banking Sector Soundness Indicators, 2005–09

	2005	2006	2007	Dec-08	Mar-09	Jun-09
Capital adequacy						
Regulatory capital (percent of risk-weighted assets)	26.7	24.4	19.3	21.8	20.2	19.1
Regulatory Tier I (percent of risk-weighted assets)	18.7	17.4	14.0	16.9	15.6	14.3
Total capital (percent of total assets)	19.8	17.9	16.0	18.6	18.0	17.3
Asset composition and quality						
NPLs (percent of total loans)	1.9	1.2	0.7	0.6	1.1	1.3
Provisions (percent of NPLs)	48.4	51.3	61.5	70.0	65.5	62.5
NPLs net of provisions (percent of regulatory capital)	6.3	6.1	3.8	2.3	3.7	4.8
Foreign currency loans (percent of total loans)	37.0	33.8	37.6	30.9	33.9	32.5
Loans to state-owned enterprises (percent of total)	26.3	25.4	22.4	22.6	23.2	23.7
Sectoral distribution of loans (percent of total)						
Industry	29.7	27.3	26.9	27.4	29.0	29.2
Agriculture	13.4	14.6	14.4	15.5	14.9	15.7
Trade	7.3	7.7	8.1	7.0	6.8	3.3
Construction	2.0	2.2	2.7	3.3	3.5	7.2
Households	26.3	27.8	27.5	28.1	27.2	26.3
Other	21.4	20.4	20.4	18.7	18.6	18.3
Profitability						
Return on assets (after tax)	1.3	1.7	1.7	1.4	1.5	1.4
Return on equity (after tax)	6.8	9.6	10.7	9.6	10.2	9.3
Liquidity						
Liquid assets to total assets	30.4	24.1	22.6	23.2	21.0	19.1
Instant liquidity ratio 1/	117.8	128.9	104.1	108.8	155.5	135.7
Current liquidity ratio 2/	95.9	96.7	98.8	102.0	112.4	94.9
Loans to deposits	119.9	135.0	144.3	170.8	181.4	191.0
Foreign currency deposits to total deposits	38.0	34.7	38.2	38.9	53.5	55.8
Foreign currency liabilities to total liabilities	44.6	41.2	44.7	38.7	48.1	48.2
Market risks						
Net open position in FX (percent of capital)	13.1	9.5	4.8	9.3	9.0	16.9

Source: National Bank of the Republic of Belarus.

1/ Ratio of demand assets to demand liabilities. The prudential minimum is 20 percent.
2/ Assets/liabilities with a remaining maturity of less than 1 month. The prudential minimum is 70 percent.

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

(Millions of U.S. dollars)

	2009 Proj.	2010 Proj.
Financing needs	-7,143	-5,013
Current account balance	-4,728	-3,749
Trade credits (assets)	-600	-200
Amortization of medium- and long-term loans	-393	-923
Short-term loans	-1,692	-788
Other investment (net)	271	646
Financing sources	3,343	3,329
Capital account	125	180
FDI (net)	1,220	2,308
Portfolio investment (net)	25	0
Trade credits (liabilities)	740	600
Medium- and long-term loans	2,116	1,842
Short-term loans	824	712
Errors and omissions	1,005	0
Targeted increase in reserves	-2,711	-2,313
Financing gap	-3,800	-1,684
Financing		
IMF	2,810	671
World Bank	200	0
European Union	290	0
Russia 1/	500	0
Unfilled	0	1,013

Source: IMF staff calculations.

1/ Total financing from Russia in 2009 amounts to $1 billion, of which $0.5 billion has already been disbursed.

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	-17.6
Import volume of goods (percent change)	-3.1	21.7	7.2	14.6	-14.4
Current account balance (percent of GDP)	1.4	-3.9	-6.8	-8.4	-9.6
Capital and financial account balance (millions of U.S. dollars)	-20	1,745	5,292	3,816	2,635
Of which					
Foreign direct investment, net	303	351	1,770	2,143	1,220
Trade credits, net	-546	158	690	-50	140
Official Liabilities, net	19	-50	2,106	1,241	5,237
Liabilties of the banking sector, net	220	502	1,075	531	-115
Non-bank private liabilities (excl. trade credits) 1/	177	493	722	495	-86
Gross official reserves (millions of U.S. dollars)	1,297	1,383	4,182	3,061	5,772
Months of imports of goods and nonfactor services	0.9	0.7	1.6	0.9	2.2
Percent of broad money	22.2	16.9	36.7	21.9	54.7
Gross total external debt (millions U.S. dollars)	5,130	6,847	12,548	15,061	20,460
Percent of GDP	17.0	18.5	27.7	25.0	41.7
Percent of exports of goods and nonfactor services	28.4	30.8	45.5	40.4	76.5
Gross short-term external debt (millions of U.S. dollars)	3,299	4,382	7,362	7,442	7,092
Percent of gross total external debt	64	64	59	49	35
Percent of gross official reserves	254	317	176	243	123
Debt service ratio (percent) 2/	3.6	2.4	3.1	4.0	4.0
REER appreciation (CPI based, period average)	0.0	-2.0	-4.5	0.6	-1.9
Capital adequacy ratio (percent) 3/ 4/	26.7	24.4	19.3	21.8	19.1
Nonperforming loans (percent of total) 4/	1.9	1.2	0.7	0.6	1.3
Banks' net foreign asset position (percent of regulatory capital) 4/	13.1	9.5	4.8	9.3	16.9
Real broad money (percent change) 5/ 6/	31.8	30.6	24.9	11.5	-8.7
Real credit to economy (percent change) 5/ 6/	25.2	48.5	31.2	36.6	5.5

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 June 2009.
5/ Deflated by the CPI.
6/ Value for 2009 shown at program exchange rates.

Table 9. Belarus: Capacity to Repay the Fund, 2009–14 1/

	2009	2010	2011	2012	2013	2014
Fund repurchases and charges						
Millions of SDRs	8.3	48.5	51.1	298.7	1,113.6	892.8
Millions of U.S. dollars	12.7	74.4	78.0	456.7	1,704.4	1,366.9
Percent of exports of goods and nonfactor services	0.0	0.2	0.2	1.1	3.7	2.6
Percent of total debt service 2/	1.2	4.7	3.9	16.4	37.1	29.3
Percent of quota	2.2	12.6	13.2	77.3	288.2	231.1
Percent of gross international reserves	0.2	1.0	1.0	5.3	16.3	10.4
Fund credit outstanding						
Millions of SDRs	1,831.6	2,269.5	2,269.5	2,020.6	940.6	54.7
Millions of U.S. dollars	2,820.3	3,472.6	3,469.0	3,090.8	1,439.9	83.8
Percent of exports of goods and nonfactor services	10.5	11.4	9.8	7.7	3.1	0.2
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2
Percent of gross international reserves	48.8	49.0	46.5	36.0	13.7	0.6
Memorandum items:						
Exports of goods and nonfactor services (millions of U.S. dollars)	26,735	30,532	35,425	40,359	46,278	52,877
Debt service (millions of U.S. dollars)	1,050	1,592	2,025	2,792	4,592	4,668
Quota (millions of SDRs)	386.4	386.4	386.4	386.4	386.4	386.4
Quota (millions of U.S. dollars)	589.8	592.1	590.6	590.8	591.4	591.6
Gross international reserves (millions of U.S. dollars)	5,783	7,088	7,459	8,593	10,480	13,098
U.S. dollars per SDR (period average)	1.527	1.532	1.529	1.529	1.531	1.531
U.S. dollars per SDR (eop)	1.540	1.530	1.529	1.530	1.531	1.531

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.

Appendix I. Table 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	25.0	41.7	43.1	39.9	36.9	33.8	31.6	-7.0
Change in external debt	-1.7	-4.8	1.5	9.2	-2.7	16.7	1.4	-3.3	-3.0	-3.1	-2.1	
Identified external debt-creating flows (4+8+9)	-0.4	-7.9	-0.2	-0.2	-1.8	7.3	2.1	0.4	-1.2	-2.6	-2.6	
Current account deficit, excluding interest payments	4.9	-1.8	3.5	6.2	7.5	8.3	5.8	4.7	3.6	2.6	2.2	
Deficit in balance of goods and services	6.6	-0.7	4.1	6.3	7.4	8.5	5.9	4.7	3.4	2.4	1.9	
Exports	69.1	59.8	60.2	60.9	61.9	54.5	57.5	58.8	58.8	58.8	58.3	
Imports	75.6	59.1	64.3	67.2	69.2	63.0	63.4	63.4	62.2	61.2	60.2	
Net non-debt creating capital inflows (negative)	-0.6	-1.0	-1.0	-3.6	-3.3	-2.7	-4.3	-3.9	-4.2	-4.5	-4.0	
Automatic debt dynamics 1/	-4.7	-5.1	-2.7	-2.8	-6.1	1.7	0.6	-0.5	-0.5	-0.7	-0.8	
Contribution from nominal interest rate	0.4	0.3	0.4	0.6	0.8	1.4	1.3	1.3	1.4	1.3	1.3	
Contribution from real GDP growth	-2.1	-1.5	-1.4	-1.3	-2.1	0.4	-0.7	-1.8	-1.9	-2.0	-2.0	
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	-0.9	9.4	-0.7	-3.6	-1.8	-0.5	0.4	
External debt-to-exports ratio (percent)	31.6	28.4	30.8	45.5	40.4	76.5	75.0	67.8	62.7	57.4	54.3	
Gross external financing need (billions of U.S. dollars) 4/	4.2	3.6	5.1	8.1	13.4	12.6	11.8	12.2	12.9	14.8	15.4	
Percent of GDP	18.4	12.0	13.9	17.8	22.2	25.6	22.1	20.3	18.8	18.8	17.0	
Scenario with key variables at their historical averages 5/						24.0	21.7	18.7	16.9	15.8	15.1	-4.7
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-1.2	1.8	4.7	5.5	6.3	7.0	
GDP deflator in U.S. dollars (percent change)	14.3	21.5	11.2	12.8	21.1	-17.7	6.4	8.4	8.0	7.9	7.8	
Nominal external interest rate (percent)	1.9	2.0	2.7	3.8	4.1	4.4	3.3	3.4	3.9	4.0	4.3	
Growth of exports (U.S. dollar terms, percent)	35.5	15.2	23.1	24.0	35.2	-28.3	14.2	16.0	13.9	14.7	14.3	
Growth of imports (U.S. dollar terms, percent)	40.4	3.9	33.1	28.0	37.3	-26.0	9.0	13.5	11.6	12.8	13.4	
Current account balance, excluding interest payments	-4.9	1.8	-3.5	-6.2	-7.5	-8.3	-5.8	-4.7	-3.6	-2.6	-2.2	
Net nondebt creating capital inflows	0.6	1.0	1.0	3.6	3.3	2.7	4.3	3.9	4.2	4.5	4.0	

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).

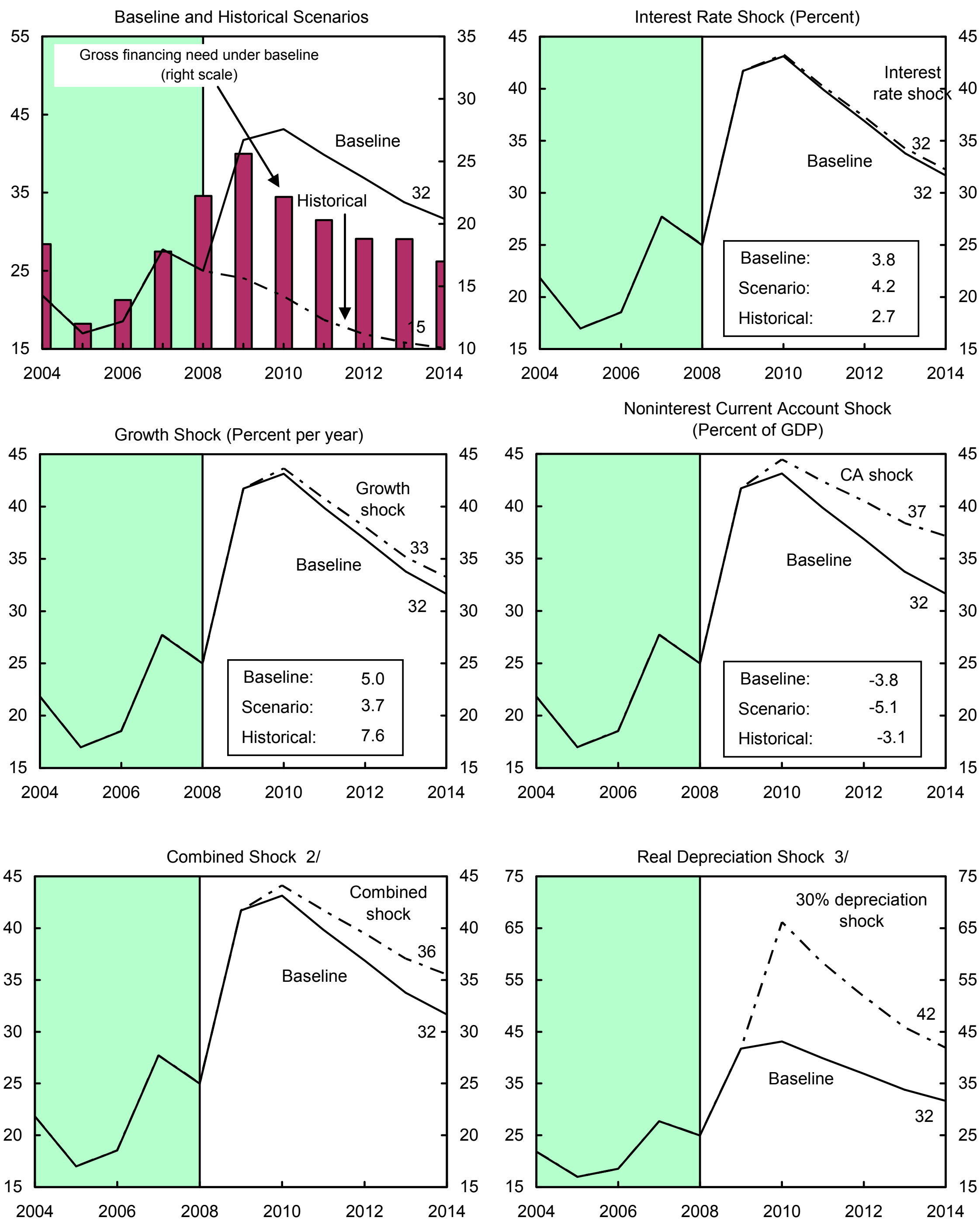
3/ For projection, line includes the impact of price and exchange rate changes.

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 I. Figure 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 I. Table 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	25.9	25.4	23.6	20.9	17.3	14.6	-2.9
Of which: foreign-currency denominated	3.6	2.6	2.3	6.5	6.9	18.9	19.8	18.6	16.6	13.5	11.3	
Change in public sector debt	-1.3	-0.8	0.5	2.7	2.3	12.1	-0.4	-1.8	-2.7	-3.6	-2.7	
Identified debt-creating flows (4+7+12)	-1.6	-0.9	-0.9	-3.8	-3.5	-1.0	-2.8	-3.0	-2.7	-3.2	-2.4	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.6	0.4	1.1	1.2	0.8	0.8	
Revenue and grants	46.0	47.4	49.1	49.5	51.0	43.5	42.6	41.2	41.2	40.8	40.6	
Primary (noninterest) expenditure	45.5	47.7	47.3	48.6	49.0	44.1	43.0	42.3	42.4	41.6	41.4	
Automatic debt dynamics 2/	-2.1	-1.9	-1.1	-1.2	-2.1	0.1	-1.5	-2.1	-2.1	-1.9	-1.6	
Contribution from interest rate/growth differential 3/	-2.2	-1.9	-1.1	-1.2	-2.2	0.1	-1.5	-2.1	-2.1	-1.9	-1.6	
Of which: contribution from real interest rate	-1.3	-1.2	-0.4	-0.6	-1.4	-0.1	-1.1	-1.1	-0.9	-0.8	-0.5	
Of which: contribution from real GDP growth	-0.9	-0.6	-0.7	-0.6	-0.9	0.1	-0.4	-1.1	-1.1	-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	-1.7	-1.7	-2.0	-1.8	-2.0	-1.6	
Privatization receipts (negative)	-0.1	-0.1	1.2	-2.6	-1.0	-1.7	-2.7	-2.5	-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	13.2	2.4	1.2	0.0	-0.4	-0.3	
Public sector debt-to-revenue ratio 1/	19.7	17.4	17.9	23.2	27.0	59.5	59.7	57.3	50.8	42.5	36.0	
Gross financing need 6/	0.8	1.3	-1.0	0.1	-1.0	2.0	2.0	2.2	2.5	2.4	2.3	
Billions of U.S. dollars	0.2	0.4	-0.4	0.1	-0.6	1.0	1.1	1.3	1.7	1.9	2.0	
Scenario with key variables at their historical averages 7/						25.9	21.9	17.2	12.3	7.7	4.4	-2.1
Scenario with no policy change (constant primary balance) in 2008–13						25.9	27.5	26.3	24.1	21.4	19.4	-3.4
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-1.2	1.8	4.7	5.5	6.3	7.0	
Average nominal interest rate on public debt (percent) 8/	6.4	5.2	5.5	5.6	6.7	9.1	5.9	4.0	4.0	4.2	5.1	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-14.0	-16.0	-5.3	-7.2	-13.9	-0.9	-4.5	-4.4	-4.0	-3.9	-3.0	
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	10.0	10.3	8.4	8.0	8.0	8.0	
Growth of real primary spending (deflated by GDP deflator, percent)	7.5	14.9	9.1	11.8	11.1	-11.1	-0.7	3.0	5.7	4.3	6.5	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.6	0.4	1.1	1.2	0.8	0.8	

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 - π (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.

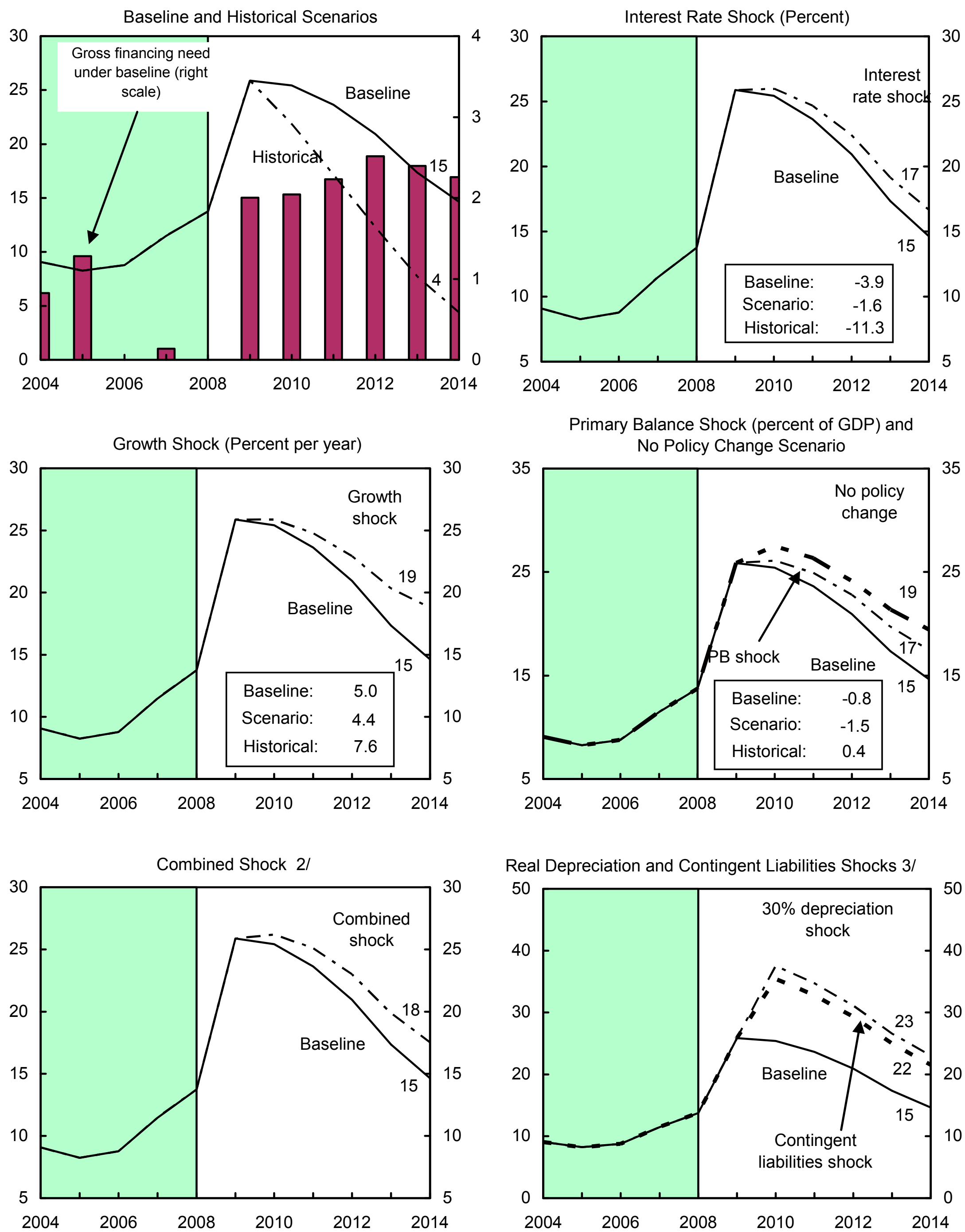
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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 I. Figure 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: BELARUS: LETTER OF INTENT

Minsk, September 30, 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 during the first review under the Stand-By Arrangement (SBA) with the International Monetary Fund. Based on the policies we have pursued since the initiation of the SBA, we request the completion of the second review under the SBA.

2. Since the completion of the first review we honored our commitments outlined in our Letter of Intent of June 19, 2009, meeting all end-June program targets.

- We made greater use of the flexibility in our exchange rate policy to facilitate external adjustment. To this end during June 2009 the NBRB allowed the rubel to depreciate by about 5 percent against the central parity and widened the exchange rate band from ±5 percent to ±10 percent. We met the end-June net international reserves (NIR) target.

- We further tightened monetary policy which helped us achieve the end-June quantitative target on net domestic assets (NDA). To support the exchange rate regime and to keep inflation low we raised the overnight credit rate by 2 percentage points and also recommended commercial banks to increase interest rates on new rubel term deposits of households by 2 percentage points, compared with their March 2009 level.

- We maintained tight fiscal policy by containing government expenditure, and met the adjusted performance criterion for cash deficit at end June 2009.

- We are making good progress in meeting structural benchmarks under the program.

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

3. Modifications of the end-September performance criteria are not proposed. However, as the Executive Board will only meet to consider our request for completion of the second review under the SBA in October, we request a waiver of applicability for all end-September performance criteria. The performance criteria for end-December will be set under the second review of the program. The performance criteria, prior action and structural benchmarks are summarized in Tables 2 and 3. The third review will be held after November 15, 2009.

4. We believe that the policies set out in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. 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 $4.8 billion before end-December 2009. 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

5. Achieving macroeconomic stabilization and economic recovery while minimizing social costs remain our key objectives. To achieve these objectives macroeconomic policies would have to be strengthened by additional structural reforms. Our current exchange rate and fiscal policies are consistent with program objectives. Policy rates were increased in June and deposit rates are now strongly positive in real terms. However, to moderate domestic demand pressures and alleviate external imbalances we are tightening our credit policies. Structural reforms will be aiming at creating new opportunities for the economically active population, while ensuring that adequate social safety net is in place to protect the most vulnerable people.

6. The macroeconomic framework agreed during the first review of the program remains largely valid. We expect output and the current account deficit to be slightly higher than programmed. GDP is projected to decline by 1¼ percent, compared with 3 percent expected at the time of the first review. The current account deficit would widen to 9¾ percent of GDP, against an earlier projection of 7¾ percent of GDP. Inflation has subsided, consistent with economic slowdown and declining international prices, and is now expected to reach 11 percent at end-2009 on a year-on-year basis.

7. The external position remains vulnerable, as the trade deficit has been widening and international reserves declining. With exports still weak, further measures to contain domestic demand will be needed to arrest the decline in reserves. Further economic liberalization and privatization would stimulate foreign direct investment, strengthening the external position in 2010. Barring further deterioration of external conditions, these measures would allow us to narrow the current account deficit to 7 percent of GDP in 2010 and bring international reserves to 2½ months of imports of goods and services.

II. Monetary and Exchange Rate Policies

8. Our monetary and exchange rate policies aim to strengthen the credibility of the exchange rate regime, while limiting the adverse effects of the global economic crisis on the Belarusian economy. Recently NIR and NDA have deviated from the path specified in the

program, in part because monetary policy has not been sufficiently tight. While market interest rates have been strongly positive in real terms, following an increase in policy rates in June, credit expansion has continued, mostly due to an increase in lending under government programs which is not interest sensitive.

9. We believe that the increase in interest rates in June will have continuing effects which will facilitate meeting the NIR and NDA targets under the program. We intend to keep interest rates unchanged for the present, and will consider a possibility of reducing policy interest rates only if NIR and NDA trends are consistent with meeting program targets and the process of de-dollarization indicated by an increase in the rubel share of time deposits continues.

10. We will also tighten credit policy by keeping liquidity support provided by the NBRB to banks to levels consistent with the targeted path of NDA **(quantitative performance criterion)**. To this end, no new government lending programs for 2009 will be adopted through end-December 2009 (**prior action**) and any new lending programs for 2010 will be discussed with IMF staff in the context of the third review of the SBA. We will impose a limit on net lending under government programs at no more than 4 trillion rubels between end-June and end-December 2009. This limit could be raised in consultation with the IMF staff if additional foreign financing is received during 2009. We have also recommended that banks limit credit to state-owned enterprises with high levels of inventories. These measures would allow us to limit credit, while avoiding crowding out of market-based lending and will also mitigate budgetary risks.

11. Tightening credit policy will help us meet targeted levels of reserves, which would continue to be reflected in NIR floors **(quantitative performance criterion)**. In addition, we will continue working with our bilateral and multilateral creditors to ensure timely disbursements of all committed funds, while also exploring prospects for new financing. If it appears that there are risks of missing the NIR targets for reasons other than insufficiently tight monetary policy, we will make further use of exchange rate flexibility within the ±10 percent band.

III. Fiscal Policy

12. We remain 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. Fiscal policy will remain tight in 2010. The general government budget deficit will be kept within 2.7 trillion rubels (1.7 percent of GDP). Fiscal performance will continue to be monitored by a ceiling on the cash deficit of the general government **(quantitative performance criterion)**.

13. To ensure that we meet the end-September and end-December fiscal targets, we will restrain spending, including on investment, while maintaining spending on health and education and ensuring that arrears are not accumulated. We will also advise local

governments to contain their spending in line with the program. Any local spending in excess of programmed levels would be offset by additional spending cuts by the central government. 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. We are also undertaking the following key steps to meet our target of zero-deficit budget in 2009:

- *Maintaining tight wage policies*. We decided to postpone a 5 percent increase of budget sector wages from September 1 to November 1, 2009. We will increase pensions in line with pension legislation, with an increase of up to 10 percent in 2009.

- *Reducing subsidies*. We will reduce spending on subsidies and transfers—the largest expenditure item in the budget—by cutting untargeted subsidies and transfers to households and, more generally, subsidies to the economy.

    - Beginning from November 1 we will reduce fiscal subsidies by increasing tariffs on household utilities by the equivalent of $5, or 9 percent, compared with their current level.

    - We will also increase transportation tariffs by 18 percent from November 1, 2009.

15. The government will present for consideration of the President of the Republic of Belarus a draft 2010 budget with a deficit of 2.7 trillion rubels (1.7 percent of GDP). The government will also propose additional public investment for infrastructure and priority projects, to be financed by an increase in the VAT rate from 18 to 21 percent.

16. These proposals will allow us to pursue several fiscal priorities for 2010:

- *Keeping debt sustainable*. A modest 2010 budget deficit, partly financed by privatization proceeds, would add little to Belarus's debt. We have begun reducing government guarantees of commercial banks' credit to alleviate contingent credit risks.

- *Supporting economic recovery*. We will revisit our spending priorities to create fiscal space that would ensure adequate financing of our priorities, including investment in human capital and infrastructure. To this end, in the first half of 2010 we will further reduce fiscal subsidies on household utilities by increasing the communal service tariffs by the equivalent of $10. We will enact the recently proposed decree improving the targeting of selected social benefits, raising their level from January 1, 2010. We will continue working with the World Bank on better targeting of the social safety net which would allow us to further reduce untargeted subsidies and transfers.

- *Continuing tax reforms*. In the context of the 2010 budget we will eliminate the turnover tax and the local tax on sales of goods in retail trade. We will continue improving the tax system and develop the tax reform strategy based on the recommendations of the FAD Technical Assistance mission on Tax Policy scheduled for October 2009.

17. We are planning to establish an agency that would facilitate leasing of equipment by our exporters. We plan an initial capital injection of 400 billion rubels to set up this agency. In accordance with internationally established practice, the initial capital injection will be treated as a financing operation that will not increase the government deficit. To account for the potential fiscal costs of default, we will appropriate as a contingency line in each year's budget an amount equivalent to the expected repayment of the agency's leases in that year, with the contingency line being reduced as payments are received.

IV. Financial Sector Policies

18. We have been implementing measures to strengthen the financial system:

- We have recently adopted a Memorandum of Understanding between the Ministry of Finance, the Ministry of Economy, the NBRB and the new Agency for Deposit Guarantee which formalized the institutional framework for dealing with a potential financial crisis.

- We have been working on bringing our loan classification and provisioning requirements in line with best international practices (**structural benchmark**). We have prepared amendments to the *Instruction on the Procedures 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* which will be passed by end-September 2009. The amendments will be enacted from the moment of their publication, but the NBRB may grant some banks a transitional period to fully implement these amendments until December 31, 2010. We will also address the classification of loans with government guarantees issued before January 2009 by either amending the NBRB instruction on these loans or by transferring these loans to the agency (Para. 20).

19. We have been working on reducing the government's involvement in the financial system by implementing measures already identified in the program, including the following:

- *Disengaging the NBRB from non-core business.* In line with earlier 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 private investors of all NBRB non-financial subsidiaries and associated companies.

- *Curbing directed lending function of the government.* In line with our legislation prohibiting the central and local governments from making any additional transfers to their deposit accounts with commercial banks, we will transfer the existing stock of these deposits back to NBRB accounts in line with the schedule for repayment of 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 identified a strategic investor for one bank, and selected an international consultant to assist in preparing this bank for privatization. We will continue to look for strategic investors to buy the majority shareholding in OJSC Belinvestbank and minority holdings in JSSB Belarusbank and OJSC Belagroprombank as soon as market conditions permit. We will engage qualified, experienced and reputable consultants, on a competitive basis, to assist us in preparing state-owned banks for partial or full privatization after strategic investors have been identified **(structural benchmark)**.

20. We intend to establish an agency which would help clean up banks' balance sheets. The agency would take over government-directed loans which are classified as problem loans and associated state funding from commercial banks, and eventually could supplement and replace commercial banks as the source of financing government programs, with its new lending included in the budget above the line. A draft decree on establishing the agency will be submitted to the Head of State by end-November 2009. The draft decree envisages that initially its activities will be limited to managing existing loans and the agency would not engage in new lending. To capitalize the agency, we will transfer to agency government deposits used to finance the transferred loans. This transfer and any residual capitalization costs of the agency will be reflected below the line in the budget.

21. We have no plans to further recapitalize state banks in 2009. The limit on credit under government programs specified in paragraph 10 should prevent deterioration of liquidity ratios at state-owned banks. The NBRB will ensure that state banks remain liquid by further curtailing their ability to extend new loans if their liquidity ratios fall below the statutory norms. Decisions on additional recapitalization on these banks shall be taken only in cases if indicators of their safe functioning would fail to meet regulatory requirements and after consultations with IMF staff. Should private banks become undercapitalized, we will use our existing framework, including negotiations with shareholders, liquidation and nationalization (supported by government resources), as appropriate, to rapidly resolve the issues.

22. We have been striving towards maintaining independence of the NBRB. We will ensure that no provisions are included that impair the independence of the NBRB in the draft decree "On Improving Control (Supervisory) Activity in the Republic of Belarus" or in any other legislation. Building on recommendations of the FSAP update and the 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.

23. We recognize that the NBRB liquidity support to banks outside standard refinancing facilities based on ad hoc decisions of the NBRB Board is distortionary and should be provided only in exceptional circumstances. We will not extend new loans to banks at interest rates below rates on standard refinancing facilities (e.g. Lombard auctions) except credits for housing construction in the remainder of 2009 which are issued at the NBRB refinancing rate under existing government programs. The NBRB will agree with the IMF by end-December 2009 a schedule for phasing out refinancing of existing loans. In line with the recommendations of the 2008 FSAP Update, we will adopt a formalized framework for the provision of NBRB emergency liquidity assistance to banks, possibly using technical assistance from the IMF's Monetary and Capital Markets Department.

24. In line with the recommendations of the safeguards assessment the end-June quantitative PCs relating to NIR and NDA have been audited by international accountants and we will continue this practice until the end of the program.

V. Policies to Improve Business Climate

25. We have developed a legal framework for privatization to become competitive, transparent and professionally executed. A draft Privatization Law incorporating comments from the World Bank staff will be submitted to Parliament by September 30, 2009. A draft decree on establishing a privatization agency has been prepared by the government and taking into account comments from the World Bank and IMF staffs will be submitted to the Head of State by September 30, 2009 (**structural benchmark**). To accelerate the process of privatization we will identify five large SOEs as candidates for privatization by November 30, 2009. After consultations with the World Bank staff this list will be submitted to the Head of State for approval. We will work towards preparing controlling equity stakes of these enterprises for sale through an open, international, transparent, and competitive tender by February 28, 2010.

26. We will step up our efforts to promote market-based economic growth. The Council of Ministers will issue by end-December 2009, a recommendation to the line ministries and, other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the

companies that do not benefit from government's financial support and in which the government has a minority share (**structural benchmark**). We will refrain from the application of mandatory wage policy to companies in which the government does not have majority control. The government's right in such companies will not extend beyond the rights of all minority shareholders. We reaffirm our commitment to reduce the state regulation of wages and prices. We have eliminated all instructions that are not consistent with our commitment not to impose a general ceiling on monthly price increases. We will further reduce the number of products subject to price controls and trade margins, consistent with our understandings with the World Bank, and also refrain from announcing medium-term wage targets.

Sincerely yours,

/s/
S.S. Sidorsky
Prime Minister
of the Republic of Belarus

/s/
P.P. Prokopovich
Governor of the National Bank
of the Republic of Belarus

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

Date Available	Amount of Purchase		Conditions
	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 (completed)
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.

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	Revised PC	Adjusted PC	Actual	Program indicative target	PC	First review indicative target	PC
I. Performance criteria										
Ceiling on the cash deficit of the general government (billions of Belarusian rubels, - implies a surplus) 2/ 3/	-400	…	-708	-700	1,111	961	-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	-1,819	-2,321	-2,285	-647	-1,938	-1,937	-1,388
Ceiling on net domestic assets of the NBRB (billions of Belarusian rubels) 4/	74	1,152	915	2,603	3,685	3,330	1,566	3,190	3,562	2,379
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	627	…	625	…	853	…	1,074
NBRB balance of payments financing other than IMF	0	…	0	0	…	0	…	0	…	0
General government budget support	1,000	…	500	1,000	…	500	…	1,200	…	1,490
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	2,911	…	1,440	…	3,514	…	4,370
General government project support for projects initiated after January 2009	187	…	86	293	…	…	…	506	…	718
Of which: IFI project support	47	…	7	59	…	…	…	113	…	166
Bank recapitalization	0	...	0	0	...	0	…	0	…	0
Local government's cash deficit	…	…	…	0	…	1,115	…	0	…	0
Memorandum: General government project support for projects initiated after January 2009 (millions of US dollars)	71	…	31	102	…	…	…	172	…	243
SDR allocation (millions of US dollars at program exchange rate)	…	…	…	…	…	…	…	548.53	…	548.53

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

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU).
2/ Cumulative flows from end-December 2008.

3/ The performance criterion on the ceiling of the government deficit was adjusted for projects initiated before the program up to the limit of $353 million and for the cash deficit of local governments up to a limit of 1.4 trillion rubels. Table 2 of the Letter of Intent for the first review erroneously indicated that the end-June PC is not subject to the adjustment mechanism.
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**
Decision of the Presidium of the Council of Ministers to suspend the adoption of new government lending programs through end-2009.	
II. Structural Benchmarks	**Date**
Refrain from approving any new directed lending programs financed with budget deposits (LOI ¶19).	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 (partially met)
Submit to the Head of State a draft Decree on establishing a Privatization Agency (LOI ¶25).	September 30, 2009
In line with FSAP recommendations, bring loan classification and provisioning requirements in line with best international practices (LOI ¶18).	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 ¶22).	December 31, 2009
Issue a Council of Ministers recommendation to the line ministries and, other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share (LOI ¶26).	December 31, 2009

BELARUS—TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

September 30, 2009

1. This memorandum sets out the understandings between Belarus's authorities and the IMF staff regarding the definitions of performance criteria and prior action. The performance criteria are reported in Table 2 of the Letter of Intent (LOI) dated September 30, 2009.

2. The definitions of the performance criteria and the adjustment mechanisms, as well as of the prior action, 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 calculating the adjustors 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 gross international reserve assets and reserve liabilities, evaluated in U.S. dollars at the program exchange rates (Table 1). Gross international reserve assets are defined as readily available claims on nonresidents, denominated in foreign convertible currencies. They include the NBRB's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from gross international reserve assets 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

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

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

[2] As defined in paragraph 12 below.

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.

2. If Belarus participates in any SDR allocation(s) between March 31, 2009 and any subsequent test dates, the NIR 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, 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 half of 2009 amounted to 961 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.

E. Prior Action on Suspension of New Lending under Government Programs

20. The prior action on suspension of new government lending programs for 2009 will be deemed to be satisfied after the Presidium of the Council of Ministers makes a relevant decision confirmed by the minutes of its meeting.

II. Reporting Requirements

A. National Bank of the Republic of Belarus

21. 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.

22. 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.

23. The NBRB will provide to the IMF, on a monthly basis, data on the amounts of disbursements and changes in the stocks of loans extended by banks under government programs, and a weighted average interest rate charged on these loans. Data on the stocks and disbursements of the loans in foreign exchange will be converted into rubel equivalent using current exchange rates on a reporting date and the date of transaction, respectively.

24. The NBRB will provide to the IMF, on a weekly basis, data on the stocks and flows of refinancing under standard facilities and the resolutions of the NBRB Board outside standard refinancing facilities, including interest rates charged on these loans and their maturity.

25. 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.

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

27. 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).

28. 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.

29. 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.

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

31. 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

32. 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.

33. 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.

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

35. 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.

36. 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.

37. 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.

38. 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.

39. 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.

40. 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.

41. 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.

42. 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.

43. 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
	Actual	Prog.	Actual	Prog.	Prog.
I. Adjustor for the NIR performance criterion (millions of US dollars)					
External privatization proceeds of the general government under the SBA	625	2	0	226	221
NBRB balance of payments financing other than IMF	0	0	0	0	0
Projected foreign borrowing of the general government related to budget support or BOP financing	500	500	0	200	290
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	1,471	0	603	856
General government project support for projects initiated after January 2009	86.0	207	…	213	212
Of which: from IFIs	7	52	…	54	53
Memorandum items					
General government project support for projects initiated after January 2009, millions of US dollars	31	71	…	71	70
of which from IFI project support, millions of US dollars	2	18	…	18	18

Source: Belarusian authorities.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-By Arrangement—Informational Annex

Prepared by the European Department in Consultation with Other Departments and the World Bank

October 5, 2009

Contents Page

ANNEX I. BELARUS: FUND RELATIONS
As of August 31, 2009

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

II. General Resources Account:	**SDR million**	**Percent of Quota**
Quota	386.40	100.00
Fund holdings of currency	1342.13	347.34
Reserve position in Fund	0.02	0.01

III. SDR Department:	**SDR million**	**Percent of Allocation**
Net cumulative allocation	286.44	100.00
Holdings	286.99	100.19

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Stand-By Arrangements	955.73	247.34

V. Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
Stand-By	01/12/2009	04/11/2010	2,269.52	955.73
Stand-By	09/12/1995	09/11/1996	196.28	50.00

VI. Projected Payments to the Fund[1/] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal				248.92	477.86
Charges/Interest	3.11	12.25	12.25	11.45	6.36
Total	3.11	12.25	12.25	260.36	484.22

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

VII. Safeguards Assessments:

Voluntary (non-program related) assessment of the NBRB was completed in April 2004. The assessment concluded that significant vulnerabilities existed in the safeguards framework, especially in the areas of the legal structure and independence, external and internal audit, and in financial reporting. The assessment made specific recommendations to correct the identified shortcomings.

An update assessment of the NBRB, which was completed in May 2009 in connection with the Stand-By Arrangement approved on January 12, 2009, found little progress in addressing previously identified vulnerabilities. The assessment determined that risks have increased since the voluntary 2004 assessment and recommended the following measures:

- Adopting a new law that provides operational and financial independence for the NBRB to ensure the effectiveness of the NBRB's internal and external audit mechanisms and the control systems,
- Conducting special audits of NIR and NDA data to reduce the risk of misreporting,
- Divesting the NBRB's investment in non-financial subsidiaries, and
- Publishing the audited IFRS financial statements.

The NBRB is taking steps to address the weaknesses. Special audits of NIR and NDA data for March and June 2009 test dates were completed.

VIII. Exchange Arrangements:

As of August 20, 1994, the rubel became the unit of account replacing the Belarusian ruble, which was formally recognized as the sole legal tender only on May 18, 1994. The conversion took place at the rate of 10 Belarusian rubles = 1 rubel. The authorities decided to drop three zeroes from the rubel denomination as of January 1, 2000. The exchange rate for the U.S. dollar was BYR 2,200 on December 31, 2008.

In mid-September 2000, the official exchange rate was unified with the market-determined rate resulting from daily auctions at the Belarus Currency and Stock Exchange. Since then, the official rate on any day is equal to the closing rate of the previous trading day. On January 1, 2008 the exchange rate was set in the framework of horizontal corridor for the U.S. dollar around central parity. The earlier arrangement, introduced in 2006, entailed reference to two horizontal corridors around central parity for the Russian ruble (±4 percent) and U.S. dollar (±2.5 percent).

On January 2, 2009, the rubel was pegged to a basket of currencies including the U.S. dollar, the euro, and the Russian ruble (equal weights), with fluctuation margins of ±5 percent. The margins were widened to ±10 percent in June 2009. The current regime is classified as pegged exchange rate within horizontal band.

On November 5, 2001, Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. During the same month, the NBB suspended all ad hoc exemptions from the 30 percent surrender requirement. Based on currently available information, Belarus does not maintain exchange restrictions or multiple currency practices.

IX. UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on June 4, 2007.

Stand-By Arrangement. A 15-month Stand-By Arrangement (SBA) in the amount of SDR 1.6 billion (US$2.5 billion, 418.8 percent of quota) was approved by the Executive Board (IMF Country Report 09/109) on January 12, 2009. An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (IMF Country Report 09/260), bringing the Fund's financial support to SDR 2.3 billion (US$3.5 billion, 587.3 percent of quota). Total disbursements under the program so far amount to SDR 955.7 million (about US$1.5 billion).

Article IV consultation and 2nd review of the SBA mission. A staff team comprising Messrs. Jarvis (head), Ding, and Kovtun (all EUR), Ms. Mitra (SPR), Mr. Prokopenko (MCM) and Mr. Wane (FAD) visited Minsk during August 18–September 2. The team met with the Prime Minister, Mr. Sidorsky; the Deputy Prime Minister, Mr. Kobyakov; the Governor of the National Bank of the Republic of Belarus, Mr. Prokopovich; the Minister of Finance, Mr. Kharkovec; the Deputy Minister of Economy, Mrs. Starchenko, and other senior officials. Mr. Belka (EUR) and Mr. Kiekens (OED) participated in the policy meetings for the Article IV Consultation discussions. Ms. Koliadina, the Resident Representative, assisted the mission.

X. FSAP Participation, ROSCs, and OFC Assessments:

Two FSAP missions took place in 2004 and an FSSA report was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed FSAPs were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30,

http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0)
The fiscal ROSC was published on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0 and the data ROSC on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0.

XI.	**Technical Assistance, 2006–09:**		
	Department Counterpart	**Subject**	**Timing**
	MCM	Banking regulation: loan classification and provisioning	April 2009
	MCM	Monetary policy: forecasting and policy analysis	February-March 2009
	MCM	Exchange rate regime, foreign exchange operations	December 2008
	MCM	FSAP Update	September 2008
	MCM	Financial stability and external debt management	January 2008
	MCM	Banking supervision: financial stability issues, stress-testing	July 2007
	MCM	Building a system for forecasting and policy analysis	June 2008 October 2007 July 2007
	MCM	Strengthening forecasting and policy analysis	May 2007
	MCM	Banking supervision: on-site inspection	April 2007
	MCM	Banking supervision: stress-testing, financial stability	March 2007
	MCM	Insurance supervision	March 2007
	MCM	Monetary policies analysis and forecasting	February 2007
	MCM	Banking supervision: on-site inspection	January 2007
	MCM	Improving monetary policy	January 2007
	FAD	Introduction of a medium-term fiscal framework (MTF)	March-April 2009
	FAD	Program budgeting reform implementation	March 2008 November 2007 May 2007
	FAD	Fiscal diagnostic mission	September 2006
	STA	National accounts statistics	January 2008
	STA	Balance of payments and external sector statistics	January 2008
	STA	Government finance statistics	September-October 2007
	STA	National accounts statistics	October 2006

ANNEX II. BELARUS: RELATIONS WITH THE WORLD BANK GROUP

The World Bank Group Strategy

1. The recent WBG Country Assistance Strategy for Belarus for FY 2008-2011 was approved on December 4, 2007. The FY08-11 CAS envisioned a modest but a scaled-up engagement with Belarus, including up to USD 100 million in annual lending volumes to support the country in addressing global environment and energy challenges, enhancing the competitiveness of its economy to assure rising incomes, and protecting the welfare of the most vulnerable. Analytic and advisory work comprised a core element of the program. To date, the Bank's lending commitments in Belarus total US$443 million, with US$18 million provided as grants.

2. The IFC strategy aimed at providing advisory services and investment operations to foster private sector development. The IFC advisory services focus on reforms of business registration, permits, and the system of inspections, while retaining flexibility to respond to other government requests to improve the business environment. Outstanding IFC investments in Belarus total approximately US$200 million; divided almost equally between financial markets and the real sector.

3. The economic and political developments over the past two years, however, have provided the opportunity to enter into a much deeper engagement and reform dialogue with the Belarusian authorities. Given the impact of the global financial crisis, and the commitment of the government to deepen and accelerate structural reforms to improve competitiveness and growth, the CAS Progress Report (CASPR) has been prepared (planned for Board presentation in November 2009), proposing to double annual lending volumes for the two remaining fiscal years of the CAS and to include development policy lending together with investment lending to support the following three pillars of the revised CAS structure: Delivering Global and Local Public Goods; Entry, Regulatory Reform and Competitiveness; and Public Sector Efficiency and Fiscal Discipline. IFC's investments will continue to focus on financial markets, general manufacturing, and agribusiness sectors and expected to reach about US$80 million per year.

IMF-World Bank Collaboration in Specific Areas

4. The Bank and the Fund teams work closely in calibrating and delivering their assistance. The IMF plays a key role at the macro level, while the World Bank focuses on the structural agenda, energy efficiency, social and environmental issues. The Bank and the Fund teams carry out various joint activities. The joint work on the Public Expenditure Review (PER), Financial Sector Assessment Program (FSAP), and the Country Economic Memorandum (CEM) are examples of excellent cooperation between the two institutions. Discussions under the IMF SBA and preparation of the first EBRD Development policy loan are the most recent examples of close cooperation and coordination between the Bank and the Fund.

Areas in Which the World Bank Leads

5. **Structural and social issues, private business development.** The Bank focuses its analytical work on structural reforms and on those issues that are most critical to reducing risks to the population posed by transition and external shocks. The Belarus Economic Policy

Notes (forthcoming in FY10) focuses on new/potential sources of recovery and sustained growth, particularly evaluating the drivers of productivity growth, product diversification, export sophistication, and labor market issues. The Bank completed recently the Agriculture Competitiveness Study, which analyzes the impact of state control on competitiveness, productivity and growth in the agriculture sector. The Bank provided TA and advice in the area of social assistance and social protection during FY08-09 and will continue doing so in FY10. The Bank also provided TA to support the Government's privatization efforts. Other planned ESW include a review of energy and heating tariff reform; a study of environmental standards and pricing reform in water and sanitation, providing recommendations on institutional reform in this sector; and a Transport Sector Review. The IFC delivers an active advisory program around challenges facing the private sector and international "best practices" for improving the business regulatory environment.

6. **Energy sector**. Currently, two energy efficiency projects are being implemented in Belarus with the World Bank's financial support: the Post Chernobyl Recovery Project (US$50 million) and the Additional Financing for the Social Infrastructure Retrofitting Project (SIRP) (US$15 million). A new energy sector project (US$125 million) was approved in May 2009.

7. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. Two TA projects are currently under implementation: (i) the IDF Grant for Enhancing Institutional and Legal Framework for Environmental Permitting in Belarus (US$440,000); and (ii) the GEF Grant (US$285,000) for preparation of the full-size Persistent Organic Pollutant (POPs) Stockpile Management and Technical/Institutional Capacity Upgrading Project. The Water Supply and Sanitation Project (US$60 million) to finance investments in well field development and rehabilitation, water treatment, distribution network rehabilitation, and wastewater treatment was approved in FY09 and Solid Waste Management Project (US$60 million) is expected to be approved in FY10.

Areas of Shared Responsibility

8. **Macroeconomic development**. The Bank's team cooperated closely with the IMF during preparation of the 2005 Country Economic Memorandum (CEM) and jointly prepared the chapter "*Macroeconomic Policies and Risks*". The Bank experts took an active part in the seminar on the *Sources of Belarus' Long-Term Growth* in August 2009 (organized jointly by the NBRB and the IMF) and agreed on the continuation of this practice in the future.

9. **Public expenditure management.** The IMF and the Bank provide continuous technical assistance to Belarus in public expenditure management. In 2007 the Bank prepared two policy notes in selected issues in public finance, which covered major issues in intergovernmental fiscal relations and capital budgeting. Belarus became a member of the Public Expenditure Management Peer Learning Program (*PEMPAL*) in 2006 and has benefited from participation in various events for practitioners in budget policy, treasury, and audit. IMF technical assistance missions support PFM improvement, ranging from treasury, budget classification, fiscal ROSC, tax policy to MTEF and program budgeting. In FY 09 the Bank completed the first Public Expenditure and Financial Accountability (PEFA) assessment for Belarus. Moving forward, and with the aim to tackle the vast fiscal and

structural challenges, which are fully intertwined in th*e* reform agenda in Belarus, a Programmatic Public Expenditure Review has bee*n* initiated in FY10.

10. **Debt management.** A Bank diagnostic mission to identify the needs of the Ministry of Finance in debt management and debt market development, to evaluate the current debt management strategy and practices, and to assist in designing a plan for their upgrading took place in FY09. The mission findings were built on the findings of the IMF TA earlier missions in debt management and in access to capital markets.

11. **Financial sector.** The FSAP Update was prepared jointly by the Bank and the Fund in 2008. It provided valuable insights on the key vulnerabilities in the financial sector and reforms needed, which form the basis of the follow-up dialogue under the IMF SBA program. In FY10, the Bank will continue financial sector monitoring jointly with the IMF.

Areas in Which the IMF Leads

12. The IMF is actively engaged with the authorities in discussing the macroeconomic framework, providing technical assistance and related support, including support on economic and financial statistics, tax policy, monetary operations, and fiscal transparency. The IMF is leading the dialogue on setting the objectives for monetary and exchange rate policies, public debt management, overall budget envelope, and tax policy. However, the IMF and Bank staffs collaborate extensively in the preparation of the macroeconomic framework and prepare the debt sustainability analysis jointly.

13. The IMF analysis in these areas serves as an input to the Bank policy advice. The Bank and the IMF teams have regular consultations, and the Bank staff takes part in the IMF Article IV Consultations and the SBA review missions. This helps to ensure consistency of policy recommendations by the two institution**s.**

14. **Questions may be referred** to **Connie Luff**, Country Program Coordinator, ECA Region, World Bank (202) 458-4068

Belarus: Bank and Fund planned activities in macro-critical structural reform areas, September 2009-August 2010

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program	Development Policy Loan	Ongoing	Board discussion expected in November 2009
	Belarus Economic Policy Notes	Ongoing	2010
	PEFA follow-up (selected issues)	Ongoing	2010
	Programmatic Public Expenditure Review (PER)	Ongoing	2010
	TA on social policies (social safety net, pensions, labor market regulations)	Ongoing	2010
	Private Sector Development (PSD) Dialogue (including privatization)	Ongoing	2010
	Transport Sector Review	Ongoing	2010
	Electricity and water sector reform	Ongoing	2010
	TA in environmental policies and institutions (grants)	Ongoing	2010
2.Fund Work Program	Tax policy TA focusing on the VAT	October 2009	TA report to government in October 2009
	Third Review under the SBA	November 2009	Board discussion expected in December 2009
	TA on bank supervision	November 2009	TA report to government in December 2009
	TA on monetary operations	November 2009	TA report to government in December 2009
	Fourth Review under the SBA	February 2010	Board discussion expected in March
	Tax policy TA	February 2010	TA report to government in March 2010
	Negotiations of the follow-up program	April 2010	June 2010
	Staff visit to discuss the 2011 budget	August 2010	Aide-mèmoire to the government in August 2010

ANNEX III. BELARUS— STATISTICAL ISSUES

As of October 2, 2009

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance, although macroeconomic analysis is encumbered in some areas. The authorities have continued to make improvements over the past several years in a number of key areas, with technical assistance from the Fund.	
National Accounts: Quarterly national accounts are compiled in accordance with the *System of National Accounts of 1993* (*1993SNA*), using the production, expenditure and income approaches, covering the entire economic territory of the Republic of Belarus. GDP estimates are likely to be underestimated due to underreporting of newly emerging sectors—particularly services—and an active informal sector.	
Government finance statistics: Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). In FY2010, a STA technical assistance mission is planned to assist the authorities in improving the collection of primary fiscal data, and processing in line with the GSFM 2001 methodology.	
Monetary statistics: Following STA technical assistance mission in October 2005, the NBRB compiles monetary statistics according to the methodology of the Monetary and Financial Statistics Manual. The NBRB reports monetary data to STA using the Standardized Report Forms (SRFs) framework.	
External sector statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the *BPM5* format. Overall the timeliness and serviceability of external sector data is satisfactory.	
II. Data Standards and Quality	
Belarus subscribed to the Special Data Dissemination System (SDDS) December 22, 2004.	A data ROSC report was published February 1, 2005.

BELARUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of October 2, 2009)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	Sep. 2009	10/1/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2009	9/18/09	W	W	W		
Reserve/Base Money	Sep. 2009	10/1/09	D	D	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Aug. 2009	9/20/09	M	M	M		
Central Bank Balance Sheet	Sep. 2009	10/1/09	D	D	M		
Consolidated Balance Sheet of the Banking System	Aug. 2009	9/20/09	M	M	M		
Interest Rates[2]	Sep. 2009	9/30/09	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Aug. 2009	9/17/09	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Aug. 2009	9/30/09	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Aug. 2009	09/30/08	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Aug. 2009	9/30/09	M	M	Q		
External Current Account Balance	July 2009	9/18/09	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	July 2009	9/18/09	M	M	Q		
GDP/GNP	Aug 2009	9/19/09	M	M	Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q2 2009	7/15/09	Q	Q	Q		
International Investment Position	Q1 2009	6/22/09	Q	Q	Q		

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

Statement by the Staff Representative on the Republic of Belarus

October 21, 2009

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

2. **On the basis of preliminary data, the performance criteria for end-September appear to have been met**. Based on preliminary data, NIR exceeded the adjusted target by $150 million, and NDA was 494 billion rubels below the adjusted target. The adjusted target for the fiscal deficit is also likely to have been met based on the revenue and expenditure pattern in recent months.

3. **The authorities took several actions in recent weeks in accordance with their Letter of Intent**:

- The Presidium of the Council of Ministers decided on October 14 to suspend the adoption of new government lending programs through end-2009 (prior action).

- The Board of the NBRB adopted a resolution on September 23 to bring loan classification and provisioning requirements in line with the FSAP recommendations (end-September structural benchmark).

- The draft decree on establishing a Privatization Agency was submitted to the Head of State on September 30 (end-September structural benchmark). The draft Privatization Law incorporating comments from the World Bank staff was sent to the Parliament on the same day.

- The Presidium of the Council of Ministers approved on September 27 the draft 2010 budget with a deficit capped at 2.7 trillion rubels. The draft budget proposes an increase in the VAT rate from 18 to 20 percent.

4. **World Bank and EU financing for 2009 is proceeding as expected, with a change proposed in the composition of other official financing.**

- The authorities are on track to receive $200 million from the World Bank. They adopted the draft decree on control (supervision) on October 16, thereby meeting a prior action under the World Bank's policy Development Loan.

- Discussions on the authorities' request for Macro-Financial Assistance from the EU in the amount of about \$290 million are proceeding as planned.

- The Russian authorities recently proposed to replace the final \$500 million tranche of a \$2 billion bilateral loan with a loan of the same amount from the Eurasian Economic Community's anti-crisis fund. Parliamentary ratification of Belarus's participation in this fund is expected in early November. The Belarusian authorities have indicated that if at the time of discussions on the third review of the SBA in early November there is evidence that securing a loan from the anti-crisis fund is likely to be delayed beyond the end of 2009 they would be prepared to take contingency measures beyond those identified in the Letter of Intent to close the financing gap during the remainder of the program. The authorities have indicated that they are prepared to take a package of measures including selling national assets to increase official reserves and realizing fiscal savings (the authorities have used both of these measures already to meet the end-September performance criteria notwithstanding the delay in disbursement of the Russian loan) and allowing greater exchange rate flexibility within the current band. The staff estimates that these measures could produce savings of about \$500 million over the remainder of the program period, though as not all of these would materialize by end-December a small modification of the end-December NIR and NDA performance criteria might also be proposed at the time of the next review.

5. **Recent economic data are consistent with the analysis in the staff report.** GDP declined by 0.3 percent year-on-year in the first nine months. Twelve-month CPI inflation fell further to 11.7 percent in September. Incoming data suggest an improvement in the export volume, providing support that could result in slightly higher output than projected in the staff report. However, the external current account will remain weak, reflecting a further fall in export prices, as well as other developments elaborated in the staff report. The outlook for 2010 is broadly unchanged from the projection in the staff report.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 09/135
FOR IMMEDIATE RELEASE
December 15, 2009

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

IMF Executive Board Concludes 2009 Article IV Consultation with Belarus

On October 21, 2009 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belarus.[1]

Background

Belarus had experienced rapid growth in the ten years up to 2008, benefiting from export price gains, strong growth in trading partners, and large energy subsidies from Russia. The reversal of these factors in the course of 2008 put Belarus in a highly vulnerable position at the outset of the global economic crisis, and an IMF-supported program was approved in early 2009 to facilitate adjustment to external shocks and reduce vulnerability.

Belarus has so far escaped a significant fall in output, despite a sharp fall in external demand. GDP declined 0.5 percent year-on-year in the first eight months of 2009, comparing favorably to Belarus's main trading partners. Economic activity has been bolstered by strong domestic demand, especially housing construction financed under government programs. Twelve-month CPI inflation fell to 12.5 percent in August, as the impact of the negative output gap eclipsed the effects of exchange rate depreciation and utility price adjustment early in the year.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The current account deficit has widened, reflecting weak external demand as well as terms of trade losses. The deficit was partially offset by net financial inflows, including privatization proceeds, trade credits, and government borrowing. Currency substitution, which accounted for large reserve loss at the beginning of the year, came to a halt in early June and has been partially reversed since. Gross international reserves have begun to recover after falling below $3 billion in late August, boosted by the recent SDR allocations.

Fiscal adjustment remains strong and on track, with further revenue shortfalls being offset by spending restraint. The effects of the crisis continue to be felt, especially through lower profit tax and excise revenue. The authorities have responded with cuts in expenditures for goods and services and “other expenditures”.

However, lending under government programs continued to increase at a high rate. In the first half of 2009, gross disbursements under government programs were some 40 percent higher than in the corresponding period of 2008. The share of such lending in overall credit to economy increased from 33 percent in December 2008 to 38 percent in July 2009. This lending helped propel high rates of investment and domestic demand and therefore contributed to the loss of reserves. Banks’ involvement in such lending increased their vulnerability to liquidity risks although financial soundness indicators remain broadly satisfactory.

Executive Board Assessment

Executive Directors observed that Belarus had managed to avoid a severe output contraction, with real GDP declining only marginally despite a sharp fall in external demand for its exports. The Fund-supported program has contributed to this cushioning of the output decline. The prospects for high, sustainable growth over the long term will depend critically on the depth and the pace of market-oriented structural reforms.

Directors noted with concern the continued high current account deficit and the lower reserve level, which were due in part to the aggressive expansion of credit under government programs. They encouraged the authorities to phase out gradually central bank liquidity support to banks on non-market terms under these programs and to address vulnerabilities in state-owned banks. Directors agreed that priority should be given to the objectives of building reserves and supporting the exchange rate regime, and therefore endorsed the authorities’ plan to restrain credit for the remainder of the year, accompanied by strong fiscal and monetary policies. In this context, Directors supported the intention to maintain high interest rates until there is clear evidence of a turnaround in reserves and a well-established process of de-dollarization.

Directors applauded the authorities' commitment to a tight fiscal policy, with revenue shortfalls being offset by spending restraint while protecting priority social spending. The decision to postpone the increase in public sector wages and to increase charges for transportation and utilities would help rein in spending. Directors considered that limiting the consolidated budget deficit to the equivalent of 1.7 percent of GDP in 2010 provides a strong basis for a macroeconomic framework consistent with the objectives of increasing reserves and containing inflation.

Directors noted the staff assessment that the real effective exchange rate and exchange rate regime appear to be broadly appropriate based on agreed tight domestic policies. They generally supported the recommendation to permit more flexibility within the widened band as needed to ensure that the target for international reserves is met. Over the medium term, consideration could be given to moving toward a more flexible exchange rate regime.

Directors welcomed progress on financial sector reforms, including bringing loan classification and provisioning requirements in line with international practice, and improving the framework for crisis preparedness. They encouraged further efforts to increase the commercial orientation of banks and to develop nonbank financial institutions, thereby promoting efficient allocation of resources. Directors welcomed plans to disengage the central bank from non-core business and to enhance its independence more broadly.

Directors noted several external constraints that are likely to hinder a return to precrisis high growth rates. It will therefore be important that Belarus pursue an ambitious structural reform strategy aimed at generating new sources of growth and improving the business climate. Privatization would play an important part in easing external financing constraints and promoting technological development. Further measures are also needed to reduce the burden of regulation and quantitative targets on the private sector. Directors encouraged the authorities to avoid recourse to additional administrative controls in response to the crisis.

Directors emphasized the importance of securing sufficient financial resources from the international community in support of Belarus' reform efforts. They welcomed the authorities' commitment to implement contingency measures to avoid having a financing gap.

Belarus: Selected Economic Indicators, 2006–10

	2006	2007	2008	2009	2010
				Proj.	
	(Annual percentage change, unless otherwise specified)				
National accounts					
Real GDP	10.0	8.6	10.0	-1.2	1.8
Total domestic demand	13.9	13.5	16.1	-1.2	2.4
Consumption	9.0	9.7	12.2	-5.3	3.7
Private	12.7	13.4	15.9	-5.3	4.1
Public	-0.2	-0.5	0.3	-5.0	2.2
Investment	26.2	21.9	23.9	6.0	0.4
Of which: fixed	26.5	21.1	23.1	6.5	0.4
Net exports 1/	-7.9	-1.5	-7.7	0.3	-1.0
Consumer prices					
End of period	6.6	12.1	13.3	11.0	8.0
Average	7.0	8.4	14.8	13.0	8.3
Monetary accounts					
Reserve money	19.8	38.4	11.7	-8.7	17.9
Rubel broad money	44.4	35.0	22.5	-7.5	22.3
	(Percent of GDP)				
External debt and balance of payments					
Current account	-3.9	-6.8	-8.4	-9.6	-7.1
Trade balance	-6.1	-9.0	-10.1	-11.9	-9.2
Exports of goods	53.7	53.7	54.8	47.4	50.4
Imports of goods	-59.8	-62.7	-64.9	-59.2	-59.6
Gross external debt	18.5	27.7	25.0	41.7	43.1
Public 2/	2.3	6.5	6.9	18.9	19.8
Private (mostly state-owned-enterprises)	16.3	21.2	18.1	22.9	23.4
Savings and investment					
Gross domestic investment	32.2	34.1	36.4	37.9	36.7
Public	9.6	8.5	10.1	7.5	6.4
Private	22.6	25.6	26.4	30.5	30.3
National saving	28.3	27.3	28.1	28.3	29.7
Public	11.0	8.9	11.4	5.7	4.7
Private	17.2	18.4	16.6	22.6	25.0
Public sector finance					
Republican and local government balance	0.4	-0.6	0.0	-1.7	-1.7
General government balance	1.4	0.4	1.4	-1.7	-1.7
Revenue	49.1	49.5	51.0	43.5	42.6
Expenditure	47.6	49.0	49.6	45.2	44.4
Of which					
Wages	8.2	8.0	6.7	6.6	6.5
Subsidies and transfers	9.0	10.5	11.6	10.9	10.1
Investment	9.6	8.5	10.1	7.5	6.4
	(Annual percentage change, unless indicated otherwise)				
Memorandum items:					
Nominal GDP (trillions of rubels)	79.3	97.2	128.8	140.0	157.3
Term of trade	3.9	-1.6	9.2	0.6	6.2
Real effective exchange rate	-2.0	-4.5	0.6	-1.9	0.8
Official reserves (billions of U.S. dollars)	1,383	4.2	3.1	5.8	7.1
Official reserves (months of imports of goods and services)	0.7	1.6	0.9	2.2	2.5
Official reserves (percent of short-term debt)	31.6	56.8	41.1	81.4	96.0

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).

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No.09/363
FOR IMMEDIATE RELEASE
October 21, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Stand-By Arrangement, Concludes 2009 Article IV Consultation with Belarus

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Belarus's performance under an economic program supported by a Stand-By Arrangement (SBA). This decision enables the disbursement of SDR 437.93 million (about US$699.5 million), bringing total disbursements under the program so far to about SDR 1.4 billion (about US$2.23 billion).

The original 15-month SBA was approved on January 12, 2009 (see Press Release No. 09/05). Financial support was subsequently increased to SDR 2.27 billion (about US$3.63 billion) on June 29, 2009 (see Press Release 09/241).

The Executive Board also concluded the 2009 Article IV consultation with Belarus. A Public Information Notice and the staff report will be published in due course.

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

"Belarus has made good progress in adjusting its policies in response to the global crisis. Despite a substantial decline in exports, the economic contraction has been modest relative to other crisis-hit countries. Exchange rate adjustment has helped reduce external vulnerabilities, with the present exchange regime providing a buffer against external shocks. The adjustment has been supported by a tight fiscal policy, with revenue shortfalls offset by spending cuts, and by an interest rate policy that has kept market rates high in real terms.

"Nevertheless, the strategy of expanding credit under various government programs, while helping to cushion the impact of the crisis on output, put pressure on the external position. The authorities are committed to a tight credit policy, with a view to reducing the current account deficit and pressure on international reserves. The decision to limit lending under government programs in the remainder of 2009 will help contain domestic demand and support the stabilization efforts.

“The authorities have made important progress in their structural reform agenda aimed at improving the business climate and facilitating private sector development. Privatization will play an important part in easing external financing constraints and promoting technological development. The planned setting-up of a Privatization Agency is on track. Reducing the burden of regulation and quantitative targets on the private sector, as well as increasing the commercial orientation of banks, will promote more efficient allocation of resources. It will be important to protect vulnerable groups and enhance the effectiveness of the social safety net.

“The authorities have also progressed well on financial sector reforms, including bringing loan classification and provisioning requirements in line with international practice and improving the framework for crisis preparedness. The commitments to disengage the central bank from non-core business and to enhance its independence are welcome.

“Securing sufficient financial resources from the international community is essential for Belarus’ reform efforts. In this context, the authorities stand ready to implement contingency measures should a financing gap emerge.”