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The Republic of Belarus: First Post-Program Monitoring Discussions

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 June 14, 2011, with the officials of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 28, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement (Informational Annex) of July 28, 2011 providing background information.
- A staff supplement of August 19, 2011 updating information on recent developments.
- A Public Information Notice (PIN).
- A statement by the Executive Director for the Republic of Belarus.

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REPUBLIC OF BELARUS

First Post-Program Monitoring Discussions

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Claire Waysand

July 28, 2011

Executive Summary

Background. Belarus is in an economic crisis. The seeds for the crisis were sown in significant policy loosening after completion of a $3½ billion SBA in March 2010. A year later, Belarus has reaped a bitter harvest. Pressure on reserves stemming from an unsustainable current account deficit intensified sharply in late 2010 and early 2011. Attempting to safeguard remaining reserves, the central bank was forced to cease foreign exchange interventions in late March 2011. As the authorities were not prepared to float the rubel, the foreign exchange markets became fragmented. There is now a multiple exchange rate system with a heavily depreciated parallel market exchange rate, and Belarus is at risk of slipping into an inflation-depreciation spiral.

Authorities' strategy and views. After initial attempts to deal with the crisis with mostly administrative tools, the authorities developed a package of measures in the framework of a $3 billion loan agreement with the Eurasian Economic Community's Anti-Crisis Fund (ACF). The authorities are assessing whether measures already taken will be strong enough to produce the required adjustment or whether radical reform and further adjustment will be needed. At present, the authorities are taking a gradual approach to monetary tightening and exchange rate unification with the aim of avoiding subjecting Belarus' people and enterprises to further shocks.

Staff's views. Staff considers the package of measures agreed with the ACF as an important step in the right direction but that it falls short of what is needed and has not been consistently implemented. Staff recommends developing, announcing, and vigorously implementing a comprehensive adjustment package designed to restore macroeconomic stability. In staff's view, this package should include tighter fiscal and monetary policies, wage restraint, and floating the exchange rate. The authorities also need to demonstrate a strong and consistent commitment to structural reforms.

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I. CONTEXT

1. **Loose policies pursued in 2010 and early 2011 led to a foreign exchange crisis.** Ahead of December 2010 presidential elections, the Belarus authorities loosened policies significantly. As a consequence, the current account deficit increased and the pressure on reserves intensified. After a significant loss of reserves in the beginning of 2011, confidence in the rubel fell, sparking a foreign exchange crisis and forcing the NBRB to cease interventions. The foreign exchange markets became fragmented and a black market appeared.

2. **The June 2011 Post-Program Monitoring (PPM) discussions focused on the options to resolve the crisis.** Staff cautioned that current policies are fraught with significant risks and advocated developing a comprehensive adjustment package involving tightening of monetary and fiscal policies and floating the exchange rate. The authorities believed that the measures already implemented or about to be implemented in the framework of their agreement with the ACF should alleviate the effects of the crisis and preferred to take more time before designing additional measures.

3. **The external debt stock remains manageable, but Belarus's capacity to service external liabilities will depend on the strength of policies.** Belarus is facing a difficult amortization schedule over the coming years, including repayments to commercial banks and external creditors, and repurchases to the Fund (table below). Short-term debt is substantial, exposing Belarus to rollover risk. Overall external debt continues to increase in the medium term in the baseline scenario. A strong comprehensive reform program is necessary to bolster Belarus's capacity to service its obligations.

Belarus: Financing Requirements (Baseline Scenario), 2010–16

(Billions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	2016
	Prel.	Proj.					
Financing needs	-13.1	-15.3	-13.4	-14.1	-14.9	-17.0	-17.0
Current account balance	-8.5	-8.4	-6.5	-6.9	-7.1	-7.7	-8.2
Amortization of debt securities	0.0	0.0	-0.2	0.0	0.0	-1.0	0.0
Amortization of medium- and long-term debt	-1.0	-1.5	-1.8	-2.4	-3.0	-3.5	-4.0
Amortization of short-term debt	-3.6	-5.3	-4.9	-4.8	-4.8	-4.8	-4.8
Financing sources	12.6	7.7	8.3	8.7	10.0	11.4	11.2
FDI (net)	1.3	1.8	2.0	2.4	2.6	2.8	3.2
Portfolio investment inflows	1.2	0.8	0.2	0.0	0.0	1.0	0.0
Trade credits (net)	1.1	0.3	0.4	0.4	0.4	0.4	0.4
Medium- and long-term debt financing	2.8	2.5	3.9	4.7	5.2	4.4	4.8
Short-term financing	5.3	4.9	4.8	4.8	4.8	4.8	4.8
Other 1/	-0.5	-2.3	-0.5	0.8	1.5	0.1	0.0
Targeted increase in reserves	0.8	-1.5	-3.0	-3.5	-3.0	-2.0	-2.0
Exceptional financing	0.5	1.2	0.5	-0.8	-1.4	-0.1	0.0
of which ACF	0.0	1.2	0.9	0.9	0.0	0.0	0.0
of which Fund (net)	0.7	0.0	-0.4	-1.7	-1.4	-0.1	0.0
Residual financing gap	0.0	6.3	4.7	6.2	6.3	5.6	5.8

Source: IMF staff calculations.

1/ includes assets (portfolio and other investment), capital account, errors and omissions and valuation effects.

4. **With Belarus at a crossroads, the authorities are weighing their options.** The economic crisis is matched by an unsettled political situation. Belarus's international relations have been strained by the arrest and imposition of prison sentences on leading opposition figures. This has led to the intensification of sanctions against some Belarusian officials and companies. More recently protests over economic developments have sometimes produced concessions and sometimes been forcibly dispersed. The authorities are now waiting for the results of decisions already taken before deciding whether to take further measures. One strand of opinion is that the current economic model remains intact, and that given time and financing Belarus will emerge from the crisis. Another approach, which policy makers are considering, is that radical reform is needed and that Belarus should proceed rapidly with adjustment and to reengage with the international community with a view to securing broad financial support.

II. Recent Economic Developments

5. **After the 2009 SBA expired, Belarus authorities loosened policies considerably and macroeconomic imbalances intensified (Figures 1–4).** Budget sector wages were increased by 30 percent in November 2010 and 12-month credit growth accelerated to nearly 40 percent by the end of the year, whereas until March 2011 the exchange rate with the U.S. dollar was supported in a narrow band by significant intervention. The NBRB avoided a loss of gross foreign exchange reserves by borrowing from domestic commercial banks in late 2010, but this borrowing increased financial sector vulnerabilities significantly.

Belarus: Economic Developments during and after the SBA

	Mar-10	Mar-11
		Prel.
Credit to the economy at constant exchange rates, y-o-y percent change	29.6	48.7
First-grade budget sector wage 1/, y-o-y percent change	5.2	45.7
Real overnight interbank rate	7.5	-0.2
Net international reserves, y-o-y change (billions of U.S. dollars)	-1.1	-7.0
Nominal exchange rate depreciation against the basket of currencies	9.7	5.0

Source: IMF staff calculations.

1/ The first-grade budget sector wage refers to the first level in the budget sector pay grade system. All other wages are multiples of the first-grade wage.

6. **The imbalances intensified in the first quarter of 2011, increasing the pressure on reserves to a critical level and eventually forcing the NBRB to cease interventions.** The current account deficit in the first quarter of 2011 increased sharply, spurred by loose policies as well as a further increase in the price of natural gas and high demand for imported cars in expectation of a planned increase in import tariffs. Devaluation expectations fueled households' demand for foreign exchange. After losing a quarter of its foreign exchange reserves between December 2010 and March 2011, the NBRB ceased interventions (Box 1).

7. **The foreign exchange crisis led to a decrease of confidence of Belarus's households in banks and prompted withdrawals of deposits.** Household foreign currency

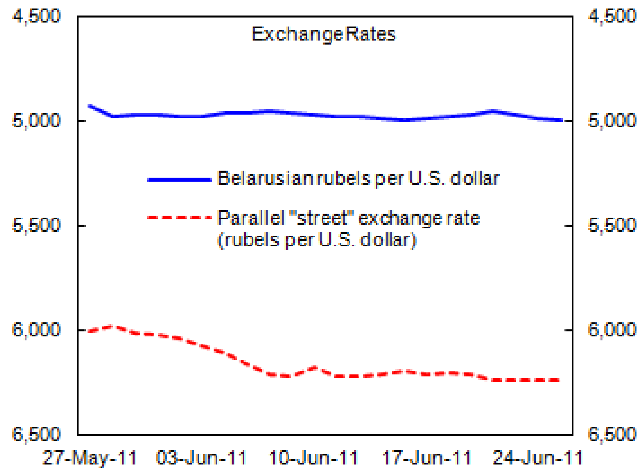
Box 1. Foreign Exchange Market Crisis

Facing strong pressures on the reserves, in March 2011 the NBRB allowed the rubel to depreciate against the currency basket towards the bottom of the band. The rubel depreciated by 5 percent to the lower boundary of the band by mid-March, but the NBRB was forced to intervene heavily to support that exchange rate as devaluation expectations intensified and households' demand for foreign exchange spiked. Gross reserves fell by about a quarter to 3½ billion (less than one month of imports).

After unsuccessful attempts to solve the unfolding foreign exchange crisis with administrative measures, the NBRB was forced to cease interventions, leading to collapse of the FX markets. The initial measures included a restriction on advance import payments using loans from local banks, a ban on obtaining FX for import payments on certain goods over 50 thousand Euros, an introduction of a 2-percent surcharge on forex trades in the Belarusian Currency and Stock Exchange (BCSE) and an introduction of a 30-day moratorium on FX purchases on the BCSE in mid-March, which was repealed within one week. [1] These measures failed to stem the demand for foreign exchange and the NBRB ceased interventions on March 22. As the authorities were not prepared to float the rubel, FX shortages led to the collapse of trade in the markets and a development of the black market. The authorities began FX rationing: proceeds from export surrender requirements were channeled to payments for medicine, energy items and debt service.

The authorities attempted to revive FX markets by liberalizing the interbank and subsequently the cash market. The NBRB liberalized the interbank market on April 20. After an initial sharp depreciation (as much as 65 percent relative to the official rate), market transaction rates appeared to have stabilized and eventually started to appreciate before restrictions were introduced again.[2] The cash market remained largely frozen and FX could be purchased at an official exchange rate at the BCSE only for limited priority needs. A "street" cash market emerged where the rubel traded some 45–50 percent depreciated than the official exchange rate. On May 12, the authorities announced a widening of the exchange rate band to 12 percent around the central parity. However, this proved to be largely irrelevant, as the interbank market and the "street" cash market rate were much more depreciated than the bottom of the widened band.

The NBRB devalued the official exchange rate by 35 percent and reintroduced exchange rate restrictions in the interbank and the cash markets on May 24. The devaluation, however, failed to unify the exchange rate as the authorities wished to maintain the fixed exchange rate without intervention. Trade on the interbank market froze again. The current "street" cash market exchange rate is some 15–20 percent below the official rate.



Sources: National Bank of Belarus; and IMF staff estimates based on http://prokopovi.ch/random

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1/ The ban on obtaining foreign exchange for large import payments was later relaxed for payments to custom union members, i.e. Russia and Kazakhstan.

2/ Transactions on the interbank market consist of transactions between SOEs which are done at close to the official rate. Comprehensive data on purely market-based transactions is not available—staff relied on information from the media and other sources for monitoring of the interbank market.

deposits fell by 15 percent in the first five months of this year. Rubel deposits decreased by 6 percent in the same period. While the reported non-performing loan (NPL) ratio is still low at around 3 percent (see table below), it is likely to increase later this year, as borrowers who took foreign exchange (FX) loans find it difficult to repay them.

Belarus: Banking Sector Soundness Indicators, 2006–11

	2006	2007	2008	2009	2010				2011
					Mar.	Jun.	Sep.	Dec.	Mar.
Capital adequacy									
Regulatory capital (percent of risk-weighted assets)	24.4	19.3	21.8	19.8	19.7	19.8	19.0	20.5	19.0
Regulatory Tier I (percent of risk-weighted assets)	17.4	14.0	16.9	14.4	15.1	14.8	13.9	14.9	14.5
Total capital (percent of total assets)	17.9	16.0	18.6	16.7	16.1	14.8	14.0	13.7	12.9
Asset composition and quality									
NPLs (percent of total loans)	2.8	1.9	1.7	4.2	5.0	4.9	4.0	3.5	2.8
Provisions (percent of NPLs)	51.3	61.5	70.0	44.9	43.1	44.4	55.7	61.9	78.4
NPLs net of provisions (percent of regulatory capital)	6.1	3.8	2.3	12.4	15.1	15.2	10.3	7.3	3.6
Foreign currency loans (percent of total loans)	33.8	37.6	30.9	29.6	28.7	27.2	26.4	21.7	22.9
Sectoral distribution of loans (percent of total)									
Manufacturing	...	...	...	30.8	30.3	28.7	28.3	27.0	27.2
Mining and quarrying	...	...	...	0.3	0.4	0.3	0.3	0.5	0.7
Electricity, gas, and water	...	...	...	2.1	1.9	1.9	2.0	1.8	2.1
Agriculture, hunting, and forestry	...	...	...	17.0	17.6	17.9	17.9	18.2	16.2
Construction	...	...	...	2.5	2.6	2.7	2.8	3.1	3.4
Wholesale and retail trade and motor vehicle repair	...	...	...	12.0	11.8	12.2	12.2	12.6	12.9
Real estate, renting, and other business activities	...	...	...	4.3	4.6	5.3	5.3	5.1	5.0
Households	...	...	...	25.1	25.2	25.7	25.3	25.5	25.7
Other	...	...	...	5.9	5.5	5.4	6.0	6.3	6.9
Profitability									
Return on assets (after tax)	1.7	1.7	1.4	1.4	1.5	1.5	1.7	1.7	1.6
Return on equity (after tax)	9.6	10.7	9.6	8.9	9.3	9.9	11.1	11.8	11.6
Liquidity									
Liquid assets to total assets	24.1	22.6	23.2	28.4	26.9	28.4	28.7	29.2	30.9
Instant liquidity ratio 1/	128.9	104.1	108.8	237.9	443.7	424.6	438.0	450.1	473.6
Current liquidity ratio 2/	96.7	98.8	102.0	172.7	204.5	235.7	211.4	225.3	202.2
Loans to deposits	135.0	144.3	170.8	189.2	206.6	206.4	207.5	206.4	224.4
Foreign currency deposits to total deposits	34.7	38.2	38.9	49.5	51.4	48.3	48.7	51.4	52.3
Foreign currency liabilities to total liabilities	41.2	44.7	38.7	44.0	43.9	41.5	41.1	42.0	41.8
Market risks									
Net open position in FX (percent of capital)	-8.1	-3.0	8.5	-11.6	0.8	6.4	0.1	-1.4	2.9

Source: National Bank of the Republic of Belarus.

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

8. **The authorities attempted to combat the crisis with a combination of measures, which, however, have proven to be ineffective to restore market confidence.** The authorities developed a set of policy commitments in the framework of the ACF package (Box 2). Whereas the announced measures appear to be steps in the right direction, they appear to be insufficient to end the crisis and, moreover, the authorities' commitment to their implementation is not yet clear:

- The general government budget deficit for this year is being revised downward from 3 to 1.5 percent of GDP. However, much of the improvement in the deficit comes from higher revenues as they are increased by higher inflation and by exchange rate depreciation (higher custom duties). The revised budget foresees a substantial increase in nominal expenditures (including a partial indexation of budget sector wages) and therefore contributes only marginally to containing real domestic demand.

Box 2. Balance of Payments Support from the EurAsEC Anti-Crisis Fund

The EurAsEC Anti-Crisis Fund (ACF) approved a $3 billion loan to Belarus on June 4, 2011 to support the balance of payments and to augment foreign exchange reserves. The reserve target is set at 1.5 months of imports by February 2012 and 2 months of imports by October 2013. It would be achieved by implementing government's medium-term stabilization program focusing on monetary and fiscal policy tightening; exchange rate adjustment; a revamped mechanism of lending under government programs (LGP); and structural reforms. The following are the major elements of the policy package:

- **Monetary policy tightening envisages raising interest rates to positive levels in real terms and restraining credit growth.** The NBRB would adjust its policy interest rates monthly to keep them above the three-month inflation projection. The NBRB would no longer engage in borrowing foreign exchange from commercial banks and would divest itself of its non-core assets.

- **Fiscal policy tightening would be achieved by bringing the general government deficit down to 1.5 percent of GDP, from 3 percent of GDP in the budget.** Savings during 2011 would be achieved by limiting the increase in budget sector wages (refraining from increases in the first grade wage tariff, but allowing the automatic partial indexation stipulated by the law to operate) and spending cuts, including a reduction of subsidies for transportation and household utilities. An increase in export duties for potash fertilizers, tax rates for the extraction of mineral resources, and excise tax rates for alcohol and tobacco products would enhance revenues.

- **Exchange rate policy should lead to exchange rate unification with all trade conducted at a market-clearing rate.**

- **LGP financing would be capped at 4 percent of GDP in 2011, 3 percent of GDP in 2012 and 1 percent of GDP in 2013.** Beginning from July 1, LGP would be financed with the deposits of the Ministry of Finance, not subsidized lending from the NBRB; the government would also assume existing NBRB's claims on commercial banks by issuing government bonds. Beginning from 2012, LGP would be managed by a Development Bank which would take over existing LGP and engage in new lending. Banks' participation in LGP would be voluntary and on commercial terms.

- **Structural reforms** would focus on privatization which would generate $7.5 billion in proceeds in 2011–13.

The ACF loan would be disbursed in six tranches, with the first $800 million released on June 21 and remaining tranches of $440 million each, in late 2011–13. The loan has a 10-year maturity, including a three-year grace period. The interest rate is a three-month adjustable rate benchmarked to the cost of Russia's sovereign debt. It is capped at 4.9 percent. Each disbursement is conditional on implementation of measures stipulated in the agreement with the ACF.

- Lending under government programs (LGP) has already reached 2.2 percent of GDP in the first 4 months of 2011, putting the authorities' commitment to reduce LGP into question. The 12-month credit growth rate was about 48 percent at the end of June.

- The NBRB has so far followed a cautious approach in raising policy interest rates—the rate of refinancing has been increased gradually from 10.5 percent in the beginning of the year to 20 percent in mid-July, and the overnight rate has been raised from 16 to 30 percent. These rates are currently below either past inflation (the 12-month inflation rate reached 43.8 percent in June) or expected inflation, implying that they are negative in the real terms.

- The authorities devalued the official exchange rate of the rubel by 35 percent against the basket of currencies bringing cumulative depreciation in the 5 months of the year to 43 percent.[1] The large devaluation as well as other measures contributed to the adjustment of the trade balance—exports accelerated and imports slowed down, producing a much lower deficit in May than in the previous months.[2] However, the devaluation did not help to restore foreign exchange markets—the black market for cash FX persisted, posting about a 15–20 percent spread over the official rate in June.

9. **Progress with structural reforms has been uneven.** The decree on establishing a Development Bank (DB) approved by the President on June 21 could be important in phasing out inefficient government programs and improving the financial soundness of state-owned banks. Setting up the National Investment and Privatization Agency (NIPA)—the head of the agency has now been appointed—would help to develop a transparent and competitive privatization process in line with best international practice. The authorities were able to agree with the World Bank on the list of companies which could be offered for privatization by the NIPA. Abolishing the mandatory nature of the wage grading system (WGS)—commercial entities have the right to decide whether to apply the WGS or to opt out—is an important step in liberalizing the labor market. The authorities' willingness to continue economic liberalization, however, has been tested by the onset of the economic crisis. The authorities recently backtracked on price liberalization by expanding the list of socially important goods by 13 basic food items and reintroducing controls over trade margins for socially important goods. They asserted that this measure is temporary.

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[1]The depreciation of 43 percent is calculated as a change of the index showing the purchasing power of the rubel in terms of the basket of currencies (the basket is composed of the euro, the Russian ruble, and the U.S. dollar with equal weights). The exchange rate measured in rubels per one unit of the basket changed by 75 percent in the 5 months of the year.

[2] Exports in January-May grew by 61percent in dollar terms relative to the same period of 2010. For comparison, export growth in Q1 2011 was 43 percent relative to Q1 2010. Import growth slowed down from 66 percent in Q1 to 57 percent in the five months of the year.

III. Report on Policy Discussions

A. Macroeconomic Outlook and Risks

10. **The baseline projections based on staff's understanding of most likely policies imply considerable risks, in particular if significant financing gaps are not filled.** Staff assumed that policies follow commitments outlined in the ACF package with some slippages, especially in the area of monetary policy (interest rates remain negative in real terms and LGP overshoots its annual limit). The projections also assume that FX intervention to support the current official rate resumes as exceptional financing becomes available (Tables 1–5). The interventions reduce inflation but greatly increase financing needs. In this scenario, output growth could reach about 5½ percent in 2011 (as high growth in the first half of the year is followed by a recession in the second half) and inflation will exceed 55 percent. The projections point to sizeable current account deficits and large financing gaps over the medium term. This scenario also depends on substantial external financing being available.[3] In its absence, the policies in this scenario would be unsustainable: reserves would be depleted and the authorities would need to abandon the exchange rate again. In this case an inflation-depreciation spiral could begin.

11. **If the authorities refrain from intervention reserves would be preserved, but the risks of an inflation-depreciation spiral and of disruptions in production would remain.** The authorities may decide to refrain from intervention and continue with a multiple exchange rate system. However, in the absence of a comprehensive plan to stabilize the economy, inflationary pressures are likely to rise. Wage increases aiming to offset real income losses would contribute to inflationary pressures, erode gains in competitiveness, and contribute to further depreciation expectations. Moreover, with enterprises often unable to acquire foreign exchange legally, there is a risk that shortages of imports will disrupt production and cause distortions in the economy.

12. **In the absence of a clear adjustment strategy there are also significant banking sector risks and risks of policy mistakes:**

- ***The banking sector could experience a systemic crisis if economic uncertainty persists.*** Deposit withdrawals have been manageable so far but their further loss may create funding difficulties, in particular at state owned banks (SOBs), risking banking sector instability (Box 3). The banking sector is also subject to a significant external debt roll-over risk: with the short-term debt comprising more than a half of banking system's external liabilities, a decline of foreign creditors' willingness to refinance short-term debt would reduce FX liquidity in Belarus banks.

[3] Staff projections of FDI, which is driven largely by privatization receipts, are in line with the historical ratios of FDI to GDP observed over the past several years.

- ***The deterioration of the economic situation and rising social tensions increase the risk of policy mistakes.*** Inflationary pressures have already triggered administrative price controls. These distort production and lead to shortages and eventually the emergence of black markets.

Box 3. Banking Sector Risks

The crisis has subjected banks to mounting risks including liquidity, external debt rollover, and credit risks. Most pressing is foreign currency liquidity risk as household FX deposits dropped by 26 percent in the four months to July 1. There is also a possibility of a reduction in rollover rates of external debt (as of April 1st, scheduled repayments falling due in Q2-Q4 2011 amounted to $3.9 billion).[1] A credit risk comes from borrowers having difficulties repaying their FX loans as foreign exchange is unavailable. This risk is limited overall as FX loans comprise only 22 percent of total loans, but is more prominent at some foreign banks. The aggregate net open FX position of banks is closed, but banks' claims on the NBRB are larger than gross foreign exchange reserves.

A comprehensive adjustment package would reduce many of these risks and stabilize the banking sector but could increase burden on the budget and add to the risk of an increase in NPLs. Implementing credible adjustment package would restore creditors' confidence and help to avoid the rollover risk. As a part of the package, an increase in rubel interest rates could make rubel deposits more attractive to households and help stopping the deposit leakage. However, the package would not be costless. First, it could increase budget expenditures as interest compensation on loans under government programs would grow. For the non-subsidized lending there is a risk of increased NPLs from a protracted increase in interest rates. The increase could be significant given a large share of variable interest loans in overall non-subsidized lending to households. A possible further depreciation of the exchange rate after floating could make servicing debt more expensive, though borrowers would have more reliable access to foreign exchange if the market was liberalized. Unification and floating of the exchange rate could also spark additional withdrawals of rubel deposits to buy newly available foreign exchange, highlighting the need for tight monetary policy to restore confidence in rubel.

The authorities should closely monitor banking sector developments including by staying in close communication with large market players. The NBRB should put in place a mechanism for monitoring bank liabilities in real time; prepare its response under different scenarios; and ensure the availability of emergency liquidity assistance to banks under stress. The NBRB should run rigorous stress tests to access the real position of banks and require recapitalization of weak banks in the private sector. For state-owned banks (SOBs), the authorities need to stand ready to recapitalize them to bring their capital back to the safe levels. A possible recapitalization need for SOBs is currently estimated to be 3–9 trillion rubels (about 1 to 3 percent of GDP); it could be higher if stabilization period is longer or a fall in economic activity is deeper than expected.[2]

1/ Short-term external debt of banks (original maturity basis) amounted to $3.6 billion, or 53 percent of their overall external debt of $6.8 billion at the end of March 2011.
2/ The estimated recapitalization range was discussed with the NBRB, but it is subject to significant uncertainty and could be revised as more data become available.

B. Stabilization Policies to End the Crisis

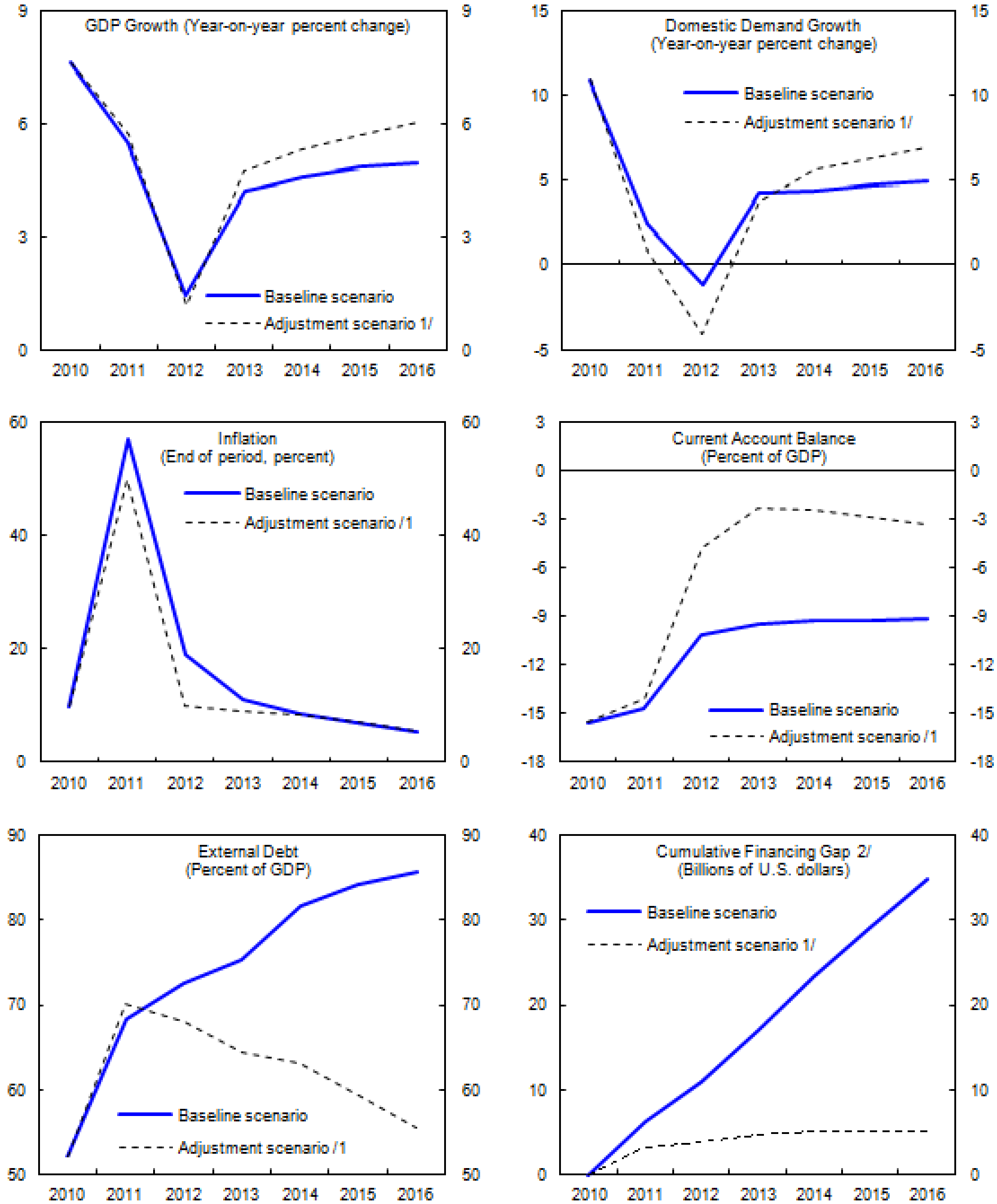
13. **Staff argued that a comprehensive policy package set in a coherent macroeconomic framework is needed.** The President, government, and the NBRB should design a comprehensive policy package, communicate it clearly to the public, and implement it consistently to regain public and market confidence. A policy package proposed by staff—illustrated in a panel figure and discussed in detail below—is guided by the following broad objectives: (i) closing the financing gaps in the short term; (ii) increasing reserves to a safe level, and (iii) putting external debt firmly on a sustainable path. There is a need to increase reserves quickly, especially considering the necessity to provide cover for foreign exchange liabilities to domestic commercial banks. The package would reduce the current account deficit sharply over the next three years, contain the rate of inflation at 50 percent this year and reduce it to 10 percent next year, and achieve the reserve cover of 3 months of imports by the end of 2014.[4]

14. **The adjustment scenario involves structural reforms (elaborated below) as well as tightening fiscal, monetary and wage policy to create the conditions for stabilization and to contain expectations about inflation:**

- ***A supplementary budget will be needed to reduce the fiscal deficit by more than currently planned.*** The staff recommended the budget to be balanced this year to contain domestic demand. This could be achieved by increasing expenditures less than inflation, as revenues tend to grow in line with nominal GDP. In addition to the measures agreed with the ACF, staff recommended a budget sector wage freeze until the end of the year that would serve as an anchor for wage policies in state-owned enterprises and in the broader economy. In the medium term the wage bill would be maintained at its 2011 level as a share of GDP. Also, interest rate subsidies should be reduced and their structure reconsidered for the increases in policy interest rates to be better reflected in lending rates. On the revenue side, authorities are introducing a series of tax increases as part of the ACF agreement (Box 2). They are also planning a reduction in the profit tax rate starting next year, from 24 to 20 percent, in line with Fund's recommendations to reduce the tax burden on the business sector. The mission supported the planned measures but stressed that they would need to be consistent with the balanced budget.

[4] The sustainable current account deficit (current account norm) was estimated to be about 3.5 percent of GDP in the 2011 Article IV discussions (Box 4 in IMF Country Report No. 11/66). A risk to both the baseline and adjustment scenarios would be the more rapid curtailing of subsidies on oil and gas imports from Russia. In line with existing agreements these are currently projected to fall gradually as a share of Belarus's GDP over the medium term, but if subsidies were reduced more sharply further adjustment would be needed.

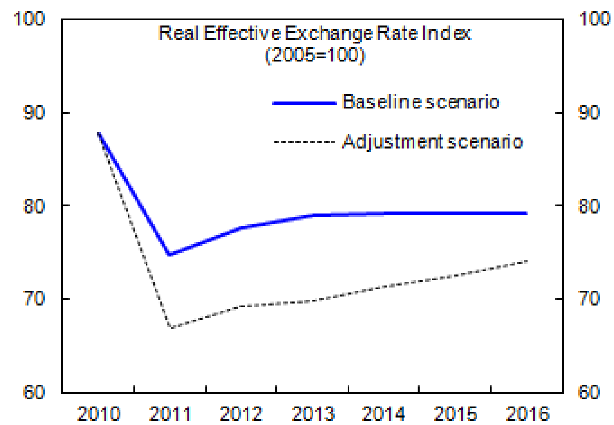
Belarus: Baseline and Adjustment Scenarios, 2010–16



Sources: Belarusian authorities; and IMF staff estimates and calculations.
1/ Adjustment scenario is based on a floating exchange rate regime with supporting tight fiscal and monetary policy measures.
2/ Unidentified exceptional financing needed to achieve targeted reserve build up (three months of imports of goods and services by 2015).

- ***Monetary and credit policy need to be tightened significantly.*** The authorities should restrain both LGP financing as outlined in ACF package—including by refraining from lending by the NBRB at below-market terms—and the actual net flow of LGP. Policy interest rates should be increased to levels which are strongly positive in real terms. Based on the inflation projections in the adjustment scenario, the overnight rate at which the NBRB lends to banks and the refinancing rate should be increased to about 40 and 30 percent, respectively.

15. **The scenario also involves floating the exchange rate.** Staff recommended foreign exchange to be freely traded on the interbank and cash markets and the exchange rates on all segments of the market to be quickly unified. The cost of floating the rate would be a further period of uncertainty, and an initial further depreciation. But the payoff would be exchange rate stabilization at a level that clears the market as well as gains in competitiveness needed to maintain external stability. As long as the authorities maintain strong policies to contain inflation and communicate their policies clearly, the period of instability should be short: weeks, not months. After the exchange rate stabilizes, the NBRB could resume modest interventions to smooth out wide short-run fluctuations in the exchange rate. Staff recommended moving toward inflation targeting by introducing a "lite" version of the regime while working on the building blocks for full-fledged inflation targeting.



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

16. **Some among the authorities were concerned that following staff's advice might negatively impact the real incomes of the population and spark social unrest.** They considered that increasing interest rates to levels proposed by staff quickly might jeopardize the financial condition of enterprises as well as increase default rates among households as a significant share of long-term loans are linked to the refinancing rate. While there was a range of opinions about the need for floating of the rubel, the NBRB considered that heavy interventions would be needed to avoid excessive overshooting, and therefore a substantial reserves buffer is needed before floating of the rubel.

17. **Staff advised that the authorities be ready to intervene to support banks if necessary.** The authorities should stay in close communication with market players, in particular with systemically important institutions, and prepare a contingency plan for addressing possible problems. The staff recommended assessing the true vulnerability of the banking sector with a more conservative assessment of restructured loans and without taking into consideration the NBRB's non-market liquidity support to banks. The NBRB should run rigorous stress tests and require recapitalization of weak banks as needed. The authorities

agreed on the importance of closely monitoring developments in the banking sector including through Fund's technical assistance on implementing risk-based supervision at the NBRB.

C. Policies to Foster Conditions for Sustainable Economic Growth

18. **Staff considered that efficient allocation of resources and productivity growth are critical for successful macroeconomic adjustment and sustainable growth.** The economy remains heavily dominated by state-owned enterprises (SOEs) facing a soft budget constraint and lacking market incentives. It has been losing competitiveness due to a misallocation of resources and low productivity growth. The recent exchange rate depreciation and expected changes in relative prices offer an opportunity to improve enterprise incentives. Steady structural changes would create conditions for development of the private sector, which would gradually replace the state-controlled sector of the economy as the main engine of growth and therefore move Belarus away from the current growth model. Staff advocated a set of priority measures in the structural area as elaborated below.

19. **Phasing out LGP would ensure the soundness of the banking system.** The staff and the authorities agreed that the recently signed decree on the Development Bank (DB) provides an opportunity to increase transparency of LGP and move it away from banks. However, the decree does not address many questions including: accountability and governance of the DB; the scope of the DB and banks' participation in future LGP; and how DB's lending will be treated in the context of limits set on new LGP. Staff underscored that the DB's net lending should be treated in the budget above the line, that the NBRB should not be involved in any future LGP. The authorities noted that these issues could be addressed in the charter of the DB. The authorities indicated their preference to work closely with the Fund on making the DB operational soon.

20. **Strengthening independence of the NBRB would increase financial stability.** Disposal of NBRB's non-core assets should help the NBRB to focus on its core mandate. Transparency should be improved by publication of audited IFRS financial statements. Strengthening the risk-based supervision framework at the NBRB and renewing efforts in privatizing state-owned banks would improve corporate governance and risk management in the banking system. The NBRB should have the right to make decisions on the timing and the scope of on-site bank examinations, as it deems necessary. This should allow supervision to concentrate on actual vulnerabilities of banks, rather than merely compliance issues.

21. **Privatization has been progressing slowly but a fully operational NIPA would energize the process.** The NIPA became operational at end-June—the recently selected head of the agency has been working on its staffing and other logistics. A list of 10 enterprises which could be offered for privatization has been agreed with the World Bank and the NIPA would initially prepare five companies from this list for privatization with the assistance of professional advisors and would offer them at an open and competitive tender by the end of 2011 or in early 2012. The NIPA would expand its operations as it builds capacity.

22. **A clear timeline for completing price liberalization should be developed in consultation with the World Bank.** The authorities should lift the recently introduced price controls and continue with the price liberalization process initiated prior to the recent crisis. The authorities assured staff that the price liberalization process would continue as soon as the situation on the foreign exchange market is stabilized and inflation is brought under control.

23. **Enterprise reform becomes a priority as the budget constraint on enterprises hardens as a result of policy tightening.** Limited access to LGP and diminishing budget subsidies would force the corporate sector to adjust to the hardening the budget constraint. The authorities have been working on replacing the existing practice of quantitative targeting with indicative targeting. A system of market incentives and indicative targets consistent with profit maximization should be developed in consultation with the World Bank with a clear timetable for its implementation. The authorities have also been working with the World Bank on a new bankruptcy law which could be finalized by the end of this year. In the meantime the authorities have initiated an assessment of the financial viability of individual companies, as a background for developing an enterprise restructuring strategy.

24. **Belarus needs to set up a modern social safety net to support the poor and facilitate enterprise restructuring.** The authorities agreed that economic activity will most likely slow down considerably and that some SOEs will need to be restructured and downsized, leading to an increase in unemployment and poverty rates which, in the absence of a modern unemployment program and targeted social benefits, could heighten social tensions. The Ministry of the Economy has recently requested technical assistance on the issue of the social safety net and a mission is tentatively scheduled to visit Minsk in October. Over the medium term, a revision of the pension system, including an increase in retirement age, should also be considered.

IV. CAPACITY TO REPAY AND RISKS

25. **In the baseline scenario Belarus' capacity to repay would remain sufficient, though a large increase in external debt indicates the presence of significant risks (Table 7).** Belarus's repurchases to the Fund will peak in 2013 and there are also extensive debt service requirements to other creditors. Large financing gaps in the baseline scenario will have to be filled by either external borrowing or asset sales. Under the proposed policy package, on the other hand, the external debt-to-GDP ratio would increase to over 70 percent of GDP this year, but would be on the downward path over the medium term (falling to 55 percent of GDP in 2016). Financing gaps in 2012–14 projected in the adjustment scenario could be filled by a combination of asset sales and bilateral and multilateral financial support, potentially including the Fund.

26. **There are significant risks both on the external and domestic side, though strong policies would mitigate them.** One risk is a terms of trade shock stemming from changes in

the energy trade with Russia, although it is contained by the process of economic integration within the Common Economic Area. A refusal by external creditors to fully roll over short-term external debt owed by banks and corporates could significantly widen the financing gap (short-term debt excluding trade credit is about $6 billion, or 11 percent of GDP). The most serious risk to Belarus' capacity to repay on the domestic side stems from a possibility of slipping into a hyperinflation spiral through attempts to mitigate the effects of the crisis by policy loosening. These risks can be contained only if the authorities implement a strong stabilization package.

V. STAFF APPRAISAL

27. **The story of the crisis in Belarus is one of missed opportunities.** At the conclusion of the Fund-supported program in March 2010 the authorities needed to complete the adjustment process by maintaining tight fiscal and monetary policies, using the flexibility available to them under the exchange rate band, and accelerating their structural reform efforts. Instead they unleashed a flood of new credit, raised government wages by a cumulative 50 percent during 2010, and maintained a de facto exchange rate peg against the U.S. dollar despite increasing overvaluation of the rubel. After the crisis broke the authorities could still have tightened macroeconomic policies and floated the exchange rate. Instead, monetary policy has been timid and the authorities have stepped back from exchange rate liberalization. Interest rates are now significantly negative in real terms, and multiple exchange rates exist.

28. **The measures that the authorities are taking to fulfill their commitments under the loan agreement with the ACF are an important step forward, but they are not being consistently implemented.** The authorities have agreed to reduce the fiscal deficit, raise interest rates, limit LGP and unify the exchange rate. However, the staff's analysis suggests that more adjustment would be needed to secure a sustainable current account deficit. Moreover, there have already been delays in implementing the monetary and exchange rate policy aspects of the agreement and the credibility of the plans to reduce LGP is doubtful.

29. **The adjustment strategy should include stronger fiscal measures, more significant monetary tightening, wage restraint, and floating the exchange rate.** The planned reduction in the budget deficit is welcome, but there is both scope and need to go further. With regard to monetary policy, an effective mechanism for containing both overall credit and LGP needs to be found, and policy interest rates should be increased to at least the level of the expected rate of inflation, so that the public can be confident that their savings are not being eroded. Wage restraint in the large state enterprises can also play an important role on containing. With regard to the exchange rate, floating is the only viable solution. The NBRB lacks the credibility or the reserves to defend a fixed rate. The staff recommends that the NBRB allow the official exchange rate to be set by market forces and allowing free trade in both the interbank market and the cash market.

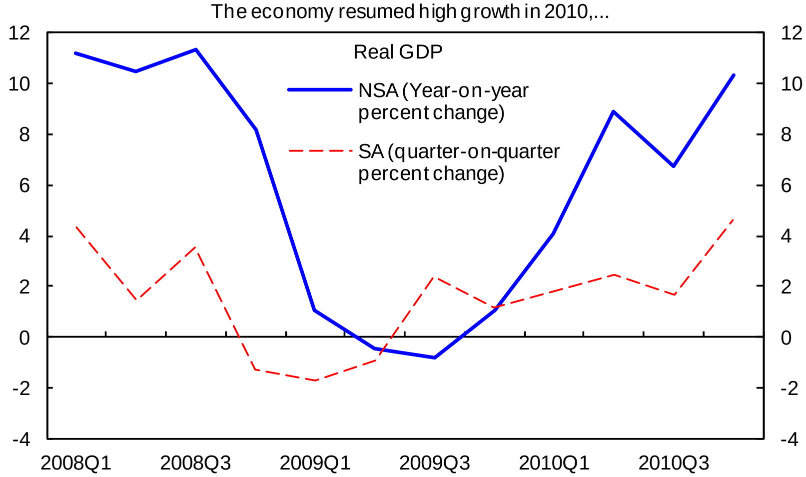
30. **The authorities also need to demonstrate a consistent commitment to structural reform.** The authorities have recently taken some welcome measures in the areas of price liberalization, privatization and financial sector reform. However, progress in all of these areas has been both slow and undermined by reversals. The authorities need to move quickly to make the Development Bank and the NIPA fully operational, and draw on the advice of the Fund and the World Bank on how they should operate. They should also continue with price liberalization: it may seem counterintuitive to liberalize prices during a period of high inflation, but it is actually the best time to do so, as the ongoing relative price adjustment opens an excellent opportunity to bring prices to their equilibrium level quickly. Finally, and most critically, the authorities need to begin a process of serious enterprise reform. Again, the crisis offers an opportunity: enterprises will necessarily be exposed to hard budget constraints as credit is limited, and managers' incentives should be aligned with the new commercial reality that the enterprises face.

31. **In the absence of a well specified and consistently implemented adjustment strategy, Belarus's economic situation is likely to deteriorate further.** The clearest risk is that price and wage increases will erode the competitiveness of enterprises and create a vicious spiral of inflation and depreciation. The banking system is also extremely vulnerable. At current interest rates, holding rubel deposits is unattractive. Absent a clear plan for unwinding deposit exchanges, households' confidence in the safety of foreign currency deposits is low. There is also a risk that bad policy ideas—price and exchange controls, import and export bans—will fill the vacuum created by the absence of a clear strategy.

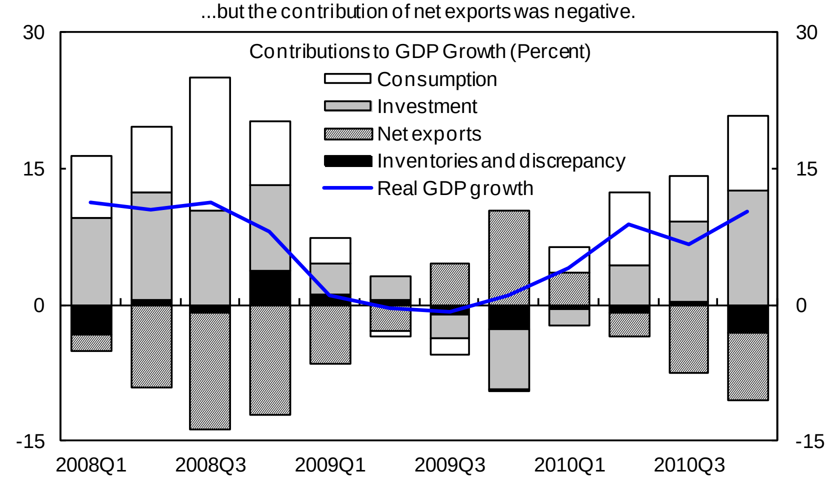
32. **Financial support from the Fund would require strong and demonstrated commitments by the authorities.** The Post-Program Monitoring mission exchanged views with the authorities on possible next steps in response to the authorities' request for a Fund-supported program. However, at present there is not sufficient consensus on key issues of monetary and exchange rate policy for agreement on a program to be reached. Also, a clear commitment—including at the highest level—to deep structural reform, would be essential for a new, longer-term program.

Figure 1. Belarus: Output Developments, 2008–11

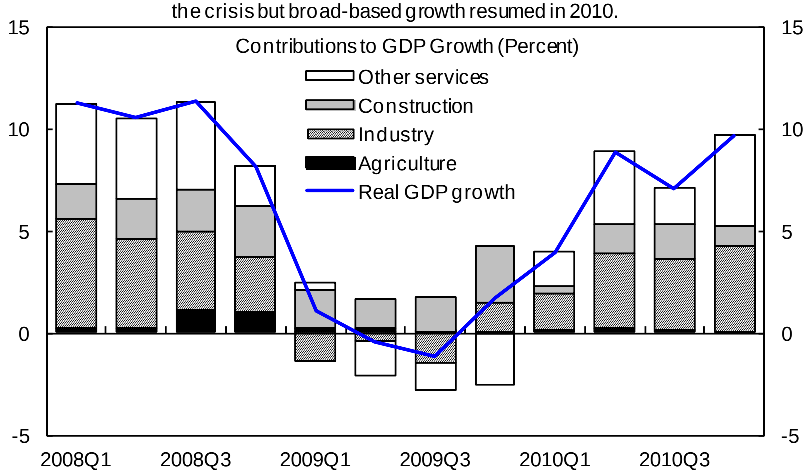
The economy resumed high growth in 2010,...



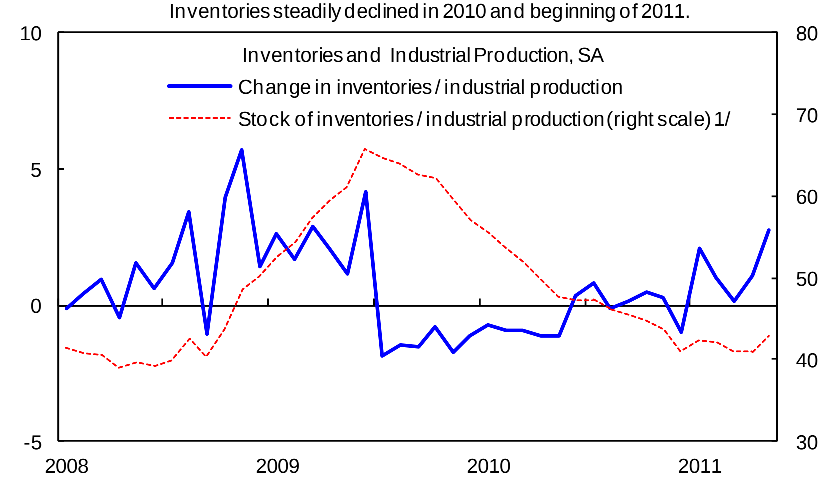
...but the contribution of net exports was negative.



Construction was the main driver of GDP growth during the crisis but broad-based growth resumed in 2010.

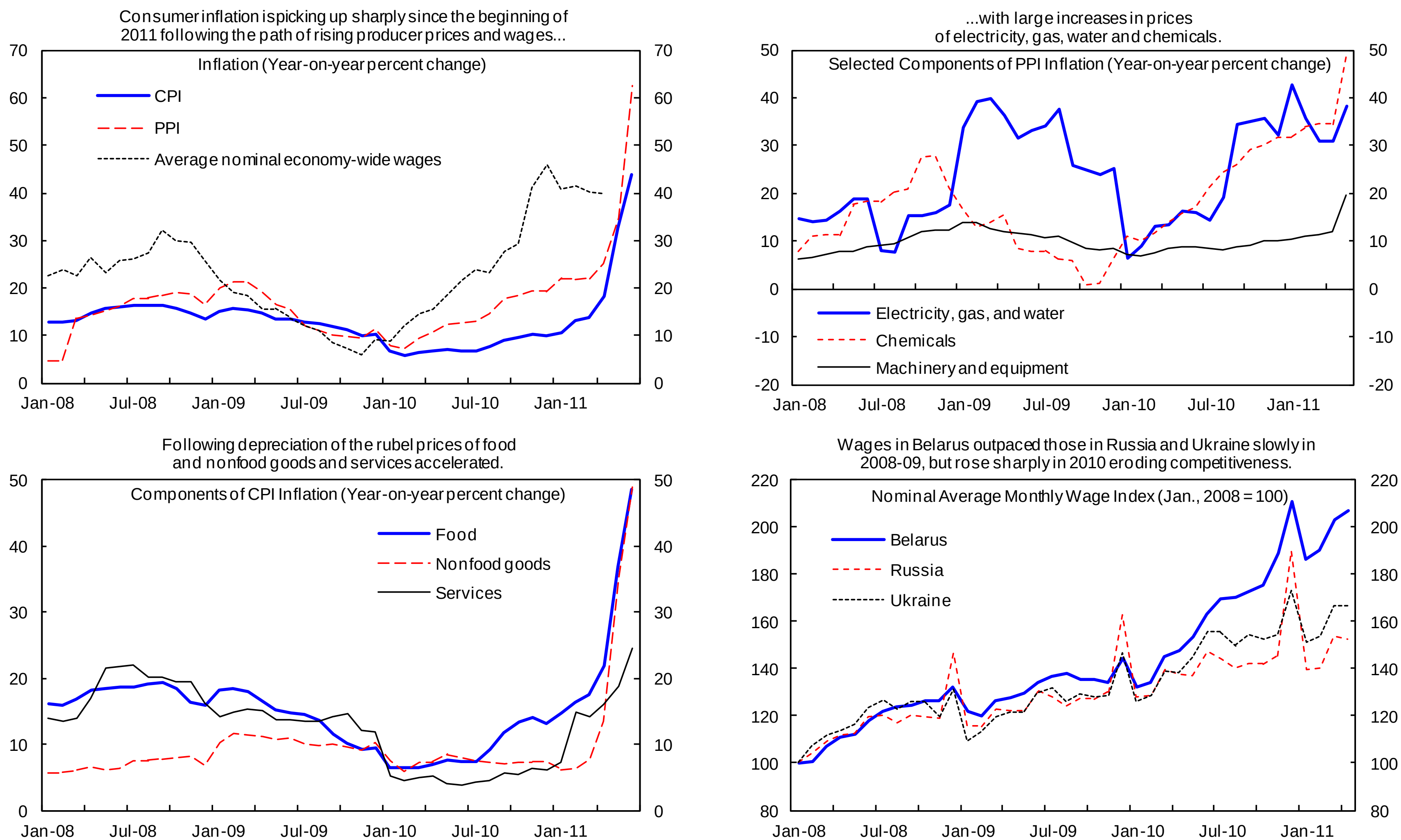


Inventories steadily declined in 2010 and beginning of 2011.



Sources: National Statistical Committee; and IMF staff estimates and calculations.
1/ Lagged 12-month moving average of industrial production.

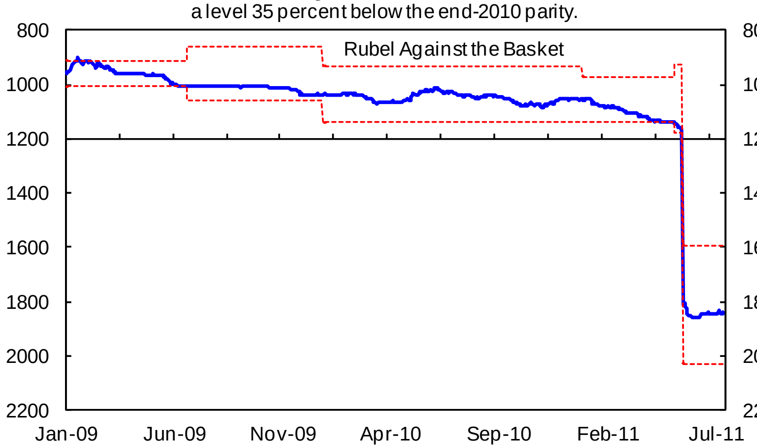
Figure 2. Belarus: Inflation Developments, 2008–11



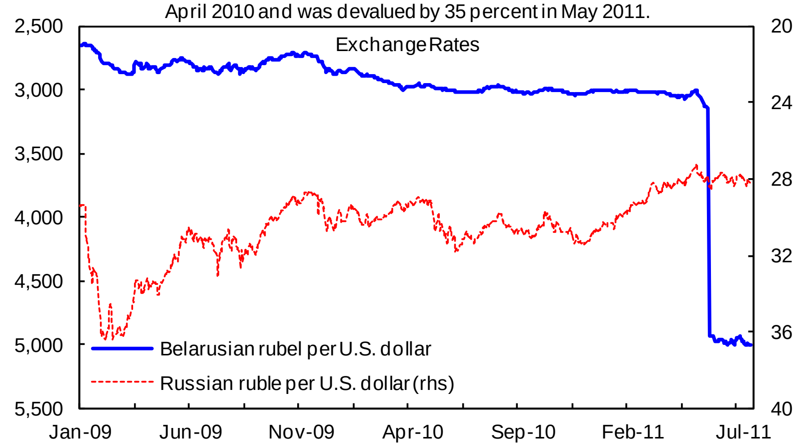
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 3. Belarus: External Developments, 2005–11

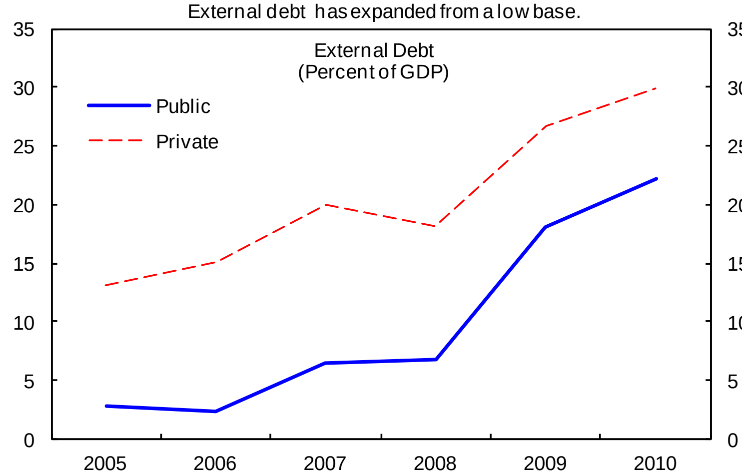
The official exchange rate band has been recentered at a level 35 percent below the end-2010 parity.



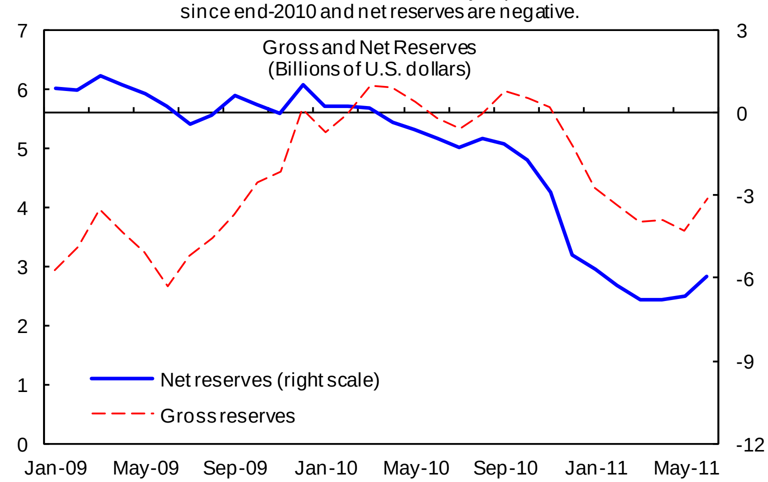
The official exchange rate of the rubel has fluctuated against the dollar in a narrow band since April 2010 and was devalued by 35 percent in May 2011.



External debt has expanded from a low base.

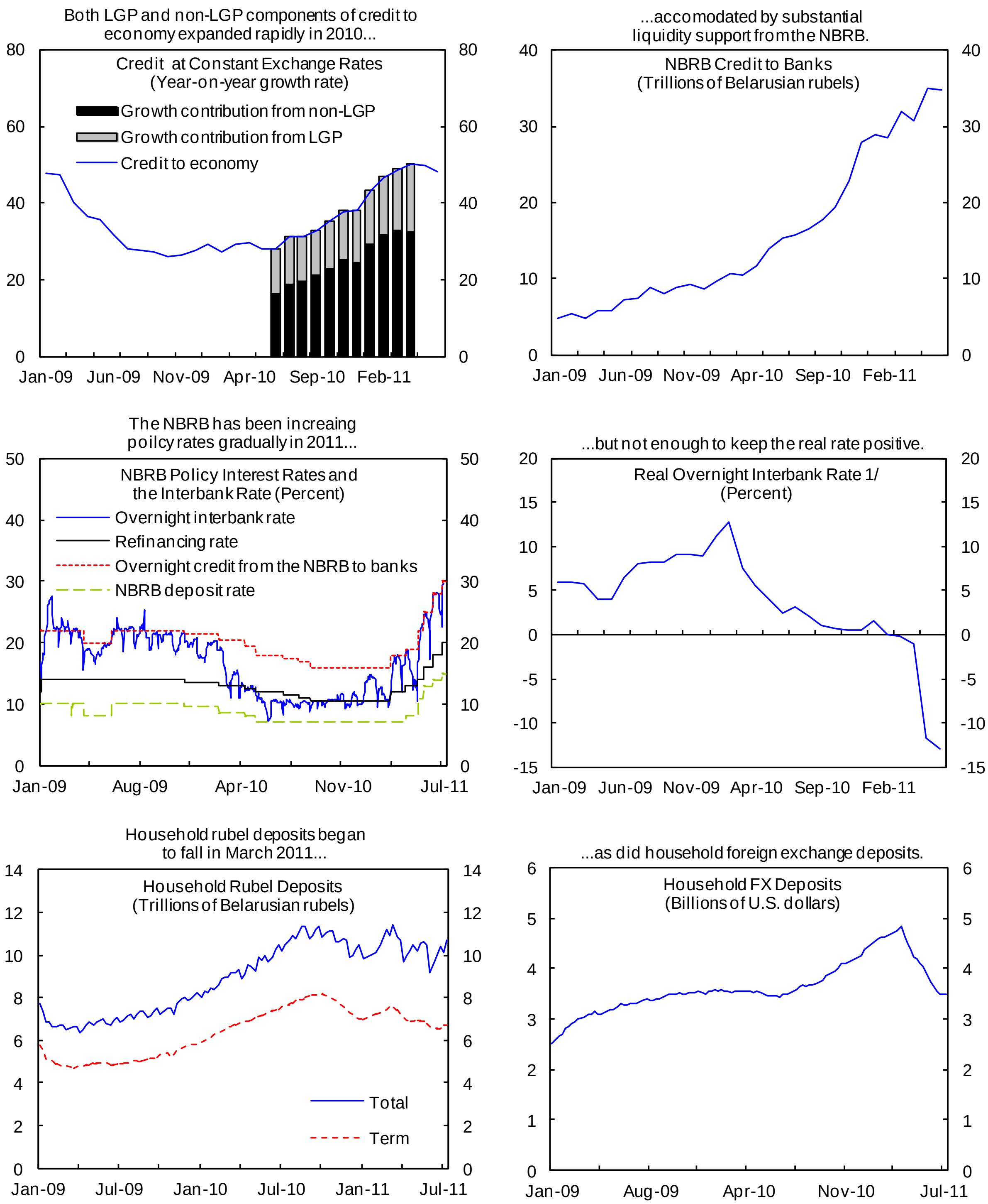


Gross reserves have declined by a quarter since end-2010 and net reserves are negative.



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

Figure 4. Belarus: Monetary Developments, 2009–11



Sources: National Bank of the Republic of Belarus; and IMF staff estimates and calculations.
1/ Calculated as average nominal interest rate adjusted for actual 12-month inflation.

Table 1. Belarus: Selected Economic Indicators (Baseline Scenario), 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Est.			Proj.			
	(Annual percentage change, unless otherwise specified)								
National accounts									
Real GDP	10.2	0.2	7.6	5.5	1.4	4.2	4.6	4.9	5.0
Total domestic demand	17.8	-1.1	10.9	2.4	-1.2	4.2	4.3	4.8	5.0
Consumption	12.5	0.0	8.2	1.8	-0.7	3.8	4.0	4.5	4.5
Nongovernment	16.3	0.0	10.1	2.7	-0.4	4.9	4.9	5.4	5.4
Government	0.3	-0.1	0.9	-2.0	-2.0	-1.0	0.0	0.0	0.0
Investment	28.2	-2.9	15.8	3.5	-2.0	4.8	4.8	5.3	5.8
Of which: fixed	23.8	5.0	15.1	3.7	-2.1	5.0	5.0	5.5	6.0
Net exports 1/	-9.4	1.5	-3.4	2.6	2.8	-0.5	-0.3	-0.5	-0.7
Consumer prices									
End of period	13.3	10.1	9.9	57.2	19.0	11.0	8.5	7.0	5.5
Average	14.8	13.0	7.7	38.0	31.0	14.5	9.6	7.7	6.2
Monetary accounts									
Reserve money	11.7	-11.5	49.5	49.2	20.3	18.8	18.5	11.7	12.0
Rubel broad money	22.5	0.9	27.4	60.0	20.4	19.7	19.4	12.5	12.9
Growth of credit to the economy at constant exchange rates	50.0	27.9	38.1	44.9	22.0	19.6	15.6	14.2	10.9
	(Percent of GDP)								
External debt and balance of payments									
Current account	-8.6	-13.0	-15.5	-14.7	-10.1	-9.4	-9.2	-9.2	-9.1
Trade balance	-10.3	-14.1	-16.7	-11.8	-7.8	-7.7	-7.5	-7.5	-7.4
Exports of goods	54.0	43.4	46.3	72.9	72.8	70.5	68.1	66.6	65.0
Imports of goods	-64.3	-57.5	-63.0	-84.7	-80.7	-78.1	-75.6	-74.0	-72.4
Gross external debt	25.0	44.8	52.1	68.3	72.5	75.2	81.6	84.1	85.6
Public 2/	6.8	18.1	22.1	35.6	41.2	45.1	50.9	53.8	55.9
Private (mostly state-owned-enterprises)	18.1	26.7	30.0	32.7	31.2	30.1	30.7	30.4	29.6
Savings and investment									
Gross domestic investment	37.6	37.3	40.6	38.4	36.5	36.3	36.1	36.0	36.0
Government	10.0	8.1	8.4	5.3	5.5	5.7	5.8	5.8	5.8
Nongovernment	27.6	29.2	32.3	33.1	31.0	30.5	30.3	30.2	30.2
National saving	29.0	24.3	25.1	23.7	26.4	26.9	26.9	26.8	26.9
Government 3/	6.5	7.4	4.0	2.1	2.5	3.0	2.8	2.5	2.5
Nongovernment 3/	22.6	16.9	21.1	21.7	23.9	23.9	24.1	24.2	24.4
Public sector finance									
General government balance	1.3	-0.7	-1.8	-1.5	-1.3	-1.0	-1.2	-1.4	-1.5
Augmented general government balance	-3.5	-0.7	-4.3	-3.3	-3.1	-2.8	-3.0	-3.2	-3.3
Revenue	50.6	45.7	42.0	38.5	37.9	37.5	37.1	36.9	36.5
Expenditure 4/	54.1	46.4	46.3	41.8	41.0	40.2	40.1	40.1	39.8
Of which:									
Wages	6.6	6.7	7.1	7.0	6.8	6.6	6.6	6.6	6.6
Subsidies and transfers	11.5	11.7	8.4	8.9	7.7	7.1	6.6	6.0	5.7
Investment	10.0	8.1	8.4	5.3	5.5	5.7	5.8	5.8	5.8
Gross public debt	13.4	21.7	26.5	46.0	44.8	49.0	55.4	55.3	59.2
	(Annual percentage change, unless indicated otherwise)								
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	60.8	49.2	54.7	…	…	…	…	…	…
Nominal GDP (trillions of rubels)	129.8	137.4	163.0	242.0	325.7	386.8	440.2	494.6	549.0
Terms of trade	8.7	-9.3	0.2	5.2	-0.5	0.4	0.1	0.3	0.4
Real effective exchange rate	1.6	-4.6	-5.0	-14.8	3.7	1.9	0.3	-0.2	0.0
Official reserves (billions of U.S. dollars)	3.1	5.7	5.0	6.5	9.5	13.0	16.0	18.0	20.0
Months of imports of goods and services	1.2	1.8	1.2	1.4	1.8	2.5	2.9	3.0	3.1
Percent of short-term debt	40.4	63.2	41.7	50.1	70.5	92.1	108.3	116.7	124.4
In absence of exceptional financing	…	…	…	0.2	-1.4	-4.1	-7.4	-11.0	-14.9
Financing gap (billions of U.S. dollars)	…	…	…	6.3	4.7	6.2	6.3	5.6	5.8
Quota (2010): SDR 386.4 million (589.7 million U.S. dollars)									

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.
2/ Gross consolidated external debt of the public sector (central bank and general government debt including publicly guaranteed debt).
3/ The reduction in government saving and a corresponding increase in nongovernment saving in 2010 include bank recapitalization and layouts related to public guaranteed debt in amount of 2.5 percent of GDP performed in 2010.
4/ Refers to the augmented expenditure of the general government.

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2008–16

	2008	2009	2010	2011 Q1	2011	2012	2013	2014	2015	2016
			Prel.	Prel.	Proj.					
	(Millions of U.S. dollars)									
Current account	-5,230	-6,390	-8,493	-3,551	-8,399	-6,538	-6,909	-7,104	-7,664	-8,245
Trade balance (goods)	-6,237	-6,957	-9,118	-2,819	-6,725	-5,071	-5,622	-5,799	-6,234	-6,748
Energy balance	-2,000	-3,378	-5,024	-1,769	-3,887	-3,973	-4,227	-4,383	-4,616	-4,703
Nonenergy balance	-4,237	-3,579	-4,094	-1,049	-2,838	-1,099	-1,395	-1,416	-1,618	-2,045
Exports	32,805	21,361	25,348	7,762	41,656	47,079	51,793	52,577	55,546	58,951
Energy	11,866	7,844	6,933	2,471	15,395	16,203	16,277	15,494	15,205	14,974
Nonenergy	20,939	13,517	18,415	5,291	26,261	30,876	35,516	37,083	40,341	43,977
Imports	-39,042	-28,318	-34,466	-10,580	-48,380	-52,150	-57,415	-58,376	-61,780	-65,698
Energy	-13,865	-11,222	-11,957	-4,240	-19,282	-20,176	-20,504	-19,877	-19,821	-19,676
Nonenergy	-25,176	-17,096	-22,509	-6,340	-29,099	-31,975	-36,911	-38,499	-41,959	-46,022
Services	1,624	1,439	1,693	464	2,628	3,292	3,773	3,951	4,291	4,646
Receipts	4,188	3,504	4,478	1,161	6,167	7,253	8,345	8,714	9,481	10,337
Payments	-2,564	-2,065	-2,786	-697	-3,539	-3,961	-4,572	-4,764	-5,190	-5,691
Income, net	-788	-1,114	-1,334	-857	-1,790	-2,532	-2,904	-3,307	-3,996	-4,448
Transfers, net 1/	171	242	267	-340	-2,512	-2,226	-2,156	-1,950	-1,725	-1,696
Capital and financial accounts	4,287	5,066	6,949	1,636	834	4,400	5,058	5,246	4,125	4,398
Capital account	137	160	143	37	150	169	192	202	170	185
Financial account	4,150	4,906	6,806	1,599	684	4,231	4,866	5,044	3,955	4,213
Overall FDI, net	2,150	1,782	1,307	558	1,838	2,009	2,421	2,550	2,820	3,219
Portfolio investment, net	5	19	1,186	791	791	0	0	0	0	0
Trade credits, net	289	657	1,100	-46	254	400	400	400	400	400
Loans, net	2,085	1,067	3,062	781	412	2,007	2,262	2,186	887	772
Government and monetary authorities, net	1,266	727	717	-151	-328	1,162	1,148	1,369	96	51
Banks, net	603	21	2,182	745	399	285	537	203	252	189
Other sectors, net	216	319	163	187	341	560	576	615	539	532
Other, net 2/	-380	1,381	151	-485	-2,611	-185	-217	-93	-152	-178
Errors and omissions 3/	-60	531	268	646	1,499	0	0	0	0	0
Overall balance	-1,003	-793	-1,276	-1,269	-6,066	-2,137	-1,851	-1,858	-3,538	-3,847
Financing	1,003	793	1,276	1,269	-229	-2,515	-4,330	-4,399	-2,086	-2,000
Reserves ("-" denotes an increase)	879	-2,443	809	1,269	-1,469	-3,000	-3,500	-3,000	-2,000	-2,000
Net use of Fund resources	0	2,838	665	0	0	-395	-1,710	-1,399	-86	0
Other donors and exceptional financing items	124	398	-198	0	1,240	880	880	0	0	0
Financing gap	…	…	…	…	6,296	4,653	6,181	6,258	5,625	5,847
Memorandum items:										
Stock of reserves 4/	3,061	5,653	5,031	3,761	6,500	9,500	13,000	16,000	18,000	20,000
Reserves (months of next year's imports of goods and services)	1.2	1.8	1.2	0.9	1.4	1.8	2.5	2.9	3.0	3.1
Reserves (percent of short-term debt)	40.4	63.2	41.7	27.2	50.1	70.5	92.1	108.3	116.7	124.4
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	1.6	-4.6	-5.0	1.0	-14.8	3.7	1.9	0.3	-0.2	0.0
Export volume (annual percentage change)	1.5	-11.5	2.5	22.0	33.7	5.9	3.2	2.8	2.9	2.9
Import volume (annual percentage change)	14.3	-12.6	7.7	45.1	20.8	0.6	3.5	3.0	3.3	3.5
Domestic demand growth (annual percentage change)	17.8	-1.1	10.9	23.3	2.4	-1.2	4.2	4.3	4.8	5.0
Partner country growth (percent) 5/										
Russia	5.2	-7.8	4.0	…	4.8	4.5	4.3	4.1	3.9	3.8
EU	0.4	-4.1	1.8	…	2.0	1.7	1.8	1.8	1.8	1.7

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2008–16 1/ (concluded)

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				Q1						
			Prel.	Prel.	Proj.					
	(Percent of GDP)									
Current account	-8.6	-13.0	-15.5	-6.2	-14.7	-10.1	-9.4	-9.2	-9.2	-9.1
Trade balance (goods)	-10.3	-14.1	-16.7	-4.9	-11.8	-7.8	-7.7	-7.5	-7.5	-7.4
Of which: energy balance	-3.3	-6.9	-9.2	-3.1	-6.8	-6.1	-5.8	-5.7	-5.5	-5.2
Nonenergy balance	-7.0	-7.3	-7.5	-1.8	-5.0	-1.7	-1.9	-1.8	-1.9	-2.3
Exports	54.0	43.4	46.3	13.6	72.9	72.8	70.5	68.1	66.6	65.0
Of which : energy exports	19.5	15.9	12.7	4.3	27.0	25.1	22.2	20.1	18.2	16.5
Imports	-64.3	-57.5	-63.0	-18.5	-84.7	-80.7	-78.1	-75.6	-74.0	-72.4
Of which: energy imports	-22.8	-22.8	-21.9	-7.4	-33.8	-31.2	-27.9	-25.7	-23.8	-21.7
Services	2.7	2.9	3.1	0.8	4.6	5.1	5.1	5.1	5.1	5.1
Capital and financial accounts	7.1	10.3	12.7	2.9	1.5	6.8	6.9	6.8	4.9	4.8
Capital account	0.2	0.3	0.3	0.1	0.3	0.3	0.3	0.3	0.2	0.2
Financial account	6.8	10.0	12.4	2.8	1.2	6.5	6.6	6.5	4.7	4.6
Overall FDI	3.5	3.6	2.4	1.0	3.2	3.1	3.3	3.3	3.4	3.5
Portfolio investment, net	0.0	0.0	2.2	1.4	1.4	0.0	0.0	0.0	0.0	0.0
Trade credits, net	0.5	1.3	2.0	-0.1	0.4	0.6	0.5	0.5	0.5	0.4
Loans, net	3.4	2.2	5.6	1.4	0.7	3.1	3.1	2.8	1.1	0.9
Government and monetary authorities, net	2.1	1.5	1.3	-0.3	-0.6	1.8	1.6	1.8	0.1	0.1
Banks, net	1.0	0.0	4.0	1.3	0.7	0.4	0.7	0.3	0.3	0.2
Other sectors, net	0.4	0.6	0.3	0.3	0.6	0.9	0.8	0.8	0.6	0.6
Other (excluding arrears), net 2/	-0.6	2.8	0.3	-0.8	-4.6	-0.3	-0.3	-0.1	-0.2	-0.2
Errors and omissions	-0.1	1.1	0.5	1.1	2.6	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.7	-1.6	-2.3	-2.2	-10.6	-3.3	-2.5	-2.4	-4.2	-4.2
Financing	1.7	1.6	2.3	2.2	-0.4	-3.9	-5.9	-5.7	-2.5	-2.2
Reserves ("-" denotes an increase)	1.4	-5.0	1.5	2.2	-2.6	-4.6	-4.8	-3.9	-2.4	-2.2
Net use of Fund resources	0.0	5.8	1.2	0.0	0.0	-0.6	-2.3	-1.8	-0.1	0.0
Other donors and exceptional financing items	0.2	0.8	-0.4	0.0	2.2	1.4	1.2	0.0	0.0	0.0
Financing gap	...	...	…	...	11.0	7.2	8.4	8.1	6.7	6.4
Memorandum items:										
Trade balance (goods and services) 6/	-7.6	-11.2	-13.6	-4.8	-12.1	-7.5	-6.8	-6.2	-5.8	-5.5

Sources: Belarus authorities; and IMF staff estimations.

1/ Values for 2011-16 include transfer of export duty on oil products to the Russian budget.
2/ Includes 2009 SDR allocation.
3/ Errors and omissions in 2011 are determined on the basis of the factual end-June reserves and H2 2011 balance of payments projection. They might reflect a better-than-expected current account balance in Q2 2011 or an accumulation of short-term liabilities in Q2 2011 not reflected in the financial account projection (e.g. arrears).
4/ Reserve targets for 2011-16 are set relative to months of imports.
5/ Based on latest projection available.
6/ Includes the transfer to the Russian budget of export duties on oil products.

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2008–16

(Trillions of Belarusian rubels, unless otherwise indicated)

	2008	2009 Dec.	2010 Dec.	2011	2012	2013	2014	2015	2016
			Prel.	Proj.					
1.State (republican and local) budget									
Revenue	50.9	46.6	48.8	66.5	87.9	103.3	116.7	130.3	143.8
Personal income tax	4.2	4.3	5.4	7.4	10.1	12.0	13.7	15.3	17.0
Profit tax	6.0	4.6	5.6	6.4	7.2	8.6	9.8	11.0	12.2
VAT	11.4	12.1	16.2	22.8	32.4	38.5	43.8	49.2	54.7
Excises	3.9	3.6	4.4	5.7	8.6	10.2	11.6	13.0	14.5
Property tax	1.3	1.6	1.9	2.3	3.2	3.7	4.3	4.8	5.3
Customs duties	10.6	8.0	5.8	12.2	15.4	18.2	20.8	23.3	25.9
Other	7.8	7.7	6.7	7.3	8.7	9.7	10.5	11.2	11.8
Revenue of budgetary funds	5.7	4.7	2.9	2.4	2.4	2.4	2.4	2.4	2.4
Expenditure (economic classification) 1/	50.9	49.0	53.0	72.1	93.8	108.4	122.3	136.4	149.2
Wages and salaries	8.6	9.3	11.5	16.9	22.0	25.4	28.9	32.5	36.0
Social protection fund contributions	2.3	2.5	3.1	4.6	5.9	6.9	7.8	8.8	9.7
Goods and services	8.7	8.7	10.0	12.7	16.3	18.1	20.0	22.3	23.9
Interest	0.7	1.1	1.1	3.0	6.1	8.1	10.9	14.2	16.0
Subsidies and transfers	14.9	16.0	13.7	21.6	25.1	27.4	28.9	29.7	31.4
Capital expenditures	13.0	11.2	13.6	12.9	18.0	22.2	25.4	28.6	31.7
Net lending	2.6	0.4	-0.1	0.4	0.4	0.4	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification) 2/	0.0	-2.4	-4.2	-5.6	-5.9	-5.1	-5.6	-6.1	-5.5
Bank restructuring measures	2.0	0.0	2.1	3.1	4.1	4.9	5.6	6.3	6.9
Net lending to financial institutions	4.3	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	2.1	1.3	1.7	2.0	2.3	2.6	2.9
Augmented balance	-6.3	-2.4	-8.4	-9.9	-11.7	-12.0	-13.5	-15.0	-15.3
2. Social protection fund									
Revenue	14.7	16.1	19.7	26.6	35.5	41.6	46.7	52.0	56.8
Expenditure	13.0	14.7	18.4	24.6	33.8	40.3	46.5	53.0	59.7
Balance (cash)	1.7	1.4	1.3	2.0	1.8	1.3	0.2	-1.0	-2.8
Balance of the general government	1.7	-1.0	-2.9	-3.6	-4.1	-3.8	-5.4	-7.1	-8.3
Augmented balance of the general government	-4.6	-1.0	-7.1	-7.9	-9.9	-10.7	-13.3	-16.0	-18.1
Statistical discrepancy	0.0	-0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	4.6	1.3	6.7	7.9	9.9	10.7	13.3	16.0	18.1
Privatization	1.3	1.9	1.1	4.6	4.6	5.9	6.8	7.6	8.9
Foreign financing, net 3/	3.0	3.6	2.6	36.7	33.7	43.2	43.5	33.9	35.7
Domestic financing, net	0.3	-4.2	3.0	-33.4	-28.4	-38.4	-37.0	-25.5	-26.5
Banking system	-1.6	-3.9	2.8	-34.5	-28.3	-38.2	-36.9	-25.5	-26.5
Central bank	0.2	-3.5	3.2	-23.7	-17.1	-33.4	-32.3	-21.8	-24.0
Deposit money banks (including SPF)	-1.8	-2.2	-1.0	-9.5	-11.3	-4.8	-4.7	-3.7	-2.4
Revaluation effect	...	1.8	0.6	-1.3	...	...	...	...	...
Nonbank 4/	1.9	-0.3	0.2	1.1	0.0	-0.2	-0.1	-0.1	0.0
Memorandum items:									
Fiscal deficit including lending under government programs	…	…	16.6	27.4	19.4	14.5	17.8	20.7	23.4
Of which: lending under government programs	…	…	9.6	19.5	9.5	3.8	4.5	4.7	5.3

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2008–16 1/ (concluded)

(Percent of annual GDP, unless otherwise indicated)

	2008	2009 Dec.	2010 Dec.	2011	2012	2013	2014	2015	2016
			Prel.	Proj.					
1.State (republican and local) budget									
Revenue	39.3	33.9	29.9	27.5	27.0	26.7	26.5	26.3	26.2
Personal income tax	3.2	3.1	3.3	3.0	3.1	3.1	3.1	3.1	3.1
Profit tax	4.6	3.4	3.4	2.7	2.2	2.2	2.2	2.2	2.2
VAT	8.8	8.8	10.0	9.4	10.0	10.0	10.0	10.0	10.0
Excises	3.0	2.6	2.7	2.3	2.6	2.6	2.6	2.6	2.6
Property tax	1.0	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Customs duties	8.2	5.8	3.5	5.0	4.7	4.7	4.7	4.7	4.7
Other	6.0	5.6	4.1	3.0	2.7	2.5	2.4	2.3	2.2
Revenue of budgetary funds	4.4	3.4	1.8	1.0	0.7	0.6	0.5	0.5	0.4
Expenditure (economic classification) 1/	39.2	35.7	32.5	29.8	28.8	28.0	27.8	27.6	27.2
Wages and salaries	6.6	6.7	7.1	7.0	6.8	6.6	6.6	6.6	6.6
Social protection fund contributions	1.8	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Goods and services	6.7	6.3	6.1	5.3	5.0	4.7	4.6	4.5	4.4
Interest	0.6	0.8	0.7	1.2	1.9	2.1	2.5	2.9	2.9
Subsidies and transfers	11.5	11.7	8.4	8.9	7.7	7.1	6.6	6.0	5.7
Capital expenditures	10.0	8.1	8.4	5.3	5.5	5.7	5.8	5.8	5.8
Net lending	2.0	0.3	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification) 2/	0.0	-1.8	-2.6	-2.3	-1.8	-1.3	-1.3	-1.2	-1.0
Bank restructuring measures	1.5	0.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Net lending to financial institutions	3.3	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	1.3	0.5	0.5	0.5	0.5	0.5	0.5
Augmented balance	-4.8	-1.8	-5.1	-4.1	-3.6	-3.1	-3.1	-3.0	-2.8
2. Social Protection Fund									
Revenue	11.3	11.7	12.1	11.0	10.9	10.8	10.6	10.5	10.4
Expenditure	10.0	10.7	11.3	10.2	10.4	10.4	10.6	10.7	10.9
Balance (cash)	1.3	1.1	0.8	0.8	0.5	0.3	0.0	-0.2	-0.5
Balance of the general government	1.3	-0.7	-1.8	-1.5	-1.3	-1.0	-1.2	-1.4	-1.5
Augmented balance of the general government	-3.5	-0.7	-4.3	-3.3	-3.1	-2.8	-3.0	-3.2	-3.3
Statistical discrepancy	0.0	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	3.5	1.0	4.1	3.3	3.1	2.8	3.0	3.2	3.3
Privatization	1.0	1.4	0.6	1.9	1.4	1.5	1.6	1.5	1.6
Foreign financing, net 3/	2.3	2.6	1.6	15.2	10.4	11.2	9.9	6.9	6.5
Domestic financing, net	0.2	-3.0	1.8	-13.8	-8.7	-9.9	-8.4	-5.2	-4.8
Banking system	-1.2	-2.8	1.7	-14.3	-8.7	-9.9	-8.4	-5.2	-4.8
Central bank	0.1	-2.5	2.0	-9.8	-5.2	-8.6	-7.3	-4.4	-4.4
Deposit money banks (including SPF)	-1.3	-1.6	-0.6	-3.9	-3.5	-1.2	-1.1	-0.7	-0.4
Revaluation effect	…	1.3	0.3	-0.5	…	…	…	…	…
Nonbank 4/	1.5	-0.2	0.1	0.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Fiscal deficit including lending under government programs	…	…	10.2	11.3	6.0	3.7	4.0	4.2	4.3
Of which: lending under government programs	…	…	5.9	8.0	2.9	1.0	1.0	1.0	1.0
Gross public debt 5/	13.4	21.7	26.5	46.0	44.8	49.0	55.4	55.3	59.2
GDP (trillions of Belarusian rubels)	129.8	137.4	163.0	242.0	325.7	386.8	440.2	494.6	549.0

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

1/ Includes changes in expenditure arrears.

2/ 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 deficits include January closing expenditure in the year they were actually paid.

3/ Includes unidentified financing that is assumed to be filled by government borrowing from abroad.

4/ Includes statistical discrepancy up to 2008.

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

Table 4. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2008–16 1/

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

	2008	2009	2010	2011		2012	2013	2014	2015	2016
			Dec.	Jun.						
			Prel.	Prel.	Proj.					
Reserve money	7.7	6.8	10.2	11.7	15.2	18.3	21.7	25.8	28.8	32.2
Rubel reserve money	7.3	6.6	10.2	11.7	15.2	18.3	21.7	25.7	28.7	32.2
Currency outside banks	3.8	3.6	4.5	6.3	7.8	9.3	11.0	12.9	14.3	15.8
Required reserves	2.2	1.7	4.0	3.6	7.9	10.0	12.1	14.9	16.5	18.8
Time deposits, NBB securities, and nonbank deposits	1.2	1.3	1.7	1.7	-0.5	-1.1	-1.4	-2.1	-2.0	-2.4
Foreign currency reserve money	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net foreign assets	7.0	5.8	0.2	-2.3	12.2	29.9	60.1	92.3	103.4	121.7
Billions of U.S. dollars	3.2	2.0	0.1	-0.5	2.4	5.9	11.1	15.5	17.6	19.6
Net foreign assets (convertible)	5.8	5.1	-2.7	-9.2	5.3	22.8	52.7	84.1	95.3	113.2
Billions of U.S. dollars	2.6	1.8	-0.9	-1.8	1.1	4.5	9.7	14.1	16.2	18.2
Foreign assets	8.0	16.9	18.0	27.5	39.2	55.5	78.1	103.7	114.1	133.1
Billions of U.S. dollars	3.6	5.9	6.0	5.5	7.9	10.9	14.4	17.4	19.4	21.4
Of which gross international reserves	6.7	16.2	15.1	20.6	32.3	48.4	70.6	95.5	106.0	124.5
Billions of U.S. dollars	3.1	5.7	5.0	4.2	6.5	9.5	13.0	16.0	18.0	20.0
Foreign liabilities	1.0	11.1	17.8	29.8	27.0	25.6	18.0	11.4	10.7	11.4
Billions of U.S. dollars	0.4	3.9	5.9	6.0	5.4	5.0	3.3	1.9	1.8	1.8
Of which: use of IMF credit (billions of U.S. dollars)	0.0	2.9	3.5	3.6	3.6	3.2	1.5	0.1	0.0	0.0
Net domestic assets	0.7	1.0	10.0	14.0	3.0	-11.6	-38.4	-66.5	-74.6	-89.5
Net domestic credit	1.2	3.5	27.2	34.7	23.8	7.5	-20.5	-49.4	-60.3	-77.1
Net credit to general government	-4.0	-7.3	-4.1	-5.3	-27.8	-44.9	-78.3	-110.5	-132.4	-156.4
Net credit to local government and state enterprises	0.0	0.0	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Net credit to central government	-4.0	-7.3	-5.2	-6.5	-28.9	-46.0	-79.4	-111.7	-133.5	-157.5
Claims on government (loans and government securities)	1.7	9.2	11.5	19.0	18.9	17.3	9.1	1.5	1.0	1.0
Deposits of central government	5.7	16.6	16.7	25.5	47.8	63.3	88.5	113.2	134.5	158.5
Credit to economy	5.2	10.9	31.3	40.0	51.6	52.4	57.8	61.1	72.0	79.3
Credit to banks	3.4	8.6	28.0	34.9	46.5	47.5	53.2	56.7	67.9	75.3
National currency	3.1	8.2	26.0	31.0	42.6	43.5	48.9	52.0	63.2	70.4
Foreign currencies	0.3	0.4	1.9	3.9	3.9	4.0	4.3	4.7	4.6	4.9
Billions of U.S. dollars	0.1	0.1	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Credit to nonbanks	1.8	2.3	3.4	5.1	5.1	4.9	4.6	4.4	4.2	4.0
Claims on private sector	1.8	2.2	3.0	4.7	4.7	4.5	4.3	4.1	3.9	3.7
Credit to nonfinancial public enterprises	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Credit to other financial institutions	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other items, net	-0.6	-2.6	-17.2	-20.7	-20.8	-19.1	-17.9	-17.1	-14.3	-12.4
of which banks' FX deposits excluded from monetary base	…	-0.1	-12.1	-21.1	-21.1	-19.4	-18.2	-17.3	-14.4	-12.5
Memorandum items:										
12-month percent change in reserve money	11.7	-11.5	49.5	40.6	49.2	20.3	18.8	18.5	11.7	12.0
Velocity of rubel money (average)	7.0	7.7	7.1	6.9	7.6	7.0	6.9	6.6	6.4	6.3
Velocity of broad money (including foreign exchange part) at constant exchange rates	3.7	3.5	3.2	3.5	3.2	3.5	3.5	3.3	3.3	3.3
Ruble broad money multiplier	2.8	3.1	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.9
Currency-to-deposit ratio	0.23	0.21	0.20	0.24	0.24	0.24	0.24	0.23	0.23	0.22
Real GDP growth (annual)	10.2	0.2	7.6	…	5.5	1.4	4.2	4.6	4.9	5.0
End-of-period CPI inflation (year-on-year percent change)	13.3	10.1	9.9	43.8	57.2	19.0	11.0	8.5	7.0	5.5

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

1/ Data for 2009-2011 have been revised in accordance with STA recommendations. The most significant revisions included (i) excluding banks' FX deposits and NBRB's securities issued for liquidity mop-up purposes from the monetary base and (ii) re-classifying the Deposit Insurance Agency from general government to non-bank financial instutitions.

Table 5. Belarus: Monetary Survey (Baseline Scenario), 2008–16

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

	2008	2009	2010	2011		2012	2013	2014	2015	2016
			Dec.	Jun.						
			Prel.	Prel.	Proj. 1/					
Broad money (M3)	31.0	38.1	50.3	67.2	100.9	122.7	152.1	191.0	212.9	247.1
Memo: Broad money (M3) at constant exchange rates	34.8	39.0	50.3	53.6	77.7	93.3	111.4	132.4	148.8	167.2
Rubel broad money (M2)	20.5	20.7	26.4	32.5	42.3	50.9	60.9	72.8	81.9	92.4
Currency in circulation	3.8	3.6	4.5	6.3	7.8	9.3	11.0	12.9	14.3	15.8
Domestic currency deposits	16.0	16.5	20.9	25.0	32.1	38.6	46.4	55.6	62.8	71.2
Domestic currency securities	0.7	0.5	1.0	1.2	2.5	3.0	3.6	4.2	4.8	5.4
Foreign currency deposits	10.2	16.2	22.1	32.3	56.2	68.9	87.5	113.5	125.7	148.4
Bank securities in foreign currency	0.2	1.1	1.7	2.4	2.4	2.9	3.7	4.8	5.3	6.3
Memo: Total deposits at constant exchange rate	30.0	33.6	43.1	44.6	66.1	79.3	94.9	112.9	127.1	143.0
Net foreign assets	3.1	-0.2	-12.6	-27.8	0.0	16.8	44.5	74.5	85.2	102.5
Billions of U.S. dollars	1.4	-0.1	-4.2	-5.6	0.0	3.3	8.2	12.5	14.5	16.5
NFA of central bank	7.0	5.8	0.2	-2.3	12.2	29.9	60.1	92.3	103.4	121.7
NFA of deposit money banks	-3.9	-6.0	-12.7	-25.5	-12.2	-13.0	-15.6	-17.8	-18.2	-19.3
Net domestic assets	27.9	38.3	62.8	95.0	100.9	105.9	107.6	116.5	127.6	144.6
Net domestic credit	39.2	53.3	83.1	109.7	114.5	123.5	129.8	144.2	159.5	181.2
Net credit to general government	-9.8	-15.4	-13.2	-19.2	-46.4	-74.7	-112.9	-149.9	-175.4	-201.8
Net credit to central government	-7.2	-14.4	-13.9	-19.8	-47.1	-75.5	-113.7	-150.6	-176.1	-202.6
Claims on central government	7.0	11.9	13.9	22.6	22.5	21.0	12.7	5.1	4.6	4.6
Deposits of the central government	14.3	26.3	27.8	42.4	69.7	96.5	126.4	155.8	180.7	207.2
Net credit to state and local governments	-2.6	-1.0	0.8	0.6	0.8	0.8	0.8	0.8	0.8	0.8
Credit to economy	48.9	68.7	96.2	128.9	160.9	198.2	242.8	294.1	334.9	383.0
Memo: Credit to economy at constant exchange rates	54.5	69.7	96.3	114.2	139.5	170.3	203.6	235.4	268.8	298.1
Credit to public nonfinancial corporations	11.4	17.0	21.8	29.0	36.0	42.2	49.2	56.6	61.2	66.2
Claims on private sector	37.2	50.8	72.6	96.8	121.9	152.3	189.1	232.1	267.6	309.9
Claims on other financial corporations	0.4	0.9	1.8	3.0	3.0	3.7	4.4	5.4	6.1	6.9
Other items, net	-11.3	-15.0	-20.2	-14.7	-13.6	-17.6	-22.3	-27.7	-31.9	-36.6
Capital	-13.0	-16.2	-21.7	-27.6	-18.5	-22.2	-26.5	-31.5	-35.4	-39.8
Other net assets	1.7	1.2	1.5	12.9	4.9	4.6	4.3	3.9	3.6	3.2
Memorandum items:										
12-month percent change in broad money at constant exchange rate	26.1	12.1	29.1	29.5	54.4	20.0	19.5	18.8	12.4	12.3
12-month percent change of credit to economy at constant exchange rate	50.0	27.9	38.1	48.4	44.9	22.0	19.6	15.6	14.2	10.9
12-month percent change of LGP at constant exchange rate	…	…	29.9	…	46.9	15.6	5.3	6.1	6.0	6.3
12-month percent change of non-LGP credit at constant exchange rate	…	…	45.1	…	43.4	27.0	29.6	21.1	18.4	12.9
12-month percent change of real credit to economy at constant exchange rate	32.4	16.1	25.7	3.2	-7.8	2.5	7.7	6.6	6.7	5.1
Deposits of the central and local governments in commercial banks at constant exchange rate	12.9	12.2	14.3	19.7	24.5	35.7	40.3	44.5	48.3	50.5
Stock of loans under government programs at constant exchange rate	…	32.0	41.5	…	61.0	70.5	74.2	78.7	83.4	88.7
Dollarization ratio at constant exchange rate	46.6	50.8	51.5	43.9	51.5	51.3	51.1	50.7	50.6	50.2

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Indicators of External Vulnerability (Baseline Scenario), 2007–11

	2007	2008	2009	2010 Prel.	2011 Proj.
CPI inflation (end year)	12.1	13.3	10.1	9.9	57.2
Export volume of goods (percent change)	5.2	1.5	-11.5	2.5	33.7
Import volume of goods (percent change)	7.2	14.3	-12.6	7.7	20.8
Current account balance (percent of GDP)	-6.7	-8.6	-13.0	-15.5	-14.7
Capital and financial account balance (millions of U.S. dollars)	5,353	4,287	5,066	6,949	834
Of which					
Foreign direct investment, net	1,790	2,150	1,782	1,307	1,838
Trade credits, net	690	289	657	1,100	254
Official Liabilities, net	2,010	1,241	4,739	1,975	913
Liabilties of the banking sector, net	1,075	531	483	2,296	533
Non-bank private liabilities (excl. trade credits) 1/	860	315	349	9	316
Gross official reserves (millions of U.S. dollars)	4,182	3,061	5,653	5,031	6,500
Months of imports of goods and nonfactor services	1.2	1.2	1.8	1.2	1.4
Percent of broad money	32.6	19.4	41.5	30.0	41.6
Financing gap (millions of U.S. dollars)	0.0	0.0	0.0	0.0	6,296
Gross total external debt (millions U.S. dollars)	11,995	15,168	22,060	28,512	39,009
Percent of GDP	26.5	25.0	44.8	52.1	68.3
Percent of exports of goods and nonfactor services	43.4	41.0	88.7	95.6	81.6
Gross short-term external debt (millions of U.S. dollars)	7,365	7,571	9,342	12,275	13,170
Percent of gross total external debt	61	50	42	43	34
Percent of gross official reserves	176	247	165	244	203
Debt service ratio (percent) 2/	3.1	4.1	5.9	6.0	6.2
REER appreciation (CPI based, period average)	-3.9	1.6	-4.6	-5.0	-14.8
Capital adequacy ratio (percent) 3/	19.3	21.8	19.8	20.5	19.0
Nonperforming loans (percent of total)	0.7	1.7	4.2	3.5	2.8
Banks' net open FX position (percent of regulatory capital)	-3.0	8.5	-11.6	-1.4	2.9
Real broad money at constant exchange rates (percent change) 4/	25.8	11.3	1.8	17.4	-1.7
Real credit to economy at constant exchange rate (percent change) 4/	32.5	32.4	16.1	25.7	-7.8

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/ Deflated by the CPI.

Table 7. Belarus: Capacity to Repay the Fund (Baseline Scenario), 2009–16 1/

	2009	2010	2011	2012	2013	2014	2015	2016
Fund repurchases and charges								
Millions of SDRs	8	43	56	305	1,120	895	55	0
Millions of U.S. dollars	13	67	89	485	1,778	1,418	88	0
Percent of exports of goods and nonfactor services	0.1	0.2	0.2	0.9	3.0	2.3	0.1	0.0
Percent of total debt service 2/	0.9	3.6	3.0	11.0	27.8	20.3	1.1	0.0
Percent of quota	2.1	11.2	14.4	78.9	290.0	231.7	14.3	0.0
Percent of gross international reserves	0.2	1.3	1.4	5.1	13.7	8.9	0.5	0.0
Fund credit outstanding								
Millions of SDRs	1,832	2,270	2,270	2,021	941	55	0	0
Millions of U.S. dollars	2,898	3,485	3,630	3,215	1,493	87	0	0
Percent of exports of goods and nonfactor services	11.7	11.7	7.6	5.9	2.5	0.1	0.0	0.0
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2	0.0	0.0
Percent of gross international reserves	51.3	69.3	55.8	33.8	11.5	0.5	0.0	0.0
Memorandum items:								
Exports of goods and nonfactor services (millions of U.S. dollars)	24,865	29,826	47,823	54,332	60,137	61,292	65,027	69,288
Debt service (millions of U.S. dollars)	1,479	1,848	2,952	4,429	6,405	6,980	7,737	7,429
Quota (millions of SDRs)	386	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	611	593	618	615	613	612	611	610
Gross international reserves (millions of U.S. dollars)	5,653	5,031	6,500	9,500	13,000	16,000	18,000	20,000
Financing gap (millions of U.S. dollars)	0	0	6,296	4,653	6,181	6,258	5,625	5,847
U.S. dollars per SDR (period average)	1.543	1.526	1.593	1.594	1.589	1.585	1.582	1.579
U.S. dollars per SDR (eop)	1.582	1.536	1.600	1.591	1.587	1.584	1.581	1.578

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, 2006–16

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing noninterest current account 6/
Baseline: external debt	17.4	26.5	25.0	44.8	52.1	68.3	72.5	75.2	81.6	84.1	85.6	-6.4
Change in external debt	1.6	9.0	-1.5	19.9	7.3	16.2	4.2	2.7	6.4	2.5	1.4	
Identified external debt-creating flows (4+8+9)	0.1	-0.1	-1.4	15.3	8.7	9.0	6.3	3.6	2.7	2.2	1.8	
Current account deficit, excluding interest payments	3.5	6.1	7.8	12.0	14.4	12.2	6.9	6.3	5.9	5.4	5.3	
Deficit in balance of goods and services	4.1	6.2	7.6	11.2	13.6	7.2	2.8	2.5	2.4	2.3	2.3	
Exports	60.2	61.0	60.9	50.5	54.5	83.7	84.0	81.9	79.4	77.9	76.4	
Imports	64.3	67.2	68.5	61.7	68.1	90.9	86.8	84.4	81.7	80.3	78.7	
Net non-debt creating capital inflows (negative)	-1.0	-3.6	-3.3	-3.5	-2.3	-3.0	-2.9	-3.1	-3.2	-3.3	-3.4	
Automatic debt dynamics 1/	-2.5	-2.6	-5.9	6.9	-3.4	-0.3	2.3	0.5	0.1	0.0	-0.1	
Contribution from nominal interest rate	0.4	0.6	0.8	1.0	1.1	2.5	3.2	3.1	3.3	3.7	3.8	
Contribution from real GDP growth	-1.3	-1.2	-2.0	-0.1	-3.1	-2.7	-0.8	-2.7	-3.3	-3.7	-3.9	
Contribution from price and exchange rate changes 2/	-1.6	-2.0	-4.7	5.9	-1.4	…	…	…	…	…	…	
Residual, incl. change in gross foreign assets (2-3) 3/	1.6	9.1	-0.1	4.5	-1.4	7.2	-2.1	-0.9	3.7	0.3	-0.4	
External debt-to-exports ratio (percent)	29.0	43.4	41.0	88.7	95.6	81.6	86.3	91.9	102.8	108.0	112.0	
Gross external financing need (billions of U.S. dollars) 4/	5.1	8.0	13.6	14.9	19.0	22.2	22.1	24.7	25.8	27.3	27.9	
Percent of GDP	13.9	17.7	22.4	30.3	34.7	38.9	34.2	33.6	33.4	32.7	30.7	
Scenario with key variables at their historical averages 5/						68.3	67.3	66.4	64.3	61.1	58.0	-9.7
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	10.0	8.6	10.2	0.2	7.6	5.5	1.4	4.2	4.6	4.9	5.0	
GDP deflator in U.S. dollars (percent change)	11.2	12.7	21.7	-19.1	3.3	-1.0	11.6	9.1	0.5	3.0	3.5	
Nominal external interest rate (percent)	2.9	4.0	4.3	3.3	2.9	5.0	5.2	4.9	4.7	4.9	4.9	
Growth of exports (U.S. dollar terms, percent)	22.3	24.2	33.9	-32.8	20.0	60.3	13.6	10.7	1.9	6.1	6.6	
Growth of imports (U.S. dollar terms, percent)	33.2	28.0	36.7	-27.0	22.6	39.4	8.1	10.5	1.9	6.1	6.6	
Current account balance, excluding interest payments	-3.5	-6.1	-7.8	-12.0	-14.4	-12.2	-6.9	-6.3	-5.9	-5.4	-5.3	
Net nondebt creating capital inflows	1.0	3.6	3.3	3.5	2.3	3.0	2.9	3.1	3.2	3.3	3.4	

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

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

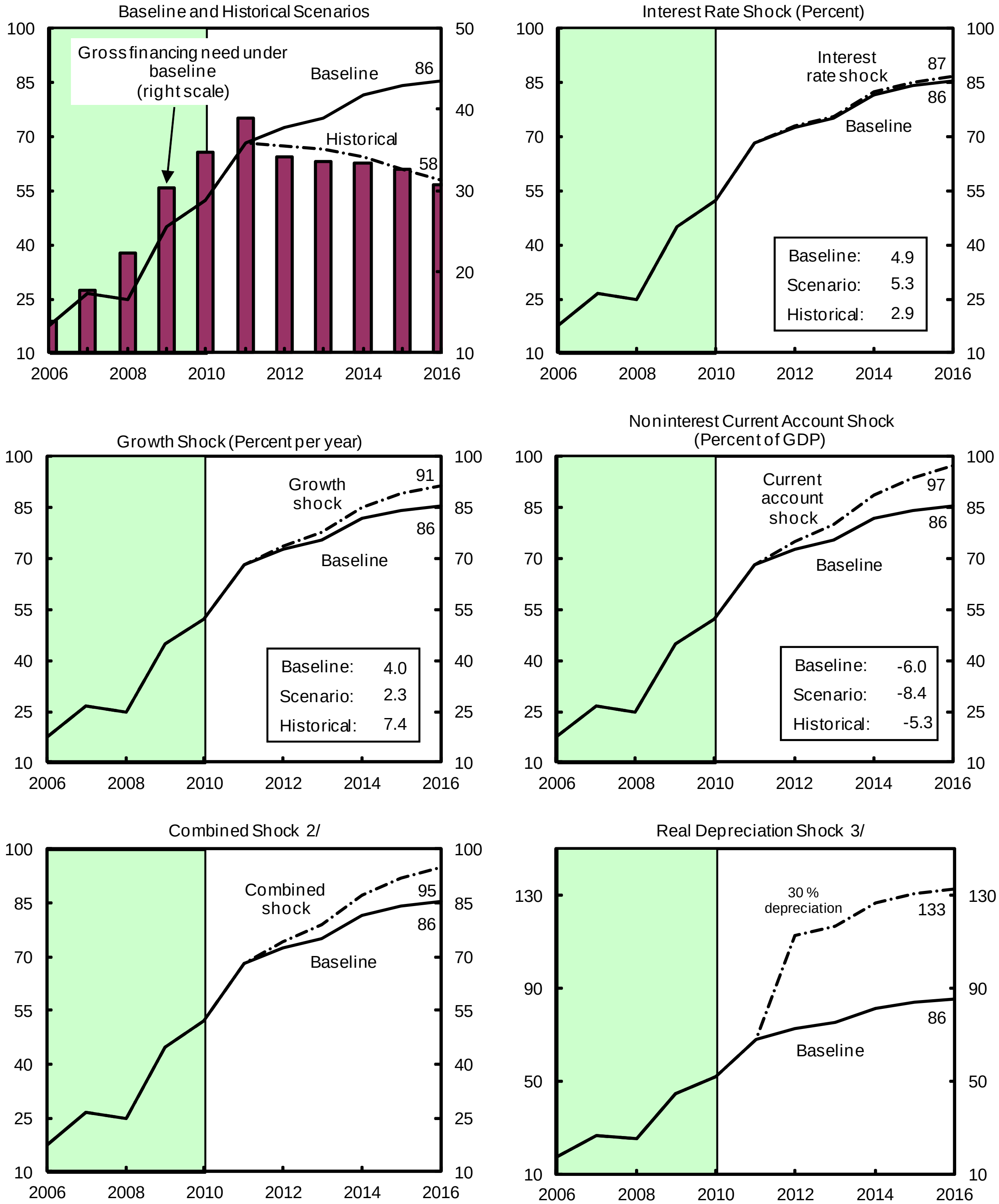
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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 Baseline 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 2012.

Appendix I. Table 2. Belarus: Public Sector Debt Sustainability Framework, 2006–16

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Baseline: public sector debt 1/	7.6	11.4	13.4	21.7	26.5	46.0	44.8	49.0	55.4	55.3	59.2	-0.1
Of which: foreign-currency denominated	2.3	6.5	7.0	18.1	22.1	35.6	41.2	45.1	50.9	53.8	55.9	
Change in public sector debt	-0.6	3.7	2.0	8.3	4.9	19.5	-1.2	4.2	6.4	-0.1	3.9	
Identified debt-creating flows (4+7+12)	-0.9	-3.6	1.2	1.0	2.3	-6.0	-8.9	-4.6	-3.2	-3.1	-2.5	
Primary deficit	-1.8	-0.8	3.0	-0.1	3.6	2.0	1.2	0.7	0.6	0.4	0.4	
Revenue and grants	49.1	49.5	50.6	45.7	42.0	38.5	37.9	37.5	37.1	36.9	36.5	
Primary (noninterest) expenditure	47.3	48.6	53.5	45.6	45.6	40.5	39.1	38.2	37.7	37.2	36.9	
Automatic debt dynamics 2/	-1.1	-1.0	-2.3	2.4	-1.9	-7.4	-9.9	-5.0	-3.5	-3.2	-2.6	
Contribution from interest rate/growth differential 3/	-1.1	-1.0	-2.3	0.0	-2.7	-7.4	-9.9	-5.0	-3.5	-3.2	-2.6	
Of which: contribution from real interest rate	-0.4	-0.5	-1.4	0.1	-1.3	-6.4	-9.5	-3.4	-1.5	-0.8	-0.1	
Of which: contribution from real GDP growth	-0.7	-0.5	-0.9	0.0	-1.4	-1.0	-0.5	-1.6	-2.0	-2.4	-2.5	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	2.4	0.8	...	...	...	...	...	...	
Other identified debt-creating flows	2.0	-1.8	0.6	-1.4	0.6	-0.6	-0.1	-0.3	-0.3	-0.3	-0.4	
Privatization receipts (negative)	1.2	-2.6	-1.0	-1.4	-0.6	-1.9	-1.4	-1.5	-1.6	-1.5	-1.6	
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)	0.9	0.8	1.5	0.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3	
Residual, including asset changes (2-3) 5/	0.3	7.4	0.8	7.3	2.5	25.5	7.7	8.7	9.6	3.0	6.4	
Public sector debt-to-revenue ratio 1/	15.6	23.0	26.5	47.5	63.2	119.5	118.2	130.7	149.1	149.9	161.9	
Gross financing need 6/	-1.2	-0.2	4.1	1.1	5.0	4.7	4.5	6.2	6.4	6.2	5.2	
Billions of U.S. dollars	-0.5	-0.1	2.5	0.5	2.7	2.7	2.9	4.6	4.9	5.2	4.7	
Scenario with key variables at their historical averages 7/						46.0	44.4	42.5	40.6	34.1	30.7	-6.3
Scenario with no policy change (constant primary balance) in 2011–16						46.0	54.0	61.2	71.5	78.5	84.7	-2.7
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	10.0	8.6	10.2	0.2	7.6	5.5	1.4	4.2	4.6	4.9	5.0	
Average nominal interest rate on public debt (percent) 8/	5.5	6.4	6.7	6.2	3.7	6.9	5.5	5.5	5.7	5.8	5.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-5.3	-6.4	-14.5	0.4	-6.5	-33.8	-27.2	-8.5	-3.1	-1.3	0.1	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	0.3	-0.1	0.5	-25.4	-4.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	10.8	12.8	21.2	5.7	10.2	40.8	32.7	14.0	8.8	7.1	5.7	
Growth of real primary spending (deflated by GDP deflator, percent)	9.1	11.8	21.5	-14.7	7.7	-6.2	-2.1	1.7	3.3	3.6	4.2	
Primary deficit	-1.8	-0.8	3.0	-0.1	3.6	2.0	1.2	0.7	0.6	0.4	0.4	

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 e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

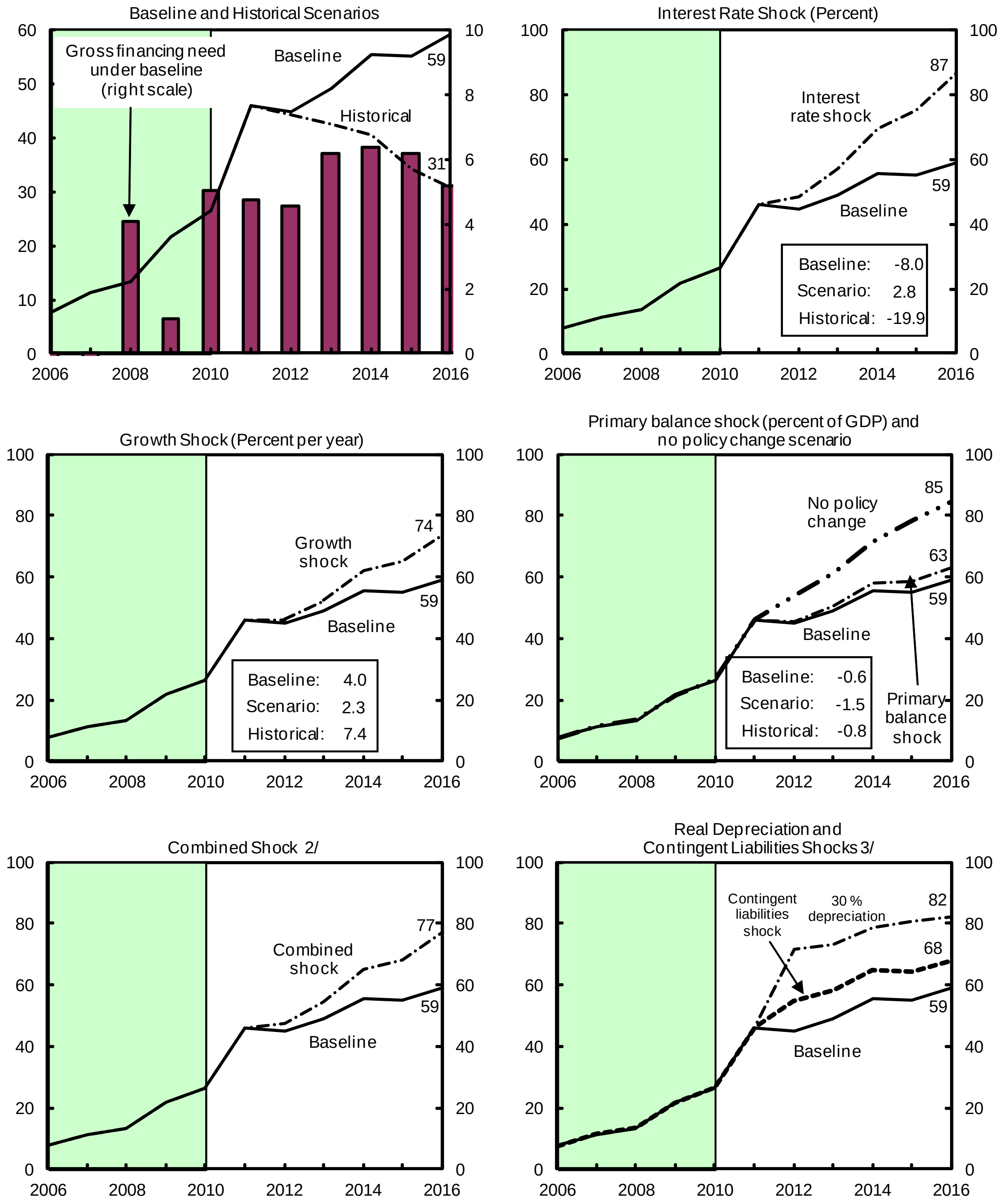
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

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

Appendix I. Figure 2. Belarus: Public Debt Sustainability: Bound Tests of Baseline Scenario 1/ (Public 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 primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

First Post-Program Monitoring Discussion—Informational Annex

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

July 28, 2011

Contents Page

ANNEX I. BELARUS: FUND RELATIONS

As of June 30, 2011

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	2,655.92	687.35
Reserve position in Fund	0.02	0.01

III. SDR Department:	**SDR million**	**Percent of Allocation**
Net cumulative allocation	368.64	100.00
Holdings	369.29	100.18

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Stand-By Arrangements	2,269.52	587.35

V. Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
Stand-By	01/12/2009	03/30/2010	2,269.52	2,269.52
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				
	2011	2012	2013	2014	2015
Principal		248.92	1,080.02	885.84	54.74
Charges/Interest	28.88	55.37	39.85	9.40	0.61
Total	28.88	304.29	1,119.87	895.24	55.35

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.

Following the completion of the safeguards assessment, special audits of NIR and NDA data for March, June, September and December 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.

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).

The de jure exchange rate arrangement is a pegged exchange rate within a horizontal band. Since January 2, 2009, the exchange rate of the rubel has been pegged to a basket of currencies, including the euro, the U.S. dollar, and the Russian ruble. Initially, the band was set at ±5 percent. As of June 22, 2009 the band was expanded to ±10 percent relative to the value of the basket at the time of its introduction (960 rubels per currency basket). Effective

January 1, 2010, the band was recentered at 1,036 rubels per currency basket (the actual rubel rate on January 1, 2010). As of January 1, 2011 the band was recentered at 1054.7 rubels per currency basket and narrowed to ±8 percent. As of May 12, 2011 the band was recentered at a rate of 1181.2 rubels per currency basket and widened to ±12 percent. Effective May 24, 2011, the central exchange rate of the band was adjusted to 2027.2 rubels per currency basket. However, for more than 6 months, the rubel has remained within a 2 percent band against the U.S. dollar before May 24 and continued to remain in a 2 percent band after the adjustment. Hence, the de facto exchange rate arrangement has been reclassified as “stabilized”.

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 NBRB suspended all ad hoc exemptions from the 30 percent surrender requirement. The NBRB introduced administrative measures with a purpose of reducing demand for foreign exchange between January and March 2011. They include a ban on obtaining foreign exchange for advance import payments through loans from domestic banks, a ban on obtaining FX for import payments on certain goods over 50 thousand Euros and an increase in the surcharge on forex trade to 2 percent in the stock exchange. Staff is currently reviewing the adopted measures to assess their jurisdictional implications. The NBRB ceased foreign exchange interventions on March 22 and a multiple currency practice (MCP) emerged (manifested by the significant spread between the official exchange rate and the black market rate). The NBRB does not publish data on its interventions.

IX. UFR/Article IV Consultation:

Post-Program Monitoring discussions mission. A staff team comprising Messrs. Jarvis (head), Kovtun and Ms. Lis (all EUR), Messrs. Bibolov (MCM), and Forni (FAD) visited Minsk during June 1-June 14, 2011. The team met with the Prime Minister, Mr. Miasnikovich; the Deputy Prime Minister, Mr. Rumas; the Governor of the National Bank of the Republic of Belarus, Mr. Prokopovich; the Minister of Economy, Mr. Snopkov; the Deputy Minister of Finance, Mr. Amarin; the Head of the Presidential Administration, Mr. Makej; the Deputy Head of the Presidential Administration, Mr. Kobyakov and other senior officials. Ms. Koliadina, the Resident Representative, assisted the mission.

Article IV Consultation. Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on March 4, 2011 and a report was published on March 9, 2011. http://www.imf.org/external/pubs/cat/longres.aspx?sk=24697.0

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 (EBS/09/1) on January 12, 2009. An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (EBS/09/99), bringing the Fund’s financial support to SDR 2.3 billion (US$3.6 billion, 587.3 percent of quota). The final review was completed on March 26, 2010. Total disbursements under the program amounted to SDR 2.3 billion (US$3.6 billion).

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 assessment reports 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. The detailed assessment report was disseminated in May 2007 for Anti-Money Laundering and Combating the Financing of Terrorism.
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, 2006–11:**		
	Department Counterpart	**Subject**	**Timing**
	MCM	Banking supervision: set-up visit for the risk-based supervision project	April 2011
	MCM	Banking supervision: on-site inspections	September 2010
	MCM	Banking Supervision: early warning system, risk management	March -April 2010
	MCM	Strengthening central bank autonomy	March 2010
	MCM	NBRB refinancing of banks	November 2009
	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	Developing the Medium-Term and Program Frameworks for the Budget	March - April 2011
	FAD	Tax administration	September 2010
	FAD	Tax policy	April 2010
	FAD	Expenditure rationalization	March 2010
	FAD	Tax system reform	October 2009
	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	Multitopic Statistics Mission	October -November 2010
	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 last World Bank Group (WBG) Country Assistance Strategy (CAS) for Belarus for FY 2008–11 was approved on December 4, 2007. The FY08–11 CAS envisioned a modest but a scaled-up engagement with Belarus, including up to US$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.

2. In the wake of the global financial crisis and in recognition of the accelerated pace of structural reforms undertaken by the government in 2009, a CAS Progress Report increased lending during the final two years of the CAS to US$250 million per annum and deployed a wider range of instruments. A US$200 million Development Policy Loan (DPL) was disbursed at the end of 2009. Since 1992 the IBRD lending commitments in Belarus total around US$865.3 million, of which US$462.9 million disbursed; US$160.5 million repaid and US$22.8 million provided as grants. Belarus is currently implementing six projects with World Bank financing to upgrade road infrastructure, improve energy efficiency, water supply quality and waste management, and develop infrastructure in Chernobyl-affected areas.

3. The IFC strategy aims at providing advisory services and investment operations to foster private sector development. IFC's advisory services under the Belarus Regulatory Simplification and Investment Generation Program (August 2010-March 2013) focus on improvement of business environment and investment climate, particularly regulatory simplification related to business operations, as well as on building government capacity for investment generation. As of May 31, 2011, IFC's committed portfolio in Belarus amounts to $206 million, of which 85 percent has been disbursed. IFC's Belarus investments are divided almost equally between financial markets and the real sector. In FY11, IFC invested $125 million in eight projects in the financial markets and manufacturing sectors

4. The World Bank is now in the final year of the CPS with Belarus and no new World Bank lending is planned under the existing strategy. In the wake of recent political and economic developments, the Bank will re-evaluate its support in the coming months. Meanwhile, Bank teams are continuing their technical advisory services to help Belarus deal with the underlying structural challenges in the economy.

IMF-World Bank Collaboration in Specific Areas

5. 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, and social issues.

Areas in Which the World Bank Leads

6. **Structural reforms, social issues, and private sector development**. The Bank provides technical assistance (TA) on structural reforms organized along three main areas: (i) advancing economic liberalization; (ii) attracting quality FDI; and (iii) increasing efficiency of resource reallocation from the state sector to the private sector whilst helping to build safety nets. The thematic areas are reflected in the key recently completed and/or on-going analytical and advisory activities, including: the Country Economic Memorandum (CEM), on-going, the programmatic Public Expenditure Review (PER), Policy Notes on Improving Targeting Accuracy of Social Assistance Programs in Belarus and on Ensuring Long-run Sustainability of Belarus's Pension System (June 2011), and TA on Privatization (on-going). The privatization TA is focused on providing advice on legal and institutional instruments and implementation capacities to successfully launch and roll-out a privatization program consistent with international best practice. The TA focuses on medium-sized companies with the aim to create demonstration effects and provide case-based learning for Belarussian officials with the help of reputable investment advisors. The Bank is currently supporting the introduction of Labor Force Surveys and plans to intensify the dialogue on the labor market reforms in FY12.

7. **Energy sector**. Currently, two energy efficiency projects are being implemented in Belarus with World Bank's financial support: (i) Additional Financing for the Post Chernobyl Recovery Project (US$30 million) and (i) the Energy Efficiency Project (EEP) (US$125 million). In addition, the IFC has started to roll out credit lines to commercial banks to on-lend for energy efficiency projects within the corporate sector.

8. **Environment.** The Bank supports Belarus' efforts in strengthening its environmental protection institutions, addressing key public health challenges, and complying with its international commitments. The following projects are currently under implementation: (i) the GEF Grant Project (US$5.5 million) for Persistent Organic Pollutant (POPs) Stockpile Management and Technical/Institutional Capacity Upgrading, (ii) the Water Supply and Sanitation Project (US$60 million), and (iii) the Solid Waste Management Project (US$42.5 million).

9. **Transport Infrastructure Development.** A Road Upgrading and Modernization project (US$150 million) has been approved by the Board on November 11, 2010, and is expected to become effective in July 2011.

Areas of Shared Responsibility

10. **Macroeconomic development.** The two institutions discuss and consult with each other in the preparation of the macroeconomic framework and debt sustainability analysis, as well as in the preparation of analytical pieces on macro-growth issues.

11. **Public expenditure and revenue policy and management.** In June 2011, the Bank discussed with authorities the first (of two) instalments of the Programmatic Public Expenditure Review. The analysis and recommended policies in the PER-I focus on four areas: (i) rationalizing budget support for the agriculture sector; (ii) achieving financial viability of the energy sector; (iii) improving targeting of social assistance; and (iv) fostering sustainability of the pension system. The second instalment of the PER is likely to focus on

intergovernmental fiscal relations, education and health expenditures, and tax expenditures. In FY 09, the Bank completed the first Public Expenditure and Financial Accountability (PEFA) assessment for Belarus. The dialogue on PFM issues is on-going, including through a Trust Fund to help strengthen financial management performance and accountability across the budget cycle with a particular focus on improving medium term fiscal planning.

12. **Debt management.** Debt management is an area of priority reform for Belarus. The Bank conducted the first Debt Management Performance Assessment (DeMPA) in Belarus in FY11. The DeMPA work was built on the findings of past WB and IMF TAs in debt management and in access to capital markets. The Bank plans to provide further assistance to Belarus in the development of medium-term debt strategy and in capacity building of the debt management staff.

13. **Financial sector.** The 2008 FSAP Update, prepared jointly by the Bank and the Fund, provided valuable insights on the key vulnerabilities in the financial sector and reforms needed and formed the basis of the follow-up dialogue. The Bank conducts financial sector monitoring jointly with the IMF. The Bank also provides a TA on Securities market Regulatory Reform.

Areas in Which the IMF Leads

14. The IMF is actively engaged with the authorities in discussing the macroeconomic program, 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, and on the overall budget envelope.

15. 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. This helps to ensure consistency of policy recommendations by the two institutions.

16. **Questions may be referred** to **Connie Luff** (Country Program Coordinator, ECCU2, 202-458-4068), **Gallina A.Vincelette** (Senior Economist, ECSPE, 202-473-0288), and **Marina Bakanova** (Senior Country Economist, ECSPE, 375-17-2265284).

Belarus: Bank and Fund planned activities in macro-critical structural reform areas from May 2011

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program (AAA)	Belarus Country Economic Memorandum	Ongoing	November 2011
	Programmatic Public Expenditure Review (PER-1) - phase 1	Ongoing	July 2011
	Programmatic Public Expenditure Review (PER-2) - phase 2	Ongoing	June 2012
	Debt Management Performance Assessment	May 2011	August 2011
	Strengthening Medium-term Fiscal Planning TA	June 2011	Through June 2012
	TA on social policies	Ongoing	Through June 2012
	Financial Sector Monitoring TA	Ongoing	Through June 2012
	Post FSAP Support for Securities Market Development TA	Ongoing	Through June 2012
	Privatization TA	Ongoing	Through June 2012
	TA in environmental policies and institutions (grants)	Ongoing	Through June 2012
2.Fund Work Program	TA on social safety net	October 2011	TA report to government in November 2011
	TA on banking supervision	July 2011	August 2011

ANNEX III. BELARUS—STATISTICAL ISSUES

As of July 11, 2011

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected area is external debt data.
National Accounts: The National Statistics Committee (NSC) compiles and disseminates quarterly and annual GDP estimates at current and constant prices following the *1993 System of National Accounts.* The quality of the estimates is good, and the timeliness and periodicity exceed the Special Data Dissemination Standard (SDDS) requirements. In addition to the quarterly and annual estimates, a monthly GDP is compiled 15 days after the end of the reference month. The NSC compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. It has started the compilation of experimental estimates of regional GDP at current and constant prices—monthly, quarterly and annual. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements. **Price Statistics:** The CPI covers 31 towns in the country and the PPI covers 1,467 industrial organizations, and they are published monthly. In addition to the general CPI index, the NSC also publishes indices for foodstuffs, non-food goods, and services. The CPI is based on weights from 2009. Detailed PPI weight data are not published.
Government finance statistics: Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Areas that need improvement include classification of some expenses (e.g. subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; valuation of assets and liabilities (at nominal or market value); and compilation for public corporations.
Monetary statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). However, there are some problems related to the treatment of the IMF accounts, compilation of the monetary base, and classification of some institutional units.

External sector statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the *BPM5* format and is transitioning to *BPM6*. Overall the timeliness and serviceability of external sector data is satisfactory, although there are gaps in external debt data.

II. Data Standards and Quality	
Belarus subscribed to the Special Data Dissemination System (SDDS) on December 22, 2004.	A data ROSC report was published on February 1, 2005.

BELARUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of July 11, 2011)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Data Quality Accuracy and reliability[10]
Exchange Rates	July. 2011	07/11/11	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2011	06/15/11	D/W/M	M	M		
Reserve/Base Money	May. 2011	06/15/11	D/W/M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	May. 2011	06/15/11	W/M	M	M		
Central Bank Balance Sheet	May. 2011	06/15/11	D/W/M	M	M		
Consolidated Balance Sheet of the Banking System	May. 2011	06/15/11	W/M	M	M		
Interest Rates[2]	July. 2011	07/11/11	D/W/M	D/W/M	D/W/M		
Consumer Price Index	May. 2011	06/10/11	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q1 2011	06/01/11	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Mar. 2011	06/01/11	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar.. 2011	05/28/11	M	M	Q		
External Current Account Balance	Q1 2011	05/18/11	Q	Q	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	May. 2011	06/28/11	M	M	Q		
GDP/GNP	May. 2011	06/10/11	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q1 2011	05/15/10	Q	Q	Q		
International Investment Position[6]	Q1 2011	05/15/10	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] Including external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] 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).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and valid.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the First Post-Program Monitoring Discussions

Supplementary Information

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Claire Waysand

August 19, 2011

The following information has become available since the staff report was finalized. The new information does not alter the thrust of the staff appraisal. Also attached is Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario) Presented in GFSM 2001 Format, 2008-16.

The economy has been slowing down but imbalances remain deep:

- Economic growth has been slowing down, although the year-on-year GDP growth remained high at 9.8 percent in January-July, reflecting rapid economic growth in the first five months of the year when GDP growth reached 12.5 percent.

- Inflation remained high, with 12-month CPI at 48.4 percent in July, despite some easing of monthly inflation. Following a 35 percent devaluation in May, producer prices have been rapidly growing and reached 72.9 percent year-on-year in July.

- The external imbalance deepened, as trade in goods and services recorded a deficit in June, compared with a surplus in May—reflecting seasonal effects and higher than usual imports of cars in anticipation of a July 1 increase in import tariffs. The worsening of the trade deficit could also reflect underreporting of exports, given multiple exchange rates. Official reserves amounted to $4.2 billion at end-July, broadly unchanged from the previous month, as the National Bank of the Republic of Belarus has been refraining from interventions on the foreign exchange market.

- Exchange rate pressures intensified. The rubel has been depreciating on the parallel market, probably, due to continued uncertainty about the authorities' plans on macroeconomic stabilization and additional exchange rate pressures arising from price and wage increases. The rubel was offered at 7,900 rubels to a dollar on the parallel market on August 15.

The authorities have been gradually tightening policies:

- The general government recorded a surplus of 4.4 trillion rubels (3.5 percent of GDP) in January-July, reflecting strong revenues, boosted by buoyant economic growth in January-May and a 35 percent devaluation of the rubel. The authorities project a deterioration of the budget position in July-December, as revenues would weaken, reflecting economic slowdown, and expenditures would rise, due to inflationary pressures and a higher cost of debt service after the devaluation. The authorities aim for a budget deficit of less than 1 percent of GDP in 2011, compared with 1.5 percent of GDP agreed with the Eurasian Economic Community's Anti-Crisis Fund.

- The National Bank of the Republic of Belarus continues increasing interest rates—the refinancing and the overnight rates were increased by 200 basis points to 22 percent and 32 percent, respectively, from August 17.

Belarus's access to financial markets further narrowed:

- Moody's downgraded Belarus' sovereign rating from B2 to B3 on July 21. The ratings of five Belarusian banks were also downgraded with a negative outlook. The yields on Belarus' Eurobonds have been highly volatile, rising to 12.5 percent following the downgrade and further to 13.7 percent in mid-August. The authorities acknowledged that foreign borrowing by banks has been gradually declining, indicative of growing difficulties in attracting new financing by banks.

Banks have been weathering the currency crisis:

- Bank deposits stabilized in July and some early signs of their growth emerged in August. According to the authorities, the reported level of non-performing loans has not increased during the last several months.

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario) Presented in GFSM 2001 Format, 2008–16

(Percent of annual GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Proj.					
Revenue	50.6	45.7	42.0	38.5	37.9	37.5	37.1	36.9	36.5
Taxes	33.2	28.3	25.8	24.5	24.3	24.2	24.1	24.1	24.0
Social contributions	11.3	11.7	12.1	11.0	10.9	10.8	10.6	10.5	10.4
Grants	…	…	…	…	…	…	…	…	…
Other revenue	6.0	5.6	4.1	3.0	2.7	2.5	2.4	2.3	2.2
Expenditure	48.8	46.1	45.1	41.1	40.3	39.6	39.5	39.5	39.2
Expense	41.0	40.3	39.8	36.8	35.9	35.0	34.9	34.8	34.6
Compensation of employees	8.5	8.5	9.0	8.9	8.6	8.3	8.3	8.3	8.3
Use of goods and services	6.7	6.3	6.1	5.3	5.0	4.7	4.6	4.5	4.4
Consumption of fixed capital	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest	0.6	0.8	0.7	1.2	1.9	2.1	2.5	2.9	2.9
Subsidies	15.2	13.9	12.7	11.2	10.0	9.4	8.9	8.3	8.0
Capital transfers	2.1	2.3	3.0	1.0	1.0	1.0	1.0	1.0	1.0
Grants	1.5	0.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Social benefits	10.0	10.7	11.3	10.2	10.4	10.4	10.6	10.7	10.9
Other expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	7.8	5.8	5.2	4.3	4.4	4.6	4.6	4.6	4.6
Acquisitions of nonfinancial assets	7.8	5.8	5.2	4.3	4.4	4.6	4.6	4.6	4.6
Disposals of nonfinancial assets	…	…	…	…	…	…	…	…	…
Consumption of fixed capital	…	…	…	…	…	…	…	…	…
Gross operating balance	9.6	5.3	2.1	1.7	2.0	2.5	2.2	2.0	1.9
Net lending (+) / borrowing (–)	1.8	-0.4	-3.1	-2.6	-2.4	-2.1	-2.4	-2.6	-2.7
Net acquisition of financial assets	…	6.0	1.5	13.9	7.4	6.8	5.7	4.1	3.8
Domestic	5.3	7.4	2.1	15.8	8.9	8.3	7.3	5.6	5.4
Currency and deposits	…	7.1	0.9	15.1	8.2	7.7	6.6	5.0	4.8
Debt securities	…	…	…	…	…	…	…	…	…
Loans	5.3	0.3	1.2	0.7	0.7	0.6	0.6	0.6	0.6
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Foreign	-1.0	-1.4	-0.6	-1.9	-1.4	-1.5	-1.6	-1.5	-1.6
Monetary gold and SDRs	…	…	…	…	…	…	…	…	…
Currency and deposits	…	…	…	…	…	…	…	…	…
Debt securities	…	…	…	…	…	…	…	…	…
Loans	…	…	…	…	…	…	…	…	…
Equity and investment fund shares	-1.0	-1.4	-0.6	-1.9	-1.4	-1.5	-1.6	-1.5	-1.6
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Net incurrence of liabilities	…	6.8	4.7	16.5	9.8	8.9	8.1	6.7	6.5
Domestic	0.0	4.1	2.7	1.3	-0.5	-2.3	-1.8	-0.1	0.0
Currency and deposits	…	…	…	…	…	…	…	…	…
Debt securities	…	4.1	2.7	1.3	-0.5	-2.3	-1.8	-0.1	0.0
Loans	…	…	…	…	…	…	…	…	…
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	…	…	…	…	…	…	…	…	…
Foreign	2.3	2.7	2.0	15.2	10.4	11.2	9.9	6.9	6.5
SDRs	…	…	…	…	…	…	…	…	…
Currency and deposits	…	…	…	…	…	…	…	…	…
Debt securities	…	0.0	2.2	1.4	0.0	0.0	0.0	0.0	0.0
Loans	2.3	2.7	-0.3	13.8	10.4	11.2	9.9	6.9	6.5
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	…	…	…	…	…	…	…	…	…
Statistical Discrepacy	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
General government balance	1.3	-0.7	-1.8	-1.5	-1.3	-1.0	-1.2	-1.4	-1.5
Augmented general government balance	-3.5	-0.7	-4.3	-3.3	-3.0	-2.8	-3.0	-3.2	-3.3
Domestic liabilities of the general government	6.3	3.1	4.2	4.2	3.1	2.5	2.1	1.8	1.6
Foreign liabilities of the general government	5.9	10.0	11.0	25.7	33.0	40.2	48.2	51.4	53.8

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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

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IMF Executive Board Concludes First Post-Program Monitoring Discussions with the Republic of Belarus

On August 29, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the first Post-Program discussions with Belarus.[1]

Background

Belarus is experiencing an economic crisis. After the expiration of a Stand-By Arrangement in March 2010, policies were loosened significantly. As a consequence, the current account deficit increased and the pressure on reserves intensified. After a significant loss of reserves in early 2011, confidence in the rubel fell, sparking a foreign exchange crisis and forcing the central bank to cease interventions. Foreign exchange shortages ensued, the foreign exchange markets became fragmented and a parallel market appeared.

The authorities' efforts to resolve the crisis have so far been insufficient to restore market confidence. After initial attempts to deal with the crisis with administrative measures, the authorities agreed a package of measures with the Eurasian Economic Community's Anti-Crisis Fund (ACF), under a US$3 billion loan agreement. The announced measures include tightening of macroeconomic policies and structural reforms. However, they are not being consistently implemented: the multiple exchange rate system persists and interest rates are still negative in the real terms.

[1] Post-Program Monitoring provides for more frequent consultations between the Fund and members whose arrangement has expired but that continue to have Fund credit outstanding, with a particular focus on policies that have a bearing on external stability. There is a presumption that members whose credit outstanding exceeds 200 percent of quota would engage in Post-Program Monitoring.

The foreign exchange crisis has affected economic activity and increased inflation. GDP growth is expected to slow down from 11 percent in the first half of the year to 5½ percent in 2011 and further to 1½ percent in 2012, mainly via a sharp slowdown and a subsequent contraction of domestic demand. Spurred by significant depreciation of the rubel, 12-month rate of inflation reached 43 percent in June 2011 and is expected to accelerate to over 50 percent by the end of the year.

Executive Board Assessment

Executive Directors regretted that weak macroeconomic policies led to a further, sharp deterioration in the economy, contributing to a widening of the external current account deficit and a crisis in the foreign exchange market. Directors underscored that comprehensive macroeconomic adjustment and structural reforms, as well as strong political commitment, are critical to address the root causes of vulnerabilities and restore external stability.

Directors welcomed the authorities' commitments under the loan agreement with the ACF. They agreed that the authorities' plans to reduce the fiscal deficit, raise interest rates, limit lending under government programs, and unify multiple exchange rates are steps in the right direction, but stressed the importance of firm and consistent implementation.

Directors urged the authorities to restore external stability through further fiscal and monetary policy tightening. They supported floating the rubel to unify exchange rates and allow the needed external adjustment. A few Directors considered that a substantial reserve buffer is needed before such a move. Directors underscored that public wage restraint should help contain exchange rate and price pressures. They also recommended putting in place an efficient social safety net to protect the most vulnerable segment of the population.

Directors noted the low reported nonperforming loan levels in the banking system and capital adequacy ratios above prudential norms. In this context, some Directors expressed concern over the elevated liquidity, credit, and rollover risks in the system. Directors underscored the need for close monitoring of financial sector developments, while stressing the importance of increasing the role of market mechanisms and eliminating distortions.

Directors called on the authorities to demonstrate a consistent commitment to structural reforms. They urged the authorities to step up price liberalization and make the Development Bank and the National Investment and Privatization Agency fully operational without delay. Directors also encouraged the authorities to embark on an enterprise reform to facilitate corporate sector adjustment and strengthen competitiveness.

Directors stressed that financial support from the Fund will require demonstrated commitment to strong policies and structural reforms.

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. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the First Post-Program Monitoring Discussions with the Republic of Belarus is also available.

Belarus: Selected Economic Indicators, 2007–11

	2007	2008	2009	2010 Prel.	2011 Proj.
	(Annual percentage change, unless otherwise specified)				
National accounts					
Real GDP	8.6	10.2	0.2	7.6	5.5
Total domestic demand	11.9	17.8	-1.1	10.9	2.4
Consumption	9.7	12.5	0.0	8.2	1.8
Nongovernment	13.4	16.3	0.0	10.1	2.7
Government	-0.5	0.3	-0.1	0.9	-2.0
Investment	16.4	28.2	-2.9	15.8	3.5
Of which: fixed	16.4	23.8	5.0	15.1	3.7
Net exports 1/	-1.5	-9.4	1.5	-3.4	2.6
Consumer prices					
End of period	12.1	13.3	10.1	9.9	57.2
Average	8.4	14.8	13.0	7.7	38.0
Monetary accounts					
Rubel broad money	35.0	22.5	0.9	27.4	60.0
Growth of credit to the economy at constant exchange rates	48.5	50.0	27.9	38.1	44.9
	(Percent of GDP)				
External debt and balance of payments					
Current account	-6.7	-8.6	-13.0	-15.5	-14.7
Trade balance	-8.9	-10.3	-14.1	-16.7	-11.8
Exports of goods	53.8	54.0	43.4	46.3	72.9
Imports of goods	-62.7	-64.3	-57.5	-63.0	-84.7
Gross external debt	26.5	25.0	44.8	52.1	68.3
Public 2/	6.5	6.8	18.1	22.1	35.6
Private (mostly state-owned-enterprises)	20.0	18.1	26.7	30.0	32.7
Savings and investment					
Gross domestic investment	34.1	37.6	37.3	40.6	38.4
National saving	27.4	29.0	24.3	25.1	23.7
Public sector finance					
General government balance	0.4	1.3	-0.7	-1.8	-1.5
Augmented general government balance	0.4	-3.5	-0.7	-4.3	-3.3
Revenue	49.5	50.6	45.7	42.0	38.5
Expenditure 3/	49.0	54.1	46.4	46.3	41.8
Of which:					
Wages	8.0	6.6	6.7	7.1	7.0
Subsidies and transfers	10.5	11.5	11.7	8.4	8.9
Investment	8.5	10.0	8.1	8.4	5.3
Gross public debt	11.4	13.4	21.7	26.5	46.0
	(Annual percentage change, unless indicated otherwise)				
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	45.3	60.8	49.2	54.7	…
Nominal GDP (trillions of rubels)	97.2	129.8	137.4	163.0	242.0
Terms of trade	-2.6	8.7	-9.3	0.2	5.2
Real effective exchange rate	-3.9	1.6	-4.6	-5.0	-14.8
Official reserves (billions of U.S. dollars)	4.2	3.1	5.7	5.0	6.5
Months of imports of goods and services	1.2	1.2	1.8	1.2	1.4
Percent of short-term debt	56.8	40.4	63.2	41.7	50.1
Financing gap (billions of U.S. dollars)	…	…	…	…	6.3

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).
3/ Refers to the augmented expenditure of the general government.

Statement by Johann Prader, Alternate Executive Director for the Republic of Belarus and Vadim Misyukovets, Advisor to Executive Director
August 29, 2011

The Belarusian authorities appreciate the useful dialogue with the Fund staff during the First Post-Program Monitoring Discussions. They take note of and thank the staff for the assessment of the current macroeconomic situation and recommendations on economic and financial policies. The authorities express their gratitude for the financial support under the Stand-By Arrangement and for the continued technical assistance provided by the Fund staff during 2009-2011.

Since the completion of the Fund program, the external and domestic environment of the economy of Belarus has continued to be difficult. The price for imported natural gas has been increased continuously from an average US$ 187 per 1,000 cubic meters during 2010 to US$ 223 in Q1 2011 and U$ 244.7 in Q2 2011. It is projected that the natural gas price may further rise to US$ 300 -305 by the end of 2011. The oil supply arrangements continue to adversely affect the effectiveness of the export oriented petrochemical sector. Export markets remain depressed reflecting the sluggish recovery in Belarus' trade partners. The economic effects of the customs union with Kazakhstan and Russia are yet to be assessed.

As the costs of the decisions taken at the end of last year to stimulate growth and at least maintain the people's living standard in expectation of better external conditions began to show in February 2011, the authorities took prompt adjustment measures to bring the situation under control. As a result of the fiscal and monetary tightening, industrial production which increased to 15.4 percent in March, has given way to a slowdown since April. In the first quarter of 2011, GDP grew by 10.9 percent compared to the same period in 2010 while for January-July, GDP increased by 8.9 percent.

As the pressure on international reserves increased, the need to adjust the exchange rate became apparent. Mindful of the staff's recommendation made during the Article IV Consultations to implement a step devaluation, the authorities devalued the rubel which in terms of the currency basket of US dollar, Euro and Russian ruble, depreciated by 65 percent in May, or by about 73.5 percent since the beginning of the year. However, the risks associated with step devaluation, about which the authorities' expressed their concerns earlier this year, materialized. While competitiveness improved sharply, the devaluation resulted in high inflation, increased dollarization and higher demand for foreign exchange in conditions when no resources were available to cushion these effects. Under these circumstances, temporary administrative measures had to be taken to prevent uncontrollable movements in the exchange market.

In addition to the authorities' own response to the challenges, external financing of US$ 3 billion was agreed upon under a stabilization program with the Eurasian Economic Community Anti-Crisis Fund, of which US$ 800 million was disbursed in June. While the staff report is rather vague about the substance of the program and considers it "insufficient", the authorities argue that it is consistent with the Fund's proposed policies and contains a comprehensive set of policies and key performance indicators to measure progress in stabilizing and subsequently reducing the current account deficit through appropriate adjustments in exchange and interest rate policies, fiscal and monetary tightening, and structural reforms.

The authorities' policies are geared to substantially correcting the difficult balance of payments' position. During the first half of 2011, the trade deficit reached US$ 3 billion, or 10.8 percent of GDP. In the same period, the current account deficit reached US$ 5.4 billion or 19.3 percent of GDP. However, adjustment policies are yielding their first results. In May of this year, the trade balance showed a small surplus. In the first six months export growth outpaced import growth by almost 5 percentage points. This trend is expected to further improve with export growth outpacing import growth by 14 percentage points by the end of 2011.

Despite continued shocks and the significant exchange rate adjustment, Belarus' financial system has remained stable. The share of non-performing loans in total assets at risk was 3.5 percent in 2010 and decreased to 3.2 percent as of August 1, 2011, one of the lowest ratios internationally. The capital adequacy of the banking sector in 2010 was 20.5 percent, substantially above the regulatory minimum of 8 percent. Since January 2011, capital adequacy declined, albeit marginally, to 20.0 percent. Nonetheless, as the staff noted, recapitalization of some banks may be needed. No commercial bank has defaulted or sought restructuring of its liabilities. It appears that there will not be substantial problems with rollovers of banks' external borrowings either. After the initial outflow of deposits (by 15.6 percent in January-May), confidence in the banking sector is gradually recovering and, since July, household deposits have increased by 8.3 percent for the domestic currency and by 1.8 percent for foreign exchange. No new contracts under the central bank's "deposit exchange" schemes have been concluded and the authorities are repaying foreign exchange to banks. This, in turn, reduces money supply and tightens monetary conditions.

Fiscal policy will continue to be very disciplined. Budget expenditures will be tightly managed to ensure that the core items are adequately covered and that the social obligations of the state are prudently fulfilled to ensure public support during the period of difficult reforms ahead. The authorities believe that the fiscal surplus of 3.5 percent of GDP in January-July will allow accommodating the legislatively mandated indexation of wages. Wages in the real sector will solely depend on productivity. The authorities will also consider the recapitalization of state-owned banks with due regard to the actual ability of local governments to honor their guarantees to banks and to the fact that lending under government programs will be transferred to the Development Bank. Elimination of cross-subsidization and switching to a fully operational system of targeted social assistance is high on the agenda and the authorities appreciate and rely on the forthcoming Fund technical assistance on these issues.

Appropriate solutions to unifying the exchange rate are expected in early September. The authorities believe that higher proceeds from exports and sale of certain state assets will solidify the foundation for a stable exchange rate environment in the near future. The authorities agree that, after the exchange rate is unified, it will be critical to ensure its long term sustainability. There is an understanding that, in order to achieve this goal, expansionary support of economic growth should be abandoned, the exchange rate regime should have sufficient flexibility, and prudent fiscal and monetary policies should be maintained.

However, the staff suggestion to immediately float the exchange rate without central bank interventions is not without major problems. The staff recognizes that floating the rate will entail a further depreciation. The concern is that, with significant deferred demand for foreign exchange, neither the authorities nor the staff can make reasonable projections of the scope of such depreciation. What is obvious is that, under a completely free floating exchange rate, without sufficient resources to absorb sharp fluctuations, the risks of disruption of production caused by an inflation-depreciation spiral may be not less than the disruption predicted by the staff under the present exchange rate regime.

The authorities' commitment to economic liberalization, structural reform and promoting private initiative remains unchanged and consistency in implementing reforms should not be doubted. Appropriate regulatory and institutional arrangements have been continuously put in place to improve Belarus' business environment and to ameliorate conditions for private sector development. According to preliminary information, five more economic liberalization reforms implemented in 2010 and 2011, most notably in taxation, have been recorded in the upcoming World Bank's Doing Business Report 2012, which allows the authorities to expect a further improvement of Belarus' ranking. Price controls to address the devaluation aftershock have been lifted. Utilities and transportation tariffs are steadily increased.

Privatization is gathering pace. Creating adequate capacity for the investment and privatization agency may have taken longer than the authorities expected, but building on a firm institutional foundation and appropriate staffing appears to be a reasonable approach. Nevertheless, auctions have been held almost every week since June to offer medium size enterprises owned by the central government in a transparent procedure to local and foreign investors. Investors' demand remains extremely weak but several benchmark deals have been completed, although so far predominantly with local entrepreneurs. Having been corporatized for the most part, larger state-owned enterprises attempt to tap international capital markets. An initial IPO issue by Belarus' largest pharmaceutical company fell short of expectations but the management does not consider it unsuccessful and will repeat the issue this fall to pave the way for others as investors' awareness increases and experience grows.

The Belarusian authorities reiterate their appreciation of the Fund's assistance and look forward to further dialogue with the Fund, the World Bank and other development partners across the entire spectrum of Belarus' reform agenda. It is expected that further talks on a possible Fund-assisted program will resume at the time of the Annual Meetings.