May 2012
IMF Country Report No. 12/113

Republic of Belarus: 2012 Article IV Consultation and Second Post-Program Monitoring Discussions—Staff Report; Informational Annex; and Public Information Notice on the Executive Board Discussion.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Belarus, the following documents have been released and are included in this package:

- The staff report for the 2012 Article IV consultation and Second Post-Program Monitoring Discussions, prepared by a staff team of the IMF, following discussions that ended on March 6, 2012, 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 April 18, 2012. 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.

- Informational Annex updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 4, 2012 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2012 Article IV Consultation and Second Post-Program Monitoring Discussions

Prepared by the European Department in Consultation with Other Departments

Approved by Aasim Husain and Vivek Arora

April 18, 2012

Key Issues

An incomplete macroeconomic stabilization. The economy has been emerging from the 2011 crisis. The authorities unified the exchange rate and introduced a flexible exchange rate regime in October 2011. Since mid-2011 they have also pursued fiscal and income restraint and tightened monetary policy. These policies have restored FX markets, reduced inflation and the current account deficit, and led to an increase in reserves. However, this stability is tentative as some elements of the current macroeconomic framework are inconsistent with the objective of medium-term stability.

Consolidating stability. The short-term priority is to adopt a consistent macroeconomic framework focused on domestic and external stability. Attempts to quickly restore wages to their pre-crisis level should be resisted. Over the medium-term, fiscal policy should focus on stabilizing debt and rationalizing government spending. Making progress towards an inflation targeting framework would boost the credibility of monetary and exchange rate policies.

Achieving sustainable growth. State interference in the economy has weakened growth prospects. Price liberalization, privatization and an enterprise reform would improve efficiency of resource allocation and productivity growth. Prices should be market-determined and administrative price regulation should be phased out. Privatization should be transparent and reflect best practices, and state-owned enterprises (SOEs) should operate on commercial terms.

Financial sector reform. The financial sector—dominated by state-owned banks (SOBs)—is small and inefficient. A greater role of private banks would improve its efficiency. The Development Bank should relieve SOBs from lending under government programs (LGP) and become the sole provider of LGP, with its new LGP reported above the line in the budget. SOBs' governance should be strengthened to attract private investors.

Risks. The resumption of expansionary policies to achieve high growth and wage targets could re-ignite inflation and call into question medium-term viability and capacity to service external debt. A possible escalation of the euro area crisis could affect Belarus, primarily via a spillover from Russia if oil prices collapsed. On the upside, strong commodity prices could boost economic activity in Russia and strengthen demand for Belarus' goods and services.

Contents Page

I. Context..4

II. Near Term Policies: Rebuilding Confidence and Restoring Stability.................................4
A. Stabilization After the 2011 Crisis: Are We There Yet? 4
B. The Paradox of Fiscal Policy: Low Deficits, Rapidly Rising Debt 13

III. The Medium-Term Agenda: Maintaining Stability and Securing Sustainable Growth 15
A. Medium-Term Policies to Maintain Stability 15
B. Can the Current Model Produce Sustainable Growth? 16
C. Can the Financial System Support Sustainable Growth?.......................................19

IV. Capacity to Repay and Relationship with the Fund...20

V. Staff Appraisal 21

Boxes
1. The 2011 Crisis 5
2. Real Effective Exchange Rate Assessment...6
3. Banking Sector Risks 9
4. Wage and Productivity Developments..17

Figures
1. Real Sector Developments, 2008–12 23
2. Inflation Developments, 2009–12...24
3. External Developments, 2010–12 25
4. Monetary Developments, 2010–12 26
5. Performance Among Peers, 2002–11 27
6. EBRD Transition Indicators, 2010 28

Tables
1. Selected Economic Indicators (Baseline Scenario), 2008–17 29
2. Balance of Payments (Baseline Scenario), 2008–17 30
3. Fiscal Indicators and Projections (Baseline Scenario), 2008–17......................................32
4. Monetary Authorities' Accounts (Baseline Scenario), 2008–17 35
5. Monetary Survey (Baseline Scenario), 2008–17 36
6. Selected Economic Indicators (Adjustment Scenario), 2008–17 37
7. Indicators of External Vulnerability, 2007–11 38
8. Capacity to Repay the Fund (Baseline Scenario), 2009–17 39

Appendix I:Tables
1. External Debt Sustainability Framework, 2007–17..40
2. Public Sector Debt Sustainability Framework, 2007–17..42

Appendix I: Figures

1 External Debt Sustainability: Bound Tests of the Baseline Scenario 41
2. Public Debt Sustainability: Bound Tests of the Baseline Scenario 43

Appendix II

Risk Assessment Matrix 44

I. CONTEXT

1. **Belarus has endured two crises in four years.** The 2008–09 economic crisis was precipitated by the global financial crisis, which had led to the loss of external financing, a sharp decline in exports, and exacerbated by an already high current account deficit and low reserves. The 2011 economic crisis was self-inflicted, caused by the reversal of macro-stabilization policies implemented under the 2009–10 SBA. Expansionary credit and wage policies widened the current account deficit, while attempts to maintain the fixed exchange rate created pressures on official reserves and eventually led to the loss of control of the exchange rate and a sharp acceleration of inflation.

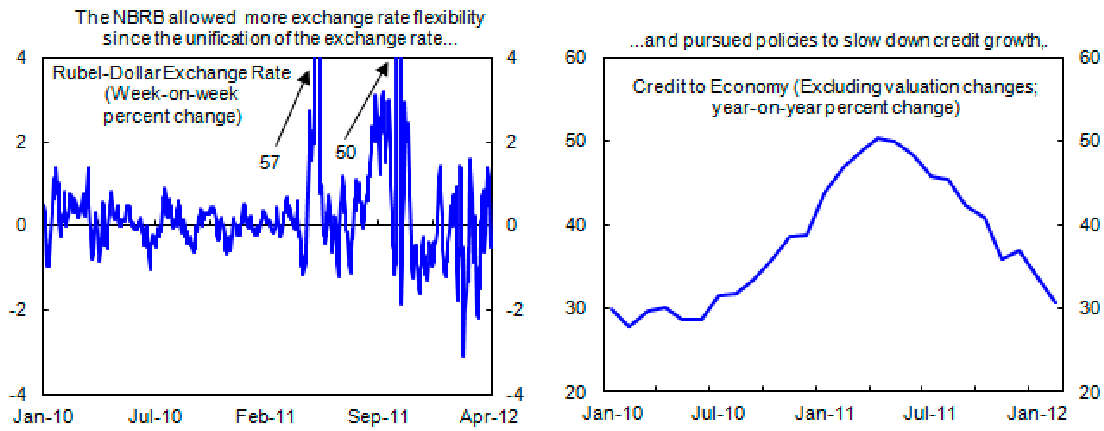
2. **Belarus has now used up most of its safety margins.** External debt has more than doubled since 2008, reaching 61.4 percent of GDP in 2011, as current account deficits were financed by external borrowing and the sale of state-owned assets. Public confidence in the authorities' policies and in the rubel was eroded during the two crises. Belarus has become more dependent on Russia's financial support in the form of low priced oil and gas imports, new loans, and purchase of Belarus' assets. A crackdown on the opposition after the 2010 presidential elections led the EU and the U.S. to curtail official interactions with the authorities and tighten sanctions on individuals and companies, although the tightened sanctions are not expected to affect the economy significantly.

II. NEAR TERM POLICIES: REBUILDING CONFIDENCE AND RESTORING STABILITY

A. Stabilization After the 2011 Crisis: Are We There Yet?

3. **The last year was marked by a severe balance of payments crisis.** Loose policies pursued after the end of 2009 Fund-supported program pushed the economy into an inflation-depreciation spiral. Expansionary wage and credit policies in 2010 and early 2011 widened the current account deficit, created pressures on reserves and eventually led to the loss of control of the exchange rate, sharply accelerating inflation and a contraction of economic activity in Q3 2011 (Box 1 elaborates on the crisis in more detail).

4. **In response to the crisis, and consistent with Fund advice, the authorities adjusted policies in the second half of the year.** The NBRB discontinued non-standard liquidity support to banks from June 2011; it also restrained the provision of standard liquidity support and raised policy interest rates substantially later in the year. These policy changes were consistent with Fund recommendations and led to a much needed slowdown in credit growth. Following staff advice during the first Post-Program Monitoring discussions, the authorities unified the exchange rate in October 2011. This allowed the FX market to resume functioning, and the shift towards a flexible exchange rate system allowed the realignment of the real effective exchange rate with fundamentals (Box 2). Expenditure restraint allowed the budget to finish the year with a fiscal surplus of 3.1 percent of GDP. For 2012, the authorities committed to a tight limit on financing of lending under government programs (LGP) and to run a balanced budget.



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

Box 1. The 2011 Crisis

After the 2009 SBA expired, the authorities loosened policies considerably, which led to a foreign exchange crisis in 2011. Heightened domestic demand resulting from expansionary wage and credit policies, as well as an overvalued real effective exchange rate, resulted in a loss of competitiveness and contributed to an expansion of the current account deficit in 2010. Facing strong demand for FX from households and enterprises, the NBRB intervened heavily to support the exchange rate. By the end of Q1 2011, gross reserves had fallen to around 3½ billion US dollars (less than one month of imports).

A collapse in the rubel led to a surge in inflation. After unsuccessful attempts to solve the unfolding foreign exchange crisis with administrative measures, the NBRB stopped intervening on the FX market in March 2011. As the authorities were not prepared to float the rubel, FX shortages led to the collapse of trade in the markets and the development of the parallel market. The NBRB devalued the official exchange rate from about 3000 to 5000 rubels per US dollar, but the move was largely irrelevant, as they did not have sufficient reserves for intervention. The parallel exchange rate depreciated further to about 9000 rubels per US dollar. Pass-through effects led to an acceleration of inflation to over 100 percent in late 2011.

The authorities took measures to stabilize the economy in the second half of 2011. The NBRB stopped providing liquidity at below market terms from June 2011 and gradually increased its policy rates increasing the rate of refinancing from 18 to 45 percent, and the overnight rate from 22 to 70 percent in the second half of the year. The NBRB unified the exchange rates on October 20 and switched to a flexible exchange rate regime with limited intervention. In addition, the authorities pursued tight budget policy. These measures helped to stabilize the exchange rate by the end of the year, and monthly inflation started to subside in December 2011.

The authorities have made progress in establishing stability, however, risks remain. In the first two months of 2012, consumer prices have increased only by 3.5 percent and the rubel has appreciated. Foreign exchange reserves have increased to more than 8 billion dollars, and the underlying net reserve position has improved accordingly. However, in the aftermath of the crisis inflation and devaluation expectations remain volatile, and the risk of resumed pressure on the exchange rate and reserves remains substantial if policies underlying stability change.

Box 2. Real Effective Exchange Rate Assessment

Indicators suggest that exchange rate unification in October 2011 corrected the misalignment and as of Q1 2012 the real effective exchange rate (REER) was broadly in line with fundamentals. The macro balance approach does not suggest misalignment as the underlying current account deficit—as suggested by the medium-term baseline current account balance corrected for a projected change in the REER—falls within the range of the estimated current account norms. At the same time, the external sustainability (ES) approach suggests that a somewhat larger current account deficit would be consistent with sustaining the end-2011 net external asset position (NEAP) of 52 percent of GDP. It should be noted, however, that ES approach does not necessarily suggest undervaluation as it would be prudent to stabilize the NEAP at a safer level.

Results from the Macroeconomic Balance Approach

	CA norm (percent of GDP)	Underlying CA (percent of GDP)	Gap	REER elasticity	REER Misalignment
		REER as of Q1 2012			
I. CGER pooled estimation model	-2.2	-2.8	-0.7	-0.38	1.7
II. CGER hybrid pooled estimation model 1/	-4.2	-2.8	1.4	-0.38	-3.6
		Baseline REER expected to prevail by the end of 2012			
I. CGER Pooled estimation model	-2.2	-6.0	-3.8	-0.38	10.1
II. CGER hybrid poolded estimation model 1/	-4.2	-6.0	-1.8	-0.38	4.8

Source: IMF staff calculations.

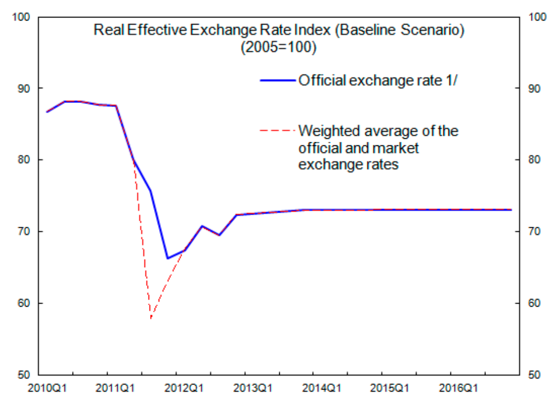
1/ CGER hybrid pooled estimation model is based on a CGER regression that includes a lagged current account balance instead of the initial NEAP position (IMF Occasional Paper 261).

Results from the External Sustainability Approach

	NEAP (percent of GDP)	Real growth (percent, 2017)	Inflation (percent, 2017)	NEAP-stabilizing CAB (percent of GDP)	Underlying CAB (percent of GDP)	Gap (percent of GDP)	REER elasticity	Misalign. (percent)
Stabilizing the current level of NEAP 1/	-52	5.0	6.0	-5.3	-2.8	2.4	-0.38	-6.4
No adjustment of the underlying CA	-28	5.0	6.0	-2.8	-2.8	0.0	-0.38	0

Source: IMF staff calculations.
1/ NEAP at the end-2011.

At the same time, the loosening of policies projected in the baseline scenario would reintroduce misalignment by the end of 2012. In the baseline scenario the REER would appreciate during the remainder of 2012 due to projected inflation being higher than projected depreciation. This is likely to increase the underlying current account deficit to 6 percent of GDP and reintroduce misalignment of 5–10 percent by the end of the year. In contrast, the sharp reduction in inflation targeted in the adjustment scenario and the absence of foreign exchange intervention would limit REER appreciation, maintain competitiveness and support current account adjustment.

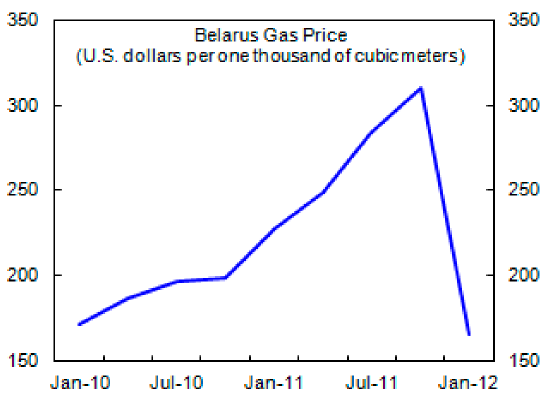


Sources: National Bank of the Republic of Belarus; and IMF staff calculations.
1/ On October 20, 2011, exchange rates have been unified at the market exchange rate.

While these approaches provide a quantitative assessment of exchange rate's misalignment, they should be interpreted with caution. Uncertainty about the effectiveness of exchange rate adjustment is particularly high in an economy with strong features of central planning. Belarus' economy is characterized by significant state control (70 percent of total economy is controlled by the state) and rigidities that dampen the role of price signals (administrative interference with price formation, quantitative targets and soft budget constraints arising from the active role of the state in the financial sector), relative to a market based economy.

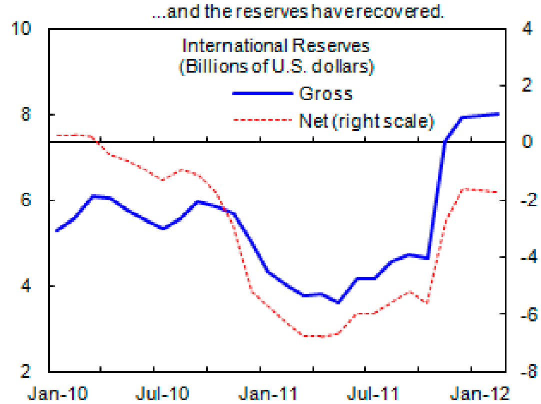
5. **In addition, Belarus secured a significant improvement in terms of trade for 2012 and boosted its reserves in late 2011.** The agreement with Russia signed in November 2011 provided a substantial discount on the price of gas,[1] reducing the price by nearly a half from the level paid in Q4 2011 (at the last year's gas import volumes, the reduction in price is equivalent to about 5 percent of GDP), and the authorities also secured an improvement in the terms of importing Russian oil. Official reserves rose to $7.9 billion due to privatization proceeds from the sale of a 50 percent of stake of Beltransgas ($2.5 billion), two tranches of the EurAsEC's Anti-Crisis Fund (ACF) loan ($1.24 billion)[2] and a $1 billion loan from Sberbank.

Belarus secured lower gas price from Russia...



Source: National Bank of the Republic of Belarus.

...and the reserves have recovered.

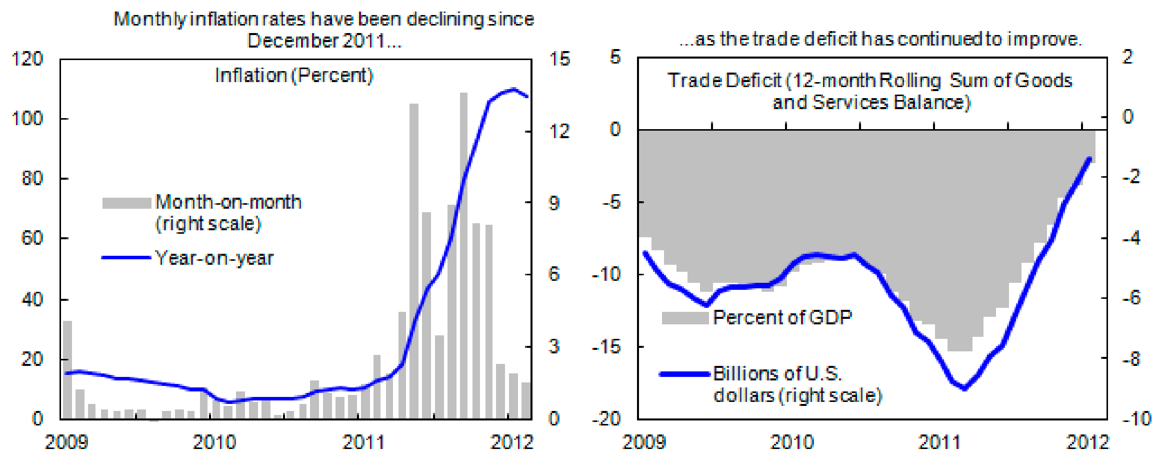


Source: National Bank of the Republic of Belarus.

6. **The improvement in policies paid off by bringing initial macroeconomic stabilization (Figures 1–4).** Monthly inflation rates fell sharply from an average 9.7 percent in August-November to less than 2 percent in December-March. Households and corporates sold dollars and increased their rubel deposits in banks, suggesting that inflation and depreciation expectations are subsiding. In order to avoid appreciation of the rubel, the NBBR intervened by purchasing FX in the market. Initial 2012 data suggest ongoing improvement in the external trade balance.

[1] The gas agreement covers the period from 2012 to 2014.

[2] A $3 billion loan for balance of payments support was approved by the ACF in June 2011. The balance of the loan will be disbursed in four equal disbursements of $440 million in 2012 and 2013. The loan has a 10-year maturity, including a three-year grace period, and was extended at a variable interest rate referenced to the cost of sovereign borrowing by Russia and Kazakhstan. The major elements of the policy package required by the ACF included raising interest rates to positive levels in real terms, exchange rate unification; fiscal discipline; the reduction of LGP to 4 percent of GDP in 2011, 3 percent of GDP in 2012 and 1 percent of GDP in 2013; and privatization generating $2.5 billion in proceeds a year from 2011 to 2013.



Sources: Belarusian authorities; and IMF staff calculations.

Outlook and Risks

7. **However, these early successes may be undermined by inconsistencies in the macroeconomic framework.** In staff's view, the ambitious GDP growth target of 5-5.5 percent set by the authorities for this year is not consistent with the objective to reduce inflation to 20 percent this year. Moreover, the expected growth of real wages of 4 percent as well as statements by high level officials that the average wage would reach $500 per month by mid-2013 signal a possibility of loosening domestic demand policies. After raising the refinancing rate and the NBRB overnight rate by 27 and 48 percentage points respectively in the second half of 2011, the NBRB is under pressure to bring down interest rates. The NBRB has already begun the process by reducing the refinancing rate by 7 percentage points in the first quarter and 2 percentage points so far in the second quarter. The baseline scenario set out in Tables 1-5 assumes that policies would remain tight for now, but relaxed later in the year when it becomes apparent that economic activity and wages underperform relative to the targets.[3] Attempts to pursue incompatible objectives would result in higher-than-planned inflation and lower-than-planned growth. The baseline scenario assumes that scheduled debt repayments would be financed by drawing down reserves leading to both a reduction of the debt-to-GDP ratio and a much lower level of reserves over the medium term.[4]

8. **Downside risks to the baseline scenario are significant: the risk assessment matrix (Appendix II) provides a summary.**

---

[3] The baseline scenario assumes a relaxation of monetary policy (a reduction of policy interest rates leading to an acceleration of non-LGP credit), higher-than-planned bank LGPs, and continued growth of budget sector and SOE wages.

[4] This approach differs from the one used on earlier staff reports, which assumed that external financing gaps were filled by external borrowing (for example, see 2011 staff report on the first Post-Program Monitoring discussions).

- **The most significant risk is a possibility of relaxation of domestic demand policies in an attempt to pursue the growth target.** Stimulating domestic demand would re-ignite the inflation-depreciation spiral and erode external competitiveness. Attempts to contain inflation and depreciation by price controls or large-scale intervention would deepen distortions and deplete reserves. The macroeconomic uncertainty increases financial sector risks: it puts pressure on banks' capital and leaves them exposed to sudden changes in depositors' sentiment (Box 3 elaborates on banking sector risks in more detail).

Box 3. Banking Sector Risks

Belarusian banks have weathered the 2011 crisis and their capital has been replenished. All banks managed to continue their operations throughout the year even given a practical freeze of the FX markets for half of 2011. As a consequence of worsening environment and dramatic exchange rate devaluation, the banking system capital adequacy ratio (CAR) dropped from 20.5 percent at the beginning of the year to 14.9 percent at end-November. Recapitalization of SOBs in amount of 14.5 trillion rubels (5 percent of GDP) helped to increase the system CAR to 24.7 percent at end-2011 by local standards. Banks continued to repay their foreign obligations which stood at around $6 billion at end-2011 (half of which were short term). Russian bank subsidiaries who represent major foreign banks in the country have received capital injections and support pledges from their parent banks. Direct exposure to euro area banks is limited.

Deposits have been growing, but non-performing loans (NPLs) are also on the rise. Deposits have stabilized and resumed growth since October at most banks; however, the competition for funds among banks has led to erosion of interest margins as average rates on new deposits match or exceed those on new loans. System-wide NPLs increased modestly to 4.2 percent at end-2011, but this increase may not capture all underlying vulnerabilities in loan portfolios due to likely lagged effects from the real economy; NPLs could be also underestimated due to loan restructuring, in particular at SOBs. As an indication of credit quality worsening, loans in the "watch" category that are one notch from being included in NPLs increased from 3.6 percent of total loans at end-2010 to 10.6 percent at end-2011. Due to high interest rates in rubels, FX loans to corporates increased by five percent in the first two months of 2012; NBRB is introducing a special provision for loans to borrowers without FX income from July 1, 2012. The risk on corporate FX loans is limited as they primarily were given to exporters. The stock of FX loans to households is low due to the ban introduced since 2009.

The main risks for banks come from the domestic economy slowing down and potential spillovers from the crisis in Europe. As the economy slows, NPLs are expected to increase which would put pressure on banks' capital and could call for new recapitalizations. External factors could hurt Belarusian banks primarily via lower demand for goods by exporters, decreased trade and project financing from European banks, and reduced support to their domestic subsidiaries from Russian parent banks. Besides, banks hold significant FX claims on the NBRB largely via deposit exchanges, which could put pressure on reserves in case of substantial FX deposit withdrawals.

Financial Soundness Indicators for the Banking Sector

	2010	2011			
	Dec.	Sep.	Oct.	Nov.	Dec.
Capital adequacy					
Capital adequacy ratio	20.5	16.5	14.3	14.9	24.7
Tier I capital adequacy ratio	14.9	11.9	9.9	10.3	18.8
Capital to assets	13.7	10.2	8.4	8.6	14.1
Foreign exchange loans to total loans 1/	21.7	29.8	39.5	39.0	39.5
Non-performing loans to gross loans	3.5	4.2	4.3	4.4	4.2
Watch loans	3.6	8.4	8.7	10.2	10.6
Provisions to total non-performing loans	61.9	72.2	72.2	75.1	79.0

Source: National Bank of the Republic of Belarus.
1/ The change in the ratio is due primarily to valuation effects.

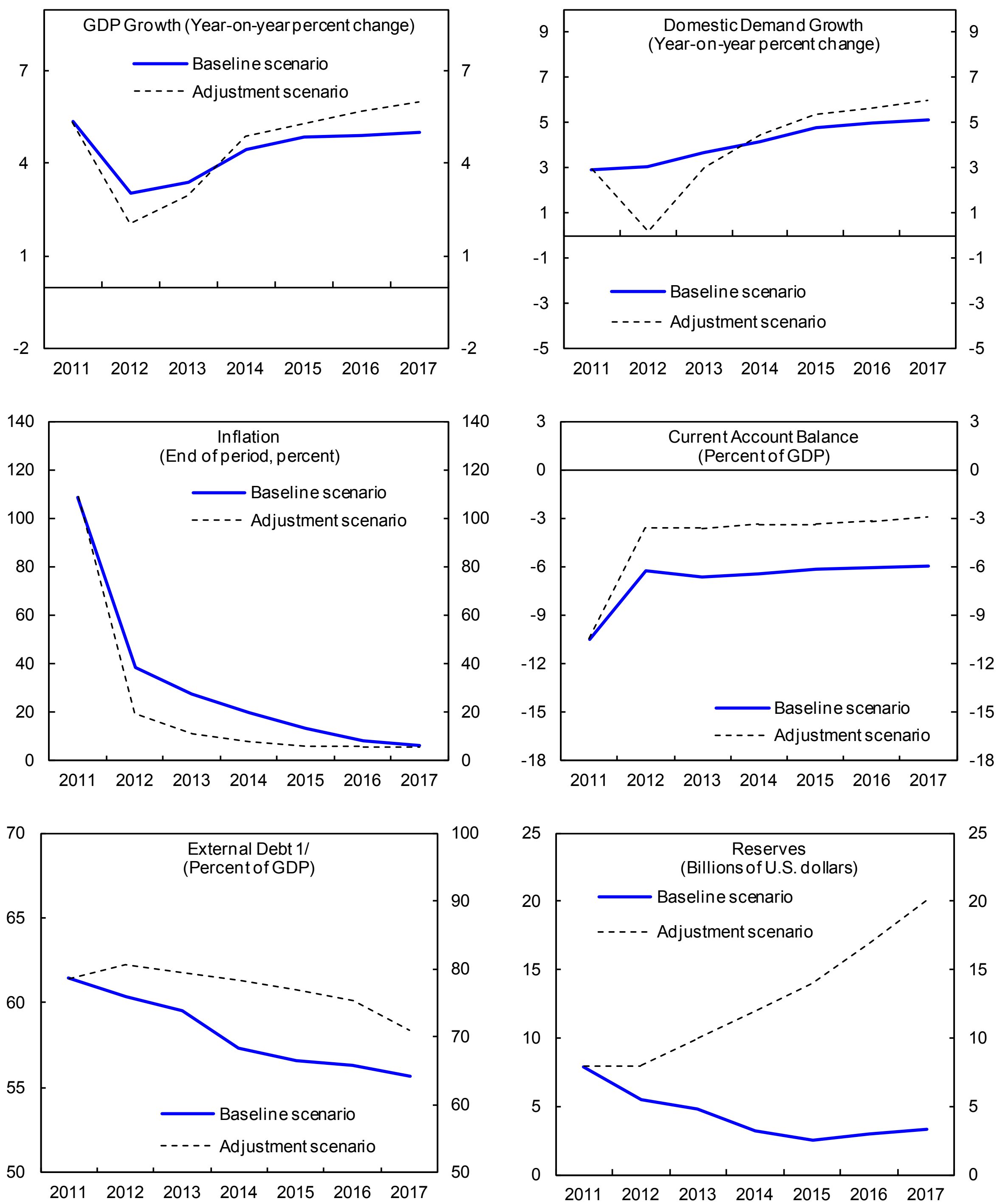
- **On the external side, an escalation of the euro area crisis would pose significant risks, although the extent of the shock would depend on the impact on Russia.** An economic slowdown in Belarus' trading partners would reduce demand for Belarus' exports and an increase in global risk aversion could trigger a reduction in the rollover rates of the external borrowing. Given strong ties with Russia, both trade and financial transmission channels would depend on the extent to which the Russian economy is affected by the crisis—strong commodity prices could dampen the effects of a possible euro area crisis on the Russian economy and therefore reduce spillover effects on Belarus.

- **Gas prices may not stay low forever.** The recent gains in the terms of trade obtained on account of the new gas contract with Gazprom could disappear over the medium term if Russia decides to increase the domestic gas price to which the contract with Belarus is linked.

Staff Recommendations

9. **In order to achieve external and domestic stability, macroeconomic framework and policies should be made consistent with the inflation objective.** Reducing the emphasis on achieving high GDP growth and avoiding setting targets for wages in dollar terms would boost confidence that strong policies will continue. Pursuing tight policies would keep a lid on inflation and therefore preserve competitiveness gains obtained through devaluation. A reduction of the trade deficit—as well as better prospects for the financial account—would allow an increase in reserves to more than 3 months of imports in the medium term (Table 6).

Belarus: Baseline and Adjustment Scenarios, 2011–17



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

1/ The decline in the external debt-to-GDP ratio in the baseline scenario is explained by an assumption that the gaps in the balance of payments are financed by drawdown of foreign exchange reserves rather than by external borrowing. Thus, the decline in the debt ratio is consistent with the decline in the reserves.

10. **The NBRB should be guided by the twin goals of restoring domestic and external stability.** External stability requires further reserves increases and avoiding significant real appreciation; while domestic stability requires limiting credit growth to about 20 percent, which is a value implied by the monetary program and is consistent with the inflation objective. Both credit growth and interest rates are important in Belarus. The choice of credit growth as an intermediate target is warranted given the relative importance of the credit channel and since some credit is not sensitive to interest rate changes. However, interest rates influence the behavior of depositors and some borrowers. Therefore, the staff called for caution in reducing the rate of refinancing—in staff's view, the reduction of the refinancing rate by 500 basis points in the beginning of March was premature as it brought the rate of refinancing below the March estimate of the expected rate of inflation.[5] While there will be scope to lower rates further as inflation continues to moderate, rapid rate cuts would risk resurgence of inflation. Staff believes that the recent appreciation pressures would be better addressed by a combination of sterilized intervention and additional exchange rate flexibility rather than interest rate reductions.

Authorities' Views

11. **The authorities considered the staff's view of the baseline scenario pessimistic.** The NBRB stressed its commitment to pursue tight monetary policy and the government argued that the planned reduction in "emission-based" financing of LGP (i.e., financing of LGP with resources from the budget) would prevent excessive credit growth. They considered that staff's adjustment scenario (Table 6) describes the outlook more accurately than the baseline scenario. At the same time, they considered their framework consistent and claimed that structural changes in the economy—such as improving energy efficiency in production—would allow them to meet the growth objective. The authorities agreed with staff assessment of the real effective exchange rate as being in line with the fundamentals but pointed out that estimates are subject to a wide margin of error. The NBRB viewed the current monetary policy as appropriate. In the authorities' view, the cut in policy interest rates was justified by a fall in inflation expectations. They were also concerned that high interest rates were encouraging rapid conversion of FX-denominated assets into rubel-denominated assets, which they viewed as speculative in nature and subject to risk of abrupt reversal.

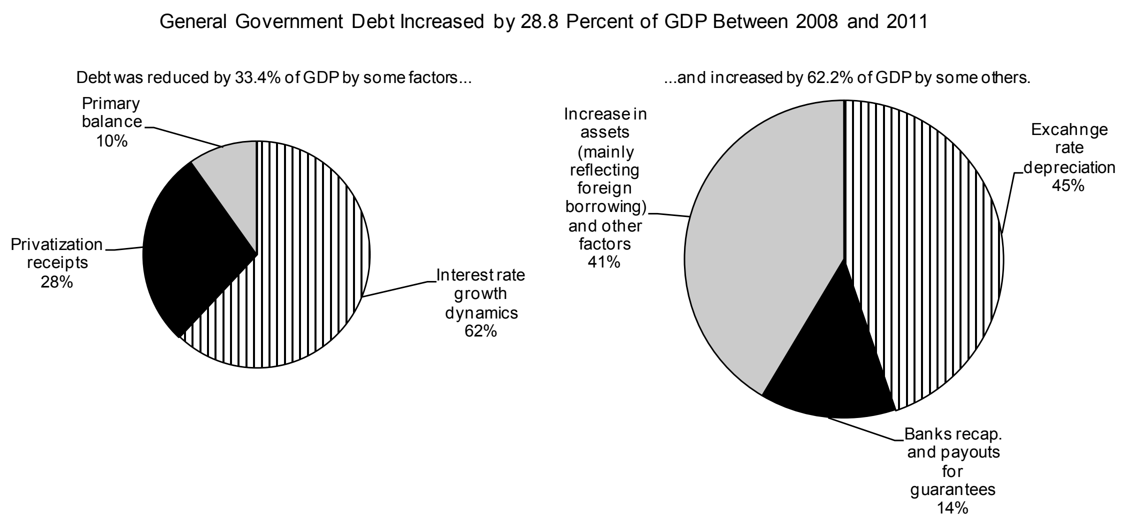
12. **The authorities objected to staff's assessment of the likelihood of risks and their potential impact on the economy.** They argued that the painful experience of 2011 would prevent another policy loosening, and therefore tight policies would continue even if the growth and wage targets are not met. The authorities also see a risk of systemic bank run as low as confidence in banking system is sustained by state-guarantees of full deposits. On the

[5] In March 2012, staff's annualized 6-month ahead inflation projection was more than 40 percent.

external side, the authorities reiterated the importance of developments in Russia for the Belarus economy and the low risk of a significant downturn in Russia. They are trying to reduce energy intensity in production to reduce dependence on low-priced natural gas imported from Russia. In addition, they reiterated that they would use all policy instruments to counteract external shocks, thereby reducing possible across-the-border spillover effects.

B. The Paradox of Fiscal Policy: Low Deficits, Rapidly Rising Debt

13. **The general government balance has been in moderate deficit or surplus over the last few years, but debt has increased rapidly.** In the last four years the general government balance has recorded a cumulative surplus of about 2 percent of GDP, while total public debt (including the NBRB and guaranteed debt) has grown from about 22 percent of GDP in 2008 to above 50 percent in 2011. The increase reflects mainly external borrowing to increase reserves and the impact of the significant real depreciation on the debt-to-GDP ratio.



14. **Below-the-line and quasi-fiscal operations are the culprits.** Below-the-line operations comprising banks recapitalizations and outlays for government guaranteed debt amounted to 13.5 percent of GDP in 2008–11 (6.1 percent of GDP in 2011 alone). The government also conducted significant quasi-fiscal activities in the form of LGP in the amount of 12 percent of GDP in 2010–11, which boosted domestic demand, widened the current account deficit and hence created the need for governments' external borrowing to close the external financing gap. Since LGP has been extended by commercial banks, it is likely that the government would fill any shortfall in repayments by recapitalizing the banks, as has happened in three of the last four years. This rapid buildup of implicit and explicit liabilities should be assessed in the context of a rapidly increasing total public debt.

15. **A clear limit on quasi-fiscal operations and wage restraint should support macroeconomic stabilization.** To this end, staff welcomed authorities' decision to limit government financing of LGP to 7 trillion rubels (1.4 percent of GDP) in 2012 and to balance the amount of planned LGP with the sources of their financing. The staff recommended that the DB should not be allowed to borrow to finance additional LGP. Consistent with staff recommendations, the authorities approved a balanced budget for 2012. This implies a fiscal contraction of about 2 percent of GDP, as measured by the change in the primary cyclically adjusted augmented fiscal balance. On the other hand, overly ambitious wage targets are inconsistent with macroeconomic stabilization. After the 30 percent increase in January, budget sector wages should grow less than 10 percent in nominal term during the remainder of the year, which is consistent with no change in the real wage in period average terms. Significant budget sector wage increases could create expectations of similar increases in the rest of the economy. Large wage increases in SOEs could reignite price pressures, erode competitiveness and increase inflationary expectations. The mission advised that public communications should make clear that any wage increases should follow rather than anticipate productivity growth.

Authorities Views

16. **The authorities agreed with the need for tight control of quasi-fiscal operations.** They pointed out that financing for LGP from the public sector sources will be strictly limited. At the same time, they pointed out that SOBs may finance LGP using their own resources on a competitive basis. The authorities believe that the DB should be allowed to borrow in the market for efficient long-term projects.

17. **The authorities reiterated their commitment to the balanced budget in 2012 but expressed concerns about wage policy.** They argued that budget sector wages are significantly below the private sector ones and that increases are necessary in order to avoid losing the best employees. In turn, wages in the rest of the economy are lower than in Russia and therefore many employees are moving out as there are no restrictions on labor mobility within the Common Economic Area. Regarding below-the-line operations, the authorities pointed out that transactions in 2011 were exceptionally high due to the crisis and they will be much lower in the future.

III. The Medium-Term Agenda: Maintaining Stability and Securing Sustainable Growth

A. Medium-Term Policies to Maintain Stability

18. **Fiscal policy should focus on stabilizing the debt level and rationalizing government spending.** Total government debt needs to be put on a downward path. Phasing out generalized subsidies to households, including by raising the cost recovery ratio of household utility tariffs to at least 40 percent this year, would reduce expenditure by about 0.5 percent of GDP, of which 0.1–0.2 percent of GDP should be used for augmenting the targeted social assistance program. Interest rate subsidies on LGP should be reduced. Staff supported the government's intention to reform the civil service, aiming at a smaller and better paid workforce. Finally, pension reforms would help contain expenditure and address the issue of a rapidly aging population. The President's recent proposal to increase pension benefits for workers postponing retirement goes in the right direction, but there is a need to ensure that the financial equilibrium of the system is not achieved via increases in the already high contribution rate.

19. **Developing an inflation targeting (IT) framework would strengthen the credibility of the NBRB's policy and shield the economy against external shocks.** The authorities have already taken important steps toward the IT regime, namely changing the exchange rate regime from a de-facto peg to a managed float in October 2011, setting a low inflation objective, and enhancing NBRB independence by divesting the NBRB of non-core assets. Over the medium term, the authorities should develop the essential elements of an IT regime, namely enhancing the operational autonomy of the NBRB, reducing the share of regulated prices, imposing hard budget constraints on enterprises, which will increase their responsiveness to price and interest rate signals, removing quasi-fiscal activities from commercial banks, and deepening the financial system.

Authorities' Views

20. **The authorities broadly shared staff's views but thought they would be difficult to implement.** They argued that reducing subsidies to households is politically and socially difficult. They also pointed out that the Targeted Social Assistance program is still at an early stage and has limited funds: therefore, in the short-term, it might not be ready to fully support vulnerable households if utility tariffs were increased to the cost recovery level. The authorities believe it is difficult to reduce interest rate subsidies on existing loans, as these are specified in the lending contracts and cannot be renegotiated. The authorities agreed with a move towards inflation targeting over the medium term but stressed that the current "manual control" of the economy distorts the transmission mechanism and the need to fulfill key prerequisites make the quick transition to IT challenging.

B. Can the Current Model Produce Sustainable Growth?

21. **Belarus' economic model has long relied on high investment supported by subsidized energy inputs from Russia, directed credit and ample foreign financing.** The model produced high growth rates—generally outperforming peers—while the external environment remained benign (Figure 5) but was subject to significant vulnerabilities: the slow pace of structural reform reduced productivity growth and left Belarus dependent on subsidized energy inputs and external support. Even in the CIS markets, Belarus' share has been shrinking.[6] External debt started to increase rapidly in the second half of the last decade while reserves remained at a dangerously low level.

22. **Structural reforms have been slow, with occasional reversals.** Belarus has made less progress in market reforms than most Eastern European and Central Asian economies (Figure 6). It has performed poorly on large- and small-scale privatization and enterprise reform. Little has been done to harden SOEs' budget constraints; promote competition and improve corporate governance. Banking sector reform, trade liberalization and competition policies have been slowly improving. Price liberalization was partially reversed in 2011.

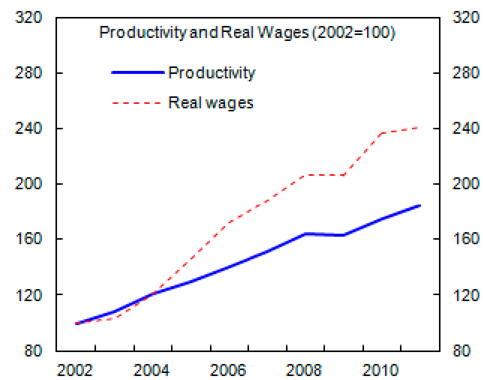
23. **Government interference in the economy has led to a misallocation of resources.** Administrative price controls interfere with market signals, distorting resource allocation. Mandatory output targets shift companies' objectives from maximizing profits to maximizing output, regardless of the cost. This depresses productivity growth, while attempting to meet specific wage targets increases the gap between real wages and productivity (Box 4 elaborates on wage and productivity developments). Even with continued access to cheap energy from Russia, a persistent gap between wages and productivity would undermine Belarus' external competitiveness and will eventually lead to pressure on the balance of payments and a possible repeat of the previous crises.

---

[6] World Bank (2012). Belarus Country Economic Memorandum: Economic Transformation for a Sustained Growth. Report No.66614-BY (forthcoming).

Box 4. Wage and Productivity Developments

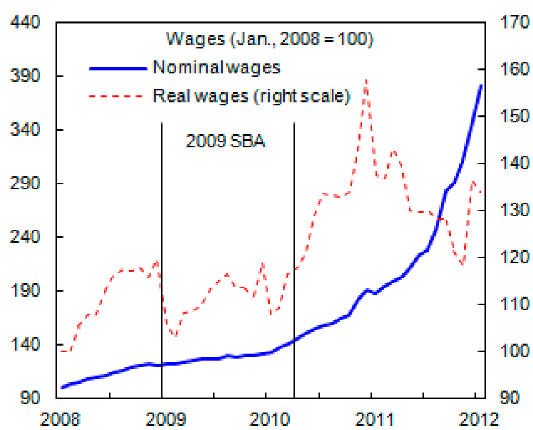
Real wages in Belarus have persistently grown faster than productivity with the exception of 2003 and 2009. At the end of 2011, real GDP per worker was 85 percent higher than its 2002 level, while real wages were about 140 percent higher.



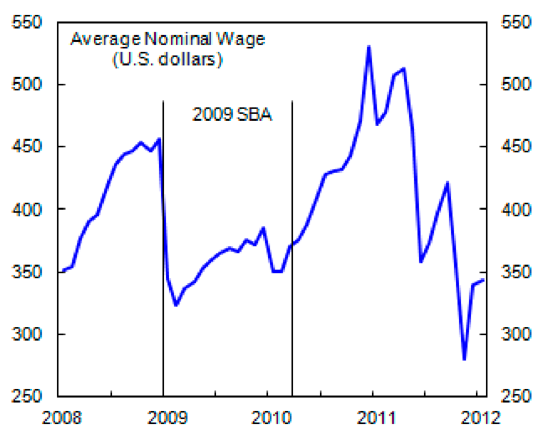
Sources: Belarusian authorities; and IMF staff estimates.

During the 2009 SBA the authorities in Belarus were committed to wage restraint. The program included a commitment by the authorities to strictly limit wage increases in state controlled enterprises, which covered about 80 percent of all employees in the Republic of Belarus. However, wage policies have been loosened after the program expired.

The increase in real wages in 2010 was particularly pronounced with real wages rising by 33 percent, while productivity has increased only by 7 percent. Similarly, wages in US dollar terms increased by 37.6 percent y/y in December 2010**.** This mismatch was among the key factors behind the 2011 balance of payments crisis. Depreciation during the crisis has brought dollar wages back to their 2008 level. The authorities recognize the importance of keeping real wage growth in line with productivity growth. However, their policy of declaring wage targets in dollar terms, and the resulting wage pressures in SOEs, could lead to a repeat of the crisis.



Sources: Belarusian authorities; and IMF staff estimates.



Sources: Belarusian authorities; and IMF staff estimates.

Achieving Efficient Resource Allocation via Privatization and Enterprise Reform

24. **Structural reforms could support macroeconomic stabilization and enhance Belarus' medium-term prospects for sustainable growth.** Better resource allocation in the economy can be achieved by price and external trade liberalization, state owned enterprise reform and privatization. Adjustment costs will be minimized if strong and well-functioning institutions are in place, including an adequate social safety net. Pursuing reforms integral to WTO accession would raise Belarus' medium-term growth prospects.

25. **Price liberalization will impose market discipline and strengthen competition**. Belarus has lagged behind other countries in price liberalization (EBRD) with prices regulated primarily through price and trade margin ceilings. In 2011 the list of socially important goods subject to price controls was expanded to cover 25 to 30 percent of the consumer price basket. In competitive markets price liberalization makes resource allocation more efficient by providing an incentive to direct capital and labor to producing scarce and valuable outputs. Increasing market competition by removing opaque state support to uncompetitive enterprises should limit excessive price increases after liberalization. Targeted social assistance should be used to mitigate the effects of price liberalization on the poor.

26. **Transforming SOEs into commercially-run corporations will improve the efficiency of the allocation of resources.** Managers should be given greater autonomy and should be fully responsible for the performance of the SOEs within hard budget constraints. Government's interference in their operations should be reduced and the system of state support streamlined and made transparent. Corporate governance needs to be strengthened by developing a program for SOEs' transition to IFRS accounting. Introducing performance-based contracts for managers and performance-based bonuses for workers would raise productivity. Removing quantitative targets for employment would help reduce labor hoarding in SOEs and free up resources for more efficient and profitable enterprises.

27. **A privatization process consistent with best international practices would facilitate economic modernization**. Evidence from Russia suggests that privatized enterprises are more innovative, more productive and adopt new technology and new management techniques faster than SOEs.[7] The capacity for the National Investment and Privatization Agency (NIPA) to implement privatization in a professional and transparent manner could be demonstrated by bringing the first eight companies selected for privatization with the support of the World Bank to the point of sale. The NIPA should be vested with the full authority to carry out this privatization and success fees for financial advisors should be permitted. The list of enterprises to be privatized by the NIPA should be expanded by at least 20 companies to provide a pipeline for future privatization.

---

[7] Conway et al., 2009, "Product Market Deregulation in Russia," OECD Economics Department Working Papers, No. 742, pp. OECD Publishing.

Authorities' Views

28. **The authorities agreed that structural reform is needed.** They are implementing President's Directive #4 "On the Development of Entrepreneurship and Business Activity in the Republic of Belarus" which sets out a blueprint of economic liberalization. They have been working toward gaining a higher rating in the World Bank's "Doing Business" survey. The authorities said that strengthening competition; removing red tape; improving the tax system; and moving to international accounting standards are their priorities.

29. **They disagreed, however, with Fund staff on the scope and the pace of reforms.** The authorities believe that structural reforms should not incur excessive social costs and should only be implemented after macroeconomic stabilization takes hold. They were not prepared to embark on enterprise reform due to possible labor dislocation and argued that the reform could only be started after the targeted social assistance and unemployment benefit schemes were strengthened. The authorities believe that price liberalization should only be resumed when inflation expectations were firmly under control. The authorities were not convinced that privatization would improve economic efficiency and preferred to improve management of the SOEs.

C. Can the Financial System Support Sustainable Growth?

30. **The financial system is inefficient and causes a growing contingent liability for the government.** Currently, SOBs dominate the banking system holding about two thirds of all assets. They are primarily engaged in LGP with government guarantees or subsidies on interest rates and in lending to SOEs. With little emphasis on analyzing borrowers' credit, many loans are being rolled over, resulting in consistent liquidity shortfalls at major SOBs. Annual recapitalizations of SOBs averaged 1 percent of GDP during 2007–10, but were up at 5.3 percent of GDP in 2011. While a major part of the latest recapitalization compensated for a deterioration in capital adequacy ratios due to a depreciation (as rubel value of FX-denominated risk-weighted assets increased and capital is held in rubels), it also indicated increasing asset quality deterioration. Other banks are primarily left to compete for a small pool of private businesses. This setup results in distorted incentives for SOBs and undermines private sector development.

Financial Sector Reforms

31. **Establishing a strong DB and giving it responsibility for LGP would free up the commercial banks to make market-based loans.** All LGP should be done via the Development Bank (DB) to make it transparent. The DB should operate within the resource envelope consistent with the government's ceiling on LGP and it should be precluded from borrowing to support additional activities in the immediate future: this would contain the risk of losing control over LGP. The mission advised that budget financing of the DB should be reflected in a government document to be integrated in the budget process and approved alongside the budget. The risks of the DB's operations should be recognized in the budget

and it should regularly report to the public and financial supervisor. Banks could competitively bid to become on-lending agents for LGP for commission fees, but the DB should bear the credit risk. However, even with these measures, risks would remain that credit growth will not be adequately contained. The remaining LGP stock on SOBs balance sheets should be gradually phased out possibly using an asset management company. After major SOBs would be relieved from their quasi-fiscal function legacy, they should be prepared for privatization with investors who would receive major controlling shares in them. This would help creating a level playing field for all banks and lead to a more efficient resources allocation. The full independence of NBRB supervision staff and use of risk-based supervision would make the financial system more robust.

Authorities' Views

32. **The authorities considered that the banking system remains resilient, and favored less fundamental changes.** They agreed that SOBs need to shift toward more commercial lending and they plan to sell major SOBs to well-reputed international banks in the medium-term. The authorities will continue improving their supervision including with support from the Fund's technical assistance. They noted that large SOB recapitalization in 2011 brought their capital ratios far above prudential requirements and that banks are successfully increasing their provision levels providing them with better buffers against shocks in 2012. They expected that tightened liquidity provision to SOBs since end-2011 would improve their liquidity management practices. The authorities were open to a possibility that all LGP should be done by the DB over the medium term. In 2012, however, they planned to increase opportunities for private banks to participate in LGP relying on banks' own resources.

IV. Capacity to Repay and Relationship with the Fund

33. **Belarus' capacity to repay has become strained due to a sharp increase in debt in recent years (Tables 7 and 8) and policies should be geared toward enhancing it.** External debt has been rising rapidly during the last years, reaching over 61 percent of GDP by the end of 2011 from 25 percent at the end of 2008. Staff projects that external debt ratio would decline only gradually (falling to 56 percent of GDP by the end of 2017) and reserves would remain at significantly low levels (covering only less than 1 month of imports and about 20 percent of short-term debt during 2014–17), indicating the presence of significant repayment risks. The proposed stabilization policies would reduce the risks by building up reserves to sufficient levels over the medium term (covering about 3 months of imports and short-term debt), which would enhance external creditors' confidence.

34. **Agreement on a new program would require, as the next step, full commitment by the authorities to a consistent strategy based on stabilization and reform**. The authorities request for a new Fund arrangement remains active. Staff advised that program negotiations would require agreement among all policymakers—including at the highest

level—to adopt a comprehensive package to restore stability and to embark on the path of deep structural reform.

V. Staff Appraisal

35. **The Belarusian economy is emerging from its latest crisis**. Responding to monetary tightening, credit growth slowed, demand pressures subsided, and inflation began slowing down. Expenditure and wage restraint further supported stabilization. Exchange rate unification and a move toward a flexible exchange rate regime helped restore the foreign exchange market and bring down the current account deficit. The loan agreement with the ACF supplied discipline (especially in encouraging the authorities to limit LGP) and external finance. Sale of assets to Gazprom and new loans by Russian banks boosted reserves further. The economy, however, has been weakened by the crises of 2008–09 and 2011, with rapidly increasing debt, diminished public confidence in government's policies, reduced market access and increased dependence on Russia.

36. **Inconsistent policy goals could jeopardize stability**. The authorities say that their priority is restoring macroeconomic stability: bringing inflation down, narrowing the current account deficit and maintaining official reserves. However, the growth target is inconsistent with other macroeconomic objectives, and senior government officials have repeatedly promised to raise dollar wages. There is a risk that they will pursue high growth and high wages, as they did in 2010: policies which led directly to the 2011 crisis.

37. **The authorities have adopted many of the policies needed for stabilization, but they need a consistent framework to provide confidence that good policies will be maintained.** The NBRB has floated the exchange rate, but will need to continue allowing it to move flexibly to shield the economy from external shocks. Despite recent wavering, the authorities have generally kept a tight monetary policy, but still need to embed it in monetary targets in the short term, and inflation targeting over the medium term. The government is targeting a balanced budget and a sharp reduction in LGP, but their fiscal stance could be undermined once again by failure to stay within the limits set for LGP and by other quasi-fiscal activities. In a still uncertain macroeconomic environment, a consistent and disciplined wage policy is needed this year in both the budgetary sector and the SOEs.

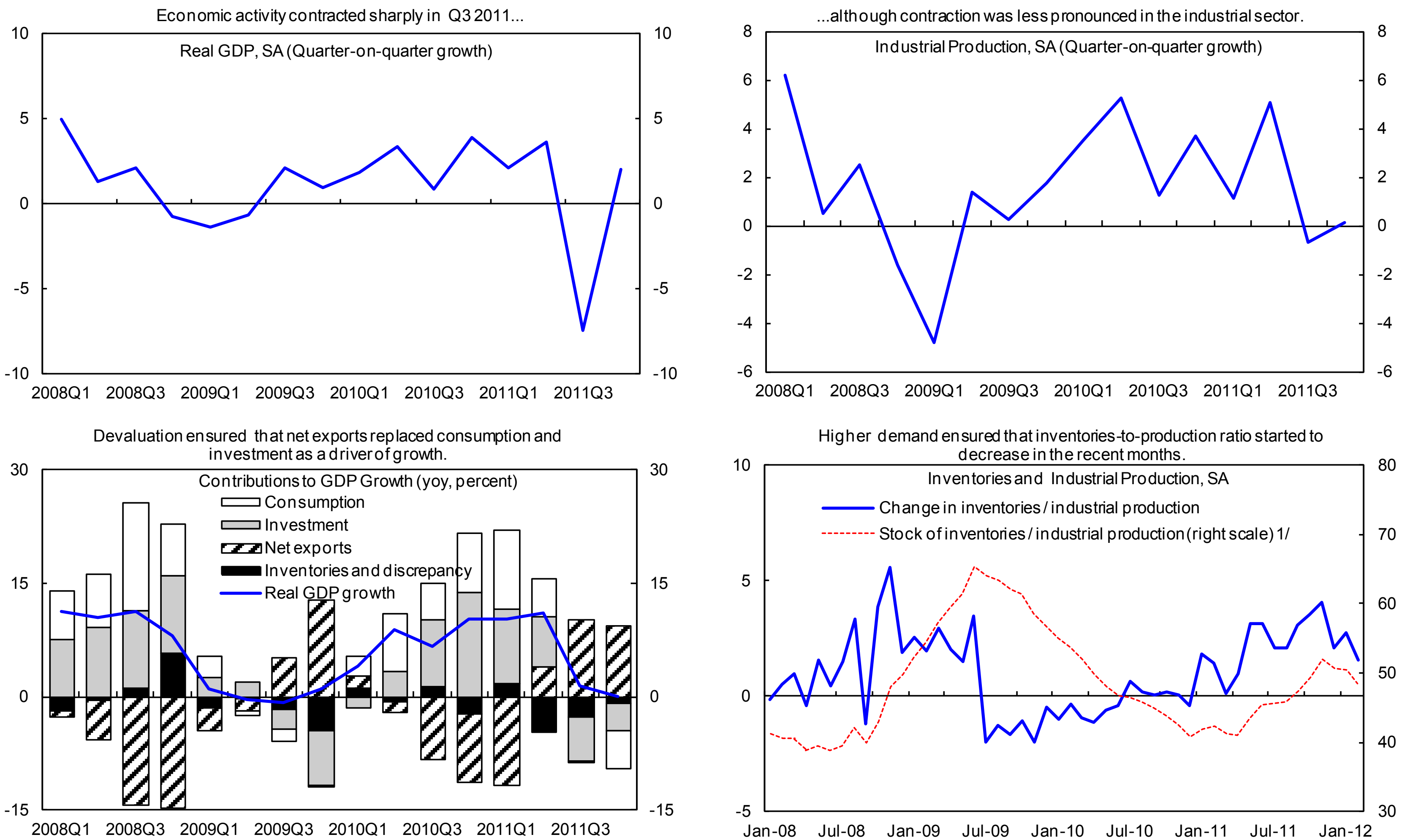
38. **The authorities should also aim to restore the economy's safety margins.** The government should aim to stabilize and then reduce the debt level over the medium term. The fiscal plan—reducing general subsidies, reforming the civil service and implementing pension reform—is welcome, but there are areas of ambiguity and excessive caution in the authorities' plans. They need to speed up improvement to the Targeted Social Assistance program and the unemployment benefit scheme. Quasi-fiscal operations should be phased out by making the DB the sole provider of new LGP, with LGP financing reflected above the line in the budget. Most urgently, the authorities need to increase reserves. To do this, they need continued exchange rate flexibility and macroeconomic discipline.

39. **The main source of growth over the medium term lies in improvements in productivity, which requires structural and financial sector reforms.** The authorities are torn between trying to make their old model function better and adopting a new one. At the moment, large state enterprises' exports have been boosted by the exchange rate depreciation. Lower prices on gas imports from Russia have eased budget and balance of payments constraints. At the same time, Belarus' export share in CIS markets keeps shrinking, and dependence on low-priced energy imports and external support has increased recently. To improve growth prospects and reduce vulnerabilities, the authorities need to take the bold step of reducing direct control over the economy. Reducing the government's role in the economy through price liberalization, privatization and enterprise reform would improve resource allocation and strengthen market incentives. The financial sector—at present largely a vehicle for implementation of government priorities—should become market-based. Relieving SOBs of the obligation to undertake directed lending after the DB becomes operational (and at the same time, making sure that the DB itself is run on prudent and transparent principles) is the crucial next step in the process.

40. **Initiating new program negotiations would require consensus among the authorities on a strong and consistent stabilization and reform strategy.** The mission exchanged views with the authorities on the prospects for a Fund-supported program, which was requested by the authorities in May 2011. In view of the loss of policy credibility following the loosening of policies in 2010, the main barrier to beginning negotiations has been the absence of a clear commitment by all of the key players. The authorities have been doing most of the right things, but cannot commit to give up growth and wage targets that are inconsistent with stability. They are also ambivalent about the deep structural reform that would be needed. The staff believes that a new program must be sufficiently strong and credible to garner the support of the IMF's membership. Unequivocal commitment by all leading policymakers to strong program objectives would be an essential first step.

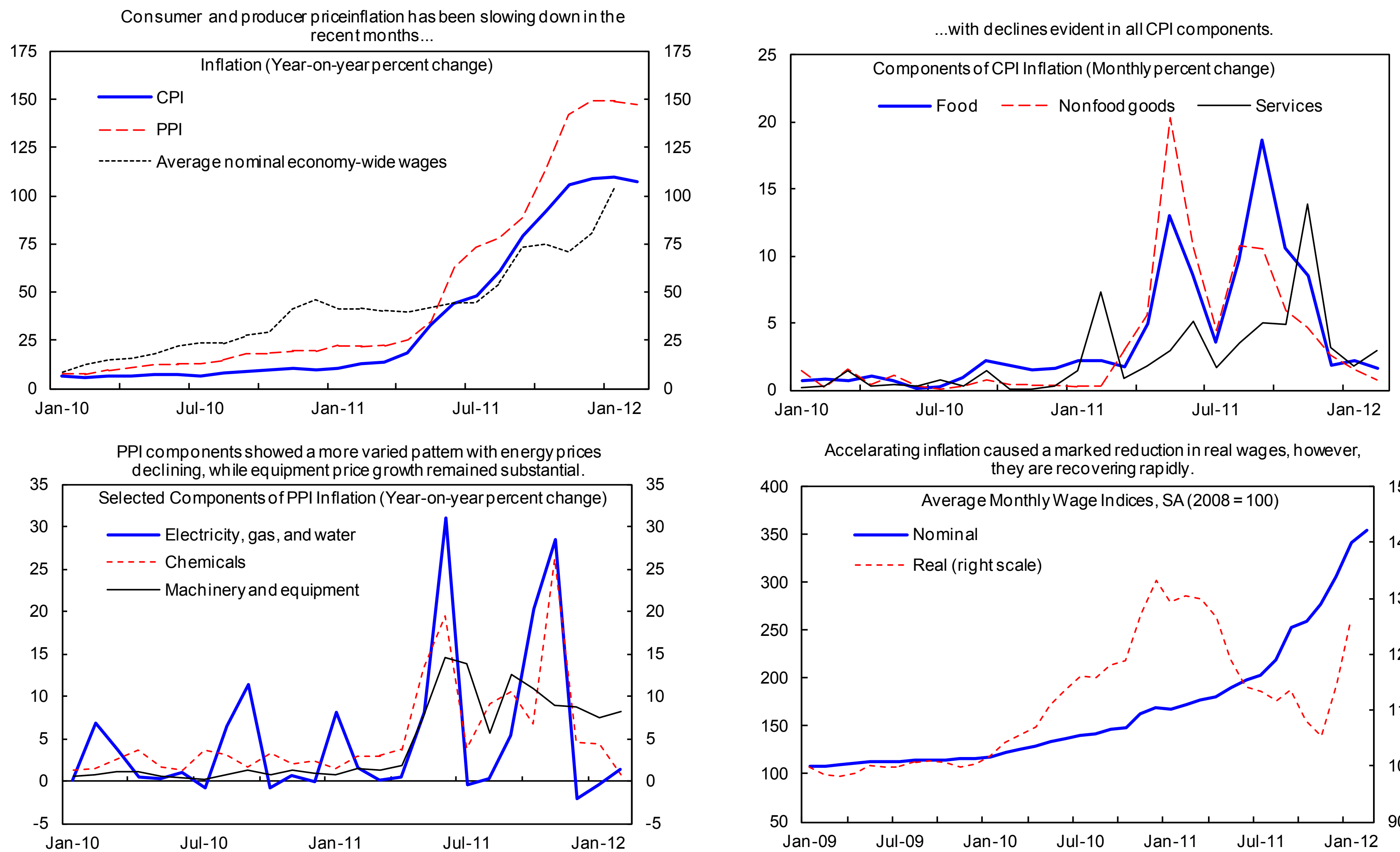
41. **It is recommended that the next Article IV consultation with Belarus be held on the standard 12-month cycle.**

Figure 1. Belarus: Real Sector Developments, 2008–12



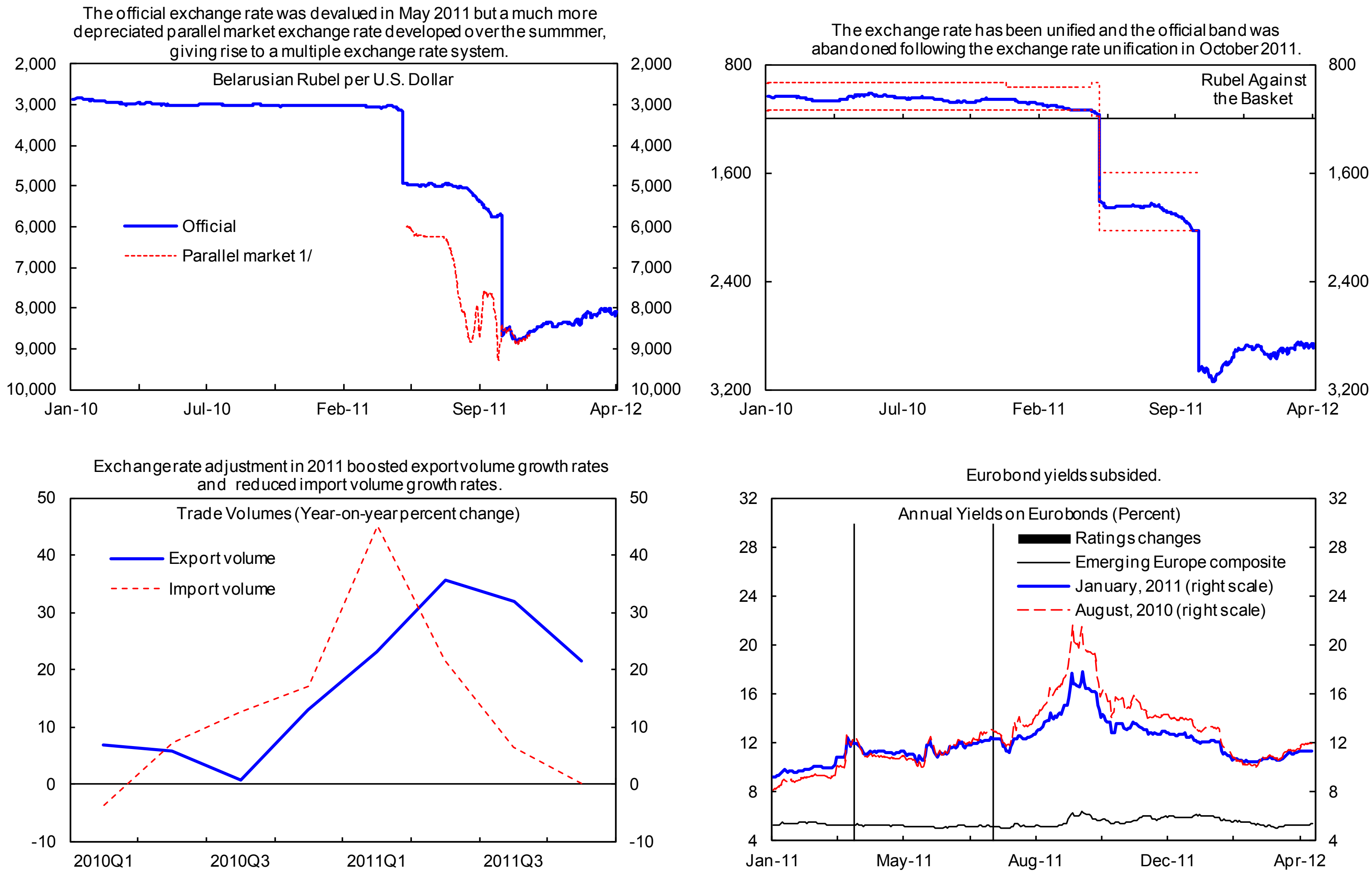
Sources: National Statistical Committee; and IMF staff estimates and calculations.
1/ Lagged 12-month moving average of industrial production.

Figure 2. Belarus: Inflation Developments, 2009–12



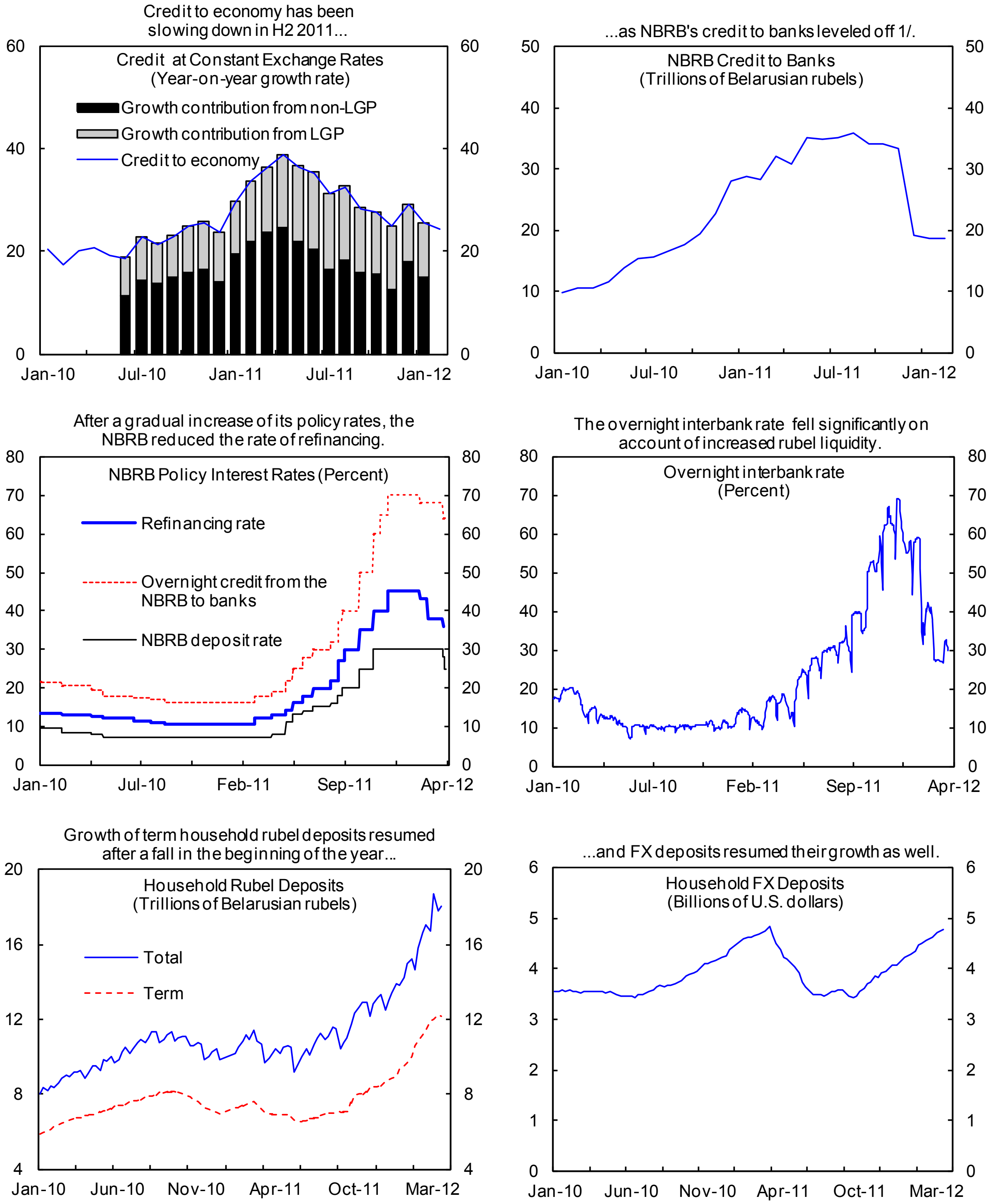
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 3. Belarus: External Developments, 2010–12



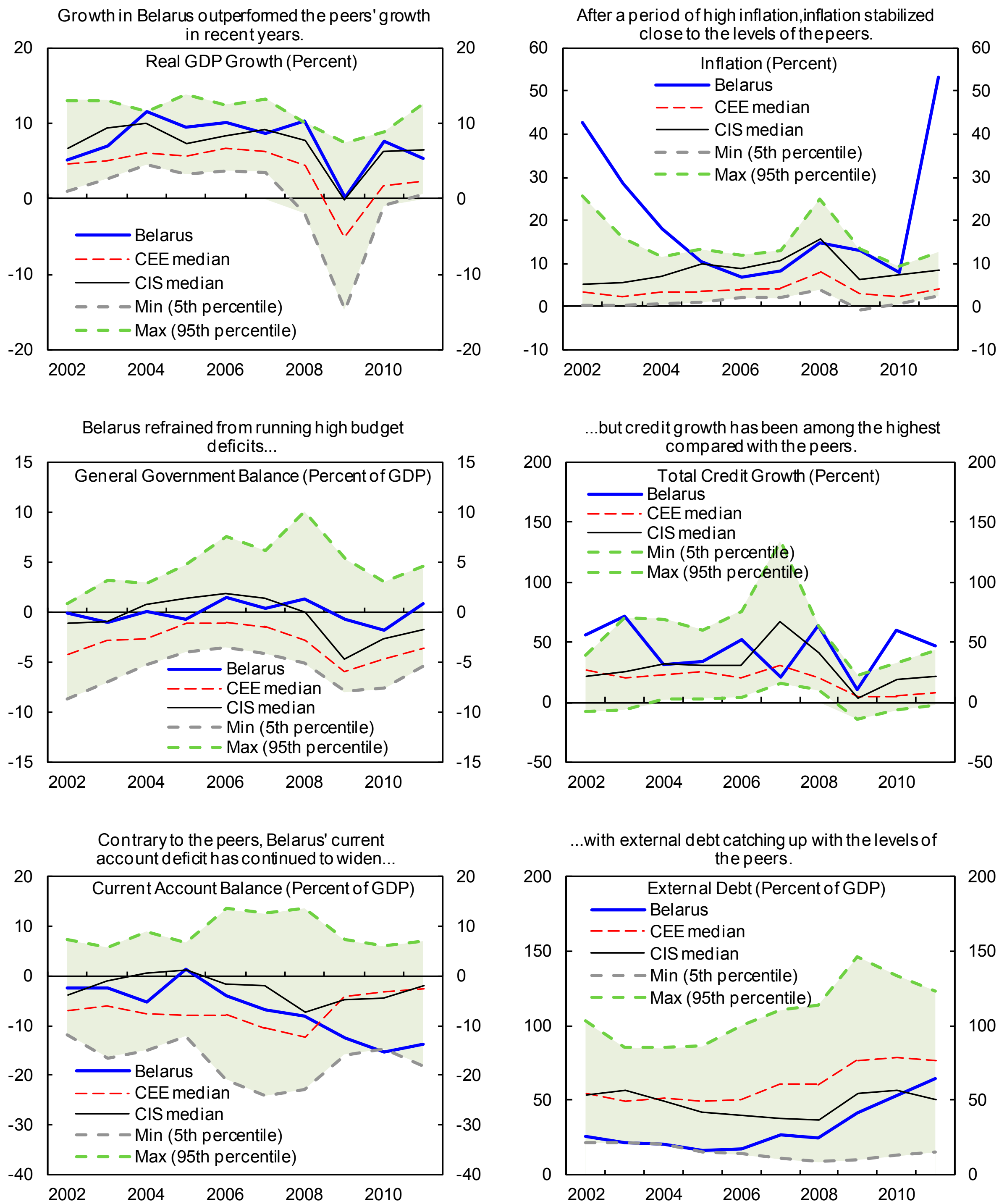
Sources: National Bank of the Republic of Belarus; Bloomberg; and IMF staff estimates and calculations.
1/ IMF staff estimates based on http://prokopovi.ch/random

Figure 4. Belarus: Monetary Developments, 2010–12



Sources: National Bank of the Republic of Belarus; and IMF staff estimates and calculations.
1/ December values show a large reduction on account of a transfer of claims on banks to the Development Bank.

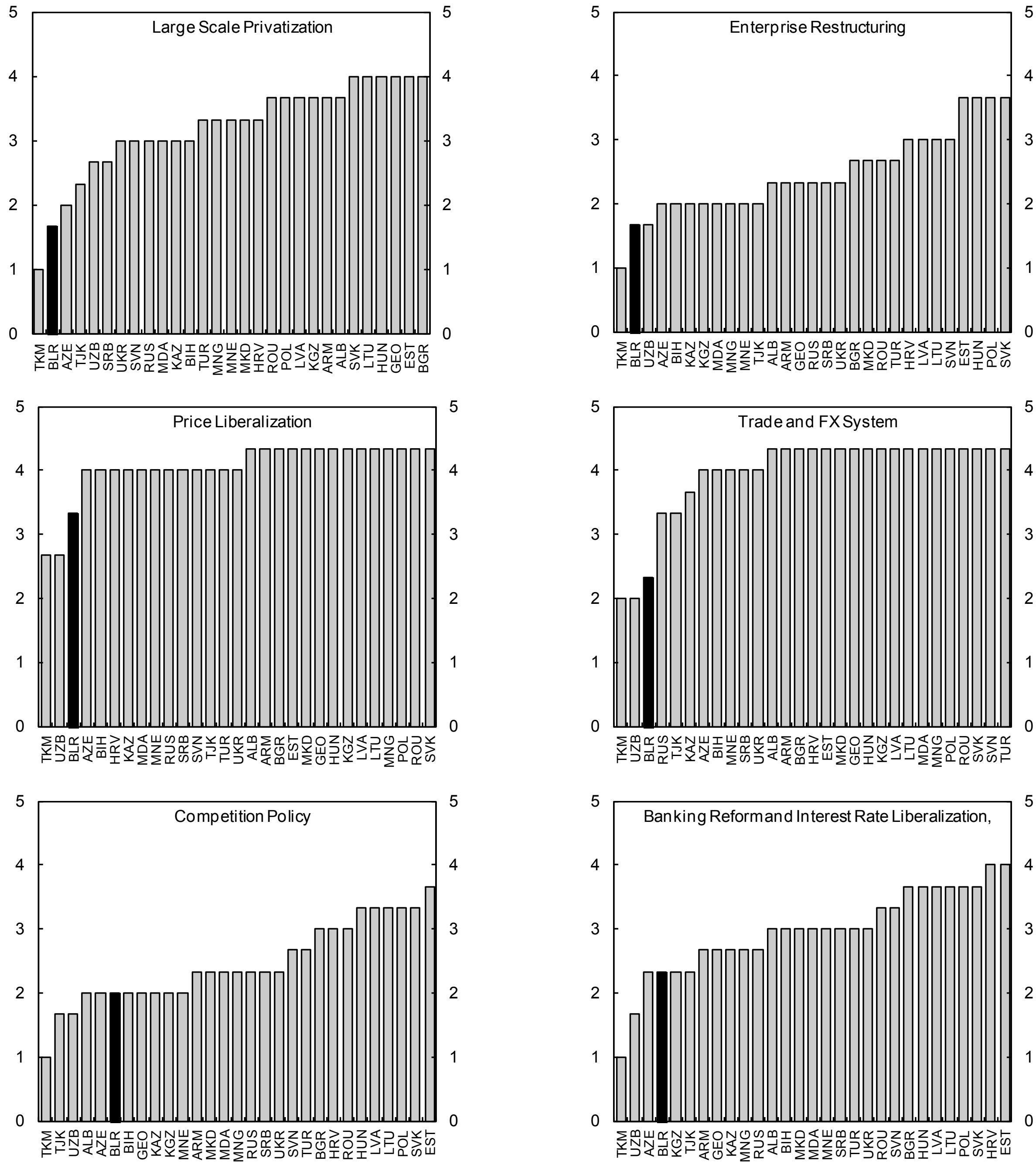
Figure 5. Belarus: Performance Among Peers, 2002–11 1/



Sources: IMF, *World Economic Outlook;* IMF, *International Financial Statistics;* and IMF staff calculations.

1/ CEE includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Rep., and Turkey. CIS includes Russia, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Rep., Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The 5th and 95th percentiles include the entire CEE and CIS samples excluding Belarus.

Figure 6. Belarus: EBRD Transition Indicators, 2010 1/



Sources: EBRD, *Transition Indicators*.
1/ Higher indicators corresponds to greater transition.

Table 1. Belarus: Selected Economic Indicators (Baseline Scenario), 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.			Proj.			
	(Annual percentage change, unless otherwise specified)									
National accounts										
Real GDP	10.2	0.2	7.7	5.3	3.0	3.4	4.4	4.8	4.9	5.0
Total domestic demand	17.8	-1.1	11.2	2.9	3.0	3.7	4.1	4.8	5.0	5.1
Consumption	12.5	0.0	7.4	2.9	3.9	3.9	4.0	4.8	5.2	5.3
Nongovernment	16.4	0.0	9.0	3.5	3.8	4.7	5.0	5.9	6.3	6.5
Government	0.3	-0.1	2.3	1.0	4.0	1.2	0.5	0.5	0.5	0.5
Investment	28.2	-2.9	18.4	3.0	1.6	3.3	4.3	4.6	4.6	4.6
Of which: fixed	23.8	5.0	17.5	11.1	1.5	3.2	4.2	4.5	4.5	4.5
Net exports 1/	-9.2	1.3	-3.7	3.8	-0.3	-0.7	-0.1	-0.4	-0.6	-0.6
Consumer prices										
End of period	13.3	10.1	9.9	108.7	38.4	27.5	20.0	13.0	8.0	6.0
Average	14.8	13.0	7.7	53.2	66.0	35.8	23.6	16.1	10.2	6.9
Monetary accounts										
Reserve money	11.7	-11.5	49.5	84.1	34.9	33.5	26.6	23.3	14.0	11.8
Rubel broad money	22.5	0.9	27.4	64.1	42.8	33.4	27.5	23.5	14.6	11.8
Growth of credit to the economy excluding valuation effect	53.6	30.8	38.8	37.0	42.7	30.7	21.9	18.2	10.8	9.3
	(Percent of GDP)									
External debt and balance of payments										
Current account balance	-8.2	-12.6	-15.0	-10.5	-6.2	-6.6	-6.4	-6.2	-6.0	-6.0
Trade balance	-10.3	-14.1	-16.4	-6.7	-1.9	-3.7	-4.2	-4.8	-5.4	-5.7
Exports of goods	54.0	43.4	46.0	75.1	79.6	78.4	77.6	75.9	74.6	73.6
Imports of goods	-64.3	-57.5	-62.4	-81.8	-81.5	-82.0	-81.8	-80.7	-80.0	-79.3
Gross external debt	25.0	45.6	51.1	61.4	60.4	59.5	57.3	56.6	56.3	55.7
Public 2/	6.8	18.9	21.6	27.8	25.1	24.5	21.9	20.9	20.7	20.2
Private (mostly state-owned-enterprises)	18.1	26.7	29.5	33.6	35.2	35.0	35.5	35.6	35.6	35.4
Savings and investment										
Gross domestic investment	37.6	37.3	41.2	36.3	34.9	35.1	35.0	34.8	34.5	34.2
Government	10.0	8.1	8.3	5.5	5.7	6.1	6.2	6.3	6.5	6.5
Nongovernment	27.6	29.2	32.9	30.8	29.3	29.0	28.8	28.5	28.0	27.7
National saving	29.4	24.7	26.2	25.8	28.7	28.5	28.6	28.6	28.5	28.2
Government 3/	6.5	7.4	4.0	2.5	3.3	3.4	2.9	2.7	2.8	2.7
Nongovernment 3/	23.0	17.3	22.2	23.3	25.4	25.2	25.7	25.9	25.6	25.5
Public sector finance										
General government balance	1.3	-0.7	-1.8	3.1	0.0	-0.4	-0.9	-1.3	-1.3	-1.5
Augmented general government balance	-3.5	-0.7	-4.3	-3.0	-2.3	-2.7	-3.3	-3.6	-3.6	-3.8
Revenue	50.6	45.7	41.6	42.0	39.2	39.2	38.9	38.5	38.4	38.1
Expenditure 4/	54.1	46.4	45.9	45.0	41.5	41.9	42.1	42.1	42.0	41.9
Of which:										
Wages	6.6	6.7	7.0	6.8	6.7	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	11.5	11.7	8.3	7.8	7.5	7.4	7.4	7.2	7.0	7.0
Investment	10.0	8.1	8.3	5.5	5.7	6.1	6.2	6.3	6.5	6.5
Gross public debt 5/	21.7	34.9	41.0	50.6	37.7	33.6	29.0	26.9	25.8	24.8
Memorandum items:										
Nominal GDP (billions of U.S. dollars)	60.8	49.2	55.2	55.1	…	…	…	…	…	…
Nominal GDP (trillions of rubels)	129.8	137.4	164.5	274.3	495.2	685.3	873.8	1,052.9	1,207.0	1,349.8
Terms of trade, percentage change	8.8	-10.3	0.5	5.9	7.1	-0.6	-0.9	-0.4	-0.3	0.2
REER (official exchange rate), percentage change	1.6	-4.5	-5.0	-11.7	-5.7	0.0	0.0	0.0	0.0	0.0
Official reserves (billions of U.S. dollars)	3.1	5.7	5.0	7.9	5.5	4.8	3.2	2.5	2.9	3.3
Months of imports of goods and services	1.2	1.8	1.2	1.9	1.2	1.0	0.6	0.5	0.5	0.5
Percent of short-term debt	40.4	63.2	42.0	56.9	38.9	32.4	20.8	15.7	17.5	19.0
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 include bank recapitalization and layouts related to public guaranteed debt in amount of 2.5 percent of GDP in 2010 and 6.1 percent of GDP in 2011.

4/ Refers to the augmented expenditure of the general government.

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

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.	Proj.					
	(Millions of U.S. dollars)									
Current account	-4,988	-6,178	-8,278	-5,775	-3,563	-4,042	-4,148	-4,249	-4,456	-4,739
Trade balance (goods)	-6,237	-6,957	-9,078	-3,716	-1,088	-2,248	-2,719	-3,311	-3,960	-4,520
Energy balance	-2,000	-3,378	-5,131	-4,551	-1,072	-1,809	-2,106	-2,642	-3,096	-3,489
Nonenergy balance	-4,237	-3,579	-3,946	834	-16	-439	-612	-669	-864	-1,031
Exports	32,805	21,361	25,405	41,410	45,653	48,027	50,279	52,382	55,014	58,289
Energy	11,866	7,844	6,851	14,078	16,692	15,835	15,473	14,550	13,902	13,477
Nonenergy	20,939	13,517	18,555	27,332	28,961	32,192	34,807	37,833	41,111	44,812
Imports	-39,042	-28,318	-34,483	-45,126	-46,741	-50,275	-52,998	-55,693	-58,974	-62,809
Energy	-13,865	-11,222	-11,982	-18,629	-17,764	-17,644	-17,579	-17,192	-16,998	-16,966
Nonenergy	-25,176	-17,096	-22,501	-26,497	-28,977	-32,631	-35,419	-38,502	-41,975	-45,843
Services	1,629	1,389	1,623	2,078	2,178	2,448	2,636	2,868	3,104	3,459
Receipts	4,258	3,504	4,501	5,261	5,697	6,410	6,933	7,538	8,193	9,014
Payments	-2,630	-2,116	-2,878	-3,183	-3,519	-3,963	-4,297	-4,669	-5,089	-5,555
Income, net	-551	-883	-1,163	-1,558	-2,055	-1,879	-1,770	-1,869	-1,866	-2,105
Transfers, net 1/	171	274	340	-2,579	-2,597	-2,363	-2,295	-1,938	-1,734	-1,573
Capital and financial accounts	4,287	5,066	6,444	4,771	1,671	4,109	3,939	3,642	4,867	5,105
Capital account	137	160	145	190	198	211	223	140	150	161
Financial account	4,150	4,906	6,299	4,581	1,473	3,897	3,716	3,502	4,717	4,944
Overall FDI, net	2,150	1,782	1,352	3,928	2,034	2,392	2,588	2,823	3,202	3,327
Portfolio investment, net	5	19	1,186	854	-234	0	0	0	0	0
Trade credits, net	289	657	568	561	-180	400	400	400	400	400
Loans, net	2,085	1,067	3,062	486	519	1,893	1,325	1,267	1,701	1,846
Government and monetary authorities, net	1,266	727	717	-327	572	1,489	619	467	810	862
Banks, net	603	21	2,181	70	-258	0	252	289	317	337
Other sectors, net	216	319	163	804	205	404	454	511	575	646
Other, net 2/	-380	1,381	131	-1,248	-666	-787	-597	-988	-587	-630
Errors and omissions	-301	319	558	1,555	0	0	0	0	0	0
Overall balance	-1,003	-793	-1,276	551	-1,892	66	-208	-607	411	366
Financing	1,003	793	1,276	-551	1,892	-66	208	607	-411	-366
Reserves ("-" denotes an increase)	879	-2,443	809	-2,791	2,396	721	1,575	691	-411	-366
Net use of Fund resources	0	2,838	665	0	-384	-1,667	-1,367	-84	0	0
Other donors and exceptional financing items	124	398	-198	2,240	-120	880	0	0	0	0
Memorandum items:										
Stock of reserves	3,061	5,653	5,031	7,916	5,520	4,799	3,224	2,533	2,944	3,309
Reserves (months of next year's imports of goods and services)	1.2	1.8	1.2	1.9	1.2	1.0	0.6	0.5	0.5	0.5
Reserves (percent of short-term debt)	40.4	63.2	42.0	56.9	38.9	32.4	20.8	15.7	17.5	19.0
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	1.6	-4.5	-5.0	-17.8	1.3	0.0	0.0	0.0	0.0	0.0
Export volume (annual percentage change)	1.5	-11.5	2.8	29.5	6.8	2.4	4.5	3.0	3.0	3.2
Import volume (annual percentage change)	14.3	-12.6	8.0	15.8	6.1	3.1	4.0	3.2	3.5	3.6
Domestic demand growth (annual percentage change)	17.8	-1.1	11.2	2.9	3.0	3.7	4.1	4.8	5.0	5.1
Partner country growth (percent) 3/										
Russia	5.2	-7.8	4.3	4.3	4.0	4.0	3.9	3.9	3.8	3.8

Sources: Belarus authorities; and IMF staff estimations.

1/ Values for 2011-17 include transfer of export duty on oil products to the Russian budget.
2/ Includes 2009 SDR allocation.
3/ Based on latest projection available.

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2008–17 1/ (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.	Proj.					
	(Percent of GDP)									
Current account	-8.2	-12.6	-15.0	-10.5	-6.2	-6.6	-6.4	-6.2	-6.0	-6.0
Trade balance (goods and services)	-7.6	-11.3	-13.5	-3.0	1.9	0.3	-0.1	-0.6	-1.2	-1.3
Trade balance (goods)	-10.3	-14.1	-16.4	-6.7	-1.9	-3.7	-4.2	-4.8	-5.4	-5.7
Of which: energy balance	-3.3	-6.9	-9.3	-8.3	-1.9	-3.0	-3.3	-3.8	-4.2	-4.4
Nonenergy balance	-7.0	-7.3	-7.1	1.5	0.0	-0.7	-0.9	-1.0	-1.2	-1.3
Exports	54.0	43.4	46.0	75.1	79.6	78.4	77.6	75.9	74.6	73.6
Of which : energy exports	19.5	15.9	12.4	25.5	29.1	25.8	23.9	21.1	18.9	17.0
Imports	-64.3	-57.5	-62.4	-81.8	-81.5	-82.0	-81.8	-80.7	-80.0	-79.3
Of which: energy imports	-22.8	-22.8	-21.7	-33.8	-31.0	-28.8	-27.1	-24.9	-23.1	-21.4
Services	2.7	2.8	2.9	3.8	3.8	4.0	4.1	4.2	4.2	4.4
Income, net	-0.9	-1.8	-2.1	-2.8	-3.6	-3.1	-2.7	-2.7	-2.5	-2.7
Transfers, net 1/	0.3	0.6	0.6	-4.7	-4.5	-3.9	-3.5	-2.8	-2.4	-2.0
Capital and financial accounts	7.1	10.3	11.7	8.7	2.9	6.7	6.1	5.3	6.6	6.4
Capital account	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Financial account	6.8	10.0	11.4	8.3	2.6	6.4	5.7	5.1	6.4	6.2
Overall FDI	3.5	3.6	2.4	7.1	3.5	3.9	4.0	4.1	4.3	4.2
Portfolio investment, net	0.0	0.0	2.1	1.5	-0.4	0.0	0.0	0.0	0.0	0.0
Trade credits, net	0.5	1.3	1.0	1.0	-0.3	0.7	0.6	0.6	0.5	0.5
Loans, net	3.4	2.2	5.5	0.9	0.9	3.1	2.0	1.8	2.3	2.3
Government and monetary authorities, net	2.1	1.5	1.3	-0.6	1.0	2.4	1.0	0.7	1.1	1.1
Banks, net	1.0	0.0	4.0	0.1	-0.5	0.0	0.4	0.4	0.4	0.4
Other sectors, net	0.4	0.6	0.3	1.5	0.4	0.7	0.7	0.7	0.8	0.8
Other (excluding arrears), net 2/	-0.6	2.8	0.2	-2.3	-1.2	-1.3	-0.9	-1.4	-0.8	-0.8
Errors and omissions	-0.5	0.6	1.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.7	-1.6	-2.3	1.0	-3.3	0.1	-0.3	-0.9	0.6	0.5
Financing	1.7	1.6	2.3	-1.0	3.3	-0.1	0.3	0.9	-0.6	-0.5
Reserves ("-" denotes an increase)	1.4	-5.0	1.5	-5.1	4.2	1.2	2.4	1.0	-0.6	-0.5
Net use of Fund resources	0.0	5.8	1.2	0.0	-0.7	-2.7	-2.1	-0.1	0.0	0.0
Other donors and exceptional financing items	0.2	0.8	-0.4	4.1	-0.2	1.4	0.0	0.0	0.0	0.0

Sources: Belarus authorities; and IMF staff estimations.

1/ Values for 2011-17 include transfer of export duty on oil products to the Russian budget.
2/ Includes 2009 SDR allocation.
3/ Based on latest projection available.

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2008–17

(Trillions of Belarusian rubels, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.	Proj.					
1.State (republican and local) budget										
Revenue	50.9	46.6	48.8	85.6	144.6	199.9	253.2	302.7	346.0	385.0
Personal income tax	4.2	4.3	5.4	9.3	16.4	22.7	28.9	34.8	39.9	44.6
Profit tax	6.0	4.6	5.6	8.7	13.7	18.9	24.1	29.0	33.3	37.2
VAT	11.4	12.1	16.2	26.5	45.1	62.4	79.5	95.8	109.8	122.8
Excises	3.9	3.6	4.4	5.6	10.1	14.0	17.8	21.5	24.6	27.6
Property tax	1.3	1.6	1.9	2.5	4.6	6.4	8.1	9.8	11.2	12.5
Customs duties	10.6	8.0	5.8	15.1	27.8	39.1	50.9	62.2	72.3	79.5
Other	7.8	7.7	6.7	12.7	20.4	28.1	33.7	38.1	42.3	47.6
Revenue of budgetary funds	5.7	4.7	2.9	5.1	6.6	8.5	10.2	11.5	12.4	13.1
Expenditure (economic classification) 1/	50.9	49.0	53.0	79.1	145.6	201.5	258.0	309.7	352.5	391.3
Wages and salaries	8.6	9.3	11.5	18.6	33.1	46.5	59.3	71.5	81.9	91.6
Social protection fund contributions	2.3	2.5	3.1	5.0	8.9	12.6	16.0	19.3	22.1	24.7
Goods and services	8.7	8.7	10.0	15.4	27.7	37.7	48.0	57.9	66.4	74.2
Interest	0.7	1.1	1.1	3.3	10.5	12.6	16.6	19.8	20.0	19.5
Subsidies and transfers	14.9	16.0	13.7	21.3	36.9	50.4	64.3	75.3	83.9	93.9
Capital expenditures	13.0	11.2	13.6	15.2	28.0	41.8	53.8	65.9	78.1	87.4
Net lending	2.6	0.4	-0.1	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification)	0.0	-2.4	-4.2	6.5	-1.0	-1.6	-4.8	-7.0	-6.5	-6.3
Bank restructuring measures	2.0	0.0	2.1	14.5	7.4	10.3	13.1	15.8	18.1	20.2
Net lending to financial institutions	4.3	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	2.1	2.2	4.0	5.6	7.1	8.6	9.8	11.0
Augmented balance	-6.3	-2.4	-8.4	-10.3	-12.4	-17.4	-25.0	-31.3	-34.4	-37.5
2. Social protection fund										
Revenue	14.7	16.1	19.7	29.6	49.6	68.5	86.4	103.1	117.0	129.4
Expenditure	13.0	14.7	18.4	27.5	48.7	69.8	89.9	109.3	126.5	142.9
Balance (cash)	1.7	1.4	1.3	2.1	0.9	-1.3	-3.4	-6.3	-9.6	-13.4
Balance of the general government	1.7	-1.0	-2.9	8.6	-0.1	-2.9	-8.3	-13.2	-16.1	-19.7
Augmented balance of the general government	-4.6	-1.0	-7.1	-8.2	-11.6	-18.7	-28.5	-37.6	-44.0	-50.9
Statistical discrepancy	0.0	-0.3	0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	4.6	1.3	6.7	8.6	11.6	18.7	28.5	37.6	44.0	50.9
Privatization	1.3	1.9	1.1	20.3	7.9	12.5	16.2	19.6	24.1	25.0
Foreign financing, net 2/	3.0	11.5	4.6	9.1	4.2	26.6	8.4	7.1	14.3	14.7
Domestic financing, net	0.3	-12.0	1.0	-20.8	-0.4	-20.4	3.9	10.8	5.7	11.2
Banking system	-1.6	-11.7	0.8	-27.1	-0.4	-20.4	3.9	10.8	5.7	11.2
Central bank	0.2	-11.7	1.0	-48.3	6.4	-32.1	9.7	4.5	18.8	9.6
Deposit money banks (including SPF)	-1.8	-2.2	-1.0	4.9	-15.2	-12.3	-12.7	-11.4	-10.9	-9.8
Revaluation effect	...	2.2	0.8	16.3	...	...	...	...	...	...
Nonbank	1.9	-0.3	0.2	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Fiscal deficit including lending under government programs	…	…	17.6	23.3	26.4	35.9	45.9	53.4	59.1	64.4
Of which: lending under government programs	…	…	10.6	15.2	14.9	17.1	17.5	15.8	15.1	13.5

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

1/ Includes changes in expenditure arrears.
2/ Includes unidentified financing that is assumed to be filled by government borrowing from abroad.
3/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2008–17 1/ (continued)

(Percent of annual GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.			Proj.			
1.State (republican and local) budget										
Revenue	39.3	33.9	29.6	31.2	29.2	29.2	29.0	28.8	28.7	28.5
Personal income tax	3.2	3.1	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Profit tax	4.6	3.4	3.4	3.2	2.8	2.8	2.8	2.8	2.8	2.8
VAT	8.8	8.8	9.9	9.7	9.1	9.1	9.1	9.1	9.1	9.1
Excises	3.0	2.6	2.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Property tax	1.0	1.2	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Customs duties	8.2	5.8	3.5	5.5	5.6	5.7	5.8	5.9	6.0	5.9
Other	6.0	5.6	4.0	4.6	4.1	4.1	3.9	3.6	3.5	3.5
Revenue of budgetary funds	4.4	3.4	1.8	1.9	1.3	1.2	1.2	1.1	1.0	1.0
Expenditure (economic classification) 1/	39.2	35.7	32.2	28.8	29.4	29.4	29.5	29.4	29.2	29.0
Wages and salaries	6.6	6.7	7.0	6.8	6.7	6.8	6.8	6.8	6.8	6.8
Social protection fund contributions	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Goods and services	6.7	6.3	6.1	5.6	5.6	5.5	5.5	5.5	5.5	5.5
Interest	0.6	0.8	0.7	1.2	2.1	1.8	1.9	1.9	1.7	1.4
Subsidies and transfers	11.5	11.7	8.3	7.8	7.5	7.4	7.4	7.2	7.0	7.0
Capital expenditures	10.0	8.1	8.3	5.5	5.7	6.1	6.2	6.3	6.5	6.5
Net lending	2.0	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification)	0.0	-1.8	-2.6	2.4	-0.2	-0.2	-0.6	-0.7	-0.5	-0.5
Bank restructuring measures	1.5	0.0	1.3	5.3	1.5	1.5	1.5	1.5	1.5	1.5
Net lending to financial institutions	3.3	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Augmented balance	-4.8	-1.8	-5.1	-3.7	-2.5	-2.5	-2.9	-3.0	-2.9	-2.8
2. Social Protection Fund										
Revenue	11.3	11.7	12.0	10.8	10.0	10.0	9.9	9.8	9.7	9.6
Expenditure	10.0	10.7	11.2	10.0	9.8	10.2	10.3	10.4	10.5	10.6
Balance (cash)	1.3	1.1	0.8	0.8	0.2	-0.2	-0.4	-0.6	-0.8	-1.0
Balance of the general government	1.3	-0.7	-1.8	3.1	0.0	-0.4	-0.9	-1.3	-1.3	-1.5
Augmented balance of the general government	-3.5	-0.7	-4.3	-3.0	-2.3	-2.7	-3.3	-3.6	-3.6	-3.8
Statistical discrepancy	0.0	-0.3	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	3.5	1.0	4.0	3.1	2.3	2.7	3.3	3.6	3.6	3.8
Privatization	1.0	1.4	0.6	7.4	1.6	1.8	1.9	1.9	2.0	1.9
Foreign financing, net 2/	2.3	8.4	2.8	3.3	0.8	3.9	1.0	0.7	1.2	1.1
Domestic financing, net	0.2	-8.8	0.6	-7.6	-0.1	-3.0	0.4	1.0	0.5	0.8
Banking system	-1.2	-8.5	0.5	-9.9	-0.1	-3.0	0.4	1.0	0.5	0.8
Central bank	0.1	-8.5	0.6	-17.6	1.3	-4.7	1.1	0.4	1.6	0.7
Deposit money banks (including SPF)	-1.3	-1.6	-0.6	1.8	-3.1	-1.8	-1.4	-1.1	-0.9	-0.7
Revaluation effect	…	1.6	0.5	6.0	…	…	…	…	…	…
Nonbank	1.5	-0.2	0.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Fiscal deficit including lending under government programs	…	…	10.7	8.5	5.3	5.2	5.3	5.1	4.9	4.8
Of which: lending under government programs	…	…	6.4	5.5	3.0	2.5	2.0	1.5	1.3	1.0
Gross public debt 3/	21.7	34.9	41.0	50.6	37.7	33.6	29.0	26.9	25.8	24.8
GDP (trillions of Belarusian rubels)	129.8	137.4	164.5	274.3	495.2	685.3	873.8	1,052.9	1,207.0	1,349.8

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

1/ Includes changes in expenditure arrears.
2/ Includes unidentified financing that is assumed to be filled by government borrowing from abroad.
3/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 3. Belarus: Fiscal Indicators and Projections (Baseline Scenario) in GFSM 2001 Format, 2008–17 1/ (concluded)

(Percent of annual GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Proj.					
Revenue	50.6	45.7	41.6	42.0	39.2	39.2	38.9	38.5	38.4	38.1
Taxes	33.2	28.3	25.6	26.6	25.1	25.1	25.1	25.1	25.2	25.0
Social contributions	11.3	11.7	12.0	10.8	10.0	10.0	9.9	9.8	9.7	9.6
Grants	…	…	…	…	…	…	…	…	…	…
Other revenue	6.0	5.6	4.0	4.6	4.1	4.1	3.9	3.6	3.5	3.5
Expenditure	48.8	46.1	44.7	44.0	40.7	41.1	41.3	41.3	41.2	41.1
Expense	41.0	40.3	39.5	39.9	36.4	36.5	36.7	36.6	36.3	36.2
Compensation of employees	8.5	8.5	8.9	8.6	8.5	8.6	8.6	8.6	8.6	8.6
Use of goods and services	6.7	6.3	6.1	5.6	5.6	5.5	5.5	5.5	5.5	5.5
Consumption of fixed capital	0.1	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	2.1	1.8	1.9	1.9	1.7	1.4
Subsidies	13.6	13.9	11.4	9.1	8.8	8.8	8.8	8.7	8.5	8.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	10.0	10.7	11.2	10.0	9.8	10.2	10.3	10.4	10.5	10.6
Other expense	1.5	0.0	1.3	5.3	1.5	1.5	1.5	1.5	1.5	1.5
Net acquisition of nonfinancial assets	7.8	5.8	5.2	4.1	4.2	4.6	4.6	4.7	4.8	4.8
Acquisitions of nonfinancial assets	7.8	5.8	5.2	4.1	4.2	4.6	4.6	4.7	4.8	4.8
Disposals of nonfinancial assets	…	…	…	…	…	…	…	…	…	…
Consumption of fixed capital	…	…	…	…	…	…	…	…	…	…
Gross operating balance	9.6	5.3	2.1	2.1	2.8	2.6	2.2	1.9	2.0	1.9
Net lending (+) / borrowing (–)	1.8	-0.4	-3.1	-2.0	-1.4	-1.9	-2.4	-2.8	-2.8	-3.0
Net acquisition of financial assets	…	6.0	1.5	6.4	-0.6	2.0	-1.5	-2.1	-1.7	-1.9
Domestic	5.3	7.4	2.1	13.8	1.0	3.8	0.4	-0.2	0.3	0.0
Currency and deposits	…	7.1	0.9	12.8	0.1	3.0	-0.4	-1.0	-0.5	-0.8
Debt securities	…	…	…	…	…	…	…	…	…	…
Loans	5.3	0.3	1.2	1.0	0.9	0.8	0.8	0.8	0.8	0.8
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	-7.4	-1.6	-1.8	-1.9	-1.9	-2.0	-1.9
Monetary gold and SDRs	…	…	…	…	…	…	…	…	…	…
Currency and deposits	…	…	…	…	…	…	…	…	…	…
Debt securities	…	…	…	…	…	…	…	…	…	…
Loans	…	…	…	…	…	…	…	…	…	…
Equity and investment fund shares	-1.0	-1.4	-0.6	-7.4	-1.6	-1.8	-1.9	-1.9	-2.0	-1.9
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…	…
Net incurrence of liabilities	…	1.0	3.5	11.2	0.8	3.9	1.0	0.7	1.2	1.1
Domestic	0.0	-1.7	1.5	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	…	…	…	…	…	…	…	…	…	…
Debt securities	…	-1.7	1.5	5.2	0.0	0.0	0.0	0.0	0.0	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	6.0	0.8	3.9	1.0	0.7	1.2	1.1
SDRs	…	…	…	…	…	…	…	…	…	…
Currency and deposits	…	…	…	…	…	…	…	…	…	…
Debt securities	…	0.0	2.2	1.5	-0.4	0.0	0.0	0.0	0.0	0.0
Loans	2.3	2.7	-0.3	4.6	1.2	3.9	1.0	0.7	1.2	1.1
Equity and investment fund shares	…	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…	…
Other accounts payable	…	…	…	…	…	…	…	…	…	…
Statistical Discrepacy	0.0	-5.4	-1.1	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
General government balance	1.3	-0.7	-1.8	3.1	0.0	-0.4	-0.9	-1.3	-1.3	-1.5
Augmented general government balance	-3.5	-0.7	-4.3	-3.0	-2.3	-2.7	-3.3	-3.6	-3.6	-3.8
Domestic liabilities of the general government	14.9	16.0	19.4	22.7	12.6	9.1	7.1	5.9	5.2	4.6
Foreign liabilities of the general government	5.9	10.0	10.9	15.1	15.4	18.3	18.2	17.8	17.8	17.7

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

1/ Includes changes in expenditure arrears.
2/ Includes unidentified financing that is assumed to be filled by government borrowing from abroad.
3/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 4. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2008–17 1/

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

	2008	2009	2010	2011	2012		2013	2014	2015	2016	2017
					Feb.	Dec.					
				Prel.	Prel.	Proj.	Proj.				
Reserve money	7.7	6.8	10.2	18.8	20.9	25.3	33.8	42.8	52.7	60.1	67.1
Rubel reserve money	7.3	6.6	10.2	16.9	20.7	24.1	32.2	41.0	50.7	58.1	65.0
Currency outside banks	3.8	3.6	4.5	6.7	6.9	9.1	12.1	15.5	19.1	21.9	24.5
Required reserves	2.2	1.7	4.0	7.4	11.0	11.0	16.3	20.8	27.7	31.7	37.4
Time deposits, NBB securities, and nonbank deposits	1.2	1.3	1.7	2.8	2.7	4.0	3.7	4.8	3.9	4.5	3.1
Foreign currency reserve money	0.4	0.2	0.0	1.9	0.2	1.2	1.6	1.7	2.0	2.0	2.2
Net foreign assets	7.0	14.0	10.7	65.7	71.4	56.0	88.5	92.4	99.2	105.0	122.1
Billions of U.S. dollars	3.2	4.9	3.6	7.9	8.8	5.9	6.8	6.6	6.0	6.5	6.8
Net foreign assets (convertible)	5.8	15.0	9.5	52.9	52.6	41.4	68.6	71.0	73.8	80.1	94.7
Billions of U.S. dollars	2.6	5.2	3.2	6.3	6.5	4.3	5.3	5.1	4.5	4.9	5.3
Foreign assets	8.0	15.3	16.3	78.9	83.5	67.3	82.3	66.5	67.2	72.6	86.5
Billions of U.S. dollars	3.6	5.3	5.4	9.4	10.3	7.1	6.3	4.8	4.1	4.5	4.8
Of which gross international reserves	6.7	16.2	15.1	66.1	64.7	52.7	62.4	45.1	41.9	47.8	59.1
Billions of U.S. dollars	3.1	5.7	5.0	7.9	8.0	5.5	4.8	3.2	2.5	2.9	3.3
Foreign liabilities	1.0	1.2	5.6	13.2	12.1	11.3	-6.3	-25.9	-32.0	-32.4	-35.6
Billions of U.S. dollars	0.4	0.4	1.9	1.6	1.5	1.2	-0.5	-1.8	-1.9	-2.0	-2.0
Of which: use of IMF credit (billions of U.S. dollars)	0.0	2.9	3.5	3.5	3.5	3.1	1.5	0.1	0.0	0.0	0.0
Net domestic assets	0.7	-7.2	-0.5	-47.0	-50.5	-30.7	-54.8	-49.6	-46.5	-44.9	-54.9
Net domestic credit	1.2	-4.7	16.8	-29.5	-27.8	-9.2	-9.4	16.1	27.7	25.3	16.9
Net credit to general government	-4.0	-15.5	-14.6	-62.9	-61.1	-56.5	-88.6	-78.9	-74.5	-55.7	-46.1
Net credit to local government and state enterprises	0.0	0.0	1.1	1.0	0.6	1.0	1.0	1.0	1.0	1.0	1.0
Net credit to central government	-4.0	-15.5	-15.7	-64.0	-61.7	-57.6	-89.7	-80.0	-75.5	-56.8	-47.2
Claims on government (loans and government securities)	1.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Deposits of central government	5.7	16.6	16.7	64.9	62.7	58.6	90.7	81.0	76.5	57.8	48.2
Credit to economy	5.2	10.9	31.3	33.4	33.3	47.3	79.2	95.0	102.2	81.0	63.0
Credit to banks	3.4	8.6	28.0	19.1	18.7	33.0	65.7	82.2	90.0	69.4	52.0
National currency	3.1	8.2	26.0	13.5	13.3	26.6	57.0	72.8	78.9	58.6	52.0
Foreign currencies	0.3	0.4	1.9	5.6	5.4	6.4	8.7	9.4	11.1	10.9	0.0
Billions of U.S. dollars	0.1	0.1	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.0
Credit to nonbanks	1.8	2.3	3.4	14.2	14.6	14.2	13.5	12.9	12.2	11.6	11.0
Claims on private sector	1.8	2.2	3.0	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2
Credit to nonfinancial public enterprises	0.0	0.0	0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Credit to other financial institutions	0.0	0.1	0.1	13.9	14.2	13.9	13.2	12.5	11.9	11.3	10.7
Other items, net	-0.6	-2.6	-17.2	-17.4	-22.7	-21.5	-45.4	-65.7	-74.2	-70.2	-71.8
of which banks' FX deposits excluded from monetary base	…	-0.1	-12.1	-33.1	-32.9	-37.9	-50.4	-52.5	-59.3	-54.8	-55.9
Memorandum items:											
12-month percent change in reserve money	11.7	-11.5	49.5	84.1	114.8	34.9	33.5	26.6	23.3	14.0	11.8
Velocity of rubel money (average)	7.0	7.7	7.1	8.2	8.7	8.9	9.2	9.3	9.0	8.7	8.6
Velocity of broad money (including foreign exchange part) at current exchange rate (average)	4.7	4.1	3.9	3.7	3.8	3.5	3.4	3.3	3.0	2.8	2.7
Ruble broad money multiplier	2.8	3.1	2.6	2.6	2.2	2.6	2.6	2.6	2.6	2.6	2.6
Currency-to-deposit ratio	0.23	0.21	0.20	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18
Real GDP growth (annual)	10.2	0.2	7.7	5.3	…	3.0	3.4	4.4	4.8	4.9	5.0
End-of-period CPI inflation (year-on-year percent change)	13.3	10.1	9.9	108.7	107.3	38.4	27.5	20.0	13.0	8.0	6.0

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 the purpose of absorbing liquidity from the monetary base and (ii) re-classifying the Deposit Insurance Agency from general government to non-bank financial instututions.

Table 5. Belarus: Monetary Survey (Baseline Scenario), 2008–17

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

	2008	2009	2010	2011	2012		2013	2014	2015	2016	2017
					Feb.	Dec.					
				Prel.	Prel.	Proj.			Proj.		
Broad money (M3)	31.0	38.1	50.3	111.2	114.9	159.3	235.1	299.7	399.4	457.8	539.3
Rubel broad money (M2)	20.5	20.7	26.4	43.4	45.9	61.9	82.6	105.3	130.0	149.0	166.6
Currency in circulation	3.8	3.6	4.5	6.7	6.9	9.1	12.1	15.5	19.1	21.9	24.5
Domestic currency deposits	16.0	16.5	20.9	34.5	36.2	49.7	66.3	84.5	104.3	119.6	133.7
Domestic currency securities	0.7	0.5	1.0	2.2	2.8	3.1	4.2	5.3	6.6	7.5	8.4
Foreign currency deposits	10.2	16.2	22.1	64.1	65.1	92.1	144.2	183.9	254.7	292.0	352.4
Bank securities in foreign currency	0.2	1.1	1.7	3.7	3.9	5.3	8.3	10.6	14.7	16.8	20.3
Memo: Total deposits at constant exchange rate	54.7	63.9	82.5	98.6	103.6	130.2	158.9	194.2	233.0	269.9	298.5
Net foreign assets	3.1	8.0	-2.1	34.8	40.7	24.7	49.7	55.4	67.0	77.7	97.3
Billions of U.S. dollars	1.4	2.8	-0.7	4.2	5.0	2.6	3.8	4.0	4.1	4.8	5.5
NFA of central bank	7.0	14.0	10.7	65.7	71.4	56.0	88.5	92.4	99.2	105.0	122.1
NFA of deposit money banks	-3.9	-6.0	-12.7	-30.9	-30.7	-31.3	-38.9	-37.0	-32.2	-27.2	-24.7
Net domestic assets	27.9	30.1	52.3	76.4	74.2	134.6	185.4	244.3	332.4	380.1	442.0
Net domestic credit	39.2	45.1	72.6	104.6	107.9	177.9	249.3	341.0	458.4	524.1	616.1
Net credit to general government	-9.8	-23.6	-23.7	-67.1	-66.8	-75.9	-120.2	-123.2	-130.2	-122.3	-122.6
Net credit to central government	-7.2	-22.6	-24.4	-66.2	-65.3	-75.0	-119.4	-122.4	-129.3	-121.5	-121.7
Claims on central government	7.0	3.7	3.4	10.9	11.1	10.9	10.9	10.9	10.9	10.9	10.9
Deposits of the central government	14.3	26.3	27.8	77.1	76.5	85.9	130.3	133.3	140.2	132.4	132.6
Net credit to state and local governments	-2.6	-1.0	0.8	-0.9	-1.4	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Credit to economy	48.9	68.7	96.2	171.7	174.6	253.8	369.5	464.2	588.5	646.4	738.7
Credit to public nonfinancial corporations	11.4	17.0	21.8	39.8	64.9	94.0	139.7	177.1	226.1	249.1	285.5
Claims on private sector	37.2	50.8	72.6	114.8	92.4	141.1	209.5	265.6	339.0	373.3	427.9
Claims on other financial corporations	0.4	0.9	1.8	17.0	17.4	18.7	20.3	21.6	23.5	24.0	25.3
Other items, net	-11.3	-15.0	-20.2	-28.2	-33.7	-43.3	-63.9	-96.7	-125.9	-144.0	-174.2
Capital	-13.0	-16.2	-21.7	-11.5	-20.7	-18.9	-29.7	-44.9	-75.0	-93.6	-126.0
Other net assets	1.7	1.2	1.5	-16.7	-12.9	-24.4	-34.2	-51.7	-50.9	-50.4	-48.1
Memorandum items:											
12-month percent change in broad money excluding valuation effect	25.4	10.1	29.0	34.8	36.9	32.2	22.2	21.6	19.4	16.1	10.3
12-month percent change of credit to economy excluding valuation effect	53.6	30.8	38.8	37.0	30.8	42.7	30.7	21.9	18.2	10.8	9.3
12-month percent change of LGP excluding valuation effect	…	…	30.1	36.9	…	22.2	20.4	16.2	12.4	10.2	8.3
12-month percent change of non-LGP credit excluding valuation effect	…	…	46.2	37.1	…	55.8	35.8	24.2	20.4	10.9	9.6
12-month percent change of real credit to economy excluding valuation effect, end of period	35.6	18.8	26.2	-34.3	-36.9	3.0	2.5	1.6	4.6	2.5	3.1
Deposits of the central and local governments in commercial banks at constant exchange rate	17.8	16.3	18.2	18.4	20.3	33.3	44.7	57.1	67.8	78.8	88.2
Stock of loans under government programs at constant exchange rate	…	41.3	51.8	67.0	…	81.9	99.0	116.5	132.3	147.3	160.8
Dollarization ratio at constant exchange rate	70.8	74.1	74.7	65.1	65.1	61.8	58.3	56.5	55.2	55.7	55.2
Dollarization ratio at current exchange rates	38.9	49.5	51.4	65.1	64.3	65.0	68.5	68.5	70.9	70.9	72.5

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Selected Economic Indicators (Adjustment Scenario), 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.			Proj.			
				(Annual percentage change, unless otherwise specified)						
National accounts										
Real GDP	10.2	0.2	7.7	5.3	2.0	2.9	4.9	5.3	5.7	6.0
Total domestic demand	17.8	-1.1	11.2	2.9	0.2	3.0	4.5	5.3	5.7	6.0
Consumption	12.5	0.0	7.4	2.9	1.2	2.9	4.4	5.5	5.7	5.9
Nongovernment	16.4	0.0	9.0	3.5	1.3	3.5	5.4	6.7	6.9	7.1
Government	0.3	-0.1	2.3	1.0	1.0	1.0	0.5	0.5	0.5	0.5
Investment	28.2	-2.9	18.4	3.0	-1.6	3.1	4.6	5.2	5.7	6.2
Of which: fixed	23.8	5.0	17.5	11.1	-1.5	3.0	4.5	5.0	5.5	6.0
Net exports 1/	-9.2	1.3	-3.7	3.8	1.8	-0.3	0.0	-0.5	-0.4	-0.5
Consumer prices										
End of period	13.3	10.1	9.9	108.7	19.1	11.3	7.5	6.0	5.8	5.5
Average	14.8	13.0	7.7	53.2	55.7	15.8	9.3	6.7	5.9	5.6
Monetary accounts										
Reserve money	11.7	-11.5	49.5	84.1	14.9	16.1	14.2	12.3	11.8	11.6
Rubel broad money	22.5	0.9	27.4	64.1	26.4	16.1	14.3	12.4	11.9	11.6
Growth of credit to the economy excluding valuation effect	53.6	30.8	38.8	37.0	19.9	12.9	9.2	7.0	7.5	6.1
				(Percent of GDP)						
External debt and balance of payments										
Current account balance	-8.2	-12.6	-15.0	-10.5	-3.6	-3.6	-3.4	-3.4	-3.2	-2.9
Trade balance	-10.3	-14.1	-16.4	-6.7	0.6	-0.8	-1.2	-1.9	-2.4	-2.6
Exports of goods	54.0	43.4	46.0	75.1	82.9	82.0	81.2	79.4	78.0	76.7
Imports of goods	-64.3	-57.5	-62.4	-81.8	-82.3	-82.8	-82.4	-81.3	-80.4	-79.3
Gross external debt	25.0	45.6	51.1	61.4	62.3	61.8	61.3	60.8	60.2	58.4
Public 2/	6.8	18.9	21.6	27.8	26.2	25.8	24.0	23.1	22.8	22.2
Private (mostly state-owned-enterprises)	18.1	26.7	29.5	33.6	36.1	35.9	37.3	37.7	37.4	36.2
Savings and investment										
Gross domestic investment	37.6	37.3	41.2	36.3	33.8	34.0	33.8	33.7	33.5	33.4
Government	10.0	8.1	8.3	5.5	5.7	6.2	6.2	6.3	6.4	6.5
Nongovernment	27.6	29.2	32.9	30.8	28.1	27.9	27.6	27.4	27.1	26.9
National saving	29.4	24.7	26.2	25.8	30.2	30.4	30.4	30.3	30.3	30.4
Government 3/	6.5	7.4	4.0	2.5	3.6	3.5	3.1	2.9	3.0	2.9
Nongovernment 3/	23.0	17.3	22.2	23.3	26.6	27.0	27.3	27.4	27.4	27.5
Public sector finance										
General government balance	1.3	-0.7	-1.8	3.1	0.0	-0.6	-1.0	-1.3	-1.3	-1.5
Augmented general government balance	-3.5	-0.7	-4.3	-3.0	-2.1	-2.7	-3.1	-3.4	-3.4	-3.6
Revenue	50.6	45.7	41.6	42.0	38.6	39.2	39.0	38.7	38.4	38.2
Expenditure 4/	54.1	46.4	45.9	45.0	40.7	41.9	42.1	42.1	41.9	41.7
Of which:										
Wages	6.6	6.7	7.0	6.8	6.5	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	11.5	11.7	8.3	7.8	7.1	7.4	7.4	7.2	7.0	6.9
Investment	10.0	8.1	8.3	5.5	5.7	6.2	6.2	6.3	6.4	6.5
Gross public debt 5/	21.7	34.9	41.0	50.6	39.6	37.2	34.1	32.2	31.0	29.5
Memorandum items:										
Nominal GDP (billions of U.S. dollars)	60.8	49.2	55.2	55.1	…	…	…	…	…	…
Nominal GDP (trillions of rubels)	129.8	137.4	164.5	274.3	465.7	547.1	618.3	686.7	761.2	849.6
Terms of trade, percentage change	8.8	-10.3	0.5	5.9	7.2	-0.6	-0.9	-0.4	-0.3	0.2
REER (official exchange rate), percentage change	1.6	-4.5	-5.0	-11.7	-9.1	0.0	0.0	0.0	0.0	0.0
Official reserves (billions of U.S. dollars)	3.1	5.7	5.0	7.9	8.0	10.0	12.0	14.0	17.0	20.0
Months of imports of goods and services	1.2	1.8	1.2	1.9	1.8	2.1	2.4	2.7	3.0	3.3
Percent of short-term debt	40.4	63.2	42.0	56.9	57.4	69.3	80.0	88.8	102.5	114.8
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 include bank recapitalization and layouts related to public guaranteed debt in amount of 2.5 percent of GDP in 2010 and 6.1 percent of GDP in 2011.

4/ Refers to the augmented expenditure of the general government.

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

Table 7. Belarus: Indicators of External Vulnerability, 2007–11

	2007	2008	2009	2010	2011
CPI inflation (end year)	12.1	13.3	10.1	9.9	108.7
Export volume of goods (percent change)	5.2	1.5	-11.5	2.8	29.5
Import volume of goods (percent change)	7.2	14.3	-12.6	8.0	15.8
Current account balance (percent of GDP)	-6.7	-8.2	-12.6	-15.0	-10.5
Capital and financial account balance (millions of U.S. dollars)	5,353	4,287	5,066	6,444	4,771
Of which					
Foreign direct investment, net	1,790	2,150	1,782	1,352	3,928
Trade credits, net	690	289	657	568	561
Official Liabilities, net	2,010	1,241	4,739	1,975	2,185
Liabilties of the banking sector, net	1,075	531	483	2,296	474
Non-bank private liabilities (excl. trade credits) 1/	860	315	349	39	839
Gross official reserves (millions of U.S. dollars)	4,182	3,061	5,653	5,031	7,916
Months of imports of goods and nonfactor services	1.2	1.2	1.8	1.2	1.9
Percent of broad money	19.2	11.2	22.7	16.3	59.4
Gross total external debt (millions U.S. dollars)	11,995	15,168	22,439	28,202	33,881
Percent of GDP	26.5	25.0	45.6	51.1	61.4
Percent of exports of goods and nonfactor services	43.4	40.9	90.2	94.3	72.6
Gross short-term external debt (millions of U.S. dollars)	7,365	7,571	9,342	12,170	14,113
Percent of gross total external debt	61	50	42	43	42
Percent of gross official reserves	176	247	165	242	178
Debt service ratio (percent) 2/	3.1	4.1	5.9	6.0	5.7
REER appreciation (CPI based, period average)	-3.9	1.6	-4.5	-5.0	-17.8
Capital adequacy ratio (percent) 3/	19.3	21.8	19.8	20.5	24.7
Nonperforming loans (percent of total)	0.7	1.7	4.2	3.5	4.2
Banks' net open FX position (percent of regulatory capital) 4/	-3.0	8.5	-11.6	-1.4	2.2
Real broad money at constant exchange rates (percent change) 5/	29.5	13.3	7.9	18.2	-42.6
Real credit to economy at constant exchange rate (percent change) 5/	37.0	22.7	6.8	12.6	-38.1

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/ 2011 column shows the value as of September 2011.
5/ Deflated by the CPI.

Table 8. Belarus: Capacity to Repay the Fund (Baseline Scenario), 2009–17 1/

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fund repurchases and charges									
Millions of SDRs	8	43	55	295	1,113	893	55	0	0
Millions of U.S. dollars	13	67	85	456	1,718	1,378	85	0	0
Percent of exports of goods and nonfactor services	0.1	0.2	0.2	0.9	3.2	2.4	0.1	0.0	0.0
Percent of total debt service 2/	0.9	3.6	3.2	8.5	30.5	25.9	1.6	0.0	0.0
Percent of quota	2.1	11.2	14.1	76.4	288.1	231.1	14.3	0.0	0.0
Percent of gross international reserves	0.2	1.3	1.1	8.3	35.8	42.7	3.4	0.0	0.0
Fund credit outstanding									
Millions of SDRs	1,832	2,270	2,270	2,021	941	55	0	0	0
Millions of U.S. dollars	2,898	3,485	3,509	3,119	1,452	84	0	0	0
Percent of exports of goods and nonfactor services	11.7	11.7	7.5	6.1	2.7	0.1	0.0	0.0	0.0
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2	0.0	0.0	0.0
Percent of gross international reserves	51.3	69.3	44.3	56.5	30.2	2.6	0.0	0.0	0.0
Memorandum items:									
Exports of goods and nonfactor services (millions of U.S. dollars)	24,865	29,906	46,670	51,350	54,437	57,212	59,920	63,207	67,303
Debt service (millions of U.S. dollars)	1,479	1,848	2,658	5,386	5,629	5,319	5,435	4,562	5,202
Quota (millions of SDRs)	386	386	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	611	593	597	596	596	596	596	595	594
Gross international reserves (millions of U.S. dollars)	5,653	5,031	7,916	5,520	4,799	3,224	2,533	2,944	3,309
Financing gap (millions of U.S. dollars)	0	0	0	0	0	0	0	0	0
U.S. dollars per SDR (period average)	1.543	1.526	1.579	1.543	1.544	1.543	1.542	1.541	1.539
U.S. dollars per SDR (eop)	1.582	1.536	1.546	1.543	1.543	1.543	1.542	1.540	1.538

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, 2007–17

(Percent of GDP, unless otherwise indicated)

	Actual					Projections 1/						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Debt-stabilizing noninterest current account 7/
Baseline: external debt	26.5	25.0	45.6	51.1	61.4	60.4	59.5	57.3	56.6	56.3	55.7	-6.2
Change in external debt	9.0	-1.5	20.6	5.5	10.4	-1.1	-0.9	-2.2	-0.7	-0.3	-0.6	
Identified external debt-creating flows (4+8+9)	-0.1	-1.8	14.9	7.7	3.8	1.1	0.9	0.0	-0.4	-0.8	-0.7	
Current account deficit, excluding interest payments	6.1	7.4	11.5	13.9	8.7	3.1	4.2	4.4	4.2	4.4	4.2	
Deficit in balance of goods and services	6.2	7.6	11.3	13.5	3.0	-1.9	-0.3	0.1	0.6	1.2	1.3	
Exports	61.0	61.0	50.5	54.2	84.6	89.5	88.8	88.3	86.9	85.8	85.0	
Imports	67.2	68.6	61.8	67.7	87.6	87.6	88.5	88.5	87.5	86.9	86.3	
Net non-debt creating capital inflows (negative)	-3.6	-3.3	-3.5	-2.3	-6.7	-3.4	-3.8	-3.9	-4.0	-4.2	-4.1	
Automatic debt dynamics 2/	-2.6	-5.9	6.9	-3.8	1.9	1.3	0.5	-0.5	-0.7	-0.9	-0.8	
Contribution from nominal interest rate	0.6	0.8	1.0	1.1	1.8	3.1	2.4	2.0	1.9	1.7	1.8	
Contribution from real GDP growth	-1.2	-2.0	-0.1	-3.1	-2.7	-1.8	-1.9	-2.5	-2.6	-2.6	-2.6	
Contribution from price and exchange rate changes 3/	-2.0	-4.7	5.9	-1.8	2.8	…	…	…	…	…	…	
Residual, incl. change in gross foreign assets (2-3) 4/	9.1	0.3	5.7	-2.2	6.6	-2.1	-1.8	-2.2	-0.3	0.5	0.1	
External debt-to-exports ratio (percent)	43.4	40.9	90.2	94.3	72.6	67.4	67.0	64.9	65.2	65.6	65.5	
Gross external financing need (billions of U.S. dollars) 5/	8.0	13.4	14.7	18.8	19.6	21.3	22.6	23.2	24.0	24.1	25.2	
Percent of GDP	17.7	22.0	29.9	34.0	35.6	37.1	36.8	35.8	34.9	32.7	31.8	
Scenario with key variables at their historical averages 6/						60.4	56.6	51.9	49.4	47.8	46.2	-8.1
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	8.6	10.2	0.2	7.7	5.3	3.0	3.4	4.4	4.8	4.9	5.0	
GDP deflator in U.S. dollars (percent change)	12.7	21.7	-19.1	4.2	-5.2	1.0	3.3	1.2	1.6	1.8	2.4	
Nominal external interest rate (percent)	4.0	4.3	3.3	2.8	3.5	5.2	4.3	3.5	3.5	3.2	3.4	
Growth of exports (U.S. dollar terms, percent)	24.2	34.2	-32.9	20.3	56.1	10.0	6.0	5.1	4.7	5.5	6.5	
Growth of imports (U.S. dollar terms, percent)	28.0	37.0	-27.0	22.8	29.3	4.0	7.9	5.6	5.4	6.1	6.7	
Current account balance, excluding interest payments	-6.1	-7.4	-11.5	-13.9	-8.7	-3.1	-4.2	-4.4	-4.2	-4.4	-4.2	
Net nondebt creating capital inflows	3.6	3.3	3.5	2.3	6.7	3.4	3.8	3.9	4.0	4.2	4.1	

1/ Projections are shown at the official exchange rate.

2/ 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.

3/ 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).

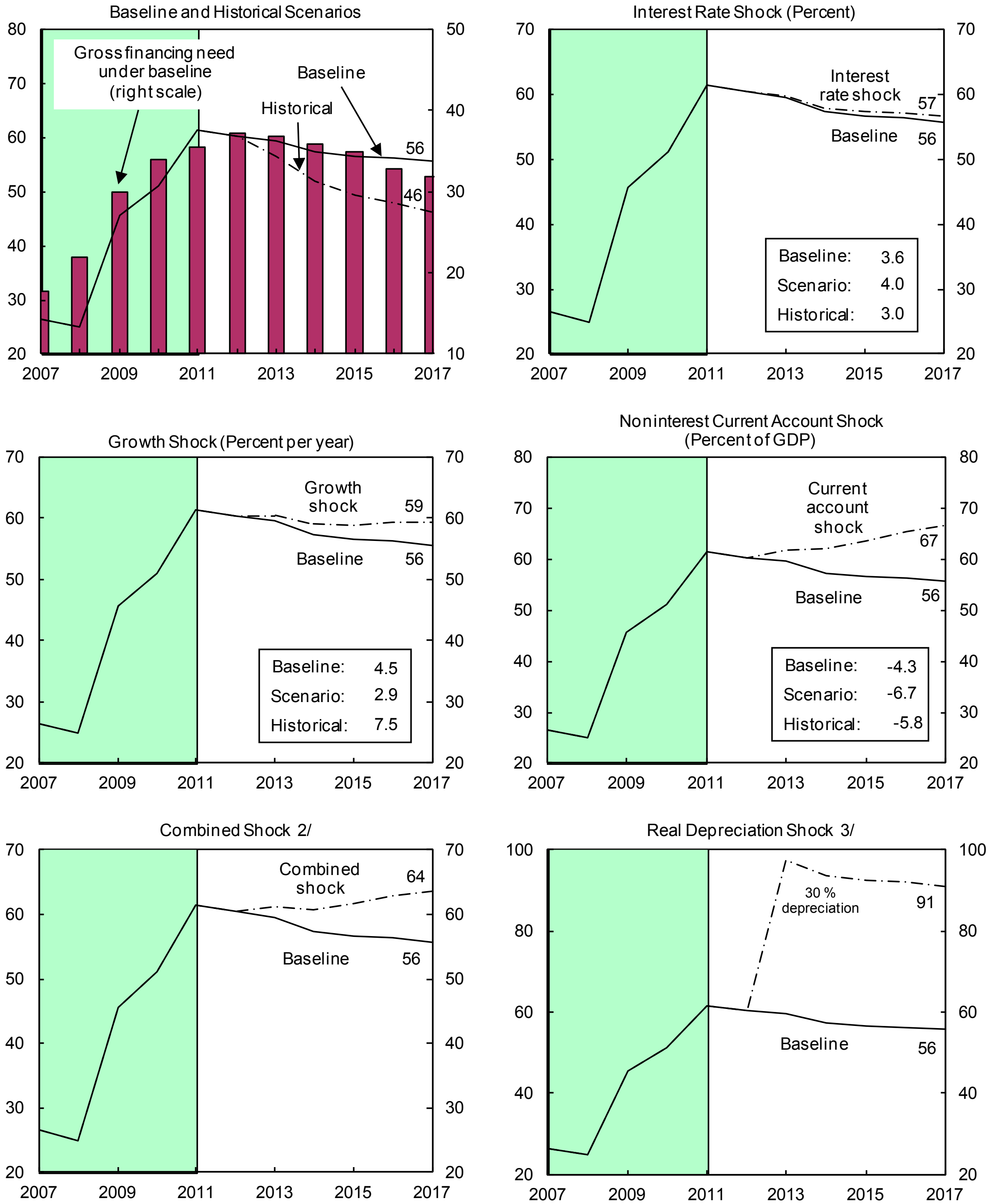
4/ For projection, line includes the impact of price and exchange rate changes.

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

6/ 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.

7/ 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. Projections are shown at the official exchange rate.
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, 2007–17

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Baseline: public sector debt 1/	18.3	21.7	34.9	41.0	50.6	37.7	33.6	29.0	26.9	25.8	24.8	0.3
Of which: foreign-currency denominated	6.5	6.8	18.9	21.6	27.8	25.1	24.5	21.9	20.9	20.7	20.2	
Change in public sector debt	10.1	3.4	13.1	6.1	9.5	-12.8	-4.1	-4.6	-2.1	-1.0	-1.0	
Identified debt-creating flows (4+7+12)	-13.9	-14.7	0.2	-0.9	3.7	-22.6	-10.4	-6.7	-4.0	-2.6	-1.6	
Primary deficit	-11.0	-14.5	-0.1	1.1	-4.3	-2.1	-1.4	-1.0	-0.6	-0.3	0.0	
Revenue and grants	49.5	50.6	45.7	41.6	42.0	39.2	39.2	38.9	38.5	38.4	38.1	
Primary (noninterest) expenditure	38.5	36.1	45.6	42.7	37.7	37.1	37.7	37.9	37.9	38.0	38.1	
Automatic debt dynamics 2/	-1.0	-4.1	1.7	-3.9	9.3	-20.4	-8.6	-5.4	-3.1	-1.8	-1.3	
Contribution from interest rate/growth differential 3/	-1.0	-4.0	-0.4	-5.1	-15.2	-20.4	-8.6	-5.4	-3.1	-1.8	-1.3	
Of which: contribution from real interest rate	-0.5	-2.6	-0.4	-2.8	-13.9	-19.6	-7.7	-4.2	-1.9	-0.6	-0.1	
Of which: contribution from real GDP growth	-0.6	-1.4	0.0	-2.3	-1.3	-0.8	-0.9	-1.2	-1.2	-1.2	-1.2	
Contribution from exchange rate depreciation 4/	0.0	0.0	2.1	1.2	24.6	...	...	...	...	...	...	
Other identified debt-creating flows	-1.9	3.9	-1.4	1.9	-1.3	-0.1	-0.3	-0.4	-0.4	-0.5	-0.4	
Privatization receipts (negative)	-2.6	-1.0	-1.4	-0.6	-7.4	-1.6	-1.8	-1.9	-1.9	-2.0	-1.9	
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)	0.7	4.9	0.0	2.5	6.1	1.5	1.5	1.5	1.5	1.5	1.5	
Residual, including asset changes (2-3) 5/	24.0	18.0	12.9	7.0	5.8	9.8	6.3	2.0	1.9	1.6	0.6	
Public sector debt-to-revenue ratio 1/	37.1	42.9	76.4	98.6	120.4	96.2	85.9	74.6	69.7	67.4	65.2	
Gross financing need 6/	-0.8	0.3	1.1	5.0	5.1	8.5	7.0	7.2	7.2	5.3	5.4	
Billions of U.S. dollars	-0.4	0.2	0.5	2.7	2.8	4.9	4.3	4.6	5.0	3.9	4.3	
Scenario with key variables at their historical averages 7/						37.7	30.7	23.6	18.6	15.2	11.1	-0.2
Scenario with no policy change (constant primary balance) in 2011–16						37.7	28.7	25.0	19.8	18.1	13.3	-0.6
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	8.6	10.2	0.2	7.7	5.3	3.0	3.4	4.4	4.8	4.9	5.0	
Average nominal interest rate on public debt (percent) 8/	7.2	4.2	3.8	2.3	4.9	7.6	6.7	7.2	7.8	7.1	6.2	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-5.6	-17.0	-1.9	-8.8	-53.4	-67.7	-27.1	-14.9	-7.1	-2.2	-0.3	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	0.3	0.5	-23.5	-6.9	-64.1	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	12.8	21.2	5.7	11.1	58.3	75.3	33.9	22.1	14.9	9.2	6.5	
Growth of real primary spending (deflated by GDP deflator, percent)	6.9	3.7	26.5	1.0	-6.9	1.6	5.2	4.9	4.9	5.2	5.3	
Primary deficit	-11.0	-14.5	-0.1	1.1	-4.3	-2.1	-1.4	-1.0	-0.6	-0.3	0.0	

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.

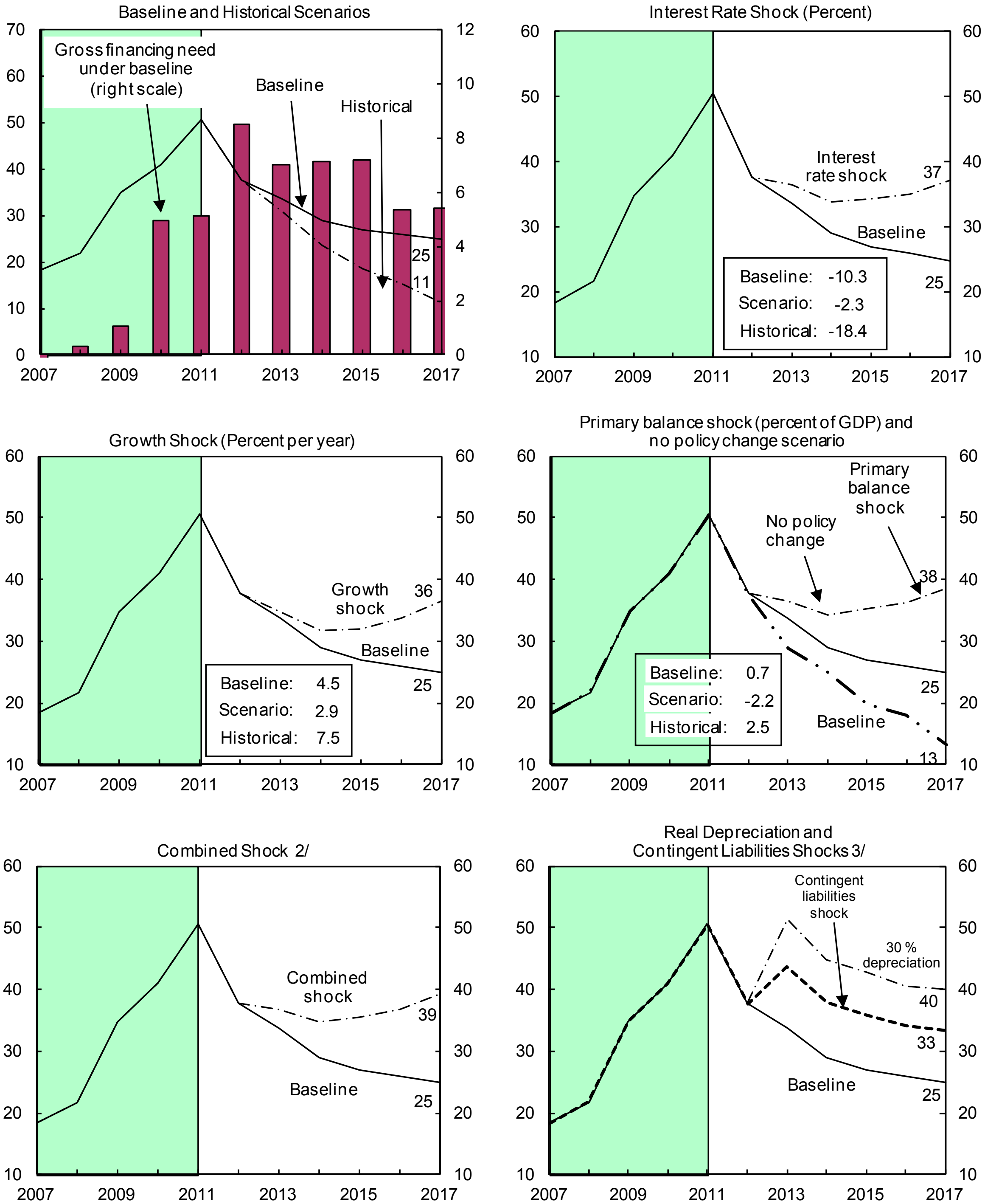
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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 2012 with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX II: RISK ASSESSMENT MATRIX

Nature/Source of Main Threats	**Overall Level of Concern**	
	Likelihood of Severe Realization of Threat in the Next 1-3 Years (high, medium, low)	**Expected Impact if Threat is Realized** (high, medium, low)
1. Loosening of macroeconomic policies to achieve growth targets.	**High** The authorities could loosen policies (increase wages and/or increase credit growth) in the attempt to accelerate economic growth.	**High** Loosening of domestic demand policies will lead to significant pressures on the exchange rate and will result in either loss of reserves (if the authorities resist the depreciation) or a resurgence of inflation (if they allow flexible exchange rate).
2. An external shock in case of intensification of the euro zone crisis.	**Medium** An intensification of the euro zone crisis would produce a spillover effect on Belarus along both trade and financial channels.	**Medium** Belarus does not have sufficient buffers to protect itself from an external shock: the level of reserves is low and gross financing need is high. The effect would depend on the extent to which Russia is affected by the euro area crisis.
3. Substantial reduction in non-official external debt rollover rates.	**Low to Medium** A worsening of the economic conditions in Belarus and/or in Russia or an increase in global risk aversion could trigger a reduction of the rollover rates of non-official external debt.	**Medium** As about a half of banks' external debt is short-term (on the residual maturity basis) and the reserves buffer is low, a reduction in the rollover rates would imply strong pressures on the exchange rate.
4. Weakening bank profitability.	**Low to Medium** Slowdown in economic activity could increase NPLs and require bank recapitalization.	**Medium** Bank recapitalization costs could be significant (in the past, they ranged between 1 and 5 percent of GDP).
5. Increase in price of gas and oil imported from Russia.	**Low to Medium** Russia could increase domestic price of natural gas, which will increase price of gas for Belarus. In the medium term, the agreement could be renegotiated.	**Medium** As the Belarusian economy is highly dependent on Russian gas, a substantial increase of gas prices would increase gross financing needs. The magnitude of the impact would depend on the pace of gas price increases.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2012 Article IV Consultation and Second Post-Program Monitoring Discussions—Informational Annex

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

April 18, 2012

Contents Page

I. Fund Relations 2

II. World Bank Relations 6

III. Statistical Issues 11

ANNEX I. BELARUS: FUND RELATIONS
As of March 31, 2012

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	369.03	100.11

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				
	2012	2013	2014	2015	2016
Principal	248.92	1,080.02	885.84	54.74	0.00
Charges/Interest	34.37	33.31	6.98	0.46	0.00
Total	283.28	1,113.32	892.82	55.20	0.00

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

VII. **Safeguards Assessments:**

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

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

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

The NBRB implemented only some of the recommendations. Special audits of NIR and NDA data for March, June, September and December 2009 test dates were completed. The NBRB divested most of its non-financial subsidiaries in 2011. In the first half of 2011 the NBRB increased involvement in quasi-fiscal activities by purchasing bonds of local banks at higher than market prices, however, in the second half of 2011 this activity had ceased and the accumulated stock of securities was transferred to the Development Bank in December 2011.

VIII. Exchange Arrangements:

The currency of Belarus is the rubel, which was introduced in 1994.

The de jure exchange rate regime is managed float. The NBRB has been officially pegging the rubel against a basket of currencies, including the U.S. dollar, the euro and the Russian ruble within horizontal bands from January 2 2009, although the rubel has remained in a 2 percent band from May 2010 through April 2011 vis-à-vis the U.S. dollar, during which time the de facto exchange rate arrangement was classified as a stabilized arrangement.

Following substantial loss of reserves in Q1 2011, the NBRB ceased interventions and a heavily depreciated black market exchange rate emerged. The NBRB devalued the official exchange rate in May of 2011 but the parallel exchange market persisted, giving rise to a multiple exchange rate system. On October 20, 2011 the NBRB unified the exchange rates at the market rate by introducing a single trading session, abolished the official exchange rate bands and announced introduction of a managed floating regime. Since then, the NBRB has been using official exchange interventions sparingly to smooth excessive fluctuations. Therefore, the de facto exchange rate arrangement has been reclassified to other managed arrangement from a stabilized arrangement, effective October 20, 2011.

Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on November 5, 2001. Following the unification of the exchange rates in October, 2011, the authorities lifted some of earlier introduced the administrative controls, including the ban on the purchase of foreign exchange for certain import payments in excess of 50 thousand Euros. However, based on currently available information, Belarus continues to maintain restrictions on the availability of foreign exchange for advance payments for imports. Staff is currently reviewing the jurisdictional implications of the new regime and the remaining FX controls.

IX. UFR/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 http://www.imf.org/external/pubs/ft/scr/2011/cr1166.pdf

- **Article IV discussions took place from February 22nd to March 6th 2012.** A staff team comprising Messrs. Jarvis (head), Kovtun, Saksonovs and Ms. Lis (all EUR), Messrs. Bibolov (MCM), Forni (FAD), and Sasaki (SPR) visited Minsk during February 22nd – March 6th, 2012. 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, Ms. Yermakova; the Minister of Finance, Mr. Kharkovetz; the Minister of Economy, Mr. Snopkov; the Deputy Head of the Presidential Administration, Mr.Tur and other senior officials. Ms. Koliadina, the Resident Representative, assisted the mission. Mr. Allen (Senior Resident Representative for Central and Eastern Europe) and Mr. Prader (OED) joined the concluding discussions.

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$3.5 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$3.5 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 on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190, http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0)
An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30, http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0)

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

XI.	Technical Assistance, 2006–12:		
	Department Counterpart	**Subject**	**Timing**
	MCM	Bank Supervision	February-March 2012
	MCM	TA on Development Bank	October-November 2011
	MCM	Bank Supervision	October 2011
	MCM	Risk Based Supervision	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	Social Safety Nets	November 2011
	FAD	Program budgeting and medium-term framework	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: WORLD BANK RELATIONS

The World Bank Group Strategy

1. The World Bank Group Country Assistance Strategy provides for a selective presence to support structural reforms and buttress the Government's programs of improving energy efficiency, water supply quality, waste management, road upgrading, and developing infrastructure in Chernobyl-affected areas. Analytic and advisory work comprises a core element of the program. Belarus is currently receiving World Bank financing for 5 infrastructure projects. To date, the Bank lending commitments in Belarus total US$865 million, with US$22.8 million provided as grants.

2. 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 the business environment and investment climate, particularly regulatory simplification related to business operations, as well as on building government capacity for investment promotion. IFC's recently launched Belarus Food Safety Improvement advisory project endeavours to increase the competitiveness of Belarusian food producers by improving their food safety practices, raising awareness and facilitating wider implementation of best international food safety management practices. To date, the IFC investment commitments in Belarus total approximately US$300 million; divided almost equally between financial markets and the real sector. IFC's investments will continue to focus on financial markets, general manufacturing, climate change and agribusiness.

IMF-World Bank Collaboration in Specific Areas

3. The Bank and the Fund teams work closely in planning and delivering their assistance. The IMF plays a key role in regards to macro-economic policy, while the World Bank focuses on the structural agenda, macro-fiscal, energy efficiency, social and environmental issues.

Areas in Which the World Bank Leads

4. **Structural reforms and private business development.** A new Country Economic Memorandum (CEM) –the Bank's key analytical product –is delivered in FY2012. The CEM focuses on understanding the sources of growth, the needed economic and structural rebalancing and identifying the untapped potential for the medium-term economic development of Belarus. Through the Trust Fund for Privatization (US$ 5 million) the Bank provides technical advice to prepare and test a new approach to privatization which would lead to improved governance, productivity and competitiveness of privatized companies. The IFC delivers an active advisory program around challenges facing the private sector and international "best practices" for improving the business regulatory environment.

5. **Increasing efficiency of public spending and social issues.** In FY 2011 the World Bank presented the first volume of the Programmatic Public Expenditure Review (PER-1), focused on providing policy advice in the areas of pensions, social assistance, housing and communal services, and subsidies in the agriculture sector. The second volume of the review (PER-2) will be delivered in FY13. PER-2 will identify options to achieve efficiency gains in the areas of intergovernmental fiscal relations, education and health spending. PER-2 will consolidate fiscal reform options identified in both phases, quantify the fiscal, and where possible the social impact, of proposed measures and integrate them into a consistent macro-economic framework.

6. **Energy sector and transport infrastructure development**. Currently, two energy efficiency lending operations are being implemented in Belarus with World Bank's financial support: Additional Financing Loan for the Post Chernobyl Recovery Project (US$30 million) and the Energy Efficiency Project (EEP) (US$125 million). In addition, a TA project is currently under implementation, looking at existing legislation on renewable energy, barriers and options for increased use of biomass energy for heat production and energy efficiency, as well as opportunities to increase private sector participation in the district heating sector. A Road Upgrading and Modernization project (US$ 150 million) has been approved by the Board on November 11, 2010, and became effective in January 2011.

7. **Agriculture** and **forestry sector.** Through an IDF Grant the Bank supports strengthening of the institutional capacity for monitoring and evaluation of agricultural policy instruments. The EU ENPI-FLEG program implemented by the World Bank in partnership with the IUCN is targeted at improving forestry sector governance and combating illegal logging and associated trade and corruption. A Forestry Sector Policy Note which is currently under preparation will inform and influence Belarusian forest policy by providing strategic advice on sector policy objectives, aims, and opportunities supporting the development of the Forest Strategic Plan.

8. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. Environmental pollution issues are addressed through the GEF Grant Project (US$5 million) for Persistent Organic Pollutant (POPs) Stockpile Management and Technical/Institutional Capacity Upgrading. Progress is being made towards achieving improved water, wastewater and solid waste management services under the Water Supply and Sanitation Project (US$60 million) and the Solid Waste Management Project (US$42.5 million).

Areas of Shared Responsibility

9. **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.

10. **Public expenditure management.** The Bank, jointly with the Fund, has been working on rationalizing expenditures and reforming the budget process. The Bank provides technical assistance, training and key advisory services aimed at strengthening medium-term fiscal planning processes and supporting the introduction of output based financing arrangements in education and health sectors under its Strengthening Accountability and the Fiduciary Environment (SAFE) grant.

11. **Debt management.** The Debt Management Performance Assessment (DeMPA) was completed in FY11. The Reform Plan Report for Belarus building on the findings of the DeMPA mission was prepared in FY12. In FY12-13, the Bank, jointly with the IMF will provide assistance in developing a medium-term debt strategy (MTDS) in Belarus.

12. **Financial sector.** The Bank conducts financial sector monitoring and policy dialogue jointly with the IMF. Under the FIRST grant the Bank provided TA for securities market development in FY11–12.

Areas in Which the IMF Leads

13. The IMF is actively engaged with the authorities in discussing the macroeconomic framework, providing technical assistance and related support, including support on economic and financial statistics, tax policy, monetary operations, and fiscal transparency. The IMF is leading the dialogue on setting the objectives for monetary and exchange rate policies, overall budget envelope, and tax policy.

14. 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.

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

Belarus: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas in 2012

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program (AAA)	Belarus Country Economic Memorandum	June 2012	March 2012
	Programmatic Public Expenditure Review (PER) - phase 2	Ongoing	September 2012
	Belarus Health and Education Sectors TA	Ongoing	December 2012
	TA on Strengthening Medium-term Fiscal Planning Process (SAFE TF)	Ongoing	TA through 2011-2012
	Developing Medium-Term Debt Strategy (MTDS)	June 2012	September 2012
	Securities Market Development TA (FIRST TF)	February 2012	February 2012
	Financial Sector Monitoring and Policy TA	Ongoing	TA through 2010-2013
	Privatization TA (Austrian TF)	Ongoing	TA through 2010-2015
	Belarus Labor Force Survey (TFSCB)	Ongoing	TA through 2011-2012
	TA in environmental policies and institutions (grants)	Ongoing	TA through 2010-2012
	TA on Forest Law Enforcement and Governance (FLEG)	Ongoing	TA through 2008-12
	Forestry Sector Policy Note	Ongoing	July 2012
	TA on Strengthening Institutional Capacity for Monitoring and	Ongoing	TA through 2011-14

	Evaluation of Agricultural Policy Instruments		
2.Fund Work Program	Peripatetic advisor on bank supervision External debt management system TA Inflation targeting TA TA on developing of capacity and instruments Follow-up TA on progress of development bank	Ongoing September 2012 October 2012 November 2012 December 2012	

ANNEX III. BELARUS— STATISTICAL ISSUES

As of April 18, 2012

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 2008. 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). Since the last Article IV consultation, the NBRB has implemented most of STA recommendations regarding monetary statistics
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 and met all SDDS requirements at the time of subscription.	A data ROSC report was published on February 1, 2005.

BELARUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of April 18, 2012)

	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]	Memo Items:[8] Data Quality Accuracy and reliability[10]
Exchange Rates	Apr. 2012	04/18/12	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb 2012	04/15/12	D/W/M	M	M		
Reserve/Base Money	Feb. 2012	04/15/11	D/W/M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Feb. 2012	04/15/11	W/M	M	M		
Central Bank Balance Sheet	Feb. 2012	04/15/11	D/W/M	M	M		
Consolidated Balance Sheet of the Banking System	Feb. 2012	04/15/11	W/M	M	M		
Interest Rates[2]	Apr. 2012	04/18/12	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Feb. 2012	04/10/12	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 2011	01/28/12	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Feb. 2012	03/28/12	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb. 2012	03/28/12	M	M	Q		
External Current Account Balance	Q4 2011	02/29/12	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Feb. 2012	04/12/12	M	M	Q		
GDP/GNP	Mar. 2012	04/12/12	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q4 2011	2/29/12	Q	Q	Q		
International Investment Position[6]	Q4 2011	2/29/12	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
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 12/50
FOR IMMEDIATE RELEASE
May 17, 2012

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

IMF Executive Board Concludes 2012 Article IV Consultation and the Second Post-Program Monitoring Discussions with Belarus

On May 4, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation and second Post-Program Monitoring discussions with Belarus.[1]

Background

The last year was marked by a severe balance of payments crisis. Unsustainable policies in late 2010 and the first quarter of 2011 pushed the economy into an inflation-depreciation spiral, with the 12-month inflation rate accelerating to 109 percent. Despite the slowdown of economic activity in the second half of 2011, growth remained robust at 5.3 percent.

Since mid-2011 the authorities have been implementing stabilization measures. The National Bank of the Republic of Belarus has discontinued the practice of providing liquidity at non-market terms in June 2011 and gradually increased policy interest rates in the second half of the year. The authorities unified the exchange rate and introduced a flexible exchange rate regime in October 2011. The general government fiscal balance showed a surplus of 3 percent of GDP for the year. These policies have restored foreign exchange markets, reduced inflation

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

(which has fallen to below 2 percent per month in the first quarter of 2012) and improved the current account deficit. Recently signed oil and gas agreements with Russia have led to a significant improvement in terms of trade. Official reserves have risen to a level covering 2 months of imports of goods and services following substantial privatization proceeds, two tranches of a EurAsEC Anti-Crisis Fund loan and a loan from Sberbank.

The financial system has weathered the 2011 crisis and banks' capital has been replenished with general budget resources. In 2011, bank recapitalization expenditure amounted to 5 percent of GDP. System-wide non-performing loans increased modestly to slightly over 4 percent at the end of 2011, but are expected to increase further as the economy slows down. Continued deterioration in asset quality would put pressure on banks' capital and could call for new recapitalizations.

The authorities have announced their intention to reduce inflation and lower the current account deficit and to raise the level of reserves and adjusted policy plans by curtailing plans for lending under government programs and adopting a balanced budget for 2012. However, they also announced a 5–5.5 percent GDP growth target and stated their intent to increase dollar wages significantly.

Structural reforms have been slow, with occasional reversals. Banking sector reform has been progressing slowly, and little has been done to harden state-owned enterprises' (SOEs) budget constraints. Price liberalization was partially reversed in 2011.

Executive Board Assessment

Executive Directors welcomed the Belarusian economy's emergence from the 2011 crisis owing to the authorities' commendable adjustment policies in the second half of the year, including exchange rate unification, introduction of a flexible exchange rate, monetary policy tightening, and expenditure and wage restraint. These policies have restored foreign exchange markets, reduced inflation and the current account deficit, and helped increase reserves. Given substantial remaining vulnerabilities and risks, Directors strongly encouraged the authorities to remain firmly focused on consolidating domestic and external stability and to pursue structural reforms.

Directors stressed the importance of ensuring consistency between the authorities' policy goals. They noted that pursuing high growth and wage targets could re-ignite the inflation-depreciation spiral and imperil medium-term fiscal and debt sustainability. They called for continued fiscal restraint and for a disciplined wage policy in the public sector, including SOEs. Keeping a tight monetary policy stance would also be important to keep inflation in check. It should be supported by continued exchange rate flexibility and a strong reserve buffer to insulate the economy from external shocks. In this connection, progress toward implementing the prerequisites for inflation targeting would boost the credibility of monetary and exchange rate policies.

Directors emphasized the need to enhance fiscal discipline, noting that limiting quasi-fiscal operations and rationalizing government spending would improve efficiency and reduce the debt level over the medium term. They encouraged the authorities to accelerate plans to reduce general subsidies and improve targeted social assistance and implement civil service and pension reforms.

Directors underscored the need for strong and carefully sequenced structural reforms to improve productivity and growth prospects and reduce vulnerabilities over the medium term. They highlighted the importance of reducing the government's direct control of the economy, noting that price liberalization, enterprise reform, and privatization would improve resource allocation and strengthen market incentives. In the financial sector, a greater role for private banks would increase efficiency. Relieving state-owned banks of the obligation to undertake directed lending once the Development Bank becomes fully operational, while ensuring that the bank is run on prudent and transparent principles, would be important. Directors also called for further improvements to the business and investment climate.

Directors noted the authorities' interest in a Fund-supported arrangement. They stressed that a firm commitment by policymakers at the highest level to a strong and consistent stabilization and reform strategy would be essential.

Belarus: Selected Economic Indicators, 2008–12

	2008	2009	2010	2011 Prel.	2012 Proj.
National accounts					
Real GDP	10.2	0.2	7.7	5.3	3.0
Total domestic demand	17.8	-1.1	11.2	2.9	3.0
Consumption	12.5	0.0	7.4	2.9	3.9
Nongovernment	16.4	0.0	9.0	3.5	3.8
Government	0.3	-0.1	2.3	1.0	4.0
Investment	28.2	-2.9	18.4	3.0	1.6
Of which: fixed	23.8	5.0	17.5	11.1	1.5
Net exports 1/	-9.2	1.3	-3.7	3.8	-0.3
Consumer prices					
End of period	13.3	10.1	9.9	108.7	38.4
Average	14.8	13.0	7.7	53.2	66.0
Monetary accounts					
Rubel broad money	22.5	0.9	27.4	64.1	42.8
Growth of credit to the economy at constant exchange rates	39.0	17.6	23.7	29.2	42.7
External debt and balance of payments					
Current account	-8.2	-12.6	-15.0	-10.5	-6.2
Trade balance	-10.3	-14.1	-16.4	-6.7	-1.9
Exports of goods	54.0	43.4	46.0	75.1	79.6
Imports of goods	-64.3	-57.5	-62.4	-81.8	-81.5
Gross external debt	25.0	45.6	51.1	61.4	60.4
Public 2/	6.8	18.9	21.6	27.8	25.1
Private (mostly state-owned-enterprises)	18.1	26.7	29.5	33.6	35.2
Savings and investment					
Gross domestic investment	37.6	37.3	41.2	36.3	34.9
National saving	29.4	24.7	26.2	25.8	28.7
Public sector finance					
General government balance	1.3	-0.7	-1.8	3.1	0.0
Augmented general government balance	-3.5	-0.7	-4.3	-3.0	-2.3
Revenue	50.6	45.7	41.6	42.0	39.2
Expenditure 3/	54.1	46.4	45.9	45.0	41.5
Of which:					
Wages	6.6	6.7	7.0	6.8	6.7
Subsidies and transfers	11.5	11.7	8.3	7.8	7.5
Investment	10.0	8.1	8.3	5.5	5.7
Gross public debt	21.7	34.9	41.0	50.6	37.7
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	60.8	49.2	55.2	55.1	…
Nominal GDP (trillions of rubels)	129.8	137.4	164.5	274.3	495.2
Terms of trade	8.8	-10.3	0.5	5.9	7.1
Real effective exchange rate	1.6	-4.5	-5.0	-17.8	1.3
Official reserves (billions of U.S. dollars)	3.1	5.7	5.0	7.9	5.5
Months of imports of goods and services	1.2	1.8	1.2	1.9	1.2
Percent of short-term debt	40.4	63.2	42.0	56.9	38.9

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.