INTERNATIONAL MONETARY FUND

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REPUBLIC OF BELARUS

FIFTH POST-PROGRAM MONITORING DISCUSSIONS

January 2014

In the context of the Fifth Post-Program Monitoring Discussions with the Republic of Belarus, the following documents have been released and are included in this package:

- A **Staff Report** by a staff team of the IMF for the Executive Board's consideration on December 9. 2013, following discussions that ended on October 28, 2013, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 25, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its December 9, 2013 consideration of the staff report.
- A **Statement by the Executive Director** for the Republic of Belarus.

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

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REPUBLIC OF BELARUS

FIFTH POST-PROGRAM MONITORING DISCUSSIONS

November 25, 2013

KEY ISSUES

Context: The current account is worsening, coinciding with peak debt service, limited market access, and low reserves. Although the authorities have taken ad hoc measures to curb acute exchange rate pressures during the summer, a stronger policy response is urgently needed to reduce external imbalances and mitigate risks.

Challenges: Facilitating external adjustment through a consistent set of policies is the key short-term priority. The medium-term challenge remains to increase efficiency and competitiveness through deep structural reform, with strong measures taken up front to enhance credibility.

Policy recommendations:

- No further wage increases in 2013–14, to curb demand and regain competitiveness;
- Sharply reduce directed lending, to limit credit growth and contingent liabilities, and reduce external imbalances;
- Substantially scale back foreign exchange market intervention and tighten monetary policy to facilitate exchange rate and balance of payments adjustment;
- Adopt comprehensive and ambitious structural reforms to raise sustainable growth.

Approved By
Aasim M. Husain and Masato Miyazaki

Discussions for the 5th PPM review mission were held in Minsk during October 17–28. The mission team comprised Messrs. Hofman (head) and Hartley, and Ms. Koczan (all EUR), Mr. McHugh (FAD), Ms. Peter (MCM), and Ms. Garcia (SPR). Messrs. Husain (EUR) and Misyukovets (OED) joined part of the discussions. The mission met with Prime Minister Myasnikovich; National Bank Governor Ermakova; Minister of Finance Kharkovetz; Minister of Economy Snopkov; officials from the Presidential Administration, and representatives of think tanks, business, and the diplomatic community. Mr. Roaf (Sr. Regional Res. Rep.), the staff in the Minsk office, Mr. Jovanovic and Ms. Swirszcz (both EUR) assisted the mission.

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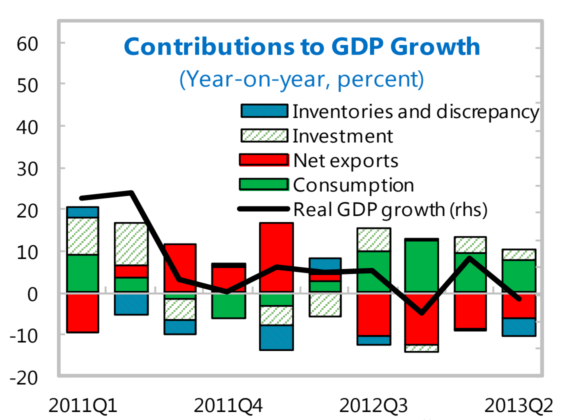
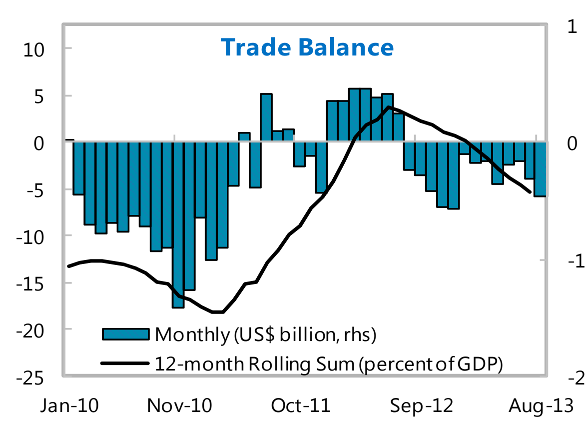
APPENDICES

RECENT DEVELOPMENTS

1. **Growth has remained slow despite high increases in wages and directed lending.** To promote growth, the authorities loosened macroeconomic policies in the first half of the year but then held—and partially reversed—these efforts to contain exchange rate pressures that resurfaced in the summer. Under these conditions, growth has reached only 1.1 percent (y-o-y) in the first nine months of the year, with high real wage increases and unabated high directed lending growth contributing to widening external imbalances (Figure 1). Inflation fell in the first half of the year, but rebounded in September and remains in double-digits (Figure 2).

2. **The current account has deteriorated sharply and reserves have fallen.** Owing to a mix of strong domestic demand growth, a slowdown in the Russian economy, and weakening competitiveness of Belarusian goods, the current account balance has been deteriorating much more rapidly than earlier envisaged, reaching a 9½ percent of GDP deficit in the first half of the year (Figure 3). In addition, the abrupt end of the potash cartel between a Belarusian and a Russian partner company this summer is expected to have weighed on exports in the second half of the year. While FDI (on account of reinvested earnings) and foreign borrowing strengthened, this has been insufficient to finance the growing current account deficit. Reserves have fallen by about US$1.2 billion since the start of the year, to US$6.8 billion—about 1.7 months of imports.





Sources: Belarusian authorities; and IMF staff calculations.

3. **Banking sector risks are elevated with the high share of FX loans a key concern.** Banks are increasingly under pressure, including on account of acute shortages in rubel funding related to the public's increasing preference for holding foreign currency. Average capital adequacy ratios declined to 19 percent in September, the lowest level since the large bank

recapitalizations in 2011. NPL ratios improved somewhat relative to 2012, but this reflected loan transfers to the Development Bank and strong credit growth, including of directed credit which is likely to give rise to new NLPs in the future. FX lending growth slowed substantially in 2013, likely reflecting earlier NBRB measures, but remains high at 21 percent during January-September and in stock terms loan dollarization continued to rise, reaching 48 percent of total loans in September. The high share of foreign loans implies substantial exposure to exchange rate risk as much of the lending is to unhedged borrowers.

Financial Soundness Indicators for the Banking Sector

	2010	2011	2012				2013				
	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug	Sep
Capital adequacy											
Capital adequacy ratio	20.5	24.7	23.8	23.0	22.1	20.8	20.7	20.0	19.7	19.3	19.0
Tier I capital adequacy ratio	14.9	18.8	17.2	16.5	15.5	14.6	14.6	13.9	13.5	13.2	13.0
Foreign exchange loans to total loans	21.7	39.5	40.8	41.9	42.3	45.5	46.5	46.5	46.6	47.0	47.8
Non-performing loans to gross loans	3.5	4.2	3.7	3.9	4.8	5.5	4.7	4.5	4.5	4.4	4.6
Watch loans 1/	3.6	10.6	13.1	13.4	13.1	12.6	13.4	12.7	12.1	11.9	10.8
Recapitalization costs (SOBs, percent of GDP)	1.3	5.3	...	...	...	...	...	...	...	...	...

Source: National Bank of the Republic of Belarus.

1/ Watch loans include loans with delinquencies, negative information on the borrower or insufficient collateral.

4. **A new joint action plan envisages partial reforms but implementation is uncertain.** In October, the NBRB and the government agreed on a plan that would start partial reforms in a number of key areas. Specifically, the plan envisages privatizations to the tune of US$4½ billion in 2014 (through the sale of insolvent and small enterprises and divestment of minority stakes); partial increases in the cost recovery on utility and transport tariffs during 2013–15 (compensated by additional wage increases); a phase out of certain price controls by end–2014 (a few were lifted in November); and a further transfer of directed lending to the development bank; among other measures. It is unclear, however, to what extent the plan is supported by the authorities more broadly, including at the highest level. Separately, the authorities continued to engage with the WTO in the context of the working group on accession of Belarus.

OUTLOOK AND RISKS

5. **The outlook is for slow growth and further balance of payments deterioration in the short-term** (Table 1, baseline scenario). With productivity growth constrained by a lack of structural reform and with domestic policy stimulus mostly feeding into imports, GDP growth is projected to be only about 1.5 percent in 2013 and to remain lackluster thereafter. Driven by high domestic demand growth and administrative price increases, inflation is forecast to reach 14.5 percent (y-o-y) at end-2013, thereby exceeding the authorities' 12 percent target. It is

expected to remain in double digits in subsequent years on an unchanged policy mix and exchange rate depreciation. Meanwhile, the current account deficit is projected at 9½ percent of GDP in 2013 in the context of strong domestic demand, slow export market growth, weak competitiveness, the end of last year's solvents trade, and lower potash exports (Table 2). Going forward such a deficit cannot be sustained and, without significantly more external financing than envisaged in the baseline, the current account would inevitably have to adjust as reserves are drawn down. The staff's baseline therefore shows a stylized unchanged-policies scenario that assumes gradual exchange rate depreciation that improves the current account sufficiently to keep reserves above a minimal level, but not enough to reduce external vulnerabilities, which remain very high throughout the forecast period.

6. **Risks are heavily tilted to the downside.** The main risk is for a sharp further deterioration of the current account (e.g., on account of another round of domestic policy stimulus or a further erosion of competitiveness) or of the financial account (e.g., because increasing vulnerabilities could reduce capital inflows) which could trigger acute pressures on reserves and the rubel. Banking sector risks also remain a key concern, including on account of rapid foreign exchange lending growth. On the upside, new agreements on bilateral financial support could help mitigate short-term risks.

7. **Strong policy action could improve economic outcomes and mitigate risks.** A combination of sustainable macroeconomic policies and deep structural reform, in line with the staff recommendations below, would help ease external balances and improve reserve buffers, while raising medium-term growth. Specifically, under such a scenario a sharply improving current account, combined with increased capital inflows owing to positive confidence effects, could help raise reserves close to 4 months of imports by 2018, in the context of real GDP growth around 5 percent and single-digit inflation. (Figure 4; Table 3, adjustment scenario).

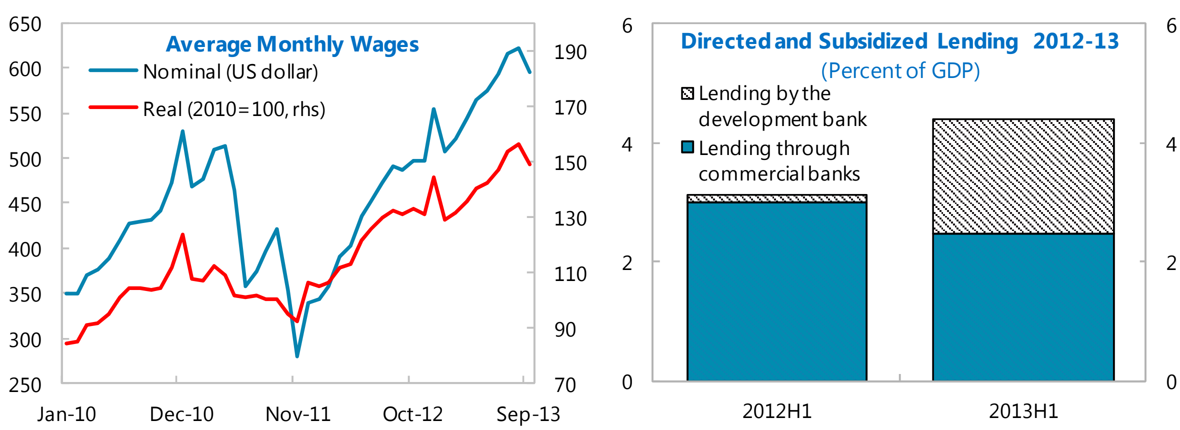
POLICY DISCUSSIONS

8. **Discussions focused on needed macroeconomic policy adjustments to address near-term challenges.** Selected structural reforms, necessary to promote sustainable growth in the longer term, were also discussed, including in the context of the authorities' new joint action plan. Without such reforms Belarus will continue to lose competitiveness and remain highly vulnerable to periodic spells of external pressures.

A. Fiscal Policy

9. Off-budget quasi-fiscal operations are a key concern as wage growth and directed lending volumes remain far too high. Economy-wide real wages—which are strongly influenced by government policies, including via public sector pay scales—grew by 19.5 percent (y-o-y) in the first nine months of 2013, well ahead of productivity growth. The rapidly increasing wages reduce competitiveness, fuel demand for imports, and put pressure on enterprises, many of which reportedly borrow to pay current expenditures. Directed and subsidized lending has expanded at a high pace of around 35 percent (y-o-y), or 4½ percent of GDP in flow terms. Lending is increasingly executed by the Development Bank, which has become an additional source of directed lending rather than a consolidating entity as originally envisaged. The directed lending fuels domestic demand, hampers economic modernization, and creates contingent fiscal liabilities as lending is directed at often unviable enterprises.

10. Meanwhile, the headline fiscal deficit is expected to reach 0.5 percent of GDP in 2013, against an original balanced budget target (Figure 5, Table 4). The deficit is caused by revenue shortfalls owing to weaker growth and lower exports, coupled with expenditure overruns related to higher subsidies under government lending programs. To offset the shortfalls, the authorities have raised excise duties and deferred expenditures on goods and services and public investment. While these measures allowed for a cash surplus over the first nine months of the year, a deficit is likely to emerge in the fourth quarter owing to expected additional revenue shortfalls and execution of committed spending. The budget for 2014 is under preparation and aims again for a balanced budget, though the authorities indicated that risks would be on the downside as some of the revenue erosion in 2013 could be permanent.



Sources: National Bank of the Republic of Belarus; Belstat; Development Bank; Belarusian authorities; and IMF staff calculations.

Policy Discussion

11. Staff argued against further wage increases and called for a sharp reduction in directed lending. As wages were raised well beyond the 12 percent nominal increase advocated by staff at the time of the 2013 Article IV Consultation, and with productivity growth low, staff advised to hold off on further wage increases for the remainder of the year and for 2014. Staff also pressed for a rapid stepwise reduction of directed lending and recommended to limit such lending to 2 percent of GDP in 2014 and to 1 percent of GDP in 2015, with a view to a full phase out in the medium term. All directed lending should be channeled through the Development Bank so that other banks can work on a strictly commercial basis.

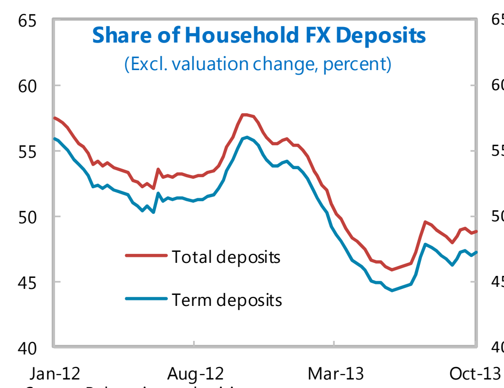
12. Staff advised to correct the deterioration in the headline fiscal balance. In light of liquidity constraints and the need to limit domestic demand, staff strongly encouraged the authorities to consider additional measures that would help reduce the deficit in 2013 and that would ensure a return to a balanced-budget stance in 2014, while remaining current on all payment obligations. Staff suggested that if further adjustment was required, measures should be considered that offer better synergies with structural reform needs—such as raising cost recovery on energy and transport tariffs, cutting interest rate subsidies, and wage bill savings. For 2014, staff supported the envisaged balanced budget target as long as advice (see below) on directed lending is followed. On unchanged policies, a surplus of 2 percent of GDP would be appropriate to curb demand and help prepare for future bank recapitalization costs.

13. The authorities regarded wage increases and subsidized lending as critical components of their growth and development strategy. While they are considering temporarily holding off on public sector wage increases in the fourth quarter of 2013, they pointed to pressures from ongoing labor emigration that in their view necessitated structural increases in Belarus wage levels. The authorities saw directed and subsidized lending growth also as indispensable because without this funding, enterprises were unable to upgrade their capital base and increase competitiveness. In addition, subsidized lending was a key component of the government's strategies to provide affordable housing and support the agricultural sector.

14. The authorities agreed on the need for balanced budgets but accepted that risks would be on the downside. They were hopeful that the fiscal measures taken in the second quarter of 2013 would help minimize the deficit this year, but recognized that temporary delays in expenditures could not be sustained indefinitely. For 2014, to help offset any permanent loss of revenues, the authorities are considering adopting revenue measures, including a 2 percentage point increase in VAT that could yield up to 0.8 percent of GDP in additional revenues. However, these gains will be partly offset by higher (direct) subsidies, which are planned to ameliorate an envisaged gradual removal of cross-subsidization of electricity prices.

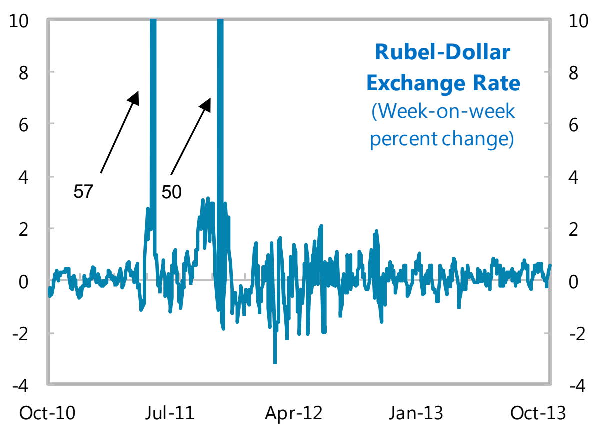
B. Monetary Policy

15. Monetary policy was loosened too quickly, then tightened again. Between March and June, the NBRB reduced its main policy rate—the "refinancing rate"—by 500bp to 23½ percent broadly in line with its stated intention to reduce the rate to 15 percent by year-end (Figure 6, Tables 5–6). A pronounced pickup in demand for foreign currency denominated deposits during June/July, however, made the NBRB partially reverse course. While leaving the politically-sensitive refinancing rate unchanged, the NBRB took several measures to help raise domestic currency deposit rates and discourage dollarization, including a 10 percentage point increase in the standing facility rate for overnight credit, a hike in the reserve requirement for foreign exchange deposits from 12 to 14 percent, an increase in the prudential risk weight for foreign currency loans from 100 to 150 percent per October 1, 2013, and an announcement that further refinancing rate reductions would be halted for the foreseeable future. The package of measures proved successful in curbing the uptrend in the share of FX deposits and the policy stance has been on hold since July.



Source: Belarusian authorities.

16. Exchange rate flexibility has been limited. Since the beginning of the year, the rubel has been allowed to depreciate by only about 2 percent in nominal effective terms, much less than what would have been warranted in view of the large inflation differential with key trading partners and the high wage increases. The relative inertia of the nominal exchange rate has resulted for the year to date in a real appreciation of 6 percent in CPI terms and around 10 percent in ULC and GDP-deflator terms, bringing cumulative appreciation since the 2011 devaluation to 30–45 percent depending on the measure used (Figure 3). On these developments, coupled with the sharp deterioration in the current account, the staff now estimates that the rubel may have become overvalued. During peak pressures in June/July, the NBRB intervened substantially in foreign exchange markets to support the currency, but interventions have eased somewhat since.



Sources: Belarusian authorities; and IMF staff calculations.

Policy Discussion

17. Staff advised reducing foreign exchange interventions to a minimum and tightening monetary policy. Sharply reducing interventions would facilitate needed rubel depreciation, which in turn would foster a narrowing of external imbalances and thus avoid further losses of reserves. To help contain inflationary pressures and guard against possible disorderly adjustment of the exchange rate, the scaling back of intervention should be complemented by a tightening of monetary policy. In this context, staff suggested that an initial increase in the refinancing rate could help re-adjust market expectations, but the NBRB should stand ready to tighten further if needed to prevent exchange rate overshooting.

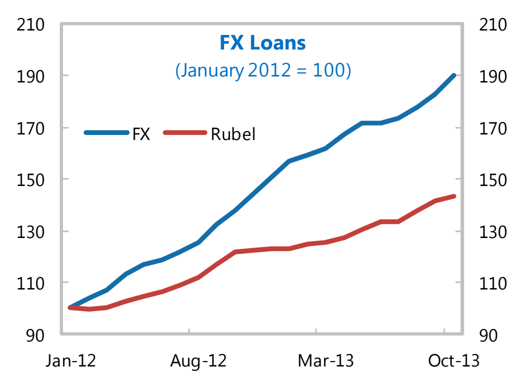
18. Anchoring monetary policy on base money would help improve its effectiveness. With Belarus not yet ready for a successful move to inflation targeting and need for exchange rate flexibility, the NBRB requires an alternative anchor for monetary policy. Staff suggested moving to base money targeting, in line with the advice of a recent MCM TA mission. The stability in liquidity conditions and interest rates, and resulting improved control over inflation, that could be gained by such a policy shift would allow the NBRB to gain credibility and help prepare for an eventual move to inflation targeting.

19. The authorities acknowledged the need for exchange rate flexibility, but favored a slow pace of depreciation. They remained deeply concerned about potential market reactions, arguing that expectations of the general public were still shaped by the experience of the 2011 crisis and that any large exchange rate movements could trigger a freefall of the rubel. They were also concerned that a sharp reduction in intervention could result in excessive volatility in the shallow rubel forex markets.

20. The NBRB argued that monetary tightening would do little to contain demand or inflation. The authorities conceded that high domestic deposit rates provided support for the rubel. But with monetary transmission weak in the context of the high volume of subsidized and directed lending, the NBRB believed that further changes in policy rates would have a limited effect on lending and inflation expectations. They agreed with staff that traction of monetary policy needed to be improved and were actively considering ways to improve liquidity management and the functioning of the interbank market. In this context, the NBRB agreed to consider the staff recommendation to move to base-money targeting.

C. Banking Sector Policies

21. FX lending and rubel liquidity pressures are key concerns in the banking sector. In 2012, the NBRB imposed various measures to curb FX lending growth including higher provisioning requirements and limitations on bank's short-term FX lending. While these measures met with some success, foreign currency lending growth remains too high and the large stock of foreign currency loans remains a significant concern, especially in view of possible balance sheet effects from exchange rate adjustment. The recent increase in risk weights for FX loans from 100 percent to 150 percent as of October 2013 should help further reduce lending growth. Meanwhile, to alleviate rubel funding shortages in the banking system, the NBRB has temporarily suspended reserve requirements for the three largest state banks, conditioned on remedial measures including a pause in new lending. To raise rubel funding, the largest state bank has introduced a risky new rubel deposit instrument that insures depositors against exchange rate changes, while paying a substantially higher yield (about ten percentage points) than equivalent dollar deposits.



Source: Belarusian authorities.

Policy Discussion

22. **Staff strongly supported recent measures to contain FX lending, but expressed concern about novel forms of FX exposure on deposits.** Staff welcomed the recent increase in risk weights for FX loans, which was in line with earlier staff advice. Pending information on the impact of this measure, staff urged the NBRB to closely monitor FX lending growth rates to ensure further moderation. Staff expressed concern about the new insured deposit instrument, which could expose the largest state bank to greater exchange rate risk and increases the cost of needed exchange rate adjustment.

23. **The NBRB concurred that FX lending growth bore close watching.** The NBRB agreed that the current rate of FX lending growth remained too high for comfort, and indicated that more prudential measures would be taken in case growth did not slow further. Regarding deposit dollarization, the NBRB was hopeful that the new insured deposit instrument would help get depositors interested in holding rubles again, and believed it would help alleviate rubel liquidity constraints. The NBRB was less concerned than staff about the attendant exchange rate risk, in view of their assessment that only gradual and moderate rubel depreciation is warranted.

D. Structural Policies

24. **Progress on structural reform remains essential to raise potential growth and promote stability beyond the short term.** Deep structural reforms that would promote a larger role for market mechanisms in resource allocation could greatly improve the efficiency and competitiveness of the Belarus economy.

Policy Discussion

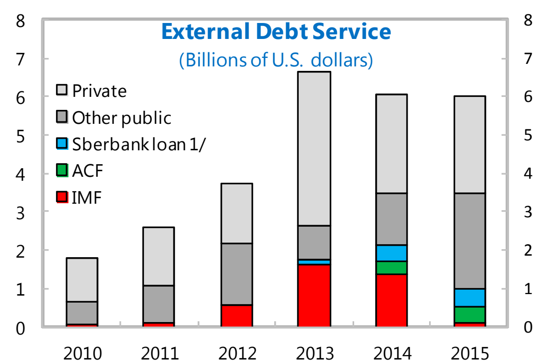
25. **Staff welcomed elements of the new joint action plan but stressed the need for deeper and more comprehensive reforms.** Staff also welcomed the authorities' continued engagement with the WTO and noted that the authorities' new action plan included steps in the right direction that, if properly implemented, would constitute much-needed progress. However, a more ambitious, consistent and frontloaded reform agenda is needed. For instance, the welcome plans for partial price liberalization will not yield their full benefits if they are not complemented with progressive lifting of remaining price controls and increased autonomy for companies to decide on their business plans. Specific steps recommended by staff include, initiation of a time-bound plan to increase cost recovery of utility and transport tariffs to the full

100 percent, a detailed plan for the reduction of the role of the state in the economy—including a rapid phase out of the system of mandatory targets for enterprises as well as detailed and credible plans for large-scale privatization and enterprise restructuring—and a strengthening of social safety nets to protect the most vulnerable in society.

26. The authorities favored a more gradual approach to reform and believed the measures in the plan were the maximum feasible at this time. The authorities were of the view that the Belarus population and business community was not ready for deeper reforms than those envisaged under the plan. While the authorities recognized the need for structural changes to improve the functioning of the economy, they preferred a gradual implementation of selective reforms that would maintain key tenets of Belarus' socially oriented model and would preserve social stability.

CAPACITY TO REPAY AND FUND RELATIONS

27. Repayment capacity is being tested as peak external payments have started. High external debt service in 2013–15—including repayments to the Fund of about US$1.6 billion in 2013, and about US$1.4 billion in 2014—in the context of a deteriorating current account and low and declining reserve levels pose serious challenges (Table 7). Moreover, there is significant uncertainty about projected capital inflows, with attendant risks of a disorderly external adjustment. In addition, the presence of sizable FX liabilities at the Central Bank implies a further external vulnerability.



Sources: Belarusian authorities; and IMF staff calculations.
1/ Loan guaranteed by the governemnt.

28. The authorities are making efforts to raise additional financing. They expect to receive the last remaining US$440 million tranche under the ACF program by year-end and are planning domestic FX debt issuance to help meet financing needs in 2013. With access to international capital markets limited, as illustrated by the abandoned attempts earlier this year to issue a Eurobond, and with global market conditions likely to tighten as the unwinding of unconventional monetary easing by major central banks gets underway, the authorities' main prospective source of additional financing is from new bilateral agreements.

Specifically, the authorities indicated that such bilateral financing is being pursued with Russia and China, but no concrete agreements have been reached to date.

29. A new Fund-supported program continues to require credible commitment to major policy changes. The authorities also reiterated their interest in a Fund-supported program. In this context, the staff indicated that a new Fund-supported program would require credible commitment, including at the highest level, to a comprehensive package of strong macroeconomic policies that support the required external rebalancing, together with bold, up front structural reform measures to ensure balanced and sustained growth in the future.

Belarus: Financing Requirements, 2012–14

(Millions of U.S. dollars)

	2012	2013 Proj.	2014 Proj.
Gross Financing Requirements	-10,298	-16,488	-15,570
Current account balance	-1,688	-6,636	-6,171
Amortization (MLT debt)	-2,556	-5,376	-4,651
of which IMF	*-465*	*-1,632*	*-1,261*
Short-term debt	-6,054	-4,477	-4,748
Financing Sources	10,298	16,488	15,570
Capital account (net)	4	2	3
FDI (net)	1,308	2,157	2,559
Portfolio investment inflows (net)	12	8	0
Borrowing (MLT)	4,417	6,867	5,268
of which ACF	*440*	*880*	*440*
Short-term financing	4,477	4,748	4,748
Other net [1/]	-1,629	981	957
Projected change in reserves (+ decrease)	-81	1,709	2,269
Memo Item: Stock of Reserves	8,095	5,707	3,438

Source: IMF staff calculations.

1/ Includes portfolio, net trade credits and other net investment assets. For 2012 also includes errors and omissions and valuation effects.

STAFF APPRAISAL

30. Widening external imbalances amid uncertain financing prospects require a strong policy response to mitigate the risk of a disorderly adjustment. The sharp deterioration of the current account, coinciding with peak repayment obligations in the period ahead, limited market access, and low and falling reserves, is posing an urgent challenge.

31. To contain domestic demand, it is essential that wage increases are halted and directed lending sharply reduced. Against the background of excessive wage increases in recent periods, further wage increases should be halted this year and in 2014. This would not only help contain demand, but also help recover lost competitiveness. In addition, it is critical that the flow of new directed lending is reduced—to two percent of GDP in 2014, and to one percent of GDP in 2015, with a view to a full phase out over the medium term. This would have the additional benefit of limiting the growth of contingent liabilities. Remaining directed lending should be channeled through the Development Bank in order to foster the operation of state banks on commercial terms, thereby supporting better credit allocation.

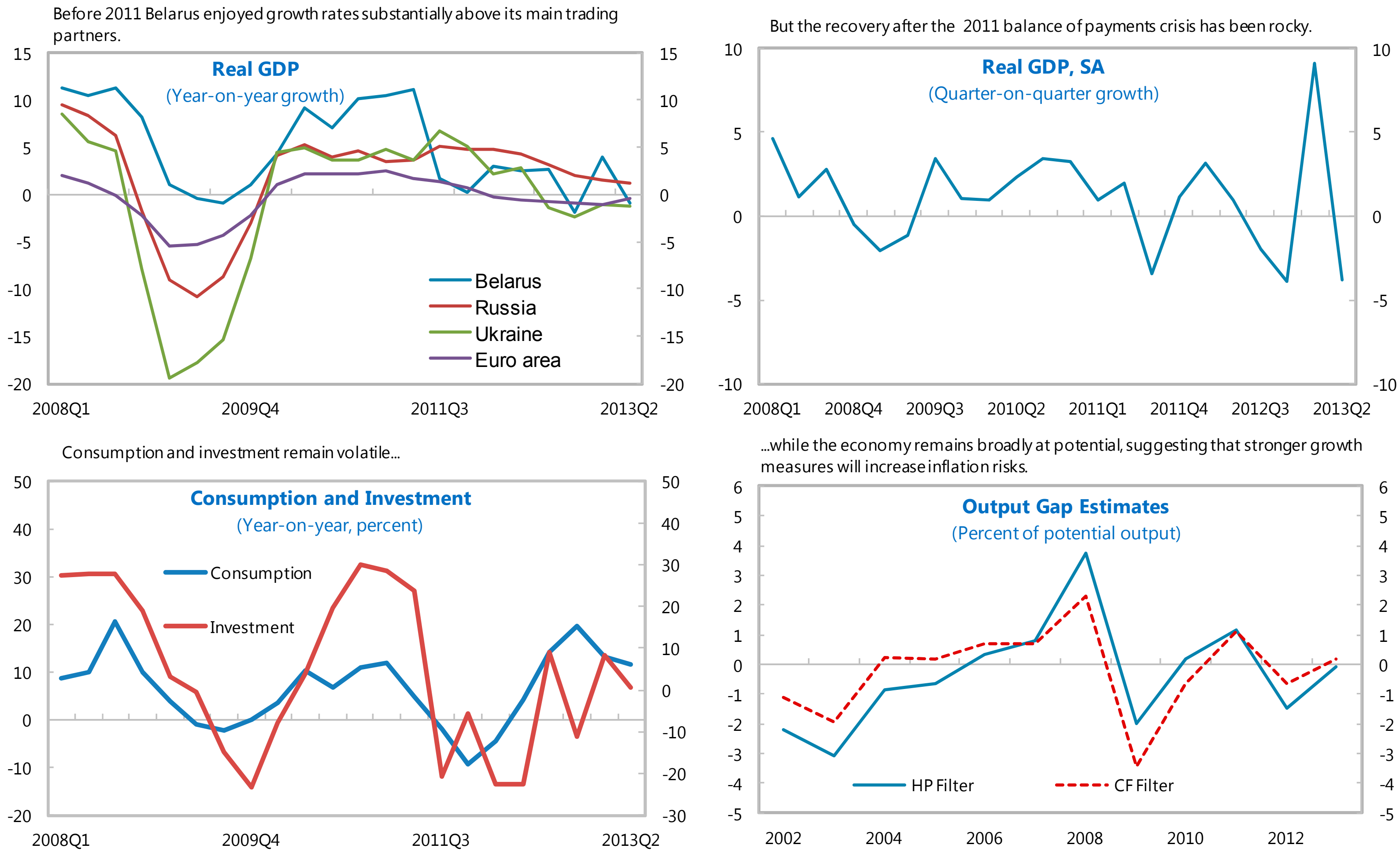
32. The deterioration of the fiscal balance needs to be corrected. In light of both liquidity constraints and the need to curtail domestic demand, the authorities should consider additional measures that would help reduce the deficit this year and that ensure a return to a balanced-budget stance in 2014. To the extent that directed lending exceeds two percent of GDP in 2014, the government should run a corresponding budget surplus so as to offset the demand effect and help prepare for associated future bank recapitalization costs.

33. Increased exchange rate flexibility and tighter monetary policy would facilitate external adjustment. To help narrow external imbalances and prevent further loss of reserves, the authorities should substantially scale back intervention in the foreign exchange market. This should be complemented by a tightening of monetary policy to help contain inflationary pressures and prevent exchange rate overshooting.

34. In the banking sector, the declining trend in FX lending growth is welcome and should be sustained. The measures taken by the NBRB to curb FX lending are welcome. Pending information on their impact, the NBRB should closely monitor trends in FX lending and stand ready to take further measures if growth does not slow further. Shortages of rubel liquidity in the banking system need to be addressed by a combination of external adjustment, temporary liquidity support, and reductions in directed lending, and without resorting to deposit instruments that expose banks to large currency risk.

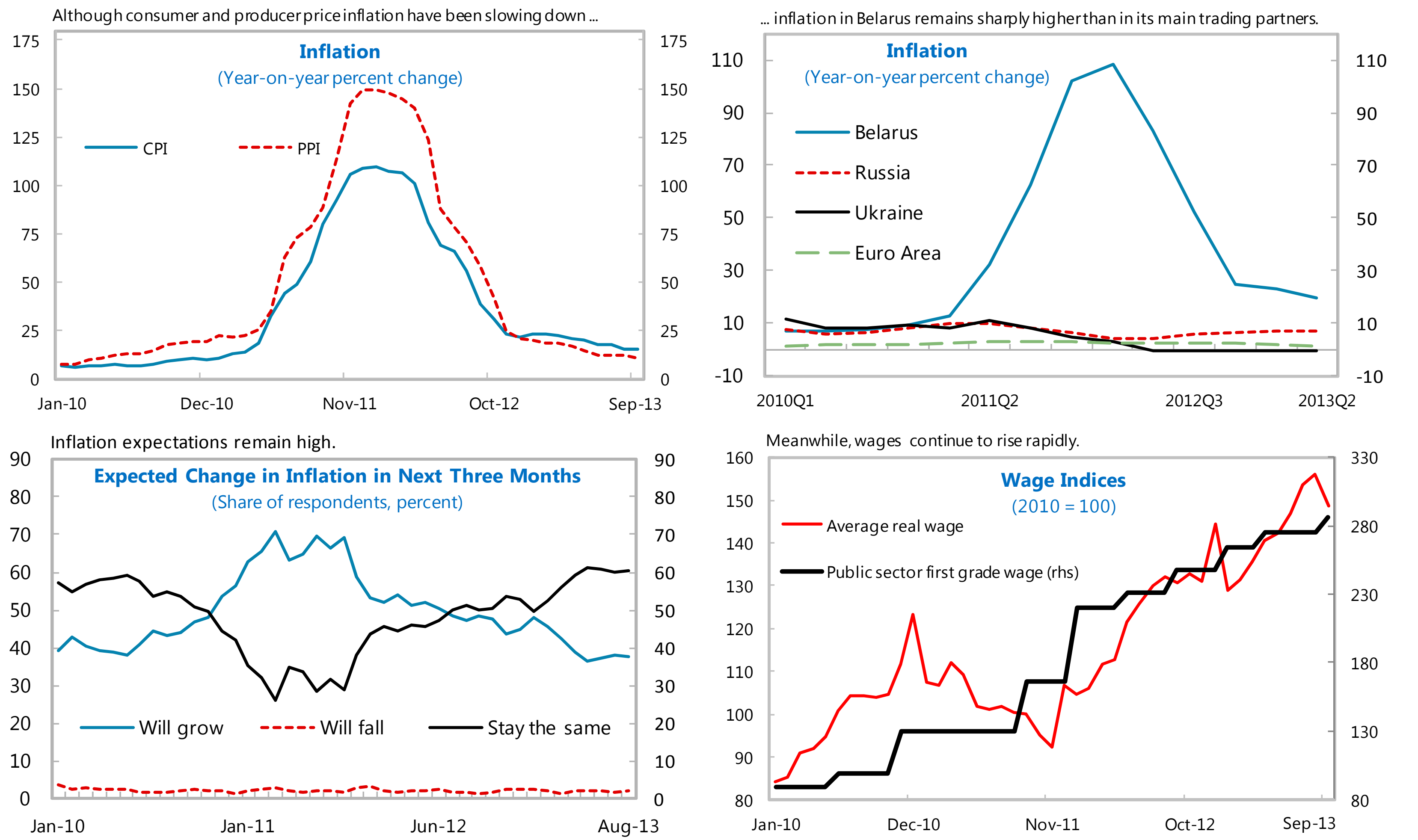
35. Decisive structural reform remains essential to raise potential growth and promote stability beyond the short term. In this context, the authorities' ongoing engagement with the WTO, with a view to future accession, is welcome. The recent Joint Action Plan also contains welcome elements, but a more ambitious, comprehensive and frontloaded reform agenda is needed. Specific steps would include initiation of a time-bound plan to increase cost recovery of utility and transport tariffs to the full 100 percent, a detailed plan and significant initial steps for reducing the role of the state in the economy—including a rapid phase out of the system of mandatory targets for enterprises and credible privatization and enterprise restructuring—and a strengthening of social safety nets to protect the most vulnerable in society.

Figure 1. Belarus: Real Sector Developments, 2008–13



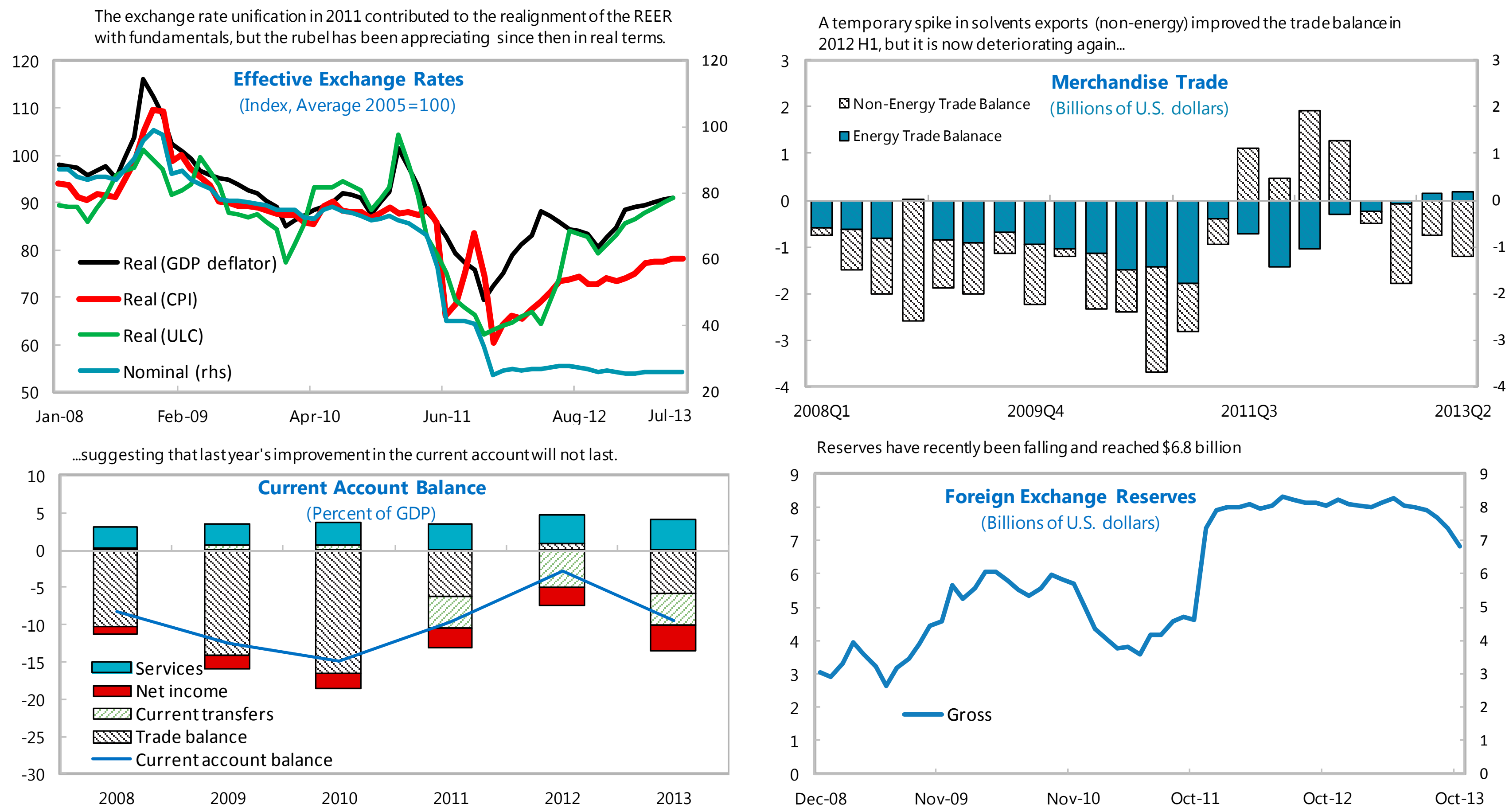
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 2. Belarus: Inflation and Wage Developments, 2010–13



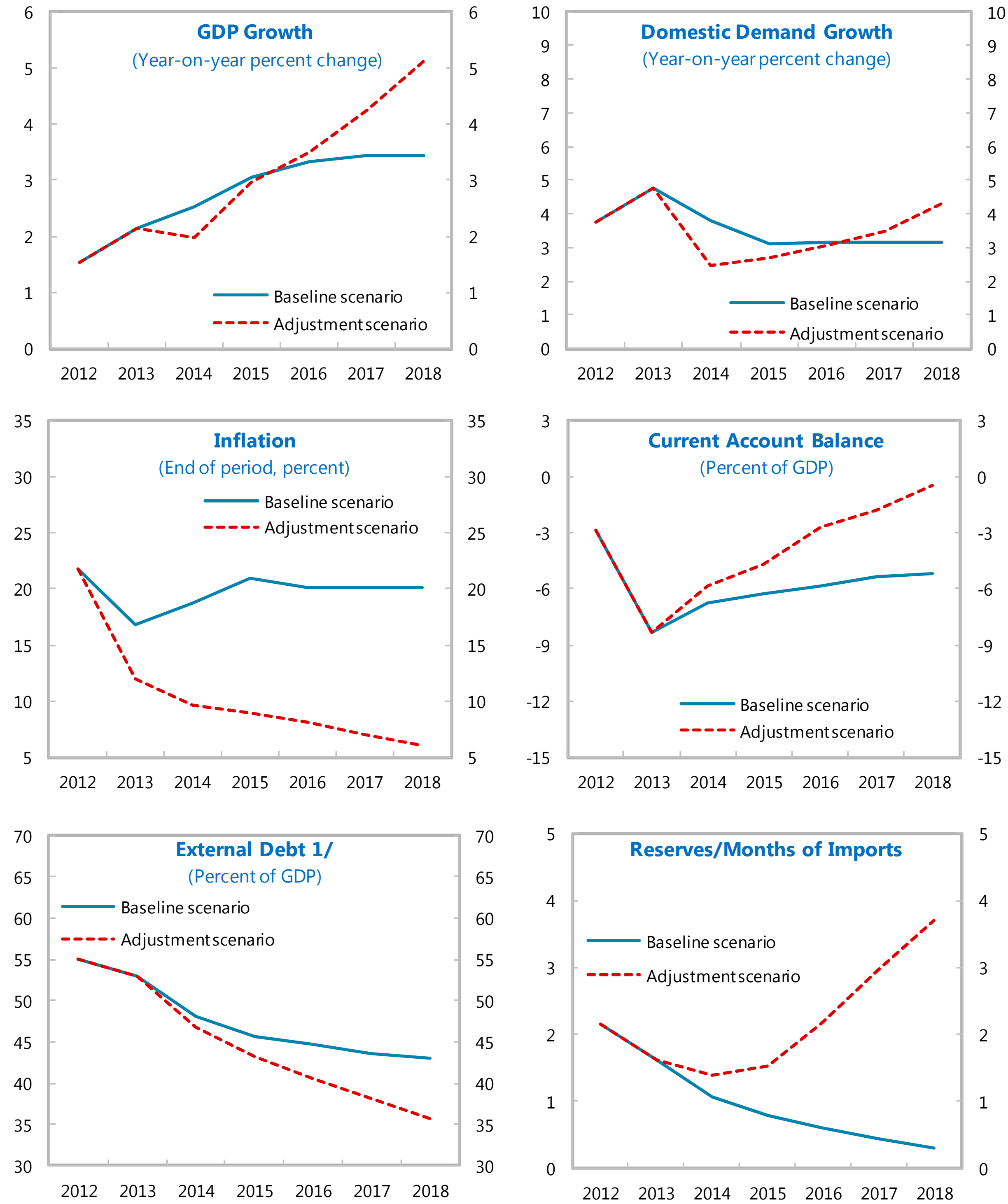
Sources: National Statistical Committee; NBRB and IMF staff estimates and calculations.

Figure 3. Belarus: External Sector, 2008–13



Sources: Belstat; National Bank of the Republic of Belarus; Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.

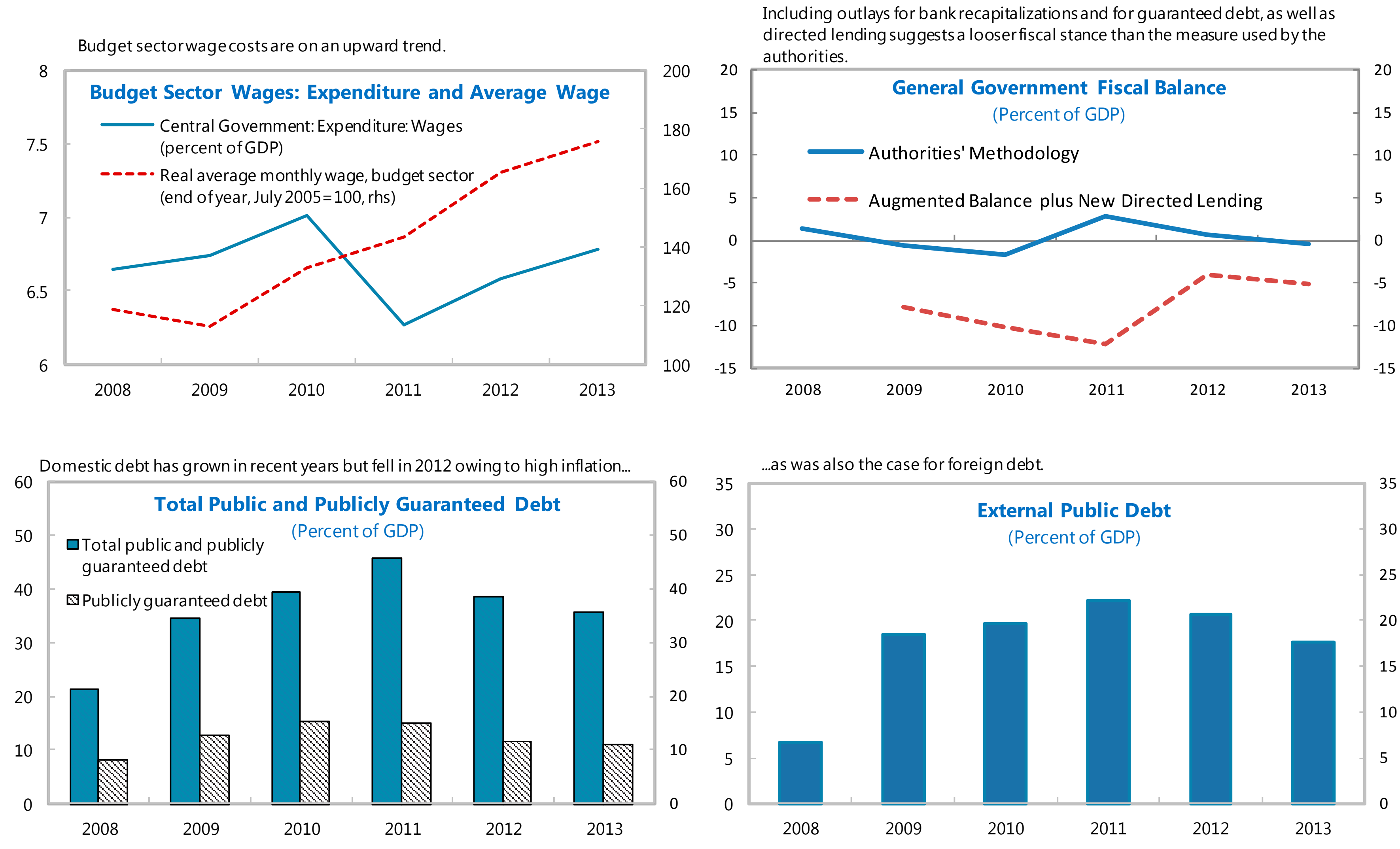
Figure 4. Belarus: Baseline and Adjustment Scenarios, 2012–18



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

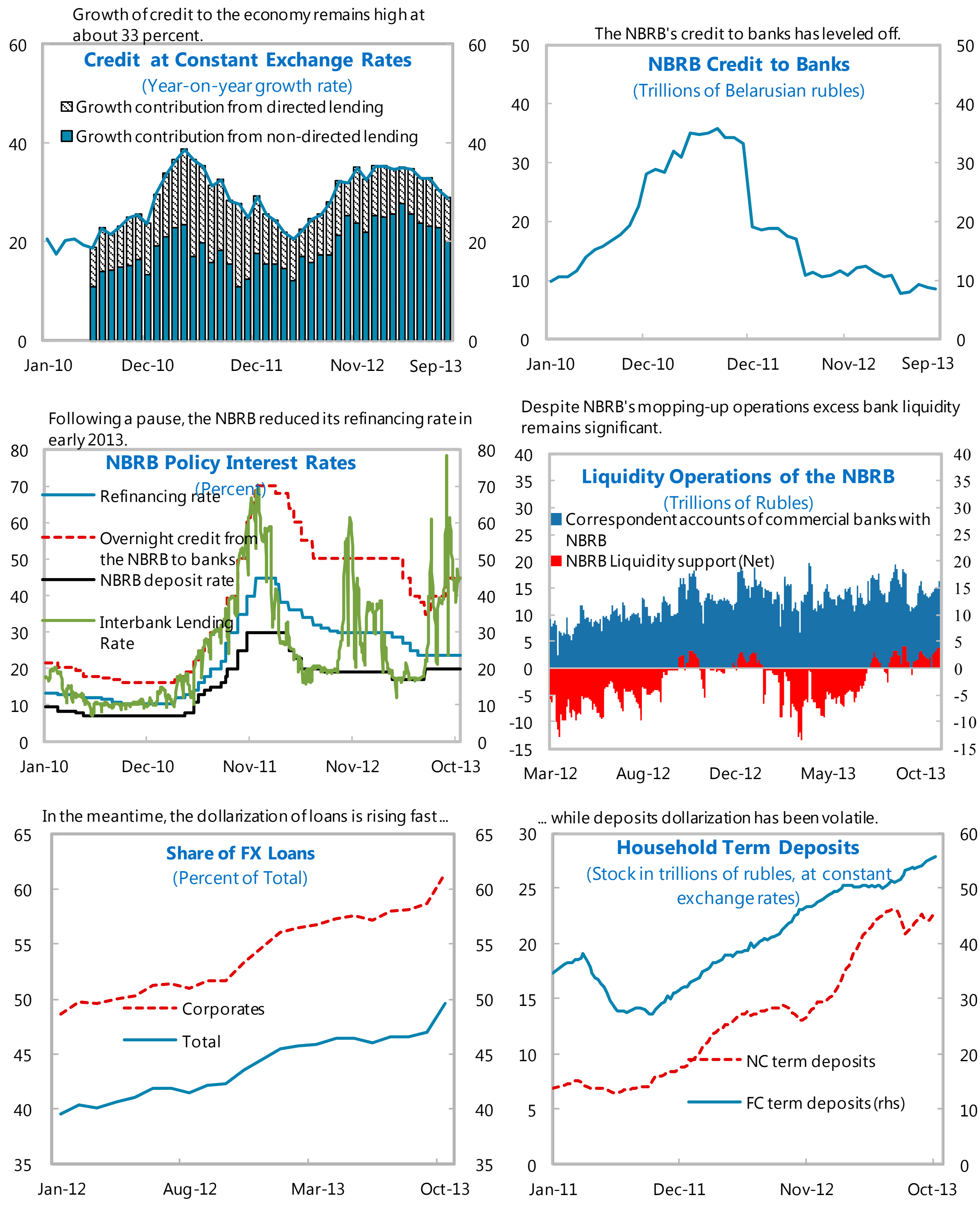
1/ The broadly constant external debt-to-GDP ratio in the baseline scenario is explained by an assumption that the gaps in the balance of payments are financed by drawdown of foreign exchange reserves rather than by external borrowing.

Figure 5. Belarus: Fiscal Developments, 2008–13



Sources: Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 6. Belarus: Monetary Developments, 2010–13



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

Table 1. Belarus: Selected Economic Indicators (Baseline Scenario), 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Proj.			
	(Percentage change)							
National accounts								
Real GDP	5.5	1.5	1.5	2.4	3.1	3.3	3.4	3.4
Total domestic demand	3.4	3.7	5.8	3.4	2.9	3.0	3.1	3.1
Consumption	1.0	8.2	7.0	3.8	3.0	3.0	3.1	3.0
Nongovernment	2.3	10.8	9.4	4.4	3.2	3.2	3.3	3.2
Government	-3.6	-1.2	-3.0	1.0	2.0	2.0	2.0	2.0
Investment	7.8	-3.7	3.5	2.7	2.7	3.0	3.1	3.2
Of which: fixed	13.9	-9.8	3.7	2.9	2.8	3.2	3.2	3.3
Net exports 1/	3.4	-1.8	-5.0	-1.6	-0.3	-0.2	-0.2	-0.2
Consumer prices								
End of period	108.7	21.8	14.5	15.5	16.5	16.5	16.5	16.5
Average	53.2	59.2	19.1	14.8	15.8	15.8	15.8	15.8
Monetary accounts								
Reserve money	84.1	61.6	23.4	29.5	32.7	32.7	32.6	32.6
Rubel broad money	64.1	57.2	27.5	29.8	33.2	32.9	32.7	32.7
	(Percent of GDP, unless otherwise indicated)							
External debt and balance of payments								
Current account balance	-8.5	-2.7	-9.4	-7.6	-5.9	-5.1	-4.9	-4.7
Trade balance	-5.8	0.9	-5.8	-6.2	-4.9	-4.8	-4.6	-4.5
Exports of goods	68.5	72.0	53.1	47.9	44.6	42.7	42.2	41.7
Imports of goods	-74.3	-71.2	-58.8	-54.1	-49.6	-47.5	-46.8	-46.2
Gross external debt	57.7	54.5	51.2	46.2	44.1	43.1	42.4	41.8
Public 2/	25.0	23.3	21.3	17.6	14.7	14.3	14.0	13.7
Private (mostly state-owned-enterprises)	32.7	31.2	29.8	28.7	29.4	28.8	28.3	28.1
Savings and investment								
Gross domestic investment	37.6	34.5	38.0	41.4	42.1	43.3	44.1	44.4
Government	5.1	6.5	5.0	5.4	5.4	5.4	5.4	5.4
Nongovernment	32.5	28.0	33.0	36.0	36.7	37.9	38.7	39.0
National saving	29.2	31.8	28.5	33.8	36.2	38.1	39.1	39.7
Government 3/	2.2	7.0	4.2	1.7	1.3	1.0	0.4	-0.1
Nongovernment 3/	26.9	24.8	24.4	32.1	34.9	37.2	38.7	39.9
Public sector finance								
General government balance	2.8	0.7	-0.5	-0.9	-1.3	-1.6	-2.2	-2.7
Augmented general government balance 4/	-2.9	0.5	-0.8	-3.7	-4.1	-4.4	-5.0	-5.5
Augmented general government balance incl. new directed lending	-12.1	-4.1	-5.2	-8.1	-8.5	-8.9	-9.4	-9.9
Of which: new directed lending (incl. Development Bank) 5/	9.3	4.6	4.4	4.4	4.4	4.4	4.4	4.4
Revenue	38.8	40.8	38.7	39.4	39.4	39.4	39.4	39.4
Expenditure 6/	41.6	40.2	39.5	43.1	43.5	43.8	44.4	44.9
Of which:								
Wages	6.3	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	7.3	7.7	8.2	8.6	8.3	8.3	8.3	8.3
Investment	5.1	6.5	5.0	5.4	5.4	5.4	5.4	5.4
Gross public debt 7/	45.9	38.7	35.8	35.6	34.2	35.5	37.2	39.2
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	60	63	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	527	670	857	1,052	1,270	1,517	1,796
Terms of trade, percentage change	6.0	7.2	-1.8	3.2	1.2	-1.1	0.2	-0.7
Official reserves (billions of U.S. dollars)	7.9	8.1	5.7	3.4	2.6	2.4	1.9	1.5
Months of imports of goods and services	1.9	2.1	1.4	0.8	0.6	0.5	0.4	0.3
Percent of short-term debt	56.9	63.8	42.7	24.5	17.6	14.9	11.4	8.5
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.
4/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and related to called guarantees of publicly guaranteed debt.
5/ Net changes in stock at current exchange rate.
6/ Refers to the augmented expenditure of the general government.
7/ 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), 2011–18 1/

(In millions of U.S. dollars; unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Proj.			
Current account balance	-5,053	-1,688	-6,635	-6,171	-5,294	-5,002	-5,137	-5,232
Trade balance (goods)	-3,467	565	-4,046	-5,000	-4,410	-4,669	-4,794	-5,011
Energy balance	-4,343	-1,675	-361	-823	-1,045	-1,826	-2,092	-2,470
Nonenergy balance	876	2,240	-3,685	-4,176	-3,365	-2,843	-2,702	-2,541
Exports	40,928	45,574	37,347	38,752	39,926	41,538	44,159	46,519
Energy	14,272	16,081	12,418	12,448	12,540	11,718	11,490	11,204
Nonenergy	26,655	29,493	24,929	26,305	27,386	29,820	32,669	35,315
Imports	-44,394	-45,009	-41,393	-43,752	-44,336	-46,206	-48,953	-51,530
Energy	-18,615	-17,756	-12,779	-13,271	-13,585	-13,544	-13,582	-13,674
Nonenergy	-25,779	-27,253	-28,614	-30,481	-30,751	-32,663	-35,371	-37,856
Services	2,258	2,443	2,842	3,125	3,296	3,374	3,406	3,414
Receipts	5,610	6,286	7,116	8,039	8,731	9,282	9,761	10,185
Payments	-3,352	-3,843	-4,274	-4,913	-5,435	-5,908	-6,355	-6,770
Income, net	-1,361	-1,473	-2,385	-1,502	-1,449	-1,429	-1,708	-1,781
Transfers, net 2/	-2,482	-3,223	-3,047	-2,795	-2,731	-2,277	-2,041	-1,854
Capital and financial accounts	4,569	1,073	5,679	4,722	4,565	4,743	4,693	4,833
Capital account	4	4	2	3	6	12	28	68
Financial account	4,564	1,069	5,676	4,720	4,559	4,731	4,665	4,765
Overall FDI, net	3,877	1,308	2,157	2,559	2,789	2,672	2,752	3,072
Portfolio investment, net	854	-190	-14	0	0	0	0	0
Trade credits, net	575	-1,789	-14	233	458	453	452	457
Loans, net	530	944	2,705	1,437	1,036	1,397	1,243	1,130
Government and monetary authorities, net	-327	314	1,254	232	104	840	808	769
Banks, net	70	125	940	798	511	318	264	187
Other sectors, net	788	506	511	407	422	239	171	174
Other, net	-1,272	796	842	490	276	209	218	107
Errors and omissions	1,035	721	0	0	0	0	0	0
Overall balance	551	106	-957	-1,448	-729	-259	-444	-398
Financing	-551	-106	957	1,448	729	259	444	398
Gross official reserves ("-" denotes an increase)	-2,791	-81	1,709	2,269	813	259	444	398
Use of IMF credit (+)	0	-465	-1,632	-1,261	-84	0	0	0
Other donors and exceptional financing items	2,240	440	880	440	0	0	0	0
Memorandum items:								
Current account balance (in percent of GDP)	-8.5	-2.7	-9.4	-7.6	-5.9	-5.1	-4.9	-4.7
Total external debt (in percent of GDP)	57.7	54.5	51.2	46.2	44.1	43.1	42.4	41.8
Gross official reserves (end-of-period)	7,916	8,095	5,707	3,438	2,626	2,367	1,923	1,524
In months of imports of goods and services	1.9	2.1	1.4	0.8	0.6	0.5	0.4	0.3
In percent of short-term debt	56.9	63.8	42.7	24.5	17.6	14.9	11.4	8.5
Export volume (annual percentage change)	33.0	11.0	-7.8	0.8	3.2	2.2	2.4	2.5
Import volume (annual percentage change)	15.9	9.4	-1.2	3.0	2.7	2.1	2.2	2.3

Sources: Belarus authorities; and IMF staff estimates.

1/ Data compiled based on BPM6.
2/ Values for 2011-18 include transfer of export duty on oil products to the Russian budget.

Table 3. Belarus: Selected Economic Indicators (Adjustment Scenario), 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Proj.			
(Percentage change)								
National accounts								
Real GDP	5.5	1.5	1.5	1.4	2.5	3.5	4.2	5.1
Total domestic demand	3.4	3.7	5.8	1.9	2.3	3.0	3.5	4.2
Consumption	1.0	8.2	7.0	1.6	1.9	2.6	3.2	3.6
Nongovernment	2.3	10.8	9.4	1.7	1.9	2.7	3.4	4.0
Government	-3.6	-1.2	-3.0	1.0	2.0	2.0	2.0	2.0
Investment	7.8	-3.7	3.5	2.5	3.2	3.9	4.1	5.2
Of which: fixed	13.9	-9.8	3.7	2.6	3.4	4.1	4.3	5.4
Net exports 1/	3.4	-1.8	-5.0	-0.8	-0.2	-0.1	0.0	0.2
Consumer prices								
End of period	108.7	21.8	14.5	9.9	9.5	8.8	7.6	6.7
Average	53.2	59.2	19.1	9.4	8.4	8.5	8.2	7.4
Monetary accounts								
Reserve money	84.1	61.6	23.4	25.2	25.8	26.5	29.8	30.4
Rubel broad money	64.1	57.2	27.5	25.4	26.2	26.6	29.9	30.5
(Percent of GDP; unless otherwise indicated)								
External debt and balance of payments								
Current account balance	-8.5	-2.7	-9.4	-6.9	-5.2	-2.8	-1.7	-0.3
Trade balance	-5.8	0.9	-5.8	-5.5	-4.4	-2.9	-1.9	-0.8
Exports of goods	68.5	72.0	53.1	47.3	43.4	39.9	37.5	35.3
Imports of goods	-74.3	-71.2	-58.8	-52.9	-47.8	-42.7	-39.4	-36.1
Gross external debt	57.7	54.5	51.2	45.8	42.7	40.2	38.1	35.9
Public 2/	25.0	23.3	21.3	17.4	14.3	13.4	12.6	11.7
Private (mostly state-owned-enterprises)	32.7	31.2	29.8	28.4	28.4	26.8	25.5	24.2
Savings and investment								
Gross domestic investment	37.6	34.5	38.0	42.8	45.5	48.0	50.4	52.7
Government	5.1	6.5	5.0	6.2	6.7	6.7	6.7	6.7
Nongovernment	32.5	28.0	33.0	36.6	38.8	41.3	43.7	46.0
National saving	29.2	31.8	28.5	35.8	40.3	45.2	48.8	52.4
Government 3/	2.2	7.0	4.2	3.1	3.9	3.9	4.9	4.9
Nongovernment 3/	26.9	24.8	24.4	32.7	36.4	41.3	43.9	47.5
Public sector finance								
General government balance	2.8	0.7	-0.5	-0.3	0.0	0.0	0.0	0.0
Augmented general government balance 4/	-2.9	0.5	-0.8	-3.1	-2.8	-2.8	-1.8	-1.8
Augmented general government balance incl. new directed lending	-12.1	-4.1	-5.2	-5.1	-3.8	-3.8	-2.8	-2.8
Of which: new directed lending (incl. Development Bank) 5/	9.3	4.6	4.4	2.0	1.0	1.0	1.0	1.0
Revenue	38.8	40.8	38.7	39.4	39.4	39.4	39.4	39.4
Expenditure 6/	41.6	40.2	39.5	42.5	42.2	42.2	41.2	41.2
Of which:								
Wages	6.3	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	7.3	7.7	8.2	7.3	6.3	6.3	6.3	6.3
Investment	5.1	6.5	5.0	6.2	6.7	6.7	6.7	6.7
Gross public debt 7/	45.9	38.7	35.8	33.5	30.4	29.5	28.7	27.7
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	60	63	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	527	670	828	976	1,158	1,353	1,577
Terms of trade, percentage change	6.0	7.2	-1.8	3.3	1.0	1.6	1.4	1.1
Official reserves (billions of U.S. dollars)	7.9	8.1	5.7	4.6	5.4	9.1	13.4	19.2
Months of imports of goods and services	1.9	2.1	1.4	1.1	1.3	2.1	2.9	3.7
Percent of short-term debt	56.9	63.8	42.7	32.8	36.1	56.8	78.4	105.2

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.
4/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and related to called guarantees of publicly guaranteed debt.
5/ Net changes in stock at current exchange rate.
6/ Refers to the augmented expenditure of the general government.
7/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 4. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2011–18

(Percent of annual GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.	Proj.					
1. State (republican and local) budget								
Revenue	28.8	30.0	27.9	28.6	28.6	28.6	28.6	28.6
Personal income tax	3.1	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Profit tax	2.9	3.7	3.3	3.2	3.2	3.2	3.2	3.2
VAT	8.9	8.6	8.4	9.2	9.2	9.2	9.2	9.2
Excises	1.9	2.1	2.4	2.4	2.4	2.4	2.4	2.4
Property tax	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Customs duties	5.1	4.8	3.7	3.6	3.6	3.6	3.6	3.6
Other	4.3	4.5	4.2	4.2	4.2	4.2	4.2	4.2
Revenue of budgetary funds	1.7	1.5	0.9	0.9	0.9	0.9	0.9	0.9
Expenditure (economic classification) 1/	26.7	29.4	28.4	29.4	29.7	29.9	30.4	30.8
Wages and salaries	6.3	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Social protection fund contributions	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Goods and services	5.2	5.4	5.6	5.6	5.6	5.6	5.6	5.6
Interest	1.1	1.4	1.4	1.2	1.7	2.0	2.4	2.8
Subsidies and transfers	7.3	7.7	8.2	8.6	8.3	8.3	8.3	8.3
Capital expenditures	5.1	6.5	5.0	5.4	5.4	5.4	5.4	5.4
Net lending	0.1	0.0	-0.3	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
State Budget Balance	2.1	0.5	-0.5	-0.8	-1.1	-1.3	-1.8	-2.2
2. Social Protection Fund								
Revenue	10.0	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Expenditure	9.3	10.7	10.8	10.9	11.0	11.1	11.2	11.3
Balance (cash)	0.7	0.1	0.0	-0.1	-0.2	-0.3	-0.4	-0.5
3. General government								
Revenue	38.8	40.8	38.7	39.4	39.4	39.4	39.4	39.4
Expenditure	36.0	40.1	39.2	40.3	40.7	41.0	41.6	42.1
Balance	2.8	0.7	-0.5	-0.9	-1.3	-1.6	-2.2	-2.7
Off-Balance sheet operations	-5.6	-0.2	-0.3	-2.8	-2.8	-2.8	-2.8	-2.8
Bank restructuring measures	-4.9	0.0	0.0	-2.0	-2.0	-2.0	-2.0	-2.0
Net lending to financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	-0.7	-0.2	-0.3	-0.8	-0.8	-0.8	-0.8	-0.8
Augmented balance 2/	-2.9	0.5	-0.8	-3.7	-4.1	-4.4	-5.0	-5.5
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	2.9	-0.5	0.8	3.7	4.1	4.4	5.0	5.5
Privatization	7.3	0.0	0.1	1.0	1.0	1.0	1.0	1.0
Foreign financing, net	3.1	-0.7	-0.9	-1.4	-1.2	0.8	0.7	0.5
Domestic financing, net 3/	-7.5	0.2	1.6	4.1	4.3	2.6	3.3	4.0
Memorandum items:								
Augmented general government balance with new directed lending	-12.1	-4.1	-5.2	-8.1	-8.5	-8.9	-9.4	-9.9
Of which: new directed lending (incl. Development Bank) 4/	9.3	4.6	4.4	4.4	4.4	4.4	4.4	4.4
Gross public debt 5/	45.9	38.7	35.8	35.6	34.2	35.5	37.2	39.2
GDP (trillions of Belarusian rubels)	297	527	670	857	1,052	1,270	1,517	1,796

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

1/ Includes changes in expenditure arrears.
2/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and outlays related to called guarantees of publicly guaranteed debt. Projected bank recapitalization costs over the medium term are based on 2008-11 historical average.
3/ Includes unidentified financing that is assumed to be filled by government domestic borrowing.
4/ Net changes in stock at current exchange rate.
5/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 5. Belarus: General Government Accounts, GFSM2001 Presentation, 2008–12 1/

(Percent of GDP)

	2008	2009	2010	2011	2012 Preliminary estimate
Revenues	50.7	45.8	43.0	39.8	42.3
Taxes	29.4	24.9	27.3	24.7	26.2
Income, profits and capital gains	7.8	6.5	8.5	7.0	8.3
Property	1.5	1.2	1.1	0.9	1.0
Goods and services	11.8	11.4	14.1	11.8	12.1
International trade	8.2	5.8	3.5	5.1	4.8
Social security contributions	11.3	11.8	11.7	9.7	10.5
Other revenues	10.0	9.1	4.0	5.4	5.6
Expenses	38.8	38.1	40.2	33.8	37.2
Compensation of employees	8.5	8.5	9.4	8.4	9.0
Wages and salaries	6.6	6.7	7.4	6.6	7.0
Social contributions	1.8	1.8	2.0	1.8	1.9
Uses of goods and services	6.7	6.3	7.4	6.4	7.2
Consumption of fixed capital	0.1	0.1	0.1	0.1	0.1
Interest	0.6	0.8	0.7	1.1	1.4
Subsidies	11.5	11.7	5.4	4.6	5.1
Social benefits	10.0	10.7	13.6	11.4	12.7
Other expenses	1.5	0.0	3.7	1.8	1.7
Gross operating balance	11.8	7.7	2.8	6.0	5.0
Net acquisition of nonfinancial assets	9.9	8.1	4.8	3.3	4.5
Net borrowing/lending (overall balance)	1.9	-0.4	-2.0	2.7	0.5
Transactions in financial assets and liabilities	1.9	-0.4	-2.0	-2.7	0.5

Source: Belarusian authorities.

1/ The GFSM presentation includes a very small amount of non-budgeted expenditures and revenues. These items include incidental sales and associated expenditures from non-market institutions.

Table 6. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2011–18

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

	2011	2012	2013	2014	2015	2016	2017	2018
					Proj.			
Reserve money	18.8	30.3	37.4	48.5	64.3	85.4	113.2	150.1
Rubel reserve money	16.9	29.9	37.0	48.0	63.8	84.8	112.6	149.4
Currency outside banks	6.7	11.3	13.8	17.9	23.7	31.5	41.8	55.4
Required reserves	7.4	13.8	16.4	23.9	32.9	44.4	60.1	82.9
Time deposits, NBB securities, and nonbank deposits	2.8	4.8	6.8	6.2	7.2	8.9	10.8	11.1
Foreign currency reserve money	1.9	0.4	0.4	0.5	0.5	0.6	0.6	0.7
Net foreign assets	36.7	43.7	38.3	32.7	27.7	27.3	23.8	20.0
Billions of U.S. dollars	4.4	5.1	4.0	3.1	2.4	2.1	1.6	1.2
Foreign assets	83.7	78.3	60.5	43.1	38.2	39.0	36.8	34.3
Billions of U.S. dollars	10.0	9.1	6.3	4.1	3.3	3.0	2.5	2.1
Of which gross international reserves	66.1	69.4	54.3	36.3	30.7	30.6	27.4	23.9
Billions of U.S. dollars	7.9	8.1	5.7	3.4	2.6	2.3	1.9	1.5
Foreign liabilities	47.0	34.5	22.2	10.4	10.6	11.7	12.9	14.3
Net domestic assets	-17.9	-13.4	-0.9	15.8	36.6	58.1	89.4	130.1
Net domestic credit	-29.5	-29.9	-13.0	19.3	36.2	53.7	87.3	130.8
Net credit to general government	-62.9	-56.0	-49.9	-38.3	-25.7	-36.4	-46.9	-56.3
Credit to economy	33.4	26.1	36.9	57.5	61.9	90.1	134.2	187.1
Credit to banks	19.1	12.0	23.5	46.8	53.4	83.2	128.7	182.7
National currency	13.5	9.7	20.9	42.8	47.8	75.7	118.9	170.2
Foreign currencies	5.6	2.4	2.6	4.0	5.6	7.5	9.8	12.5
Billions of U.S. dollars	0.7	0.3	0.3	0.4	0.5	0.6	0.7	0.8
Credit to nonbanks	14.2	14.1	13.4	10.7	8.6	6.9	5.5	4.4
Other items, net	11.6	16.4	12.1	-3.5	0.4	4.4	2.1	-0.6
Memorandum item:								
12-month percent change in reserve money	84.1	61.6	23.4	29.5	32.7	32.7	32.6	32.6

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

Table 7. Belarus: Monetary Survey (Baseline Scenario), 2011–18

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

	2011	2012	2013	2014	2015	2016	2017	2018
					Proj.			
Broad money (M3)	111.2	160.8	214.2	298.6	407.3	547.6	736.7	1,005.3
Rubel broad money (M2)	43.4	68.1	86.9	112.7	150.2	199.6	265.0	351.6
Currency in circulation	6.7	11.3	13.8	17.9	23.7	31.5	41.8	55.4
Domestic currency deposits	34.5	54.3	69.4	90.1	120.2	159.8	212.1	281.4
Domestic currency securities	2.2	2.5	3.7	4.7	6.3	8.4	11.1	14.8
Foreign currency deposits	64.1	88.6	121.8	177.8	245.9	332.8	451.2	625.2
Bank securities in foreign currency	3.7	4.0	5.6	8.1	11.2	15.2	20.6	28.5
Net foreign assets	5.8	4.7	-16.2	-36.1	-46.5	-52.3	-68.1	-85.2
Billions of U.S. dollars	0.7	0.5	-1.7	-3.4	-4.0	-4.0	-4.7	-5.3
NFA of central bank	36.7	43.7	38.3	32.7	27.7	27.3	23.8	20.0
NFA of deposit money banks	-30.9	-39.0	-54.5	-68.8	-74.2	-79.6	-92.0	-105.2
Net domestic assets	105.4	156.1	230.4	334.7	453.7	599.9	804.8	1,090.5
Net domestic credit	104.6	159.3	249.5	348.8	452.8	572.4	745.2	990.5
Net credit to general government	-67.1	-70.5	-72.4	-68.8	-56.2	-66.8	-77.4	-86.8
Credit to economy	171.7	229.8	321.9	417.5	509.0	639.3	822.6	1,077.3
Other items, net	0.9	-3.3	-19.2	-14.1	0.9	27.4	59.6	100.1
Memorandum items:								
12-month percent change of credit to economy excl. valuation effect	37.0	32.4	33.4	22.7	15.2	17.8	19.8	20.9

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

Table 8. Belarus: Capacity to Repay the Fund (Baseline Scenario), 2012–18 1/

	2012	2013	2014	2015	2016	2017	2018
Fund repurchases and charges							
Millions of SDRs	350	1,112	838	55	0	0	0
Millions of U.S. dollars	538	1,681	1,274	84	0	0	0
Percent of exports of goods and services	1	4	3	0	0	0	0
Percent of total debt service 2/	15	25	21	1	0	0	0
Percent of quota	91	288	217	14	0	0	0
Percent of gross international reserves	7	29	37	3	0	0	0
Fund credit outstanding							
Millions of SDRs	1,966	886	55	0	0	0	0
Millions of U.S. dollars	3,025	1,339	83	0	0	0	0
Percent of exports of goods and services	6	3	0	0	0	0	0
Percent of quota	509	229	14	0	0	0	0
Percent of gross international reserves	37	23	2	0	0	0	0
Memorandum items:							
Exports of goods and services (millions of U.S. dollars)	51,861	44,463	46,791	48,657	50,820	53,920	56,704
Debt service (millions of U.S. dollars)	3,672	6,806	6,091	6,146	4,583	5,049	5,924
Quota (millions of SDRs)	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	595	584	588	591	594	597	600
Gross international reserves (millions of U.S. dollars)	8,095	5,707	3,438	2,626	2,367	1,923	1,524
U.S. dollars per SDR (period average)	1.532	1.511	1.517	1.525	1.534	1.542	1.550
U.S. dollars per SDR (eop)	1.539	1.512	1.521	1.529	1.537	1.545	1.553

Source: IMF staff calculations.

1/ Assumes repurchases are made on obligations schedule.

2/ Debt service includes interest on the entire debt stock and amortization of medium-and long-term debt.

Table 9. Belarus: Indicators of External Vulnerability, 2009–12

	2009	2010	2011	2012 Prel.
CPI inflation (end year)	10.1	9.9	108.7	21.8
Export volume of goods (percent change)	-11.5	2.8	33.0	11.0
Import volume of goods (percent change)	-12.6	8.0	15.9	9.4
Current account balance (percent of GDP)	-12.6	-15.0	-8.5	-2.7
Capital and financial account balance (millions of U.S. dollars)	5,066	6,444	4,569	1,073
Of which:				
Foreign direct investment, net	1,782	1,352	3,877	1,308
Trade credits, net	657	568	575	-1,789
Official Liabilities, net	4,739	1,975	2,185	-632
Liabilities of the banking sector, net	483	2,296	474	29
Non-bank private liabilities (excl. trade credits) 1/	349	39	856	475
Gross official reserves (millions of U.S. dollars)	5,653	5,031	7,916	8,095
Months of imports of goods and services	1.8	1.3	1.9	2.1
Percent of broad money	22.7	16.3	59.4	43.8
Gross total external debt (millions U.S. dollars)	22,439	28,770	34,454	34,454
Percent of GDP	45.6	52.1	57.7	54.5
Percent of exports of goods and services	90.2	96.2	74.0	66.4
Gross short-term external debt (millions of U.S. dollars)	9,342	12,155	14,113	12,693
Percent of gross total external debt	42	42	41	37
Percent of gross official reserves	165	242	178	157
Debt service ratio (percent) 2/	6.0	6.0	5.4	6.9
REER percent change (CPI based, period average)	-4.5	-5.0	-11.7	-8.2
Capital adequacy ratio (percent) 3/	19.8	20.5	24.7	20.8
Nonperforming loans (percent of total)	4.2	3.5	4.2	5.5
Banks' net open FX position (percent of regulatory capital)	-11.6	-1.4	9.4	9.0

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

1/ Includes loans, currency and deposits and other flows.
2/ Interest plus medium- and long-term debt repayments in percent of exports of goods and services.
3/ Regulatory capital in percent of risk-weighted assets.

Appendix I. Belarus: Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
1. Protracted period of slower European growth and/or deeper than expected EM slowdown (in particular in Russia)	**High/Medium** Debt, deleveraging, financial fragmentation, and negative shocks to potential growth could negatively affect the euro area outlook, while financial stresses and delays in structural reforms could slow growth in EMs.	**High/Medium** Slower growth in the Euro area or Russia would produce negative spillovers through trade and remittances, causing further current account deterioration and raising external financing needs.	• Increase exchange rate flexibility. • Tighten macro-economic policies to narrow external imbalances. • Speed up structural reform to increase competitiveness.
2. Negative terms of trade shock	**Medium** Commodity price shocks could affect the balance of payments including through effects on growth in Russia.	**High** A negative shock would weaken the balance of payments and raise external financing needs.	
3. External financing	**High** External financing may fall short of expectations—e.g., if the last ACF tranche is not disbursed. However, expectations could also be exceeded if agreement on further bilateral support were reached.	**High** Financing shortfalls would further reduce the sustainability of current BoP trends and may trigger sharp adjustment. Financing windfalls would provide temporary relief.	
4. Loose macroeconomic policies	**Medium** A further loosening of policies could be pursued to boost growth.	**High** Stimulus efforts would boost demand and reignite inflation and fuel pressures on the exchange rate.	• Tighten macroeconomic policies including monetary, wage, exchange rate, and directed lending policies.
5. Weakening economic environment could reduce banks' asset quality	**Medium** Slowdown in economic activity could increase problem loans and require renewed bank recapitalization.	**Medium** Potential state-owned bank recapitalization costs could be high and could exacerbate public debt dynamics.	• Intensify supervision and oversight over large banks, including through more frequent onsite monitoring. • Reduce new subsidized and directed lending.

Appendix II. Belarus: External Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual					Projections 1/						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing noninterest current account 7/
Baseline: external debt	25.0	45.6	52.1	57.7	55.1	53.4	48.3	45.9	44.9	43.8	43.2	-4.0
Change in external debt	-1.5	20.6	6.5	5.6	-2.6	-1.7	-5.0	-2.5	-1.0	-1.1	-0.6	
Identified external debt-creating flows (4+8+9)	-1.8	14.9	7.7	-0.5	-2.2	4.3	2.5	1.8	1.7	1.3	1.0	
Current account deficit, excluding interest payments	7.4	11.5	13.9	8.1	1.1	6.2	4.8	4.6	4.7	4.0	3.8	
Deficit in balance of goods and services	7.6	11.3	13.5	2.7	-4.6	-0.1	1.0	1.1	2.0	1.8	1.9	
Exports	61.0	50.5	54.2	78.1	81.8	65.6	61.2	58.4	55.7	54.9	54.2	
Imports	68.6	61.8	67.7	80.9	77.2	65.5	62.1	59.5	57.7	56.7	56.2	
Net non-debt creating capital inflows (negative)	-3.3	-3.5	-2.3	-6.2	-1.8	-3.0	-3.0	-3.1	-2.7	-2.6	-2.8	
Automatic debt dynamics 2/	-5.9	6.9	-3.8	-2.4	-1.4	1.0	0.7	0.4	-0.2	0.0	0.0	
Contribution from nominal interest rate	0.8	1.0	1.1	1.5	1.8	2.1	1.9	1.7	1.2	1.4	1.4	
Contribution from real GDP growth	-2.0	0.0	-3.1	-2.7	-0.8	-1.1	-1.2	-1.4	-1.4	-1.4	-1.4	
Contribution from price and exchange rate changes 3/	-4.7	5.9	-1.8	-1.3	-2.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	0.3	5.7	-1.2	6.1	-0.4	-6.0	-7.5	-4.3	-2.7	-2.4	-1.6	
External debt-to-exports ratio (percent)	40.9	90.2	96.2	73.8	67.3	81.3	79.0	78.6	80.6	79.7	79.7	
Gross external financing need (billions of U.S. dollars) 5/	13.4	14.7	18.8	19.6	18.0	24.2	23.8	24.4	23.5	24.3	25.9	
Percent of GDP	22.0	30.0	34.0	32.8	28.4	35.0	30.7	28.7	25.5	24.4	24.4	
Scenario with key variables at their historical averages 6/						53.4	47.6	44.1	41.7	39.7	38.1	-6.8
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	10.3	0.1	7.7	5.5	1.5	2.1	2.5	3.1	3.3	3.4	3.4	
GDP deflator in U.S. dollars (percent change)	21.7	-19.1	4.2	2.5	4.3	7.2	9.3	6.4	4.7	4.3	3.0	
Nominal external interest rate (percent)	4.3	3.3	2.8	3.2	3.3	4.1	4.1	3.9	2.8	3.4	3.4	
Growth of exports (U.S. dollar terms, percent)	34.2	-32.9	20.3	56.1	10.9	-12.2	4.5	4.6	3.2	6.5	5.2	
Growth of imports (U.S. dollar terms, percent)	37.0	-27.0	22.8	29.3	1.1	-7.1	6.3	5.0	4.9	6.1	5.5	
Current account balance, excluding interest payments	-7.4	-11.5	-13.9	-8.1	-1.1	-6.2	-4.8	-4.6	-4.7	-4.0	-3.8	
Net nondebt creating capital inflows	3.3	3.5	2.3	6.2	1.8	3.0	3.0	3.1	2.7	2.6	2.8	

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).

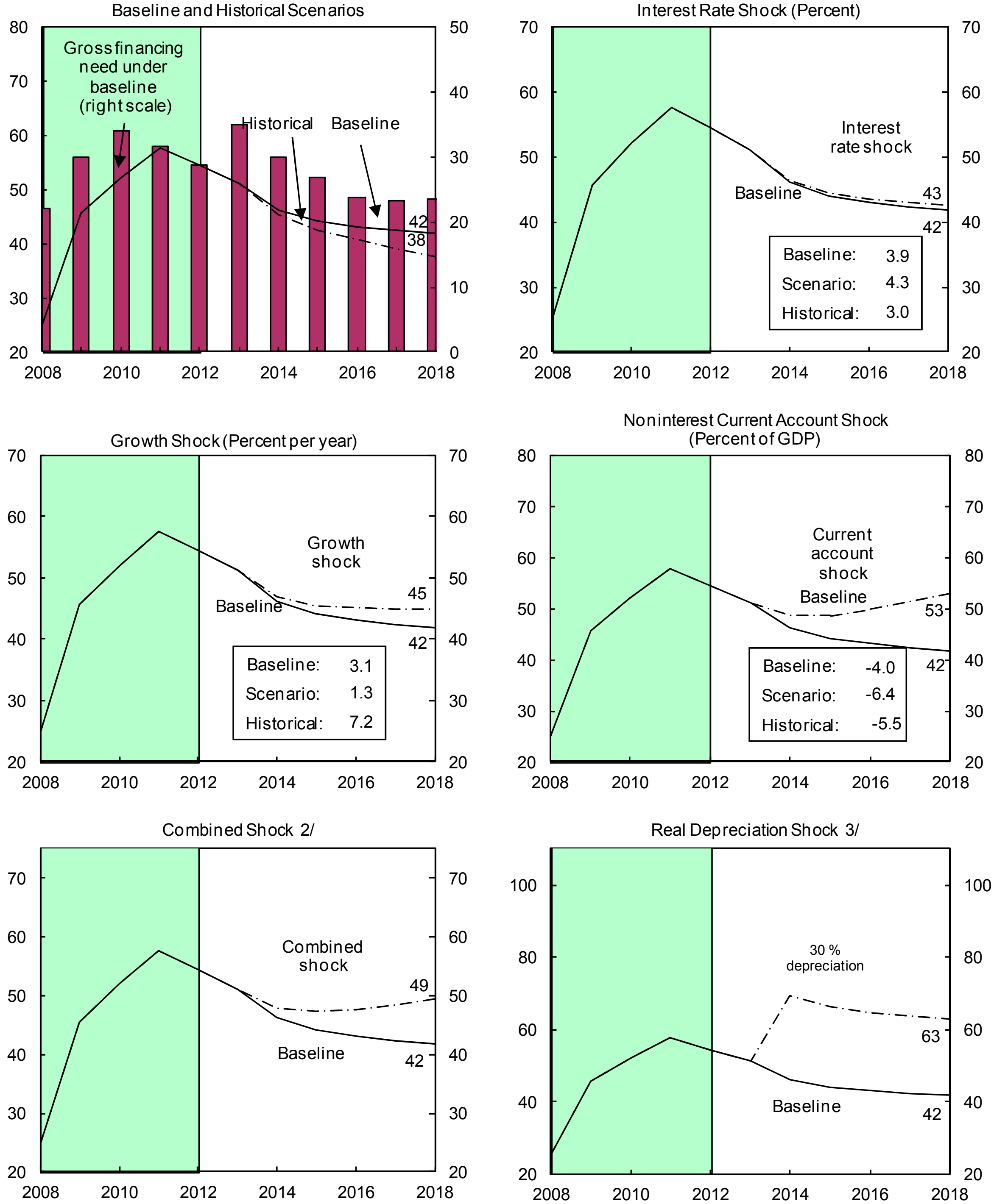
4/ For projection, line includes the impact of price and exchange rate changes.

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.

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 III. Belarus: Public Debt Sustainability Analysis

Assessing public sector debt dynamics in Belarus is complicated owing to the large contingent liabilities associated with directed and subsidized lending programs as well as the large stock of domestic guarantees issued by both the central and local governments. Although, the headline debt ratios remain moderate at around 25 percent of GDP in 2013, the medium term outlook is weighed down by risks stemming from quasi-fiscal operations, changes to the macroeconomic environment, large external financing requirements, and limited market access.

Baseline and Realism of Projections[1]

Owing to projected higher fiscal deficits, baseline projections anticipate an increase in public indebtedness over the medium term, while the gross financing need is likely to increase. Moreover, Belarus faces difficulties with external market access, which is expected to force increasing reliance on domestic financing sources. The currency composition of domestic debt changed over the last year, as the authorities were able to issue lower cost foreign currency domestic debt in place of local currency debt. This led to a fall in debt servicing costs in the short run. However, the baseline assumes increasing interest rates over the medium term due to uncertainties about fiscal sustainability. This will lead to a gradually deteriorating interest/growth differential and weakening debt dynamics. The baseline further assumes significant privatization proceeds but there is considerable uncertainty around this assumption given the limited receipts received in recent years.

- **Growth.** Over the last decade or so, growth rates have been volatile, with periods of high growth punctuated by abrupt down-turns. Until recently, growth outcomes tended to be better than projected by staff at the expense of widening external imbalances. Over the past few years, however, staff projections increasingly converged towards actual outcomes. Looking ahead, the 2½ percent growth projection for 2014 is close to consensus and growth is projected to remain moderate over the medium term, while risks of negative growth shocks remain high.

- **Fiscal Outlook.** The primary deficit is projected to weaken over the medium term. In the near term, this deterioration is due to lower revenues owing to weaker export receipts and

[1] The new DSA framework is described in (http://www.imf.org/external/np/pp/eng/2013/050913.pdf).

higher subsidies. Thereafter, off-balance sheet operations—notably, bank recapitalizations and expenditures on called government guarantees—are projected to be the main factor contributing to weakening fiscal outcomes. This reflects the impact of the deteriorating quality of loans channeled through the directed lending programs, which amount to about 18 percent of GDP. Since directed lending has been extended by state banks it is expected that the government would fill any shortfall in repayments by recapitalizing the banks and the baseline therefore assumes bank recapitalization costs of 2 percentage points of GDP per year in line with recent history. Separately, over the medium term, deteriorating demographics will put pressure on the finances of the Social Protection Fund.

- **Debt Levels**. In 2013, the headline debt ratio, which excludes both the stock of directed lending and guarantees, is just under 25 percent of GDP. However, the ratio of public debt and government guaranteed debt is considerably higher—standing at almost 36 percent of GDP. In the baseline projection, given increasing fiscal deficits, these ratios are expected to increase to 29 percent and 40 percent respectively by 2018.

- **Financing requirements.** In 2013, gross financing needs are estimated at just under 6 percent of GDP. However, this ratio is projected to double over the medium term, as a large proportion of the external debt stock matures. This is reflected in a sharply declining external debt-to-GDP ratio, which is projected to fall from 18 percent in 2013 to 12 percent by 2018. To offset the loss of external financing, a move to higher cost shorter maturity domestic debt is assumed, thus driving up the gross financing need ratio.

Shocks and Stress Tests

Stress tests indicate that debt dynamics are vulnerable to changes in the interest rate-growth rate differential and the exchange rate. Plausible parameters for the shocks result in substantial increases in debt ratios, and have an especially marked impact on gross financing needs. While debt ratios do not exceed 40 percent, the scenarios indicate that in the event of negative shocks to growth, real interest rates, and the real exchange rate, gross financing needs could exceed 15 percent of GDP—a high level that would be cause for concern.

- **Growth shock**. Under this scenario, real output growth rates are lowered during 2014–15. This is the scenario with the biggest impact on Belarus' debt and financing needs. By 2018, the public debt ratio increases by 12 percentage points of GDP, while the gross financing needs ratio in 2018 increases by 3.2 percent relative to the base line.

- **Interest rate shock.** This scenario examines the implications for debt sustainability of an increase in spreads by 700 basis points. The deterioration in the ratios for debt and gross financing need are back-loaded as old debt gradually matures and new higher interest rate debt is contracted. However, by 2018, the impact on financing needs is large.

- **Exchange rate shock.** This scenario assumes 15 percent devaluation in the real exchange rate in 2014. This shock results in a significant increase in debt ratios and gross financing needs in the near term.

- **Primary balance shock.** This scenario examines the implications of a revenue shock and a rise in interest rates leading to a cumulative 1.5 percentage points of GDP deterioration in the primary balance. The combined shocks leads to a deterioration in the debt ratio and gross financing needs, but the impact of this shock is more muted than in other scenarios under consideration.

- **Additional stress tests.** Two further scenarios—a combined macro shock and a contingent liability shock—are also considered. The combined macro shock, comprising of a recession in 2014-15, a 500 basis point increase in interest rates, and a sharp rise in expenditures, pushes the debt to GDP ratio up towards 50 percent of GDP, coupled with a sizable increase in gross financing needs. The contingent liability shock assumes a 10 percent increase in expenditures, a 100 basis point increase in interest rates, and a decline in GDP, and results a 12 percentage point increase in the debt ratio and an 11 percentage point increase in gross financing need relative to the baseline.

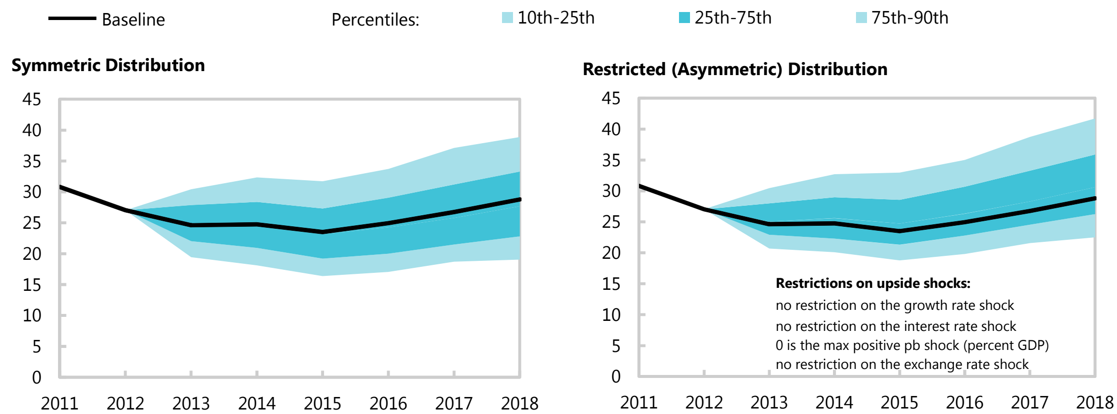
Belarus: Public Sector Debt Sustainability Analysis (DSA) – Risk Assessment

Heat Map

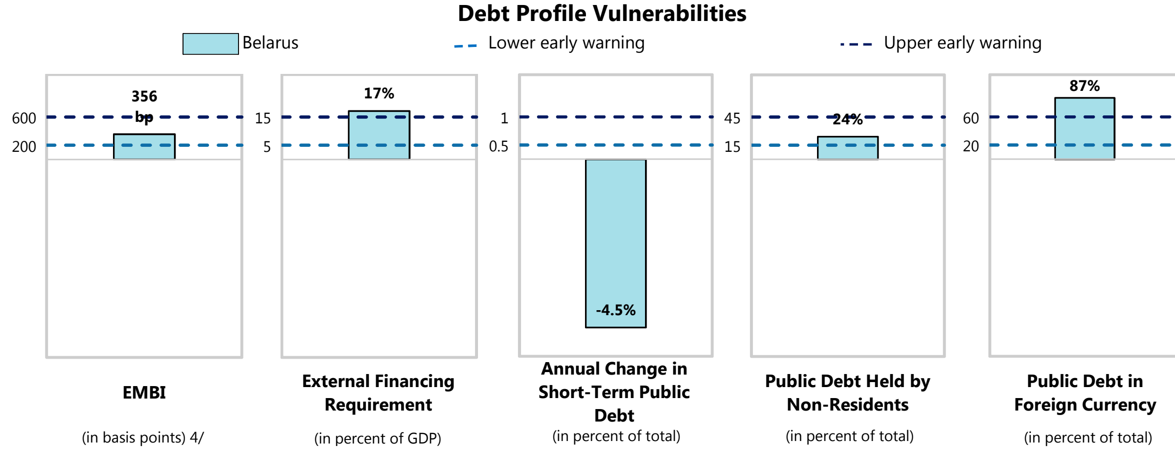
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing	Change in the Share of Short-	Public Debt Held by Non-	Foreign Currency

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

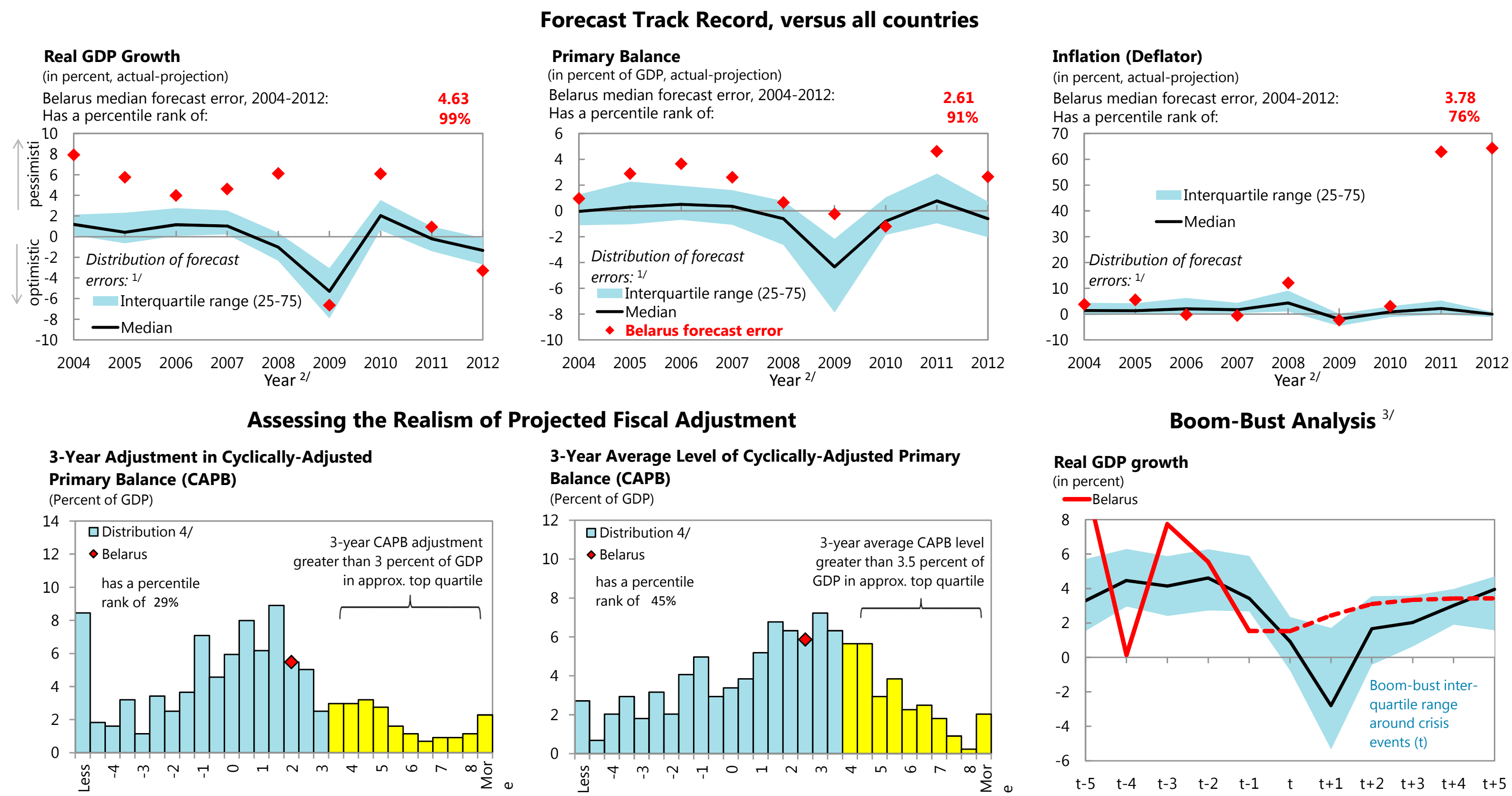
2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 10-Jun-13 through 08-Sep-13.

Belarus Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Belarus has had a positive output gap for 3 consecutive years, 2010-2012. For Belarus, t corresponds to 2013; for the distribution, t corresponds to the first year of the crisis..

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Belarus Public DSA – Baseline Scenario

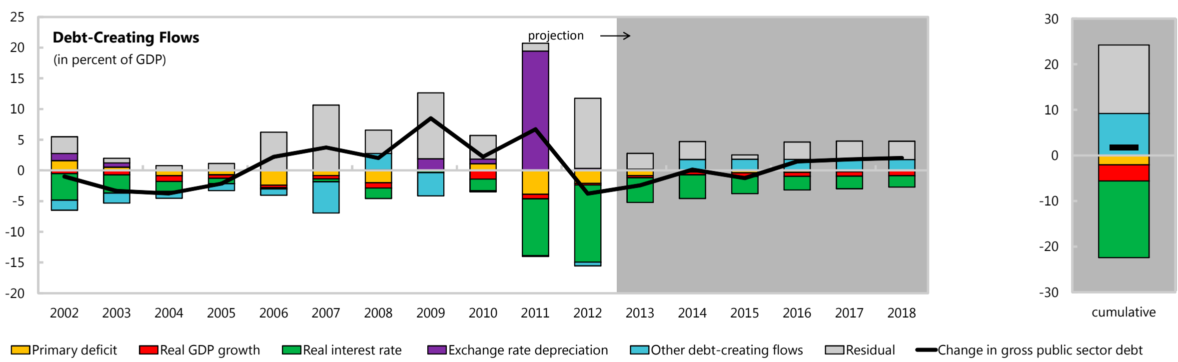
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections							As of September 08, 2013		
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018		Sovereign Spreads		
Nominal gross public debt	13.1	30.8	27.0	24.6	24.8	23.5	25.0	26.8	28.8		EMBI (bp) 3/		397
Public gross financing needs	2.0	-2.4	3.4	5.8	6.6	8.4	9.5	10.7	13.7		CDS (bp)		n.a.
Memorandum Items													
Public debt and government guaranteed debt		45.9	38.7	35.8	35.6	34.2	35.5	37.2	39.2		Ratings	Foreign	Local
Real GDP growth (in percent)	7.7	5.5	1.5	1.5	2.4	3.1	3.3	3.4	3.4		Moody's	B3	n.a.
Inflation (GDP deflator, in percent)	19.9	71.2	74.8	25.1	24.8	19.1	16.8	15.5	14.5		S&Ps	B-	n.a.
Nominal GDP growth (in percent)	29.2	80.7	77.5	27.1	27.8	22.8	20.7	19.5	18.4		Fitch	n.a.	n.a.
Effective interest rate (in percent) [4/]	5.9	8.3	8.2	6.6	5.3	5.9	6.0	6.2	6.7				

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.9	6.7	-3.8	-2.4	0.1	-1.2	1.5	1.8	2.0	1.8	
Identified debt-creating flows	-3.6	5.4	-15.2	-5.0	-2.8	-2.0	-1.4	-1.2	-1.0	-13.2	
Primary deficit	-0.4	-3.9	-2.1	-0.9	-0.2	-0.4	-0.3	-0.2	-0.1	-2.1	1.4
Primary (noninterest) revenue and grants	46.7	38.8	40.8	38.7	39.4	39.4	39.4	39.4	39.4	235.5	
Primary (noninterest) expenditure	46.3	34.9	38.7	37.9	39.1	39.0	39.0	39.2	39.3	233.5	
Automatic debt dynamics [5/]	-1.7	9.5	-12.5	-4.3	-4.3	-3.4	-2.9	-2.8	-2.6	-20.4	
Interest rate/growth differential [6/]	-2.3	-10.0	-12.8	-4.3	-4.3	-3.4	-2.9	-2.8	-2.6	-20.4	
Of which: real interest rate	-1.6	-9.2	-12.6	-4.0	-3.9	-2.8	-2.2	-2.1	-1.9	-16.8	
Of which: real GDP growth	-0.7	-0.7	-0.3	-0.3	-0.5	-0.6	-0.7	-0.7	-0.8	-3.6	
Exchange rate depreciation [7/]	0.5	19.4	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.4	-0.2	-0.6	0.2	1.8	1.8	1.8	1.8	1.8	9.2	
General Government: Net Privatization Proceeds (negative)	-1.0	-7.3	0.0	-0.1	-1.0	-1.0	-1.0	-1.0	-1.0	-5.1	
Projected bank recapitalisations and called government guarantees	0.1	5.6	0.2	0.3	2.8	2.8	2.8	2.8	2.8	14.3	
Sberbank loan	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.5	1.3	11.4	2.6	2.9	0.7	2.8	3.0	3.0	15.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBI.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

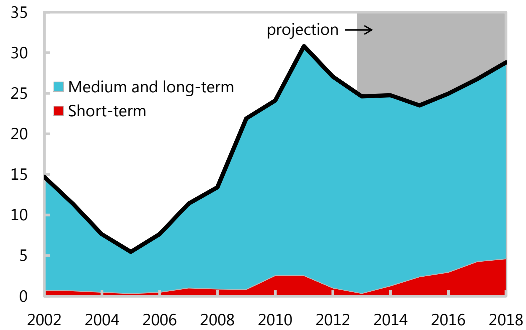
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Belarus Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

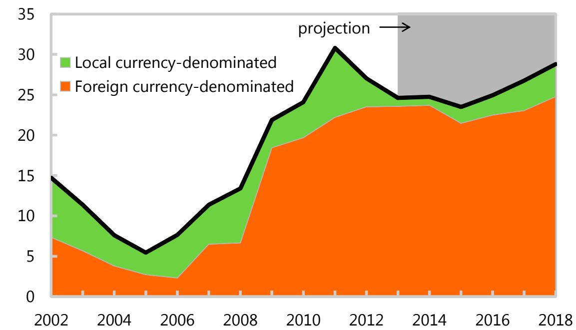
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

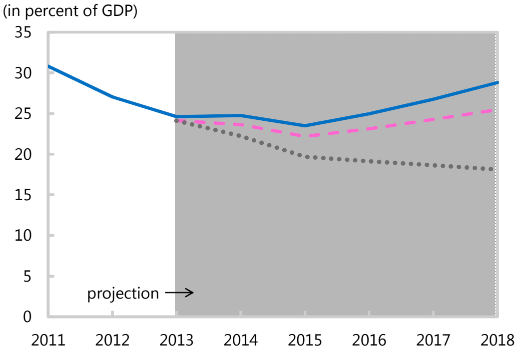


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

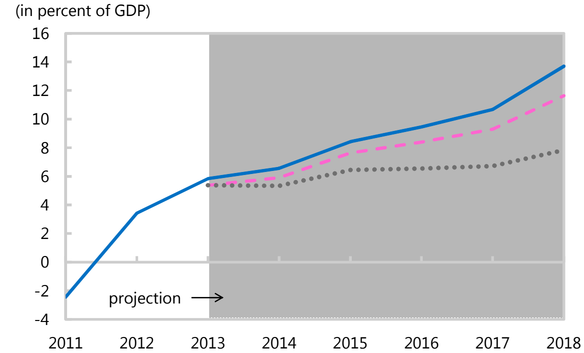
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

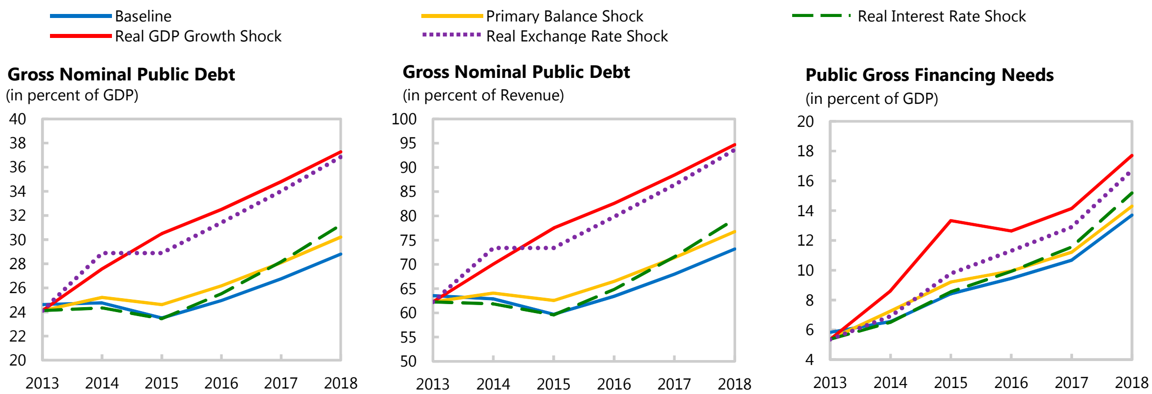
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	1.5	2.4	3.1	3.3	3.4	3.4
Inflation	25.1	24.8	19.1	16.8	15.5	14.5
Primary Balance	0.9	0.2	0.4	0.3	0.2	0.1
Effective interest rate	6.6	5.3	5.9	6.0	6.2	6.7
Constant Primary Balance Scenario						
Real GDP growth	1.5	2.4	3.1	3.3	3.4	3.4
Inflation	25.1	24.8	19.1	16.8	15.5	14.5
Primary Balance	0.9	0.9	0.9	0.9	0.9	0.9
Effective interest rate	6.6	5.3	5.8	5.8	5.8	6.1

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	1.5	7.2	7.2	7.2	7.2	7.2
Inflation	25.1	24.8	19.1	16.8	15.5	14.5
Primary Balance	0.9	1.1	1.1	1.1	1.1	1.1
Effective interest rate	6.6	5.3	4.9	4.2	3.7	3.6

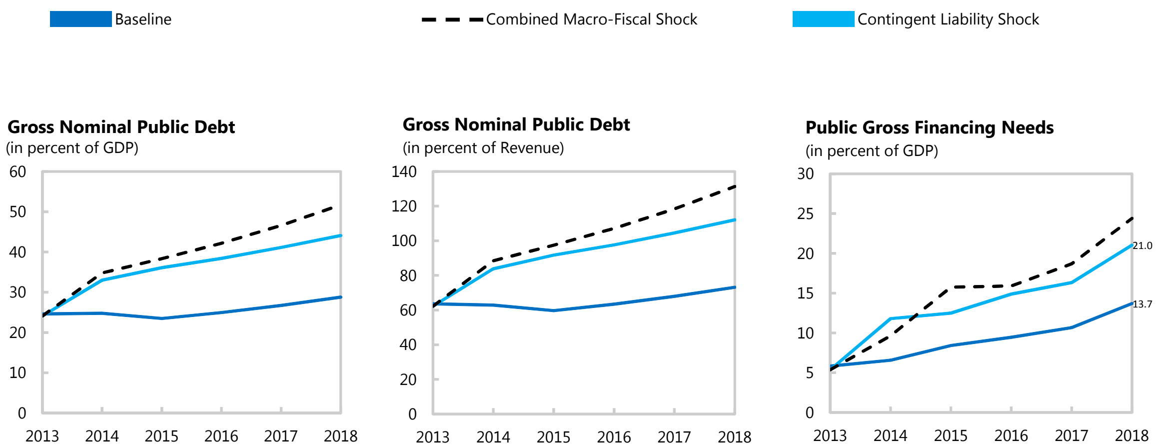
Source: IMF staff.

Belarus Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2013	2014	2015	2016	2017	2018
Primary Balance Shock						
Real GDP growth	1.5	2.4	3.1	3.3	3.4	3.4
Inflation	25.1	24.8	19.1	16.8	15.5	14.5
Primary balance	0.9	-0.5	-0.4	0.3	0.2	0.1
Effective interest rate	6.6	5.3	5.8	5.9	6.0	6.3
Real Interest Rate Shock						
Real GDP growth	1.5	2.4	3.1	3.3	3.4	3.4
Inflation	25.1	24.8	19.1	16.8	15.5	14.5
Primary balance	0.9	0.2	0.4	0.3	0.2	0.1
Effective interest rate	6.6	5.3	7.2	8.3	9.2	10.0
Combined Shock						
Real GDP growth	1.5	-2.0	-2.0	1.0	2.0	2.0
Inflation	25.1	23.9	18.2	16.8	15.5	14.5
Primary balance	0.9	-1.6	-3.3	0.3	0.2	0.1
Effective interest rate	6.6	6.5	7.1	8.6	9.2	10.0

	2013	2014	2015	2016	2017	2018
Real GDP Growth Shock						
Real GDP growth	1.5	-1.3	-0.7	3.3	3.4	3.4
Inflation	25.1	23.9	18.2	16.8	15.5	14.5
Primary balance	0.9	-1.6	-3.3	0.3	0.2	0.1
Effective interest rate	6.6	5.3	6.1	7.0	6.4	6.6
Real Exchange Rate Shock						
Real GDP growth	1.5	-2.0	-2.0	1.0	2.0	2.0
Inflation	25.1	39.8	19.1	16.8	15.5	14.5
Primary balance	0.9	-0.5	-0.4	0.3	0.2	0.1
Effective interest rate	6.6	6.5	6.1	6.6	6.2	6.3
Contingent Liability Shock						
Real GDP growth	1.5	-8.8	-8.2	3.3	3.4	3.4
Inflation	25.1	22.0	16.3	16.8	15.5	14.5
Primary balance	0.9	-3.8	0.4	0.3	0.2	0.1
Effective interest rate	6.6	6.5	6.3	6.2	6.3	6.5

Source: IMF staff.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

November 25, 2013

FIFTH POST-PROGRAM MONITORING DISCUSSIONS—INFORMATIONAL ANNEX

Prepared By

The European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

As of October 31, 2013

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

General Resources Account

	SDR million	Percent of Quota
Quota	386.40	100.00
Fund holdings of currency	1,436.47	371.76
Reserve position in Fund	0.02	0.01

SDR Department	**SDR million**	**Percent of Quota**
Net cumulative allocation	368.64	100.00
Holdings	375.42	101.84

Outstanding Purchases and Loans	**SDR million**	**Percent of Quota**
Stand-By Arrangements	1,050.07	271.76

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

Projected Payments to the Fund [1/]

	Forthcoming (SDR Million)				
	2013	2014	2015	2016	2017
Principal	164.22	831.10	54.74		
Charges/Interest	4.22	6.61	0.43	0.00	0.00
Total	168.44	837.71	55.17	0.00	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.

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 updated 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, but also increased involvement in quasi-fiscal activities, e.g., in the first half of 2011 the NBRB purchased bonds issued by domestic banks at higher than market prices and subsequently sold them to the Development Bank to acquire bonds issued by the latter. While the new Banking Law provides some improvement over its previous version, NBRB autonomy is still undermined, in particular, by powers of the President to amend the NBRB Statute at any time, to direct NBRB operations by his decrees, and to dismiss Board members.

Exchange Arrangements:

The currency of Belarus is the Belarusian 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 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. During the period 2008–2011, Belarus was hit by two crises and introduced a number of administrative controls to its exchange system. Some of these controls were lifted following the unification of the exchange rates in October 2011.

An Article VIII mission took place earlier this year and identified exchange restrictions and multiple currency practices. Belarus currently maintains exchange restrictions and multiple currency practices (MCPs) subject to the Fund's jurisdiction. The exchange restrictions arise from the requirement of an NBRB permit for (i) advance payments for imports and (ii) payments for imports with delivery outside of Belarus. The MCPs arise from (i) the potential deviation by more than two percent of the exchange rates in the over-the-counter (OTC) market and the Belarusian Currency and Stock Exchange (BCSE), (ii) the potential deviation by more than two percent of the exchange rates in the OTC market and the BCSE exchange rate or the official exchange rate with respect to the mandatory resale of unused foreign exchange by resident legal entities and foreign exchange amounts subject to mandatory sale requirement and (iii) broken cross rates among the currencies for which the NBRB establishes official exchange rates with monthly frequency with respect to the mandatory resale of unused FX by resident legal entities and FX amounts subject to mandatory sale requirement.

Based on the mission's recommendations, the NBRB developed and approved a plan to eliminate all of the restrictions by the end of 2014, except for the MCP related to the potential deviation of exchange rates in the OTC and BCSE markets, which is planned to be eliminated by the end of 2015. At this time, the authorities do not request Board approval of the identified exchange restrictions and MCPs. The staff welcomes the authorities' plans to eliminate the measures and encourages them to implement these as soon as possible.

UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on March 25, 2013 and a report was published on June 12, 2013. The report can be found at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=40666.0

Stand-By Arrangement:

A 15-month Stand-By Arrangement (SBA) in the amount of SDR 1.6 billion (about US$2.5 billion, 418.8 percent of quota) was approved by the Executive Board (Country Report No. 09/109) on January 12, 2009. An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (Country Report No. 09/260), bringing the Fund's financial support to SDR 2.3 billion (about 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 (about US$3.5 billion).

FSAP Participation, ROSCs, and OFC Assessments:

Two FSAP missions took place in 2004 and the published FSSA report can be found at: 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 May 18, 2006 (http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0), for the Transparency of Monetary Policy and Banking Supervision on May 18, 2006 (http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0), and the Technical Note - Deposit Insurance on May 18, 2006 (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/ft/scr/2007/cr07190.pdf). 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 November 16, 2004 (http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0) and the data ROSC on February 1, 2005 (http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0).

Technical Assistance, 2007–13

Department Counterpart	Subject	Timing
MCM	Monetary policy strategy and implementation	May–June 2013
MCM	Risk Based Supervision	July 2012
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
STA	National accounts statistics	September–October 2013
STA	Government finance statistics	July–August 2013
STA	National accounts statistics	April 2013
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

RELATIONS WITH THE WORLD BANK GROUP

A. The World Bank Group Strategy

1. A new World Bank Group (WBG) Country Partnership Strategy (CPS) for FY 2014–17 was discussed by the WBG Board of Executive Directors in June 2013. The CPS supports Belarus to improve: 1) competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the state-owned enterprise (SOE) sector, promoting private and financial sector development and integration into the global economy; (2) quality and efficiency of public infrastructure services, use of agricultural and forestry resources and global benefits of public goods; and (3) human development outcomes through better education, health and social services. The WBG program includes Analytical and Advisory Activities (AAA), investment lending by the World Bank (the Bank) and investments in the private sector by the IFC.

2. WBG lending will focus on investment lending in sectors with an adequate and improving policy framework, a sufficient knowledge base, a solid implementation track record and demonstrated Government commitment. The CPS envisages new investment lending, totaling up to US$ 280 Million during 2013-2015. Lending operations will support investments in public financial management (PFM) systems, forest management, energy efficiency, district heating, water supply/sanitation and education.

3. **The WBG will also support a program of analytical and advisory activities**. Core diagnostics around critical developmental issues will continue, including structural reforms, fiscal, PFM, trade, WTO accession, private and financial sector development. These advisory and technical engagements - many of them of a programmatic nature - will underpin the policy dialogue in critical reform areas, supporting the Government in designing and implementing policies to achieve stated objectives of economic modernization and strengthened competitiveness. Analytical activities in such areas as municipal services, forestry, education and health will underpin future investment operations.

4. **The WBG's program in Belarus will be calibrated according to the depth, breath and speed of structural reforms.** Accordingly, the AAA and lending programs have been identified only for the first two years of the CPS. Should structural reforms accelerate, lending scope and instruments could be revisited at mid-term of the CPS period.

5. **The IFC will support private sector development and energy efficiency improvements through a combination of investments and advisory work.** The IFC program in Belarus will support: (i) trade development in critical sectors such as agriculture, with strategic focus on small and medium-sized exporters and importers, (ii) micro, small, and medium-sized enterprises' (MSMEs) access to finance, (iii) investments into energy efficiency improvements, and (iv) advisory work on regulatory simplification, including in agriculture and forestry. Agriculture and forestry will remain priority sectors, with support directed at improvements in agricultural output and efficiency, access to finance, regulatory environment, and food safety standards.

B. IMF-World Bank Group Collaboration in Specific Areas

6. **The WBG and the Fund teams will continue to work closely in calibrating and delivering their assistance.** The Fund plays a key role at the macro level, while the WBG focuses on the structural reform agenda, business regulatory environment and investment climate, energy efficiency, infrastructure and social and environmental issues. Recent examples of close cooperation and coordination between the WBG and the Fund include ongoing discussions under the Fund SBA post program monitoring and during the preparation of the WBG CPS, and joint work with the Government working group on structural reforms issues.

Areas in Which the WBG Leads

7. **Structural reforms and private business development.** Under the new CPS, the WBG will continue to support the design and implementation of structural reforms through its programmatic structural reform technical assistance. This programmatic TA which will be implemented through 2016 is focused on providing targeted analytical and advisory support on structural reforms, including further liberalization of factor and product markets to support a more efficient allocation of resources in the economy, transformation of the SOEs and enhancing private sector growth, including the services sector. As part of this TA, the Bank is also providing focused technical assistance to support Belarus' WTO accession. In addition, the WBG is implementing a privatization

TA (which was initiated during the previous CPS and is largely funded through a donor Trust Fund) to provide advice on legal and institutional instruments and implementation capacity to successfully launch an enterprise privatization program that is on par with international best practice. The WBG will also initiate a new private sector development TA which will support the Government in establishing an effective system for the promotion of small and medium-sized enterprises. In addition, the IFC will continue to deliver an active advisory program around challenges facing the private sector and international "best practices" for improving the business regulatory environment and investment climate.

8. Public Financial Management. The WBG will continue to provide technical assistance to improve public financial management systems in Belarus. During the previous CPS work has been initiated on strengthening the medium-term perspective in fiscal planning, enhancing debt management and moving towards a more result-oriented budget management system. To assess the current state of PFM performance, the Bank will deliver an update of the Public Expenditure and Financial Accountability (PEFA) assessment. The PEFA will be a key diagnostic to underpin the preparation of the planned PFM modernization investment loan to improve transparency and efficiency of public financial management and strengthen accountability of the Government for the use of public funds.

9. Energy sector. Currently, two energy efficiency projects are being implemented in Belarus with the Bank's financial support: Post Chernobyl Recovery Project (PCRP) (US$80 million), and, Energy Efficiency Project (EEP) (US$215 million). A new operation targeted at increased use of wood biomass in district heating (US$90) is currently under preparation.

10. Road Transport. The Road Upgrading and Modernization Project (US$150 million) is aimed at developing Belarusian transport infrastructure on a strategic route, the Trans-European Transport Corridor IX, connecting the Black Sea with the Baltic countries.

11. Environment. The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. A TA project is currently under implementation: (i) the GEF Grant Project (US$5.5 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 Solid Waste Management Project (US$42.5 million). Additional Financing Loan (US$90 million) to enhance the impact of the Water Supply and Sanitation Project is being prepared.

Areas of Shared Responsibility

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

13. Public expenditure management. Building on the recently completed PER 1 and 2, the Bank will continue to focus on improving the efficiency of public spending. The first two volumes of the programmatic Public Expenditure Review focused on spending efficiency in agriculture, energy, social assistance, pension sectors, intergovernmental fiscal relations, and the efficiency of public spending in health and education. The Bank will continue to provide targeted analytical and advisory services to support fiscal reforms to enhance fiscal stabilization within a consistent macroeconomic framework, to ensure fiscal and debt sustainability and to provide for growth supporting expenditure and revenue policies. Integrating the recommendations of these two volumes, the Bank will deliver a synthesis report on fiscal reforms. The Fund, jointly with the Bank, has been working on supporting the authorities in their fiscal consolidation effort, including technical assistance on expenditure rationalization.

14. Financial sector. The Bank and the Fund will jointly support the authorities in addressing key vulnerabilities in the financial sector and designing needed reforms. The Bank and the Fund are collaborating in financial sector monitoring, including on key developments, such as the newly established Development Bank. The Bank will maintain an active dialogue with the authorities on financial consumer protection and financial literacy and the overall development of the financial sector (including through the Development FSAP).

Areas in which the Fund Leads

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

16. Fund analysis in these areas serves as an input to the Bank's policy advice. The Bank and Fund teams have regular consultations, and Bank staff takes part in IMF Article IV Consultations. This helps to ensure consistency of policy recommendations by the two institutions.

17. Questions may be referred to Sebastian Eckardt (Senior Economist, ECSPE, 202-458-7954), and Kiryl Haiduk (Country Economist, ECSPE, 375-17-2265284).

Belarus: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas in 2012–13			
	Products	**Provisional Timing of Missions**	**Expected Delivery Date**
1.Bank Work Program	Regular Macro-Economic monitoring	Ongoing	Through 2013/2017
	Programmatic Structural Reform Dialogue	Ongoing	TA through 2013/2016
	WTO Accession Technical Assistance	Ongoing	TA through 2013/2016
	Financial Sector TA (Financial Literacy and Consumer Protection)	Ongoing	TA through 2012/2013
	Privatization TA	Ongoing	TA through 2013/2015
	Private Sector Development TA (SME Promotion)	Ongoing	TA through 2013/2015
	IFC Investment Climate Advisory Services (Belarus Regulatory Simplification and Investment Generation Project)	Ongoing	TA through 2012/2013
	IFC Standards Advisory Services (Belarus Food Safety Project)	Ongoing	TA through 2012/2013
2. Fund Work Program	Peripatetic Advisor on Bank Supervision	Ongoing	Through April 2013
	Developing Capacity and Instruments of the NBRB	Planned	June 2013
	Monetary and Foreign Exchange Policy	Planned	June 2013
3. Joint Work Program	Joint Policy Dialogue with Structural Reform Working Group	Ongoing	Through 2012/2014

STATISTICAL ISSUES

(As of October 1, 2013)

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 price: 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 approximately 1,700 industrial organizations, and they are published monthly. The NSC also publishes indices for foodstuffs, non-food goods, and services. The CPI and PPI are based on weights from 2011.
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, and 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 the methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). 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 (for 1996–2011) and in the BPM6 format since 2012 (revised data available from 2005). Overall the timeliness and serviceability of external sector data is satisfactory, although there are gaps in external debt data, in particular gross external debt statistics. While the BMP6 requires debt statistics to be reported in net terms, compiling of gross external debt statistics remains important.

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 October 1, 2013)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Data Quality Accuracy and Reliability[10]
Exchange Rates	Sep. 2013	10/01/13	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2013	10/01/13	D/W/M	W/M	M		
Reserve/Base Money	Sep. 2013	10/01/13	D/W/M	W/M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Sep. 2013	10/01/13	W/M	M	M		
Central Bank Balance Sheet	Sep. 2013	10/01/13	D/W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	Sep. 2013	10/01/13	W/M	M	M		
Interest Rates[2]	Sep. 2013	10/01/13	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Aug. 2013	09/12/13	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q1 2013	08/29/13	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Aug. 2013	09/30/13	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Aug. 2013	9/30/13	M	M	Q		
External Current Account Balance	Q2 2013	09/13/13	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Jul. 2013	09/10/13	M	M	Q		
GDP/GNP	Aug. 2013	09/19/13	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q2 2013	09/13/13	Q	Q	Q		
International Investment Position[6]	Q2 2013	09/13/13	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.

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FOR IMMEDIATE RELEASE
December 17, 2013

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

IMF Executive Board Concludes Fifth Post-Program Monitoring Discussions with Belarus

On December 9, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Fifth Post-Program Monitoring Discussions with Belarus.[1]

Growth in Belarus has remained slow, reaching only 1.1 percent (year-on-year) in the first nine months of 2013, with high real wage increases and rapid directed lending growth contributing to widening external imbalances. Inflation fell in the first half of the year, but it has rebounded from September and remains in double-digits.

Owing to a mix of strong domestic demand growth, a slowdown in the Russian economy, and weakening competitiveness of Belarusian goods, the current account balance has deteriorated, reaching a 9½ percent of GDP deficit in the first half of the year. Reserves have fallen and covered about 1.7 months of imports in October.

Banks are under pressure, including because of shortages in rubel funding related to the public's increasing preference for holding foreign currency. Foreign currency lending growth slowed substantially in 2013, but remains high at around 20 percent during January–September. Also, loan dollarization continued to rise, reaching 48 percent of total loans in September.

In October, the National Bank and the government adopted a new joint action plan that would start partial reforms in a number of key areas including price liberalization and privatization.

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

Meanwhile, the authorities continued to engage with the WTO in the context of the working group on accession of Belarus.

The outlook is for continued slow growth and a difficult balance of payments position in the short-term. Risks are heavily tilted to the downside. In particular, a further worsening of the current account or the financial account could increase pressures on reserves and the rubel. Banking risks also remain a concern, including on account of the still-rapid foreign exchange lending growth.

Executive Board Assessment

Noting emerging threats to macroeconomic stability and the erosion in policy buffers, Executive Directors encouraged the authorities to adopt a strong policy response to mitigate these risks in an orderly manner. In particular, Directors concurred that a tightening of macroeconomic policies as well as deep structural reforms would be needed to restore internal and external balance, and lift medium-term growth prospects.

Directors considered it essential that wage increases are halted through 2014, and that directed lending is sharply reduced, with a full phase out over the medium term. In the meantime, remaining directed lending should be channeled through the Development Bank to foster the operation of state banks on commercial terms and promote better credit allocation. Directors agreed that a balanced budget is an appropriate fiscal target for next year, although a surplus should be targeted instead if insufficient progress is made towards the elimination of directed lending.

Directors concurred that scaling back interventions in the foreign exchange market would help narrow external imbalances and safeguard official reserves. They added that a tighter monetary stance would help contain inflationary pressures and prevent exchange rate overshooting. Furthermore, a shift to a policy framework centered on targeting base money could bolster policy credibility and help pave the way for the adoption of an inflation targeting regime over the medium term.

Directors welcomed recent steps to contain foreign currency lending by banks, but called for continued close monitoring of developments in this area. They recommended heightened vigilance over new deposit instruments that expose banks to exchange rate risks.

Directors underscored that deeper structural reforms are key to sustained non-inflationary growth. Accordingly, they welcomed the adoption of the authorities' Joint Action Plan and encouraged its timely implementation. Nonetheless, Directors emphasized the need for a much more ambitious and frontloaded reform agenda, including comprehensive price liberalization, a detailed strategy and significant initial steps for reducing the role of the state in the economy, and a strengthening of social safety nets. Directors considered that support for a new Fund arrangement would depend on Belarus' firm commitment to a comprehensive package of such reforms combined with strong macroeconomic policies.

Belarus: Selected Economic Indicators

	2009	2010	2011	2012	2013
National accounts					
Real GDP	0.1	7.7	5.5	1.5	1.5
Total domestic demand	-1.7	11.5	3.4	3.7	5.8
Consumption	0.0	7.9	1.0	8.2	7.0
Nongovernment	0.0	9.3	2.3	10.8	9.4
Government	-0.1	3.1	-3.6	-1.2	-3.0
Investment	-4.8	18.4	7.8	-3.7	3.5
Net exports 1/	1.4	-3.7	3.4	-1.8	-5.0
Consumer prices					
End of period	10.1	9.9	108.7	21.8	14.5
Average	13.0	7.7	53.2	59.2	19.1
Monetary accounts					
Reserve money	-11.5	49.5	84.1	61.6	23.4
Rubel broad money	0.9	27.4	64.1	57.2	27.5
External debt and balance of payments					
Current account	-12.6	-15.0	-8.5	-2.7	-9.4
Trade balance	-14.1	-16.4	-5.8	0.9	-5.8
Exports of goods	43.4	46.0	68.5	72.0	53.1
Imports of goods	-57.5	-62.4	-74.3	-71.2	-58.8
Gross external debt	45.6	52.1	57.7	54.5	51.2
Public 2/	18.9	22.6	25.0	23.3	21.3
Private (mostly state-owned-enterprises)	26.7	29.5	32.7	31.2	29.8
Savings and investment					
Gross domestic investment	37.3	41.2	37.6	34.5	38.0
National saving	24.7	26.2	29.2	31.8	28.5
Public sector finance					
General government balance	-0.7	-1.8	2.8	0.7	-0.5
Augmented general government balance 3/	-0.7	-4.3	-2.9	0.5	-0.8
Revenue	45.8	41.6	38.8	40.8	38.7
Expenditure 3/	46.5	45.9	41.6	40.2	39.5
Of which:					
Wages	6.7	7.0	6.3	6.6	6.8
Subsidies and transfers	11.7	8.3	7.3	7.7	8.2
Investment	8.1	8.3	5.1	6.5	5.0
Gross public debt	34.7	39.5	45.9	38.7	35.8
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	49.2	55.2	59.7	63.3	…
Nominal GDP (trillions of rubels)	137.4	164.5	297.2	527.4	670.1
Real effective exchange rate	-4.5	-5.0	-11.7	-8.2	…
Exchange rate (rubel /U.S. dollar, average)	2,793	2,979	4,975	8,337	…
Official reserves (billions of U.S. dollars)	5.7	5.0	7.9	8.1	5.7
Months of imports of goods and services	1.8	1.3	1.9	2.1	1.4
Percent of short-term debt	63.2	42.1	56.9	63.8	42.7

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/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and outlays related to called guarantees of publicly guaranteed debt. These outlays form the augmented expenditure of the government.

Statement by Mr. Prader and Mr. Misyukovets on the Republic of Belarus

December 9, 2013

The Belarusian authorities appreciate the candid dialogue with the Fund staff during the fifth Post-Program Monitoring discussions. They agree with the staff's assessment of the current macroeconomic situation and with their recommendations on economic and financial policies. The Fund's continuous technical assistance in macroeconomic management is also greatly appreciated.

Macroeconomic Developments and Policies

In September 2013, GDP ceased to decline and growth stabilized at a rate of 1.1 percent, driven mostly by domestic demand against the background of a drastic collapse of demand from Belarus' main trading partners, especially as a result of the adverse effects of disruptions of trade in minerals. During the first nine months of 2013, Belarus' exports declined by $ 7.2 billion, or by 17.7 percent, against January-September 2012 and resulted in a trade deficit of $ 373 million despite record high net exports of services ($ 2 billion). By preliminary estimates, the deficit of trade in goods and services may reach $ 2 billion and the current account deficit may widen to 9.9 percent of GDP in 2013. The country's gross external financing needs are exacerbated by significant external debt repayments falling due in 2013 and 2014, which puts significant pressure on the sustainability of the balance of payments. Meeting these financing needs will be challenging, especially in an environment of liquidity tightening in global financial markets.

Despite the measures taken on the monetary side to contain inflationary pressures, inflation reached the annual target of 12 percent in October, largely owing to recurrent increases of regulated utility and public transport tariffs in line with the authorities' continued efforts to raise the cost recovery for these services and of excise taxes under the Common Economic Space price alignment agreements. On average, the utility tariffs grew by 31.4 percent and public transportation tariffs rose by 54.5 percent, which added 1.75 and 0.4 percentage points to the CPI, respectively. Further increases of the electricity, heating and water supply tariffs that were made in November and are to be made by the end of 2013 may result in annual inflation of up to 15 percent, still substantially lower than the 21.8 percent inflation in 2012.

For 2014, inflation is forecast at 11 percent, despite further steps to raise the cost recovery for utilities and transportation to at least 35 percent while the objective to ensure full utility cost coverage thereafter remains on the agenda.

As inflationary pressures resumed, the National Bank has used the available monetary instruments to slow down inflation and maintain exchange rate stability. The refinancing rate of 23.5 percent per annum and the liquidity support rate of currently about 40 percent per annum have been kept firmly positive in real terms and have proved to be instrumental in containing liquidity. The resulting record high interest rates in the banking system have contributed significantly to containing credit. The authorities are concerned about the substantial decrease in international reserves attributable primarily to the repayment of the country's external debt obligations. They fully agree with and are implementing the Fund staff's recommendations to maintain monetary tightness and increase exchange rate flexibility to address adverse developments. Steps are being taken to mobilize resources externally and domestically.

Containing credit growth, including under government programs, is an essential prerequisite to improving the balance of payments. The credit growth targets envisage a cap on the increase in credit to the economy approximately equal to a 16-19 percent growth in nominal terms by the end of 2014 – a relatively restrictive amount at the current inflation level. These targets, however, may be scaled down further to achieve the intended stabilization objectives in case domestic demand does not slow down sufficiently or external imbalances persist.

While fiscal policy continues to be disciplined and resulted in a general government surplus of 1.4 percent of GDP in January-September 2013, pressures on the revenue side have emerged following the economic slowdown and negative developments in external markets. In line with the target to balance the budget, the authorities started to proactively mitigate these effects as early as in the second quarter of 2013 and implemented a fiscal adjustment of 2.5 percent of GDP. Nevertheless, the negative developments, especially the unanticipated disruptions in the international potash market in the second half of 2013, have caused a shortfall of revenues that cannot be offset by additional expenditures cuts, and a small fiscal deficit of up to 0.5 percent of GDP is projected for 2013. In view of more optimistic growth projections and market expectations, the 2014 budget is expected to be balanced. The authorities remain committed to fiscal prudence and will continue their efforts to ensure further fiscal consolidation in an orderly manner, including through an engagement with the World Bank on improving transparency and efficiency of public financial management. The Fund staff advice in this area is highly valued, and the authorities look forward to continued support on this front.

The public debt remains at a sustainable level but not without challenges ahead. During January-September, 2013, the external debt grew moderately by 2.6 percent while the government met all its external obligations in the amount of $ 1.9 billion, including $ 1.2 billion to the Fund, on time. While a set of instruments to refinance the debt domestically and externally is available, financing terms in the international markets are and are likely to remain difficult. The authorities have taken note of and intend to use in their debt management the findings of the public debt sustainability analysis and the related stress testing. Belarus has the potential for and is committed to honoring its debt obligations but external multilateral and bilateral financial support would be exceptionally helpful going forward for a balanced fiscal and debt management.

An overhaul of government programs and the transfer of directed lending to the Development Bank will be accompanied by steps to improve its capacity, corporate governance and presence in the regions as well as to ensure adequate prudential supervision and financial risk management. Wages will be restrained, while allowing for the need to tackle negative migration trends.

Structural Reform

The government has taken strides to pursue its structural adjustment agenda with a particular focus on private sector-led development. The government has lifted price controls on a wide range of consumer goods that were introduced in 2011 as a temporary measure to respond to the crisis. Belarus has once again improved its position in the World Bank's Doing Business ranking, most notably on the starting a business, registering property, and resolving insolvency indicators.

Substantial progress has been made in applying best international practice and transparent privatization procedures to attract quality investors under the pilot privatization program conceived under the Fund program and implemented in cooperation with the World Bank: negotiations with the winning bidders on the first two companies are at an advanced stage and the signing of contracts is expected shortly, the sale process with respect to the second pool of companies has been launched, and the financial advisor for the third pool of four enterprises has been selected to help start tenders in the first quarter of 2014. The sale of state-owned assets in 85 enterprises at auctions and/or by competitive bidding, including in large companies, was announced in October. The government sets an ambitious target to generate $ 4.5 billion in foreign direct investments in 2014, including $ 2 billion from privatization, but the privatization process also aims to raise productivity through new capital investments, adoption of more advanced technologies, and transfer of managerial skills. In addition, the use of IPO for "well-performing" enterprises provides an important avenue for an increase in private investment and improvement of SOE corporate governance.

A package of legislation to promote competitiveness and crowd in foreign investors, including through laws on investment funds, insurance, securitization, public-private partnership, indicative planning, and anti-monopoly regulation is under preparation.
The crisis response measures outlined above were operationalized with the adoption on October 10, 2013 of the Joint Action Plan of the Government and the National Bank on structural reforms and competitiveness (JAP). The JAP was supported at the highest echelon and contains actions across several areas, including the fiscal, monetary and exchange rate policies, state asset management, utility tariff reform, competition, and anti-trust framework. Over the medium term, the plan also aims to address structural deficiencies which are holding back growth in the Belarusian economy. The open format of the JAP allows for modifications and expansion of measures and, given the complexity of the planned reform agenda, further, more detailed and concrete plans have been and will be elaborated to underpin the proposed actions.

The authorities have communicated the JAP to the general public and stand ready to cooperate with international partners on the implementation of reforms under and beyond the JAP. They continue the policy dialogue with the World Bank to underpin the design and implementation of structural reforms, and a range of activities are underway and planned to support key elements of the JAP, including on the social impact of utility tariff reforms, labor market reforms and social safety nets, trade competitiveness in services and goods in the context of WTO accession, efficiency analysis of state supported program and SOE governance assessment. The authorities agree with the Fund staff that the JAP needs to be complemented with additional measures to reverse negative trends and promote economic sustainability, as is highlighted in the Staff Report, and would welcome their specific recommendations to ensure consistency in implementation. They emphasized to the Fund staff during the discussions and wish to reiterate that the JAP can serve as an appropriate platform for a new Fund-supported program and that they stand ready to continued engagement with the Fund staff to strengthen their reform effort.