INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/136

REPUBLIC OF BELARUS

May 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF BELARUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 13, 2015 consideration of the staff report that concluded the Article IV consultation with the Republic of Belarus.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 13, 2015, following discussions that ended on March 16, 2015, 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 April 27, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Belarus.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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May 18, 2015

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IMF Executive Board Concludes Article IV Consultation with the Republic of Belarus

On May 13, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Belarus.

Belarus continues to be highly vulnerable to economic shocks, as was illustrated by the turbulence in foreign exchange and debt markets late last year. Frequent bouts of expansionary macroeconomic policies, in a context of deep structural rigidities, have fueled inflation and external imbalances and left Belarus dependent on ad hoc external support.

Selective policy tightening and a Russian loan helped Belarus navigate large external imbalances during much of 2014. Yet the slide of the Russian ruble in the fourth quarter triggered acute exchange market pressures in Belarus, which eventually prompted a stepwise devaluation of the rubel by 30 percent against the dollar starting in late December. Meanwhile, real GDP grew by about 1½ percent in 2014, primarily driven by the recovery of potash exports, while inflation hovered around 18 percent.

In 2015, growth has slowed sharply as high uncertainty, reductions in real incomes, administrative measures, and declining trade with Russia weighed on activity. The inflationary impact of the exchange rate depreciation has been muted by a ban on price increases that was eventually lifted in April. The exchange rate has stabilized and bond spreads have narrowed, while macroeconomic policies have tightened further in a context of increasingly constrained external financing.

The outlook is for a recession and continued external pressures. With Russia—the largest trading partner—in a downturn, the Belarusian economy is projected to contract by 2¼ percent in 2015, led by falling exports. The current account deficit is expected to remain around 7 percent of GDP—contributing to significant financing needs. The devaluation is forecast to push inflation to 22 percent this year despite weak domestic demand. In the medium term, it is expected that financing constraints will force current account adjustment, while growth will remain weak reflecting structural rigidities.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Noting Belarus's continued high vulnerabilities and challenging near-term outlook, Executive Directors called for a decisive reorientation of policies to promote stability and a sustainable recovery. Macroeconomic policies should focus on reducing external imbalances and lowering inflation, while structural reforms are needed to raise the economy's growth potential.

Directors welcomed last year's reduction of directed lending growth. They emphasized that new lending should be further reduced this year and phased out over the medium term so as to improve credit allocation, contain contingent liabilities, and contribute to a reduction in domestic demand pressures. Directors also recommended retaining the savings from eliminated oil duties in 2015, which would result in a small surplus on the headline fiscal balance and help alleviate financing constraints.

Directors called for containing wage increases in 2015, following their excessive growth in recent years. They noted that wage restraint would help curb demand and consolidate the competitiveness gains from rubel depreciation. In the medium term, wage developments should closely follow productivity growth.

Directors welcomed the authorities' intention to make the exchange rate more flexible, and called for further steps towards exchange rate flexibility to protect the already-low reserves and ensure adequate adjustment in the volatile external environment. Directors also recommended that the National Bank of the Republic of Belarus (NBRB) fully implement a money-targeting framework that is focused on bringing down inflation to single digits.

Directors underscored the importance of closely monitoring risks in the banking sector, noting that a diagnostic study would help assess the impact of recent shocks on banks' asset quality. Any detected problems should be addressed decisively, and any problem banks should be recapitalized or resolved as soon as feasible. Directors also stressed that the development bank should be appropriately supervised, and that the NBRB should divest as soon as possible Moscow-Minsk Bank in light of the conflict of interest arising from the bank being owned by its supervisor.

Directors agreed that deep structural reforms remain critical to enhance the role of the market in the economy, boost productivity and competitiveness, and promote sustainable growth. They urged the authorities to adopt and implement decisively an ambitious, well-sequenced reform agenda, which should include price liberalization, measures to bring utility and transport tariffs

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

to full cost recovery, steps to phase out mandatory targets for enterprises, and privatizations in the corporate and banking sectors. While recognizing Belarus's low levels of poverty and income inequality, Directors emphasized that social safety nets, including the unemployment insurance, should be strengthened to protect the most vulnerable.

Directors noted the authorities' interest in a new Fund-supported program. Recognizing the benefits it could bring to the country, Directors underscored that any future arrangement would require a credible and strong commitment at the highest level to a comprehensive package of deep structural reforms and consistent macroeconomic policies. They looked forward to continued close engagement with the authorities on these issues.

Belarus: Selected Economic Indicators, 2011–15

	2011	2012	2013	2014	2015 Proj.
National accounts					
Real GDP	5.5	1.7	1.0	1.6	-2.3
Total domestic demand	3.4	2.6	8.6	-0.7	-1.8
Consumption	1.0	8.2	8.3	3.3	-0.6
Nongovernment	2.3	10.7	10.8	4.4	-0.4
Government	-3.6	-1.0	-2.1	-1.9	-1.3
Investment	7.8	-6.6	9.3	-8.4	-4.3
Of which: fixed	13.9	-11.3	9.6	-8.9	-4.5
Net exports 1/	3.4	-0.9	-6.6	1.1	-0.2
Consumer prices					
End of period	108.7	21.8	16.5	16.2	22.0
Average	53.2	59.2	18.3	18.1	22.1
Monetary accounts					
Reserve money	84.1	61.6	13.4	13.8	19.4
Rubel broad money	64.1	58.4	15.5	14.5	28.5
External debt and balance of payments					
Current account	-8.5	-2.9	-10.4	-6.7	-7.0
Trade balance	-5.8	0.9	-6.3	-3.4	-7.1
Exports of goods	68.5	71.6	50.0	46.9	46.4
Imports of goods	-74.3	-70.8	-56.3	-50.3	-53.5
Gross external debt	57.7	54.2	54.9	54.6	68.0
Public 2/	25.0	23.1	21.6	23.0	27.6
Private (inc. state-owned-enterprises)	32.7	31.0	33.3	31.7	40.4
Savings and investment					
Gross domestic investment	37.6	35.4	38.2	33.5	32.7
National saving	29.2	32.5	27.9	26.8	25.8
Public sector finance					
General government balance	2.8	0.7	0.1	1.1	0.6
Augmented general government balance 3/	-3.0	0.3	-0.9	0.4	-3.0
Revenue	38.8	40.5	41.2	40.3	41.3
Expenditure 3/	41.8	40.2	42.1	39.9	44.3
Gross public debt 4/	45.9	38.5	37.6	39.8	41.3
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	59.7	63.6	73.1	76.1	…
Nominal GDP (trillions of rubels)	297.2	530.4	649.1	778.5	972.5
Real effective exchange rate	-11.7	-8.2	8.0	9.8	…
Exchange rate (rubel /U.S. dollar, average)	4,975	8,337	8,880	10,224	…
Official reserves (billions of U.S. dollars)	7.9	8.1	6.7	5.1	2.5
Months of imports of goods and services	1.9	2.1	1.8	1.7	0.8
Percent of short-term debt	56.9	63.8	45.6	37.2	18.4

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 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.

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

April 27, 2015

KEY ISSUES

Context: Belarus' economic model continues to make it highly vulnerable to economic shocks. This was illustrated once more by the turbulence in foreign exchange and debt markets late last year, to which the authorities initially responded with administrative measures before allowing partial exchange rate adjustment. With Russia in recession, a large projected current account deficit, sizable debt repayments, limited market access, and presidential elections in November, risks remain high.

Challenges: Further facilitating external adjustment through the implementation of strong and consistent macroeconomic policies. Also, enhancing the market orientation of the economy through bold, frontloaded structural reforms, to bring it on a more sustainable path.

Policy recommendations:

- Reduce subsidized lending and resist further wage increases this year to contain domestic demand;
- Make the exchange rate fully flexible and tighten monetary policy to facilitate orderly external adjustment;
- Assess the health of banks and decisively address any uncovered problems including by recapitalizing or resolving undercapitalized banks where necessary;
- Remove price controls and mandatory targets for enterprises and devise credible privatization plans to improve resource allocation and raise sustainable growth.

Approved By
James Gordon and Masato Miyazaki

Discussions for the Article IV Consultation were held in Minsk during March 5–16. The mission team comprised Messrs. Hofman (head) and Hartley, Ms. Koloskova (all EUR), Mr. Moriyama (SPR) and Ms. Born (MCM). Messrs. Just and Misyukovets (OED) and Mr. Roaf (Sr. Regional Res. Rep.) joined part of the discussions. The mission met with Prime Minister Kobyakov, National Bank Governor Kallaur; First Deputy Prime Minister Matyushevsky; Minister of Economy Zinovsky; First Deputy Minister of Finance Ermolovich; and representatives of think tanks, business, and the diplomatic community. The staff in the Minsk office, Mr. Jovanovic and Ms. Swirszcz (all EUR) assisted the mission.

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CONTEXT

1. **An ineffective economic model and low buffers make Belarus highly vulnerable to shocks**. In late 2014, Belarus experienced its third exchange rate crisis since 2008 (Box 1). The recurrent pressures are rooted in the persistent inability of its over-determined central-planning model to deliver sustainable growth. Frequent bouts of expansionary macroeconomic policies, in a context of deep structural rigidities, have fueled inflation and external imbalances and left the country highly dependent on ad hoc external support. Absolute poverty and income inequality are at low levels in Belarus but life expectancy, at 72 years, remains 9 years below the Western European average. Official unemployment is steady and very low at less than 1 percent of the labor force, but there is significant excess employment in state-owned enterprises reflecting deep reluctance to restructure inefficient companies and industries. Inadequate unemployment insurance also deters labor mobility.

Box 1. Belarus: Recent Exchange Rate Crises

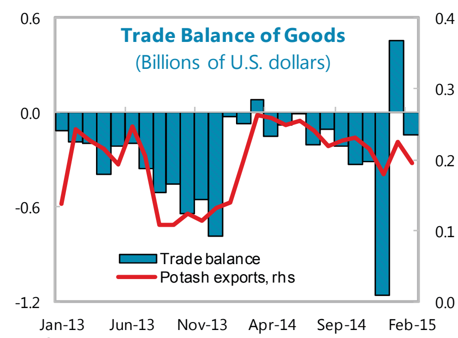
Belarus has experienced two earlier crises in the last six years. Although the specific triggers for each case differed, the macroeconomic vulnerabilities underlying the episodes were broadly the same: high credit growth and wage increases, a tightly managed exchange rate, a large current account deficit, and precariously low levels of international reserves. Recent developments echo many of the elements of the two earlier crisis episodes.

2009—After a decade of strong performance, Belarus was badly hit by the global financial crisis, which revealed long standing vulnerabilities. These included an overvalued currency, an outsize current account deficit, and heavy dependence on Russian energy subsidies. A relaxation of macroeconomic policies in 2008 and a government-driven credit boom exacerbated the situation. External shocks, including a deep recession in Russia, collapsing demand from other trading partners, a steep rise of the REER due to Russian ruble depreciation, and limited access to international credit, led to a precipitous fall in reserves, from already low levels. The situation resulted in an agreement on an exceptional access 15-month Stand-by Arrangement (SBA), aimed at adjusting to the external shocks and addressing Belarus' most pressing challenges by replenishment of reserves, realignment of the exchange rate, demand management, more robust exchange rate regime and structural reforms.

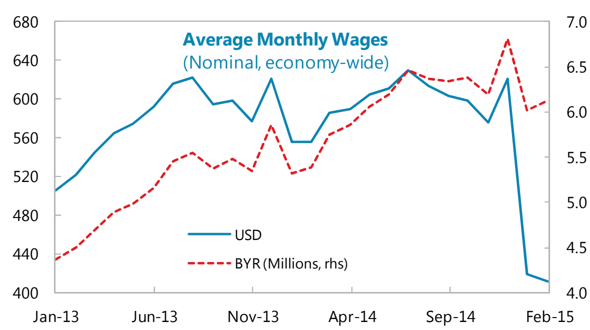
2011—A sharp loosening of macroeconomic policies following the end of the SBA undid progress and led to another crisis. Stabilization policies, adopted during the 2009–10 Fund supported program, were reversed and substituted with highly expansionary wage and credit policies in an attempt to spur growth. Together with a fixed exchange rate this led to a rapid loss of competitiveness and a sharply widening current account deficit, creating pressures on reserves. Attempts to maintain the peg with administrative controls led to the development of a parallel market where foreign exchange (FX) was traded at a rapidly increasing premium from the official exchange rate. Eventually, the control over the official exchange rate was abandoned, resulting in a devaluation by 65 percent as the official rate was realigned with the parallel rate. Pass-through effects caused a sharp acceleration of inflation to over 100 percent. Growth was anemic in the second half of 2011, and has remained well below pre-crisis levels since then.

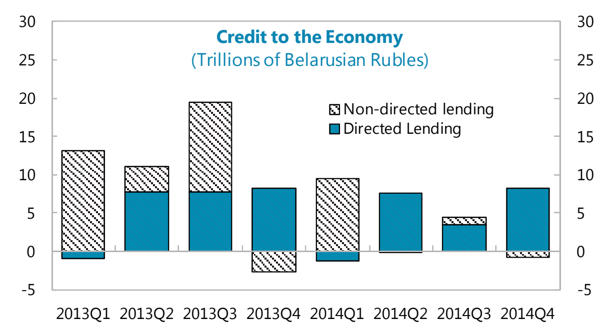
RECENT DEVELOPMENTS

2. **Selective policy tightening and a Russian loan helped navigate large external imbalances during much of 2014** (Figures 1–3, Tables 1–2). Following a period of expansionary macroeconomic policies and high wage increases (real wage growth outpaced productivity by a cumulative 30 percent in 2012–14), Belarus started 2014 with a large current account deficit and a tightly-managed currency that was, on staff estimates, substantially overvalued. The National Bank of the Republic of Belarus' (NBRB's) crawling peg arrangement—which allowed the rubel to depreciate by 1–1½ percent per month against the U.S. dollar—did little to address these imbalances given persistent double-digit inflation, but a moderation of wage increases and tightening control of credit helped stave off immediate pressures. This was further aided by a recovery of potash exports (after disruptions in 2013), which improved the trade balance, and a US$2 billion bilateral Russian support loan that bolstered reserves.



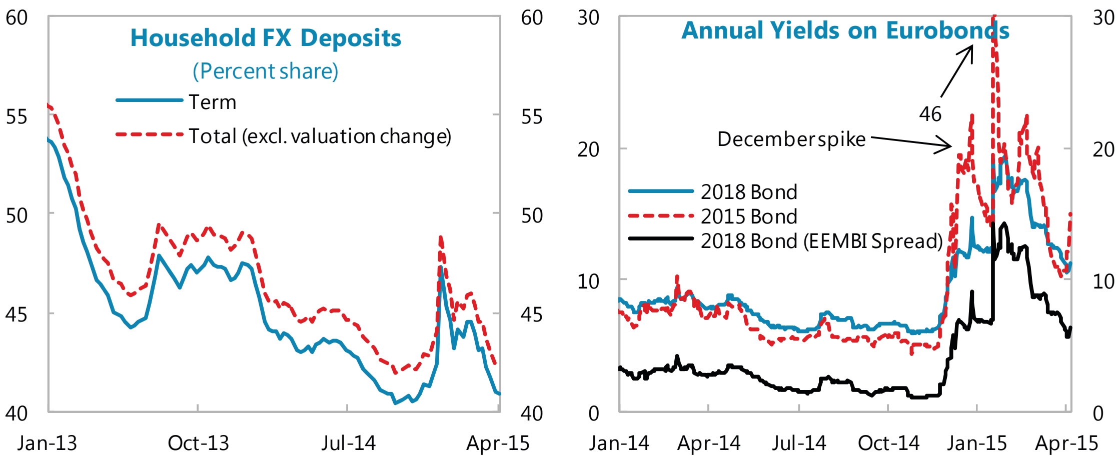
Source: National Bank of the Republic of Belarus.





Sources: Belarusian authorities; and IMF staff calculations.

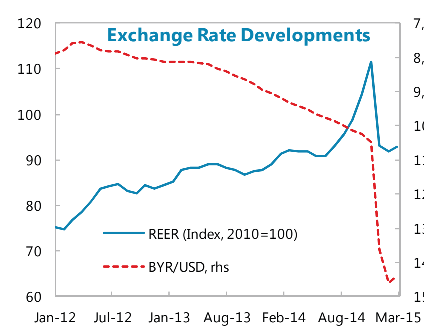
3. **Yet the slide of the Russian ruble in the fourth quarter triggered acute pressures.** The gradual depreciation of the Russian ruble during the second half of the year steadily increased the overvaluation of the Belarusian currency further but this did not prompt major policy changes. In mid-December, however, when the ruble depreciation accelerated, FX demand soared abruptly, putting heavy pressure on already-low reserves. The weak ruble also prompted a surge of imports from Russia. Bond yields spiked as foreign investors reassessed risks.



Source: National Bank of the Republic of Belarus; Bloomberg.

4. **The initial crisis response centered on heavy-handed administrative measures.** The authorities introduced a temporary 30 percent tax on FX purchases, effectively giving rise to a dual exchange rate given the implied wedge between buy and sell rates. A number of banks offered rubel deposit instruments that were indexed to the U.S. dollar rate, which helped stem the deposit outflow to some extent but exposed banks to significant currency risk. The NBRB's overnight credit rate was hiked from 24 to 50 percent and foreign exchange surrender requirements for exporters were raised. The authorities also introduced a moratorium on consumer price increases that made it illegal for retailers to raise prices, causing product shortages and negatively impacting the viability of retail trade.

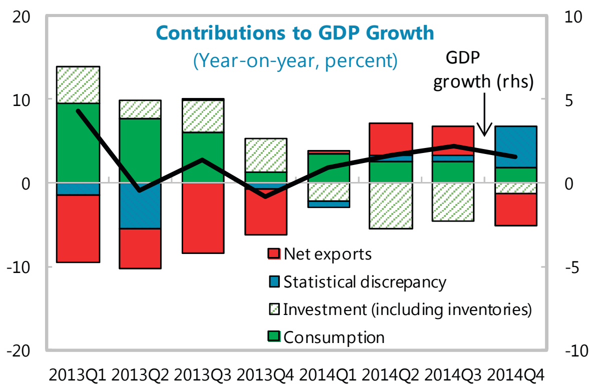
5. **Eventually substantial adjustment of the exchange rate was allowed.** The administrative measures were not sustainable and a parallel FX market quickly developed. Following a high-level reshuffle in the government and NBRB in late December, the NBRB changed course and phased out the FX tax, while stepwise devaluing the rubel by about 30 percent against the dollar. In real effective terms, however, the devaluation only brought the rubel back to the level of the first half of 2014, owing to high inflation, the sharp depreciation of the Russian ruble, and the weakening of the euro. Meanwhile, real GDP grew by about 1½ percent in 2014, primarily driven by the recovery of potash exports, while inflation hovered around 18 percent.

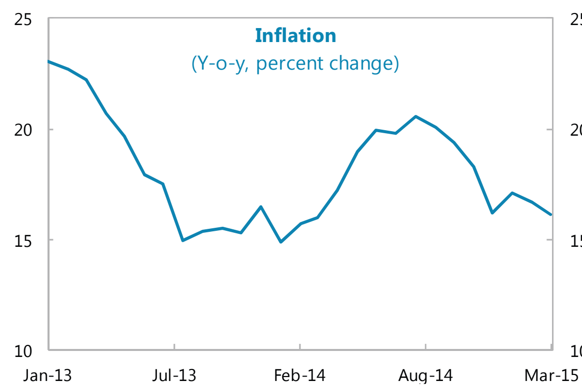


Sources: INS; and IMF staff estimates.

6. **In early 2015, growth slowed sharply though financial markets stabilized.** While some tentative measure of stability was regained following the rubel devaluation—with the exchange rate stabilizing and sovereign spreads narrowing—developments in the first months of 2015 were largely negative as high uncertainty, reduced real incomes, remaining administrative

measures, and declining trade with Russia weighed on activity. Monthly GDP data show output down 0.6 percent y-o-y in the first two months of the year, led by a 6 percent y-o-y contraction in industrial output. The inflationary impact of the exchange rate depreciation was muted by the ban on price increases—which remained mostly in effect until it was fully lifted in April.





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

OUTLOOK AND RISKS

7. **The outlook is for a recession and continued external pressures.** With Russia—the largest trading partner—in a deep slump, the Belarusian economy is projected to contract by 2¼ percent in 2015, led by falling exports. While lower oil prices are also a net negative for the Belarus economy (Box 2), ongoing energy subsidies from Russia buffer the shock to domestic demand to some extent. As the room for current account deterioration is limited by external financing constraints and low reserves, further exchange rate adjustment will be required to maintain balance of payments equilibrium. Therefore, an additional 7 percent real effective depreciation is envisaged under the baseline scenario this year, which would allow the authorities to stabilize reserves at a low level of US$2½ billion (less than one month of imports) with a current account deficit of 7 percent of GDP. The rubel depreciation (realized and projected) is expected to fuel inflation, pushing it to 22 percent this year despite weak domestic demand. In the medium term, it is expected that financing constraints continue to force further current account adjustment and gradual exchange rate depreciation, while growth remains weak reflecting structural rigidities.

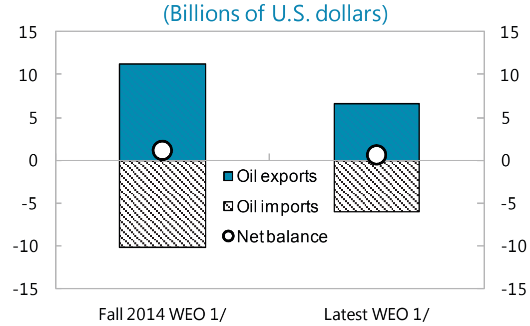
Box 2. Belarus: Direct Impact of Lower Oil Prices

The overall direct effect of lower oil prices on Belarus' economy is negative but modest.

The decline in oil prices has a relatively modest direct effect on Belarus. The *direct* impact of the recent sharp drop in oil prices on the Belarus economy is modest and estimated to lower 2015 GDP growth by 0–½ percent and to worsen the current account balance by about ¾ percent of GDP. These estimated negative direct effects result on balance from two, largely offsetting, forces:

- **Refining proceeds**. Belarus imports crude oil from Russia and re-exports refined oil products to both Russia and to Western Europe. While oil product export prices broadly follow world market prices, import prices of crude are determined by a negotiated formula and are less sensitive to world oil prices—specifically, import prices rise only by about 60 cents for every dollar increase in the world oil price. The substantial decline in world oil prices therefore has a substantial *negative* impact on Belarus through this channel.

Oil Export and Import Projections, 2015
(Billions of U.S. dollars)



1/ The oil price was projected at US$96 per barrel in Fall 2014 WEO and US$57 per barrel under the latest WEO assumptions.

- **Domestic energy use.** Belarus is not a producer of oil or gas and is a net importer of oil with some 30 percent of total imports used domestically. The price gain on energy imports for domestic use has a substantial *positive* impact on the economy.

The indirect impact of the lower oil prices is more substantial. The main impact of low oil prices on Belarus is through their effect on the Russian economy and the Russian ruble exchange rate.

8. **More external financing could alleviate strains, but prospects are uncertain.** The financing outlook is clouded, including on account of spillovers from Russia, which is Belarus' main source of interbank lending and foreign direct investment (FDI). The Russian government will provide additional support in the form of a waiver to pay duties on re-exports of its oil that was provided at discounted prices. It has also indicated it will refinance debt service due to Russia this year. Further bilateral support could help ease conditions, but there are no concrete indications that more support is forthcoming. The high level of Eurobond spreads following the recent crisis will likely prevent a successful new debt issuance in international markets this year.

Belarus: Financing Requirements, 2013–15
(Millions of U.S. dollars)

	2013	2014 Prel.	2015 Proj.
Gross Financing Requirements	-16,951	-15,781	-14,169
Current account balance	-7,567	-5,094	-4,209
Amortization (MLT debt)	-4,910	-4,886	-4,821
of which IMF	-1,641	-1,263	-80
Short-term debt	-4,474	-5,801	-5,139
Financing Sources	16,951	15,781	14,169
Capital account (net)	10	8	6
FDI (net)	1,984	1,799	1,506
Portfolio investment	-42	4	0
Borrowing (MLT)	7,491	5,952	4,742
of which ACF	880	0	0
Short-term financing	5,801	5,139	5,139
Other net 1/	850	1,287	218
Projected change in reserves (+ decrease)	857	1,592	2,559
Memo Item: Stock of Reserves	6,651	5,059	2,500

Source: IMF staff calculations.
1/ Includes portfolio, net trade credits and other net investment assets. 2013 and 2014 include errors and omissions.

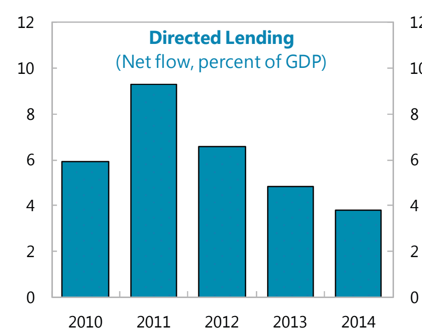
9. **Risks are high and stem from both domestic and regional sources.** The main domestic risk stems from the Presidential elections in the fall, which could prompt macroeconomic stimulus measures that would exacerbate inflation pressures and external imbalances. A deterioration of bank balance sheets on account of the sharp rubel depreciation and the weak economic environment is another key domestic risk. Externally, financing shortfalls could deepen the recession or force a sharper exchange rate adjustment. Oil price developments and geopolitical tensions in the region, to the extent that they impact Russia, are also key sources of risks. A deeper-than-envisaged recession in Russia or further ruble depreciation would negatively impact the balance of payments and growth in Belarus. However, better-than-expected Russian growth, or ruble recovery, are upside risks.

POLICY DISCUSSIONS

10. **Discussions focused on the need for a decisive reorientation of policies to manage external adjustment and restore stability.** Staff and the authorities discussed the need for an exit from remaining administrative crisis measures, paired with comprehensive macroeconomic policy tightening to restore stability. The urgency of long overdue deep structural reforms, needed to bring the economy permanently on a more sustainable path, was also discussed. The staff's reform scenario illustrates that consistent implementation of such policies would result, after an initial adjustment period, in gradually reducing external imbalances, increasing foreign investment, strengthening reserves, and higher medium-term growth (Figure 4, Table 3).

A. Fiscal Policy: Containing Quasi-Fiscal Operations

11. **Quasi-fiscal operations have moderated, but remain key concerns.** Large-scale directed and subsidized lending programs continue to be a key feature of the government's economic policy and boost domestic demand, hamper efficient credit allocation, and create sizable contingent liabilities. Under the government's "financing plan"—a temporary instrument to prioritize government-funded projects in the face of financing constraints—the volume of new directed lending declined to about 4 percent of GDP in 2014 (from 5 percent of GDP in 2013). At this volume, however, directed lending largely crowded out more viable commercial lending. Pauses in government-led wage increases at the beginning and end of 2014 helped slow economy-wide wage growth, with real wages roughly flat over the full year. While this moderation alone was not sufficient to start making up the competitiveness losses from high wage increases during 2012–13, the more recent exchange rate depreciation implied a more significant correction of Belarusian wages in U.S. dollar terms.



Source: Belarusian authorities; and IMF staff

12. **After the headline fiscal balance reached a surplus of 1 percent of GDP in 2014, original plans for a similar surplus in 2015 are being revised in light of weaker growth**. Notwithstanding large revenue shortfalls related to weak profit growth and slowing exports,

preliminary data indicate that the government over performed its original balanced budget target and ran a 1 percent of GDP surplus in 2014—a result achieved by sharp cuts in expenditures on goods and services and capital investment (Figure 5, Table 4). On staff's augmented measure of the fiscal balance, which includes off budget quasi-fiscal operations and directed lending, however, a deficit of about 4 percent of GDP remained. For 2015, the official government budget that was adopted in December again aimed at a budget surplus reflecting the intention to save the temporary windfall of an estimated US$700 million that arises this year from Russia's agreement to waive oil duties. However, in light of the worsening of economic conditions since the budget was passed, the authorities have announced that the budget will be substantially revised. The staff's augmented measure of the fiscal balance is projected to deteriorate to a deficit of about 7 percent of GDP, mostly on account of expected recapitalization needs of state-owned banks.

Policy discussion

13. **The staff pressed for a rapid further reduction of directed lending and tight wage control.** Staff welcomed the reduction of directed lending growth in 2014 but noted it remained too high and urged the authorities to further reduce the flow of new lending to no more than 2 percent of GDP in 2015 and 1 percent of GDP in 2016 so as to contribute to the needed reduction in domestic demand and external imbalances. Over the medium term, directed lending should be phased out entirely to improve credit allocation and contain contingent liabilities. Staff also recommended keeping nominal wages constant in 2015 to help curb demand and consolidate the competitiveness gains from rubel depreciation. Such wage restraint should help real wages adjust following the excessive growth of past years. Medium-term wage developments should be closely linked to productivity growth.

14. **Staff recommended staying with the plan to save the oil-duty windfall in full.** The resulting 1.2 percent budget surplus should help bring down domestic demand and alleviate financing constraints. Staff advised running an even larger surplus if directed lending was not sharply reduced, so as to offset its effect on demand and help prepare for the implied contingent liability. Further fiscal savings should be achieved over the medium term by containing growth of the public sector wage bill and reducing subsidies and transfers.

15. **The authorities emphasized that given the financing constraints fiscal and quasi-fiscal policies would tighten in 2015.** They indicated they will not allow the growth of real wages to exceed that of productivity this year, but were hesitant to implement the nominal wage restraint recommended by staff in light of the shock to real wages that had already taken place. The volume of new directed lending will also be cut as the authorities' prioritize investment projects with a high degree of completion over others to fit a substantially reduced resources envelope for 2015. Whether the volume of new directed lending will meet staff's recommendations, however, depends critically on housing lending, the volume of which has yet to be decided on. There are no plans for a further reduction of directed lending in 2016. Regarding the headline fiscal balance, the authorities were concerned that the adverse external environment and domestic downturn will result in additional revenue shortfalls that will make it

difficult to achieve the originally targeted surplus. They indicated nonetheless that the revised budget, which remains under preparation, will aim to salvage a small surplus. To this end, the draft budget envisages increases in excises, profit taxes for banks, and the income tax rate as well as further expenditure cuts.

B. Monetary Policy: Facilitating Exchange Rate Adjustment and Reducing Inflation

16. **Monetary policy has been uneven, amid stubbornly high inflation** (Box 3). Policy implementation remains hampered by an ineffective framework, inconsistent objectives, and the disruptive impact of large-scale subsidized lending. In 2014, the NBRB gradually lowered policy interest rates to lower the cost of credit but at the same time used quantitative controls and moral suasion to engineer a significant slowdown in credit growth (Figure 6, Table 5–6). More recently, policy rates were hiked (and then lowered again) in response to rubel pressures, but the rate decisions were taken in an inconsistent manner with different policy rates moving in opposite directions.

Box 3. Drivers of Inflation in Belarus

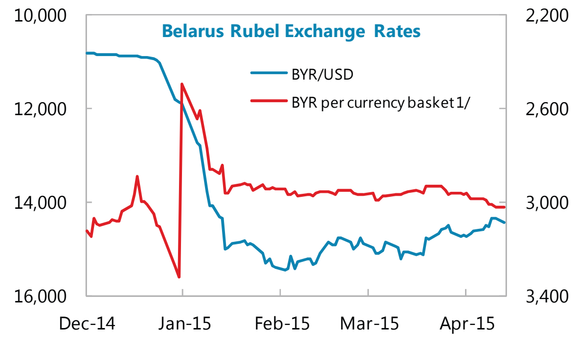
A study with this consultation investigates the factors behind the persistently high inflation in Belarus during 2012–14.[1] *It finds that price growth has been driven mostly by administrative price hikes and expansionary polices. Exchange rate pass-through is likely to play a role in 2015.*

- **Administrative prices.** Regulated goods prices contributed on average about half to total inflation. Administrative prices often rose faster than non-regulated prices, owing to the constant budgetary pressures associated with large price subsidies.
- **Expansionary policies.** Almost a third of inflation was associated with overly loose macroeconomic policies such as excessive wage growth and high volumes of credit, which fueled domestic demand.
- **Exchange rate.** The study finds a high pass-through coefficient of 0.4 to 0.6 for changes in the nominal effective exchange rate. Exchange rate movements had a limited impact in recent years, however, as the rubel was relatively stable. Given the recent devaluation, pass-through is expected to have a significant impact on inflation in 2015.

[1] See Selected Issues chapter “Inflation in Belarus.”

17. **With rubel adjustment likely uncompleted, the new nominally more flexible exchange rate regime remains to be tested.** Following the January devaluation, the NBRB abandoned the prior crawling peg against the U.S. dollar and announced that exchange rate policy will be guided by a currency basket comprising the Russian ruble, the U.S. dollar and the euro. At the same time, the NBRB suggested that the new regime will allow more flexibility. The emerging regime remains unclear, however. Reserve losses have continued and while rubel volatility vis-à-vis the dollar has notably increased, the exchange rate against the new basket has been very stable since mid-January. The latter is remarkable in light of the wider turbulence in international FX markets during this period and given staff estimates that the rubel, at its present

level, remains significantly overvalued (Box 4). Meanwhile, to curb high dollarization, the authorities banned the use of FX for a range of domestic transactions.



Source: National Bank of the Republic of Belarus.
1/ The NBRB's reference currency basket comprises the Russian ruble (40 percent), US dollar (30 percent) and euro (30 percent).

Policy discussion

18. **Staff urged moving to a full float and anchoring monetary policy on base money.** Staff welcomed the authorities' intention to make the exchange rate more flexible. It emphasized, however, that to save reserves and ensure adequate adjustment of the exchange rate in a volatile external environment, the NBRB should rapidly complete the transition to a free float and remove remaining impediments to the proper functioning of the FX market. Staff also recommended that the NBRB fully implement, without further delay, a base-money targeting framework (in line with Fund technical assistance advice) that is squarely focused on bringing inflation rapidly down to single digits. Ensuring adequately tight money targets would also provide support for the exchange rate. Reduced scope for one-way bets under the free float and enhanced inflation control under the money-targeting framework would help reduce incentives for dollarization.

19. **The NBRB agreed but underscored that the exchange rate regime was quite flexible.** It explained that under its new regime interventions were made only to limit daily volatility and without obstructing trend shifts in rubel valuation. The NBRB argued that despite its stability the exchange rate had correctly reflected demand and supply in recent months. The receding pressures were explained by seasonally stronger trade accounts and FDI in the first quarter and by a dissaving trend among crisis-hit households who sold FX holdings to supplement their reduced household incomes. In contrast to staff, the authorities (both in and outside the NBRB) assessed the current exchange rate level as being broadly in equilibrium and did not anticipate significant further exchange rate adjustment in the remainder of the year. To anchor monetary policy, the NBRB indicated it would be shifting to a money targeting framework as recommended by staff, although the precise timeline was unclear and the current monetary policy guidelines continued to also include targets for a range of other variables, including inflation and interest rates.

Box 4. Belarus: External Stability Assessment

A CGER-type assessment suggests that the rubel remains significantly overvalued.

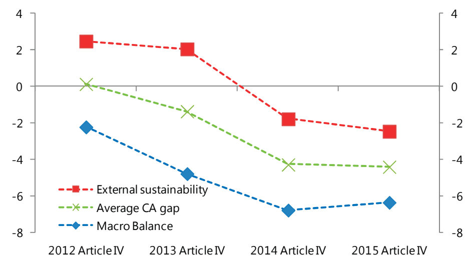
After recent depreciation, the real value of the rubel is back at the level of last spring. Inflation differentials and rapid depreciation of the Russian ruble and the euro caused the rubel REER to appreciate by about 20 percent in the year to December 2014. However, the sharp depreciation of the rubel since late December (about 40 percent vis-à-vis the U.S. dollar and about 20 percent on a nominal effective basis) has largely undone this real appreciation. The current real value of the Belarusian rubel is therefore close to that at the time of the previous exchange rate assessment during the 2014 Article IV Consultation.

An updated CGER assessment follows the methodology of the 2014 Article IV consultation.[1]

- The Macroeconomic Balance approach estimates a slightly declining gap between the current account and the estimated norm from -7 percent to around -6 percent of GDP. This is consistent with a significant overvaluation.

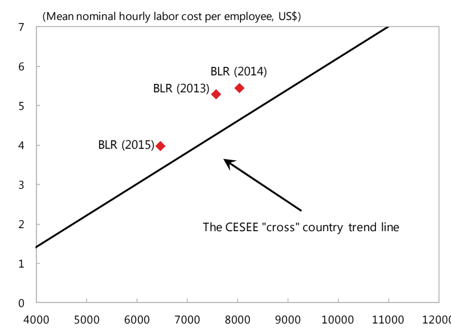
- The External Sustainability approach indicates a gap of about -2 percent of GDP, similar to the assessment last year, despite a deeply negative interest-growth differential.

CGER-Based Current Account Gap 1/



1/ Estimates are based on the CGER methodology explained in Occasional Paper 261, IMF 2008. Note that the ES approach computes the current account position needed to stabilize NFA at its current level, which need not be the appropriate level for Belarus.
2/ Average of the gaps under the MB and ES approaches.

Per capita GDP and Nominal Hourly Labor Cost



Sources: ILO and WEO

An assessment based on wage differentials supports the CGER findings. GDP per capita and hourly labor cost in U.S. dollars show a strong positive correlation across CESEE countries. Belarus' deviation from the equilibrium level implied by this cross-country relationship suggests that at the current exchange rate labor costs in Belarus remain significantly higher than fundamentals would warrant.

The estimates should be interpreted with great care. The high degree of state control in the Belarus economy and related administrative interference with price formation have significantly weakened price signals relative to a market based economy. Moreover, the assessment is highly sensitive to the volatile developments of the Russian ruble (with a 45 percent weight in the NEER) and the euro (30 percent). The ongoing adjustment of these currencies relative to the U.S. dollar introduces considerable additional uncertainty.

[1]For details, see Box 3 in the Republic of Belarus—Staff Report for the 2014 Article IV Consultation.

C. Banking Sector: Maintaining Financial Stability

20. **Risks in the banking sector have further increased.** Weaknesses in Belarus' majority state-owned banking system are difficult to monitor owing to regulatory forbearance and pervasive evergreening of government-directed lending. However, banks are under increasing pressure from the weak macroeconomic environment, high interest rates, and the recent exchange rate adjustment in a context of high loan dollarization. In addition, banks face rising

funding risks related to jittery depositors and the weakening of Russian banks (responsible for almost half of interbank funding flows). Nonperforming loans jumped to 5.2 percent in February and a further worsening is expected (capital adequacy ratios remained at a relatively high level due to a reduction in the risk weight for FX assets, back to 100 percent from 150 percent earlier). Also, a small private bank was recently intervened. The dollar-indexed deposits that expanded from late December are a specific source of risk, although their volume is small (around 4 percent of household's local currency deposits) and the practice has been largely discontinued.

21. **The structural evolution of the financial sector also remains a source of major concern.** The Development Bank (DB), established in 2011 and originally envisaged as a transitional vehicle to consolidate and wind down directed and subsidized lending, has instead become an additional source of subsidized lending and is now the fourth largest bank in the system. At the same time, the DB remains unsupervised and is not included in banking statistics. Separately, the NBRB last year purchased Moscow-Minsk bank, the tenth largest bank in the system, from VTB of Russia following failed attempts by VTB to sell it to a private investor. The acquisition has created a conflict of interest between the NBRB's role as supervisor and its role as owner of this bank.

Financial Soundness Indicators for the Banking Sector 1/

	2010	2011	2012	2013	2014	2015	
	Dec	Dec	Dec	Dec	Dec	Jan	Feb
Capital adequacy							
Capital adequacy ratio 2/	20.5	24.7	20.8	15.5	17.4	16.9	17.4
Tier I capital adequacy ratio 2/	14.9	18.8	14.6	10.5	11.5	10.6	11.1
Foreign exchange loans to total loans	21.7	39.5	45.5	50.2	50.9	56.5	55.8
Non-performing loans to gross loans	3.5	4.2	5.5	4.4	4.4	5.0	5.2
Watch loans 3/	3.6	10.6	12.6	9.6	8.6	9.0	9.3
Recapitalization costs (SOBs, percent of GDP)	1.3	5.3	0.0	0.2	0.0	0.0	0.0

Source: National Bank of the Republic of Belarus.

1/ Official statistics do not adequately reflect risks because of pervasive evergreening and reporting weaknesses. Indicators do not include the DB.

2/ CARs increased in December 2014 on account of reversing an increase in risk weights for FX assets that was introduced in October 2013.

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

Policy discussion

22. **Staff recommended that the NBRB conducts a diagnostic study to assess asset quality in the aftermath of the recent devaluation and interest rate hikes**. Any detected problems in banks should be addressed decisively, and undercapitalized banks should be either recapitalized or resolved as soon as feasible. As recent events likely have lagged effects on banking sector stability the NBRB should remain vigilant to any newly emerging risks.

23. **Staff also urged containing the activities of the Development Bank.** With the DB playing a growing role in the financial sector, the authorities need to ensure proper supervision and regulation of its activities. In addition, they should devise a clear plan for the containment and winding down of the operations of the DB, consistent with the full phase out of directed lending. The staff also urged the NBRB to swiftly divest Moscow-Minsk Bank.

24. **The authorities acknowledged the risks in the banking sector, but believed they were contained.** The NBRB was closely watching the banks, noting that they seemed to have weathered the devaluation well owing to adequate buffers. Also, the NBRB, the government, banks, and large corporate borrowers, had joined forces to analyze the situation of key borrowers and to ensure continued financing to keep credit risks under control. The government was also exploring the possibility of transferring some problem loans from subsidized lending programs to the DB, and task the latter with optimizing the recovery on those assets. The authorities agreed on the need to supervise the DB, but concrete plans had yet to crystallize. The NBRB further indicated that it was unlikely to sell Moscow-Minsk Bank soon as the current adverse environment limited the range of potential buyers. In the meantime, it believed that Chinese walls established within the NBRB between the managers and supervisors of the bank adequately addressed the potential conflict of interest between its respective roles.

D. Structural Reform: Fostering Resilience and Raising Potential Growth

25. **Progress on structural reform has been minimal.** Deep reforms to reduce state influence and enhance the market orientation of the economy, which would help improve resource allocation and competitiveness, remain critical for medium-term sustainability. However, reforms have stalled in recent years (Box 5). The main area where some advancement had been made was price liberalization as the number of goods subject to price controls had been gradually reduced in 2014. However, the outright ban on consumer price increases at the end of the year effectively reversed this progress. Utility and transportation tariffs remain substantially below cost recovery levels, in spite of several increases in 2014 and early 2015. Meanwhile, earlier intentions to privatize selected companies have been mostly abandoned and no meaningful privatization has taken place. The economy also remains burdened by pervasive government-imposed targets for enterprises which set production volumes and other key variables, thereby severely constraining companies' business independence and flexibility. Regional trade integration in the recently established Eurasian Economic Union is not expected to have a large near-term impact on Belarus and will in any event require increased competitiveness to yield full benefits (Box 6).

Policy discussion

26. **Staff urged the authorities to adopt and implement an ambitious, frontloaded reform agenda.** This agenda should be unambiguously aimed at enhancing the market orientation of the economy and include decisive price liberalization, comprising a detailed, time-bound plan to bring utility and transport tariffs rapidly to full cost recovery. It should also envision the swift and complete phase out of mandatory targets for enterprises and contain credible plans for large-scale privatization. Social safety nets should be strengthened to protect the vulnerable, including by raising unemployment insurance at least to subsistence levels.

Box 5. Belarus: Structural Reforms—A Mostly Unfinished Agenda

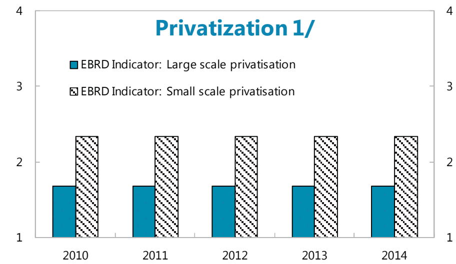
Among all the economies in CEE, Belarus' transformation to a market economy is by far the least advanced and reforms have stalled for the past five years. There is urgency for market-based reforms in several key areas to improve the competitiveness of the economy.

Privatization: Despite the efforts of the National Privatization Agency (NIPA) and officially stated intentions to privatize companies, no significant privatizations have taken place since 2011.

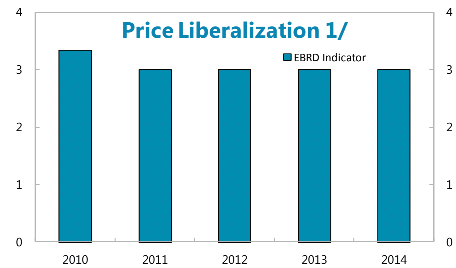
Price liberalization: price controls remain pervasive. Progress was made in reducing the number of controlled "socially important goods," whose share in the CPI basket fell from 49 percent in 2011 to 25 percent in 2014. However, the government retained the right to impose temporary price controls and at end-2014 price increases were prohibited for all goods and services.

Utility prices: The government has raised utility prices, including as an element of conditionality under the ACF program but they remain far below cost recovery levels. At end-2014 the authorities devised a plan to reach full cost recovery by end-2017 (for heating by 2020) but it remains unclear how the plan will be implemented and phased.

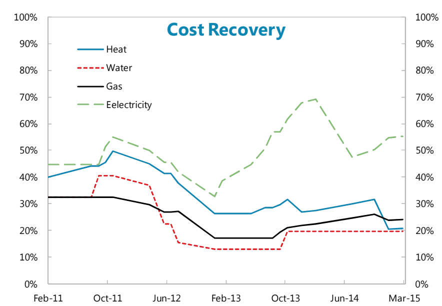
Directed and subsidized lending: Since 2009 Belarus' economic model has relied heavily on government lending programs that target development of specific sectors of the economy, most notably housing and agriculture. These loans are highly concessional and are a major impediment to the transmission of monetary policy and the development of a commercially-based banking system. The stock of subsidized loans accounts for over 40 percent of all credit in the system.

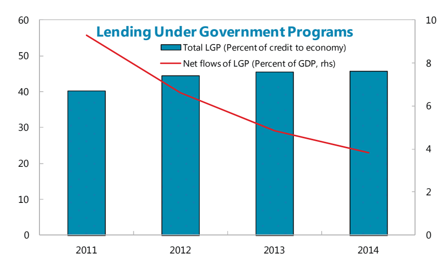


Source: EBRD, *Transition Indicators*.
1/ Higher indicators corresponds to greater transition.



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

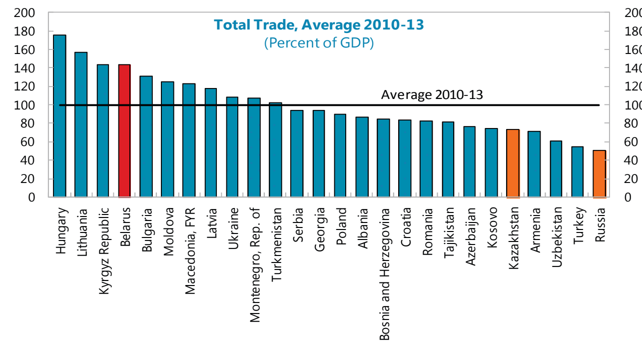




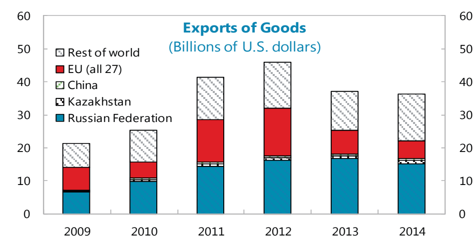
Box 6. Belarus: Eurasian Economic Union (EEU)

The advent of the EEU is not expected to have a large near-term impact, while Russia's World Trade Organization (WTO) membership has increased competitive pressures for Belarus.

Belarus is highly integrated into the global economy. Belarus has one of the highest openness ratios in the region at over 140 percent of GDP in 2010–13. A high concentration of exports, however, has made Belarus vulnerable to shocks, with Russia accounting for about half of exports.



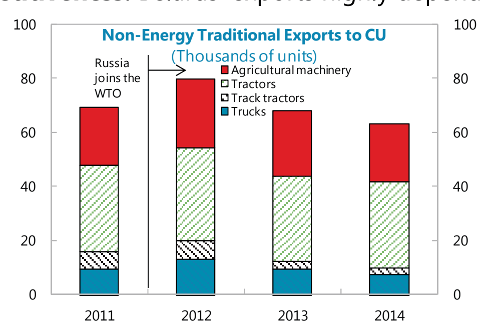
2015 marked the advent of the EEU. The union comprises Belarus, Russia, Kazakhstan, and Armenia and will soon also include Kyrgyz Republic. Compared to the earlier existing Eurasian Customs Union, established in 2010 to harmonize external import tariffs, the new EEU also guarantees the free transit of goods, services, capital, and labor and envisages a coordinated policy for key economic sectors. However, several of the main objectives—such as creating integrated oil and gas markets and common regulatory and tariff polices—will not come into force until 2025.



Sources: DOTS; Belstat; and IMF staff calculations.

The EEU is not expected to have large near-term economic effects on Belarus trade. As a member of the customs union since 2010 Belarus already had a free trade regime with Russia and Kazakhstan and exports to the customs union have not increased significantly. The impact of the EEU on trade creation is unlikely to provide extra benefit in the short-run and medium-term effects will depend on how the Union's rules and regulations will be implemented.

With Russia's accession to the WTO, Belarus has lost competitiveness. Belarus' exports highly depend on the Russian market and have come to face competition from WTO countries with access to Russia as the customs union tariffs move in line with Russia's commitments to the WTO. While Belarusian customers will benefit from trade liberalization, Belarusian producers face competition from third countries without enjoying the benefits of increased market access to WTO members. Since Russia's WTO accession in 2012, competitive pressures on Belarus' non-energy exports to customs union members have further intensified.



Source: Belstat.

27. **The authorities acknowledged the necessity of structural changes but emphasized the need for a very gradual approach.** The authorities believe that the mindsets and skills of workers, managers, and the population more generally will need considerable time to adapt to change and that any rapid reforms would have a low chance of success. They also argued that the current weak external and domestic economic environment was not conducive to implementation of rigorous reforms. In this context, they believed that there was no scope for privatizations in the short term, pointing to concerns about receiving a "fair price" for state assets. Instead, the authorities' reform plans focused primarily on improving incentives for managers within the current state-controlled system, including by making official targets more indicative and by prioritizing profit targets over other objectives. Separately, they envisaged bringing utility and household tariffs to full cost recovery over a three year period but without a specified timeline and with only small improvements planned for 2015. The effort also excluded heating tariffs. The authorities indicated they are planning to gradually reorient their labor market policies from protecting jobs to protecting incomes. In this context, technical assistance to improve targeting of social assistance to vulnerable groups is being sought from the World Bank.

FUND RELATIONS

28. **With the 2009–10 SBA fully repaid, the authorities reiterated their interest in a new Fund program.** Staff indicated that a program would require credible commitment at the highest level to a comprehensive package of deep structural reform and consistent macroeconomic policies. This package should include a fully flexible exchange rate, appropriately tight macroeconomic policies, and bold, frontloaded structural reform.

STAFF APPRAISAL

29. **Belarus remains highly vulnerable and a decisive reorientation of policies is needed urgently.** To promote stability and a sustainable recovery, macroeconomic policies need to focus unequivocally on rapidly reducing external imbalances and lowering inflation.

30. **Directed lending needs to be rapidly further reduced.** Last year's reduction of directed lending growth is welcome but should be built upon to further bring down the flow of new lending in 2015 and 2016 so as to contribute to the needed reduction in domestic demand. Over the medium term, directed lending should be phased out entirely to improve credit allocation and contain contingent liabilities.

31. **Nominal wages should not rise further in 2015.** This would help curb demand and consolidate the competitiveness gains from rubel depreciation. It would also help make up for excessive wage growth of past years. In the medium-term, wage developments should closely follow productivity growth.

32. **Saving the oil-duty windfall in 2015 would imply a small surplus on the headline fiscal balance**. This would help curb domestic demand and alleviate financing constraints. A larger headline surplus will be appropriate if directed lending is not sharply reduced, so as to offset its effect on demand and help prepare for the implied contingent liability. Further fiscal savings should be achieved over the medium term by containing growth of the public sector wage bill and reducing subsidies and transfers.

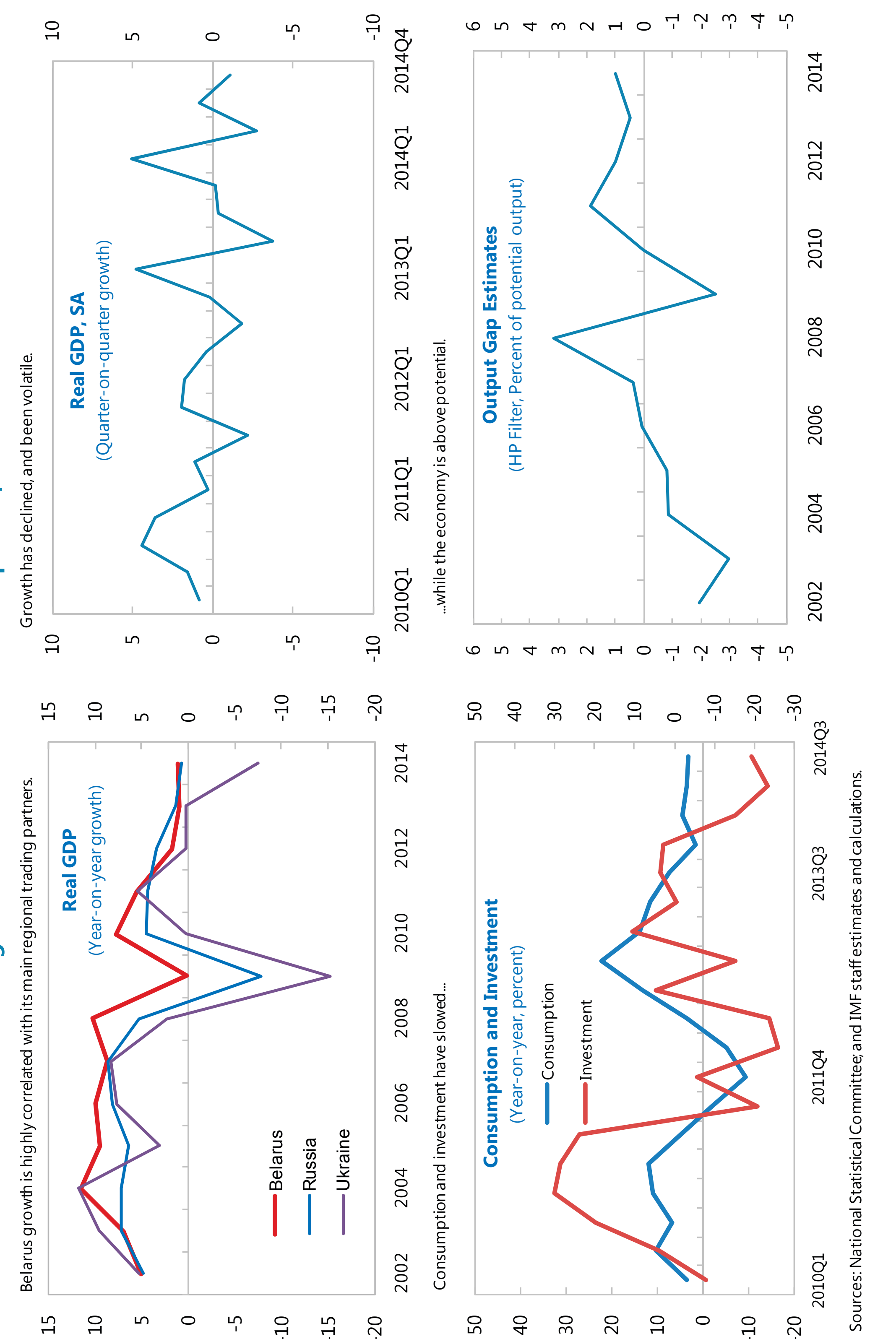
33. **The exchange rate should be made fully flexible, and monetary policy tightened.** The authorities intention to make the exchange rate more flexible is welcome but to save reserves and ensure adequate adjustment of the exchange rate in the volatile external environment, it will be important to complete the transition to a free float soon. The NBRB should also without further delay implement a money-targeting framework that is squarely focused on bringing inflation to single digits.

34. **The banking system needs to be monitored closely in view of increasing risks.** Conducting a diagnostic study would be useful to assess the impact of recent events on asset quality. Any detected problems in banks should be addressed decisively and undercapitalized banks should be recapitalized or resolved as soon as feasible. To promote sound governance and oversight of the system, arrangements need to be made for the supervision of the DB. Also, over the medium term, its operations should be wound down, in line with the phase out of directed lending. The NBRB should swiftly divest Moscow-Minsk Bank, including to resolve the conflict of interest between its role as supervisor and its role as owner of this bank.

35. **Deep structural reform remains critical to promote sustainable growth and break with the cycle of recurrent crises.** The authorities should adopt and implement an ambitious, frontloaded reform agenda. This agenda should include decisive price liberalization, comprising a detailed plan to bring utility and transport tariffs rapidly to full cost recovery. It should also prepare for the swift and complete phase out of mandatory targets for enterprises and contain credible plans for large-scale privatization in the corporate and banking sectors. Social safety nets, including unemployment insurance, should be strengthened to protect the vulnerable.

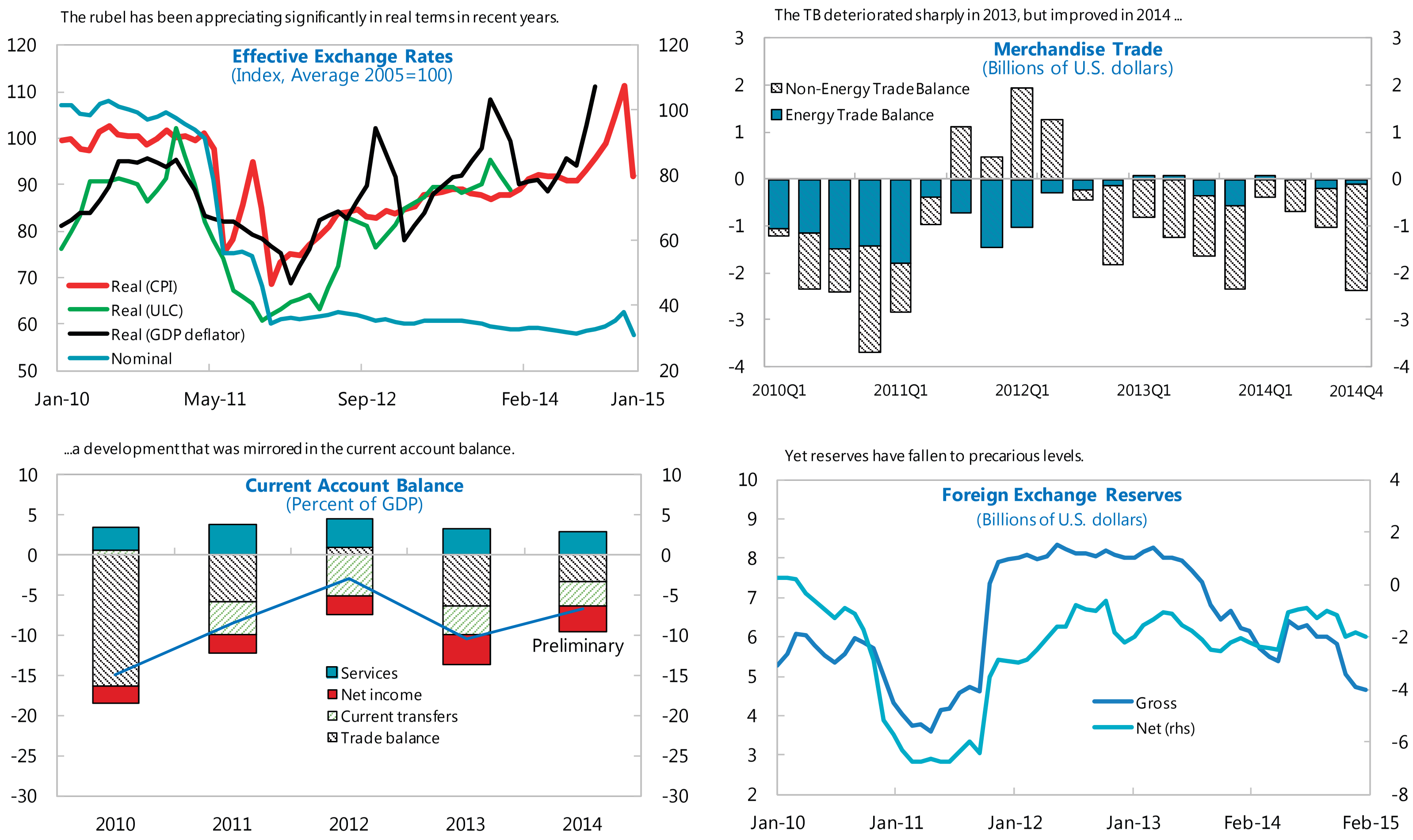
36. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle.**

Figure 1. Belarus: Real Sector Developments, 2002–14



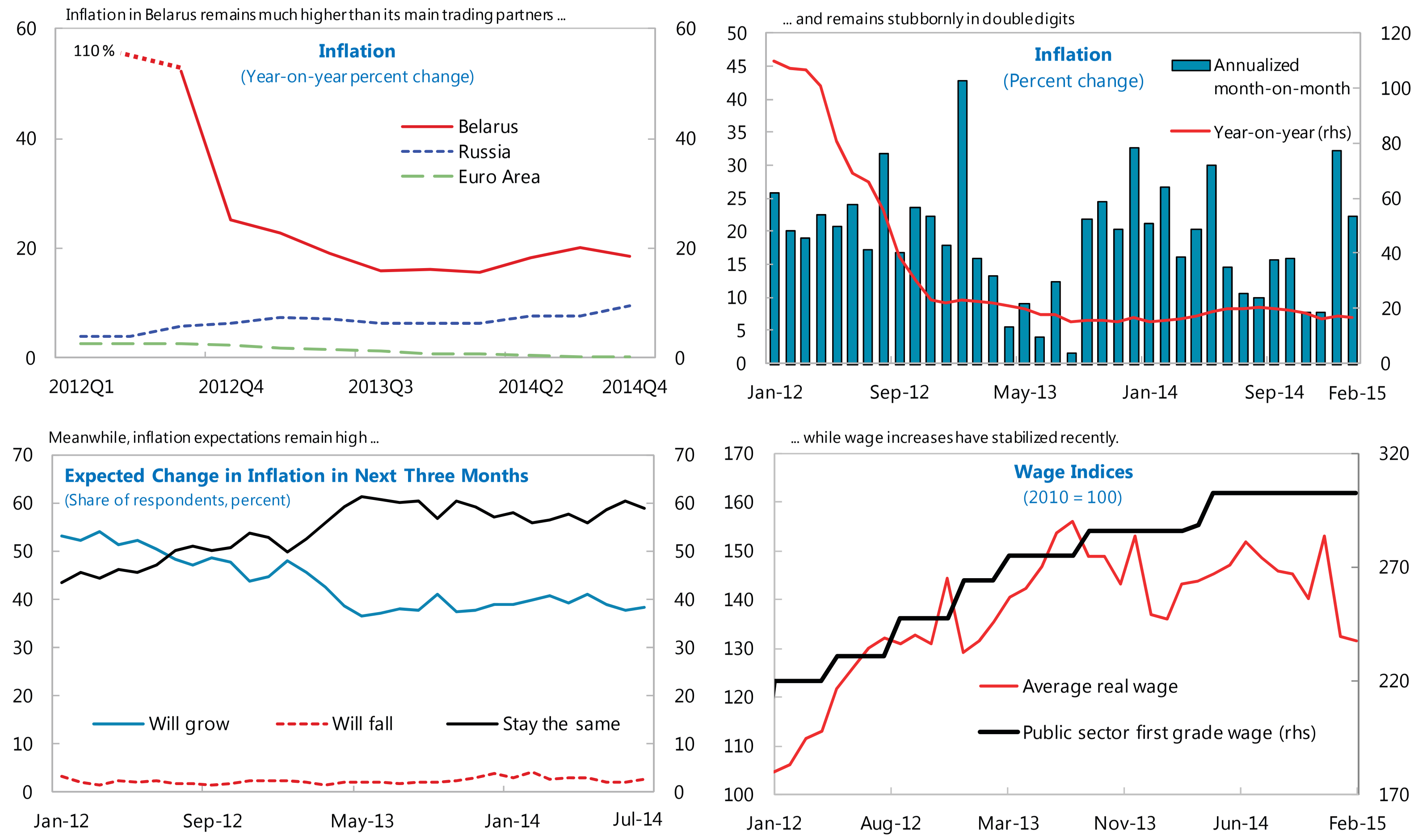
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 2. Belarus: External Sector, 2010–15



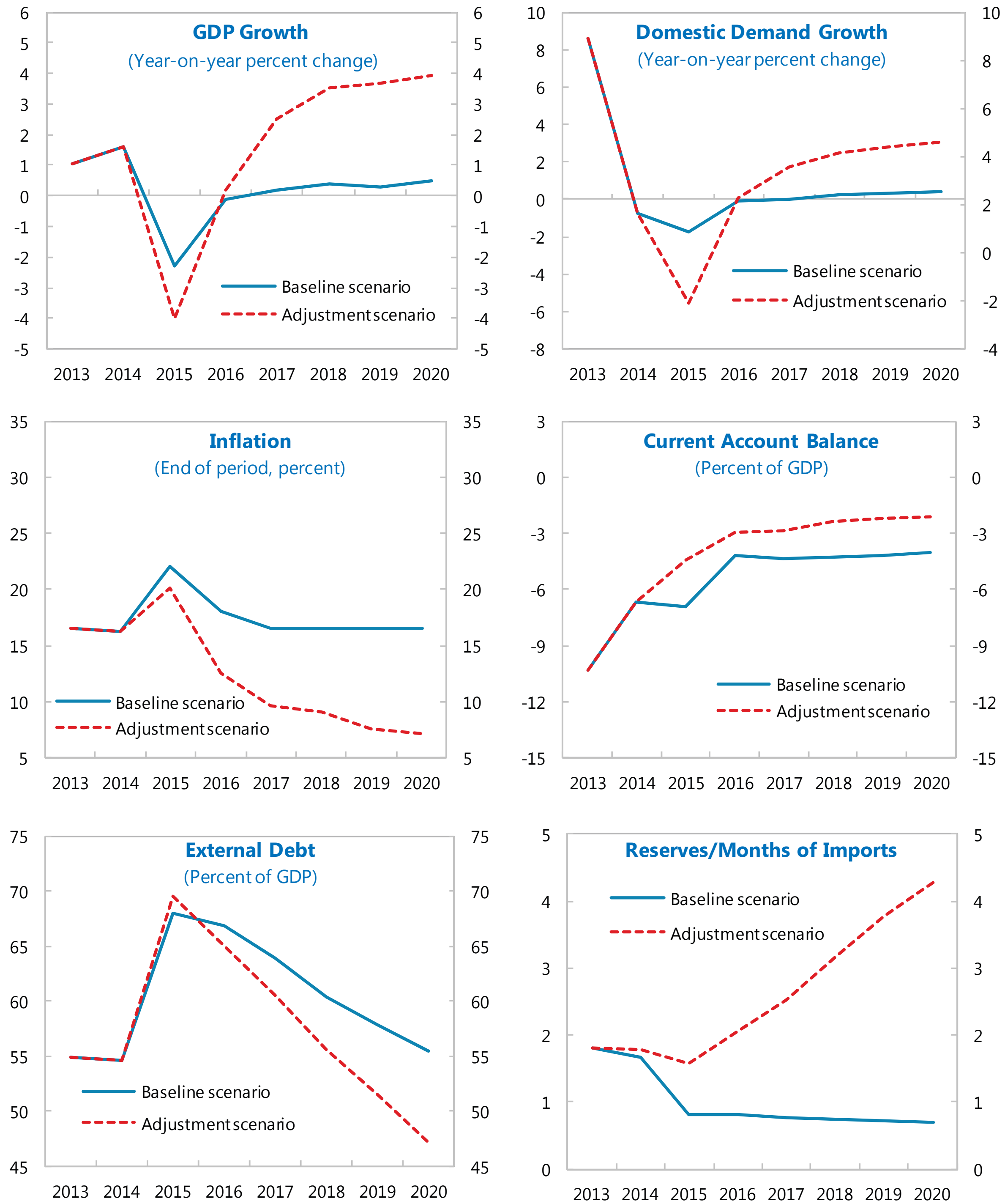
Sources: Belstat; National Bank of the Republic of Belarus; Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 3. Belarus: Inflation and Wage Developments, 2012–14



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

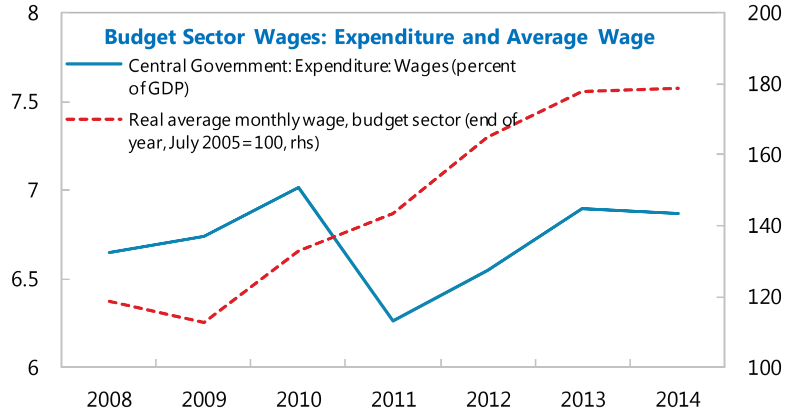
Figure 4. Belarus: Baseline and Adjustment Scenarios, 2013–20



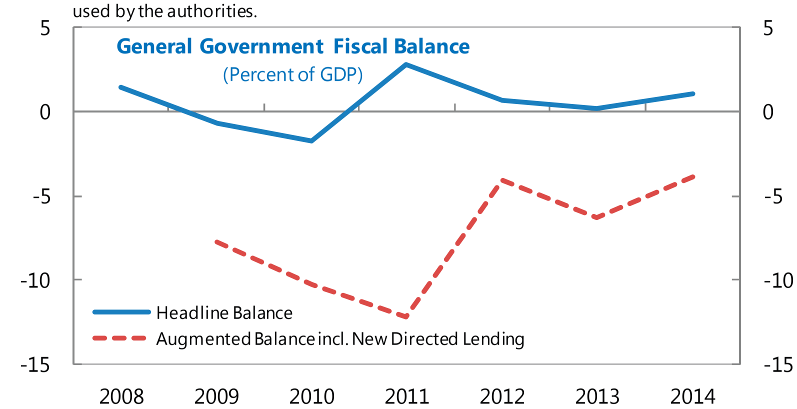
Sources: Belarusian authorities; and IMF staff estimates and calculations.

Figure 5. Belarus: Fiscal Developments, 2008–14

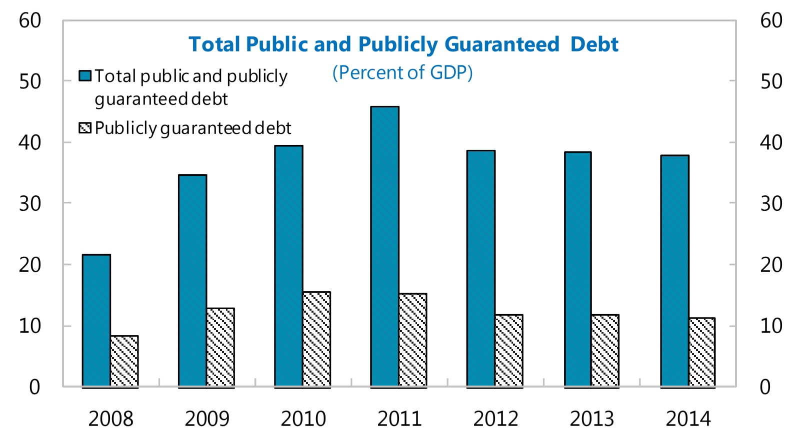
Budget sector wage costs have been on an upward trend.



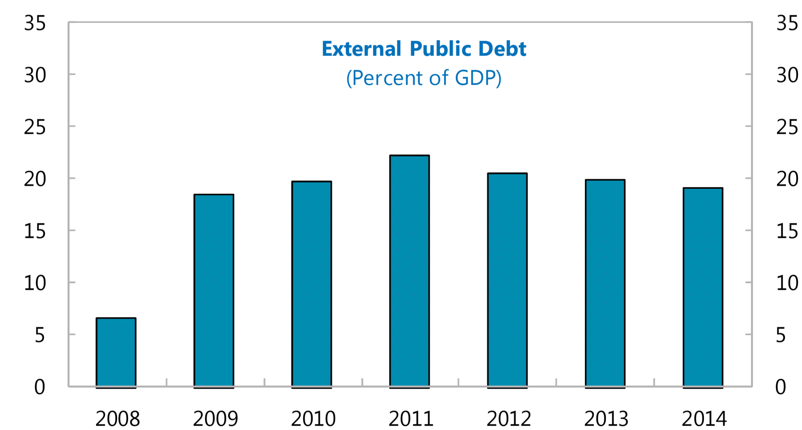
An augmented balance including outlays for bank recapitalizations and guaranteed debt, as well as directed lending suggests a much looser fiscal stance than the narrow measure used by the authorities.



Domestic debt has declined in recent years on high inflation...



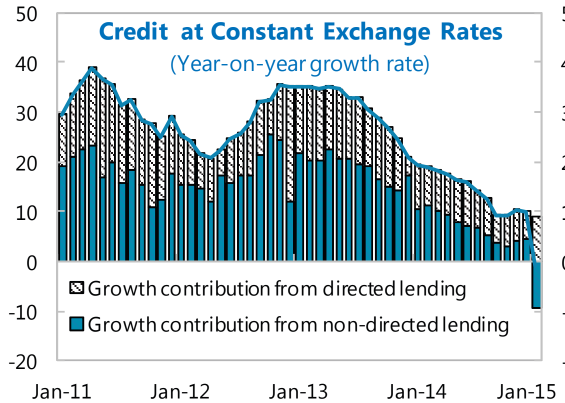
...as has foreign debt although the recent devaluation will cause a rise in 2015.



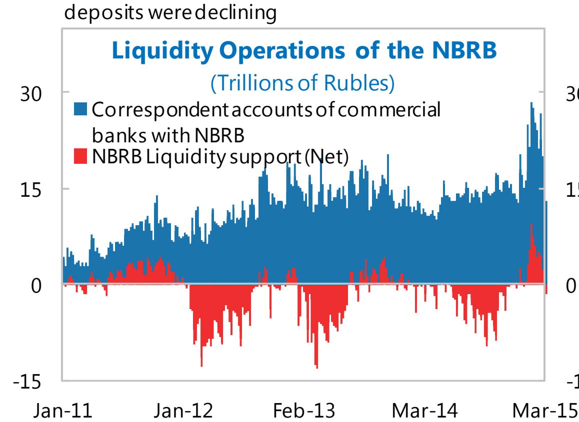
Sources: Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 6. Belarus: Monetary Developments, 2011–15

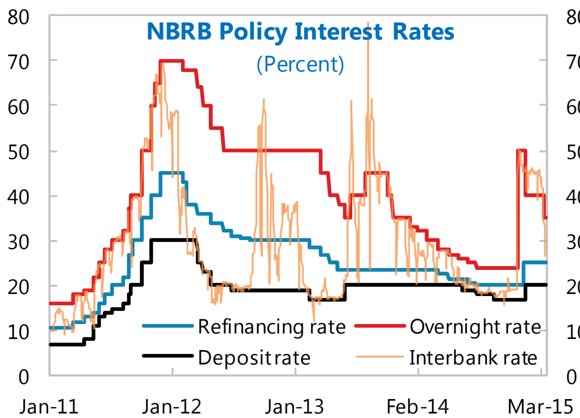
Growth of credit to the economy has slowed since 2013.



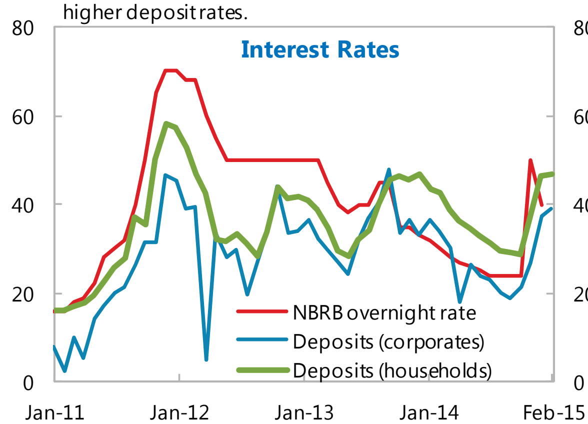
The NBRB has recently started injecting liquidity as rubel deposits were declining



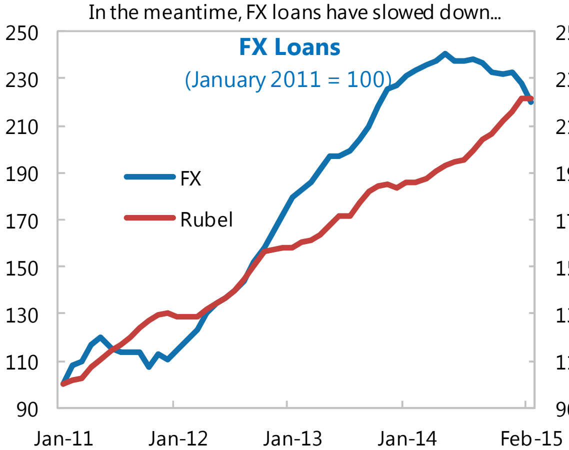
Policy rates were recently increased.



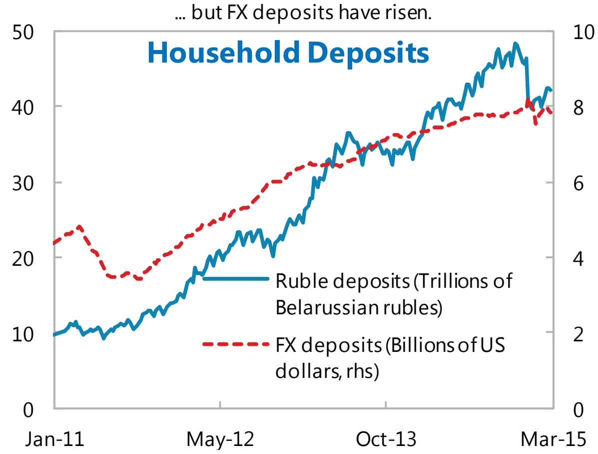
The increase in the overnight rate has translated into higher deposit rates.



In the meantime, FX loans have slowed down...



... but FX deposits have risen.



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

Table 1. Belarus: Selected Economic Indicators (Baseline Scenario), 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.			Proj.			
					(Percentage change)					
National accounts										
Real GDP	5.5	1.7	1.0	1.6	-2.3	-0.1	0.2	0.4	0.3	0.5
Total domestic demand	3.4	2.6	8.6	-0.7	-1.8	-0.1	0.0	0.3	0.3	0.4
Consumption	1.0	8.2	8.3	3.3	-0.6	0.1	0.2	0.3	0.2	0.4
Nongovernment	2.3	10.7	10.8	4.4	-0.4	0.3	0.3	0.4	0.3	0.5
Government	-3.6	-1.0	-2.1	-1.9	-1.3	-0.5	0.0	0.0	0.0	0.0
Investment	7.8	-6.6	9.3	-8.4	-4.3	-0.6	-0.5	0.2	0.5	0.5
Of which: fixed	13.9	-11.3	9.6	-8.9	-4.5	-0.6	-0.5	0.2	0.5	0.5
Net exports 1/	3.4	-0.9	-6.6	1.1	-0.2	0.0	0.2	0.1	-0.1	0.0
Consumer prices										
End of period	108.7	21.8	16.5	16.2	22.0	18.1	16.5	16.5	16.5	16.5
Average	53.2	59.2	18.3	18.1	22.1	17.4	16.7	16.5	16.5	16.5
Monetary accounts										
Reserve money	84.1	61.6	13.4	13.8	19.4	24.6	16.0	16.1	15.9	16.1
Rubel broad money	64.1	58.4	15.5	14.5	28.5	20.2	16.3	16.5	16.2	16.4
					(Percent of GDP, unless otherwise indicated)					
External debt and balance of payments										
Current account balance	-8.5	-2.9	-10.4	-6.7	-7.0	-4.2	-4.3	-4.3	-4.2	-4.0
Trade balance	-5.8	0.9	-6.3	-3.4	-7.1	-4.9	-5.1	-4.8	-4.9	-4.6
Exports of goods	68.5	71.6	50.0	46.9	46.4	47.9	45.0	44.0	42.3	40.6
Imports of goods	-74.3	-70.8	-56.3	-50.3	-53.5	-52.8	-50.1	-48.8	-47.2	-45.1
Gross external debt	57.7	54.2	54.9	54.6	68.0	66.9	63.9	60.4	57.9	55.4
Public 2/	25.0	23.1	21.6	23.0	27.6	27.4	26.4	24.8	23.9	22.9
Private (incl. state-owned-enterprises)	32.7	31.0	33.3	31.7	40.4	39.4	37.5	35.6	34.0	32.6
Savings and investment										
Gross domestic investment	37.6	35.4	38.2	33.5	32.7	31.9	31.7	31.3	31.0	30.3
Government	5.1	6.4	6.5	5.5	5.8	5.8	5.8	5.8	5.8	5.8
Nongovernment	32.5	28.9	31.7	27.9	26.9	26.1	25.8	25.5	25.1	24.5
National saving	29.2	32.5	27.9	26.8	25.8	27.8	27.4	27.1	26.8	26.3
Government 3/	2.1	6.8	5.6	5.9	2.8	3.3	2.8	2.2	1.6	1.3
Nongovernment 3/	27.1	25.7	22.3	20.9	23.0	24.5	24.6	24.9	25.2	25.0
Public sector finance										
General government balance (incl. SPF)	2.8	0.7	0.1	1.1	0.6	-1.0	-1.7	-2.3	-3.0	-3.4
Augmented general government balance 4/	-3.0	0.3	-0.9	0.4	-3.0	-2.6	-3.1	-3.7	-4.3	-4.6
Augmented general government balance incl. new directed lending	-12.3	-6.3	-5.8	-3.5	-6.9	-6.4	-6.9	-7.5	-8.1	-8.4
Of which: new directed lending (incl. Development Bank)	9.3	6.6	4.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Revenue	38.8	40.5	41.2	40.3	41.3	40.8	41.0	41.2	41.4	41.6
Expenditure 5/	41.8	40.2	42.1	39.9	44.3	43.4	44.1	44.9	45.7	46.2
Of which:										
Wages	6.3	6.5	6.8	6.7	6.8	7.0	7.1	7.2	7.3	7.4
Subsidies and transfers	7.3	7.6	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Gross public debt and government guaranteed debt 6/	45.9	38.5	37.6	39.8	41.3	46.4	46.8	47.1	48.5	49.7
Memorandum items:										
Nominal GDP (billions of U.S. dollars)	60	64	73	76	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	530	649	778	973	1,170	1,360	1,584	1,837	2,133
Terms of trade, percentage change	6.0	6.8	1.1	3.4	-2.8	4.2	-0.2	-0.3	-0.4	0.1
Real Effective Exchange Rate ("-" denotes a depreciation)	-11.7	-8.2	8.0	9.8	...	...	...	...	...	...
Nominal Effective Exchange Rate ("-" denotes a depreciation)	-33.6	-45.1	-5.2	-2.7	...	...	...	...	...	...
Official reserves (billions of U.S. dollars)	7.9	8.1	6.7	5.1	2.5	2.5	2.5	2.5	2.5	2.5
Months of imports of goods and services	1.9	2.1	1.8	1.7	0.8	0.8	0.8	0.7	0.7	0.7
Percent of short-term debt	56.9	63.8	45.6	37.2	18.4	18.3	18.2	18.0	17.9	17.6
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/ Refers to the augmented expenditure of the general government.
6/ 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), 2011–20[1/]

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.			Proj.			
Current account balance	-5,053	-1,862	-7,567	-5,094	-4,209	-2,597	-2,886	-3,069	-3,214	-3,302
Trade balance (goods)	-3,467	565	-4,593	-2,598	-4,316	-3,076	-3,402	-3,440	-3,730	-3,730
Energy balance	-4,343	-1,675	-707	-1,440	-2,901	-2,771	-3,145	-3,289	-3,748	-3,777
Nonenergy balance	876	2,240	-3,886	-1,158	-1,415	-305	-256	-151	18	48
Exports	40,928	45,574	36,540	35,736	28,061	29,936	30,079	31,715	32,506	33,258
Energy	14,272	16,081	11,740	10,967	7,563	9,170	9,893	10,268	10,350	10,413
Nonenergy	26,655	29,493	24,800	24,769	20,498	20,766	20,186	21,446	22,156	22,844
Imports	-44,394	-45,009	-41,134	-38,334	-32,377	-33,012	-33,481	-35,155	-36,236	-36,987
Energy	-18,615	-17,756	-12,447	-12,407	-10,463	-11,941	-13,039	-13,558	-14,098	-14,191
Nonenergy	-25,779	-27,253	-28,687	-25,928	-21,914	-21,071	-20,442	-21,597	-22,138	-22,796
Services, net	2,258	2,269	2,253	2,199	2,018	2,329	2,483	2,474	2,612	2,621
Income, net	-1,361	-1,473	-2,685	-2,399	-2,299	-2,248	-2,383	-2,527	-2,575	-2,669
Transfers, net 2/	-2,482	-3,223	-2,542	-2,296	389	397	415	425	478	476
Capital and financial accounts	4,569	1,073	7,947	5,116	1,730	2,597	2,886	3,069	3,214	3,302
Capital account	4	4	10	8	6	6	7	7	8	8
Financial account	4,564	1,069	7,936	5,108	1,724	2,591	2,879	3,061	3,206	3,293
Overall FDI, net	3,877	1,308	1,984	1,799	1,506	1,785	1,922	2,037	2,162	2,243
Portfolio investment, net	854	-190	-60	-8	0	0	0	0	0	0
Trade credits, net	575	-1,789	428	304	0	44	88	133	136	166
Loans, net	530	944	4,895	2,379	0	544	650	668	679	652
Government and monetary authorities, net	-327	314	2,061	3,068	0	479	521	489	456	383
Banks, net	70	125	1,396	-1,447	0	18	35	53	66	79
Other sectors, net	788	506	1,438	757	0	47	94	126	157	190
Other, net	-1,272	796	690	634	218	218	219	223	229	232
Errors and omissions	1,035	894	-475	-351	0	0	0	0	0	0
Overall balance	551	104	-96	-329	-2,479	0	0	0	0	0
Financing	-551	-106	96	329	2,479	0	0	0	0	0
Gross official reserves ("-" denotes an increase)	-2,791	-81	857	1,592	2,559	0	0	0	0	0
Use of IMF credit (+)	0	-465	-1,641	-1,263	-80	0	0	0	0	0
Other donors and exceptional financing items	2,240	440	880	0	0	0	0	0	0	0
Memorandum items:										
Current account balance (in percent of GDP)	-8.5	-2.9	-10.4	-6.7	-7.0	-4.2	-4.3	-4.3	-4.2	-4.0
Total external debt (in percent of GDP)	57.7	54.2	54.9	54.6	68.0	66.9	63.9	60.4	57.9	55.4
Gross official reserves (end-of-period)	7,916	8,095	6,651	5,059	2,500	2,500	2,500	2,500	2,500	2,500
In months of imports of goods and services	1.9	2.1	1.8	1.7	0.8	0.8	0.8	0.7	0.7	0.7
In percent of short-term debt	56.9	63.8	45.6	37.2	18.4	18.3	18.2	18.0	17.9	17.6
Export volume (annual percentage change)	33.0	11.0	-17.4	2.5	-8.4	-0.4	-0.1	0.3	0.2	0.3
Import volume (annual percentage change)	15.9	9.4	-7.2	0.0	-7.0	-0.4	-0.3	0.2	0.4	0.2

Sources: Belarus authorities; and IMF staff estimates.

1/ Data compiled based on BPM6.

2/ Values for 2011-19 include transfer of export duty on oil products to the Russian budget.

Table 3. Belarus: Selected Economic Indicators (Adjustment Scenario), 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.	Proj.					
	(Percentage change)									
National accounts										
Real GDP	5.5	1.7	1.0	1.6	-4.0	0.2	2.5	3.5	3.7	3.9
Total domestic demand	3.4	2.6	8.6	-0.7	-5.5	0.1	1.7	2.5	2.8	3.0
Consumption	1.0	8.2	8.3	3.3	-5.8	0.1	1.7	2.3	2.5	2.6
Nongovernment	2.3	10.7	10.8	4.4	-6.7	0.2	1.9	2.6	2.9	3.0
Government	-3.6	-1.0	-2.1	-1.9	-1.3	0.0	1.0	1.0	1.0	1.0
Investment	7.8	-6.6	9.3	-8.4	-5.0	0.0	1.8	2.8	3.3	3.8
Of which: fixed	13.9	-11.3	9.6	-8.9	-5.2	0.0	1.9	3.0	3.4	4.0
Net exports 1/	3.4	-0.9	-6.6	1.1	2.5	0.1	0.5	0.7	0.6	0.5
Consumer prices										
End of period	108.7	21.8	16.5	16.2	20.1	12.5	9.7	9.1	7.6	7.1
Average	53.2	59.2	18.3	18.1	21.2	13.7	10.0	9.3	8.2	7.0
Monetary accounts										
Reserve money	84.1	61.6	13.4	13.8	18.2	20.4	13.6	14.3	13.5	13.5
Rubel broad money	64.1	58.4	15.5	14.5	27.0	16.5	14.0	14.8	13.9	13.9
	(Percent of GDP; unless otherwise indicated)									
External debt and balance of payments										
Current account balance	-8.5	-2.9	-10.4	-6.7	-4.4	-3.0	-2.9	-2.4	-2.2	-2.1
Trade balance	-5.8	0.9	-6.3	-3.4	-5.2	-3.8	-3.5	-2.6	-2.4	-2.1
Exports of goods	68.5	71.6	50.0	46.9	46.6	46.9	44.7	42.5	40.0	37.0
Imports of goods	-74.3	-70.8	-56.3	-50.3	-51.7	-50.6	-48.3	-45.2	-42.4	-39.0
Gross external debt	57.7	54.2	54.9	54.6	69.6	65.1	60.6	55.6	51.6	47.2
Public 2/	25.0	23.1	21.6	23.0	28.0	26.3	24.5	22.4	21.0	19.4
Private (incl. state-owned-enterprises)	32.7	31.0	33.3	31.7	41.6	38.8	36.1	33.2	30.6	27.8
Savings and investment										
Gross domestic investment	37.6	35.4	38.2	33.5	31.6	31.7	33.5	34.8	35.5	36.0
Government	5.1	6.4	6.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3
Nongovernment	32.5	28.9	31.7	27.9	26.3	26.5	28.2	29.5	30.2	30.8
National saving	29.2	32.5	27.9	26.8	27.2	28.7	30.6	32.4	33.3	33.9
Government 3/	2.1	6.8	5.6	5.9	2.8	3.0	3.2	3.8	3.9	4.1
Nongovernment 3/	27.1	25.7	22.3	20.9	24.4	25.7	27.4	28.6	29.4	29.8
Public sector finance										
General government balance	2.8	0.7	0.1	1.1	1.2	0.0	0.0	0.0	0.0	0.0
Augmented general government balance 4/	-3.0	0.3	-0.9	0.4	-2.5	-2.3	-2.1	-1.4	-1.3	-1.2
Augmented general government balance incl. new directed lending	-12.3	-6.3	-5.8	-3.5	-5.0	-3.8	-3.1	-2.4	-2.3	-2.2
Of which: new directed lending (incl. Development Bank)	9.3	6.6	4.9	3.8	2.5	1.5	1.0	1.0	1.0	1.0
Revenue	38.8	40.5	41.2	40.3	41.5	40.3	40.3	40.3	40.3	40.3
Expenditure 5/	41.8	40.2	42.1	39.9	43.9	42.5	42.3	41.7	41.6	41.4
Of which:										
Wages	6.3	6.5	6.8	6.7	7.0	7.0	7.0	7.0	7.0	7.0
Subsidies and transfers	7.3	7.6	7.4	7.0	7.3	7.2	7.0	6.8	6.6	6.4
Investment	5.1	6.4	6.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3
Gross public debt and government guaranteed debt 6/	45.9	38.5	37.6	39.8	41.2	44.7	43.6	41.4	40.0	38.2
Memorandum items:										
Nominal GDP (billions of U.S. dollars)	60	64	73	76	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	530	649	778	961	1,119	1,276	1,465	1,669	1,901
Terms of trade, percentage change	6.0	6.8	1.1	3.4	-2.3	1.0	-0.7	-0.8	-1.3	-1.1
Real Effective Exchange Rate (- denotes a depreciation)	-11.7	-8.2	8.0	9.8	...	...	...	...	...	...
Nominal Effective Exchange Rate ("-" denotes a depreciation)	-33.6	-45.1	-5.2	-2.7	...	...	...	...	...	...
Official reserves (billions of U.S. dollars)	7.9	8.1	6.7	5.1	4.8	6.6	8.5	11.3	14.1	16.6
Months of imports of goods and services	1.9	2.1	1.8	1.8	1.6	2.1	2.5	3.2	3.8	4.3
Percent of short-term debt	56.9	63.8	45.6	37.2	35.2	47.9	61.2	79.6	97.7	113.5

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/ Refers to the augmented expenditure of the general government.
6/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 4a. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2011–20

(Percent of annual GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.			Proj.			
1. State (republican and local) budget										
Revenue	28.8	29.8	29.2	28.2	29.2	28.2	28.2	28.2	28.2	28.2
Personal income tax	3.1	3.6	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Profit tax	2.9	3.7	3.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6
VAT	8.9	8.6	8.7	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Excises	1.9	2.1	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Property tax	0.9	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Customs duties	5.1	4.8	3.6	2.4	3.4	2.4	2.4	2.4	2.4	2.4
Other	4.3	4.5	4.9	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Revenue of budgetary funds	1.7	1.5	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure (economic classification) 1/	26.7	29.3	28.9	27.1	28.6	29.2	29.7	30.3	30.9	31.2
Wages and salaries	6.3	6.5	6.8	6.7	6.8	7.0	7.1	7.2	7.3	7.4
Social protection fund contributions	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Goods and services	5.2	5.4	5.5	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Interest	1.1	1.4	1.0	1.1	1.8	2.2	2.5	3.0	3.5	3.7
Subsidies and transfers	7.3	7.6	7.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Capital expenditures	5.1	6.4	6.5	5.5	5.8	5.8	5.8	5.8	5.8	5.8
Net lending	0.1	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State Budget Balance	2.1	0.5	0.2	1.0	0.6	-1.0	-1.5	-2.1	-2.7	-3.0
2. Social Protection Fund										
Revenue	10.0	10.7	12.0	12.1	12.1	12.7	12.9	13.0	13.2	13.4
Expenditure	9.3	10.6	12.1	12.1	12.1	12.7	13.0	13.2	13.5	13.8
Balance (cash)	0.7	0.1	-0.1	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.4
3. General government										
Revenue	38.8	40.5	41.2	40.3	41.3	40.8	41.0	41.2	41.4	41.6
Expenditure	36.0	39.9	41.0	39.2	40.7	41.9	42.7	43.5	44.4	45.0
Balance	2.8	0.7	0.1	1.1	0.6	-1.0	-1.7	-2.3	-3.0	-3.4
Off-Balance sheet operations	-5.8	-0.3	-1.1	-0.7	-3.6	-1.5	-1.4	-1.3	-1.3	-1.2
Bank restructuring measures	-4.9	0.0	-0.6	0.0	-2.8	-0.7	-0.6	-0.5	-0.5	-0.4
Net lending to financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	-0.9	-0.3	-0.4	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Augmented balance 2/	-3.0	0.3	-0.9	0.4	-3.0	-2.6	-3.1	-3.7	-4.3	-4.6
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	3.0	-0.3	0.9	-0.4	3.0	2.6	3.1	3.7	4.3	4.6
Privatization	7.3	0.0	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Foreign financing, net	3.1	-0.7	-0.9	-1.0	-1.3	0.7	0.7	0.4	0.6	0.5
Domestic financing, net 3/	-7.4	0.3	1.8	-0.3	4.1	1.6	2.2	3.0	3.5	3.9
Memorandum items:										
Augmented general government balance with new directed lending	-12.3	-6.3	-5.8	-3.5	-6.9	-6.4	-6.9	-7.5	-8.1	-8.4
Of which: new directed lending (incl. Development Bank)	9.3	6.6	4.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Gross public debt 4/	45.9	38.5	37.6	39.8	41.3	46.4	46.8	47.1	48.5	49.7
GDP (trillions of Belarusian rubels)	297	530	649	778	973	1,170	1,360	1,584	1,837	2,133

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 historical averages and assumptions on developments of loan portfolios.
3/ Includes unidentified financing that is assumed to be filled by government domestic borrowing.
4/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 4b. Belarus: General Government Accounts, GFSM2001 Presentation, 2011–15[1/]

(Percent of GDP)

	2011	2012	2013	2014 Prel.	2015 Proj.
Revenues	39.8	42.0	42.8	40.3	41.3
Taxes	24.7	26.0	25.4	22.0	23.0
Income, profits and capital gains	7.0	8.2	7.7	6.7	6.7
Property	0.9	1.0	1.2	1.2	1.2
Goods and services	11.8	12.0	12.9	11.7	11.7
International trade	5.1	4.8	3.6	2.4	3.4
Social security contributions	9.7	10.5	11.8	12.1	12.1
Other revenues	5.4	5.6	5.6	6.2	6.2
Expenses	33.8	37.0	38.1	34.7	38.5
Compensation of employees	8.4	8.9	9.2	8.6	8.7
Wages and salaries	6.6	7.0	7.3	6.7	6.8
Social contributions	1.8	1.9	2.0	1.8	1.9
Uses of goods and services	6.4	7.2	7.5	5.2	5.2
Consumption of fixed capital	0.1	0.1	0.1	0.1	0.0
Interest	1.1	1.4	1.0	1.1	1.8
Subsidies	4.6	5.1	4.9	7.0	7.0
Social benefits	11.4	12.7	14.1	12.1	12.1
Other expenses	1.8	1.6	1.3	0.7	3.6
Gross operating balance	6.0	5.0	4.7	5.6	2.8
Net acquisition of nonfinancial assets	3.0	4.2	5.0	5.5	5.8
Net borrowing/lending (overall balance)	3.1	0.9	-0.3	0.1	-3.0
Transactions in financial assets and liabilities	-2.9	0.4	-2.1	0.8	-3.0

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 5. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2011–20

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Proj.			
Reserve money	18.8	30.3	34.4	39.1	46.7	58.2	67.5	78.4	90.9	105.5
Rubel reserve money	16.9	29.9	33.3	37.5	44.5	55.7	64.7	75.4	87.6	102.0
Currency outside banks	6.7	11.3	12.3	13.9	17.4	20.9	24.3	28.3	32.9	38.3
Required reserves	7.4	13.8	15.4	17.1	24.3	29.3	34.3	40.2	47.2	55.4
Time deposits, NBB securities, and nonbank deposits	2.8	4.8	5.6	6.5	2.8	5.4	6.1	6.8	7.5	8.2
Foreign currency reserve money	1.9	0.4	1.1	1.6	2.2	2.6	2.8	3.0	3.3	3.5
Net foreign assets	36.7	43.7	37.7	32.6	4.4	5.2	5.7	6.2	6.9	7.6
Billions of U.S. dollars	4.4	5.1	4.0	2.8	0.3	0.3	0.3	0.3	0.3	0.3
Foreign assets	83.7	78.3	68.4	66.0	48.3	56.3	61.3	66.1	71.9	78.3
Billions of U.S. dollars	10.0	9.1	7.2	5.6	3.0	3.0	3.0	3.0	3.0	3.0
Of which gross international reserves	66.1	69.4	63.2	60.0	40.2	46.8	50.9	54.9	59.8	65.0
Billions of U.S. dollars	7.9	8.1	6.7	5.1	2.5	2.5	2.5	2.5	2.5	2.5
Foreign liabilities	47.0	34.5	30.7	33.4	43.9	51.1	55.6	59.9	65.1	70.7
Net domestic assets	-17.9	-13.4	-3.3	6.5	42.3	53.0	61.8	72.2	84.0	97.9
Net domestic credit	-29.5	-29.9	-20.1	-2.0	28.0	32.9	43.1	55.1	68.8	84.9
Net credit to general government	-62.9	-56.0	-47.7	-32.8	-25.2	-33.7	-42.7	-49.4	-60.3	-70.2
Credit to economy	33.4	26.1	27.5	30.8	53.2	66.6	85.8	104.4	129.1	155.1
Credit to banks	19.1	12.0	13.1	16.3	41.6	57.3	78.3	98.5	124.4	151.3
National currency	13.5	9.7	10.7	13.5	36.2	49.2	67.4	84.5	106.8	129.6
Foreign currencies	5.6	2.4	2.4	2.8	5.4	8.1	10.9	14.0	17.6	21.7
Billions of U.S. dollars	0.7	0.3	0.3	0.2	0.3	0.4	0.5	0.6	0.7	0.8
Credit to nonbanks	14.2	14.1	14.4	14.5	11.6	9.3	7.4	6.0	4.8	3.8
Other items, net	11.6	16.4	16.8	8.5	14.3	20.1	18.7	17.1	15.1	13.0
Memorandum item:										
12-month percent change in reserve money	84.1	61.6	13.4	13.8	19.4	24.6	16.0	16.1	15.9	16.1

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

Table 6. Belarus: Monetary Survey (Baseline Scenario), 2011–20

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Proj.			
Broad money (M3)	111.2	161.3	193.3	239.0	308.0	370.2	430.5	501.5	582.7	678.2
Rubel broad money (M2)	43.4	68.7	79.3	90.8	116.7	140.3	163.2	190.1	220.9	257.0
Currency in circulation	6.7	11.3	12.3	13.9	17.4	20.9	24.3	28.3	32.9	38.3
Domestic currency deposits	34.5	54.3	65.2	76.2	98.4	118.3	137.6	160.3	186.2	216.8
Domestic currency securities	2.2	3.1	1.8	0.7	0.9	1.1	1.2	1.5	1.7	2.0
Foreign currency deposits	64.1	88.6	107.8	137.7	177.9	213.8	248.6	289.7	336.5	391.7
Bank securities in foreign currency	3.7	4.0	6.2	10.4	13.4	16.1	18.7	21.8	25.3	29.5
Net foreign assets	5.8	4.7	-26.2	-40.4	-83.4	-87.5	-95.5	-104.1	-114.8	-126.9
Billions of U.S. dollars	0.7	0.5	-2.8	-3.4	-5.2	-4.7	-4.7	-4.7	-4.8	-4.9
NFA of central bank	36.7	43.7	37.7	32.6	4.4	5.2	5.7	6.2	6.9	7.6
NFA of deposit money banks	-30.9	-39.0	-63.9	-73.0	-87.8	-92.6	-101.2	-110.4	-121.7	-134.5
Net domestic assets	105.4	156.6	219.5	279.4	391.4	457.6	526.0	605.7	697.5	805.1
Net domestic credit	104.6	164.1	236.0	307.6	406.3	465.1	524.4	594.6	676.8	774.4
Net credit to general government	-67.1	-70.5	-61.8	-53.8	-46.2	-54.8	-63.7	-70.4	-81.3	-91.3
Credit to economy	171.7	234.6	297.8	361.5	452.6	519.9	588.1	665.0	758.2	865.7
Other items, net	0.9	-7.5	-16.5	-28.2	-14.9	-7.5	1.7	11.1	20.7	30.6
Memorandum items:										
12-month percent change of credit to economy excl. valuation effect	37.0	35.2	20.9	9.4	4.3	2.8	5.6	5.8	5.1	4.5
12-month change of broad money (M3)	121.2	45.1	19.8	23.6	28.9	20.2	16.3	16.5	16.2	16.4

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

Table 7. Belarus: Indicators of External Vulnerability, 2011–14

	2011	2012	2013	2014 Prel.
CPI inflation (end year)	108.7	21.8	16.5	16.2
Export volume of goods (percent change)	33.0	11.0	-17.4	2.5
Import volume of goods (percent change)	15.9	9.4	-7.2	0.0
Current account balance (percent of GDP)	-8.5	-2.9	-10.4	-6.7
Capital and financial account balance (millions of U.S. dollars)	4,569	1,073	7,947	5,116
Of which:				
Foreign direct investment, net	3,877	1,308	1,984	1,799
Trade credits, net	575	-1,789	428	304
Official Liabilities, net	2,185	-632	1,686	2,085
Liabilities of the banking sector, net	474	29	1,193	-1,148
Non-bank private liabilities (excl. trade credits) 1/	856	475	1,458	844
Gross official reserves (millions of U.S. dollars)	7,916	8,095	6,651	5,059
Months of imports of goods and services	1.9	2.1	1.8	1.7
Percent of broad money	59.4	43.7	35.3	30.7
Gross total external debt (millions U.S. dollars)	34,454	34,453	40,138	41,228
Percent of GDP	57.7	54.2	54.9	54.6
Percent of exports of goods and services	74.0	66.4	91.1	94.7
Gross short-term external debt (millions of U.S. dollars)	14,113	12,690	14,584	13,597
Percent of gross total external debt	41	37	36	33
Percent of gross official reserves	178	157	219	269
Debt service ratio (percent) 2/	5.4	6.9	13.8	13.1
REER percent change (CPI based, period average)	-11.7	-8.2	8.0	9.8
Capital adequacy ratio (percent) 3/	24.7	20.8	15.5	17.4
Nonperforming loans (percent of total)	4.2	5.5	4.4	4.4
Banks' net open FX position (percent of regulatory capital)	9.4	9.0	11.8	9.2

Sources: Belarus authorities; INS; 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[1]

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Looser macroeconomic policies before the elections	**Medium**	**High** Stimulus efforts would boost demand and further fuel pressures on the exchange rate and inflation.	• Tighten macroeconomic policies including monetary, wage, exchange rate, and directed lending policies.
Protracted period of slower growth in advanced and emerging economies	**High**	**High/Medium** Slower growth in advanced and emerging economies (Russia) would produce negative spillovers through trade, and remittances, causing further current account deterioration and raising external financing needs.	• Ensure adequate exchange rate flexibility and tighten monetary policy. • Tighten macroeconomic policies to reduce external imbalances. • Speed-up structural reforms to improve competitiveness of the economy and increase potential output.
Geopolitical fragmentation in Russia/Ukraine that erodes the globalization process and fosters inefficiency	**Medium**	**High** Recession and lower growth prospects in Russia/Ukraine, increase in risk aversion, and higher interest rates would produce negative spillovers. Tensions could also affect support from Russia (in negative or positive way).	
Weakening economic environment and exchange rate adjustment could reduce banks' asset quality	**High/Medium**	**Medium** Potential state-owned bank recapitalization costs could be substantial and deteriorate public debt dynamics.	• Intensify supervision and oversight over large banks including through more frequent onsite monitoring. • Ensure that all banks in the system comply with capital adequacy norms and reserve requirements. • Reduce new subsidized and directed lending.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix II. Belarus: Debt Sustainability Analysis

External Debt Sustainability Framework, 2010–20

	Actual					Projections 1/						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing noninterest current account 7/
Baseline: external debt	52.1	57.7	54.2	54.9	54.1	68.0	66.9	63.9	60.4	57.9	55.4	-4.0
Change in external debt	6.5	5.6	-3.5	0.8	-0.8	13.9	-1.2	-3.0	-3.4	-2.5	-2.5	
Identified external debt-creating flows (4+8+9)	7.7	-1.6	-2.3	1.3	3.9	5.5	1.5	1.5	1.4	1.3	1.2	
Current account deficit, excluding interest payments	13.9	7.0	1.2	8.7	5.0	4.7	1.6	1.4	1.3	1.2	1.1	
Deficit in balance of goods and services	13.5	2.0	-4.5	3.2	0.5	3.8	1.2	1.4	1.3	1.5	1.4	
Exports	54.2	77.9	81.6	60.3	57.2	56.5	57.8	54.6	53.4	51.6	49.6	
Imports	67.7	79.9	77.1	63.5	57.7	60.3	59.0	56.0	54.7	53.1	51.0	
Net non-debt creating capital inflows (negative)	-2.3	-6.1	-1.7	-2.1	-1.9	-3.1	-2.8	-2.7	-2.7	-2.7	-2.6	
Automatic debt dynamics 2/	-3.8	-2.5	-1.7	-5.4	0.8	3.8	2.6	2.8	2.8	2.8	2.6	
Contribution from nominal interest rate	1.1	1.4	1.8	1.6	1.6	2.2	2.5	2.9	3.0	3.0	2.9	
Contribution from real GDP growth	-3.1	-2.7	-0.9	-0.5	-0.8	1.6	0.1	-0.1	-0.2	-0.2	-0.3	
Contribution from price and exchange rate changes 3/	-1.8	-1.3	-2.6	-6.5	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-1.2	7.2	-1.2	-0.5	-4.7	8.4	-2.6	-4.5	-4.8	-3.9	-3.6	
External debt-to-exports ratio (percent)	96.2	74.0	66.4	91.1	94.7	120.4	115.7	116.9	113.2	112.2	111.7	
Gross external financing need (billions of U.S. dollars) 5/	18.8	18.9	18.4	25.1	24.1	22.6	19.4	19.9	21.0	21.3	21.6	
Percent of GDP	34.0	31.6	29.0	34.4	31.7	37.4	31.1	29.8	29.1	27.7	26.3	
Scenario with key variables at their historical averages 6/					48.7	43.7	41.6	39.7	38.1	36.7	35.5	-6.9
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	7.7	5.5	1.7	1.0	1.6	-2.3	-0.1	0.2	0.4	0.3	0.5	
GDP deflator in U.S. dollars (percent change)	4.2	2.5	4.7	13.7	2.5	-18.6	3.5	6.6	7.5	6.3	6.1	
Nominal external interest rate (percent)	2.8	2.9	3.3	3.4	3.1	3.3	3.8	4.6	5.0	5.2	5.4	
Growth of exports (U.S. dollar terms, percent)	20.3	55.6	11.5	-15.1	-1.1	-21.5	5.6	1.0	5.5	3.0	2.6	
Growth of imports (U.S. dollar terms, percent)	22.8	27.8	2.7	-5.4	-5.2	-17.0	1.0	1.4	5.5	3.4	2.5	
Current account balance, excluding interest payments	-13.9	-7.0	-1.2	-8.7	-5.0	-4.7	-1.6	-1.4	-1.3	-1.2	-1.1	
Net nondebt creating capital inflows	2.3	6.1	1.7	2.1	1.9	3.1	2.8	2.7	2.7	2.7	2.6	

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).

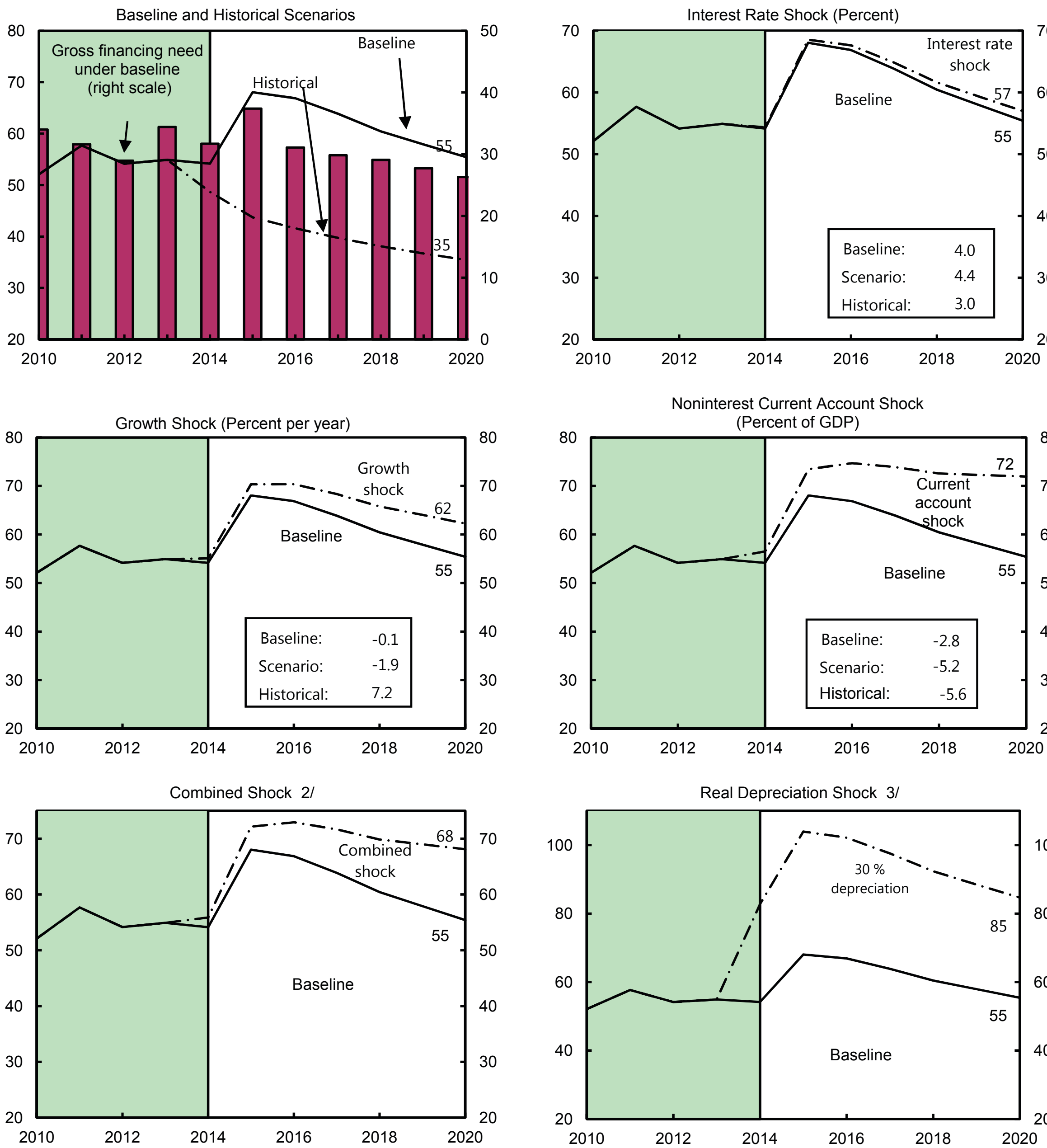
4/ For projection, line includes the impact of price and exchange rate changes.

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.

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.

Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

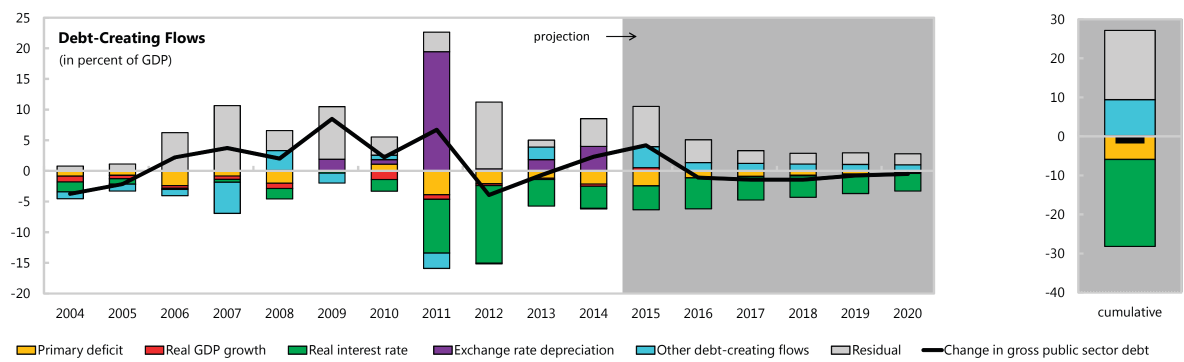
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of April 20, 2015		
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020	Sovereign Spreads		
Nominal gross public debt	16.6	26.2	28.5	32.7	31.6	30.2	28.7	28.0	27.5	EMBI (bp) 3/		971
Public gross financing needs	1.8	3.6	2.5	7.8	6.9	5.9	8.6	9.7	11.8	CDS (bp)		n.a.
Memorandum Items												
Public debt and government guaranteed debt		37.6	39.8	41.3	46.4	46.8	47.1	48.5	49.7	Ratings	Foreign	Local
Real GDP growth (in percent)	7.2	1.0	1.6	-2.3	-0.1	0.2	0.4	0.3	0.5	Moody's	Caa1	n.a.
Inflation (GDP deflator, in percent)	27.7	21.2	18.1	27.9	20.5	16.0	16.0	15.7	15.5	S&Ps	B-	n.a.
Nominal GDP growth (in percent)	36.6	22.4	19.9	24.9	20.3	16.3	16.4	16.0	16.1	Fitch	n.a.	n.a.
Effective interest rate (in percent) [4/]	6.6	4.6	4.9	10.1	1.9	2.1	2.5	3.1	3.6			

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	-0.7	2.3	4.2	-1.1	-1.4	-1.4	-0.8	-0.5	-1.1	
Identified debt-creating flows	-3.6	-1.8	-2.2	-2.4	-4.8	-3.5	-3.2	-2.6	-2.3	-18.8	
Primary deficit	-1.3	-1.2	-2.1	-2.4	-1.1	-0.9	-0.7	-0.5	-0.3	-5.9	-0.2
Primary (noninterest) revenue and grants	45.5	41.2	40.3	41.3	40.8	41.0	41.2	41.4	41.6	247.3	
Primary (noninterest) expenditure	44.2	40.0	38.2	38.9	39.7	40.1	40.5	40.9	41.3	241.4	
Automatic debt dynamics [5/]	-1.3	-2.7	0.0	-3.4	-5.0	-3.9	-3.6	-3.2	-3.0	-22.1	
Interest rate/growth differential [6/]	-3.8	-4.6	-4.0	-3.4	-5.0	-3.9	-3.6	-3.2	-3.0	-22.1	
Of which: real interest rate	-3.1	-4.3	-3.6	-3.9	-5.1	-3.8	-3.5	-3.1	-2.9	-22.3	
Of which: real GDP growth	-0.6	-0.2	-0.3	0.5	0.0	-0.1	-0.1	-0.1	-0.1	0.2	
Exchange rate depreciation [7/]	2.5	1.8	4.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.0	2.0	-0.1	3.4	1.3	1.2	1.1	1.1	1.0	9.2	
General Government: Net Privatization Proceeds (negative)	-1.7	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	
Projected bank recapitalisations and called government guarantees	0.9	1.1	0.7	3.6	1.5	1.4	1.3	1.3	1.2	10.4	
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/]	5.3	1.2	4.5	6.6	3.7	2.1	1.7	1.9	1.8	17.7	



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).

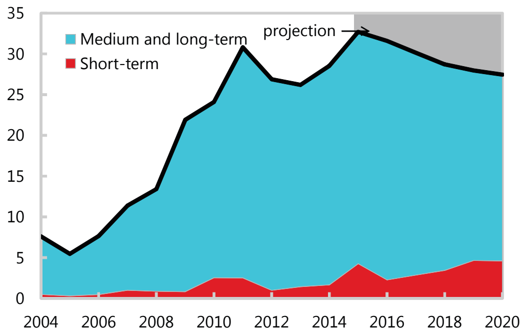
8/ For projections, this line includes exchange rate changes during the projection period.

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.

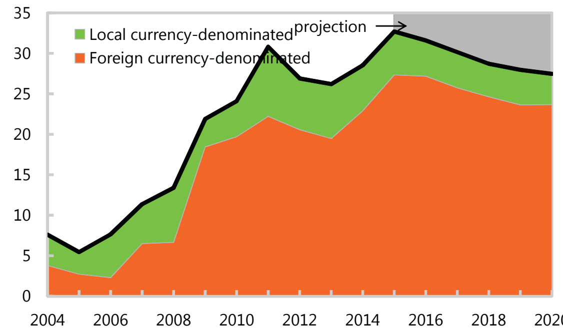
Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



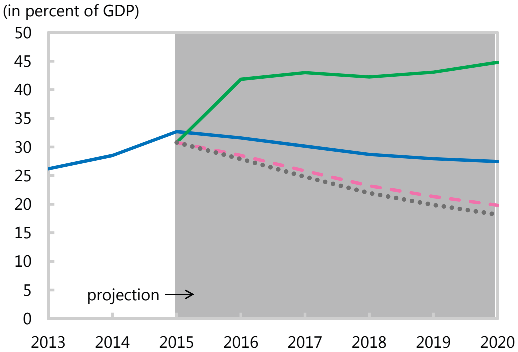
By Currency
(in percent of GDP)



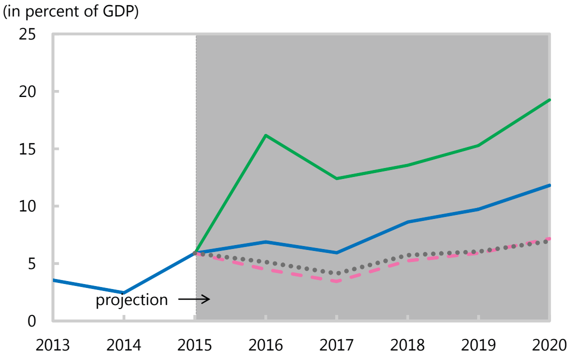
Alternative Scenarios

Baseline
Historical
Constant Primary Balance
Belarus-Specific Contingent Liability Shock

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	-2.3	-0.1	0.2	0.4	0.3	0.5
Inflation	27.9	20.5	16.0	16.0	15.7	15.5
Primary Balance	2.4	1.1	0.9	0.7	0.5	0.3
Effective interest rate	10.1	1.9	2.1	2.5	3.1	3.6
Constant Primary Balance Scenario						
Real GDP growth	-2.3	-0.1	0.2	0.4	0.3	0.5
Inflation	27.9	20.5	16.0	16.0	15.7	15.5
Primary Balance	2.4	2.4	2.4	2.4	2.4	2.4
Effective interest rate	10.1	1.6	1.7	2.0	2.5	3.0
Belarus-Specific Contingent Liability Shock						
Real GDP growth	-2.3	-4.2	-3.9	0.4	0.3	0.5
Inflation	27.9	19.5	15.0	16.0	15.7	15.5
Primary Balance	2.4	-8.9	0.9	0.7	0.5	0.3
Effective interest rate	10.1	1.6	3.0	3.3	3.7	4.0

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	-2.3	5.6	5.6	5.6	5.6	5.6
Inflation	27.9	20.5	16.0	16.0	15.7	15.5
Primary Balance	2.4	1.4	1.4	1.4	1.4	1.4
Effective interest rate	10.1	1.6	1.5	1.8	2.1	2.4

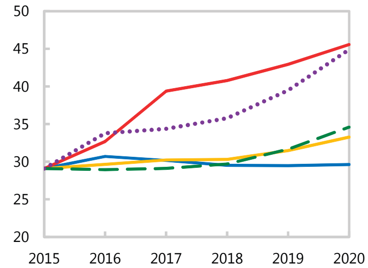
Source: IMF staff.

Public DSA—Stress Tests

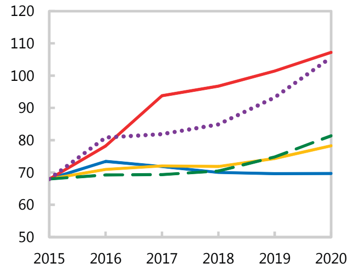
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

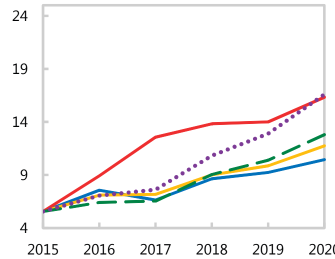
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



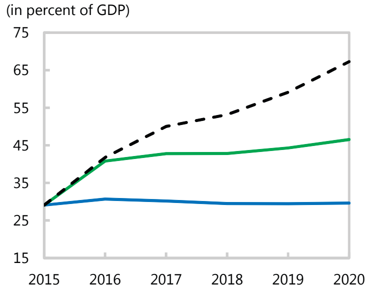
Public Gross Financing Needs
(in percent of GDP)



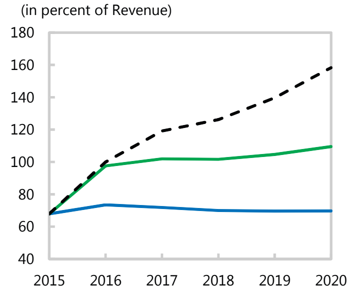
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock
Belarus-Specific Contingent Liability Shock

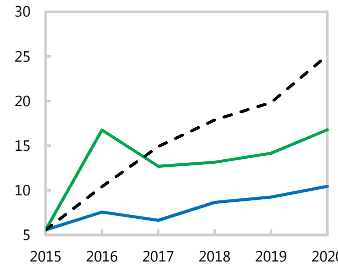
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	-1.6	-0.1	0.2	0.4	0.3	0.5
Inflation	34.7	23.6	16.0	16.0	15.9	16.0
Primary balance	1.7	-0.4	-0.7	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.5	2.0	2.7	2.9	3.1
Real Interest Rate Shock						
Real GDP growth	-1.6	-0.1	0.2	0.4	0.3	0.5
Inflation	34.7	23.6	16.0	16.0	15.9	16.0
Primary balance	1.7	0.2	0.0	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.5	3.1	4.5	5.7	6.7
Combined Shock						
Real GDP growth	-1.6	-4.2	-3.9	0.4	0.3	0.5
Inflation	34.7	22.6	14.9	16.0	15.9	16.0
Primary balance	1.7	-1.9	-4.5	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.7	3.5	6.9	7.2	7.8

Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	-1.6	-4.2	-3.9	0.4	0.3	0.5
Inflation	34.7	22.6	14.9	16.0	15.9	16.0
Primary balance	1.7	-1.9	-4.5	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.5	3.4	6.9	5.2	4.7
Real Exchange Rate Shock						
Real GDP growth	-1.6	-0.1	0.2	0.4	0.3	0.5
Inflation	34.7	37.0	16.0	16.0	15.9	16.0
Primary balance	1.7	-0.4	-0.7	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.7	3.0	4.5	5.8	6.9
Belarus-SpecificContingent Liability Shock 1/						
Real GDP growth	-1.6	-4.2	-3.9	0.4	0.3	0.5
Inflation	34.7	22.6	14.9	16.0	15.9	16.0
Primary balance	1.7	-9.7	0.0	-0.1	-0.3	-0.6
Effective interest rate	11.8	1.8	2.4	2.8	3.1	3.2

Source: IMF staff.
1/ Assumes half of the stock of outstanding directed and subsidized loans would not be repaid, leading to a one-off fiscal cost of about 10 percent of GDP.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

April 27, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The European Department (in consultation with other departments and the World Bank).

CONTENTS

FUND RELATIONS

(As of March 31, 2015)

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	386.40	100.00
Reserve Tranche Position	0.02	0.01

SDR Department	SDR million	Percent of Allocation
Net cumulative allocation	368.64	100.00
Holdings	371.90	100.88

Outstanding Purchases and Loans None

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	1,751.72
Stand-By	09/12/1995	09/11/1996	196.28	50.00

Projected Payments to the Fund [1/]

	Forthcoming (SDR Million; based on existing use of resources and present holdings of SDRs)				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.09	0.00	0.00	0.00	0.00
Total	0.09	0.00	0.00	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 (SBA) 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. Starting from the last quarter of 2012, the Belarusian rubel has followed a gradually depreciating trend with a 2 percent band. Therefore, the de facto exchange rate arrangement has been retroactively reclassified from *other managed* to *crawl-like arrangement*, effective September 19, 2012.

Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on November 5, 2001.

An Article VIII mission took place in 2013 and identified 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 restrictions in the near future. Legislative amendments to this effect are in process. Also, staff is currently assessing the implication of measures taken by the authorities with regard to the MCPs arising from the mandatory resale of unused foreign exchange by resident legal entities and foreign exchange amounts subject to mandatory sale requirement. The authorities have indicated that the remaining issues will be revisited in the second quarter of 2015. At this time, the authorities do not request Board approval of the identified exchange restrictions and MCPs. The staff supports the authorities' plans to eliminate the remaining 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 April 28, 2015. The report was published:
http://www.imf.org/external/pubs/cat/longres.aspx?sk=41782.0.

Stand-By Arrangement:

A 15-month SBA in the amount of SDR 1.6 billion (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 (US$3.5 billion, 587.3 percent of quota). The final review was completed on March 26, 2010. Total disbursements under the program amounted to SDR 2.3 billion (US$3.5 billion).

FSAP Participation, ROSCs, and OFC Assessments:

Two FSAP missions took place in 2004 and an FSSA report was published on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed assessment reports were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
The Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190, http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0).

An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30, http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0.
The fiscal ROSC was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0 and the data ROSC on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0.
A World Bank led FSAP Development Module took place in February 2014.

Technical Assistance, 2007–15

Department Counterpart	Subject	Timing
MCM	Monetary targeting and foreign exchange interventions	March–April 2014
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	Price statistics	March–April 2014
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. **The 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 and investments in the private sector by the IFC.

2. **WBG lending is focused 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$570 million during 2013–15. Lending operations will support investments in private sector development, public financial management (PFM) systems, forest management, energy efficiency, district heating, water supply/sanitation, education, and transport.

3. **The WBG also supports 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. Analyses 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 will remain a priority sector, 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 delivering their assistance.** The IMF 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 Bank Group and the Fund include ongoing discussions under the IMF post program monitoring and Article IV Consultations and during the preparation of the WBG CPS, and joint work with the government working group on structural reforms issues.

Areas in Which the World Bank Group Leads

7. **Structural reforms and private business development.** Under the CPS, the Bank 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 World 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 has initiated a new private sector development TA which supports 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 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 has updated the Public Expenditure and Financial Accountability (PEFA) assessment. The PEFA is 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 World Bank's financial support: Energy Efficiency Project (EEP) (US$215 million), and Biomass District Heating Project (US$90 million).

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. A new Transit Corridor Improvement Project (US$250 million) is under preparation.

11. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. 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 has been approved.

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 within a consistent macroeconomic framework, to ensure fiscal and debt sustainability and to provide for growth supporting expenditure and revenue policies. Integrating recommendations of the 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 TA 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 IMF are collaborating in financial sector monitoring, including on key developments, such as the newly established Development Bank. The World 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 a joint FSAP Development Module, completed in May 2014.

Areas in which the IMF Leads

15. The IMF is actively engaged with the authorities in discussing their macroeconomic program and policies, providing TA and related support, including support on economic and financial statistics, monetary operations, public financial management, and fiscal transparency. The IMF is leading the dialogue on monetary and exchange rate policies, and overall fiscal policies.

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

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

Belarus: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas in 2012–17

	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. IMF Work Program	Monetary Policy, Strategy, and Implementation	Completed	May/June 2013
	Monetary Targeting and Foreign Exchange Interventions	Ongoing	Through 2015
3. Joint Work Program	Joint Policy Dialogue with Structural Reform Working Group	Ongoing	Through 2012/2017
	Financial Sector Assessment Program—Development Module	Completed	May 2014

STATISTICAL ISSUES

(As of April 1, 2015)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National Accounts: The National Statistical Committee of the Republic of Belarus (BelStat) compiles and disseminates quarterly and annual GDP estimates at current and constant prices 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 BelStat compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. Since 2008 Belstat has been compiling regional GDP estimates. 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. Belarus participates in the STA project for the Sustainable Compilation of Real Sector Statistics in Eastern Europe, funded by the government of Japan, and receives technical assistance and support from a statistics advisor resident in Moldova. BelStat has made good progress to date implementing the concepts and methods of the *2008 SNA* and to improve the compilation of the national accounts as needed. **Price Statistics:** The CPI covers 31 towns and the PPI covers approximately 1,800 industrial organizations. They are published monthly. The NSC also publishes indices for foodstuffs, nonfood goods, and services. CPI weights are based on expenditure data from 2012, while the PPI is based on weights from 2011. For the most part, Belstat is producing the CPI and PPI in accordance with international standards and best practices as noted in the *CPI* and *PPI Manuals*. They also are in compliance with SDDS standards, including updating their metadata for the IMF Dissemination Standards Bulletin Board on an annual basis.
Government finance statistics: Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Areas that need improvement include classification of some expenses (e.g., subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; valuation of assets and liabilities (at nominal or market value); and compilation for public corporations.
Monetary statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following 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 2000). Overall the timeliness and serviceability of external sector data is satisfactory.

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

Belarus: Table of Common Indicators Required for Surveillance

(As of April 1, 2015)

	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	Mar. 2015	04/01/15	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb. 2015	03/13/15	D/W/M	W/M	M		
Reserve/Base Money	Mar. 2015	04/01/15	D/W/M	W/M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Mar. 2015	04/01/15	W/M	M	M		
Central Bank Balance Sheet	Mar. 2015	04/01/15	D/W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	Mar. 2015	04/01/15	W/M	M	M		
Interest Rates[2]	Mar. 2015	04/01/15	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Feb. 2015	03/07/15	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 2014	03/10/15	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Feb. 2015	03/31/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb. 2015	03/31/15	M	M	M		
External Current Account Balance	Q4 2014	03/13/15	Q	Q	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Feb. 2015	03/31/15	M	M	M		
GDP/GNP	Feb. 2015	03/18/15	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q4 2014	03/13/15	Q	Q	Q		
International Investment Position[6]	Q4 2014	03/13/15	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

Statement by Mr. Canakci, Executive Director for the Republic of Belarus; Mr. Just, Alternate Executive Director; and Mr. Misyukovets, Advisor to the Executive Director
May 13, 2015

The Belarusian authorities appreciate the useful dialogue with the Fund management and staff during the 2015 Article IV Consultation and the Spring Meetings. Since they fully associate themselves with the staff's assessment of macroeconomic developments and the recommendations on economic and financial policies, we will elaborate on the recent developments and the authorities' policy response to the current and emerging challenges.

Recent Macroeconomic Developments and Outlook

In 2014-2015, Belarus has been facing strong combined exogenous shocks. After slowing for three consecutive years, economic growth recovered to 1.6 percent during 2014, driven moderately by domestic demand and some improvement in net exports, albeit mainly due to sharply declining net imports. The economic slowdown in Russia, mutual sanctions between Russia and the European Union, tensions in Ukraine and accelerated currency depreciation in Russia and Ukraine have sharply weakened external demand in these key export markets which together receive 70 percent of Belarus' non-mineral exports. Even though the rubel lost 60 percent of its value against the U.S. dollar between February 2014 and February 2015, Belarus has also lost competitiveness against these two countries, with the Russian ruble and Ukrainian hryvnia depreciating even more over the same period. A sharp decline in oil prices in the second half of 2014 has had a double adverse effect through further contraction of demand for Belarusian commodities in Russia and lower than expected revenues from the export of refined oil products. In addition, a rapid weakening of the Russian ruble in late 2014 heightened depreciation expectations that triggered additional demand for foreign exchange.

Despite the efforts to address inflationary pressures by containing liquidity and credit growth, inflation remained high and reached 16.2 percent in 2014 (December-on-December) fueled by the need to increase regulated utility and public transport tariffs, fiscal revenue enhancing measures (increases of excise taxes), and rubel depreciation. Following a 25 percent depreciation of the rubel in response to growing pressures on the balance of payments, inflation spiked in January 2015. That being said, no acceleration of inflation was observed in the first quarter, and the annualized inflation for 2015 is projected to be at the same 16.2 percent level as a result of the authorities' tight macroeconomic policies.

Fiscal policy continued to be prudent despite adverse developments. Lower-than-projected growth rates, declining external trade, and a deterioration in enterprises' financial performance brought about a sizeable central government budget revenue shortfall of 1.5 percent of GDP in 2014. Nevertheless, the consolidated budget in 2014 reported a surplus of 1 percent of GDP as a result of stringent fiscal consolidation measures.

Owing to tighter macroeconomic policies, the current account deficit narrowed considerably from 10.4 percent of GDP in 2013 to 6.7 percent of GDP in 2014. In January-February 2015, merchandise exports contracted by 29.4 percent in dollar terms compared to the same period a year earlier, while imports dropped by 36.1 percent. As a result, the trade balance in goods and services turned positive ($0.7 billion). Merchandise exports to the CIS, including Russia, declined by 40.2 percent, reflecting continued weak demand for manufactured goods. Exports to the non-CIS decreased by 16.8 percent y-o-y, including to the EU by 24.2 percent, mainly due to lower prices for oil products, the key export item.

Real GDP is likely to decline in 2015 due to weak external demand and subdued oil prices, as well as owing to domestic demand compression in line with the authorities' stabilization policy. Russia's economy is likely to contract considerably in 2015 and output will be much weaker in Ukraine. With refined oil accounting for one sixth of industrial output and for more than a third of Belarus' exports, low oil prices will affect the external accounts, fiscal revenues, and, as a result, growth. On balance, real GDP in Belarus may decline by about 3.5 percent in 2015. Although Belarus will retain oil customs duties from 2015 onwards under a new energy trade agreement with Russia, shortfalls in export revenues, and foreign exchange denominated debt repayment and servicing needs will exacerbate balance of payment pressures. The weakening economy will affect real wages and may lead to higher unemployment, posing poverty risks.

Macroeconomic Policy Response

The new Government and Management of the National Bank pursue policies aimed at macroeconomic balancing and reasonable restraint of domestic demand. To address the external pressures and domestic imbalances, the Belarusian authorities have elaborated and started to implement a powerful package of economic policy measures aimed at compressing domestic demand, restoring macroeconomic stability, and creating conditions for resuming sustainable economic growth through the implementation of deep structural reforms. The new macroeconomic framework hinges on a tight monetary and fiscal stance, exchange rate flexibility, market-determined credit supply, and productivity-based wage dynamics.

Monetary and interest rate policies are clearly aimed at slowing down inflation. To achieve this objective, the authorities have tightened up control over money supply and will limit broad money supply growth to 30 percent on a December 2014 to December 2015 basis. The refinancing rate was increased from 20 percent to 25 percent in January 2015 and may be revised upwards as necessary to remain in real positive territory. Deposit interest rates are kept positive in real terms and lending activities are managed using standard market toolkits. In the context of currency depreciation, growing tax rates, and administrative price liberalization – including the prices of natural monopolies – inflation is likely to stay in the double digits in 2015, but the authorities believe that monetary targeting will allow for a single-digit core inflation from 2016 onward.

A more flexible exchange rate regime has been in place since January 2015, which envisages minimizing foreign exchange interventions, while allowing wider exchange rate fluctuations, as initial steps towards a floating exchange rate as an ultimate goal. As a result, net interventions of the National Bank in the foreign exchange market have been brought virtually to zero, while the rubel depreciated by 17.4 percent against the basket of currencies (comprising the U.S. dollar and the euro at 30 percent each, and the Russian ruble at 40 percent).[1] A notable depreciation of the real exchange rate of the rubel took place, thereby improving price competitiveness of the Belarusian merchandise. The achieved stability allowed the authorities to lower surrender requirements for exporters to the pre-crisis 30 percent level and to make arrangements for liberalizing the foreign exchange market further, including reopening of the over-the-counter market. Coupled with measures to contain wage growth and fiscal consolidation, the new exchange rate regime caused a rapid reversal of the market sentiment—in March, the volume of net sale of foreign exchange by households amounted to $244 million, or 3.7 times as much as in February. The balance of trade in foreign exchange of corporate market participants was at zero, with sales and purchases of $4.5 billion each. In April, net sale of foreign exchange by individuals and enterprises continued to grow and international reserves reported a moderate increase.

The financial system is broadly stable, although weaknesses emerged in some banks. The Belarusian financial system weathered the crisis relatively well and is broadly in compliance with prudential standards, but weak economic activity, policy tightening, and significant depreciation resulted in an increase in nonperforming loans which stood at 1.9 percent of the loan portfolio as of March 1, some deterioration of asset quality, and reduction of profitability. In view of these developments, the authorities are exercising continuous monitoring of transactions in the banking sector, with a specific focus on credit risk, and of financial sustainability of banks on the basis of Basel III recommendations.

The consolidated budget for 2015 envisions a surplus of 1.7 percent of projected GDP. However, slower economic growth, lower oil prices, weakening rubel, and a higher refinancing rate strongly impact fiscal performance. The authorities firmly aim at maintaining a budget surplus and have made a sizable fiscal adjustment to sustain the revenue base and to contain non-priority expenditures. As a result, the general government budget in the first quarter of 2015 was executed with a surplus of 3.2 percent of GDP. As of January 1, 2015, Belarus' government debt was at a safe level of 22.3 percent of GDP. The government has met all of its debt obligations, including making the last repurchase under the 2009–10 Stand-By Arrangement on March 31, 2015, and is confident of its ability to honor all external and domestic debt obligations, although 2015 will be a challenging year, with foreign exchange denominated government debt repayment and servicing needs of $3.8 billion. In terms of refinancing, about $0.7 billion may be mobilized in the domestic market and the Russian authorities have committed to advance further support to help refinance Belarus' upcoming debt payments to Russia, with the first tranche of $110 million provided in April. Since there are no technical obstacles to tapping international financial markets and investors have demonstrated strong interest in a new Eurobond, the authorities stand ready to issuing new sovereign debt as soon as the market allows for borrowing at a reasonable cost.

[1] The rubel depreciated by 24.5 percent against the U.S. dollar, by 16.6 percent against the euro, and by 13.5 percent against the Russian ruble in January-March. In April, the rubel depreciated further by 3.5 percent to the basket, including by 14.6 percent to the Russian ruble, with an appreciation by 1.3 percent to the U.S. dollar and by 5.5 percent to the euro.

During the first quarter of 2015, the Government and the National Bank have lifted most of the earlier temporary restrictions. All limitations have been removed in the foreign exchange market, liberalization of foreign exchange regulation is steadily progressing, and work is well underway to introduce an exchange rate fixing mechanism on the "continuous order matching" basis. All administrative price restrictions have also been eliminated, while the general price policy is moving towards full liberalization. In addition, all output targets for SOEs have been abolished and replaced with indicative and qualitative ones, such as profit, value-added per worker and efficiency.

The mechanism to align wages and productivity has yielded impressive results. Real wages in 2014 grew by only 0.3 percent as compared to 16.4 percent in 2013. In January-March 2015, real wages decreased by 3.1 percent against January-March 2014. For the first time in many years, a decrease in household income in real terms is planned for full year 2015 as a necessary condition for macroeconomic stabilization undertaken by Belarus' authorities.

A more stringent approach to financing government programs is in place. Lending under government programs for 2015 has been downsized by 36.7 percent as compared to earlier plans, focusing mainly on the projects that are at least 80 percent ready. Starting from February 2015, lending for new government projects has been provided solely through the Development Bank. To mitigate the vulnerabilities of the banking sector and enhance its attractiveness to foreign investors, it is planned to purchase certain problematic assets from commercial banks for budget funds and transfer those to the Development Bank for management. It should be noted that the net increase in lending under government programs in 2015 (without accounting for exchange rate fluctuations) will be 2 percent of GDP. For 2016, this ratio will decrease further to 1 percent of GDP.

Structural Reform Agenda

Coupled with tight and stability-oriented macroeconomic policies, deep and consistent structural reforms are required to correct economic imbalances and unleash Belarus' growth potential. The authorities, in close cooperation with the World Bank, have elaborated a package of consistent, interrelated policies. These measures have been supported by the World Bank. Increasing the competitiveness of the Belarusian economy requires productivity led growth, which in turn necessitates reallocating labor and capital to high productivity segments, transforming the SOE sector, and implementing reforms to support and expand the private sector.

The reform agenda embraces the following key areas.

- **Creating efficient financial markets to improve allocation of capital.** The first issue to address in the financial sector is to remove imbalances in the credit market through a reduction – and ultimately elimination – of subsidized lending under government programs in order to ensure equitable allocation of resources across the economy. Work is underway on the preparation of the following policy steps in this area: (i) creating and enforcing legal foundations for macro prudential supervision of the Development Bank; (ii) curtailing the growth of outstanding debt under preferential loans.; (iii) improving competition and governance in the banking system by strengthening international corporate governance standards and attracting on this basis reputable foreign investors into the sector, including through divestiture of state ownership in commercial banks. Concurrently, measures to deepen the capital and non-bank financing markets will be implemented through improving the regulatory environment and upgrading the existing infrastructure in the securities and insurance markets.

- **Facilitating a dynamic labor market for a more efficient labor reallocation and placement of robust social safety nets.** Along with the shift toward a more efficient and market-based economic growth model, social protection and labor market policies will also change. In order to mitigate negative social consequences caused by structural transformation, the authorities are aiming at moving away from protecting jobs to protecting income of workers and their ability to earn income, enabling them to transit to new, more productive jobs and find higher returns on skills. This will require designing and implementing new mechanisms to support the temporary unemployed during their transition to new jobs. Safety net programs will partially be financed by savings from optimization and respective changes of budget expenditures.

- **The reform of state-owned enterprises is critical to the success of the government's economic program**, contributing to medium-term fiscal consolidation efforts, as well as to economic recovery through improved economic efficiency. Changing the incentives in the state-owned sector requires a multifaceted strategy. First, state support and subsidies will be rationalized to impose market discipline and incentives on enterprises. Second, the imposition of hard budget constraints will be accompanied by modernized approaches to managing enterprises and by corporate governance practices that strengthen their commercial autonomy and enhance investors' interest. On this basis, a well-sequenced strategy of privatization of small- and medium-sized companies will be an initial important factor of mobilization of domestic and international investment and bringing in technological and management changes.

- **Facilitating private sector growth and job creation through improvements in the investment climate.** Further efforts will be made to improve the business climate and regulatory quality, aiming at ensuring consistent, predictable and efficient enforcement. Cross cutting reforms of the business climate will be accompanied by catalytic support to accelerate the development of the SME sector.

- **Creating efficient product and service markets.** The remaining direct controls of prices for socially important goods are gradually eliminated, along with indirect modes of interference, to allow for price formation based on market principles. In markets with natural monopolies, such as the utility sector, tariff setting will become cost-reflective in the medium run.

A detailed roadmap for structural reform and an implementation matrix have been presented to the Fund staff.

Collaboration with Multilateral Partners

Concerted efforts of the authorities and international partners are essential to ensure that reforms are mutually reinforcing and irreversible. In addition to the ongoing lending and knowledge engagements in a variety of areas, financial support for the enhancement of competitiveness, private sector development, and public financial management is in the World Bank's lending pipeline for Belarus. As an interim step in the privatization agenda, a memorandum of understanding with the EBRD on the assistance in pre-privatization of the third largest state-owned bank is ready for signing in the coming days during the Annual Meeting of this institution. In addition, Belarus has applied for a new program of the Anti-Crisis Fund of the Eurasian Economic Community, which would incorporate policy action across the macroeconomic stabilization and structural transformation spectrum.

A Fund-supported program for Belarus would play a catalytic role in pursuing the change. Financial support from the Fund would help solidify the gains of the adjustments, contribute to building strong macroeconomic fundamentals, and create much needed buffers to address the inevitable economic and social costs of reforms for faster implementation. Given that Belarus has advanced considerably in macroeconomic stabilization and that the structural reform program is currently being integrated in the draft strategy of social and economic development for 2016-2020, the authorities reiterate their strong commitment to reform and would very much appreciate the Fund's early engagement in negotiations on a new program to ensure that the program components be legislatively approved.