June 2005
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**Republic of Belarus: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statements 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 2005 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 31, 2005, 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 June 2, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 17, 2005 discussion of the staff report that concluded the Article IV consultation.

- statements by the Executive Director for the Republic of Belarus.

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

Financial System Stability Assessment
Selected Issues Paper
Statistical Appendix

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

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.**

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

**Staff Report for the 2005 Article IV Consultation**

Prepared by Staff Representatives for the
2005 Consultation with the Republic of Belarus

Approved by Poul M. Thomsen and Anthony R. Boote

June 2, 2005

Discussions were held in Minsk during March 16–31, 2005. The team—B. Horváth (Head), V. Bacalu, M. Cuc (all EUR), and B. Gonzalez-Hermosillo (INS)—was joined by M. O'Brien (MFD), and assisted by the local Resident Representative office staff. J. Prader and M. Nikitsenka (ED's Office) participated in some of the meetings. The mission met with National Bank of Belarus (NBRB) Chairman Prokopovich, Finance Minister Korbut, other senior government officials, members of parliament, NGOs, and representatives of commercial banks and the press. The mission liaised with the Minsk World Bank office, and held seminars on Belarusian growth—a centerpiece of the consultations and the topic of the SI paper—on financial programming, and on FDI.

Belarus has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement (Appendix I). The authorities have informed staff that they maintain no exchange restrictions on the making of payments and transfers for current international transactions subject to approval by the Executive Board. They have recently provided to staff updated information regarding the legislation in effect, which staff is in the process of reviewing and assessing. Having fully repaid the IMF by February 2005, Belarus no longer seeks an IMF program. It has also adopted the SDDS, published fiscal and data transparency ROSCs, and undergone an FSAP in 2004 (see accompanying FSSA). While adequate data for IMF surveillance are provided on a timely basis, problems remain with the quality of some statistics (Appendix V).

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## Executive Summary

**Belarus's centrally managed economy experienced good recent macroeconomic performance on the back of demand-boosting policies and a favorable external environment.** Real GDP grew by 11 percent in 2004, helped by rapid centrally-mandated wage growth, surging credit, and favorable terms of trade effects. General government operations were in balance, while monetary policy—aided by the exchange rate anchor and rising demand for rubels—lowered year-on-year inflation to 11 percent by April 2005. A surge in the current account deficit in late 2004 was largely reversed in early 2005.

**However, current policies are ultimately unsustainable and risks are mounting.** Real wage growth has outpaced productivity increases since 1995, international reserves are precariously low, the share of loss-making enterprises remains high, and market-oriented structural reforms have stalled. The accompanying FSSA reports improvements in financial regulation and supervision, but notes that the largest banks require recurrent government recapitalizations to remain solvent. In the absence of final agreement in several key areas, the planned currency union with Russia will be delayed. Finally, rapid population aging will intensify long-term pressure on the pension and health system.

### Policy Issues and Discussions

**Discussions were frank, focusing on growth sustainability.** The authorities emphasized the social aspects of their policies arguing that they were a better choice for Belarus' economy, and expected continued good macroeconomic performance. Staff argued that policies were unsustainable, with ambitious wage targets threatening to decapitalize enterprises, and—together with the slow exchange rate crawl—to undermine productivity growth and external competitiveness. Moreover, the government's footprint in the economy was excessive, and the structural prerequisites of long-term supply growth were lacking.

**The macroeconomic policy framework needs clarification and restraint.** Fiscal policy should aim for retaining balance in 2005 instead of the envisaged expansion, and quasi-fiscal activities should be streamlined and brought on-budget. The monetary policy framework rightly assigns single-digit inflation by end-2005 as the priority objective, but the NBRB should be accorded with operational independence to achieve it. While the crawling band can help achieve the inflation objective, a measure of exchange rate flexibility should be retained. Preserving household confidence in the rubel and the banking system, and receiving greater support from fiscal and quasi-fiscal policies will be essential for continued disinflation.

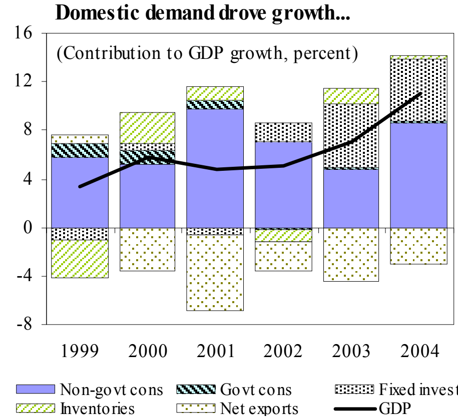
**Market-oriented structural reforms are needed to lay the foundation for sustainable growth.** Key reforms include phasing out the government's direct managerial and regulatory intervention in economic activity, abolishing centrally-mandated wage targets and the golden share rule, expanding the private sector, and addressing financial sector weaknesses.

## I. Background and Recent Developments

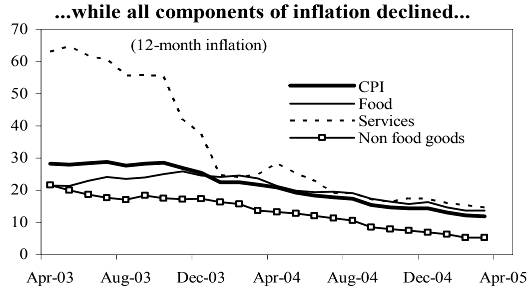
1. **Belarus's political life is dominated by President Lukashenko.** With a political base strengthened by rapidly rising real wages, the president—who first took office in July 1994—solidified his position in a 2004 referendum that lifted presidential term limits. The state retains direct control over at least three-quarters of the economy through a highly centralized economic management approach that combines, inter alia, (i) centrally-mandated wage targets; (ii) rapidly increasing directed lending; (iii) an extreme golden share rule; and (iv) administrative price controls, caps on trade mark-ups and producer profit margins.

2. **Recent macroeconomic performance was strong.** Supported by robust domestic demand and a favorable external environment, real GDP grew at 11 percent in 2004 and 9½ percent in January-April 2005.[1] Meanwhile, twelve-month inflation declined from 28 percent at end-2003 to 11.1 percent by April 2005, falling below inflation in Russia since March. Nominal depreciation has slowed down under the crawling band regime, leading to a 2.5 percent real effective exchange rate depreciation in 2004 that was partially reversed in the first four months of this year. The current account deficit reached 4.6 percent of GDP in 2004 reflecting in part temporary factors, but swung into a surplus in the first quarter of 2005. Gross official reserves have doubled since end-2003, but remain precariously low at US$987 million (0.6 months of imports) at end-April 2005.[2] Belarus's income distribution is remarkably equal (with the lowest Gini coefficient in the CIS), and its poverty head count measure has fallen by 2004 to less than half its 1997 level.

**Domestic demand drove growth...**

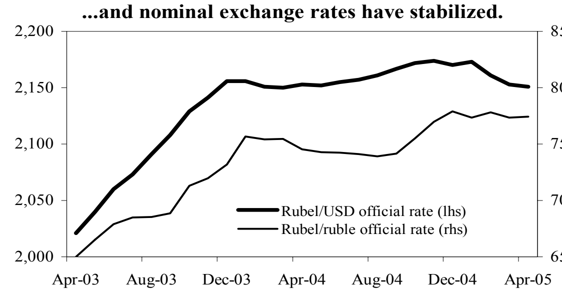



**...while all components of inflation declined...**




Source: National Bank of Belarus and IMF.

**...and nominal exchange rates have stabilized.**




Source: National Bank of Belarus; and press reports.

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[1] While national accounts methodology is broadly in line with international practice, biases remain in enterprise data owing to pressures to report achievement of output targets and an accounting system that understates costs.

[2] A US$220 million technical conversion of deposits not earlier included in the reserves definition contributed to the 2004 increase.

3. **Growth and disinflation benefited from strongly supportive macroeconomic policies and favorable external factors.** While the budget was in balance and monetary policy became tighter with the strengthening nominal anchoring role of the exchange rate, the authorities' centralized economic management approach was underpinned by widespread government intervention. Average real wages grew by 24 percent in the twelve months through March 2005, accompanied by similar increases in budgetary social transfers, boosting consumption. High investment rates were supported by the surge in lending, and—as inflation fell—declining interest rates. Price controls have helped disinflation and bolstered demand, but have stored up tensions for the future. On the external side, Belarus benefited from the strong regional upswing, the customs union providing privileged access to Russia's large market, and Russian financial support. Belarus also enjoyed low energy import prices. With three-fourths of its exports to the EU consisting of energy or energy-intensive products sold at rapidly rising world market prices, this resulted in a favorable terms of trade shock with positive income effects on domestic consumption and investment (SI paper).

4. **Fiscal policy in 2004 was tighter than envisaged.** Revenues rose as higher profit tax receipts more than compensated for lost revenues from a VAT rate cut. Expenditures fell by a percentage point of GDP owing to lower spending on education and net lending. Budget implementation was complicated by frequent amendments through presidential decrees, and the delay until late December of a US$175 million Russian government loan. This loan, when disbursed, facilitated spending of 6.2 percent of GDP in December, eliminating the surplus built up owing to the binding financing constraint and leading to a balanced general government budget for the year.

General Government Fiscal Developments, 2001-04
(In percent of GDP)

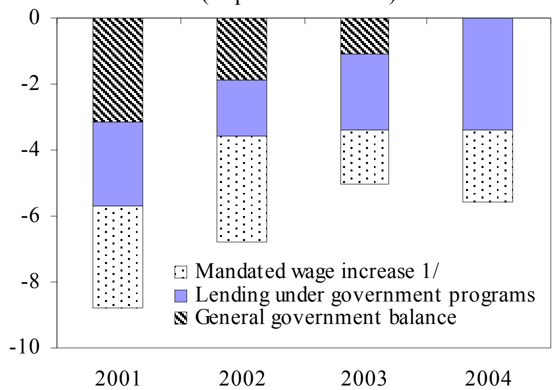
| | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| Revenue | 44.9 | 44.6 | 45.8 | 46.2 |
| Expenditure (cash) | 46.8 | 46.4 | 47.2 | 46.2 |
| Noninterest | 46.1 | 45.8 | 46.7 | 45.7 |
| Primary balance (cash) | -1.2 | -1.2 | -0.9 | 0.5 |
| Overall balance (cash) | -1.9 | -1.8 | -1.4 | 0.0 |
| Overall balance (accrual) | -3.1 | -1.9 | -1.1 | 0.0 |
| *Memorandum items:* | | | | |
| Change in expenditure arrears | 1.2 | 0.1 | -0.3 | 0.0 |
| Quasi-fiscal activities by banks | 2.6 | 1.7 | 2.3 | 3.4 |

Sources: Ministry of Finance and staff estimates.

5. **Preliminary data point to a large surplus in the first quarter of 2005.** Usual seasonality, combined with larger than budgeted VAT receipts stemming from the switch to the destination principle in trade with Russia boosted revenues. Nevertheless, an April Presidential Decree amending the budget left revenue projections unchanged, while increasing investment expenditures by 0.3 percentage points, raising the deficit to 1.8 percent of GDP. Government deposits at end-April 2005 reached five percent of GDP split evenly between the NBRB and selected commercial banks, propping up the liquidity of the latter.

6. **However, quasi-fiscal operations expanded in 2004, leaving overall government intervention in the economy very high.** Extensive quasi-fiscal operations—notably centrally-mandated US$ wage targets, "recommended" credits, concessional housing loans, and off-budget spending—boosted the state's effective role. Directed bank lending for government programs (essentially a net addition to banks' market-based lending) surged to 3.4 percent of GDP, while the wage increases imposed on the enterprise sector in excess of GDP growth are estimated at almost 2½ percent of GDP.[3]

**Fiscal and Government-Mandated Operations**
(In percent of GDP)




Source: Belarusian authorities and staff estimates

1/ Wage growth in non-budget enterprises in excess of nominal GDP growth to meet government-mandated wage targets.

7. **Budget consolidation has progressed further.** In line with the authorities' strategy of enhancing the coverage of the budget, the Social Protection Fund (SPF) has been consolidated into the central treasury from April 2004, and Innovation Funds from 2005. On the revenue side, tax administration continued to focus on large taxpayers, with stronger enforcement efforts succeeding in alleviating the revenue impact of lower turnover tax and VAT rates. The VAT was unified for all Belarusian trade, increasing revenue and widening the tax base by including small traders. In an overhaul of budgetary financing, inflationary NBRB financing of the budget was discontinued, and privatization receipts were recorded below the line from 2004.

8. **Monetary policy achieved its inflation objective despite rapid credit expansion, benefiting from the exchange rate anchor and strengthened confidence in the rubel.** Disinflation in 2004 stemmed from more restrained base money growth helped by an improved net government position, a crawling band to the Russian ruble (which resulted in some real appreciation), and rising demand for rubels reflecting dedollarization and growing trust in banks.[4] Two-fifths of the 36 percent increase in real credit to the economy was due to directed lending for agriculture, industry, and housing construction—the latter

Contribution to Reserve Money and Broad Money Growth, 2003-04
(In percent)

| | 2003 | 2004 |
|---|---|---|
| Reserve money | 51.1 | 41.9 |
| Net foreign assets | 33.5 | 34.1 |
| Net credit to government | 31.2 | -18.8 |
| Credit to economy (incl. banks) | 7.5 | 15.7 |
| Other | -21.1 | 10.9 |
| Broad money | 56.3 | 44.1 |
| Net foreign assets | 6.6 | 5.9 |
| Net credit to government | 16.2 | -11.7 |
| Credit to economy | 64.1 | 61.9 |
| Other | -30.6 | -11.9 |

Sources: Belarusian authorities; and staff calculations.

[3] Staff has no information on own revenues and expenditures of ministries and the presidential administration. However, these are likely to be balanced, raising only the size of government, not the deficit.

[4] Rubel deposits grew by 74 percent, from 46 to 53 percent of total deposits in 2004. The rising share of monetary forms of payments (84 percent in 2004, up from 74 percent in 2003) also contributed to higher demand for rubels.

with maturities of up to 40 years. Accelerating credit growth led to a liquidity crunch in the banking system in late 2004 (Figure 1).[5] Bank liquidity improved in the first quarter of 2005 (in part owing to increasing government deposit placements), allowing interbank interest rates to decline.

9. **The liquidity crunch in late 2004 exposed structural weaknesses in the state-dominated banking system.** In recent years, the system benefited from growing deposits and rising rubel demand, and was bolstered by repeated government recapitalizations of key banks, increasing government deposits in selected banks, as well as some loan evergreening and supervisory forbearance. The share of nonperforming loans fell by half since end-2002 to 4.6 percent at end-2004 partly as a result of rapid credit expansion driven in part by directed lending, which, however, occurred with limited regard to creditworthiness considerations.[6] State banks' profitability remained low, with the single large private bank accounting for well over half of bank profit in 2004 with a return on equity of 22.3 percent, and the two largest state-owned banks posting returns on equity below 3.5 percent. The banking system remains vulnerable to shocks, including to a possible reversal in the recently gained confidence in the banking system that underpinned the increase in deposits.

Bank Recapitalizations, 2000-04

(In billions of rubels, unless otherwise indicated)

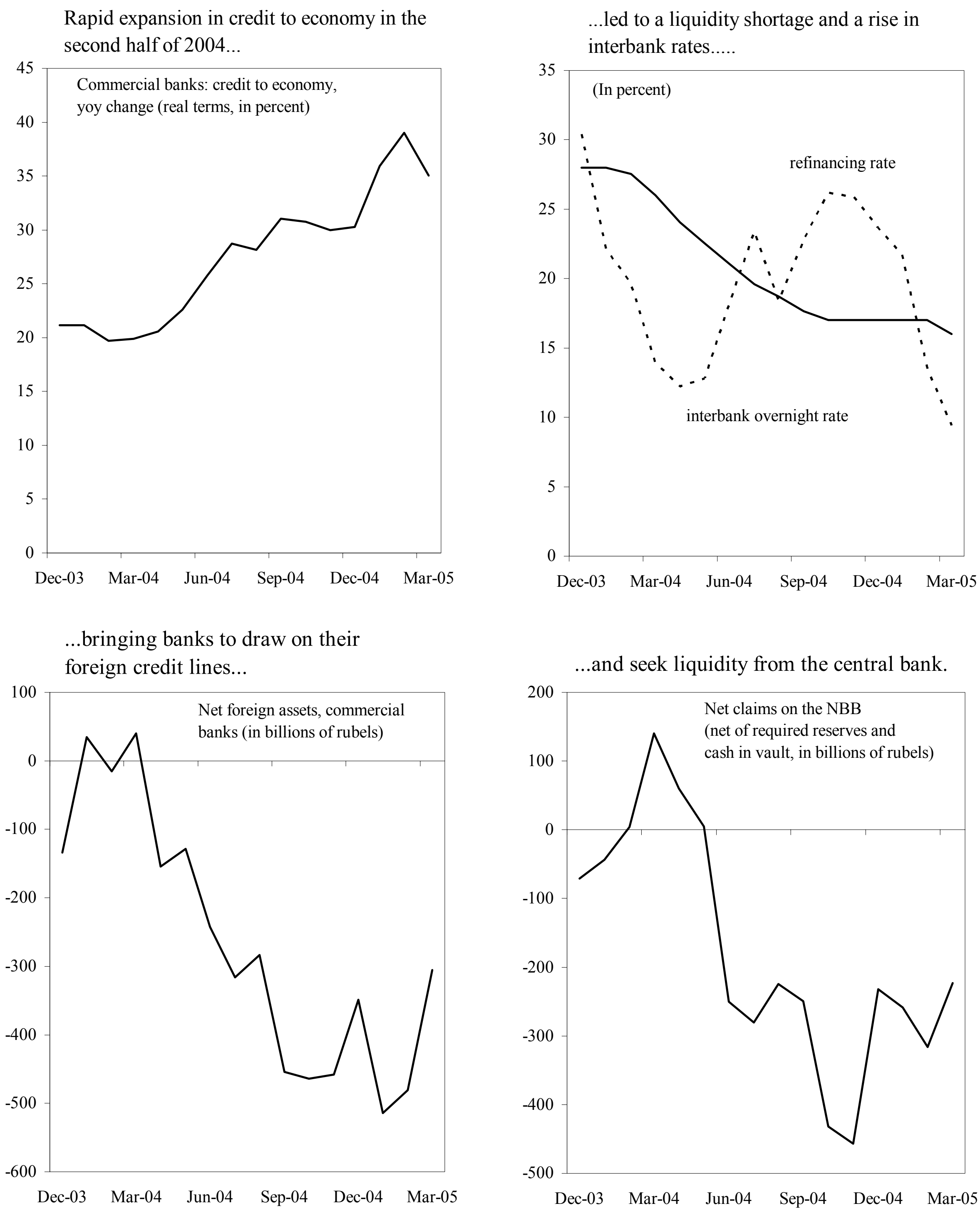
| | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
|---|---|---|---|---|---|---|
| Belagroprombank | 35 | 12 | 181 | 319 | 285 | 832 |
| Belarusbank | 33 | 15 | 186 | 231 | 216 | 681 |
| Belpromstroibank | 0 | 0 | 0 | 11 | 15 | 26 |
| Total | 68 | 27 | 367 | 561 | 517 | 1,540 |
| Percent of GDP | 0.7 | 0.2 | 1.4 | 1.6 | 1.0 | ... |
| Percent of banking system capital | 45.7 | 7.0 | 62.0 | 46.3 | 25.2 | ... |

Source: Belarusian authorities.

[5] Liquidity problems were concentrated in the two largest state-owned banks, together accounting for 56 percent of banking system assets and two-thirds of capital at end-2004.

[6] Rapid credit increases raise the denominator in this share, while new nonperforming loans would only emerge with a lag. See accompanying FSSA on the credit risks associated with directed lending.

Figure 1. Belarus: Monetary Developments, December 2003–March 2005

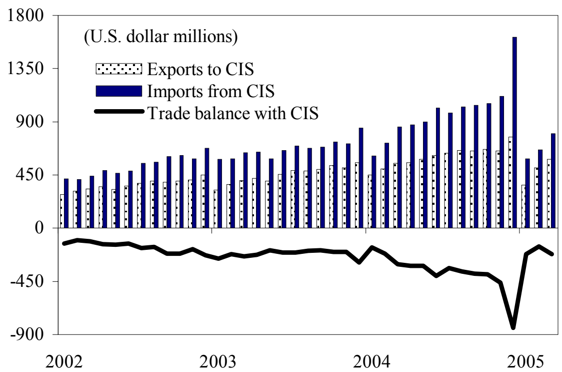



Source: National Bank of Belarus.

10. **The accompanying FSSA reports significant improvements in financial regulation and supervision, but notes the risk that systemic banks could become insolvent in the absence of recurrent large government recapitalizations**. Belarus has made significant progress in upgrading the financial regulatory and supervisory framework toward international standards. However, state ownership of banks remains predominant and "recommended" credits drive credit growth despite debtors' low profitability and creditworthiness. As a result, the largest state banks' balance sheets remain weak, posing significant systemic risk.

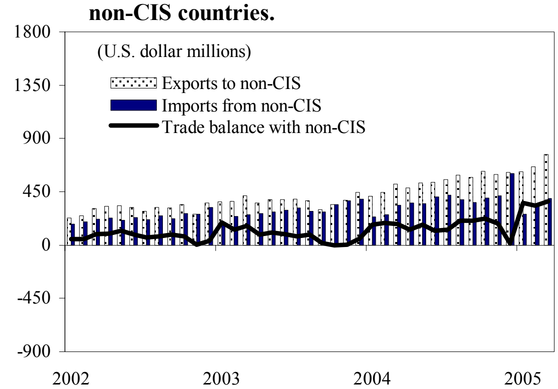
11. **The 2004 surge in the current account deficit was partially reversed in early 2005.** Last year's current account deficit was much larger than expected despite favorable terms-of-trade developments. It was boosted in December by an estimated US$½ billion in one-off imports owing to temporary tariff exemptions and purchases advanced in anticipation of switching the VAT on trade with Russia to the destination principle from 2005. Exports and imports grew by about 40 percent on the back of strong external and domestic demand coupled with growing margins on energy trade. FDI fell further to minimal levels with privatization stalled and the golden share rule expanded.[7] The current account surplus in the first quarter of 2005 allowed the NBRB to increase its reserves. While Belarus's external indebtedness at end-2004 was low at 18½ percent of GDP, over two-thirds of it—equivalent to almost four times gross official reserves—were short term.

**The trade deficit with CIS countries...**




Source: Ministry of Statistics of Belarus.

**...is in part offset by the surplus vis-à-vis non-CIS countries.**



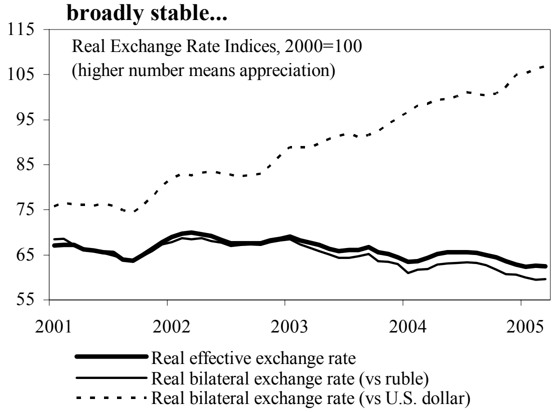

Source: Ministry of Statistics of Belarus.

12. **The real effective exchange rate remained broadly unchanged while unit labor costs rose in 2004.** Domestic inflation was largely offset by the 6.6 percent nominal effective depreciation during the year. The rubel's real exchange rate vis-à-vis the Russian ruble depreciated by 3.7 percent (this currency dominates the REER given its ⅔ weight).

[7] A 2004 Presidential Decree enabled the government to impose a golden share on joint stock companies holding formerly government-owned property—even if now fully private—and, thereby, to take decisions regarding the enterprise's activity that are compulsory to implement.

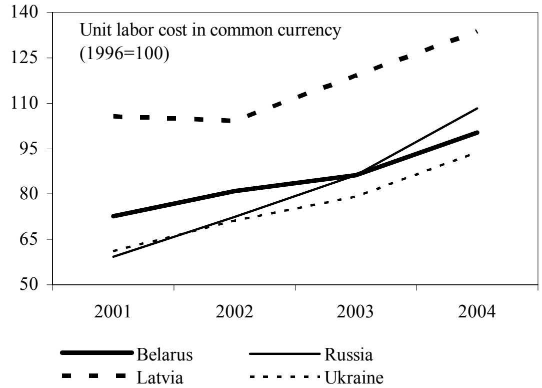
However, the real exchange rate against the dollar appreciated markedly, bolstering dollar wages. Unit labor costs picked up on the back of rapid wage growth, but with limited consequences on measured competitiveness so far, since key trading partners experienced similar increases. Overall, Belarusian exports have marginally increased their market share in both CIS and non-CIS countries.

**The real effective exchange rate remained broadly stable...**




Source: National Bank of Belarus and IMF.

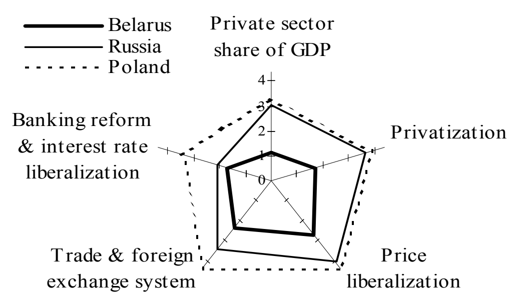
**...while unit labor costs are on the rise.**




Source: National Bank of Belarus and IMF.

13. **Market-oriented structural reforms have stalled.** The cost recovery of utility services for households declined by 12 percentage points in 2004 to 54 percent. Privatization, limited to small municipal property, yielded 0.1 percent of GDP, while debt conversions and share buybacks resulted in increased state ownership in several large enterprises and banks. As a result, the share of the private sector remained under 25 percent. The concentrated industrial structure is highly amenable to centralized economic management, as highlighted by the government's close monitoring of 178 state-owned enterprises that account for 13½ percent of GDP.

**Belarus remains well behind other countries in structural reform progress.**




Source: EBRD Transition Report 2004.
Note: Minimum score (little progress) is 1 and maximum score is 4.33 ("4+"). The share of private sector in GDP has been re-normalized to fit the scale. The privatization indicator is an average of the small-scale and large-scale.

14. **The planned currency union with Russia will be delayed.** In the absence of final agreement in several key areas—including fiscal interaction between Russia and Belarus, the modalities of monetary policy decision making, the conversion exchange rate, and rules for fiscal prudence—implementing the currency union from January 2006 is no longer feasible.

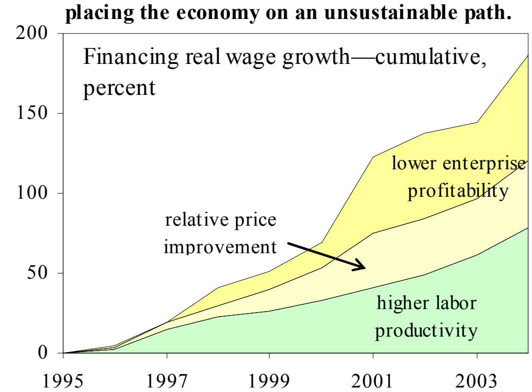
## II. POLICY DISCUSSIONS

15. **Discussions produced a constructive dialogue, focusing on the sustainability of Belarus's recent macroeconomic performance.** The authorities and staff have argued their case in the framework of distinctly different economic paradigms. The authorities emphasized the social aspects of their policies, which, they argued, were a better fit for Belarus's economy and would continue delivering the good results seen in recent years. Staff, on the other hand, argued that Belarus was on an unsustainable path characterized by centralized demand stimulation but lacking the prerequisites of long-term supply growth. Discussions covered the macroeconomic framework and the medium-term outlook; the monetary and fiscal policy framework as well as the need for policy adjustment and for structural and institutional reform.

16. **The authorities argued that their socially-oriented policies were a success.** They continued to project rapid growth and considered administrative controls and centrally-managed resource transfers more effective in dealing with macroeconomic shocks and imbalances than market forces (Box 1). Therefore, they did not see immediate reasons for foregoing further rapid wage increases, phasing out directed credit or speeding up structural reforms.

17. **Staff pointed to the risks of Belarus's centrally-managed demand-boosting policies.** The recent rapid economic expansion with declining inflation was due to favorable external developments and an ultimately unsustainable macroeconomic policy mix. While the economy's momentum is expected to lead to considerable growth in 2005, this strategy risks running out of steam in subsequent years. The productivity increases to underpin sustainable growth are unlikely to be forthcoming given the government's excessive footprint in the economy and growing tensions resulting from current policies. As discussed in the SI paper, real wage growth has significantly outpaced productivity increases since 1995.[8] Looking forward, ambitious centrally-mandated economy-wide wage targets threaten to decapitalize enterprises by squeezing their profit margins, and—together with the slow exchange rate crawl—undermine productivity growth and external competitiveness. Finally, inflation pressures would mount with further monetary expansion driven by recommended credits and the consequent need to recapitalize banks.

**High wage growth undermines profitability, placing the economy on an unsustainable path.**




Sources: Belarusian authorities; and staff calculations.

[8] Real wages in 2004 were 170 percent higher than in 1995, while productivity rose by some 80 percent during the same period. Even with the recent rise in investments, productivity growth is unlikely to catch up with wage growth.

**Box 1. IMF Advice and Belarusian Policy Implementation**

**The authorities have responded to several Board recommendations and have a good track record of implementing technical assistance recommendations.** Recent policy decisions in line with earlier recommendations include the elimination of direct NBRB financing of the budget from 2004, and the incorporation of the Social Protection Fund and, from January 2005, the Innovation Funds into the central government budget. Cooperation in demand-driven technical assistance has led to the publication of fiscal transparency and data ROSCs, and Belarus's subscription to the SDDS.

**However, the effectiveness of surveillance appears limited in areas where fundamental disagreements remain over the conduct of macroeconomic policies.** These areas include key forms of government intervention in the economy, notably (i) rapid centrally-mandated wage growth targets; (ii) recommended lending aimed at priority areas determined by the government; (iii) administrative intervention in price setting; and (iv) the newly expanded golden share rule. The authorities also do not consider IMF-recommended structural reforms as a priority. In particular, they do not view privatization as contributing to greater economic efficiency.

**In the past two years, differences persisted between the authorities' and IMF's projections in the monetary and fiscal area.** The fiscal outcomes bridged the gap between the two in 2003, and were closer to the IMF's projections last year. As for the monetary projections, both the authorities and the IMF have significantly underestimated the massive increase in demand for rubels (the authorities by a smaller margin). This underestimation explains why inflation was lower than projected in both years despite much higher reserve and broad rubel money growth.

**Monetary and fiscal targets and actual performance**

| | 2003 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | Auth. Plan | IMF advice | Actual | Auth. Plan | IMF advice | Actual |
| Gen. govt. cash deficit (BLR billion) | -890 | -363 | -500 | -925 | -148 | 13 |
| Gen. govt. accrual deficit (BLR billion) | -890 | -50 | -395 | -925 | 89 | 20 |
| Rubel reserve money (% growth) | 35-42 | 29 | 72 | 35-42 | 17 | 39 |
| Rubel broad money (% growth) | 28-35 | 25 | 71 | 24-27 | 23 | 58 |

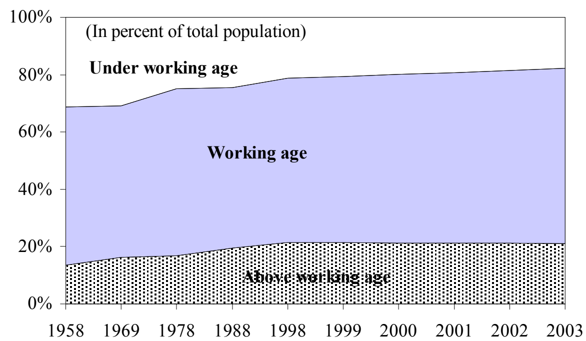
Source: Belarusian authorities and IMF Country Reports 03/117 and 04/144

18. **Belarus's open, unreformed economy is also vulnerable to looming exogenous shocks.** The magnitude of the net resource transfer from Russia cannot grow indefinitely—in fact, it is likely to shrink as world market energy prices stabilize or retreat, while Belarus's gains from preferential access to Russia's market are likely to diminish as Russia joins the WTO and reforms its economy.[9] Belarus's long-term supply growth is undermined by

[9] See the current Selected Issues paper for estimates of the magnitude of energy pricing-related transfers.

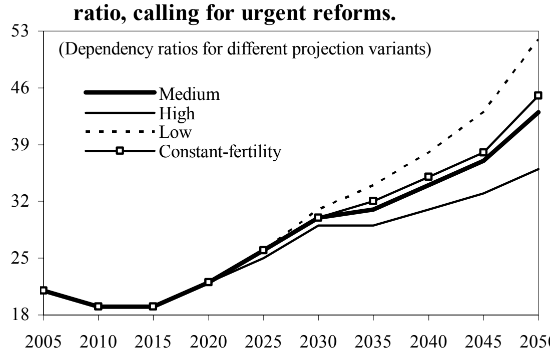
weakened market signals, delays in structural reforms—the basis for economic take-off in other transition economies—and the lack of the knowledge and resource transfer associated with FDI. This, together with precariously low international reserves, persistent arrears, excessive inventory levels and a high, albeit declining, share of loss-making enterprises, leave the economy vulnerable to shocks. Finally, the rapidly aging population would place increasing long-term pressure on an unreformed pension and health system.

**After decades of demographic stability...**




Source: Statistical Yearbook.
1/ Working age population covers males aged 16-59 and females aged 16-54.

**...trends are projected to worsen sharply, leading to a doubling of the dependency ratio, calling for urgent reforms.**




Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat.

19. **In sum, disagreement remained on the medium-term growth path.** The authorities projected continued rapid growth around 8 percent over the medium term, accompanied by falling inflation and limited current account deficits. In contrast, on *current policies*, staff projected growth at 7.1 percent in 2005, followed by a slowdown to near-stagnation in a few years. Under the staff's *reform scenario,* growth would dip in 2005–06 given tighter macroeconomic policies and structural reforms, but would remain strong over the medium term.[10] Inflation would remain in low double digits under unchanged policies, but decline relatively fast in the reform scenario. The current account deficit would continue to be constrained by the paucity of external financing if policies were retained, while greater availability of financing—in particular, FDI—would allow higher growth-enhancing technology imports, and hence, rising current account deficits.

## A. Fiscal Policy

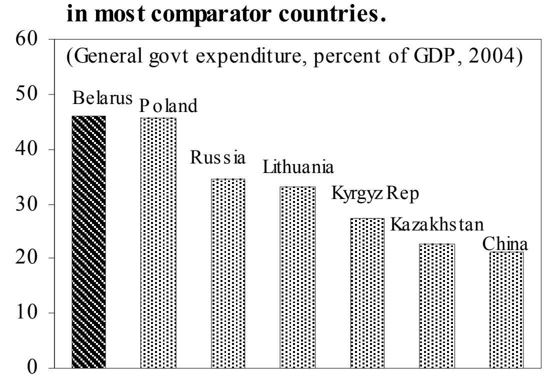
20. **The authorities saw more room for fiscal maneuver and viewed a less restrictive fiscal policy in 2005 both desirable and financeable.** The 2005 budget—as amended—would represent a marked fiscal expansion. Better-than-expected revenues in January–April provide a basis for expecting overperformance relative to the budget's unrealistically conservative revenue projection, which assumes a two percentage points of GDP drop

[10] In the absence of definite information about the likely timing of a currency union with Russia, both scenarios are based on the existing crawling band exchange rate regime for the foreseeable future.

compared with 2004.[11] While the authorities did not rule out a markedly smaller deficit outcome, they were unwilling to commit to it, since they envisaged higher expenditures in response to any revenue overperformance. This year's budget, as previous ones, focuses on social spending—including substantial support for enterprises, which may need to rise given the ambitious wage targets—but the authorities also envisage further increasing public investment, as resource constraints allow. In contrast with earlier years, they considered the financing situation more favorable, given large government deposits in the banking system and expected, albeit yet unidentified, foreign financing. They also noted that government debt was very low, and that the high tax burden was not a source of concern given rapid growth and continued export competitiveness.

21. **Staff argued for retaining budget balance in 2005 by containing and rationalizing expenditures to lower the size of government and support further disinflation.** With the size of government—even as conventionally measured—very large, and against the background of rapid credit expansion and very low international reserves, the budgeted 1.8 percent of GDP increase in the deficit relative to 2004 could have serious adverse consequences on fragile inflation and exchange rate expectations. Instead, expenditure should be restrained, coupled with a policy of saving revenue overperformance, which would suffice to keep general government operations in balance this year. This could be followed by a deficit of ¾ percent of GDP in 2006, as quasi-fiscal activities are brought on budget and if fiscal room remains, the tax burden is reduced by cutting the distorting turnover tax levied concurrently with the VAT, combined with a simplification of tax rate structures and a rapid phase-out of discretionary tax preferences. Revenue reform would be important given the difficulty of sustaining the current high revenue ratio as growth moderates. Expenditures could be contained by limiting the growth of budgetary funds, streamlining subsidies, net lending and the wage bill, and improving the targeting of social spending (e.g., house maintenance subsidies).

**The size of government remains larger than in most comparator countries.**




Source: WEO, International Monetary Fund.

[11] This projection incorporates lower turnover tax rates, and assumes VAT on trade with Russia on the origin principle.

General Government Operations, 2004-06
(In percent of GDP)

| | 2004 | 2005 | | | 2006 | |
|---|---|---|---|---|---|---|
| | | Autho-rities | Current Policies | Staff Reform | Current Policies | Staff Reform |
| Revenue | 46.2 | 44.1 | 44.9 | 43.7 | 43.9 | 43.0 |
| Expenditure (cash) | 46.2 | 45.9 | 45.2 | 43.6 | 44.4 | 43.9 |
| Noninterest | 45.7 | 45.1 | 44.9 | 43.2 | 44.0 | 43.4 |
| Primary balance (cash) | 0.5 | -1.0 | 0.0 | 0.5 | -0.1 | -0.4 |
| Overall balance (cash) | 0.0 | -1.8 | -0.4 | 0.0 | -0.5 | -0.8 |
| Overall balance (accrual) | 0.0 | -1.8 | -0.5 | 0.4 | -1.0 | -0.8 |
| *Memorandum item* | | | | | | |
| Change in arrears | 0.0 | ... | 0.2 | -0.4 | 0.5 | 0.0 |

Sources: MoF and staff estimates.

22. **Further budgetary reforms were also discussed.** The authorities agreed that while a stable fiscal environment was preferable, frequent amendments to the central budget were necessary to react to changing macroeconomic conditions. They also agreed to continue bringing remaining off-budget operations into the budget over time. With regard to recommended credits, they were of the view that the state legitimately instructed majority state-owned banks to lend under priority programs, such as housing construction and investment projects, and its role as main shareholder included ensuring that these banks remained adequately capitalized. Staff argued for minimizing the number of budgetary amendments to enhance transparency and the predictability of the business environment, and for the inclusion of all quasi-fiscal operations into the budget. Existing quasi-fiscal activities could be substantially reduced, providing explicit budgetary subsidies for those that remain. This would help avoid the resulting recurrent claims on budgetary resources, notably, annual large bank recapitalizations. Finally, to enhance the efficiency of budget resource management, central government deposits should be gradually shifted from state banks to the Single Treasury Account (STA) with the NBRB.

23. **It is critical to avoid the large scale long-term commitment of future budget resources through directed and subsidized lending, and to address the fiscal implications of aging.** The cumulative costs of directed credits and subsidized housing loans can escalate into a significant fiscal burden over the medium term, which would coincide with that stemming from adverse demographic trends that are well advanced in Belarus. On present trends and in the absence of unexpected large net immigration, the labor force is projected to enter a long-term phase of decline from 2007, plummeting by 14½ percent in the 15 years through 2020, while the share of the elderly will increase dramatically. These developments will place great pressures on pension and health system finances, and raise social assistance needs. The authorities argued that lending activities were controlled to ensure that their cumulative costs do not become unbearable. They also pointed to increasing support to families with children as a measure taken to limit population aging, and reiterated that other social policy targets—wage and pension increases and housing construction—were more important at present. However, there was

agreement that quantification of the fiscal impact of demographic changes would be a useful first step.

## B. Monetary and Exchange Rate Policy

24. **There was agreement on the policy objective of lowering inflation, but the monetary policy framework needs strengthening.** The 2005 monetary policy framework rightly assigns further reducing inflation to 8–10 percent by year-end as the priority objective. Lowering inflation was seen as monetary policy's most effective contribution toward stronger external competitiveness, noting that improvements in productivity and competitiveness depended primarily on developments in the enterprise sector. However, the NBRB should be accorded with operational independence to achieve the inflation objective. Clearly, the NBRB's ability to meet its policy objectives will depend to an important degree on continued household confidence in the rubel and the banking system, as well as support from fiscal, quasi-fiscal, and—over the medium term—structural policies. In this regard, the NBRB's room for maneuver is severely constrained by an overly ambitious credit policy, low foreign exchange reserves, and structural weaknesses in the banking system.

25. **There was also agreement that while the crawling band could help achieve the inflation objective, a measure of exchange rate flexibility should be retained.** This was warranted by low official reserves, as well as uncertainty about future developments in the terms of trade, external competitiveness and short-term capital flows. Greater exchange rate flexibility would also help support attainment of the authorities' inflation goals in the event that inflation in Russia exceeds the authorities' projections. Policy transparency would be greatly enhanced by confirming the policy focus on the Russian ruble as the peg currency. While external competitiveness appeared adequate for now, it required close monitoring in light of emerging risks stemming from continued rapid wage growth and the likely intensification of competition in Russia's markets as third-country exporters gain improved access.

26. **Staff argued for restraining domestic credit growth—including directed lending—in 2005 to avoid jeopardizing the achievement of the inflation objective.** In particular, real credit growth to the economy should not exceed the NBRB's indicative target of 14–18 percent, allowing the NBRB to stay its anti-inflationary course. The NBRB should inject liquidity strictly on market terms, eschewing bilateral transactions (notably, refrain from purchasing at face value the low-yielding government securities used in the end-2004 bank recapitalization). In this regard, the NBRB reiterated its insistence that future bank recapitalizations be financed through the budget, avoiding additional money creation.

27. **Close monetary-fiscal coordination is critical for achieving low inflation.** Changes in the large stock of government deposits currently held in the banking system could significantly impact banks' liquidity, and should, therefore, be carefully coordinated with the NBRB. Similarly, enhanced coordination would be important regarding government securities operations.

## C. Banking System

28. **There was agreement that the weak position of several systematically important state banks was a concern.** Despite rapid growth in household deposits, these banks remained

dependent on periodic government recapitalizations, fresh government deposits, central bank liquidity injections and ready access to interbank excess liquidity. It was agreed that safeguards would be desirable to limit the NBRB's role in any rescue operations of these banks by defining the role of the NBRB as the lender of last resort, and setting out guidelines for distinguishing bank illiquidity from insolvency and for the modalities of NBRB and government engagement in each case.

29. **However, the strategy of safeguarding financial stability through regular top-ups of fragile banks' capital while assuming continued remonetization should be reassessed.** Using systemically important state banks as conduits for directing resources to selected sectors and activities chosen without due regard to profitability or creditworthiness implies that the banking system cannot effectively channel financial resources toward their best use. This strategy also results in a government-mandated redistribution of household savings to areas designated by policymakers as high priority. The recurring recapitalizations that become necessary as a result perpetuate state banks' loss-making activity, could undermine the public's trust in them, and delay adjustment in the economy in response to changes in the economic environment. This in turn would undermine the basis for continued remonetization, as well as for increases in productivity, and hence growth sustainability.

## D. External Sector

30. **The significant end-2004 deterioration in the current account is likely to be largely reversed in 2005, but concerns remain about the rise in short-term liabilities.** While the external debt ratios remain relatively moderate, the share of short-term debt is on rise. Such debt is generally on relatively favorable terms but still raises roll-over risk. In addition, the current stipulations under the golden share rule are excessive, sharply reducing the availability of FDI as well as undermining the quality of the remaining trickle owing to the resulting adverse selection of investors. Dismantling the golden share rule would facilitate larger net FDI inflows, which would bring much-needed technology and knowledge transfer, access to international supply channels and markets, and provide non debt-creating external financing.

31. **The Belarusian economy faces the risk of policy-induced losses in competitiveness.** The envisaged wage and exchange rate policies are likely to undermine competitiveness in coming years. Belarus's free economic zones also cause distortions in the tax regime, and hence lower economic efficiency. A further problem is that while Belarus is making technical progress in WTO talks, its accession date is likely to be later than Russia's. To ease adjustment under these constraints, the authorities noted that they had begun to explore alternative sources of external financing, including a possible syndicated loan. However, medium-term sources of financing for 2005 and beyond remained largely unidentified.

32. **Two scenarios quantify possible balance of payment outcomes, while the debt sustainability exercise suggests limited risks.** In the baseline medium-term scenario, the current account deficit would hover around 3 percent of GDP with external financing remaining limited and foreign reserves stuck at around half a month's imports (Table 6). As a result, the economy would remain highly vulnerable to shocks. In the reform scenario (Table 7), the authorities would introduce reforms boosting competitiveness and FDI inflows. Following an initial current account deterioration reflecting higher technology imports, external financing would shift toward non debt-creating inflows. The current account would subsequently improve

with rising export competitiveness, and foreign reserves would gradually climb toward three month's of imports. The staff's debt sustainability projections (Table 9) generally indicate a modest build-up of external debt through 2008.[1] Although the public debt dynamics generally do not give rise to concerns, under some stress test scenarios the debt could approach uncomfortable levels.

33. **A separate stress-test scenario highlights Belarus's reliance on the Russian market.** It examines the impact of a hypothetical 30 percent decline in exports to Russia relative to the baseline projection in 2006. After foreign reserves are depleted, imports adjust downward to absorb the remaining shortfall and thus stagnate in 2006 (compared with an 8.2 percent increase in the baseline). This shock would double the current account deficit to nearly 7 percent of GDP. In the medium term, lower output growth and real depreciation would help reduce the current account deficit, but with external financing remaining constrained, foreign reserves would remain low, leaving the country vulnerable to further shocks.

## E. Structural Policies

34. **The start of long-delayed market-oriented structural reforms would lay the foundation for sustainable growth.** Belarus could take advantage of the current favorable external environment to launch a critical mass of structural reforms at minimum cost. Priority structural reforms would be those that help reduce the dominant role of the government in the economy—including lower intervention in the enterprise sector and in price formation—harden budget constraints for enterprises and banks, make the tax and regulatory environment predictable, and level the playing field for private and public enterprises to enhance the economy's competitiveness (Box 2). Critical measures to boost long-term supply growth would include transparent privatization, and the elimination of centralized wage targets and of the golden share rule. These measures would represent a significant step forward even if the whole reform package was not implemented. Reforms would also be necessary to ensure that a currency union with Russia delivers net benefits for Belarus's economy. The authorities took note of the proposed agenda, but have not committed to implementing it. They stressed the importance of avoiding mistakes made in this area by other transition economies, which, in their view, led to significant welfare losses in terms of higher unemployment, declining output, and the increasing power of oligarchs.

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[1] Debt dynamics are unstable under some stress test scenarios because they project forward the high volatility of the 1993–2003 base period.

## Box 2. Structural Reform Agenda

**Price liberalization**:

- Reduce the list of regulated prices, including on exports;
- Curtail ceilings on mark-ups on goods and services (domestic or imported);
- Put in place an independent regulator for monopolies; and
- Raise utility prices permanently toward full cost-recovery levels.

**Fiscal policy and social safety net**—consolidating fiscal and quasi-fiscal activities, lowering the tax burden and hardening enterprise budget constraints:

- Bring all government-controlled quasi-fiscal activities on-budget;
- Implement Part II of the Tax Code to streamline tax legislation and reform tax policy;
- Simplify SME taxation, utilizing presumptive taxes, where appropriate;
- Eliminate ad hoc tax exemptions and deferrals;
- Gradually reduce subsidies and lending to inefficient enterprises;
- Launch a comprehensive public administration and civil service reform;
- Improve the targeting of social support from the budget;
- Centralize central government funds in the STA held at the NBRB; and
- Reform the pension system to ensure its long-term viability.

**Monetary policy and banking sector—**reducing government intervention:

- Phase out directed lending to avoid the need for regular bank recapitalizations by the state;
- Remove caps on lending interest rates.

**Incomes policy—**containing public sector wage growth while liberalizing wage setting:

- Discontinue enforcing economy-wide wage targets;
- Limit wage bill growth in government and in enterprises with soft budget constraints; and
- Allow greater flexibility in employment and wage setting in non-public enterprises.

**Enterprise sector reforms—**revising the legal and regulatory framework, removing barriers to private sector activity:

- Launch transparent privatization and eliminate the golden share rule to promote FDI;
- Harden budget constraints by reducing state support and enforcing bankruptcy against nonviable enterprises;
- Reduce state controls on enterprise activities;
- Simplify the registration of small and medium-sized enterprises and rules governing their activity; and
- Develop a timetable for introducing internationally accepted accounting standards in the enterprise sector.

## III. Staff Appraisal

35. **Recent years were characterized by favorable macroeconomic outcomes under a centralized macroeconomic management and progress in budgetary and monetary policy implementation**. Double-digit growth in 2004 benefited from relatively restrained underlying fiscal and monetary policies that were tilted in the expansionary direction by large government-mandated quasi-fiscal operations—most notably rapid increases in directed credit and wages. Disinflation was aided by remonetization, an effective exchange rate anchor, the discontinuation of inflationary financing for the budget in 2004, as well as administrative controls in price formation. Progress was made in fiscal management: the ministry of finance has integrated several large extrabudgetary funds into the central budget and held general government operations in balance in 2004. Belarus has also benefited from trade links with Russia's rebounding economy. In addition, favorable energy import pricing has shielded Belarus from the adverse effects of international energy price developments, while allowing it to increase its net gains from sales of refined petroleum products in European markets, taking advantage of sharply higher refining margins.

36. **However, with little progress made in enterprise and financial sector restructuring, Belarus's centralized macroeconomic management approach is ultimately unsustainable**. The past decade has seen a massive cumulative excess of growth in real wages over productivity, which was coupled in recent years with an increase in the external resource transfer through favorable energy import pricing. These trends cannot be expected to continue. International experience shows that sustained growth requires a supply response to economic restructuring and reform, leading to improved incentives and economic efficiency that bring forth rapid productivity growth. In all transition economies, this process was helped along by reducing the relative role of government in economic activity, and the knowledge and resource transfer associated with FDI. In the absence of these ingredients, Belarus's economy is vulnerable to decapitalization of banks and enterprises, as well as to a reversal—or even a slowdown—in the favorable external trends. The extent to which centralized redistribution of domestic resources can prolong the current expansion is unclear. This underscores the importance of early policy action to sustain growth, especially since over the medium term, the aging population will raise the fiscal costs of the pension and health systems while undermining revenues as a result of the declining number of active workers paying taxes and social contributions.

37. **Now is the best time to address the growth sustainability issue through policy and structural reforms to allow the Belarusian economy to begin catching up with its successful EU-member neighbors.** The authorities should take advantage of the favorable current circumstances—the momentum in the economy, ongoing remonetization, and the favorable external environment—and launch reforms. With low debt levels, considerable privatizable assets, and the benefit of lessons from the experience of other transition economies, the authorities could contain the net costs of transition. The overriding objective should be to substantially reduce the economic footprint of government, and enhance productivity growth. To this end, the government's direct managerial and regulatory intervention in economic activity should be rapidly phased out, centrally-mandated wage

targets dropped, the remaining quasi-fiscal activities brought on-budget, the golden share rule abolished, the business environment improved, and financial sector weaknesses addressed.

38. **The envisaged fiscal loosening should be avoided in 2005.** Fiscal policy needs to remain tight after incorporating quasi-fiscal activities, to reduce the size of government and allow room for a meaningful reduction in the high tax burden over the medium term.

39. **Monetary policy needs to be focused on disinflation and be supported by the government.** Lowering inflation should remain the overriding objective of monetary policy. To that end, the NBRB should be given the necessary operational independence. It should also retain a measure of exchange rate flexibility to safeguard against excessive real appreciation, strengthen its ability to react to shocks and further improve its reserve position. Such flexibility would also help avoid compromising achievement of the inflation target, should it come into conflict with the envisaged exchange rate path. Strengthened fiscal-monetary coordination and government abstinence from administrative intervention in price formation are also needed for effective and credible monetary policy implementation.

40. **Staff remains concerned about Belarus's external vulnerability.** With inflation and wage growth higher than in partner countries, and structural reforms lacking, competitiveness is likely to be undermined. The end-2004 surge in the current account deficit financed by running up short-term liabilities to 12.8 percent of GDP coupled with low banking system foreign exchange reserves is also a source of serious concern. Effective mechanisms for controlling the contracting and guaranteeing of external debt are needed; and more importantly, for ensuring that foreign financing is used efficiently.

41. **A lasting, economically favorable currency union with Russia requires the fulfillment of key macroeconomic conditions.** If the authorities decide to join the currency union, agreement will be needed with Russia on key issues—including the appropriate level of the conversion exchange rate, the modalities of monetary policy decision making, transfers prior to and following the adoption of the Russian ruble, rules for fiscal prudence, and necessary legislative action. While the balance of long-term costs and benefits of the currency union depends on the specifics of how these issues are resolved, it would be substantially enhanced with prudent macroeconomic policies and an early start to wide-ranging structural reforms. Together, these would ensure that Belarus derives net long-term benefits from the union.

42. **The staff commends the authorities for strengthened technical cooperation with the IMF and welcomes the significant recent progress made in this area.** Belarus has a good record of implementing TA recommendations, marked by the completion of the FSAP, the SDDS subscription, and the publication of fiscal and data transparency ROSCs.

43. The next Article IV consultation is expected to be held on the standard 12-month cycle.

Table 1. Belarus: Selected Economic Indicators, 2001-06

| | 2001 | 2002 | 2003 | 2004 | 2005 | | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Staff Proj. | | Staff Proj. | |
| | | | | Prelimin. | Auth. | Current Policies | Reform | Current Policies | Reform |
| Output | | | | | | | | | |
| GDP (nominal in billions of rubels) | 17,173 | 26,138 | 36,565 | 49,445 | 58,900 | 59,363 | 58,392 | 69,458 | 68,862 |
| Real GDP 1/ | 4.7 | 5.0 | 7.0 | 11.0 | 8.5-10.0 | 7.1 | 6.0 | 4.0 | 6.2 |
| Industrial production | 5.9 | 4.3 | 6.8 | 15.6 | ... | ... | ... | ... | ... |
| Prices and wages | | | | | | | | | |
| GDP deflator (y-o-y) | 79.5 | 44.9 | 30.7 | 21.8 | 12.0-13.0 | 12.1 | 11.5 | 12.5 | 11.2 |
| Consumer prices, eop (y-o-y) | 46.1 | 34.8 | 25.4 | 14.4 | 8.0-10.0 | 12.0 | 10.5 | 12.9 | 9.0 |
| Consumer prices, aop | 61.1 | 42.6 | 28.4 | 18.1 | 12.0-13.0 | 12.1 | 11.5 | 12.5 | 11.2 |
| Producer prices, eop (y-o-y) | 39.1 | 42.7 | 28.6 | 18.9 | ... | ... | ... | ... | ... |
| Wages (thousands of rubels per month) | 125.0 | 191.6 | 253.5 | 350.1 | ... | ... | ... | ... | ... |
| Real average monthly wage (1996=100) | 213.9 | 231.9 | 238.7 | 279.0 | 326.4 | ... | ... | ... | ... |
| Average monthly wage (in U.S. dollars) | 89.5 | 107.3 | 123.3 | 162.0 | 225.0 | ... | ... | ... | ... |
| Exchange rates | | | | | | | | | |
| Rubel/USD (average) | 1,383 | 1,784 | 2,052 | 2,160 | 2,240 | ... | ... | ... | ... |
| Rubel/USD (end-of-period) | 1,580 | 1,920 | 2,156 | 2,170 | 2200-2275 | ... | ... | ... | ... |
| Rubel/Ruble (RUR) (average) | 47.35 | 56.97 | 66.92 | 74.98 | 77.40 | ... | ... | ... | ... |
| Rubel/Ruble (RUR) (end-of-period) | 52.30 | 60.40 | 73.20 | 77.91 | 75.86-77.65 | ... | ... | ... | ... |
| | | | | | (In percent of GDP) | | | | |
| General government finances 2/ | | | | | | | | | |
| Revenue | 44.9 | 44.6 | 45.8 | 46.2 | 44.1 | 44.9 | 43.7 | 43.9 | 43.0 |
| Expenditure (cash) | 46.8 | 46.4 | 47.2 | 46.2 | 45.9 | 45.2 | 43.6 | 44.4 | 43.9 |
| Expenditure (commitment) | 48.1 | 46.5 | 46.9 | 46.1 | 45.9 | 45.4 | 43.3 | 44.9 | 43.9 |
| Balance (cash) | -1.9 | -1.8 | -1.4 | 0.0 | -1.8 | -0.4 | 0.0 | -0.5 | -0.8 |
| Balance (commitment) | -3.1 | -1.9 | -1.1 | 0.0 | -1.8 | -0.5 | 0.4 | -1.0 | -0.8 |
| | | | | | (12-month change in percent, unless otherwise indicated) | | | | |
| Money and credit | | | | | | | | | |
| Annual average broad money velocity (level) | 8.2 | 8.0 | 7.1 | 6.6 | 5.8 | 5.7 | 5.8 | 5.1 | 5.6 |
| Annual average rubel broad money velocity (level) | 18.2 | 16.1 | 13.3 | 11.2 | 9.2 | 9.2 | 9.4 | 7.8 | 8.9 |
| NBB net domestic credit | 156.5 | 31.0 | 98.1 | -6.0 | ... | 1.6 | -43.2 | 87.7 | 53.6 |
| Reserve money | 102.8 | 32.0 | 51.1 | 41.9 | 19.7 | 32.0 | 12.9 | 26.6 | 14.4 |
| Banking system net domestic credit | 66.4 | 53.7 | 68.9 | 35.8 | ... | 30.5 | 19.6 | 27.0 | 15.6 |
| Rubel broad money | 96.9 | 59.6 | 71.0 | 58.1 | 40.0 | 40.0 | 30.0 | 35.0 | 20.0 |
| Refinance rate (percent per annum, end-of-period) | 48 | 38 | 28 | 17 | ... | ... | ... | ... | ... |
| | | | | | (In millions of U.S. dollars, unless otherwise indicated) | | | | |
| Balance of payments and external debt | | | | | | | | | |
| Exports of goods | 7,334 | 7,965 | 10,073 | 13,917 | 16,433 | 15,743 | 15,887 | 17,084 | 17,945 |
| Imports of goods | -8,141 | -8,879 | -11,329 | -15,983 | -17,972 | -17,950 | -18,156 | -19,424 | -20,434 |
| Current account balance | -394 | -311 | -424 | -1,043 | -411 | -1,004 | -1,067 | -1,013 | -1,132 |
| As percent of GDP | -3.2 | -2.1 | -2.4 | -4.6 | -1.4 | -3.7 | -4.0 | -3.4 | -3.6 |
| Gross official reserves | 359 | 476 | 499 | 770 | ... | 782 | 917 | 805 | 1,262 |
| In months of imports of goods and services | 0.5 | 0.6 | 0.5 | 0.6 | ... | 0.5 | 0.6 | 0.5 | 0.7 |
| Medium- and long-term debt (as percent of GDP) | 9.2 | 9.8 | 8.1 | 5.9 | 4.6 | 4.4 | 4.4 | 4.4 | 4.2 |
| Short-term debt (as percent of GDP) | 10.4 | 11.0 | 10.8 | 12.8 | 11.1 | 14.2 | 14.3 | 15.3 | 14.8 |

Sources: Belarusian authorities; and Fund staff estimates.

1/ The Belarusian national accounts have overstated real growth by about 1-2 percent. A new industrial production index, which would improve the estimates is calculated but not published yet.

2/ Consolidates the state government and Social Protection Fund budget; and, from 2002, the activities of the innovation funds, formally incorporated into the state government budget from 2005.

Table 2. Belarus: Monetary Accounts, 2002–06 (Current Policies)
(In billions of Belarusian rubels, unless otherwise indicated; end-of-period)

| | 2002 | 2003 | 2004 | | | | 2005 | | | | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Mar. | Jun. | Sep. | Dec. | Mar. | Jun. | Sep. | Dec. | |
| | | | | | | | | Staff projections | | | |
| National Bank of Belarus | | | | | | | | | | | |
| Net foreign assets | 922 | 1,296 | 1,512 | 1,470 | 1,510 | 1,872 | 2,357 | 2,324 | 2,273 | 2,229 | 2,292 |
| Foreign assets | 1,516 | 1,947 | 2,143 | 2,071 | 2,072 | 2,057 | 2,455 | 2,424 | 2,374 | 2,333 | 2,399 |
| Foreign liabilities | -594 | -650 | -631 | -601 | -563 | -184 | -98 | -100 | -101 | -104 | -107 |
| Net domestic assets | 194 | 390 | 394 | 415 | 497 | 522 | -48 | 176 | 376 | 644 | 1,345 |
| Net domestic credit | 440 | 872 | 859 | 678 | 811 | 820 | 130 | 357 | 560 | 833 | 1,539 |
| Net credit to government | 168 | 516 | 516 | 251 | 373 | 199 | -280 | -247 | -215 | -188 | -203 |
| Claims on banks | 255 | 332 | 319 | 396 | 404 | 565 | 384 | 575 | 743 | 986 | 1,695 |
| Other claims on economy | 17 | 24 | 24 | 31 | 34 | 56 | 26 | 29 | 32 | 35 | 47 |
| Other items, net | -246 | -482 | -464 | -263 | -314 | -298 | -179 | -181 | -184 | -189 | -194 |
| Reserve money | 1,116 | 1,687 | 1,906 | 1,885 | 2,007 | 2,394 | 2,308 | 2,500 | 2,649 | 2,872 | 3,637 |
| Rubel reserve money | 953 | 1,643 | 1,864 | 1,865 | 1,986 | 2,281 | 2,295 | 2,474 | 2,622 | 2,845 | 3,610 |
| Currency outside banking system | 650 | 926 | 889 | 1,113 | 1,211 | 1,339 | 1,374 | 1,481 | 1,570 | 1,711 | 2,191 |
| Required reserves | 290 | 440 | 499 | 537 | 575 | 639 | 659 | 684 | 737 | 799 | 1,024 |
| Correspondent accounts and vault cash | 69 | 129 | 153 | 153 | 158 | 225 | 220 | 226 | 229 | 240 | 263 |
| Time depos., NBB sec., and depos. of nonbanks | 108 | 192 | 366 | 81 | 63 | 190 | 56 | 108 | 114 | 123 | 158 |
| Non-rubel reserve money | 163 | 44 | 42 | 20 | 21 | 113 | 13 | 26 | 26 | 27 | 28 |
| Monetary Survey | | | | | | | | | | | |
| Net foreign assets | 904 | 1,163 | 1,552 | 1,227 | 1,056 | 1,523 | 2,051 | 2,015 | 1,958 | 1,906 | 1,961 |
| Foreign assets | 2,022 | 2,666 | 3,094 | 2,806 | 2,867 | 3,044 | 3,373 | 3,354 | 3,319 | 3,302 | 3,398 |
| Foreign liabilities | -1,119 | -1,503 | -1,542 | -1,579 | -1,812 | -1,521 | -1,322 | -1,340 | -1,361 | -1,396 | -1,438 |
| Net domestic assets | 3,020 | 4,969 | 4,926 | 6,029 | 6,795 | 7,316 | 7,195 | 8,010 | 8,855 | 9,973 | 13,408 |
| Net domestic credit | 4,356 | 7,355 | 7,407 | 8,391 | 9,268 | 10,234 | 9,935 | 10,788 | 11,678 | 12,868 | 16,385 |
| Net credit to general government | 343 | 977 | 726 | 658 | 302 | 259 | -355 | -282 | -191 | -144 | -141 |
| Claims on economy | 4,013 | 6,378 | 6,681 | 7,733 | 8,966 | 9,974 | 10,290 | 11,070 | 11,868 | 13,012 | 16,526 |
| Other items, net | -1,336 | -2,386 | -2,481 | -2,362 | -2,473 | -2,918 | -2,740 | -2,778 | -2,823 | -2,895 | -2,978 |
| Broad money | 3,924 | 6,132 | 6,478 | 7,256 | 7,851 | 8,839 | 9,247 | 10,024 | 10,813 | 11,879 | 15,368 |
| Rubel broad money | 1,993 | 3,408 | 3,639 | 4,279 | 4,698 | 5,388 | 5,735 | 6,288 | 6,840 | 7,544 | 10,184 |
| Currency outside banks | 650 | 926 | 889 | 1,113 | 1,211 | 1,339 | 1,374 | 1,481 | 1,570 | 1,711 | 2,191 |
| Domestic currency deposits | 1,253 | 2,269 | 2,598 | 3,028 | 3,383 | 3,949 | 4,254 | 4,696 | 5,159 | 5,710 | 7,855 |
| Bank securities (outside bank circul.), in rubels | 90 | 213 | 153 | 138 | 104 | 100 | 107 | 110 | 111 | 122 | 138 |
| Foreign currency deposits | 1,920 | 2,705 | 2,827 | 2,957 | 3,127 | 3,426 | 3,498 | 3,722 | 3,959 | 4,320 | 5,169 |
| Bank securities (outside bank circul.), in fgn currency | 10 | 16 | 9 | 18 | 22 | 21 | 11 | 11 | 11 | 11 | 11 |
| Precious metals in deposits | 0 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| 12-month % change in broad money | 50.3 | 56.3 | 52.6 | 50.0 | 46.2 | 44.1 | 42.7 | 38.1 | 37.7 | 34.4 | 29.4 |
| 12-month % change in rubel broad money | 59.6 | 71.0 | 67.1 | 63.2 | 60.8 | 58.1 | 57.6 | 46.9 | 45.6 | 40.0 | 35.0 |
| 12-month % change in reserve money | 32.0 | 51.1 | 71.4 | 37.3 | 38.7 | 41.9 | 21.1 | 32.7 | 32.0 | 20.0 | 26.6 |
| 12-month % change in rubel reserve money | 40.1 | 72.3 | 83.9 | 43.8 | 44.2 | 38.9 | 23.1 | 32.7 | 32.0 | 24.7 | 26.8 |
| 12-month % change in claims on economy 1/ | 56.8 | 58.9 | 54.3 | 57.1 | 59.2 | 56.4 | 54.0 | 43.2 | 32.4 | 30.5 | 27.0 |
| Annual rubel broad money velocity 2/ | 16.1 | 13.5 | 13.5 | 12.2 | 12.1 | 11.2 | 11.0 | 10.2 | 9.8 | 9.2 | 7.8 |
| Annual broad money velocity 2/ | 8.0 | 7.3 | 7.3 | 7.0 | 7.0 | 6.6 | 6.5 | 6.2 | 6.1 | 5.7 | 5.1 |
| Broad money multiplier | 3.5 | 3.6 | 3.4 | 3.8 | 3.9 | 3.7 | 4.0 | 4.0 | 4.1 | 4.1 | 4.2 |
| Rubel broad money multiplier | 2.1 | 2.1 | 2.0 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 | 2.6 | 2.7 | 2.8 |
| Accounting exchange rate (Rbl/US$) | 1,920 | 2,156 | 2,150 | 2,155 | 2,167 | 2,170 | 2,153 | 2,183 | 2,218 | 2,275 | 2,340 |

Sources: National Bank of Belarus; and Fund staff estimates.
1/ For the authorities projection for 2004, increases in rubel claims.
2/ Defined as annual GDP divided by average broad (rubel broad) money for the year.

Table 3. Belarus: Monetary Accounts, 2002–06 (Reform Scenario)
(In billions of Belarusian rubels, unless otherwise indicated; end-of-period)

| | 2002 | 2003 | 2004 | | | | 2005 | | | | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Mar. | Jun. | Sep. | Dec. | Mar. | Jun. | Sep. | Dec. | |
| | | | | | | | | Staff projections | | | |
| National Bank of Belarus | | | | | | | | | | | |
| Net foreign assets | 922 | 1,296 | 1,512 | 1,470 | 1,510 | 1,872 | 2,357 | 2,372 | 2,393 | 2,419 | 2,559 |
| Foreign assets | 1,516 | 1,947 | 2,143 | 2,071 | 2,072 | 2,057 | 2,455 | 2,471 | 2,492 | 2,519 | 2,660 |
| Foreign liabilities | -594 | -650 | -631 | -601 | -563 | -184 | -98 | -99 | -99 | -100 | -101 |
| Net domestic assets | 194 | 390 | 394 | 415 | 497 | 522 | -48 | 92 | 178 | 285 | 533 |
| Net domestic credit | 440 | 872 | 859 | 678 | 811 | 820 | 130 | 271 | 358 | 466 | 716 |
| Net credit to government | 168 | 516 | 516 | 251 | 373 | 199 | -280 | -241 | -203 | -166 | -172 |
| Claims on banks | 255 | 332 | 319 | 396 | 404 | 565 | 384 | 483 | 529 | 597 | 841 |
| Other claims on economy | 17 | 24 | 24 | 31 | 34 | 56 | 26 | 29 | 32 | 35 | 47 |
| Other items, net | -246 | -482 | -464 | -263 | -314 | -298 | -179 | -179 | -180 | -181 | -183 |
| Reserve money | 1,116 | 1,687 | 1,906 | 1,885 | 2,007 | 2,394 | 2,308 | 2,464 | 2,571 | 2,704 | 3,092 |
| Rubel reserve money | 953 | 1,643 | 1,864 | 1,865 | 1,986 | 2,281 | 2,295 | 2,438 | 2,545 | 2,678 | 3,066 |
| Currency outside banking system | 650 | 926 | 889 | 1,113 | 1,211 | 1,339 | 1,374 | 1,454 | 1,509 | 1,582 | 1,791 |
| Required reserves | 290 | 440 | 499 | 537 | 575 | 639 | 659 | 679 | 721 | 765 | 902 |
| Correspondent accounts and vault cash | 69 | 129 | 153 | 153 | 158 | 225 | 220 | 224 | 228 | 237 | 248 |
| Time depos., NBB sec., and depos. of nonbanks | 108 | 192 | 366 | 81 | 63 | 190 | 56 | 107 | 113 | 121 | 151 |
| Non-rubel reserve money | 163 | 44 | 42 | 20 | 21 | 113 | 13 | 26 | 26 | 26 | 26 |
| Monetary Survey | | | | | | | | | | | |
| Net foreign assets | 904 | 1,163 | 1,552 | 1,227 | 1,056 | 1,523 | 2,051 | 2,066 | 2,086 | 2,110 | 2,246 |
| Foreign assets | 2,022 | 2,666 | 3,094 | 2,806 | 2,867 | 3,044 | 3,373 | 3,390 | 3,415 | 3,448 | 3,602 |
| Foreign liabilities | -1,119 | -1,503 | -1,542 | -1,579 | -1,812 | -1,521 | -1,322 | -1,324 | -1,329 | -1,338 | -1,356 |
| Net domestic assets | 3,020 | 4,969 | 4,926 | 6,029 | 6,795 | 7,316 | 7,195 | 7,799 | 8,387 | 9,049 | 10,886 |
| Net domestic credit | 4,356 | 7,355 | 7,407 | 8,391 | 9,268 | 10,234 | 9,935 | 10,544 | 11,143 | 11,823 | 13,695 |
| Net credit to general government | 343 | 977 | 726 | 658 | 302 | 259 | -355 | -264 | -174 | -105 | -92 |
| Claims on economy | 4,013 | 6,378 | 6,681 | 7,733 | 8,966 | 9,974 | 10,290 | 10,808 | 11,318 | 11,928 | 13,787 |
| Other items, net | -1,336 | -2,386 | -2,481 | -2,362 | -2,473 | -2,918 | -2,740 | -2,745 | -2,757 | -2,774 | -2,808 |
| Broad money | 3,924 | 6,132 | 6,478 | 7,256 | 7,851 | 8,839 | 9,247 | 9,865 | 10,472 | 11,159 | 13,133 |
| Rubel broad money | 1,993 | 3,408 | 3,639 | 4,279 | 4,698 | 5,388 | 5,735 | 6,173 | 6,592 | 7,005 | 8,406 |
| Currency outside banks | 650 | 926 | 889 | 1,113 | 1,211 | 1,339 | 1,374 | 1,454 | 1,509 | 1,582 | 1,791 |
| Domestic currency deposits | 1,253 | 2,269 | 2,598 | 3,028 | 3,383 | 3,949 | 4,254 | 4,611 | 4,972 | 5,303 | 6,483 |
| Bank securities (outside bank circul.), in rubels | 90 | 213 | 153 | 138 | 104 | 100 | 107 | 109 | 111 | 121 | 131 |
| Foreign currency deposits | 1,920 | 2,705 | 2,827 | 2,957 | 3,127 | 3,426 | 3,498 | 3,678 | 3,867 | 4,140 | 4,713 |
| Bank securities (outside bank circul.), in fgn currency | 10 | 16 | 9 | 18 | 22 | 21 | 11 | 11 | 11 | 11 | 11 |
| Precious metals in deposits | 0 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| 12-month % change in broad money | 50.3 | 56.3 | 52.6 | 50.0 | 46.2 | 44.1 | 42.7 | 36.0 | 33.4 | 26.2 | 17.7 |
| 12-month % change in rubel broad money | 59.6 | 71.0 | 67.1 | 63.2 | 60.8 | 58.1 | 57.6 | 44.3 | 40.3 | 30.0 | 20.0 |
| 12-month % change in reserve money | 32.0 | 51.1 | 71.4 | 37.3 | 38.7 | 41.9 | 21.1 | 30.7 | 28.1 | 12.9 | 14.4 |
| 12-month % change in rubel reserve money | 40.1 | 72.3 | 83.9 | 43.8 | 44.2 | 38.9 | 23.1 | 30.8 | 28.1 | 17.4 | 14.5 |
| 12-month % change in claims on economy 1/ | 56.8 | 58.9 | 54.3 | 57.1 | 59.2 | 56.4 | 54.0 | 39.8 | 26.2 | 19.6 | 15.6 |
| Annual rubel broad money velocity 2/ | 16.1 | 13.5 | 13.5 | 12.2 | 12.1 | 11.2 | 10.9 | 10.2 | 9.9 | 9.4 | 8.9 |
| Annual broad money velocity 2/ | 8.0 | 7.3 | 7.3 | 7.0 | 7.0 | 6.6 | 6.5 | 6.2 | 6.1 | 5.8 | 5.7 |
| Broad money multiplier | 3.5 | 3.6 | 3.4 | 3.8 | 3.9 | 3.7 | 4.0 | 4.0 | 4.1 | 4.1 | 4.2 |
| Rubel broad money multiplier | 2.1 | 2.1 | 2.0 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 |
| Accounting exchange rate (Rbl/US$) | 1,920 | 2,156 | 2,150 | 2,155 | 2,167 | 2,170 | 2,153 | 2,157 | 2,166 | 2,180 | 2,207 |

Sources: National Bank of Belarus; and Fund staff estimates.
1/ For the authorities projection for 2004, increases in rubel claims.
2/ Defined as annual GDP divided by average broad (rubel broad) money for the year.

Table 4. Belarus: Fiscal Indicators and Projections, 2001-06
(In billions of rubels, unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Prelim. | Authorities Budget | Current Policies | Staff Reform | Current Policies | Staff Reform |
| 1.State (republican and local) budget | | | | | | | | | |
| Revenue | 5,735 | 8,663 | 12,843 | 17,417 | 19,218 | 20,193 | 18,997 | 23,129 | 21,949 |
| Personal income tax | 534 | 773 | 1,024 | 1,404 | 1,758 | 1,767 | 1,748 | 2,048 | 1,976 |
| Profit tax | 637 | 643 | 934 | 1,625 | 1,685 | 1,874 | 1,868 | 2,128 | 2,226 |
| VAT | 1,447 | 2,165 | 2,895 | 3,815 | 4,547 | 4,944 | 4,911 | 5,749 | 5,798 |
| Excises | 442 | 592 | 838 | 1,122 | 1,208 | 1,281 | 1,384 | 1,484 | 1,665 |
| Property tax | 237 | 390 | 729 | 957 | 860 | 942 | 1,080 | 1,091 | 1,359 |
| Customs duties | 300 | 524 | 957 | 1,095 | 1,410 | 1,312 | 1,293 | 1,520 | 1,613 |
| Other | 1,104 | 1,651 | 2,603 | 3,662 | 3,403 | 3,695 | 3,852 | 4,258 | 4,235 |
| Revenue of budgetary funds 1/ | 1,033 | 1,925 | 2,863 | 3,739 | 4,347 | 4,379 | 2,860 | 4,852 | 3,077 |
| Expenditure (cash) | 6,023 | 9,135 | 13,333 | 17,595 | 20,258 | 20,385 | 19,089 | 23,377 | 22,658 |
| Expenditure (accrual) 2/ | 6,237 | 9,154 | 13,228 | 17,587 | 20,258 | 20,493 | 18,870 | 23,715 | 22,657 |
| Defense | 184 | 260 | 377 | 472 | 545 | 563 | 533 | 665 | 599 |
| Law, order and security | 333 | 461 | 654 | 921 | 1,147 | 1,124 | 1,088 | 1,334 | 1,231 |
| Agriculture | 146 | 179 | 520 | 767 | 828 | 1,031 | 906 | 1,218 | 1,069 |
| Housing and communal services | 450 | 612 | 941 | 1,175 | 921 | 1,421 | 1,350 | 1,678 | 1,669 |
| Education | 1,110 | 1,738 | 2,343 | 3,020 | 3,722 | 3,722 | 3,728 | 4,270 | 4,608 |
| Health, sports and physical education | 873 | 1,270 | 1,810 | 2,581 | 2,982 | 2,932 | 2,950 | 3,311 | 3,679 |
| Social policies | 249 | 443 | 615 | 821 | 1,520 | 1,318 | 1,275 | 1,557 | 1,789 |
| Servicing of state debt | 125 | 154 | 176 | 210 | 219 | 219 | 270 | 258 | 319 |
| Budgetary loans | 164 | 382 | 168 | 47 | -30 | 163 | 142 | 193 | 174 |
| Other | 1,608 | 1,849 | 3,005 | 3,995 | 4,110 | 3,808 | 3,803 | 4,478 | 4,395 |
| Expenditure of budgetary funds 1/ | 996 | 1,805 | 2,620 | 3,580 | 4,294 | 4,191 | 2,826 | 4,753 | 3,124 |
| Expenditure: economic classification 3/ | 6,023 | 9,135 | 13,249 | 17,595 | 20,258 | 20,493 | 18,870 | 23,663 | 22,657 |
| Wages and salaries | 1,266 | 2,061 | 2,848 | 3,880 | ... | 4,912 | 4,664 | 5,801 | 5,506 |
| Social protection fund contributions | 347 | 581 | 780 | 1,064 | ... | 1,380 | 1,311 | 1,630 | 1,547 |
| Goods and services | 1,574 | 2,108 | 3,063 | 3,990 | ... | 4,595 | 4,510 | 5,364 | 5,376 |
| Interest | 125 | 143 | 186 | 243 | ... | 267 | 287 | 309 | 403 |
| Subsidies and transfers | 1,401 | 1,880 | 2,881 | 3,792 | ... | 4,618 | 3,879 | 5,496 | 4,580 |
| Capital expenditures | 1,119 | 1,999 | 3,154 | 4,367 | ... | 4,098 | 4,219 | 4,341 | 5,150 |
| Net lending | 191 | 362 | 336 | 258 | ... | 623 | -1 | 721 | 94 |
| Balance (cash) 3/ | -289 | -472 | -490 | -178 | -1,040 | -192 | -93 | -248 | -709 |
| Balance (accrual) 2/ | -502 | -491 | -385 | -170 | -1,040 | -300 | 127 | -586 | -709 |
| 2. Social Protection Fund | | | | | | | | | |
| Revenue | 1,984 | 3,055 | 3,978 | 5,453 | 6,748 | 6,504 | 6,514 | 7,618 | 7,691 |
| o/w:from the Republican budget | 5 | 70 | 57 | 36 | ... | 50 | 0 | 250 | 0 |
| Expenditure | 2,021 | 3,061 | 3,988 | 5,262 | 6,763 | 6,521 | 6,398 | 7,701 | 7,546 |
| Balance (cash) | -37 | -6 | -10 | 191 | -15 | -17 | 116 | -83 | 145 |
| 3. General government | | | | | | | | | |
| Revenue | 7,714 | 11,649 | 16,765 | 22,833 | 25,966 | 26,647 | 25,511 | 30,497 | 29,639 |
| Expenditure (cash) | 8,039 | 12,127 | 17,264 | 22,821 | 27,021 | 26,857 | 25,488 | 30,828 | 30,203 |
| Expenditure (accrual) 2/ | 8,252 | 12,146 | 17,160 | 22,813 | 27,021 | 26,964 | 25,268 | 31,165 | 30,203 |
| Balance (cash) 3/ | -326 | -478 | -500 | 13 | -1,055 | -210 | 23 | -331 | -564 |
| Balance (accrual) 2/ | -539 | -497 | -395 | 20 | -1,055 | -317 | 242 | -669 | -564 |
| 4. Statistical discrepancy 3/ | -30 | 105 | 17 | -67 | 0 | 0 | 0 | 0 | 0 |
| 5. Financing (cash) 3/ | 296 | 583 | 517 | -80 | 1,055 | 210 | -23 | 331 | 564 |
| Privatization | 12 | 427 | 36 | 40 | 100 | 40 | 50 | 50 | 300 |
| Foreign financing, net | 20 | 29 | -50 | 273 | 506 | 30 | 20 | 75 | 200 |
| Domestic financing, net | 264 | 126 | 531 | -393 | 449 | 140 | -93 | 206 | 64 |
| Banking system | 261 | -4 | 453 | -725 | ... | -135 | -103 | 6 | 14 |
| Central bank (incl. IMF) | 182 | -256 | 257 | -325 | -18 | -324 | -301 | -15 | -6 |
| Deposit money banks (incl. SPF) | 79 | 252 | 196 | -400 | ... | 188 | 199 | 21 | 21 |
| Nonbank | 3 | 131 | 78 | 332 | ... | 275 | 10 | 200 | 50 |
| Memorandum items: | | | | | | | | | |
| Change in expenditure arrears | 213 | 19 | -105 | -8 | ... | 108 | -220 | 338 | 0 |
| Stock of expenditure arrears | 313 | 332 | 227 | 220 | ... | 328 | 0 | 665 | 0 |
| Government debt (trillions of rubels) | 2.3 | 2.9 | 3.8 | 4.5 | 4.8 | 4.7 | 4.5 | 5.0 | 4.8 |
| o/w: external (millions of US$) | 682 | 781 | 733 | 732 | ... | 745 | 741 | 777 | 832 |
| GDP (trillions of rubels) | 17.2 | 26.1 | 36.6 | 49.4 | 58.9 | 59.4 | 58.4 | 69.5 | 68.9 |

Source: Ministry of Finance, SPF, and IMF staff estimates.

1/ Includes innovation funds from 2002, formally incorporated into the state government budget from 2005.

2/ Includes changes in expenditure arrears.

3/ The actual deficits from above the line include all the closing expenditure for the year carried out in January of the following year and correspond to the authorities fiscal year reports. The deficit values from the financing side include January closing expenditure in the year they were actually paid.

Table 5. Belarus: Fiscal Indicators and Projections, 2001-06
(In percent of GDP, unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Prelim. | Authorities Budget | Current Policies | Staff Reform | Current Policies | Staff Reform |
| 1.State (republican and local) budget | | | | | | | | | |
| Revenue | 33.4 | 33.1 | 35.1 | 35.2 | 32.6 | 34.0 | 32.5 | 33.3 | 31.9 |
| Personal income tax | 3.1 | 3.0 | 2.8 | 2.8 | 3.0 | 3.0 | 3.0 | 2.9 | 2.9 |
| Profit tax | 3.7 | 2.5 | 2.6 | 3.3 | 2.9 | 3.2 | 3.2 | 3.1 | 3.2 |
| VAT | 8.4 | 8.3 | 7.9 | 7.7 | 7.7 | 8.3 | 8.4 | 8.3 | 8.4 |
| Excises | 2.6 | 2.3 | 2.3 | 2.3 | 2.1 | 2.2 | 2.4 | 2.1 | 2.4 |
| Property tax | 1.4 | 1.5 | 2.0 | 1.9 | 1.5 | 1.6 | 1.8 | 1.6 | 2.0 |
| Customs duties | 1.7 | 2.0 | 2.6 | 2.2 | 2.4 | 2.2 | 2.2 | 2.2 | 2.3 |
| Other revenue | 6.4 | 6.3 | 7.1 | 7.4 | 5.8 | 6.2 | 6.6 | 6.1 | 6.1 |
| Revenue of budgetary funds 1/ | 6.0 | 7.4 | 7.8 | 7.6 | 7.4 | 7.4 | 4.9 | 7.0 | 4.5 |
| Expenditure (cash) | 35.1 | 34.9 | 36.5 | 35.6 | 34.4 | 34.3 | 32.7 | 33.7 | 32.9 |
| Expenditure (accrual) 2/ | 36.3 | 35.0 | 36.2 | 35.6 | 34.4 | 34.5 | 32.3 | 34.1 | 32.9 |
| Defense | 1.1 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 1.0 | 0.9 |
| Law, order and security | 1.9 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 |
| Agriculture | 0.9 | 0.7 | 1.4 | 1.6 | 1.4 | 1.7 | 1.6 | 1.8 | 1.6 |
| Housing and communal services | 2.6 | 2.3 | 2.6 | 2.4 | 1.6 | 2.4 | 2.3 | 2.4 | 2.4 |
| Education | 6.5 | 6.6 | 6.4 | 6.1 | 6.3 | 6.3 | 6.4 | 6.1 | 6.7 |
| Health, sports and physical education | 5.1 | 4.9 | 4.9 | 5.2 | 5.1 | 4.9 | 5.1 | 4.8 | 5.3 |
| Social policies | 1.4 | 1.7 | 1.7 | 1.7 | 2.6 | 2.2 | 2.2 | 2.2 | 2.6 |
| Servicing of state debt | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 0.5 |
| Budgetary loans | 1.0 | 1.5 | 0.5 | 0.1 | -0.1 | 0.3 | 0.2 | 0.3 | 0.3 |
| Other | 9.4 | 7.1 | 8.2 | 8.1 | 7.0 | 6.4 | 6.5 | 6.4 | 6.4 |
| Expenditure of budgetary funds 1/ | 5.8 | 6.9 | 7.2 | 7.2 | 7.3 | 7.1 | 4.8 | 6.8 | 4.5 |
| Expenditure: economic classification 3/ | 35.1 | 34.9 | 36.2 | 35.6 | 34.4 | 34.5 | 32.3 | 34.1 | 32.9 |
| Wages and salaries | 7.4 | 7.9 | 7.8 | 7.8 | ... | 8.3 | 8.0 | 8.4 | 8.0 |
| Social protection fund contributions | 2.0 | 2.2 | 2.1 | 2.2 | ... | 2.3 | 2.2 | 2.3 | 2.2 |
| Goods and services | 9.2 | 8.1 | 8.4 | 8.1 | ... | 7.7 | 7.7 | 7.7 | 7.8 |
| Interest | 0.7 | 0.5 | 0.5 | 0.5 | ... | 0.4 | 0.5 | 0.4 | 0.6 |
| Subsidies and transfers | 8.2 | 7.2 | 7.9 | 7.7 | ... | 7.8 | 6.6 | 7.9 | 6.7 |
| Capital expenditures | 6.5 | 7.6 | 8.6 | 8.8 | ... | 6.9 | 7.2 | 6.2 | 7.5 |
| Net lending | 1.1 | 1.4 | 0.9 | 0.5 | ... | 1.0 | 0.0 | 1.0 | 0.1 |
| Balance (cash) 3/ | -1.7 | -1.8 | -1.3 | -0.4 | -1.8 | -0.3 | -0.2 | -0.4 | -1.0 |
| Balance (accrual) 2/ | -2.9 | -1.9 | -1.1 | -0.3 | -1.8 | -0.5 | 0.2 | -0.8 | -1.0 |
| 2. Social Protection Fund | | | | | | | | | |
| Revenue | 11.6 | 11.7 | 10.9 | 11.0 | 11.5 | 11.0 | 11.2 | 11.0 | 11.2 |
| o/w: from the Republican budget | 0.0 | 0.3 | 0.2 | 0.1 | ... | 0.1 | 0.0 | 0.4 | 0.0 |
| Expenditure | 11.8 | 11.7 | 10.9 | 10.6 | 11.5 | 11.0 | 11.0 | 11.1 | 11.0 |
| Balance (cash) | -0.2 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.2 | -0.1 | 0.2 |
| 3. General government | | | | | | | | | |
| Revenue | 44.9 | 44.6 | 45.8 | 46.2 | 44.1 | 44.9 | 43.7 | 43.9 | 43.0 |
| Expenditure (cash) | 46.8 | 46.4 | 47.2 | 46.2 | 45.9 | 45.2 | 43.6 | 44.4 | 43.9 |
| Expenditure (accrual) 2/ | 48.1 | 46.5 | 46.9 | 46.1 | 45.9 | 45.4 | 43.3 | 44.9 | 43.9 |
| Balance (cash) 3/ | -1.9 | -1.8 | -1.4 | 0.0 | -1.8 | -0.4 | 0.0 | -0.5 | -0.8 |
| Balance (accrual) 2/ | -3.1 | -1.9 | -1.1 | 0.0 | -1.8 | -0.5 | 0.4 | -1.0 | -0.8 |
| 4. Statistical discrepancy 3/ | -0.2 | 0.4 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Financing (cash) 3/ | 1.7 | 2.2 | 1.4 | -0.2 | 1.8 | 0.4 | 0.0 | 0.5 | 0.8 |
| Privatization | 0.1 | 1.6 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.4 |
| Foreign financing, net | 0.1 | 0.1 | -0.1 | 0.6 | 0.9 | 0.1 | 0.0 | 0.1 | 0.3 |
| Domestic financing, net | 1.5 | 0.5 | 1.5 | -0.8 | 0.8 | 0.2 | -0.2 | 0.3 | 0.1 |
| Banking system | 1.5 | 0.0 | 1.2 | -1.5 | ... | -0.2 | -0.2 | 0.0 | 0.0 |
| Central bank (incl. IMF) | 1.1 | -1.0 | 0.7 | -0.7 | 0.0 | -0.5 | -0.5 | 0.0 | 0.0 |
| Deposit money banks (incl. SPF) | 0.5 | 1.0 | 0.5 | -0.8 | ... | 0.3 | 0.3 | 0.0 | 0.0 |
| Nonbank | 0.0 | 0.5 | 0.2 | 0.7 | ... | 0.5 | 0.0 | 0.3 | 0.1 |
| Memorandum items: | | | | | | | | | |
| Change in expenditure arrears (current year GDP) | 1.2 | 0.1 | -0.3 | 0.0 | ... | 0.2 | -0.4 | 0.5 | 0.0 |
| Stock of expenditure arrears (12 month GDP) | 1.8 | 1.3 | 0.6 | 0.4 | ... | 0.6 | 0.0 | 1.0 | 0.0 |
| Government debt/GDP | 13.2 | 11.2 | 10.4 | 9.0 | 8.1 | 7.9 | 7.8 | 7.2 | 7.0 |
| o/w: external debt/GDP | 6.3 | 5.7 | 4.3 | 3.2 | ... | 2.9 | 2.8 | 2.7 | 2.7 |
| GDP (trillions of rubels) | 17.2 | 26.1 | 36.6 | 49.4 | 58.9 | 59.4 | 58.4 | 69.5 | 68.9 |

Source: Ministry of Finance, SPF, and IMF staff estimates.

1/ Includes innovation funds from 2002, formally incorporated into the state government budget from 2005.

2/ Includes changes in expenditure arrears.

3/ The actual deficits from above the line include all the closing expenditure for the year carried out in January of the following year and correspond to the authorities fiscal year reports. The deficit values from the financing side include January closing expenditure in the year they were actually paid.

Table 6. Belarus: Balance of Payments, 2001-06 (Current Policies)
(In millions of U.S. dollars, unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| | | | | Prelim. | Proj. | Proj. |
| Current account balance | -394 | -311 | -424 | -1,043 | -1,004 | -1,013 |
| Merchandise trade balance | -807 | -914 | -1,256 | -2,066 | -2,207 | -2,340 |
| Exports | 7,334 | 7,965 | 10,073 | 13,917 | 15,743 | 17,084 |
| Imports | -8,141 | -8,879 | -11,329 | -15,983 | -17,950 | -19,424 |
| Services (net) | 301 | 433 | 585 | 713 | 847 | 934 |
| Income (net) | -43 | -29 | 25 | 26 | 62 | 90 |
| Transfers (net) | 154 | 199 | 222 | 285 | 293 | 303 |
| Capital and financial accounts | 282 | 441 | 437 | 1,192 | 1,025 | 1,036 |
| Capital account | 56 | 53 | 69 | 49 | 49 | 46 |
| Financial account | 265 | 270 | 368 | 1,144 | 977 | 989 |
| Direct investment (net) | 96 | 453 | 170 | 168 | 168 | 172 |
| Portfolio investment (net) | -20 | -9 | 6 | 60 | 34 | 37 |
| Trade credits (net) | -56 | -65 | 134 | 403 | 450 | 496 |
| Loans (net) | 222 | 127 | 90 | 379 | 311 | 254 |
| Other (net) | -17 | -118 | -32 | 135 | 13 | 30 |
| Errors and omissions | -5 | -127 | 41 | 307 | 0 | 0 |
| Overall balance | -118 | 3 | 55 | 456 | 21 | 23 |
| Financing | 118 | -3 | -55 | -456 | -21 | -23 |
| Gross official reserves | 5 | -101 | 14 | -256 | -12 | -23 |
| Use of Fund resources | -30 | -30 | -32 | -17 | -9 | 0 |
| Short-term loans | 57 | 88 | 12 | -168 | 0 | 0 |
| O/w: Central Bank of Russia | 51 | 95 | -3 | -168 | 0 | 0 |
| Exceptional financing 1/ | 35 | -55 | -49 | -15 | 0 | 0 |
| *Memorandum items:* | | | | | | |
| Current account (as percent of GDP) | -3.2 | -2.1 | -2.4 | -4.6 | -3.7 | -3.4 |
| Trade balance (as percent of GDP) | -6.6 | -6.3 | -7.1 | -9.0 | -8.2 | -7.8 |
| Overall balance (as percent of GDP) | -1.0 | 0.0 | -0.3 | -0.8 | 0.1 | 0.1 |
| Y-o-y growth in exports of goods (in percent) | 10.4 | 8.6 | 26.5 | 38.2 | 13.1 | 8.5 |
| Y-o-y growth in imports of goods (in percent) | 8.2 | 9.1 | 27.6 | 41.1 | 12.3 | 8.2 |
| Gross official reserves | 359 | 476 | 499 | 770 | 782 | 805 |
| In months of imports of goods and services | 0.5 | 0.6 | 0.5 | 0.6 | 0.5 | 0.5 |
| Medium and long-term debt (% of GDP) | 9.2 | 9.8 | 8.1 | 5.9 | 4.4 | 4.4 |
| Short-term debt (% of GDP) | 10.4 | 11.0 | 10.8 | 12.8 | 14.2 | 15.3 |
| Debt service ratio (as percent of exports of goods and services) | 7.6 | 7.1 | 8.9 | 7.3 | 7.8 | 7.3 |
| Public and public-guaranteed debt service ratio | | | | | | |
| (as percent of exports of goods and services) | 1.3 | 1.6 | 2.2 | 2.4 | 0.6 | 0.3 |
| External arrears | 489 | 434 | 385 | 370 | 370 | 370 |
| In percent of GDP | 4.0 | 3.0 | 2.2 | 1.6 | 1.4 | 1.2 |

Sources: Belarus authorities and IMF staff estimates.

1/ Includes accumulation, repayment, and forgiveness of arrears.

Table 7. Belarus: Balance of Payments, 2001-06 (Reform Scenario)
(In millions of U.S. dollars, unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| | | | | Prelim. | Proj. | Proj. |
| Current account balance | -394 | -311 | -424 | -1,043 | -1,067 | -1,132 |
| Merchandise trade balance | -807 | -914 | -1,256 | -2,066 | -2,269 | -2,490 |
| Exports | 7,334 | 7,965 | 10,073 | 13,917 | 15,887 | 17,945 |
| Imports | -8,141 | -8,879 | -11,329 | -15,983 | -18,156 | -20,434 |
| Services (net) | 301 | 433 | 585 | 713 | 845 | 961 |
| Income (net) | -43 | -29 | 25 | 26 | 63 | 94 |
| Transfers (net) | 154 | 199 | 222 | 285 | 294 | 302 |
| Capital and financial accounts | 282 | 441 | 437 | 1,192 | 1,222 | 1,536 |
| Capital account | 56 | 53 | 69 | 49 | 49 | 51 |
| Financial account | 265 | 270 | 368 | 1,144 | 1,173 | 1,486 |
| Direct investment (net) | 96 | 453 | 170 | 168 | 214 | 324 |
| Portfolio investment (net) | -20 | -9 | 6 | 60 | 34 | 37 |
| Trade credits (net) | -56 | -65 | 134 | 403 | 456 | 522 |
| Loans (net) | 222 | 127 | 90 | 379 | 453 | 587 |
| Other (net) | -17 | -118 | -32 | 135 | 17 | 16 |
| Errors and omissions | -5 | -127 | 41 | 307 | 0 | 0 |
| Overall balance | -118 | 3 | 55 | 456 | 155 | 404 |
| Financing | 118 | -3 | -55 | -456 | -155 | -404 |
| Gross official reserves | 5 | -101 | 14 | -256 | -146 | -345 |
| Use of Fund resources | -30 | -30 | -32 | -17 | -9 | 0 |
| Short-term loans | 57 | 88 | 12 | -168 | 0 | 0 |
| O/w: Central Bank of Russia | 51 | 95 | -3 | -168 | 0 | 0 |
| Exceptional financing 1/ | 35 | -55 | -49 | -15 | 0 | -59 |
| *Memorandum items:* | | | | | | |
| Current account (as percent of GDP) | -3.2 | -2.1 | -2.4 | -4.6 | -4.0 | -3.6 |
| Trade balance (as percent of GDP) | -6.6 | -6.3 | -7.1 | -9.0 | -8.4 | -7.9 |
| Overall balance (as percent of GDP) | -1.0 | 0.0 | -0.3 | -0.8 | 0.6 | 1.3 |
| Y-o-y growth in exports of goods (in percent) | 10.4 | 8.6 | 26.5 | 38.2 | 14.2 | 12.9 |
| Y-o-y growth in imports of goods (in percent) | 8.2 | 9.1 | 27.6 | 41.1 | 13.6 | 12.5 |
| Gross official reserves | 359 | 476 | 499 | 770 | 917 | 1,262 |
| In months of imports of goods and services | 0.5 | 0.6 | 0.5 | 0.6 | 0.6 | 0.7 |
| Medium and long-term debt (% of GDP) | 9.2 | 9.8 | 8.1 | 5.9 | 4.4 | 4.2 |
| Short-term debt (% of GDP) | 10.4 | 11.0 | 10.8 | 12.8 | 14.3 | 14.8 |
| Debt service ratio (as percent of exports of goods and services) | 3.4 | 4.1 | 11.2 | 7.3 | 7.5 | 7.0 |
| Public and public-guaranteed debt service ratio (as percent of exports of goods and services) | 1.3 | 1.6 | 2.2 | 2.4 | 0.6 | 0.3 |
| External arrears | 489 | 434 | 385 | 370 | 370 | 311 |
| In percent of GDP | 3.9 | 3.0 | 2.2 | 1.6 | 1.4 | 1.0 |

Sources: Belarus authorities and IMF staff estimates.

1/ Includes accumulation, repayment, and forgiveness of arrears.

Table 8. Belarus: Medium Term Macroeconomic Framework, 2000-10
(in percent of GDP unless otherwise specified)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | | | | | | |
| | | | | | | Current Policies | | | | | |
| Gross national savings | 22.8 | 20.6 | 20.0 | 24.2 | 23.8 | 23.6 | 22.8 | 21.9 | 20.9 | 19.8 | 18.9 |
| government | 8.2 | 3.4 | 5.7 | 7.5 | 8.9 | 6.4 | 5.3 | 3.3 | 1.7 | 1.5 | 1.2 |
| non-government | 14.6 | 17.2 | 14.3 | 16.7 | 14.9 | 17.2 | 17.6 | 18.6 | 19.1 | 18.4 | 17.7 |
| Gross domestic savings | 22.0 | 19.7 | 18.9 | 22.8 | 22.4 | 22.2 | 21.5 | 20.7 | 19.8 | 18.8 | 17.9 |
| government | 7.9 | 3.0 | 5.2 | 7.1 | 8.5 | 6.1 | 5.1 | 3.1 | 1.6 | 1.4 | 1.1 |
| non-government | 14.1 | 16.7 | 13.7 | 15.7 | 13.9 | 16.2 | 16.4 | 17.5 | 18.2 | 17.4 | 16.8 |
| Net factor income and transfers | 0.8 | 0.9 | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 |
| government | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| non-government | 0.5 | 0.5 | 0.6 | 0.9 | 1.0 | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | 0.9 |
| Gross domestic investment | 25.4 | 23.8 | 22.2 | 26.6 | 28.3 | 27.3 | 26.2 | 25.2 | 24.1 | 23.1 | 22.0 |
| government | 8.3 | 6.5 | 7.6 | 8.6 | 8.8 | 6.9 | 6.2 | 4.8 | 3.7 | 3.7 | 3.6 |
| non-government | 17.1 | 17.2 | 14.5 | 18.0 | 19.5 | 20.4 | 20.0 | 20.4 | 20.4 | 19.4 | 18.4 |
| Savings-investment balance | -2.6 | -3.2 | -2.1 | -2.4 | -4.6 | -3.7 | -3.4 | -3.3 | -3.3 | -3.2 | -3.2 |
| Current account balance | -2.6 | -3.2 | -2.1 | -2.4 | -4.6 | -3.7 | -3.4 | -3.3 | -3.3 | -3.2 | -3.2 |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (billions of rubels) | 9,134 | 17,173 | 26,138 | 36,565 | 49,445 | 59,363 | 69,458 | 81,180 | 94,616 | 109,674 | 127,430 |
| Real GDP growth rate | 5.8 | 4.7 | 5.0 | 7.0 | 11.0 | 7.1 | 4.0 | 3.0 | 2.0 | 1.0 | 0.8 |
| Inflation (annual average rate, percent) | 168.6 | 61.1 | 42.6 | 28.4 | 18.1 | 12.1 | 12.5 | 13.5 | 14.3 | 14.8 | 15.3 |
| | | | | | | Reform scenario | | | | | |
| Gross national savings | 22.8 | 20.6 | 20.0 | 24.2 | 23.8 | 21.0 | 21.9 | 23.0 | 23.9 | 24.6 | 25.3 |
| government | 8.2 | 3.4 | 5.7 | 7.5 | 8.9 | 7.6 | 6.7 | 6.9 | 7.1 | 7.3 | 7.5 |
| non-government | 14.6 | 17.2 | 14.3 | 16.7 | 14.9 | 13.4 | 15.2 | 16.2 | 16.8 | 17.3 | 17.9 |
| Gross domestic savings | 22.0 | 19.7 | 18.9 | 22.8 | 22.4 | 19.8 | 20.6 | 21.8 | 22.7 | 23.4 | 24.1 |
| government | 7.9 | 3.0 | 5.2 | 7.1 | 8.5 | 7.7 | 6.6 | 6.6 | 6.6 | 6.7 | 6.7 |
| non-government | 14.1 | 16.7 | 13.7 | 15.7 | 13.9 | 12.0 | 14.1 | 15.2 | 16.1 | 16.8 | 17.4 |
| Net factor income and transfers | 0.8 | 0.9 | 1.2 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| government | 0.3 | 0.4 | 0.5 | 0.5 | 0.4 | -0.1 | 0.1 | 0.3 | 0.4 | 0.6 | 0.8 |
| non-government | 0.5 | 0.5 | 0.6 | 0.9 | 1.0 | 1.4 | 1.2 | 1.0 | 0.8 | 0.6 | 0.4 |
| Gross domestic investment | 25.4 | 23.8 | 22.2 | 26.6 | 28.3 | 25.0 | 25.5 | 26.0 | 26.5 | 27.0 | 27.5 |
| government | 8.3 | 6.5 | 7.6 | 8.6 | 8.8 | 7.2 | 7.5 | 7.7 | 7.9 | 8.1 | 8.3 |
| non-government | 17.1 | 17.2 | 14.5 | 18.0 | 19.5 | 17.8 | 18.0 | 18.3 | 18.6 | 18.9 | 19.2 |
| Savings-investment balance | -2.6 | -3.2 | -2.1 | -2.4 | -4.6 | -4.0 | -3.6 | -3.0 | -2.6 | -2.4 | -2.2 |
| Current account balance | -2.6 | -3.2 | -2.1 | -2.4 | -4.6 | -4.0 | -3.6 | -3.0 | -2.6 | -2.4 | -2.2 |
| *Memorandum items:* | | | | | | | | | | | |
| Nominal GDP (billions of rubels) | 9,134 | 17,173 | 26,138 | 36,565 | 49,445 | 58,392 | 68,862 | 79,104 | 89,358 | 99,138 | 108,957 |
| Real GDP growth rate | 5.8 | 4.7 | 5.0 | 7.0 | 11.0 | 6.0 | 6.2 | 6.4 | 6.6 | 6.7 | 6.7 |
| Inflation (annual average rate, percent) | 168.6 | 61.1 | 42.6 | 28.4 | 18.1 | 11.5 | 11.2 | 8.0 | 6.0 | 4.0 | 3.0 |

Sources: Belarus authorities; and Fund staff estimates.

Table 9. Belarus: External Debt Sustainability Framework, 2000-10
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | |
| | | | | | | | | I. Baseline Projections | | | | | | Debt-stabilizing non-interest current account 7/ |
| **External debt** | 16.7 | 19.5 | 20.9 | 18.8 | 18.7 | | | **18.5** | **19.7** | **19.6** | **19.8** | **19.9** | **19.9** | **0.6** |
| Change in external debt | -1.7 | 2.9 | 1.3 | -2.0 | -0.1 | | | -0.2 | 1.1 | -0.1 | 0.2 | 0.1 | 0.0 | |
| Identified external debt-creating flows (4+8+9) | 0.8 | 3.2 | -1.3 | -2.3 | -0.4 | | | 1.9 | 2.1 | 2.2 | 2.4 | 2.6 | 2.6 | |
| Current account deficit, excluding interest payments | 2.1 | 3.0 | 2.2 | 1.9 | 4.2 | | | 2.9 | 1.9 | 0.9 | 0.3 | -0.3 | 0.0 | |
| Deficit in balance of goods and services | 3.4 | 4.4 | 3.6 | 3.8 | 5.9 | | | 5.0 | 4.7 | 4.5 | 4.3 | 4.2 | 4.1 | |
| Exports | 60.0 | 67.9 | 63.2 | 64.9 | 68.4 | | | 65.5 | 64.0 | 59.6 | 55.1 | 51.1 | 47.4 | |
| Imports | 63.4 | 72.3 | 66.8 | 68.7 | 74.4 | | | 70.5 | 68.7 | 64.0 | 59.5 | 55.3 | 51.5 | |
| Net non-debt creating capital inflows (negative) | -0.9 | -0.7 | -0.9 | -1.0 | -0.8 | | | -0.6 | -0.6 | -0.5 | -0.5 | -0.4 | -0.4 | |
| Automatic debt dynamics 1/ | -0.4 | 0.9 | -2.6 | -3.2 | -3.8 | | | -0.3 | 0.8 | 1.9 | 2.6 | 3.3 | 3.0 | |
| Contribution from nominal interest rate | 0.5 | 0.5 | 0.4 | 0.5 | 0.4 | | | 0.9 | 1.5 | 2.4 | 2.9 | 3.5 | 3.1 | |
| Contribution from real GDP growth | -1.0 | -0.8 | -0.8 | -1.2 | -1.6 | | | -1.1 | -0.7 | -0.5 | -0.3 | -0.2 | -0.1 | |
| Contribution from price and exchange rate changes 2/ | 0.1 | 1.2 | -2.2 | -2.5 | -2.6 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | -2.5 | -0.3 | 2.6 | 0.3 | 0.2 | | | -2.1 | -1.0 | -2.3 | -2.2 | -2.5 | -2.6 | |
| External debt-to-exports ratio (in percent) | 27.8 | 28.8 | 33.0 | 29.0 | 27.3 | | | 28.3 | 30.7 | 32.9 | 35.9 | 38.9 | 41.9 | |
| **Gross external financing need (in billions of US dollars) 4/** | 1.9 | 1.9 | 2.0 | 2.5 | 3.3 | | | 4.4 | 5.4 | 6.6 | 7.8 | 9.2 | 10.3 | |
| in percent of GDP | 14.8 | 15.2 | 13.6 | 14.0 | 14.4 | | | 16.1 | 18.0 | 19.3 | 20.4 | 21.4 | 21.4 | |
| **Key Macroeconomic Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | Projected Average |
| Real GDP growth (in percent) | 5.8 | 4.7 | 5.0 | 7.0 | 11.0 | 4.9 | 6.1 | 7.1 | 4.0 | 3.0 | 2.0 | 1.0 | 0.8 | 3.0 |
| GDP deflator in US dollars (change in percent) | -0.6 | -6.9 | 12.4 | 13.6 | 15.7 | 17.4 | 46.8 | 10.4 | 6.9 | 10.0 | 10.4 | 10.9 | 10.8 | 9.9 |
| Nominal external interest rate (in percent) | 2.9 | 3.0 | 2.3 | 2.7 | 2.6 | 3.0 | 0.9 | 5.4 | 8.9 | 13.7 | 16.9 | 19.7 | 17.5 | 13.7 |
| Growth of exports (US dollar terms, in percent) | 19.5 | 10.3 | 9.8 | 24.9 | 35.4 | 21.6 | 28.4 | 13.2 | 8.7 | 5.4 | 4.3 | 3.7 | 3.6 | 6.5 |
| Growth of imports (US dollar terms, in percent) | 21.4 | 11.1 | 9.0 | 25.1 | 39.0 | 20.7 | 26.6 | 12.2 | 8.3 | 5.6 | 4.6 | 4.2 | 4.0 | 6.5 |
| Current account balance, excluding interest payments | -2.1 | -3.0 | -2.2 | -1.9 | -4.2 | -3.3 | 1.6 | -2.9 | -1.9 | -0.9 | -0.3 | 0.3 | 0.0 | -1.0 |
| Net non-debt creating capital inflows | 0.9 | 0.7 | 0.9 | 1.0 | 0.8 | 1.3 | 1.0 | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 |
| | | | | | | | | II. Stress Tests for External Debt Ratio | | | | | | Debt-stabilizing non-interest current account 7/ |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2006-10 5/ | | | | | | | | **18.5** | **17.7** | **16.4** | **15.5** | **14.6** | **13.9** | **-3.5** |
| A2. Country-specific shock in 2006, with 30 % reduction of exports to main trading partner 6/ | | | | | | | | **18.5** | **19.7** | **19.6** | **19.8** | **19.9** | **19.9** | **0.6** |
| **B. Bound Tests** | | | | | | | | | | | | | | |
| B1. Nominal interest rate is at historical average plus two standard deviations in 2006 and 2007 | | | | | | | | **18.5** | **19.0** | **17.4** | **17.5** | **17.5** | **17.3** | **0.5** |
| B2. Real GDP growth is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **18.5** | **21.9** | **24.0** | **24.1** | **24.3** | **24.2** | **0.7** |
| B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **18.5** | **81.4** | **355.1** | **351.1** | **354.6** | **350.4** | **9.7** |
| B4. Non-interest current account is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **18.5** | **24.3** | **29.9** | **30.5** | **31.3** | **31.9** | **1.2** |
| B5. Combination of B1-B4 using one standard deviation shocks | | | | | | | | **18.5** | **31.9** | **49.7** | **50.2** | **50.3** | **50.2** | **1.5** |
| B6. One time 30 percent nominal depreciation in 2006 | | | | | | | | **18.5** | **26.0** | **25.6** | **25.7** | **25.9** | **25.8** | **0.8** |

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ The implied change under this scenario is discussed in the text.
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.

Table 10. Belarus: Public Sector Debt Sustainability Framework, 2000-10
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | |
| | | | | | | | | I. Baseline Projections | | | | | | Debt-stabilizing primary balance 10/ |
| **Public sector debt 1/** | 15.0 | 13.2 | 11.2 | 10.4 | 9.0 | | | **7.9** | **7.2** | **7.7** | **8.6** | **9.6** | **10.9** | **0.5** |
| o/w foreign-currency denominated | 9.0 | 6.3 | 5.7 | 4.3 | 3.2 | | | 2.9 | 2.6 | 3.1 | 3.4 | 3.9 | 4.4 | |
| Change in public sector debt | 0.0 | -1.8 | -2.1 | -0.8 | -1.4 | | | -1.1 | -0.7 | 0.4 | 0.9 | 1.1 | 1.2 | |
| Identified debt-creating flows (4+7+12) | -8.1 | -2.0 | -0.1 | -1.5 | -2.7 | | | -0.9 | -0.1 | 0.6 | 1.1 | 1.2 | 1.4 | |
| Primary deficit | 0.0 | 2.4 | 1.4 | 0.6 | -0.5 | | | 0.1 | 0.5 | 0.8 | 1.1 | 1.1 | 1.1 | |
| Revenue and grants | 45.8 | 44.9 | 44.6 | 45.8 | 46.2 | | | 44.9 | 43.9 | 43.3 | 42.7 | 42.3 | 42.5 | |
| Primary (noninterest) expenditure | 45.8 | 47.3 | 45.9 | 46.4 | 45.6 | | | 45.0 | 44.4 | 44.1 | 43.9 | 43.4 | 43.6 | |
| Automatic debt dynamics 2/ | -8.2 | -4.5 | -3.0 | -2.2 | -2.2 | | | -1.1 | -0.7 | -0.4 | -0.2 | 0.0 | 0.1 | |
| Contribution from interest rate/growth differential 3/ | -9.2 | -6.3 | -4.0 | -2.7 | -2.2 | | | -1.1 | -0.7 | -0.4 | -0.2 | 0.0 | 0.1 | |
| Of which contribution from real interest rate | -8.9 | -5.9 | -3.6 | -2.1 | -1.4 | | | -0.5 | -0.4 | -0.2 | -0.1 | 0.1 | 0.2 | |
| Of which contribution from real GDP growth | -0.3 | -0.4 | -0.4 | -0.6 | -0.8 | | | -0.5 | -0.3 | -0.2 | -0.1 | -0.1 | -0.1 | |
| Contribution from exchange rate depreciation 4/ | 0.9 | 1.8 | 0.9 | 0.5 | 0.0 | | | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.1 | 0.1 | 1.6 | 0.1 | 0.1 | | | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | |
| Privatization receipts (negative) | 0.1 | 0.1 | 1.6 | 0.1 | 0.1 | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes (2-3) 5/ | 8.1 | 0.3 | -2.0 | 0.7 | 1.2 | | | -0.2 | -0.6 | -0.1 | -0.2 | -0.2 | -0.2 | |
| Public sector debt-to-revenue ratio 1/ | 32.8 | 29.5 | 25.1 | 22.7 | 19.5 | | | 17.6 | 16.5 | 17.7 | 20.1 | 22.8 | 25.6 | |
| **Gross financing need 6/** | 5.2 | 10.0 | 8.6 | 4.8 | 2.7 | | | 2.4 | 2.6 | 3.0 | 3.7 | 4.2 | 4.8 | |
| in billions of U.S. dollars | 0.7 | 1.2 | 1.3 | 0.8 | 0.6 | 10-Year Historical Average | 10-Year Standard Deviation | 0.7 | 0.8 | 1.0 | 1.4 | 1.8 | 2.3 | Projected Average |
| **Key Macroeconomic and Fiscal Assumptions** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.8 | 4.7 | 5.0 | 7.0 | 11.0 | 4.9 | 6.1 | 7.1 | 4.0 | 3.0 | 2.0 | 1.0 | 0.8 | 3.0 |
| Average nominal interest rate on public debt (in percent) 7/ | 18.1 | 9.1 | 6.3 | 6.4 | 6.4 | 9.2 | 4.9 | 6.0 | 6.6 | 11.2 | 13.3 | 16.0 | 17.8 | 11.8 |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | -167.0 | -70.4 | -38.6 | -24.3 | -15.5 | -145.1 | 200.2 | -6.1 | -5.9 | -2.6 | -1.0 | 1.2 | 2.5 | -2.0 |
| Nominal appreciation (increase in US dollar value of local currency, in percent) | -23.3 | -25.3 | -17.7 | -10.9 | -0.6 | -31.5 | 28.1 | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 185.2 | 79.5 | 44.9 | 30.7 | 21.8 | 154.3 | 199.6 | 12.1 | 12.5 | 13.7 | 14.3 | 14.8 | 15.3 | 13.8 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 12.2 | 8.2 | 1.9 | 8.2 | 9.1 | 4.6 | 13.3 | 5.5 | 2.7 | 2.0 | 1.4 | -0.1 | 1.4 | 2.2 |
| Primary deficit | 0.0 | 2.4 | 1.4 | 0.6 | -0.5 | 0.4 | 1.3 | 0.1 | 0.5 | 0.8 | 1.1 | 1.1 | 1.1 | 0.8 |
| | | | | | | | | II. Stress Tests for Public Debt Ratio | | | | | | Debt-stabilizing primary balance 10/ |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2006-10 8/ | | | | | | | | **7.9** | **7.1** | **6.8** | **6.5** | **6.2** | **6.0** | **-0.4** |
| A2. No policy change (constant primary balance) in 2006-10 | | | | | | | | **7.9** | **6.8** | **6.6** | **6.6** | **6.9** | **7.5** | **0.8** |
| A3. Country-specific shock in 2006, with reduction in GDP growth (relative to baseline) of one standard deviation | | | | | | | | **7.9** | **7.5** | **7.9** | **8.9** | **10.0** | **11.3** | **0.5** |
| **B. Bound Tests** | | | | | | | | | | | | | | |
| B1. Real interest rate is at 6 percent in 2006 and 2007 | | | | | | | | **7.9** | **8.1** | **9.0** | **9.7** | **10.7** | **11.9** | **2.6** |
| B2. Real GDP growth is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **7.9** | **13.5** | **26.0** | **37.4** | **49.5** | **62.5** | **2.0** |
| B3. Primary balance is at historical average minus two standard deviations in 2006 and 2007 | | | | | | | | **7.9** | **9.7** | **12.2** | **12.9** | **13.9** | **15.2** | **0.6** |
| B4. Combination of B1-B3 using one standard deviation shocks | | | | | | | | **7.9** | **13.2** | **21.7** | **22.3** | **23.6** | **25.2** | **0.9** |
| B5. One time 30 percent real depreciation in 2006 9/ | | | | | | | | **7.9** | **9.0** | **9.3** | **10.1** | **11.0** | **12.2** | **0.5** |
| B6. 10 percent of GDP increase in other debt-creating flows in 2006 | | | | | | | | **7.9** | **17.2** | **17.3** | **18.0** | **19.2** | **20.7** | **0.8** |

1/ Gross general government debt.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with $r$ = interest rate; $\pi$ = growth rate of GDP deflator; $g$ = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. The historical average real interest rate of minus 145 percent was replaced by the actual 2005 level of minus 6.1 percent (to avoid an unrealistic real interest rate assumption).
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ 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.

## Fund Relations
As of April 30, 2005

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

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

| **III. SDR Department:** | **SDR million** | **Percent of Allocation** |
|---|---|---|
| Holdings | 0.01 | N/A |

**IV. Outstanding Purchases and Loans:** None

**V. Financial Arrangements:**

| Type | Approval Date | Expiration Date | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| Stand-by | 09/12/1995 | 09/11/1996 | 196.28 | 50.00 |

**VI.** Projected Obligations to the Fund (SDR million; based on existing use of resources and present holdings of SDRs): None

**VII. Safeguards Assessments:**

As there is no arrangement in place, under the Fund's safeguards assessments policy, the National Bank of the Republic of Belarus (NBRB) is not subject to a full safeguards assessment. However, as a potential borrower, the NBRB requested a voluntary safeguards assessment, and an on-site assessment was conducted in December 2003. 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. The authorities have begun to take steps to address some of these issues, and are considering appropriate measures to address the remaining concerns.

## VIII. Exchange Arrangements:

As of August 20, 1994, the rubel (Rbl) became the unit of account replacing the Belarusian ruble, which was formally recognized as the sole legal tender only on May 18, 1994. The conversion took place at the rate of 10 Belarusian rubles = 1 rubel. The authorities decided to drop three zeroes from the rubel denomination as of January 1, 2000. The exchange rate for the U.S. dollar was Rbl 2149 on May 25, 2005.

In mid-September 2000, the official exchange rate was unified with the market-determined rate resulting from daily auctions at the Belarus Currency and Stock Exchange. Since then, the official rate on any day is equal to the closing rate of the previous trading day. In line with the objective to reach monetary union with Russia, the authorities adopted a crawling band vis-à-vis the Russian ruble in January 2001, with monthly rates of devaluation that are revised quarterly and a band of currently 5 percentage points around central parity. On November 5, 2001, Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. During the same month, the NBRB suspended all ad hoc exemptions from the 30 percent surrender requirement.

## IX. UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The eleventh Article IV consultation was concluded on May 7, 2004. Visits since have included:

| | |
|---|---|
| Staff visit | December 20–22, 2004 |
| 2005 Article IV consultation mission | March 16–31, 2005 |

## X. FSAP Participation, ROSCs, and OFC Assessments:

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. Two FSAP missions took place in 2004 and an FSSA report is under preparation.
The FSSA report accompanies the staff report.

## XI. Technical Assistance, 2000–05:

| | Department Counterpart | Subject | Timing |
|---|---|---|---|
| Missions | | | |
| | FAD | Government Finance Statistics | April 28–May 12, 2005 |
| | FAD/MFD | Improving debt management | October 6-20, 2004 |
| | FAD | Budget code and other issues in public expenditure management | March 1–12, 2004 |
| | FAD | Tax policy | March 19–April 1, 2003 |

| | | | |
|---|---|---|---|
| | FAD | Public expenditure management | June 12–27, 2001 |
| | FAD | Treasury development | January 15–26, 2001 |
| | MFD | Banking supervision issues | April 11-20, 2005 |
| | MFD | Monetary policy and monetary operations | February 26- March 10, 2005 |
| | MFD | FSAP | September, November, and December 2004 |
| | MFD/LEG | Anti-money laundering and combating the financing of terrorism legislative issues | June 17–24, 2004 |
| | MFD | Bank supervision and restructuring | December 1–12, 2003 |
| | MFD | Issues in Monetary Unification with Russia | April 2–11, 2003 |
| | MFD | Assessment of foreign exchange markets and operations and reserve management | June 2–10, 2002 |
| | MFD | Assessment in monetary and foreign exchange policy and operations and central bank organization | April 10–22, 2002 |
| | FIN | Safeguards Assessment | December 9-19, 2003 |
| | STA | National Accounts Statistics | January 10-21, 2005 |
| | STA | Data ROSC and SDDS subscription | March 2004 |
| | STA | SDDS subscription | December 2004 |
| | STA | Balance of payments | August 20–September 3, 2003 |
| | STA | Balance of payments | November 13–24, 2000 |
| | STA | Money and banking statistics | October 25–November 7, 2000 |
| | STA | Multisector statistics (report of the resident advisor) | August 7, 1996–August 6, 2000 |
| | STA | National accounts statistics | August 23–September 6, 2000 |
| Resident Advisors | STA | Mr. Umana (General Statistics Advisor) | August 1996–August 2000 |

## XII. Resident Representative:

A resident representative office was opened in Minsk on October 5, 1992. The Fund's resident representative was recalled on June 30, 1998, and Belarus was covered jointly with Lithuania through end-December 2004, when the resident representative's term came to an end. Currently, the resident representative office is run by local staff.

## RELATIONS WITH THE WORLD BANK

**Partnership in Belarus' development strategy**

1. The World Bank Group program in Belarus was rather limited during the period 1995–2000, and the 1999 Country Assistance Strategy (CAS) set a strict trigger (exchange rate unification) for the resumption of the IBRD lending. The trigger was met in September 2000, leading to an improvement in the quality and intensity of the dialogue between Belarus and the Bank. The current CAS was approved in 2002 to advance cooperation with Belarus in critical areas, help the country open up its economy and society, minimize social and environmental risks, and address global public good concerns.

**IMF-World Bank collaboration in specific areas**

2. The Bank and Fund teams work closely in Belarus and maintain an extremely good relationship. The IMF plays a key role at the macro level, while the World Bank focuses on the structural agenda, social and environmental issues. The Bank and the Fund teams carry out joint activities on the key fiscal and structural issues. The joint work on the Public Expenditure Review (PER) is an example of excellent cooperation between the two institutions. Other joint activities carried out during 2004-05 are the Financial Sector Assessment Program (FSAP) and the Country Economic Memorandum (CEM).

**Areas in which the World Bank leads**

3. **Social sphere.** The World Bank technical engagement with Belarus has generated a significant amount of analysis in areas of relevance to the assessment of poverty and living conditions in the country. A strong platform for technical collaboration on poverty issues was provided by technical assistance under the *IDF grant for Strengthening of the Capacity of the Ministry of Social Protection in Policy Formulation and Analysis* for preparation and introduction of Targeted Social Assistance Program (TSAP). The Grant was implemented successfully during 2000-2003 and completed in June 2003. Driven by demographic and socio-economic factors, Belarus faces a need for deep pension system reform. To analyze current situation and discuss possible reform options the World Bank team conducted a *Pension Policy Dialogue* with the government during FY 2004.

4. **Energy sector.** The *Social Infrastructure Retrofitting Project* (US$22.6 million) aims to assist in the rehabilitation of the heating system, thermal insulation, and lighting in over 450 public buildings across the country. The project targets schools, hospitals, orphanages, and community homes for the elderly and the disabled. It also includes measures to increase energy efficiency.

5. *Energy Sector Management Assistance Program (ESMAP) grant* (US$50,000**)** was approved in 2004 to help the Committee on Energy Efficiency explore market mechanisms to improve energy efficiency through operation of Energy Servicing Companies (ESCOs) and

options of strengthening the energy efficiency program by learning experience of neighboring countries that have managed to weather the impact of multi-fold energy prices increases.

6. **Environment.** Belarus has made good progress in the protection of environment. However, the country is still facing many environmental problems, including coping with the legacy of the Chernobyl catastrophe. The Chernobyl theme occupies a central role in the current CAS. The proposed *Post-Chernobyl Recovery Project* is intended to "revitalize selected districts most affected by the Chernobyl accident by improving local people's incomes and living conditions". The project is based on the recommendations of the *Chernobyl Review* (2002) and also intended to spearhead greater support of the international community to the affected regions of the country.

7. *PHRD Climate Change Pilot Project* (US$1.0 million, approved in 2003) is aimed at demonstrating opportunities for greenhouse gas (GHG) emission abatement through energy efficiency and renewable energy utilization in the supply of heat and hot water to social sector buildings, and assisting the Belarusian government with the development and implementation of emission standards for biomass-fired boilers, thereby removing an institutional barrier to broader introduction of energy supply based on biomass fuel.

8. *GEF POPs Enabling Activity Project* (US$499,300). After a two-year dialogue and preparation activities in cooperation with UNEP, Belarus ratified the Stockholm Convention on Persistent Organic Pollutants (POPs) and selected the World Bank as a GEF Implementing Agency for the POPs activities.

**Areas of shared responsibility**

9. **Economic development.** In 2004 the Bank launched preparation of the new *Country Economic Memorandum* for Belarus. The major theme of it would be the *Sources and Sustainability of Economic Growth.* The Bank team cooperates closely with the IMF on different issues related to the CEM preparation, one of the chapters - "Macroeconomic policies and risks", is being prepared jointly. This chapter will present an overview of country's macroeconomic developments since 1996, sources and structure of growth, and analyze the role of macroeconomic policies in Belarusian growth performance. Special attention will be paid to the risks associated with Belarus' current macroeconomic position, and how these risks might be addressed effectively through adjustments in monetary policy, fiscal policy, and debt management.

10. **Private sector development.** The most challenging reform agenda for Belarus is in the area of structural reforms and private business development. The Bank Group seeks to improve the general environment for the creation and operation of private business in Belarus through technical assistance, policy dialogue and ESW. The Bank and the IFC conducted a number of studies including *Improving the Business Environment* and *Costs of Doing Business Surveys* to track the developments in this area, define impediments to private business expansion and provide policy recommendations. The Fund focuses on

macroeconomic policies aimed at sustainable growth and encouraging private sector development. The Fund also provides technical assistance to improve taxation, banking regulations and banking supervision.

11. **Public expenditure management**. The current CAS attaches great importance to fiscal issues, emphasizing the goals of greater effectiveness, transparency, and accountability in the use of public resources. In 2003 the World Bank with the IMF participation completed the first *Public Expenditure Review* (PER) for Belarus.

12. The IMF and the Bank provide continuous technical assistance to Belarus in the area of public expenditure management. The government has determined the following priority areas: modernization of budget classification, Budget Code preparation, MTEF, reform of inter-budgetary fiscal relations, and development of sector strategies. During FY2004 the Bank provided technical assistance to the Ministry of Finance for Budget Code preparation. In FY2005 efforts have been focused on assisting the government in the area of intergovernmental fiscal relations, in particular, in clarification of revenues and expenditures assignments for different level of the government and in the development of formula for intergovernmental fiscal transfers.

13. **Financial sector.** At the request of the government and the National Bank, a joint IMF/World Bank FSAP team visited Belarus in September and November 2004. The FSAP for Belarus has been centered on assessments of the banking system, including deposit insurance, securities markets, insurance industry, payment system and transparency in conducting monetary policy. Regulations, oversight and governance arrangements has been reviewed also. The team continues working with the NBRB and Belarusian authorities to finalize the FSAP findings, some of which will be incorporated in the agenda of IMF Article IV consultation mission and the CEM. The Bank and the IMF also carry out joint responsibility for providing assistance to Belarus in the prevention of money laundering and combating financing of terrorism.

**Areas in which the IMF leads**

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

15. The IMF analysis in these areas serves as an input to the Bank policy advice. The Bank and the IMF teams have regular consultations and the Bank staff takes part in the IMF Article IV Consultation missions. This helps to ensure consistency of the policy recommendations by the two institutions.

**The World Bank Group Strategy**

16. Belarus joined the World Bank in July 1992. Bank relations with Belarus have generally paralleled those of the IMF. Under the 1999 CAS, liberalization of the exchange rate was set as a trigger for moving to a *low case* lending (one project per year) scenario. The unification of the exchange rate in September 2000 allowed the Bank to proceed with the preparation of a US$22.6 million Social *Infrastructure Retrofitting Project*, approved on June 5, 2001. An improved technical dialogue between the World Bank Group and the Belarus authorities preceded the preparation of the current 2002-04 CAS, which was completed in February 2002. In the *low case*, the CAS focused on the areas compatible with government priorities and the Bank's corporate mandate—global public goods and interventions with a high social content. The CAS left the door open for a broader assistance by spelling out triggers for a *base case*, should the government advance in public expenditure reform and improve business environment.

17. The CAS implementation results have been mixed. On the positive side, the economy has continued to grow, poverty incidence has fallen significantly, the Bank's Economic and Sector Work (ESW) has been highly commended, and the technical dialogue between the Bank and the government has reported positive results, some of which are likely to be sustainable. On the negative side, not a single lending operation was approved during this CAS period. The CAR, prepared in summer 2004, recommended to complete the key elements of current CAS before initiation of the new CAS. This includes, completion of ongoing ESW, particularly the CEM and the FSAP; continuation of the environment initiatives, and resumption of the Chernobyl Project preparation.

18. To date, the Bank has committed the total of US$190.6 million, and US$15.0 million has been provided in the form of grants. The IBRD Belarus active portfolio has one ongoing operation – *Social Sector Energy Retrofitting Project* totaling US$22.6 million. Lending activity in the pipeline has the *Post-Chernobyl Recovery Project* (tentative amount of US$45.0 million).

19. Non-lending activities include extensive analytical work. The most recent work includes the report entitled *Belarus: Chernobyl Review* (report No.23883-BY, July 15, 2002), a Public Expenditure and Institutional Review (*Belarus: Strengthening Public Resource Management,* Report No.26041-BY, June 20, 2003) and a Poverty Assessment Update (*Belarus Poverty Assessment: Preparing for the Future*, Report No.27431-BY), preparation of the *Country Economic Memorandum* and *Financial Sector Assessment Program* (2004-ongoing).

20. **The IFC activities in Belarus.** The IFC has been actively involved in advisory work in Belarus since 1993. The work began with the advisory services on privatization of small businesses. Currently IFC focuses its efforts on small and medium enterprise development and improvement of the business environment.

21. In December 2004 IFC has launched a Business Enabling Environment Project funded jointly with the Swedish International Development Cooperation Agency (SIDA). This two-year technical assistance effort will aim at reducing the regulatory burden on SME and improving SME access to information and business support services.

22. In addition to the advisory services the International Finance Corporation is also pursuing investment activities in Belarus. IFC has invested a total of US$44 million in the financial and manufacturing sectors, including credit lines extended to *Priorbank* for on-lending to private enterprises and providing loan and equity for the refurbishment, modernization and expansion of *Dednovo* brewery. Despite the difficult investment environment in Belarus, IFC continues to seek opportunities for investment projects with the participation of the strategic investors.

Questions may be referred to Sergiy Kulyk (202) 458-4068

## BELARUS: STATISTICAL ISSUES

(As of March 2, 2005)

1. While some weaknesses remain in the statistical system of Belarus, the authorities—with technical assistance from the Fund—have made significant efforts and improvements over the past years in a number of key areas, as described below. The Ministry of Statistics (Minstat) publishes a large amount of data and has a predetermined publication schedule. The provision of data over the last year has generally been adequate for the analysis of economic developments on a regular basis (Table 1). Data are usually provided in a timely fashion through the Resident Representative's office.

2. The country's IFS page has been published since November 1996 and is updated regularly on a monthly basis. A Statistics Law was signed by the President in February 1997. A multisector statistical advisor sponsored by the Fund was in place from August 1996 to August 2000.

3. The authorities of Belarus participated in a 2004 Data ROSC and the final report was published in February 2005 (see the TCIRS for partial summary ratings). The ROSC mission found that all statistical agencies should increase user confidence in the accuracy and reliability of official statistics.

4. The authorities subscribed to the IMF's Special Data Dissemination Standard (SDDS) on December 22, 2004: http://www.belstat.gov.by/homep/en/specst/np.htm.

### National Accounts

5. The Ministry of Statistics, with technical assistance from the OECD and the IMF, switched to the *System of National Accounts 1993* (*1993 SNA*), and discontinued the calculation of net material product. A first set of quarterly national accounts was published in January 1996; they are continuously updated on a timely basis. Quarterly national accounts data are published in the IFS. A full set of annual national accounts has been prepared for 1990–2003.

Although concerns have been raised on the accuracy of GDP estimates due to shortcomings in reporting by the newly emerging sectors, in particular services, and an active informal sector, Minstat has made significant progress in improving the coverage of statistics in all fields. An updated business register (based on administrative sources) and a better discipline of survey responses promoted by the Statistical Law of 1996 have contributed to this situation.

A recent TA mission on national accounts statistics found that most of the recommendations of previous TA missions in 1999 and 2000, as well as those of the 2004 data ROSC mission have been implemented. The mission also found that Minstat uses sound methods in estimating GDP given the enterprise level source data both at current and at constant prices. Data sources for GDP compilation are comprehensive and imputations for nonresponse to enterprise surveys amount to only about half percent of GDP. However, the activities of the informal sector, which are concentrated in agriculture and retail trade, may still need improvements in sources and methods.

A systematic upward bias in measuring industrial output that has led to significant inaccuracy in GDP estimates in the past has been partially addressed through improvements in the industrial production index (IPI) introduced starting with the data for 2002. The authorities are planning to begin publishing the new IPI in 2006.

**Prices**

Monthly data on the Consumer Price Index (CPI) and the Producer Price Index (PPI) are reported to the Fund on a timely basis. Both indices were developed with substantial technical assistance from the Fund. Other Fund recommendations, such as inclusion of exports, adequate specification of items, and better selection of representative products and prices, have either been adopted or are in the process of being adopted. Since January 2001, the PPI has been compiled using the 1999 weights; and beginning with 2003 data, with 2001 production weights.

**Government Finance Statistics**

Government finance statistics (GFS) on revenue and expenditure in the functional classification are provided for the consolidated state budget (republican and local government budgets) and Social Protection Fund on a monthly basis, about three to four weeks following the end of the reference period. The economic classification of monthly expenditure has been available since the first quarter of 2001 for the republican budget, but only quarterly for the consolidated state budget. A new plan of budget accounts has been implemented from January 1998; a number of extrabudgetary accounts have been incorporated into the budget since the start of 1998. Central and local government annual data for 2000–02 were published in the 2004 *GFS Yearbook*. Monthly data, covering the budget sector, excluding social security, are published in *IFS*.

The Ministry of Finance (MoF) compiles detailed monthly data on tax and expenditure arrears of the central and local governments. Further implementation of the Treasury project holds out the promise of significant improvements in preparing regular and timely reports on spending commitments and deliveries.

Detailed information on domestic bank financing of general government institutions is compiled by the National Bank of the Republic of Belarus (NBRB) in coordination with the MoF. Data covering foreign financing of general government institutions as well as domestic and foreign debt and debt guarantees, have improved significantly in the past year. This has led to an improvement in reconciling spending and revenue records with financing data, although some discrepancies still remain. The system to improve the contingent liabilities recording is in preparation.

Since the 2004 Data ROSC mission, the MOF has made progress in different areas of collection, compilation, and dissemination of fiscal data. The authorities have extended the coverage of the general government (republican and local government) operations by including data for innovation funds, and the Social Protection Fund in the budget, and increased the number of officials involved in the GFS compilation work, and increased provision of detailed budgetary metadata and methodological descriptions on the MoF's website. In addition to these improvements, the MoF has prepared new budgetary classifications codes for revenue, expenditure and financing data that will align them to the *GFSM 2001* analytical framework.

At the end of April, 2005, a GFS technical assistance (TA) mission visited Minsk. This mission found that the existing fiscal, accounting, and statistical systems have a sound basis for migrating to the *GSFM 2001*. Nonetheless, several areas were identified that will need further work before satisfactory implementation of the *GFSM 2001.* In order to provide assistance in this area, the GFS TA mission collaborated with the authorities on the preparation of a migration plan for a gradual implementation of this analytical framework.

**Monetary Statistics**

With STA technical assistance, the NBRB made significant progress in improving the quality of monetary statistics. The balance sheet of the NBRB and the monetary survey are usually provided with a lag of no more than two weeks; the NBRB monthly balance sheet is available on or about the fifth of the month following the reference period, but monetary data for publication in *IFS* are reported with a lag of about two months. At present, the NBRB has been working on implementing the new standardized report forms for monetary statistics, which are based on the framework of sectoral balance sheets and surveys introduced in the *Monetary and Financial Statistics Manual*.

As noted above, reconciliation of budget financing data with data on net credit to government derived from the banking system has improved of late, but some discrepancies remain, and in these cases Fund staff relies on the banking data.

Interest rate data on bank deposits and credits, as well as data on NBRB credit auctions and the placement of NBRB and government securities, are provided with a one-month lag. Exchange rate data are readily available on the NBRB's web site, and periodically reported to the Fund in electronic file.

**Balance of Payments Statistics**

The overall quality and timeliness of data is satisfactory. The NBRB publishes quarterly balance of payments and international investment position statements in the *BPM5* format on a regular basis. Minstat publishes monthly foreign trade data, with a lag of about six weeks. Official reserve assets are now available on a weekly basis, generally with little or no lag. The net foreign assets position of the commercial banks is compiled monthly, with minimum delay. Scheduled interest and amortization payments on public sector debt are tracked by the

Ministry of Finance, and timely information is available on arrears on government and government-guaranteed debt.

The August/September 2003 technical assistance mission noted that most of the November 2000 mission report recommendations had been implemented. Among others, the International Transactions Reporting System has been broadened to permit a more accurate classification of external transactions, while coverage and reporting forms for enterprise surveys were also improved.

Since August 1998, Belarus has been reporting its annual and quarterly balance of payments to STA for publication. Quarterly international investment position statements are now also reported to STA for publication.

Belarus has started to disseminate historical data on the reserves template on the IMF's website: http://www.imf.org/external/np/sta/ir/colist.htm. Monthly time series start with November 2004 data.

Starting with the first quarter of 2004, Belarus has begun to disseminate historical quarterly data on external debt on the World Bank's external debt webpage: http://www.worldbank.org/data/working/QEDS/sdds_main.html.

## BELARUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE (AS OF MAY 24, 2005)

<table>
<tr><th rowspan="2"></th><th rowspan="2">Date of latest observation</th><th rowspan="2">Date received</th><th rowspan="2">Frequency of Data[6]</th><th rowspan="2">Frequency of Reporting[6]</th><th rowspan="2">Frequency of publication[6]</th><th colspan="2">Memo Items:</th></tr>
<tr><th>Data Quality – Methodological soundness[7]</th><th>Data Quality – Accuracy and reliability[8]</th></tr>
<tr><td>Exchange Rates</td><td>5/24/05</td><td>5/24/05</td><td>D</td><td>D</td><td>D</td><td></td><td></td></tr>
<tr><td>International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]</td><td>5/01/05</td><td>5/10/05</td><td>W</td><td>W</td><td>W</td><td></td><td></td></tr>
<tr><td>Reserve/Base Money</td><td>3/31/2005</td><td>4/15/2005</td><td>M</td><td>M</td><td>M</td><td rowspan="4">O, O, LO, LO</td><td rowspan="4">O, O, O, O, O</td></tr>
<tr><td>Broad Money</td><td>3/31/2005</td><td>4/15/2005</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Central Bank Balance Sheet</td><td>3/31/2005</td><td>4/15/2005</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Consolidated Balance Sheet of the Banking System</td><td>3/31/2005</td><td>4/15/2005</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Interest Rates[2]</td><td>3/31/2004</td><td>5/02/05</td><td>D</td><td>M</td><td>M</td><td></td><td></td></tr>
<tr><td>Consumer Price Index</td><td>3/05</td><td>4/17/05</td><td>M</td><td>M</td><td>M</td><td>O, LO, O, LO</td><td>O, O, LO, LO, O</td></tr>
<tr><td>Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]</td><td>3/05</td><td>5/03/05</td><td>M</td><td>M</td><td>M</td><td rowspan="2">LO, LNO, O, O</td><td rowspan="2">O, O, O, O, NO</td></tr>
<tr><td>Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government</td><td>3/05</td><td>5/03/05</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>Stocks of Central Government and Central Government-Guaranteed Debt[5]</td><td>3/05</td><td>4/05</td><td>M</td><td>M</td><td>M</td><td></td><td></td></tr>
<tr><td>External Current Account Balance</td><td>12/04</td><td>03/05</td><td>Q</td><td>Q</td><td>Q</td><td rowspan="2">O, O, LO, LO</td><td rowspan="2">LO, O, O, O, O</td></tr>
<tr><td>Exports and Imports of Goods and Services</td><td>12/04</td><td>03/05</td><td>M</td><td>M</td><td>M</td></tr>
<tr><td>GDP/GNP</td><td>Q1/05</td><td>4/05</td><td>Q</td><td>Q</td><td>Q</td><td>O, O, LO, O</td><td>LO, LNO, LO, O, LO</td></tr>
<tr><td>Gross External Debt</td><td>12/04</td><td>03/05</td><td>Q</td><td>Q</td><td>Q</td><td></td><td></td></tr>
</table>

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published on February 1, 2005, and based on the findings of the mission that took place during March 23–April 7, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (1) concepts and definitions, (2) scope, (3) classification/sectorization, and (4) basis for recording, are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (1) source data, (2) statistical techniques, (3) assessment and validation of source data, (4) assessment and validation of intermediate data and statistical outputs, and (5) revision studies.

**Statement by Johann Prader, Alternate Executive Director for Republic of Belarus and Mikhail Nikitsenka, Advisor to Executive Director**
**June 17, 2005**

## Economic Developments

The Belarusian authorities appreciate the open and constructive discussions with the IMF team. Above all, this year marked a turning point in the discussions between the staff and the authorities on the magnitude and stability of economic growth in Belarus. The Fund's Statistics missions have also contributed to achieving a professional convergence of views.

GDP growth of about 45 percent since 1999, 11 percent in 2004 and 8.9 percent in the first five months of 2005, confirm the ability of the Republic of Belarus to achieve high economic growth rates. At the same time, the 2004 budget has been balanced, inflation has been further reduced and the achievements in respect of social indicators have been remarkable.

In our previous buff statements, we have often pointed out that the actual growth outcomes in Belarus were 2-3 times higher than the staff projections. Due to these discrepancies, the authorities and the staff could not agree on the mix of policies to be pursued. Now, for the first time in the last ten years, in its note prepared at the request of the authorities, the staff has made an important attempt to study growth in Belarus.

The authorities are grateful for the analysis of growth factors made by the staff during the Article IV consultation mission. The staff's note "The Belarus Growth Process and the Growth Puzzle" was discussed at a seminar in the National Bank of the Republic of Belarus with broad public and government participation. This note has made possible a better understanding of the growth projection issues. Similar exercises in the future would be definitely welcome.

The Belarusian authorities agree broadly with the staff analysis. In the Selected Issues Paper, the staff has incorporated the feedback from the seminar and recognizes that external factors by themselves could not have generated the present level of supply response in the absence of strong internal factors, such as Belarus' ability to restructure and increase the competitiveness of its industrial sector, its excellent human capital, improved management of monetary and fiscal policies, as well as export promotion activities.

Belarus has among the highest internal saving and investment rates in the region. In 2004, domestic investment was above 20 percent of GDP, about US 4.7 billion. The volume of investment grew further by almost 22 percent during January-April this year. As in the case of other non-oil exporting countries of the CIS region, FDI is still small. In Belarus, reinvestment of enterprise profits constitutes more than half of total investment, the rest, being financed mostly by local bank credit and state and local budget allocations. Net corporate profits, which grew by more than 60 percent last year, were the main source of finance for domestic investment.

The above was possible because of the improvement in the performance of the real sector in 2004. This was seen particularly in the growth of enterprise profitability to the present level of 17 percent in industry and almost 8 percent in agriculture; in the reduction of enterprise inventories from 59 percent of monthly production on January 1, 2004 to 54 percent as of January 1, 2005, the lowest level in the last four years; in the reduction of the level of inter-enterprise and bank arrears; and in the reduction of the share of loss-making enterprises from about 34 percent to 21 percent.

Improvements in macroeconomic policies facilitated further export expansion, from US$ 6.6 billion in 2000 to almost US$ 14 billion in 2004, with the share of non-CIS countries increasing steadily to the present level of 50 percent. This reflected the improved competitiveness of Belarusian export industries in international markets from a historically very low level. The 38 percent growth of exports in 2004, and an additional 29 percent growth in the first quarter of 2005, were the main cause of rapid GDP growth in Belarus in recent years. The country now leads the CIS region in economic openness and in the share of manufacturing in total exports. It is also among the top ten most open economies in Europe.

From a negative balance in 2004, the current account became positive in the first quarter of 2005. Other important external indicators, such as official reserves, foreign debt, and external arrears also improved.

According to the Staff Report, wage growth which substantially outpaced the growth of labor productivity in 2004, was another important factor stimulating demand and GDP growth. From an economic point of view, the ratio between the growth of wages and the increase in labor productivity seems unsustainable. The authorities are aware of the challenge this poses for restoring labor remuneration to a socially acceptable level which had been lost during previous period of high inflation. The large share of manufacturing in the Belarusian export product mix makes it necessary to maintain wage competitiveness with countries in the region. Nevertheless, the growing profitability in both industry and agriculture suggests that Belarus can afford some wage growth. In this context, the staff rightly points out that the rapid wage growth had limited consequences on measured competitiveness since key trading partners have experienced similar increases. The staff is also right that, if wage increases continue at the same rate, they would present substantial risks for Belarus. Therefore, in 2005 the government is refraining from the mandatory planning of wage growth in the state sector and is setting only indicative targets.

The staff assesses Russia's forthcoming WTO accession as another negative factor impacting growth in Belarus. On the other hand, the analytical report prepared by the Belarus Institute of Economics of the National Academy of Science has concluded that this accession will not have any substantial negative consequences for Belarus' trade with Russia.

**Monetary and exchange policies**

One of the main factors contributing to the growing competitiveness of Belarus in external markets is the exchange rate stability which has resulted from the continuation of the crawling band exchange rate regime. Coupled with declining inflation from a triple digit level in 2000 to 14.4 percent in 2004 and robust GDP growth, exchange rate stability has contributed to a significant improvement in the demand for rubels. In 2005, the demand for money has continued to grow faster than its supply, resulting in a further slowing down of inflation, which averaged 0.8 percent per month in January-April 2005. The share of local currency in total money circulation increased in 2004 from 56 percent to 61 percent, reflecting a healthy further decline in the dollarization of the economy.

The authorities have taken very seriously the recommendation made by Executive Directors in the last Board meeting, that a cautious approach be followed in entering into a currency union with Russia before closer macroeconomic convergence is achieved. Given the continued differences in the macroeconomic framework of the two countries, particularly in the taxation area, the authorities do not at present consider the previously targeted date of January 1, 2006 as being feasible for the introduction of the union.

The resource base of Belarus' banking system rose by six times over the last four years. It strengthened further by 45 percent in 2004, mostly because of the 74 percent increase in local currency deposits of the population, which can be explained by the attractive interest rates in the environment of low inflation and expectations of real appreciation of the domestic currency. The trade surplus achieved in the first quarter of 2005 and the continuing weakening of the dollar allowed the National Bank to purchase the increased hard currency supply which resulted in almost a tripling of the level of net foreign assets since 2003 to the present level of more than US$ 1 billion. This in turn, caused an additional flow of domestic currency resources into the banking system.

As of January 1, 2005 Belarus had 32 banks. Of these, 27 had foreign capital participation and 8 were fully foreign owned. Almost all parameters regarding financial soundness of the banking sector, including capital adequacy, asset quality, liquidity, and foreign exchange risk have improved quite substantially during the last five years.

At the same time, the authorities are aware that the banking system is underdeveloped and needs major improvement. They believe that the 2004 FSAP missions will contribute positively to the design of the financial sector reform program. The authorities had voluntarily requested the IMF's safeguards assessment in 2004 and are now implementing its recommendations.

**Fiscal policies**

The balanced consolidated budget of last year and the 7.1 percent surplus in January-March this year, confirm that Belarus has continued its record of fiscal discipline. Revenue collection in 2004 was good and the level of government obligations to the National Bank and commercial banks was reduced. The previous practice of National Bank financing of the budget deficit has been completely abandoned. The 2005 budget envisages tax cuts of about 0.5 percent of GDP.

Revenues from the VAT tax, the profit tax and taxes on foreign trade have exceeded initial projections for the first quarter of 2005.

With the help of IMF technical assistance, the Belarusian authorities have made significant progress in bringing the regulatory and supervisory framework of the fiscal system towards international standards. In recent years, there has been a significant reduction in quasi-fiscal activities. The Government recognizes that a further reduction of these activities is needed and is actively working toward it. For example, the inclusion of the Pension Fund (Fund for Social Protection) and of sector innovation funds into the framework of the state budget represents an important step towards reducing the quasi-fiscal activities.

When looking at the issue of quasi fiscal activities, one must take into account the specific conditions of a transition economy like Belarus, with a comparatively deep involvement of the state in economic management. The system of recommended credits and subsidized interests (compensated through the state budget) is used as an instrument for achieving certain national economic policy objectives. The authorities prefer this system because by channeling resources through the banking system, they can make their final repayment more likely, instead of simply financing through the budget.

Besides cutting back recommended credits in order to help reduce quasi-fiscal activities, the staff also recommends scaling back the housing construction program through better targeting. While considering carefully this advice, the authorities would like to point out that the comparatively high level of state expenditure on housing, as well as on education and health care, and substantial annual budgetary allocations to overcome the consequences of the Chernobyl disaster, stem from the social orientation of Belarus' economic strategy. This explains the relatively high level of concentration of financial resources in the state budget. The economic efficiency of such a policy could be questioned. However, this policy has yielded a fairly robust growth in the living standards in Belarus together with overall economic stability.

**Structural policies**

Because of its choice of a gradual approach to reforms, Belarus may be more centrally managed at this stage of transition, than some other transition countries. In this context, the staff's classification of Belarus as a centrally managed economy is somewhat put in perspective by the recognition in the Selected Issues paper that "structural changes experienced by the Belarusian economy over the past decade have been substantial." A quarter of the Belarus economy is already in private hands.

The classification of Belarus as a transition economy, just as other transition economies were classified from the beginning of their reform process, would seem more realistic and would drive home an important message both to the authorities and to the international community.

Regarding structural reforms, we would like to point out that the movement towards harmonization of structural measures in Belarus with those in Russia has been continuing. Some further steps were undertaken in 2004 to improve the business and investment climate in the country. As a result, the average number of licenses required to operate a business was reduced from three to two. The staff overstates the negative role of the golden share in the Belarus economy. The share is applied only in limited circumstances, including anticompetitive conduct on the part of a company, possible liquidation, failure to pay taxes, and failure to pay employee salaries for a period of at least six months.

The new Investment Code of Belarus, which came into effect from January 1, 2005 includes measures to encourage the inflow of foreign capital along with the cancellation of previously existing key preferences for companies with foreign capital and the unification of conditions for foreign and domestic investments. The Code was adopted as part of the work for the creation of an even playing field for all types of enterprises.

Bank privatization continues to be one of the most important of structural reforms in Belarus. In addition to eight fully-owned foreign banks, the third largest bank in Belarus, "Prior Bank", has sold 61 percent of its capital to an Austrian bank. IFC has recently increased its investment in Belarusian banks and in the manufacturing sector.

The Government has continued its efforts to rationalize the social support system with more reliance on a targeted social protection. It is also important to note that GDP growth in Belarus was achieved without any substantial increase in consumption of energy. In fact, the energy intensity of the production decreased by 8 percent in 2004 and a further decrease of 10 percent is expected in 2005.

**Fund Relations with Belarus**

The authorities view the economic results of the past year as a demonstration of their improved macroeconomic policy performance. They believe that since Belarus has exceeded quite substantially the macroeconomic parameters and the living standards of before the beginning of the transition process, and has also demonstrated for a number of years an ability to maintain stable economic growth, it does not need financial assistance from the Fund.

As for the pace of reform, the authorities have many times stated that the reason behind the gradual transformation to a market economy, is to minimize any negative social consequences. Given specific circumstances in Belarus, gradualism has proved to be conducive to economic stability and maintaining high social standards.
Belarus has had an excellent track record of implementing the recommendations of the IMF's technical assistance missions. The authorities are grateful for the technical assistance which was provided pursuant to the recommendations of last year's consultation. For example, because of the substantial improvements made in the calculation of the industrial production index, the accuracy of GDP estimates has increased quite substantially. The recommendations made in the framework of FSAP and other missions have also had a very positive impact. Belarus is looking forward to maintaining technical cooperation and policy discussions with the Fund.

The Belarusian authorities are firm in their intention to continue the policies of monetary and fiscal discipline, and liberalization of the economy, in order to improve the business climate. They believe that their cooperation with the Fund will contribute to strengthening further the foundations of economic growth and prosperity of their country.

**Concluding Remarks by Johann Prader, Alternate Executive Director for Republic of Belarus**
**June 17, 2005**

I would like to add to our statement that the authorities will publish, as in past years, the staff report.

First of all, I thank Directors for their comments and recommendations which I shall faithfully convey to the authorities. I think there has been general recognition of achievements of the authorities, but, of course, there were, as always, differences of view with respect to the speed of reform. But I have to say that even those who are quite understanding of Belarus' preference for a slow or gradual approach to reform encouraged the authorities not to delay reform when conditions are favorable.

Second, I would like to express my appreciation for the excellent work done by the mission and the mission chief, Mr. Horvath. And thanks, of course, are also due to the technical assistance missions and the FSAP missions.

Most important, as pointed out in our staff statement and also in more detail in the Selected Issues Paper, there has been a breakthrough on the issue of growth projections, a major bone of contention and source of frustration in past Article IV consultations with the Fund. There was the impression that staff papers tended to predict an imminent demise of the Belarus economy. The authorities were, therefore, a little bit skeptical in the past about the Fund's presentation of Belarus.

This consultation was different, and several factors contributed to this positive development.

One, the willingness of the European Department to discuss the possibility of the systematic underestimation of growth in CRS countries; and two, the statistical missions established that the numbers provided were correct, except perhaps for a very small difference as described in the Selected Issues Paper and today by the Mission Chief.

It is very instructive to read paragraph ten of the Selected Issues Paper about the reasons of why the Fund's growth forecasts in past years have been below those of the authorities, as well as the eventual outcomes. One of several interesting conclusions is that Fund missions assumed higher short-term adjustment costs due to delays of structural reforms. Also, the effects of the openness of the economy, the extent of interaction with the Russian and the Western European trading partners were underestimated. Here, as in other respects, Belarus has been an underestimated and misunderstood country.

But now that the Fund and the authorities see eye to eye on the numbers, and as there is recognition of Belarus' actual growth achievement, the discussion on the sustainability of this development model of a socially oriented economy can be more neutral and fruitful. Nevertheless, the authorities are of the view that political concentration should be kept out of the discussion.

Mr. Ge's and Mr. Zhong's proposal of more cross-country comparisons on growth sustainability of CRS countries is appropriate, and the results could be quite instructive.

A comparison of performances on social indicators might also be useful, and it might also be interesting for the Fund's strategy on poverty reduction, where I think Belarus would come out as a world champion.

On the major issues today, the authorities are mindful of the staff's arguments on the consequences of directed lending, quasi-fiscal activities, and mandated wage increases, competitiveness, and the potentially adverse impact of the golden share. Clearly, the authorities are implementing Fund advice, even though, in the eyes of many, not fast enough. As recognized in the Selected Issues Paper, quasi-fiscal operations are being reduced, albeit from very high levels. And on wage policy, taking into account staff's point about competitiveness, a shift has been made towards indicative targets. And here, Mr. Misra and Mr. Srinivas have asked about what this actually means, and I can explain that wage movements are no longer reported to the Council of Ministers, which in a well-organized society like Belarus means that enterprises are freer to decide on the basis of profitability and the needs of the firms.

The Belarusian economy has also been in transition in terms of less government ownership of the economy, making it de facto a more mixed economy than its defenders or detractors want to see it. Nevertheless, the positive results in terms of growth and social indicators confirm the authorities' gradual approach to implementing certain recommended changes. And given the movement towards reform, the authorities would therefore disagree with the statement that the macroeconomic policy mix is ultimately unsustainable. In the same vein, the two scenarios presented by the staff, mainly current policies versus reform scenario, are perhaps in reality not as clear-cut and simple.

I also take note of Mr. Raczko's and Mr. Piatkowski's note of caution on privatization, and I also sense an implicit note of caution even in the staff's call for transparent privatization.

And finally, I would like to emphasize that the authorities are very much interested in continuing the very good technical cooperation with the Fund. I should add that this view is shared not only by the government and the central bank, but also by circles outside the government. Our office has been in contact with these outside circles as part of our long and continuous relationship with Belarus. All elements of the Belarus society recognize the value of the Fund's involvement, be it in the form of Article IV consultations, technical assistance, or the resident representative office.

On the latter point, I have, of course, to express our disappointment that, after Lithuania's succession to the European Union, the Resident Representative was not moved to Minsk as requested. Of course, we do appreciate the Fund has slightly upgraded the existing local staff in the Resident Representative's office. But we hope that soon the Fund will appoint a Resident Representative to Belarus because the technical assistance is well used and all technical missions of the Fund have been enthusiastic about their discussions and the implementation of technical advice by the Belarus counterparts. I am grateful for the support for technical cooperation today in the Board, and I hope that management and the Board will find it in their hearts and minds to support more technical cooperation with Belarus and eventually re-establish a resident representative to Belarus.

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
June 28, 2005

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

**IMF Executive Board Concludes 2005 Article IV Consultation with the Republic of Belarus**

On June 17, 2005 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Belarus.[1]

Belarus experienced strong economic growth in 2004, supported by policies aimed at raising incomes and credit, and a favorable external environment. Inflation was halved during 2004, and slowed down further to 11 percent in April 2005, aided by a balanced budget, exchange rate stability, and continued remonetization on the back of rising trust in banks and the national currency. Inflationary financing of the general government budget from the National Bank was discontinued, and budgetary consolidation progressed further. International reserves have increased, and the government's debt is at a low level. A surge in the current account deficit in late 2004 was largely reversed in early 2005.

However, market-oriented structural reforms have stalled. Privatization has largely ground to a halt and the private sector's share of GDP remains low at around 25 percent. Further, the "golden share" rule has been expanded in 2004, giving government a unique power to intervene in any company which used to have state ownership. The business environment is not conducive to private—including foreign—investment.

While the economy's current momentum is likely to result in significant growth in 2005, its long-term prospects are uncertain in the absence of wide-ranging structural reforms and a phasing out of massive quasi-fiscal activities. Under current policies, growth is expected at 7.1 percent in 2005 and 4 percent in 2006, gradually grinding even lower.

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

**Executive Board Assessment**

Executive Directors recognized Belarus's improved macroeconomic performance in recent years and welcomed, in particular, the strong economic growth and reduced inflation realized in 2004. In this regard, they took note of the role played by the balancing of the general government budget, the discontinuation of inflationary financing of the budget, and the exchange rate anchor, as well as demand-inducing policies and advantageous external factors. Directors commended the authorities on the marked improvement in poverty indicators in recent years.

Directors cautioned, however, that Belarus's economy remains vulnerable and that there is a risk that its current strategy would not produce sustainable growth, and observed that continued rapid growth and disinflation would require a tightening of macroeconomic policies and wide-ranging structural reforms to reduce the government's role in the economy and facilitate private sector-led growth. Given the favorable external environment and the economy's current momentum, Directors urged the authorities to take advantage of this window of opportunity to launch reforms and create an environment conducive to private sector growth.

Directors expressed concern about the limited progress made in enterprise and financial sector restructuring. In this regard, they pointed to Belarus's extensive quasi-fiscal operations including, in particular, directed credits and subsidized lending for housing through large state banks. The continued rise in directed credits and subsidized housing loans contributed to escalating liquidity problems in systemically important banks and necessitated another round of government recapitalizations which, as set out in the Financial System Stability Assessment, remain the prerequisite for the continued solvency of Belarus' banking system. In addition, Directors noted with concern the rapid pace of wage increases, which over the past decade outpaced productivity growth and stressed that the enforcement of highly ambitious U.S. dollar wage targets could lead to inflation pressures, enterprise decapitalization, and waning external competitiveness.

Against this background, Directors underscored the need for accelerating the consolidation of quasi-fiscal activities into the budget and at the same time reducing their magnitude in order to safeguard the budget balance. In line with this, while supporting the government's goal of lowering the high tax burden, Directors noted that this would require expenditure cuts.
They viewed that given the strong momentum in the economy and the need to keep inflation under control, it would not be appropriate for fiscal policy to provide additional stimulus at this time, despite the easing of the budgetary financing constraint.

Directors agreed that the central bank needed to make low inflation its primary objective and noted that, to this end, the National Bank of Belarus (NBRB) would need to be granted full operational autonomy. They emphasized that while the nominal exchange rate has played a useful anchoring role, further disinflation will require containing credit growth. Directors also saw a need for retaining a measure of exchange rate flexibility to safeguard against excessive real appreciation, to help deal with exogenous shocks, and to allow the NBRB to raise its level of foreign reserves, which remain precariously low, despite a marked increase in the past eight months.

Directors stressed that structural reforms would be key for ensuring growth sustainability by boosting productivity and allocational efficiency. They urged further enterprise reforms and transparent privatization to help harden budget constraints, noting that, together with reduced government intervention in economic activity and a pickup in FDI, this could raise the level of competition and the efficiency of product and labor markets. Directors observed that the resulting increase in productivity growth would provide a sustainable basis for raising income.

Directors warned that the growth contribution of many of the favorable external factors—notably the benefit reaped from Russian energy import pricing—is likely to wane. With rapid growth in neighboring countries, rising incomes and demand for rubels and low external debt, current conditions are conducive to an early transition toward a market economy with minimized costs of policy adjustment. In this regard, Directors stressed that the looming costs of population aging also argued for an early start of reform measures to ensure continued fiscal sustainability.

Directors noted that while Belarus' overall debt ratio remained low, the increasing dependence on short-term liabilities and limited foreign exchange reserves raised roll-over risk.
They stressed that Belarus would need to substantially improve the environment for foreign direct investment, not only to help secure a non debt-creating source of financing, but more importantly to facilitate the knowledge and technology transfer that has proven to be a critical contributing factor for rapid productivity growth in most other transition economies. In this regard, they noted that the golden share rule as applied in Belarus was counterproductive and urged its elimination or the limitation of its application—as in other countries—to a handful of preannounced cases that are of central strategic importance.

Directors noted that for the currency union with Russia to prove beneficial for Belarus, a number of key issues needed to be appropriately addressed. While significant further work remains to be done in this regard, prudent macroeconomic policies and an early start on wide-ranging market-oriented structural reforms would increase the likelihood of such an outcome.

Directors welcomed the constructive tenor of the discussions between the staff and the authorities. They commended the authorities for their good track record in implementing technical assistance recommendations and the significant progress made in the past year in this area, marked by the completion of the Financial Sector Assessment Program, the subscription to the Special Data Dissemination Standard, and the publication of fiscal and data Reports on the Observance of Standards and Codes. Directors supported the continuation of technical cooperation with the authorities.

***Public Information Notices (PINs)*** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

## Republic of Belarus: Selected Economic Indicators

| | 2001 | 2002 | 2003 | 2004 Preliminary |
|---|---|---|---|---|
| | (Annual change in percent, unless otherwise indicated) | | | |
| Real economy | | | | |
| GDP (nominal in billions of rubels) | 17,173 | 26,138 | 36,565 | 49,445 |
| Real GDP | 4.7 | 5.0 | 7.0 | 11.0 |
| Industrial production | 5.9 | 4.3 | 6.8 | 15.6 |
| CPI (end-of-period) | 46.1 | 34.8 | 25.4 | 14.4 |
| Real average monthly wage (1996=100) | 213.9 | 231.9 | 238.7 | 279.0 |
| Average monthly wage (in U.S. dollars) | 89.5 | 107.3 | 123.3 | 162.0 |
| Money and credit | | | | |
| Reserve money | 102.8 | 32.0 | 51.1 | 41.9 |
| Rubel broad money | 96.9 | 59.6 | 71.0 | 58.1 |
| Banking system net domestic credit | 66.4 | 53.7 | 68.9 | 35.8 |
| Refinance rate (percent per annum, end-of-period) | 48.0 | 38.0 | 28.0 | 17.0 |
| | (In percent of GDP) | | | |
| General government finances 1/ | | | | |
| Revenue | 44.9 | 44.6 | 45.8 | 46.2 |
| Expenditure (cash) | 46.8 | 46.4 | 47.2 | 46.2 |
| Expenditure (commitment) | 48.1 | 46.5 | 46.9 | 46.1 |
| Balance (cash) | -1.9 | -1.8 | -1.4 | 0.0 |
| Balance (commitment) | -3.1 | -1.9 | -1.0 | 0.0 |
| | (In millions of U.S. dollars unless otherwise indicated) | | | |
| Balance of payments and external debt | | | | |
| Current account balance | -394 | -311 | -424 | -1,043 |
| As percent of GDP | -3.2 | -2.1 | -2.4 | -4.6 |
| Gross international reserves | 359.4 | 475.6 | 499.0 | 770.2 |
| In months of imports of goods and services | 0.5 | 0.6 | 0.5 | 0.6 |
| Medium- and long-term debt (as percent of GDP) | 9.2 | 9.8 | 8.1 | 5.9 |
| Short-term debt (as percent of GDP) | 10.4 | 11.0 | 10.8 | 12.8 |
| | (Rubels per U.S. dollar) | | | |
| Exchange rates | | | | |
| Average | 1,383 | 1,784 | 2,052 | 2,160 |
| End-of-period | 1,580 | 1,920 | 2,156 | 2,170 |

Sources: Data provided by the authorities and IMF staff estimates.
1/ Consolidates the state government and Social Protection Fund budgets.