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REPUBLIC OF BELARUS

June 2013

2013 ARTICLE IV CONSULTATION AND FOURTH POST-PROGRAM MONITORING DISCUSSIONS

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 2013 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

Staff Report for the 2013 Article IV consultation and fourth post-program monitoring discussions, prepared by a staff team of the IMF, following discussions that ended on March 25, 2013, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 9, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- **Informational Annex** prepared by the staffs of the IMF and the World Bank.
- **Staff Supplement** of May 21, 2013 updating information on recent developments.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its May 24, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for the Republic of Belarus.

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

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May 9, 2013

KEY ISSUES

Context: Structural deficiencies are holding back growth and have made the economy increasingly crisis-prone. Following an initially successful stabilization from the 2011 crisis, stop-go stimulus efforts in 2012—mainly through wage increases and directed lending—resulted in renewed volatility and kept inflation high.

Challenges: Continued inconsistent policy objectives, a deteriorating current account, low reserve buffers, and a peak in external debt service obligations pose major challenges in 2013. Maintaining macroeconomic stability remains the key short-term policy priority. Over the medium term, the overarching challenge is to increase the efficiency and competitiveness of the economy through deep structural reform.

Policy Recommendations:

- Reduce directed lending operations and limit wage increases to targeted inflation.
- Maintain exchange rate flexibility.
- Tighten liquidity and stand ready to take further steps to ensure disinflation.
- Curb high foreign exchange lending growth.
- Adopt comprehensive and ambitious structural reforms to improve resource allocation and lay the basis for a well-functioning market economy.

Approved By
Aasim M. Husain and Masato Miyazaki

Discussions for the 2013 Article IV consultation and fourth PPM review were held in Minsk during March 14–25, 2013. The mission team comprised Messrs. Hofman (head), Hartley and Saksonovs (all EUR), Mr. Bibolov (MCM), Ms. Garcia (SPR) and Mr. McHugh (FAD). Messrs. Prader and Misyukovets (OED) also participated in the discussions. The mission met with Deputy Prime Minister Prokopovich; National Bank Governor Ermakova; Minister of Finance Kharkovetz; Minister of Economy Snopkov and other officials, as well as representatives of think tanks, business, and the diplomatic community. The staff in the Minsk office and Mr. Jovanovic and Ms. Zaffaroni (both EUR) assisted the mission.

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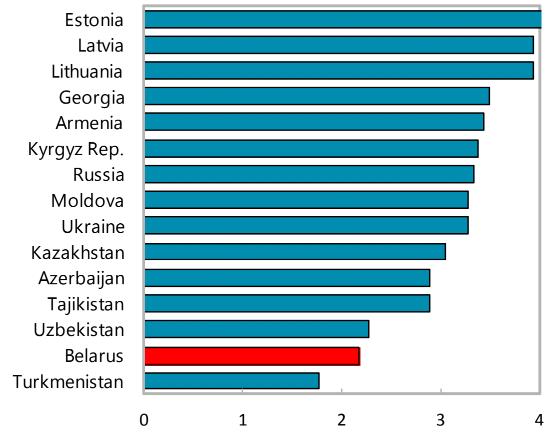
CONTEXT

1. **Structural deficiencies are holding back growth and have made the economy increasingly crisis-prone.** Belarus is one of the least reformed countries in the CIS. The economy remains heavily centralized with state-owned enterprises (SOEs) accounting for more than half of GDP and two-thirds of employment. The pervasive use of quantitative targets for SOEs and administrative price controls—some 20–30 percent of consumer prices are regulated—distorts resource allocation. During the past decade, weak productivity growth was masked by subsidized energy imports from Russia but following the 2008 crisis these windfall gains have been reduced. Policy efforts to boost the economy beyond its capacity resulted in external imbalances and a major currency crisis in 2011. Similarly, following an initially successful stabilization, stop-go stimulus policies in 2012 resulted in significant volatility and persistent high inflation.

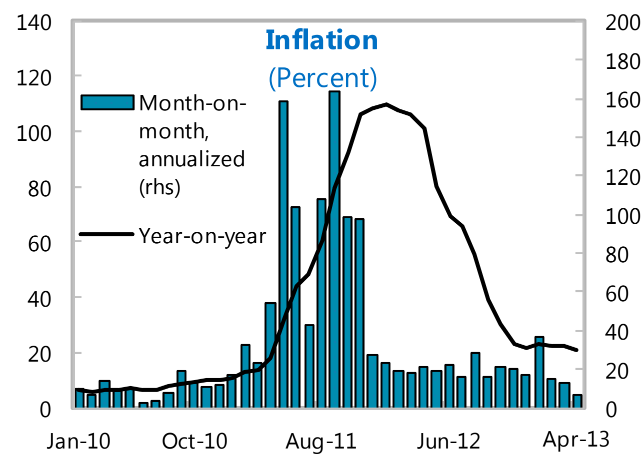
EBRD Transition Indicators
Composite Average 2012 1/



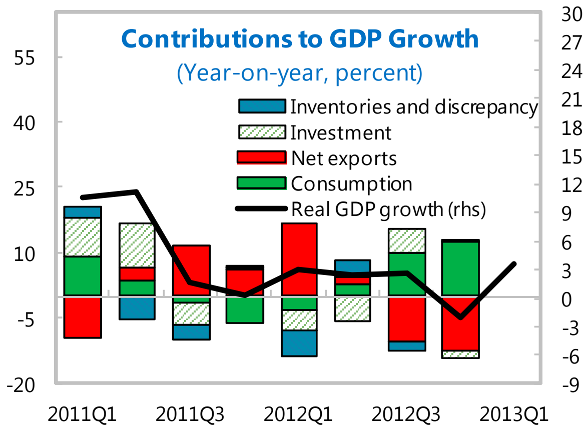
Sources: EBRD; and IMF staff calculations.
1/ Aggregate of EBRD transition indicators measuring progress in the area of large and small scale privatization, governance and enterprise restructuring, price liberalization, trade and forex system, and competition policy.

RECENT DEVELOPMENTS

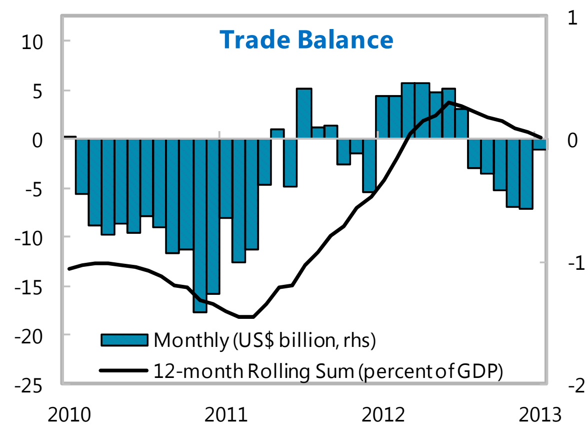
2. **Following the 2011 crisis, the economy stabilized in the first half of 2012**. Sharp policy tightening in response to the crisis helped stabilize the exchange rate and achieve a rapid reduction of inflation from over 100 percent in the last months of 2011—the legacy of the sharp currency devaluation—to around 20 percent (m-o-m, annualized) in early 2012. At the same time, the balance of payments improved markedly owing in part to a temporary large-scale trade in solvents and related products (oil products imported from Russia at low common market prices and re-exported as solvents, which were exempted from duty payments to Russia). Under the favorable conditions, GDP grew about 3 percent (y-o-y) in the first half of the year. The exchange rate appreciated and the NBRB was able to build up reserves which were further bolstered by disbursements under Belarus' program with the EurAsEC Anti-Crisis Fund (ACF).



Sources: Belarusian authorities; and IMF staff calculations.

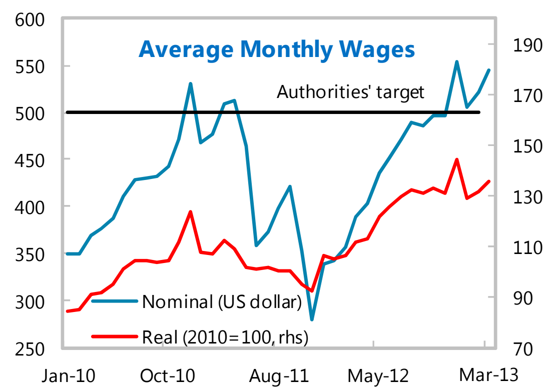


Sources: Belarusian authorities; and IMF staff calculations.



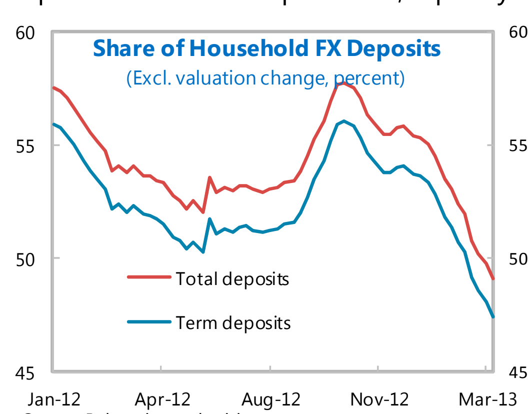
Sources: Belarusian authorities; and IMF staff calculations.

3. **Encouraged by the initial success, policies were relaxed too early.** As stabilization was taking hold, the authorities started to progressively relax policies in pursuit of the official 5½ percent GDP growth target for 2012. Between February and September, the NBRB reduced the refinancing rate stepwise from 45 to 30 percent. Also, subsidized directed lending under government programs (provided at rates far below the policy rate) was revived from muted post-crisis levels, to peak just before parliamentary elections in September. Meanwhile, excessive wage increases raised real wages by 35 percent in 2012 (Dec/Dec)—far ahead of productivity gains estimated at about 3½ percent and reversing a large part of the competitiveness gains from the 2011 devaluation.



Sources: Belarusian authorities; and IMF staff calculations.

4. **The premature easing and end of the solvent trade windfall led to the return of pressures in the second half of 2012**. Price and exchange rate pressures intensified when the balance of payments deteriorated rapidly from July, when the solvents trade ended following an agreement with Russia. Deposit conversions picked up sharply and by October the NBRB was intervening heavily in the forex market to slow rubel depreciation. To stem pressures, liquidity conditions were tightened with an increase in reserve requirements and restrictions on banks' access to refinancing through moral suasion and administrative measures. Although policy rates were not raised, the measures helped calm market conditions toward the end of the year. Output contracted in the fourth quarter, reducing GDP growth to 1.5 percent for the full year in 2012 (Figure 1). Inflation stood at 21.8 percent in December—just within the authorities' 22 percent target (Figure 2).



Source: Belarusian authorities.

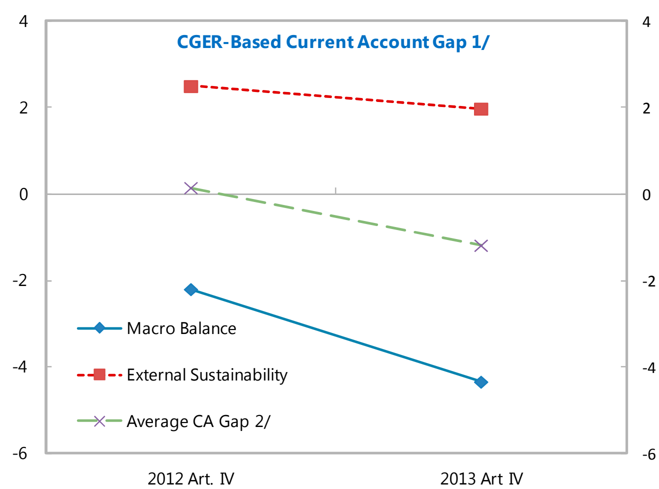
5. **Early developments in 2013 have been mixed.** Inflation spiked to an annualized monthly rate of 30 percent in January, partly on administrative price increases, but fell in the subsequent two months and is currently running at 13–16 percent. Meanwhile, GDP growth rebounded strongly (3½ percent y-o-y in the first quarter). However, average wages grew by almost 8 percent in seasonally adjusted terms (over 30 percent annualized) during the first three months of the year. Also, liquidity conditions in the banking system have eased substantially and during March and April the NBRB reduced its main policy rate by 3 percentage points to 27 percent while indicating that further reductions are in store—thus signaling a loosening of policies. The exchange rate was relatively stable in early 2013, but following a 14 percent real appreciation in 2012 it is at risk of again becoming overvalued, as suggested by CGER methods (Box 1, Figure 3).

Box 1. External Stability Assessment

A CGER-type assessment suggests that the rubel remains broadly in line with fundamentals, but risks of overvaluation are increasing.

Rubel depreciation in 2012 significantly lagged the large inflation differential with trading partners, thereby eroding earlier competitiveness gains. The rubel depreciated by 3 percent in nominal effective terms in 2012. Given the still large inflation differential between Belarus and its trading partners, this resulted in a 14 percent appreciation in real effective terms, pointing to a significant deterioration of Belarus' price competitiveness.

- Compared to the estimates from the 2012 Article IV, the macroeconomic balance approach (MB) estimates an increasing gap between the projected medium-term current account and the estimated norm, implying rubel overvaluation of 11 percent.
- Similarly, under the external sustainability (ES) approach, the positive gap between the projected current account and the norm has shrunk and now suggests undervaluation of 5.4 percent—significantly smaller than previously estimated.



1/ Estimates are based on the CGER methodology explained in Occasional Paper 261, IMF 2008. Note that the ES approach calculates the current account position needed to stabilize NFA at its current level, which need not be the appropriate level for Belarus.
2/ Average CA gap estimated under the MB and ES approach in the 2012 and 2013 Art IV.

- These estimates should be interpreted carefully. The high degree of state control in the Belarus economy and related administrative interference with price formation significantly weaken the role of price signals relative to a market based economy, thereby introducing considerable uncertainty regarding the estimated effectiveness of exchange rate adjustment.

OUTLOOK AND RISKS

6. **The outlook is fragile.** Against the background of a largely closed output gap and continued high inflation, the authorities plan to actively pursue an 8½ percent GDP growth target in 2013. While they are adamant that reducing inflation and preserving macroeconomic stability remains their priority, the conflicting policy objectives is likely to result in a repeat of the stop-go policy pattern of 2012. The staff's baseline scenario therefore assumes growth below and inflation above the authorities' target. The trade balance is projected to deteriorate, with reserves falling to US$6.9 billion by end-2013—equivalent to less than 1½ months of imports.

7. **Large risks surround the outlook** (Appendix I).

- The key downside risk is that economic stimulus to reach the growth target reignites inflation and exchange rate pressures.
- The banking sector remains under pressure from deteriorating asset quality while rapid FX loan growth—much of it to unhedged borrowers—is posing further risks.
- An intensification of euro area turbulence that were to result in lower euro area growth would affect Belarus—including via its effects on Russia— mainly through lower external demand.
- Successful international debt issuance, privatization, or new bilateral financial support could alleviate short-term external financing pressures.

POLICY DISCUSSIONS

8. **Discussions centered on policies to promote stability and raise potential growth**. The staff's adjustment scenario illustrates that a combination of consistent macroeconomic policies—including reduced directed lending, wage moderation, tighter liquidity conditions, control of FX lending growth, and a flexible exchange rate—and deep structural reform would raise medium-term growth and reduce external vulnerabilities (Figure 4). Such policies would help improve the current account and bring inflation to single digits by 2014 while positive confidence effects would spur capital inflows, allowing an increase in reserves to the equivalent of 4 months of imports by 2018. The authorities and staff broadly agreed on the assessment of the economic situation but views differed substantially on the necessary policy actions.

A. Ensuring Sound Fiscal Policies: Containing Directed Lending and Wages

9. **Balanced budget targets hide fiscal risks from quasi-fiscal operations and wages.** The authorities achieved a 0.7 percent general government surplus in 2012 (over-performing their zero-balance objective) and target a balanced budget for 2013 (Figure 5). However, the authorities' budget definition does not include quasi-fiscal operations and does not account for the large contingent liabilities stemming from directed lending. Additional risks stem from large wage increases specified in the budget.

10. **Directed lending operations create fiscal and broader economic problems**. Large-scale directed and subsidized lending operations are conducted as "lending under government programs" (LGP, an estimated 3 percent of GDP in 2012), and increasingly via the new Development Bank (an additional 2 percent of GDP in 2012), among other channels. Part of the lending is funded from earmarked government deposits while other parts are funded from banks' own resources. The directed lending operations at below market rates are a problem for three reasons. First, they fuel domestic demand excessively. Second, they promote inefficiency and misallocation of resources in the economy. Third, as many of the loans are provided to ultimately unviable enterprises, the loans create large contingent liabilities for the government. To illustrate: during 2008–11, the government had to recapitalize banks to the tune of 2 percent of GDP on average per year.

11. **Planned wage increases risk fueling demand and reducing competitiveness**. Budget sector nominal wages increased 67 percent in 2012 (Dec/Dec, 36 percent in real terms) and a further 20 percent increase in the so called first-grade wage for the public sector is envisaged for 2013. These increases pose a macroeconomic challenge because they set a benchmark for the rest of the economy. To the extent that wage increases exceed productivity growth they contribute to overheating and declining competitiveness. Separately, a civil service reform package will increase civil servant wages—which lag wages elsewhere in the economy—by 30 percent, while reducing staff numbers by the same number to contain overall wage costs to the budget.

Policy Discussion

12. **Staff suggested fiscal measures to contain demand and maintain stability.** In particular, staff recommended: (i) reducing directed lending and related interest rate subsidies; (ii) limiting wage increases, and (iii) raising the cost-recovery on household utilities to 40 percent. These measures, which each could yield about ½ percent of GDP, would ensure that the authorities attain a balanced budget even under the initially somewhat slower but more sustainable growth path in the staff's adjustment scenario, while leaving some room for increased capital spending.

13. **Reducing directed lending is key, including to limit contingent risks to public debt.** Directed and subsidized lending fell in 2012, when compared to 2011, but its level remains high at an estimated 5 percent of GDP and further reductions are needed. The authorities' commitment to limit new LGP funded with government deposits to 6 trillion rubel (1 percent of GDP) in 2013 is a helpful step. However, it will be important to keep this part of LGP below this level over the medium term—with lending exclusively channeled through the Development Bank—and to fully phase out directed lending funded by banks' own resources by 2015. Containing overall directed lending at this level would be consistent with a gradual decline in public debt under the staff's reform scenario.

14. **Limiting wage increases would help contain demand and restore competitiveness.** To this end, 2013 wage increases should be limited to 12 percent, in line with the authorities' end-year inflation target and the planned increase in the first grade wage should be reconsidered and brought in line with this objective.

15. **The authorities stressed their commitment to maintaining a balanced budget.** They were confident that the balanced budget target for 2013 would be achieved and pointed to a

significant contingency reserve (0.8 percent of GDP) that had been built into the budget. The authorities also emphasized that there had been no bank recapitalization in 2012 and they expected that none would be needed this year. This would help contain below-the-line outlays. Coupled with high projected GDP growth rates, the authorities believed that under their policies public debt ratios should continue to fall. As to wages, it was argued that the envisaged increase in the first grade wage implied only a 7 percent real increase, which was not considered unreasonable in light of the official GDP growth projections.

16. **They regarded subsidized lending as a central component of their social protection and development strategies.** The authorities argued that given high interest rates, subsidized lending is critical to maintaining economic growth and to finance development priorities—including housing and the agricultural sector. Moreover, they regarded the government lending programs as an important catalyst for mobilizing financial sector resources towards meeting these developmental objectives. The authorities thus planned to continue subsidizing lending, with volumes depending on prevailing interest rates given a set envelope for subsidies in the budget (3½ percent of GDP).

B. Monetary and Exchange Rate Policy: Focusing on Price Stability

17. **The monetary stance is at risk of being too loose.** The authorities are aiming to achieve 12 percent inflation at end-2013 in the context of an incomplete monetary framework centered on a short-term inflation objective with supporting benchmarks for monetary aggregates, and a flexible exchange rate. A lack of forward looking elements and the ad hoc use of multiple instruments—policy rates, reserve requirements, and administrative measures—are key weaknesses of the framework. The presence of large volumes of subsidized credit and the increasing importance of foreign currency lending further complicate the conduct of monetary policy. The current policy stance is difficult to assess, including because of the sharp volatility in inflation in the first months of 2013. However, unless the most recent declining inflation trend is sustained, the 12 percent target is likely to remain out of reach this year. Also, the marked loosening of liquidity conditions in recent months on increased NBRB liquidity support raises risks (Figure 6).

Policy Discussion

18. **Staff urged the NBRB to tighten liquidity conditions and stand ready to take further steps to ensure disinflation.** In the context of large uncertainty about the likelihood of further inflation reductions—which will be needed to bring inflation within the 12 percent target—and continued high inflation expectations, a multi-pronged approach is required. First, the NBRB should tighten liquidity to align the money market rate with the refinancing rate, and narrow the policy rate corridor to reduce interest rate volatility. Second, it should use macro-prudential policies to rein in high foreign currency lending growth (see also below). Third, if the recent inflation reductions are not continued over the next few months, an increase in policy rates will be needed to ensure further disinflation. The NBRB should also raise rates without delay if expansionary wage or directed lending policies were to jeopardize stability, or if significant downward exchange rate pressures were to reemerge. The NBRB should refrain from administrative measures to curb commercial lending rates, as these obscure the policy stance and unduly inhibit the operations of banks.

19. **The aim should be for single-digit inflation by no later than 2014.** In this context, staff encouraged the NBRB to make progress toward adoption of an inflation targeting (IT) framework but underscored that a successful eventual transition to IT would require consistent macroeconomic policies and broader structural reforms, including enhanced NBRB autonomy, sharply reduced directed lending, and strengthening of market mechanisms in the financial system.

20. **The flexible exchange rate needs to be maintained to cushion against shocks and mitigate external imbalances**. Intervention should generally be limited to smoothing excessive exchange rate volatility, while not obstructing the underlying trend in the exchange rate. This said, given the low reserve levels and the absence of indications of rubel undervaluation, the authorities should seize on opportunities to build reserves during periods of appreciation pressures.

21. **The authorities shared staff's concerns regarding inflation, but disagreed on the policy response.** The NBRB and the government conceded that the inflation outlook is uncertain and that bringing inflation down to 12 percent by year-end would be a challenge. The NBRB indicated it is therefore planning a cautious approach regarding further monetary policy loosening. Given recent low investment and GDP growth, however, it did not see a need for policy tightening in the near future. The government suggested that inflationary pressures could be kept in check by postponing planned administrative price increases, and it was preparing to do so.

22. **The authorities reaffirmed their commitment to a flexible exchange rate.** They agreed that the exchange rate had been more stable than the inflation-differential with trading partners warranted and acknowledged deteriorating competitiveness. However, this phenomenon was ascribed to an increase in FX supply related to high FX borrowing for rubel spending needs. The authorities also emphasized the need for gradual exchange rate adjustments, given the heightened sensitivity of the population to sharp rubel movements and the attendant risk of capital flight.

C. Banking Sector Vulnerabilities

23. **Banking supervision is improving but rapid FX lending growth bears close watching.** Recent improvements in the banking code that enhance supervision and improve corporate governance in banks constitute progress in the institutional framework. However, reported NPLs—which likely overstate true loan quality[1]—have risen considerably suggesting ongoing asset quality deterioration. Even as the reported capital adequacy ratios remain at seemingly comfortable levels, owing partly to transfers of assets to the Development Bank, this calls for intensive supervision. Meanwhile, rapid FX lending growth—spurred by the large interest rate differential on rubel loans—is posing prudential concerns as much of the lending is to unhedged borrowers. The NBRB has taken measures to curb the growth, including though provisioning requirements and restrictions on banks' short-term FX lending. However, their effectiveness has been limited and some measures are

[1] Official NPL figures may underestimate the true share of problem loans because of loan rescheduling by state banks and a high share of government guaranteed loans.

under pressure as the government has called to end the NBRB's ban on FX lending to households, in a bid to revive mortgage lending.

Policy Discussion

24. **Staff urged consideration of further measures to curb FX lending growth**. In particular, staff suggested considering higher risk weights for FX loans. It also argued strongly in favor of maintaining the prohibition of FX lending to households—the elimination of which would risk exposing households to large FX risks.

25. **The NBRB shared the staff's concerns, but the government was more sanguine.** The NBRB was deeply concerned about FX lending growth and indicated it would consider further steps, as suggested by staff, even though they considered their stance as already very firm and worried about the potential for circumvention of measures. The government, however, was more concerned about the stifling effect on growth of the high domestic interest rates and argued that risks from increased FX exposure were acceptable, given the need to boost lending and spur economic growth.

Financial Soundness Indicators for the Banking Sector

	2010	2011	2012				2013
	Dec	Dec	Mar	Jun	Sep	Dec	Jan
Capital adequacy							
Capital adequacy ratio	20.5	24.7	23.8	23.0	22.1	20.8	21.1
Tier I capital adequacy ratio	14.9	18.8	17.2	16.5	15.5	14.6	14.1
Foreign exchange loans to total loans	21.7	39.5	40.8	41.9	42.3	45.5	45.7
Non-performing loans to gross loans	3.5	4.2	3.7	3.9	4.8	5.5	5.2
Watch loans 1/	3.6	10.6	13.1	13.4	13.1	12.6	13.4
Recapitalization costs (SOBs, percent of GDP)	1.3	5.3	…	…	…	…	…

Source: National Bank of the Republic of Belarus.

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

D. Structural Reform: Boosting Potential Growth and Competitiveness

26. **Deep structural reform is critical to achieving higher sustainable growth.** The urgency of structural reform is underscored by Russia's WTO accession—which is increasing competition for Belarus' products in the Russian and domestic market—and increasing labor migration away from Belarus, especially of the higher-skilled. To cope with these trends, reforms are needed in several areas including the financial sector, where the role of the new Development Bank is critical, and the real sector. Structural reforms would bring improved macroeconomic stability, competitiveness gains, and increased flows of FDI. Indeed, previous staff analysis suggests that deregulation to the level of Eastern Europe's most liberalized economies could raise Belarus' potential growth by up to 6 percentage points during the catch-up phase.

Financial Sector Reform and the Development Bank (DB)

27. **The current course of the DB risks increasing the amount of directed lending in the economy.** When the DB was established in 2011, it offered the prospect of containing directed lending by combining it in a single entity and allowing the banking system to operate on commercial terms. However, as the bank is taking shape, it is at risk of becoming a vehicle for more directed lending, in addition to traditional channels. A recent presidential decree broadened the mandate of the DB and its sources of financing. The DB will now finance large strategic investment projects and provide subsidized lending to the export sector. It also issues debt (2½ percent of GDP to date) and has been actively seeking to have its debt eligible as collateral for NBRB refinancing.

28. **Transfers of outstanding LGP from state banks are relatively small.** In 2012 US$600 million in outstanding LGP loans were transferred, out of a total stock of US$10 billion (17 percent of GDP). As the transferred loans—which are considered to be among the state banks' lower quality assets—were exchanged at par value the transfers effectively entail a recapitalization of the state banks. A further loan transfer of US$500 million is planned to take place by July 2013. It is expected that this will complete the transfer, leaving close to 90 percent of past LGPs with the banks. Similarly, the DB has assumed about 15 percent of the flow of new directed lending under government programs, but there are no plans to move the remainder away from the banks.

Policy Discussion

29. **Staff continued to advocate making the DB the sole and transparent provider of directed lending.** It recommended developing and adopting a time-bound plan for the transfer of all new directed lending from state banks to the DB by 2015. By removing an important obstacle for banks to operate on more commercial terms, these measures would help improve the efficiency of the banking system and the allocation of credit. Staff recommended that total new lending by the DB be capped at 1 percent of GDP per year over the medium term, consistent with fiscal objectives. It emphasized the need for close oversight and full transparency of the DB's operations and related contingent liabilities, which need to be adequately reflected in the budget. DB bonds should not be eligible as collateral for NBRB refinancing to preclude effective monetization of lending. Also, the DB should avoid debt issuance to finance new subsidized lending, as this could create large contingent risks to the government in the context of already high public debt.

30. **The authorities, in contrast, have come to view the DB as critical to provide long-term financing to the economy.** They argued that financial markets are underdeveloped and as a result long-term financing of investment projects by commercial banks is limited. The DB was therefore modeled on successful development banks in other countries, and the idea of having the DB as the sole provider of government-directed lending was largely abandoned. Rather, the DB would be effectively competing with other commercial banks for resources from the government, either through direct deposits or interest rate subsidies. The authorities stressed that DB lending will be only provided to good quality projects with high returns.

Other Structural Reforms

31. **Progress on real sector reforms is slow and has in some cases also been reversed.** The government has made welcome progress with tax reform and a new bankruptcy law. The so-called "Directive #4" that was adopted in 2010 contains a broad range of measures to improve the business environment, but has been only partially implemented. A reduction in the number of consumer goods subject to price controls was reversed during the 2011 crisis. The privatization agenda has stalled as the National Investment and Privatization Agency (NIPA) has yet to sell any of the eight small companies it was tasked to privatize, while other companies have been nationalized. The authorities' main new initiative to improve productivity is a centralized modernization project that provides enterprises with subsidized loans based on government-approved, enterprise-specific modernization proposals, but without significant changes to the overall business environment.

Policy Discussion

32. **The staff urged ambitious and comprehensive reforms** (Box 2).

- ***Price liberalization is needed to ensure that prices reflect resource scarcity***. The staff recommended progressive reduction of controls on prices of goods and services, with a view to fully eliminate them on an ambitious time table. Also, efforts to raise cost recovery in utilities and transport—currently around 22 and 43 percent, respectively—should be stepped up. Macroeconomic policy would need to be appropriately tight to counter the upward effects of price liberalization on inflation. SOEs should be allowed to set their wages without reference to public sector pay grades. The practice of requiring enterprises to justify their prices with so called "price calculations" should be eliminated.

- ***Privatization and enterprise reform are critical to improve the efficiency of businesses.*** In this regard, staff urged speeding up the privatization of small- and medium-size enterprises, including by concluding the NIPA pilot privatization project and by creating a pipeline of enterprises to be privatized on an expedited timeline. Larger companies should be either privatized or restructured and brought on a commercial basis in a short time-frame and there is an urgent need for a comprehensive strategy for SOE restructuring. Staff expressed concern about provisions in the draft privatization law that aim to continue state interference in privatized companies and urged to reconsider these measures.

- ***WTO accession would help improve access to foreign markets.*** The staff strongly supported the authorities recently stepped up efforts towards WTO accession (including the resumption of the work of the WTO working party on Belarus' accession).

- ***Social safety nets should be strengthened to mitigate the impact on the most vulnerable.***

33. **The authorities agreed with the need for structural reform in principle, but emphasized trade-offs and risks.** Policy makers stressed the importance of the overall economic environment, including external factors, for the speed and sequencing of structural reform, arguing

that reform at the current juncture was fraught with risk. They also pointed out that price liberalization tended to conflict with efforts to reduce still-high inflation. The authorities therefore preferred a gradual approach to reform. As an example, regarding privatization efforts, following best-practice procedures that secured broad support from workers was viewed as more important than the speed or scale of the process. The authorities also emphasized that their enterprise modernization initiative includes modernizing the economic model of state-owned enterprises by introducing new elements of corporate governance, and improving incentives of management and personnel within the existing system.

Box 2. Recommended Structural Reform Measures

Specific measures recommended by staff for implementation over the next 1-3 years:

Financial sector reform

- Complete transfer of existing LGP from state banks to the DB by the end of 2014.
- Channel all new subsidized and directed lending exclusively through the DB, and cap total amount of such lending at 1 percent of GDP, by end 2015.

Product, trade, and labor market reform

- Shorten the list of socially important goods subject to price regulation to the 2011 level without delay, and fully phase out the list by mid-2014.
- Raise cost recovery on household utilities from below 30 percent at present to 40 percent by end-2013 and 55 percent by end-2014.
- Raise cost recovery on transport tariffs from below 50 percent at present to 90 percent by end-2013 and 100 percent by end-2014.
- Abolish "price calculation" requirements without delay.
- Phase out price regulation for various services by repealing relevant acts by end 2014.
- Make adherence to the government's "single pay grading system" voluntary for SOEs.
- Make efforts toward changing Belarus' status to that of a market economy to facilitate WTO accession.

Privatization and enterprise reform

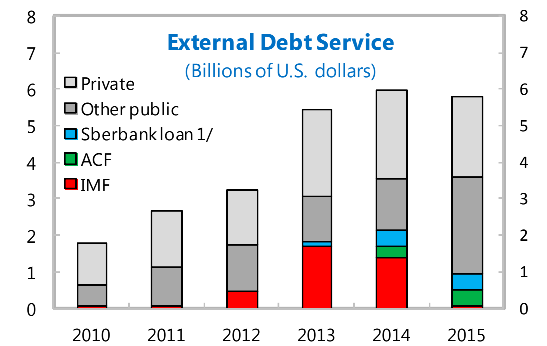
- Complete the NIPA pilot privatization project by privatizing all eight currently shortlisted companies by end-2013; create a pipeline of companies to be privatized expeditiously.
- Phase out mandatory economic targets, including SOE production targets, by end 2014.
- Prepare, by mid-2014, a time-bound program for SOE restructuring, including the removal of soft budget constraints and end of line-ministry control over SOEs.

Social safety nets

- Increase the cap on unemployment benefits, eliminate gaps in the provision of targeted social assistance, and move from quarterly to monthly indexation of benefits.

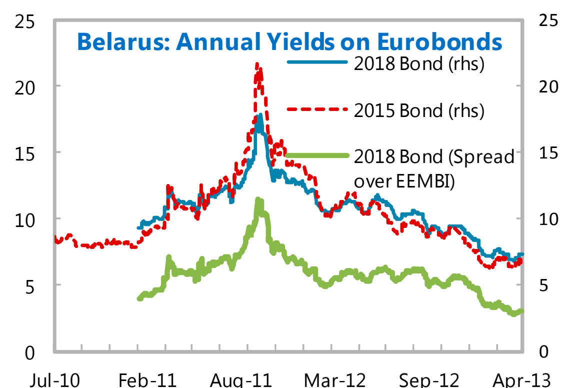
CAPACITY TO REPAY AND FUND RELATIONS

34. **Belarus' capacity to repay remains strained.** Increasing debt ratios, a deteriorating current account, low forex reserves, and a peak in external debt service in 2013–15—including repayments to the Fund of US$1.7 billion in 2013 and US$1.4 billion in 2014—are compounding repayment risks. Although on the staff's baseline scenario Belarus should be able to meet its external obligations in the short run, without additional external financing reserves would be on a downward trend leaving Belarus vulnerable to negative domestic or external shocks.



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

35. **The authorities are considering various avenues to raise additional financing.** Under the ACF program the authorities have committed to privatize state-owned assets for an amount of US$2½ billion, but assets that could be sold to meet this condition are yet to be identified.[2] The authorities are also discussing other new bilateral arrangements with Russia which could potentially raise large amounts of external financing. Separately, in light of sharply reduced yields benefitting from the exceptional market conditions, the government is considering floating a euro bond and has held two road shows in recent months.



Source: Bloomberg.

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36. **Belarus' economic model is increasingly untenable, resulting in poor policy outcomes.** The Belarus economy is the least reformed in Europe and high state control of the economy restrains productivity growth and competitiveness. Short-term policy efforts to boost growth beyond the economy's capacity resulted in large external imbalances and a crisis in 2011 and caused new volatility in 2012. The authorities' 8½ percent growth target for 2013 jeopardizes attainment of the 12 percent inflation target, and risks a repeat of the stop-go policy pattern of 2012.

37. **Strong and predictable macroeconomic policies are essential to promote stability**. Policies in 2013 should be squarely focused on further reducing inflation and containing the reemerging external imbalances. This requires steady policies and a tight management of domestic demand. To ensure their effectiveness, fiscal and monetary policies should be closely coordinated.

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[2] Information on the ACF arrangement with Belarus, including program appraisal and review documents, can be found at: http://acf.eabr.org/e/projects_acf_e/belarus_project_eng/

38. **A further sharp reduction in directed and subsidized lending operations is needed**. The reduction in directed lending in 2012 is welcome, but its level remains high and substantial additional lowering to a level below 1 percent of GDP is needed over the medium term. The remaining directed lending should be fully channeled through the Development Bank, and adequately reflected in the budget while directed lending through commercial banks should be phased out.

39. **Wage growth should not exceed targeted inflation in 2013**. To avoid fueling domestic demand and help recover lost competitiveness, nominal wage growth should be contained to no more than 12 percent, in line with the authorities' official end-year inflation target. The government's plans to raise the first grade wage by over 20 percent, which will set the tone for wage increases in the wider economy, should be reconsidered.

40. **The NBRB should tighten liquidity and stand ready to take further measures to ensure disinflation**. The NBRB should tighten liquidity conditions to align the market rate with the main policy rate. Also, if recent inflation gains are not continued, a policy rate increase will be needed to ensure further disinflation. Rates should also be raised if expansionary wage or directed lending policies were to jeopardize stability or if exchange rate pressures reemerge. Meanwhile, it is critical that the exchange rate remains flexible, to buffer against shocks and discourage dollarization.

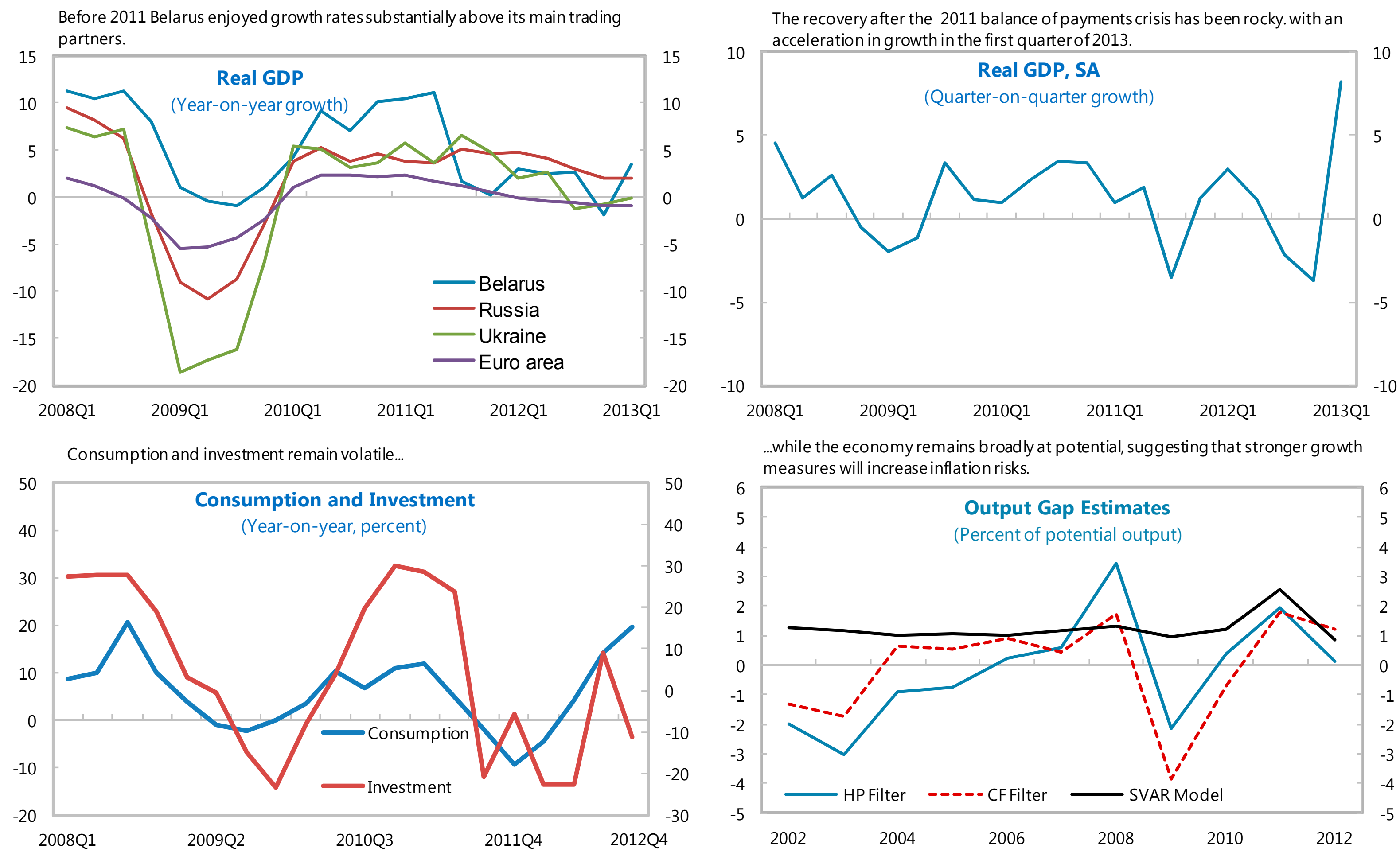
41. **Banking supervision has improved, but high FX lending growth poses risks.** Recent improvements in the banking code are welcome. However, rapid FX lending growth is posing risks, with much of the lending directed to unhedged borrowers. Additional measures by the NBRB to curb such lending should be considered, including higher risk weights on FX loans. The prohibition of FX lending to households should be maintained.

42. **Deep structural reform remains critical to achieving higher sustainable growth.** The government has made progress with tax reform and a new bankruptcy law, but there have been setbacks in price liberalization and privatization. To boost productivity and competitiveness, and unleash Belarus' growth potential, a comprehensive and ambitious reform agenda is needed. This would include price liberalization, privatization and state-owned enterprise restructuring, and targeted social safety nets. The government's modernization initiative, while containing useful elements, is unlikely to bring the needed change in the absence of such deeper reforms.

43. **The Development Bank should be used to facilitate broader financial sector reform**. By aiming to turn the DB into a vehicle for yet more directed lending, the authorities are missing an opportunity to improve the efficiency of the financial sector and the allocation of credit in the economy. In the staff's view, large benefits remain to be had from making the DB the sole provider of directed lending and allowing the banking system to operate on fully commercial terms. In any event, DB debt should not be eligible as collateral for NBRB refinancing so as to preclude effective monetization of DB lending.

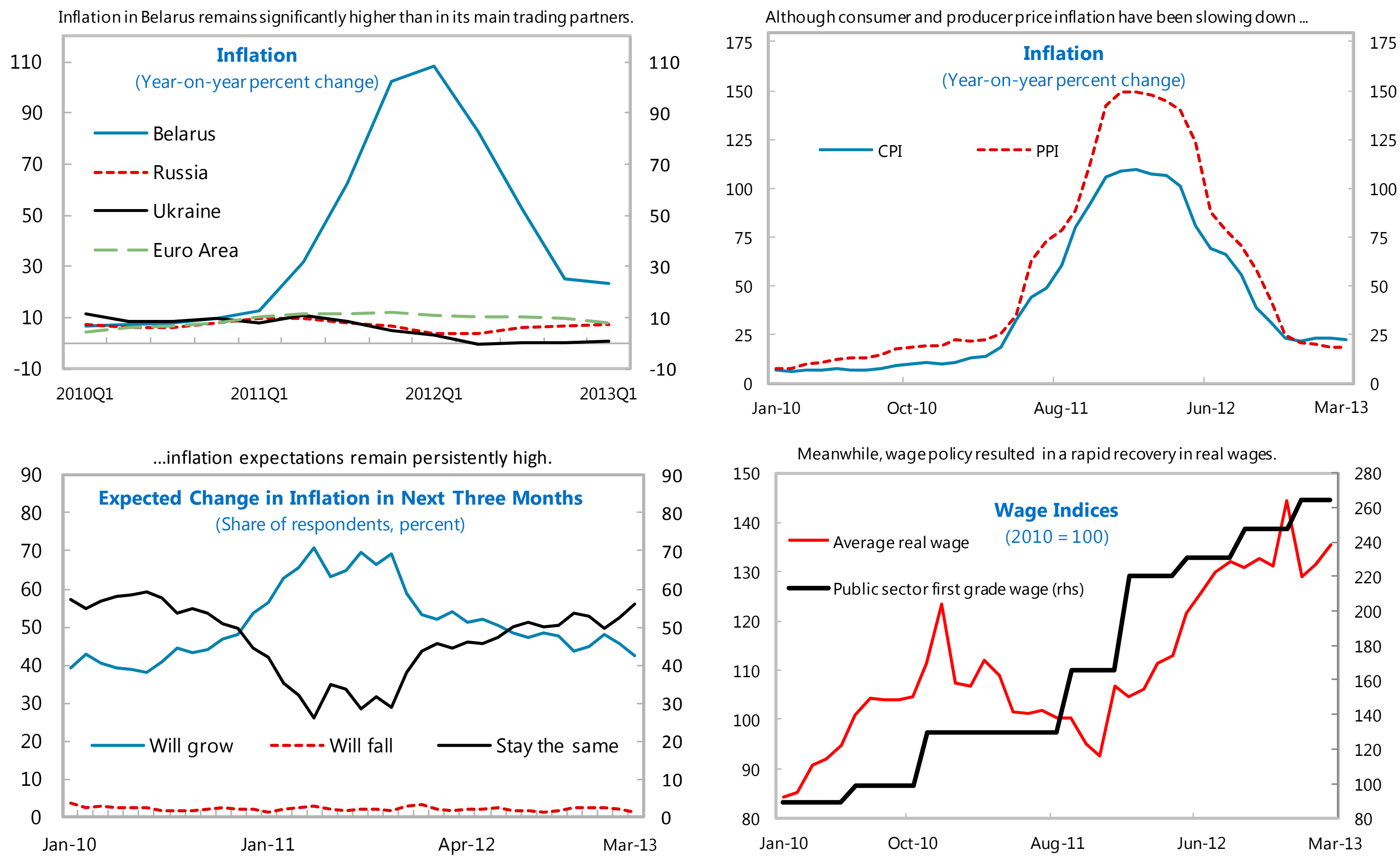
44. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

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



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

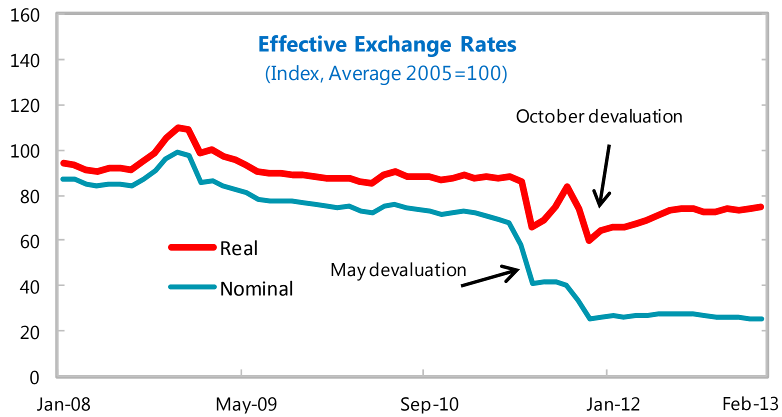
Figure 2. Belarus: Inflation and Wage Developments, 2010–13



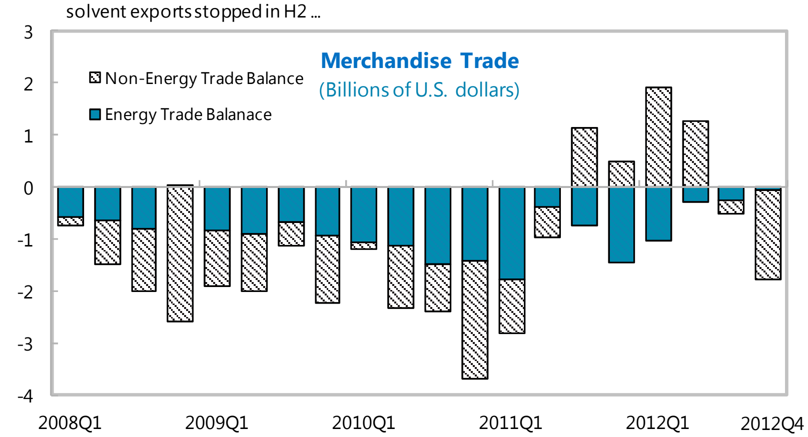
Sources: National Statistical Committee; NBRB and IMF staff estimates and calculations.

Figure 3. Belarus: External Sector, 2008-13

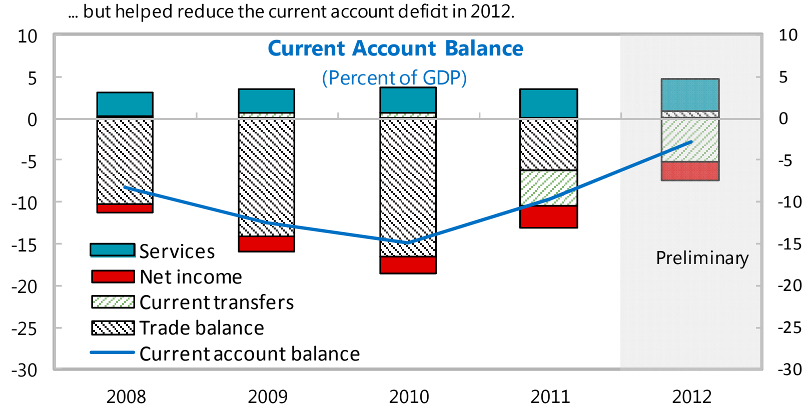
The exchange rate unification in 2011 contributed to the realignment of the REER with fundamentals, the rubel has been slowly appreciating since then.



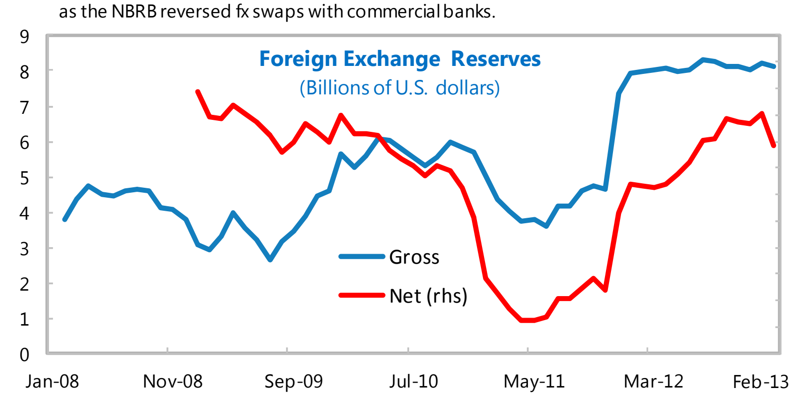
The strong positive turnaround in the trade balance in H1 2012 has reversed as solvent exports stopped in H2 ...



... but helped reduce the current account deficit in 2012.

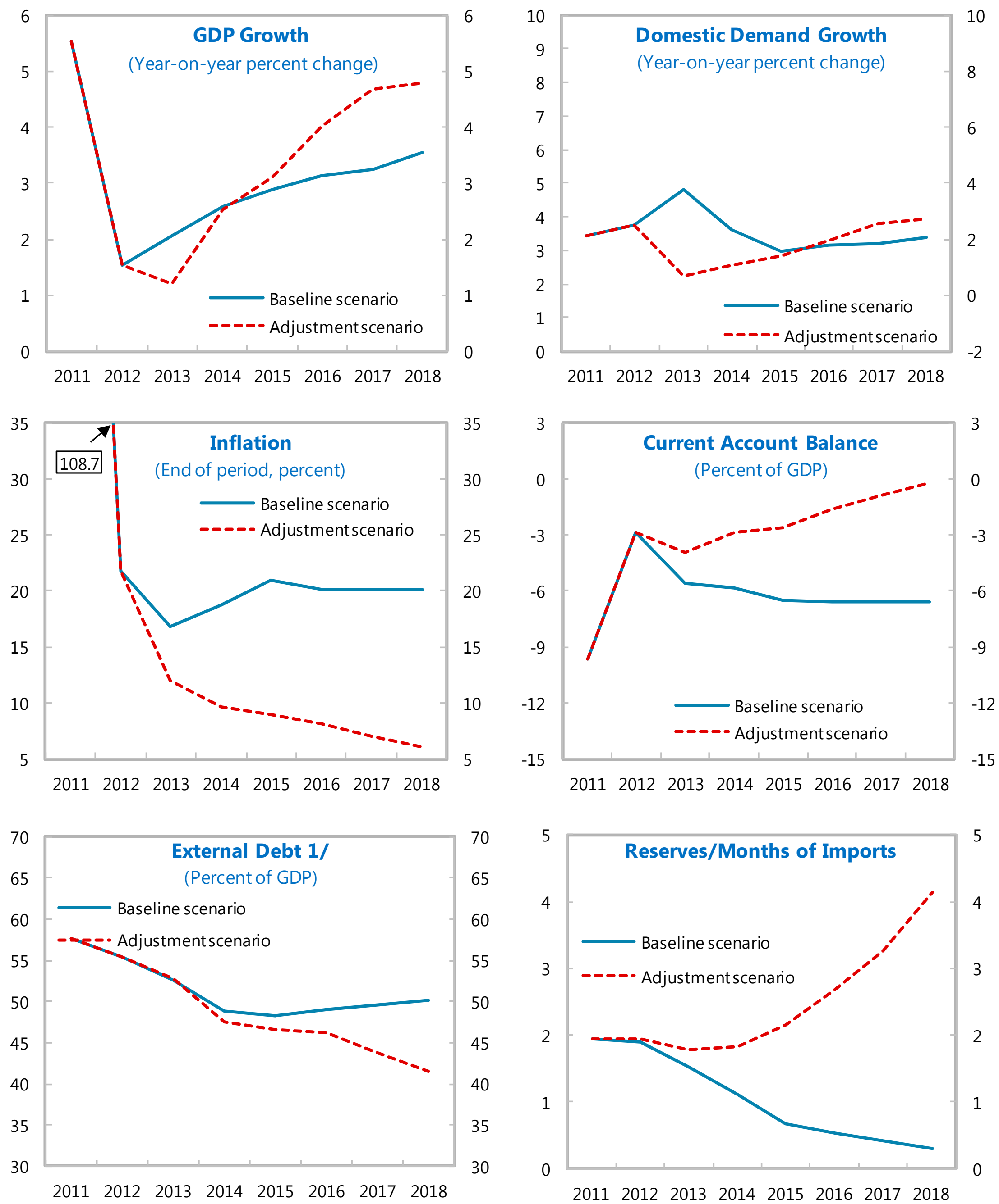


Despite these developments, net reserves continued to grow, gross reserves stabilized as the NBRB reversed fx swaps with commercial banks.



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

Figure 4. Belarus: Baseline and Adjustment Scenarios, 2011–18



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

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

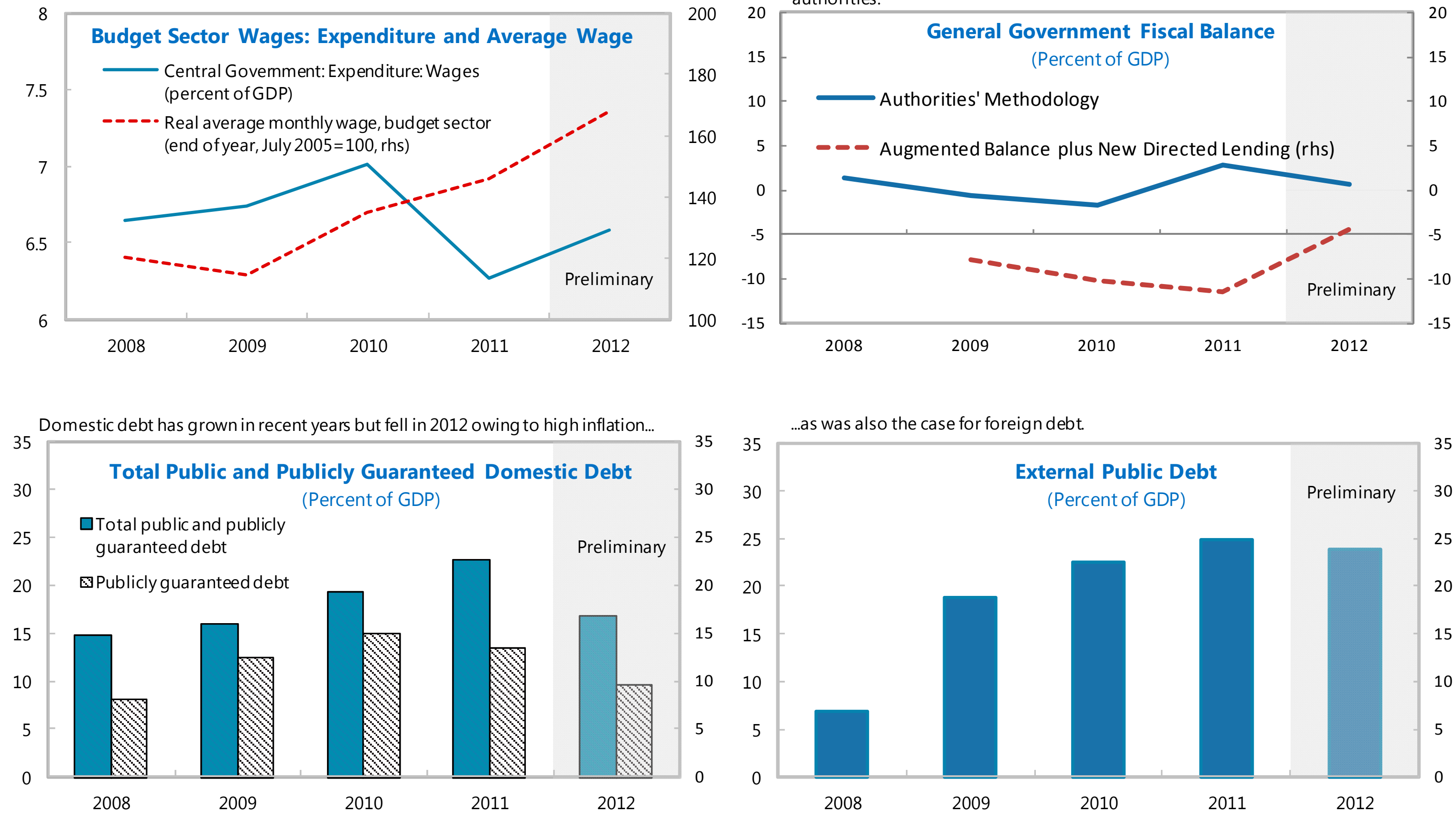
Figure 5. Belarus: Fiscal Developments, 2008-12

Budget sector wage costs are on an upward trend.

Including outlays for bank recapitalizations and for guaranteed debt, as well as directed lending suggests a looser fiscal stance than the measure used by the authorities.

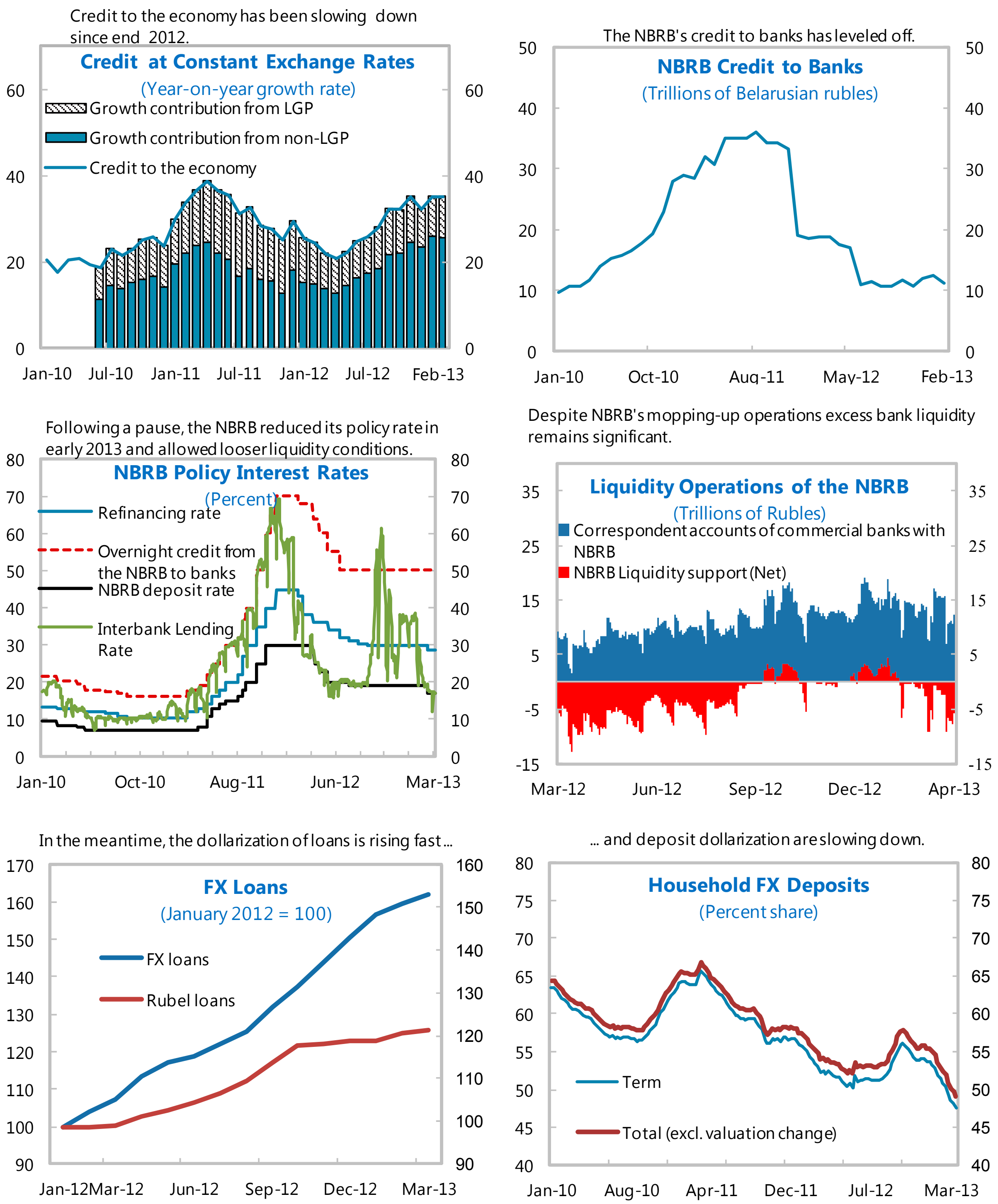
Domestic debt has grown in recent years but fell in 2012 owing to high inflation...

...as was also the case for foreign debt.



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

Figure 6. Belarus: Monetary Developments, 2010–13



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

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

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Proj.			
				(Percentage change)				
National accounts								
Real GDP	5.5	1.5	2.1	2.6	2.9	3.1	3.2	3.6
Total domestic demand	3.4	3.7	4.8	3.6	3.0	3.2	3.2	3.4
Consumption	1.0	8.2	4.2	3.1	2.7	3.2	3.2	3.5
Nongovernment	2.3	10.8	5.2	3.3	2.9	3.5	3.5	3.8
Government	-3.6	-1.2	0.0	2.0	2.0	2.0	2.0	2.0
Investment	7.8	-3.7	6.0	4.6	3.3	3.1	3.1	3.1
Of which: fixed	13.9	-9.8	6.3	4.8	3.5	3.3	3.3	3.3
Net exports 1/	3.4	-1.8	-3.4	-1.6	-0.6	-0.6	-0.5	-0.4
Consumer prices								
End of period	108.7	21.8	16.8	18.8	20.9	20.1	20.1	20.1
Average	53.2	59.2	20.5	15.5	20.8	20.1	20.1	20.1
Monetary accounts								
Reserve money	84.1	61.6	29.4	35.9	40.5	40.6	40.5	40.5
Rubel broad money	64.1	57.2	29.6	36.1	41.0	40.8	40.6	40.6
				(In percent of GDP; unless otherwise indicated)				
External debt and balance of payments								
Current account balance	-9.7	-2.9	-5.6	-5.9	-6.5	-6.6	-6.6	-6.6
Trade balance	-6.2	0.8	-2.6	-3.0	-3.5	-4.5	-5.0	-5.5
Exports of goods	69.3	71.9	65.9	62.8	62.8	69.7	69.3	69.4
Imports of goods	-75.5	-71.1	-68.4	-65.9	-66.2	-74.1	-74.3	-74.9
Gross external debt	57.7	55.4	52.7	48.9	48.3	48.9	49.5	50.2
Public 2/	25.0	23.8	22.1	19.2	16.9	17.2	17.2	17.2
Private (mostly state-owned-enterprises)	32.7	31.6	30.5	29.8	31.4	31.8	32.3	33.0
Savings and investment								
Gross domestic investment	37.6	34.5	37.4	40.7	41.2	41.6	41.1	40.2
Government	5.1	6.5	7.0	6.6	6.8	7.0	7.0	6.9
Nongovernment	32.5	28.0	30.4	34.1	34.4	34.7	34.1	33.3
National saving	28.0	31.6	31.8	34.9	34.7	35.1	34.5	33.6
Government 3/	2.2	7.0	4.4	3.2	3.1	2.9	2.8	2.6
Nongovernment 3/	25.7	24.6	27.4	31.7	31.6	32.1	31.7	31.0
Public sector finance								
General government balance	2.8	0.7	0.2	-0.7	-1.0	-1.3	-1.5	-1.5
Augmented general government balance 4/	-2.9	0.5	-2.6	-3.5	-3.7	-4.0	-4.2	-4.2
Augmented general government balance incl. new directed lending	-11.4	-4.4	-5.1	-6.0	-6.2	-6.5	-6.7	-6.7
Of which: new directed lending (incl. Development Bank) 5/	8.6	5.0	2.5	2.5	2.5	2.5	2.5	2.5
Revenue	38.8	40.8	40.8	39.6	39.6	39.6	39.6	39.6
Expenditure 6/	41.6	40.2	43.4	43.1	43.3	43.6	43.8	43.8
Of which:								
Wages	6.3	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	7.3	7.7	6.8	7.1	7.1	7.1	7.1	7.1
Investment	5.1	6.5	7.1	6.6	6.8	7.0	7.0	6.9
Gross public debt 7/	43.4	36.9	35.6	33.6	33.4	34.7	36.0	37.2
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	60	63	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297.2	527.4	662.5	818	1,009	1,237	1,521	1,859
Terms of trade, percentage change	5.9	10.5	1.7	0.2	-0.9	-1.2	0.2	-0.1
Official reserves (billions of U.S. dollars)	7.9	8.1	6.9	5.3	3.7	3.2	2.6	1.9
Months of imports of goods and services	1.9	1.9	1.5	1.1	0.7	0.5	0.4	0.3
Percent of short-term debt	56.9	62.8	51.0	37.5	25.1	20.3	15.8	10.9

Quota (2010): SDR 386.4 million (589.7 million U.S. dollars)

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.
2/ Gross consolidated external debt of the public sector (central bank and general government debt including publicly guaranteed debt).
3/ The reduction in government saving and a corresponding increase in nongovernment saving include bank recapitalization and layouts related to public guaranteed debt.
4/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and related to called guarantees of publicly guaranteed debt.
5/ Net changes in stock at current exchange rate.
6/ Refers to the augmented expenditure of the general government.
7/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2011–18 1/
(In millions of U.S. dollars; unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.	Proj.					
Current account balance	-5,775	-1,819	-3,902	-4,449	-5,174	-5,461	-5,777	-6,039
Trade balance (goods)	-3,716	498	-1,774	-2,312	-2,747	-3,746	-4,355	-5,029
Energy balance	-4,551	-1,646	-3,032	-2,054	-1,675	-1,950	-1,982	-2,063
Nonenergy balance	834	2,144	1,258	-259	-1,072	-1,796	-2,373	-2,966
Exports	41,410	45,506	45,671	47,724	49,989	58,051	60,696	63,525
Energy	14,078	16,110	13,055	13,493	13,870	13,202	12,964	12,778
Nonenergy	27,332	29,397	32,616	34,230	36,120	44,849	47,732	50,747
Imports	-45,126	-45,009	-47,445	-50,036	-52,737	-61,798	-65,051	-68,554
Energy	-18,629	-17,756	-16,087	-15,547	-15,545	-15,152	-14,946	-14,841
Nonenergy	-26,497	-27,253	-31,358	-34,489	-37,192	-46,646	-50,105	-53,713
Services	2,078	2,439	2,804	2,475	2,227	2,205	2,677	3,099
Receipts	5,261	6,250	6,864	7,008	7,131	7,598	8,254	8,855
Payments	-3,183	-3,811	-4,059	-4,533	-4,904	-5,393	-5,577	-5,756
Income, net	-1,558	-1,516	-1,845	-1,704	-1,701	-1,340	-1,669	-1,794
Transfers, net 2/	-2,579	-3,239	-3,088	-2,909	-2,952	-2,580	-2,430	-2,316
Capital and financial accounts	4,771	1,576	3,384	3,786	3,662	4,900	5,204	5,351
Capital account	190	5	6	6	11	20	38	77
Financial account	4,581	1,571	3,378	3,780	3,651	4,880	5,166	5,273
Overall FDI, net	3,928	1,343	1,683	2,228	2,453	2,725	2,950	3,027
Portfolio investment, net	854	-188	0	0	0	0	0	0
Trade credits, net	561	-1,320	387	455	423	424	610	626
Loans, net	486	940	1,487	716	622	1,556	1,563	1,580
Government and monetary authorities, net	-327	310	1,167	244	77	872	862	862
Banks, net	70	125	94	235	296	357	354	348
Other sectors, net	743	506	226	237	249	327	347	369
Other, net	-1,248	796	-179	381	154	175	43	40
Errors and omissions	1,555	350	0	0	0	0	0	0
Overall balance	551	106	-518	-663	-1,512	-561	-573	-688
Financing	-551	-106	518	663	1,512	561	573	688
Gross official reserves ("-" denotes an increase)	-2,791	-81	1,195	1,564	1,594	561	573	688
Use of IMF credit (+)	0	-465	-1,558	-1,340	-83	0	0	0
Other donors and exceptional financing items	2,240	440	880	440	0	0	0	0
Memorandum items:								
Current account balance (in percent of GDP)	-9.7	-2.9	-5.6	-5.9	-6.5	-6.6	-6.6	-6.6
Total external debt (in percent of GDP)	57.7	55.4	52.7	48.9	48.3	48.9	49.5	50.2
Gross official reserves (end-of-period)	7,916	8,095	6,899	5,336	3,741	3,180	2,607	1,919
In months of imports of goods and services	1.9	1.9	1.5	1.1	0.7	0.5	0.4	0.3
In percent of short-term debt	56.9	62.8	51.0	37.5	25.1	20.3	15.8	10.9
Export volume (annual percentage change)	29.5	10.6	-3.9	1.5	2.8	1.8	1.9	2.0
Import volume (annual percentage change)	15.8	9.4	1.5	3.1	2.7	2.2	2.1	2.1

Sources: Belarus authorities; and IMF staff estimates.

1/ From 2012 reflects data compiled based on BPM6.
2/ Values for 2011-18 include transfer of export duty on oil products to the Russian budget.

Table 3a. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2011–18

(Percent of annual GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Proj.			
1. State (republican and local) budget								
Revenue	28.8	30.0	30.2	29.0	29.0	29.0	29.0	29.0
Personal income tax	3.1	3.7	3.8	3.3	3.3	3.3	3.3	3.3
Profit tax	2.9	3.7	4.3	3.5	3.5	3.5	3.5	3.5
VAT	8.9	8.6	8.9	8.5	8.5	8.5	8.5	8.5
Excises	1.9	2.1	2.5	2.2	2.2	2.2	2.2	2.2
Property tax	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Customs duties	5.1	4.8	4.5	4.7	4.7	4.7	4.7	4.7
Other	4.3	4.5	4.4	4.4	4.4	4.4	4.4	4.4
Revenue of budgetary funds	1.7	1.5	0.8	1.6	1.6	1.6	1.6	1.6
Expenditure (economic classification) 1/	26.7	29.4	30.1	29.4	29.6	29.8	29.9	29.8
Wages and salaries	6.3	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Social protection fund contributions	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Goods and services	5.2	5.4	5.8	5.2	5.2	5.2	5.2	5.2
Interest	1.1	1.4	1.4	1.7	1.7	1.8	1.8	1.9
Subsidies and transfers	7.3	7.7	6.8	7.1	7.1	7.1	7.1	7.1
Capital expenditures	5.1	6.5	7.1	6.6	6.8	7.0	7.0	6.9
Net lending	0.1	0.0	-0.5	0.1	0.1	0.1	0.1	0.1
Other	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
State Budget Balance	2.1	0.5	0.1	-0.4	-0.6	-0.8	-0.9	-0.8
2. Social Protection Fund								
Revenue	10.0	10.8	10.6	10.6	10.6	10.6	10.6	10.6
Expenditure	9.3	10.7	10.4	10.9	11.0	11.1	11.2	11.3
Balance (cash)	0.7	0.1	0.1	-0.3	-0.4	-0.5	-0.6	-0.7
3. General government								
Revenue	38.8	40.8	40.8	39.6	39.6	39.6	39.6	39.6
Expenditure	36.0	40.1	40.5	40.3	40.6	40.9	41.1	41.1
Balance	2.8	0.7	0.2	-0.7	-1.0	-1.3	-1.5	-1.5
Off-Balance sheet operations	-5.6	-0.2	-2.8	-2.8	-2.7	-2.7	-2.7	-2.7
Bank restructuring measures	-4.9	0.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Net lending to financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	-0.7	-0.2	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Augmented balance 2/	-2.9	0.5	-2.6	-3.5	-3.7	-4.0	-4.2	-4.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	2.9	-0.5	2.6	3.5	3.7	4.0	4.2	4.2
Privatization	7.3	0.0	0.1	1.0	1.0	1.0	1.0	1.0
Foreign financing, net	3.1	-0.7	0.6	-0.9	0.0	1.0	1.0	0.9
Domestic financing, net 3/	-7.5	0.2	1.9	3.3	2.7	2.0	2.2	2.3
Central bank (including IMF)	-14.6	-0.6	2.4	1.8	0.1	0.0	0.0	0.0
Deposit money banks (including SPF)	0.9	-0.7	0.1	-0.3	-0.4	-0.5	-0.6	-0.7
Commercial bank net purchases of domestic debt	6.2	1.5	-0.6	1.8	3.0	2.5	2.8	3.0
Memorandum items:								
Augmented general government balance with new directed lending	-11.4	-4.4	-5.1	-6.0	-6.2	-6.5	-6.7	-6.7
Of which: new directed lending (incl. Development Bank) 4/	8.6	5.0	2.5	2.5	2.5	2.5	2.5	2.5
Gross public debt 5/	43.4	36.9	35.6	33.6	33.4	34.7	36.0	37.2
GDP (trillions of Belarusian rubels)	297	527	663	818	1,009	1,237	1,521	1,859

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

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

Table 3b. Belarus: General Government accounts, GFSM2001 presentation, 2008-12 1/

(Percent of GDP)

	2008	2009	2010	2011	2012 Preliminary estimate
Revenues	52.0	47.2	43.0	39.8	42.6
Taxes	37.7	30.1	27.3	24.7	26.2
Taxes on income, profits & capital gains	8.6	7.0	7.2	6.2	7.5
Taxes on property	1.5	1.2	1.1	0.9	1.0
Taxes on goods and services	16.0	14.7	14.1	11.8	12.1
Taxes on Intl trade and transactions	8.2	5.8	3.5	5.1	4.8
Other taxes	3.3	1.4	1.3	0.7	0.7
Social contributions	11.2	11.5	11.7	9.7	10.8
Other revenue	3.2	5.7	4.0	5.4	4.8
Expense	42.7	42.7	40.3	33.8	36.9
Compensation of employees	9.0	9.1	9.4	8.4	9.0
Wages and salaries	7.0	7.1	7.4	6.6	7.0
Social contributions	1.9	1.9	2.0	1.8	1.9
Uses of goods and services	9.2	7.8	7.4	6.4	6.8
Interest	0.6	0.8	0.7	1.1	1.4
Subsidies	9.1	8.9	5.4	4.6	5.1
Grants	0.1	0.1	0.1	0.1	0.2
Social benefits	11.9	13.0	13.6	11.4	12.9
Other expense	2.9	3.1	3.7	1.8	1.5
Gross operating balance	9.3	4.5	2.7	6.0	5.7
Net acquisition of nonfinancial assets	5.8	4.8	4.5	3.0	4.5
Net borrowing/lending	3.5	-0.3	-1.8	3.0	1.2
Transactions in financial assets and liabilities	3.5	-0.3	-1.8	3.0	0.0
Net acquisition of financial assets	7.3	5.7	1.8	11.9	0.6
by instrument					
Monetary gold and SDRs	0.0	1.2	0.0	0.0	...
Currency and deposits	5.7	5.6	0.6	13.0	...
Securities other than shares	0.0	0.0	0.0	0.0	...
Loans	0.7	0.3	0.6	0.9	...
Shares and other equity	0.9	-1.4	0.6	-1.9	...
Other accounts receivable	0.0	0.0	0.0	-0.1	...
by debtor					
Domestic	7.3	4.5	1.8	11.9	...
Foreign	0.0	1.2	0.0	0.0	...
Net incurrence of liabilities	3.8	6.1	3.6	8.9	...
by instrument					
Special Drawing Rights (SDRs)	0.0	1.2	0.0	0.0	...
Currency and deposits	0.0	0.0	0.0	0.0	...
Securities other than shares	1.3	-1.7	3.7	6.3	...
Loans	2.4	6.5	-0.1	2.7	...
Shares and other equity	0.0	0.0	0.0	0.0	...
Other accounts payable	0.0	0.0	0.0	-0.2	...
by debtor					
Domestic	1.4	-3.5	0.8	5.8	...
Foreign	2.3	9.6	2.8	3.1	...

Source: Belarusian authorities

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

Table 4. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2011–18

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

	2011	2012	2013	2014	2015	2016	2017	2018
	Prel.		Proj.					
Reserve money	18.8	30.3	39.2	53.3	74.9	105.3	148.0	207.9
Rubel reserve money	16.9	29.9	38.8	52.8	74.3	104.7	147.2	207.0
Currency outside banks	6.7	11.3	14.1	19.2	26.9	37.8	53.2	74.8
Required reserves	7.4	13.8	16.4	24.8	36.2	51.8	74.3	108.7
Time deposits, NBB securities, and nonbank deposits	2.8	4.8	8.3	8.8	11.2	15.0	19.7	23.5
Foreign currency reserve money	1.9	0.4	0.4	0.5	0.6	0.7	0.8	0.9
Net foreign assets	36.7	43.7	53.4	57.7	48.8	48.8	47.1	41.1
Billions of U.S. dollars	4.4	5.1	5.6	5.4	3.8	3.3	2.7	2.0
Foreign assets	83.7	78.3	75.8	68.6	60.6	62.6	63.3	60.0
Billions of U.S. dollars	10.0	9.1	7.9	6.4	4.8	4.2	3.6	3.0
Of which gross international reserves	66.1	69.4	65.9	57.4	47.4	47.2	45.3	39.0
Billions of U.S. dollars	7.9	8.1	6.9	5.3	3.7	3.2	2.6	1.9
Foreign liabilities	47.0	34.5	22.5	10.9	11.8	13.8	16.2	18.9
Net domestic assets	-17.9	-13.4	-14.1	-4.4	26.1	56.5	100.8	166.8
Net domestic credit	-29.5	-29.9	-13.4	13.4	49.1	84.1	132.2	201.4
Net credit to general government	-62.9	-56.0	-40.1	-25.5	-24.5	-24.5	-24.5	-24.5
Credit to economy	33.4	26.1	26.8	38.9	73.6	108.6	156.6	225.8
Credit to banks	19.1	12.0	13.4	26.2	61.5	97.1	145.7	215.5
National currency	13.5	9.7	10.7	22.1	55.4	88.5	134.0	199.7
Foreign currencies	5.6	2.4	2.6	4.1	6.0	8.6	11.8	15.8
Billions of U.S. dollars	0.7	0.3	0.3	0.4	0.5	0.6	0.7	0.8
Credit to nonbanks	14.2	14.1	13.4	12.7	12.1	11.5	10.9	10.4
Other items, net	11.6	16.4	-0.8	-17.8	-23.0	-27.6	-31.3	-34.6
Memorandum item:								
12-month percent change in reserve money	84.1	61.6	29.4	35.9	40.5	40.6	40.5	40.5

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

Table 5. Belarus: Monetary Survey (Baseline Scenario), 2011–18

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

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.	Proj.					
Broad money (M3)	111.2	160.8	218.4	319.6	461.3	656.9	936.4	1,354.3
Rubel broad money (M2)	43.4	68.1	88.3	120.2	169.5	238.7	335.7	472.1
Currency in circulation	6.7	11.3	14.1	19.2	26.9	37.8	53.2	74.8
Domestic currency deposits	34.5	54.3	70.9	96.6	136.4	192.0	270.0	379.7
Domestic currency securities	2.2	2.5	3.3	4.5	6.3	8.9	12.5	17.6
Foreign currency deposits	64.1	88.6	124.4	190.7	279.0	400.0	574.5	843.8
Bank securities in foreign currency	3.7	4.0	5.7	8.7	12.7	18.2	26.2	38.5
Net foreign assets	5.8	4.7	6.5	8.8	0.0	-4.9	-11.0	-21.1
Billions of U.S. dollars	0.7	0.5	0.7	0.8	0.0	-0.3	-0.6	-1.0
NFA of central bank	36.7	43.7	53.4	57.7	48.8	48.8	47.1	41.1
NFA of deposit money banks	-30.9	-39.0	-46.8	-48.9	-48.8	-53.7	-58.1	-62.2
Net domestic assets	105.4	156.1	211.9	310.8	461.3	661.8	947.3	1,375.4
Net domestic credit	104.6	159.3	230.4	326.8	461.5	638.4	893.6	1,280.7
Net credit to general government	-67.1	-70.5	-53.8	-40.2	-41.4	-45.4	-51.9	-61.6
Credit to economy	171.7	229.8	284.1	366.9	502.9	683.8	945.4	1,342.2
Other items, net	0.9	-3.3	-18.5	-16.0	-0.2	23.4	53.8	94.7
Memorandum items:								
12-month percent change of credit to economy excl. valuation effect	37.0	32.4	17.6	21.3	25.4	22.8	22.6	23.2

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

Table 6. Belarus: Selected Economic Indicators (Adjustment Scenario), 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.	Proj.					
	(Percentage change)							
National accounts								
Real GDP	5.5	1.5	1.2	2.5	3.1	4.0	4.7	4.8
Total domestic demand	3.4	3.7	2.3	2.5	2.8	3.3	3.8	3.9
Consumption	1.0	8.2	2.1	2.4	2.5	2.6	3.0	3.2
Nongovernment	2.3	10.8	2.6	2.5	2.6	2.8	3.2	3.5
Government	-3.6	-1.2	0.0	2.0	2.0	2.0	2.0	2.0
Investment	7.8	-3.7	2.5	2.8	3.4	4.6	5.2	5.2
Of which: fixed	13.9	-9.8	2.7	2.9	3.6	4.8	5.4	5.4
Net exports 1/	3.4	-1.8	-1.4	-0.4	-0.1	0.2	0.4	0.4
Consumer prices								
End of period	108.7	21.8	12.0	9.6	8.9	8.1	7.0	6.0
Average	53.2	59.2	18.4	8.0	10.0	8.2	7.6	6.4
Monetary accounts								
Reserve money	84.1	61.6	17.0	15.4	12.0	9.9	8.5	6.4
Rubel broad money	64.1	57.2	17.1	15.5	12.1	10.0	8.5	6.4
	(In percent of GDP; unless otherwise indicated)							
External debt and balance of payments								
Current account balance	-9.7	-2.9	-4.0	-2.8	-2.6	-1.7	-0.9	-0.2
Trade balance	-6.2	0.8	-1.1	-0.7	-0.6	-0.5	-0.1	0.2
Exports of goods	69.3	71.9	66.4	62.1	62.6	61.5	58.4	55.6
Imports of goods	-75.5	-71.1	-67.4	-62.8	-63.2	-62.1	-58.6	-55.4
Gross external debt	57.7	55.4	52.8	47.6	46.5	46.2	43.8	41.5
Public 2/	25.0	23.8	22.4	18.9	16.5	16.5	15.6	14.6
Private (mostly state-owned-enterprises)	32.7	31.6	30.4	28.7	30.0	29.6	28.2	26.9
Savings and investment								
Gross domestic investment	37.6	34.5	36.3	40.4	40.6	41.0	43.5	45.8
Government	5.1	6.5	7.2	7.0	7.2	7.6	8.0	8.2
Nongovernment	32.5	28.0	29.1	33.5	33.4	33.4	35.4	37.6
National saving	28.0	31.6	32.4	37.6	38.0	39.4	42.6	45.6
Government 3/	2.2	7.0	4.5	4.6	4.9	5.3	5.7	5.9
Nongovernment 3/	25.7	24.6	27.9	33.0	33.1	34.0	36.8	39.6
Public sector finance								
General government balance	2.8	0.7	0.2	-0.8	-1.0	-1.3	-1.5	-1.5
Augmented general government balance 4/	-2.9	0.5	-2.7	-2.4	-2.3	-2.3	-2.3	-2.3
Augmented general government balance incl. new directed lending	-11.4	-4.4	-4.7	-3.9	-3.3	-3.3	-3.3	-3.3
Of which: new directed lending (incl. Development Bank) 5/	8.6	5.0	2.0	1.5	1.0	1.0	1.0	1.0
Revenue	38.8	40.8	41.9	39.9	39.9	39.9	39.9	39.9
Expenditure 6/	41.6	40.2	44.6	42.3	42.2	42.2	42.2	42.2
Of which:								
Wages	6.3	6.6	7.0	6.8	6.8	6.8	6.8	6.8
Subsidies and transfers	7.3	7.7	7.0	6.9	6.7	6.5	6.3	6.1
Investment	5.1	6.5	7.2	7.0	7.2	7.6	8.0	8.2
Gross public debt 7/	43.4	36.9	36.1	32.4	30.9	30.7	29.6	28.6
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	60	63	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	527	645	765	866	970	1,134	1,312
Terms of trade, percentage change	5.9	10.5	1.5	0.4	-0.5	-0.7	-0.1	-0.2
Official reserves (billions of U.S. dollars)	7.9	8.1	7.8	8.5	10.6	13.9	17.9	22.8
Months of imports of goods and services	1.9	1.9	1.8	1.8	2.2	2.7	3.3	4.1
Percent of short-term debt	56.9	62.8	58.8	61.6	73.1	91.5	111.1	135.3

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.
2/ Gross consolidated external debt of the public sector (central bank and general government debt including publicly guaranteed debt).
3/ The reduction in government saving and a corresponding increase in nongovernment saving include bank recapitalization and layouts related to public guaranteed debt.
4/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and related to called guarantees of publicly guaranteed debt.
5/ Net changes in stock at current exchange rate.
6/ Refers to the augmented expenditure of the general government.
7/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).

Table 7. Belarus: Indicators of External Vulnerability, 2009–12

	2009	2010	2011	2012 Prel.
CPI inflation (end year)	10.1	9.9	108.7	21.8
Export volume of goods (percent change)	-11.5	2.8	29.5	10.6
Import volume of goods (percent change)	-12.6	8.0	15.8	9.4
Current account balance (percent of GDP)	-12.6	-15.0	-9.7	-2.9
Capital and financial account balance (millions of U.S. dollars)	5,066	6,444	4,771	1,576
Of which:				
Foreign direct investment, net	1,782	1,352	3,928	1,343
Trade credits, net	657	568	561	-1,320
Official Liabilities, net	4,739	1,975	2,185	-635
Liabilities of the banking sector, net	483	2,296	474	27
Non-bank private liabilities (excl. trade credits) 1/	349	39	839	475
Gross official reserves (millions of U.S. dollars)	5,653	5,031	7,916	8,095
Months of imports of goods and services	1.8	1.2	1.9	1.9
Percent of broad money	22.7	16.3	59.4	43.8
Gross total external debt (millions U.S. dollars)	22,439	28,770	34,454	35,071
Percent of GDP	45.6	52.1	57.7	55.4
Percent of exports of goods and services	90.2	96.2	73.8	67.8
Gross short-term external debt (millions of U.S. dollars)	9,342	12,155	14,113	13,091
Percent of gross total external debt	42	42	41	37
Percent of gross official reserves	165	242	178	162
Debt service ratio (percent) 2/	6.0	6.0	5.7	6.1
REER percent change (CPI based, period average)	-4.5	-5.0	-17.0	2.4
Capital adequacy ratio (percent) 3/	19.8	20.5	24.7	20.8
Nonperforming loans (percent of total)	4.2	3.5	4.2	5.5
Banks' net open FX position (percent of regulatory capital)	-11.6	-1.4	9.4	9.0

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

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

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

	2012	2013	2014	2015	2016	2017	2018
Fund repurchases and charges							
Millions of SDRs	350	1,058	893	55	0	0	0
Millions of U.S. dollars	538	1,603	1,349	83	0	0	0
Percent of exports of goods and services	1	3	2	0	0	0	0
Percent of total debt service 2/	16	28	22	1	0	0	0
Percent of quota	91	274	231	14	0	0	0
Percent of gross international reserves	7	23	25	2	0	0	0
Fund credit outstanding							
Millions of SDRs	1,966	941	55	0	0	0	0
Millions of U.S. dollars	3,025	1,425	83	0	0	0	0
Percent of exports of goods and services	6	3	0	0	0	0	0
Percent of quota	509	243	14	0	0	0	0
Percent of gross international reserves	37	21	2	0	0	0	0
Memorandum items:							
Exports of goods and services (millions of U.S. dollars)	51,756	52,535	54,731	57,120	65,649	68,950	72,380
Debt service (millions of U.S. dollars)	3,446	5,770	6,161	6,020	3,956	4,393	5,438
Quota (millions of SDRs)	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	595	586	584	583	581	580	579
Gross international reserves (millions of U.S. dollars)	8,095	6,899	5,336	3,741	3,180	2,607	1,919
U.S. dollars per SDR (period average)	1.532	1.519	1.513	1.510	1.506	1.503	1.500
U.S. dollars per SDR (eop)	1.539	1.515	1.511	1.508	1.504	1.502	1.499

Source: IMF staff calculations.

1/ Assumes repurchases are made on obligations schedule.
2/ Debt service includes interest on the entire debt stock and amortization of medium-and long-term debt.

Appendix I. Belarus: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
1. **Stalled or incomplete delivery of Euro area policy commitments and/or protracted period of slower European growth.**	**Medium** A deepening of the recession in the euro area could result in a slowdown of global demand.	**Medium** Slow Euro area growth would produce a negative spillover mainly through trade.	• Continue flexible exchange rate policy. • Speed up structural reform to increase competitiveness.
2. **Loosening of macroeconomic policies**	**High** A loosening of policies to reach the government's 8½ percent GDP growth target would endanger macroeconomic stability.	**High** Stimulus efforts would boost demand and reignite inflation and fuel pressures on the exchange rate.	• Tighten macroeconomic policies including monetary, wage and exchange rate policies.
3. **External financing shortfalls**	**Medium** A spike in global risk aversion or a worsening of investor sentiment vis-à-vis Belarus could lead to lower capital inflows. On the upside, privatization and bilateral financing agreements could raise external financing flows.	**High** Belarus has very high gross financing needs in 2013–14. Shortfalls of external financing from the baseline would further reduce reserves and raise exchange rate risks.	• Tighten macroeconomic policies. • Continue flexible exchange rate policy.
4. **Weakening economic environment could reduce banks' asset quality**	**Medium** Slowdown in economic activity could increase problem loans and require renewed bank recapitalization.	**Medium** Potential state-owned bank recapitalization costs could be high and could exacerbate public debt dynamics.	• Increase supervision and oversight over large banks, including through more frequent onsite monitoring.
5. **Terms of trade shock**	**Medium** Sharp changes in commodity prices could affect the balance of payments including through their effect on growth in Russia.	**High** A negative terms of trade shock would weaken the balance of payments and further raise external financing needs.	• Tighten macroeconomic policies to avoid a sharp weakening of the current account. • Speed up structural reform to increase competitiveness. • Continue flexible exchange rate.

[1] The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in the view of the staff.

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

(Percent of GDP, unless otherwise indicated)

	Actual					Projections 1/						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing noninterest current account 7/
Baseline: external debt	25.0	45.6	52.1	57.7	55.4	52.7	48.9	48.3	48.9	49.5	50.2	-3.8
Change in external debt	-1.5	20.6	6.5	5.6	-2.2	-2.8	-3.7	-0.6	0.7	0.6	0.7	
Identified external debt-creating flows (4+8+9)	-1.8	14.9	7.7	-0.5	-2.2	2.3	1.8	2.2	1.9	1.8	1.7	
Current account deficit, excluding interest payments	7.4	11.5	13.9	8.0	1.1	3.3	3.9	4.7	5.3	5.1	5.0	
Deficit in balance of goods and services	7.6	11.3	13.5	2.7	-4.6	-1.5	-0.2	0.7	1.8	1.9	2.1	
Exports	61.0	50.5	54.2	78.1	81.8	75.8	72.0	71.7	78.8	78.8	79.1	
Imports	68.6	61.8	67.7	80.9	77.2	74.3	71.8	72.4	80.6	80.7	81.2	
Net non-debt creating capital inflows (negative)	-3.3	-3.5	-2.3	-6.2	-1.8	-2.3	-2.8	-3.0	-3.2	-3.3	-3.2	
Automatic debt dynamics 2/	-5.9	6.9	-3.8	-2.3	-1.4	1.3	0.7	0.4	-0.2	0.0	-0.1	
Contribution from nominal interest rate	0.8	1.0	1.1	1.7	1.8	2.3	1.9	1.8	1.2	1.5	1.6	
Contribution from real GDP growth	-2.0	-0.1	-3.1	-2.7	-0.8	-1.0	-1.2	-1.4	-1.4	-1.5	-1.7	
Contribution from price and exchange rate changes 3/	-4.7	5.9	-1.8	-1.3	-2.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	0.3	5.7	-1.2	6.1	-0.1	-5.1	-5.6	-2.8	-1.3	-1.2	-1.0	
External debt-to-exports ratio (percent)	40.9	90.2	96.2	73.8	67.8	69.5	67.9	67.3	62.1	62.9	63.5	
Gross external financing need (billions of U.S. dollars) 5/	13.4	14.7	18.8	19.6	18.0	21.1	22.9	24.2	23.5	24.7	26.8	
Percent of GDP	22.0	30.0	34.0	32.8	28.4	30.5	30.1	30.4	28.2	28.2	29.3	
Scenario with key variables at their historical averages 6/						52.7	47.7	43.8	41.5	39.7	38.0	-6.8
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	10.2	0.2	7.7	5.5	1.5	2.1	2.6	2.9	3.1	3.2	3.6	
GDP deflator in U.S. dollars (percent change)	21.7	-19.1	4.2	2.5	4.3	7.4	6.8	1.8	1.5	1.7	1.0	
Nominal external interest rate (percent)	4.3	3.3	2.8	3.5	3.3	4.6	4.0	3.8	2.7	3.3	3.3	
Growth of exports (U.S. dollar terms, percent)	34.2	-32.9	20.3	56.1	10.9	1.5	4.2	4.4	14.9	5.0	5.0	
Growth of imports (U.S. dollar terms, percent)	37.0	-27.0	22.8	29.3	1.1	5.5	6.0	5.6	16.6	5.1	5.2	
Current account balance, excluding interest payments	-7.4	-11.5	-13.9	-8.0	-1.1	-3.3	-3.9	-4.7	-5.3	-5.1	-5.0	
Net nondebt creating capital inflows	3.3	3.5	2.3	6.2	1.8	2.3	2.8	3.0	3.2	3.3	3.2	

1/ Projections are shown at the official exchange rate.

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

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

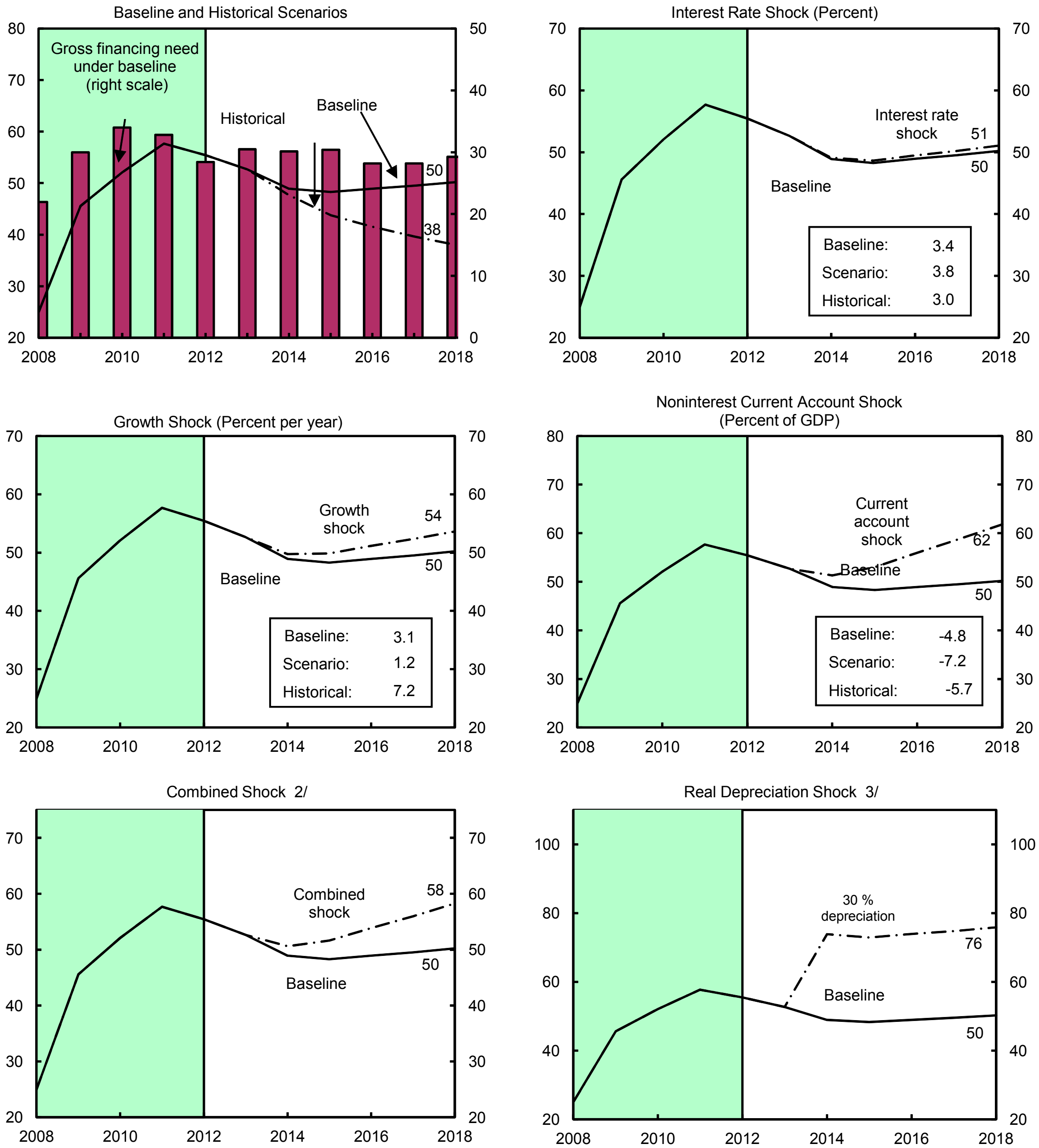
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Appendix II. Belarus: External Debt Sustainability: Bound Tests of the Baseline Scenario 1/ (External debt in percent of GDP)



Source: IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown. Projections are shown at the official exchange rate.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2012.

Appendix III. Belarus: Public Sector Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing primary balance 9/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Baseline: public sector debt 1/	21.7	34.9	42.0	43.4	36.9	35.6	33.6	33.4	34.7	36.1	37.3	-1.3
Of which: foreign-currency denominated	6.8	18.9	22.6	25.0	23.8	22.1	19.2	16.9	17.2	17.2	17.2	
Change in public sector debt	3.4	13.1	7.2	1.4	-6.5	-1.3	-2.0	-0.3	1.4	1.3	1.2	
Identified debt-creating flows (4+7+12)	-15.4	-0.1	-1.6	0.4	-3.9	-5.8	-5.1	-4.4	-3.9	-4.0	-4.1	-4.1
Primary deficit	-14.6	-0.1	1.1	-3.9	-2.1	-1.6	-1.0	-0.7	-0.5	-0.3	-0.4	
Revenue and grants	50.7	45.8	41.6	38.8	40.8	40.8	39.6	39.6	39.6	39.6	39.6	
Primary (noninterest) expenditure	36.1	45.7	42.7	34.9	38.7	39.1	38.6	38.8	39.1	39.3	39.2	
Automatic debt dynamics 2/	-4.1	1.7	-3.9	6.0	-17.5	-6.1	-5.1	-4.6	-4.4	-4.6	-4.7	
Contribution from interest rate/growth differential 3/	-4.0	-0.4	-5.1	-17.7	-17.5	-6.1	-5.1	-4.6	-4.4	-4.6	-4.7	
Of which: contribution from real interest rate	-2.6	-0.4	-2.8	-16.4	-17.2	-5.5	-4.3	-3.9	-3.5	-3.7	-3.6	
Of which: contribution from real GDP growth	-1.4	0.0	-2.3	-1.3	-0.4	-0.6	-0.7	-0.8	-0.9	-0.9	-1.0	
Contribution from exchange rate depreciation 4/	0.0	2.1	1.2	23.7	0.4	2.7	2.0	2.9	2.5	2.5	2.5	
Other identified debt-creating flows	3.2	-1.6	1.2	-1.7	15.8	2.0	1.0	1.0	1.0	1.0	1.0	
Privatization receipts (negative)	-1.7	-1.6	-1.3	-7.3	0.0	-0.1	-1.0	-1.0	-1.0	-1.0	-1.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	15.8	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	4.9	0.0	2.5	5.6	0.0	2.1	2.0	2.0	2.0	2.0	2.0	
Residual, including asset changes (2-3) 5/	18.8	13.2	8.7	0.9	-2.7	4.5	3.1	4.1	5.2	5.3	5.3	
Public sector debt-to-revenue ratio 1/	42.9	76.2	101.1	112.0	90.5	87.4	85.0	84.3	87.7	91.0	94.1	
Gross financing need 6/	0.8	1.7	5.6	8.2	3.4	6.3	7.6	7.6	5.9	6.0	6.8	
Billions of U.S. dollars	0.5	0.8	3.1	4.9	2.1	4.4	5.8	6.1	4.9	5.3	6.3	
Scenario with key variables at their historical averages 7/					36.9	33.0	28.0	24.5	22.6	20.6	18.9	-1.1
Scenario with no policy change (constant primary balance) in 2011–16					36.9	16.0	10.4	5.7	2.8	0.1	-2.6	-3.0
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	10.2	0.2	7.7	5.5	1.5	2.1	2.6	2.9	3.1	3.2	3.6	
Average nominal interest rate on public debt (percent) 8/	4.2	3.8	2.3	4.8	5.8	4.8	5.9	6.4	6.6	6.5	6.3	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-17.0	-1.9	-8.8	-66.4	-68.9	-18.3	-14.4	-13.6	-12.3	-12.6	-11.7	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	0.5	-23.5	-6.9	-64.1	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	21.2	5.7	11.1	71.2	74.8	23.1	20.3	20.0	18.9	19.0	18.0	
Growth of real primary spending (deflated by GDP deflator, percent)	3.7	26.8	0.7	-13.6	12.7	3.4	1.2	3.6	3.8	3.7	3.5	
Primary deficit	-14.6	-0.1	1.1	-3.9	-2.1	-1.6	-1.0	-0.7	-0.5	-0.3	-0.4	

1/ Gross debt of general government (including guarantees) and of monetary authorities. Includes estimated bank recapitalization of 2 percent of GDP per annum based on 2008-11 historical average.

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

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

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

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

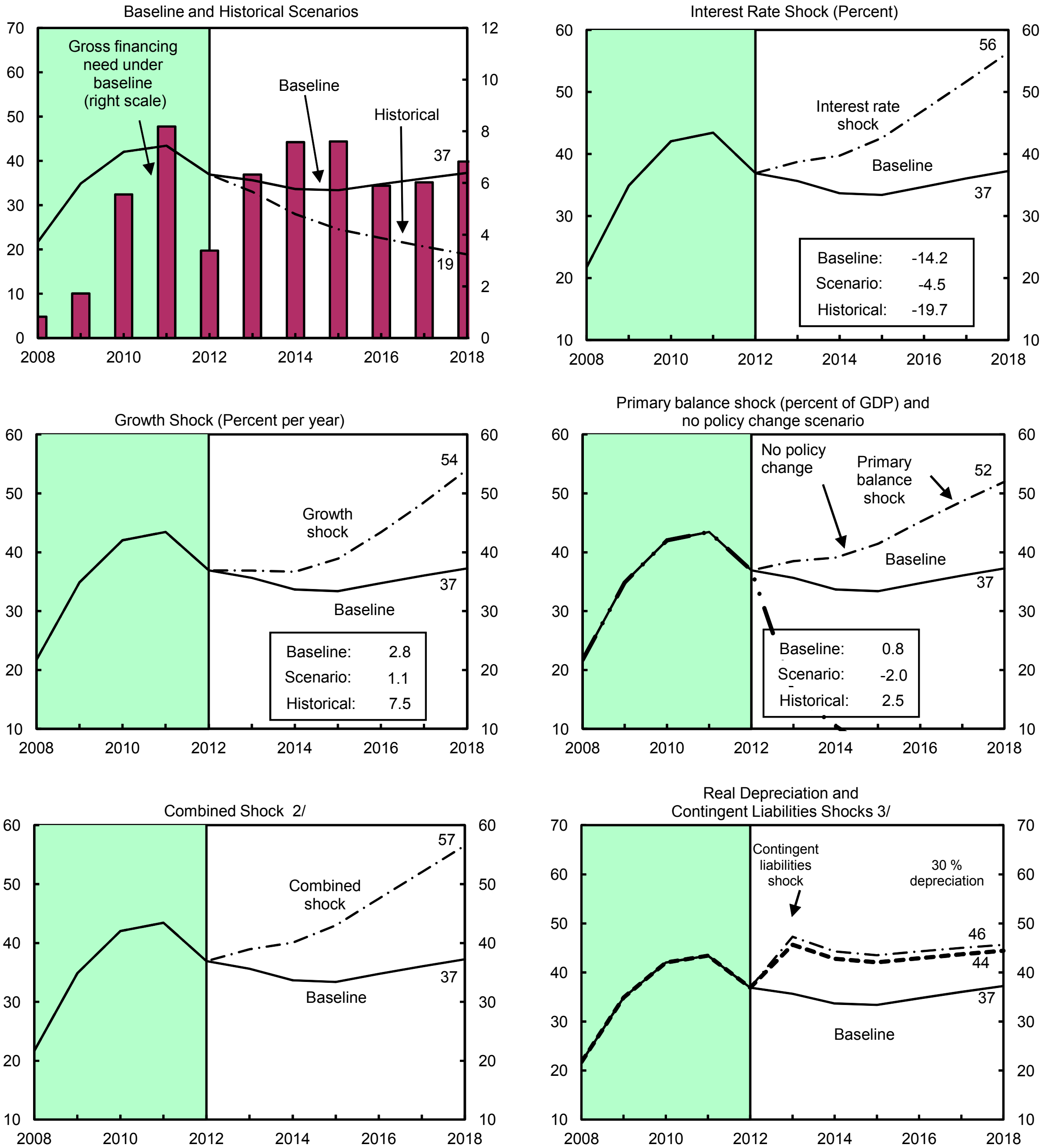
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

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

Appendix III. Belarus: Public Debt Sustainability: Bound Tests of Baseline Scenario 1/ (Public debt in percent of GDP)



Source: IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2012 with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

May 13, 2013

2013 ARTICLE IV CONSULTATION AND FOURTH POST-PROGRAM MONITORING DISCUSSIONS—INFORMATIONAL ANNEX

Prepared By

The European Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

As of March 31, 2013

Membership Status: Joined July 10, 1992; Article VIII

General Resources Account

	SDR million	Percent of Quota
Quota	386.40	100.00
Fund holdings of currency	2,178.05	563.68
Reserve position in Fund	0.02	0.01

SDR Department	**SDR million**	**Percent of Quota**
Net cumulative allocation	368.64	100.00
Holdings	369.70	100.29

Outstanding Purchases and Loans	**SDR million**	**Percent of Quota**
Stand-By Arrangements	1,791.65	463.68

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	01/12/2009	03/30/2010	2,269.52	2,269.52
Stand-By	09/12/1995	09/11/1996	196.28	50.00

Projected Payments to the Fund 1/

	Forthcoming (SDR Million)				
	2013	2014	2015	2016	2017
Principal	851.07	885.84	54.74	0.00	0.00
Charges/Interest	20.68	6.61	0.43	0.00	0.00
Total	871.75	892.45	55.17	0.00	0.00

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

Safeguards Assessments:

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

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

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

The NBRB implemented only some of the recommendations. Special audits of NIR and NDA data for March, June, September and December 2009 test dates were completed. The NBRB divested most of its non-financial subsidiaries in 2011, but also increased involvement in quasi-fiscal activities, e.g., in the first half of 2011 the NBRB purchased bonds issued by domestic banks at higher than market prices and subsequently sold them to the Development Bank to acquire bonds issued by the latter. While the new Banking Law provides some improvement over its previous version, NBRB autonomy is still undermined, in particular, by powers of the President to amend the NBRB Statute at any time, to direct NBRB operations by his decrees, and to dismiss Board members.

Exchange Arrangements:

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

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

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

Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on November 5, 2001. Following the unification of the exchange rates in October 2011, the authorities lifted some of the earlier introduced administrative controls. An Article VIII mission took place recently and the staff is in the process of finalizing its review of the jurisdictional implications of the new regime and remaining FX controls.

UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on May 4, 2012 and a report was published on
http://www.imf.org/external/pubs/ft/scr/2012/cr12113.pdf

Stand-By Arrangement:

A 15-month Stand-By Arrangement (SBA) in the amount of SDR 1.6 billion (US$2.5 billion, 418.8 percent of quota) was approved by the Executive Board (Country Report No. 09/109) on January 12, 2009. An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (Country Report No. 09/260), bringing the Fund's financial support to SDR 2.3 billion (US$3.5 billion, 587.3 percent of quota). The final review was completed on March 26, 2010. Total disbursements under the program amounted to SDR 2.3 billion (US$3.5 billion).

FSAP Participation, ROSCs, and OFC Assessments:

Two FSAP missions took place in 2004 and an FSSA report was published on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed assessment reports were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
The Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190,
http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0)
An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30,
http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0)
The fiscal ROSC was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0 and the data ROSC on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0.

Technical Assistance, 2007–13		
Department Counterpart	**Subject**	**Timing**
MCM	Risk Based Supervision	July 2012
MCM	Bank Supervision	February–March 2012
MCM	TA on Development Bank	October–November 2011
MCM	Bank Supervision	October 2011
MCM	Risk Based Supervision	April 2011
MCM	Banking supervision: on-site inspections	September 2010
MCM	Banking Supervision: early warning system, risk management	March–April 2010
MCM	Strengthening central bank autonomy	March 2010
MCM	NBRB refinancing of banks	November 2009
MCM	Banking regulation: loan classification and provisioning	April 2009
MCM	Monetary policy: forecasting and policy analysis	February–March 2009
MCM	Exchange rate regime, foreign exchange operations	December 2008
MCM	FSAP Update	September 2008
MCM	Financial stability and external debt management	January 2008
MCM	Banking supervision: financial stability issues, stress-testing	July 2007
MCM	Building a system for forecasting and policy analysis	June 2008 October 2007 July 2007
MCM	Strengthening forecasting and policy analysis	May 2007
MCM	Banking supervision: on-site inspection	April 2007
MCM	Banking supervision: stress-testing, financial stability	March 2007
MCM	Insurance supervision	March 2007
MCM	Monetary policies analysis and forecasting	February 2007
MCM	Banking supervision: on-site inspection	January 2007
MCM	Improving monetary policy	January 2007
FAD	Social Safety Nets	November 2011
FAD	Program budgeting and medium-term framework	March–April 2011
FAD	Tax administration	September 2010
FAD	Tax policy	April 2010
FAD	Expenditure rationalization	March 2010
FAD	Tax system reform	October 2009
FAD	Introduction of a medium-term fiscal framework (MTF)	March–April 2009
FAD	Program budgeting reform implementation	March 2008 November 2007 May 2007
STA	National accounts statistics	April 2013
STA	Multitopic Statistics Mission	October–November 2010
STA	National accounts statistics	January 2008
STA	Balance of payments and external sector statistics	January 2008
STA	Government finance statistics	September–October 2007

RELATIONS WITH THE WORLD BANK GROUP

A. The World Bank Group Strategy

1. The World Bank Group (WBG) Country Assistance Strategy (CAS) for FY 2008–11 provided for a selective presence to support structural reforms and buttress the Government's programs of improving energy efficiency, water supply quality, waste management, road upgrading, and developing infrastructure in Chernobyl-affected areas. Analytic and advisory work has comprised a core element of the WBG engagement. The WBG has developed a wide program of analytical and advisory support to Belarus, including Agricultural Policy Note (FY 2009), Financial Sector Assessment Program (FY 2009, jointly with the IMF), IFC SME survey report "Business Environment in Belarus 2010", Economic Policy Notes (FY 2011), Country Economic Memorandum and Volume 1 of the Programmatic Public Expenditure Review (FY 2012). These products have underpinned the WBG's policy dialogue on key structural reforms in Belarus. To date, the IBRD lending commitments in Belarus total US$865 million for 10 projects. US$23.6 million was provided as grants to support about 30 national programs. In addition, IFC has invested about $340 million in 36 projects in the financial, general manufacturing, agribusiness, and services sectors.

2. The IFC strategy aims at providing advisory services and investment operations to foster private sector development. IFC's advisory services under Belarus Regulatory Simplification and Investment Generation Program (August 2010–September 2013) focus on improvement of the business environment and investment climate, particularly regulatory simplification related to business operations, as well as on building government capacity for investment generation. IFC Belarus Food Safety advisory project (June 2010–September 2013) endeavors to increase the competitiveness of Belarusian food producers by improving their food safety practices, raising awareness and facilitating wider implementation of best international food safety management practices. To date, the IFC investment commitments in Belarus total approximately US$340 million, divided almost equally between financial markets and the real sector. IFC's investments will continue to focus on financial markets, general manufacturing, climate change and agribusiness sectors, and are expected to exceed $100 million per year.

3. The World Bank Group (WBG) is currently preparing a new Country Partnership Strategy (CPS) for Belarus which will replace the previous CAS and cover the period of 2014–17. The WBG is consulting with the government, development partners, civil society and other stakeholders to identify priorities for WBG assistance for the coming four years. Through the new CPS the WBG will continue to support Belarus in the implementation of structural reforms to promote inclusive growth, enhance economic competitiveness, facilitate the integration into the world economy and improve public services, including social protection of the most vulnerable. The annual lending envelope for the coming years, specific projects and the range of instruments will be determined in the context of the CPS. Analytic and advisory work will continue to be a core element of the WBG engagement. Building on the foundation laid during the previous CAS period, the Bank will continue to deepen its analytical program, including through programmatic analytical and technical assistance in the areas of fiscal policies, structural reforms, private and financial sector development, and trade, including support for Belarus's WTO accession.

B. IMF-World Bank Group Collaboration in Specific Areas

4. The Bank and the Fund teams work closely in calibrating and delivering their assistance. The IMF plays a key role at the macro level, while the World Bank Group focuses on the structural reform agenda, energy efficiency, infrastructure and social and environmental issues. Recent examples of close cooperation and coordination between the Bank Group and the Fund include discussions under the IMF SBA post program monitoring and during the preparation of the CEM, and joint work with the Government working group on structural reforms issues, and the joint support in the development of a Medium-Term Debt Strategy (MTDS).

Areas in Which the World Bank Group Leads

5. **Structural reforms, social issues, and private business development.** The Bank's Country Economic Memorandum (CEM)—which was presented to the authorities in July 2012—outlined clear priorities for structural reforms, including further liberalization of factor and product markets to support a more efficient allocation of resources in the economy, transformation of the State-Owned Enterprises (SOEs) and enhancing of private sector growth, including the services sector. The Bank will continue to support the design and implementation of structural reforms through its programmatic structural reform technical assistance. Through the privatization TA (largely funded through a donor Trust Fund) it will also continue to provide advice on legal and institutional instruments and implementation capacities to successfully launch an enterprise privatization program that is on par with international best practice. The IFC delivers an active advisory program around challenges facing the private sector and international "best practices" for improving the business regulatory environment and investment climate. The Bank will focus on improving the efficiency of public spending in the context of the programmatic Public Expenditure Review, including in social sectors and technical assistance to support improved medium-term fiscal planning and debt management. Using the newly available Labor Market Survey, the World Bank will expand and deepen the work on labor market reform, initiated in the CEM. The World Bank will provide targeted analytical and technical assistance to support Belarus' WTO accession.

6. **Energy sector**. Currently, three energy efficiency projects are being implemented in Belarus with World Bank's financial support: Post Chernobyl Recovery Project (PCRP) (US$50 million) and Additional Financing to PCRP (US$30 million), and Energy Efficiency Project (EEP) (US$125 million).

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

8. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. A TA project is currently under implementation: (i) the GEF Grant Project (US$5.5 million) for Persistent Organic Pollutant (POPs) Stockpile Management and Technical/Institutional Capacity Upgrading. Progress is being made towards achieving improved water, wastewater and solid waste management services under the Water Supply and Sanitation Project (US$60 million) and Solid Waste Management Project (US$42.5 million).

Areas of Shared Responsibility

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

10. **Public expenditure management.** The Bank will focus on improving the efficiency of public spending. The first volume of the programmatic Public Expenditure Review focused on spending efficiency in agriculture, energy, social assistance and pension sectors. The Bank will deliver the Public Expenditure Review 2 in FY 2013, focusing on intergovernmental fiscal relations, and the efficiency of public spending in health and education. The Fund, jointly with the Bank, has been working on supporting the authorities in their fiscal consolidation effort, including technical assistance on expenditure rationalization.

11. **Debt management.** Debt management is an area of priority reform for Belarus. The Bank has conducted a Debt Management Performance Assessment (DeMPA) in Belarus in FY 2011 and a Debt Management Reform Plan in FY 2012, suggesting key areas for further improvements of debt management in Belarus. One of the key priorities identified—development of a debt management strategy—was supported through a joint World Bank and IMF technical assistance mission on the development of a Medium-Term Debt Strategy (MTDS) in Belarus. The Bank and the Fund will continue to provide joint support in this area.

12. **Financial sector.** The Bank and the Fund will jointly support the authorities in addressing key vulnerabilities in the financial sector and designing needed reforms. The Bank and the IMF are collaborating in financial sector monitoring, including on key developments, such as the newly established Development Bank. The World Bank will maintain an active dialogue with the authorities on, inter alia, state bank governance, restructuring and privatization, financial consumer protection and financial literacy, as well as on reforms in the securities and insurance sectors.

Areas in which the IMF Leads

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

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

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

Belarus: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas in 2012–13

	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program	Regular Macro-Economic Monitoring	Ongoing	Through 2012/2013
	Programmatic Public Expenditure Review (PER)–phase 2	Ongoing	April 2013
	Public Financial Management TA, including debt management	Ongoing	TA through 2012/2016
	Programmatic Structural Reform Dialogue	Ongoing	TA through 2012/2016
	WTO Accession Technical Assistance	Ongoing	TA through 2013/2016
	Financial Sector Monitoring TA (state bank restructuring, privatization, securities and insurance markets)	Ongoing	TA through 2012/2013
	Privatization TA	Ongoing	TA through 2012/2013
	Statistical Capacity Building	Ongoing	TA through 2012/2013
	IFC Investment Climate Advisory Services (Belarus Regulatory Simplification and Investment Generation Project)	Ongoing	TA through 2012/2013
	IFC Standards Advisory Services (Belarus Food Safety Project)	Ongoing	TA through 2012/2013
2. IMF Work Program	Peripatetic advisor on bank supervision	Ongoing	Through April 2013
	Developing of capacity and instruments of the NBRB	Planned	June 2013
	Monetary and Foreign Exchange Policy	Planned	June 2013
3. Joint Work Program	Joint Policy Dialogue with Structural Reform Working Group	Ongoing	Through 2012/2013

STATISTICAL ISSUES (AS OF APRIL 1, 2013)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected area is external debt data.
National Accounts: The National Statistics Committee (NSC) compiles and disseminates quarterly and annual GDP estimates at current and constant prices following the 1993 System of National Accounts. The quality of the estimates is good, and the timeliness and periodicity exceed the Special Data Dissemination Standard (SDDS) requirements. In addition to the quarterly and annual estimates, a monthly GDP is compiled 15 days after the end of the reference month. The NSC compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. It has started the compilation of experimental estimates of regional GDP at current and constant prices—monthly, quarterly and annual. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements. **Price Statistics:** The CPI covers 31 towns in the country and the PPI covers approximately 1,700 industrial organizations, and they are published monthly. The NSC also publishes indices for foodstuffs, non-food goods, and services. The CPI and PPI are based on weights from 2011.
Government finance statistics: Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Areas that need improvement include classification of some expenses (e.g. subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; valuation of assets and liabilities (at nominal or market value); and compilation for public corporations.
Monetary statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following the methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). The NBRB has implemented most of STA recommendations regarding monetary statistics.
External sector statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the BPM5 format (for 1996–2011) and in the BPM6 format since 2012 (revised data available from 2005). Overall the timeliness and serviceability of external sector data is satisfactory, although there are gaps in external debt data, in particular gross external debt statistics. While the BMP6 requires debt statistics to be reported in net terms, compiling of gross external debt statistics remains important.

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

Belarus: Table of Common Indicators Required for Surveillance

(As of April 1, 2013)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality Accuracy and Reliability[10]
Exchange Rates	Mar. 2013	04/01/13	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar. 2013	04/01/13	D/W/M	W/M	M		
Reserve/Base Money	Mar. 2013	04/01/13	D/W/M	W/M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Mar. 2013	04/01/13	W/M	M	M		
Central Bank Balance Sheet	Mar. 2013	04/01/13	D/W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	Mar. 2013	04/01/13	W/M	M	M		
Interest Rates[2]	Mar. 2013	04/01/13	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Feb. 2013	03/10/13	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 2012	03/20/13	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Feb. 2013	03/20/13	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb. 2013	03/20/13	M	M	Q		
External Current Account Balance	Q4 2012	03/16/32	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Feb. 2013	03/20/13	M	M	Q		
GDP/GNP	Feb. 2013	03/20/13	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q4 2012	03/20/13	Q	Q	Q		
International Investment Position[6]	Q4 2012	03/20/13	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Including external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] Reflects the assessment provided in the data ROSC published February 1, 2005 and based on the findings of the mission that took place during March 23 to April 7, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and valid.

REPUBLIC OF BELARUS

May 21, 2013

2013 ARTICLE IV CONSULTATION AND FOURTH POST-PROGRAM MONITORING DISCUSSIONS—SUPPLEMENTARY INFORMATION

1. **This supplement provides information on the preliminary findings of a recent Article VIII mission that took place after the Article IV mission**. The information does not alter the thrust of the staff appraisal, but adds an additional element to the staff's assessment.

2. **The Article VIII mission identified several exchange restrictions and multiple currency practices.** Specifically, it identified the following measures that are subject to the Fund's jurisdiction: (1) exchange restrictions arising from the requirement of an NBRB permit for (i) advance payments for imports and (ii) payments for imports with delivery outside of Belarus, and (2) multiple currency practices (MCPs) arising from (i) the potential deviation by more than two percent of the exchange rates in the over-the-counter (OTC) market and the BCSE exchange, and (ii) the potential deviation by more than two percent of the exchange rate in the OTC market and the exchange rate determined at the BCSE and/or the official exchange rate in the mandatory sale by resident legal entities of unused FX and FX amounts subject to the surrender requirement not exceeding US$1,000. Staff continues to analyze other features of Belarus' foreign exchange system that may have jurisdictional implications and will provide a further update once the assessment is finalized.

3. **The authorities have indicated their intention to remove the identified measures.** They are studying the preliminary findings and are awaiting the final report of the Article VIII mission. Meanwhile, the authorities have indicated that they are committed to the elimination of the measures in a careful manner that minimizes the risk of unexpected adverse effects on the balance of payments. They expect to be in full compliance with their Article VIII obligations by end-2014.

4. **At this time, the authorities do not request, and the staff does not recommend, Board approval of the identified exchange restrictions and MCPs**. The staff welcomes the authorities' intention to eliminate such measures and encourages them to do this as soon as possible.

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June 12, 2013

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IMF Executive Board Concludes 2013 Article IV Consultation with Belarus and Fourth Post-Program Monitoring Discussions

On May 24, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation and Fourth Post-Program Monitoring discussions with Belarus.[1]

Background

Following the 2011 crisis, the economy stabilized in early 2012. Sharp policy tightening in response to the crisis helped stabilize the exchange rate and achieve a rapid reduction of inflation. At the same time, the balance of payments improved markedly owing in part to a temporary large-scale trade in solvents and related products.

Since then, stop-go stimulus efforts have resulted in renewed volatility and kept inflation at a high level. During the first half of the year, policies were relaxed in pursuit of the official 5½ percent GDP growth target for 2012. The National Bank of the Republic of Belarus (NBRB) refinancing rate was rapidly reduced, and real wages grew much faster than productivity. The policy loosening together with the end of the solvent trade led to the return of price and exchange rate pressures in the fall of 2012. To stem pressures, liquidity conditions were tightened again with an increase in reserve requirements and restrictions on banks' access to refinancing. The measures helped calm market conditions toward the end of the year. Early developments in 2013 have been mixed. Monthly inflation has fallen and GDP growth has rebounded strongly. However, average wages have grown briskly during the first quarter. Also, liquidity conditions in the banking system have eased substantially and the NBRB has further reduced its main policy rate—signaling another loosening of policies.

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

On structural reform, welcome steps were recently taken on tax reform and a new bankruptcy law. However, the privatization and price liberalization agendas have stalled. Meanwhile, the Development Bank's broadened mandate and sources of financing risk further distorting the efficient allocation of credit and potentially create large contingent liabilities for the government.

Executive Board Assessment

Executive Directors welcomed the authorities' efforts to regain macroeconomic stability following the 2011 crisis, but noted that policies had been prematurely loosened. Efforts to boost growth have resulted in renewed pressures on the exchange rate, inflation and the current account, while extensive state control of the economy continues to restrain productivity growth and competitiveness. Against this background, Directors expressed concern about the authorities' pursuit of inconsistent growth and inflation targets and urged the authorities to improve the consistency and predictability of their policies, and to focus on restoring stability, rebuilding policy buffers, and implementing deep structural reforms.

Directors emphasized the need for a tight management of domestic demand to further reduce inflation, contain reemerging external imbalances, and ensure adequate capacity to meet external obligations. They welcomed the recent reduction in directed lending and recommended a further substantial reduction to a level below one percent of GDP over the medium term. Directors welcomed the authorities' commitment to a balanced budget, but stressed the importance of reflecting fiscal risks from quasi-fiscal operations and directed lending in the budget. Nominal wage growth should not exceed the target inflation rate in 2013 to avoid fueling domestic demand and to help recover lost competitiveness.

Directors agreed that the NBRB should tighten liquidity conditions and stand ready to increase the policy rate if the recent declining trend in inflation is not sustained. They emphasized the importance of maintaining exchange rate flexibility as a buffer against shocks and to discourage dollarization, and took note of the authorities' commitment to eliminate remaining exchange restrictions and multiple currency practices.

Directors commended recent improvements in the banking code that enhance supervision. They expressed concern about rapid foreign currency lending growth, much of it to unhedged borrowers, and encouraged the NBRB to consider additional measures to curb such lending, and to maintain the prohibition on such lending to households. Developments in non-performing loans also warrant close monitoring. Directors were generally of the view that the development bank should become the sole provider of directed lending, thus allowing the banking system to operate on fully commercial terms, and agreed that development bank debt should not be eligible as collateral for central bank refinancing.

Directors underscored the need for deep structural reform to achieve higher sustainable growth. They welcomed recent progress on tax reform and the new bankruptcy law, but noted that progress in other areas has been limited. To boost productivity and competitiveness, a well-sequenced, comprehensive reform agenda is needed, including price liberalization, privatization and restructuring of state-owned enterprises, and targeted social safety nets.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2013 Article IV Consultation with Belarus is also available.

Belarus: Selected Economic Indicators, 2009–13

	2009	2010	2011	2012 Prel.	2013 Proj.
	(Percentage change)				
National accounts					
Real GDP	0.2	7.7	5.5	1.5	2.1
Total domestic demand	-1.1	11.5	3.4	3.7	4.8
Consumption	0.0	7.9	1.0	8.2	4.2
Nongovernment	0.0	9.3	2.3	10.8	5.2
Government	-0.1	3.1	-3.6	-1.2	0.0
Investment	-2.9	18.4	7.8	-3.7	6.0
Of which: fixed	5.0	17.5	13.9	-9.8	6.3
Net exports 1/	1.4	-3.7	3.4	-1.8	-3.4
Consumer prices					
End of period	10.1	9.9	108.7	21.8	16.8
Average	13.0	7.7	53.2	59.2	20.5
Monetary accounts					
Rubel broad money	0.9	27.4	64.1	57.2	29.6
Reserve money	-11.5	49.5	84.1	61.6	29.4
	(In percent of GDP; unless otherwise indicated)				
External debt and balance of payments					
Current account	-12.6	-15.0	-9.7	-2.9	-5.6
Trade balance	-14.1	-16.4	-6.2	0.8	-2.6
Exports of goods	43.4	46.0	69.3	71.9	65.9
Imports of goods	-57.5	-62.4	-75.5	-71.1	-68.4
Gross external debt	45.6	52.1	57.7	55.4	52.7
Public 2/	18.9	22.6	25.0	23.8	22.1
Private (mostly state-owned-enterprises)	26.7	29.5	32.7	31.6	30.5
Savings and investment					
Gross domestic investment	37.3	41.2	37.6	34.5	37.4
National saving	24.7	26.2	28.0	31.6	31.8
Public sector finance					
General government balance	-0.7	-1.8	2.8	0.7	0.2
Augmented general government balance	-0.7	-4.3	-2.9	0.5	-2.6
Revenue	45.8	41.6	38.8	40.8	40.8
Expenditure 4/	46.5	45.9	41.6	40.2	43.4
Of which:					
Wages	6.7	7.0	6.3	6.6	6.8
Subsidies and transfers	11.7	8.3	7.3	7.7	6.8
Investment	8.1	8.3	5.1	6.5	7.1
Gross public debt	34.9	42.0	43.4	36.9	35.6
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	49.2	55.2	59.7	63.3	…
Nominal GDP (trillions of rubels)	137.4	164.5	297.2	527.4	662.5
Terms of trade	-10.3	0.5	5.9	10.5	1.7
Official reserves (billions of U.S. dollars)	5.7	5.0	7.9	8.1	6.9
Months of imports of goods and services	1.8	1.2	1.9	1.9	1.5
Percent of short-term debt	63.2	42.1	56.9	62.8	51.0

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Gross consolidated debt of the public sector (central bank and general government debt including publicly guaranteed debt).
3/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and related to called guarantees of publicly guaranteed debt.
4/ Refers to the augmented expenditure of the general government.

Statement by Mr. Prader, Executive Director for the Republic of Belarus and Mr. Misyukovets, Alternate Executive May 24, 2013

The Belarusian authorities appreciate the useful dialogue with the Fund staff during the 2013 Article IV Consultation and the fourth Post-Program Monitoring discussions. They broadly agree with the staff's assessment of the current macroeconomic situation and their recommendations on economic and financial policies. The Fund's continuous technical assistance across the spectrum of macroeconomic management issues is also greatly appreciated.

Macroeconomic Developments in 2012

Since the fall of 2011, Belarus has been steadfastly pursuing a set of policies with a firm focus on macroeconomic stabilization. The floating exchange rate regime, monetary tightening, and disciplined fiscal stance have enabled the authorities to address vulnerabilities in a consistent manner. The implementation of these policies in 2012 has ensured financial stability and macroeconomic balance as is evidenced by:

- **a drastic reduction in the rate of inflation**—inflation was brought down to 21.8 percent in 2012, as compared to 108.7 percent in 2011, broadly in line with the authorities' projections;

- **stable and predictable exchange rate**—the exchange rate has been determined by the demand and supply for foreign currency in the domestic market with limited central bank interventions; during 2012, the rubel depreciated by 2.6 percent against the U.S. dollar;

- **preservation of international reserves**—foreign exchange reserves have recovered from the 2011 slump and amounted to US$ 8.1 billion as of January 1, 2013 while all external and domestic foreign exchange obligations of the state were fully honored;

- **improved balance of payments**—the trade balance improved from a deficit of 2 percent of GDP in 2011 to a surplus of 4.6 percent of GDP in 2012; this in turn eased pressure on the current account deficit which narrowed from 8.5 percent of GDP at the end of 2011 to 2.9 percent of GDP in 2012 and was covered by a net inflow of foreign direct investments (2.2percent of GDP) and external borrowing;

- **stable domestic financial market**—the banks remained adequately capitalized at 20.85 with an admissible share of non-performing loans of 5.5percent as of January 1, 2013; in total, rubel deposits grew by 58percent, of which household deposits in the national currency grew by 75 percent, reflecting the growing confidence in the banking system and progress in addressing dollarization; and

- **strengthened social stability**—households' incomes returned to the pre-crisis level.

On April 17, 2013, Standard & Poor's revised its sovereign rating outlook on Belarus and, subsequently, the outlook on Belarus' capital, Minsk, and major banks to positive from stable. On April 30, 2013, the Eurasian Anti-Crisis Fund made a fifth disbursement of US$ 440 million in recognition of the progress achieved by Belarus in meeting its targets under the US$ 3 billion stabilization arrangement.

In 2012, GDP grew by 1.5 percent. The modest growth pace in 2012 is attributable to policy tightening in line with the authorities' commitment to maintaining stability as well as to adverse external developments that affected Belarus' exports in the second half of 2012.

Developments in 2013 and Short-Term Outlook

In 2013, strengthening macroeconomic fundamentals for a balanced growth remains the overarching objective. The authorities reconfirm their commitment to building strong macroeconomic fundamentals as a pre-requisite for sustainable long-term economic growth. A balanced budget, conservative monetary policy, and flexible exchange rate will continue to be their principal macroeconomic policy instruments.

Growth has been moderate in the first four months of 2013. The economy expanded by 2.5 percent, mirroring both the continuous decline in demand in Belarus' main trading partners and additional policy tightening aimed at containing inflation. On the positive side, labor productivity outpaced GDP growth in the first quarter (3.5 percent) and increased by 4.5 percent. The balance of trade in goods and services in January-March was positive at US$ 426.4 million, or 3 per cent of GDP.

The focus is on containing inflation. In response to a surge in inflation of 3.0 percent in January, remedial measures were taken to bring it down to 1.2 percent in February, 1.1 percent in March and further to 0.5 percent in April. This downward trend is expected to continue and allows the authorities to be confident that the inflation target for 2013 of 12 percent (December to December) will be met. An analysis shows that, as was the case in 2012, inflation has been largely fueled by the need to increase regulated utility and public transport tariffs and to raise excise taxes under the Common Economic Space price alignment agreements. Core inflation, in turn, rose by 2.8 percent in January and, following a prompt monetary response, dropped to 0.6 percent in February and 0.6 percent in March. In view of these factors, readjustments in the plan to increase utility tariffs may be warranted at this junction but the objective to reach full utility cost coverage in 2015 remains unchanged.

Real interest rates are firmly positive. Strengthened monetary and exchange stability, weak demand for credit and the evident downward inflation trajectory have increased the real value of the refinancing rate to above 10 percent p.a. In these circumstances, very high interest rates in the economy (at about 40 percent p.a. for new deposits in February-March) have led to the fastest growth in household rubel deposits over the last 10 years. While the demand for credit continues to be low, these developments begin to adversely affect the balance of assets and liabilities of the banking sector. In addition, a considerable growth of household deposits coupled with a high supply of foreign exchange in the market has boosted rubel liquidity of the banking system and necessitated costly remedial actions for draining excess liquidity. These factors facilitated a policy of gradual and careful decrease in interest rates. The current refinance rate of 25 percent is strongly positive in real terms relative to both the authorities' and staff's inflation projections. Nevertheless, the authorities are closely monitoring the developments and stand ready to tighten monetary policy if inflationary pressures resume or macroeconomic and financial stability is threatened.

Fiscal policy continues to be disciplined, resulting in a general government budget surplus of 2.9 percent of GDP in January-March 2013. The central government budget balance also showed a surplus of 0.7 percent of GDP. The authorities are committed to maintaining a prudent fiscal stance to ensure a balanced budget in 2013. In line with the overall stabilization effort of the government, lending under government programs with the use of public resources has been reduced and remains strictly limited at about 1 percent of GDP during 2013. The authorities remain committed to continue with this approach to government support, with the aim to pass the lending under government programs over to the Development Bank as it builds capacity in the regions while reducing such support to the minimum. The approach to wages in the budgetary sector continues to be prudent: while the budget envisions a 7 percent increase in real wages, a major restructuring of the government is underway, including a reduction of 13,600 civil servant positions at the central and local levels to be completed by July 1, 2013. As in 2012, there are no plans to recapitalize state owned banks.

The public debt remains at a sustainable level. As of January 1, 2013, the gross public debt amounted to 23.8 percent of GDP, of which the external debt accounted for 19 percent of GDP, far below the national economic security threshold of 45 percent of GDP and the Maastricht criterion of 60 percent of GDP. The government makes timely debt payments and has sufficient capacity to honor all its external and domestic obligations. A set of instruments to refinance the debt is also available. Since the yields on Belarus' sovereign bonds have fallen markedly below the pre-crisis level, tapping the international markets remains an option open to the authorities. Since October 2012, the government has also been active in issuing foreign exchange denominated bonds in the domestic financial market.

Reform Agenda

Belarus has emerged from the macroeconomic crises of the past years, but these challenges have reinforced the need for structural reforms to regain competitiveness, diversify and modernize Belarus' economic structure, and create sustainable and productive jobs. For

Belarus to achieve further growth and social development, it needs to strengthen the environment to allow its enterprises to dynamically adapt to the demands of an increasingly competitive global economy.

In order to achieve these goals, the authorities' priorities are to: (i) enhance economic efficiency; (ii) increase investment efficiency and facilitate the growth of FDI; (iii) promote innovations; (iv) increase the GDP share of SMEs; (v) reduce dependence on energy imports and energy intensity; (vi) provide incentives for productive labor; (vii) increase financial efficiency and mobilize resources for modernization in the real sector; and (viii) strengthen the institutional infrastructure to facilitate public/private interface (property rights, efficient rules, financial intermediation).

Following a fruitful dialogue among key stakeholders including the authorities, business associations, civil society and development partners, actions to achieve these objectives have been incorporated into a new World Bank Group Country Partnership Strategy (CPS) for Belarus, which is scheduled for the Bank Board consideration in early June 2013. The cornerstone of the CPS is to support reforms aimed at improving competitiveness of the economy by structural transformations, including reducing the size of the government, transforming the SOE sector, promoting private and financial sector development, and facilitating integration into the global economy. The CPS contains a combination of financial support. A wide range of analytical and advisory activities and a comprehensive results matrix with specific outcomes and milestones has been designed to measure progress.
The authorities reiterate their view that a Fund program focusing on issues within the Fund's purview to complement and reinforce reforms could be exceptionally useful.