

**Republic of Belarus: Financial Sector Assessment Program—
Technical Note—Transparency of Monetary Policy**

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TECHNICAL NOTE

TRANSPARENCY OF MONETARY POLICY

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THE WORLD BANK
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I. TRANSPARENCY OF MONETARY POLICY

1. This note examines the observance by the National Bank of the Republic of Belarus (NBRB) of the good practices on transparency in monetary policy. The transparency analysis was based on a review of relevant laws and regulations and the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies* (MFP Transparency Code) without carrying out a formal principle-by-principle assessment.¹ It was conducted as part of the joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission to Belarus that took place in November 2004.

A. Summary Assessment

2. Overall, the NBRB displays a satisfactory degree of transparency in formulation and implementation of its monetary policy although improvements are possible in several areas. The objectives and responsibilities of the NBRB, and the broad modalities of accountability and public dissemination of the information, are defined in the Statute of the National Bank of the Republic of Belarus and the Banking Code. The monetary policy process is generally well structured and open. In several areas, however, the NBRB should further improve its monetary policy transparency and accountability practices. These include:

- clarification of the NBRB's autonomy;
- further clarification of the institutional relationship between monetary and fiscal operations;
- distribution of NBRB profits according to international best practice;
- on one hand, adopting and disclosing specific standards of conduct and, on the other hand, granting legal protection for its staff; and
- publishing of the detailed audited financial statements in accordance with the International Financial Reporting Standards (IFRS).

¹ The monetary policy transparency analysis was based on (i) a review of relevant laws and regulations, including Statute of the National Bank of the Republic of Belarus, which came into force on June 13, 2001, the Banking Code, which entered into force in January 1, 2001, and NBRB instruction No. 173 of June 28, 2001 "On the Procedures for the Regulation of Banking Activity and the Activity of Non-Bank Credit-Financial Organizations", which came into force on January 1, 2002; (ii) information available on the NBRB website and in a variety of official NBRB publications, including the Republic of Belarus Monetary Policy Guidelines and the Annual Report; (iii) discussions with the Belarus authorities and market participants; (iv) reports from independent information sources such as Fitch Ratings and Bank for International Settlements.

B. Clarity of Roles, Responsibilities, and Objectives of the NBRB for Monetary Policy

3. The objectives of monetary policy, institutional framework, and agency roles performed by the NBRB are specified both in the Statute of the NBRB and the Banking Code, which are publicly available on the NBRB's website (<http://www.nbrb.by/>). These two pieces of legislation make the NBRB responsible for the implementation of monetary policy. They also specify that the NBRB has the exclusive right to set rules for the issue, circulation, and withdrawal from circulation of banknotes and coins that are legal tender in Belarus, and details the various monetary policy instruments that the NBRB can use. The Statute of the NBRB and the Banking Code also disclose the NBRB responsibility for many aspects of foreign exchange policy, and the broad roles of the NBRB to act as an agent of the Government.

4. There are, however, several aspects in the area of roles, responsibilities, and objectives, in which transparency of monetary policy in Belarus could be further enhanced. The central bank operates in an independent manner, however, the involvement of the state and the president dilutes this independence to a certain degree.

5. The autonomy of the NBRB from the President of Belarus is not fully transparent and specified. As the President of Belarus has the power to overrule or change a decision of the NBRB, the way in which this power is used and how the public is informed of its use should be specified in the legislation.

6. While the autonomy of the NBRB from governmental, municipal, or other administrative agencies is stated in the law, there are some aspects of the institutional relationship between monetary and fiscal operations that may impact transparency. First, rather than being set solely based on the identified goals of price or exchange rate stability, the Banking Code states that the monetary policy is a component part of a single state economic policy. In addition, the NBRB is responsible for financing the Republican budget deficit. This policy approach could conceivably undermine the independence of the central bank in its monetary policy implementing role, if there was a conflict between the policy of price stability and the overall policy framework, and the price stability goal was consequently subordinated to other policy objectives.

7. Second, central bank involvement in the rest of the economy (e.g., through equity ownership, ownership on governing boards, etc.) should be conducted in an open and public manner on the basis of clear practices and procedures. Currently the NBRB can participate in the capital of commercial banks, but the legislation does not include provisions for public disclosure of the extent of such participation. The disclosure of this information (for example, in the NBRB's *Annual Report*) would assure the public that the NBRB's involvement in the rest of the economy does not conflict with its primary responsibilities.

8. Third, according to the Banking Code the Chairman of the Board of the National Bank shall be a member of the Government of the Republic of Belarus. In addition, currently the head of Belarus bank is a member of the Board. This may lead to confusion regarding the

role of the government and the private sector in determining monetary policy. Finally, NBRB's budget is coordinated with the Ministry of Finance. All of these factors may impact the independence of the central bank and particularly how independent the NBRB is perceived to be by the public.

9. According to the Banking Code the NBRB first allocates profits to the republican budget. International best practice would be to first assure that sufficient funds are allocated to the central bank to capitalize the central bank. Once this is done the remaining profits can be allocated to other sources.

C. Open Process for Formulating and Reporting of Monetary Policy Decisions

10. The NBRB demonstrates a good degree of transparency with regard to the formulation and reporting of monetary policy decisions. The Statute of the NBRB and the Banking Code establish the basic instruments and methods of monetary policy. Policy changes are promptly communicated and explained in the NBRB's press releases and other publications, including the *Annual Report*.

D. Public Availability of Information on Monetary Policy

11. Transparency is generally observed in the area of public availability of information on monetary policy. The NBRB has a very well designed and up to date website. On its webpage, the relevant legislation, the Banking Code, the Statute of the NBRB, texts of regulations issued by the NBRB, documents covering planned monetary policy objectives and instruments for the coming year and actual outturns in the past, and a wide range of data (including interest rates on NBRB facilities) are available to the public. Further, the NBRB has a broad range of relevant publications, and it maintains close contacts with media representatives. The Chairman of the NBRB holds periodically press-conferences and occasionally gives interviews and public speeches.

12. To improve transparency in this area the most important step would be to publish the detailed audited financial statements in accordance with the International Financial Reporting Standards (IFRS). Further, information on the accounting policies used and any qualification to the statements should be an integral part of the publicly disclosed financial statements.

13. Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards (SDDS). Belarus is not yet an SDDS subscriber, however, a SDDS subscription mission is planned for November 24–December 1, and if everything goes well, Belarus should be able to subscribe by January 1, 2005. It is not possible to tell as of yet if the data fully meets SDDS requirements. However, subscription work is well advanced and there is good collaboration from Belarus.

E. Accountability and Assurances of Integrity by the NBRB

14. Accountability and assurances of integrity by the NBRB are broadly transparent. The NBRB should publicly disclose the full audited financial statements, including any recommendations of the auditor, in the *Annual Report*.

15. The current efforts of the NBRB to change the legislation to grant legal protection for its staff and to further specify the code of conduct for its staff are commendable. Regarding the code of conduct, officials and selected staff of the NBRB have access to privileged/confidential financial-related information that could be used for their personal financial gain. The standards for the conduct of personal affairs of officials and staff of the NBRB should include provisions on what constitutes conflict of interest, how the NBRB monitors possible conflicts of interests of officials and staff, and specify sanctions in case of violations of these rules and the procedures for recourse.

16. Regarding the legal protection for NBRB officials and employees in the discharge of their official duties would assure that such officials and employees can perform their official duties without fear of being personally subjected to legal action. Legal protection typically involves giving officials and staff of central banks general immunity against civil lawsuits on any acts or omissions committed by them in the exercise of their official duties in good faith, barring gross negligence. An example of such acts or omissions that could give rise to lawsuits is a policy decision to increase interest rates sharply that could result in large capital losses for certain asset holders. Experience from other countries show that banks can use the absence of such protection to sue supervisors to slow down legal procedures. The constant threat of legal action against officials and staff of central banks is likely to affect policymaking particularly in controversial areas, thus undermining the effectiveness of the central bank.

F. Authorities' Response

17. The NBRB reviewed the draft transparency analysis and provided additional clarifying information, which was taken into account in this document. Overall, there were no significant disagreements on the substance of the analysis.