

## Republic of Belarus: Fourth Review Under the Stand-By Arrangement

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 16, 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 March 15. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement.
- A Press Release.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

**Fourth Review Under the Stand-By Arrangement**

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Michele Shannon

March 15, 2010

**Executive Summary**

**Economic background.** The economy is gradually recovering from the crisis. Belarus recorded marginally positive economic growth in 2009, and inflation fell. The budget deficit was below 1 percent of GDP, and foreign exchange reserves rose. However, the current account deficit increased to almost 13 percent of GDP, largely due to a collapse in export demand in major trading partners, a deterioration of terms of trade, and stronger than programmed domestic demand. The outlook for 2010 has worsened since the completion of the third review in December by a significant cut in the subsidy on oil imports from Russia, which in the absence of offsetting measures would increase the 2010 balance of payments and fiscal deficits by almost 4 percent of GDP.

**Program discussions.** All end-December quantitative and continuous performance criteria and structural benchmarks were met. Discussions focused on confirming the authorities' commitment to program objectives, including with regard to lending under government programs, and on measures to reduce or offset the effects of higher prices on oil imports. The authorities proposed to increase domestic prices of oil products and restructure the oil refining industry to reduce the need for subsidies. They also agreed to a strong package of fiscal, exchange rate and credit policy measures to offset the impact of the oil shock. The authorities reaffirmed their commitment to agreed policies on wages and on limits on lending under government programs. After completion of the review, the authorities would like to begin discussions on a follow-up program with a greater focus on structural reform.

**Discussions were held in Minsk during February 3-16, 2010.** The staff team comprised Messrs. Jarvis (head), Ding, Kovtun (all EUR), Prokopenko (MCM), Turunen (SPR), and Wane (FAD). The team met the Deputy Prime Minister, Mr. Kobyakov; the Governor of the National Bank of the Republic of Belarus (NBRB), Mr. Prokopovich; the Minister of Finance, Mr. Kharkovets; the Minister of Economy, Mr. Snopkov; the Deputy Head of the Presidential Administration, Mr. Anfimov, and other senior officials. Messrs. Kiekens and Misyukovets (OED) participated in the final discussions. Ms. Koliadina, the Resident Representative, assisted the mission.

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## I. INTRODUCTION AND SUMMARY

1. **Belarus is on track to meet most program objectives.** All end-December quantitative and continuous performance criteria and structural benchmarks were met. Other commitments under the program were largely implemented. With regard to program objectives, output has stabilized, inflation has fallen, and reserves have increased. However, the current account deficit increased in 2009 and public and external debt levels rose sharply. Progress on structural reforms was mixed. Financial sector reform has been accelerated. However, in the area of privatization, while structural benchmarks were met, there have been delays in completing follow-up measures.
2. **A deterioration of oil import terms since completion of the last review poses additional economic challenges for Belarus.** A new oil supply agreement between Russia and Belarus cuts the subsidy on oil imports from Russia by half. Without offsetting measures the 2010 balance of payments and the fiscal deficits would worsen by up to \$2 billion, almost 4 percent of GDP (Box 1). To reduce and offset these effects, the authorities propose and the staff support a package of measures including structural changes to the oil refining industry and fiscal, credit and exchange rate measures.
3. **The authorities expressed interest in a multi-year follow-up arrangement with the Fund after completion of the current SBA.** In doing so, they cited the need for assistance from the Fund in helping Belarus to further reduce vulnerability to external shocks and transform from an investment-driven growth model to one that relies more on improvement of productivity, by carrying out fundamental structural reforms.

**Box 1. Implications of the New Oil Supply Agreement with Russia**

**Belarus's oil refining industry has benefited for many years from preferentially priced crude oil imports from Russia.** While the subsidy element has been gradually falling, Belarus's average oil import price would have been about 30 percent lower than the international price in 2010 if the export duty discount offered by Russia in 2009 remained in place.

**On January 27, 2010, Belarus and Russia agreed on changes to the 2007 oil supply agreement following intense negotiations.**<sup>1</sup> Based on the new agreement, Russia will impose the full export duty on crude oil exported to Belarus, except for the portion identified for domestic consumption which will be provided duty-free. For 2010, it is agreed that the volume for domestic consumption will be 6.3 million tons, subject to a review by October 1. As a result, while subsidies from Russia will continue, they will be at a lower level: the average oil import price would be less than 15 percent below the international price in 2010 if Belarus continues to import the same amount of crude oil as it did in 2009. The Belarusian authorities continue to negotiate on trade under the new agreement. In particular, the authorities are negotiating on terms of a tolling arrangement that has the potential to improve profitability of the Belarusian oil refineries.<sup>2</sup>

**As part of the response to the oil price shock, the authorities plan to rationalize the oil sector.** They plan to cut production to a level that can produce the optimal package of oil products for both domestic consumption and exports,<sup>3</sup> eliminate export duties on oil products, and increase domestic prices for oil products. These measures will allow the government to stop subsidizing the oil refineries, which will help minimize the impact of the oil price shock on the budget (see ¶12).

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<sup>1</sup> The agreement is valid through December 2010, and will be automatically extended, unless it is terminated by one of the Parties.

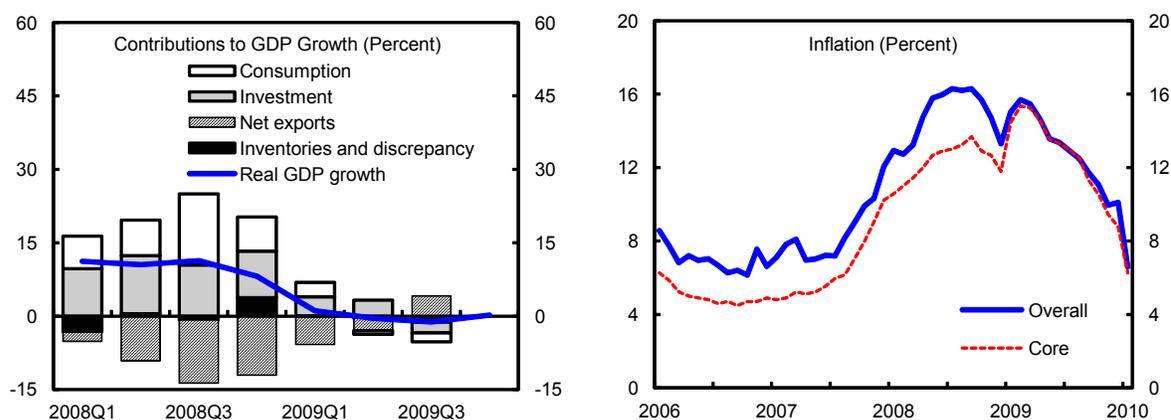
<sup>2</sup> Under such an arrangement, a Russian company will import crude oil from Russia duty-free, have the oil refined in the Belarusian oil refineries, and export the oil products. Belarusian oil refineries will get a processing fee in return.

<sup>3</sup> Apart from improving technical efficiency, this measure would reduce the share of crude oil imports that carry full export duty, thus lowering the average cost of crude oil imports compared with importing a total of 21.5 million tons of crude oil according to the original plan.

## II. RECENT DEVELOPMENTS

### 4. The recovery from the crisis has been gradual, broadly in line with projections at the time of the third review (Tables 1-5).

- Belarus recorded modest economic growth in 2009, while inflation slowed down.* GDP growth—0.2 percent in 2009—was investment-driven, as fixed investment rose by 8.6 percent in real terms. The 12-month inflation rate declined to 10 percent in December, as the output gap and weak international prices more than offset the price pressures exerted by the 20 percent devaluation in January 2009 and the exchange rate depreciation later in the year.



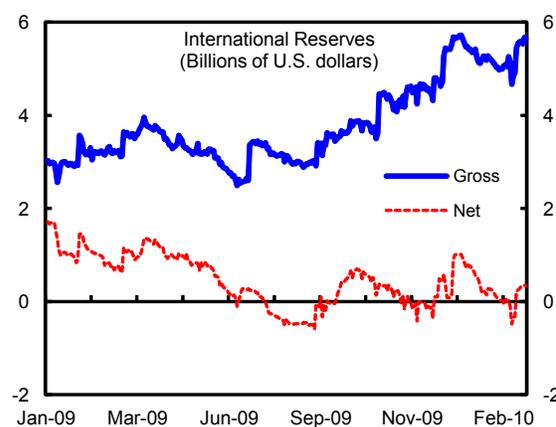
Sources: Belarusian authorities; and IMF staff calculations.

- Disciplined fiscal policy helped contain domestic demand.* The general government deficit was 0.7 percent of GDP in 2009 and the authorities met the adjusted fiscal performance criterion.<sup>4</sup> Stronger than projected revenues along with savings on net lending allowed the government to reverse previous cuts on investment programs, goods and services, and subsidies. Outlays on wages and salaries and pension benefits

<sup>4</sup> There were several adjustments to the performance criterion on the ceiling of the government deficit, including for deviations in the external budget and project support initiated after the program. The nonprogrammed disbursement of external budget support received in Q4 2009 was fully applied against the cumulative shortfall of external budget support in Q1-Q3 2009 (see second bullet of ¶15 of the TMU for the third review, IMF Country Report No. 10/31, page 48). The staff's initial interpretation of the language in the TMU suggested that a shortfall in external budget support in Q4 2009 should also have been included in calculating the adjusted target, in which case the performance criterion would have been narrowly missed. However, after discussions with the authorities, staff concluded that the language is sufficiently ambiguous that the authorities should be given the benefit of the doubt, and the Q4 shortfall is excluded in calculating the performance criterion. This interpretation is also more consistent with the intention in the adjuster to allow the authorities one quarter to adjust for shortfalls in external finance. On this basis the end-December fiscal performance criterion was met.

remained within the budget, as the government refrained from raising wages in 2009 and delayed an increase in pensions until November.

- *While the authorities adhered to the monetary program, credit growth was above program projections.* Credit growth in the last quarter of 2009 was 8 percent on a quarter-on-quarter basis, bringing 12-month credit growth to 31 percent. The monetary base increased only marginally, but the currency-to-deposit ratio was lower than projected, permitting higher credit, especially to state-owned enterprises. The increase in net lending under government programs in the second half of 2009 reached 4.6 trillion rubels, exceeding the agreed limit by 0.6 trillion rubels.
- *Balance of payments pressures persisted.* The current account deficit widened to 12.9 percent of GDP in 2009, compared with 8.6 percent in 2008. As described in Box 2, temporary factors accounted for the increase. However, the current account deficit was higher than the 11 percent of GDP projected at the time of the third review because prices for major export products remained weak. Financing improved, owing to an increase in trade credits and improved access of banks and corporations to external funds. The shortfall in external financing stemming from delayed disbursement of an EU loan was offset by a loan from Russian banks and higher-than-expected privatization proceeds. Gross reserves reached \$5.7 billion in 2009, consistent with the program. With the current account financed mostly through borrowing, the stock of external debt rose to an estimated 44 percent of GDP in 2009, against 25 percent in 2008.



Source: National Bank of the Republic of Belarus.

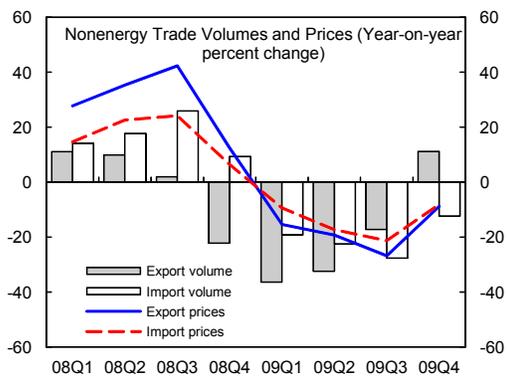
- *Reported financial soundness indicators are satisfactory (Table 6).* An increase in the nonperforming loan ratio to 4.2 percent at end-December 2009 compared with 3.2 percent at end-September 2009 was largely due to the phased introduction of a new, more stringent loan classification regime—a benchmark under the SBA. The aggregate capital adequacy ratio remains well above the prudential minimum, allowing banks to withstand a variety of stress tests. Liquidity pressures remained significant, but liquidity indicators improved at end-2009, due to the extension of maturity on some NBRB refinancing to banks.<sup>5</sup> Deposit dollarization is gradually being reversed.

<sup>5</sup> The NBRB converted short-term refinancing into longer-term refinancing, but the overall stock of the NBRB refinancing at non-market terms remained unchanged, and within agreed limits.

### Box 2. Why Did the Current Account Deficit Increase in 2009?

At the beginning of the program, the current account deficit was expected to narrow from 8.6 percent of GDP in 2008 to 5.4 percent in 2009. However, it widened to nearly 13 percent in part because the external shock—affecting both terms of trade and external demand for Belarus’ exports—turned out to be much stronger than expected. The authorities counteracted the shock by supporting domestic demand (most notably via the credit channel), which contributed to widening the deficit further.

The stronger-than-expected recession in trading partners reduced demand for Belarus’ non-energy exports. In particular, exports of vehicles and machinery to Russia plunged in the fourth quarter of 2008 and started to stabilize only a year later. The volume of potassium exports, which accounted for about 16 percent of non-energy exports in 2008, also fell by half, in part owing to lack of agreement on a long-term contract with China. Volumes of non-energy imports declined more gradually in 2009. Domestic demand growth was more robust than initially expected, supported by significantly stronger credit expansion and somewhat looser fiscal policy, reducing the contraction in non-energy import volumes compared with exports in the first half of 2009. This pattern was reversed in the second half, as the effects of exchange rate depreciation and limits on credit under government programs began to be felt.



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

Original Program Projections and Outcomes, 2009		
	Original program	Outcome
Current account balance, percent of GDP	-5.4	-12.9
Terms of trade, percent change	-3.5	-8.3
Partner country growth		
Russia	-1.0	-7.9
EU	0.2	-3.9
Real effective exchange rate, percent change	-4.8	-3.8
Credit to economy, percent change	12.0	30.7
General government balance, percent of GDP	0.3	-0.7

Source: IMF staff calculations.

Finally, terms of trade deteriorated more than initially expected, contributing to the widening of the current account deficit in 2009. Energy trade suffered from large negative terms of trade effects. The price of imported crude oil used for refining oil products in Belarus fell less (26 percent) than the price of exported oil products (36 percent). The price of imported gas also increased.

### III. POLICY DISCUSSIONS

5. **A key focus of discussions with the authorities was policies to mitigate the effects of the oil import price shock.** The authorities have started implementing measures which aim to reduce by half the increase in the external financing gap in 2010 resulting from the shock. (As discussed in paragraph 8, below, the remainder of the increased gap could be filled by additional external financing or lower reserves accumulation.) First, the authorities have identified measures to offset all but 0.7 percent of the 3.9 percent of GDP impact of the shock on the 2010 budget. Second, the NBRB has allowed the currency to depreciate to 3 percent below the central parity to improve competitiveness. Third, to support the exchange rate regime the authorities agreed to restrain credit growth by reducing the limit on net lending under government programs by 1 trillion rubels to 2¼ trillion rubels in 2010. These and other monetary and fiscal policy measures are described in more detail below.

6. **The authorities also reaffirmed their commitment to agreed measures on wages and lending under government programs.** Early in 2009 the President had suggested that average wages in the economy should be raised to \$500 a month before the end of the year, which would imply an increase of over 40 percent from end-2009 levels. In response to staff concerns about this announcement (especially given presidential elections planned for early 2011) the authorities reiterated their commitment to disciplined income policies. They also confirmed that the annual wage bill for the civil service will be kept within the budget limit and that pension increases will be kept within limits consistent with the long-term sustainability of the pension system and the 2010 budget of the Social Protection Fund (SPF).<sup>6</sup> The staff was also concerned about a government resolution mandating a substantial increase in credit for housing construction, which was inconsistent with program limits on lending under government programs. The Council of Ministers has rectified this situation by issuing a resolution stipulating that plans under individual government lending programs must be consistent with the agreed limits on aggregate lending under government programs, therefore making the program limits binding.

#### A. Macroeconomic Outlook

7. **Adapting the economy to the new oil import terms will slow the pace of recovery in 2010.** Real GDP is projected to increase by 2.4 percent as domestic demand would weaken responding to further policy tightening. This would bring inflation down to 8 percent, although disinflation could have been even greater were it not for the planned upward adjustment of administered prices. The current account deficit is expected to narrow to about 10½ percent of GDP in 2010.

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<sup>6</sup> Pensions and allowances to pensioners are projected to increase by 21 percent in the SPF budget for 2010. However pension increases that took place in end-2009 and early 2010 (a cumulative increase of 19 percent over 2009 levels) have used the bulk of the budgetary space available in the SPF finances.

8. **The remaining 2010 financing gap could be filled by additional external financing, and there may be room for some downward adjustment of the reserves accumulation over the full year.** The adjustment measures planned by the authorities are expected to reduce the impact of the oil price shock by half. Together with increased access to financing by Belarusian banks, a modest planned Eurobond issue, and disbursement of the European Union's macro-financial assistance, this could keep the 2010 financing gap to about \$2 billion, compared to about \$1½ billion projected at the time of the third review (Table 7). The gap could be filled by support under a follow-up Fund program, support from the World Bank, further market borrowing, and possibly support from the Eurasian Economic Community Anti-Crisis Fund. As imports are now 27 percent lower than in the original program and reserves coverage in months of imports correspondingly higher, a somewhat lower reserves target for end-2010 could also be considered, if necessary.

9. **Further adjustment will be required to secure macroeconomic stability, and structural reform is needed to improve medium-term growth prospects (Table 8).** Structural reforms are needed to foster private sector growth. Such reforms would facilitate economic recovery, bringing GDP growth to its estimated potential of 6-6½ percent, while also narrowing the current account deficit to about 5 percent. Continued tight macroeconomic policies will be needed to ensure that the current account deficit is reduced, and based on current projections some more adjustment would be needed to bring the medium-term current account to its norm (Box 3). Moreover, if the price of oil imports is raised further, the current account deficit would be higher through the medium term, and additional adjustment measures would be needed to narrow the current account deficit.

## **B. Monetary and Exchange Rate Policies**

10. **Key measures in the area of monetary and exchange rate policies include:**

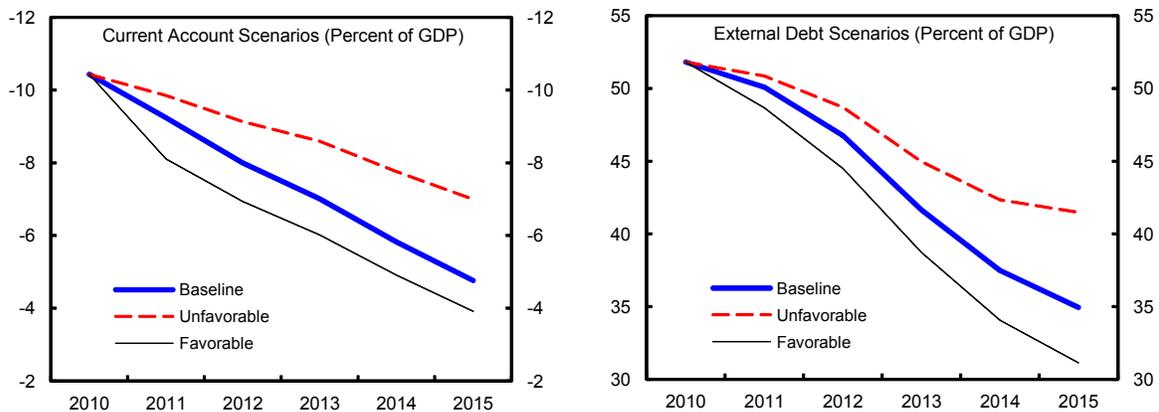
- *Tightening lending under government programs.* To alleviate external pressures, staff proposed and the authorities agreed to further reduce lending under government programs by one trillion rubels in 2010 (0.7 percent of GDP, or 1.5 percent of the end-2009 overall stock of credit). This will help reduce the share of government program loans in total claims on the economy from 46.2 percent at end-2009 to 43.5 percent by end-2010.
- *Use of the flexibility provided by the exchange rate regime.* The depreciation of the exchange rate to 3 percent below the central parity against the basket of currencies will facilitate narrowing the financing gap opened by the change in oil import terms. The authorities also have scope to depreciate the rate further if needed within the ±10 percent band. Staff agreed that the flexibility provided by the exchange rate regime is expected to be sufficient to ease the effects of the oil price shock in 2010, pending more clarity emerging about the long-term oil price regime, provided that the authorities maintain tight credit and fiscal policies.

### Box 3. What Does the Shock Imply for Current Account Sustainability Over the Medium Term?

*The new oil supply agreement produced a significant terms of trade shock. However, there is great uncertainty regarding the size of the permanent component of the shock.*

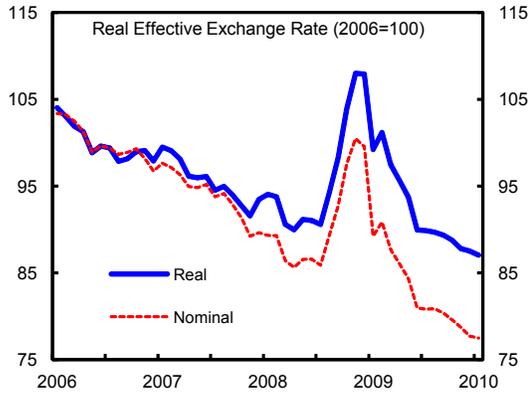
The baseline scenario reflects the oil price protocol agreed between Belarus and Russia in January 2010 and the set of policies agreed in the Letter of Intent. In that scenario, the current account deficit declines to 4.8 percent of GDP over the medium term, implying some deterioration relative to the 3<sup>rd</sup> review projection. However, the final pricing arrangements for oil imports remain uncertain.

The extent of uncertainty related to the pricing arrangement is illustrated by two alternative scenarios. The **favorable scenario** assumes that the authorities will be able to secure better terms than currently negotiated, and reflects an average price for imported oil based on the contract used in 2009. In this scenario, the current account deficit declines to 4 percent of GDP over the medium term. The **unfavorable scenario**, based on a gradual increase of prices of all imported oil to the world price level, consistent with Russia's stated intention of gradually raising domestic prices to international levels, could result in a medium-term deficit of 7 percent of GDP.

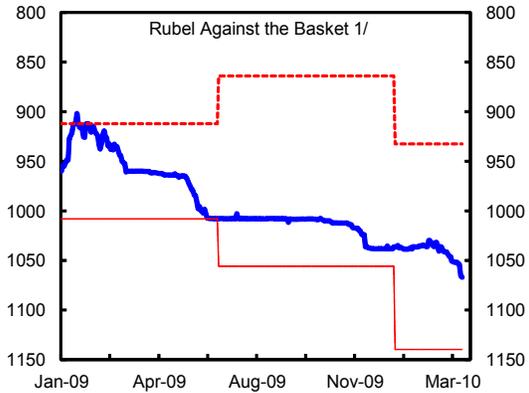


Sources: Belarusian authorities; and IMF staff estimates.

This uncertainty has implications for assessing medium-term sustainability of the current account balance. Based on the latest WEO projections for Belarus's trading partners, the current account norm (i.e. current account balance deemed to be sustainable over the medium term) for Belarus ranges from a deficit of 3.5 to a deficit of 3.8 percent of GDP. This implies that in the favorable scenario sustainability would not be an issue, whereas in the baseline scenario some further adjustment would be needed and the unfavorable scenario would raise serious concerns. The staff's assessment of the need for adjustment will therefore depend critically on the final terms of the new trade regime.

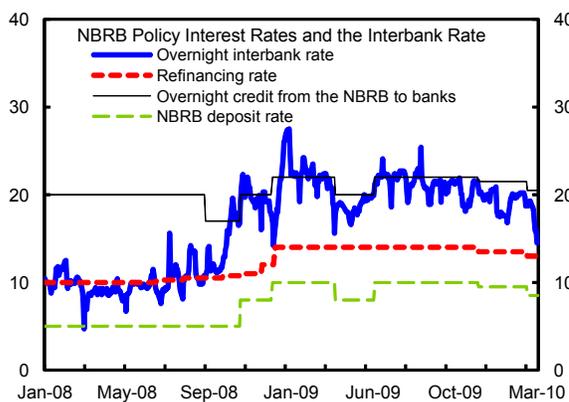


Sources: Belarusian authorities; and IMF staff calculations.

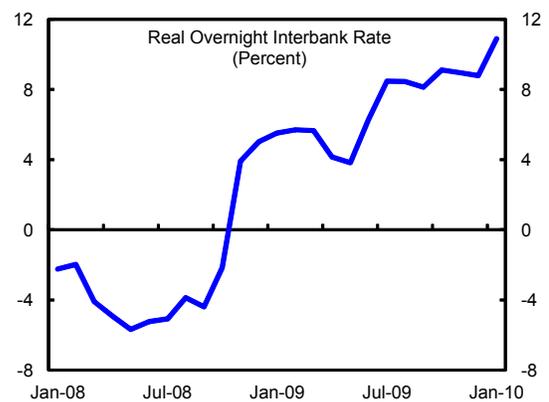


Source: National Bank of the Republic of Belarus.  
1/ The basket rate is calculated using BCSE exchange rates.

11. **Tightening lending under government programs will also permit a gradual reduction of market interest rates.** Gradual reduction in interest rates would promote market-based lending which has been crowded out by lending under government programs in previous years and, in 2009, also by high real interest rates. Moreover, dedollarization—as indicated by net sales of foreign exchange by households and the growing share of rubel deposits in household deposits—has been gaining momentum and a small narrowing in the spreads between the rubel and foreign exchange deposit rates is unlikely to reverse the process. Staff therefore supported the authorities' February 17 decision to reduce the refinancing rate by 50 basis points and the interest rate on overnight credit by the NBRB by 100 basis points. The authorities and staff agreed to discuss prospects for further interest rate cuts in April 2010, provided that lending under government programs remains within the agreed limits, and based on developments with inflation, dedollarization and the external position.



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



### C. Fiscal Policy

12. **The authorities are taking significant fiscal measures with a view to keeping the budgeted deficit broadly unchanged.** In the absence of offsetting measures, an increase in oil prices would widen the general government deficit to 5.6 percent of GDP in 2010, compared with 1.7 percent of GDP in the budget. The authorities plan to implement policy measures which would reduce the impact of the price increase on the budget by 3.2 percent of GDP. In addition, the authorities would bring forward an increase in transportation fees to reduce subsidies. The staff also proposed deferring any further wage increase to the second half of the year, but the authorities preferred to retain some flexibility on this, consistent with their previous program commitments. The authorities would like to maintain the original budget deficit target, and to this end will seek additional measures to fully offset the impact of the shock. However, if these measures are not sufficient the staff agreed that the budget deficit could be increased by up to 0.7 percent of GDP. If this proves necessary and if external financing is not available to cover the higher deficit, there may be a lower-than-programmed reduction in NBRB credit to the government. A judgment would then need to be made as to whether this could be accommodated by modifying the monetary program or whether it would need to be offset by tighter credit policy.

Measures to Reduce the Fiscal Impact of the Oil Price Shock, 2010  
(Percent of GDP)

Fiscal impact of oil price shock	3.9
Identified measures to reduce the fiscal impact	3.2
Cutting oil imports and production 1/	1.0
Eliminating subsidies to the oil sector and export duties on oil and oil products 2/	1.3
Increasing domestic price of oil products 3/	0.2
Other revenue increasing measures 4/	0.7
Measures to be identified	0.7

Sources: Belarusian authorities; and IMF staff estimates.

1/ This would reduce the payment of the Russian export duty by the oil sector which would have been compensated by the budget.

2/ To avoid making losses, oil refineries will cut investment and non-core activities in response to the elimination of net subsidies.

3/ Increased VAT and profit tax income.

4/ Includes raising taxes on raw materials, excise on tobacco and alcohol, and contribution to the Innovation Funds.

### D. Financial Sector Issues

13. **The creation of a special financial agency (SFA) will make the banking system more commercially oriented.** The work on establishing a special financial agency (SFA) is well advanced, with the decree to be approved by President before end-March 2010. In line with the recommendations of the 2009 Financial Sector Stability Assessment (FSSA) this agency would take over existing loans financing government programs and would assume the

role now played by banks in financing government programs. Initially, the agency's functions will be limited to managing already disbursed loans, but from the beginning of 2011 the agency will start distributing all new loans under government programs, with its net lending included in the budget above the line. In connection with the establishment of the SFA, the authorities will also consider converting NBRB liquidity support to banks on non-market terms into government bonds.

14. **Bank privatization could become easier after the SFA becomes operational.** Bank privatization has been progressing slowly, with only Belpromstroibank acquired by the Russia's Sberbank in 2009. Cleaning state-owned banks' balance sheets by transferring loans financing government programs to the SFA would improve their liquidity and capital adequacy, making banks more attractive to investors.

15. **Progress is being made on improving the governance of the NBRB and its focus on its core functions.** Building on the recommendations of the FSSA and the Safeguards Assessments, the Statute of the NBRB was amended in January 2010. Under the new Statute the voting rights of the government officials at the NBRB Board will be revoked, allowing them to act only in an advisory capacity, while the NBRB Board Chairman will participate in the meetings of the Presidium of the Council of Ministers also only in an advisory capacity. The authorities plan, with the assistance of Fund staff, to amend the Banking Code to reflect the revisions in the NBRB Statute and approve these amendments before end-September 2010. The NBRB has also agreed to bring forward the divestiture of its non-core assets—mostly farms—by offering a quarter of these subsidiaries for sale in 2010 and selling at least half of them in 2011.

#### **E. Other Structural Reforms**

16. **While the authorities have met specific program commitments, little progress has been made in privatization since the last review.** The draft Privatization Law was submitted to Parliament and the draft decree on establishing a privatization agency to the President on time, but neither has been enacted. Offering the first five companies for sale also lagged behind the schedule, due to the delay in the approval of the list by the President. The authorities are now planning on creating a National Investment and Privatization Agency (NIPA) which would be in charge of both investment promotion and privatization. The staff expressed concern that the authorities' commitment to privatization appeared to be wavering, and stressed the need for early action, given the importance of privatization for private sector development and facilitation of foreign direct investment. In response, the authorities assured staff that NIPA would focus equally on investment promotion and privatization and that in collaboration with the World Bank they would create an agency consistent with best international practices. The authorities would also ensure that the Privatization Law is passed by Parliament before July 1, 2010 and the decree on establishing NIPA approved by end-April 2010. The government will also advertise for qualified, experienced and reputable consultants for the first five companies slated for privatization.

17. **Staff and the authorities discussed in broad terms structural reforms beyond the program period, which would be a key element of a successor arrangement.** Staff reiterated the importance of pursuing structural reforms aimed at addressing structural balance of payments problems and improving total factor productivity, in a new environment where external financing is likely to be less accessible and more costly following the global crisis. Based on the experience of other countries, reforms can focus on removing factors that systematically undermine macroeconomic stability, reducing both the size of government and government intervention in the economy, and fostering a dynamic private sector through reducing barriers to private business and stepping up privatization. The Fund and the World Bank will support the authorities in these areas based on their respective mandates and expertise. The authorities shared the staff's views on the importance of strong institutions for macroeconomic stability and on the need for market forces to play a greater role in resource allocation. They agreed that the next step should be to formulate a medium-term agenda that can inform negotiations of specific measures under a possible successor arrangement. A seminar to be held in Minsk in March, organized jointly by the NBRB, the World Bank and the Fund, may further this process.

#### IV. PROGRAM MODALITIES AND CAPACITY TO REPAY

18. **The attached LOI describes the authorities' progress in implementing their economic program and sets out indicative targets for end-March 2010.** The authorities and staff agreed to modify indicative targets for end-March 2010 (Table 2 and 3 of the LOI). The modification reflects the fact that adjustment measures taken in response to the oil price increase will have only limited effects in the first quarter with a full effect materializing later in the year.

19. **Belarus's capacity to repay the Fund remains adequate (Table 9).** The level of Fund credit outstanding reached a peak of 51 percent of gross international reserves in 2009 and Fund repurchases and charges will amount to 33 percent of total debt service in 2013. Gross external debt is expected to peak at about 52 percent of GDP in 2010 and, based on continued tight policies, to fall thereafter as the current account deficit declines, suggesting that risks are manageable. Public debt is likely to remain at a moderate level, below 30 percent of GDP, even at its peak in 2010 (Appendix I).

#### V. STAFF APPRAISAL

20. **Belarus has risen to the challenges posed by the international financial crisis.** The crisis hit Belarus hard, especially through the trade channel, with huge falls in export volumes and prices. Belarus has used all levers of policy in responding. Fiscal policy has been a consistent strength, with the deficit in 2009 being less than 1 percent of GDP. While restraining credit, especially lending under government programs, has been more difficult, the monetary policy response has become more sure footed as the program has progressed. Recent policy moves exemplify the authorities' progress in managing exchange rate and

credit policy. The recentering of the exchange rate band at end-2009 and the further depreciation of the exchange rate over the last few weeks show that the authorities are willing and able to use exchange rate flexibility to support current account adjustment and protect reserves and the external position. The decision by the Council of Ministers to subordinate their plans under individual government lending programs to the program goal of restraining aggregate lending under these programs is critical for macroeconomic stability. The decision to cut lending under these programs further also makes possible a gradual reduction in market interest rates which will help the private sector.

21. **Belarus's response to the latest external shock, the deterioration of oil import terms, has been strong.** The government has increased domestic prices of oil products and is cutting production by state-owned refineries to avoid a large increase in subsidies. It has also raised other administered prices and has identified revenue policies to offset the impact on the fiscal accounts. The fiscal measures, the exchange rate depreciation and the cut in lending under government programs will all help reduce domestic demand, containing the impact of the oil shock on the balance of payments.

22. **Nevertheless, the crisis and the oil shock underscore Belarus's continued vulnerability.** The current account deficit remains stubbornly high, and its downward trend will be slowed by the oil price increase. Substantial recourse to external financing to finance the deficit has greatly increased public and external debt ratios, leaving limited room for further increase. Reserves have increased under the program, but still remain low for an economy with a pegged exchange rate and heavy reliance on external trade. For the remainder of 2010 and beyond Belarus will need to maintain tight macroeconomic policies to bring the current account deficit to more sustainable levels and secure further external financing to reduce these vulnerabilities. Moreover, pressure to loosen policies may intensify in advance of the presidential election scheduled for early 2011. It will be important to resist such pressure.

23. **Structural reform will be essential if Belarus is to return to high and sustainable growth.** The staff's conclusion during the 2009 Article IV consultation that improvements in productivity must replace capital intensification as the main source of growth is broadly accepted by the authorities. In some areas, notably financial sector reform, they have already taken important steps toward liberalization. However, delays in privatization measures are troubling. The reform agenda for the next three years is long: privatization, replacement of economy-wide and enterprise-specific economic targets with indicative targets focused on profitability, wage and price liberalization, labor market reform, further financial sector reform and reduction in the size of government through tax reform and expenditure rationalization. The authorities' willingness to undertake significant reforms in these areas will be key to increasing growth and to generating external financing through official support and foreign direct investment.

24. **On completion of the program supported by the SBA, the authorities are likely to request additional Fund support.** Belarus has made important progress in economic management during the current program, and has demonstrated its capacity to implement agreed policies. But substantial macroeconomic challenges remain, the structural reform agenda is daunting and financing needs remain large. The authorities have indicated that they would welcome assistance from the Fund in both identifying needed policies and generating support for them.

25. **On the basis of the authorities' performance since the third review and the policies set out in the LOI, staff recommends completion of the fourth and final review of the SBA.**

Table 1. Belarus: Selected Economic Indicators, 2007–15

	2007	2008	2009		2010		2011	2012	2013	2014	2015
			3d rev.	Proj.	3d rev.	Proj.					
(Annual percentage change, unless otherwise specified)											
<b>National accounts</b>											
Real GDP	8.6	10.0	-0.3	0.2	3.8	2.4	4.6	5.3	6.1	6.5	6.6
Total domestic demand	13.5	16.1	-0.8	1.0	2.0	-0.5	3.9	4.8	5.7	6.1	6.4
Consumption	9.7	12.2	-4.1	-0.2	2.0	0.2	4.0	4.9	5.7	5.7	5.7
Private	13.4	15.9	-3.8	0.5	2.0	-0.2	4.0	4.9	5.9	5.9	5.9
Public	-0.5	0.3	-5.0	-2.8	2.1	2.0	4.0	5.0	5.0	5.0	5.0
Investment	21.9	23.9	5.1	3.2	1.9	-1.7	3.7	4.7	5.6	6.8	7.6
Of which: fixed	21.1	23.1	5.5	8.6	2.0	-1.8	3.8	4.8	5.8	7.0	7.8
Net exports 1/	-1.5	-7.7	0.6	-0.2	1.5	3.0	0.2	-0.1	-0.2	-0.3	-0.5
<b>Consumer prices</b>											
End of period	12.1	13.3	10.5	10.1	8.0	8.0	5.5	5.5	5.5	5.5	5.5
Average	8.4	14.8	13.0	13.0	7.6	7.3	6.2	5.5	5.5	5.5	5.5
<b>Monetary accounts</b>											
Reserve money	38.4	11.7	-9.2	-11.3	22.0	12.2	...	...	...	...	...
Rubel broad money	35.0	22.5	-6.4	1.0	26.9	16.7	...	...	...	...	...
Growth of credit to the economy at program exchange rates	...	53.6	24.2	30.7	14.6	14.2	...	...	...	...	...
(Percent of GDP)											
<b>External debt and balance of payments</b>											
Current account	-6.7	-8.6	-11.0	-12.9	-7.2	-10.4	-9.2	-8.0	-7.0	-5.8	-4.8
Trade balance	-8.9	-10.3	-12.0	-14.2	-8.5	-12.5	-11.2	-10.1	-9.2	-8.4	-7.7
Exports of goods	53.8	54.4	44.3	43.6	50.6	40.8	41.0	40.9	40.8	40.7	40.6
Imports of goods	-62.7	-64.7	-56.3	-57.8	-59.1	-53.3	-52.2	-51.0	-50.0	-49.2	-48.3
Gross external debt	27.7	25.2	42.8	44.4	44.1	51.8	50.1	46.8	41.6	37.5	34.9
Public 2/	6.5	6.9	17.9	18.2	18.2	23.7	22.9	21.5	19.7	18.0	16.2
Private (mostly state-owned-enterprises)	21.2	18.3	24.9	26.2	25.9	28.1	27.2	25.3	21.9	19.5	18.8
<b>Savings and investment</b>											
Gross domestic investment	34.1	36.4	38.0	36.6	35.9	33.8	32.5	31.4	30.4	29.6	29.0
Public	8.5	10.1	7.3	8.2	6.4	6.6	6.6	6.6	6.6	6.6	6.6
Private	25.6	26.4	30.7	28.4	29.5	27.2	26.0	24.9	23.8	23.0	22.5
National saving	27.4	27.8	27.0	23.7	28.7	23.3	23.3	23.4	23.4	23.8	24.3
Public	8.9	11.4	6.2	7.4	4.7	4.8	4.7	4.6	4.7	4.8	5.0
Private	18.5	16.4	20.8	16.3	24.0	18.5	18.6	18.8	18.6	19.0	19.2
<b>Public sector finance</b>											
Republican and local government balance	-0.6	0.0	-1.9	-1.8	-1.7	-1.8	-1.9	-1.9	-1.8	-1.8	-1.5
General government balance	0.4	1.4	-1.1	-0.7	-1.7	-1.8	-1.9	-1.9	-1.8	-1.8	-1.5
Revenue	49.5	51.0	44.2	45.9	43.0	40.4	40.0	40.0	39.6	39.5	39.6
Expenditure	49.0	49.6	45.3	46.6	44.7	42.9	41.9	41.9	41.5	41.3	41.1
Of which											
Wages	8.0	6.7	6.7	6.8	6.6	6.7	6.7	6.7	6.7	6.7	6.7
Subsidies and transfers	10.5	11.6	11.1	11.7	10.6	8.2	7.8	7.7	7.4	7.2	7.0
Investment	8.5	10.1	7.3	8.2	6.4	6.6	6.6	6.6	6.6	6.6	6.6
Additional measures	...	...	...	...	0.0	0.7	...	...	...	...	...
(Annual percentage change, unless indicated otherwise)											
<b>Memorandum items:</b>											
Nominal GDP (trillions of rubels)	97.2	128.8	138.4	136.8	157.4	153.6	173.9	196.8	224.4	256.9	294.4
Term of trade	-1.5	9.2	-7.2	-8.3	5.0	2.5	1.1	1.5	1.4	1.1	1.4
Real effective exchange rate	-4.5	0.6	-2.9	-3.8	-5.4	-6.9	0.3	-0.2	-0.3	-0.2	0.0
Official reserves (billions of U.S. dollars)	4.2	3.1	5.6	5.7	7.2	8.7	8.9	9.3	9.2	10.2	13.0
Official reserves (months of imports of goods and services)	1.6	0.9	2.3	2.2	2.6	3.5	3.2	2.9	2.5	2.5	2.7
Official reserves (percent of short-term debt)	56.8	40.4	68.3	61.8	85.5	88.6	86.2	81.6	72.3	72.0	82.7

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.

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

Table 2. Belarus: Balance of Payments, 2007–15

	2007	2008	2009		2010				2011	2012	2013	2014	2015
					Q1		Annual						
					3d rev.	Proj.	3d rev.	Proj.					
(Millions of U.S. dollars)													
Current account	-3,032	-5,209	-5,414	-6,326	-851	-1,334	-3,852	-5,451	-5,504	-5,479	-5,575	-5,379	-5,101
Trade balance (goods)	-4,042	-6,237	-5,920	-6,971	-1,017	-1,638	-4,504	-6,537	-6,669	-6,945	-7,284	-7,791	-8,260
Energy balance	-1,705	-2,000	-3,124	-3,378	-608	-1,387	-2,493	-5,309	-5,427	-5,577	-5,744	-6,032	-6,126
Nonenergy balance	-2,337	-4,237	-2,796	-3,593	-408	-251	-2,011	-1,228	-1,241	-1,369	-1,540	-1,759	-2,135
Exports	24,362	32,805	21,856	21,339	6,047	4,674	26,884	21,302	24,424	28,040	32,451	37,643	43,544
Of which: energy exports	8,278	11,866	7,874	7,844	2,353	989	9,987	4,446	4,873	5,022	5,169	5,318	5,486
Imports	-28,404	-39,042	-27,776	-28,310	-7,064	-6,312	-31,388	-27,839	-31,093	-34,985	-39,735	-45,435	-51,805
Of which: energy imports	-9,983	-13,865	-10,998	-11,222	-2,961	-2,376	-12,480	-9,756	-10,300	-10,598	-10,913	-11,351	-11,611
Services	1,230	1,623	1,403	1,421	454	514	1,832	2,170	2,497	2,953	3,512	4,171	4,906
Receipts	3,264	4,258	3,081	3,462	895	929	3,735	4,328	5,020	5,910	7,006	8,301	9,774
Payments	-2,034	-2,635	-1,678	-2,041	-441	-415	-1,903	-2,158	-2,523	-2,957	-3,494	-4,130	-4,868
Income, net	-411	-788	-1,164	-1,011	-354	-275	-1,442	-1,343	-1,583	-1,775	-2,137	-2,148	-2,198
Transfers, net	191	192	267	235	65	65	262	260	251	288	335	389	451
Capital and financial accounts	5,292	4,162	4,213	5,154	1,559	1,675	4,748	5,437	5,774	6,255	7,098	7,739	8,021
Capital account	92	137	125	151	45	45	180	180	121	140	162	188	218
Financial account	5,200	4,025	4,088	5,003	1,514	1,630	4,568	5,257	5,652	6,116	6,936	7,551	7,803
Overall FDI, net	1,770	2,149	1,366	1,811	1,049	1,051	2,320	2,327	2,507	3,114	3,874	4,358	4,886
Portfolio investment, net	-39	5	32	21	0	0	0	0	500	500	500	500	500
Trade credits, net	690	289	-10	657	0	6	400	400	100	100	100	100	100
Loans, net	3,541	2,085	1,086	1,253	294	402	1,163	1,846	2,203	2,037	2,072	2,175	2,127
Government and monetary authorities, net	1,956	1,266	1,195	935	94	94	361	611	826	564	459	428	214
Banks, net	966	603	-302	41	124	208	496	832	892	913	956	968	986
Other sectors, net	619	519	193	277	77	101	307	403	485	559	656	780	926
Other (excluding arrears), net	-763	-503	1,614	1,262	171	171	685	684	343	365	391	418	190
Errors and omissions	477	-80	368	446	0	0	0	0	0	0	0	0	0
Overall balance	2,737	-1,127	-834	-726	708	341	896	-14	269	776	1,523	2,359	2,919
Financing	-2,737	1,127	834	726	-708	-341	-896	-2,030	-269	-776	-1,523	-2,359	-2,919
Reserves ("-" denotes an increase)	-2,778	1,003	-2,476	-2,507	-1,390	-1,021	-1,578	-3,001	-269	-391	148	-988	-2,834
Net use of Fund resources 1/	0	0	2,819	2,834	682	681	682	681	0	-385	-1,671	-1,371	-85
Other donors and exceptional financing items	42	124	490	398	0	0	0	290	0	0	0	0	0
Unidentified financing 2/	...	...	...	...	0	0	1,454	2,043	0	0	0	0	0
Memorandum items:													
Stock of reserves 3/	4,182	3,061	5,621	5,653	7,011	6,674	7,199	8,653	8,922	9,313	9,165	10,153	12,987
Reserves (months of imports of goods and services)	1.6	0.9	2.3	2.2	2.5	2.7	2.6	3.5	3.2	2.9	2.5	2.5	2.7
Reserves (percent of short-term debt)	56.8	40.4	68.3	61.8	86.4	72.1	85.5	88.6	86.2	81.6	72.3	72.0	82.7
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	-4.5	0.6	-2.9	-3.8	...	...	-5.4	-6.9	0.3	-0.2	-0.3	-0.2	0.0
Export volume (annual percentage change)	5.2	1.5	-12.7	-11.5	...	...	4.6	-17.2	4.9	4.9	5.3	5.8	6.2
Import volume (annual percentage change)	7.2	14.3	-15.8	-12.6	...	...	0.5	-16.3	3.4	4.2	4.8	5.4	6.1
Domestic demand growth (annual percentage change)	13.5	16.1	-0.8	1.0	...	...	2.0	-0.5	3.9	4.8	5.7	6.1	6.4
Partner country growth (percent) 4/													
Russia	8.1	5.6	-9.0	-7.9	...	...	3.7	4.0	3.3	3.7	4.1	4.4	5.0
EU	2.7	0.6	-4.2	-3.9	...	...	0.3	1.0	1.6	1.8	1.8	1.8	1.6

Table 2. Belarus: Balance of Payments, 2007–15 1/ (concluded)

	2007	2008	2009	2010				2011	2012	2013	2014	2015	
				Q1		Annual							
				3d rev.	Proj.	3d rev.	Proj.						3d rev.
(Percent of GDP)													
Current account	-6.7	-8.6	-11.0	-12.9	-1.6	-2.6	-7.2	-10.4	-9.2	-8.0	-7.0	-5.8	-4.8
Trade balance	-8.9	-10.3	-12.0	-14.2	-1.9	-3.1	-8.5	-12.5	-11.2	-10.1	-9.2	-8.4	-7.7
Of which: energy balance	-3.8	-3.3	-6.3	-6.9	-1.1	-2.7	-4.7	-10.2	-9.1	-8.1	-7.2	-6.5	-5.7
Nonenergy balance	-5.2	-7.0	-5.7	-7.3	-0.8	-0.5	-3.8	-2.3	-2.1	-2.0	-1.9	-1.9	-2.0
Exports	53.8	54.4	44.3	43.6	11.4	8.9	50.6	40.8	41.0	40.9	40.8	40.7	40.6
Of which: energy exports	18.3	19.7	16.0	16.0	4.4	1.9	18.8	8.5	8.2	7.3	6.5	5.8	5.1
Imports	-62.7	-64.7	-56.3	-57.8	-13.3	-12.1	-59.1	-53.3	-52.2	-51.0	-50.0	-49.2	-48.3
Of which: energy imports	-22.0	-23.0	-22.3	-22.9	-5.6	-4.5	-23.5	-18.7	-17.3	-15.5	-13.7	-12.3	-10.8
Capital and financial accounts	11.7	6.9	8.5	10.5	2.9	3.2	8.9	10.4	9.7	9.1	8.9	8.4	7.5
Capital account	0.2	0.2	0.3	0.3	0.1	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Financial account	11.5	6.7	8.3	10.2	2.8	3.1	8.6	10.1	9.5	8.9	8.7	8.2	7.3
Overall FDI	3.9	3.6	2.8	3.7	2.0	2.0	4.4	4.5	4.2	4.5	4.9	4.7	4.6
Portfolio investment, net	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.8	0.7	0.6	0.5	0.5
Trade credits, net	1.5	0.5	0.0	1.3	0.0	0.0	0.8	0.8	0.2	0.1	0.1	0.1	0.1
Loans, net	7.8	3.5	2.2	2.6	0.6	0.8	2.2	3.5	3.7	3.0	2.6	2.4	2.0
Government and monetary authorities, net	4.3	2.1	2.4	1.9	0.2	0.2	0.7	1.2	1.4	0.8	0.6	0.5	0.2
Banks, net	2.1	1.0	-0.6	0.1	0.2	0.4	0.9	1.6	1.5	1.3	1.2	1.0	0.9
Other sectors, net	1.4	0.9	0.4	0.6	0.1	0.2	0.6	0.8	0.8	0.8	0.8	0.8	0.9
Other (excluding arrears), net	-1.7	-0.8	3.3	2.6	0.3	0.3	1.3	1.3	0.6	0.5	0.5	0.5	0.2
Errors and omissions	1.1	-0.1	0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.0	-1.9	-1.7	-1.5	1.3	0.7	1.7	0.0	0.5	1.1	1.9	2.6	2.7
Financing	-6.0	1.9	1.7	1.5	-1.3	-0.7	-1.7	-3.9	-0.5	-1.1	-1.9	-2.6	-2.7
Reserves ("-" denotes an increase)	-6.1	1.7	-5.0	-5.1	-2.6	-2.0	-3.0	-5.7	-0.5	-0.6	0.2	-1.1	-2.6
Net use of Fund resources 1/	0.0	0.0	5.7	5.8	1.3	1.3	1.3	1.3	0.0	-0.6	-2.1	-1.5	-0.1
Other donors and exceptional financing items	0.1	0.2	1.0	0.8	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Unidentified financing 2/	...	...	...	...	...	0.0	2.7	3.9	0.0	0.0	0.0	0.0	0.0

Sources: Belarus authorities; and IMF staff estimations.

1/ Disbursements and repayments are based on the schedule agreed at the time of the first review.

2/ The number for the 3rd review column is the shortfall relative to the target of \$8,653 million. These amounts are assumed to be filled by government borrowing from abroad.

3/ The original targets for gross reserves is \$8,085 million for 2010. This is adjusted upward by the SDR allocations totaling about \$568 million.

4/ Based on latest projection available.

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10  
(Trillions of Belarusian rubels, unless otherwise indicated)

	2007	2008	2009					2010						
			Mar.		Jun.		Sep.		Dec.		Mar.		Dec.	
			Est.	Est.	Est.	3d rev.	Proj.							
<b>1.State (republican and local) budget</b>														
Revenue	36.6	50.9	9.8	20.5	32.9	45.3	46.6	10.7	9.3	49.6	44.5			
Personal income tax	3.1	4.2	1.0	2.1	3.2	4.3	4.3	1.2	1.2	4.9	4.8			
Profit tax	3.8	6.0	0.9	2.0	3.3	4.6	4.6	1.1	1.1	5.9	6.0			
VAT	8.7	11.4	2.8	5.6	8.8	12.2	12.1	3.6	3.5	15.4	15.3			
Excises	3.0	3.9	0.7	1.6	2.6	3.6	3.6	0.9	0.9	4.6	4.8			
Property tax	1.5	1.3	0.4	0.8	1.2	1.7	1.6	0.3	0.3	1.1	1.1			
Customs duties	6.3	10.6	1.5	3.1	5.1	7.6	8.0	1.8	0.7	9.2	3.8			
Other	3.7	7.8	1.6	3.7	5.6	7.4	7.7	1.2	1.0	5.6	5.5			
Revenue of budgetary funds	6.5	5.7	1.0	1.7	3.1	4.0	4.7	0.7	0.7	2.9	3.2			
Expenditure (economic classification) 1/	37.2	50.9	9.7	22.1	34.3	47.9	49.1	11.3	10.0	52.3	48.3			
Wages and salaries	7.7	8.6	2.1	4.7	6.9	9.3	9.3	2.4	2.4	10.3	10.3			
Social protection fund contributions	2.1	2.3	0.6	1.3	1.8	2.5	2.5	0.6	0.6	2.8	2.8			
Goods and services	6.8	8.7	1.9	3.7	5.6	8.0	8.7	2.3	2.1	9.6	9.6			
Interest	0.4	0.7	0.3	0.5	0.8	1.1	1.1	0.6	0.6	2.2	2.3			
Subsidies and transfers	10.2	14.9	3.5	7.3	11.0	15.3	16.0	3.6	2.5	16.7	12.7			
Capital expenditures	8.2	13.0	1.4	3.7	6.9	10.1	11.2	1.7	1.7	10.1	10.1			
<i>Of which: capital transfers to banks</i>	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Net lending	1.8	2.6	-0.1	0.9	1.4	1.5	0.4	0.0	0.0	0.2	0.2			
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.4	0.3			
Balance (economic classification) 2/	-0.6	0.0	0.2	-1.6	-1.5	-2.6	-2.5	-0.6	-0.7	-2.7	-3.7			
Noncash bank restructuring measures	0.6	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Net lending to financial institutions	1.7	4.3	...	...	...	...	...	...	...	...	...			
Augmented balance	-2.9	-6.3	0.2	-1.6	-1.5	-2.6	-2.5	-0.6	-0.7	-2.7	-3.7			
<b>2. Social protection fund</b>														
Revenue	11.4	14.7	3.6	7.8	11.9	15.9	16.1	4.1	3.9	18.0	17.5			
Expenditure	10.4	13.0	3.3	7.0	10.5	14.9	14.7	4.0	3.9	18.0	17.5			
Balance (cash)	1.0	1.7	0.3	0.8	1.4	1.0	1.4	0.1	0.0	0.0	0.0			
Balance of the general government	0.4	1.7	0.5	-0.9	0.0	-1.6	-1.0	-0.5	-0.7	-2.7	-3.7			
Additional measures	...	...	...	...	...	...	...	0.0	0.0	0.0	1.0			
Augmented balance of the general government	-1.9	-4.6	0.5	-0.9	0.0	-1.6	-1.0	-0.5	-0.7	-2.7	-2.7			
Statistical discrepancy	0.0	0.0	0.2	-0.1	-0.1	0.0	-0.3	0.0	0.0	0.0	0.0			
<b>3. Financing (cash) 2/</b>														
Privatization	1.9	4.6	-0.7	1.0	0.2	1.6	1.3	0.5	0.7	2.7	2.7			
Foreign financing, net 3/	2.5	1.3	1.7	1.5	1.1	2.3	1.9	2.5	2.4	4.3	4.3			
Domestic financing, net	3.1	3.0	1.4	2.0	2.2	4.7	3.6	0.3	0.3	1.1	8.7			
Banking system	-3.7	0.3	-3.8	-2.6	-3.2	-5.5	-4.2	-2.3	-2.0	-2.7	-10.2			
Central bank	-1.9	-1.6	-3.8	-2.4	-2.9	-4.7	-3.9	-2.4	-2.0	-3.2	-10.2			
Deposit money banks (including SPF)	-4.0	0.2	-4.8	-3.4	-2.2	-4.7	-3.5	-2.6	-2.2	-3.5	-10.6			
Revaluation effect	2.1	-1.8	-0.8	-0.7	-2.1	-1.5	-2.2	0.2	0.2	0.4	0.4			
Nonbank 4/	...	...	1.8	1.6	1.5	1.5	1.8	...	...	...	...			
Nonbank 4/	-1.8	1.9	-0.1	-0.2	-0.3	-0.7	-0.3	0.1	0.0	0.5	0.0			
<b>4. Financing gap</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
<b>Memorandum items:</b>														
Balance of the local governments	...	...	0.1	-1.0	-1.3	-1.4	-1.4	...	...	...	...			
Contingent liabilities	7.2	23.0	21.3	19.5	17.8	20.1	20.0	...	...	18.3	17.9			
Government guarantee of commercial banks' credit	7.2	9.5	7.6	5.7	3.8	5.7	5.7	...	...	1.9	1.9			
Government guarantees of household deposits	0.0	13.4	13.6	13.8	14.0	14.4	14.2	...	...	16.4	16.0			
GDP	97.2	128.8	...	...	...	138.4	136.8	...	...	157.4	153.6			

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10 1/ (concluded)  
(Percent of annual GDP, unless otherwise indicated)

	2007	2008	2009					2010					
			Mar.		Jun.	Sep.		Dec.		Mar.			
			Est.	Est.	Est.	3d rev.	Proj.	3d rev.	Proj.	3d rev.	Proj.		
<b>1. State (republican and local) budget</b>													
Revenue	37.7	39.5	7.2	15.0	24.0	32.7	34.1	6.8	6.1	31.5	29.0		
Personal income tax	3.2	3.2	0.8	1.5	2.3	3.1	3.1	0.8	0.8	3.1	3.1		
Profit tax	3.9	4.7	0.6	1.5	2.4	3.3	3.4	0.7	0.7	3.8	3.9		
VAT	8.9	8.8	2.1	4.1	6.4	8.8	8.8	2.3	2.3	9.8	10.0		
Excises	3.1	3.0	0.5	1.2	1.9	2.6	2.7	0.6	0.6	2.9	3.1		
Property tax	1.6	1.0	0.3	0.6	0.9	1.2	1.2	0.2	0.2	0.7	0.7		
Customs duties	6.5	8.2	1.1	2.2	3.8	5.5	5.8	1.1	0.4	5.9	2.4		
Other	3.8	6.1	1.1	2.7	4.1	5.3	5.7	0.8	0.6	3.6	3.6		
Revenue of budgetary funds	6.7	4.4	0.7	1.2	2.3	2.9	3.4	0.4	0.4	1.8	2.1		
Expenditure (economic classification) 1/	38.3	39.5	7.1	16.2	25.1	34.6	35.9	7.2	6.5	33.2	31.4		
Wages and salaries	8.0	6.7	1.6	3.5	5.0	6.7	6.8	1.5	1.5	6.6	6.7		
Social protection fund contributions	2.2	1.8	0.4	0.9	1.3	1.8	1.8	0.4	0.4	1.8	1.8		
Goods and services	7.0	6.7	1.4	2.7	4.1	5.8	6.3	1.4	1.4	6.1	6.3		
Interest	0.4	0.6	0.2	0.4	0.6	0.8	0.8	0.4	0.4	1.4	1.5		
Subsidies and transfers	10.5	11.6	2.6	5.3	8.0	11.1	11.7	2.3	1.6	10.6	8.2		
Capital expenditures	8.5	10.1	1.1	2.7	5.1	7.3	8.2	1.1	1.1	6.4	6.6		
<i>Of which: capital transfers to banks</i>	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net lending	1.8	2.0	-0.1	0.7	1.0	1.1	0.3	0.0	0.0	0.1	0.1		
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.2		
Balance (economic classification) 2/	-0.6	0.0	0.1	-1.2	-1.1	-1.9	-1.8	-0.4	-0.5	-1.7	-2.4		
Noncash bank restructuring measures	0.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net lending to financial institutions	1.8	3.4	...	...	...	...	...	...	...	...	...		
Augmented balance	-3.0	-4.9	0.1	-1.2	-1.1	-1.9	-1.8	-0.4	-0.5	-1.7	-2.4		
<b>2. Social Protection Fund</b>													
Revenue	11.8	11.4	2.6	5.7	8.7	11.5	11.8	2.6	2.5	11.4	11.4		
Expenditure	10.7	10.1	2.4	5.1	7.7	10.8	10.7	2.5	2.6	11.4	11.4		
Balance (cash)	1.1	1.3	0.2	0.6	1.0	0.7	1.1	0.1	0.0	0.0	0.0		
Balance of the general government	0.4	1.4	0.4	-0.6	0.0	-1.1	-0.7	-0.3	-0.5	-1.7	-2.4		
Additional measures	...	...	...	...	...	...	...	0.0	0.0	0.0	0.7		
Augmented balance of the general government	-1.9	-3.5	0.4	-0.6	0.0	-1.1	-0.7	-0.3	-0.5	-1.7	-1.8		
Statistical discrepancy	0.0	0.0	0.1	-0.1	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0		
<b>3. Financing (cash) 2/</b>													
Privatization	1.9	3.5	-0.5	0.7	0.1	1.1	1.0	0.3	0.5	1.7	1.8		
Foreign financing, net 3/	2.6	1.0	1.3	1.1	0.8	1.7	1.4	1.6	1.6	2.7	2.8		
Domestic financing, net	3.2	2.3	1.0	1.5	1.6	3.4	2.6	0.2	0.2	0.7	5.6		
Banking system	-3.8	0.2	-2.8	-1.9	-2.3	-3.9	-3.0	-1.4	-1.3	-1.7	-6.7		
Central bank	-2.0	-1.2	-2.8	-1.8	-2.1	-3.4	-2.8	-1.5	-1.3	-2.0	-6.7		
Deposit money banks (including SPF)	-4.1	0.1	-3.5	-2.5	-1.6	-3.4	-2.5	-1.6	-1.4	-2.2	-6.9		
Revaluation effect	2.1	-1.4	-0.6	-0.5	-1.6	-1.1	-1.6	0.1	0.1	0.2	0.2		
Nonbank 4/	...	...	1.3	1.2	1.1	1.1	1.3	...	...	...	...		
Nonbank 4/	-1.9	1.5	-0.1	-0.1	-0.2	-0.5	-0.2	0.1	0.0	0.3	0.0		
Memorandum items:													
Balance of the local governments	...	...	0.1	-0.7	-1.0	-1.0	-1.0	...	...	...	...		
Contingent liabilities	7.4	17.8	15.5	14.3	13.0	14.5	14.6	...	...	11.6	11.6		
Government guarantee of commercial banks' credit	7.4	7.4	5.6	4.2	2.8	4.1	4.2	...	...	1.2	1.2		
Government guarantees of household deposits	0.0	10.4	10.0	10.1	10.3	10.4	10.4	...	...	10.4	10.4		
GDP (trillions of rubels)	97.2	128.8	...	...	...	138.4	136.8	...	...	157.4	153.6		

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

1/ Includes changes in expenditure arrears.

2/ The actual deficits include all the closing expenditure for the year carried out in January of the following year and correspond to the authorities fiscal year reports. The deficit includes January closing expenditure in the year they were actually paid.

3/ Includes unidentified financing that is assumed to be filled by government borrowing from abroad.

4/ Includes statistical discrepancy up to 2008.

Table 4. Belarus: Monetary Authorities' Accounts, 2007–10  
(Trillions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009				2010		
			Mar.	Jun.	Sep.	Dec.	Jan.	Mar.	Dec.
							Proj. 1/		
Reserve money	6.9	7.7	5.9	6.1	6.5	6.8	6.9	6.7	7.7
Rubel reserve money	6.9	7.3	5.8	5.8	6.2	6.6	6.8	6.5	7.5
Currency outside banks	3.3	3.8	3.1	3.3	3.5	3.6	3.7	3.5	3.8
Required reserves	1.7	2.2	1.7	1.4	1.7	1.7	2.0	1.8	2.2
Time deposits, NBB securities, and nonbank deposits	1.9	1.2	0.9	1.0	1.1	1.3	1.1	1.2	1.5
Foreign currency reserve money	0.0	0.4	0.1	0.3	0.3	0.2	0.1	0.2	0.2
Net foreign assets	9.1	7.0	8.9	5.3	4.3	5.8	4.9	7.1	12.9
Billions of U.S. dollars	4.2	3.2	3.1	1.9	1.6	2.0	1.7	2.4	4.4
Net foreign assets (convertible)	9.1	5.8	7.8	4.4	3.7	5.1	4.1	6.3	12.2
Billions of U.S. dollars	3.6	2.6	2.7	1.6	1.3	1.8	1.4	2.1	4.1
Foreign assets	10.4	8.0	12.3	8.4	11.4	16.9	16.0	20.5	26.2
Billions of U.S. dollars	4.8	3.6	4.3	3.0	4.1	5.9	5.6	6.9	8.9
Of which gross international reserves	9.0	6.7	11.2	7.5	10.7	16.2	15.2	19.8	25.4
Billions of U.S. dollars	4.2	3.1	4.0	2.6	3.9	5.7	5.3	6.7	8.7
Foreign liabilities	1.3	1.0	3.4	3.1	7.0	11.1	11.1	13.4	13.3
Billions of U.S. dollars	0.6	0.4	1.2	1.1	2.5	3.9	3.8	4.5	4.5
Of which: use of IMF credit (billions of U.S. dollars)	0.0	0.0	0.8	0.8	1.5	2.9	2.8	3.5	3.5
Net domestic assets	-2.2	0.7	-3.0	0.8	2.2	1.0	2.0	-0.4	-5.3
Memo: Net domestic assets at program exchange rates	-2.2	0.8	-0.9	2.0	2.8	2.0	2.9	1.5	-2.2
Net domestic credit	-1.2	1.2	-2.1	1.7	3.9	3.1	4.1	1.6	-3.2
Net credit to general government	-4.2	-4.0	-8.8	-7.6	-6.4	-7.6	-7.8	-9.8	-18.2
Net credit to local government and state enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Net credit to central government	-4.2	-4.0	-8.8	-7.6	-6.4	-7.6	-8.1	-9.8	-18.2
Claims on government (loans and government securities)	1.7	1.7	4.2	4.5	6.7	9.3	9.3	11.6	11.4
Deposits of central government	5.8	5.7	13.0	12.1	13.1	17.0	17.5	21.4	29.7
Credit to economy	2.9	5.2	6.7	9.4	10.3	10.8	12.0	11.5	15.0
Credit to banks	1.8	3.4	4.7	7.2	8.1	8.6	9.8	9.3	12.8
National currencies	1.6	3.1	4.4	6.8	7.7	8.2	9.4	8.9	12.4
Foreign currencies	0.2	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Billions of U.S. dollars	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Credit to nonbanks	1.1	1.8	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Claims on private sector	1.1	1.8	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Net credit to nonfinancial public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit to other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	-0.9	-0.6	-0.9	-1.0	-1.7	-2.1	-2.1	-2.0	-2.0
Memorandum items:									
Changes in NIR according to TMU definition (millions of U.S. dollars) 2/									
Program 3/	...	...	-1,010	-2,321	-2,066	-1,657	...	-800	...
Actual/projected	...	...	-1,231	-2,285	-1,916	-1,615	-2,323	-1,275	704
NIR shortfall	...	...	221	-36	-150	-42	...	...	...
Changes in NDA according to the TMU definition (billions of Belarusian rubels) 2/									
Program 3/	...	...	...	3,685	3,467	2,901	...	1,274	...
Actual/projected	...	...	915	3,330	2,972	2,663	4,312	1,817	-1,502
Excess over the NDA ceiling	...	...	-237	-356	-494	-238	...	...	...
12-month percent change in reserve money	38.4	11.7	-14.2	-21.5	-15.0	-11.3	25.1	14.1	12.2
Velocity	5.8	6.3	7.9	7.8	7.6	6.6	7.3	6.8	6.3
Ruble broad money multiplier	2.4	2.8	2.9	2.9	2.9	3.1	2.8	3.2	3.2
Currency-to-deposit ratio	0.25	0.23	0.23	0.25	0.25	0.21	0.24	0.21	0.19
Real GDP growth (annual)	8.6	10.0	...	...	...	0.2	...	...	2.4
End-of-period CPI inflation (year-on-year percent change)	12.1	13.3	15.5	13.4	11.7	10.1	...	...	8.0

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

1/ Projections are shown at the current exchange rates.

2/ Cumulative flow since end-November 2008.

3/ Performance criterion was adjusted in accordance with the adjustment mechanism specified in the TMU.

Table 5. Belarus: Monetary Survey, 2007–10  
(Trillions of Belarusian rubels, unless otherwise indicated; end-of-period)

	2007	2008	2009				2010		
			Mar.	Jun.	Sep.	Dec.	Jan.	Mar.	Dec.
							Proj. 1/		
Broad money (M3)	24.5	31.0	31.8	33.2	34.3	38.1	36.0	37.2	41.5
Memo: Broad money (M3) at program exchange rates	24.5	30.8	28.2	29.3	30.6	33.8	31.7	32.7	36.9
Rubel broad money (M2)	16.8	20.5	16.6	17.0	17.8	20.7	18.8	20.6	24.2
Currency in circulation	3.3	3.8	3.1	3.3	3.5	3.6	3.7	3.5	3.8
Domestic currency deposits	12.4	16.0	12.9	12.6	13.4	16.6	14.2	16.6	19.7
Domestic currency securities	1.0	0.7	0.6	1.1	0.8	0.5	0.9	0.5	0.6
Foreign currency deposits	7.7	10.2	14.8	15.9	15.7	16.2	16.0	15.5	16.2
Bank securities in foreign currency	0.1	0.2	0.4	0.4	0.8	1.1	1.2	1.1	1.1
Memorandum items: total deposits	20.1	26.2	27.7	28.4	29.1	32.8	30.2	32.0	35.9
Net foreign assets	6.4	3.1	4.6	0.2	-1.1	-0.2	-1.1	0.2	4.1
Billions of U.S. dollars	3.0	1.4	1.6	0.1	-0.4	-0.1	-0.4	0.1	1.4
NFA of central bank	9.1	7.0	8.9	5.3	4.3	5.8	4.9	7.1	12.9
NFA of deposit money banks	-2.7	-3.9	-4.2	-5.1	-5.4	-6.0	-6.0	-6.9	-8.8
Net domestic assets	18.1	27.9	27.2	33.0	35.3	38.4	37.1	37.0	37.4
Net domestic credit	25.8	39.2	39.5	44.8	48.8	52.9	51.9	51.8	52.2
Net credit to general government	-5.8	-9.8	-15.3	-14.1	-14.3	-15.7	-16.7	-17.7	-26.0
Net credit to central government	-6.2	-7.2	-13.1	-12.6	-12.8	-14.7	-15.2	-16.7	-25.0
Claims on central government	4.4	7.0	9.0	8.8	10.3	12.0	12.0	14.2	14.1
Deposits of the central government	10.5	14.3	22.1	21.4	23.1	26.7	27.3	31.0	39.1
Net credit to state and local governments	0.3	-2.6	-2.2	-1.5	-1.5	-1.0	-1.5	-1.0	-1.0
Credit to economy	31.6	48.9	54.8	58.9	63.1	68.6	68.7	69.5	78.1
Memo: Credit to economy at program exchange rates	31.7	48.6	50.3	54.3	58.8	63.6	63.5	64.0	72.6
Net credit to public nonfinancial corporations	7.4	11.4	13.1	14.1	15.4	17.0	17.0	17.3	19.1
Claims on private sector	24.1	37.2	41.3	44.3	47.1	50.8	50.9	51.2	58.1
Claims on other financial corporations	0.1	0.4	0.4	0.5	0.6	0.8	0.8	0.9	1.0
Other items, net	-7.7	-11.3	-12.3	-11.8	-13.5	-14.5	-14.8	-14.8	-14.8
Capital	-8.3	-13.0	-14.1	-14.4	-15.0	-16.2	-16.3	-16.2	-16.3
Other net assets	0.6	1.7	1.7	2.6	1.6	1.7	1.4	1.4	1.5
Memorandum items:									
12-month percent change in broad money at program exchange rate	39.8	25.4	11.3	3.1	1.7	10.0	15.5	16.0	9.1
12-month percent change of credit to economy at program exchange rate	46.9	53.6	45.1	36.9	31.6	30.7	31.4	27.1	14.2
Quarter-on-quarter percent change in credit to economy at program exchange rate	...	8.8	3.5	7.9	8.3	8.0	...	0.7	...
Credit to economy at program exchange rates since the beginning of the year, percent change	43.4	53.6	3.5	11.7	21.0	30.7	-0.1	0.7	14.2
Deposits of the central and local governments in commercial banks at program exchange rate	5.0	12.1	11.7	11.0	12.2	11.5	12.3	11.3	11.1
Dollarization ratio	38.2	38.9	53.5	55.8	53.8	49.5	52.9	48.3	45.0

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Banking Sector Soundness Indicators, 2005–09

	2005	2006	2007	2008	Mar-09	Jun-09	Sep-09	Dec-09
<b>Capital adequacy</b>								
Regulatory capital (percent of risk-weighted assets)	26.7	24.4	19.3	21.8	20.2	19.1	19.0	19.8
Regulatory Tier I (percent of risk-weighted assets)	18.7	17.4	14.0	16.9	15.6	14.3	14.0	14.4
Total capital (percent of total assets)	19.8	17.9	16.0	18.6	18.0	17.3	16.7	16.7
<b>Asset composition and quality</b>								
NPLs (percent of total loans)	3.1	2.8	1.9	1.7	2.2	2.5	3.2	4.2
Provisions (percent of NPLs)	48.4	51.3	61.5	70.0	65.5	62.5	58.6	44.9
NPLs net of provisions (percent of regulatory capital)	6.3	6.1	3.8	2.3	3.7	4.8	7.0	12.4
Foreign currency loans (percent of total loans)	37.0	33.8	37.6	30.9	33.9	32.5	30.7	29.6
Loans to state-owned enterprises (percent of total)	26.3	25.4	22.4	22.6	23.2	23.7	24.3	24.9
<b>Sectoral distribution of loans (percent of total)</b>								
Industry	29.7	27.3	26.9	27.4	29.0	29.2	30.1	30.7
Agriculture	13.4	14.6	14.4	15.5	14.9	15.7	16.9	17.2
Trade	7.3	7.7	8.1	7.0	6.8	3.3	6.8	7.2
Construction	2.0	2.2	2.7	3.3	3.5	7.2	3.3	3.4
Households	26.3	27.8	27.5	28.1	27.2	26.3	25.6	25.1
Other	21.4	20.4	20.4	18.7	18.6	18.3	17.2	16.4
<b>Profitability</b>								
Return on assets (after tax)	1.3	1.7	1.7	1.4	1.5	1.4	1.2	1.4
Return on equity (after tax)	6.8	9.6	10.7	9.6	10.2	9.3	7.8	8.9
<b>Liquidity</b>								
Liquid assets to total assets	30.4	24.1	22.6	23.2	21.0	19.1	18.4	28.4
Instant liquidity ratio 1/	117.8	128.9	104.1	108.8	155.5	135.7	109.0	237.9
Current liquidity ratio 2/	95.9	96.7	98.8	102.0	112.4	94.9	103.8	172.7
Loans to deposits	119.9	135.0	144.3	170.8	181.4	191.0	200.6	189.2
Foreign currency deposits to total deposits	38.0	34.7	38.2	38.9	53.5	55.8	53.8	48.2
Foreign currency liabilities to total liabilities	44.6	41.2	44.7	38.7	48.1	48.2	44.8	44.0
<b>Market risks</b>								
Net open position in FX (percent of capital)	-11.0	-8.1	-3.0	8.6	-4.5	-10.8	-15.3	-11.6

Source: National Bank of the Republic of Belarus.

1/ Ratio of demand assets to demand liabilities. The prudential minimum is 20 percent.

2/ Assets/liabilities with a remaining maturity of less than 1 month. The prudential minimum is 70 percent.

Table 7. Belarus: Financing Requirements, 2009–10  
(Millions of U.S. dollars)

	2009	2010
	Prel.	Proj.
Financing needs	-7,746	-6,920
Current account balance	-6,326	-5,451
Trade credits (assets)	-621	-200
Amortization of medium- and long-term loans	-1,047	-1,007
Short-term loans	-1,014	-945
Other investment (net)	1,262	684
Financing sources	4,513	3,905
Capital account	151	180
FDI (net)	1,811	2,327
Portfolio investment (net)	21	0
Trade credits (liabilities)	1,277	600
Medium- and long-term loans	2,274	2,655
Short-term loans	1,040	1,144
Errors and omissions	446	0
Targeted increase in reserves	-2,507	-3,001
Financing gap	-3,233	-3,014
Financing		
IMF	2,834	681
World Bank	200	0
European Union	0	290
Russia	198	0
Unfilled	0	2,043

Source: IMF staff calculations.

Table 8. Belarus: Indicators of External Vulnerability, 2005–09

	2005	2006	2007	2008	2009
					Prel.
CPI inflation (end year)	7.9	6.6	12.1	13.3	10.1
Export volume of goods (percent change)	-1.2	8.3	5.2	1.5	-11.5
Import volume of goods (percent change)	-3.1	21.7	7.2	14.3	-12.6
Current account balance (percent of GDP)	1.4	-3.9	-6.7	-8.6	-12.9
Capital and financial account balance (millions of U.S. dollars)	-24	1,778	5,292	4,162	5,154
<i>Of which</i>					
Foreign direct investment, net	303	351	1,770	2,149	1,811
Trade credits, net	-546	158	690	289	657
Official Liabilities, net	19	-50	2,106	1,241	4,945
Liabilities of the banking sector, net	214	535	1,075	531	479
Non-bank private liabilities (excl. trade credits) 1/	178	493	722	495	272
Gross official reserves (millions of U.S. dollars)	1,297	1,383	4,182	3,061	5,653
Months of imports of goods and nonfactor services	0.9	0.7	1.6	0.9	2.2
Percent of broad money	22.2	16.9	36.7	21.9	47.8
Gross total external debt (millions U.S. dollars)	5,130	6,847	12,551	15,168	21,743
Percent of GDP	17.0	18.5	27.7	25.2	44.4
Percent of exports of goods and nonfactor services	28.2	30.8	45.4	40.9	87.7
Gross short-term external debt (millions of U.S. dollars)	3,299	4,382	7,365	7,571	9,149
Percent of gross total external debt	64	64	59	50	42
Percent of gross official reserves	254	317	176	247	162
Debt service ratio (percent) 2/	3.7	2.4	3.1	4.1	6.3
REER appreciation (CPI based, period average)	0.2	-1.9	-4.5	0.6	-3.8
Capital adequacy ratio (percent) 3/	26.7	24.4	19.3	21.8	19.8
Nonperforming loans (percent of total)	1.9	1.2	0.7	1.7	4.2
Banks' net open FX position (percent of regulatory capital)	-11.0	-8.1	-3.0	8.6	-11.6
Real broad money (percent change) 4/ 5/	31.8	30.6	24.9	11.5	-0.1
Real credit to economy (percent change) 4/ 5/	25.2	48.5	31.2	36.6	18.7

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.

4/ Deflated by the CPI.

5/ Value for 2009 shown at program exchange rates.

Table 9. Belarus: Capacity to Repay the Fund, 2009–15 1/

	2009	2010	2011	2012	2013	2014	2015
<b>Fund repurchases and charges</b>							
Millions of SDRs	8.2	45.2	50.6	297.7	1,115.0	893.4	57.0
Millions of U.S. dollars	12.6	70.0	78.2	460.3	1,724.9	1,382.7	88.1
Percent of exports of goods and nonfactor services	0.1	0.3	0.3	1.4	4.4	3.0	0.2
Percent of total debt service 2/	0.8	3.8	3.6	14.2	32.8	25.9	1.8
Percent of quota	2.1	11.7	13.1	77.0	288.5	231.2	14.7
Percent of gross international reserves	0.2	0.8	0.9	4.9	18.8	13.6	0.7
<b>Fund credit outstanding</b>							
Millions of SDRs	1,831.6	2,269.5	2,269.5	2,020.6	940.6	54.7	0.0
Millions of U.S. dollars	2,897.9	3,511.1	3,507.7	3,125.0	1,455.4	84.7	0.0
Percent of exports of goods and nonfactor services	11.7	13.7	11.9	9.2	3.7	0.2	0.0
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2	0.0
Percent of gross international reserves	51.3	40.6	39.3	33.6	15.9	0.8	0.0
<b>Memorandum items:</b>							
Exports of goods and nonfactor services (millions of U.S. dollars)	24,801	25,630	29,444	33,950	39,457	45,944	53,319
Debt service (millions of U.S. dollars)	1,534	1,845	2,203	3,252	5,262	5,344	4,894
Quota (millions of SDRs)	386.4	386.4	386.4	386.4	386.4	386.4	386.4
Quota (millions of U.S. dollars)	596.0	598.8	597.2	597.5	597.8	598.0	597.9
Gross international reserves (millions of U.S. dollars)	5,653	8,653	8,922	9,313	9,165	10,153	12,987
U.S. dollars per SDR (period average)	1.543	1.550	1.545	1.546	1.547	1.548	1.547
U.S. dollars per SDR (eop)	1.582	1.547	1.546	1.547	1.547	1.548	1.547

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. Table 1. Belarus: External Debt Sustainability Framework, 2005–15

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing noninterest current account 6/
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Baseline: external debt	17.0	18.5	27.7	25.2	44.4	51.8	50.1	46.8	41.6	37.5	34.9	-7.7
Change in external debt	-4.7	1.5	9.2	-2.6	19.2	7.4	-1.7	-3.3	-5.1	-4.2	-2.5	
Identified external debt-creating flows (4+8+9)	-7.9	-0.2	-0.3	-1.6	15.2	5.0	2.3	1.3	-0.1	-1.0	-1.7	
Current account deficit, excluding interest payments	-1.8	3.5	6.1	7.8	11.9	8.8	7.6	6.2	5.1	4.2	3.2	
Deficit in balance of goods and services	-1.1	4.1	6.2	7.7	11.3	8.4	7.0	5.8	4.7	3.9	3.1	
Exports	60.2	60.2	61.0	61.5	50.6	49.0	49.4	49.5	49.6	49.7	49.7	
Imports	59.1	64.3	67.2	69.1	62.0	57.4	56.4	55.4	54.4	53.6	52.9	
Net non-debt creating capital inflows (negative)	-1.0	-1.0	-3.6	-3.3	-3.5	-4.4	-4.9	-4.3	-4.7	-4.5	-4.4	
Automatic debt dynamics 1/	-5.0	-2.7	-2.8	-6.1	6.9	0.7	-0.5	-0.5	-0.6	-0.7	-0.6	
Contribution from nominal interest rate	0.4	0.4	0.6	0.8	1.0	1.7	1.6	1.8	1.9	1.7	1.6	
Contribution from real GDP growth	-1.5	-1.4	-1.3	-2.1	-0.1	-1.0	-2.1	-2.3	-2.5	-2.3	-2.1	
Contribution from price and exchange rate changes 2/	-3.8	-1.7	-2.1	-4.8	5.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.1	1.7	9.5	-1.0	4.0	2.4	-4.0	-4.7	-5.0	-3.2	-0.8	
External debt-to-exports ratio (percent)	28.2	30.8	45.4	40.9	87.7	105.6	101.4	94.4	83.9	75.4	70.2	
Gross external financing need (billions of U.S. dollars) 4/	3.6	5.1	8.0	13.6	14.9	15.6	16.6	18.0	21.0	22.1	22.7	
Percent of GDP	12.0	13.9	17.7	22.5	30.5	29.9	27.9	26.3	26.5	24.0	21.2	
Scenario with key variables at their historical averages 5/						51.8	47.0	42.3	37.7	35.0	34.2	-6.7
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	9.4	10.0	8.6	10.0	0.2	2.4	4.6	5.3	6.1	6.5	6.6	
GDP deflator in U.S. dollars (percent change)	21.5	11.2	12.8	21.1	-18.9	4.2	9.0	9.2	9.3	9.1	8.8	
Nominal external interest rate (percent)	2.2	2.7	3.8	4.1	3.4	4.0	3.6	4.2	4.7	4.6	4.8	
Growth of exports (U.S. dollar terms, percent)	15.9	22.3	24.2	34.2	-33.1	3.3	14.9	15.3	16.2	16.4	16.1	
Growth of imports (U.S. dollar terms, percent)	3.8	33.2	28.1	36.9	-27.2	-1.2	12.1	12.9	13.9	14.7	14.3	
Current account balance, excluding interest payments	1.8	-3.5	-6.1	-7.8	-11.9	-8.8	-7.6	-6.2	-5.1	-4.2	-3.2	
Net nondebt creating capital inflows	1.0	1.0	3.6	3.3	3.5	4.4	4.9	4.3	4.7	4.5	4.4	

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

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

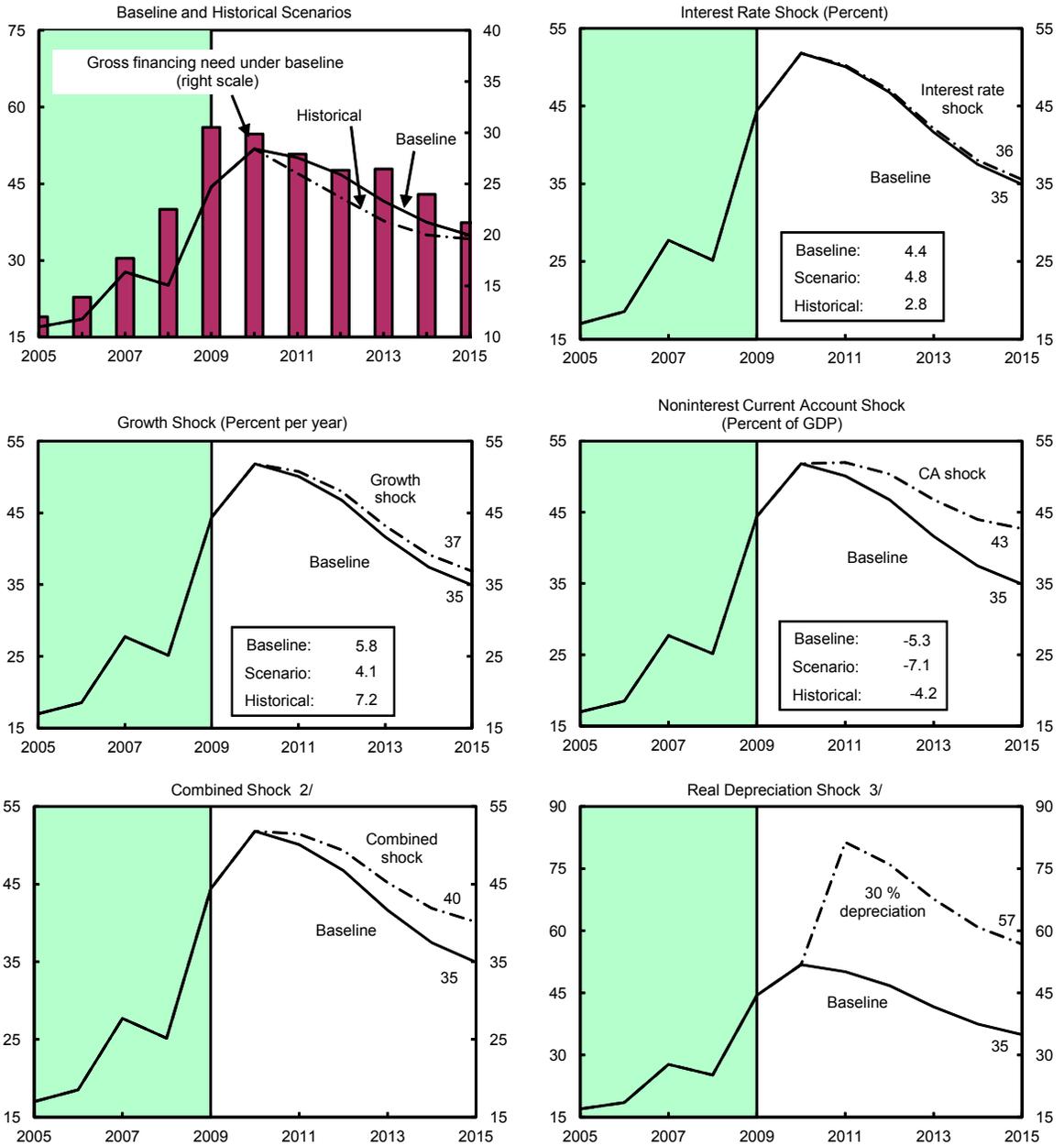
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period. Differs slightly from external financing requirement in Staff Report because includes official transfers and IMF repurchases but excludes increase in portfolio and other investment assets.

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

6/ 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 I. Figure 1. Belarus: External Debt Sustainability: Bound Tests of the Program 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.

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 2009.

Appendix I. Table 2. Belarus: Public Sector Debt Sustainability Framework, 2004–15

(Percent of GDP, unless otherwise indicated)

	Actual						Projections						Debt-stabilizing primary balance 9/
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Baseline: public sector debt 1/	9.1	8.3	8.8	11.5	13.7	25.1	29.6	27.8	25.8	23.5	21.3	19.1	-4.1
Of which: foreign-currency denominated	3.6	2.6	2.3	6.5	6.9	18.2	23.7	22.9	21.5	19.7	18.0	16.2	
Change in public sector debt	-1.3	-0.8	0.5	2.7	2.3	11.4	4.4	-1.7	-2.0	-2.3	-2.2	-2.2	
Identified debt-creating flows (4+7+12)	-1.6	-0.9	-0.9	-3.8	-3.5	0.6	-3.1	-4.1	-3.7	-3.9	-3.6	-3.5	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.0	0.9	0.7	0.9	0.9	0.9	0.6	
Revenue and grants	46.0	47.4	49.1	49.5	51.0	45.9	40.4	40.0	40.0	39.6	39.5	39.6	
Primary (noninterest) expenditure	45.5	47.7	47.3	48.6	49.0	45.8	41.4	40.8	40.9	40.6	40.4	40.2	
Automatic debt dynamics 2/	-2.1	-1.9	-1.1	-1.2	-2.1	2.1	-1.3	-2.3	-2.2	-2.3	-2.1	-1.8	
Contribution from interest rate/growth differential 3/	-2.2	-1.9	-1.1	-1.2	-2.2	0.0	-1.3	-2.3	-2.2	-2.3	-2.1	-1.8	
Of which: contribution from real interest rate	-1.3	-1.2	-0.4	-0.6	-1.4	0.0	-0.7	-1.1	-0.9	-0.9	-0.7	-0.6	
Of which: contribution from real GDP growth	-0.9	-0.6	-0.7	-0.6	-0.9	0.0	-0.5	-1.2	-1.3	-1.4	-1.3	-1.2	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.1	2.1	...	...	...	...	...	...	
Other identified debt-creating flows	1.1	0.7	2.0	-1.8	0.6	-1.4	-2.8	-2.5	-2.4	-2.5	-2.4	-2.3	
Privatization receipts (negative)	-0.1	-0.1	1.2	-2.6	-1.0	-1.4	-2.8	-2.5	-2.4	-2.5	-2.4	-2.3	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	1.1	0.8	0.9	0.8	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.3	0.0	1.4	6.5	5.8	10.7	7.5	2.3	1.7	1.6	1.4	1.3	
Public sector debt-to-revenue ratio 1/	19.7	17.4	17.9	23.2	27.0	54.8	73.1	69.5	64.6	59.3	54.0	48.3	
Gross financing need 6/	0.8	1.3	-1.0	0.1	-1.0	1.1	3.2	2.3	2.7	2.9	2.9	3.2	
Billions of U.S. dollars	0.2	0.4	-0.4	0.1	-0.6	0.5	1.7	1.4	1.8	2.3	2.7	3.4	
Scenario with key variables at their historical averages 7/							29.7	25.0	20.5	16.4	12.9	10.0	-3.7
Scenario with no policy change (constant primary balance) in 2008–13							31.6	31.6	30.8	29.5	28.3	27.2	-4.8
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	0.2	2.4	4.6	5.3	6.1	6.5	6.6	
Average nominal interest rate on public debt (percent) 8/	6.4	5.2	5.5	5.6	6.7	6.0	6.6	4.4	4.3	4.0	4.4	4.9	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-14.0	-16.0	-5.3	-7.2	-13.9	0.1	-3.0	-3.9	-3.2	-3.5	-3.0	-2.6	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	-0.6	0.8	0.6	-0.5	-2.3	-23.1	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	20.4	21.2	10.7	12.8	20.5	6.0	9.6	8.2	7.5	7.5	7.5	7.5	
Growth of real primary spending (deflated by GDP deflator, percent)	7.5	14.9	9.1	11.8	11.1	-6.3	-7.5	3.1	5.6	5.4	6.0	6.1	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.0	0.9	0.7	0.9	0.9	0.9	0.6	

1/ Gross debt of general government (including guarantees) and of monetary authorities.

2/ Derived as  $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\varepsilon$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\varepsilon(1+r)$ .

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

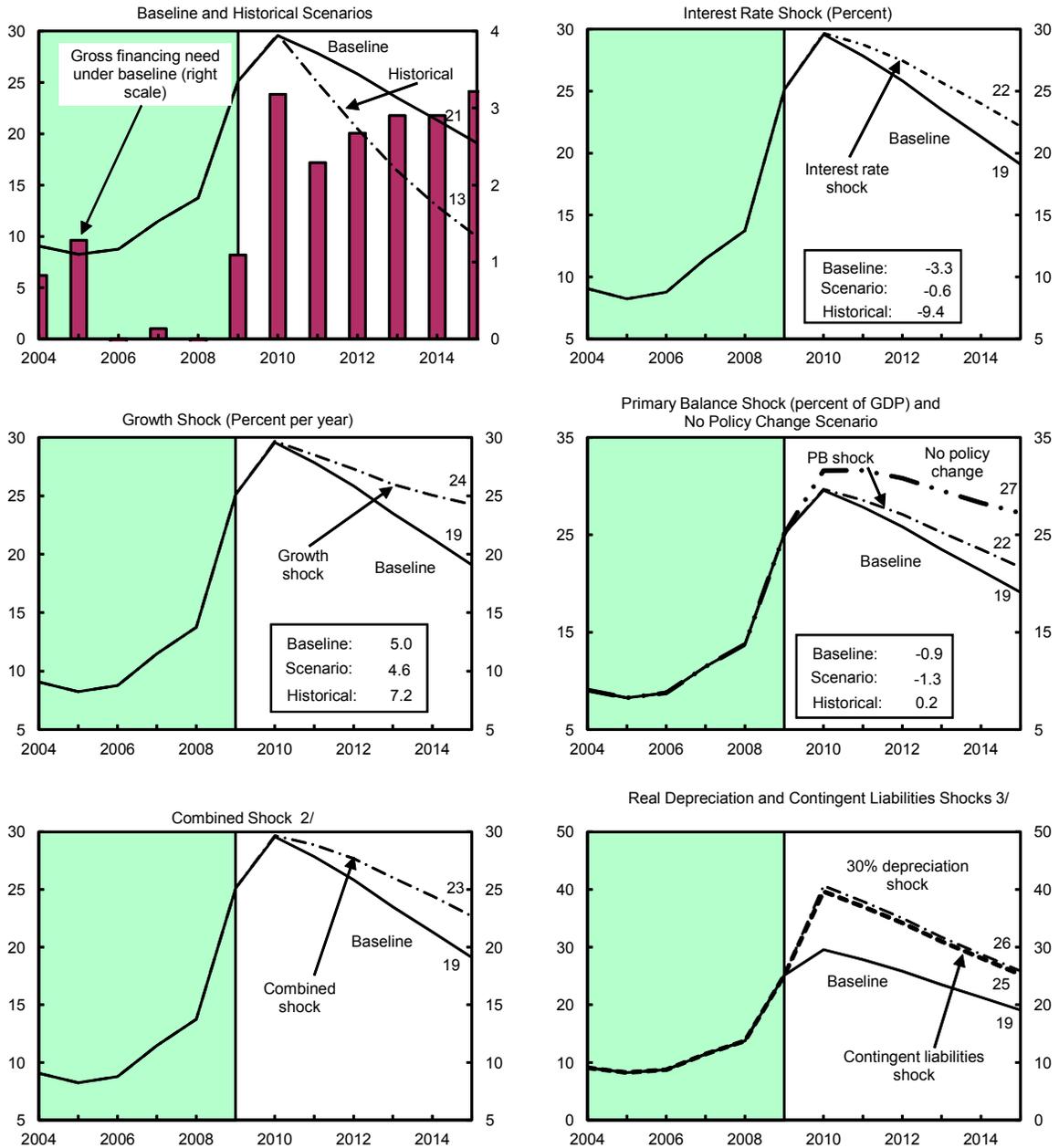
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ 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 I. Figure 2. Belarus: Public Debt Sustainability: Bound Tests of Program Scenario 1/ (Public debt in percent of GDP)



Sources: 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 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

**APPENDIX II: BELARUS: LETTER OF INTENT**

Minsk, March 15, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC, 20431 U.S.A.

Dear Mr. Strauss-Kahn:

1. This letter describes the economic policies and objectives of the authorities of the Republic of Belarus for 2010. It supplements and amends the commitments made during the third review under the Stand-By Arrangement (SBA) with the International Monetary Fund. Based on the policies we have pursued since the initiation of the SBA, we request the completion of the fourth review under the SBA.

2. We met most of the program commitments for the last quarter of 2009, as set out in our Letter of Intent (LOI) of December 11, 2009:

- We maintained tight fiscal policy. Higher than programmed revenue and cuts on net lending allowed us to limit the general government deficit to 1.3 trillion rubels (1.0 percent of GDP) in 2009 and meet the adjusted performance criterion for cash deficit. In addition, the 2010 budget that limits the general government deficit to 2.7 trillion rubels was signed into law by end-2009.
- We made use of the room allowed in the current exchange rate regime toward the end of the year to deal with a shortfall in external financing, and recentered the exchange rate parity at its January 1, 2010 level to ensure continued exchange rate flexibility for 2010.
- We tightened our credit policy by limiting credit under government programs, helping us meet the end-December adjusted NDA and NIR targets. However, net lending under government programs in the second half of 2009 reached 4.6 trillion rubels, exceeding the agreed limit by 0.6 trillion rubels.
- We implemented the structural benchmarks for end-December related to the draft amendments to the Statute of the NBRB and the issuance of the government recommendation aimed at reducing the coverage of quantitative targeting.

3. We recently reached agreement with Russia on the pricing of crude oil imported by Belarus in 2010. The new oil supply contract entails a significant increase in the average oil import price that, in the absence of offsetting measures, is estimated to worsen the 2010 balance of payments and the fiscal deficit by up to \$2 billion, or 4 percent of GDP. We are implementing a package of measures which will reduce or offset the effects of this shock in 2010. As these will only have a limited effect initially we will not be able to meet the end-

March 2010 indicative fiscal, NDA and NIR targets. We have therefore reached understandings with Fund staff on their modification. Modified indicative targets and prior actions are summarized in Tables 2 and 3.

4. We believe that the policies set out in this letter will enable us to achieve the objectives of the program. As is standard under all IMF arrangements, we will continue to consult with the IMF on the adoption of new measures, and in advance of revisions to the policies described in this letter. We will also continue to provide the Fund with information as required to monitor progress on program implementation. We will consult with the Fund on our economic policies after the expiration of the arrangement, in line with the Fund's policies on such consultations. Finally, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

#### **I. PROGRAM OBJECTIVES AND MACROECONOMIC FRAMEWORK**

5. Macroeconomic stability and sustainable economic growth remain our key objectives. Our macroeconomic policies aim at improving our external position and creating opportunities for private sector development, while our immediate objective is to reduce the financing gap resulting from an oil price shock. Our structural reforms will continue to focus on promoting macroeconomic stability and private entrepreneurship, while reducing government intervention in economic activity. Our social policies would ensure adequate social safety net for the most vulnerable groups of population.

6. Our revised macroeconomic framework reflects the adjustment measures addressing the effects of the oil price shock and additional financing needed to cover the residual financing gap. Our adjustment measures would reduce the current account deficit to  $10\frac{1}{3}$  percent of GDP and prevent a deterioration in fiscal accounts in 2010. Based on policies described below and provided that the global economy continues to improve, we expect GDP to grow by at least  $2\frac{1}{4}$  percent in 2010, and inflation to fall to 8 percent by the end of the year. International reserves would rise to about  $\$8\frac{2}{3}$  billion—over 3 months of imports—by end 2010.

7. We will take every opportunity offered to us by the global economic recovery to ensure a speedy resumption of economic growth in Belarus while maintaining macroeconomic stability. We hope to reach understandings with our Russian counterparts on the conditions for long-term mutually beneficial economic cooperation which would mitigate the impact of the oil price shock on the Belarusian economy and which, together with improved economic efficiency, facilitate higher than projected economic growth. We will adhere to a policy stance which would ensure macroeconomic stability and avoid a premature relaxation of macroeconomic policies.

8. Some external borrowing will be needed to achieve our reserve targets for 2010. We also consider that prudent external borrowing can be an important instrument in further building our foreign exchange reserves, financing strategically important investment projects

and penetrating international financial markets. This year we are planning to make a debut issue of the Eurobond; to offer our sovereign bonds on the Russian market and to attract other financing from bilateral and multilateral creditors.

## **II. MACROECONOMIC POLICIES IN 2010**

### **A. Exchange Rate and Monetary Policies**

9. The exchange rate peg to a basket of currencies has served us well, and this regime will remain in place in 2010. Aligning the exchange rate parity with the January 1, 2010 value of the basket while retaining the  $\pm 10$  percent trading band around the parity provides us sufficient flexibility to support the adjustment of the current account. To address the implications of the oil price shock we allowed the rubel to depreciate by 3 percent against the central parity bringing the currency basket to 1,067 rubels (prior action). We will continue to use the flexibility afforded by our exchange rate regime to shield our economy from the external shocks.

10. Our monetary policy will continue to support the exchange rate regime, while keeping inflationary pressures under control. To alleviate additional balance of payments pressures arising from the oil price shock, we will keep the growth of credit to the economy to 15 percent. We remain committed to limiting net lending under government programs to 0.8 trillion rubels in the first quarter and, given the shock, we will now limit this lending to 2¼ trillion rubels in 2010, which would bring the share of lending under government programs down to 43½ percent of total bank claims on the economy by end-2010. This limit could be raised, in consultation with Fund staff, if additional foreign financing is received during 2010, or if additional lending is consistent with reducing its share in total claims on the economy to the agreed level. To demonstrate our commitment to phasing out lending under government programs the Council of Ministers will issue a resolution asserting that the agreed limits on overall credit under government programs are binding (**prior action**) unless they are raised in consultation with the Fund staff.

11. Adhering to tight limits on lending under government programs along with continued low inflation, dedollarization and improvements in the external position allow us to begin a gradual interest rate reduction. We recently reduced the refinancing rate by 50 basis points and interest rates on overnight credit by the NBRB to commercial banks by 100 basis points. In consultation with Fund staff, we will revisit this issue in April 2010 with the view to another cut in policy interest rates. We will improve resource allocation and promote private sector development by gradually increasing interest rates on new subsidized loans.

### **B. Fiscal Policy**

12. We remain committed to disciplined fiscal policy, which has been an important anchor for macroeconomic stability. Notwithstanding the oil import price shock, we are working to keep the general government deficit at 2.7 trillion rubels (1¾ percent of GDP).

13. The estimated cost of the oil price shock for the budget of some 5.9 trillion rubels will be offset by implementing the following adjustment measures:

- *Rationalizing the oil sector by cutting production and improving its efficiency.* This would be achieved by eliminating export subsidies to the oil sector along with an export duty on crude oil and petroleum products and increasing wholesale prices by 7 percent which would reduce by 3.8 trillion rubels losses to the budget resulting from the oil price shock.
- *Raising excise rates on tobacco and alcohol by 10 percent* would generate revenue of 0.12 trillion rubels.
- *Raising the rate of contribution to the Innovation Funds in order to generate additional revenues* in the amount of 0.35 trillion rubels. These revenues will be used by the central government to finance energy-saving spending already included in the budget.
- *Increasing taxes on the raw material sector* will generate an additional 0.6 trillion rubels.

14. In addition, we will continue to implement policies envisaged at the time of the third review:

- *Wage and pension policies.* As agreed during the third review, we will limit the increase in the wage bill to 11 percent in 2010. We increased the first grade wage by 5 percent and pension benefits by 10 percent early in the year. Any further wage increase in the budgetary sector after the first quarter will only be considered if macroeconomic conditions permit. We will maintain the practice of limiting increases in wages and salaries of the employees of the state-owned enterprises receiving government support. Our decisions on pension increases would be guided by the need to safeguard the viability of the Social Protection Fund.
- *Subsidies and transfers.* We will contain fiscal subsidies on household utilities to budgeted amounts by increasing fees by US\$7 before end-June and promoting cost cutting measures. We have improved the cost recovery level of transportation fees by raising them by 18 percent.
- *Fiscal discipline at local levels.* We will ensure that local governments' domestically-financed deficits do not exceed 1 percent of their revenue, a limit set in the 2010 budget law. We will be prepared to reduce transfers from the central to local governments to ensure fiscal discipline of the local governments. If necessary, as in 2009, we will offset local governments' overruns by reducing the central government non-priority spending on goods and services and subsidies.

15. The identified measures are expected to reduce the financing gap by 1 trillion rubels. To eliminate the remaining financing gap we will take additional revenue-enhancing and/or expenditure-cutting measures in the second half of the year. If these measures are not sufficient to close the remaining financing gap, the budget deficit could be increased by up to 1 trillion rubels.

16. We will also backload spending of budgetary agencies. We will limit their spending to 23 percent and 45 percent of annual budgetary appropriations in the first quarter and the first half of the year, respectively.

### **III. FINANCIAL SECTOR ISSUES**

17. Our financial sector reforms are designed to increase the commercial orientation of the banking system, strengthen supervision and regulation of the banks, and increase the independence of the NBRB.

#### **Commercial orientation of the banking system**

18. We expect the decree on establishing a special financial agency (SFA) to be approved by the Head of State before end-March 2010. In line with the recommendations of the 2009 Financial Sector Stability Assessment (FSSA) this agency would take over existing loans financing government programs and would assume the role currently played by banks in financing government programs. The government will work out within three months after the approval of the decree the procedures and the schedule for a transfer of these assets and liabilities. Banks would be allowed to retain on their balance sheets a portion of the existing loans under government programs which they consider commercially viable. The structure and governance of this agency will be discussed with the IMF staff. Initially, the functions of this agency will be limited to managing the earlier disbursed loans, but from the beginning of 2011 the agency will start distributing all new loans under government programs, with its net lending included in the budget above the line. To minimize problem loans associated with lending under government programs, we will strengthen the targeting and monitoring of such lending.

19. We privatized Belpromstroibank in late 2009, and are looking for strategic investors to buy the majority shareholding in OJSC Belinvestbank and minority holdings in JSSB Belarusbank and OJSC Belagroprombank. We will engage qualified, experienced and reputable consultants, on a competitive basis, to assist us in preparing state-owned banks for partial or full privatization after strategic investors have been identified.

20. In line with our legislation prohibiting the central and local governments from making any additional transfers to their deposit accounts with commercial banks, we will continue transferring the existing stock of these deposits to accounts at the NBRB in line with the schedule for repayment of corresponding loans. An exception will be made for certain central and local government demand deposits held for operational purposes. We will continue to

refrain from approving any new directed lending programs financed with budget deposits **(continuous structural benchmark)**.

### **Supervision and regulation of banks**

21. We are now in the process of implementing the new regulation on loan classification and provisioning. Most banks are expected to implement it by June 2010 and all will do so by end-December 2010.

22. We will strictly enforce prudential liquidity ratios for all banks. We will ensure that state banks remain liquid by further curtailing their ability to extend new loans if their liquidity ratios fall below the prudential norms. Moreover, the limit on credit under government programs should prevent a deterioration of liquidity ratios at state-owned banks, while a transfer of assets and liabilities related to lending under government programs to the SFA would improve banks' liquidity.

23. Banks remain adequately capitalized. We have no plans for the recapitalization of state-owned banks in 2010. Moreover, we expect that the capitalization of banks would automatically improve following the transfer of assets and liabilities associated with lending under government programs to the SFA. However, we will be prepared to provide some limited recapitalization to those state-owned banks whose capital adequacy indicators would fall below the prudential minimum or would be expected to fall below the minimum based on plausible stress tests even after the transfer of assets and liabilities to the SFA. Should private banks become undercapitalized, we will use our existing framework, as appropriate, to rapidly resolve the issues.

### **Role and functions of the NBRB**

24. To ensure operational and financial independence of the NBRB, a Presidential decree amending the Statute of the NBRB was recently approved, building on the recommendations of the FSSA and the Safeguards Assessments. We now plan to amend the Banking Code to reflect the revised NBRB Statute. An IMF technical assistance mission which is scheduled for March will assist us with drafting the amendments to the Banking Code which we plan to adopt before end-September 2010.

25. In line with our program commitments, the NBRB will discontinue new lending or equity investment in non-financial organizations. We have developed an action plan for divesting all NBRB non-financial subsidiaries and associated companies, mostly farms. We will divest a quarter of these subsidiaries by offering them for sale in 2010 and will sell at least half of these subsidiaries in 2011.

26. We recognize that NBRB liquidity support to banks on non-market terms is distortionary and has to be phased out. We will refrain from any new liquidity support on non-market terms in 2010 and will refinance banks in line with the repayment schedule of

such loans based on earlier commitments until the SFA is established and begins lending under the government programs. The outstanding stock of non-market-based lending will not exceed 8.0 trillion rubels. We will consider converting these claims into government bonds in connection with the establishment of the SFA.

27. In line with the recommendations of the recent MCM technical assistance mission, the NBRB will adopt a formal framework and guidelines for the provision of emergency liquidity assistance (ELA) to banks. The framework should specify when and in what situations ELA can be granted, who makes the decisions and determines the terms, coordination and information sharing amongst the relevant bodies, and any special conditions attached. Guidelines should refer to the term and interest rates which apply, eligible collateral, additional conditions imposed upon the borrowing bank, and communication policy.

#### IV. STRUCTURAL REFORMS

28. We will step up the privatization process to reduce the government intervention in the economy and to attract foreign direct investment. The government will take measures to ensure the passage of the draft Privatization Law before July 1, 2010, after incorporating the final comments of the World Bank. We have been working on the draft Presidential decree establishing a National Investment and Privatization Agency (NIPA). The draft decree envisages that NIPA would consist of the two autonomous structural units responsible for investment promotion and privatization. We will ensure that the new agency is consistent with best international practices by incorporating the World Bank's comments on the draft before finalizing it. The government will take all necessary measures to ensure that the decree on establishing NIPA is approved by end-April 2010. The agency will be registered by the state before June 1, 2010. We compiled a list of enterprises from the list of companies included in the privatization plan for 2008-10 (**structural benchmark**) and presented it to the government. In agreement with the World Bank we will (a) finalize a list of five enterprises identified for privatization; (b) advertise for qualified, experienced and reputable consultants to assist us in the privatization of controlling equity stakes of these companies by mid-March; and (c) compile a list of 20 enterprises from the list of companies included in the privatization plan for 2008-10 by end-April 2010 and take all the necessary measures to secure the President's agreement by end-June 2010 to privatize their controlling stakes.

29. In an effort to reduce government intervention in the economy, the Council of Ministers issued a recommendation to the line ministries and other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share. We will refrain from the application of mandatory wage policy to companies in which the government does not have majority control. The government's right in such companies will not extend beyond the rights of all minority shareholders. The government, together with the

IMF and the World Bank, will prepare proposals for migrating from mandatory quantitative targets to a market-based incentive system.

30. In the context of preparing the next five-year plan, we are formulating a structural reform agenda beyond the program period. In the next few years, structural reforms will focus on strengthening the institutional basis for macroeconomic stability, allowing market forces to play a larger role in resource allocation, and fostering private sector development through deregulation and privatization. We will work closely with the IMF, World Bank and other international organizations on the sequence and pace of structural reforms. To begin this process we are organizing a seminar with the World Bank and the Fund on this subject in March.

Sincerely yours,

/s/

S.S. Sidorsky  
Prime Minister  
of the Republic of Belarus

/s/

P.P. Prokopovich  
Governor of the National Bank  
of the Republic of Belarus

Table 1. Belarus: Schedule of Purchases Under the Stand-By Arrangement

Date Available	Amount of Purchase		Conditions
	Millions of SDRs	Percent of quota	
January 12, 2009	517.798	134.006	Board approval of Stand-By Arrangement (completed)
May 15, 2009	437.930	113.336	Observance of end-March 2009 performance criteria and completion of first review (completed)
August 15, 2009	437.930	113.336	Observance of end-June 2009 performance criteria and completion of second review (completed)
November 15, 2009	437.930	113.336	Observance of end-September 2009 performance criteria and completion of third review (completed)
February 15, 2010	437.929	113.336	Observance of end-December 2009 performance criteria and completion of fourth review
<b>Total</b>	<b>2,269.517</b>	<b>587.349</b>	

Source: IMF staff calculations.

Table 2. Belarus: Quantitative and Continuous Performance Criteria under SBA approved on January 12, 2009 1/

	March, 2009			June, 2009			Sep., 2009			Dec., 2009			Mar., 2010	
	Program PC	Adjusted PC	Actual	Revised PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	Revised PC	Adjusted PC	Actual	Indicative target	Modified indicative target
<b>I. Performance criteria</b>														
Ceiling on the cash deficit of the general government (billions of Belarusian rubels, -implies a surplus) 2/ 3/	-400	...	-708	-700	1,111	961	-1,000	254	158	0	1,605	1,320	500	700
Floor on net international reserves of the NBRB (millions of U.S. dollars) 4/	-510	-1,010	-1,231	-1,819	-2,321	-2,285	-1,938	-2,066	-1,916	-1,539	-1,657	-1,615	-800	-1,275
Ceiling on net domestic assets of the NBRB (billions of Belarusian rubels) 4/	74	1,152	915	2,603	3,685	3,330	3,190	3,467	2,972	2,644	2,901	2,663	1,274	1,817
<b>II. Continuous performance criteria</b>														
Non-accumulation of external payments arrears.														
Prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions.														
Prohibition on the introduction or modification of multiple currency practices.														
Prohibition on the conclusion of bilateral payments agreements that are inconsistent with Article VIII.														
Prohibition on the imposition or intensification of import restrictions for balance of payments reasons.														
<b>III. Benchmarks for calculating adjustors</b>														
<b>3.1 Adjustor for the net international reserves (cumulative flows from end-December 2008), millions of US dollars</b>														
External privatization receipts	625	...	625	627	...	625	853	...	625	1,074	...	906	...	1,910
NBRB balance of payments financing other than IMF	0	...	0	0	...	0	0	...	0	0	...	0	...	0
General government budget support	1,000	...	500	1,000	...	500	1,200	...	500	1,490	...	919	...	1,490
<b>3.2 Adjustor for the ceiling on the cash deficit of the general government (cumulative flows from the beginning of each calendar year), billions of Belarusian rubels unless indicated otherwise</b>														
General government budget support	2,650	...	1,440	2,911	...	1,440	3,514	...	1,440	4,370	...	2,589	...	0
General government project support for projects initiated after January 2009	187	...	0	293	...	233.6	506	...	234	718	...	552	...	273
Of which: IFI project support	47	...	0	59	...	0.0	113	...	0.8	166	...	0.9	...	25
Bank recapitalization	0	...	0	0	...	0	0	...	0	0	...	0	...	0
Local government's cash deficit	...	...	...	0	...	1,115	0	...	1,301	0	...	1,533	...	0
<b>Memorandum item: SDR allocation (millions of US dollars at program exchange rate)</b>	...	...	...	...	...	...	548.53	...	548.53	548.53	...	548.53	...	548.53

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

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU) for the third review (IMF Country Report No. 10/31, pp. 44-54).

2/ Cumulative flows from the beginning of each calendar year.

3/ The performance criterion on the ceiling of the government deficit was adjusted for projects initiated before the program up to the limit of \$353 million, for the cash deficit of local governments up to a limit of 1.4 trillion rubels, and the deviations in the external budget and project support initiated after the program. The nonprogrammed disbursement of external budget support received in Q4 2009 was fully applied against the cumulative shortfall of external budget support in Q1-Q3 2009 (see second bullet of ¶15 of the TMU for the third review, IMF Country Report No. 10/31, page 48).

4/ Cumulative flows from end-November 2008 at program exchange rates.

Table 3. Belarus: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement

<b><i>I. Prior Actions</i></b>	<b>Status</b>
Allow the rubel to depreciate by 3 percent against the central parity bringing the currency basket to 1,067 rubels.	met
Issue a Council of Ministers resolution asserting that the agreed limits on overall credit under government programs are binding.	met
<b><i>II. Structural Benchmarks</i></b>	<b>Date</b>
Refrain from approving any new directed lending programs financed with budget deposits.	Continuous
Eliminate the regulatory act imposing a general ceiling on monthly price increases of 1/2 percent.	March 31, 2009 (met)
Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization.	August 31, 2009 (partially met)
Submit to the Head of State a draft Decree on establishing a Privatization Agency.	September 30, 2009 (met)
In line with FSAP recommendations, bring loan classification and provisioning requirements in line with best international practices.	September 30, 2009 (met)
Prepare draft amendments and supplements to the Statute of the NBRB with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB.	December 31, 2009 (met)
Issue a Council of Ministers recommendation to the line ministries and, other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share.	December 31, 2009 (met)
Compile a list of enterprises from the list of companies included in the privatization plan for 2008-10.	February 28, 2010 (met)

Table 4. Program Exchange Rates as of End-November, 2008

Currency		Currency per US dollar unless indicated otherwise
Gold 1/	Gold	\$814.5 per troy ounce
SDR 2/	Special Drawing Rights	0.672057
RBL 3/	Belarusian rubel	2,156
RBR 4/	Russian ruble	27.423
EUR 5/	Euro	0.7746

1/ Source: <http://www.bankofengland.co.uk>.

2/ Rate as of November 28, 2008 ([www.IMF.org](http://www.IMF.org)).

3/ NBRB official rate as of November 30, 2008 disseminated on [www.nbrb.by](http://www.nbrb.by).

4/ CBR official rate as of November 29, 2008, disseminated on [www.cbr.ru](http://www.cbr.ru).

5/ Reference rate as of November 28, 2008, disseminated on [www.ecb.int](http://www.ecb.int).

Table 5. Assumptions for Calculating Adjustors under the Stand-By Arrangement for 2009

Financing item	2009								2010
	Q1	Q2		Q3		Q4		Q1	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual	Proj.	
<b>I. Adjustor for the NIR performance criterion (millions of US dollars)</b>									
External privatization proceeds of the general government under the SBA	625	2	0	226	0	221	281	836	
NBRB balance of payments financing other than IMF	0	0	0	0	0	0	0	0	
External borrowing of the general government related to budget support or BOP financing	500	500	0	200	0	290	419	0	
<b>II. Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels)</b>									
External borrowing of the general government related to budget support or BOP financing	1,440	1,471	0	603	0	856	1,149	0	
General government project support for projects initiated after January 2009	0.0	207	233.6	213	0.8	212	317	273	
<i>Of which: from IFIs</i>	0.0	52	0	54	0.8	53	0.1	25	

Source: Belarusian authorities.

**Statement by the IMF Staff Representative on the Republic of Belarus**  
**March 26, 2010**

1. **This statement reports on key developments since the staff report (EBS/10/44) was finalized. The new information does not alter the thrust of the staff appraisal.**
2. **Economic developments since the beginning of 2010 have been broadly consistent with staff projections.** GDP grew by 3½ percent year-on-year in the first two months, with a decline in investment more than offset by strong growth in industrial and agricultural output. Twelve-month CPI inflation eased further to about 6 percent in February. The trade deficit narrowed significantly in January compared with a year earlier, reflecting increased external demand for non-energy products. However, credit to the economy expanded by 2.1 percent from end-December to mid-March, compared with an increase of 0.7 percent programmed for the whole first quarter. The authorities believe that all end-March indicative targets will be met, though at present NIR is significantly below, and NDA significantly above the targets. During January and February, net lending under government programs was about 0.7 trillion rubels, compared to a limit of 0.8 trillion rubels (0.5 percent of GDP) for the first quarter, suggesting that the authorities continue to have difficulty controlling lending under government programs. However, the recently passed Council of Minister resolution indicating that the limits agreed for the quarter and the year should be considered as binding by ministries may improve performance under this indicator.
3. **During a March 17–19 staff visit the authorities reiterated their interest in a follow-up program and their agreement that this should be based on significant structural reform.** The authorities were not ready to propose specific structural measures, but they would like to continue discussions on the macroeconomic framework and the structural reform agenda with a view to completing negotiations on a successor arrangement within the next six months. In light of this, management and the staff consider that beginning post-program monitoring now would not be warranted. If it appeared that negotiations would take significantly longer than six months, management would return to the Board with a proposal to initiate post-program monitoring, possibly in conjunction with the next Article IV consultation for Belarus.
4. **The authorities have now confirmed their consent to publication of the LOI and associated Board papers without any corrections or deletions.**



Press Release No. 10/119  
FOR IMMEDIATE RELEASE  
March 26, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Completes Fourth Review Under Stand-By Arrangement with Belarus, Approves US\$662.9 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Belarus's performance under an economic program supported under a Stand-By Arrangement (SBA). The 15-month, SDR 1.62 billion (about US\$2.45 billion) SBA was approved on January 12, 2009 (see [Press Release No. 09/05](#)) and on June 29, 2009 the size of financial package provided under the SBA was increased to an amount equivalent to SDR 2.27 billion (about US\$3.44 billion) (see [Press Release No. 09/241](#)).

The completion of the fourth and final review enables the immediate disbursement of SDR 437.9 million (about US\$662.9 million), bringing total disbursements under the program so far to an amount equivalent to about SDR 2.27 billion (about US\$3.44 billion).

Following the Executive Board's discussion on Belarus, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

“Belarus has made good progress in recovering from the economic crisis and performance under the Stand-By Arrangement has remained satisfactory. Output has stabilized, inflation is declining, and reserves have increased. However, the current account deficit increased in 2009 and public and external debt levels rose markedly, underscoring continued external vulnerability.

“Belarus's response to the latest oil import price shock has been strong. The increase in domestic prices of oil products and reduction of output by the oil refineries will reduce the need for subsidies. These measures, together with strong revenue, exchange rate, and credit policy measures already taken, are expected to offset a large part of the balance of payments and fiscal impacts of the oil price shock. Further measures may be needed over the medium term if the deterioration of terms of trade turns out to be permanent.

“Macroeconomic policies have been generally appropriate. Fiscal policy has served as an important anchor to the economic program, with the deficit in 2009 being less than 1 percent of GDP. The decision to cut lending under government programs and reaffirmation of the binding nature of the lending limit will make more financial resources available to private business, creating conditions for gradually reducing market interest rates. The recentering of the exchange rate band at end-2009 and the depreciation of the rubel against the currency basket have supported external adjustment.

“Financial sector reform has made important headway. The establishment of a special financial agency will relieve the commercial banks from the obligation to provide loans for government programs, making the banking system more commercially oriented and facilitating bank privatization. However, it is important to step up efforts in other structural reform areas, including privatization, measures to attract foreign capital and reducing government intervention in the economy.

“In addition to pursuing prudent macroeconomic and financial policies to reduce external vulnerability, structural reforms aimed at improving productivity will be essential for Belarus to restore high and sustainable growth rates. The Fund, in collaboration with the World Bank and other international financial institutions, stands ready to support Belarus with its reform efforts”.