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REPUBLIC OF BELARUS

July 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF BELARUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 16, 2014, following discussions that ended on April 28, 2014, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 6, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of July 16, 2014, updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its July 16, 2014 consideration of the staff report that concluded the Article IV consultation with the Republic of Belarus.
- A **Statement by the Executive Director** for the Republic of Belarus.

The following document has been or will be separately released.

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

June 6, 2014

KEY ISSUES

Context: Attempts to boost activity with policy stimulus, in lieu of much-needed structural reform, have failed to raise growth and contributed to large external imbalances. Adverse developments in the region further cloud the outlook. High financing needs and low buffers leave Belarus highly dependent on external financial support. The risk of disorderly adjustment remains high.

Challenges: Mitigating immediate risks and facilitating external adjustment through a sharp change in macroeconomic policies. Advancing the transition to a market-based economy to raise sustainable growth.

Policy recommendations:

- Halt wage increases and reduce subsidized lending to slow demand growth;
- Reduce foreign exchange interventions and tighten monetary policy to facilitate external adjustment;
- Enhance market orientation of the economy through a rapid phase-out of price controls and mandatory targets and by privatization of state-owned enterprises.

Approved By
Aasim M. Husain and Masato Miyazaki

Discussions for the Article IV Consultation were held in Minsk during April 17–28. The mission team comprised Messrs. Hofman (head) and Hartley, and Ms. Koczan (all EUR), Mr. Moriyama (SPR) and Ms. Peter (MCM). Messrs. Prader and Misyukovets (OED) and Mr. Roaf (Sr. Regional Res. Rep.) joined part of the discussions. The mission met with Deputy Prime Minister Prokopovich; National Bank Governor Ermakova; Minister of Economy Snopkov; officials from the Presidential Administration; and representatives of think tanks, business, and the diplomatic community. The staff in the Minsk office, Mr. Jovanovic and Ms. Swirszcz (all EUR) assisted the mission.

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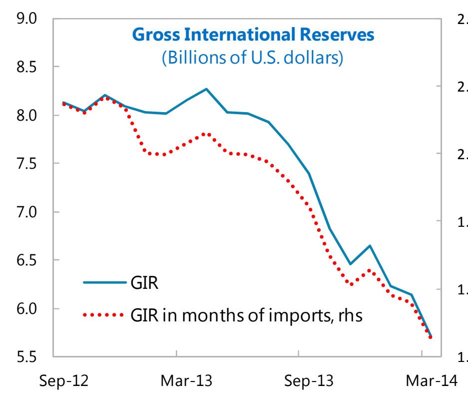
CONTEXT

1. **After two crises in four years, growth has slowed amid bouts of external pressures.** Following average annual GDP growth of 8 percent during 1997–2008, in the aftermath of the 2008 and 2011 crises growth reached only 1.7 percent in 2012 and 0.9 percent in 2013 reflecting structural limitations of the economy and a weak external environment (Figure 1, Table 1). Repeated attempts by the authorities to boost activity through domestic policy stimulus, while delaying much-needed structural reform, have resulted in rapidly rising external imbalances and recurrent bouts of exchange rate pressures, which have in turn given rise to frequent, though modest, policy shifts in short-term efforts to maintain stability.

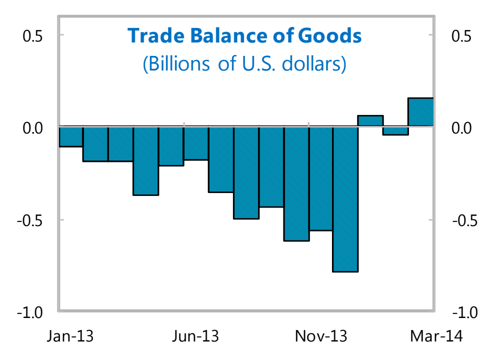
2. **High external financing needs and dwindling buffers leave Belarus highly dependent on external financial support.** Without more decisive policy changes to reduce imbalances, and with another year of large external payments ahead, Belarus is highly dependent on external support. Russia has promised $2 billion in loans, but modalities for this support are still being worked out and at the time of this report only $450 million has been disbursed. Meanwhile, the decision on the final $440 million tranche under the program with the Anti Crisis Fund (ACF) of the Eurasian Community has been suspended until the second half of 2014 because of noncompliance with program conditionality. Lack of progress on policies also continues to prevent discussions on a Fund program.



Source: National Bank of the Republic of Belarus.

RECENT DEVELOPMENTS

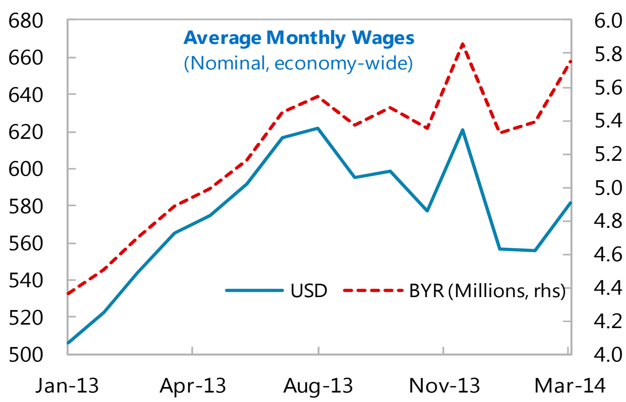
3. **The current account deteriorated sharply in 2013 reflecting expansionary policies and a weakening external environment.** After the balance of payments position had improved on temporary factors in 2012 the current account balance worsened rapidly in 2013, reaching a deficit of 10 percent of GDP (Figure 2, Table 2). In part the deterioration reflected slowing growth in Russia, but it was further fueled by rapid wage and directed lending growth—which boosted domestic demand—and an ongoing real appreciation of the exchange rate. A disruption of potash exports compounded the deterioration.

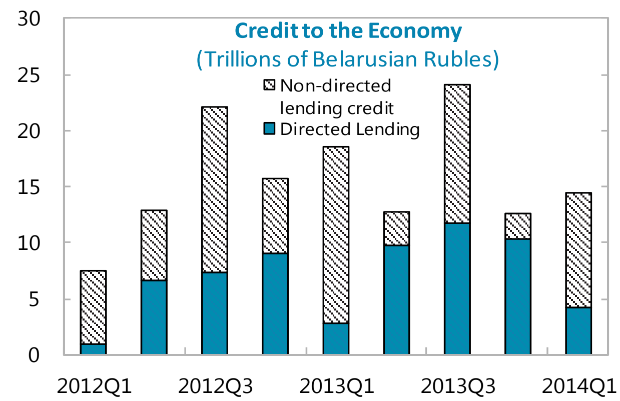


Source: National Bank of the Republic of Belarus.

4. **As short-term risks increased, policies became more cautious from the second half of 2013.** After the summer, when the scale of the current account deterioration became gradually apparent and the demand for dollar deposits rose sharply, the authorities made several policy

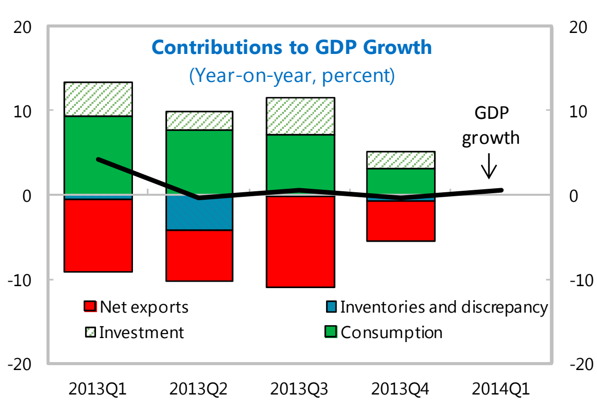
changes. Specifically, wage increases were paused and the exchange rate was allowed to depreciate somewhat faster. Also, monetary policy was temporarily tightened during July–November, until the NBRB switched to direct control of credit volumes in the last quarter of the year. The latter caused a sharp squeeze in commercial credit, as directed lending continued unabated. The combined measures managed to stem deposit conversions and helped quell exchange market pressure, but they were insufficient to reduce inflation, which has persisted at around 16½ percent (Figure 3).

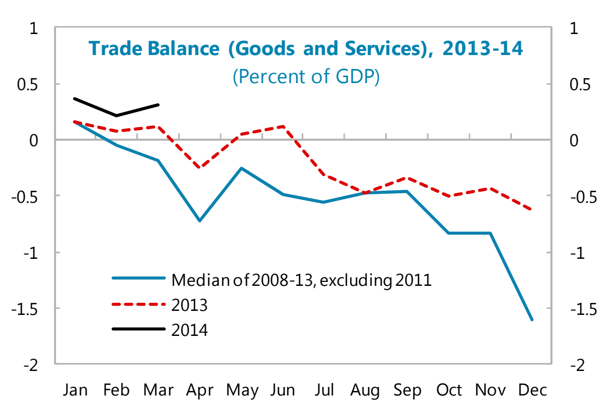




Sources: Belarusian authorities; and IMF staff calculations.

5. **Developments in early 2014 were mixed and affected by seasonal factors.** The trade balance improved markedly, reaching a small surplus, mainly on a sharp decline in imports. While this improvement appears to large extent a seasonal phenomenon—the trade balance tends to improve sharply in the first quarter to then gradually deteriorate during the year—the turnaround may have been particularly pronounced owing to tight external financing conditions in early 2014. Meanwhile, first quarter growth surprised on the upside (+0.5 percent y-o-y), but this was influenced by a large investment project and unlikely to be sustainable. Policies were on hold in early 2014, with the notable exception of monetary policy which is gradually being loosened. The authorities continue to pursue GDP growth (3.3 percent) and real income (3 percent) targets in 2014, but in contrast to previous years, emphasis on these objectives in policy statements has been muted.





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

OUTLOOK AND RISKS

6. **The outlook is for continued slow growth and persistent external imbalances.** With very weak Russian growth weighing on external demand and with domestic demand slowing, only 0.9 percent GDP growth is expected this year. Thereafter, activity remains constrained by structural deficiencies and structurally reduced growth prospects in Russia, which prompt a downward revision of Belarus' medium-term growth to about 2¾ percent. Inflation is forecast to remain around 16 percent on rubel depreciation and high inflation expectations. The current account deficit is projected at 8¾ percent of GDP in 2014 on weak external demand, low competitiveness, and a policy mix that continues to be too loose. Going forward, limited financing and increasingly low reserves do not permit such high deficits. Therefore, the staff's stylized baseline scenario assumes gradual exchange rate depreciation that brings about sufficient current account improvement to prevent full depletion of reserves, but not enough to address imbalances and rebuild buffers. Hence, the baseline scenario implies continued very high vulnerabilities throughout the forecast period. Without the stylized assumptions of the baseline, vulnerabilities and the risk of a disorderly adjustment are even higher.

7. **Risks are high and tilted to the downside.** The main risks are for further balance of payments deterioration and external financing shortfalls. Ongoing developments in Ukraine also pose risks—notably through their impact on Russia—as does possible protracted slow growth in other trade partners (Box 1). Meanwhile, banking sector risks remain substantial on weak loan portfolios and rapid FX lending growth. On the upside, higher-than-envisaged support from Russia or other donors, or successful privatization of a large Belarusian company could alleviate short-term financing constraints.

POLICY DISCUSSIONS

8. **Discussions focused on policies to facilitate external adjustment and mitigate risks.** The staff's adjustment scenario illustrates that consistent implementation of sound macro policies and structural reform—in line with staff recommendations—would allow for a steady reduction of external imbalances, strengthening of reserve buffers, and higher medium-term growth (Figure 4, Table 3). Specifically, improving competitiveness and cautious management of domestic demand should prompt a sustained reversal in the current account, while positive confidence effects from structural reform would attract higher FDI. Under these conditions, reserves could be rebuilt and reach about 4 months of import cover by 2019. As reforms take hold, medium-term, sustainable growth could reach close to 5 percent in an environment of single-digit inflation.

Box 1. Belarus: Possible Spillovers from Regional Geopolitical Tensions

For now there are no clear spillovers to Belarus from the geopolitical tensions surrounding Russia and Ukraine. However, spillovers may occur through several channels (listed below in approximate order of importance).

- **Russian support**. Belarus is highly dependent on Russian support, not only through loans but also via heavily discounted energy prices. It is unclear if the recent changes in Russia's relationship with Ukraine have implications for Belarus, and if so in what direction (more, or less support).

Energy Support from Russia, 2012-13
(In percent of GDP)

	2012	2013
Total support	**14.9**	**12.7**
Implied subsidy on oil imports	12.6	10.9
Implied subsidy on gas imports	8.3	6.6
Discounted oil product exports to Russia	-0.1	-0.2
Transfer to the Russian budget of the export duty on oil products	-6.0	-4.6

Sources: NBRB; Belstat; and IMF staff estimates and calculations.

- **Trade**. Growth in Russia— the destination of 35 percent of Belarus' exports—is expected to suffer as a result of sanctions, reduced confidence, and higher interest rates. Ukraine—accounting for 12 percent of Belarus' exports and a positive bilateral trade balance worth US$2 billion—is also a significant trade partner. It is, however, also a (potential) competitor, including for the transit of Russian gas to Europe, resulting in both up and downside risks from trade linkages.

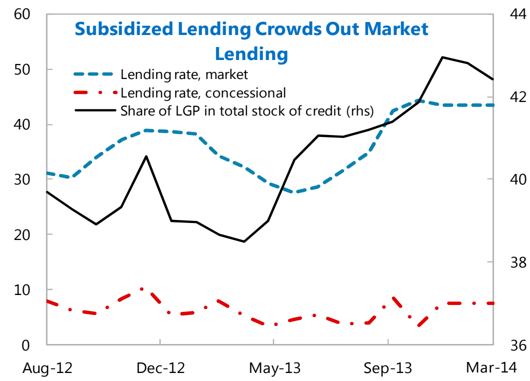
- **Competitiveness**. The Ukrainian hryvnia and Kazakhstani tenge have depreciated sharply and other CIS exchange rates—including the Russian ruble—may be affected thereby weakening Belarus' competitiveness and further increasing pressures on the rubel.

- **Financial linkages**. Subsidiaries of Russian banks account for a quarter of banking sector assets with two Russian subs being among the five largest banks. The Russian subs rely mostly on their parents for funding and capital and any weakening of the parent banks could have substantial spillovers to Belarus. Also, Russia accounts for about 70 percent of foreign direct investment in Belarus and any substantial declines in these flows could significantly affect Belarus' balance of payments.

A. Fiscal Policy: Containing Lending Programs and Wages to Curb Demand

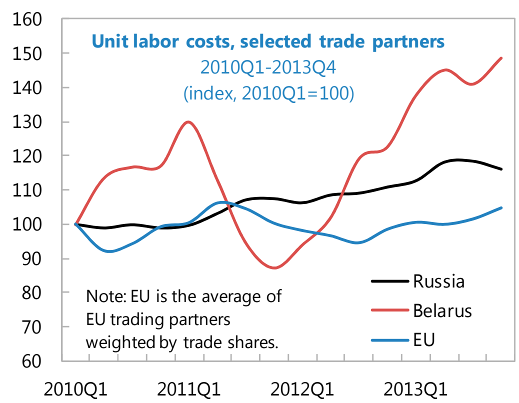
9. **Quasi-fiscal directed lending operations and wage policies continue to be the key fiscal policy concerns**.

- ***Lending.*** The flow of new subsidized lending increased 35 percent—reaching 5½ percent of GDP—in 2013, thereby fueling domestic demand, raising the share of subsidized credit in overall lending, and adding to concerns about the efficiency of credit allocation. It also created contingent fiscal liabilities as a likely large share of lending was directed at ailing sectors and enterprises. While new lending has increasingly taken place through the Development Bank (DB), growth of directed lending in state banks also continues to be high, validating concerns that the DB has become an additional source of subsidized credit instead of a consolidating institution as originally envisaged. Faced with increasing financing constraints, for 2014 the authorities have adopted a "Financing Plan" that identifies and sets a binding limit on the combined subsidized lending volumes of the DB and other banks (though it excludes subsidized housing lending). Staff estimates that the plan implies a flow of new directed lending on the order of 3¾ percent of GDP.



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

- ***Wages.*** Despite a marked moderation in the second half of the year, average economy-wide wages rose 6 percent in 2013 in real terms, thereby exceeding productivity growth (estimated at 1½ percent) by a large margin. The increases—led by government targets—translated into high consumption growth and a further decline in wage competitiveness (Box 2). For 2014, the authorities are planning a real income increase of 3 percent. However, the real wage increase over January—March (abstracting from the seasonal December spike) amounted already to 4.6 percent, pointing to upside risks to the official objective.



Source: IMF data.

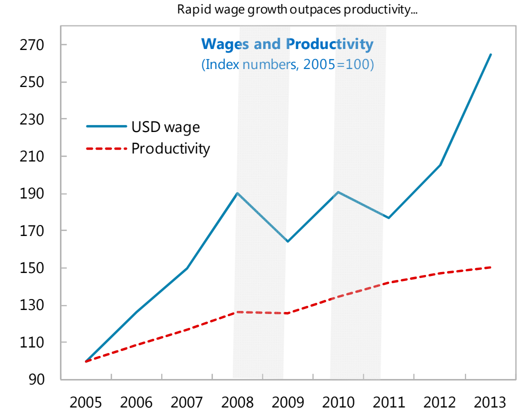
10. **Meanwhile, the authorities again aim to balance the headline budget in 2014.** The headline budget posted a small surplus in 2013, despite a 2 percent of GDP revenue shortfall that was countered with ad hoc increases in regulated prices and deferral of expenditures on goods and services and public investment. Including contingent liabilities from quasi-fiscal operations, however, staff estimates that the budget was over 6 percent in deficit (Figure 5, Table 4). For 2014, the authorities are aiming again at a balanced headline budget, but risks are on the downside as the erosion of revenues from external trade is likely structural owing to tariff reductions in the context of the Eurasian customs union and declining exports on reduced external competitiveness.

Box 2. Belarus. Wage Setting: The Role of the Government

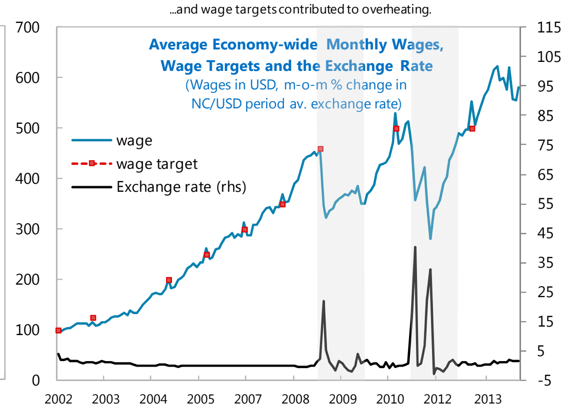
Closer inspection of the role of targets suggests a large role for the government in setting wages.

Rapid economy-wide wage growth has been a key destabilizing factor in recent years. High wage increases—which far outstripped productivity growth—led to overheating, fueled inflation and external imbalances, and reduced competitiveness, and were a key contributing factor to the 2009 and 2011 crises.

Rapid wage growth outpaces productivity...



...and wage targets contributed to overheating.



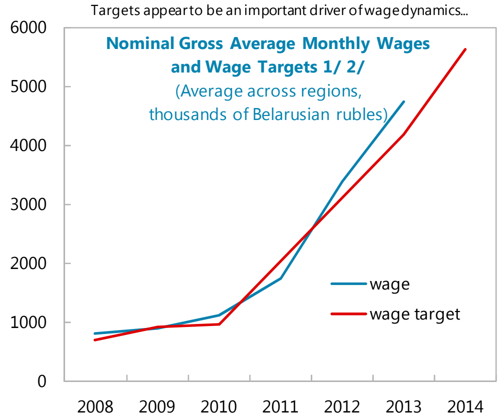
Source: Belstat. Targets for 2001, 2002, 2004, 2005 and 2010 are from official plans, targets for 2006, 2007, 2008 and 2012 are from authorities' press statements.
Note: Productivity is computed as GDP at constant prices in billion rubles/ employment. USD wage refers to the average economy-wide monthly wage measured in USD.

High wage growth in Belarus is not spontaneous but prompted by government policy through widely-applied wage targets.

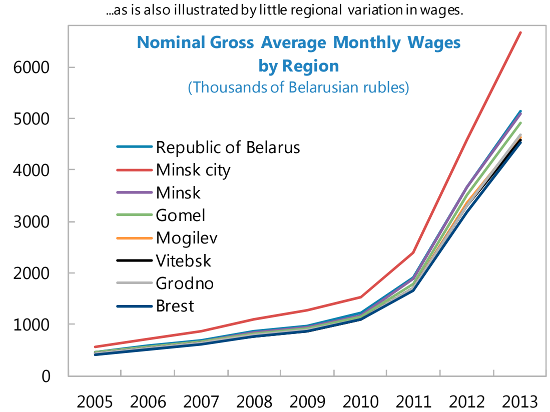
- Economy-wide wage targets in US dollars, and corresponding regional and town-level targets in local currency, have been set by the authorities in most years and apply to the entire economy, including the private sector (companies less than 50 percent state-owned).

- Although the importance of mandatory wage targets appears to be decreasing, the targets have been closely adhered to and are a more important driver of wages than the government's single pay grading system, which regulates wage-setting in budgetary organizations. Very low variation of wages between regions and sectors confirms the strong influence of official wage targets.

Targets appear to be an important driver of wage dynamics...



...as is also illustrated by little regional variation in wages.



Sources: Belstat; and IMF staff calculations.
1/ Wage targets from annual plans.
2/ Both series exclude Minsk city for consistency as no targets were set for Minsk city in 2008-2010.

Policy Discussion

11. **Staff urged a sharper reduction of subsidized lending and a halt to wage increases.** Staff welcomed the authorities' Financing Plan, which promises to be a helpful instrument in the control of overall directed lending volumes, and recommended that it become a recurring feature of the authorities' policy framework. At the same time, given the associated cyclical and structural drawbacks, it urged the authorities to be more ambitious in scaling back directed credit and to limit new lending to 2 percent of GDP in 2014, fully channeled via the DB. Directed lending should be reduced further to 1 percent of GDP in 2015, with a view to a full phase out over the medium term. Staff also recommended forgoing the wage increases embedded in the official policy plans for 2014. Keeping wages constant in nominal terms would avoid fueling domestic demand growth and help make up for lost competitiveness from the excessively high wage growth of recent years.

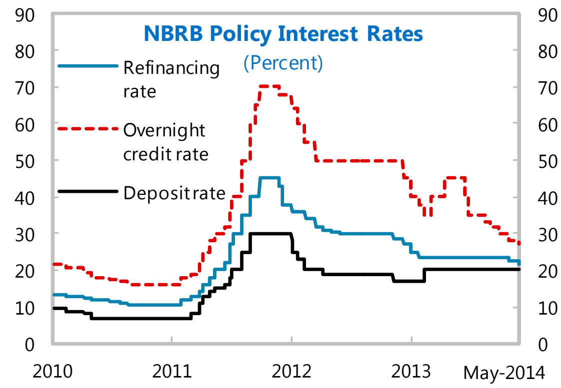
12. **If directed lending and wages are not adequately contained, fiscal balance objectives should be more ambitious.** Staff advised that the authorities run a corresponding surplus for any new subsidized lending above the recommended 2 percent of GDP limit, to offset the expansionary effect of such excess lending and help build fiscal buffers to cope with implied contingent liabilities. Staff also urged the authorities to optimize fiscal savings from wages and reductions in subsidies, instead of balancing the budget by reducing capital expenditure. Such savings would also pay for improvements in social safety nets that should accompany reform.

13. **The authorities argued that policies were already tightening and that scope for more ambitious cutbacks was limited.** They suggested that given wage hikes in recent years, which had resulted in a large increase in average wage levels, the emphasis on meeting wage targets would be less pronounced this year. In addition, financing constraints would limit the scope for directed lending. In this context, the authorities explained that the Financing Plan was a temporary instrument aimed at ensuring sufficient financing for ongoing projects deemed critical, at the expense of lower-priority and new projects. Meanwhile, the authorities were planning to make the DB the main coordinator of all directed lending from 2015—an initiative that was welcomed by staff in principle although its modalities remain largely unclear. Regarding the headline fiscal balance, the authorities worried that achieving even the zero balance mandated by the budget would prove to be an uphill struggle if revenue performance continued to be weak. Further cuts in capital expenditure would be considered, but there was a considerable chance that a deficit would result.

B. Monetary Policy: Reducing External Imbalances and Inflation

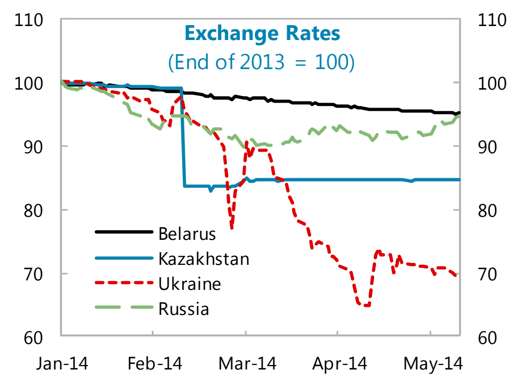
14. **Despite high risks to stability, the NBRB is relaxing monetary policy.** Monetary policy effectiveness remains constrained by a suboptimal operational framework and the disruptive impact of subsidized lending. However, domestic interest rates have a direct impact on the population's willingness to hold local currency. Therefore, in response to the pickup in demand for foreign currency deposits last summer, the NBRB increased the reserve requirement for foreign exchange deposits and raised the overnight credit rate by 10 percentage points to 45 percent (Figure 6, Tables 5 and 6). From November, however, the NBRB has started to loosen policy again by reversing the

reserve requirement and cutting the overnight credit rate. In addition, in April and May, the NBRB also lowered the refinancing rate by two percentage points to 21.5 percent and put regulatory caps on the interest rates banks can charge their clients. The policy loosening risks reigniting exchange rate pressures in the context of large external imbalances and continued high inflation.

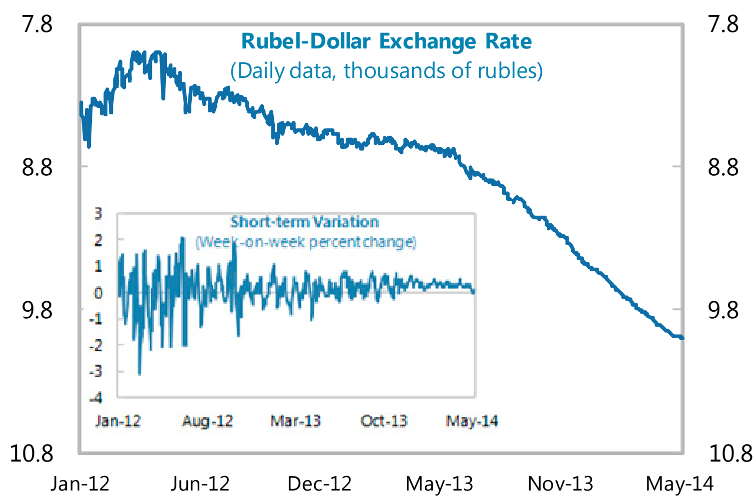


Source: National Bank of the Republic of Belarus.

15. **Slow exchange rate adjustment compounds imbalances and poses risks.** Over the past year, the NBRB has tightened control over the exchange rate through interventions, with the regime increasingly resembling a crawling peg (prompting a reclassification by the staff of the de facto regime to "crawl-like arrangement"). Although the pace of depreciation has accelerated from less than ½ percent per month in the first half of 2013 to about 1–1½ percent since, it remains less than what is needed given high inflation, fast wage growth, and depreciations in key trading partners. The rubel has depreciated 15 percent against the dollar since end-2012, consistent with a real effective appreciation of 9 percent, further weakening already low competitiveness and contributing to significant rubel overvaluation, on staff estimates (Box 3).



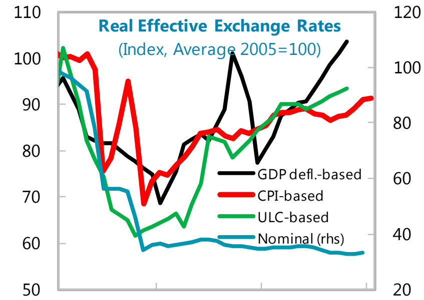
Sources: Bloomberg; and IMF staff calculations.



Box 3. Belarus: External Stability Assessment

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

Inflation differentials and an insufficiently flexible exchange rate have led to overvaluation of the rubel. Total REER appreciation in CPI terms of about 35 percent—and over 50 percent in ULC and GDP deflator terms—since the 2011 devaluations suggests a serious erosion of competitiveness.

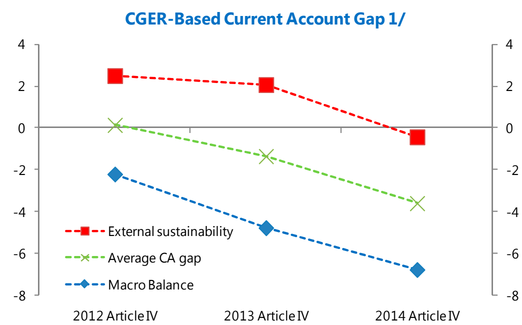


Sources: INS; *World Economic Outlook*; IFS; and IMF staff calculations.

Applying CGER methodology to Belarus is challenging. The External Sustainability (ES) approach is less informative because stabilizing NFA at the current low reserve levels is not desirable. Meanwhile, data constraints render the Equilibrium Real Exchange Rate (ERER) approach infeasible for Belarus. The Macroeconomic Balance (MB) approach is best suited for an assessment of Belarus' external stability, but needs to take into account the unsustainable nature of the current external imbalance, which reduces the accuracy and relevance of any projected medium-term current account balance. Given these challenges, the staff's exchange rate assessment is mainly based on the MB approach using the projected 2014 current account balance (rather than the medium-term balance forecast) as a proxy for the underlying balance.

- The MB approach estimates a further widened gap between the projected medium-term current account and the estimated norm to around -7 percent. This is consistent with a significant overvaluation.

- Moreover, different from the assessment in the 2013 Article IV Consultation, the ES approach now indicates a negative gap, despite the deeply negative interest-growth differentials.



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

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

Policy Discussion

16. **Staff urged further reducing exchange rate intervention, thus allowing faster depreciation, accompanied by monetary policy tightening.** Faster rubel depreciation would aid external adjustment, save reserves, and improve competitiveness. To contain inflationary pressures and guard against potential exchange rate overshooting, monetary policy should be simultaneously

tightened. Increased exchange rate flexibility should be accompanied by a carefully crafted communication strategy to guide expectations of market participants and the public.

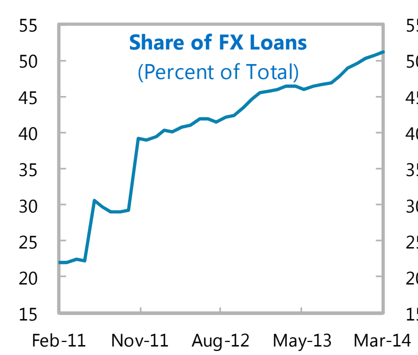
17. **Staff also encouraged enhancing monetary policy effectiveness through a base money anchor.** With Belarus not ready for a successful move to inflation targeting, staff urged the NBRB to start implementing base money targeting as a temporary policy anchor, in line with TA advice.

18. **While agreeing on the need for exchange rate flexibility, the authorities were reluctant to increase the pace of depreciation.** They remained deeply concerned about potential market reactions, arguing that the expectations of the general public are still shaped by the experience of the 2011 crisis and that faster depreciation could trigger a disorderly adjustment of the rubel. They also pointed to the high economic costs of the 2011 devaluation. The authorities expected that the arrival of the promised Russian loans would help support the balance of payments.

19. **The NBRB planned to continue loosening monetary policy to alleviate credit constraints.** The authorities argued that private enterprises had lived with high rubel interest rates for too long and that this was stifling investment. Lowering rates was therefore the key policy priority. They did not perceive such policy loosening as inconsistent with the challenge of reducing high inflation. While the NBRB agreed it was highly likely that inflation would remain well above the official 11 percent target this year, it argued this was mostly due to the impact of exchange rate depreciation and administrative price increases. Also, the NBRB planned to continue rationing credit volumes to avoid lower rates from resulting in a rapid acceleration of credit growth. The authorities were studying the recommendations to re-anchor monetary policy on base money.

C. Banking Sector: Safeguarding Stability and Curbing Dollarization

20. **Rising risks in the banking sector require close attention.** Prolonged weak economic performance and adverse external developments have increased financial stability risks (Box 4). NPLs at several key banks have increased rapidly in early 2014, even though system-wide NPLs remained stable on account of transfers of problem loans to the Development Bank, which is not included in the statistics and where NPLs have jumped to 7½ percent from very low levels earlier. Also, continued liquidity problems at a large bank, which started last summer, have resulted in an effectively open-ended extension of its exemption from regular reserve requirements and, at end 2013, the authorities injected new capital into another large state-owned bank to keep it from falling below minimum capital standards. On the upside, prior NBRB measures to contain FX lending have started to bear fruit with FX lending growing by a moderate 2.5 percent in the first quarter of 2014 (compared to 6.6 percent over the same period in 2013). Nonetheless, loan dollarization has continued to rise, reaching over 50 percent in early 2014, suggesting high FX risks for borrowers, many of which are believed to be unhedged.



Source: Belarusian authorities.

Box 4. Belarus: Potential Impact of Exchange Rate Depreciation

High financial dollarization makes the Belarusian economy and in particular the financial sector vulnerable to sharp exchange rate depreciation.

Direct effects from depreciation for the banking sector appear limited, even positive. Banks maintain a long position in foreign exchange (FX), with the net open position amounting to 12 percent of capital. Recent NBRB stress tests estimate that 20 percent depreciation would initially decrease capital ratios by 1.1 percentage point (regulatory capital is held in local currency) but increase profits.

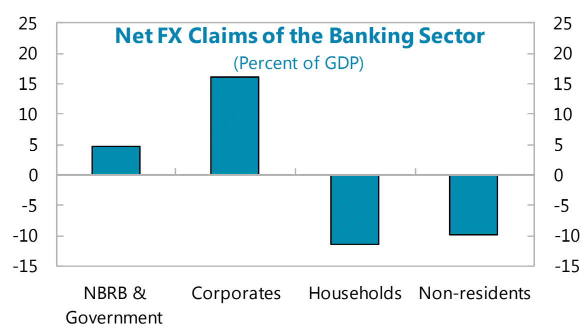
However, high FX-related credit risk could have a large negative indirect impact on banks. FX loans account for a high share of corporate sector borrowing—with shares ranging from about one quarter in the agricultural sector to more than three quarters in manufacturing—likely including a significant number of borrowers without FX earnings (in some mainly domestically oriented sectors more than half of loans are in FX). NBRB estimates of 20 percent depreciation show strong increases in NPLs, significant losses in the banking sector and suggest that capital ratios of the system could fall close to the regulatory minimum (10 percent).

While the quantitative effects of a depreciation are uncertain, information about FX exposures indicates different impacts across sectors.

- For the household sector the impact would be positive as these hold a large share of FX deposits, while FX loans to households are banned.

- For the corporate sector the impact would be mainly negative. Overall, the corporate sector has a negative FX position, with a large amount of FX loans and relatively small FX deposits. Exporters, however, may be able to profit from depreciation.

- The effect on the financial sector, on balance, would be negative, mainly because of its large FX exposure to corporates and through a negative position with non-residents in the form of largely short-term loans.



Sources: Belarusian authorities; and IMF staff calculations.

- The government would be impacted through its foreign exchange denominated debt. Assuming a 20 percent depreciation, government and government-guaranteed debt would increase to 43 percent of GDP (from 37 percent at present). An increasing interest bill, and higher outlays for bank recapitalizations, would likely compound effects over time.

Financial Soundness Indicators for the Banking Sector 1/

	2010	2011	2012	2013	2014		
	Dec	Dec	Dec	Dec	Jan	Feb	Mar
Capital adequacy							
Capital adequacy ratio 2/	20.5	24.7	20.8	15.5	15.4	15.4	15.0
Tier I capital adequacy ratio 2/	14.9	18.8	14.6	10.5	10.4	10.8	11.1
Foreign exchange loans to total loans	21.7	39.5	45.5	50.2	50.7	51.0	51.1
Non-performing loans to gross loans 3/	3.5	4.2	5.5	4.4	4.3	4.3	4.4
Watch loans 4/	3.6	10.6	12.6	9.6	9.6	10.0	9.5
Recapitalization costs (SOBs, percent of GDP)	1.3	5.3	0.0	0.2	0.0	0.0	0.0

Source: National Bank of the Republic of Belarus.

1/ Official statistics do not adequately reflect risks because of pervasive evergreening and reporting weaknesses. Indicators do not include DB as it is a non-bank financial institution.
2/ CARs fell in 2013 mostly on account of an increase in risk weights for FX loans that was introduced in October.
3/ NPLs fell in 2013 mostly because of transfers of problem loans to the DB (which is not included in the statistics).
4/ Watch loans include loans with delinquencies, negative information on the borrower or insufficient collateral.

21. **A joint World Bank-IMF mission urged reduction of state control in the banking system.** The mission assessed state lending, the DB, capital markets, and insurance, among other areas of the financial system. It stressed the developmental challenges from pervasive state influence in the financial system and cautioned against rapid growth of the DB (Box 5).

Policy Discussion

22. **Staff urged close supervision of banks and adequate remedial measures.** The NBRB should closely monitor the health of individual banks and decisively address any uncovered problems. In particular, it should ensure that all banks in the system comply with capital adequacy norms and reserve requirements. In addition, recent successes notwithstanding, the NBRB needs to continue to closely monitor FX lending and take further measures—e.g., further raising reserve requirements for FX loans or provisioning requirements for FX loans to unhedged borrowers—if FX loan growth rates do not continue to decrease. In this context, staff also emphasized that loan dollarization is closely tied to distortions from directed lending policies and the exchange rate regime that need to be addressed. Staff seconded the findings of the recent joint mission with the World Bank and urged the authorities to step up efforts to reduce state control of banks and lending to promote better resource allocation and risk management. It cautioned against further growth of the DB and called on the authorities to reverse the recent decision to make its debt eligible for refinancing at the NBRB, which raised the specter of monetary financing of DB lending.

23. **The NBRB concurred that the situation in the banking sector bears close watching.** Specifically, it indicated it was planning to agree on a plan for restoring liquidity at the aforementioned large bank by end May. The NBRB also shared staff's concerns about remaining FX lending growth and had recently further restricted the issuance of FX loans further by permitting them only for settling transactions with non-residents. Further measures, including increased provisioning, would be considered if the share of FX loans in total credit continued to rise.

Box 5. Belarus: Key Recommendations from Joint World Bank-IMF Mission

A recent joint World Bank-IMF financial sector mission found that the main feature of the financial system remains the government's pervasive influence at various levels including through (i) direct ownership of large market players in all segments; (ii) directed and subsidized lending programs and their distortive impact on capital allocation; and (iii) undermining institutions governing the development of the market (e.g. lack of competition framework, oversight).

The mission made recommendations in a wide range of areas, including the following:

Directed and subsidized lending

- Develop a detailed and time-bound plan for curtailing directed lending programs.
- Introduce formal mechanisms for monitoring and evaluating the effectiveness of directed lending programs.
- Consolidate existing and future directed lending programs through the Development Bank.

Development Bank

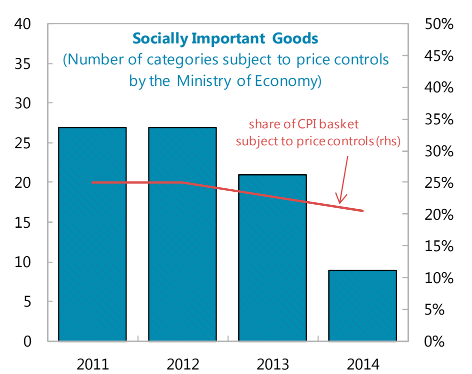
- Introduce external regulation and supervision of the Development Bank.
- Prevent the Development Bank being used as an off-budget financing mechanism by ensuring that it operates within the resource envelope for state programs, counting its debt towards the debt ceiling, and reflecting the state's contingent liabilities in the budget.
- As a transitional institution the DB should not have an indefinite lifespan and as the commercial financial sector develops, the need for a state-run Development Bank should be reconsidered.

Capital market development

- Adopt a framework law establishing operational independence of the securities supervisor.
- Migrate the supervisory framework from a compliance-based to risk-based supervision of professional market participants.
- Analyze in coordination with NBRB the need to implement rules governing the issuance of corporate bonds in FX by unhedged issuers.

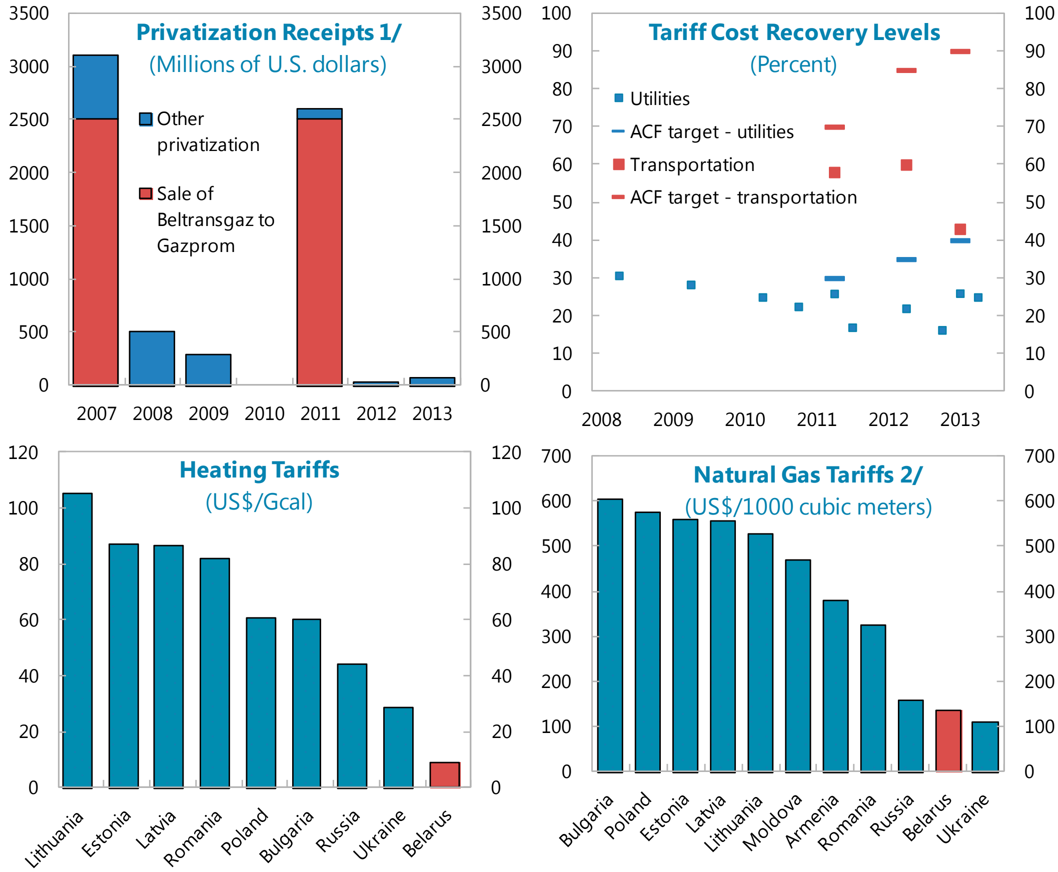
D. Structural Reform: Raising Sustainable Growth

24. **Some progress has been made on price liberalization, but in other areas the stalemate continues**. Deep reform of the uncompetitive Belarus economy remains critical. Motivated by the requirements of the Customs Union with Russia and Kazakhstan, some progress was recently made in reducing the number of "socially important goods" subject to continuous price controls, though their share in the CPI basket was modest. In other areas there has been no apparent progress. In particular, despite increases in utility and transport tariffs, these remain far below cost recovery levels. Also,



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

notwithstanding the objective in the authorities' 2013 joint action plan of raising US$4½ billion through privatizations and the compilation of a new "privatization list" of 88 mostly small enterprises, no significant privatizations have taken place since 2011 and the tender of a controlling stake in mobile phone operator MTS has fallen through.



Sources: Belarusian authorities; Russian Federal Statistics Service; Anti Crisis Fund; World Bank Country Economic Memorandum; www.energy.eu.; www.euroheat.org and IMF staff calculations.
1/ The privatization of the first 50 percent stake in Beltransgas in 2007 refers to an annual sale of 12.5 percent stakes at USD 625 million over 4 years (2007-2010).
2/ Belarus refers to a weighted average of summer and heating season tariffs, weighted by their respective lengths.

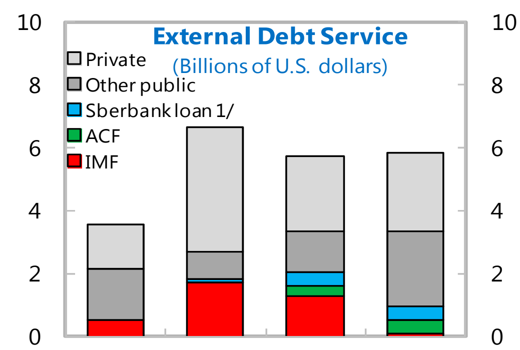
Policy Discussion

25. **Staff acknowledged steps in price liberalization, but emphasized the need for comprehensive and much more ambitious reforms.** Staff urged leveraging the recent progress on price controls by stepping up efforts in other reform areas to improve resource allocation. Specific steps would include the initiation of a time-bound plan to reach full cost recovery of utility and transport tariffs, a detailed plan to reduce the role of the state in the economy, including a rapid phase out of mandatory targets (for output, exports, wages, employment, and other variables) for enterprises and credible plans for privatization. Staff also urged strengthening safety nets to cushion the impact of reforms on the most vulnerable.

26. **The authorities recognize structural challenges but prefer strengthening the existing system.** The authorities agreed that the current economic model was not producing favorable outcomes, and that falling competitiveness was posing a structural challenge. They argued that the challenge could be met through strengthened management and appropriate reform within the existing system. In this context, they pointed out that even though mandatory targets for enterprises continued to cover a wide range of variables, in practice emphasis was increasingly placed on targets for labor productivity, profitabiliy, and exports, while compliance with other targets was becoming less critical. The authorities also pointed to their recent privatization efforts, but indicated that market conditions had not been conducive.

CAPACITY TO REPAY AND FUND RELATIONS

27. **Capacity to repay remains strained and subject to high risks.** Belarus met its external obligations in 2013, but payment capacity will continue to be tested in 2014 given continued large debt repayments, a weak balance of payments position, limited market access, and precariously low reserves. As part of its obligations, Belarus needs to repay most of the remaining balance to the Fund in 2014 (access has already dropped below 200 percent of quota, thereby ending the expectation of Post-Program Monitoring). Russian support could mitigate risks in the very short-term, but staff projects that even with the promised loans fully disbursed reserves will continue to erode this year to below one month of imports. High uncertainty about capital flow projections and large FX liabilities at the NBRB compound the risks.



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

28. **The authorities are confident that bilateral loans will allow them to meet financing needs this year.** Nonetheless, they continue to seek sources of additional financing. In this context, the Ministry of Finance expected to be able to issue US$700 million in FX-denominated domestic bonds this year (US$200 million of which had already been issued). At the same time, they conceded that realizing the official plan to issue a US$800 million Eurobond would prove a challenge given market conditions and unresolved technical problems. The authorities also noted that if they did not meet ACF conditionality, they would not receive the last remaining $440 million ACF tranche. They were more hopeful, however, regarding the prospects for significant privatizations, which they thought could bring substantial foreign exchange revenues.

Belarus: Financing Requirements, 2012–14
(Millions of U.S. dollars)

	2012	2013 Est.	2014 Proj.
Gross Financing Requirements	-10,449	-17,138	-17,870
Current account balance	-1,839	-7,276	-6,834
Amortization (MLT debt)	-2,556	-5,386	-5,205
of which IMF	-465	-1,641	-1,282
Short-term debt	-6,054	-4,477	-5,831
Financing Sources	10,449	17,138	17,870
Capital account (net)	4	4	4
FDI (net)	1,308	2,060	2,024
Portfolio investment inflows (net)	12	-42	0
Borrowing (MLT)	4,417	7,462	6,503
of which ACF	440	880	0
of which Russian bilateral loan	0	450	1,500
Short-term financing	4,477	5,831	5,831
Other net [1/]	-1,477	989	556
Projected change in reserves (+ decrease)	-81	857	3,051
Memo Item: Stock of Reserves	8,095	6,651	3,600

Source: IMF staff calculations.
1/ Includes portfolio, net trade credits and other net investment assets. For 2012 also includes errors and omissions and valuation effects.

STAFF APPRAISAL

29. **Large imbalances and low buffers call for decisive policy change.** Expansionary policies, slowing trade-partner growth, and an insufficiently flexible exchange rate have undermined competitiveness and led to increasing external imbalances. Meanwhile, growth has remained low and inflation high. External financing needs are large while market access remains limited and reserves have fallen to a low level. Adverse developments in the region compound the already high risks. The authorities have started to tentatively change policies, but much stronger actions are needed to mitigate risks of disorderly external adjustment.

30. **Directed lending should be reduced much faster than currently envisaged.** The reduction of the volume of net new directed lending under the authorities' Financing Plan is a welcome step, but the authorities should be more ambitious in limiting net new lending. This would help reduce domestic demand, generate budget savings, and contain contingent liabilities associated with lending to unviable projects and enterprises.

31. **Wages should not rise any further in 2014.** It will be critical to forgo the wage increases embedded in official policy plans to avoid fueling domestic demand growth and to regain lost competitiveness from the excessively high wage growth of recent years.

32. **If directed lending and wages are not contained, fiscal objectives should be more ambitious.** The authorities should run a corresponding budget surplus in 2014 for any new subsidized lending above the recommended 2 percent of GDP limit, so as to offset the expansionary effect of the excess lending and help build fiscal buffers to cope with implied contingent liabilities. Fiscal adjustment should be achieved by optimizing fiscal savings from wages and reductions in subsidies, instead of further reducing capital expenditure.

33. **FX interventions should be further reduced and monetary policy tightened.** Stepped up rubel depreciation—in a controlled manner—is needed to improve competitiveness, aid external adjustment, and save reserves. To contain inflationary pressures and limit potential for exchange rate overshooting, monetary policy should be simultaneously tightened. The effectiveness of monetary policy could be enhanced by moving to a base money anchor, in the context of a flexible exchange rate. Approval of remaining exchange restrictions and multiple currency practices, which the authorities are in the process of eliminating, is not recommended by staff.

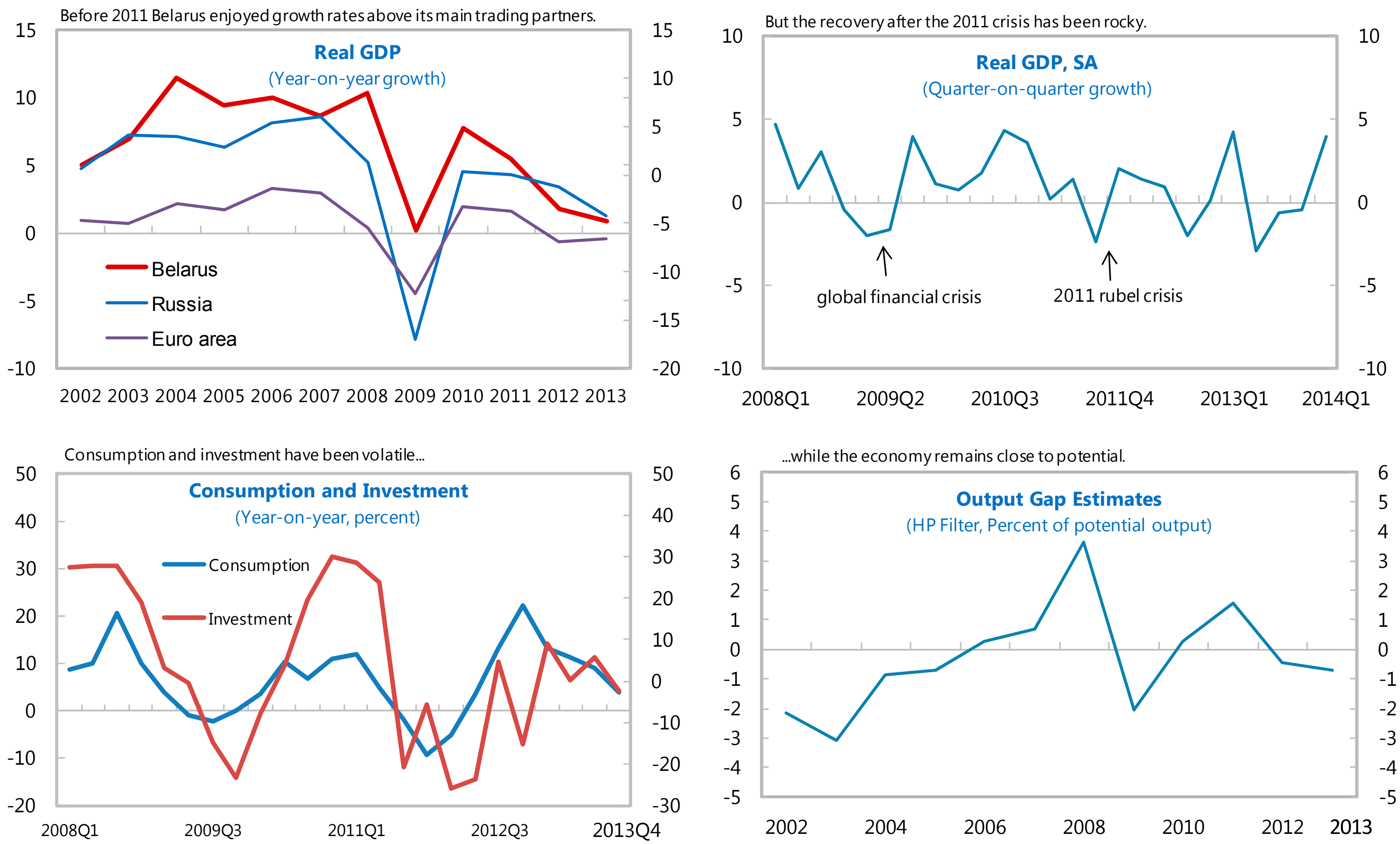
34. **Rising risks in the banking sector require close attention and action.** Recent increases in NPLs and ongoing liquidity problems in a major bank call for very close supervision and adequate remedial measures. The NBRB should ensure that all banks in the system comply with capital adequacy norms and reserve requirements. While recently on a downward trend, FX lending growth also continues to bear close watching and the NBRB should consider taking additional measures—such as a further increase in reserve requirements for FX loans—if loan growth does not continue to come down.

35. **Efforts to reduce the role of the state in the banking sector should be intensified.** The mission welcomes the intention to increasingly free up commercial banks from lending under government programs by making the Development Bank (DB) the coordinator of all such lending from 2015. However, this step should be complemented with a detailed and time-bound plan for rapidly phasing out subsidized lending and developing a banking sector that works on a fully commercial basis. Debt of the DB should not be eligible for refinancing at the NBRB, so as to avoid monetary financing of its lending.

36. **Broad structural reforms are needed to boost sustainable growth.** Progress on price controls should be leveraged by stepping up efforts in other reform areas to improve resource allocation. Such efforts should include initiation of a time-bound plan to reach full cost recovery of utility and transport tariffs, a detailed plan to reduce the role of the state in the economy, and a strengthening of social safety nets. While the full benefits of such reforms accrue over time, bold upfront actions would help raise policy credibility and boost confidence even in the short run.

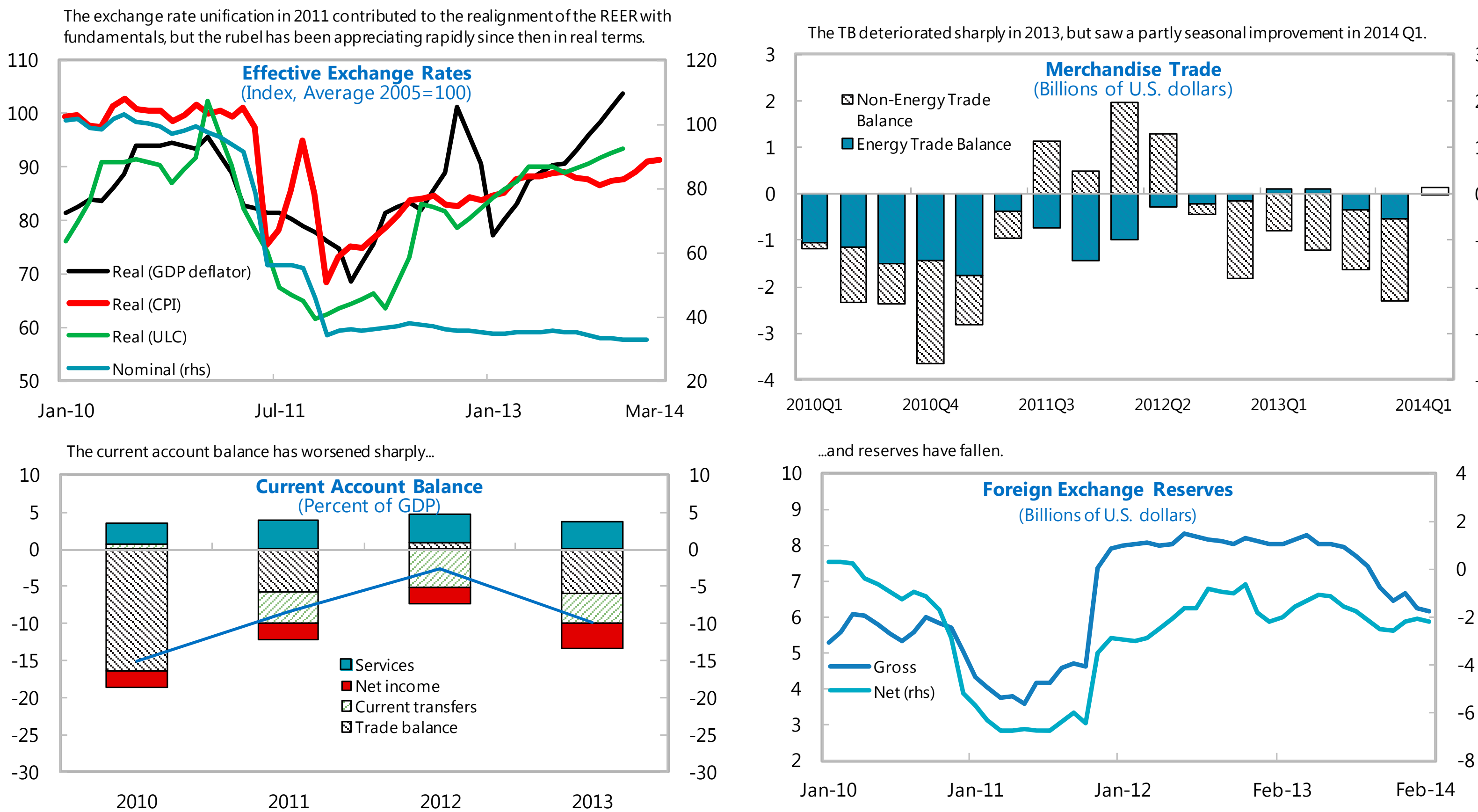
37. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

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



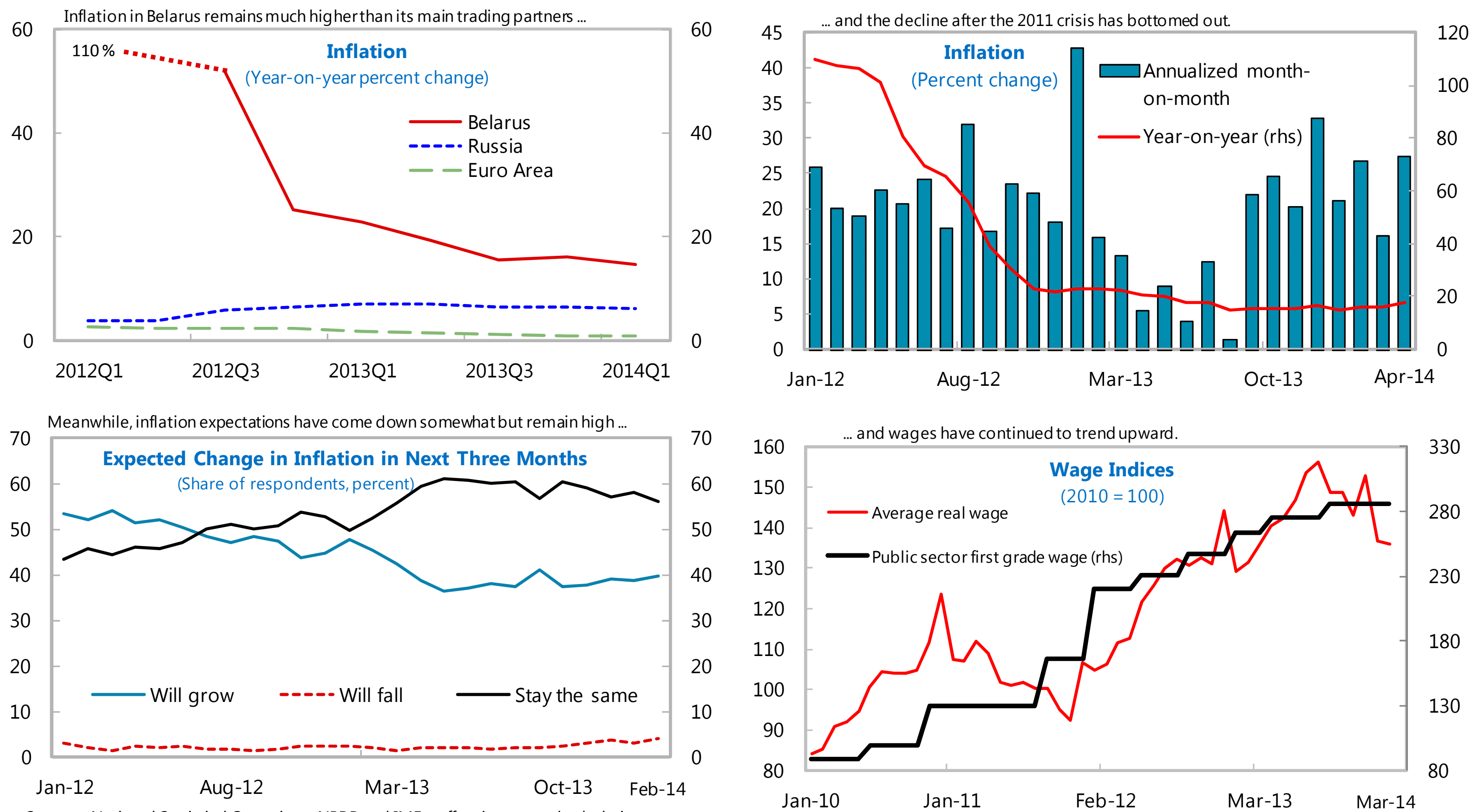
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 2. Belarus: External Sector, 2010–14



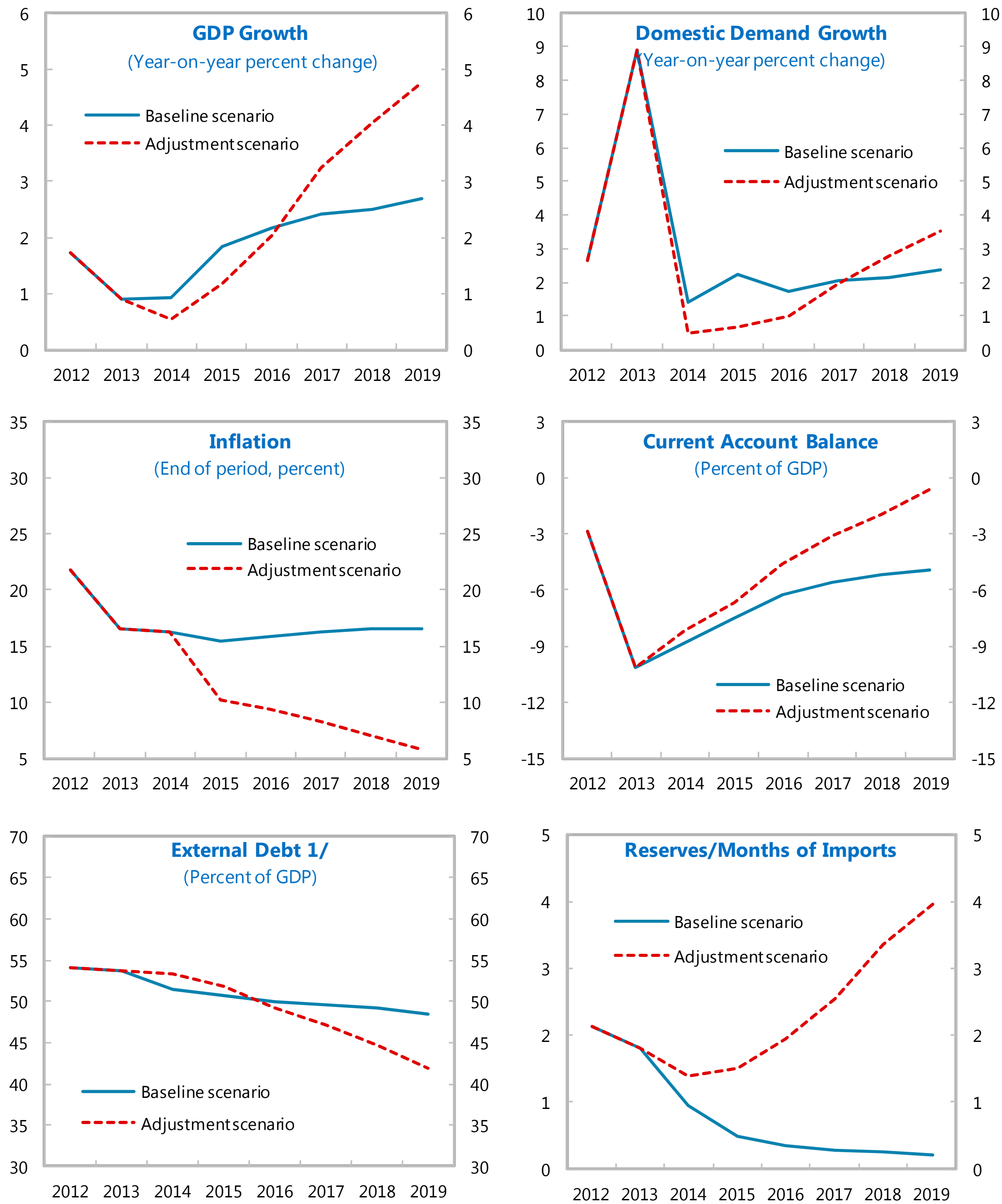
Sources: Belstat; National Bank of the Republic of Belarus; Ministry of Finance of the Republic of Belarus; and IMF staff estimates and calculations.

Figure 3. Belarus: Inflation and Wage Developments, 2010–14



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

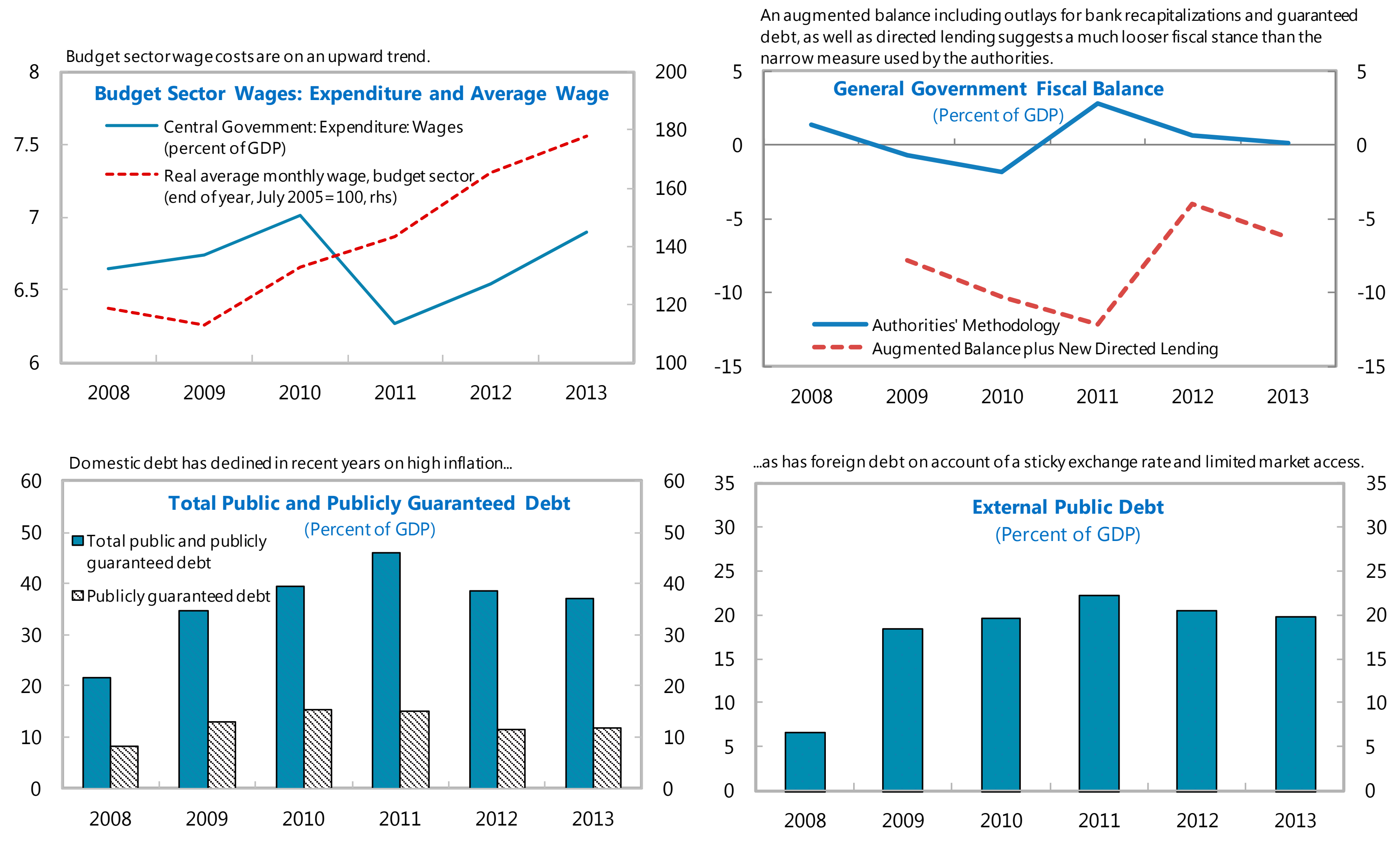
Figure 4. Belarus: Baseline and Adjustment Scenarios, 2012–19



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

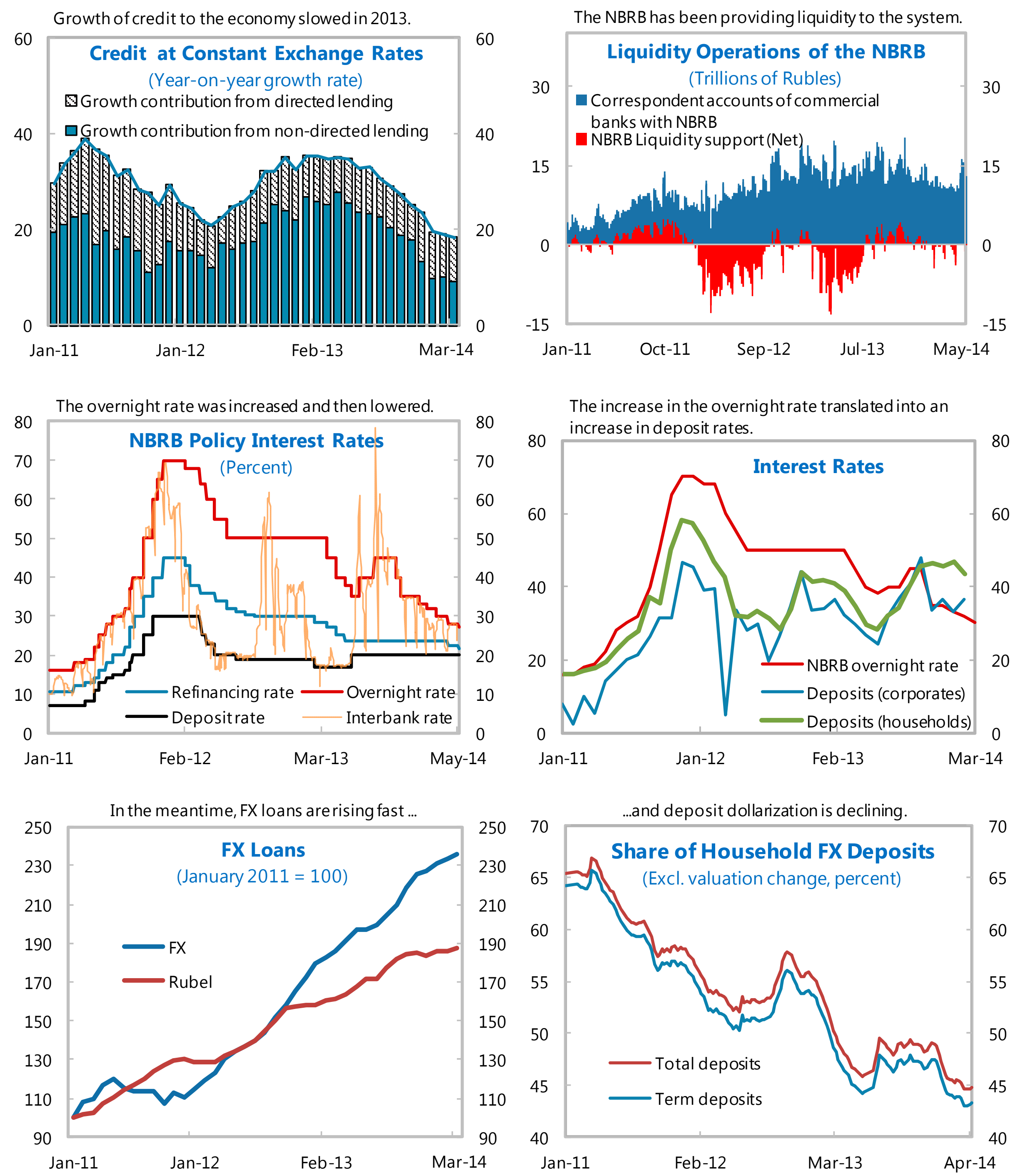
1/ The broadly constant external debt-to-GDP ratio in the baseline scenario is explained by an assumption that the gaps in the balance of payments are financed by drawdown of foreign exchange reserves rather than by external borrowing.

Figure 5. Belarus: Fiscal Developments, 2008–13



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

Figure 6. Belarus: Monetary Developments, 2011–14



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

Table 1. Belarus: Selected Economic Indicators (Baseline Scenario), 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Prel.			Proj.			
					(Percentage change)				
National accounts									
Real GDP	5.5	1.7	0.9	0.9	1.8	2.2	2.4	2.5	2.7
Total domestic demand	3.4	2.6	8.9	1.4	2.2	1.7	2.1	2.1	2.4
Consumption	1.0	8.2	9.2	1.7	2.5	1.9	2.2	2.2	2.3
Nongovernment	2.3	10.7	12.1	2.0	2.8	2.1	2.5	2.4	2.6
Government	-3.6	-1.0	-2.6	0.0	1.0	1.0	1.0	1.0	1.0
Investment	7.8	-6.6	8.4	0.8	1.7	1.3	1.8	2.1	2.5
Of which: fixed	13.9	-11.3	7.5	0.9	1.8	1.4	1.9	2.1	2.6
Net exports 1/	3.4	-0.9	-7.6	-0.9	-0.6	0.1	-0.1	-0.1	-0.1
Consumer prices									
End of period	108.7	21.8	16.5	16.3	15.4	15.9	16.3	16.5	16.5
Average	53.2	59.2	18.3	16.8	15.8	15.8	16.1	16.5	16.5
Monetary accounts									
Reserve money	84.1	61.6	13.4	27.8	29.6	30.3	31.9	31.3	31.9
Rubel broad money	64.1	57.2	16.4	28.4	30.5	30.8	32.3	31.6	32.2
					(Percent of GDP, unless otherwise indicated)				
External debt and balance of payments									
Current account balance	-8.5	-2.9	-10.1	-8.8	-7.5	-6.2	-5.6	-5.2	-5.0
Trade balance	-5.8	0.9	-6.3	-6.8	-6.2	-4.9	-4.3	-3.5	-3.2
Exports of goods	68.5	71.6	51.0	43.9	43.3	41.6	40.3	38.8	37.1
Imports of goods	-74.3	-70.8	-57.3	-50.7	-49.5	-46.5	-44.6	-42.3	-40.3
Gross external debt	57.7	54.2	53.8	51.4	50.7	50.0	49.6	49.2	48.4
Public 2/	25.0	23.1	22.0	20.5	18.4	18.1	17.9	17.5	17.2
Private (mostly state-owned-enterprises)	32.7	31.0	31.8	31.0	32.3	31.9	31.8	31.7	31.1
Savings and investment									
Gross domestic investment	37.6	35.4	38.7	38.1	37.9	37.5	37.3	36.8	36.5
Government	5.1	6.4	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Nongovernment	32.5	28.9	32.1	31.5	31.3	30.9	30.6	30.2	29.8
National saving	29.2	32.5	28.6	29.3	30.4	31.3	31.7	31.6	31.5
Government 3/	2.2	7.0	5.8	3.3	3.1	2.6	1.9	1.2	0.6
Nongovernment 3/	26.9	25.5	22.7	26.0	27.4	28.8	29.8	30.4	31.0
Public sector finance									
General government balance	2.8	0.7	0.2	-0.5	-0.8	-1.3	-2.0	-2.6	-3.3
Augmented general government balance 4/	-2.9	0.5	-0.8	-3.3	-3.6	-4.1	-4.8	-5.4	-6.1
Augmented general government balance incl. new directed lending	-12.1	-4.0	-6.3	-7.0	-9.0	-9.5	-10.2	-10.9	-11.5
Of which: new directed lending (incl. Development Bank) 5/	9.3	4.5	5.4	3.7	5.4	5.4	5.4	5.4	5.4
Revenue	38.8	40.5	42.0	41.8	42.3	42.5	42.7	42.8	43.0
Expenditure 6/	41.6	40.0	42.8	45.2	45.9	46.6	47.4	48.3	49.1
Of which:									
Wages	6.3	6.5	6.9	7.0	7.1	7.2	7.3	7.4	7.5
Subsidies and transfers	7.3	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Investment	5.1	6.4	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Gross public debt 7/	45.9	38.5	37.0	35.5	35.1	36.6	38.7	40.9	43.4
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	60	64	72	...	...	...	...	...	...
Nominal GDP (trillions of rubels)	297	530	637	826	986	1,176	1,402	1,669	1,985
Terms of trade, percentage change	6.0	6.8	1.7	1.9	1.3	0.9	1.3	0.5	0.1
Official reserves (billions of U.S. dollars)	7.9	8.1	6.7	3.6	1.9	1.3	1.1	1.0	1.0
Months of imports of goods and services	1.9	2.1	1.8	0.9	0.5	0.3	0.3	0.3	0.2
Percent of short-term debt	56.9	63.8	47.1	25.3	13.2	9.0	7.2	6.8	6.6
Quota (2010): SDR 386.4 million (589.7 million U.S. dollars)									

Sources: Belarusian authorities; and IMF staff estimates.

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

Table 2. Belarus: Balance of Payments (Baseline Scenario), 2011–19 1/

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Prel.			Proj.			
Current account balance	-5,053	-1,839	-7,276	-6,833	-6,148	-5,456	-5,132	-5,010	-5,055
Trade balance (goods)	-3,467	565	-4,540	-5,275	-5,103	-4,323	-3,947	-3,364	-3,241
Energy balance	-4,343	-1,675	-707	-572	-1,227	-1,272	-1,577	-1,857	-2,418
Nonenergy balance	876	2,240	-3,833	-4,703	-3,875	-3,051	-2,370	-1,507	-824
Exports	40,928	45,574	36,571	34,116	35,584	36,434	37,164	37,506	37,819
Energy	14,272	16,081	11,740	11,992	11,058	10,856	10,493	10,230	10,001
Nonenergy	26,655	29,493	24,831	22,124	24,527	25,577	26,671	27,276	27,818
Imports	-44,394	-45,009	-41,111	-39,391	-40,687	-40,756	-41,111	-40,870	-41,060
Energy	-18,615	-17,756	-12,447	-12,564	-12,285	-12,128	-12,070	-12,087	-12,419
Nonenergy	-25,779	-27,253	-28,664	-26,827	-28,402	-28,628	-29,041	-28,782	-28,641
Services, net	2,258	2,292	2,581	2,730	2,981	3,055	3,134	2,976	3,025
Income, net	-1,361	-1,473	-2,741	-1,554	-1,492	-1,687	-2,002	-2,298	-2,532
Transfers, net 2/	-2,482	-3,223	-2,576	-2,734	-2,535	-2,501	-2,317	-2,324	-2,306
Capital and financial accounts	4,569	1,073	7,089	5,063	4,533	4,873	4,877	4,963	5,033
Capital account	4	4	4	4	8	15	30	29	30
Financial account	4,564	1,069	7,085	5,059	4,526	4,858	4,848	4,934	5,003
Overall FDI, net	3,877	1,308	2,060	2,024	2,391	2,502	2,571	2,907	3,057
Portfolio investment, net	854	-190	-59	0	0	0	0	0	0
Trade credits, net	575	-1,789	22	99	200	168	177	171	180
Loans, net	530	944	4,372	2,580	1,514	1,803	1,745	1,564	1,482
Government and monetary authorities, net	-327	314	1,538	1,645	385	723	742	643	629
Banks, net	70	125	1,396	528	681	656	625	607	544
Other sectors, net	788	506	1,438	406	448	424	377	314	309
Other, net	-1,272	796	690	356	421	385	355	293	285
Errors and omissions	1,035	872	91	0	0	0	0	0	0
Overall balance	551	106	-96	-1,770	-1,615	-583	-254	-47	-21
Financing	-551	-106	96	1,770	1,615	583	254	47	21
Gross official reserves ("-" denotes an increase)	-2,791	-81	857	3,051	1,700	583	254	47	21
Use of IMF credit (+)	0	-465	-1,641	-1,282	-85	0	0	0	0
Other donors and exceptional financing items	2,240	440	880	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-8.5	-2.9	-10.1	-8.8	-7.5	-6.2	-5.6	-5.2	-5.0
Total external debt (in percent of GDP)	57.7	54.2	53.8	51.4	50.7	50.0	49.6	49.2	48.4
Gross official reserves (end-of-period)	7,916	8,095	6,651	3,600	1,899	1,316	1,062	1,015	994
In months of imports of goods and services	1.9	2.1	1.8	0.9	0.5	0.3	0.3	0.3	0.2
In percent of short-term debt	56.9	63.8	47.1	25.3	13.2	9.0	7.2	6.8	6.6
Export volume (annual percentage change)	33.0	11.0	-17.4	1.1	1.4	1.7	1.4	1.4	1.5
Import volume (annual percentage change)	15.9	9.4	-7.2	1.9	2.0	0.9	1.3	1.2	1.5

Sources: Belarus authorities; and IMF staff estimates.

1/ Data compiled based on BPM6.
2/ Values for 2011-19 include transfer of export duty on oil products to the Russian budget.

Table 3. Belarus: Selected Economic Indicators (Adjustment Scenario), 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Prel.			Proj.			
				(Percentage change)					
National accounts									
Real GDP	5.5	1.7	0.9	0.5	1.2	2.0	3.2	4.0	4.8
Total domestic demand	3.4	2.6	8.9	0.5	0.7	1.0	1.9	2.8	3.5
Consumption	1.0	8.2	9.2	0.6	0.7	0.8	1.7	2.8	3.7
Nongovernment	2.3	10.7	12.1	0.5	0.7	0.6	1.8	3.0	4.2
Government	-3.6	-1.0	-2.6	1.0	1.0	1.5	1.5	1.5	1.5
Investment	7.8	-6.6	8.4	0.3	0.5	1.4	2.4	2.8	3.1
Of which: fixed	13.9	-11.3	7.5	0.3	0.5	1.5	2.5	2.9	3.3
Net exports 1/	3.4	-0.9	-7.6	0.0	0.4	0.8	0.9	0.8	0.7
Consumer prices									
End of period	108.7	21.8	16.5	16.2	10.2	9.3	8.2	7.1	5.8
Average	53.2	59.2	18.3	16.3	10.7	9.1	8.2	7.1	6.0
Monetary accounts									
Reserve money	84.1	61.6	13.4	13.3	19.3	25.6	26.7	28.5	29.1
Rubel broad money	64.1	57.2	16.4	13.4	19.9	26.2	27.3	29.0	29.6
				(Percent of GDP; unless otherwise indicated)					
External debt and balance of payments									
Current account balance	-8.5	-2.9	-10.1	-8.1	-6.6	-4.7	-3.2	-2.0	-0.6
Trade balance	-5.8	0.9	-6.3	-5.7	-4.0	-2.3	-0.9	0.7	1.8
Exports of goods	68.5	71.6	51.0	53.3	53.6	51.2	48.6	47.6	44.2
Imports of goods	-74.3	-70.8	-57.3	-59.0	-57.6	-53.5	-49.5	-46.9	-42.4
Gross external debt	57.7	54.2	53.8	53.3	51.9	49.4	47.2	44.8	42.1
Public 2/	25.0	23.1	22.0	23.5	21.7	21.2	20.8	20.2	18.1
Private (mostly state-owned-enterprises)	32.7	31.0	31.8	29.8	30.2	28.2	26.5	24.6	24.0
Savings and investment									
Gross domestic investment	37.6	35.4	38.7	37.5	36.7	37.7	38.7	39.1	39.9
Government	5.1	6.4	6.7	7.1	7.3	7.3	7.5	7.5	7.5
Nongovernment	32.5	28.9	32.1	30.4	29.4	30.4	31.2	31.6	32.4
National saving	29.2	32.5	28.6	29.4	30.1	33.0	35.5	37.1	39.3
Government 3/	2.2	7.0	5.8	4.2	4.5	4.4	4.7	5.7	5.7
Nongovernment 3/	26.9	25.5	22.7	25.2	25.6	28.6	30.8	31.4	33.6
Public sector finance									
General government balance	2.8	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Augmented general government balance 4/	-2.9	0.5	-0.8	-2.9	-2.8	-2.8	-2.8	-1.8	-1.8
Augmented general government balance incl. new directed lending	-12.1	-4.0	-6.3	-4.9	-3.8	-3.8	-3.8	-2.8	-2.8
Of which: new directed lending (incl. Development Bank) 5/	9.3	4.5	5.4	2.0	1.0	1.0	1.0	1.0	1.0
Revenue	38.8	40.5	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Expenditure 6/	41.6	40.0	42.8	44.9	44.8	44.8	44.8	43.8	43.8
Of which:									
Wages	6.3	6.5	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Subsidies and transfers	7.3	7.6	7.5	6.9	6.6	6.3	5.7	5.5	5.3
Investment	5.1	6.4	6.7	7.1	7.3	7.3	7.5	7.5	7.5
Gross public debt 7/	45.9	38.5	37.2	37.8	36.9	37.1	37.2	36.1	34.7
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	60	64	72	…	…	…	…	…	…
Nominal GDP (trillions of rubels)	297	530	637	701	791	901	1,011	1,119	1,333
Terms of trade, percentage change	6.0	6.8	1.7	3.5	1.2	0.5	1.0	0.5	0.4
Official reserves (billions of U.S. dollars)	7.9	8.1	6.7	5.2	5.6	7.1	9.3	12.9	17.1
Months of imports of goods and services	1.9	2.1	1.8	1.4	1.5	2.0	2.6	3.4	3.9
Percent of short-term debt	56.9	63.8	47.1	36.4	38.8	48.8	63.6	87.2	113.6

Sources: Belarusian authorities; and IMF staff estimates.

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

Table 4. Belarus: Fiscal Indicators and Projections (Baseline Scenario), 2011–19

(Percent of annual GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Prel.			Proj.			
1. State (republican and local) budget									
Revenue	28.8	29.8	29.7	29.4	29.7	29.7	29.7	29.7	29.7
Personal income tax	3.1	3.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Profit tax	2.9	3.7	3.4	3.4	3.4	3.4	3.4	3.4	3.4
VAT	8.9	8.6	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Excises	1.9	2.1	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Property tax	0.9	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Customs duties	5.1	4.8	3.7	3.4	3.7	3.7	3.7	3.7	3.7
Other	4.3	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Revenue of budgetary funds	1.7	1.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Expenditure (economic classification) 1/	26.7	29.3	29.5	29.8	30.3	30.7	31.3	31.9	32.4
Wages and salaries	6.3	6.5	6.9	7.0	7.1	7.2	7.3	7.4	7.5
Social protection fund contributions	1.7	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Goods and services	5.2	5.4	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Interest	1.1	1.4	1.0	1.2	1.4	1.8	2.2	2.6	3.1
Subsidies and transfers	7.3	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Capital expenditures	5.1	6.4	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Net lending	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State Budget Balance	2.1	0.5	0.2	-0.4	-0.6	-1.0	-1.6	-2.1	-2.7
2. Social Protection Fund									
Revenue	10.0	10.7	12.2	12.4	12.6	12.8	12.9	13.1	13.3
Expenditure	9.3	10.6	12.3	12.5	12.8	13.1	13.3	13.6	13.9
Balance (cash)	0.7	0.1	-0.1	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6
3. General government									
Revenue	38.8	40.5	42.0	41.8	42.3	42.5	42.7	42.8	43.0
Expenditure	36.0	39.9	41.8	42.4	43.1	43.8	44.6	45.5	46.3
Balance	2.8	0.7	0.2	-0.5	-0.8	-1.3	-2.0	-2.6	-3.3
Off-Balance sheet operations	-5.6	-0.2	-1.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Bank restructuring measures	-4.9	0.0	-0.6	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Net lending to financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	-0.7	-0.2	-0.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Augmented balance 2/	-2.9	0.5	-0.8	-3.3	-3.6	-4.1	-4.8	-5.4	-6.1
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash)	2.9	-0.5	0.8	3.3	3.6	4.1	4.8	5.4	6.1
Privatization	7.3	0.0	0.1	0.3	1.0	1.0	1.0	1.0	1.0
Foreign financing, net	3.1	-0.7	-0.9	-1.4	-1.0	0.8	0.7	0.5	0.6
Domestic financing, net 3/	-7.5	0.2	1.7	4.4	3.5	2.3	3.1	4.0	4.5
Memorandum items:									
Augmented general government balance with new directed lending	-12.1	-4.0	-6.3	-7.0	-9.0	-9.5	-10.2	-10.9	-11.5
Of which: new directed lending (incl. Development Bank) 4/	9.3	4.5	5.4	3.7	5.4	5.4	5.4	5.4	5.4
Gross public debt 5/	45.9	38.5	37.0	35.5	35.1	36.6	38.7	40.9	43.4
GDP (trillions of Belarusian rubels)	297	530	637	826	986	1,176	1,402	1,669	1,985

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

1/ Includes changes in expenditure arrears.

2/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and outlays related to called guarantees of publicly guaranteed debt. Projected bank recapitalization costs over the medium term are based on 2008-11 historical average.

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

4/ Net changes in stock at current exchange rate.

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

Table 5. Belarus: General Government Accounts, GFSM2001 Presentation, 2011–13 1/

(Percent of GDP)

	2011	2012	2013 Prel.
Revenues	39.8	42.0	42.0
Taxes	24.7	26.0	24.1
Income, profits and capital gains	7.0	8.2	7.6
Property	0.9	1.0	1.2
Goods and services	11.8	12.0	11.6
International trade	5.1	4.8	3.7
Social security contributions	9.7	10.5	12.2
Other revenues	5.4	5.5	5.7
Expenses	33.8	37.0	36.3
Compensation of employees	8.4	8.9	8.8
Wages and salaries	6.6	7.0	6.9
Social contributions	1.8	1.9	1.9
Uses of goods and services	6.4	7.2	5.6
Consumption of fixed capital	0.1	0.1	0.1
Interest	1.1	1.4	1.0
Subsidies	4.6	5.1	7.5
Social benefits	11.4	12.7	12.3
Other expenses	1.8	1.7	1.0
Gross operating balance	6.0	5.0	5.7
Net acquisition of nonfinancial assets	3.3	4.5	6.6
Net borrowing/lending (overall balance)	2.7	0.5	-0.9
Transactions in financial assets and liabilities	-2.7	0.5	-0.9

Source: Belarusian authorities.

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

Table 6. Belarus: Monetary Authorities' Accounts (Baseline Scenario), 2011–19

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Proj.					
Reserve money	18.8	30.3	34.4	44.0	57.0	74.3	98.0	128.7	169.7
Rubel reserve money	16.9	29.9	33.3	42.7	55.6	72.7	96.2	126.6	167.4
Currency outside banks	6.7	11.3	12.3	15.4	19.9	26.1	34.5	45.4	60.1
Required reserves	7.4	13.8	15.4	22.0	29.7	39.6	53.5	73.4	96.0
Time deposits, NBB securities, and nonbank deposits	2.8	4.8	5.6	5.3	5.9	7.0	8.2	7.8	11.3
Foreign currency reserve money	1.9	0.4	1.1	1.3	1.4	1.6	1.8	2.0	2.3
Net foreign assets	36.7	43.7	37.7	24.2	8.0	1.2	-2.5	-3.5	-4.3
Billions of U.S. dollars	4.4	5.1	4.0	2.3	0.7	0.1	-0.2	-0.2	-0.2
Foreign assets	83.7	78.3	68.4	44.1	29.3	25.0	24.4	26.9	29.9
Billions of U.S. dollars	10.0	9.1	7.2	4.1	2.4	1.9	1.6	1.6	1.5
Of which gross international reserves	66.1	69.4	63.2	38.3	22.8	17.7	16.2	17.5	19.3
Billions of U.S. dollars	7.9	8.1	6.7	3.6	1.9	1.3	1.1	1.0	1.0
Foreign liabilities	47.0	34.5	30.7	19.9	21.3	23.8	26.9	30.4	34.3
Net domestic assets	-17.9	-13.4	-3.3	19.8	49.0	73.1	100.5	132.2	174.1
Net domestic credit	-29.5	-29.9	-20.1	17.2	41.8	60.8	89.5	123.1	166.9
Net credit to general government	-62.9	-56.0	-47.7	-16.4	-6.9	-16.3	-26.3	-34.2	-34.2
Credit to economy	33.4	26.1	27.5	33.5	48.7	77.1	115.9	157.3	201.1
Credit to banks	19.1	12.0	13.1	21.5	40.6	70.6	109.2	151.3	195.6
National currency	13.5	9.7	10.7	18.2	34.1	62.3	100.1	139.6	180.8
Foreign currencies	5.6	2.4	2.4	3.7	5.4	7.4	9.9	13.0	16.6
Billions of U.S. dollars	0.7	0.3	0.3	0.4	0.5	0.6	0.7	0.8	0.9
Credit to nonbanks	14.2	14.1	14.4	11.6	9.2	7.4	5.9	4.7	3.8
Other items, net	11.6	16.4	16.8	2.6	7.2	12.3	10.9	9.1	7.2
Memorandum item:									
12-month percent change in reserve money	84.1	61.6	13.4	27.8	29.6	30.3	31.9	31.3	31.9

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

Table 7. Belarus: Monetary Survey (Baseline Scenario), 2011–19

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Proj.			
Broad money (M3)	111.2	160.8	193.3	277.3	370.4	490.2	657.6	890.6	1,177.7
Rubel broad money (M2)	43.4	68.1	79.3	101.9	132.9	173.8	230.0	302.7	400.3
Currency in circulation	6.7	11.3	12.3	15.4	19.9	26.1	34.5	45.4	60.1
Domestic currency deposits	34.5	54.3	65.2	84.1	109.8	143.6	190.1	250.2	330.9
Domestic currency securities	2.2	2.5	1.8	2.4	3.1	4.1	5.4	7.1	9.3
Foreign currency deposits	64.1	88.6	107.8	166.0	224.7	299.3	404.5	556.0	735.3
Bank securities in foreign currency	3.7	4.0	6.2	9.5	12.9	17.1	23.2	31.8	42.1
Net foreign assets	5.8	4.7	-26.2	-52.6	-78.4	-97.2	-123.2	-150.9	-181.3
Billions of U.S. dollars	0.7	0.5	-2.8	-4.9	-6.5	-7.2	-8.1	-8.7	-9.3
NFA of central bank	36.7	43.7	37.7	24.2	8.0	1.2	-2.5	-3.5	-4.3
NFA of deposit money banks	-30.9	-39.0	-63.9	-76.8	-86.4	-98.4	-120.7	-147.4	-177.0
Net domestic assets	105.4	156.1	219.5	329.9	448.8	587.4	780.8	1,041.5	1,359.0
Net domestic credit	104.6	159.3	236.0	355.3	462.3	575.8	738.7	960.8	1,275.5
Net credit to general government	-67.1	-70.5	-61.8	-38.5	-29.1	-38.5	-48.5	-56.4	-56.4
Credit to economy	171.7	229.8	297.8	393.8	491.3	614.3	787.2	1,017.3	1,331.9
Other items, net	0.9	-3.3	-16.5	-25.4	-13.4	11.6	42.1	80.7	83.5
Memorandum items:									
12-month percent change of credit to economy excl. valuation effect	37.0	32.4	23.5	24.6	16.6	16.3	17.0	16.4	16.7

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

Table 8. Belarus: Capacity to Repay the Fund (Baseline Scenario), 2012–19 1/

	2012	2013	2014	2015	2016	2017	2018	2019
Fund repurchases and charges								
Millions of SDRs	350	1,112	838	55	0	0	0	0
Millions of U.S. dollars	538	1,711	1,297	86	0	0	0	0
Percent of exports of goods and services	1	4	3	0	0	0	0	0
Percent of total debt service 2/	15	25	19	1	0	0	0	0
Percent of quota	91	288	217	14	0	0	0	0
Percent of gross international reserves	7	26	36	5	0	0	0	0
Fund credit outstanding								
Millions of SDRs	1,966	886	55	0	0	0	0	0
Millions of U.S. dollars	3,025	1,363	85	0	0	0	0	0
Percent of exports of goods and services	6	3	0	0	0	0	0	0
Percent of quota	509	229	14	0	0	0	0	0
Percent of gross international reserves	37	20	2	0	0	0	0	0
Memorandum items:								
Exports of goods and services (millions of U.S. dollars)	51,910	43,870	41,769	43,527	44,705	45,537	46,044	46,816
Debt service (millions of U.S. dollars)	3,672	6,870	6,781	6,168	4,937	5,618	6,876	7,333
Quota (millions of SDRs)	386	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	595	594	598	604	608	614	618	623
Gross international reserves (millions of U.S. dollars)	8,095	6,651	3,600	1,899	1,316	1,062	1,015	994
U.S. dollars per SDR (period average)	1.532	1.520	1.542	1.557	1.568	1.582	1.594	1.607
U.S. dollars per SDR (eop)	1.539	1.538	1.549	1.562	1.574	1.588	1.600	1.612

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.

Table 9. Belarus: Indicators of External Vulnerability, 2009–13

	2009	2010	2011	2012	2013 Prel.
CPI inflation (end year)	10.1	9.9	108.7	21.8	16.5
Export volume of goods (percent change)	-11.5	2.8	33.0	11.0	-17.4
Import volume of goods (percent change)	-12.6	8.0	15.9	9.4	-7.2
Current account balance (percent of GDP)	-12.6	-15.0	-8.5	-2.9	-10.1
Capital and financial account balance (millions of U.S. dollars)	5,066	6,444	4,569	1,073	7,089
Of which:					
Foreign direct investment, net	1,782	1,352	3,877	1,308	2,060
Trade credits, net	657	568	575	-1,789	22
Official Liabilities, net	4,739	1,975	2,185	-632	1,163
Liabilities of the banking sector, net	483	2,296	474	29	1,193
Non-bank private liabilities (excl. trade credits) 1/	349	39	856	475	1,458
Gross official reserves (millions of U.S. dollars)	5,653	5,031	7,916	8,095	6,651
Months of imports of goods and services	1.8	1.3	1.9	2.1	1.8
Percent of broad money	22.7	16.3	59.4	43.8	35.3
Gross total external debt (millions U.S. dollars)	22,439	28,770	34,454	34,455	38,553
Percent of GDP	45.6	52.1	57.7	54.2	53.8
Percent of exports of goods and services	90.2	96.2	74.0	66.4	87.9
Gross short-term external debt (millions of U.S. dollars)	9,342	12,155	14,113	12,693	14,110
Percent of gross total external debt	42	42	41	37	37
Percent of gross official reserves	165	242	178	157	212
Debt service ratio (percent) 2/	6.0	6.0	5.4	6.9	15.0
REER percent change (CPI based, period average)	-4.5	-5.0	-11.7	-8.2	7.5
Capital adequacy ratio (percent) 3/	19.8	20.5	24.7	20.8	21.1
Nonperforming loans (percent of total)	4.2	3.5	4.2	5.5	5.2
Banks' net open FX position (percent of regulatory capital)	-11.6	-1.4	9.4	9.0	9.6

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

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

Appendix I. Belarus: Implementation of Past IMF Policy Recommendations

Belarus has a mixed record of implementing Fund policy advice and the recommendations from the previous Article IV Consultation were heeded only to limited extent.

Overview. During the 2009–10 Stand-By Arrangement, progress was made on macroeconomic policies and in a few structural reform areas, but many of the gains were reversed after the program ended, contributing to a severe currency crisis in 2011. Since the crisis, the authorities have selectively implemented Fund recommendations, but often in an inconsistent manner and only temporarily, when forced by mounting external pressures.

2013 Article IV Consultation. Since the previous consultation, the authorities allowed wage growth to slow but it continued to exceed targeted inflation—which staff had suggested as an upper limit—by a wide margin. Similarly, monetary policy was tightened in the summer of 2013, as recommended by staff, but progressively loosened later while inflation remained high. Moreover, the flow of directed lending increased and amounted to more than double the volume advised by staff in 2013. Also, in contrast to staff recommendation to maintain a flexible exchange rate, NBRB control over the rubel was tightened. In the financial sector, successful measures were taken to curb FX lending growth, as urged by staff, although considerable risks remain. Advice on the Development Bank was mostly not followed and the bank is becoming an additional source of macroeconomic and financial risks. On the structural front, the authorities proceeded to abolish some price controls in line with staff advice. However, no progress was made on privatization and state-owned enterprise restructuring or with the strengthening of safety nets.

Appendix II. Belarus: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact if realized	Policy Response
Protracted period of slower growth in advanced and emerging economies.	**High**	**High/Medium** Slower growth in advanced and emerging economies (especially Russia) would produce negative spillovers through trade and remittances causing further current account deterioration and raising external financing needs.	• Increase exchange rate flexibility and tighten monetary policy. • Tighten macroeconomic policies to narrow external imbalances. • Speed up structural reforms to increase competitiveness. *In case of upside shock:* • Build reserves.
Sovereign stress re-emerges in the Euro Area due to incomplete reforms, unanticipated outcomes from the asset quality review and stress tests in the absence of a fiscal backstop.	**Low**		
Sharp increase in geopolitical tensions surrounding Russia/Ukraine that creates significant disruptions in global financial, trade and commodity markets.	**Medium**	**High** Slower growth in Russia, reduced confidence, and higher interest rates would produce negative spillovers. Tensions could also affect support from Russia (in negative or positive ways).	
Sustained decline in commodity prices, triggered by deceleration of global demand and coming-on-stream of excess capacity (medium-term).	**Medium**	**Medium** A negative shock would lower energy import prices, but also reduce exports because of likely lower growth in Russia.	
Looser macroeconomic policies.	**Medium**	**Medium** Stimulus efforts would boost demand and reignite inflation and fuel pressures on the exchange rate.	• Tighten macroeconomic policies including monetary, wage, exchange rate, and directed lending policies.
Weakening economic environment could reduce banks' asset quality.	**Medium**	**Medium** Potential state-owned bank recapitalization costs could be substantial and exacerbate public debt dynamics.	• Intensify supervision and oversight over large banks, including through more frequent onsite monitoring. • Reduce new subsidized and directed lending.

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

Appendix III. Belarus: External Debt Sustainability Framework, 2009–19

(Percent of GDP, unless otherwise indicated)

	Actual					Projections 1/						
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Debt-stabilizing noninterest current account 7/
Baseline: external debt	45.6	52.1	57.7	54.2	53.8	51.4	50.7	50.0	49.6	49.2	48.4	-2.9
Change in external debt	20.6	6.5	5.6	-3.5	-0.4	-2.3	-0.7	-0.8	-0.3	-0.5	-0.8	
Identified external debt-creating flows (4+8+9)	14.9	7.7	-1.6	-2.3	1.8	5.5	3.8	2.5	1.7	1.1	0.8	
Current account deficit, excluding interest payments	11.5	13.9	7.0	1.1	8.5	6.8	5.8	4.4	3.4	2.8	2.4	
Deficit in balance of goods and services	11.3	13.5	2.0	-4.5	2.7	3.3	2.6	1.4	0.9	0.4	0.2	
Exports	50.5	54.2	77.9	81.6	61.2	53.8	53.0	51.1	49.4	47.6	45.9	
Imports	61.8	67.7	79.9	77.1	63.9	57.0	55.5	52.5	50.3	48.0	46.1	
Net non-debt creating capital inflows (negative)	-3.5	-2.3	-6.1	-1.7	-2.2	-2.8	-2.8	-2.7	-2.7	-2.9	-2.9	
Automatic debt dynamics 2/	6.9	-3.8	-2.5	-1.7	-4.5	1.6	0.8	0.8	1.0	1.2	1.3	
Contribution from nominal interest rate	1.0	1.1	1.4	1.8	1.7	2.0	1.7	1.9	2.1	2.4	2.6	
Contribution from real GDP growth	0.0	-3.1	-2.7	-0.9	-0.4	-0.5	-0.9	-1.0	-1.1	-1.2	-1.3	
Contribution from price and exchange rate changes 3/	5.9	-1.8	-1.3	-2.6	-5.7	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	5.7	-1.2	7.2	-1.2	-2.2	-7.8	-4.5	-3.2	-2.0	-1.6	-1.6	
External debt-to-exports ratio (percent)	90.2	96.2	74.0	66.4	87.9	95.7	95.8	97.9	100.5	103.3	105.3	
Gross external financing need (billions of U.S. dollars) 5/	14.7	18.8	18.9	18.4	25.4	26.1	25.1	23.2	23.3	24.3	24.7	
Percent of GDP	30.0	34.0	31.6	28.9	35.4	33.7	30.5	26.5	25.3	25.1	24.2	
Scenario with key variables at their historical averages 6/						46.8	42.3	39.6	37.7	36.2	34.9	-6.6
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	0.1	7.7	5.5	1.7	0.9	0.9	1.8	2.2	2.4	2.5	2.7	
GDP deflator in U.S. dollars (percent change)	-19.1	4.2	2.5	4.7	11.7	7.4	3.9	4.3	2.7	2.4	2.6	
Nominal external interest rate (percent)	3.3	2.8	2.9	3.3	3.4	4.1	3.5	3.9	4.5	5.1	5.5	
Growth of exports (U.S. dollar terms, percent)	-32.9	20.3	55.6	11.5	-15.5	-4.8	4.2	2.7	1.9	1.1	1.7	
Growth of imports (U.S. dollar terms, percent)	-27.0	22.8	27.8	2.7	-6.6	-3.3	3.0	0.7	0.8	0.2	1.3	
Current account balance, excluding interest payments	-11.5	-13.9	-7.0	-1.1	-8.5	-6.8	-5.8	-4.4	-3.4	-2.8	-2.4	
Net nondebt creating capital inflows	3.5	2.3	6.1	1.7	2.2	2.8	2.8	2.7	2.7	2.9	2.9	

1/ Projections are shown at the official exchange rate.

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

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

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

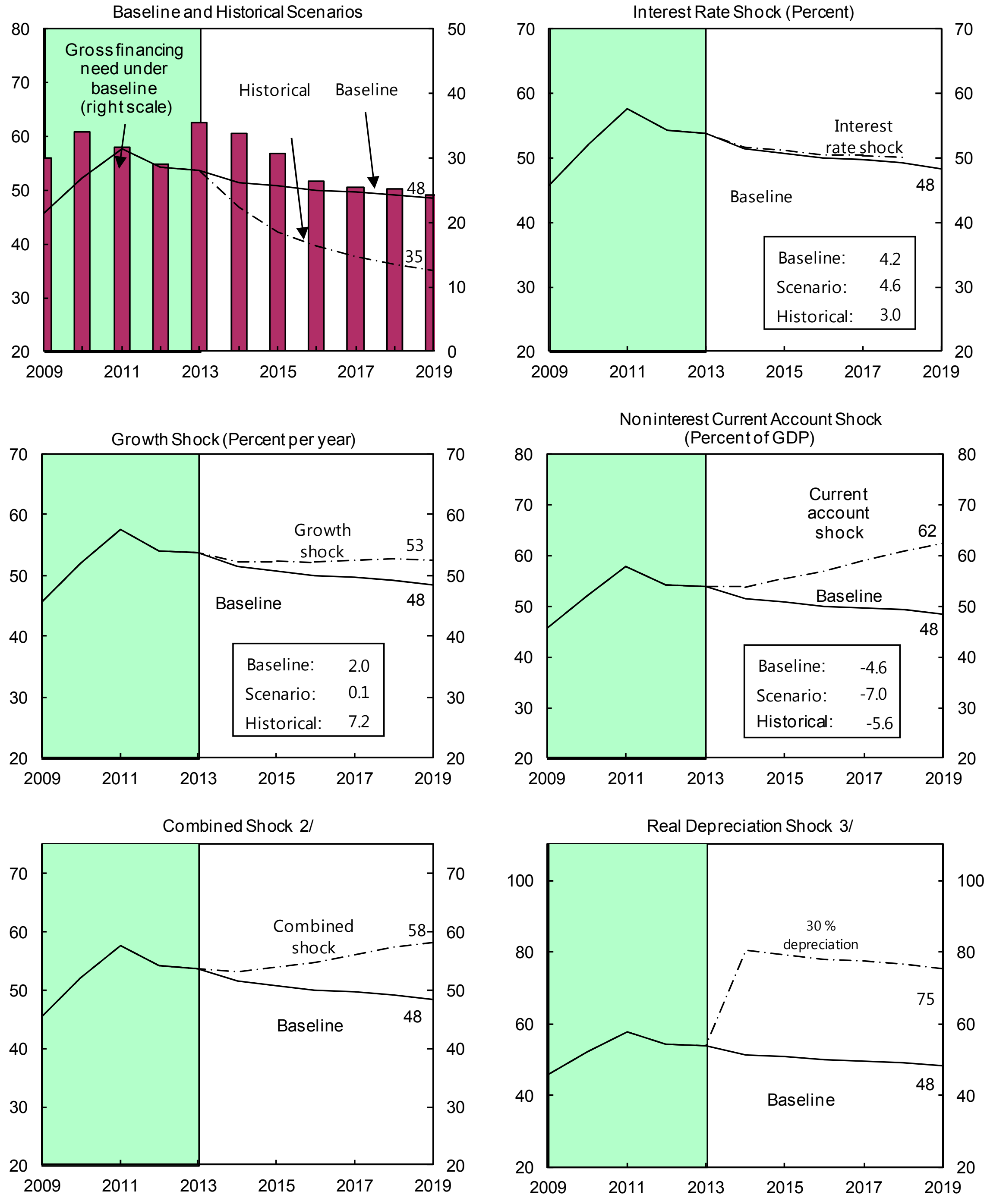
5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Appendix III. Belarus: External Debt Sustainability: Bound Tests of the Baseline Scenario 1/ (Concluded)

(External debt in percent of GDP)



Source: IMF staff estimates.

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

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

3/ One-time real depreciation of 30 percent occurs in 2012.

Appendix IV. Belarus Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

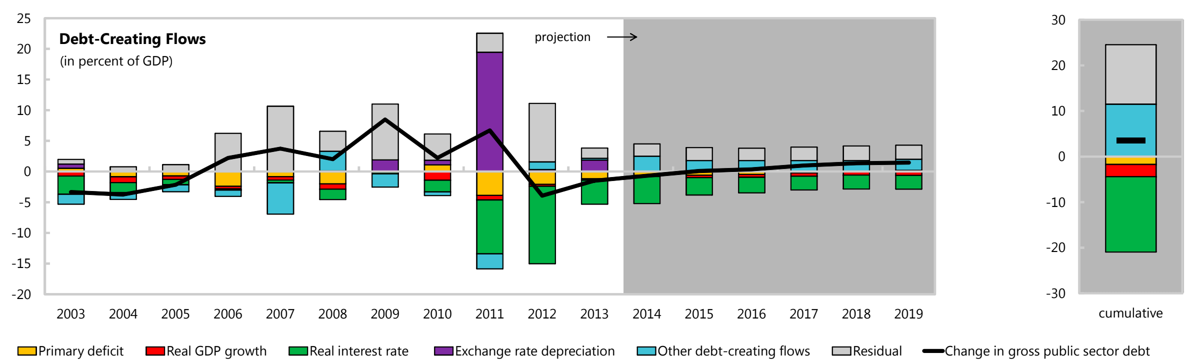
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of March 07, 2014		
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019	Sovereign Spreads		
Nominal gross public debt	14.9	26.9	25.4	24.7	24.8	25.2	26.2	27.5	29.0	EMBI (bp) 3/		762
Public gross financing needs	1.2	4.1	4.3	7.3	9.0	8.8	11.0	12.4	15.1	CDS (bp)		n.a.
Memorandum Items												
Public debt and government guaranteed debt		38.5	37.0	35.5	35.1	36.6	38.7	40.9	43.4	Ratings	Foreign	Local
Real GDP growth (in percent)	7.8	1.7	0.9	0.9	1.8	2.2	2.4	2.5	2.7	Moody's	B3	n.a.
Inflation (GDP deflator, in percent)	22.8	75.4	19.0	28.6	17.1	16.8	16.4	16.1	15.8	S&Ps	B-	n.a.
Nominal GDP growth (in percent)	32.3	78.5	20.1	29.7	19.3	19.3	19.2	19.0	18.9	Fitch	n.a.	n.a.
Effective interest rate (in percent) [4/]	6.3	8.2	4.6	6.4	3.8	4.9	6.1	6.2	6.6			

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.8	-3.9	-1.5	-0.7	0.1	0.4	1.0	1.3	1.5	3.6	
Identified debt-creating flows	-2.6	-13.5	-3.1	-2.7	-2.0	-1.7	-1.2	-1.0	-0.8	-9.5	
Primary deficit	-1.0	-2.1	-1.2	-0.6	-0.6	-0.5	-0.2	0.0	0.2	-1.7	1.3
Primary (noninterest) revenue and grants	46.1	40.5	42.0	41.8	42.3	42.5	42.7	42.8	43.0	255.1	
Primary (noninterest) expenditure	45.1	38.4	40.8	41.2	41.7	42.0	42.4	42.8	43.2	253.4	
Automatic debt dynamics [5/]	-0.2	-12.6	-2.2	-4.6	-3.2	-3.0	-2.8	-2.8	-2.9	-19.2	
Interest rate/growth differential [6/]	-2.8	-12.9	-4.1	-4.6	-3.2	-3.0	-2.8	-2.8	-2.9	-19.2	
Of which: real interest rate	-2.1	-12.6	-3.9	-4.4	-2.8	-2.5	-2.2	-2.3	-2.2	-16.5	
Of which: real GDP growth	-0.7	-0.3	-0.2	-0.2	-0.4	-0.5	-0.5	-0.6	-0.6	-2.7	
Exchange rate depreciation [7/]	2.5	0.3	1.9	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.3	1.2	0.3	2.5	1.8	1.8	1.8	1.8	1.8	11.5	
General Government: Net Privatization Proceeds (negative)	-1.7	0.0	-0.1	-0.3	-1.0	-1.0	-1.0	-1.0	-1.0	-5.3	
Projected bank recapitalisations and called government guarantees	0.7	0.2	1.0	2.8	2.8	2.8	2.8	2.8	2.8	16.8	
Sberbank loan	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.4	9.5	1.7	2.0	2.1	2.0	2.2	2.4	2.3	13.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBI.

4/ Defined as interest payments divided by debt stock at the end of previous year.

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

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

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

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

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

Appendix IV. Belarus: Public Debt Sustainability Analysis (Continued)

Public sector debt dynamics in Belarus appear benign in the baseline but fail to capture large contingent liabilities associated with subsidized lending and guarantees. Belarus has also become more vulnerable to exchange rate shocks because of rising debt dollarization. Stress tests indicate that contingent liabilities and exchange rate risks have a major impact on fiscal sustainability.

Stress test assumptions and impact

Belarus-Specific Stress Tests

- **Exchange rate shock.** The scenario assumes 30 percent devaluation in the real exchange rate in 2015. The debt ratio increases to over 37 percent of GDP by 2019, up 8 percent of GDP from the baseline. Meanwhile, gross financing needs rise to 19 percent of GDP in 2019.

- **Contingent liability shock.** The shock assumes that half of the stock of outstanding directed and subsidized loans would not be repaid, leading to a one-off fiscal cost of 10 percent of GDP. The shock results in a sharp increase in the debt ratio to 43 percent of GDP by 2019. Meanwhile, gross financing needs would rise to 19 percent of GDP in 2015, and stay high over the medium-term.

Standard stress tests

- **Growth shock**. Under this scenario, real output growth rates are lowered during 2015–16. The public debt ratio increases 8 percentage points by 2019, while the gross financing needs ratio in 2019 increases over 3 percent relative to the baseline.

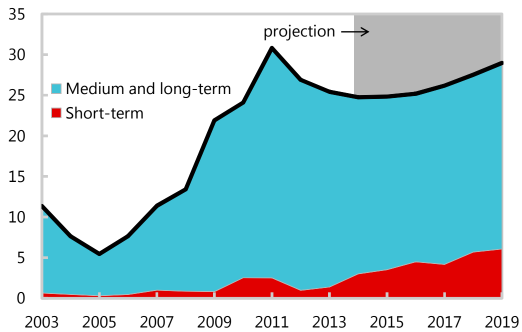
- **Interest rate shock.** This scenario examines the implications for debt sustainability of an increase in spreads by 500 basis points. The deterioration in the ratios for debt and gross financing need are back-loaded as old debt gradually matures and new higher interest rate debt is contracted. However, by 2019, the impact on financing needs is significant.

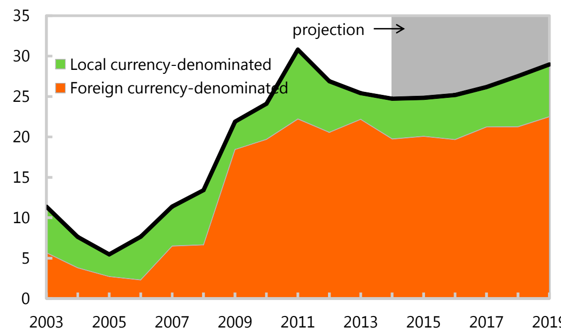
- **Primary balance shock.** This scenario assumes a revenue shock and a rise in interest rates leading to a cumulative 1.4 percentage points of GDP deterioration in the primary balance. The combined shocks lead to deterioration in the debt ratio and gross financing needs, but the impact is more muted than in other scenarios under consideration.

- **Combined macro shock**. This scenario comprises a recession in 2015–16, a 500 basis point increase in interest rates, and a sharp rise in expenditures. It pushes the debt to GDP ratio up towards 50 percent of GDP, and significantly increases gross financing needs.

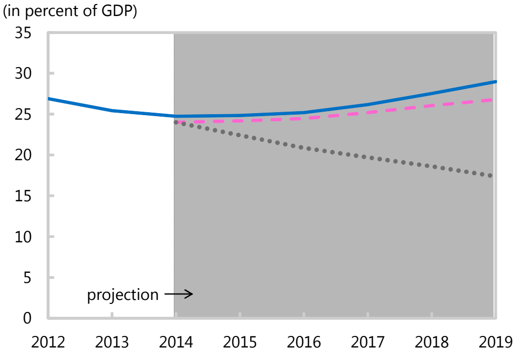
Appendix IV. Belarus Public DSA—Composition of Public Debt and Alternative Scenarios (Concluded)

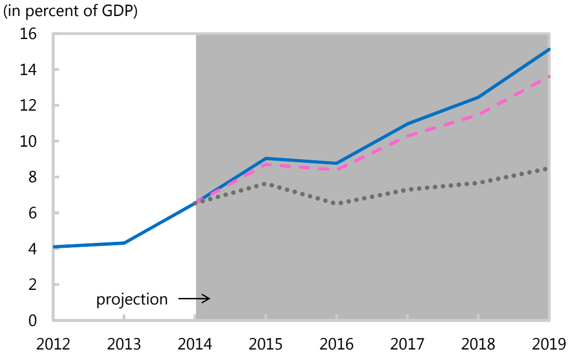
Composition of Public Debt





Alternative Scenarios





Underlying Assumptions

(in percent)

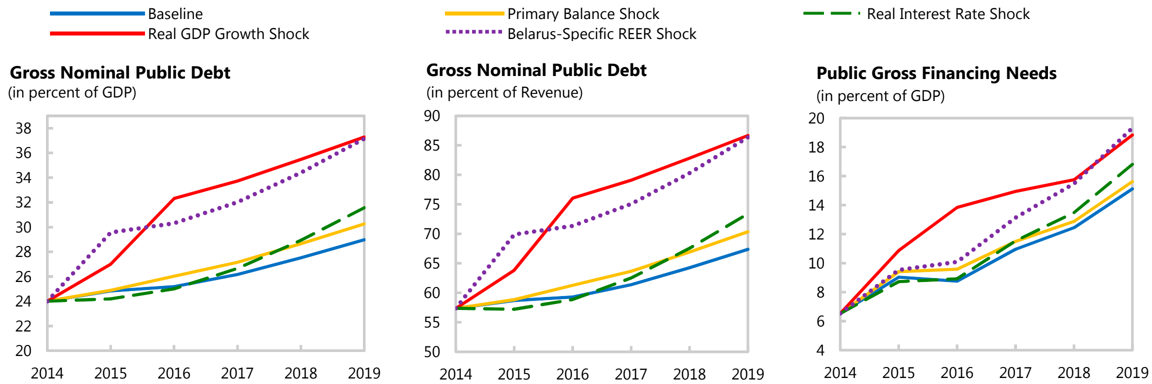
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	0.9	1.8	2.2	2.4	2.5	2.7
Inflation	28.6	17.1	16.8	16.4	16.1	15.8
Primary Balance	0.6	0.6	0.5	0.2	0.0	-0.2
Effective interest rate	6.4	3.8	4.9	6.1	6.2	6.6
Constant Primary Balance Scenario						
Real GDP growth	0.9	1.8	2.2	2.4	2.5	2.7
Inflation	28.6	17.1	16.8	16.4	16.1	15.8
Primary Balance	0.6	0.6	0.6	0.6	0.6	0.6
Effective interest rate	6.4	3.7	4.8	6.0	6.0	6.3

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	0.9	6.6	6.6	6.6	6.6	6.6
Inflation	28.6	17.1	16.8	16.4	16.1	15.8
Primary Balance	0.6	1.3	1.3	1.3	1.3	1.3
Effective interest rate	6.4	3.7	3.7	4.3	3.8	3.4

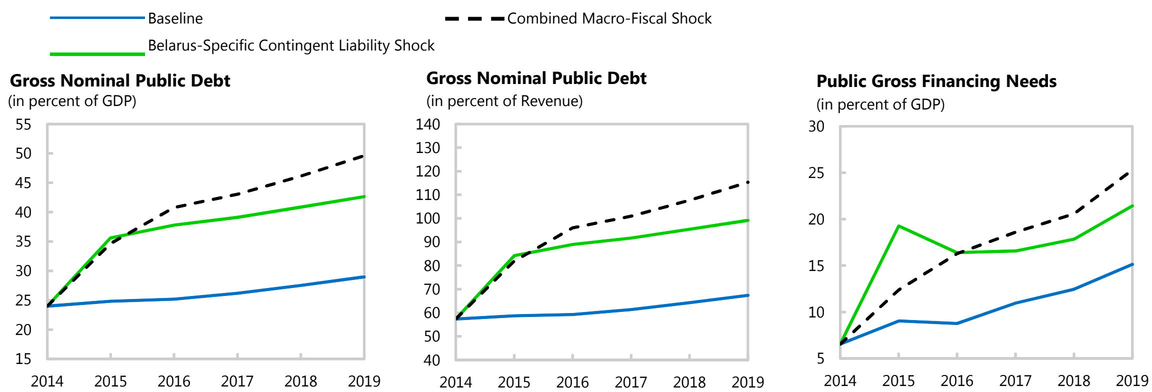
Source: IMF staff.

Appendix IV. Belarus Public DSA—Stress Tests (Concluded)

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	0.9	1.8	2.2	2.4	2.5	2.7
Inflation	28.6	17.1	16.8	16.4	16.1	15.8
Primary balance	0.6	-0.1	-0.2	0.2	0.0	-0.2
Effective interest rate	6.4	3.7	5.0	6.4	6.3	6.6
Real Interest Rate Shock						
Real GDP growth	0.9	1.8	2.2	2.4	2.5	2.7
Inflation	28.6	17.1	16.8	16.4	16.1	15.8
Primary balance	0.6	0.6	0.5	0.2	0.0	-0.2
Effective interest rate	6.4	3.7	6.5	8.8	9.7	10.9
Combined Shock						
Real GDP growth	0.9	-1.5	-1.2	2.4	2.5	2.7
Inflation	28.6	16.3	15.9	16.4	16.1	15.8
Primary balance	0.6	-1.1	-3.1	0.2	0.0	-0.2
Effective interest rate	6.4	4.7	6.5	9.3	9.9	11.0

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	0.9	-1.5	-1.2	2.4	2.5	2.7
Inflation	28.6	16.3	15.9	16.4	16.1	15.8
Primary balance	0.6	-1.1	-3.1	0.2	0.0	-0.2
Effective interest rate	6.4	3.7	5.3	7.7	6.9	7.0
Belarus-Specific REER Shock						
Real GDP growth	0.9	1.8	2.2	2.4	2.5	2.7
Inflation	28.6	24.6	16.8	16.4	16.1	15.8
Primary balance	0.6	-0.1	-0.2	0.2	0.0	-0.2
Effective interest rate	6.4	4.7	6.2	8.3	9.3	10.5
Belarus-Specific Contingent Liability Shock						
Real GDP growth	0.9	-2.4	-2.1	2.4	2.5	2.7
Inflation	28.6	16.1	15.7	16.4	16.1	15.8
Primary balance	0.6	-9.4	0.5	0.2	0.0	-0.2
Effective interest rate	6.4	4.6	5.3	6.5	6.4	6.7

Source: IMF staff.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

June 6, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The European Department (in Consultation with Other Departments and the World Bank)

CONTENTS

FUND RELATIONS

(As of April 30, 2014)

Membership Status: Joined July 10, 1992; Article VIII

General Resources Account

	SDR million	Percent of Quota
Quota	386.40	100.00
Fund holdings of currency	933.81	241.67
Reserve position in Fund	0.02	0.01

SDR Department	**SDR million**	**Percent of Allocation**
Net cumulative allocation	368.64	100.00
Holdings	373.47	101.31

Outstanding Purchases and Loans	**SDR million**	**Percent of Quota**
Stand-By Arrangements	547.41	141.67

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-By	01/12/2009	03/30/2010	2,269.52	1,751.72
Stand-By	09/12/1995	09/11/1996	196.28	50.00

Projected Payments to the Fund 1/

	Forthcoming (SDR Million)				
	2014	2015	2016	2017	2018
Principal	492.67	54.74			
Charges/Interest	4.08	0.44	0.00	0.00	0.00
Total	496.75	55.19	0.00	0.00	0.00

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

Safeguards Assessments:

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

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

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

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

Exchange Arrangements:

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

The de jure exchange rate regime is managed float. Starting from the last quarter of 2012, the Belarusian rubel has followed a gradually depreciating trend with a 2 percent band. Therefore, the de facto exchange rate arrangement has been retroactively reclassified from *other managed* to *crawl-like arrangement*, effective September 19, 2012.

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

An Article VIII mission took place in 2013 and identified exchange restrictions and multiple currency practices (MCPs) subject to the Fund's jurisdiction. The exchange restrictions arise from the requirement of an NBRB permit for (i) advance payments for imports and (ii) payments for imports with delivery outside of Belarus. The MCPs arise from (i) the potential deviation by more than two percent of the exchange rates in the over-the-counter (OTC) market and the Belarusian Currency and Stock Exchange (BCSE), (ii) the potential deviation by more than two percent of the exchange rates in the OTC market and the BCSE exchange rate or the official exchange rate with respect to the mandatory resale of unused foreign exchange by resident legal entities and foreign exchange amounts subject to mandatory sale requirement and (iii) broken cross rates among the currencies for which the NBRB establishes official exchange rates with monthly frequency with respect to the mandatory resale of unused FX by resident legal entities and FX amounts subject to mandatory sale requirement.

Based on the mission's recommendations, the NBRB developed and approved a plan to eliminate all of the restrictions in the near future. Legislative amendments to this effect are in process. At this time, the authorities do not request Board approval of the identified exchange restrictions and MCPs. The staff supports the authorities' plans to eliminate the measures and encourages them to implement these as soon as possible.

UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on May 25, 2013. The report was published: http://www.imf.org/external/pubs/cat/longres.aspx?sk=40666.0.

Stand-By Arrangement:

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

FSAP Participation, ROSCs, and OFC Assessments:

Two FSAP missions took place in 2004 and an FSSA report was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed assessment reports were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
The Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190, http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0)
An FSAP update mission took place in September 2008. An FSSA update report was published in January 2009 (IMF Country Report No 09/30, http://www.imf.org/external/pubs/cat/longres.cfm?sk=22656.0
The fiscal ROSC was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=17839.0 and the data ROSC on http://www.imf.org/external/pubs/cat/longres.cfm?sk=18013.0.
A World-Bank led FSAP Development Module took place in February 2014.

Technical Assistance, 2007–14		
Department Counterpart	**Subject**	**Timing**
MCM	Monetary targeting and foreign exchange interventions	March-April 2014
MCM	Monetary policy strategy and implementation	May-June 2013
MCM	Risk Based Supervision	July 2012
MCM	Bank Supervision	February–March 2012
MCM	TA on Development Bank	October–November 2011
MCM	Bank Supervision	October 2011
MCM	Risk Based Supervision	April 2011
MCM	Banking supervision: on-site inspections	September 2010
MCM	Banking Supervision: early warning system, risk management	March–April 2010
MCM	Strengthening central bank autonomy	March 2010
MCM	NBRB refinancing of banks	November 2009
MCM	Banking regulation: loan classification and provisioning	April 2009
MCM	Monetary policy: forecasting and policy analysis	February–March 2009
MCM	Exchange rate regime, foreign exchange operations	December 2008
MCM	FSAP Update	September 2008
MCM	Financial stability and external debt management	January 2008
MCM	Banking supervision: financial stability issues, stress-testing	July 2007
MCM	Building a system for forecasting and policy analysis	June 2008 October 2007 July 2007
MCM	Strengthening forecasting and policy analysis	May 2007
MCM	Banking supervision: on-site inspection	April 2007
MCM	Banking supervision: stress-testing, financial stability	March 2007
MCM	Insurance supervision	March 2007
MCM	Monetary policies analysis and forecasting	February 2007
MCM	Banking supervision: on-site inspection	January 2007
MCM	Improving monetary policy	January 2007
FAD	Social Safety Nets	November 2011
FAD	Program budgeting and medium-term framework	March–April 2011
FAD	Tax administration	September 2010
FAD	Tax policy	April 2010
FAD	Expenditure rationalization	March 2010
FAD	Tax system reform	October 2009
FAD	Introduction of a medium-term fiscal framework (MTF)	March–April 2009
FAD	Program budgeting reform implementation	March 2008 November 2007 May 2007
STA	Price statistics	March-April 2014
STA	National accounts statistics	September-October 2013
STA	Government finance statistics	July-August 2013
STA	National accounts statistics	April 2013

STA	Multitopic Statistics Mission	October–November 2010
STA	National accounts statistics	January 2008
STA	Balance of payments and external sector statistics	January 2008
STA	Government finance statistics	September–October 2007

RELATIONS WITH THE WORLD BANK GROUP

A. The World Bank Group Strategy

1. **The World Bank Group (WBG) Country Partnership Strategy (CPS) for FY 2014–17 was discussed by the WBG Board of Executive Directors in June 2013.** The CPS supports Belarus to improve: 1) competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the state-owned enterprise (SOE) sector, promoting private and financial sector development and integration into the global economy; (2) quality and efficiency of public infrastructure services, use of agricultural and forestry resources and global benefits of public goods; and (3) human development outcomes through better education, health and social services. The WBG program includes Analytical and Advisory Activities (AAA), investment lending by the World Bank and investments in the private sector by the IFC.

2. **WBG lending is focused on investment lending in sectors with an adequate and improving policy framework, a sufficient knowledge base, a solid implementation track record and demonstrated Government commitment.** The CPS envisages new investment lending, totaling up to US$ 570 Million during 2013-2015. Lending operations will support investments in private sector development, public financial management (PFM) systems, forest management, energy efficiency, district heating, water supply/sanitation, education, and transport.

3. **The WBG also supports a program of analytical and advisory activities**. Core diagnostics around critical developmental issues will continue, including structural reforms, fiscal, PFM, trade, WTO accession, private and financial sector development. These advisory and technical engagements - many of them of a programmatic nature - will underpin the policy dialogue in critical reform areas, supporting the Government in designing and implementing policies to achieve stated objectives of economic modernization and strengthened competitiveness. Analyses in such areas as municipal services, forestry, education and health will underpin future investment operations.

4. **The WBG's program in Belarus will be calibrated according to the depth, breath and speed of structural reforms.** Accordingly, the AAA and lending programs have been identified only for the first two years of the CPS. Should structural reforms accelerate, lending scope and instruments could be revisited at mid-term of the CPS period.

5. **The IFC will support private sector development and energy efficiency improvements through a combination of investments and advisory work.** The IFC program in Belarus will support: (i) trade development in critical sectors such as agriculture, with strategic focus on small and medium-sized exporters and importers, (ii) micro, small, and medium-sized enterprises' (MSMEs) access to finance, (iii) investments into energy efficiency improvements, and (iv) advisory work on regulatory simplification, including in agriculture and forestry. Agriculture will remain a

priority sector, with support directed at improvements in agricultural output and efficiency, access to finance, regulatory environment, and food safety standards.

B. IMF-World Bank Group Collaboration in Specific Areas

6. **The WBG and the Fund teams will continue to work closely in delivering their assistance.** The IMF plays a key role at the macro level, while the World Bank Group focuses on the structural reform agenda, business regulatory environment and investment climate, energy efficiency, infrastructure and social and environmental issues. Recent examples of close cooperation and coordination between the Bank Group and the Fund include ongoing discussions under the IMF post program monitoring and Article IV Consultations and during the preparation of the WBG CPS, and joint work with the Government working group on structural reforms issues.

Areas in Which the World Bank Group Leads

7. **Structural reforms and private business development.** Under the CPS, the Bank will continue to support the design and implementation of structural reforms through its programmatic structural reform technical assistance. This programmatic TA which will be implemented through 2016 is focused on providing targeted analytical and advisory support on structural reforms, including further liberalization of factor and product markets to support a more efficient allocation of resources in the economy, transformation of the SOEs and enhancing private sector growth, including the services sector. As part of this TA, the World Bank is also providing focused technical assistance to support Belarus' WTO accession. In addition, the WBG is implementing a privatization TA (which was initiated during the previous CPS and is largely funded through a donor Trust Fund) to provide advice on legal and institutional instruments and implementation capacity to successfully launch an enterprise privatization program that is on par with international best practice. The WBG has initiated a new private sector development TA which supports the Government in establishing an effective system for the promotion of small and medium-sized enterprises. In addition, the IFC will continue to deliver an active advisory program around challenges facing the private sector and international "best practices" for improving the regulatory environment and investment climate.

8. **Public Financial Management.** The WBG will continue to provide technical assistance to improve public financial management systems in Belarus. During the previous CPS work has been initiated on strengthening the medium-term perspective in fiscal planning, enhancing debt management and moving towards a more result-oriented budget management system. To assess the current state of PFM performance, the Bank has updated the Public Expenditure and Financial Accountability (PEFA) assessment. The PEFA is a key diagnostic to underpin the preparation of the planned PFM modernization investment loan to improve transparency and efficiency of public financial management and strengthen accountability of the Government for the use of public funds.

9. **Energy sector**. Currently, two energy efficiency projects are being implemented in Belarus with World Bank's financial support: Energy Efficiency Project (EEP) (US$215 million), and Biomass District Heating Project (US$90).

10. **Road Transport**. The Road Upgrading and Modernization Project (US$150 million) is aimed at developing Belarusian transport infrastructure on a strategic route, the Trans-European Transport

Corridor IX, connecting the Black Sea with the Baltic countries. A new Transit Corridor Improvement Project (US$250 million) is under preparation.

11. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. Progress is being made towards achieving improved water, wastewater and solid waste management services under the Water Supply and Sanitation Project (US$60 million) and Solid Waste Management Project (US$42.5 million). Additional Financing Loan (US$90 million) to enhance the impact of the Water Supply and Sanitation Project has been approved.

Areas of Shared Responsibility

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

13. **Public expenditure management.** Building on the recently completed PER 1 and 2, the Bank will continue to focus on improving the efficiency of public spending. The first two volumes of the programmatic Public Expenditure Review focused on spending efficiency in agriculture, energy, social assistance, pension sectors, intergovernmental fiscal relations, and the efficiency of public spending in health and education. The Bank will continue to provide targeted analytical and advisory services to support fiscal reforms within a consistent macroeconomic framework, to ensure fiscal and debt sustainability and to provide for growth supporting expenditure and revenue policies. Integrating recommendations of the two volumes, the Bank will deliver a synthesis report on fiscal reforms. The Fund, jointly with the Bank, has been working on supporting the authorities in their fiscal consolidation effort, including technical assistance on expenditure rationalization.

14. **Financial sector.** The Bank and the Fund will jointly support the authorities in addressing key vulnerabilities in the financial sector and designing needed reforms. The Bank and the IMF are collaborating in financial sector monitoring, including on key developments, such as the newly established Development Bank. The World Bank will maintain an active dialogue with the authorities on financial consumer protection and financial literacy and the overall development of the financial sector, including through a joint FSAP Development Module, completed in May 2014.

Areas in which the IMF Leads

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

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

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

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

	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program	Regular Macro-Economic Monitoring	Ongoing	Through 2013/2017
	Programmatic Structural Reform Dialogue	Ongoing	TA through 2013/2016
	WTO Accession Technical Assistance	Ongoing	TA through 2013/2016
	Financial Sector TA (Financial Literacy and Consumer Protection)	Ongoing	TA through 2012/2013
	Privatization TA	Ongoing	TA through 2013/2015
	Private Sector Development TA (SME Promotion)	Ongoing	TA through 2013/2015
	IFC Investment Climate Advisory Services (Belarus Regulatory Simplification and Investment Generation Project)	Ongoing	TA through 2012/2013
	IFC Standards Advisory Services (Belarus Food Safety Project)	Ongoing	TA through 2012/2013
2. IMF Work Program	Monetary Policy, Strategy, and Implementation	Completed	May/June 2013
	Monetary Targeting and Foreign Exchange Interventions	Ongoing	Through 2014
3. Joint Work Program	Joint Policy Dialogue with Structural Reform Working Group	Ongoing	Through 2012/2014
	Financial Sector Assessment Program—Development Module	Completed	May 2014

STATISTICAL ISSUES

(As of April 1, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National Accounts: The National Statistical Committee of the Republic of Belarus (BelStat) compiles and disseminates quarterly and annual GDP estimates at current and constant prices The quality of the estimates is good, and the timeliness and periodicity exceed the Special Data Dissemination Standard (SDDS) requirements. In addition to the quarterly and annual estimates, a monthly GDP is compiled 15 days after the end of the reference month. The BelStat compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. Since 2008 Belstat has been compiling regional GDP estimates. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements. Belarus participates in the STA project for the Sustainable Compilation of Real Sector Statistics in Eastern Europe, funded by the government of Japan, and receives technical assistance and support from a statistics advisor resident in Moldova. BelStat has made good progress to date implementing the concepts and methods of the *2008 SNA* and to improve the compilation of the national accounts as needed. **Price Statistics:** The CPI covers 31 towns in the country and the PPI covers approximately 1,800 industrial organizations, and they are published monthly. The NSC also publishes indices for foodstuffs, non-food goods, and services. CPI weights are based on expenditure data from 2012, while the PPI is based on weights from 2011. For the most part, Belstat is producing the CPI and PPI in accordance with international standards and best practices as noted in the *CPI* and *PPI Manuals*. They also are in compliance with SDDS standards, including updating their metadata for the IMF Dissemination Standards Bulletin Board on an annual basis.
Government finance statistics: Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Areas that need improvement include classification of some expenses (e.g. subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; valuation of assets and liabilities (at nominal or market value); and compilation for public corporations.
Monetary statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following the methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). The NBRB has implemented most of STA recommendations regarding monetary statistics.

External sector statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the BPM5 format (for 1996–2011) and in the BPM6 format since 2012 (revised data available from 2005). Overall the timeliness and serviceability of external sector data is satisfactory, although there are gaps in external debt data, in particular gross external debt statistics.

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

Belarus: Table of Common Indicators Required for Surveillance

(As of April 1, 2014)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality Accuracy and Reliability[10]
Exchange Rates	Mar. 2014	04/01/14	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar. 2014	04/01/14	D/W/M	W/M	M		
Reserve/Base Money	Mar. 2014	04/01/14	D/W/M	W/M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Mar. 2014	04/01/14	W/M	M	M		
Central Bank Balance Sheet	Mar. 2014	04/01/14	D/W/M	W/M	M		
Consolidated Balance Sheet of the Banking System	Mar. 2014	04/01/14	W/M	M	M		
Interest Rates[2]	Mar. 2014	04/01/14	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Feb. 2014	03/07/14	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 2013	03/20/14	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Feb. 2014	03/20/14	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb. 2014	03/20/14	M	M	Q		
External Current Account Balance	Q4 2013	03/14/14	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Feb. 2013	03/18/14	M	M	Q		
GDP/GNP	Feb. 2013	03/18/14	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q4 2013	03/14/14	Q	Q	Q		
International Investment Position[6]	Q4 2013	03/14/14	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Including external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] Reflects the assessment provided in the data ROSC published February 1, 2005 and based on the findings of the mission that took place during March 23 to April 7, 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and valid

Statement by the IMF Staff Representative on the Republic of Belarus
July 16, 2014

1. **This statement reports on key developments since the staff report was finalized. While some of the new information implies slightly reduced risks, the need for substantial external adjustment remains and therefore the information does not alter the thrust of the staff appraisal.**

2. **On June 26, Belarus received US$2 billion in bridge financing from Russia.** The short-term loan, issued by VTB bank, refinances the earlier US$450 million VTB bridge loan that was disbursed in December 2013 and provides US$1.55 billion in net new financing. This allowed reserves to rise to US$6.4 billion (1.7 months of imports) at end June. The VTB bridge loan is expected to be replaced by a long-term loan from the Russian government in the same amount. The disbursement of the Russian money was anticipated and is included in the macroeconomic projections in the staff report. Therefore, the new financing—while mitigating risks in the very short term—does not alter the staff's overall assessment of Belarus' external vulnerabilities this year, which remain high.

3. **Separately, Russia also agreed to lower oil duties payable by Belarus from 2015.** In the context of the treaty on the Eurasian Economic Union (EEA) that was signed end May, Russia agreed to lower, starting next year, the duties that Belarus pays to the Russian budget on oil products that are produced with oil imported from Russia but exported outside of the customs union. The duty savings associated with the new agreement amount to US$1.5 billion (2 percent of GDP) per year, provided the agreement is renewed. While this will support the external position, reserves will remain far below comfortable levels. Beyond the oil-duty reduction, the short-term impact of the EEA is expected to be modest given the already high degree of trade integration between Belarus and Russia.

4. **First-quarter growth was revised slightly upwards while the trade balance has recently started to deteriorate.** Q1-GDP growth was revised up to ¾ percent, from ½ percent in earlier preliminary estimates. Newly available component data suggest that Q1 growth was entirely driven by net exports, in line with the seasonal improvement in the trade balance in the first months of the year. Incidentally, the trade balance deteriorated in April, turning into a small deficit—a trend that is expected to continue as the year progresses. Meanwhile, the current account deficit in the first quarter amounted to US$1.7 billion (10.4 percent of quarterly GDP) as the improvement in trade was offset by a seasonal increase in repatriated earnings. The overall balance of payments recorded a US$1.1 billion deficit in Q1, resulting in a corresponding reserve loss.

5. **Inflation has accelerated, amid continued loose monetary policy.** Monthly inflation increased from 1.3 percent in March to 2.5 percent in May, causing inflation to reach 19 percent in year-on-year terms—the highest rate since May 2013. While the NBRB, in view of the uptick in inflation, refrained from further reducing its key "refinancing rate" in June, it reduced its overnight deposit rate by one percentage point to 19 percent in early July.

6. **A large bank's exemption from reserve requirements will not be removed until March 2015.** In the context of its ongoing liquidity problems, the NBRB has agreed with this

large bank on a recovery plan that requires the bank to fully comply with normal reserve requirements only by end-March 2015. Until then the bank is held to an individual, gradually increasing, reserve requirement schedule—with which the NBRB indicates it is currently fully complying. The liquidity problems notwithstanding, in recent months the bank substantially reduced its deposit interest rates.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/361
FOR IMMEDIATE RELEASE
July 25, 2014

International Monetary Fund
Washington, D.C. 20431 USA

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

On July 16, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Belarus.

Following average annual GDP growth of 8 percent during 1997–2008, in the aftermath of the 2008 and 2011 crises growth has slowed—reaching only 0.9 percent in 2013—reflecting structural limitations of the economy and a weak external environment. Meanwhile, Belarus' external position has deteriorated sharply with the current account deficit reaching 10 percent of GDP in 2013. Inflation continues to be in double digits and the real exchange rate has appreciated rapidly.

Following a highly expansionary policy stance earlier, wage and credit policies have become more cautious from the second half of 2013. This helped stem immediate pressures in the fall. Since then, policies have been mostly on hold, with the notable exception of monetary policy, which is gradually being loosened. The first quarter of 2014 saw improvements in GDP growth and the trade balance, but this partly reflected seasonal and one-off factors.

The outlook is for continued slow growth and persistent external imbalances, but risks are high and tilted to the downside. With weak Russian growth weighing on external demand and with domestic demand slowing, only 0.9 percent GDP growth is expected this year, while inflation is forecast to remain around 16 percent. The current account deficit is projected at 8¾ percent of GDP in 2014 on weak external demand, low competitiveness, and a policy mix that continues to be too loose.

Executive Board Assessment[2]

Executive Directors noted the pressing challenges facing the Belarusian economy, including low economic growth, high inflation, and large external imbalances. With an adverse external environment further clouding the outlook, Directors urged the authorities to take

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

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

decisive policy actions to facilitate adjustment, and to deepen structural reforms to eliminate constraints to higher and sustainable growth.

Directors welcomed the envisaged reduction of new directed and subsidized lending but saw a need for more ambitious cuts to help contain contingent liabilities. They welcomed the intention to let the Development Bank coordinate all directed lending starting in 2015 and underscored the importance of a comprehensive plan for phasing out such lending over the medium term and developing a banking sector that operates on a fully commercial basis.

Directors noted with concern the high wage growth in recent years. They emphasized the importance of keeping wage growth aligned with productivity improvement to avoid fueling inflation and regain competitiveness. They also recommended achieving fiscal adjustment through savings from wages and subsidy reductions, instead of further reducing capital expenditure.

Directors concurred on the need to scale back foreign exchange intervention to allow greater exchange rate flexibility needed to strengthen competitiveness, thus facilitating external adjustment and protecting reserves. At the same time, Directors agreed that monetary policy should be tightened to contain inflation and guard against exchange rate overshooting. In this context, moving to base money targeting would provide a policy anchor and improve the effectiveness of monetary policy.

Directors cautioned that recent increases in nonperforming loans and ongoing problems in a large bank require close supervision and adequate remedial measures. They highlighted the need for the central bank to ensure that all banks comply with capital adequacy norms and reserve requirements. The growth in foreign exchange lending should also be closely monitored.

Directors stressed that broad and deep structural reforms are essential to boost sustainable growth. They encouraged the authorities to build on the recent progress in price liberalization by stepping up reforms in other areas to improve resource allocation, including utility and transport tariff reform, reducing the role of the state in the economy, and strengthening social safety nets.

Belarus: Selected Economic Indicators, 2010–14

	2010	2011	2012	2013	2014 Proj.
National accounts					
Real GDP	7.7	5.5	1.7	0.9	0.9
Total domestic demand	11.5	3.4	2.6	8.9	1.4
Consumption	7.9	1.0	8.2	9.2	1.7
Nongovernment	9.3	2.3	10.7	12.1	2.0
Government	3.1	-3.6	-1.0	-2.6	0.0
Investment	18.4	7.8	-6.6	8.4	0.8
Of which: fixed	17.5	13.9	-11.3	7.5	0.9
Net exports 1/	-3.7	3.4	-0.9	-7.6	-0.9
Consumer prices					
End of period	9.9	108.7	21.8	16.5	16.3
Average	7.7	53.2	59.2	18.3	16.8
Monetary accounts					
Reserve money	49.5	84.1	61.6	13.4	27.8
Rubel broad money	27.4	64.1	57.2	16.4	28.4
External debt and balance of payments					
Current account	-15.0	-8.5	-2.9	-10.1	-8.8
Trade balance	-16.4	-5.8	0.9	-6.3	-6.8
Exports of goods	46.0	68.5	71.6	51.0	43.9
Imports of goods	-62.4	-74.3	-70.8	-57.3	-50.7
Gross external debt	52.1	57.7	54.2	53.8	51.4
Public 2/	22.6	25.0	23.1	22.0	20.5
Private (mostly state-owned-enterprises)	29.5	32.7	31.0	31.8	31.0
Savings and investment					
Gross domestic investment	41.2	37.6	35.4	38.7	38.1
National saving	26.2	29.2	32.5	28.6	29.3
Public sector finance					
General government balance	-1.8	2.8	0.7	0.2	-0.5
Augmented general government balance 3/	-4.3	-2.9	0.5	-0.8	-3.3
Revenue	41.6	38.8	40.5	42.0	41.8
Expenditure 3/	45.9	41.6	40.0	42.8	45.2
Gross public debt 4/	39.5	45.9	38.5	37.0	35.5
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	55.2	59.7	63.6	71.7	…
Nominal GDP (trillions of rubels)	164.5	297.2	530.4	636.8	826.2
Real effective exchange rate	-5.0	0.7	-8.2	7.5	…
Exchange rate (rubel /U.S. dollar, average)	2,979	4,975	8,337	8,880	…
Official reserves (billions of U.S. dollars)	5.0	7.9	8.1	6.7	3.6
Months of imports of goods and services	1.3	1.9	2.1	1.8	0.9
Percent of short-term debt	42.1	56.9	63.8	47.1	25.3

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.

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

3/ The augmented balance adds to the balance of the general government outlays for banks recapitalizations and outlays related to called guarantees of publicly guaranteed debt. These outlays form the augmented expenditure of the government.

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

Statement by Mr. Prader, Executive Director for the Republic of Belarus, and Mr. Misyukovets, Advisor to the Executive Director
July 16, 2014

The Belarusian authorities appreciate the useful dialogue with the Fund staff during the 2014 Article IV Consultation. Since they broadly agree with the staff's assessment of macroeconomic developments and recommendations on economic and financial policies, we will only focus on some of the recent developments and a few areas where the scope, pace, and sequencing of policy action are of particular relevance.

Macroeconomic developments in Belarus reflect the prevailing economic trends in the transition and emerging market countries of the region, with slow and modest recovery in Central and Eastern Europe in the first half of 2014. As is the case for most countries in the region, Belarus faces an array of similar, and at times, conflicting developments. On the one hand, the near- and medium-term outlook reflects tailwinds from the expected acceleration of demand in high income markets, although uncertainties in this field are high due to the risk of deflation within the Eurozone. On the other hand, stagnant demand in developing countries globally, tightening financial conditions, declining commodity prices worldwide, and substantial price differentials for crude oil and oil derivatives – a sizable part of Belarus' exports – represent headwinds to growth prospects. In addition to the developments in Russia and the situation in Ukraine, these global trends have also had an impact on Belarus' external position and must be taken into account in designing a comprehensive policy response.

GDP grew by 0.9 percent in 2013 and has accelerated modestly to 1.5 percent in January-May 2014. In January-April 2014, the current account deficit amounted to $2.2 billion, or 71.6 percent of the deficit in the same period of 2013. The positive trade balance of $657.8 million (3.1 percent of GDP) in January-April 2014 factors in both goods ($43.5 million) and services ($614.3 million) and by far outperforms the trade balance of $35.3 million (0.2 percent of GDP), with a sizable deficit of trade in goods of $866.8 million in January-April 2013. Given that GDP in January-April 2013 jumped to 3.1 percent, Belarus' economic performance in 2014 is noticeably more balanced and in line with the authorities' commitment to maintaining stability. The authorities recognize that growth in 2014 has been driven largely by domestic demand but, in view of its moderate pace, would argue that it has been in sync with the business cycle and that accommodative policies have been reasonably cautious, i.e. only to help the economy adjust and mitigate the multiple adverse effects through a combination of policy and economic management measures.

Inflation remained high at 8.9 percent in January-May, possibly exceeding the authorities' target of 12 percent for 2014. Unlike in 2013 when inflation has been fueled mostly by the need to increase regulated utility and public transport tariffs, core inflation has accelerated in 2014 largely due to fiscal measures (increases of excise taxes) and successive bold steps to remove the remaining price controls. In light of inflationary pressures, the NBRB has used the available monetary instruments to slow down inflation and maintain exchange rate stability. The refinancing rate, currently at 21.5 percent, been taken continuously to discourage dollarization and to contain liquidity and credit growth.

The rubel has depreciated by 7 percent in nominal terms since January and, if the current pace of depreciation is maintained, the resulting weakening will be sufficient for an orderly adjustment, provided other macroeconomic measures are applied in a consistent manner and the terms of trade do not worsen. The authorities have taken note of the staff's recommendation to step up rubel depreciation in the context of other policy measures as well as of the assessment of the impact of exchange rate depreciation. At the same time, they are concerned that the cumulative negative implication beyond the FX exposure and debt management, resulting from accelerated inflation, growing fiscal constraints and decreased public confidence in the rubel, could escalate imbalances and derail stabilization. Having said that, the authorities remain committed to further exchange rate flexibility as the external position improves and additional buffers are built up to cushion adverse developments.

Fiscal policy continues to be disciplined, resulting in a general government budget surplus of 0.2 percent of GDP in 2013, with a marginal central government budget deficit of 0.4 percent of GDP primarily due to lower revenues from potash exports. The authorities are committed to maintaining a prudent fiscal stance to ensure a balanced budget in 2014. In January-April 2014, the general government budget and the central government budget showed a surplus of 2.2 percent and 1.0 percent of GDP, respectively. Rightsizing government support is well underway with the aim to transfer all lending under government programs to the Development Bank in 2015. The 2015 budget will also be balanced and the approach to wages in the budgetary sector will continue to be prudent. The Ministry of Finance, in cooperation with the World Bank, has started to develop a strategy and an implementation plan for moving to a new approach to public financial management aimed at increasing efficiency, devolution of responsibility, and strengthening accountability.

Public debt remains at a sustainable level. In January-April, 2014, external public debt declined by $424.8 million and amounted to 16.7 percent of GDP, far below the national economic security threshold of 45 percent of GDP and the Maastricht criterion of 60 percent of GDP. In 2014, the government has paid $673 million to meet its external obligations, including $523 million in repurchases to the Fund. On July 9, 2014, Belarus received a $450 million government loan in accordance with the 2013 agreement with the Russian Federation. In addition, $2 billion in bridge financing was disbursed in end-June as legal arrangements for the government loan from Russia are being finalized. It is also expected that $440 million from the Anti-Crisis Fund will be disbursed in the second half of 2014 while foreign exchange denominated bonds in the domestic financial market may be issued if necessary to help refinance the debt. In 2015, Belarus' will have to repay about $3 billion of which the authorities plan to refinance not more than $1.5 billion externally and domestically. With all the necessary capacity and instruments in place, they remain confident of their ability to meet Belarus' external and domestic obligations.

Structural reforms are high on the agenda, with a particular emphasis on private sector development, including through public-private partnership. Consistent incremental steps are being made towards energy and utility tariff reform, price liberalization, improving the business climate, and SOE reorganization. Progress on these fronts could have been faster and macroeconomic adjustments would have been deeper had they been supported by a Fund program. The authorities regret that the IMF staff is not in a position to present a Fund-supported program to the Board at the current juncture.