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Republic of Belarus: Third Review Under the Stand-By Arrangement—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; Statement by the Executive Director

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

- The staff report, prepared by the staff team of the IMF, following discussions that ended on November 19, 2009, 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 December 11, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of December 18, 2009, updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its December 18, 2009,discussion of the staff report that completed the review.

- A statement by the Executive Director for the Republic of Belarus.

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Third Review Under the Stand–By Arrangement, and Request for Modification of Performance Criteria

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and Michele Shannon

December 11, 2009

Executive Summary

Economic background. Belarus is beginning to emerge from the crisis. Output loss has been limited relative to neighbors, inflation has fallen, the foreign exchange market has stabilized, and de-dollarization is underway, likely a sign of returning confidence. However, the economy remains vulnerable to external shocks. The current account deficit remains high and reserves low, despite substantial support, including from the Fund.

Program discussions. Program performance since the last review has been good: all quantitative and continuous performance criteria and structural benchmarks for end-September were met. The authorities have taken measures—including exchange rate movement and fiscal adjustment—to close a financing gap during the program period created by a shortfall in external financing. They request a modification of the NIR and NDA targets for end-December since the exchange rate movement will have effects mostly in 2010. The staff supports this request. The authorities have also agreed with the staff on a macroeconomic framework for 2010 underpinned by prudent fiscal policy and restrained credit policy. Staff recommends completion of the third review of the SBA, with a modification of the end-December NIR and NDA performance criteria.

Discussions were held in Minsk during November 10–19, 2009. The staff team comprised Messrs. Jarvis (head), Ding, Kovtun (all EUR), Prokopenko (MCM), Turunen (SPR), and Wane (FAD). The team met the Deputy Prime Minister, Mr. Kobyakov; the Governor of the National Bank of the Republic of Belarus (NBRB), Mr. Prokopovich; the Minister of Finance, Mr. Kharkovets; the Minister of Economy, Mr. Zaichenko; the Deputy Head of the Presidential Administration, Mr. Anfimov, and other senior officials. Mr. Prader (OED) participated in the final discussions. Ms. Koliadina, the Resident Representative, assisted the mission.

Contents Page

I. Context: Program Achievements and Economic Prospects

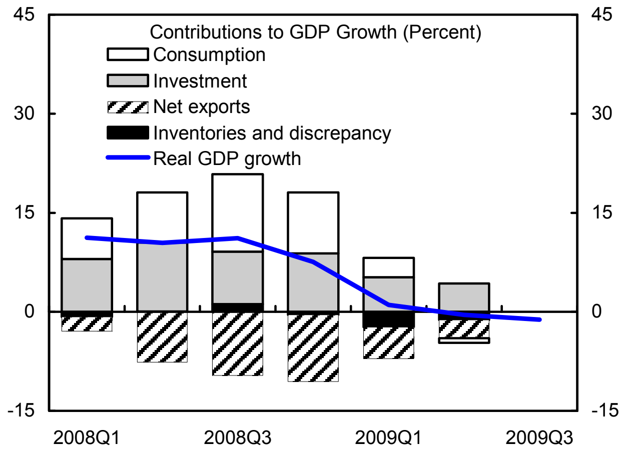
1. **Almost a year after adoption of a Fund-supported program, Belarus's economy is stabilizing and growth is set to resume, but the economy remains vulnerable to external shocks.** Belarus has avoided the worst consequences of the global economic crisis. Growth prospects are improving, and inflation has fallen, notwithstanding a devaluation at the beginning of 2009 which corrected an exchange rate overvaluation. However, the current account deficit remains stubbornly high, and reserves low, despite substantial support, including from the Fund.

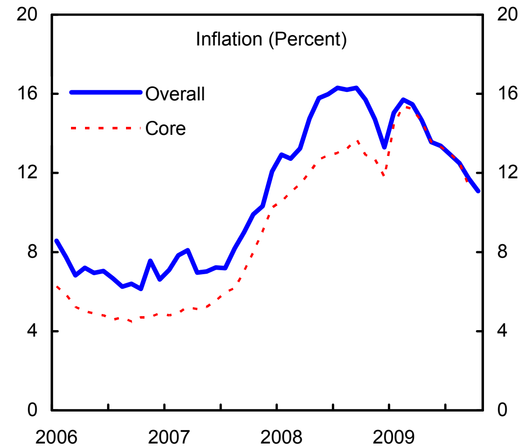
2. **Discussions on the third review of the SBA focused on policies that would consolidate the progress made so far and address the remaining weaknesses**. The authorities have taken measures to close a financing gap during the program period created by a shortfall in external financing. They have also agreed with the staff on a macroeconomic framework for 2010 that emphasizes macroeconomic stability and a return to modest growth. The authorities see scope for growth to be higher—and have prepared an ambitious "target scenario" embodying this goal. But they were responsive to warnings from the staff that achieving high and sustainable growth will depend on policies supportive of macroeconomic stability, on structural reforms that are not yet fully specified, and on external developments beyond their control. They therefore accept they need to give priority in monetary and fiscal policy to stabilization and increasing international reserves. Policies to achieve these objectives are set out in the attached Letter of Intent (LOI). The authorities are continuing to consider a successor Fund arrangement, but will defer a decision on whether to request Fund financial support until the external financing position for 2010 is clearer.

II. Recent Developments and Program Implementation

3. **Economic developments during the past two months have largely followed the course described at the time of the second review of the SBA in October.** Belarus continues to avoid the sharp fall in output that has hit most of its neighbors. The current account deficit has increased further, though the third quarter saw some improvement in both the current and financial accounts, and an increase in reserves. Fiscal policy remains supportive of the needed macroeconomic adjustment. Commercial banks remain sound, though there is a growing liquidity problem in the largest state-owned banks. These developments are described in more detail below (Tables 1–5 and 8).

- GDP declined by 1.0 percent year-on-year through October 2009, as strong growth in fixed investment—owing mainly to housing construction financed under government programs—offset the weakness in consumption and external demand. The economy is projected to contract slightly for the year. Reflecting slack in the economy and weak international prices, twelve-month CPI inflation eased from 15 percent early in the year to about 11 percent in October, and is expected to fall further to just above 10 percent by year-end.





Sources: Belarusian authorities; and IMF staff calculations.

- Annual credit growth decelerated to 30 percent in October, due to the authorities' efforts to rein in loans under government programs. However, it is too early to tell whether these efforts will be sufficient to keep the increase in credit under government programs below the level agreed at the time of the second review.[1]

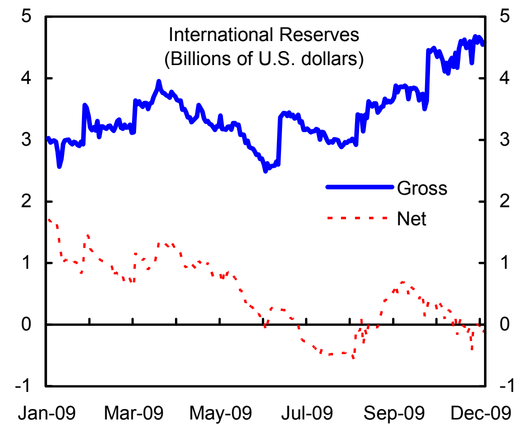
- Recent data point to improved export volumes, but due to a deterioration in the terms of trade the current account deficit is now projected to reach $5.4 billion (11 percent of GDP) during 2009.

- The financial account has improved. Reflecting improved confidence, since July households have sold some $35 million per month of the foreign currency they purchased in the first half of 2009 and the share of ruble deposits in total deposits has increased, and the share of foreign currency deposits in total deposits declined from nearly 56 percent in June to 51.7 percent in October.[2] Corporations have been more successful in rolling over short-term debt.

[1] During the second review, the authorities agreed to limit net lending under government programs to 4 trillion rubels (2.9 percent of GDP) in the second half of 2009.

[2] Since May 2009 the authorities have also taken a number of administrative measures to promote de-dollarization of the economy and limit foreign exchange outflows. According to the staff's analysis based on review of the documents and discussions with the authorities, these measures do not give rise to exchange restrictions or multiple currency practices subject to Fund approval under Article VIII, Section 2. Staff will continue to review these measures for jurisdictional implications and to monitor developments.

- External financing of the program remains largely as expected at the time of the second review. The World Bank Board approved a $200 million Development Policy Loan on December 1. The European Commission is still planning to support Belarus through its macrofinancial assistance policy. However, there have been delays in processing the loan, and due to changes in procedure following the ratification of the Lisbon Treaty, it is increasingly likely that the disbursement (about $290 million) will only take place during the first quarter of 2010. Russia is no longer committed to providing the final $500 million tranche of a bilateral loan, creating a financing gap. The authorities are continuing to pursue financial support through the Eurasian Economic Community Anti-Crisis-Fund and are also discussing with commercial banks a possible loan of $300 million. However, given the uncertainty about these sources of finance the authorities will implement contingency measures and request a modification of the end-December performance criteria. Gross reserves increased to $4.6 billion at end-November, reflecting Fund disbursements and policy adjustment, and are projected to reach the revised program target of $5.6 billion by end-December, 2009[3].



Source: National Bank of the Republic of Belarus.

- Local governments' fiscal position deteriorated significantly from a large surplus in 2008 to a deficit of 0.9 percent of GDP as of end-September. However, the general government budget was kept on track by cuts in central government spending on non-priority goods and services and investment. The government also continued to pursue a tight wage policy, deciding not to increase wages in 2009.

- Financial soundness indicators as of end-September 2009 remained broadly satisfactory and similar to their level as of end-June 2009, though liquidity indicators continued to deteriorate (Table 6). Stress test results (Box 1) show that banks have sufficient capital buffers to withstand a variety of risks but the liquidity condition of the large state-owned banks is weak, reflecting the significant involvement of these banks in lending under government programs.

[3] Staff projections assume that the EU financial support of $290 million will be disbursed in December and that no loan from commercial banks will materialize. If the EU support is delayed until early 2010 and no offsetting additional disbursements are made the NIR target would be automatically adjusted downward and the NDA target adjusted upward. Hence no modification of performance criteria is needed for this possible shortfall.

Box 1. Banking System Stress Tests

Stress test results based on end-September 2009 data are very similar to those based on the end-June 2009 data: the relatively high capitalization allows banks to withstand a variety of shocks but vulnerability to liquidity risk remains a concern.

The aggregate capital adequacy ratio as of end-September 2009 stood at19.0 percent (as compared to 19.1 percent at end-June 2009), which is over two times higher than the prudential minimum of 8 percent, allowing banks to remain adequately capitalized in the event of assumed stress test scenarios. As in the past, state-owned banks are relatively more vulnerable to various risks, given their relatively low capitalization level, compared to that of foreign or private banks.

The results of liquidity stress tests are cause for concern. In the event of a hypothetical 20 percent withdrawal of client liabilities, state-owned banks as well as the largest banks would end up with the current liquidity ratio below the statutory minimum of 70 percent. The vulnerability of state-owned banks to liquidity risk has been evident in stress tests in the past, and stems from the significant involvement of these banks in lending under government programs, and the imposition of limits on credit under government programs will help to reduce this vulnerability.

Sensitivity Stress Test Assumptions and Results

(Based on end-September, 2009 data)

	All Banks	State Owned Banks	Foreign Banks	Private Banks	Largest Banks	Medium Banks	Small Banks
Actual capital adequacy ratio	19.0	17.7	23.6	31.6	17.5	22.4	38.7
			Stressed capital adequacy ratio				
Increase in the share of problem assets by 15 pps	11.8	10.3	17.1	27.1	10.2	15.5	33.7
Depreciation of Belarusian rubel by 20 percent	18.6	17.1	23.9	31.8	17.1	22.5	39.0
Upward shift in the Belarusian rubel yield curve by 10 pps	17.7	16.3	22.8	30.6	16.2	21.9	38.0
Actual current liquidity ratio 1/	103.8	85.5	150.9	143.6	90.7	136.1	176.0
			Stressed current liquidity ratio				
20 percent withdrawal of client liabilities	54.8	21.9	135.7	129.2	30.4	114.8	164.9

Sources: National Bank of the Republic of Belarus.

1/ The current liquidity ratio is the ratio of assets with a remaining maturity of less than one month to liabilities with a remaining maturity of less than one month.

4. **Program performance has been good**.

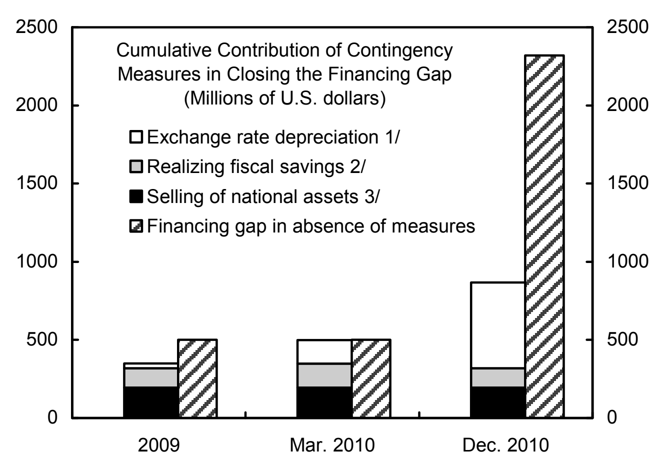
- All quantitative and continuous performance criteria for end-September were met. NIR exceeded the target by $150 million, and NDA was nearly 0.5 trillion rubels below the ceiling. Given the shortfall in external budget support, the authorities delivered a smaller fiscal deficit to meet the adjusted fiscal target.

- The authorities have refrained from introducing new government lending programs and the NBRB is limiting credit under government programs. Structural benchmarks relating to loan classification and provisioning and to privatization were met.

- The authorities postponed an increase in tariffs on households' utilities and transportation until 2010 after making the decision not to increase wages in the budgetary sector in 2009. The NBRB stopped new lending to banks at below the market rate except for housing construction, as agreed in the previous LOI, and under commitments made before signing the previous LOI.

III. Policy Discussions on the Program for 2009

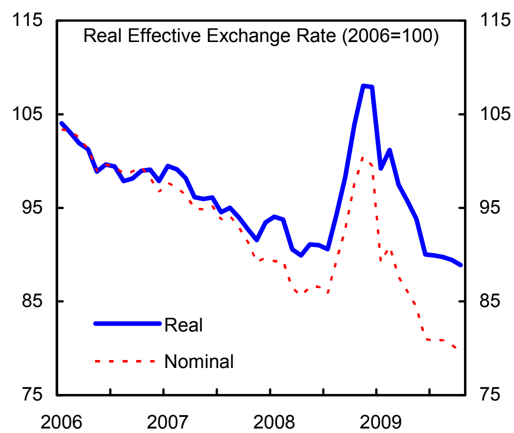
5. **Policy discussions focused on measures to close the financing gap during the remainder of the program period.** In response to the shortfall in external budget financing ($500 million), the authorities are following through on the package of contingency measures agreed at the time of the second review. The government will maintain the fiscal savings achieved through difficult spending cuts in the third quarter and will backload spending in 2010. Despite its concerns about the effects of a further rapid depreciation of the rubel on confidence, the NBRB has allowed the value of the rubel to move close to the bottom of the current band. The NBRB has also converted some national assets not considered sufficiently liquid to be part of reserves under the program definition to more liquid assets. These measures are expected to increase gross reserves by about $350 million during 2009 ($150 million short of the target for end-December) and by the full $500 million during the program period, and will also reduce the full–year 2010 financing gap.



Source: IMF staff estimates.
1/ Depreciating the rubel against the basket during Nov. to Dec., 2009.
2/ Reducing the fiscal deficit by the equivalent of $250 million in 2009, and delaying spending in 2010.
3/ Selling assets excluded from IMF-defined international reserves to increase official reserves.

6. **Tight fiscal policy will play an important part in helping the government to meet its end-December adjusted target.** The government will carry over savings in spending on goods and services and investment made during the third quarter. Further postponement of wage increases to next year will more than offset the impact of the delay in raising fees for utilities and transportation. In 2009, local budgets' deficits will be contained by reducing transfers from the central government, and a new duty on potassium exports will increase revenue.

7. **The recent exchange rate depreciation will improve competitiveness and help close the financing gap, and the forthcoming shift in the central parity of the basket provides scope for further flexibility if needed.** The authorities made good use of the flexibility embedded in the exchange rate band in November and early December, depreciating the currency to 8⅛ percent below the central parity of the basket, thus bringing it to a level close to the bottom of the band. They also announced their intention to re-center the band at the exchange rate level of end-December 2009, and reaffirmed their intention to maintain the ±10 percent band (Box 2). The incremental move, together with beneficial effects from the recent appreciation of the Russian ruble within the basket, will contribute to closing the financing gap during the remainder of the program period and improve Belarus's external competitiveness in both 2009 and 2010. Assuming implementation of the policies agreed in the LOI, the current exchange rate appears to be in line with the medium-term equilibrium. The recentering of the band will give the authorities more flexibility in responding to any external shocks.



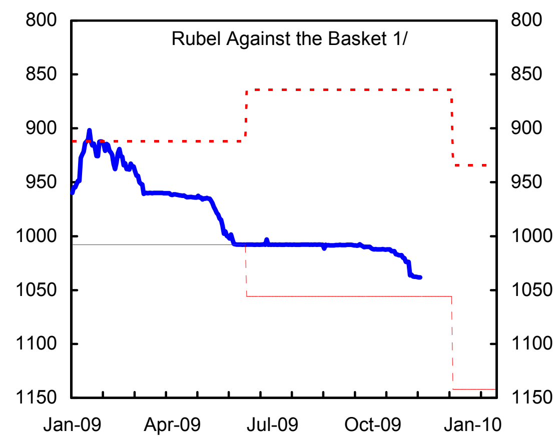
Sources: Belarusian authorities; and IMF staff calculations.

Box 2. The Exchange Rate Regime in Belarus

Throughout the program period the authorities have worked to achieve a balance between the exchange rate flexibility needed to reduce external vulnerabilities and the stability needed to maintain confidence in the regime. At the beginning of 2009, the exchange rate was devalued by 20 percent against the US dollar and the peg to the US dollar was replaced with the peg to a basket of currencies consisting of the Russian ruble, the US dollar, and the Euro, with a possibility of fluctuation within a ±5 percent band around the central parity calculated as a geometric average of the respective exchange rates. The new exchange rate regime reflected Belarus' structure of trade and financial flows. The shift to the basket and the adoption of a band around the central parity provided some degree of flexibility and stability, much needed in face of uncertainties posed by the global economic crisis.

At intervals during the year, the authorities have been prepared to take advantage of the flexibility provided by the band and fine-tune the regime to respond to the turbulent external environment, although the speed and the extent of adjustments have been influenced by their strong preference for minimizing variability of the rubel against the US dollar. In order to calm the markets in January, the authorities limited the depreciation against the US dollar, pushing the rubel to the upper end of the band. However, continued exchange rate pressures felt in the first half of 2009 called for a gradual slide of the rubel against the parity, reaching the lower end of the ±5 percent band by mid-June. In order to preserve a buffer for further adjustments, the authorities widened the band to ±10 percent.

The need to close the financing gap as well as the need to contain the current account deficit called for yet another movement of the rubel within a widened band in November-December. To maintain scope for flexibility in 2010 the authorities have also decided to recenter the band at its end-December 2009 level, which is expected to be about 8 percent below the originally set parity.



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

8. **The authorities have taken steps to slow down growth of lending under government programs, but the outcomes of their policies are not yet clear.** The authorities scaled back their original lending plan for 2009, but by less than was envisaged at the time of the second review. However, new lending under government programs fell in October, suggesting that banks' lending is still likely to be kept under the limit.

IV. Policy Discussions for 2010

A. Macroeconomic Outlook and Risks

9. **Based on the policies described in the LOI, the economy will resume growth in 2010, and the external current account will improve significantly**. The authorities have committed to maintain prudent fiscal and monetary policies and a flexible exchange rate policy. With the fiscal deficit similar to that of 2009 (1.7 percent of GDP), credit increase in line with nominal GDP (13–15 percent), a gradual recovery of external demand (especially faster growth of demand in Russia than was expected at the time of the second review), and expected improvement in the terms of trade, GDP is expected to grow by 3¾ percent, inflation to fall to around 8 percent, and the current account deficit to narrow to around 7 percent of GDP. Gross reserves will reach $7.2 billion, or over 2½ months of imports, but will still be lower than the end-2010 level targeted in the original program by about $1.5 billion (Table 7).[4] The financing gap for 2010 beyond the program period could be filled by additional financial support from the Fund if a successor arrangement is agreed, financing from other multilateral donors, and possibly issuance of a Eurobond[5]. Over the medium term, renewed momentum to liberalize the economy—supported by efforts to maintain macroeconomic stability—will allow the authorities to resume high economic growth (around 7 percent), while reducing further the current account deficit and accumulating a comfortable level of reserves (3.3 months of imports).

10. **The main risk to the outlook is that there could be a premature loosening of policies, especially once the program expires.** Some policymakers would prefer to target a much higher rate of growth, seeking to fulfill the goals of the five-year plan adopted in 2006 and to increase living standards. Upcoming elections for local governments (in spring 2010) and for the presidency (in early 2011) are likely to add to pressures on the authorities. The staff cautioned that an expansionary policy stance based on overly optimistic assumptions that involves large wage increases, stepped up investment, and higher credit could push up

[4] The original program targeted a gross reserves level of about $8.1 billion for 2010. This target was adjusted upward to about $8.7 billion due to the SDR allocations in 2009.

[5] The authorities are also considering seeking a loan from commercial banks to bridge to a Eurobond issue (the possible $300 million commercial bank loan mentioned in paragraph 3). Belarus government bonds are rated B1 with stable outlook by Moody's, and B+ with negative outlook by Standard & Poor's, both below investment grade.

growth in the short run, but would lead to a much worse balance of payments and reverse the gains in reducing external vulnerability. The authorities accepted that policies need to remain disciplined through the program period, and main counterparts recognized that priority needs to be given to maintaining external stability throughout 2010.

11. **Substantial uncertainty remains about external sector prospects.** The pace of Belarus's recovery would suffer from lower than projected growth in other countries, especially Russia (the main destination for Belarus's non-oil exports). Additional downside risks are that energy import prices could be higher than projected and that trade relations with Russia may become strained as the countries negotiate on establishing a customs union and related economic issues. However, the environment for external financing could be better than is currently assumed, especially if Belarus continues with strong implementation of the program.

B. Credit and Monetary Policies

12. **Slowing down credit growth will be a key element of the adjustment effort in 2010**. The staff cautioned against too rapid expansion of credit in order to lower risks to the current account, and emphasized the need to free up credit for the private sector, which will be the main engine of job creation during the anticipated process of transition. The staff proposed a reduction in the share of lending under government programs to 46 percent of total claims on the economy by end-2010, implying an increase in lending under government programs of no more than 3¼ trillion rubels.[6] The authorities accepted this logic, while noting a preference for a more rapid expansion of credit to the economy, including under government programs, if foreign financing (especially foreign direct investment) is available to support it.

13. **Success in containing credit under government programs should make it possible to gradually ease interest rates in the credit markets.** The authorities have been concerned for some time that the high level of real market interest rates imposes a burden on the real sector. (The real average interbank interest rate was 9 percent in October.) They recognized, however, that reducing interest rates can only be done if it would not compromise the objectives of the program. Given the high level of real rubel interest rates as well as the signs of stabilization (e.g. continued sales of foreign exchange by households and rising share of ruble deposits in total deposits), the staff agreed with the authorities that there was scope for a 50 basis points reduction in the policy rates, while recommending a delay in the reduction until exchange rate depreciation is complete. The NBRB nevertheless decided to make this change from December 1. The NBRB agreed that further reductions in interest

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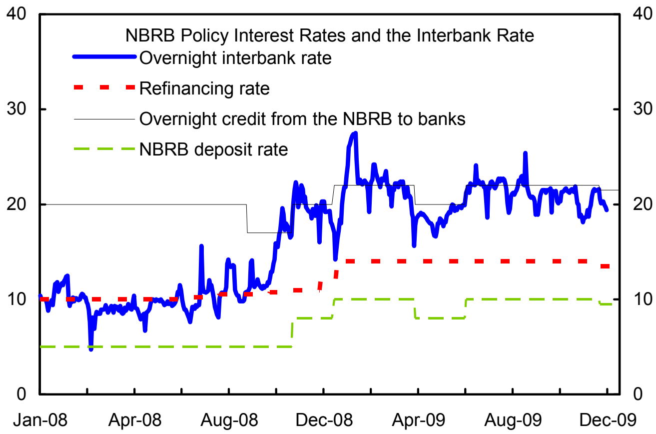
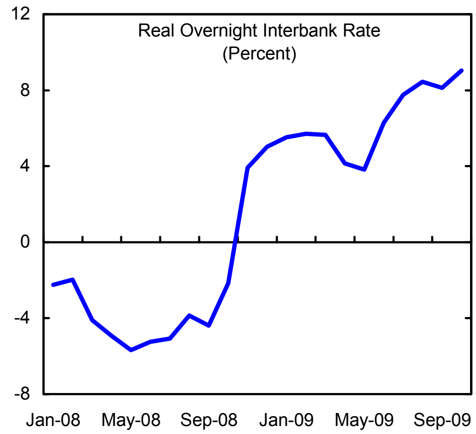
[6] For comparison, the stock of loans under government programs is estimated to have increased from 45 percent of total claims to 47½ percent of total claims during 2009.

rates should depend on progress in meeting reserve targets, continued dedollarization, and the success of the authorities' efforts to limit credit under government programs.





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

C. Fiscal Policy

14. **The 2010 budget, submitted to Parliament by the President and expected to be signed into law by end-December 2009, is consistent with macroeconomic stability**. Its deficit of 1.7 percent of GDP will add little to public debt and will free up resources for the private sector. Domestically-financed local budget deficits will be contained by a new provision that limits them to 1 percent of local governments' revenue (about 0.1 percent of GDP). Tax revenue will be reduced by 1.2 percent of GDP. The impact of the elimination of several taxes (2½ percent of GDP) will be partly offset by an increase of 2 percentage points of the VAT to 20 percent (1 percent of GDP). Expenditures will be reduced by 1.4 percent of GDP, through a reduction of untargeted subsidies, and efforts to streamline the public investment program and contain net lending. Increases in fees for utilities (13 percent)) and transportation (18 percent) will be implemented to mitigate the impact of energy price increases on cost recovery levels. With the approval of the decree to reform targeted social assistance, this spending will double in 2010 and help mitigate the effects of the crisis on the needy.

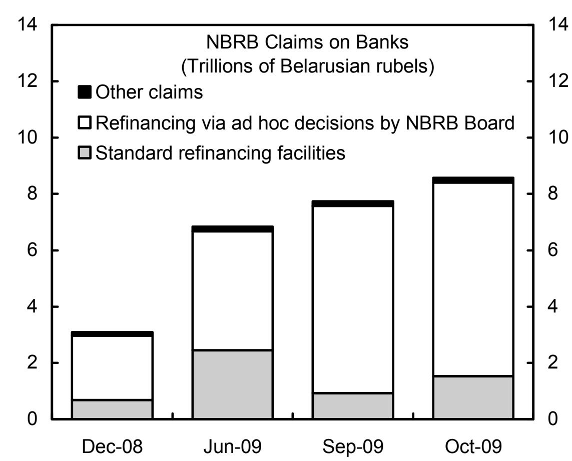
15. **The authorities remain committed to prudent income policies to safeguard Belarus' competitiveness**. In 2009, to contain domestic demand and reduce risks of macroeconomic instability, civil servants and workers of companies receiving public resources were not granted any salary increase. For 2010, the increase in the wage bill of the budgetary sector will be limited to 11 percent, and wages will be increased by no more than 5 percent in the first quarter of 2010. Further increases—within the budget envelope—will be considered if macroeconomic conditions permit. As in 2009, wage setting in state enterprises receiving support from the government will also continue to be governed by wage policy for civil servants.

16. **Medium-term fiscal policy will be geared toward further reducing the tax burden and the size of government, and will be supported by IMF Technical Assistance**. Over the medium term, the authorities plan to further reduce taxes and to cut spending, especially on subsidies and transfers, which remains the largest item in the budget. The authorities have requested technical assistance from the IMF to help deliver these outcomes.

D. Financial Sector Issues

17. **The mission agreed with the authorities on the remit of a special agency that will assume the role currently played by banks in financing government programs.** A draft Decree on establishing the agency will be submitted to the President by end-December 2009, and the agency will start functioning in 2010. Initially, the functions of the agency will be limited to management of all already disbursed loans under government programs, with all assets and liabilities relating to lending under government programs being transferred to the new agency except for those relating to commercially viable loans that banks wish to retain. The volume of loans to be taken over will be substantial (the current stock of lending under government programs is 30.2 trillion rubels, equivalent to about 22 percent of GDP), and is expected to improve the liquidity position of state-owned banks. In light of the upcoming establishment of the agency, the authorities agreed to defer any recapitalization of state-owned banks. During 2011 the agency is expected to take over distribution of all new government program loans, with all new lending included in the budget above the line.

18. **The establishment of the agency will also allow the NBRB to terminate bank refinancing on non-market terms**. There was agreement that such refinancing is distortive and should be phased out. The weighted average interest rate charged on this type of refinancing was 9.4 percent in October 2009, compared to the rate on standard refinancing facilities (mainly Lombard and repos) of 21.3 percent. The NBRB agreed not to extend any new refinancing to banks on non-market terms. However, until the agency is established, the NBRB will roll-over maturing loans which were issued to back specific government program loans with longer maturities. (These account for most outstanding NBRB credit.) The outstanding stock of non-market-based lending will not exceed 8 trillion rubels, which corresponds to 7 trillion rubels of disbursed loans and 1 trillion rubels of already committed disbursements. The staff also emphasized the need for the NBRB to adopt a formalized framework for provision of emergency liquidity assistance to banks, in



Source: National Bank of the Republic of Belarus.

line with the 2009 FSSA recommendations.[7]

19. **Staff endorsed the intention of the authorities to continue implementing structural measures in the financial sector**.

- *Loan classification and provisioning*. Following the September 2009 amendments to the regulation on loan classification and provisioning, in line with the MCM TA recommendations, the NBRB and banks are conducting an assessment of the quantitative impact of the new regulations on bank soundness indicators.

- *NBRB independence*. As part of the program conditionality, the NBRB has recently prepared a draft Presidential Decree which envisages significant changes to its governance structure, including by removing representatives of both the government and the banking sector from its governing body. A joint LEG/MCM TA mission is expected to take place in February 2010 to assist the authorities in addressing remaining issues in drafting this legislation before submitting it to the President.

- *Disengaging NBRB from non-core business*. The NBRB's expects the increase in equity holdings and financing of non-core business entities to be kept within the limit of 350 billion rubels for 2009, which was set under the original program to allow completion of restructuring of the non-core business entities owned by the NBRB. Such financing will be discontinued from 2010. The authorities are preparing a plan to sell all NBRB non-financial subsidiaries and associated companies.

- *Bank privatization.* Some progress has been achieved with respect to bank privatization. An independent evaluation of Belpromstroibank, the third largest state-owned bank in the country, has been completed in September. Following this evaluation, an agreement was reached to sell this bank to the Russian Sberbank for about US$300 million.

E. Other Structural Reforms

20. **The authorities have made tangible progress in developing legal and institutional frameworks for privatization and reaffirmed their commitment to privatizing selected companies in 2010.** The draft Privatization Law and the draft decree on establishing a privatization agency incorporating comments from the World Bank were submitted to Parliament and the President, respectively, on September 30, 2009. A list of five enterprises selected as candidates for privatization has been submitted to the President for approval. The controlling equity stakes of these companies will be offered for sale through an open, international, transparent, and competitive tender by end-February, 2010. Furthermore, by

[7] MCM provided technical assistance in this area.

the same date, the authorities will compile a further list of companies slated for privatization and charge the privatization agency, after it becomes operational, with preparing these enterprises for privatization through an open, international, transparent and competitive bidding process.

21. **The government is gradually easing administrative controls.** The authorities have refrained from the imposition of a general ceiling on monthly price increases. In consultation with the World Bank the authorities further alleviated administrative price controls by removing the restrictions on retail trade margins, except for a limited number of goods, and eliminating requirements for price registration. However, the economy remains heavily regulated, and use of mandatory targets is widespread. Beginning from 2010 the mandatory quantitative economic targets including those for output and employment will be abolished for the companies that do not benefit from government financial support and in which the government has a minority share.

22. **The authorities and staff discussed structural reforms that could support growth in the medium-term.** At present, the authorities plan to focus on structural reforms which would help them in (i) removing factors systemically undermining macroeconomic stability, (ii) allowing market forces to play a bigger role in resource allocation, and (iii) reducing barriers for private business. Such reforms will be important if the increase in sustainable growth projected over the medium term is to materialize. The authorities agreed that quasi-fiscal activities and mandatory economic targets, including those on wages, have to be phased out to support macroeconomic stability, since they boosted domestic demand by distorting market signals and stretching capacity utilization. In this context, the authorities requested assistance from the IMF and the World Bank to prepare a strategy for developing a market-based incentive system. The authorities also recognize that improving economic efficiency will require market forces to play a more important role in resource allocation and the work towards further price liberalization and market–based lending by banks will be stepped up. Finally, the authorities will foster private sector development by further simplifying requirements for setting up new businesses, reducing conditions attached to new investment, and proceeding with small–scale privatization.

V. PROGRAM ISSUES AND CAPACITY TO REPAY

23. **Understandings were reached on performance criteria and structural benchmarks for the remainder of the program period (Table 2 and 3 of the LOI).** The authorities requested and the staff agreed to support a modification of the performance criteria on NIR and NDA for end-December 2009, given that the exchange rate movement allowed by the authorities will have effects mostly in 2010. As prior actions, the authorities have brought the basket value of the exchange rate to the level of 1,038 rubels and published their decision to recenter the exchange rate parity at its December 31, 2009 level to ensure continued exchange rate flexibility. In addition, to comply with a prior action the 2010 budget has been submitted to Parliament by the President. Indicative targets for end-

March 2010 have been set in the context of the macroeconomic framework for the whole year. One additional structural benchmark (creating a further list of enterprises to be privatized) is added to further strengthen the reform agenda.

24. **Belarus's capacity to repay the Fund remains adequate**. The level of Fund credit outstanding is expected to reach close to 51 percent of gross international reserves at its peak in 2009 and Fund repurchases and charges to amount to 31 percent of total debt service in 2013 (Table 9). While external debt is increasing it remains at a moderate level. Gross external debt is expected to peak at about 44 percent of GDP in 2010 and to fall thereafter as the current account deficit declines, suggesting that risks are manageable. Additional comfort stems from the fact that public debt is likely to remain below 30 percent of GDP even at its peak in 2010 (Appendix I).

25. **The prospects for a successor arrangement will be an issue for discussion in the context of the final review of the SBA**. At present, there is a financing gap for 2010 beyond the program period. With sound macroeconomic policies and ambitious structural reforms, this can be closed by resources from the Fund and other international donors. The financing gap for 2010 and beyond will be reassessed at the time of the fourth and final review of the SBA. The staff emphasized that continued good performance under the current program will also be important for Fund financial support under a potential follow-up program.

VI. Staff Appraisal

26. **Belarus is beginning to emerge from the crisis.** Output remains subdued, and Belarus remains highly vulnerable to external shocks, given its high current account deficit and still low level of reserves. However, there are several encouraging signs. Export volumes have stabilized and are projected to recover. The exchange rate depreciation during the year has improved competitiveness, while confidence appears to be growing among households, as evidenced by the partial reversal of currency substitution. Fiscal policy has been consistent and strong, and the inconsistencies in the authorities' credit policies are being addressed.

27. **However, macroeconomic stability remains fragile and needs to be reinforced by strong and consistent policies.** The January 2, 2009 devaluation sharpened households' perceptions that radical changes in policy are likely to occur at end-year, and it is essential that the authorities present a clear and reassuring picture of their policy plans as the end of the year approaches. Pressures on the budget from local governments and line ministries will need to be resisted firmly. The edifice of credit under government programs channeled through commercial banks and financed by below–market rate refinancing from the NBRB needs to be dismantled, and the new agency designed to achieve this needs to be established quickly.

28. **The authorities' willingness to agree measures to compensate for a shortfall in external financing demonstrates their commitment to the program.** Both the Ministry of Finance and the NBRB are meeting commitments made to the Fund before the second review

of the SBA to adjust policies to close a $500 million financing gap. On the part of the Ministry of Finance, this involves maintaining painful expenditure cuts during the remainder of this year. The NBRB has agreed to important exchange rate measures which will help to reduce external pressures while increasing flexibility to handle unexpected shocks.

29. **The authorities have stressed their determination to continue with sound macroeconomic policies in 2010.** Faced with a choice between the "target scenario" which would not have been consistent with program commitments (or with economic reality) and a continuation into 2010 of strong but difficult policies agreed under the SBA, the authorities have chosen the latter. They have not abandoned the target scenario, but they intend to treat it as "motivational" and base policies on realistic assumptions and agreed program objectives.

30. **However, the risk that authorities might lean towards the "target" scenario remains and the economy remains vulnerable to shocks.** As the program draws to a close, and if external constraints ease, there are risks that the authorities will loosen policies too far or too quickly. Approaching elections will add to this risk. Moreover, the past year has shown the economy's vulnerability to falls in demand for exports, disruption in the foreign exchange market, and shortfalls in official financing. The gradual ending of subsidies on oil and gas imports will add to the difficulties the authorities face.

31. **Over the medium term both continued macroeconomic stabilization and structural reform will be needed.** Belarus is set to emerge from the crisis in good shape, but the authorities will not only need to maintain tight macroeconomic policies for some time, but also make further progress in structural reform. Belarus is only beginning a process of structural transformation of the economy, and progress in liberalizing the economy and increasing productivity will be essential for rapid and sustainable growth.

32. **The authorities are continuing to consider a follow-up program centered around structural reform, though they would like to defer a decision on this until next year.** The authorities would like to explore the possibility of Fund support, though they also see a possibility that they could find sufficient external finance through foreign direct investment to avoid recourse to substantial new borrowing. With or without a new program, the authorities have emphasized their desire for a continued close relationship with the Fund. The staff believes that Belarus can benefit from the Fund's continued advice and support on macroeconomic and structural issues, and from a closer relationship with the World Bank and other international financial institutions.

33. **On the basis of the authorities' good performance since the second review and the policies set out in the LOI, the staff recommends completion of the third review of the SBA, with a modification of the end-December NIR and NDA performance criteria.**

Table 1. Belarus: Selected Economic Indicators, 2007–14

	2007	2008	2009		2010		2011	2012	2013	2014
			2nd rev.	Proj.	2nd rev.	Proj.	Proj.			
	(Annual percentage change, unless otherwise specified)									
National accounts										
Real GDP	8.6	10.0	-1.2	-0.3	1.8	3.8	4.4	5.3	6.3	6.9
Total domestic demand	13.5	16.1	-1.2	-0.8	2.4	2.0	3.2	4.8	6.0	6.9
Consumption	9.7	12.2	-5.3	-4.1	3.7	2.0	3.5	6.1	6.7	7.2
Private	13.4	15.9	-5.3	-3.8	4.1	2.0	3.9	7.2	7.9	8.4
Public	-0.5	0.3	-5.0	-5.0	2.2	2.1	2.0	2.0	2.0	2.0
Investment	21.9	23.9	6.0	5.1	0.4	1.9	2.8	2.8	4.6	6.5
Of which: fixed	21.1	23.1	6.5	5.5	0.4	2.0	3.0	3.0	5.0	7.0
Net exports 1/	-1.5	-7.7	0.3	0.6	-1.0	1.5	0.7	-0.1	-0.3	-0.8
Consumer prices										
End of period	12.1	13.3	11.0	10.5	8.0	8.0	6.0	6.0	6.0	6.0
Average	8.4	14.8	13.0	13.0	8.3	7.6	6.6	6.0	6.0	6.0
Monetary accounts										
Reserve money	38.4	11.7	-8.7	-9.2	17.9	22.0	…	…	…	…
Rubel broad money	35.0	22.5	-7.5	-6.4	22.3	26.9	…	…	…	…
Growth of credit to the economy at program exchange rates	…	53.6	17.1	24.2	11.2	14.6	…	…	…	…
	(Percent of GDP)									
External debt and balance of payments										
Current account	-6.8	-8.4	-9.6	-11.0	-7.1	-7.2	-5.6	-4.9	-4.0	-3.4
Trade balance	-9.0	-10.1	-11.9	-12.0	-9.2	-8.5	-6.9	-6.2	-5.8	-5.3
Exports of goods	53.7	54.8	47.4	44.3	50.4	50.6	50.7	50.4	50.5	50.7
Imports of goods	-62.7	-64.9	-59.2	-56.3	-59.6	-59.1	-57.7	-56.5	-56.3	-56.1
Gross external debt	27.7	25.2	41.7	42.8	43.1	44.1	41.8	38.4	33.8	30.7
Public 2/	6.5	6.9	18.9	17.9	19.8	18.2	17.9	16.9	15.5	14.0
Private (mostly state-owned-enterprises)	21.2	18.3	22.9	24.9	23.4	25.9	23.9	21.5	18.4	16.7
Savings and investment										
Gross domestic investment	34.1	36.4	37.9	38.0	36.7	35.9	34.4	32.6	31.2	30.2
Public	8.5	10.1	7.5	7.3	6.4	6.4	6.4	6.4	6.4	6.4
Private	25.6	26.4	30.5	30.7	30.3	29.5	28.0	26.2	24.8	23.8
National saving	27.3	28.1	28.3	27.0	29.7	28.7	28.8	27.7	27.2	26.8
Public	8.9	11.4	5.7	6.2	4.7	4.7	4.4	4.4	4.9	4.9
Private	18.4	16.6	22.6	20.8	25.0	24.0	24.4	23.3	22.3	21.9
Public sector finance										
Republican and local government balance	-0.6	0.0	-1.7	-1.9	-1.7	-1.7	-2.0	-2.0	-1.5	-1.5
General government balance	0.4	1.4	-1.7	-1.1	-1.7	-1.7	-2.0	-2.0	-1.5	-1.5
Revenue	49.5	51.0	43.5	44.2	42.6	43.0	41.9	41.9	41.5	41.3
Expenditure	49.0	49.6	45.2	45.3	44.4	44.7	44.0	43.9	43.0	42.8
Of which										
Wages	8.0	6.7	6.6	6.7	6.5	6.6	6.6	6.6	6.6	6.6
Subsidies and transfers	10.5	11.6	10.9	11.1	10.1	10.6	10.3	10.2	9.8	9.6
Investment	8.5	10.1	7.5	7.3	6.4	6.4	6.4	6.4	6.4	6.4
	(Annual percentage change, unless indicated otherwise)									
Memorandum items:										
Nominal GDP (trillions of rubels)	97.2	128.8	140.0	138.4	157.3	157.4	178.5	203.0	233.1	269.1
Term of trade	-1.6	9.2	0.6	-7.2	6.2	5.0	0.6	0.9	0.5	1.3
Real effective exchange rate	-4.5	0.6	-1.9	-2.9	0.8	-5.4	-0.8	-0.7	-0.5	-0.6
Official reserves (billions of U.S. dollars)	4.2	3.1	5.8	5.6	7.1	7.2	8.7	10.4	12.1	15.4
Official reserves (months of imports of goods and services)	1.6	0.9	2.2	2.3	2.5	2.6	2.8	3.0	3.0	3.3
Official reserves (percent of short-term debt)	56.8	40.4	81.4	68.3	96.0	85.5	100.5	109.4	115.8	133.6

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.

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

Table 2. Belarus: Balance of Payments, 2007–14

	2007	2008	2009		2010			2011	2012	2013	2014
					Q1	Annual					
			2nd rev.	Proj.	Proj.	2nd rev.	Proj.	Proj.			
	(Millions of U.S. dollars)										
Current account	-3,060	-5,049	-4,728	-5,414	-851	-3,749	-3,852	-3,413	-3,423	-3,239	-3,167
Trade balance (goods)	-4,071	-6,111	-5,823	-5,920	-1,017	-4,864	-4,504	-4,201	-4,289	-4,658	-5,006
Energy balance	-1,705	-2,000	-3,310	-3,124	-608	-1,824	-2,493	-2,226	-2,188	-2,534	-2,493
Nonenergy balance	-2,366	-4,111	-2,513	-2,796	-408	-3,040	-2,011	-1,975	-2,101	-2,124	-2,512
Exports	24,329	33,043	23,224	21,856	6,047	26,770	26,884	30,776	35,105	40,802	47,650
Of which: energy exports	8,278	11,866	7,112	7,874	2,353	9,525	9,987	10,827	11,367	12,337	13,343
Imports	-28,400	-39,155	-29,047	-27,776	-7,064	-31,635	-31,388	-34,977	-39,394	-45,460	-52,656
Of which: energy imports	-9,983	-13,865	-10,422	-10,998	-2,961	-11,349	-12,480	-13,053	-13,554	-14,870	-15,837
Services	1,233	1,660	1,658	1,403	454	1,721	1,832	2,165	2,602	3,161	3,814
Receipts	3,254	4,260	3,511	3,081	895	3,762	3,735	4,410	5,247	6,292	7,583
Payments	-2,021	-2,601	-1,853	-1,678	-441	-2,041	-1,903	-2,244	-2,645	-3,131	-3,769
Income, net	-411	-789	-830	-1,164	-354	-867	-1,442	-1,631	-2,027	-2,078	-2,367
Transfers, net	189	192	267	267	65	262	262	253	291	337	392
Capital and financial accounts	5,292	3,816	2,635	4,213	1,559	4,377	4,748	4,937	5,472	6,628	7,805
Capital account	92	143	125	125	45	180	180	124	142	164	191
Financial account	5,200	3,673	2,510	4,088	1,514	4,197	4,568	4,813	5,330	6,463	7,614
Overall FDI, net	1,770	2,143	1,220	1,366	1,049	2,308	2,320	2,519	3,131	3,899	4,395
Portfolio investment, net	-39	8	25	32	0	0	0	500	500	500	500
Trade credits, net	690	-50	140	-10	0	400	400	100	100	100	100
Loans, net	3,541	2,085	854	1,086	294	843	1,163	1,359	1,247	1,588	2,216
Government and monetary authorities, net	1,956	1,266	1,378	1,195	94	581	361	775	384	226	203
Banks, net	966	603	-589	-302	124	252	496	124	249	457	723
Other sectors, net	619	519	64	193	77	9	307	461	613	905	1,290
Other (excluding arrears), net	-763	-514	271	1,614	171	646	685	335	353	376	402
Errors and omissions	505	106	1,005	368	0	0	0	0	0	0	0
Overall balance	2,737	-1,127	-1,088	-834	708	629	896	1,524	2,049	3,389	4,638
Financing	-2,737	1,127	1,088	834	-708	-629	-896	-1,524	-2,049	-3,389	-4,638
Reserves ("-" denotes an increase)	-2,778	1,003	-2,711	-2,476	-1,390	-1,300	-1,578	-1,524	-1,662	-1,713	-3,267
Net use of Fund resources 1/	0	0	2,810	2,819	682	671	682	0	-386	-1,676	-1,372
Other donors and exceptional financing items	42	124	990	490	0	0	0	0	0	0	0
Memorandum items:											
Stock of reserves	4,182	3,061	5,772	5,621	7,011	7,072	7,199	8,723	10,386	12,099	15,365
Shortfall in gross reserves based on adjusted targets 2/	...	...	0	150	0	1,581	1,454	...	...	...	...
Reserves (months of imports of goods and services)	1.6	0.9	2.2	2.3	2.5	2.5	2.6	2.8	3.0	3.0	3.3
Reserves (percent of short-term debt)	56.8	40.4	81.4	68.3	86.4	96.0	85.5	100.5	109.4	115.8	133.6
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	-4.5	0.6	-1.9	-2.9	…	0.8	-5.4	-0.8	-0.7	-0.5	-0.6
Export volume (annual percentage change)	5.2	1.5	-17.6	-12.7	…	1.8	4.6	4.9	4.7	6.0	6.5
Import volume (annual percentage change)	7.2	14.3	-14.4	-15.8	…	2.8	0.5	2.8	4.2	5.5	6.8
Domestic demand growth (annual percentage change)	13.5	16.1	-1.2	-0.8	…	2.4	2.0	3.2	4.8	6.0	6.9
Partner country growth (percent) 3/											
Russia	8.1	5.6	…	-9.0	…	…	3.7	4.0	4.1	4.5	5.0
EU	2.7	0.7	…	-4.2	…	…	0.3	1.3	1.7	2.0	2.1

Table 2. Belarus: Balance of Payments, 2007–14 1/ (concluded)

	2007	2008	2009		2010			2011	2012	2013	2014
					Q1	Annual					
			2nd rev.	Proj.	Proj.	2nd rev.	Proj.	Proj.			
	(Percent of GDP)										
Current account	-6.8	-8.4	-9.6	-11.0	-1.6	-7.1	-7.2	-5.6	-4.9	-4.0	-3.4
Trade balance	-9.0	-10.1	-11.9	-12.0	-1.9	-9.2	-8.5	-6.9	-6.2	-5.8	-5.3
Of which: energy balance	-3.8	-3.3	-6.7	-6.3	-1.1	-3.4	-4.7	-3.7	-3.1	-3.1	-2.7
Nonenergy balance	-5.2	-6.8	-5.1	-5.7	-0.8	-5.7	-3.8	-3.3	-3.0	-2.6	-2.7
Exports	53.7	54.8	47.4	44.3	11.4	50.4	50.6	50.7	50.4	50.5	50.7
Of which : energy exports	18.3	19.7	14.5	16.0	4.4	17.9	18.8	17.8	16.3	15.3	14.2
Imports	-62.7	-64.9	-59.2	-56.3	-13.3	-59.6	-59.1	-57.7	-56.5	-56.3	-56.1
Of which: energy imports	-22.0	-23.0	-21.3	-22.3	-5.6	-21.4	-23.5	-21.5	-19.5	-18.4	-16.9
Capital and financial accounts	11.7	6.3	5.4	8.5	2.9	8.2	8.9	8.1	7.9	8.2	8.3
Capital account	0.2	0.2	0.3	0.3	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Financial account	11.5	6.1	5.1	8.3	2.8	7.9	8.6	7.9	7.7	8.0	8.1
Overall FDI	3.9	3.6	2.5	2.8	2.0	4.3	4.4	4.2	4.5	4.8	4.7
Portfolio investment, net	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.8	0.7	0.6	0.5
Trade credits, net	1.5	-0.1	0.3	0.0	0.0	0.8	0.8	0.2	0.1	0.1	0.1
Loans, net	7.8	3.5	1.7	2.2	0.6	1.6	2.2	2.2	1.8	2.0	2.4
Government and monetary authorities, net	4.3	2.1	2.8	2.4	0.2	1.1	0.7	1.3	0.6	0.3	0.2
Banks, net	2.1	1.0	-1.2	-0.6	0.2	0.5	0.9	0.2	0.4	0.6	0.8
Other sectors, net	1.4	0.9	0.1	0.4	0.1	0.0	0.6	0.8	0.9	1.1	1.4
Other (excluding arrears), net	-1.7	-0.9	0.6	3.3	0.3	1.2	1.3	0.6	0.5	0.5	0.4
Errors and omissions	1.1	0.2	2.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.0	-1.9	-2.2	-1.7	1.3	1.2	1.7	2.5	2.9	4.2	4.9
Financing	-6.0	1.9	2.2	1.7	-1.3	-1.2	-1.7	-2.5	-2.9	-4.2	-4.9
Reserves ("-" denotes an increase)	-6.1	1.7	-5.5	-5.0	-2.6	-2.4	-3.0	-2.5	-2.4	-2.1	-3.5
Net use of Fund resources 1/	0.0	0.0	5.7	5.7	1.3	1.3	1.3	0.0	-0.6	-2.1	-1.5
Other donors and exceptional financing items	0.1	0.2	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Shortfall in gross reserves based on adjusted targets 2/	...	...	0.0	0.3	0.0	3.0	2.7	...	...	...	...

Sources: Belarus authorities; and IMF staff estimations.

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

2/ The original targets for gross reserves were $5,204 million for 2009 and $8,085 million for 2010. These were adjusted upward by the SDR allocations totaling about $568 million. The projected shortfall in 2010, which is cumulative, includes the shortfall for 2009.

3/ Based on latest projection available.

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10

(Trillions of Belarusian rubels, unless otherwise indicated)

	2007	2008	2009						2010		
			Mar.	Jun.	Sep.		Dec.		Mar.	Dec.	
			Est.	Est.	2nd rev.	Proj.	2nd rev.	Proj.	Proj.	2nd rev.	Proj.
1.State (republican and local) budget											
Revenue	36.6	50.9	9.8	20.5	33.4	32.9	45.5	45.3	10.7	49.1	49.6
Personal income tax	3.1	4.2	1.0	2.1	3.2	3.2	4.2	4.3	1.2	4.7	4.9
Profit tax	3.8	6.0	0.9	2.0	3.3	3.3	4.6	4.6	1.1	5.8	5.9
VAT	8.7	11.4	2.8	5.6	9.2	8.8	12.3	12.2	3.6	15.8	15.4
Excises	3.0	3.9	0.7	1.6	2.7	2.6	3.8	3.6	0.9	4.6	4.6
Property tax	1.5	1.3	0.4	0.8	1.3	1.2	1.7	1.7	0.3	1.1	1.1
Customs duties	6.3	10.6	1.5	3.1	5.4	5.1	7.8	7.6	1.8	8.8	9.2
Other	3.7	7.8	1.6	3.7	5.5	5.6	7.4	7.4	1.2	5.6	5.6
Revenue of budgetary funds	6.5	5.7	1.0	1.7	2.7	3.1	3.7	4.0	0.7	2.7	2.9
Expenditure (economic classification) 1/	37.2	50.9	9.7	22.1	34.9	34.3	48.0	47.9	11.3	51.8	52.3
Wages and salaries	7.7	8.6	2.1	4.7	7.0	6.9	9.3	9.3	2.4	10.3	10.3
Social protection fund contributions	2.1	2.3	0.6	1.3	1.9	1.8	2.5	2.5	0.6	2.8	2.8
Goods and services	6.8	8.7	1.9	3.7	6.6	5.6	9.3	8.0	2.3	9.6	9.6
Interest	0.4	0.7	0.3	0.5	1.1	0.8	1.6	1.1	0.6	2.1	2.2
Subsidies and transfers	10.2	14.9	3.5	7.3	11.1	11.0	15.3	15.3	3.6	15.8	16.7
Capital expenditures	8.2	13.0	1.4	3.7	7.4	6.9	10.5	10.1	1.7	10.1	10.1
Of which: capital transfers to banks	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	1.8	2.6	-0.1	0.9	-0.6	1.4	-0.7	1.5	0.0	0.4	0.2
Other	0.0	0.0	0.0	0.0	0.3	0.0	0.3	0.0	0.1	0.7	0.4
Balance (economic classification) 2/	-0.6	0.0	0.2	-1.6	-1.5	-1.5	-2.4	-2.6	-0.6	-2.7	-2.7
Noncash bank restructuring measures	0.6	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	0.0
Net lending to financial institutions	1.7	4.3	…	…	…	…	…	…	…	…	…
Augmented balance	-2.9	-6.3	0.2	-1.6	-1.5	-1.5	-2.4	-2.6	-0.6	-4.3	-2.7
2. Social protection fund											
Revenue	11.4	14.7	3.6	7.8	11.5	11.9	15.4	15.9	4.1	18.0	18.0
Expenditure	10.4	13.0	3.3	7.0	11.1	10.5	15.4	14.9	4.0	18.0	18.0
Balance (cash)	1.0	1.7	0.3	0.8	0.5	1.4	0.0	1.0	0.1	0.0	0.0
Balance of the general government	0.4	1.7	0.5	-0.9	-1.0	0.0	-2.4	-1.6	-0.5	-2.7	-2.7
Augmented balance of the general government	-1.9	-4.6	0.5	-0.9	-1.0	0.0	-2.4	-1.6	-0.5	-4.3	-2.7
Statistical discrepancy	0.0	0.0	0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	1.9	4.6	-0.7	1.0	1.0	0.2	2.4	1.6	0.5	4.3	2.7
Privatization	2.5	1.3	1.7	1.5	1.5	1.1	2.3	2.3	2.5	4.3	4.3
Foreign financing, net	3.1	3.0	1.4	2.0	4.1	2.2	6.8	4.7	0.3	1.8	1.1
Domestic financing, net	-3.7	0.3	-3.8	-2.6	-4.6	-3.2	-6.7	-5.5	-2.3	-1.8	-2.7
Banking system	-1.9	-1.6	-3.8	-2.4	-4.2	-2.9	-6.1	-4.7	-2.4	-2.3	-3.2
Central bank	-4.0	0.2	-4.8	-3.4	-5.8	-2.2	-8.1	-4.7	-2.6	-2.3	-3.5
Deposit money banks (including SPF)	2.1	-1.8	-0.8	-0.7	-0.3	-2.1	0.0	-1.5	0.2	0.0	0.4
Revaluation effect	...	...	1.8	1.6	1.9	1.5	2.0	1.5	...	...	...
Nonbank 3/	-1.8	1.9	-0.1	-0.2	-0.4	-0.3	-0.6	-0.7	0.1	0.5	0.5
4. Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Balance of the local governments	...	...	0.1	-1.0	...	-1.3	...	-1.4	...	...	...
Contingent liabilities	7.2	23.0	21.3	19.6	18.1	18.0	20.3	20.1	...	18.3	18.3
Government guarantee of commercial banks' credit	7.2	9.5	7.6	5.7	3.8	3.8	5.7	5.7	...	1.9	1.9
Government guarantees of household deposits	0.0	13.4	13.7	13.9	14.3	14.2	14.6	14.4	...	16.4	16.4
GDP	97.2	128.8	138.4	138.4	140.0	138.4	140.0	138.4	157.4	157.3	157.4

Table 3. Belarus: Fiscal Indicators and Projections, 2007–10 1/ (concluded)

(Percent of GDP, unless otherwise indicated)

	2007	2008	2009						2010		
			Mar.	Jun.	Sep.		Dec.		Mar.	Dec.	
			Est.	Proj.	2nd rev.	Proj.	2nd rev.	Proj.	Proj.	2nd rev.	Proj.
1.State (republican and local) budget											
Revenue	37.7	39.5	7.1	14.8	23.8	23.8	32.5	32.7	6.8	31.2	31.5
Personal income tax	3.2	3.2	0.8	1.5	2.3	2.3	3.0	3.1	0.8	3.0	3.1
Profit tax	3.9	4.7	0.6	1.4	2.3	2.4	3.3	3.3	0.7	3.7	3.8
VAT	8.9	8.8	2.1	4.0	6.6	6.3	8.8	8.8	2.3	10.0	9.8
Excises	3.1	3.0	0.5	1.1	1.9	1.9	2.7	2.6	0.6	2.9	2.9
Property tax	1.6	1.0	0.3	0.6	1.0	0.9	1.2	1.2	0.2	0.7	0.7
Customs duties	6.5	8.2	1.1	2.2	3.9	3.7	5.6	5.5	1.1	5.6	5.9
Other	3.8	6.1	1.1	2.7	3.9	4.0	5.3	5.3	0.8	3.6	3.6
Revenue of budgetary funds	6.7	4.4	0.7	1.2	1.9	2.2	2.6	2.9	0.4	1.7	1.8
Expenditure (economic classification) 1/	38.3	39.5	7.0	16.0	24.9	24.8	34.2	34.6	7.2	32.9	33.2
Wages and salaries	8.0	6.7	1.5	3.4	5.0	5.0	6.6	6.7	1.5	6.5	6.6
Social protection fund contributions	2.2	1.8	0.4	0.9	1.3	1.3	1.8	1.8	0.4	1.8	1.8
Goods and services	7.0	6.7	1.4	2.6	4.7	4.0	6.6	5.8	1.4	6.1	6.1
Interest	0.4	0.6	0.2	0.4	0.8	0.6	1.2	0.8	0.4	1.4	1.4
Subsidies and transfers	10.5	11.6	2.5	5.3	8.0	7.9	10.9	11.1	2.3	10.1	10.6
Capital expenditures	8.5	10.1	1.0	2.7	5.3	5.0	7.5	7.3	1.1	6.4	6.4
Of which: capital transfers to banks	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	1.8	2.0	-0.1	0.7	-0.4	1.0	-0.5	1.1	0.0	0.3	0.1
Other	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.1	0.4	0.3
Balance (economic classification) 2/	-0.6	0.0	0.1	-1.2	-1.1	-1.1	-1.7	-1.9	-0.4	-1.7	-1.7
Noncash bank restructuring measures	0.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0
Net lending to financial institutions	1.8	3.4	…	…	…	…	…	…	…	…	…
Augmented balance	-3.0	-4.9	0.1	-1.2	-1.1	-1.1	-1.7	-1.9	-0.4	-2.7	-1.7
2. Social Protection Fund											
Revenue	11.8	11.4	2.6	5.6	8.2	8.6	11.0	11.5	2.6	11.4	11.4
Expenditure	10.7	10.1	2.4	5.1	7.9	7.6	11.0	10.8	2.5	11.4	11.4
Balance (cash)	1.1	1.3	0.2	0.5	0.3	1.0	0.0	0.7	0.1	0.0	0.0
Balance of the general government	0.4	1.4	0.4	-0.6	-0.7	0.0	-1.7	-1.1	-0.3	-1.7	-1.7
Augmented balance of the general government	-1.9	-3.5	0.4	-0.6	-0.7	0.0	-1.7	-1.1	-0.3	-2.7	-1.7
Statistical discrepancy	0.0	0.0	0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	1.9	3.5	-0.5	0.7	0.7	0.1	1.7	1.1	0.3	2.7	1.7
Privatization	2.6	1.0	1.2	1.1	1.1	0.8	1.7	1.7	1.6	2.7	2.7
Foreign financing, net	3.2	2.3	1.0	1.5	2.9	1.6	4.9	3.4	0.2	1.2	0.7
Domestic financing, net	-3.8	0.2	-2.8	-1.9	-3.2	-2.3	-4.8	-3.9	-1.4	-1.2	-1.7
Banking system	-2.0	-1.2	-2.7	-1.7	-3.0	-2.1	-4.3	-3.4	-1.5	-1.5	-2.0
Central bank	-4.1	0.1	-3.5	-2.4	-4.1	-1.6	-5.8	-3.4	-1.6	-1.5	-2.2
Deposit money banks (including SPF)	2.1	-1.4	-0.6	-0.5	-0.2	-1.5	0.0	-1.1	0.1	0.0	0.2
Revaluation effect	…	…	1.3	1.2	1.4	1.0	1.4	1.1	…	…	…
Nonbank 3/	-1.9	1.5	-0.1	-0.1	-0.3	-0.2	-0.4	-0.5	0.1	0.3	0.3
Memorandum items:											
Balance of the local governments	...	...	0.1	-0.7	...	-0.9	...	-1.0	...	...	...
Contingent liabilities	7.4	17.8	15.4	14.2	12.9	13.0	14.5	14.5	...	11.6	11.6
Government guarantee of commercial banks' credit	7.4	7.4	5.5	4.1	2.7	2.8	4.1	4.1	...	1.2	1.2
Government guarantees of household deposits	0.0	10.4	9.9	10.0	10.2	10.2	10.4	10.4	...	10.4	10.4
GDP (trillions of rubels)	97.2	128.8	138.4	138.4	140.0	138.4	140.0	138.4	157.4	157.3	157.4

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

1/ Includes changes in expenditure arrears.

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

3/ Includes statistical discrepancy up to 2008.

Table 4. Belarus: Monetary Authorities' Accounts, 2007–10

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

	2007	2008	2009					2010	
			Mar.	Jun.	Sep.	Oct.	Dec.	Mar.	Dec.
								Proj. 1/	
Reserve money	6.9	7.7	5.9	6.1	6.5	7.2	7.0	7.2	8.5
Rubel reserve money	6.9	7.3	5.8	5.8	6.2	6.9	6.7	6.9	8.3
Currency outside banks	3.3	3.8	3.1	3.3	3.5	3.6	3.1	3.2	3.7
Required reserves	1.7	2.2	1.7	1.4	1.7	2.2	1.9	2.1	2.3
Time deposits, NBB securities, and nonbank deposits	1.9	1.2	0.9	1.0	1.1	1.1	1.7	1.6	2.3
Foreign currency reserve money	0.0	0.4	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Net foreign assets	9.1	7.0	8.9	5.3	4.3	3.9	5.7	7.9	8.4
Billions of U.S. dollars	4.2	3.2	3.1	1.9	1.6	1.4	1.9	2.7	2.8
Net foreign assets (convertible)	9.1	5.8	7.8	4.4	3.7	3.3	5.1	7.3	7.8
Billions of U.S. dollars	3.6	2.6	2.7	1.6	1.3	1.2	1.8	2.5	2.6
Foreign assets	10.4	8.0	12.3	8.4	11.4	12.7	17.1	21.3	21.9
Billions of U.S. dollars	4.8	3.6	4.3	3.0	4.1	4.6	5.8	7.2	7.4
Of which gross international reserves	9.0	6.7	11.2	7.5	10.7	12.2	16.5	20.7	21.3
Billions of U.S. dollars	4.2	3.1	4.0	2.6	3.9	4.4	5.6	7.0	7.2
Foreign liabilities	1.3	1.0	3.4	3.1	7.0	8.9	11.4	13.5	13.5
Billions of U.S. dollars	0.6	0.4	1.2	1.1	2.5	3.2	3.9	4.6	4.6
Of which: use of IMF credit (billions of U.S. dollars)	0.0	0.0	0.8	0.8	1.5	2.2	2.9	3.5	3.5
Net domestic assets	-2.2	0.7	-3.0	0.8	2.2	3.3	1.3	-0.6	0.1
Memo: Net domestic assets at program exchange rates	-2.2	0.8	-0.9	2.0	3.2	3.5	2.4	1.4	2.0
Net domestic credit	-1.2	1.2	-2.1	1.7	3.9	5.4	2.7	0.7	1.5
Net credit to general government	-4.2	-4.0	-8.8	-7.6	-6.4	-5.8	-8.7	-11.3	-12.2
Net credit to local government and state enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit to central government	-4.2	-4.0	-8.8	-7.6	-6.4	-5.8	-8.7	-11.3	-12.2
Claims on government (loans and government securities)	1.7	1.7	4.2	4.5	6.7	9.0	10.9	13.0	13.0
Deposits of central government	5.8	5.7	13.0	12.1	13.1	14.8	19.6	24.3	25.2
Credit to economy	2.9	5.2	6.7	9.4	10.3	11.1	11.4	12.0	13.7
Credit to banks	1.8	3.4	4.7	7.2	8.1	8.9	9.2	9.8	11.5
National currencies	1.6	3.1	4.4	6.8	7.7	8.6	8.8	9.5	11.2
Foreign currencies	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4
Billions of U.S. dollars	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Credit to nonbanks	1.1	1.8	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Claims on private sector	1.1	1.8	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Net credit to nonfinancial public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit to other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	-0.9	-0.6	-0.9	-1.0	-1.7	-2.0	-1.4	-1.4	-1.4
Memorandum items:									
Changes in NIR according to TMU definition (millions of U.S. dollars) 2/									
Program 3/	...	...	-1,010	-486	-647	…	-647	…	…
Revised program 3/	…	…	…	-2,321	-2,066	…	-1,388	…	…
Actual/projected	...	...	-1,231	-2,285	-1,916	-2,211	-1,539	-800	-612
Difference	...	...	221	-36	-150	…	150	…	…
Changes in NDA according to the TMU definition (billions of Belarusian rubels) 2/									
Program 3/	...	...	1,152	780	1,566	…	1,709	…	…
Revised program 3/	…	…	…	3,685	3,467	…	2,379	…	…
Actual/projected	...	...	915	3,330	2,972	4,307	2,644	1,274	2,184
Difference	...	...	-237	-356	-494	…	265	…	…
12-month percent change in reserve money	38.4	11.7	-14.2	-21.5	-15.0	-16.1	-9.2	22.6	22.0
Velocity	5.8	6.3	7.9	7.8	7.6	7.2	7.2	7.1	6.5
Ruble broad money multiplier	2.4	2.8	2.9	2.9	2.9	2.7	2.9	2.9	3.0
Currency-to-deposit ratio	0.25	0.23	0.23	0.25	0.25	0.24	0.21	0.20	0.19
Real GDP growth (annual)	8.6	10.0	...	...	...	…	-0.3	…	3.8
End-of-period CPI inflation (year-on-year percent change)	12.1	13.3	15.5	13.4	11.7	…	10.5	…	8.0

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

1/ Projections are shown at the current exchange rates.
2/ Cumulative flow since end-November 2008.
3/ Performance criterion was adjusted in accordance with the adjustment mechanism specified in the TMU.

Table 5. Belarus: Monetary Survey, 2007–10

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

	2007	2008	2009					2010	
			Mar.	Jun.	Sep.	Oct.	Dec.	Mar.	Dec.
								Proj. 1/	
Broad money (M3)	24.5	31.0	31.8	33.2	34.3	35.5	35.6	36.5	42.6
Memo: Broad money (M3) at program exchange rates	24.5	30.8	28.2	29.3	30.6	32.0	31.3	32.0	37.7
Rubel broad money (M2)	16.8	20.5	16.6	17.0	17.8	19.0	19.2	20.0	24.4
Currency in circulation	3.3	3.8	3.1	3.3	3.5	3.6	3.1	3.2	3.7
Domestic currency deposits	12.4	16.0	12.9	12.6	13.4	14.5	15.2	15.9	19.6
Domestic currency securities	1.0	0.7	0.6	1.1	0.8	0.8	0.9	0.9	1.1
Foreign currency deposits	7.7	10.2	14.8	15.9	15.7	15.6	15.6	15.7	17.4
Bank securities in foreign currency	0.1	0.2	0.4	0.4	0.8	1.0	0.8	0.8	0.8
Memorandum items: total deposits	20.1	26.2	27.7	28.4	29.1	30.1	30.8	31.6	37.0
Net foreign assets	6.4	3.1	4.6	0.2	-1.1	-1.6	-0.6	1.4	0.5
Billions of U.S. dollars	3.0	1.4	1.6	0.1	-0.4	-0.6	-0.2	0.5	0.2
NFA of central bank	9.1	7.0	8.9	5.3	4.3	3.9	5.7	7.9	8.4
NFA of deposit money banks	-2.7	-3.9	-4.2	-5.1	-5.4	-5.5	-6.3	-6.4	-8.0
Net domestic assets	18.1	27.9	27.2	33.0	35.3	37.2	36.2	35.0	42.2
Net domestic credit	25.8	39.2	39.5	44.8	48.8	50.6	49.7	48.5	55.6
Net credit to general government	-5.8	-9.8	-15.3	-14.1	-14.3	-13.5	-16.0	-18.4	-19.2
Net credit to central government	-6.2	-7.2	-13.1	-12.6	-12.8	-11.8	-14.6	-17.0	-17.7
Claims on central government	4.4	7.0	9.0	8.8	10.3	12.2	14.5	16.6	16.6
Deposits of the central government	10.5	14.3	22.1	21.4	23.1	24.0	29.1	33.6	34.3
Net credit to state and local governments	0.3	-2.6	-2.2	-1.5	-1.5	-1.6	-1.4	-1.4	-1.4
Credit to economy	31.6	48.9	54.8	58.9	63.1	64.1	65.7	66.8	74.8
Memo: Credit to economy at program exchange rates	31.7	48.6	50.3	54.3	58.8	59.9	60.4	61.5	69.3
Net credit to public nonfinancial corporations	7.4	11.4	13.1	14.1	15.4	15.9	15.8	16.2	18.0
Claims on private sector	24.1	37.2	41.3	44.3	47.1	47.6	49.3	50.0	56.1
Claims on other financial corporations	0.1	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.7
Other items, net	-7.7	-11.3	-12.3	-11.8	-13.5	-13.5	-13.5	-13.4	-13.4
Capital	-8.3	-13.0	-14.1	-14.4	-15.0	-15.6	-14.8	-14.8	-14.9
Other net assets	0.6	1.7	1.7	2.6	1.6	2.1	1.3	1.3	1.5
Memorandum items:									
12-month percent change in broad money at program exchage rate	39.8	25.4	11.3	3.1	1.7	8.9	1.6	13.7	20.6
12-month percent change of credit to economy at program exchange rate	46.9	53.6	45.1	36.9	31.6	29.8	24.2	22.2	14.6
Quarter-on-quarter percent change in credit to economy at program exchange rate	…	8.8	3.5	7.9	8.3	…	2.7	1.8	…
Credit to economy at program exchange rates since the beginning of the year, percent change	43.4	53.6	3.5	11.7	21.0	23.2	24.2	26.5	14.6
Deposits of the central and local governments in commercial banks at program exchange rate	5.0	12.1	11.7	11.0	12.2	11.5	11.4	11.2	11.1
Dollarization ratio	38.2	38.9	53.5	55.8	53.8	51.7	50.7	49.7	47.1

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

1/ Projections are shown at current exchange rates.

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

	2005	2006	2007	2008	Mar-09	Jun-09	Sep-09
Capital adequacy							
Regulatory capital (percent of risk-weighted assets)	26.7	24.4	19.3	21.8	20.2	19.1	19.0
Regulatory Tier I (percent of risk-weighted assets)	18.7	17.4	14.0	16.9	15.6	14.3	14.0
Total capital (percent of total assets)	19.8	17.9	16.0	18.6	18.0	17.3	16.7
Asset composition and quality							
NPLs (percent of total loans)	1.9	1.2	0.7	0.6	1.1	1.3	1.6
Provisions (percent of NPLs)	48.4	51.3	61.5	70.0	65.5	62.5	58.6
NPLs net of provisions (percent of regulatory capital)	6.3	6.1	3.8	2.3	3.7	4.8	7.0
Foreign currency loans (percent of total loans)	37.0	33.8	37.6	30.9	33.9	32.5	30.7
Loans to state-owned enterprises (percent of total)	26.3	25.4	22.4	22.6	23.2	23.7	24.3
Sectoral distribution of loans (percent of total)							
Industry	29.7	27.3	26.9	27.4	29.0	29.2	30.1
Agriculture	13.4	14.6	14.4	15.5	14.9	15.7	16.9
Trade	7.3	7.7	8.1	7.0	6.8	3.3	6.8
Construction	2.0	2.2	2.7	3.3	3.5	7.2	3.3
Households	26.3	27.8	27.5	28.1	27.2	26.3	25.6
Other	21.4	20.4	20.4	18.7	18.6	18.3	17.2
Profitability							
Return on assets (after tax)	1.3	1.7	1.7	1.4	1.5	1.4	1.2
Return on equity (after tax)	6.8	9.6	10.7	9.6	10.2	9.3	7.8
Liquidity							
Liquid assets to total assets	30.4	24.1	22.6	23.2	21.0	19.1	18.4
Instant liquidity ratio 1/	117.8	128.9	104.1	108.8	155.5	135.7	109.0
Current liquidity ratio 2/	95.9	96.7	98.8	102.0	112.4	94.9	103.8
Loans to deposits	119.9	135.0	144.3	170.8	181.4	191.0	200.6
Foreign currency deposits to total deposits	38.0	34.7	38.2	38.9	53.5	55.8	53.8
Foreign currency liabilities to total liabilities	44.6	41.2	44.7	38.7	48.1	48.2	44.8
Market risks							
Net open position in FX (percent of capital)	11.3	8.5	4.0	8.7	5.9	11.4	16.0

Source: National Bank of the Republic of Belarus.

1/ Ratio of demand assets to demand liabilities. The prudential minimum is 20 percent.
2/ Assets/liabilities with a remaining maturity of less than 1 month. The prudential minimum is 70 percent.

Table 7. Belarus: Financing Requirements under the Program, 2009–10

(Millions of U.S. dollars)

	2009 Proj.	2010 Proj.
Financing needs	-6,738	-4,954
Current account balance	-5,414	-3,852
Trade credits (assets)	-750	-200
Amortization of medium- and long-term loans	-1,017	-807
Short-term loans	-1,171	-780
Other investment (net)	1,614	685
Financing sources	3,278	2,969
Capital account	125	180
FDI (net)	1,366	2,320
Portfolio investment (net)	32	0
Trade credits (liabilities)	740	600
Medium- and long-term loans	2,493	2,204
Short-term loans	780	548
Errors and omissions	368	0
Targeted increase in reserves	-2,626	-2,882
Financing gap	-3,460	-1,985
Financing		
IMF	2,819	682
World Bank	200	0
European Union	290	0
Russia 1/	0	0
Unfilled 2/	150	1,304

Source: IMF staff calculations.

1/ Total financing from Russia in 2009 amounts to $1 billion, of which $0.5 billion has already been disbursed.

2/ The unfilled gap for 2009 would be addressed through the proposed modification of the end-December NIR target. Based on the adjusted target for gross reserves in 2010, the cumulative unfilled financing gap in 2010 amounts to $1,454 million.

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

	2005	2006	2007	2008	2009 Proj.
CPI inflation (end year)	7.9	6.6	12.1	13.3	10.5
Export volume of goods (percent change)	-1.2	8.3	5.2	1.5	-12.7
Import volume of goods (percent change)	-3.1	21.7	7.2	14.3	-15.8
Current account balance (percent of GDP)	1.4	-3.9	-6.8	-8.4	-11.0
Capital and financial account balance (millions of U.S. dollars)	-20	1,745	5,292	3,816	4,213
Of which					
Foreign direct investment, net	303	351	1,770	2,143	1,366
Trade credits, net	-546	158	690	-50	-10
Official Liabilities, net	19	-50	2,106	1,241	5,282
Liabilties of the banking sector, net	220	502	1,075	531	96
Non-bank private liabilities (excl. trade credits) 1/	177	493	722	495	220
Gross official reserves (millions of U.S. dollars)	1,297	1,383	4,182	3,061	5,621
Months of imports of goods and nonfactor services	0.9	0.7	1.6	0.9	2.3
Percent of broad money	22.2	16.9	36.7	21.9	52.9
Gross total external debt (millions U.S. dollars)	5,130	6,847	12,548	15,168	21,099
Percent of GDP	17.0	18.5	27.7	25.2	42.8
Percent of exports of goods and nonfactor services	28.4	30.8	45.5	40.7	84.6
Gross short-term external debt (millions of U.S. dollars)	3,299	4,382	7,362	7,571	8,231
Percent of gross total external debt	64	64	59	50	39
Percent of gross official reserves	254	317	176	247	146
Debt service ratio (percent) 2/	3.6	2.4	3.1	4.0	6.4
REER appreciation (CPI based, period average)	0.2	-1.9	-4.5	0.6	-2.9
Capital adequacy ratio (percent) 3/ 4/	26.7	24.4	19.3	21.8	19.0
Nonperforming loans (percent of total) 4/	1.9	1.2	0.7	0.6	1.6
Banks' net foreign asset position (percent of regulatory capital) 4/	11.3	8.5	4.0	8.7	16.0
Real broad money (percent change) 5/ 6/	31.8	30.6	24.9	11.5	-8.0
Real credit to economy (percent change) 5/ 6/	25.2	48.5	31.2	36.6	12.4

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

1/ Includes loans, currency and deposits and other flows.
2/ Interest plus medium- and long-term debt repayments in percent of exports of goods and services.
3/ Regulatory capital in percent of risk-weighted assets.
4/ Values for 2009 are as of September 2009.
5/ Deflated by the CPI.
6/ Value for 2009 shown at program exchange rates.

Table 9. Belarus: Capacity to Repay the Fund, 2009–14 1/

	2009	2010	2011	2012	2013	2014
Fund repurchases and charges						
Millions of SDRs	8.2	47.0	50.6	297.7	1,114.3	893.1
Millions of U.S. dollars	12.5	73.1	78.6	462.2	1,728.8	1,382.9
Percent of exports of goods and nonfactor services	0.1	0.2	0.2	1.1	3.7	2.5
Percent of total debt service 2/	0.8	4.6	3.4	13.7	31.5	24.6
Percent of quota	2.1	12.2	13.1	77.0	288.4	231.1
Percent of gross international reserves	0.2	1.0	0.9	4.5	14.3	9.0
Fund credit outstanding						
Millions of SDRs	1,831.6	2,269.5	2,269.5	2,020.6	940.6	54.7
Millions of U.S. dollars	2,851.1	3,529.7	3,524.8	3,136.2	1,458.0	84.7
Percent of exports of goods and nonfactor services	11.4	11.5	10.0	7.8	3.1	0.2
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2
Percent of gross international reserves	50.7	49.0	40.4	30.2	12.1	0.6
Memorandum items:						
Exports of goods and nonfactor services (millions of U.S. dollars)	24,937	30,619	35,186	40,352	47,094	55,233
Debt service (millions of U.S. dollars)	1,546	1,576	2,289	3,376	5,493	5,613
Quota (millions of SDRs)	386.4	386.4	386.4	386.4	386.4	386.4
Quota (millions of U.S. dollars)	592.0	601.4	600.4	600.0	599.5	598.4
Gross international reserves (millions of U.S. dollars)	5,621	7,199	8,723	10,386	12,099	15,365
U.S. dollars per SDR (period average)	1.532	1.556	1.554	1.553	1.551	1.549
U.S. dollars per SDR (eop)	1.557	1.555	1.553	1.552	1.550	1.547

Source: IMF staff calculations.

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

Appendix I. Table 1. Belarus: External Debt Sustainability Framework, 2004–14

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing noninterest current account
Baseline: external debt	21.8	17.0	18.5	27.7	25.2	42.8	44.1	41.8	38.4	33.8	30.7	-7.6
Change in external debt	-1.7	-4.8	1.5	9.2	-2.6	17.6	1.3	-2.3	-3.4	-4.6	-3.1	
Identified external debt-creating flows (4+8+9)	-0.4	-7.9	-0.2	-0.2	-1.8	8.3	1.5	-0.9	-1.3	-2.7	-3.1	
Current account deficit, excluding interest payments	4.9	-1.8	3.5	6.2	7.5	9.8	5.8	4.0	3.2	2.6	2.0	
Deficit in balance of goods and services	6.6	-0.7	4.1	6.3	7.4	9.2	5.0	3.4	2.4	1.9	1.3	
Exports	69.1	59.8	60.2	60.9	61.9	50.5	57.6	58.0	57.9	58.3	58.8	
Imports	75.6	59.1	64.3	67.2	69.2	59.7	62.6	61.4	60.3	60.2	60.1	
Net non-debt creating capital inflows (negative)	-0.6	-1.0	-1.0	-3.6	-3.3	-2.8	-4.3	-4.8	-4.3	-4.6	-4.5	
Automatic debt dynamics 1/	-4.7	-5.1	-2.7	-2.8	-6.1	1.3	0.0	-0.1	-0.2	-0.6	-0.7	
Contribution from nominal interest rate	0.4	0.3	0.4	0.6	0.8	1.2	1.4	1.6	1.7	1.5	1.3	
Contribution from real GDP growth	-2.1	-1.5	-1.4	-1.3	-2.1	0.1	-1.5	-1.7	-1.9	-2.1	-2.0	
Contribution from price and exchange rate changes 2/	-3.0	-3.9	-1.7	-2.1	-4.8	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.3	3.0	1.7	9.4	-0.7	9.3	-0.2	-1.4	-2.1	-1.9	0.0	
External debt-to-exports ratio (percent)	31.6	28.4	30.8	45.5	40.7	84.6	76.5	72.0	66.3	58.0	52.2	
Gross external financing need (billions of U.S. dollars) 4/	4.2	3.6	5.1	8.1	13.4	14.0	12.9	13.2	14.3	17.1	18.0	
Percent of GDP	18.4	12.0	13.9	17.8	22.2	28.4	24.3	21.7	20.5	21.2	19.2	
Scenario with key variables at their historical averages 5/						24.1	21.5	19.8	17.9	16.3	15.5	-4.8
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-0.3	3.8	4.4	5.3	6.3	6.9	
GDP deflator in U.S. dollars (percent change)	14.3	21.5	11.2	12.8	21.1	-17.9	3.8	9.3	9.1	9.0	8.9	
Nominal external interest rate (percent)	1.9	2.0	2.7	3.8	4.1	3.8	3.6	4.1	4.7	4.4	4.6	
Growth of exports (U.S. dollar terms, percent)	35.5	15.2	23.1	24.0	35.2	-33.2	22.8	14.9	14.7	16.7	17.3	
Growth of imports (U.S. dollar terms, percent)	40.4	3.9	33.1	28.0	37.3	-29.5	13.0	11.8	12.9	15.6	16.1	
Current account balance, excluding interest payments	-4.9	1.8	-3.5	-6.2	-7.5	-9.8	-5.8	-4.0	-3.2	-2.6	-2.0	
Net nondebt creating capital inflows	0.6	1.0	1.0	3.6	3.3	2.8	4.3	4.8	4.3	4.6	4.5	

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

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

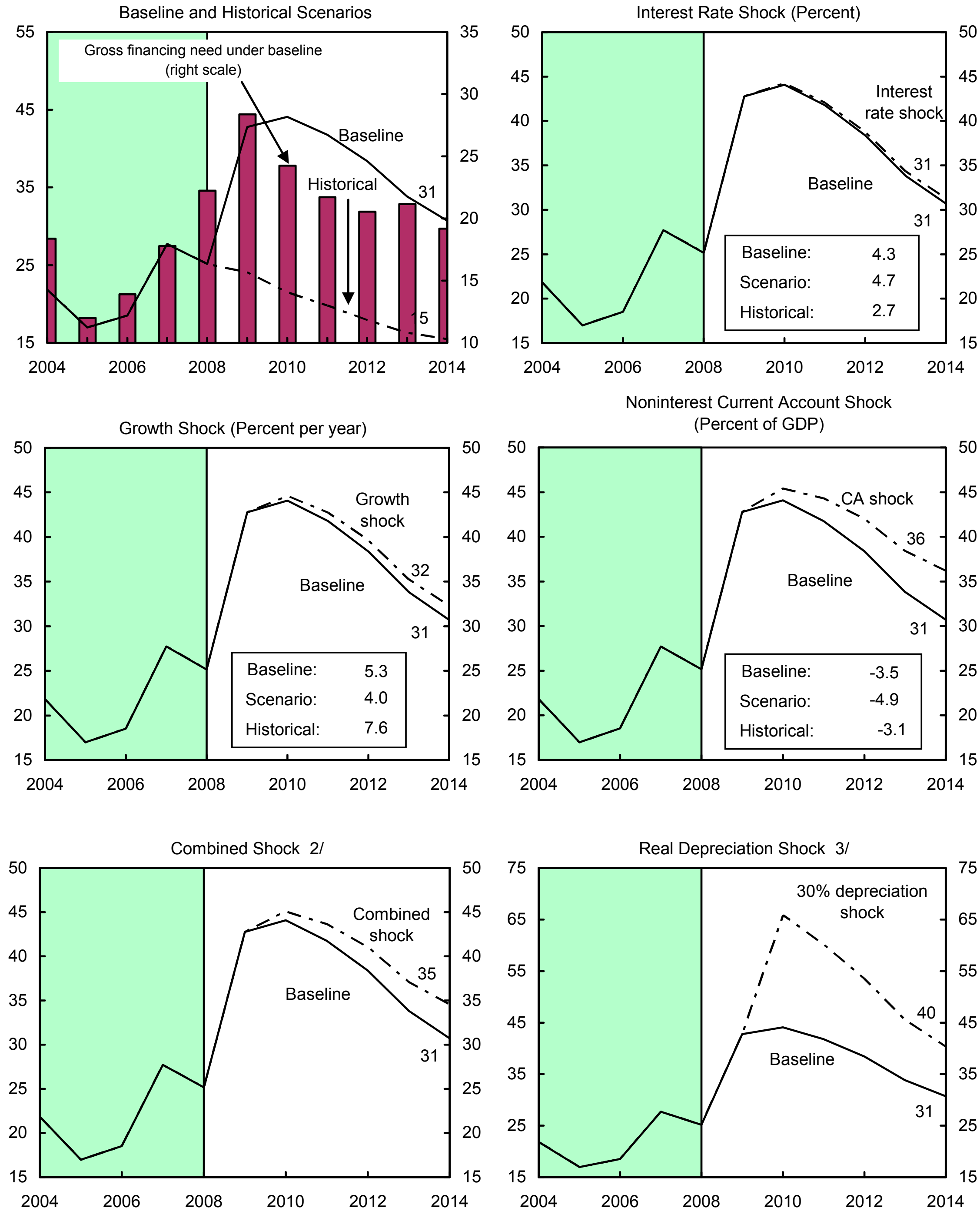
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

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



Source: IMF staff estimates.

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

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

3/ One-time real depreciation of 30 percent occurs in 2009.

Appendix I. Table 2. Belarus: Public Sector Debt Sustainability Framework, 2004–14

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Baseline: public sector debt 1/	9.1	8.3	8.8	11.5	13.7	25.2	23.8	22.8	21.2	19.2	17.3	-4.0
Of which: foreign-currency denominated	3.6	2.6	2.3	6.5	6.9	17.9	18.2	17.9	16.9	15.5	14.0	
Change in public sector debt	-1.3	-0.8	0.5	2.7	2.3	11.4	-1.3	-1.0	-1.6	-2.0	-1.9	
Identified debt-creating flows (4+7+12)	-1.6	-0.9	-0.9	-3.8	-3.5	-1.5	-4.0	-3.2	-3.1	-3.7	-3.4	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.3	0.3	0.9	0.9	0.6	0.6	
Revenue and grants	46.0	47.4	49.1	49.5	51.0	44.2	43.0	41.9	41.9	41.5	41.3	
Primary (noninterest) expenditure	45.5	47.7	47.3	48.6	49.0	44.5	43.3	42.9	42.8	42.2	42.0	
Automatic debt dynamics 2/	-2.1	-1.9	-1.1	-1.2	-2.1	-0.2	-1.6	-1.7	-1.7	-1.9	-1.7	
Contribution from interest rate/growth differential 3/	-2.2	-1.9	-1.1	-1.2	-2.2	-0.2	-1.6	-1.7	-1.7	-1.9	-1.7	
Of which: contribution from real interest rate	-1.3	-1.2	-0.4	-0.6	-1.4	-0.2	-0.8	-0.8	-0.6	-0.7	-0.6	
Of which: contribution from real GDP growth	-0.9	-0.6	-0.7	-0.6	-0.9	0.0	-0.8	-0.9	-1.1	-1.2	-1.1	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.1	...	...	...	...	...	...	
Other identified debt-creating flows	1.1	0.7	2.0	-1.8	0.6	-1.7	-2.7	-2.4	-2.3	-2.5	-2.4	
Privatization receipts (negative)	-0.1	-0.1	1.2	-2.6	-1.0	-1.7	-2.7	-2.4	-2.3	-2.5	-2.4	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	1.1	0.8	0.9	0.8	1.6	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.3	0.0	1.4	6.5	5.8	12.9	2.7	2.2	1.4	1.8	1.6	
Public sector debt-to-revenue ratio 1/	19.7	17.4	17.9	23.2	27.0	56.9	55.5	54.4	50.6	46.3	41.9	
Gross financing need 6/	0.8	1.3	-1.0	0.1	-1.0	1.5	2.1	2.4	3.0	3.2	3.1	
Billions of U.S. dollars	0.2	0.4	-0.4	0.1	-0.6	0.7	1.1	1.5	2.1	2.6	2.9	
Scenario with key variables at their historical averages 7/						25.2	20.6	16.6	12.7	9.6	6.9	-3.3
Scenario with no policy change (constant primary balance) in 2008–13						25.2	26.1	25.8	24.8	23.7	22.5	-4.5
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	11.4	9.4	10.0	8.6	10.0	-0.3	3.8	4.4	5.3	6.3	6.9	
Average nominal interest rate on public debt (percent) 8/	6.4	5.2	5.5	5.6	6.7	6.2	6.3	5.2	5.4	4.7	5.2	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-14.0	-16.0	-5.3	-7.2	-13.9	-1.6	-3.3	-3.4	-2.6	-3.4	-2.9	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	-0.6	0.8	0.6	-0.5	-2.3	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	20.4	21.2	10.7	12.8	20.5	7.8	9.6	8.6	8.0	8.0	8.0	
Growth of real primary spending (deflated by GDP deflator, percent)	7.5	14.9	9.1	11.8	11.1	-9.4	0.8	3.5	5.1	4.8	6.4	
Primary deficit	-0.5	0.3	-1.8	-0.8	-1.9	0.3	0.3	0.9	0.9	0.6	0.6	

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

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

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

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

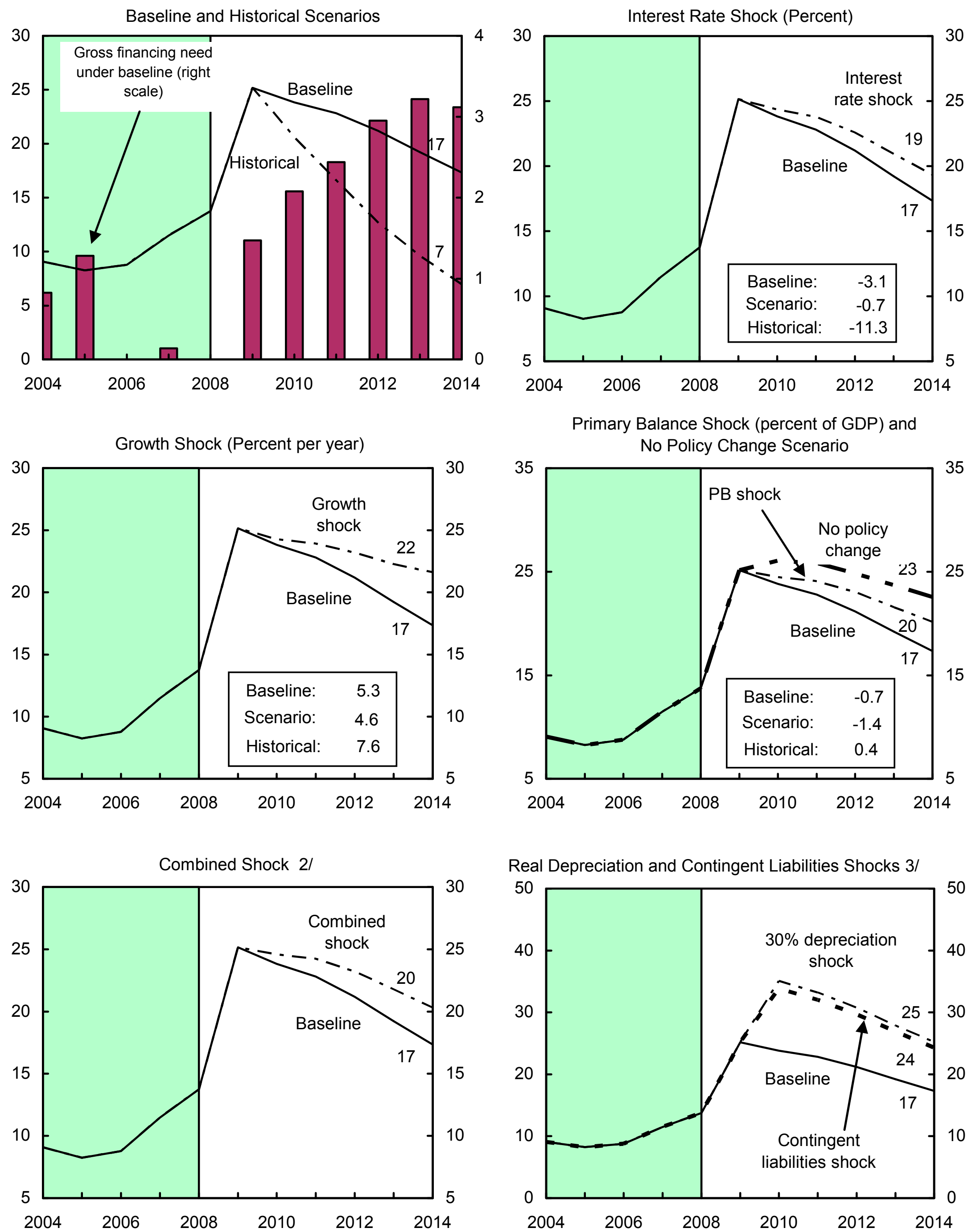
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

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

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



Sources: IMF staff estimates.

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

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

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX II: BELARUS: LETTER OF INTENT

Minsk, December 11, 2009

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

Dear Mr. Strauss-Kahn:

1. This letter describes the economic policies and objectives of the authorities of the Republic of Belarus for the remainder of 2009 and for 2010. It supplements and amends the commitments made during the second review under the Stand-By Arrangement (SBA) with the International Monetary Fund. Based on the policies we have pursued since the initiation of the SBA, we request the completion of the third review under the SBA.

2. We met all end-September program targets and end-September structural benchmarks outlined in our Letter of Intent (LOI) of September 30, 2009:

- We tightened our credit policy by curtailing lending under government programs and suspending adoption of new programs through end-2009. Thanks to these measures, the end-September performance criteria on net international reserves (NIR) and net domestic assets (NDA) were met.

- Continued tight fiscal policy allowed us to meet the adjusted performance criterion for cash deficit at end-September 2009.

- We implemented the structural benchmarks related to privatization and financial sector reform for end-September.

3. We were unable to implement some of the measures envisaged by our LOI as planned. To achieve budgetary savings we decided not to increase wages in the budgetary sector in 2009. To avoid erosion of households' incomes we also decided to postpone an increase in tariffs on households' utilities and transportation until 2010. We were unable to completely eliminate new lending to banks extended by the NBRB at below market rates due to our commitments to banks made prior to signing the previous LOI, but we have provided no other new lending, apart from that under housing construction.

4. We request a modification of the end-December performance criteria. A withdrawal of a commitment by Russia to provide the final $500 million tranche of a bilateral loan opened a financing gap. We have implemented fiscal and exchange rate measures to close the financing gap over the program period but we are unable to fully close it this year, since the full effect of these measures will be achieved only in 2010. We therefore request a modification of the end-December

NIR and NDA targets by $150 million and 265 billion rubels, respectively. The requested modification of performance criteria, prior actions and structural benchmarks are summarized in Tables 2 and 3. Table 2 also proposes indicative targets for end-March 2010. The fourth review will be held after February 15, 2010.

5. We believe that the policies set out in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. As is standard under all IMF arrangements, we will continue to consult with the IMF on the adoption of new measures, and in advance of revisions to the policies described in this letter. We will consult with Fund staff about the appropriate policy response if gross reserves fall below $5.6 billion before end-March 2010. We will also continue to provide the Fund with information as required to monitor progress on program implementation. We will consult with the Fund on our economic policies after the expiration of the arrangement, in line with the Fund's policies on such consultations. Finally, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

I. Program Objectives and Macroeconomic Framework

6. Macroeconomic stability and sustainable economic growth remain our key objectives. Our macroeconomic policies would strengthen our external position and create opportunities for private sector development. Closing the financing gap during the remainder of the program required greater use of the exchange rate flexibility provided by the current regime, while maintaining tight fiscal and monetary policies. Our structural reforms focus on promoting macroeconomic stability and private initiative, while reducing government intervention in economic activity. Our social policies will ensure adequate social safety for the most needy.

7. The previously agreed macroeconomic framework remains largely valid for the balance of 2009. We were able to avoid a deep recession and real GDP is expected to remain almost unchanged this year, compared with a year ago. However, the continued deterioration in the terms of trade would further widen the current account deficit bringing it close to 11 percent of GDP. The year-on-year inflation is expected to reach 10½ percent in 2009.

8. Our macroeconomic framework for 2010 would promote economic recovery, while bringing inflation to single digits and narrowing the external current account deficit. We will formulate our macroeconomic policies with the view of bringing the current account deficit to about 7 percent of GDP. This will be achieved by maintaining prudent fiscal and monetary policies and permitting exchange rate flexibility if needed, and will be facilitated by a gradual recovery in external demand and also some improvement in the terms of trade. Our objective is to increase international reserves to about $8½ billion (over 3 months of imports) during 2010. To further consolidate macroeconomic stability and reduce inflation we will keep the general government deficit to 1.7 percent of GDP. Credit to the economy is expected to rise by 15 percent, broadly in line with nominal GDP growth. The economy-wide wage policy would support our goal of improving international competitiveness. This disciplined approach is reflected in the budget and

monetary policy guidelines and Main Economic Indicators. It is consistent with 3¾ percent GDP growth, while the budget is based on a slightly more conservative GDP growth.

9. The nascent global economic recovery opens new opportunities for Belarus although risks remain high due to the uncertainty of the outlook. We are prepared to take timely measures to adjust our policies to seize every opportunity for a speedy economic recovery while maintaining macroeconomic stability. On the upside, a better than projected external economic environment, improved economic efficiency, bold structural reforms promoting private sector development and an increase in external financing, primarily through foreign direct investment, could generate economic growth in excess of the projected 3¾ percent. Moreover, if additional external financing becomes available the credit to the economy could be expanded in 2010. On the downside, a deterioration in the external economic environment or a shortfall in external financing would worsen prospects for economic growth.

II. Macroeconomic Policies for the Remainder of 2009

10. Our macroeconomic policies for the remainder of the year aim at achieving end-December performance criteria and closing the financing gap. To bolster our external competitiveness and to help us meet the NIR target we have brought the basket value to the level of 1,038 rubels (**prior action**). We have published in the Monetary Policy Guidelines for 2010 the decision that the exchange rate parity will be recentered at its December 31, 2009 level to ensure continued exchange rate flexibility (**prior action**). We will issue a press statement following the approval of the Monetary Policy Guidelines for 2010 and publicly announce our decision on the central exchange rate parity. To support the exchange rate and to meet the NDA target we will reduce lending under government programs in line with the limit agreed during the second review of the SBA and will also contain credit to state enterprises with high levels of inventories. To meet our fiscal target despite budget support falling short of our projections, we have cut spending on goods and services and untargeted subsidies, while refraining from social spending cuts. We will offset local spending in excess of programmed levels by additional spending cuts by the central government.

III. Macroeconomic Policies in 2010

A. Monetary and Exchange Rate Policies

11. Our monetary policy will continue to support the credibility of the exchange rate regime, while also keeping inflationary pressures under control. To this end, we will maintain tight credit policy by limiting lending under government programs. By end-2010 we will bring its share down to 46 percent of total claims on the economy and by end-2012 below 40 percent of total claims on the economy. To meet this objective we will limit net credit under government programs to 3¼ trillion rubels in 2010 and to 0.8 trillion rubels in the first quarter of 2010. This limit could be raised, in consultation with Fund staff, if additional foreign financing is received during 2010, or if additional lending is consistent with reducing its share in total claims on the economy to the agreed levels.

12. Curtailing lending under government programs would free resources for market-based lending. To improve access to finance for the non-government sector we have recently reduced policy interest rates by 50 basis points. Any further interest rate reduction would depend on our ability to meet the reserve targets envisaged in the program, further dedollarization of the economy and progress on enforcing the limits on credit under government programs.

13. Our exchange rate regime has served us well and we will keep it in 2010. To maintain the flexibility of the exchange rate we will retain the ±10 percent trading band around the new recentered level. Barring unexpected external shocks we have no plans for additional exchange rate adjustment. However, we will be prepared to make more use of the flexibility within the band in order to support adjustment in the current account and to meet targeted levels of reserves.

B. Fiscal Policy

14. We remain committed to disciplined fiscal policy. Our fiscal policy will continue to support the exchange rate regime, while also facilitating economic recovery. To this end we decided to limit the general government deficit to 2.7 trillion rubels (1.7 percent of GDP) in 2010. The budget will be consistent with this commitment and will be submitted to Parliament by the President by December 11, 2009 (**prior action**) and signed into law by December 31, 2009.

15. We will continue our tight expenditure policy to meet our fiscal targets in 2010 and implement the following measures:

- *Wage and pension policies*. We limited the increase in the wage bill to 11 percent in 2010 which is consistent with the GDP growth of 3¾ percent. During the first quarter of 2010 the increase in wages in the budgetary sector in nominal terms will be no more than 5 percent. Any further wage increase in the budgetary sector after the first quarter will only be considered if macroeconomic conditions permit. We will maintain the practice of limiting wage growth in state-owned enterprises receiving government support. Our decisions on pension increases would be guided by the need to safeguard the viability of the Social Protection Fund and will maintain the normal relationship between pensions and wages.

- *Budget support to the economy*. We will reduce net lending and spending on subsidies and transfers—the largest item in the budget—by cutting untargeted subsidies and transfers.

    - We will reduce fiscal subsidies on household utilities by increasing fees by US$7 during the first half of 2010 and promoting cost cutting measures. We will adjust our policy on utility fees in line with changes in the price of imported natural gas.

    - We will also improve the cost recovery level of transportation fees by raising them by 18 percent during the first half of 2010.

    - We will streamline other subsidies to the economy to improve the allocation of resources.

- We will significantly reduce net lending by limiting new lending and by enforcing the repayment of maturing loans.

16. We introduced a new provision in our 2010 budget law limiting local governments' deficits to 1 percent of their revenue (about 0.1 percent of GDP), if they are financed domestically. Moreover, our decisions on transfers from the central to local governments will ensure fiscal discipline of the local governments. If necessary, as in 2009, we will offset local governments' overruns by reducing the central government non-priority spending on goods and services and subsidies.

17. Our fiscal policy aims at reducing the tax burden and the size of the government. In the context of the 2010 budget we will eliminate the turnover tax and also the local retail sales tax and other local taxes and fees. To offset the revenue loss arising from the elimination of some taxes, we will increase the rate on the value added tax by 2 percentage points bringing it to 20 percent. We will develop the tax reform strategy based on the recommendations of the FAD Technical Assistance mission on Tax Policy scheduled for the first quarter of 2010. To achieve expenditure savings we will request technical assistance on expenditure rationalization in the first quarter of 2010.

18. We recently established an agency that would facilitate leasing of equipment by our exporters. To account for the potential fiscal costs of default by lessees, we have appropriated as a contingency line in the 2010 budget an amount equivalent to the expected repayment of the agency's leases in that year, with the contingency line being reduced as payments are received.

IV. Financial Sector Issues

19. We adopted amendments to the regulation on loan classification and provisioning in September 2009, in line with the recommendations of the MCM TA mission. We have recently conducted an impact study of this new regulation on bank performance indicators. A schedule for implementing this regulation will then be designed on a bank-by-bank basis with the expectation that most banks would implement it by June 2010 and that it would be fully implemented by all banks by end-December 2010.

20. We have prepared a draft decree on establishing a special agency (SA) which will help clean banks' balance sheets and assume the role currently played by banks in financing government programs, in line with the recommendations of the 2009 Financial Sector Stability Assessment (FSSA). We will submit this draft decree to the Head of State by end-December 2009. Loans disbursed under government programs and government funding held at banks will be transferred from commercial banks to this agency, which will replace commercial banks as the source of financing government programs. Banks, however, would be allowed to retain on their balance sheets a portion of the existing loans under government programs which they consider commercially viable. The agency will start functioning in 2010. The structure and governance of this agency will be discussed with the IMF staff. Initially, the functions of this agency will be

limited to managing the earlier disbursed loans, but during 2011 the agency will start distributing all new government program loans, with all new lending included in the budget above the line. To minimize problem loans associated with lending under government programs, we will strengthen the targeting and monitoring of such lending.

21. Banks remain adequately capitalized and we have no plans for bank recapitalization in 2009 and 2010. Moreover, we expect that the capitalization of banks would automatically improve following the transfer of assets and liabilities associated with lending under government programs to the SA. However, we will be prepared to provide some limited recapitalization to those banks whose capital adequacy indicators would fall below the prudential minimum or would be expected to fall below the minimum based on plausible stress tests even after the transfer of assets and liabilities to the SA. Should private banks become undercapitalized, we will use our existing framework, as appropriate, to rapidly resolve the issues.

22. We have been working on strengthening the financial system and the independence of the NBRB. Specifically we are focusing on the following areas:

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

- *Phasing out non-market liquidity support*. We recognize that the NBRB liquidity support on non-market terms is distortionary and has to be phased out. To this end in 2009 we will not extend new loans to banks at interest rates below rates on standard refinancing facilities (e.g. Lombard auctions) except credits for housing construction. We will also refrain from any new liquidity support on non-market terms in 2010 and will refinance banks in line with the repayment schedule of such loans based on earlier commitments until the SA is established and begins lending under the government programs. The outstanding stock of non-market-based lending will not exceed 8.0 trillion rubels.

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

- *Improving operational and financial independence of the NBRB*. Building on the recommendations of the FSSA and the Safeguards Assessments, we have prepared draft amendments and supplements to the Statute of the NBRB approved by Decree of the President of the Republic of Belarus #320 dated June 13, 2001 with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (**structural benchmark**). We requested an IMF technical assistance mission to assist us with finalizing these documents and we will submit the revised drafts of this legislation to the President by end-February 2010.

- *Disengaging the NBRB from non-core business.* In line with earlier program commitments, net increase in NBRB's direct or equity financing of non-financial organizations will remain within the ceiling of 350 billion rubels in 2009 and any new lending or equity investment in non-financial organizations will be discontinued thereafter. We have been working on developing an action plan for divesting all NBRB non-financial subsidiaries and associated companies and will finalize it by end-December.

- *Curbing directed lending financed with government deposits.* In line with our legislation prohibiting the central and local governments from making any additional transfers to their deposit accounts with commercial banks, we will continue transferring the existing stock of these deposits back to NBRB accounts in line with the schedule for repayment of corresponding loans. An exception will be made for certain central and local government demand deposits held for operational purposes. We will continue to refrain from approving any new directed lending programs financed with budget deposits (**continuous structural benchmark**).

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

23. In line with the recommendations of the Safeguards Assessment the end-September quantitative PCs relating to NIR and NDA have been audited by international accountants and we will continue this practice until the end of the program.

V. Structural Reforms

24. Our structural reform agenda aims at supporting macroeconomic stability allowing market forces to play a greater role in resource allocation and foster private sector development. To this end we developed a legal framework for privatization to become competitive, transparent and professionally executed. A draft Privatization Law and the draft decree on establishing a privatization agency incorporating comments from the World Bank were submitted to Parliament

and the President, respectively, on September 30, 2009. We have selected five enterprises as candidates for privatization and their controlling equity stakes will be offered for sale through an open, international, transparent, and competitive tender by end-February, 2010. In November we submitted the list of these enterprises to the Head of State for approval. Furthermore, by end-February 2010 we will compile a list of enterprises from the list of companies included in the privatization plan for 2008-10 (**structural benchmark**) and task the privatization agency with preparing these enterprises for privatization through an open, international, transparent and competitive bidding process.

25. We attach great importance to promoting market-based economic growth. We have eliminated all instructions that are not consistent with our commitment not to impose a general ceiling on monthly price increases. We recently implemented several measures bringing us closer to market based pricing. These included (i) removing the restrictions on retail trade margins, except for a limited list of goods and (ii) eliminating requirements for price registration. We have been working towards eliminating quantitative economic targets. The Council of Ministers will issue by end-December 2009, a recommendation to the line ministries and other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share (**structural benchmark**). We will refrain from the application of mandatory wage policy to companies in which the government does not have majority control. The government's right in such companies will not extend beyond the rights of all minority shareholders. The government together with the IMF and the World Bank will prepare proposals to be used in order to migrate from mandatory quantitative targets to a market-based incentive system.

Sincerely yours,

/s/	/s/
S.S. Sidorsky	P.P. Prokopovich
Prime Minister	Governor of the National Bank
of the Republic of Belarus	of the Republic of Belarus

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

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

Source: IMF staff calculations.

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

	March, 2009			June, 2009			Sep., 2009			Dec., 2009		Mar., 2010
	Program PC	Adjusted PC	Actual	Revised PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	Revised PC	Indicative target
I. Performance criteria												
Ceiling on the cash deficit of the general government (billions of Belarusian rubels, -implies a surplus) 2/ 3/	-400	…	-708	-700	1,111	961	-1,000	254	158	0	0	500
Floor on net international reserves of the NBRB (millions of U.S. dollars) 4/	-510	-1,010	-1,231	-1,819	-2,321	-2,285	-1,938	-2,066	-1,916	-1,388	-1,539	-800
Ceiling on net domestic assets of the NBRB (billions of Belarusian rubels) 4/	74	1,152	915	2,603	3,685	3,330	3,190	3,467	2,972	2,379	2,644	1,274
II. Continuous performance criteria												
Non-accumulation of external payments arrears.												
Prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions.												
Prohibition on the introduction or modification of multiple currency practices.												
Prohibition on the conclusion of bilateral payments agreements that are inconsistent with Article VIII.												
Prohibition on the imposition or intensification of import restrictions for balance of payments reasons.												
III. Benchmarks for calculating adjustors (cumulative flows from end-December 2008)												
3.1 Adjustor for the net international reserves (millions of US dollars)												
External privatization receipts	625	…	625	627	…	625	853	…	625	1,074	1,074	…
NBRB balance of payments financing other than IMF	0	…	0	0	…	0	0	…	0	0	0	…
General government budget support	1,000	…	500	1,000	…	500	1,200	…	500	1,490	1,490	…
3.2 Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels unless indicated otherwise)												
General government budget support	2,650	…	1,440	2,911	…	1,440	3,514	…	1,440	4,370	4,370	…
General government project support for projects initiated after January 2009	187	…	0	293	…	233.6	506	…	234	718	718	…
Of which: IFI project support	47	…	0	59	…	0.0	113	…	0.8	166	166	
Bank recapitalization	0	...	0	0	...	0	0	…	0	0	0	…
Local government's cash deficit	…	…	…	0	…	1,115	0	…	1,301	0	0	…
Memorandum item: SDR allocation (millions of US dollars at program exchange rate)	…	…	…	…	…	…	548.53	…	548.53	548.53	548.53	…

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

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU).
2/ Cumulative flows from end-December 2008.
3/ The performance criterion on the ceiling of the government deficit was adjusted for projects initiated before the program up to the limit of $353 million and for the cash deficit of local governments up to a limit of 1.4 trillion rubels.
4/ Cumulative flows from end-November 2008 at program exchange rates.

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

I. Prior Actions	**Status**
Bring the basket value to the level of 1,038 rubels.	met
Publish in the Monetary Policy Guidelines for 2010 the decision that exchange rate parity will be recentered at its December 31, 2009 level.	met
The budget, consistent with the general government deficit of 2.7 trillion rubels (1.7 percent of GDP), to be submitted to Parliament by the President by December 11, 2009	met
II. Structural Benchmarks	**Date**
Refrain from approving any new directed lending programs financed with budget deposits (LOI ¶22).	Continuous
Eliminate the regulatory act imposing a general ceiling on monthly price increases of 1/2 percent.	March 31, 2009 (met)
Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization (LOI ¶22).	August 31, 2009 (partially met)
Submit to the Head of State a draft Decree on establishing a Privatization Agency (LOI ¶24).	September 30, 2009 (met)
In line with FSAP recommendations, bring loan classification and provisioning requirements in line with best international practices (LOI ¶19).	September 30, 2009 (met)
Prepare draft amendments and supplements to the Statute of the NBRB with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (LOI ¶22).	December 31, 2009
Issue a Council of Ministers recommendation to the line ministries and, other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share (LOI ¶25).	December 31, 2009
Compile a list of enterprises from the list of companies included in the privatization plan for 2008-10 and task the privatization agency with preparing these enterprises for privatization through an open, international, transparent and competitive bidding process (LOI ¶24).	February 28, 2010

BELARUS—TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 11, 2009

1. This memorandum sets out the understandings between Belarus's authorities and the IMF staff regarding the definitions of performance criteria. The performance criteria are reported in Table 2 of the Letter of Intent (LOI) dated December 11, 2009.

2. The definitions of the performance criteria and the adjustment mechanisms are described in Section I below. Reporting requirements are specified in Section II.

3. The exchange rates and the price of gold to be used for the purpose of monitoring the program are in Table 1 of this attachment, and benchmarks for calculating the adjustors in Table 2.

I. QUANTITATIVE TARGETS

A. Floor on Net International Reserves of the National Bank of the Republic of Belarus (NBRB)

Definition

4. Net international reserves (NIR) of the NBRB are defined as the difference between gross international reserve assets and reserve liabilities, evaluated in U.S. dollars at the program exchange rates (Table 1). Gross international reserve assets are defined as readily available claims on nonresidents, denominated in foreign convertible currencies. They include the NBRB's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from gross international reserve assets are:

- any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically);

- any precious metals or metal deposits, other than monetary gold, held by the NBRB;

- any reserve assets that are: (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities); or (iii) frozen; and

- any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because of lack of quality or lack of liquidity that limits marketability at the book price.

5. For the purpose of this program, reserve liabilities comprise:

- all short-term liabilities of the NBRB vis-à-vis nonresidents with an original maturity of one year or less;

- all foreign exchange liabilities to resident entities (e.g. claims in foreign exchange of domestic banks on the NBRB) excluding (i) foreign exchange liabilities to the general government, to the Agency for Deposit Guarantee, and (ii) the NBRB's foreign exchange transitory accounts;

- the stock of IMF credit outstanding; and

- the nominal value of all derivative positions[8] of the NBRB and government, implying the sale of foreign currency or other reserve assets against domestic currency.

6. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBRB shall be valued at program exchange rates, as described in **paragraph 3** above. On this basis, and consistent with the definition above, the stock of NIR amounted to $2,541 million on November 30, 2008. In addition, a purchase from the IMF will be reflected in the stock of IMF credit outstanding on the same day when the purchase is reflected in the gross international reserves.

Adjustment mechanism

7. The floor on the NIR of the NBRB is subject to an automatic adjustor, based on deviations of external balance of payments support (defined as disbursements from bilateral and multilateral creditors to the NBRB), or external Republican government[9] budget support and privatization proceeds from program projections (Table 2 of the LOI).

A. If the proceeds from external balance of payments support to the NBRB (in U.S. dollars evaluated at program exchange rates):

a) cumulatively exceeds program projections, the floor on the NIR of the NBRB will be adjusted upward by 100 percent of the excess in external balance of payments support; and

b) in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

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[8] This refers to the notional value of the commitments, not the market value.

[9] As defined in paragraph 12 below.

B. If the proceeds from external Republican government budget support and external privatization proceeds (valued in U.S. dollars at program exchange rates):

a) cumulatively exceed program projections, the floor on the NIR of the NBRB will be adjusted upwards by 50 percent of the excess in external budget support and privatization proceeds; and

b) in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, and 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

8. If Belarus participates in any SDR allocation(s) between March 31, 2009 and any subsequent test dates, the NIR target will be adjusted upwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date, measured at program exchange rates.

B. Ceiling on Net Domestic Assets of the NBRB

Definition

9. Net domestic assets (NDA) of the NBRB is defined as the difference between the NBRB's monetary base, as defined by the NBRB's methodology as of March 31, 2009, and NIR. The NIR of the NBRB is defined as in paragraph 4 above.

10. Performance against the NDA target will be measured at program exchange rates. On this basis, and consistent with the definition above, the NBRB's NDA amounted to RBL 2,112 billion on November 30, 2008.

Adjustment mechanism

11. The ceiling on the NDA of the NBRB is subject to an automatic adjustor, based on adjustment of the NIR of the NBRB, as stipulated in paragraphs 7 and 8 above.

C. Ceiling on the Cash Deficit of the General Government

Definitions

12. The general government includes the Republican government and local governments. The Republican government is defined as the central government ministries, the funds included in the Republican budget, including the National Development Fund and the Social Protection Fund. In case the government establishes new extrabudgetary funds, they will be integrated into the Republican government.

13. The cash deficit of the general government will be measured from the financing side as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.

(i) Net domestic financing consists of bank and nonbank financing to the general government and will be defined as follows:

i. The change in the claims on the general government of commercial banks minus the change in deposits held by the general government in commercial banks, net of revaluation effect for foreign currency deposits.

ii. The change in the claims on the general government of the NBRB minus the change in deposits of the general government held at the NBRB in RBLs and foreign currency, net of revaluation effect for foreign currency deposits.

iii. Net claims on the general government of the commercial banks and the NBRB will be monitored based on the monetary survey prepared by the NBRB.

iv. Also included are any other liability instruments issued by the general government, for example, promissory notes, any other increase in liability of the general government to domestic nonbank institutions.

v. Net sales of Treasury bills, bonds, or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liability of the general government to domestic nonbank institutions.

(ii) Net external financing is defined as:

i. Total of loans disbursed to the general government for general budget support and project financing, the change in the stock of outstanding international bonds, net change in external arrears, change in the accounts of the Republican government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the general government.

ii. Amortization to external creditors via third parties is accounted for at the time and in the amount of payment by the budget to the third party, rather than at the time of recognition of amortization by the external creditor.

(iii) Privatization receipts:

i. The privatization receipts of the general government consist of all transfers of monies received by the Ministry of Finance in connection with the sale of general government assets, including privatization proceeds, which were transferred to the National Development Fund.

ii. This includes receipts from the sales of shares, the sale of assets and the sale of licenses with duration of 10 years and longer.

14. For the purposes of measuring the deficit of the general government, all flows to/from the budget in foreign currency will be converted into RBLs at the official exchange rate prevailing at close of business on the date of the transaction. On this basis, and consistent with the definition above, the cash deficit of the general government in the first half of 2009 amounted to 961 billion rubels.

Adjustment mechanism

15. The ceilings on the cash deficit of the general government for end-September and end-December are subject to automatic adjustors, based on deviations of external budget and project support from program projections (Table 2 of the LOI). If the total proceeds from external budget and project support (excluding from international financial institutions and projects initiated before the original program) to the general government budget (in RBLs converted at the official exchange rate on the days of its receipt):

- Cumulatively exceed program projections, the ceiling on the cash deficit of the general government will be adjusted upwards by 50 percent of the excess in budget and project support to the government.

- Cumulatively falls short of program projections, the ceiling on the cash deficit of the general government will be adjusted downward by 50 percent of the cumulative shortfall in the previous quarter, if any. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall, if any, for the previous quarter in calculating the adjusted target.

- For project support from international financial institutions, if disbursements in foreign currency exceed (fall short of) program projections, the ceiling on the cash deficit of the general government will be adjusted upwards (down) by 100 percent of the excess (shortfall) in project support.

- For project support for projects initiated before the original program was approved, the ceiling on the cash deficit of the general government will be adjusted upwards by 100 percent of the excess in project support. The adjustor for such projects is capped at $353 million.

16. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor for recapitalization of banks. Specifically, the ceiling on the deficit will be adjusted upward for the amount of funds provided by the Republican budget to banks to bring their regulatory capital to minimum statutory levels.

17. Total annual adjustor for higher-than-programmed international financial assistance, including project support for projects initiated before the original program was approved, is capped at 1.8 percent of GDP.

18. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor for local governments' deficit financed with surpluses accumulated in 2008. Total annual adjustor for the deficits of local governments is capped at RBL 1.4 trillion.

D. Continuous Performance Criteria on Nonaccumulation of External Arrears

19. During the period of arrangement, the Republican government and the NBRB will not accumulate any new external payments arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the Republican government and the NBRB beyond 30 days after the due date. The performance criterion on nonaccumulation of external arrears is continuous.

II. Reporting Requirements

A. National Bank of the Republic of Belarus

20. The NBRB will provide to the IMF an aggregate balance sheet for the NBRB, as well as the monetary survey of the NBRB, banks and the banking system of the Republic of Belarus, on the 1st, 8th, 15th, and 22nd days of each month.

21. The NBRB will provide to the IMF on a weekly and monthly basis, no later than the 25th of the following month, the full breakdown of NBRB accounts included in net international reserves (defined in paragraph 4), at both actual and program exchange rates.

22. The NBRB will provide to the IMF on a monthly basis, no later than the 20th of the following month, data on the amounts of disbursements and changes in the stocks of loans extended by banks under government programs, and a weighted average interest rate charged on these loans. Data on the stocks and disbursements of the loans in foreign exchange will be converted into rubel equivalent using current exchange rates on a reporting date and the date of transaction, respectively.

23. The NBRB will provide to the IMF, on a weekly basis, data on the stocks and flows of refinancing under standard facilities and the resolutions of the NBRB Board outside standard refinancing facilities, including interest rates charged on these loans and their maturity.

24. The NBRB will provide to the IMF on a weekly basis a data sheet on currency operations including government foreign receipts and payments, breakdown of interbank market operations by currencies, explanations for main currency flows. The NBRB will also provide daily information on exchange market transactions, including exchange rates.

25. The NBRB will provide to the IMF, on a monthly basis, a projection for external payments falling due in the next twelve months.

26. The NBRB will provide to the IMF, on a quarterly basis, the stock of external debt in the format of the *IMF Debt Statistics Manual*, Table 4.1. (http://www.imf.org/external/pubs/ft/eds/eng/guide/index.htm).

27. The NBRB will provide to the IMF, on a monthly basis, no later than 25 days after the end of the month, financial soundness indicators for the banking sector in an agreed format, as well as the level of compliance of bank performance with the indicative parameters of banking sector development set by the Republic of Belarus monetary policy guidelines.

28. The NBRB will provide to the IMF consolidated bank balance sheet and also information about assets subject to credit risk broken down on five groups of risk on a quarterly basis, no later than 30 days after the end of the quarter.

29. The NBRB will provide preliminary monthly balance of payments data in electronic format no later than 48 days after the end of the month.

30. The NBRB will inform IMF staff of any changes to reserve requirements for deposit money banks. The NBRB will communicate in writing to the IMF staff any changes in accounting conventions and valuation principles incorporated into the balance sheet data and will notify the staff before introducing any change to the Charts of Accounts of the NBRB and the Commercial Banks, as well as changes in the reporting forms.

B. Ministry of Finance

31. The Ministry of Finance will continue to provide to the IMF in electronic form monthly treasury reports, including revenue and expenditure figures of the consolidated Republican government budget and local budgets no later than 30 days after the end of the month. These reports will provide expenditure data by programs, and on standard functional and economic classifications. Data for local governments will be provided at similar frequency, but only on functional and economic classifications.

32. The Ministry of Finance will continue to report the final fiscal accounts at the end of each fiscal year, no later than March of the following year. These reports will provide expenditure data by programs, as well as based on standard functional and economic classifications.

33. The Ministry of Finance will report any revisions to monthly and annual fiscal reports of the Republican budget within a week after their approval.

34. The Ministry of Finance will continue to provide on its web site the weekly report on the primary treasury bill market, reports on each treasury bill auction, and provide to the IMF the monthly report on treasury bills.

35. The Ministry of Finance will inform IMF staff if the Treasury does not pay interest or principal on treasury bills due to the NBRB, deposit money banks, or nonbank entities and individuals. In such case, the Ministry of Finance will provide information on outstanding interest and principal payments.

36. The Ministry of Finance will provide available data on the stock of budgetary arrears on a monthly basis, no more than 30 days after the end of the month, including separate line items for wages, pensions and social benefits.

37. The Ministry of Finance will provide to the IMF in electronic format, no later than 30 days after the end of each month, monthly information on the amounts and terms of all external debt contracted or guaranteed by the general government.

38. The Ministry of Finance will provide to the IMF in electronic form on a monthly basis, no later than 30 days after the end of the month, (a) data on the outstanding stock of domestic and external debt of the Republican government; and (b) the standard files on planned and actual external debt disbursement, amortization, and interest payments. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

39. The Ministry of Finance and the NBRB will provide data on external and domestic credit to nongovernmental units that is guaranteed by the Republican government or the NBRB on a monthly basis, no later than 30 days after the end of the month.

40. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with the recapitalization of banks. This cost includes the upfront impact on the cash deficit of the Republican government of the recapitalization of banks as well as the costs associated with the payment of interests.

41. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with sponsored loans under state programs, separately identifying the costs associated with subsidized loans extended below refinance rate, and the quarterly data on the amount of central and local government guarantees issued on bank loans.

42. The Ministry of Finance will provide monthly data on the export leasing agency. The data include revenue and expenditures of the agency as well as its net deposits in the banks and any net claims or liabilities.

Table 1. Program Exchange Rates as of End-November, 2008

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

1/ Source: http://www.bankofengland.co.uk.
2/ Rate as of November 28, 2008 (www.IMF.org).
3/ NBRB official rate as of November 30, 2008 disseminated on www.nbrb.by.
4/ CBR official rate as of November 29, 2008, disseminated on www.cbr.ru.
5/ Reference rate as of November 28, 2008, disseminated on www.ecb.int.

Table 2. Assumptions for Calculating Adjustors under the Stand-By Arrangement for 2009

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

Source: Belarusian authorities.

Statement by the IMF Staff Representative on the Republic of Belarus
December 18, 2009

1. This statement reports on key developments since the staff report was finalized. The new information does not alter the thrust of the staff appraisal.

2. The authorities continued to take measures in line with their Letter of Intent:

- The draft 2010 budget consistent with program commitments, which was submitted to Parliament by the President on December 7, passed the second reading in the lower house, and is being considered by the upper house.

- Belarus and the Russian Sberbank signed an agreement on December 11 to sell 93.27 percent of the shares of Belpromstroibank to Sberbank for $280.8 million.

3. The macroeconomic framework underpinning the program is reflected in the key documents guiding macroeconomic policies—the draft 2010 budget and monetary policy guidelines, but the 2010 Main Economic Indicators issued by the President on December 7 contains over-ambitious growth targets that are not consistent with the program projections.

4. It now appears certain that there will be a delay in the disbursement of some $290 million in macrofinancial assistance (MFA) from the EU, which was originally expected to be disbursed in the fourth quarter of 2009. There is also some risk that disbursement could slip until after the program period, in which case, according to the European Commission, it would become dependent on a new Fund arrangement being in place or there being a reasonable assurance that such an arrangement will be in place. The reason for the delay is a legal ruling in the EU that all requests for macrofinancial assistance must be considered by the new European Commission instead of the outgoing Commission, which will delay the Commission's consideration of the MFA until at least January, following which the loan must be discussed and approved by the European Parliament. In light of this delay, the authorities have stated that they are prepared to implement measures that would reduce external financing needs by about $300 million over the full year of 2010. The measures could include reducing credit growth to the economy and some reduction in budgetary spending to offset lower revenue resulting from a tighter credit policy. The contingency measures, if needed, will be discussed and agreed with the staff during the fourth review. Implementation of such measures would ensure that program objectives continue to be met, although the quantitative targets for end-March 2010 may need to be modified since it would take some time for these measures to take effect. The authorities are also continuing to search for alternative sources of finance to offset any shortfall in EU financing and reduce the need for contingency measures

5. Recent economic data are consistent with the analysis in the staff report. GDP declined by 0.4 percent year-on-year in the first eleven months. Twelve-month CPI inflation

fell further to 10.0 percent in November. The trade deficit in the first ten months reached $5.7 billion, higher than expected. However, NIR has increased recently and is now close to the adjusted end-December target level. Based on available data, the authorities are expected to be able to meet the revised end-December performance criteria. The outlook for 2010 is broadly unchanged from the projection in the staff report.

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FOR IMMEDIATE RELEASE
December 18, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review Under Stand-By Arrangement with Belarus, Approves US$688 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Belarus's performance under an economic program supported under a Stand-By Arrangement (SBA). The 15-month, SDR 1.62 billion (about US$2.46 billion) SBA was approved on January 12, 2009 (see Press Release No. 09/05) and on June 29, 2009 the size of financial package provided under the SBA was increased to an amount equivalent to SDR 2.27 billion (about US$3.63 billion) (see Press Release No. 09/241).

The completion of the third review enables the immediate disbursement of SDR 437.93 million (about US$688 million), bringing total disbursements under the program so far to an amount equivalent to about SDR 1.83 billion (about US$2.88 billion).

The Executive Board approved modification of the performance criteria on international reserves and net domestic assets for end-December 2009 and structural benchmarks for the remainder of the program. The Staff Report and the Letter of Intent for the third review will be released after the authorities' review, while the papers for the second review, which was completed on October 21, will be released shortly.

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

"Performance under Belarus's Stand-By Arrangement has been strong, and the economy is beginning to emerge from the crisis. Export volumes have stabilized, the exchange rate depreciation has improved competitiveness, and confidence appears to be growing among households. At the same time, Belarus remains vulnerable to external shocks, requiring continued prudent macroeconomic policies as well as flexibility in the face of uncertainties. In this regard, the authorities' commitment to take difficult measures to compensate for shortfalls and delays in external financing is commendable.

"It is important to solidify gains in external and domestic stability in the course of 2010. Aiming for an unrealistically high growth rate would increase pressure on the current account and increase Belarus's vulnerability to external shocks. It is therefore important that the authorities base policies on realistic assumptions and agreed program objectives.

"A key element of the 2010 macroeconomic framework is a prudent credit policy. The authorities' decision to limit lending under government programs is welcome. Establishing a special agency that would clean up banks' balance sheets and eventually replace banks in financing government programs will be an important step forward. The establishment of this agency will also allow the National Bank of the Republic of Belarus to terminate bank refinancing on non-market terms. Success in containing credit under government programs should make it possible to gradually ease interest rates in the credit market.

"The authorities' continuing commitment to pursue a prudent budget policy is an important building block in achieving program objectives. The 2010 budget will add little to public debt and will free up resources for the private sector. The authorities' plans to improve targeted social assistance, mitigating the effects of the crisis on the poor, are welcome.

"Advances in structural reform will be key to achieving high and sustainable growth. The authorities have already made progress in developing legal and institutional frameworks for privatization and in easing administrative controls. Further decisive progress in liberalizing the economy and increasing productivity will remain a priority to be sustained over the medium term.

"Continuation of the close collaboration with the Fund is welcome. The Fund stands ready for continued advice and support on macroeconomic and structural issues. Belarus would also benefit from a closer relationship with the World Bank and other international financial institutions," Mr. Kato said.

Statement by Johann Prader, Alternate Executive Director for the Republic of Belarus and Mr. Vadim Misyukovets, Advisor to Executive Director
December 18, 2009

The Belarusian authorities appreciated the constructive dialogue with the Fund staff during the Third Review under the Stand-By Arrangement (SBA). They broadly agree with the staff's assessment of the current macroeconomic situation and recommendations on economic and financial policies for the remainder of 2009 and for 2010.

Since the completion of the Second Review, all end-September program targets have been met and good progress was made in meeting structural benchmarks under the program. All the prior actions for this Review have been completed. The requested modification of the end-December performance criteria is the consequence of the withdrawal of a bilateral loan commitment which surprised both the authorities and the Fund staff. Discussions about borrowing from the Russian Federation are continuing.

Also, we have recently learned that due to procedural changes, the disbursement of the Macro Financial Assistance (MFA) by the European Union might be delayed beyond the period covered by the Stand-By Arrangement. This could open a financing gap of some US$ 300 million. Given uncertainty with regard to the disbursement of the MFA, the authorities are prepared, if necessary, to implement measures that would allow them to reduce their financing needs during 2010 to offset any shortfall in EU financing. The measures could include reducing credit growth to the economy and some reduction in budgetary spending to offset lower revenue resulting from a tighter credit policy. Contingency measures will be discussed and agreed upon with the Fund staff during the Fourth Review under the Stand-By Arrangement if it appears that the MFA disbursement is likely to be delayed beyond the program period. The authorities continue to search for alternative sources of financing to offset any shortfall in EU financing and reduce the need for contingency measures.

The authorities have a good track record of meeting their commitments, and have always taken strong contingency measures to close the financing gap as a result of the external financing shortfall and to increase competitiveness. They made full use of exchange rate flexibility to facilitate external adjustment and meet the net international reserves (NIR) target. As a result of these measures, the rubel was allowed to depreciate to the bottom of the exchange rate band. Consequently, in addition to the 20 percent step devaluation in January 2009, the rubel has depreciated by 7.9 percent against the dollar, 13.7 percent against the euro and 3.1 percent against the Russian ruble (by 8.15 percent against the basket of currencies) over the program period. Furthermore, in agreement with the Fund staff, the authorities approved and made public a recentering of the exchange rate parity of the ±10 percent band downwards to ensure that possible future external shocks are adequately met. Monetary and fiscal policies have been tightened, adhering to the commitments made during the Second Review.

During the period January - November 2009, GDP declined by 0.4 percent as compared to the same period in 2008. Belarus' external position remains vulnerable but positive trends are beginning to emerge. Although in January - September, the current account deficit had widened to US$ 4.4 billion, since then the current account deterioration has slowed down noticeably. In the third quarter, the current account deficit was US$ 706.5 million, falling by 2.5 times relative to US$ 1.8 billion in the second quarter. In October, inflation declined to 11 percent and was just above 10 percent in November.

Belarus' international reserves have been strengthening. During January - November 2009, reserves grew by 50 percent and on December 1, they were at US$ 4.6 billion. In November, reserves increased by 3.7 percent or US$ 163 million. The authorities expect the reserves to rise further and reach the projected target by the end of 2009. For 2010, international reserves are projected to grow between US$ 0.5 billion to US$ 1.8 billion, depending on the external environment.

The credibility of the monetary authorities and confidence in the currency and the banking system have been preserved. Household deposits in the domestic currency increased by 4.2 percent in November, while foreign exchange deposits grew by only 1.1 percent. As a result, for the first time since January 2009, on December 1, the share of rubel deposits in the banking system exceeded that of foreign exchange deposits by rubels 105 billion. With amendments to the loan classification and provisioning regulation in line with Fund recommendations, the share of non-performing loans was at a relatively safe level of 5.5 percent of the assets subject to credit risk. As of November 1, the capital adequacy ratio has improved slightly to 19.7 percent, as compared to 19 percent at end-September 2009.

Conforming to the program, the authorities have limited credit under the government programs and to the economy more generally. They have also refrained from introducing new government lending programs. The authorities are finalizing the drafting of a decree on the establishment of a special agency that will start functioning in 2010 and take over loans under government programs from commercial banks.

The authorities remain committed to tight fiscal policy, which is the core of the macroeconomic adjustment program. They have maintained this policy by containing government expenditure. The performance criterion for the cash deficit was met at end-September this year. Measures taken to limit the expenditures as well as deferred spending of targeted budgetary funds and separate budget items enabled the authorities to execute the central government budget in January - October 2009 with a surplus of rubels 288 billion, or about US$100 million. By the end of the year, government spending will be cut further as part of the contingency adjustment package to address the external financing gap.

Pensions, which were under a freeze since August 2008, were increased by 9.5 percent in November. In order to maintain a balanced budget in 2009, the 5 percent increase in budget sector wages was, once again, postponed to January 1, 2010. In 2010, tariffs on household utilities will be increased by 13 percent. Passenger transportation tariffs will be raised by 18 percent in the first half of 2010.

The 2010 budget, containing a modest deficit of 1.5 percent of GDP and the Special Part of the Tax Code was approved by the House of Representatives in the second reading on December 11 and submitted to the upper Chamber of the Parliament. The new fiscal legislation aims at streamlining Belarus' tax system to bring it closer to the average European taxation principles. In particular, four taxes, including the turnover tax on the agriculture support fund, will be abolished. To compensate for the loss of revenue, the VAT rate will be increased from 18 to 20 percent to provide for additional receipts of rubels 1.7 trillion, effective January 1, 2010. On the expenditure side, the 2010 budget has a strong social protection focus and aims at maintaining the quality of social services and strengthening social guarantees. The authorities are aware that budget execution faces risks. Therefore they have taken a cautious approach to the expenditure commitments so that adjustments can be made proactively to the changing economic environment.

The authorities intend to continue working with bilateral and multilateral creditors to ensure timely disbursements of all committed funds, while exploring prospects for new external financing. In particular, the Ministry of Finance has taken concrete steps to tap international financial markets. The authorities believe that it will be feasible to issue the first sovereign bond in 2010, provided that market conditions at least do not deteriorate.

The sale of BPS Bank – the fourth largest bank in Belarus – to Russia's Sberbank is in its final stage to bring to the country about US$ 280 million of privatization proceeds.

The authorities remain strongly committed to economic liberalization, structural reforms and promoting private initiative. Practical steps have been continuously taken to improve Belarus' business environment and to ameliorate conditions for private sector development. Strong measures were taken as prior actions under the World Bank Development Policy Loan to soften control and supervision, reduce licensing, streamline administrative procedures, reduce tax distortions and the tax burden, soften price controls, and amend the privatization legislation. The World Bank Executive Board welcomed these measures and endorsed the US$ 200 million loan on December 1, 2009.

The authorities reiterate their commitment to further reforms in 2010 and beyond in cooperation with the World Bank Group, IMF and other international financial institutions. The envisaged reforms, as announced recently, would include a large-scale opening of

Belarus' economy for foreign investors and encouraging competitiveness in all sectors. To this end, an action plan has been designed to improve the business climate further in order to reach the ambitious objective of entering the group of top 30 economies with the most business friendly environment in the Doing Business 2011 Report. In the longer term, the authorities plan to improve significantly Belarus' ranking by other criteria such as competitiveness, efficiency of government, innovation, and economic freedom.

On the basis of the information provided above and in the Staff Report, we request the Board's approval of the Third Review of the SBA and of the modification of the end-December NIR and NDA targets.