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Republic of Belarus: 2011 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Belarus, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 2, 2011, with the officials of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 17, 2011. 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 supplement (Informational Annex) of February 17, 2011 providing background information.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 4, 2011 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

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

Staff Report for the 2011 Article IV Consultation and Proposal for Post-Program Monitoring

Prepared by the European Department in Consultation with Other Departments

Approved by Juha Kähkönen and James Roaf

February 17, 2011

Executive Summary

Background. For a decade before the crisis, Belarus's economy grew rapidly, but remained vulnerable to external shocks. Belarus avoided output loss during the crisis and successfully completed a Fund-supported program in March 2010. Since then it has resumed fast growth, but at the cost of a large current account deficit which has put pressure on reserves.

Article IV discussions. The discussions were focused on policies required for attaining external sustainability, structural reforms needed to improve long-term potential, and options for rebalancing sources of growth. Staff and the authorities agreed on the broad medium-term objectives including external stability, robust growth based on improved competitiveness, a higher share of the private sector, and less overall government intervention. However, views on how to attain these objectives differed. The authorities considered that their plan to modernize the economy, embodied in the Program for Social and Economic Development for 2011-15, could reduce the current account deficit over the medium term, while short-term financing needs could be met by external borrowing, FDI and asset sales. Staff stressed the urgency of macroeconomic adjustment to bring down the current account deficit, especially in view of the now precarious reserves position, and of market-oriented structural reform to promote sustainable growth. Staff proposed the following policies:

- Strengthening macroeconomic policies to attain external sustainability. Policies should include fiscal and monetary tightening, cuts in lending under government programs, and greater use of exchange rate flexibility.
- Improving long-term growth potential through structural reform and rebalancing investment, which at present is skewed towards the construction sector.
- Reducing the tax burden and curbing subsidies.
- Reforming the banking sector to improve financial intermediation and free the commercial banks from quasi-fiscal activity.

Post-Program Monitoring. As outstanding credit exceeds 200 percent of quota and there is no Fund arrangement in place the staff recommends initiating post-program monitoring.

Contents Page

I. A Time of Uncertainty....3

II. The Recent History....3

III. Outlook and Immediate Challenges....7

IV. Key Challenges Beyond The Short Term: What Should Belarus's Economy Look Like in 2015?....9

A. Strengthening Policies to Attain External Sustainability....9

B. Improving Long-Term Growth Potential through Structural Reforms and Productivity-Enhancing Investment....12

C. Reducing the Fiscal Burden and Curbing Expensive Subsidy Programs....13

D. Reforming the Banking Sector to Improve Financial Intermediation....13

V. Relationship with the Fund....14

VI. Staff Appraisal....15

Boxes

1. Common Economic Area: Main Goals and Current Status....17
2. Banking System Stress Tests....18
3. Program for Social and Economic Development of Belarus in 2011-15....19
4. Exchange Rate Assessment....20

Figures

1. Performance Among Peers, 2002-09....22
2. Output Developments, 2001-10....23
3. Inflation Developments, 2008-10....24
4. External Developments, 2005-11....25
5. Monetary Developments, 2008-11....26

Tables

1. Selected Economic Indicators (Baseline scenario), 2008-16....27
2. Balance of Payments, 2008-16....28
3. Fiscal Indicators and Projections, 2008-16....30
4. Monetary Authorities' Accounts, 2008-16....32
5. Monetary Survey, 2008-16....33
6. Banking Sector Soundness Indicators, 2006-10....34
7. Indicators of External Vulnerability, 2006-10....35
8. Capacity to Repay the Fund, 2009-16....36

Appendixes

I. Debt Sustainability Framework, 2006-16....37

I. A TIME OF UNCERTAINTY

1. **This is a time of political and economic uncertainty for Belarus.** President Lukashenko won re-election on December 19. However, reflecting concerns about the conduct of the election and the post-election detention of opposition leaders and supporters, the EU and U.S. have intensified sanctions against Belarus leaders and companies. Agreement has been reached on a Common Economic Area between Belarus, Kazakhstan and Russia, and on new arrangements for importing oil from which Belarus will benefit. Economic policies for the period ahead are supposed to be based on the Program for Social and Economic Development for 2011-15 (the "five-year plan") approved by the all-Belarusian People's Congress.[1] However, the five-year plan contains multiple and inconsistent objectives, and the authorities must decide what priority to give them. Belarus must also choose between a model based on central planning and one based on free markets—the five-year plan embraces elements of both. More immediately, the authorities must address pressing macroeconomic imbalances created by loose pre-election polices, which are now putting heavy pressure on reserves.

2. **This report proposes policies for 2011 and a policy direction for the next five years that would direct Belarus toward prosperity and stability.** The staff proposes policies which will promote sustainable growth by liberalizing the economy and rebalancing investment to raise potential growth, and by reducing the size of government and increasing resources available to the private sector through banks. But external stability is a pre-requisite for sustainable growth and the need for adjustment is now urgent. The staff therefore proposes policies that will bring down the current account deficit by containing domestic demand and by greater use of exchange rate flexibility.

II. THE RECENT HISTORY

3. **For a decade before the crisis Belarus's economy grew rapidly, but its vulnerability to external shocks has also increased (Figures 1-5).** An average annual growth rate of about 7½ percent consistently surprised observers given continued dominance of the economy by state-owned banks and enterprises (only about 30 percent of GDP comes from the private sector). The rapid growth is best explained by an educated and disciplined workforce and by consistently high rates of investment, made possible by large annual subsidies on energy imports and direct financial support from Russia, which eased the balance of payments constraint on Belarus's growth. External vulnerability was always the weakness of the Belarus growth model. Throughout the past decade growing exports were offset by imports, keeping the current account deficit high and reserves low. The crisis

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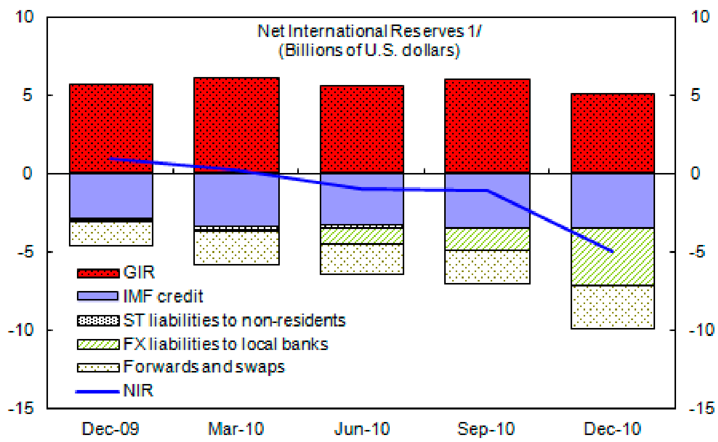
[1] The All-Belarusian People's Congress is a meeting of the Belarusian government with representatives of the corporate sector, agriculture and trade unions customarily held before the Presidential elections in Belarus. The five-year plan may still be revised by the President even after approval by the Congress.

in 2008-09 led to a sharp drop in exports, and was exacerbated by reduced subsidies on oil and gas exported by Russia to Belarus.

4. **Belarus made progress under the Fund-supported program and resumed fast broad-based growth in 2010, but the current account deficit remains high and reserves low.** Through exchange rate depreciation coupled with strong budgetary policies and wage restraint during the SBA which expired in March 2010, Belarus avoided loss of output, contained inflation, and increased gross reserves.[2] Belarus achieved growth of about 7½ percent in 2010. The twelve-month CPI inflation was 9.9 percent in December, reflecting strong domestic demand and increasing food prices due to the drought in Russia. The current account deficit was 13 percent of GDP in 2009 and is estimated at 16 percent of GDP in 2010. A debut Eurobond ($1 billion) issuance was more than offset by heavy intervention—gross reserves stood at $5 billion at end-December (1.4 months of imports), whereas net reserves fell by almost $6 billion in 2010.



Sources: National Bank of the Republic of Belarus; and IMF staff estimates.
1/ All values are shown at current exchange rates. Values for June, September, and December, 2010 are IMF staff estimates.

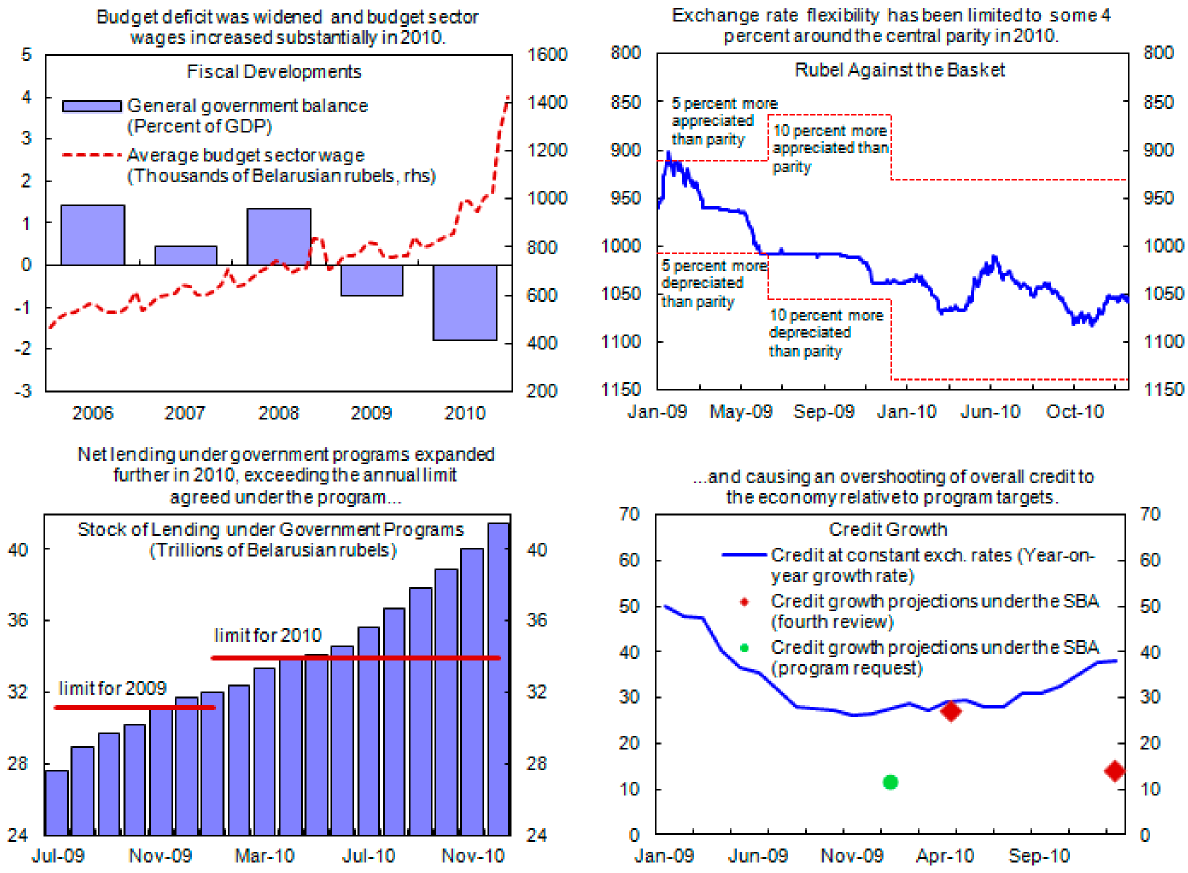
5. **A sharp widening of the current account deficit is partially explained by a strong external energy shock, now partly reversed.** An oil supply arrangement agreed in January 2010 reduced implicit subsidies from Russia, through a reduction of the discount compared to the Urals oil price from about 30 percent to about 15 percent.[3] In addition, as a result of a gradual transition towards market prices, the price of imported natural gas has nearly quadrupled since 2006. As a result, the energy trade balance deteriorated from near balance in 2006 to a deficit of 6.9 percent of GDP in 2009 and further to an estimated 10 percent of GDP in 2010. The new agreement with Russia on the regime for oil imports reached in December 2010 will improve the energy balance (staff estimates by about $1.3 billion or 2 percent of GDP) but does not fundamentally change the outlook (Box 1).

[2] The 15-month, $3.5 billion SBA expired in March 2010. All the reviews were completed. Developments under the program are also assessed in an Ex-Post Evaluation of the SBA, which has been circulated separately.

[3] Belarus responded with structural changes in the oil refining industry and attempts to diversify oil supplies, importing about 2 million tons of oil from other sources (notably Venezuela) in 2010. According to available trade statistics, the average price for these imports has been above the price of oil imported from Russia with full duty.

6. **Macroeconomic policies also played a significant role in fueling the current account deficit.** Following the expiration of the program the authorities focused on increasing growth and on honoring the President's pledge to increase average wages in the economy to \$500 a month by the end of 2010. Problems in controlling government-supported lending for housing, agriculture and other priority sectors had already been evident during the program, and from April 2010 onward such lending increased sharply, resulting in an increase in net lending under government programs (LGP) estimated at four times the annual limit agreed during the program. Twelve-month credit growth was 38 percent in December 2010, compared with 28 percent a year ago. The government increased the first grade budget sector wage by a cumulative 50 percent in 2010 including a 30 percent increase in November, and the Republican budget deficit limit was increased to 3 percent of GDP. The National Bank of the Republic of Belarus (NBRB) reduced policy interest rates and made only limited use of the exchange rate flexibility available to it in the ±10 percent band during 2010. From January 1, 2011, the NBRB recentered the band at its end-2010 level and narrowed it to ±8 percent.

7. **The authorities have financed the deficit largely through foreign currency borrowing in international markets and from commercial banks.** They placed a debut Eurobond (\$1 billion) in the international markets, issued bonds on the Russian market (equivalent to about \$250 million) in 2010 and accessed the Eurobond market again in January 2011 (\$800 million). More troublingly, during the last quarter of 2010 the NBRB borrowed extensively in foreign exchange from domestic commercial banks in exchange for rubel liquidity at low interest rates via so-called “deposit exchanges”. During all of 2010, the stock of such borrowing amounted to some \$3.8 billion, with \$2.3 billion having been accumulated in the final quarter of the year.



Sources: Belurasian authorities, and IMF staff calculations.

8. **The NBRB tightened monetary policy somewhat and allowed the rubel to depreciate against the currency basket in early 2011.** The NBRB has limited liquidity support to banks, primarily by curtailing non-market transactions, leading to a 400 basis points increase in interbank lending interest rates since end-December. However, this has yet to translate into any significant change in deposit or lending rates. The rubel has depreciated by 2½ percent against the currency basket since end-December, but remains broadly unchanged against the U.S. dollar.

9. **The official financial soundness indicators appear adequate (Box 2), but NBRB foreign exchange borrowing from banks poses serious risks for them.** The system-wide capital adequacy ratio was reported at 20.5 percent at end-December 2010 following recapitalization of major state-owned banks by 1.3 percent of GDP in 2010. However, LGP continues to put pressure on state-owned banks' liquidity, and the NBRB increased its claims on banks by nearly 12 percent of GDP in 2010. Banks' NPL ratio was reported at 3.5 percent, but compliance with the new asset classification standard adopted in 2010 has yet to be verified through on-site inspections, which have not been carried out at major banks since 2008. The rapid growth of bank credit in 2010 is also a source of concern: rapid credit

growth has been found to be a leading indicator of a banking crisis in other countries and could threaten asset quality in Belarusian banks. With regard to NBRB foreign currency borrowing from commercial banks, although the NBRB bears the exchange rate risk, the high volume of this borrowing exposes the banks to serious risks, if the NBRB allows reserves to run down.

10. **There have been some promising initiatives on structural reform but their implementation has lagged.** The approval of amendments to the Privatization Law and the decree on the National Investment and Privatization Agency (NIPA) improved the legal and institutional frameworks for privatization. Presidential Directive "On development of entrepreneurial initiative and the promotion of business activities in the Republic of Belarus" (President's Directive) approved in late December, if implemented, would significantly reduce state control over the economy, facilitate private sector development and make Belarus more attractive for investors. The authorities continued price liberalization, as indicated by the elimination of restrictions on setting trade margins, except for socially important goods and those produced by monopolies. The authorities' decision to set up a Development Bank (essentially a renamed Specialized Financial Agency (SFA)) could make financing of LGPs more transparent, but many details remain to be settled. The NIPA has not been set up and the head of the agency has not yet been selected. The selection of state companies which could be offered for privatization and would be attractive for investors has also not been completed, while those companies which were offered by the authorities for privatization failed to generate investors' interest.

III. Outlook and Immediate Challenges

11. **The staff believes that the authorities' policies are based on overly optimistic plans and are insufficiently tight.** The authorities believe that through a combination of external financing, higher than expected privatization proceeds, and regaining preferential prices for oil in the framework of the CEA they can finance deficits while they increase exports and grow their way out of debt problems. This strategy is reflected in the latest draft five-year plan (Box 3) as well as in the authorities' plans for 2011: the budget deficit was relaxed to 3 percent of GDP and net LGP is expected to remain at about 6 percent of GDP. The staff believes that the assumptions in the five-year plan are highly optimistic, and the policies proposed for 2011 are too loose. If substantial external financing is available, the authorities' policies could succeed in the short term—possibly lifting output growth above potential—but Belarus cannot run large current account deficits indefinitely.[4]

[4] At the time of the 2009 Article IV consultation, Belarus's medium-term potential growth rate was estimated at 5-6 percent (IMF country Report 10/16). A substantial external terms of trade shock (increase in the prices on oil and natural gas) observed since the last Article IV consultation is likely to reduce Belarus's potential growth rate to below 5 percent via its effect on total factor productivity.

12. **The baseline projections, which reveal unsustainably large financing gaps over the medium term, illustrate the staff's views of the effect of expansionary policies in the absence of significant structural reform.** The estimated output growth rate in 2011 is high at about 7 percent, nearly closing the output gap opened up during the crisis, but thereafter Belarus is not able to maintain pre-crisis growth rates without adjustment and structural reform. The baseline projections point to sizeable current account deficits, a decline in identified financing (despite the $800 million Eurobond issue in January and an expected return of FDI inflows to their pre-crisis levels) and, therefore, large financing gaps in 2011 and over the medium term. Debt sustainability analyses (Appendix I) suggest increasing dependence on largely unidentified external financing and a debt path that could eventually become unsustainable. In the absence of significant policy tightening that would lower the current account deficit, gross external debt is expected to reach 75 percent of GDP and public debt to rise to 29 percent in 2016. Financing gaps could be filled by further borrowing or larger than expected FDI inflows over the medium term. Reflecting a projected increase in the share of market-based financing, the average cost of financing is expected to increase from its current low level. This strategy poses significant risks—pressures in European bond markets could reduce availability and increase the cost of external market financing for Belarus further. The authorities broadly agreed with the analysis, but they believe that financing gaps can be filled partly through asset sales, thus reducing accumulation of debt, and that export promotion policies will bring down the current account deficit over the medium term.

13. **The staff highlighted the risk that expansionary policies cannot be sustained even in the short term, and hence there is an urgent need for adjustment.** If Belarus loses its access to financing, the reserves could be depleted faster than expected. A loss of reserves could lead to the loss of control over the exchange rate and initiate a destabilizing spiral of depreciation and inflation, expose the banking system to risks (especially given the high foreign currency exposure of banks to the NBRB) and disrupt production. To limit the immediate risks the staff recommended tightening fiscal and monetary policies, allowing the exchange rate to depreciate to the bottom of the band, and discontinuing provision of liquidity to banks at non-market terms. The NBRB noted that market purchases of foreign exchange by businesses and households had been lower in January than in December, and therefore concluded that there was no urgent need for a change in policies. The staff stressed the urgency of discontinuing NBRB foreign currency borrowing from commercial banks and bringing reserves up to a more comfortable level by macroeconomic adjustment. The NBRB agreed, and said they would not increase the stock of such borrowing at end-2011, though they might increase borrowing within the year. The staff also recommended that the NBRB refrains from using administrative measures to limit demand for foreign exchange, noting that such measures could distort foreign exchange markets and could lead to exchange

restrictions or multiple currency practices. The authorities said that they would be careful not to interfere with importers' ability to purchase foreign exchange.[5]

IV. Key Challenges Beyond The Short Term: What Should Belarus's Economy Look Like in 2015?

14. **Discussions on the medium-term outlook and objectives focused on policies required to attain external sustainability, structural reforms needed to improve potential growth, and measures to rebalance growth.** Staff and the authorities agreed on the broad medium-term objectives for the economy: (i) external sustainability manifested by a low current account deficit, a lower level of external debt, and a higher reserve cushion, (ii) robust growth based on improved competitiveness, (iii) a much higher share of the private sector in the economy, supported by a steady increase of FDI and less overall government intervention. There was also some common ground on structural reforms to increase the role of the private sector. However, the authorities also thought that increasing investment to promote exports and import substitution were needed to bring down the current account deficit. Staff pointed out the dangers of such directed investment, and suggested that the best means of raising potential growth (by 1-2 percent) would be to improve the environment for private businesses. Staff also underscored the need for urgent macroeconomic adjustment to accompany structural reforms. Staff's views—elaborated further in selected economic issues papers accompanying this report—and the authorities' responses are summarized below.

A. Strengthening Policies to Attain External Sustainability

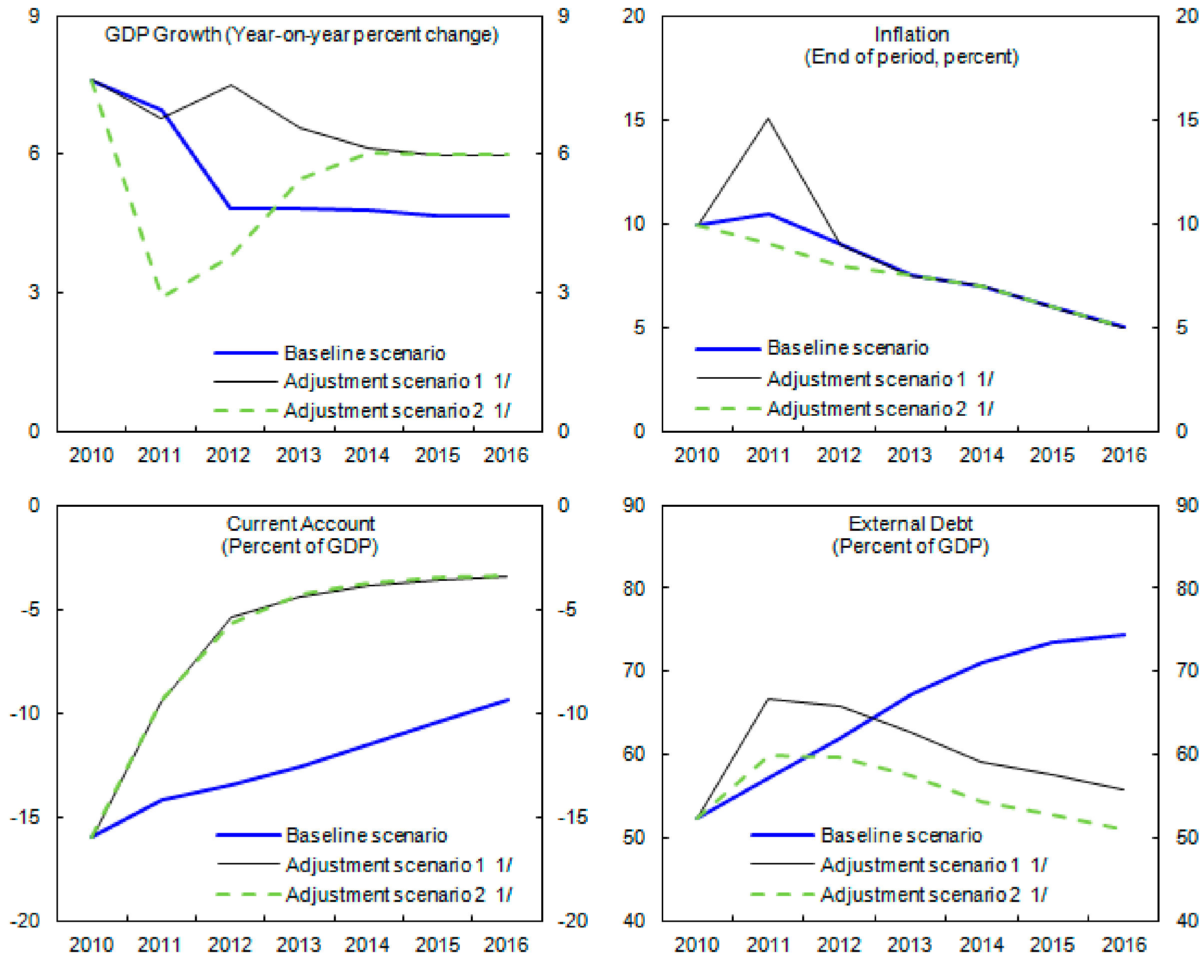
15. **Macroeconomic policy adjustment is needed to reduce the current account deficit and reduce the financing gaps present in the baseline scenario.** The gas price increase expected in 2011 and relaxation of macroeconomic policies since the end of the program have led to an overvaluation of the REER by 12-16 percent, as estimated by external sustainability and macro balance approaches (Box 4). Staff considered that over the medium term the current account deficit should be lowered to some 3½ percent of GDP, the reserves cushion should be increased to 3-4 months of imports, and external debt should be placed on a sustainable path. The main choice is between an adjustment strategy based on substantial exchange rate depreciation with appropriate supporting policies and a strategy based on substantial tightening of domestic demand, with less need for depreciation. These scenarios reduce but do not eliminate the financing gaps despite somewhat higher FDI inflows over

[5] The NBRB recently introduced administrative measures with a purpose of reducing demand for foreign exchange. They include a ban on obtaining foreign exchange for advance import payments through loans from domestic banks and introduction of a 2-percent surcharge on forex trades in the stock exchange. The NBRB is also considering introducing a number of other measures.

2012-16. Both of these strategies include structural reform as discussed in the subsequent sections, which increase Belarus' potential growth over the medium term.

- **An adjustment scenario based mainly on exchange rate flexibility *(adjustment scenario 1).*** This scenario emphasizes exchange rate flexibility, resulting in a sizeable depreciation of the REER in 2011 and 2012, which increases net export contribution to GDP in 2011, 2012 and also 2013 owing to the assumed lagged effect. Tightening of domestic demand policies is also expected to make a significant contribution towards eliminating the REER misalignment: the augmented general government deficit should be tightened from 4.3 percent of GDP in 2010 (including bank recapitalization and payments on government guaranteed debt in the amount of 2.6 percent of GDP) to a balanced budget in 2011, through freezing nominal wages and strictly implementing government plans regarding subsides, capital expenditure and intermediate consumption. Net LGP in 2011 should be limited to 3½ percent of GDP (compared to about 6 percent of GDP in 2010). To improve the effectiveness of monetary policy, provision of liquidity to banks at non-market terms should be discontinued. Finally, the NBRB needs to keep interest rates positive in real terms (and strongly positive for a period) to re-establish confidence in the rubel.

- **An adjustment scenario based mainly on a substantial adjustment of domestic demand *(adjustment scenario 2)*.** In this alternative scenario, policies are adjusted to contract real domestic demand by some 3.3 percent in 2011. The fiscal deficit in this scenario would be similar (reaching a balanced budget in 2011), but the policy adjustment needed to achieve it would be greater, because the nominal revenue would be lower and real wages higher. Assumed fiscal policy adjustment includes significant budget expenditure cuts, which would probably require rescinding part of the recent wage increase, additional cuts in subsidies and transfers and expenditure on goods and services, and raising utility tariffs closer to cost recovery levels more rapidly than currently planned. Tight fiscal policy needs to be supported by substantial tightening of credit policy: net LGP would need to be limited to some 1½ percent of GDP. Under this scenario, the exchange rate would depreciate modestly in nominal terms during 2011 using the flexibility provided by the exchange rate band.



Sources: Belarusian authorities; and IMF staff estimates and calculations.
1/ Adjustment scenario 1 is based on exchange rate flexibility with supporting tight fiscal and monetary policy measures. Adjustment scenario 2 is based on a substantial adjustment of domestic demand with moderate exchange rate flexibility.

16. **The authorities agreed that the current account adjustment is needed urgently but did not like either of the scenarios.** The authorities are aware of the risks that they face, but believe that through asset sales and external borrowing they can finance the current account deficit in 2011, and that after that the 5-year plan could deliver external stability and strong growth without the drastic measures proposed by staff. They stressed the political difficulty of reversing, even partially, the recent wage increase. Some policy makers recognized that a more depreciated exchange rate would help restore external balance, but they were concerned that a devaluation would damage confidence and erode their credibility.

17. **The staff recommended a strategy based on exchange rate flexibility and eventually inflation targeting, as this best meets both short-term and long-term needs.** In the short term, a devaluation would produce a swift improvement in the current account deficit without output loss. Over the longer term, Belarus would benefit from moving to a flexible exchange rate regime supported by inflation targeting. This would make the economy more resilient in the face of external shocks, and help maintain competitiveness.

The authorities accepted the desirability of moving toward inflation targeting, but underscored the need for significant improvements in macroeconomic management to normalize the transmission mechanism of monetary policy. Staff and the authorities agreed that significant preparatory work is needed and discussed technical assistance needs in this area. The requirements for a successful launch of an inflation targeting regime are elaborated in an accompanying selected issues paper.[6]

B. Improving Long-Term Growth Potential through Structural Reforms and Productivity-Enhancing Investment

18. **To facilitate private sector development, improve the business environment and attract foreign direct investment Belarus will need to make deep structural reforms in the medium term.** Developing a competitive tradable sector would require limiting state intervention in the economy and enhancing market competition. The authorities shared staff's view that the process of phasing out mandatory quantitative targets, including wage and employment targets, further price liberalization (already begun with World Bank support) and the simplification of the tax system should continue. Moreover, they believe that small and medium enterprises would need to become an engine of economic growth in the medium term. To this end, the President's Directive envisages measures which would simplify the regulatory system, guarantee property rights and set up a modern dispute resolution system. The Directive, if implemented, would also phase out quantitative targets and the unified wage grading system, eliminate restrictions on trade profit margins, and establish legal presumptions in favor of entrepreneurs in disputes with state agencies.[7] An ambitious structural reform agenda would help to address structural balance of payments problems and improve total factor productivity. The authorities agreed that structural reforms are needed but have not yet made final decisions on what changes should be made.

19. **Resource constraints in the post-crisis era suggest that Belarus needs to shift investment toward equipment and machinery to strengthen long-term growth potential.** Investment has been a main driver of growth in the decade before the crisis, supported by abundant external financing and energy subsidies from Russia. But these sources of finance are now less secure, and recently the government housing program has skewed investment towards structures, crowding out investment in equipment and machinery that promotes productivity growth more than other investment due to the embodied technology.[8] These trends should and can be reversed. Tax policy can support investment in equipment and machinery, including by raising depreciation allowances for such investment to bring them to levels comparable to those in other countries. The scale of the government housing program

[6] See *Republic of Belarus—Selected Issues: Inflation Targeting in Belarus—Challenges and Options.*

[7] The Directive has the legal power of a law.

[8] See *Republic of Belarus—Selected Issues: Invest to Grow—More Buildings or More Machines?*

could be brought down to a sustainable level by reducing the targets for housing construction, scaling down the size of subsidies provided by the housing program, and relying more on market-based housing finance and construction. The authorities broadly agreed with the need to rebalance investment away from housing construction, but noted that it would be difficult to retrain and reorient construction workers. The government has already planned to introduce tax reform measures—including new depreciation rules—this year to provide incentives for equipment and machinery investment.

C. Reducing the Fiscal Burden and Curbing Expensive Subsidy Programs

20. **The fiscal burden is a constraint on Belarus's competitiveness and should be reduced.** At a level of 44 per cent of GDP in 2010 and subject to significant pressures going forward due to rapid population aging[9], the general government expenditure level is not exceptionally high compared to peers. However, it imposes a relatively high tax burden on the business sector.[10] Tax reform to attract investment and foster economic growth should be accompanied by reforms on the spending side in order not to widen the budget deficit. In order to prevent future pension system imbalances, the authorities should consider increasing the retirement age and limiting growth of pension benefits, as suggested by the recent TA report on rationalizing expenditures.

21. **There are margins to reduce expenditure, starting from the poorly targeted and expensive subsidies programs.** Belarus spends about 14 percent of GDP in subsidies. They are meant to reduce the cost of utilities, transportation, housing, and food for the entire population. Therefore they favor disproportionately heavy consumers, which tend to be relatively well-off households.[11] Staff recommended reductions of housing, agricultural, and food subsidies, increases in preferential VAT rates, and bringing utilities tariffs close to cost recovery levels. The authorities acknowledged the need to revisit these programs and are now planning an increase in utility tariffs by about 30 percent this year. The authorities and staff agreed that the adjustments should be complemented by expanding the recently established Targeted Social Assistance program.

D. Reforming the Banking Sector to Improve Financial Intermediation

22. **Transferring LGP to the Development Bank would be a major step in freeing the NBRB from non-market support to state-owned banks.** At present, banks are

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[9] Based on population projections, the pension system is expected to start running a deficit in 2016.

[10] The tax burden on businesses is especially high by international standards: the profit tax rate is 24 percent and employers' contribution rate to the Social Protection Fund is 34 percent. Moreover, depreciation allowances need to be revised and there is no provision to carry forward losses.

[11] See *Republic of Belarus—Selected Issues: Purpose and Scope of Government Provided Subsidies to Households.*

dependent on liquidity support from the NBRB to finance LGP, and the financial system in general has become a conduit for massive quasi-fiscal activity. The authorities now plan to create a Development Bank instead of the previously planned SFA, though the functions of the Development Bank—to take over part of the stock of LGP and eventually all new LGP—are similar to those of the SFA. Staff reiterated its view that the new institution should be the sole provider of new LGP, with net lending included in the budget above the line.

23. **Creating a level playing field and competitive environment in the financial sector will improve allocation of resources.** It is crucial that state-owned banks make lending decisions based on commercial considerations. The staff urged the authorities to renew their efforts in privatizing major state-owned banks and to improve their corporate governance and risk management. Development of nonbank financial institutions would offer more choice in savings and insurance instruments for households and businesses. Removing the monopoly on mandatory insurance enjoyed by state-owned companies would promote growth in the insurance sector.

24. **The authorities and staff agreed that improvements in banking supervision are needed to maintain soundness of the financial system, including in Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).** The recent IMF TA mission on banking supervision found that the supervisory approach at the NBRB remains mostly compliance-based. Staff and the authorities agreed on the need for a peripatetic advisor to help the NBRB in strengthening banking supervision by shifting to risk-based framework and discussed TA options in this area. Staff also recommended excluding banking supervision from the Presidential Decree #510 to allow supervisors schedule bank examinations as they deem necessary.[12]

V. Relationship with the Fund

25. **A review of SBA performance was conducted in the framework of Ex Post Evaluation of Exceptional Access (EPE).** The review concluded that the program was generally successful, and most program conditions were met. It notes that problems experienced under the program reflected external shocks but also rapid directed lending, and warns that the structural reform agenda remains largely unfinished and that macroeconomic vulnerabilities remain in the wake of the program. The report highlights the importance of incorporating fully ownership, including at the highest levels, in program design and conditionality.

26. **The Fund staff will remain closely engaged with Belarus either in the context of a potential new program, if the authorities decide to request it, or through post-**

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[12] The Presidential Decree #510 stipulates that all inspections of an entity must be conducted in one month of the year and thus limits the freedom of supervisors to schedule onsite inspections.

program monitoring. Staff emphasized that any follow-up program would need to focus on both structural reforms and macroeconomic measures sufficient to produce a sustainable current account balance and reaching understandings on a set of these policies would be a prerequisite for such a program. The Extended Fund Facility could be an appropriate instrument to support strong macroeconomic adjustment and extensive structural reforms. In the meantime, staff recommends the initiation of post-program monitoring. Belarus' capacity to repay remains sufficient, although a large projected increase in external debt and growing reliance on expensive market-based financing indicate the presence of significant risks.

VI. Staff Appraisal

27. **Belarus made good progress in establishing the conditions for sustainable growth during the program.** Through strong economic policies during the SBA which expired in March 2010, and with substantial external financial support, especially from the Fund, Belarus was able to stabilize output, contain inflation, and increase gross reserves. The current account deficit remained too high (worsened by energy price increases and by overly expansionary credit policy) but policies adopted under the program gave Belarus the tools to reduce it, including a more flexible exchange rate system. Progress was made in price liberalization and in the design of institutional frameworks for financial sector reform and privatization.

28. **Since March 2010 policies have been loosened to the extent of becoming unsustainable and jeopardizing external stability.** The authorities' decision to pursue over-ambitious growth and wage targets in the remainder of 2010 has left Belarus more vulnerable. They succeeded in increasing growth from 4 percent projected by staff in March to about 7½ percent, but at the cost of an estimated further increase in the current account deficit to about 16 percent of GDP. The government wage increase in November 2010 contributed to inflationary pressures and further eroded competitiveness. The five-year plan promises more of the same: high growth rates to be achieved through credit expansion, including an ambitious housing construction program which crowds out more productive investment.

29. **The NBRB's extensive recourse to foreign currency borrowing from domestic commercial banks is deeply troubling.** This borrowing enabled the NBRB to maintain gross reserves and avoid an exchange rate crisis in the run up to the December Presidential election. But the result is that any significant further intervention would bring the level of gross reserves below the level of the NBRB's liabilities to domestic commercial banks, raising questions about the NBRB's ability to repay.

30. **The authorities need to make quickly some difficult decisions to restore external stability.** The authorities demonstrated in 2009 that they have the capacity to adjust when they need to. A similar resolve will be needed in 2011 and the coming years to produce a swift and decisive reduction in the current account deficit and reduce external

vulnerability.Fiscal and monetary policy tightening will be needed under any scenario, and bringing lending under government programs under control remains a priority. There are different options available to the authorities on the exchange rate: the staff has a strong preference for using devaluation to reduce the current account deficit quickly with somewhat less domestic adjustment, especially given the urgent need to build up foreign exchange reserves. Continued use of exchange rate flexibility and an eventual move to inflation targeting is also appropriate for a country as subject to external shocks as Belarus.

31. **The decisions that the authorities make on the direction of structural reform will be important for Belarus's medium-term prospects.** The latest five-year plan contains many positive elements, including a welcome emphasis on attracting foreign direct investment, and the President's Directive can almost be read as a bill of rights for entrepreneurs. But the five-year plan also contains retrograde elements, including proposals for import substitution that risk repeating some of the worst mistakes made by other countries in the past. The staff has laid out an agenda for reform, supported by previous analysis during the program and new analysis in the selected issues papers. The agenda includes economic liberalization, a shift in investment strategy, reducing the footprint of the state, and financial sector development. The authorities are interested in this agenda, but still attach priority to policy levers that they can control directly, some of which are inconsistent with a more market-oriented approach.

32. **The Fund can support Belarus through policy advice and, if requested, through financial support.** Since the last Article IV consultation, the dialogue between the staff and the authorities has been rich, in program reviews, staff visits and jointly organized seminars, which have also included the World Bank. The authorities have not always taken the Fund's advice, but they have always listened to it. This policy advisory role could be enhanced further under post-program monitoring, which the staff recommends to initiate. Up to now, the authorities have been generous in their praise of the support that the Fund gave them during the crisis, but confident that they can proceed without further financial support from the Fund. However, the staff sees a considerable need for macroeconomic adjustment and for finance to support that adjustment, and Fund support of a program which included sufficiently strong macroeconomic adjustment and market-oriented structural reforms would appear to be warranted.

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

Box 1. Common Economic Area: Main Goals and Current Status

Agreements with Kazakhstan and Russia on establishment of a Common Economic Area (CEA) were signed in December and ratified by Belarus shortly after that; other CEA members would ratify them by 2012. The goals of the CEA would be (i) to develop common goods and services markets and also common capital and labor markets; (ii) to promote structural reforms; (iii) to ensure greater coordination of fiscal, monetary and exchange rate policies and also customs and tariff policies; and (iv) to create common mechanisms of targeted government support to the economy. The November 2009 agreement on the Customs Union (CU) completed the first stage of development of the CEA.

The CU—already in place—is likely to have only limited implications for the Belarusian economy. The introduction of the common external tariff (CET) on July 1, 2010 did not change significantly Belarus's trade regime and therefore would not affect Belarus's trade with non-member countries. Almost 75 percent of tariff lines were harmonized with Russia before the CET was introduced, while sensitive goods remain exempted from a CET. Kazakhstan did not have free trade with Russia or Belarus before joining the CU, which could affect trade patterns within the union.

The introduction of the CEA could have broader consequences for Belarus. The legal foundation of the CEA comprises 17 agreements covering various areas, including macroeconomic policy coordination, energy sector development, labor market issues, capital and financial market development, competition and industrial policy, government procurement, environmental regulation and policies, and intellectual property rights. The agreement on macroeconomic policy coordination envisages close consultations among the members on policy issues and sets indicative targets for the general government deficit and public debt, which should not exceed 3 percent of GDP and 50 percent of GDP, respectively, while the inflation differential in members' economies should be kept within 5 percentage points. The members also agreed to ensure current and capital convertibility of their currencies and expand their use in settlements. Greater integration with Russia and Kazakhstan could benefit Belarus by energizing market reforms and economic restructuring and providing access to a greater market. However, it would also require legal, institutional and policy harmonization in many areas which could potentially result in some loss of autonomy in policy making.

Belarus will benefit from lower oil import prices within the CEA. All trade restrictions, including export duties on oil were eliminated from January 1, 2011, after Belarus ratified CEA agreements. The agreement allows Belarus to import oil from Russia duty free, implying a discount equivalent to about half the world price. In exchange, Belarus will transfer export duties imposed on petroleum products produced from duty-free oil to the Russian budget. Belarus would benefit from the substantial difference between the discount and the export duties on refined products. However, the actual gain is likely to be smaller due to a higher premium on the price of oil imports paid to Russian oil companies: in January this was set at $46 per ton, compared with $11 per ton prior to the new agreement. The premium may be changed, but if it remains at the January level, the net gain to Belarus from the oil agreement will be about $1.3 billion in 2011, or 2 percent of GDP.[13]

[13] The gain from the agreement is calculated based on projected 2011 import and export volumes. It is the difference between the projected oil balance under the new agreement and what the oil balance would have been with the same export and import volumes under the 2010 export duty regime. The projected gain is net of the transfer to the Russian budget and the premium taken by Russian oil companies.

Box 2. Banking System Stress Tests

According to the stress tests results, the banking system can withstand a variety of single shocks, but state-owned banks are vulnerable to a combined shock scenario with their capital adequacy ratio falling below the 8 percent threshold in this case. The banking system remains sufficiently capitalized under different scenarios, but is most exposed to a credit risk event (15 percent increase in the share of the problem assets) when the system-wide capital adequacy ratio drops to 12.7 percent. State-owned banks are particularly vulnerable to a combined shock scenario (increase in problem assets, depreciation of rubel and increase in interest rates) with their capital adequacy ratio falling to 7.4 percent, below the required 8 percent in this case.

Support from the NBRB has considerably improved the liquidity position of state-owned banks compared to late 2009. The extension of maturity on some NBRB refinancing and opening of long-term credit lines at end-2009 significantly improved liquidity at state-owned banks. Their current liquidity ratio remains above the 70 percent threshold under stress test assumptions (20 percent withdrawal in clients' liabilities and 50 percent withdrawal in nonresidents' liabilities). Foreign and medium-sized banks are more vulnerable to a shock from withdrawal of nonresidents’ liabilities, with their current liquidity ratios falling below 70 percent in this scenario.

Stress Testing Results

(Based on end-July, 2010 data)

	All banks	State owned banks	Foreign Banks	Private Banks	Largest Banks	Medium banks	Small banks
Actual capital adequacy ratio (minimum required 8 percent)	19.8	17.5	24.8	36.1	17.2	23.6	46.1
			Stressed Capital Adequacy Ratio				
Increase in the share of problem assets by 15 percentage points	12.7	9.5	19.5	32.6	9.4	18.2	42.5
Depreciation of BYR by 20 percent	19.9	17.6	25.1	36.2	17.3	24.1	46.4
Upward shift in the BYR yield curve by 10 percent	18.4	16.0	23.6	34.8	15.9	22.2	44.5
5% upward shift in yield curve in foreign currency	19.3	16.9	24.7	36.1	16.6	23.5	46.9
Combined scenario for all four events	10.9	7.4	18.5	31.4	7.5	17.1	41.9
Actual current liquidity ratio (minimum required 70 percent) 1/	235.7	285.7	152.0	165.2	277.4	134.5	195.7
			Stressed Current Liquidity Ratio				
20 percent withdrawal in clients' liabilities	201.2	241.7	130.7	143.1	235.5	114.1	183.9
50 percent withdrawal in nonresidents' liabilities	73.8	80.9	61.0	130.5	78.8	52.6	118.5

Source: 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.

Box 3. Program for Social and Economic Development of Belarus in 2011-15

The Program for Social and Economic Development for 2011-15 (the "five-year plan") sets bold targets and calls for ambitious reforms but does not address macroeconomic imbalances.

Structural reforms would enhance the economy's potential, if supported by macroeconomic adjustment, but some measures could result in waste. Deregulation, institution building and developing market incentives envisaged under the five-year plan are critical for private sector development, although macroeconomic instability could undermine the impact of these reforms. The program of export promotion and import substitution through economic modernization and developing new industries could result in developing sectors which are not consistent with Belarus's comparative advantage.

The plan is not grounded in a coherent macroeconomic framework. Projections of GDP growth significantly exceed Belarus's growth potential. Achieving rapid growth through credit expansion, fiscal easing and boosting household incomes would undermine external adjustment. The new Prime Minister has proposed that the plan be revised with a view of strengthening measures which would narrow the current account deficit.

Achieving the social goals of the five-year plan is unlikely and would be costly. Households' incomes are set to increase by 70-76 percent over five years in 2015 (Table below). The five-year plan envisages further significant wage and pension increases and the continuation of government support for housing construction and a subsidization of household utility tariffs, albeit at a diminishing rate.

Main Economic Targets for 2011–15

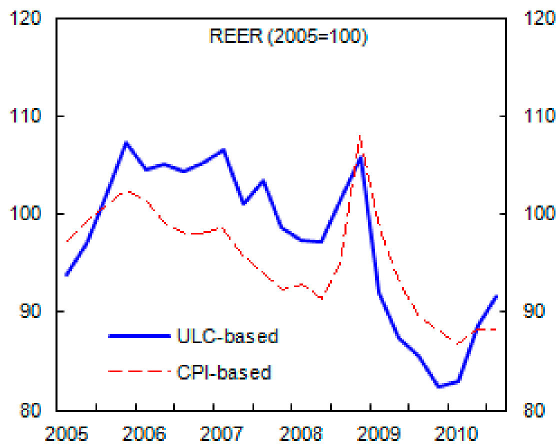
(Change in percent, unless otherwise indicated)

	2015 over 2010
Real incomes	70-76
GDP	62-68
Labor productivity	63-68
Industrial production	54-60
Agricultural output	39-45
Investment in fixed capital	90-97
Sales of innovative goods (percent of total industrial sales)	20-21

Source: Program for Social and Economic Development of Belarus in 2011–15.

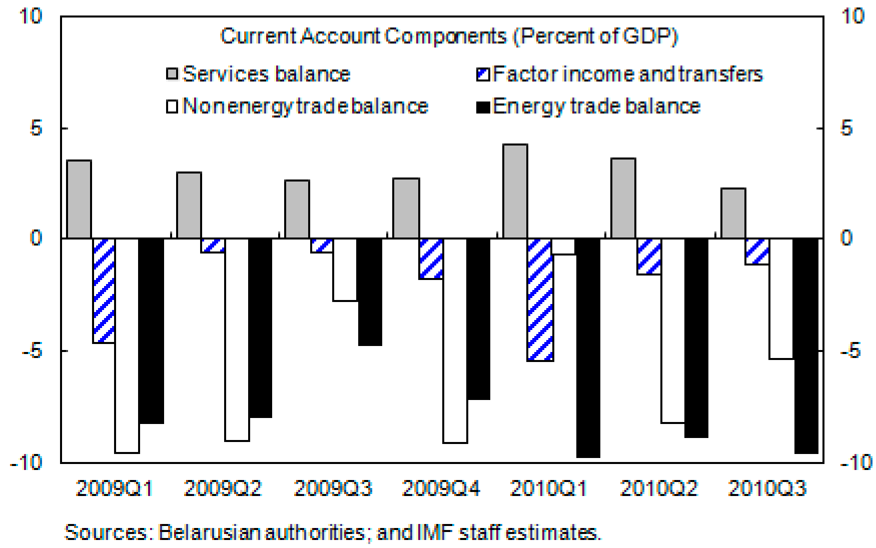
Box 4. Exchange Rate Assessment

Past improvements in price and cost competitiveness contributed to a recovery of export volumes in 2010, but these improvements are likely to have recently leveled off. Following a significant improvement in early 2009, competitiveness was supported during the crisis period by relatively moderate inflation and wage growth, as well as gradual depreciation of the nominal exchange rate. As a result, and boosted further by renewed momentum in potassium markets, year-on-year growth in non-energy export volume turned positive and increased significantly in 2010. However, several factors, including large wage increases and loose macroeconomic policies fueling future inflation towards the end of 2010, are likely to weigh on competitiveness looking forward.



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

The current account deficit remains persistently high and external vulnerabilities are on the rise. The current account deficit increased further during the crisis period reflecting increases in energy prices and macroeconomic policies aimed at boosting domestic demand. As a result, and despite more dynamic exports, goods trade continues to show a large deficit. Recent intensification in vulnerabilities is reflected in falling international reserves despite significant recourse to external financing.

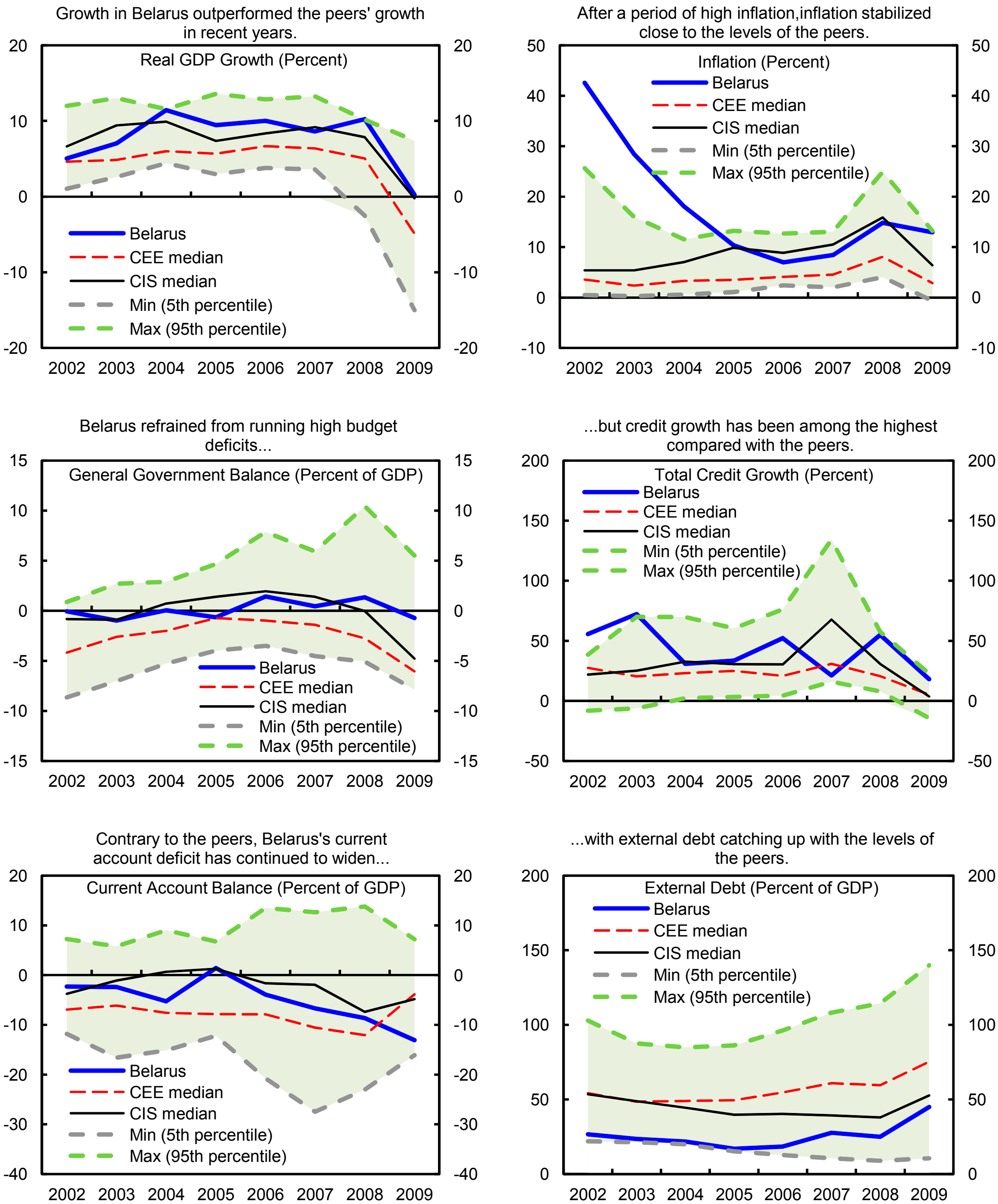


Two forward-looking approaches—the macroeconomic balance and the external sustainability approach—both point to significant real effective exchange rate (REER) overvaluation.[14] Based on the two approaches, the sustainable deficit level (the current account norm) is estimated to be about 3.5 percent of GDP. Based on current policies, the medium-term current account deficit is expected to amount to 9.4 percent of GDP in 2016, suggesting that the REER is overvalued by about 12 to 16 percent. While these approaches provide useful quantitative estimates of misalignment, they should be interpreted with some caution. Uncertainty about effectiveness of exchange rate adjustment is particularly high in the case of Belarus: the economy is characterized by significant state control and rigidities that dampen the role of price signals, relative to a market based economy. This assessment nevertheless suggests that further depreciation of the nominal exchange rate is needed. The size of the nominal exchange rate adjustment depends crucially on the strength of other macroeconomic policies.

Authorities views. Authorities disagreed with the staff's assessment that the rubel is significantly overvalued, arguing that structural reforms to increase competitiveness would boost exports and policies aimed at import substitution would dampen imports, resulting in a lower current account deficit over the medium term.

[14] For information on methodology see Lee, J., G.M. Milesi-Ferretti, Ostry, J., Prati, A. and Antonio, L. (2008): "Exchange Rate Assessments: CGER Methodologies", IMF Occasional Paper 261 and for an application to Belarus case, see Kovtun, D. (2009): "Is There a Need for Further Adjustment in the Exchange Rate?", Selected Issues Paper.

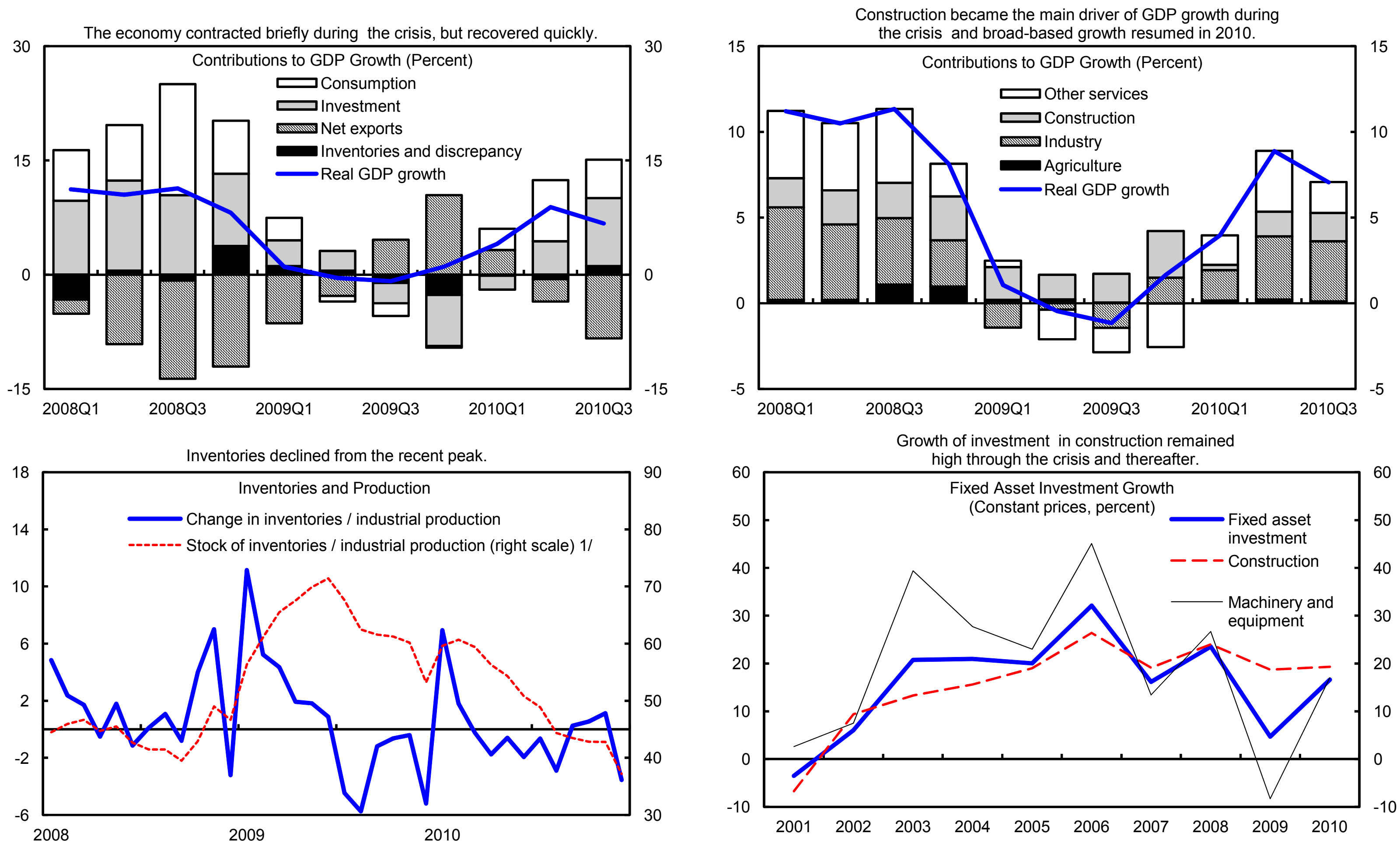
Figure 1. Belarus: Performance Among Peers, 2002–09 1/



Sources: IMF, *World Economic Outlook;* IMF, *International Financial Statistics;* and IMF staff calculations.

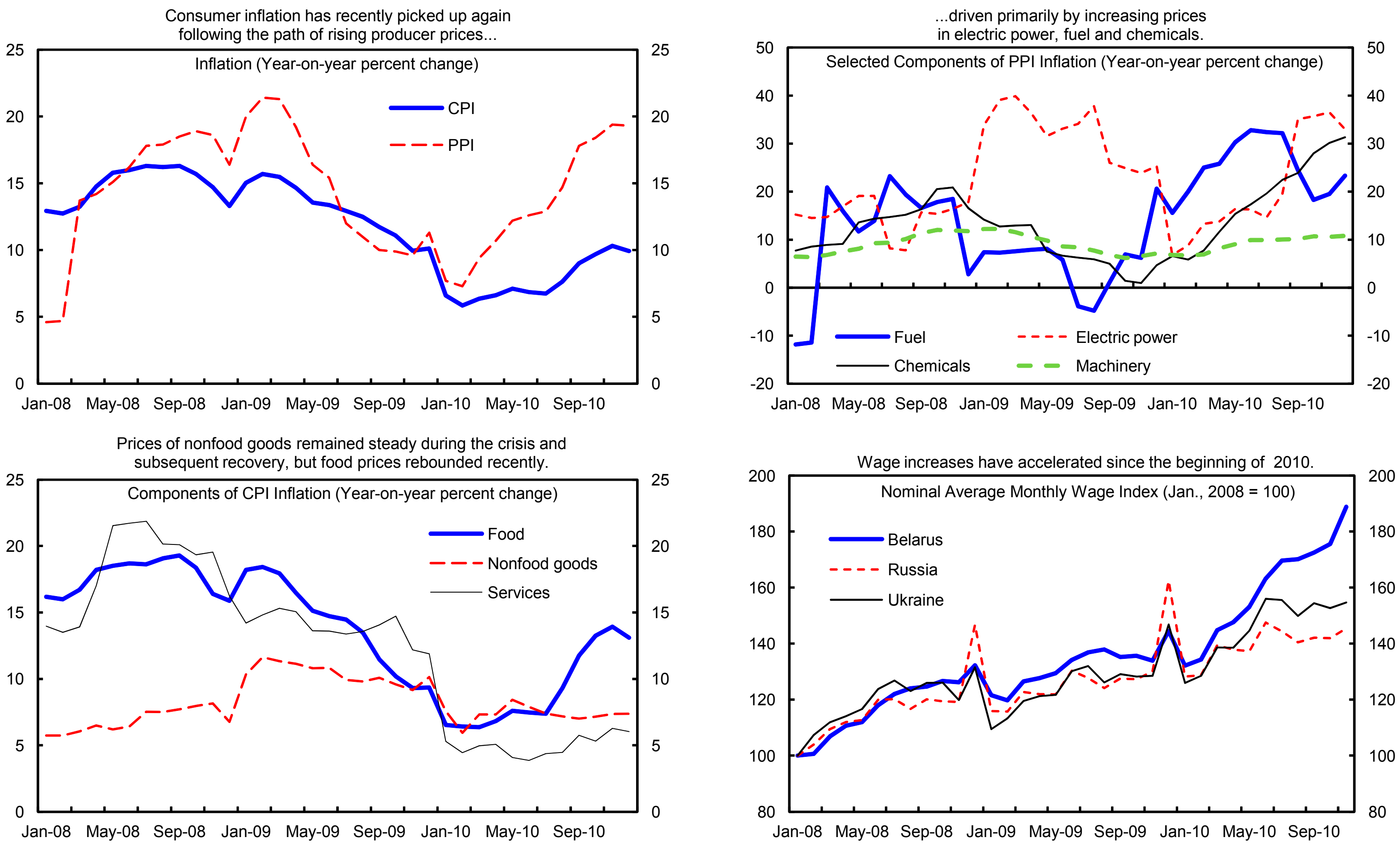
1/ CEE includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Rep., and Turkey . CIS includes Russia, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Rep., Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The 5th and 95th percentiles include the entire CEE and CIS samples excluding Belarus.

Figure 2. Belarus: Output Developments, 2001–10



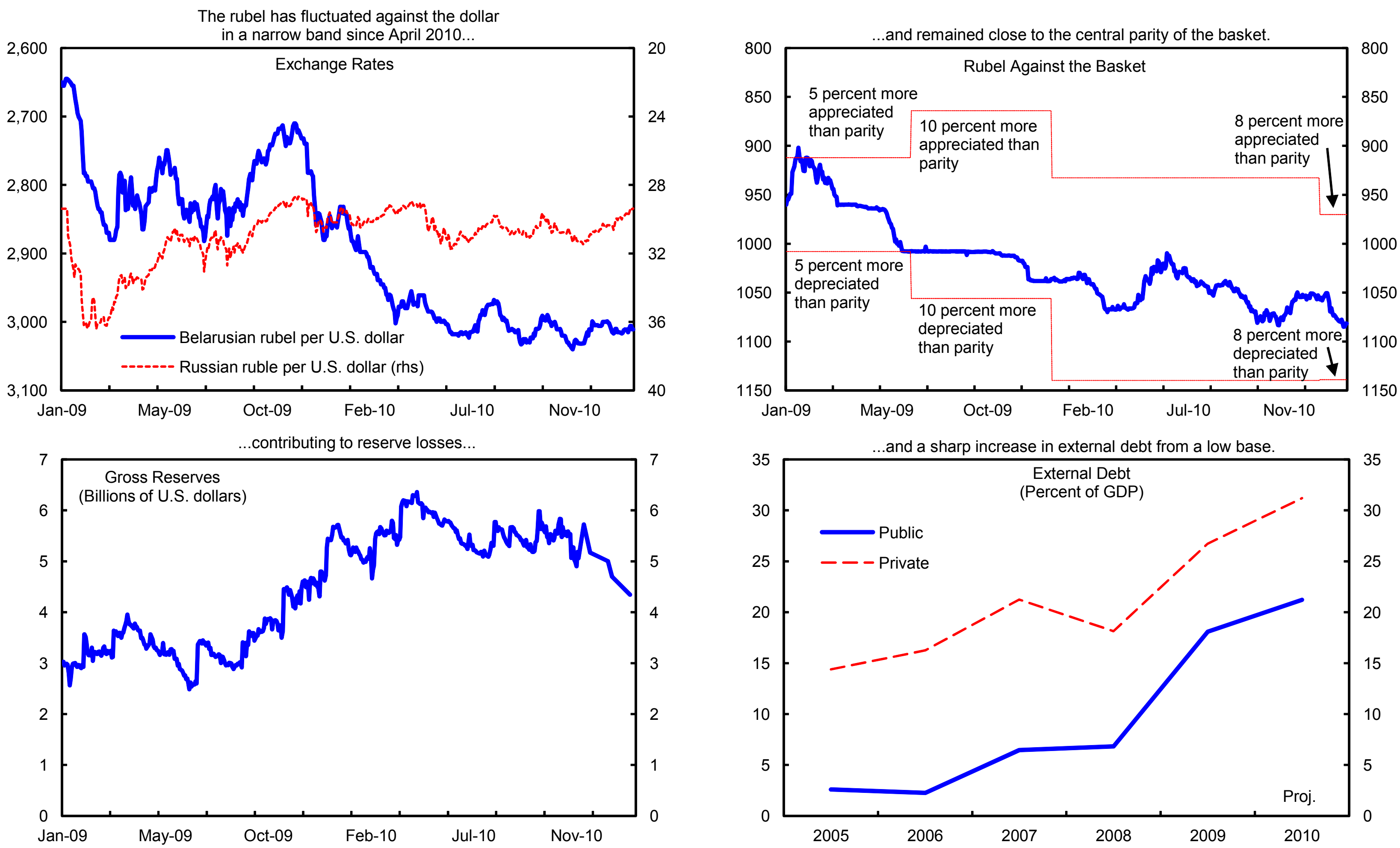
Sources: National Statistical Committee; and IMF staff estimates and calculations.
1/ Lagged 12-month moving average of industrial production.

Figure 3. Belarus: Inflation Developments, 2008–10



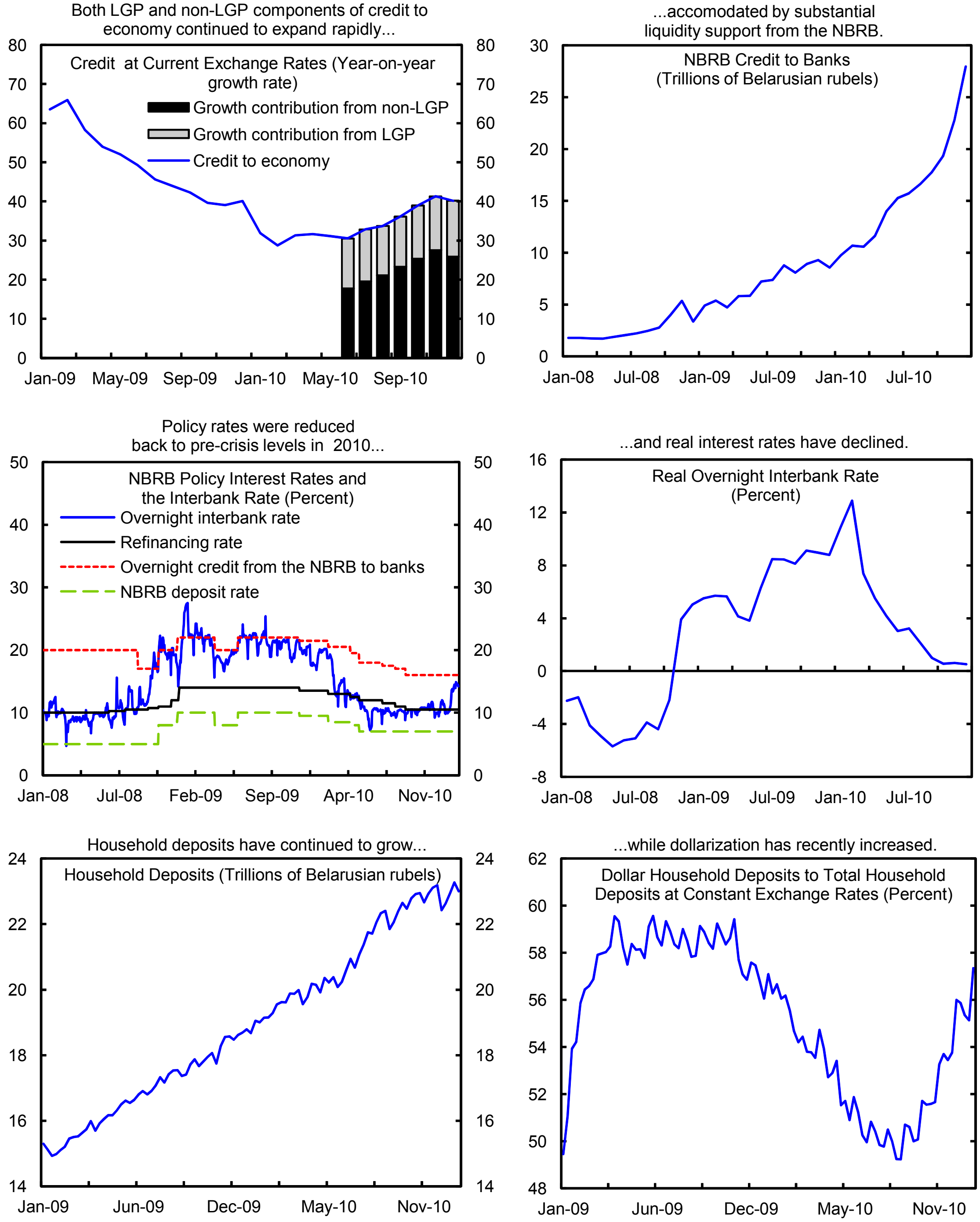
Sources: National Statistical Committee; and IMF staff estimates and calculations.

Figure 4. Belarus: External Developments, 2005–11



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

Figure 5. Belarus: Monetary Developments, 2008–11



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

Table 1. Belarus: Selected Economic Indicators (Baseline scenario), 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Prel.	Est.	Proj.					
	(Annual percentage change, unless otherwise specified)								
National accounts									
Real GDP	10.2	0.2	7.6	6.9	4.8	4.8	4.8	4.7	4.6
Total domestic demand	17.8	-1.1	10.3	4.7	4.7	4.3	4.2	4.2	4.2
Consumption	12.5	0.0	7.0	5.7	5.8	5.1	4.9	4.9	5.0
Nongovernment	16.3	0.0	8.6	6.9	6.9	6.2	6.0	5.9	5.9
Government	0.3	-0.1	1.3	1.0	1.0	0.0	0.0	0.0	0.0
Investment	28.2	-2.9	16.1	2.9	2.9	2.9	2.9	2.9	2.9
Of which: fixed	23.8	5.0	16.6	3.0	3.0	3.0	3.0	3.0	3.0
Net exports 1/	-9.4	1.5	-4.3	1.4	-0.6	-0.2	0.0	-0.2	-0.2
Consumer prices									
End of period	13.3	10.1	9.9	10.5	9.0	7.5	7.0	6.0	5.0
Average	14.8	13.0	7.7	11.0	9.1	8.2	7.2	6.5	5.5
Monetary accounts									
Reserve money 2/	11.7	-11.3	229.8	-0.2	9.3	14.8	8.0	10.3	7.8
Rubel broad money	22.5	1.0	27.5	13.2	20.3	23.2	16.6	15.9	15.1
Growth of credit to the economy at constant exchange rates	50.0	27.7	38.2	24.8	22.5	17.7	17.0	15.8	15.4
	(Percent of GDP)								
External debt and balance of payments									
Current account	-8.6	-13.0	-16.0	-14.1	-13.4	-12.6	-11.5	-10.5	-9.4
Trade balance	-10.3	-14.1	-16.9	-11.7	-10.8	-10.1	-9.0	-8.1	-7.1
Exports of goods	54.0	43.4	46.3	51.3	50.9	51.5	51.7	51.7	51.7
Imports of goods	-64.3	-57.5	-63.2	-62.9	-61.8	-61.5	-60.7	-59.8	-58.8
Gross external debt	25.0	44.9	52.4	57.3	61.9	67.3	71.2	73.6	74.5
Public 3/	6.8	18.1	21.2	24.3	26.1	27.3	28.2	28.9	29.0
Private (mostly state-owned-enterprises)	18.1	26.7	31.2	33.0	35.8	39.9	43.0	44.7	45.5
Savings and investment									
Gross domestic investment	37.6	37.3	42.8	39.5	38.3	37.0	35.7	34.5	33.4
Government	10.0	8.1	8.4	6.0	5.6	5.3	5.0	4.5	4.5
Nongovernment	27.6	29.2	34.4	33.5	32.7	31.7	30.7	30.1	29.0
National saving	29.0	24.3	26.8	25.4	24.8	24.4	24.1	24.1	24.0
Government 4/	6.5	7.4	4.0	3.8	3.4	3.1	3.0	3.0	3.0
Nongovernment 4/	22.6	16.9	22.7	21.6	21.4	21.3	21.1	21.1	21.0
Public sector finance									
Republican and local government balance	0.0	-1.8	-2.6	-3.0	-2.7	-2.4	-2.0	-1.5	-1.3
General government balance 5/	-3.5	-0.7	-4.3	-2.2	-2.2	-2.1	-1.9	-1.5	-1.5
Revenue	50.6	45.7	41.9	40.9	40.1	39.6	39.3	39.0	38.8
Expenditure 6/	54.1	46.4	46.3	43.1	42.2	41.8	41.3	40.5	40.2
Of which:									
Wages	6.6	6.7	7.1	8.0	8.0	8.0	8.0	8.0	8.0
Subsidies and transfers	11.5	11.7	8.4	7.8	7.4	7.0	6.7	6.3	6.0
Investment	10.0	8.1	8.4	6.0	5.6	5.3	5.0	4.5	4.5
Gross public debt	10.7	20.0	22.4	25.5	26.9	28.9	28.5	29.8	29.2
	(Annual percentage change, unless indicated otherwise)								
Memorandum items:									
Nominal GDP (billions of U.S. dollars)	60.8	49.2	54.7	…	…	…	…	…	…
Nominal GDP (trillions of rubels)	129.8	137.4	163.0	197.4	227.3	257.8	290.2	324.4	359.6
Terms of trade	8.6	-8.0	-1.0	3.8	1.3	0.9	1.0	1.0	1.1
Real effective exchange rate	1.6	-4.5	-4.9	1.2	0.9	0.0	0.0	0.0	0.0
Official reserves (billions of U.S. dollars)	3.1	5.7	5.0	6.2	6.8	7.3	7.9	8.5	9.1
Months of imports of goods and services	1.2	1.8	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Percent of short-term debt	40.4	63.2	42.5	46.2	45.0	43.2	41.7	40.3	39.0
In absence of exceptional financing	…	…	…	1.6	-3.8	-10.3	-16.2	-20.3	-19.1
Financing gap (billions of U.S. dollars)	…	…	…	4.6	5.9	7.0	6.5	4.7	4.1
Quota (2009): SDR 386.4 million (595.8 million U.S. dollars)									

Sources: Belarusian authorities; and IMF staff estimates.

1/ Contribution to growth.

2/ The high growth in 2010 is due primarily to the increase of NBRB's FX liabilities to commercial banks. The NBRB is currently revising the methodology of compiling the monetary base: the FX deposits will be removed from the monetary base.

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

4/ The reduction in government saving and a corresponding increase in nongovernment saving in 2010 include bank recapitalization and layouts related to public guaranteed debt in amount of 2.5 percent of GDP performed in 2010.

5/ Refers to the augmented balance of the general government shown in Table 3.

6/ Refers to the augmented expenditure of the general government.

Table 2. Belarus: Balance of Payments, 2008–16

	2008	2009	2010				2011	2012	2013	2014	2015	2016
			Q1	Q2	Q3	Annual						
		Prel.	Prel.	Prel.	Prel.	Est.	Proj.					
	(Millions of U.S. dollars)											
Current account	-5,230	-6,389	-1,259	-1,971	-2,141	-8,750	-9,243	-9,989	-10,185	-10,187	-10,101	-9,922
Trade balance (goods)	-6,237	-6,957	-1,129	-2,197	-2,315	-9,249	-7,616	-8,040	-8,161	-7,977	-7,829	-7,520
Energy balance	-2,000	-3,378	-1,056	-1,130	-1,491	-5,494	-3,831	-4,051	-4,592	-4,668	-4,749	-4,730
Nonenergy balance	-4,237	-3,579	-72	-1,067	-824	-3,756	-3,785	-3,989	-3,569	-3,309	-3,079	-2,790
Exports	32,805	21,361	5,303	5,971	6,322	25,318	33,519	37,855	41,729	45,664	49,875	54,563
Energy	11,866	7,844	1,274	1,467	1,532	6,199	10,759	11,026	11,066	11,164	11,292	11,494
Nonenergy	20,939	13,517	4,029	4,504	4,790	19,119	22,760	26,829	30,663	34,500	38,582	43,069
Imports	-39,042	-28,318	-6,432	-8,168	-8,637	-34,568	-41,135	-45,895	-49,890	-53,641	-57,704	-62,083
Energy	-13,865	-11,222	-2,330	-2,597	-3,023	-11,693	-14,590	-15,077	-15,658	-15,832	-16,042	-16,224
Nonenergy	-25,176	-17,096	-4,102	-5,571	-5,614	-22,875	-26,545	-30,818	-34,232	-37,809	-41,662	-45,859
Services	1,624	1,440	457	445	374	1,696	2,042	2,404	2,874	3,325	3,800	4,325
Receipts	4,188	3,482	983	1,119	1,167	4,477	5,327	6,281	7,180	8,079	9,036	10,088
Payments	-2,564	-2,042	-526	-674	-793	-2,782	-3,285	-3,877	-4,305	-4,754	-5,237	-5,763
Income, net	-788	-1,114	-626	-250	-250	-1,362	-1,873	-2,530	-3,093	-3,737	-4,275	-4,922
Transfers, net 1/	171	242	39	31	50	166	-1,795	-1,823	-1,805	-1,798	-1,796	-1,805
Capital and financial accounts	4,163	5,221	770	967	2,363	6,992	5,802	5,023	5,323	5,661	6,051	6,520
Capital account	137	160	35	31	35	135	133	151	165	180	197	215
Financial account	4,026	5,061	735	937	2,328	6,857	5,669	4,872	5,158	5,481	5,855	6,305
Overall FDI, net	2,150	1,782	1,060	88	101	1,306	1,907	2,168	2,366	2,580	2,817	3,081
Portfolio investment, net	5	19	-10	-22	981	1,179	1,245	0	0	0	0	0
Trade credits, net	289	657	78	277	432	1,256	600	400	400	400	400	400
Loans, net	2,085	1,266	-107	701	632	3,006	1,917	2,304	2,391	2,502	2,638	2,824
Government and monetary authorities, net	1,266	926	-18	198	41	714	394	561	487	468	441	441
Banks, net	603	21	246	349	541	2,126	1,041	1,156	1,243	1,365	1,526	1,701
Other sectors, net	519	319	-335	154	49	164	481	587	661	668	671	682
Other (excluding arrears), net 2/	-503	1,337	-285	-106	182	110	0	0	0	0	0	0
Errors and omissions	-60	375	287	459	237	714	0	0	0	0	0	0
Overall balance	-1,127	-793	-202	-545	459	-1,044	-3,441	-4,966	-4,862	-4,526	-4,049	-3,402
Financing	1,127	793	202	545	-459	1,044	-1,190	-935	-2,180	-1,925	-697	-661
Reserves ("-" denotes an increase)	1,003	-2,443	-463	545	-459	577	-1,190	-553	-525	-568	-613	-661
Net use of Fund resources	0	2,838	665	0	0	665	0	-382	-1,655	-1,356	-84	0
Other donors and exceptional financing items	124	398	0	0	0	-198	0	0	0	0	0	0
Financing gap	…	…	…	…	…	…	4,631	5,901	7,042	6,451	4,746	4,063
Memorandum items:												
Stock of reserves 3/	3,061	5,653	6,074	5,525	5,985	5,031	6,221	6,774	7,299	7,868	8,481	9,142
Reserves (months of next year's imports of goods and services)	1.2	1.8	…	…	…	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Reserves (percent of short-term debt)	40.4	63.2	…	…	…	42.5	46.2	45.0	43.2	41.7	40.3	39.0
Real effective exchange rate (annual percentage change of period average, "+" denotes appreciation)	1.6	-4.5	…	…	…	-4.9	1.2	0.9	0.0	0.0	0.0	0.0
Export volume (annual percentage change)	1.5	-11.5	…	…	…	0.6	16.3	4.7	4.9	5.0	4.9	4.9
Import volume (annual percentage change)	14.3	-12.6	…	…	…	4.1	9.1	4.7	4.2	4.1	4.2	4.3
Domestic demand growth (annual percentage change)	17.8	-1.1	…	…	…	10.3	4.7	4.7	4.3	4.2	4.2	4.2
Partner country growth (percent) 4/												
Russia	5.2	-7.9	…	…	…	3.8	4.5	4.4	4.3	4.2	4.0	4.0
EU	0.4	-4.1	…	…	…	1.8	1.5	1.7	1.8	1.8	1.7	1.7

Table 2. Belarus: Balance of Payments, 2008–16 1/ (concluded)

	2008	2009	2010				2011	2012	2013	2014	2015	2016
			Q1	Q2	Q3	Annual						
		Prel.	Prel.	Prel.	Prel.	Est.			Proj.			
	(Percent of GDP)											
Current account	-8.6	-13.0	-2.3	-3.6	-3.9	-16.0	-14.1	-13.4	-12.6	-11.5	-10.5	-9.4
Trade balance	-10.3	-14.1	-2.1	-4.0	-4.2	-16.9	-11.7	-10.8	-10.1	-9.0	-8.1	-7.1
Of which: energy balance	-3.3	-6.9	-1.9	-2.1	-2.7	-10.0	-5.9	-5.5	-5.7	-5.3	-4.9	-4.5
Nonenergy balance	-7.0	-7.3	-0.1	-2.0	-1.5	-6.9	-5.8	-5.4	-4.4	-3.7	-3.2	-2.6
Exports	54.0	43.4	9.7	10.9	11.6	46.3	51.3	50.9	51.5	51.7	51.7	51.7
Of which : energy exports	19.5	15.9	2.3	2.7	2.8	11.3	16.5	14.8	13.6	12.6	11.7	10.9
Imports	-64.3	-57.5	-11.8	-14.9	-15.8	-63.2	-62.9	-61.8	-61.5	-60.7	-59.8	-58.8
Of which: energy imports	-22.8	-22.8	-4.3	-4.7	-5.5	-21.4	-22.3	-20.3	-19.3	-17.9	-16.6	-15.4
Capital and financial accounts	6.9	10.6	1.4	1.8	4.3	12.8	8.9	6.8	6.6	6.4	6.3	6.2
Capital account	0.2	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	6.6	10.3	1.3	1.7	4.3	12.5	8.7	6.6	6.4	6.2	6.1	6.0
Overall FDI	3.5	3.6	1.9	0.2	0.2	2.4	2.9	2.9	2.9	2.9	2.9	2.9
Portfolio investment, net	0.0	0.0	0.0	0.0	1.8	2.2	1.9	0.0	0.0	0.0	0.0	0.0
Trade credits, net	0.5	1.3	0.1	0.5	0.8	2.3	0.9	0.5	0.5	0.5	0.4	0.4
Loans, net	3.4	2.6	-0.2	1.3	1.2	5.5	2.9	3.1	2.9	2.8	2.7	2.7
Government and monetary authorities, net	2.1	1.9	0.0	0.4	0.1	1.3	0.6	0.8	0.6	0.5	0.5	0.4
Banks, net	1.0	0.0	0.4	0.6	1.0	3.9	1.6	1.6	1.5	1.5	1.6	1.6
Other sectors, net	0.9	0.6	-0.6	0.3	0.1	0.3	0.7	0.8	0.8	0.8	0.7	0.6
Other (excluding arrears), net 2/	-0.8	2.7	-0.5	-0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.1	0.8	0.5	0.8	0.4	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.9	-1.6	-0.4	-1.0	0.8	-1.9	-5.3	-6.7	-6.0	-5.1	-4.2	-3.2
Financing	1.9	1.6	0.4	1.0	-0.8	1.9	-1.8	-1.3	-2.7	-2.2	-0.7	-0.6
Reserves ("-" denotes an increase)	1.7	-5.0	-0.8	1.0	-0.8	1.1	-1.8	-0.7	-0.6	-0.6	-0.6	-0.6
Net use of Fund resources	0.0	5.8	1.2	0.0	0.0	1.2	0.0	-0.5	-2.0	-1.5	-0.1	0.0
Other donors and exceptional financing items	0.2	0.8	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	…	…	…	…	7.1	7.9	8.7	7.3	4.9	3.8

Sources: Belarus authorities; and IMF staff estimations.

1/ Values for 2011-16 include transfer of export duty on oil products to the Russian budget.
2/ Includes 2009 SDR allocation.
3/ Reserve targets for 2011-16 are set relative to months of imports.
4/ Based on latest projection available.

Table 3. Belarus: Fiscal Indicators and Projections, 2008–16

(Trillions of Belarusian rubels, unless otherwise indicated)

	2008	2009	2010		2011	2012	2013	2014	2015	2016
		Dec.	Sep.	Dec.						
		Prel.	Prel.	Est.	Proj.					
1.State (republican and local) budget										
Revenue	50.9	46.6	34.6	48.8	55.7	62.6	70.2	78.3	86.8	95.4
Personal income tax	4.2	4.3	3.7	5.4	6.2	7.1	8.0	9.0	10.1	11.2
Profit tax	6.0	4.6	4.1	5.6	7.1	7.8	8.8	9.9	11.1	12.3
VAT	11.4	12.1	11.2	16.2	19.4	22.3	25.3	28.5	31.8	35.3
Excises	3.9	3.6	3.2	4.4	5.3	6.1	6.9	7.7	8.7	9.6
Property tax	1.3	1.6	1.3	1.9	1.4	1.6	1.9	2.1	2.3	2.6
Customs duties	10.6	8.0	3.9	5.8	7.1	8.0	9.1	10.2	11.4	12.6
Other	7.8	7.7	4.9	6.7	6.6	7.2	7.8	8.3	8.8	9.2
Revenue of budgetary funds	5.7	4.7	2.2	2.9	2.6	2.6	2.6	2.6	2.6	2.6
Expenditure (economic classification) 1/	50.9	49.0	37.2	53.0	61.7	68.7	76.4	84.3	91.6	100.0
Wages and salaries	8.6	9.3	7.9	11.5	15.7	18.1	20.5	23.1	25.8	28.6
Social protection fund contributions	2.3	2.5	2.1	3.1	4.4	4.9	5.5	6.2	7.0	7.7
Goods and services	8.7	8.7	6.6	10.0	11.8	12.8	13.8	14.7	15.6	16.4
Interest	0.7	1.1	0.8	1.1	2.1	3.0	4.4	6.0	7.7	9.2
Subsidies and transfers	14.9	16.0	10.1	13.7	15.5	16.9	18.1	19.4	20.6	21.6
Capital expenditures	13.0	11.2	8.7	13.6	11.8	12.6	13.6	14.4	14.5	16.1
Net lending	2.6	0.4	0.9	-0.1	0.5	0.4	0.4	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification) 2/	0.0	-2.4	-2.5	-4.2	-6.0	-6.1	-6.1	-5.9	-4.8	-4.6
Bank restructuring measures	2.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Net lending to financial institutions	4.3	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	…	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Augmented balance	-6.3	-2.4	-2.5	-8.3	-6.0	-6.1	-6.1	-5.9	-4.8	-4.6
2. Social protection fund										
Revenue	14.7	16.1	13.9	19.6	25.1	28.5	32.0	35.8	39.9	44.0
Expenditure	13.0	14.7	12.9	18.3	23.4	27.3	31.4	35.5	40.0	44.7
Balance (cash)	1.7	1.4	1.0	1.3	1.6	1.2	0.6	0.4	-0.1	-0.6
Balance of the general government	1.7	-1.0	-1.6	-2.9	-4.4	-4.9	-5.5	-5.6	-4.9	-5.2
Augmented balance of the general government	-4.6	-1.0	-1.6	-7.1	-4.4	-4.9	-5.5	-5.6	-4.9	-5.2
Statistical discrepancy	0.0	-0.3	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	4.6	1.3	1.6	6.7	4.4	4.9	5.5	5.6	4.9	5.2
Privatization	1.3	1.9	0.8	1.1	3.5	3.2	3.6	3.9	4.3	4.4
Foreign financing, net 3/	3.0	3.6	3.0	2.6	14.9	12.0	14.3	13.6	10.5	9.4
Domestic financing, net	0.3	-4.2	-2.2	3.0	-14.0	-10.2	-12.3	-11.9	-10.0	-8.5
Banking system	-1.6	-3.9	-2.6	2.8	-14.1	-10.2	-11.9	-11.8	-9.8	-8.4
Central bank	0.2	-3.5	-1.4	3.2	-14.2	-10.3	-12.0	-11.9	-9.9	-8.5
Deposit money banks (including SPF)	-1.8	-2.2	-1.7	-1.0	0.1	0.1	0.1	0.1	0.1	0.1
Revaluation effect	...	1.8	0.5	0.6	...	...	...	...	...	...
Nonbank 4/	1.9	-0.3	0.3	0.2	0.1	0.0	-0.4	-0.2	-0.2	-0.1
Memorandum items:										
Fiscal deficit including lending under government programs	…	…	7.3	16.6	15.9	16.8	17.0	18.6	19.0	21.2
Of which: lending under government programs	…	…	5.8	9.5	11.5	11.9	11.5	13.0	14.1	16.0

Table 3. Belarus: Fiscal Indicators and Projections, 2008–16 1/ (concluded)

(Percent of annual GDP, unless otherwise indicated)

	2008	2009	2010		2011	2012	2013	2014	2015	2016
		Dec.	Sep.	Dec.						
		Prel.	Prel.	Prel.	Proj.					
1.State (republican and local) budget										
Revenue	39.3	33.9	21.3	29.9	28.2	27.5	27.2	27.0	26.7	26.5
Personal income tax	3.2	3.1	2.3	3.3	3.2	3.1	3.1	3.1	3.1	3.1
Profit tax	4.6	3.4	2.5	3.4	3.6	3.4	3.4	3.4	3.4	3.4
VAT	8.8	8.8	6.9	10.0	9.8	9.8	9.8	9.8	9.8	9.8
Excises	3.0	2.6	2.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Property tax	1.0	1.2	0.8	1.1	0.7	0.7	0.7	0.7	0.7	0.7
Customs duties	8.2	5.8	2.4	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Other	6.0	5.6	3.0	4.1	3.4	3.2	3.0	2.9	2.7	2.6
Revenue of budgetary funds	4.4	3.4	1.4	1.8	1.3	1.1	1.0	0.9	0.8	0.7
Expenditure (economic classification) 1/	39.2	35.7	22.8	32.5	31.2	30.2	29.6	29.0	28.2	27.8
Wages and salaries	6.6	6.7	4.9	7.1	8.0	8.0	8.0	8.0	8.0	8.0
Social protection fund contributions	1.8	1.8	1.3	1.9	2.2	2.1	2.1	2.1	2.1	2.1
Goods and services	6.7	6.3	4.1	6.1	6.0	5.6	5.3	5.1	4.8	4.6
Interest	0.6	0.8	0.5	0.7	1.1	1.3	1.7	2.1	2.4	2.6
Subsidies and transfers	11.5	11.7	6.2	8.4	7.8	7.4	7.0	6.7	6.3	6.0
Capital expenditures	10.0	8.1	5.4	8.4	6.0	5.6	5.3	5.0	4.5	4.5
Net lending	2.0	0.3	0.6	0.0	0.3	0.2	0.2	0.1	0.1	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (economic classification) 2/	0.0	-1.8	-1.5	-2.6	-3.0	-2.7	-2.4	-2.0	-1.5	-1.3
Bank restructuring measures	1.5	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Net lending to financial institutions	3.3	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Outlays related to guaranteed debt	…	…	…	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Augmented balance	-4.8	-1.8	-1.5	-5.1	-3.0	-2.7	-2.4	-2.0	-1.5	-1.3
2. Social Protection Fund										
Revenue	11.3	11.7	8.5	12.0	12.7	12.5	12.4	12.3	12.3	12.2
Expenditure	10.0	10.7	7.9	11.2	11.9	12.0	12.2	12.2	12.3	12.4
Balance (cash)	1.3	1.1	0.6	0.8	0.8	0.5	0.2	0.1	0.0	-0.2
Balance of the general government	1.3	-0.7	-1.0	-1.8	-2.2	-2.2	-2.1	-1.9	-1.5	-1.5
Augmented balance of the general government	-3.5	-0.7	-1.0	-4.3	-2.2	-2.2	-2.1	-1.9	-1.5	-1.5
Statistical discrepancy	0.0	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
3. Financing (cash) 2/	3.5	1.0	1.0	4.1	2.2	2.2	2.1	1.9	1.5	1.5
Privatization	1.0	1.4	0.5	0.6	1.8	1.4	1.4	1.4	1.3	1.2
Foreign financing, net 3/	2.3	2.6	1.8	1.6	7.5	5.3	5.5	4.7	3.3	2.6
Domestic financing, net	0.2	-3.0	-1.4	1.8	-7.1	-4.5	-4.8	-4.1	-3.1	-2.4
Banking system	-1.2	-2.8	-1.6	1.7	-7.1	-4.5	-4.6	-4.0	-3.0	-2.3
Central bank	0.1	-2.5	-0.9	2.0	-7.2	-4.5	-4.7	-4.1	-3.1	-2.4
Deposit money banks (including SPF)	-1.3	-1.6	-1.0	-0.6	0.1	0.0	0.0	0.0	0.0	0.0
Revaluation effect	…	1.3	0.3	0.3	…	…	…	…	…	…
Nonbank 4/	1.5	-0.2	0.2	0.1	0.1	0.0	-0.2	-0.1	-0.1	0.0
Memorandum items:										
Fiscal deficit including lending under government programs	…	…	4.5	10.2	8.0	7.4	6.6	6.4	5.8	5.9
Of which: lending under government programs	…	…	3.5	5.8	5.8	5.2	4.5	4.5	4.3	4.4
Gross public debt 5/	10.7	20.0	…	22.4	25.5	26.9	28.9	28.5	29.8	29.2
GDP (trillions of Belarusian rubels)	129.8	137.4	…	163.0	197.4	227.3	257.8	290.2	324.4	359.6

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

1/ Includes changes in expenditure arrears.

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

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

4/ Includes statistical discrepancy up to 2008.

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

Table 4. Belarus: Monetary Authorities' Accounts, 2008–16

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

	2008	2009	2010		2011	2012	2013	2014	2015	2016
			Mar.	Dec.						
			Prel.	Prel.			Proj.			
Reserve money 1/	7.7	6.8	6.7	22.5	22.5	24.6	28.2	30.5	33.6	36.2
Rubel reserve money	7.3	6.6	6.6	11.2	11.0	13.0	15.8	18.2	20.7	23.5
Currency outside banks	3.8	3.6	3.7	4.5	4.9	5.6	6.7	7.4	8.2	8.9
Required reserves	2.2	1.7	1.7	4.0	4.4	5.1	6.1	7.0	8.0	9.2
Time deposits, NBB securities, and nonbank deposits	1.2	1.3	1.2	2.8	1.7	2.3	3.1	3.7	4.5	5.4
Foreign currency reserve money	0.4	0.2	0.1	11.3	11.5	11.5	12.4	12.3	12.9	12.8
Net foreign assets	7.0	5.8	5.5	0.2	3.8	6.7	17.4	23.6	27.1	29.1
Billions of U.S. dollars	3.2	2.0	1.8	0.1	1.2	2.2	5.3	7.2	7.9	8.6
Net foreign assets (convertible)	5.8	5.1	4.7	-2.7	0.9	3.8	14.2	20.4	23.8	25.8
Billions of U.S. dollars	2.6	1.8	1.6	-0.9	0.3	1.2	4.3	6.2	6.9	7.6
Foreign assets	8.0	16.9	18.9	18.0	22.0	23.7	27.2	28.9	32.4	34.3
Billions of U.S. dollars	3.6	5.9	6.3	6.0	7.2	7.7	8.3	8.8	9.4	10.1
Of which gross international reserves	6.7	16.2	18.1	15.1	19.0	20.8	24.0	25.7	29.1	31.0
Billions of U.S. dollars	3.1	5.7	6.1	5.0	6.2	6.8	7.3	7.9	8.5	9.1
Foreign liabilities	1.0	11.1	13.4	17.8	18.1	17.0	9.8	5.3	5.3	5.3
Billions of U.S. dollars	0.4	3.9	4.5	5.9	5.9	5.5	3.0	1.6	1.5	1.5
Of which: use of IMF credit (billions of U.S. dollars)	0.0	2.9	3.4	3.5	3.5	3.1	1.4	0.1	0.0	0.0
Net domestic assets	0.7	1.0	1.2	22.4	18.7	17.8	10.8	6.9	6.5	7.2
Net domestic credit	1.2	3.1	3.3	26.6	22.9	22.5	15.9	12.5	12.7	13.9
Net credit to general government	-4.0	-7.6	-9.5	-4.6	-18.8	-29.1	-41.1	-53.0	-62.9	-71.4
Net credit to local government and state enterprises	0.0	0.0	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Net credit to central government	-4.0	-7.6	-10.0	-5.7	-19.9	-30.2	-42.3	-54.1	-64.0	-72.6
Claims on government (loans and government securities)	1.7	9.3	11.4	11.6	11.8	10.6	5.9	1.4	1.1	1.1
Deposits of central government	5.7	17.0	21.3	17.3	31.7	40.9	48.1	55.5	65.1	73.7
Credit to economy	5.2	10.8	12.8	31.2	41.7	51.6	57.1	65.5	75.6	85.4
Credit to banks	3.4	8.6	10.6	28.0	39.5	50.2	56.1	64.9	75.2	85.1
National currencies	3.1	8.2	10.2	26.0	38.2	49.3	55.5	64.4	74.9	84.9
Foreign currencies	0.3	0.4	0.4	1.9	1.3	0.9	0.6	0.4	0.3	0.2
Billions of U.S. dollars	0.1	0.1	0.1	0.6	0.4	0.3	0.2	0.1	0.1	0.1
Credit to nonbanks	1.8	2.2	2.2	3.3	2.2	1.4	1.0	0.6	0.4	0.3
Claims on private sector	1.8	2.2	2.2	3.0	2.0	1.3	0.9	0.6	0.4	0.3
Credit to nonfinancial public enterprises	0.0	0.0	0.0	0.3	0.2	0.1	0.1	0.1	0.0	0.0
Credit to other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	-0.6	-2.1	-2.1	-4.2	-4.2	-4.7	-5.1	-5.6	-6.2	-6.8
Memorandum items:										
12-month percent change in reserve money 1/	11.7	-11.3	14.0	229.8	-0.2	9.3	14.8	8.0	10.3	7.8
Velocity of rubel money	6.3	6.6	6.9	6.2	6.5	6.3	5.8	5.6	5.4	5.2
Velocity of broad money (including foreign exchange part) at constant exchange rates	3.7	3.5	3.6	3.2	3.4	3.3	3.1	3.0	2.9	2.8
Ruble broad money multiplier	2.8	3.1	3.1	2.4	2.7	2.8	2.8	2.9	2.9	2.9
Currency-to-deposit ratio	0.23	0.21	0.22	0.20	0.20	0.19	0.18	0.17	0.16	0.15
Real GDP growth (annual)	10.2	0.2	…	7.6	6.9	4.8	4.8	4.8	4.7	4.6
End-of-period CPI inflation (year-on-year percent change)	13.3	10.1	6.4	9.9	10.5	9.0	7.5	7.0	6.0	5.0

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

1/ The NBRB's methodology for reserve money compilation includes long-term FX deposits placed by commercial banks in the NBRB as well as liabilities issued by NBRB for the purposes of mopping up liquidity. The high growth in 2010 is due primarily to the increase of NBRB's FX liabilities to commercial banks. A recent STA TA mission advised the NBRB to remove these items from the monetary base to bring the methodology in line with the best practice.

Table 5. Belarus: Monetary Survey, 2008–16

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

	2008	2009	2010		2011	2012	2013	2014	2015	2016
			Mar.	Dec.						
			Prel.	Prel.	Proj. 1/					
Broad money (M3)	31.0	38.1	38.4	50.3	57.4	69.4	85.8	100.5	116.9	135.2
Memo: Broad money (M3) at constant exchange rates	34.8	39.0	38.6	50.3	57.0	68.8	82.3	96.6	110.0	127.7
Rubel broad money (M2)	20.5	20.7	20.3	26.4	29.9	36.0	44.4	51.7	60.0	69.0
Currency in circulation	3.8	3.6	3.7	4.5	4.9	5.6	6.7	7.4	8.2	8.9
Domestic currency deposits	16.0	16.6	15.7	20.9	23.9	29.0	36.0	42.3	49.5	57.5
Domestic currency securities	0.7	0.5	0.9	1.0	1.2	1.4	1.7	2.0	2.3	2.7
Foreign currency deposits	10.2	16.2	16.6	22.1	25.5	31.0	38.5	45.2	52.9	61.4
Bank securities in foreign currency	0.2	1.1	1.5	1.7	2.0	2.4	3.0	3.5	4.1	4.7
Memorandum items: total deposits	26.2	32.8	32.4	43.0	49.4	60.0	74.5	87.6	102.4	118.9
Net foreign assets	3.1	-0.2	-0.5	-12.6	-12.4	-13.1	-8.0	-6.2	-9.3	-12.7
Billions of U.S. dollars	1.4	-0.1	-0.2	-4.2	-4.1	-4.3	-2.4	-1.9	-2.7	-3.8
NFA of central bank	7.0	5.8	5.5	0.2	3.8	6.7	17.4	23.6	27.1	29.1
NFA of deposit money banks	-3.9	-6.0	-6.0	-12.7	-16.3	-19.9	-25.4	-29.7	-36.4	-41.8
Net domestic assets	27.9	38.4	38.9	62.9	69.9	82.5	93.9	106.6	126.2	147.9
Net domestic credit	39.2	52.9	54.1	82.4	92.7	109.7	127.0	145.1	170.8	199.3
Net credit to general government	-9.8	-15.7	-17.9	-13.7	-27.8	-38.0	-49.9	-61.7	-71.5	-79.9
Net credit to central government	-7.2	-14.7	-16.9	-14.5	-28.6	-38.8	-50.7	-62.4	-72.2	-80.7
Claims on central government	7.0	12.0	13.9	14.0	14.2	13.0	8.3	3.8	3.5	3.5
Deposits of the central government	14.3	26.7	30.8	28.5	42.7	51.8	58.9	66.2	75.8	84.2
Net credit to state and local governments	-2.6	-1.0	-1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Credit to economy	48.9	68.6	72.0	96.1	120.5	147.7	176.9	206.8	242.3	279.2
Memo: Credit to economy at constant exchange rates	54.5	69.6	72.2	96.2	120.1	147.1	173.2	202.6	234.6	270.8
Credit to public nonfinancial corporations	11.4	17.0	17.4	21.8	26.8	31.7	36.3	40.5	45.1	49.3
Claims on private sector	37.2	50.8	53.8	72.6	91.5	113.4	137.3	162.5	192.7	224.8
Claims on other financial corporations	0.4	0.8	0.9	1.7	2.2	2.7	3.2	3.8	4.4	5.1
Other items, net	-11.3	-14.5	-15.2	-19.6	-22.8	-27.2	-33.1	-38.5	-44.6	-51.4
Capital	-13.0	-16.2	-16.7	-21.7	-24.3	-29.0	-35.4	-41.2	-47.7	-55.0
Other net assets	1.7	1.7	1.5	2.1	1.5	1.8	2.3	2.7	3.2	3.7
Memorandum items:										
12-month percent change in broad money at constant exchage rate	26.1	12.1	17.9	29.1	13.3	20.6	19.6	17.4	13.9	16.1
12-month percent change of credit to economy at constant exchange rate	50.0	27.7	29.1	38.2	24.8	22.5	17.7	17.0	15.8	15.4
12-month percent change of LGP at constant exchange rate	…	…	…	29.7	27.7	22.5	17.7	17.0	15.8	15.4
12-month percent change of non-LGP credit at constant exchange rate	…	…	…	45.4	22.7	22.5	17.7	17.0	15.8	15.4
12-month percent change of real credit to economy at constant exchange rate	32.4	15.9	21.4	25.7	13.0	12.4	9.5	9.3	9.2	9.9
Deposits of the central and local governments in commercial banks at constant exchange rate	12.9	12.2	12.3	14.3	14.2	14.1	13.8	13.7	13.5	13.5
Stock of loans under government programs at constant exchange rate	…	32.0	33.4	41.5	53.0	64.9	76.4	89.4	103.5	119.5
Dollarization ratio at constant exchange rate	46.6	50.7	51.7	51.5	51.3	51.2	49.4	49.6	48.4	48.7

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

1/ Projections are shown at current exchange rates.

Table 6. Belarus: Banking Sector Soundness Indicators, 2006–10

	2006	2007	2008	2009	2010			
					Mar.	Jun.	Sep.	Dec.
Capital adequacy								
Regulatory capital (percent of risk-weighted assets)	24.4	19.3	21.8	19.8	19.7	19.8	19.0	20.5
Regulatory Tier I (percent of risk-weighted assets)	17.4	14.0	16.9	14.4	15.1	14.8	13.9	14.9
Total capital (percent of total assets)	17.9	16.0	18.6	16.7	16.1	14.8	14.0	13.7
Asset composition and quality								
NPLs (percent of total loans)	2.8	1.9	1.7	4.2	5.0	4.9	4.0	3.5
Provisions (percent of NPLs)	51.3	61.5	70.0	44.9	43.1	44.4	55.7	61.9
NPLs net of provisions (percent of regulatory capital)	6.1	3.8	2.3	12.4	15.1	15.2	10.3	7.3
Foreign currency loans (percent of total loans)	33.8	37.6	30.9	29.6	28.7	27.2	26.4	21.7
Loans to state-owned enterprises (percent of total) 1/	25.4	22.4	22.6	24.9	23.8	23.3	23.0	22.8
Sectoral distribution of loans (percent of total)								
Industry	27.3	26.9	27.4	30.7	30.5	29.0	28.1	27.2
Agriculture	14.6	14.4	15.5	17.2	17.5	17.8	17.7	18.0
Trade	7.7	8.1	7.0	7.2	7.0	7.0	7.0	7.2
Construction	2.2	2.7	3.3	3.4	3.5	3.8	4.0	4.2
Households	27.8	27.5	28.1	25.1	25.2	25.7	25.3	25.5
Other	20.4	20.5	18.7	16.4	16.3	16.8	17.8	17.8
Profitability								
Return on assets (after tax)	1.7	1.7	1.4	1.4	1.5	1.5	1.7	1.7
Return on equity (after tax)	9.6	10.7	9.6	8.9	9.3	9.9	11.1	11.8
Liquidity								
Liquid assets to total assets	24.1	22.6	23.2	28.4	26.9	28.4	28.7	29.2
Instant liquidity ratio 2/	128.9	104.1	108.8	237.9	443.7	424.6	438.0	450.1
Current liquidity ratio 3/	96.7	98.8	102.0	172.7	204.5	235.7	211.4	225.3
Loans to deposits	135.0	144.3	170.8	189.2	206.6	206.4	207.5	206.4
Foreign currency deposits to total deposits	34.7	38.2	38.9	49.5	51.4	48.3	48.7	51.4
Foreign currency liabilities to total liabilities	41.2	44.7	38.7	44.0	43.9	41.5	41.1	41.6
Market risks								
Net open position in FX (percent of capital)	-8.1	-3.0	8.5	-11.6	0.8	6.4	0.1	-1.4

Source: National Bank of the Republic of Belarus.

1/ State-owned enterprises are defined here as those with 100 percent state share.
2/ Ratio of demand assets to demand liabilities. The prudential minimum is 20 percent.
3/ Ratio of assets to liabilities with a remaining maturity of less than 1 month. The prudential minimum is 70 percent.

Table 7. Belarus: Indicators of External Vulnerability, 2006–10

	2006	2007	2008	2009	2010 Est.
CPI inflation (end year)	6.6	12.1	13.3	10.1	9.9
Export volume of goods (percent change)	8.3	5.2	1.5	-11.5	0.6
Import volume of goods (percent change)	21.7	7.2	14.3	-12.6	4.1
Current account balance (percent of GDP)	-3.9	-6.7	-8.6	-13.0	-16.0
Capital and financial account balance (millions of U.S. dollars)	1,778	5,312	4,163	5,221	6,992
Of which					
Foreign direct investment, net	351	1,790	2,150	1,782	1,306
Trade credits, net	158	690	289	657	1,256
Official Liabilities, net	-50	2,106	1,241	4,939	1,181
Liabilties of the banking sector, net	535	1,075	531	483	2,274
Non-bank private liabilities (excl. trade credits) 1/	493	722	495	304	112
Gross official reserves (millions of U.S. dollars)	1,383	4,182	3,061	5,653	5,031
Months of imports of goods and nonfactor services	0.5	1.2	1.2	1.8	1.4
Percent of broad money	15.1	32.6	19.4	41.5	30.0
Gross total external debt (millions U.S. dollars)	6,847	12,551	15,168	22,071	28,684
Percent of GDP	18.5	27.7	25.0	44.9	52.4
Percent of exports of goods and nonfactor services	30.8	45.4	41.0	88.8	96.3
Gross short-term external debt (millions of U.S. dollars)	4,382	7,365	7,571	9,343	12,025
Percent of gross total external debt	64	59	50	42	42
Percent of gross official reserves	317	176	247	165	239
Debt service ratio (percent) 2/	2.4	3.1	4.1	5.9	5.4
REER appreciation (CPI based, period average)	-0.9	-3.9	1.6	-4.5	-4.9
Capital adequacy ratio (percent) 3/	24.4	19.3	21.8	19.8	20.5
Nonperforming loans (percent of total)	1.2	0.7	1.7	4.2	3.5
Banks' net open FX position (percent of regulatory capital)	-8.1	-3.0	8.5	-11.6	-1.4
Real broad money at constant exchange rates (percent change) 4/	29.7	25.8	11.3	1.8	17.4
Real credit to economy at constant exchange rate (percent change) 4/	47.4	32.5	32.4	15.9	25.7

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

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

Table 8. Belarus: Capacity to Repay the Fund, 2009–16 1/

	2009	2010	2011	2012	2013	2014	2015	2016
Fund repurchases and charges								
Millions of SDRs	8	43	54	301	1,117	894	57	0
Millions of U.S. dollars	13	67	82	461	1,711	1,368	87	0
Percent of exports of goods and nonfactor services	0.1	0.2	0.2	1.0	3.5	2.5	0.1	0.0
Percent of total debt service 2/	0.9	4.1	2.5	10.9	27.5	20.3	1.2	0.0
Percent of quota	2.1	11.2	13.9	77.8	289.1	231.4	14.7	0.0
Percent of gross international reserves	0.2	1.3	1.3	6.8	23.4	17.4	1.0	0.0
Fund credit outstanding								
Millions of SDRs	1,832	2,270	2,270	2,021	941	55	0	0
Millions of U.S. dollars	2,898	3,485	3,491	3,099	1,441	84	0	0
Percent of exports of goods and nonfactor services	11.7	11.7	9.0	7.0	2.9	0.2	0.0	0.0
Percent of quota	474.0	587.3	587.3	522.9	243.4	14.2	0.0	0.0
Percent of gross international reserves	51.3	69.3	56.1	45.7	19.7	1.1	0.0	0.0
Memorandum items:								
Exports of goods and nonfactor services (millions of U.S. dollars)	24,843	29,796	38,846	44,135	48,909	53,743	58,911	64,651
Debt service (millions of U.S. dollars)	1,479	1,606	3,269	4,213	6,221	6,749	7,059	7,669
Quota (millions of SDRs)	386	386	386	386	386	386	386	386
Quota (millions of U.S. dollars at eop exchange rate)	611	593	594	593	592	591	591	590
Gross international reserves (millions of U.S. dollars)	5,653	5,031	6,221	6,774	7,299	7,868	8,481	9,142
U.S. dollars per SDR (period average)	1.543	1.526	1.540	1.535	1.533	1.531	1.530	1.527
U.S. dollars per SDR (eop)	1.582	1.536	1.538	1.534	1.532	1.530	1.528	1.526

Appendix I. Table 1. Belarus: External Debt Sustainability Framework, 2006–16

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing noninterest current account 6/
Baseline: external debt	18.5	27.7	25.0	44.9	52.4	57.3	61.9	67.3	71.2	73.6	74.5	-5.5
Change in external debt	1.5	9.2	-2.8	19.9	7.6	4.9	4.6	5.3	3.9	2.4	1.0	
Identified external debt-creating flows (4+8+9)	-0.2	-0.3	-1.7	15.3	9.3	8.4	8.3	7.0	5.8	4.6	3.5	
Current account deficit, excluding interest payments	3.5	6.1	7.8	12.0	14.8	11.9	10.8	9.6	8.2	7.0	5.8	
Deficit in balance of goods and services	4.1	6.2	7.6	11.2	13.8	8.5	7.6	6.5	5.3	4.2	3.0	
Exports	60.2	61.0	60.9	50.5	54.5	59.4	59.4	60.3	60.8	61.0	61.2	
Imports	64.3	67.2	68.5	61.7	68.3	68.0	67.0	66.8	66.1	65.2	64.3	
Net non-debt creating capital inflows (negative)	-1.0	-3.6	-3.3	-3.5	-2.2	-2.7	-2.7	-2.8	-2.8	-2.8	-2.8	
Automatic debt dynamics 1/	-2.7	-2.8	-6.2	6.9	-3.3	-0.8	0.2	0.3	0.4	0.4	0.5	
Contribution from nominal interest rate	0.4	0.6	0.8	1.0	1.2	2.2	2.7	3.0	3.3	3.4	3.6	
Contribution from real GDP growth	-1.4	-1.3	-2.1	-0.1	-3.1	-3.0	-2.4	-2.7	-3.0	-3.0	-3.1	
Contribution from price and exchange rate changes 2/	-1.7	-2.1	-4.9	5.9	-1.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.7	9.5	-1.0	4.5	-1.7	-3.6	-3.6	-1.7	-1.9	-2.2	-2.5	
External debt-to-exports ratio (percent)	30.8	45.4	41.0	88.8	96.3	96.4	104.3	111.5	117.1	120.5	121.7	
Gross external financing need (billions of U.S. dollars) 4/	5.1	8.0	13.6	14.9	19.0	23.2	26.1	29.5	31.3	33.1	35.2	
Percent of GDP	13.9	17.7	22.4	30.3	34.8	35.5	35.1	36.3	35.4	34.3	33.3	
Scenario with key variables at their historical averages 5/						57.3	52.1	47.7	43.9	40.6	37.8	-8.1
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	10.0	8.6	10.2	0.2	7.6	6.9	4.8	4.8	4.8	4.7	4.6	
GDP deflator in U.S. dollars (percent change)	11.2	12.7	21.7	-19.1	3.3	11.7	8.4	4.1	4.0	4.3	4.5	
Nominal external interest rate (percent)	2.7	3.8	4.1	3.3	3.0	5.1	5.3	5.3	5.4	5.3	5.4	
Growth of exports (U.S. dollar terms, percent)	22.3	24.2	33.9	-32.8	19.9	30.4	13.6	10.8	9.9	9.6	9.7	
Growth of imports (U.S. dollar terms, percent)	33.2	28.0	36.7	-27.0	23.0	18.9	12.0	8.9	7.7	7.8	7.8	
Current account balance, excluding interest payments	-3.5	-6.1	-7.8	-12.0	-14.8	-11.9	-10.8	-9.6	-8.2	-7.0	-5.8	
Net nondebt creating capital inflows	1.0	3.6	3.3	3.5	2.2	2.7	2.7	2.8	2.8	2.8	2.8	

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

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

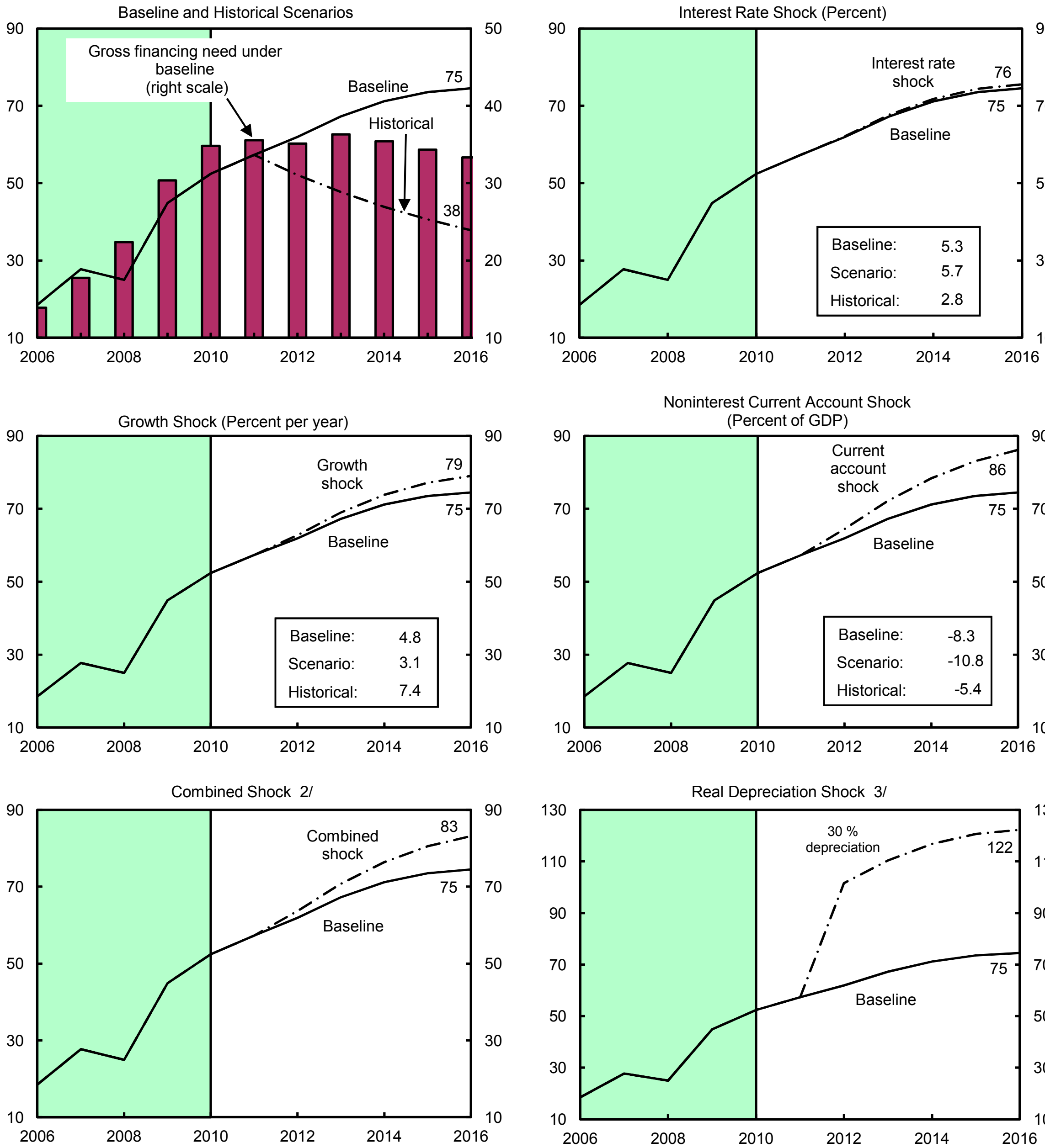
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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 Baseline Scenario 1/ (External debt in percent of GDP)



Source: IMF staff estimates.

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

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 2011.

Appendix I. Table 2. Belarus: Public Sector Debt Sustainability Framework, 2006–16

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Baseline: public sector debt 1/	6.4	8.9	10.7	20.0	22.4	25.5	26.9	28.9	28.5	29.8	29.2	-1.9
Of which: foreign-currency denominated	2.3	6.5	7.0	18.6	21.4	24.6	26.1	28.3	28.1	29.5	28.9	
Change in public sector debt	-1.9	2.5	1.7	9.4	2.4	3.1	1.4	1.9	-0.4	1.3	-0.6	
Identified debt-creating flows (4+7+12)	-0.9	-3.4	1.9	0.8	2.6	-3.8	-3.0	-3.0	-3.4	-3.7	-3.7	
Primary deficit	-1.8	-0.8	3.0	-0.1	3.6	0.9	0.4	-0.2	-0.9	-1.8	-2.1	
Revenue and grants	49.1	49.5	50.6	45.7	41.9	41.2	40.5	40.2	40.1	39.9	39.8	
Primary (noninterest) expenditure	47.3	48.6	53.5	45.6	45.6	42.1	40.9	40.1	39.2	38.2	37.7	
Automatic debt dynamics 2/	-1.1	-0.8	-1.6	2.3	-1.7	-2.9	-2.0	-1.5	-1.2	-0.6	-0.4	
Contribution from interest rate/growth differential 3/	-1.1	-0.8	-1.7	0.2	-2.5	-2.9	-2.0	-1.5	-1.2	-0.6	-0.4	
Of which: contribution from real interest rate	-0.4	-0.3	-1.0	0.2	-1.2	-1.6	-1.0	-0.3	0.1	0.6	0.9	
Of which: contribution from real GDP growth	-0.7	-0.5	-0.7	0.0	-1.3	-1.3	-1.1	-1.1	-1.2	-1.2	-1.2	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.1	2.1	0.8	...	...	...	...	...	...	
Other identified debt-creating flows	2.0	-1.8	0.6	-1.4	0.6	-1.8	-1.4	-1.4	-1.4	-1.3	-1.2	
Privatization receipts (negative)	1.2	-2.6	-1.0	-1.4	-0.6	-1.8	-1.4	-1.4	-1.4	-1.3	-1.2	
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)	0.9	0.8	1.5	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.0	5.9	-0.2	8.5	-0.2	6.9	4.4	4.9	3.0	5.0	3.1	
Public sector debt-to-revenue ratio 1/	13.0	18.1	21.1	43.9	53.5	62.0	66.5	71.8	71.1	74.6	73.3	
Gross financing need 6/	-1.2	-0.2	4.1	1.0	4.6	3.5	3.7	5.3	4.6	3.7	3.3	
Billions of U.S. dollars	-0.5	-0.1	2.5	0.5	2.5	2.3	2.7	4.3	4.0	3.6	3.5	
Scenario with key variables at their historical averages 7/						25.5	23.3	21.4	18.7	17.8	16.1	-5.0
Scenario with no policy change (constant primary balance) in 2011–16						25.5	36.1	42.3	48.9	56.4	63.8	-1.2
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percent)	10.0	8.6	10.2	0.2	7.6	6.9	4.8	4.8	4.8	4.7	4.6	
Average nominal interest rate on public debt (percent) 8/	5.5	7.7	8.5	7.7	4.0	5.7	6.0	7.2	8.0	9.3	9.5	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-5.3	-5.1	-12.6	2.0	-6.2	-7.6	-3.9	-1.0	0.6	2.5	3.6	
Nominal appreciation (increase in U.S. dollar value of local currency, percent)	0.6	-0.5	-2.3	-23.2	-4.6	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	10.8	12.8	21.2	5.7	10.2	13.3	9.8	8.2	7.4	6.8	5.9	
Growth of real primary spending (deflated by GDP deflator, percent)	9.1	11.8	21.5	-14.7	7.6	-1.3	2.1	2.7	2.5	2.0	3.3	
Primary deficit	-1.8	-0.8	3.0	-0.1	3.6	0.9	0.4	-0.2	-0.9	-1.8	-2.1	

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 e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

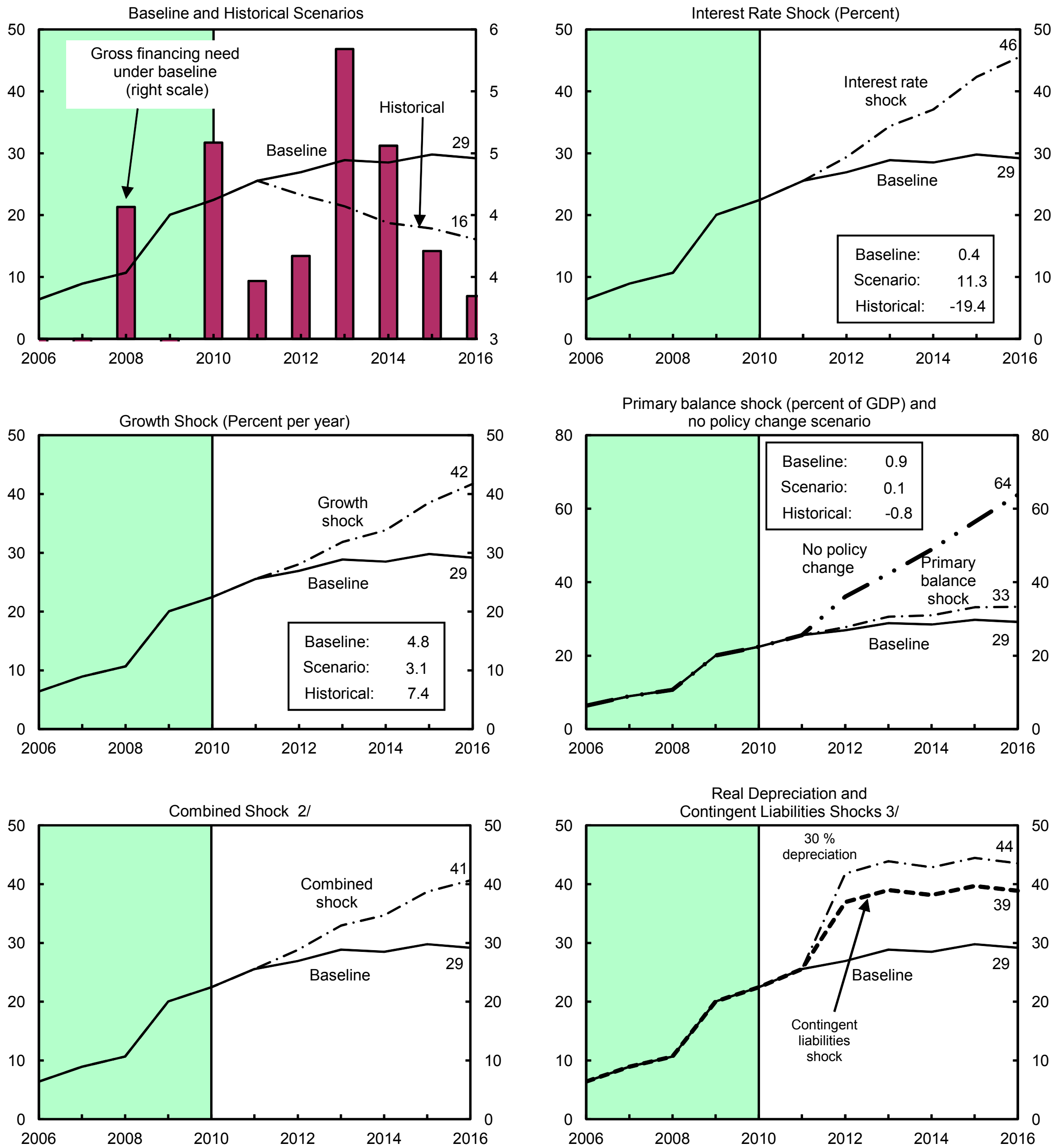
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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 Baseline Scenario 1/ (Public debt in percent of GDP)



Source: IMF staff estimates.

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

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

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

Staff Report for the 2011 Article IV Consultation and Proposal for Post-Program Monitoring—Informational Annex

Prepared by the European Department in Consultation with Other Departments and the World Bank

February 17, 2011

Contents Page

I. Fund Relations 2

II. World Bank Relations 7

III. Statistical Issues 11

Annex I. Belarus: Fund Relations

As of January 31, 2011

I. Membership Status: Joined July 10, 1992; Article VIII

II. General Resources Account:	SDR million	Percent of Quota
Quota	386.40	100.00
Fund holdings of currency	2,655.92	687.35
Reserve position in Fund	0.02	0.01

III. SDR Department:	SDR million	Percent of Allocation
Net cumulative allocation	368.64	100.00
Holdings	368.65	100.00

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Stand-By Arrangements	2,269.52	587.35

V. Financial Arrangements:

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

VI. Projected Payments to the Fund[1/] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal		248.92	1,080.02	885.84	54.74
Charges/Interest	54.10	52.5	37.72	8.61	0.56
Total	54.10	301.42	1,117.74	894.45	55.30

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

VII. Safeguards Assessments:

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

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

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

The NBRB is taking steps to address the weaknesses. Special audits of NIR and NDA data for March, June, September and December 2009 test dates were completed.

VIII. Exchange Arrangements:

As of August 20, 1994, the rubel became the unit of account replacing the Belarusian ruble, which was formally recognized as the sole legal tender only on May 18, 1994. The conversion took place at the rate of 10 Belarusian rubles = 1 rubel. The authorities decided to drop three zeroes from the rubel denomination as of January 1, 2000.

In mid-September 2000, the official exchange rate was unified with the market-determined rate resulting from daily auctions at the Belarus Currency and Stock Exchange. Since then, the official rate on any day is equal to the closing rate of the previous trading day. On January 1, 2008 the exchange rate was set in the framework of horizontal corridor for the U.S. dollar around central parity. The earlier arrangement, introduced in 2006, entailed reference to two horizontal corridors around central parity for the Russian ruble (±4 percent) and U.S. dollar (±2.5 percent).

The de jure exchange rate arrangement is a pegged exchange rate within a horizontal band. Since January 2, 2009, the exchange rate of the rubel has been pegged to a basket of currencies, including the euro, the U.S. dollar, and the Russian ruble. Initially, the band was set at ±5%. As of June 22, 2009 the band was expanded to ±10% relative to the value of the basket at the time of its introduction (960 rubels per currency basket). Effective January 1, 2010, the central exchange rate of the band was adjusted to the rubel actual rate (1,036 rubels per currency basket) from the initial rate. As of January 1, 2011 the band was narrowed to ±8% and the central exchange rate of the band was adjusted to 1054.7 rubels per currency basket. However, for more than 6 months, the rubel has remained within a 2% band against the U.S. dollar, and the de facto exchange rate arrangement has been reclassified as "stabilized". The NBRB does not publish data on its interventions.

On November 5, 2001, Belarus accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. During the same month, the NBRB suspended all ad hoc exemptions from the 30 percent surrender requirement. The NBRB introduced administrative measures with a purpose of reducing demand for foreign exchange in January 2011. They include a ban on obtaining foreign exchange for advance import payments through loans from domestic banks and an increase in the surcharge on forex trade to 2 percent in the stock exchange. Staff is currently reviewing the recently adopted measures to assess their jurisdictional implications. Based on currently available information, Belarus does not maintain exchange restrictions or multiple currency practices.

IX. UFR/Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on October 21, 2009 and a report was published on http://www.imf.org/external/pubs/cat/longres.cfm?sk=23493.0.

Article IV discussions took place in the course of two missions. The discussions started in November 2010 and, following significant developments in December 2010, were continued during the second mission in early 2011:

- **Initial Article IV consultation mission.** A staff team comprising Messrs. Jarvis (head), Ding, Kovtun and Ms. Lis (all EUR), Messrs. Bibolov (MCM), Forni (FAD), and Turunen (SPR) visited Minsk during November 3–16, 2010. The team met with the Prime Minister, Mr. Sidorsky; the Deputy Prime Minister, Mr. Kobyakov; the Governor of the National Bank of the Republic of Belarus, Mr. Prokopovich; the Minister of Finance, Mr. Kharkovetz; the Minister of Economy, Mr. Snopkov; the Deputy Head of the Presidential Administration, Mr. Anfimov, and other senior officials. Mr. McGettigan (EPE mission chief) joined the mission during November 10-11. Ms. Koliadina, the Resident Representative, assisted the mission.

- **Article IV consultation continuation mission.** A staff team comprising Messrs. Jarvis (head), Kovtun and Ms. Lis (all EUR), Messrs. Bibolov (MCM), Forni (FAD), and Turunen (SPR) visited Minsk during January 25–February 3, 2011. The team met with the Prime Minister, Mr. Miasnikovich; the Deputy Prime Minister, Mr. Rumas; the Governor of the National Bank of the Republic of Belarus, Mr. Prokopovich; the

Minister of Finance, Mr. Kharkovetz; the Minister of Economy, Mr. Snopkov; the Deputy Head of the Presidential Administration, Mr. Kobiakov, and other senior officials. Ms. Koliadina, the Resident Representative, assisted the mission.

Stand-By Arrangement. A 15-month Stand-By Arrangement (SBA) in the amount of SDR 1.6 billion (US$2.5 billion, 418.8 percent of quota) was approved by the Executive Board (EBS/09/1) on January 12, 2009. An augmentation of the SBA was approved on June 29, 2009 in conjunction with the completion of the first review (EBS/09/99), bringing the Fund's financial support to SDR 2.3 billion (US$3.5 billion, 587.3 percent of quota). The final review was completed on March 26, 2010. Total disbursements under the program amounted to SDR 2.3 billion (US$3.5 billion).

X. FSAP Participation, ROSCs, and OFC Assessments:

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

XI.	**Technical Assistance, 2006–10:**		
	Department Counterpart	**Subject**	**Timing**
	MCM	Banking supervision: on-site inspections	September 2010
	MCM	Banking Supervision: early warning system, risk management	March -April 2010

	MCM	Strengthening central bank autonomy	March 2010
	MCM	NBRB refinancing of banks	November 2009
	MCM	Banking regulation: loan classification and provisioning	April 2009
	MCM	Monetary policy: forecasting and policy analysis	February-March 2009
	MCM	Exchange rate regime, foreign exchange operations	December 2008
	MCM	FSAP Update	September 2008
	MCM	Financial stability and external debt management	January 2008
	MCM	Banking supervision: financial stability issues, stress-testing	July 2007
	MCM	Building a system for forecasting and policy analysis	June 2008 October 2007 July 2007
	MCM	Strengthening forecasting and policy analysis	May 2007
	MCM	Banking supervision: on-site inspection	April 2007
	MCM	Banking supervision: stress-testing, financial stability	March 2007
	MCM	Insurance supervision	March 2007
	MCM	Monetary policies analysis and forecasting	February 2007
	MCM	Banking supervision: on-site inspection	January 2007
	MCM	Improving monetary policy	January 2007
	FAD	Tax administration	September 2010
	FAD	Tax policy	April 2010
	FAD	Expenditure rationalization	March 2010
	FAD	Tax system reform	October 2009
	FAD	Introduction of a medium-term fiscal framework (MTF)	March-April 2009
	FAD	Program budgeting reform implementation	March 2008 November 2007 May 2007
	FAD	Fiscal diagnostic mission	September 2006
	STA	Multitopic Statistics Mission	October -November 2010
	STA	National accounts statistics	January 2008
	STA	Balance of payments and external sector statistics	January 2008
	STA	Government finance statistics	September-October 2007
	STA	National accounts statistics	October 2006

Annex II. Belarus: Relations with the World Bank Group

The World Bank Group Strategy

1. The recent World Bank Group (WBG) Country Assistance Strategy (CAS) for Belarus for FY 2008-2011 was approved on December 4, 2007. The FY08-11 CAS envisioned a modest but a scaled-up engagement with Belarus, including up to US$100 million in annual lending volumes to support the country in addressing global environment and energy challenges, enhancing the competitiveness of its economy to assure rising incomes, and protecting the welfare of the most vulnerable. Analytic and advisory work comprised a core element of the program.

2. In the wake of the crisis and in recognition of the accelerated pace of structural reforms undertaken by the government, a CAS Progress Report increased lending during the final two years of the CAS to US$250 million per annum and deployed a wider range of instruments, including Development Policy Lending (DPL). This includes a US$200 million DPL in FY10, as well as a US$150 million Road Upgrading and Modernization project, an approximately US$30 million Additional Financing for the Post-Chernobyl Recovery project, and about US$100 million DPL-1 (first in a programmatic series) in FY11. To date, the Bank lending commitments in Belarus total US$865 million, with US$22.8 million provided as grants.

3. The IFC strategy aims at providing advisory services and investment operations to foster private sector development. IFC's advisory services under the Belarus Regulatory Simplification and Investment Generation Program (August 2010-January 2013) focus on improvement of business environment and investment climate, particularly regulatory simplification related to business operations, as well as on building government capacity for investment generation. IFC's recently launched Belarus Food Safety Improvement advisory project endeavours to increase the competitiveness of Belarusian food producers by improving their food safety practices, raising awareness and facilitating wider implementation of best international food safety management practices. To date, the IFC investment commitments in Belarus total approximately US$300 million; divided almost equally between financial markets and the real sector. IFC's investments will continue to focus on financial markets, general manufacturing, climate change and agribusiness sectors and expected to exceed $100 million per year.

IMF-World Bank Collaboration in Specific Areas

4. The Bank and the Fund teams work closely in calibrating and delivering their assistance. The IMF plays a key role at the macro level, while the World Bank focuses on the structural agenda, energy efficiency, social and environmental issues. Discussions under the IMF SBA and preparation of the first IBRD DPL, joint work with the Government working group on structural reforms issues, preparation of the high-level seminar on structural reforms in March 2010, preparation of the Joint WBG-IMF comments on the draft Presidential Directive on Economic Liberalization are the most recent examples of close cooperation and coordination between the Bank and the Fund.

Areas in Which the World Bank Leads

5. **Structural reforms, social issues, and private business development.** In FY10, the Bank delivered a series of Economic Policy Notes, background materials and discussions for which have informed the preparation of the first DPL. The Country Economic Memorandum (CEM) and the first (in a series of two) programmatic Public Expenditure Review (PER-I) will be the key analytical products in FY11. Additionally, the Bank will continue to be engaged in technical assistance to help improve the targeting of social assistance programs and ensure pension system sustainability in Belarus. Technical assistance (TA) on privatization will be another key product in FY11, including through the Belarus Austrian Technical Assistance – Trust Fund for Privatization (US$ 5 million). The privatization TA is focused on providing advice on legal and institutional instruments and implementation capacities to successfully launch and roll-out a privatization program that is both on par with international best practice and able to be tailored to the particular industry/business. The IFC delivers an active advisory program around challenges facing the private sector and international "best practices" for improving the business regulatory environment.

6. **Energy sector**. Currently, three energy efficiency projects are being implemented in Belarus with World Bank's financial support: the Post Chernobyl Recovery Project (US$50 million), the Additional Financing for the Social Infrastructure Retrofitting Project (SIRP) (US$15 million), and the Energy Efficiency Project (EEP) (US$125 million). The Additional Financing Loan for the Post Chernobyl Recovery Project (US$30 million) has been approved by the Board on September 28, 2010, and is expected to become effective in January 2011.

7. **Environment.** The Bank supports Belarus' efforts in strengthening its environment institutions, addressing key public health challenges, and complying with its international commitments. Two TA projects are currently under implementation: (i) the IDF Grant for Enhancing Institutional and Legal Framework for Environmental Permitting in Belarus (US$0.44 million); and (ii) the GEF Grant Project (US$5 million) for Persistent Organic Pollutant (POPs) Stockpile Management and Technical/Institutional Capacity Upgrading. Progress is being made towards achieving improved water, wastewater and solid waste management services under the Water Supply and Sanitation Project (US$60 million) and the Solid Waste Management Project (US$42.5 million).

8. **Transport Infrastructure Development.** A 2010 Transport Policy Note contributes to the dialogue on policy and investment options in the transport sector. A Road Upgrading and Modernization project (US$ 150 million) has been approved by the Board on November 11, 2010, and is expected to become effective in January 2011.

Areas of Shared Responsibility

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

10. **Public expenditure management.** In FY 09, the Bank completed the first Public Expenditure and Financial Accountability (PEFA) assessment for Belarus. The Fund, jointly with the Bank, has been working on rationalizing expenditures, primarily through subsidy cuts and reducing the cost of pensions. The Bank will focus on improving the efficiency of public spending.

11. **Debt management.** Debt management is an area of priority reform for Belarus. The Bank plans to conduct Debt Management Performance Assessment (DeMPA) in Belarus in FY11. The application of the DeMPA tool would facilitate the assessment of the strengths and weaknesses in debt management to help design of plans for strengthening debt management capacity and monitoring progress over time. The DeMPA work will build on the findings of the WB and IMF TA earlier missions in debt management and in access to capital markets.

12. **Financial sector.** The 2008 FSAP Update, prepared jointly by the Bank and the Fund, provided valuable insights on the key vulnerabilities in the financial sector and reforms needed and formed the basis of the follow-up dialogue. In FY10, the Bank conducted financial sector monitoring jointly with the IMF and will continue doing so in FY11. The World Bank will maintain an active dialog with the authorities on bank privatization and restructuring, as well as on reforms in the securities and insurance sectors.

Areas in Which the IMF Leads

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

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

15. **Questions may be referred** to **Connie Luff** (Country Program Coordinator, ECCU2, 202-458-4068), **Gallina A.Vincelette** (Senior Economist, ECSPE, 202-473-0288), and **Marina Bakanova** (Senior Country Economist, ECSPE, 375-17-2265284).

Belarus: Bank and Fund planned activities in macro-critical structural reform areas in 2011

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1.Bank Work Program (AAA)	Belarus Country Economic Memorandum	Ongoing	June 2011
	Programmatic Public Expenditure Review (PER) - phase 1	Ongoing	March 2011
	Programmatic Public Expenditure Review (PER) - phase 2	Ongoing	December 2011
	Debt Management Performance Assessment	May 2011	August 2011
	TA on social policies	Ongoing	TA through 2010-11
	Financial Sector Monitoring TA	Ongoing	TA through 2010-11
	Privatization TA	Ongoing	TA through 2010-11
	TA in environmental policies and institutions (grants)	Ongoing	TA through 2010-11
2.Fund Work Program	TA on program budgeting and medium-term framework	March-April 2011	TA report to government in May 2011

ANNEX III. BELARUS— STATISTICAL ISSUES

As of February 10, 2011

I. Assessment of Data Adequacy for Surveillance

General:
Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected area is external debt data.

National Accounts: The National Statistics Committee (NSC) compiles and disseminates quarterly and annual GDP estimates at current and constant prices following the *1993 System of National Accounts.* The quality of the estimates is good, and the timeliness and periodicity exceed the Special Data Dissemination Standard (SDDS) requirements. In addition to the quarterly and annual estimates, a monthly GDP is compiled 15 days after the end of the reference month. The NSC compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. It has started the compilation of experimental estimates of regional GDP at current and constant prices – monthly, quarterly and annual. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements.

Price Statistics:
The CPI covers 31 towns in the country and the PPI covers 1,467 industrial organizations, and they are published monthly. In addition to the general CPI index, the NSC also publishes indices for foodstuffs, non-food goods, and services. The CPI is based on weights from 2008. Detailed PPI weight data are not published.

Government finance statistics:
Government finance statistics are compiled in broad compliance with the recommendations of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). Areas that need improvement include classification of some expenses (e.g. subsidies to corporations, social benefits to households, capital transfers to corporations); inconsistency between GFS and monetary data; valuation of assets and liabilities (at nominal or market value); and compilation for public corporations.

Monetary statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). However, there are some problems related to the treatment of the IMF accounts, compilation of the monetary base, and classification of some institutional units.

External sector statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the *BPM5* format and is transitioning to *BPM6*. Overall the timeliness and serviceability of external sector data is satisfactory, although there are gaps in external debt data.	
II. Data Standards and Quality	
Belarus subscribed to the Special Data Dissemination System (SDDS) on December 22, 2004.	A data ROSC report was published on February 1, 2005.

BELARUS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of February 10, 2011)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality Accuracy and reliability[10]
Exchange Rates	Feb. 2011	02/8/11	D/W/M	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec 2010	01/15/11	D/W/M	M	M		
Reserve/Base Money	Dec. 2010	01/15/11	D/W/M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Dec. 2010	01/15/11	W/M	M	M		
Central Bank Balance Sheet	Dec. 2010	01/15/11	D/W/M	M	M		
Consolidated Balance Sheet of the Banking System	Dec. 2010	01/15/11	W/M	M	M		
Interest Rates[2]	Feb. 2011	02/8/11	D/W/M	D/W/M	D/W/M		
Consumer Price Index	Dec. 2010	01/11/11	M	M	M	O, LO, O, LO	O, O, LO, LO, O
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q4 2010	01/28/11	Q	Q	Q	LO, LNO, O, O	O, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec. 2010	01/28/11	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2010	01/28/11	M	M	Q		
External Current Account Balance	Nov. 2010	01/18/11	M	M	Q	O, O, LO, LO	LO, O, O, O, O
Exports and Imports of Goods and Services	Dec. 2010	02/08/11	M	M	Q		
GDP/GNP	Dec. 2010	01/11/11	M	M	M/Q	O, O, LO, O	LO, LNO, LO, O, LO
Gross External Debt	Q3 2010	12/15/10	Q	Q	Q		
International Investment Position[6]	Q3 2010	12/15/10	Q	Q	Q		

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

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IMF Executive Board Concludes 2011 Article IV Consultation with Belarus

On March 4, 2011 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belarus.[1]

Background

For nearly a decade before the crisis, Belarus's economy grew rapidly but remained vulnerable to external shocks. The crisis exposed the external weaknesses and prompted the authorities to embark on a Fund-supported adjustment program. The program aimed at addressing the vulnerabilities and establishing conditions for sustainable growth: the exchange rate was realigned and supported by a new exchange rate regime, monetary and the fiscal policies were tightened, and several important structural reforms initiated. Belarus avoided output loss during the crisis and completed program in March 2010. However, the current account deficit failed to adjust due to the strength of the external shock but also owing to high credit growth spurred by lending under government programs.

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

After the end of the program policies have been loosened to the extent of becoming unsustainable: 12-month credit growth rate increased to 38 percent in the end of 2010, 1^{st} grade wage in the budget sector was increased by about 50 percent, and the Republican budget deficit limit was increased to 3 percent of GDP. Moreover, the National Bank of the Republic of Belarus (NBRB) did not make use of the exchange rate flexibility provided by the existing exchange rate system. Loose macroeconomic policies succeeded in increasing the growth rate of GDP to about 7½ percent, but at the cost of estimated further increase in the current account deficit to about 16 percent of GDP and strong pressures on the international reserves. Gross reserves were supported by a sharp increase in foreign currency borrowing by the NBRB from Belarusian commercial banks at the end of 2010: during all of 2010, the stock of such borrowing amounted to some US$3.8 billion, with US$2.3 billion having been accumulated in the final quarter of the year.

Belarus's prospects are expected to improve due to the recent agreement on the Common Economic Area with Russia and Kazakhstan, but it would not be sufficient to restore current account sustainability without significant adjustment measures. The new agreement with Russia on the regime for oil imports reached in December 2010 will entail the net gain of about 2 percent of GDP in the oil balance, but it does not fundamentally change the outlook. Without prompt adjustment measures, the current account deficit will remain too high. The authorities need to make quickly difficult decisions to restore external sustainability.

Executive Board Assessment

Executive Directors commended the authorities for the progress made under the Fund-supported program that expired in March 2010. Under this program, Belarus avoided loss of output during the global recession, contained inflation, and increased gross reserves. Against this background, Directors regretted the recent relaxation of macroeconomic policies which has boosted domestic demand and has contributed to an unsustainable current account deficit. To restore external sustainability, they stressed the urgent need for policy adjustments and far-reaching structural reforms.

Directors underscored that reducing the current account deficit is critical. They emphasized the need for fiscal and monetary tightening and cuts in lending under government programs. Noting the impact of high credit and wage growth on the external accounts, Directors reiterated the importance of prudent monetary policy and a lower wage bill in the public sector. In general, they considered that exchange rate flexibility would also facilitate the adjustment.

Directors expressed concern about the authorities' decision to borrow foreign exchange from domestic banks to meet mounting pressures on international reserves. They encouraged the authorities to refrain from such borrowing and reorient macroeconomic policies to support the balance of payments.

Directors welcomed the plans for structural reforms contained in the Program for Social and Economic Development for 2011-15 and the recently adopted President's Directive aimed at liberalizing the economy. These reforms, if accompanied by macroeconomic adjustment, would help address structural balance of payments problems and improve competitiveness. Directors urged the authorities to pursue an ambitious structural reform agenda centered on economic liberalization, a shift in investment from the housing sector to the tradable sector, a smaller role of the state, and the development of the financial sector. They agreed that establishing a Development Bank to administer lending under government programs would free the central bank and commercial banks from a quasi-fiscal activity.

Directors welcomed the opportunity to review Belarus' experience with the 2009 exceptional access Stand-By Arrangement. They agreed with the main message from the ex post evaluation that the Fund-supported program was generally successful. Directors stressed the need to ensure ownership, including at the highest levels, of program design and conditionality. They saw merit in continued close engagement with the Fund but stressed that any future financial arrangement should be accompanied by a credible commitment to strong stability-oriented policies and an ambitious structural reform agenda. Directors supported the proposal to initiate post-program monitoring, which would enhance the policy dialogue between the Belarus authorities and the Fund.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2011 Article IV Consultation with Belarus is also available.

Belarus: Selected Economic Indicators, 2007–11

	2007	2008	2009 Prel.	2010 Est.	2011 Proj.
	(Annual percentage change, unless otherwise specified)				
National accounts					
Real GDP	8.6	10.2	0.2	7.6	6.9
Total domestic demand	11.9	17.8	-1.1	10.3	4.7
Consumption	9.7	12.5	0.0	7.0	5.7
Nongovernment	13.4	16.3	0.0	8.6	6.9
Government	-0.5	0.3	-0.1	1.3	1.0
Investment	16.4	28.2	-2.9	16.1	2.9
Of which: fixed	16.4	23.8	5.0	16.6	3.0
Net exports 1/	-1.5	-9.4	1.5	-4.3	1.4
Consumer prices					
End of period	12.1	13.3	10.1	9.9	10.5
Average	8.4	14.8	13.0	7.7	11.0
Monetary accounts					
Rubel broad money	35.0	22.5	1.0	27.5	13.2
Growth of credit to the economy at constant exchange rates	48.5	50.0	27.7	38.2	24.8
	(Percent of GDP)				
External debt and balance of payments					
Current account	-6.7	-8.6	-13.0	-16.0	-14.1
Trade balance	-8.9	-10.3	-14.1	-16.9	-11.7
Exports of goods	53.8	54.0	43.4	46.3	51.3
Imports of goods	-62.7	-64.3	-57.5	-63.2	-62.9
Gross external debt	27.7	25.0	44.9	52.4	57.3
Public 2/	6.5	6.8	18.1	21.2	24.3
Private (mostly state-owned-enterprises)	21.2	18.1	26.7	31.2	33.0
Savings and investment					
Gross domestic investment	34.1	37.6	37.3	42.8	39.5
National saving	27.4	29.0	24.3	26.8	25.4
Public sector finance					
Republican and local government balance	-0.6	0.0	-1.8	-2.6	-3.0
General government balance 3/	0.4	-3.5	-0.7	-4.3	-2.2
Revenue	49.5	50.6	45.7	41.9	40.9
Expenditure 4/	49.0	54.1	46.4	46.3	43.1
Of which:					
Wages	8.0	6.6	6.7	7.1	8.0
Subsidies and transfers	10.5	11.5	11.7	8.4	7.8
Investment	8.5	10.0	8.1	8.4	6.0
Gross public debt	8.9	10.7	20.0	22.4	25.5
	(Annual percentage change, unless indicated otherwise)				
Memorandum items:					
Nominal GDP (billions of U.S. dollars)	45.3	60.8	49.2	54.7	…
Nominal GDP (trillions of rubels)	97.2	129.8	137.4	163.0	197.4
Terms of trade	-1.5	8.6	-8.0	-1.0	3.8
Real effective exchange rate	-3.9	1.6	-4.5	-4.9	1.2
Official reserves (billions of U.S. dollars)	4.2	3.1	5.7	5.0	6.2
Months of imports of goods and services	1.2	1.2	1.8	1.4	1.5
Percent of short-term debt	56.8	40.4	63.2	42.5	46.2
Financing gap (billions of U.S. dollars)		…	…	…	4.6

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).

3/ Refers to the augmented balance of the general government.

4/ Refers to the augmented expenditure of the general government.