INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/9

REPUBLIC OF BELARUS

January 2019

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF BELARUS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with the Republic of Belarus, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 16, 2019 consideration of the staff report that concluded the Article IV consultation with the Republic of Belarus.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 16, 2019, following discussions that ended on November 15, 2018, with the officials of the Republic of Belarus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 17, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Belarus.

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

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 19/07
FOR IMMEDIATE RELEASE
January 17, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with the Republic of Belarus

On January 16, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Belarus.

The cyclical recovery of the Belarusian economy continues, with growth in the first three quarters of 2018 reaching 3.7 percent. Higher oil prices and robust external demand have supported exports, while domestic demand got an impulse from double-digit wage growth in response to ambitious wage targets. In turn, stronger imports, including related to the nuclear power plant construction, have led to some deterioration in the external accounts despite the positive terms of trade; the current account deficit could thus reach 2½ percent of GDP in 2018, versus 1.6 percent in 2017. Prudent monetary policy coupled with increasing central bank credibility are keeping inflation at historically low levels (5 percent y/y in November) despite rapid wage growth. Importantly, the exchange rate has remained relatively stable on a nominal effective basis, as have international reserves.

Strong external demand, better terms of trade, and a higher-than-expected redistribution of import duties within the Eurasian Economic Union have boosted budget revenues, which could increase by some ¾ percentage points of GDP in 2018 relative to 2017. Expenditures, however, have been rising even faster, particularly capital spending but also wages and salaries. All in all, the overall budget deficit including quasi-fiscal spending on state-owned enterprises could reach 1.3 percent of GDP in 2018, from 0.3 percent in 2017. The deficit is projected to fall modestly over the medium-term to about ½ percent of GDP, notably thanks to the planned completion of the nuclear power plant.

The medium-term outlook is subdued absent vigorous structural reforms, weighed down by unfavorable demographics and weak productivity. At this juncture, medium-term growth is projected at 2 percent, limiting convergence towards the income levels of richer neighboring countries. This modest outlook is conditional on full compensation from Russia for losses triggered by the latter's new energy taxation system (the so-called tax maneuver). Should compensation be significantly less than full—and this is the key risk hovering over the Belarusian economy at this stage—medium-term growth could be materially lower than 2 percent, and the budget and current account deficits higher than projected above.

[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.

Executive Board Assessment[2]

Executive Directors welcomed Belarus' continued economic recovery, supported by improved policy frameworks. However, Directors noted that rapidly rising public debt, high dollarization, and the uncertainty about negative spillovers from Russia's new energy taxation system pose risks. They encouraged the authorities to use the current cyclical recovery to implement comprehensive macroeconomic policies and ambitious reforms, including the reform of state-owned enterprises, to strengthen economic resilience and increase potential growth.

Directors noted that, while the authorities have undertaken several fiscal adjustment measures, more needs to be done to stem the rapidly rising public debt. They encouraged the authorities to undertake additional consolidation, spread over the next three years, to achieve a credible medium-term debt target, which strikes an appropriate balance between development needs and fiscal sustainability. Directors also encouraged the authorities to monitor fiscal risks from state-owned enterprises and to gradually switch funding toward rubel-denominated debt, in order to make debt less susceptible to exchange rate movements.

Directors agreed on the importance of continued central bank independence. They supported the authorities' current monetary policy stance, which is consistent with the inflation target goal. Looking ahead, Directors welcomed continued progress towards inflation targeting. In this context, they commended the authorities for the liberalization of the FX market and for reductions in directed lending. It will be equally important to eliminate interest rate caps.

Directors encouraged the authorities to continue to strengthen financial sector stability. They welcomed the progress made in implementing the FSAP recommendations and encouraged implementation of the remaining ones. Directors emphasized the need to further reduce the high dollarization to continue building confidence in the rubel. They also stressed that developing local capital markets will be a key component of successful de-dollarization.

Directors emphasized that advancing structural reforms is key to reducing macroeconomic vulnerabilities and raising growth potential. They called for a comprehensive reform of state-owned enterprises via a systematic, risk-based assessment of SOEs' viability, followed by an actionable plan to guide restructuring. In addition, Directors underscored the need for enhanced social safety nets, to cushion the impact of restructuring on vulnerable groups. Separately, facilitating private sector activity by improving the business climate and leveling the playing field will also be important.

---

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

Table 1. Belarus: Selected Economic Indicators (Baseline), 2016-2023

	2016	2017	2018	2019	2020	2021	2022	2023
			Projections					
			(Percent Change)					
National accounts								
Real GDP	-2.5	2.4	3.7	2.4	2.8	2.3	2.0	2.0
Total domestic demand	-5.4	4.0	4.8	3.1	2.0	1.5	1.8	2.1
Consumption	-2.5	3.3	5.1	2.7	1.9	1.4	1.9	2.4
Nongovernment	-3.2	4.5	5.4	2.7	1.7	1.2	2.1	2.6
Government	0.3	-1.3	4.0	2.6	2.4	2.0	1.4	1.5
Investment	-12.2	5.8	3.9	4.1	2.4	1.9	1.4	1.4
Of which: fixed	-14.5	5.0	4.1	4.3	2.5	2.0	1.5	1.5
Inventories	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net exports1/	2.2	-1.7	-0.9	-0.6	0.8	0.8	0.3	0.0
Consumer prices								
End of period	10.6	4.6	5.5	5.0	5.0	4.0	4.0	4.0
Average	11.8	6.0	5.4	5.0	5.0	4.0	4.0	4.0
GDP deflator	8.3	8.2	11.1	5.1	5.3	3.9	3.9	3.6
Monetary accounts								
Rubel base money	-1.4	67.1	25.1	16.3	7.4	8.5	7.2	5.9
Broad money	3.8	17.4	12.9	9.4	9.4	8.5	8.0	6.1
Net credit to the economy (percent of GDP)	41.5	40.2	40.1	41.0	41.4	42.6	43.1	44.7
Net credit to private sector (percent of GDP)	21.7	22.4	22.9	23.5	24.3	25.7	26.6	27.9
Base money	1.8	56.5	16.9	15.4	7.3	8.4	7.2	5.9
Rubel broad money (M2)	19.4	30.2	30.7	11.1	9.5	11.2	8.6	6.9
			(Percent of GDP)					
External debt and balance of payments								
Current account balance	-3.4	-1.6	-2.6	-4.0	-2.3	-2.4	-2.3	-2.2
Trade balance, goods	-5.3	-5.3	-5.9	-5.6	-4.3	-4.0	-4.1	-4.3
Exports of goods	48.4	52.7	53.3	52.5	53.8	54.3	53.7	52.5
Imports of goods	53.7	58.0	59.2	58.0	58.1	58.3	57.7	56.8
Gross external debt	78.6	73.3	68.3	69.0	67.5	66.8	66.1	64.3
Public	36.9	37.7	36.2	38.9	37.5	36.7	36.1	34.9
Private (incl. state-owned-enterprises)	41.7	35.7	32.1	30.1	30.0	30.1	30.0	29.5
Net IIP	-85.6	-75.9	-72.0	-72.8	-72.1	-71.7	-71.1	-69.5
Savings and investment								
Gross domestic investment	26.5	26.2	27.0	27.7	26.7	26.7	26.8	27.0
Government	4.8	5.3	7.7	7.2	4.5	3.9	3.9	3.9
Nongovernment (incl. SOEs)	21.7	21.0	19.3	20.5	22.2	22.8	22.9	23.0
National saving	23.1	24.7	24.5	23.7	24.4	24.3	24.5	24.8
Government	5.3	7.0	7.4	4.9	4.6	4.2	4.2	4.4
Nongovernment	17.8	17.7	17.0	18.8	19.7	20.1	20.3	20.4
Public sector finance								
General government primary balance	2.5	3.7	1.7	0.2	3.2	3.3	3.2	3.1
General government primary balance (excl. NPP)	3.6	4.9	4.4	3.4	3.8	3.3	3.2	3.1
General government overall balance	0.5	1.8	-0.3	-2.3	0.2	0.3	0.3	0.4
General government overall balance (excl. NPP)	1.7	2.9	2.5	1.0	0.7	0.3	0.3	0.4
Overall balance 2/	-1.7	-0.3	-1.3	-3.9	-1.2	-0.9	-0.8	-0.6
Gross public and publicly guaranteed debt	53.5	53.4	51.7	54.1	55.4	55.4	55.7	56.0
Of which: Public guarantees	11.2	9.5	9.0	9.0	8.5	8.2	7.8	7.7
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	47.7	54.4	59.6	62.4	65.2	67.6	70.1	73.8
Nominal GDP (billions of BYN)	94.9	105.2	121.2	130.3	141.1	150.1	159.1	168.2
Terms of trade, percentage change	-5.2	3.1	1.1	-0.4	2.9	-0.7	0.0	0.0
Real Effective Exchange Rate ("-" denotes a depreciation)	-9.2	-0.3						
Nominal Effective Exchange Rate ("-" denotes a depreciation)	-17.5	-4.9						
Official reserves (billions of U.S. dollars)	4.9	7.3	6.6	7.0	7.1	7.5	7.8	8.2
Months of imports of goods and services	1.6	2.1	1.8	1.9	1.8	1.9	1.9	1.9
Percent of short-term debt	46.4	75.3	68.1	71.9	71.0	70.7	70.6	70.4
Quota (2016): SDR 681.5 million (923.5 million U.S. dollars)								

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Includes general government and off-balance sheet operations.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

December 17, 2018

KEY ISSUES

Context. The Belarusian economy is in a cyclical recovery, inflation is at historically low levels and the exchange rate has been broadly stable. Although macroeconomic policy frameworks have improved, there is a need to reduce deep seated vulnerabilities such as rapidly rising public debt, high dollarization, and limited trade and financing diversification. In addition, reforms of the large state-owned enterprise sector are critical to tackle inefficiencies and increase potential growth. Risks ahead are elevated; notably, Belarus could lose significant oil-related discounts and transfers due to internal tax changes in Russia, but the authorities are confident of a successful outcome to the ongoing negotiations.

- **Policy recommendations.** The current cyclical recovery provides an opportunity for comprehensive policies to reduce vulnerabilities and raise potential growth.

- **Fiscal policy.** Reversing the upward trajectory of public debt would increase credibility and reduce financing needs. This would require a total permanent adjustment of 1½ percent of GDP (higher if projected reductions in quasi-fiscal transfers to weak SOEs do not materialize). The adjustment could be spaced over a three-year period.

- **Monetary policy.** Monetary policy should remain tight given pressures from fast rising wages and the uncertain external environment. The gradual transition towards inflation targeting should continue, including removing remaining market distortions such as interest rate caps, and strengthening central bank independence.

- **Financial sector policy.** Regulatory and supervisory frameworks should continue to be strengthened. De-dollarizing the economy is an important priority: in addition to credible macro-policies, this will require developing the rubel capital market.

- **Structural reforms.** Deep reforms are needed in the SOE sector, starting with a systematic, risk-based assessment of their viability and strengthening corporate governance. More robust social safety nets would help buffer the effects of any restructuring. In parallel, ongoing efforts to develop the private sector should be advanced, with the goal of leveling the playing field between private and state-owned enterprises. Energy tariffs need to be raised to gradually reduce cross-subsidies from firms, and all prices should be liberalized more broadly.

Approved By
Jörg Decressin (EUR) and Zuzana Murgasova (SPR)

Discussion for the 2018 Article IV Consultation were held in Minsk during November 5–15, 2018. The mission comprised J. Miniane (head), D. Benedek and B. Jajko (EUR), and G. Minasyan (SPR). N. Ilahi (Senior Regional Res. Rep., EUR), J. Lyskova and M. Sviderskaya (local office, Minsk), and A. Zaborovskiy (OED) joined the discussions. The mission met with Prime Minister Rumas, National Bank Governor Kallaur, Minister of Finance Yermolovich, Minister of Economy Krutoy, other senior officials and representatives of financial institutions, the private sector, the diplomatic community, and civil society. C. Piatakovas, A. Kavalenka, and S. Romero Martinez contributed to the preparation of this report.

CONTENTS

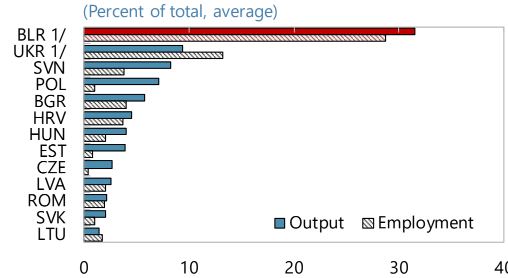
TABLES

ANNEXES

CONTEXT

1. Belarus remains one of the most state-controlled economies in Europe. Enterprises either fully or partially owned but controlled by the State account for about half of total employment and value-added in the economy. This is a significantly higher share than in regional peers.

Share of SOE's in the Economy, 2012-2014
(Percent of total, average)



Sources: Böwer, Uwe (2017) State-Owned Enterprises in Emerging Europe: The Good, The Bad, and The Ugly", IMF Working Paper.
1/ Data for 2016 (2017 for UKR) are sourced from the national authorities. Output refers to value added. Data only covers SOE's with 50 percent or more state share.

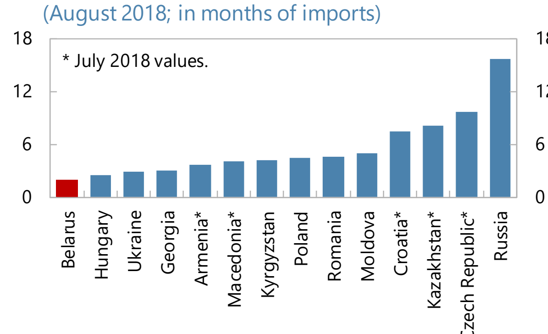
2. There have been some efforts at developing the private sector. In particular, a highly preferential tax and regulatory regime coupled with strong human capital have allowed the IT sector to flourish. Other sectors such as restaurants and hotels and tourism more broadly have also seen a significant injection of private capital. But, on the whole, the share of the private sector in total economic activity has increased slowly over the last fifteen years, by 5–10 percentage points depending on the measure.

3. Increasing inefficiencies in the state-owned sector have led to a marked decline in trend growth (Figure 1). Distorted economic incentives coupled with soft budget constraints (see below) keep many unviable SOEs alive. As a result, growth since the global financial crisis has been one of the weakest in the region, and income convergence vis-à-vis Western Europe and Russia has stopped or gone into reverse.

4. These inefficiencies, historically coupled with enabling macro policies, have led to deep-seated macro vulnerabilities that leave the country exposed to shocks:

(i) *Limited trade and financing diversification (Annex I).* Low export diversification in both goods and markets leaves Belarus vulnerable to shocks to a narrow set of commodities and countries. In addition, external financing is largely concentrated, including in the form of large energy discounts and transfers from Russia.

Belarus and Selected Countries: Gross Reserves
(August 2018; in months of imports)

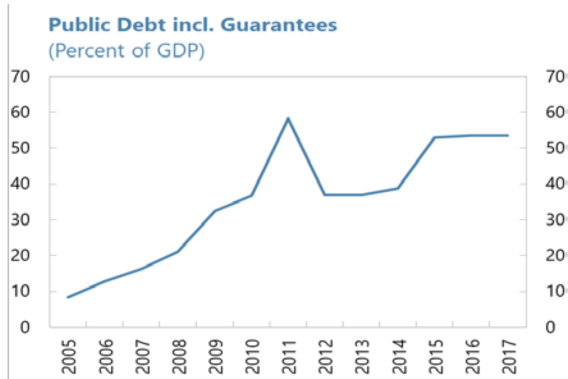


Sources: IMF International Reserves and Foreign Currency Liquidity database; and World Economic Outlook database.

(ii) *High dollarization.*[1] Financial dollarization remains one of the highest in Europe despite some declines in recent years, carrying both a liquidity risk on the banks' liability side (particularly given low reserves) and a credit risk on the asset side.

[1] See also "De-dollarization in Belarus" in the 2018 Selected Issues.

(iii) *Rising debt (Annexes II and III).* While public debt including guarantees is about average for the region at some 52 percent of GDP, it has risen fast over the last 10 years. This is mostly because of costly extra-budgetary activities and the very high share of FX debt in total public debt (90 percent), which exacerbates the impact of currency depreciations on the debt/GDP ratio. External (private and public) debt is also average for the region at some 70 percent of GDP, but gross external refinancing needs are relatively large at 26 percent of GDP—and they remain substantial even if one excludes trade credits which tend to have more stable rollovers and in which account for about half of the total.



Sources: Belarusian Authorities and IMF staff calculations.

5. Macro policy frameworks and policies have improved since the last crisis though. Historically, monetary policy in Belarus had been subordinated to policy objectives other than price/monetary stability, such as stimulating subsidized lending. A revised monetary policy framework targeting money aggregates, adopted in 2015, has allowed a shift to a more rules-based policy. The framework has been gradually refined since then, and it has been instrumental in delivering greater exchange rate stability–despite the shift to a managed float—as well as a rapid decline in inflation. Financial sector regulation and supervision frameworks are also improved. Fiscal policy was also measurably tightened after 2014. Implementation of past staff advice on structural reform has been more limited however (Annex IV).

6. A new government was appointed in August, led by Prime Minister Rumas. Its key economic objectives include creating a favorable business environment, enhancing the efficiency of the state sector of the economy and with it of labor productivity, and establishing a world-class IT sector.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

7. The economy is in the midst of a cyclical recovery, following a recession in 2015–16 (Figure 2). The 2017 outturn and growth in the first half of 2018 (4.6 percent) were stronger than expected at the time of the 2017 Article IV. Higher oil prices and robust external demand have supported exports, while domestic demand got an impulse from double-digit wage growth following ambitious wage targets set by the President. In turn, stronger imports have led to some deterioration in the current account balance despite the positive terms of trade. Growth momentum has weakened somewhat in the recent months in line with developments in the region, and growth is expected to come at 3.7 percent for the year as a whole.

8. Inflation remains low and the rubel relatively stable. Prudent monetary policy coupled with increasing central bank credibility (see below) are keeping inflation at historically low levels (4.9 percent y/y in October 2018), notwithstanding rapid wage growth. Importantly, the rubel has remained relatively stable on a nominal effective basis, depreciating against the U.S. dollar by 8 percent in the year to date.

9. The budget deficit is expected to widen this year as a rapid increase in expenditures has outweighed robust revenue outturns. Robust external demand, better terms of trade, and a higher-than-expected redistribution of import duties within the Eurasian Economic Union (EAU) could increase revenue by some ¾ percentage points of GDP this year. Expenditures, however, are rising faster, particularly capital spending but also wages and salaries. All in all, the overall budget deficit (IMF definition, including quasi-fiscal spending on SOEs) could reach 1.3 percent of GDP this year, versus 0.3 percent in 2017.

10. The outlook for next year and the medium-term is conditional on the outcome of negotiations on a new energy agreement with Russia (see Box 1). The 2019 budget assumes no compensation for tax maneuver losses, while the authorities' medium-term forecasts assume full compensation post 2019. These assumptions are built into staff's baseline projections (Tables 1–5). Under this assumption, growth is expected to slow down notably next year to about 2½ percent. Although the resumption of compensation could provide a rebound in 2020, the medium-term outlook is subdued absent vigorous structural reforms, weighed down by unfavorable demographics and weak productivity. At this juncture, medium-term growth is projected at 2 percent. Consistent with these structural inefficiencies, the external assessment finds that the current account is 2–3 percent of GDP weaker than warranted by fundamentals and desirable policies, and that the real effective exchange rate is overvalued by about 10 percent (Annex V).

Box 1. The Impact of Russia's Tax Maneuver on Belarus

Russia's new hydrocarbon tax system (so-called tax maneuver) would have significant implications for Belarus. Under the terms of an existing bilateral agreement, Belarus currently imports eighteen million tons of crude oil from Russia free of export duty, which is refined and, much of the resulting oil products, re-exported. It also receives the equivalent of the export duty on six million tons of crude oil as a budget transfer. However, these inflows will be affected by Russia's introduction of a mineral extraction tax (which would apply to domestic production and exports) and would replace the export duty on oil and oil products over a five-year period. In addition, under the terms of the bilateral agreement with Russia, Belarus would have to reduce its own oil export duty rate. Absent a new agreement, at current oil prices, the annual direct impact on the current account and fiscal balance once the transition in Russia is complete is estimated at some 3.9 and 1.3 percent of GDP, respectively. Indirect effects would add to the total burden, as shown in Annex VII. Negotiations on a new arrangement are currently ongoing, and the authorities are confident that the new terms will fully compensate for these losses, leaving Belarus no worse off than before.

Box 1. The Impact of Russia's Tax Maneuver on Belarus (concluded)

Estimated impact of Russian tax maneuver on BoP and fiscal sector in Belarus, absent compensation
(Percent of GDP)

	2019	2020	2021	2022	2023
Direct impact on BoP	1.0	1.9	2.7	3.4	3.9
Higher crude oil import costs	0.8	1.5	2.4	3.4	3.9
Reduction in budget transfer from Russia	0.2	0.4	0.3	0.0	0.0
Direct fiscal impact	0.5	0.9	1.1	1.1	1.3
Reduction in custom duties on refined oil exports	0.3	0.5	0.8	1.1	1.3
Reduction in budget transfer from Russia	0.2	0.4	0.3	0.0	0.0

Sources: IMF staff estimates.

11. Risks to the baseline are significant (see Annex VI). On the downside: (i) any escalation of geopolitical tensions affecting Russia would have significant spillovers on Belarus via trade and financial linkages; (ii) a tightening of global financing conditions would affect Belarus' external financing efforts; and (iii) importantly, less than full compensation for tax maneuver losses would reduce medium-term growth and increase the current account and fiscal deficits (Annex VII). Any exchange rate depreciation resulting from it would exacerbate risks via higher public and external debt ratios and weaker NFA. On the upside, should a new agreement provide compensation for tax maneuver losses already next year, it would provide upside risk to the 2019 forecasts.

Authorities' Views

12. The authorities' projections for 2018 and 2019 are very close to staff's. However, they believe medium-term growth is closer to 3 percent, not least thanks to ongoing reforms to stimulate private sector activity and gradually reform underperforming SOEs. Regarding risks, their estimates of tax maneuver losses are broadly comparable to staff's, underscoring the importance of ongoing negotiations over a new energy arrangement. On this, they remain confident that the new agreement—which they expect will be signed sometime in the first quarter of 2019—will fully compensate for any losses. The authorities are also wary about any intensification of geopolitical tensions, which could have substantial collateral effects on their economy and financial system.

POLICY DISCUSSIONS

Discussions focused on policies needed to reduce the aforementioned vulnerabilities—rising public debt, extensive dollarization, and limited trade and financing diversification—and increase potential growth.

A. Fiscal Policy

13. Under current assumptions, the 2019 budget deficit is projected to widen significantly. Revenues are expected to decline by 2 percent of GDP on the back of some loss of customs duties (in line with the assumption of no compensation for tax maneuver losses next year), a projected decline in some important export prices such as potash, and a lower redistribution of import duties within the EAU. Expenditure changes are expected to be relatively minor relative to the 2018 budget, as a ramp up in spending on the nuclear power plant will be offset by savings in other areas of capital spending, which will remain relatively high nonetheless. All in all, the deficit excluding quasi-fiscal transfers to SOEs could increase to 2.3 percent next year. Assuming quasi-fiscal transfers remain in line with historical levels, the overall budget deficit (including these transfers) could reach close to 4 percent of GDP.

14. The primary balance is projected to improve significantly after 2019, but the public debt ratio would remain elevated. Post 2019, the fiscal position will gradually improve, assuming that a new agreement would make up for tax maneuver losses[2], the nuclear power plant is completed as expected in 2020, and transfers to SOEs gradually come down as projected. The primary surplus (including quasi-fiscal debt creating flows) could reach 2 percent of GDP in the medium-term, implying an overall deficit of about ½ percent of GDP. Public debt (IMF definition, including public guarantees) is expected to stabilize at around 56 percent of GDP, provided any exchange rate depreciation is small as assumed in the baseline.

15. In the staff's view, Belarus would be well served by some additional fiscal adjustment to reduce public debt to more sustainable levels. Reversing the upward trajectory of the debt would send a strong, credibility-enhancing signal and will gradually reduce financing needs in an increasingly uncertain environment. As discussed in previous consultations[3], a medium-term target of 50 percent of GDP strikes an appropriate balance between development needs and fiscal credibility. Reaching this anchor would require a permanent adjustment of 1½ percent of GDP–higher than that if projected declines in quasi-fiscal spending do not materialize. The adjustment could be spread over the next two-three years. The ongoing recovery, with the output gap closed, is the right time to initiate the adjustment.

[2] Despite the assumption of full compensation for tax maneuver losses, revenues still decline some post-2019 because other bilateral agreements are set to expire.

[3] See also "Sustainable and Resilient Fiscal Rule" in the 2017 Selected Issues.

16. Durably reducing transfers to weak SOEs would be a good place to start. In addition to the associated savings, this would provide the added benefit of tightening budget constraints on these companies. At the same time, a sustained reduction of these transfers as envisaged by the government is only credible if accompanied by broad SOE reform (see below). Should these reductions not be achievable, other measures could help secure the required consolidation. Priority should be given to tackling widespread tax expenditures estimated to cost about 4 percent of GDP per year[4], and gradually raising reduced VAT rates. Separately, the authorities are well on their way with the implementation of parametric pension reform and harmonizing special pension provisions with other government pensions, to ensure the sustainability of the Social Protection Fund (SPF).

17. Despite recent progress, contingent fiscal risks from SOEs need to be better monitored. The authorities have established data reporting mechanisms to better track the financial situation of SOEs. Reporting currently covers more than 500 enterprises owned at the republican (i.e national) level. This is an important step, but it needs to be complemented with additional efforts aimed at: (i) fully covering SOEs owned by sub-national governments given that contingent risks are typically assumed by the central budget; and (ii) ensuring the full integrity of the data, possibly by more systematic, risk-based audits of the data submitted. The operational capacity of the fiscal risk unit should be enhanced in line with the added responsibilities.

18. Efforts should also be made to diversify financing, including relying more on rubel-denominated debt. In recent years, the availability of external project loans has limited these efforts. Nevertheless, the authorities should seize any opportunity to expand medium and long-term rubel financing to reduce the impact of exchange rate developments. Issuing more rubel-denominated debt will have the added benefit of helping to develop the rubel capital market, an important developmental objective to help de-dollarize the economy more generally (see below).

Authorities' Views

19. The authorities had mixed views regarding staff recommendations. They emphasized that the 2018 outturns are better than expected and that the 2019 deficit could be significantly lower than projected if a deal providing compensation is in place next year. This being said, their current fiscal projections for 2018 and 2019 are close to staff's except for below-the-line transfers to SOEs, which they don't project separately.[5] More generally, they view fiscal policy as tight given the primary surpluses projected in the medium term, and hence see limited reason to embark on fiscal consolidation. On measures, the new government has a clear goal of reducing quasi-fiscal transfers to SOEs to enhance discipline in the sector, although they acknowledge that said reduction needs to be accompanied by reform if it is to be durable. They also agree that better monitoring of contingent risks from SOEs is crucial and are expanding data

[4] Tax expenditures are extensive and distributed across all major taxes. Fund technical assistance has previously identified key areas where tax expenditures can be repealed, converted to a direct expenditure or re-designed, including in goods and services, profit and income, real estate, land and environmental taxes.

[5] This year, the authorities' fiscal accounts will record some of these items above-the-line, consistent with staff's advice and increasing fiscal transparency.

reporting to companies owned by sub-national authorities. Regarding financing, they noted plans to issue rubel-denominated debt of higher-than-one-year maturity in 2019.

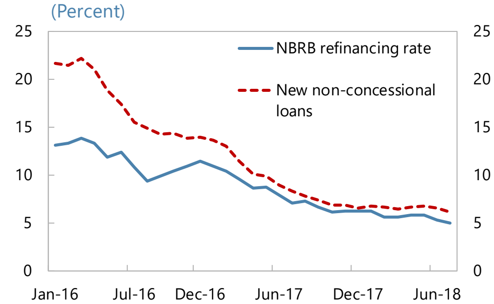
B. Monetary and Financial Sector

Monetary Policy

20. The adoption in early 2015 of a revised monetary framework has helped stabilize inflation at low levels of around 5 percent. The rapid decline in inflation has allowed for nominal and real interest rates to decline in tandem, leading to a historically small spread between rubel and FX lending and deposit rates.

21. The current monetary policy stance is appropriate and should be maintained. Starting in January 2018, the NBRB shifted from targeting money aggregates towards targeting the interbank rate, in the context of its gradual modernization of monetary policy. With inflation stabilizing at around 5 percent (next year's inflation target), the current stance that implies real policy rates of about 5 percent is appropriate despite slowing economic momentum, given that the inflationary pressures from rapid wage growth may not have fully materialized yet. As the economic environment remains uncertain, the NBRB should preserve the flexibility of the exchange rate as a shock absorber, within the limits imposed by the high dollarization of the economy.

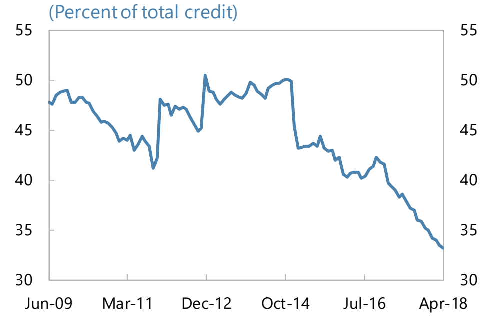
Real interest rates
(Percent)



Sources: National authorities and IMF staff calculations.

22. The NBRB should be supported in its goal of gradually transitioning to full inflation targeting (IT). Transition to full IT faces several challenges in Belarus, not all under the control of the NBRB: (i) still weak monetary transmission channels due to government price controls; (ii) high dollarization; and (iii) a legacy of fiscal dominance. Despite these challenges, transition towards IT will help entrench an increasingly rules-based monetary policy. The NBRB is working with IMF Technical Assistance experts to strengthen its forecasting capacity, operational framework, and public communications. Consistent with the transition towards IT, the authorities have been tackling various market distortions. In particular, directed lending accounts for an ever-smaller share of total credit, and the FX market has been liberalized as witnessed *inter alia* by the elimination of the FX surrender requirement for exporters or the elimination of the requirement to explain the reasons for FX

Directed Lending
(Percent of total credit)



Sources: National authorities and IMF staff calculations.

purchases.[6] Going forward, it will be important to gradually eliminate outstanding interest rate caps, which are inconsistent with an interest rate-based monetary policy and which distort lending and saving decisions.

23. The operational independence of the NBRB should continue to be respected and strengthened. This increasing independence has been as important as the improved policy framework in delivering price stability. Entrenching this independence will require strengthening the NBRB's legal framework per FSAP recommendations and recapitalizing the large negative equity position of the NBRB due to absorption of past quasi-fiscal losses. In parallel, the NBRB should divest itself of remaining shares in two banks to avoid any conflicts of interest.

Authorities' Views

24. The authorities agreed with staff's view on monetary policy and the framework. They intend to keep real policy rates at current levels despite pressures to relax the stance. Despite challenges to inflation-targeting, they believe that keeping IT as a goal is the best way to preserve a disciplined and rules-based policy; they are taking the necessary steps to increase operational capacity to meet the demands of modern IT. Regarding market distortions, they noted that they are in the process of drafting a new list of FX liberalization measures, and agreed with the need to gradually eliminate interest rate caps. At the same time, they noted that they will proceed gradually in this regard not to jolt the market or borrowers. Finally, the NBRB noted that they are working jointly with the EBRD in the sale of their remaining stakes in banks.

Financial Stability and De-dollarization[7]

25. The financial sector appears reasonably sound in terms of capital, asset quality and profitability, and credit growth has been picking up (Figure 9). The asset quality reviews in 2016 and 2017 led to some remedial actions, and as a result capital adequacy has improved. The reported capital adequacy ratio is now at 18 percent for the sector as a whole. Bank profitability has also improved in the last two years, though it remains below pre-recession levels. Despite concerns expressed in the last consultation about a credit-less recovery, credit to the economy started to recover in late 2017. This is being led by consumer credit, but corporate sector credit growth has also turned positive this year. The latter can be partly explained by a low base (corporate credit had contracted for three years); it is also noteworthy that growth in credit to private enterprises is significantly stronger than credit to SOEs, likely reflecting the private sector's stronger financial position overall.

26. There has been significant progress in improving the regulatory framework. Mandatory Basel III Liquidity Coverage Ratios (LCR) and net stable funding ratios (NSFRs) were

[6] The elimination of the surrender requirement (a capital flow management measure) is in line with staff's past recommendation and the Fund's Institutional View on capital flows.

[7] See also "De-dollarization in Belarus" in the 2018 Selected Issues.

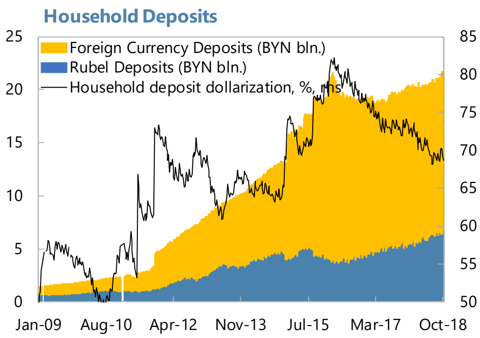
introduced from January 1, 2018. More broadly, the authorities have made significant progress in implementing FSAP recommendations (Annex VIII).[8] However, some of the 'immediate' FSAP recommendations are still in progress or partially implemented, such as for example the phasing out of exemptions or delegating NPL resolution to a single entity with powers for restructuring.

27. Efforts should continue to ensure that reported data reflect the true state of asset quality. Recent changes to asset classification rules have tightened the margin for loan ever-greening–a concern given links between state-owned banks and weak state-owned enterprises–by forcing any loan whose terms have been changed twice to be automatically reclassified as restructured regardless of mitigating factors. In addition, a new NPL regulation has been issued to guide asset classification more broadly. Prima facie, the decline in NPLs reported by banks following the introduction of the new regulation could raise concerns. However, market participants report that the NPLs and provisioning that would obtain under IFRS9 are not meaningfully different to those under the new regulation. Staff are currently assessing in depth the new regulation, to validate that it indeed conforms to best international practice.

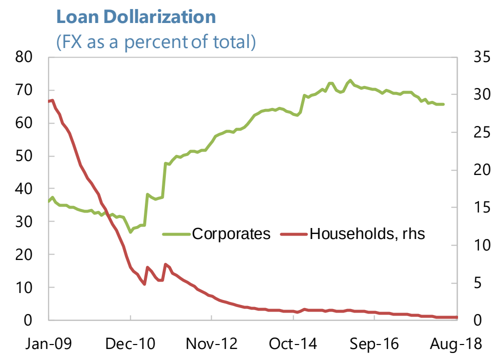
28. The authorities are now looking to beef up supervision of systemic risks, including updating the macro-prudential toolkit, over the next two-three years. This nascent program, in cooperation with the EU, aims to enhance the NBRB's capacity to effectively monitor systemic risks to financial stability and take mitigating actions if needed. In this context, the legal and institutional framework for financial stability will be revised and improved by incorporating a *de jure* macroprudential policy mandate for the NBRB into law and entrusting the NBRB with the tasks of identifying, monitoring and assessing systemic risks to financial stability, and of implementing policies to prevent and mitigate those risks. As a start, the program will look into a coordinated assessment of five banks with different business models including cross-risks. As part of the monitoring and handling of systemic risks, a Financial Stability Council has been set up to provide an important forum for coordination on financial sector issues between the government and the central bank. Regularizing meetings of the Council would be an important objective.

29. The high level of financial dollarization remains a major vulnerability. Dollarization has gradually been coming down in recent years thanks to more sustainable macro policies; nevertheless, it remains higher than a decade ago and is above the estimated optimal level for the country. It is also one of the highest among countries in the region. High dollarization poses liquidity risks, as the lender of last resort function for FX deposits is constrained by existing reserves. Dollarization also increases credit risk through possible currency mismatches in either the banks' or the debtors' balance sheets. Most FX exposures in Belarus are to the U.S. dollar.

[8] See also 2017 Article IV Staff Report.



Sources: Belarusian authorities, MFS, and IMF staff calculations..



Sources: Belarusian authorities and IMF staff calculations.

30. Efforts to address high dollarization are gradually paying off. Relative exchange rate stability and low inflation have led to a gradual shift towards rubel savings, while lower interest rate spreads are boosting rubel borrowing. Beyond macro factors, prudential measures are also forcing banks and borrowers to internalize the broader costs of dollarization. The central bank has introduced differentiated reserve requirements, with the required reserve rate on foreign currency deposits raised to 17 percent in January 2018 (versus 4 percent for rubel deposits). On the asset side, banks are now subjected to stricter standards when assessing the hedging ability of borrowers, and provisioning requirements on FX loans have also been tightened. Since May 2018 the NBRB has started collecting regular monthly information on debt to unhedged borrowers.

31. Nevertheless, more is needed. Macro-policies will need to remain sustainable to continue strengthening confidence in the rubel, as de-dollarization is a multi-year process. In addition, there is a need to deepen domestic financial markets which in their current state act as a brake on de-dollarization. There are some encouraging steps in this regard. The EBRD is working jointly with the authorities in developing the local capital market and has started to issue longer-dated paper in rubels and lending in rubels. The authorities are also planning some rubel-denominated issuance for 2019 as well. These efforts will need to be stepped up for there to be a proper benchmark yield curve and a proper market at longer maturities. Finally, an overarching strategy to de-dollarize the economy could tie all the various elements together. Internally, it would take stock of progress while also imposing clear timelines to address remaining challenges, such as developing the legal infrastructure for derivatives needed to develop the rubel market. As part of the strategy, the central bank could consider setting internal targets on, say, the share of time/saving deposits in domestic currency, with the understanding that these targets are *not* to be achieved at any cost. Externally, a communications campaign on de-dollarization would serve as a commitment device, while helping to educate borrowers about the risks (private and social) of FX borrowing.

Authorities' Views

32. There was confluence of views between staff and the authorities with regards to financial sector policies. The authorities reiterated their commitment to continue implementing FSAP recommendations. They are determined to ensure that asset classification and published data reflect the true state of asset quality and pointed to new regulations that close the door to loan evergreening. Going forward, they are committed to gradually boosting their capacity to identify and tackle systemic risks, which they view as a natural progression in their supervisory efforts. De-dollarization remains a key objective, and they will consider the possibility of launching a public de-dollarization campaign.

C. Structural Policies

33. Recent efforts to expand the private sector are continuing. Last year's Presidential Decree on Entrepreneurship will reduce the administrative requirements to set up a business in a number of economic sectors. More recently, the new government has announced plans to decriminalize minor offenses and curtail excessive inspections from public agencies. If these plans turn into actions they could make a tangible difference, as abusive inspections or heavy charges for minor offenses have often acted as a deterrent to private initiative. However, further efforts are needed. Property rights need to be made more secure, including by reducing the statute of limitations to declare privatizations null and void. Also, limits to competition that unfairly tilt the playing field in favor of SOEs need to be gradually dismantled.

34. The authorities are pursuing a gradual, incremental approach to reforming inefficient SOEs. Several pilot projects are underway with the EBRD and World Bank Group, including the possibility of entry of strategic investors. Plans are also under preparation for the sale of minority shares in non-strategic enterprises, though the total nominal amounts are small and it remains to be seen how fast these plans will proceed. One area where progress has been made is in tightening soft constraints on weak SOEs: the scope of directed lending is falling rapidly as mentioned before; new financing schemes such as for export promotion, which could potentially be used as an alternative, are much smaller in scope for now.

35. A more ambitious agenda is warranted given that inefficient SOEs lie at the heart of many of the economy's weaknesses. While incremental reform may minimize disruption in the short term, it has a significant hidden cost in the form of persistent misallocation of resources, limited gains in standards of living, and protracted vulnerabilities that leave the economy exposed. As elaborated in previous consultations[9], the reform agenda should be comprehensive and multi-faceted and include the following key elements:

- *Systematic risk-based assessment of SOEs' viability, using external expertise to lend credibility.* Firms should be triaged into three categories: viable as is, viable after restructuring, and unviable. Information now systematically collected at the Ministry of

[9] See for example the 2017 Article IV report.

Finance would help guide the initial identification of where the main risks lie. Following the findings of the triage, an actionable plan should guide the necessary restructurings.

- *Strengthening the corporate governance of SOEs*. First, the ownership and regulatory functions of line ministries need to be more clearly separated, to avoid conflicts of interest. Centralizing ownership of the key SOEs will also facilitate reform efforts. Second, fit and proper criteria for the selection of Supervisory Board members should be more transparent and follow best practice, while these boards should have independent authority and accountability to guide the companies Stronger SOE governance and oversight would have the added benefit of limiting any vulnerabilities to corruption in these enterprises.

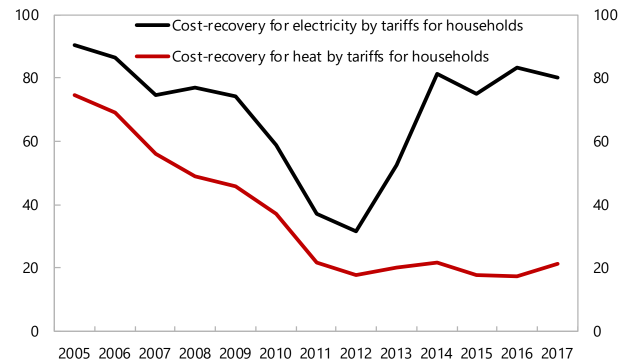
- *Social safety nets*–including an expanded unemployment benefit and training system–should be bolstered to buffer the transitional impact on employment and households.

- *Developing a distressed assets market.* The authorities' ambition to develop a distressed debt market needs to be built on a comprehensive enforcement and insolvency reform. Important steps in this process include allowing market valuation of companies' assets, including SOE assets. Some progress has been achieved in this area, supported by Fund technical assistance. In particular, the prohibition to sell loans below nominal value has been removed and banks can now sell debt at a discount of its book value–a central milestone in the reforms. Going forward, further steps are needed to strengthen secured creditors' rights, significantly reduce special priorities of public creditors in bankruptcy, and open the distressed asset market to a large pool of investors to ensure proper liquidity and price discovery.

36. The devolution of SOEs to sub-national governments should be reconsidered. The government has initiated the devolution of non-strategic SOEs to regional and municipal authorities, accounting for some 5–7 percent of GDP. This move risks transferring oversight of these SOEs to authorities who have skewed incentives to preserve employment at all costs, as well as limited funds and capacity to restructure the companies. On a positive note, these sub-national government are not required to seek permission from the central government to sell their shares to strategic investors, although the number of such sales in the past year has been limited.

37. Household utility tariffs need to be raised to reach full cost recovery level, and the gap is particularly large for heating. The lack of proper price incentives results in overconsumption and underinvestment in efficiency-enhancing measures and infrastructure, while above-cost prices (cross-subsidization) charged to companies hurt profitability and competitiveness. At the same time the targeting of blanket subsidies is very weak and therefore a costly and regressive form of social support. The authorities have brought cost recovery level of utilities other than heating, electricity and gas to 100 percent, and they are planning to reach full cost recovery for electricity and gas for cooking as of January 1, 2019. While these measures might improve transparency, there is no mechanism in place to maintain the full cost recovery level of these utilities going forward. The authorities should raise utility prices to reach full cost recovery within three years, complemented by expanded and better targeted subsidies to shield the impact on low income and most vulnerable households. Current plans to increase prices would make too gradual a dent on the problem.

Cost-recovery for electricity and heat tariffs
(Percent)



Source: Belenergo.

38. The gradual liberalization of prices is welcome and should be pursued further. The share of regulated prices has come down significantly in the last several years, but it still stands at close to 20 percent of the CPI. These prices distort market signals, but also put pressure on firms' bottom line including that of weak SOEs. In addition, unregulated prices can still be "frozen" by administrative decision. On this, the authorities should resist the temptation to abuse of such freezes in an ad-hoc way, for instance as a way to combat inflationary pressures.

Authorities' Views

39. The authorities agreed with staff on the need and direction of reforms to address vulnerabilities, however they prefer a more gradual pace. They acknowledge that inefficient SOEs have become a burden on the economy and on the budget. At the same time, they believe that a gradual approach is needed to build the necessary consensus on the benefits of reform. Regarding the devolution of non-strategic SOEs to local governments, they see this as a necessary step to separate the ownership and regulatory functions of line ministries, as they lack the capacity to manage hundreds of non-systemic SOEs from a central administration. Nevertheless, they recognize that plans to centralize ownership of systemic SOE currently dispersed across line ministries could have been firmed up before SOEs were devolved. On the issue of governance, they stressed that, in their view, every available third-party indicator and independent assessment shows that corruption in Belarus is low compared to other countries and not macro-critical. More importantly, public pronouncements at the highest level of the state as well as judicial rulings have made it clear that there is zero tolerance against corruption. Regarding utility prices, they pointed to the social impact of rapid utility increases and underlined that the nuclear power plant will deliver some cost savings for electricity generation. Finally, they reiterated their priority goal of stimulating private initiative and levelling the playing field between private and state-owned companies, as well as their continued commitment for WTO membership and EEU integration.

D. Contingency Policies

40. Although the authorities are confident of a positive outcome in the negotiations on tax maneuver losses, contingency plans would be helpful in the event of less than full compensation. In such an event, oil refining activity would be reduced, dampening export revenue and growth (Annex VII). Tax revenues would also be hit due to lower economic activity, lower transfers from Russia, and lower customs duties. The policy response should aim to mitigate the impact on the balance of payments and facilitate the reallocation of resources in the economy, including:

Structural reform. The loss of energy discounts would underscore the need for faster and deeper reform to boost productivity in SOEs, not least in the refineries which are already undergoing technological upgrades.

Exchange rate flexibility to allow the needed adjustment in the balance of payments, with foreign exchange interventions limited to avoid any excessive volatility. This should be supported by *fiscal discipline* that refrains from untargeted and costly subsidies to the refineries, and with additional measures as needed to maintain debt in a downward trajectory.

Tighter monetary policy to maintain inflation within target and limit undue volatility in the foreign exchange market.

STAFF APPRAISAL

41. The cyclical recovery provides a favorable backdrop for stronger efforts to strengthen economic resilience. Strong external demand, higher international prices for some of Belarus' key exports, and rapid wage increases continue to support the expansion. Better policy frameworks have also contributed to low inflation and relative exchange rate stability. However, although the state-led economic system has delivered on full employment, it has also resulted in a widespread misallocation of labor and capital and hence weak productivity. Barring comprehensive reform, medium term growth is projected to be at around 2 percent, preventing meaningful income convergence with regional peers. Consistent with these inefficiencies, the current account is assessed to be 2–3 percent of GDP weaker than warranted by fundamentals and desirable policies, and the real effective exchange rate overvalued by about 10 percent. In addition, Belarus remains dependent on large energy discounts and transfers from Russia; it is also vulnerable to shocks, including from an intensification of global geopolitical tensions given high dollarization and weak economic and financing diversification.

42. The authorities should seize the opportunity afforded by the recovery to put public debt on a firm downward path. While public debt is not inordinately high, it has grown fast over the last ten years; the large FX share makes debt very susceptible to any depreciation and creates dependence on external financing which may not be forthcoming in an uncertain environment. Achieving a 50 percent debt target in the medium term—as the Fund has previously advocated for Belarus—would require a permanent adjustment of 1½ percent of GDP, which could be spread over the next 2–3 years. This should include reducing off-budget SOE support, though it will also require reforming these enterprises to be durable. Other options include broadening the tax base by eliminating large tax expenditures and/or reducing preferential VAT rates. In tandem, recent progress to track fiscal risks from SOEs should be deepened, by encompassing firms owned at the subnational level and ensuring the integrity of the data reported. Efforts should continue to gradually switch funding towards rubel-denominated debt.

43. The current monetary policy stance is appropriate, and the central bank should continue its efforts toward a more predictable, rules-based monetary policy. Maintaining positive real rates will help steer inflation toward next year's lower inflation target despite the inflationary pressures from rapidly growing wages. The conduct of monetary policy has improved considerably in recent years, including by the removal of distortions such as directed lending or heavy-handed FX restrictions. It is important that these efforts continue, by phasing out interest rate caps, which are incompatible with interest-rate based monetary policy and which distort lending and savings decisions.

44. Continued support of the central bank's operational independence will be key. This independence has been as important as any improvements to the policy frameworks for the positive outcomes of recent years.

45. The authorities are encouraged to continue strengthening financial sector stability. There has been good progress in implementing FSAP recommendations, though a few remain outstanding. Efforts should continue to strengthen oversight of systemic risks. At the same time, the high dollarization remains a key vulnerability, which needs to be further reduced. Recognizing that this is a multi-year process, the authorities should continue to rebuild trust in the rubel by maintaining prudent macro policies. Equally importantly, developing the local capital market will be key, as in its current state it acts as a brake on de-dollarization efforts, and efforts should continue to educate the public on the risks of FX borrowing.

46. Plans to stimulate the private sector should be carried out but should be complemented by steps to ensure a level playing field for all companies. Less demanding certification requirements and plans to decriminalize minor offenses and curtail abusive inspections would remove important deterrents to private sector activity. However, further efforts are needed to entrench property rights and create a more business friendly environment, including by ensuring a level playing field between private and state-owned enterprises in all sectors.

47. More ambitious reforms are critical to address inefficiencies in the SOE sector, so as to reduce macro-financial vulnerabilities and raise growth potential. The current approach, based on gradual, incremental measures, is not effecting enough change given the scale of the problems. And some ongoing processes, such as the devolution of non-systemic SOEs to sub-national authorities, risk aggravating moral hazard in the sector. A key first step would be a systematic, risk-based assessment of SOEs, supported by external expertise, to triage companies between those that are viable as is, those that are viable with restructuring, and those that are unviable. This should be followed by an actionable and monitorable plan to guide the restructuring efforts. In the meantime, the governance of large SOEs should be strengthened, and the ownership and regulation functions of line ministries separated to avoid conflicts of interest. To accompany reform efforts, further progress will be needed on insolvency regimes and distressed asset markets, while recognizing what has been achieved already. Robust social safety nets could help buffer the transitional impact of any restructurings, allaying some of the authorities' concerns.

48. Other market-based measures could complement these efforts. Household utility prices need to be raised faster to cost recovery levels to limit costly cross subsidization by firms. Prices should be gradually liberalized, to avoid distorting market signals and pressuring firm margins, including SOEs. Finally, the authorities are encouraged to continue their efforts to join the WTO, which would help diversify exports to the benefit of the country.

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

Figure 1. Belarus: Growing Inefficiencies and Low Potential Growth

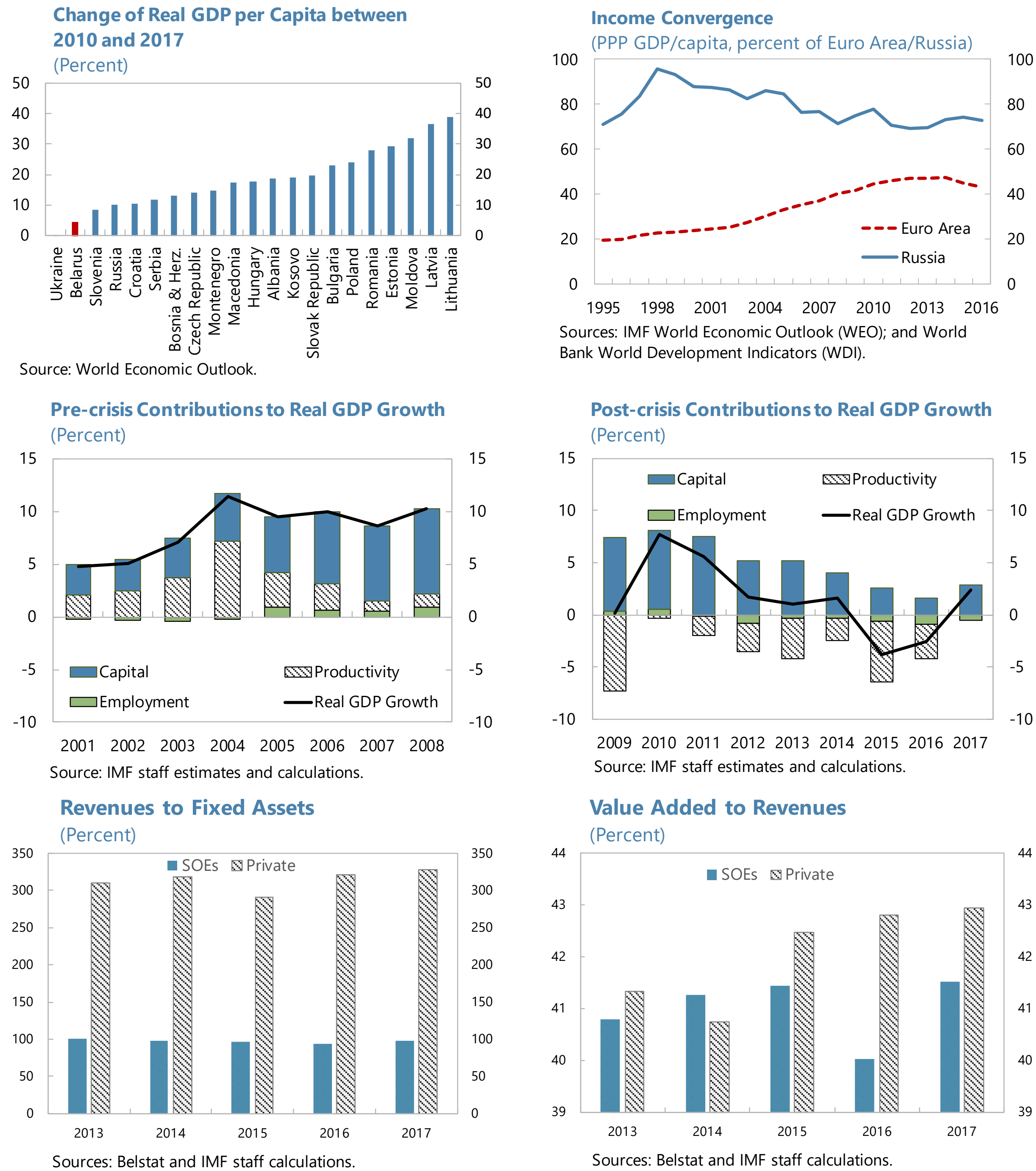
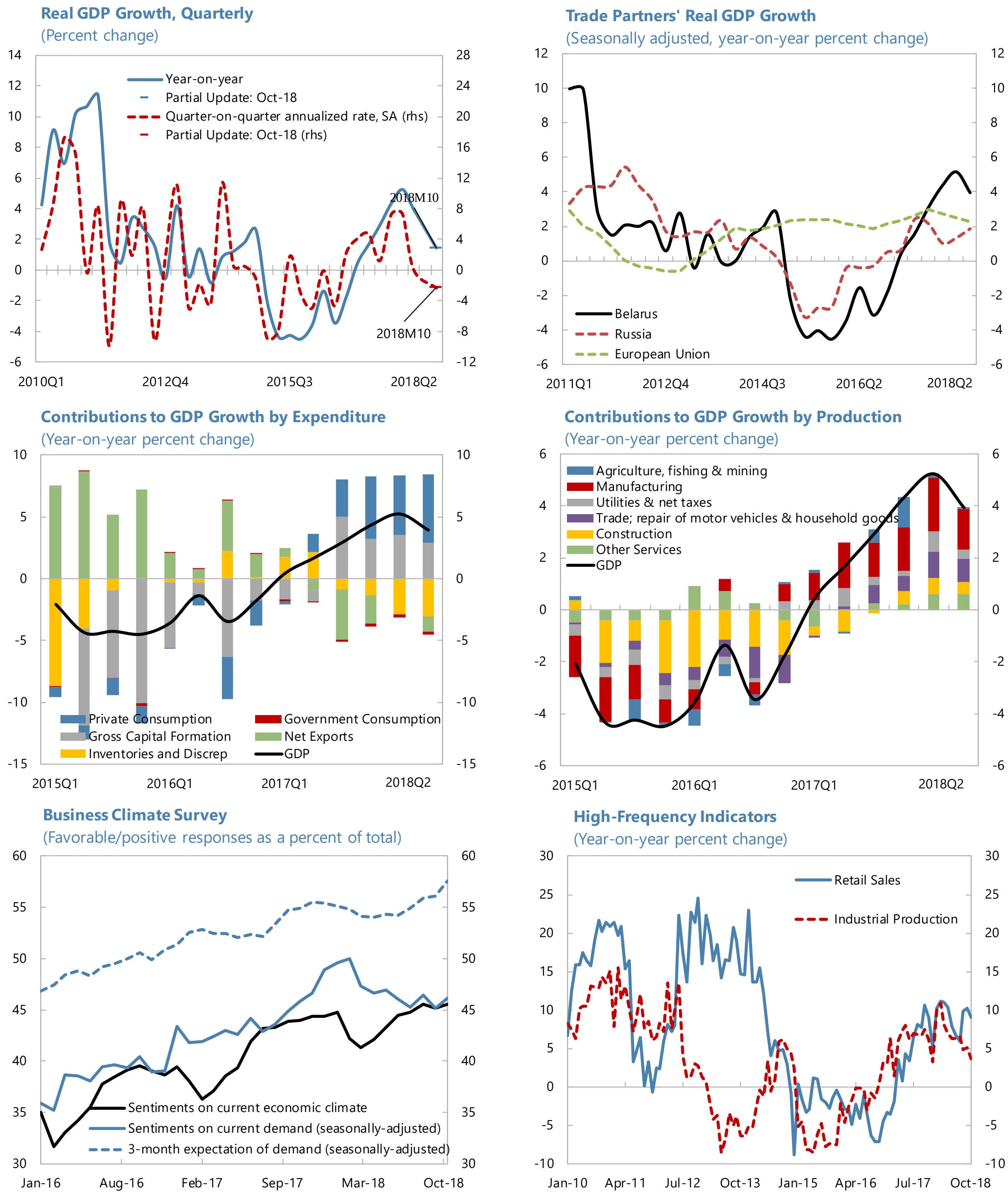
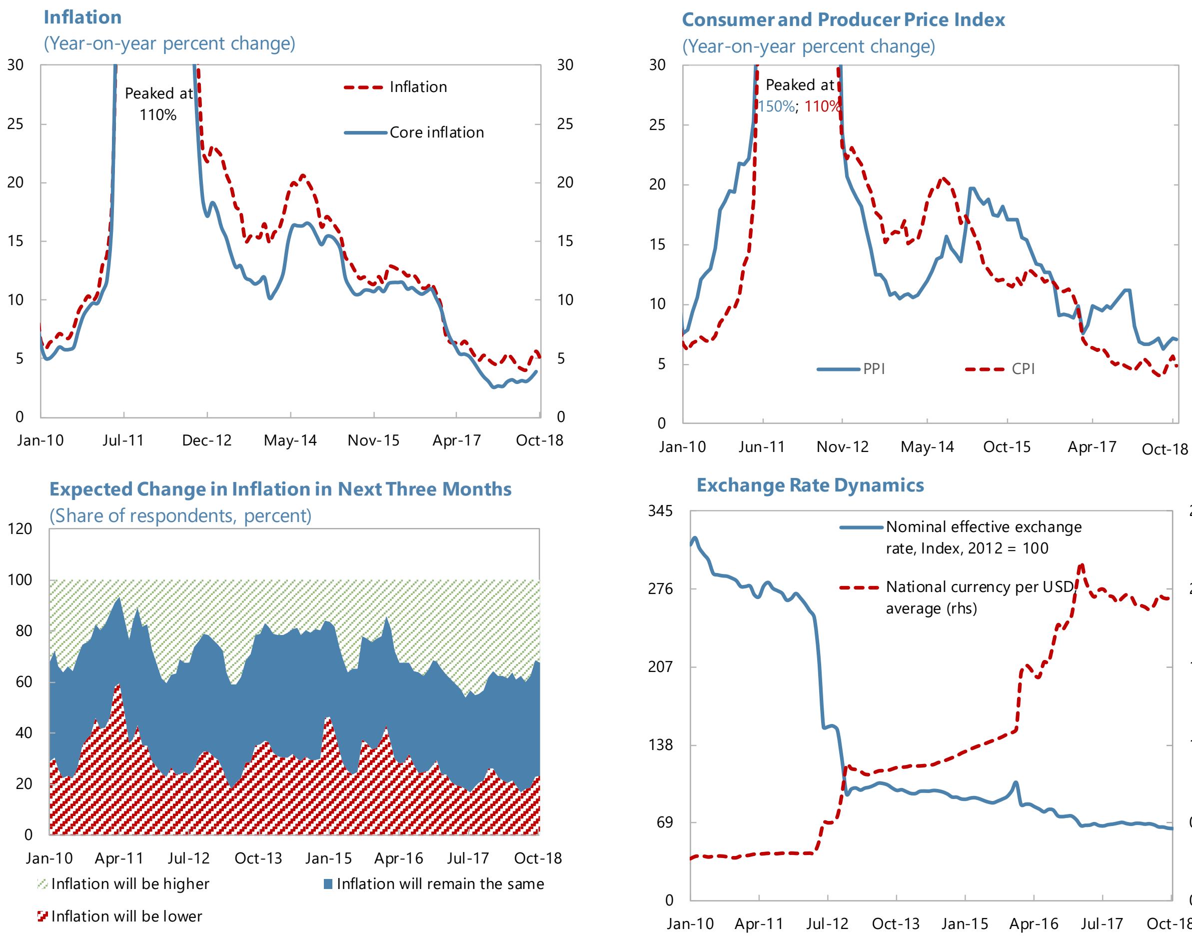


Figure 2. Belarus: Real Sector Developments



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

Figure 3. Belarus: Inflation Developments



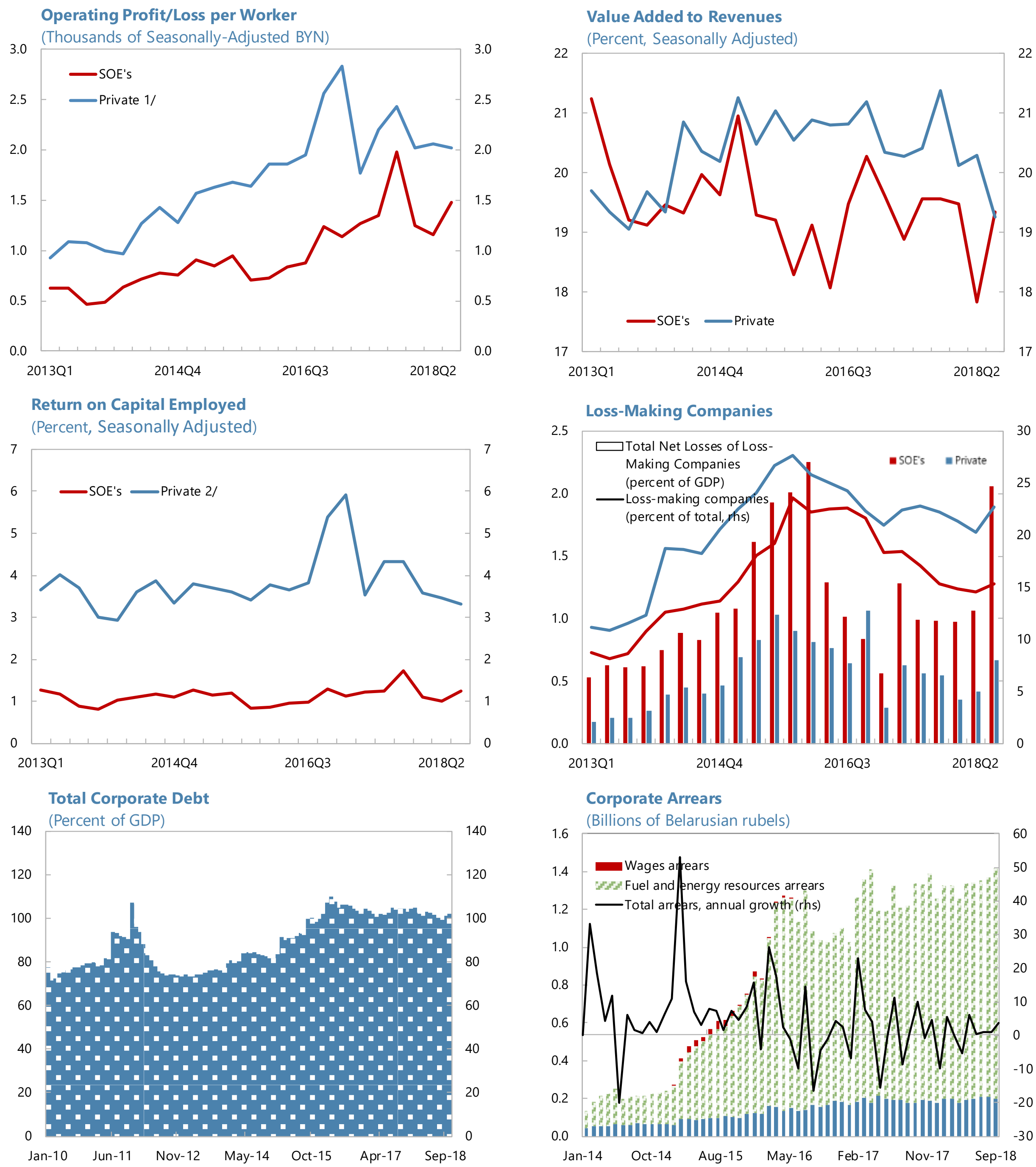
Sources: Belstat; National Bank of the Republic of Belarus; and IMF staff calculations.

Figure 4. Belarus: Labor Market Developments

(Labor Force Survey)

Sources: Belarusian authorities; and IMF staff calculations.

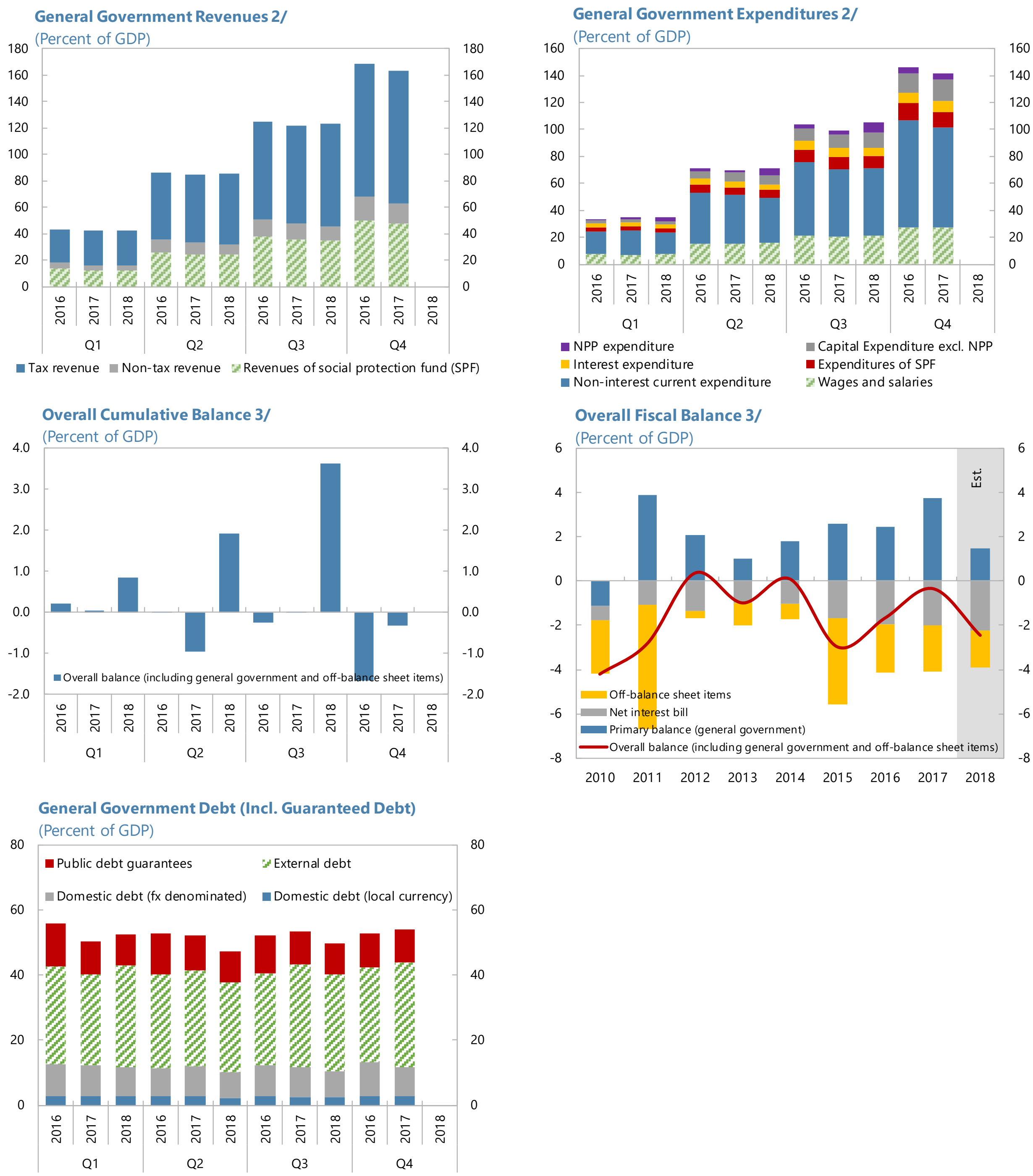
Figure 5. Belarus: Corporate Sector Developments



Sources: Belarusian authorities; and IMF staff calculations.

1/ Operational reclassification in 2016Q4 distorts some indicators for private entities.

Figure 6. Belarus: Fiscal Sector Developments 1/



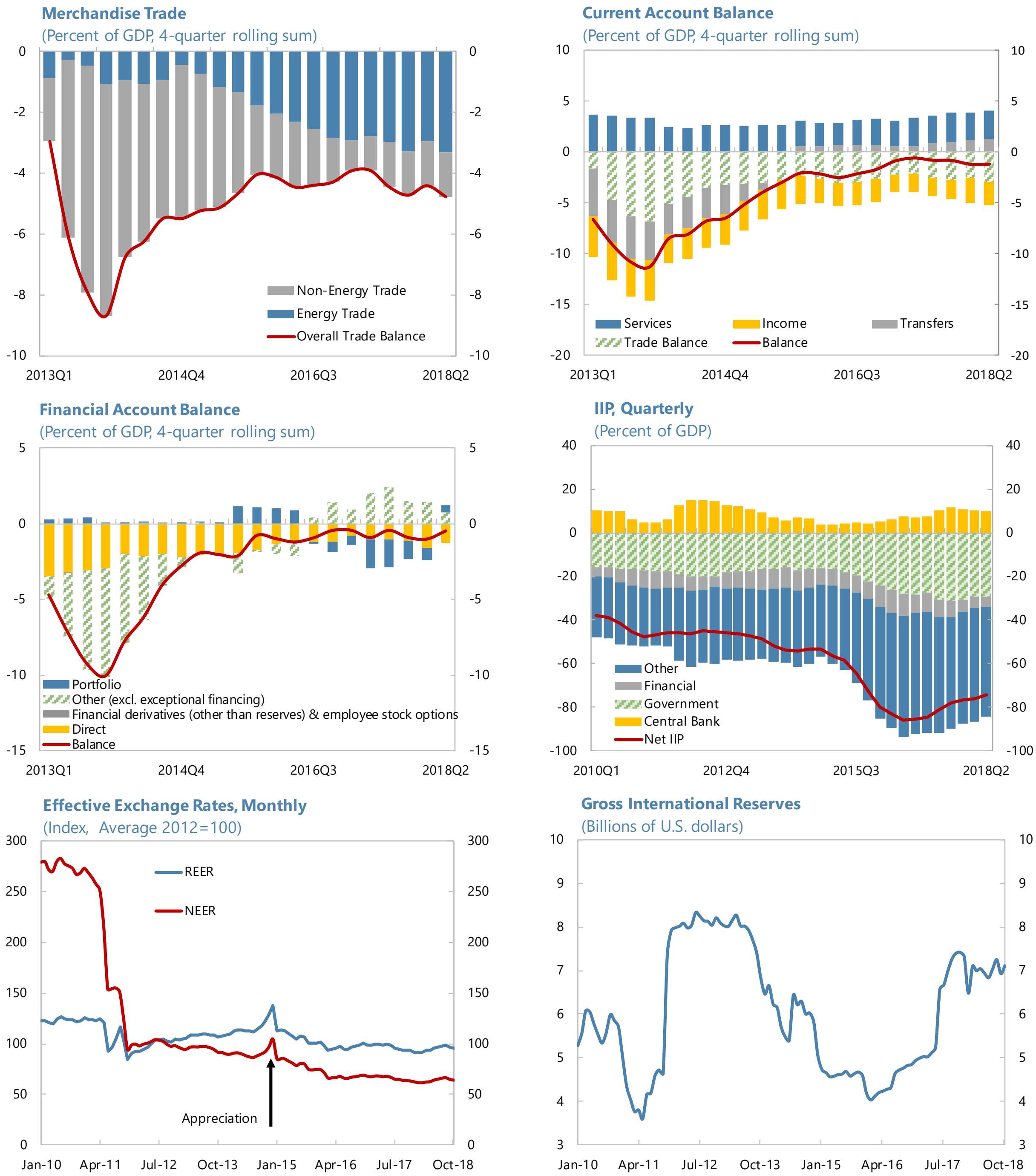
Sources: Belarusian authorities; and IMF staff estimates and calculations.

1/ 2018Q2 numbers include projections.

2/ Revenues and expenditures are not consolidated between state government and SPF.

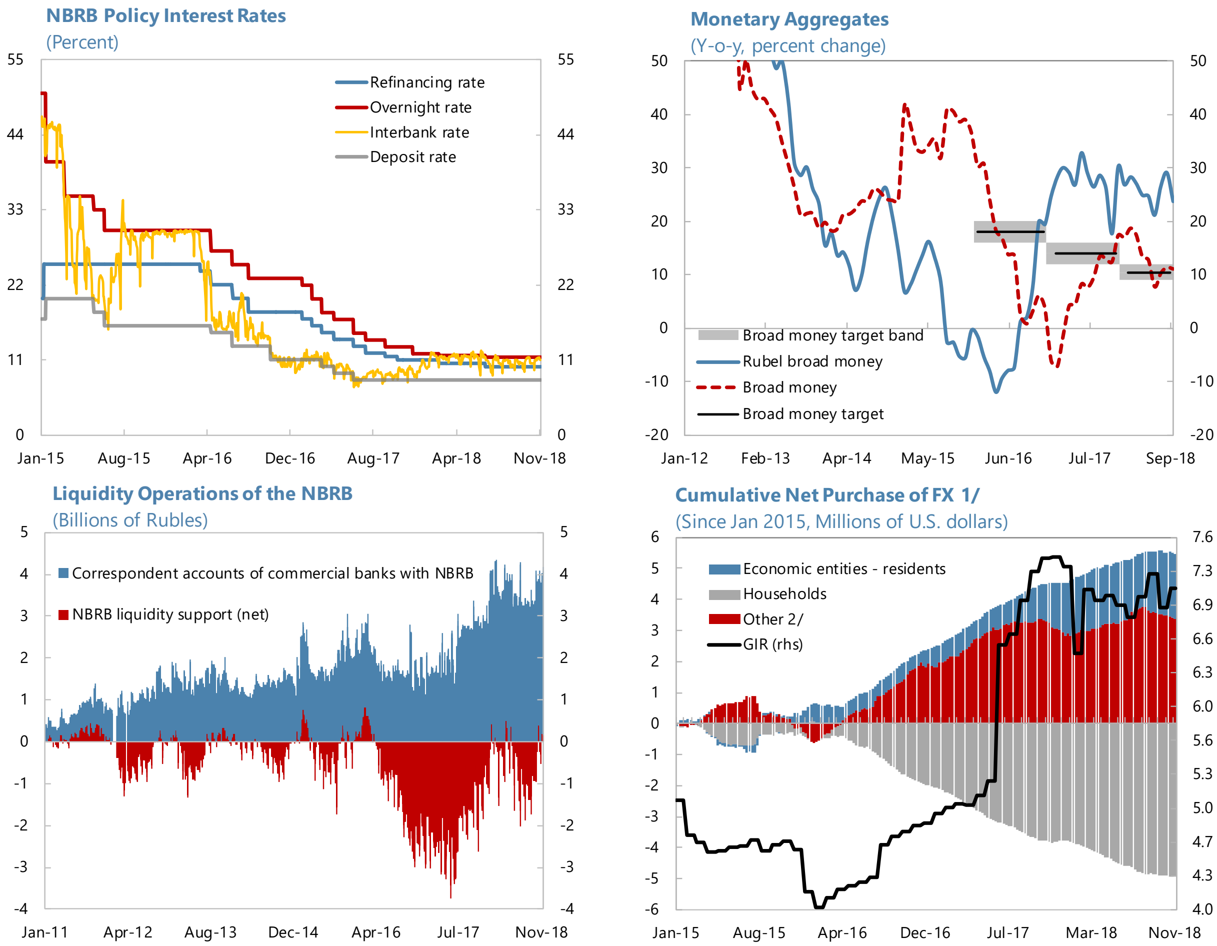
3/ Staff definition.

Figure 7. Belarus: External Sector Developments



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

Figure 8. Belarus: Monetary Sector Developments

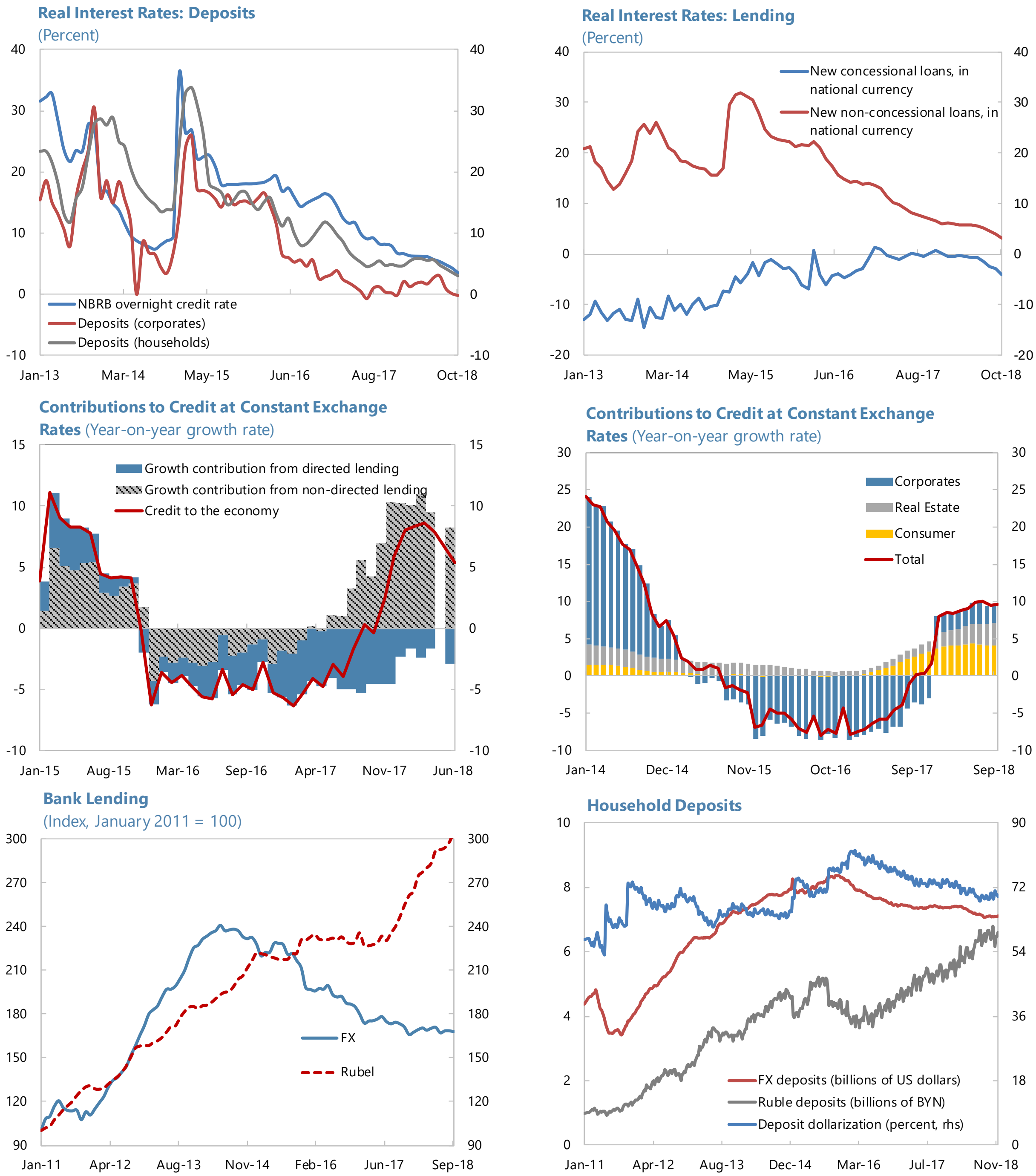


Sources: National Bank of the Republic of Belarus; and IMF staff estimates and calculations.

1/ The jump in reserves in June 2017 reflects the Eurobond issuance.

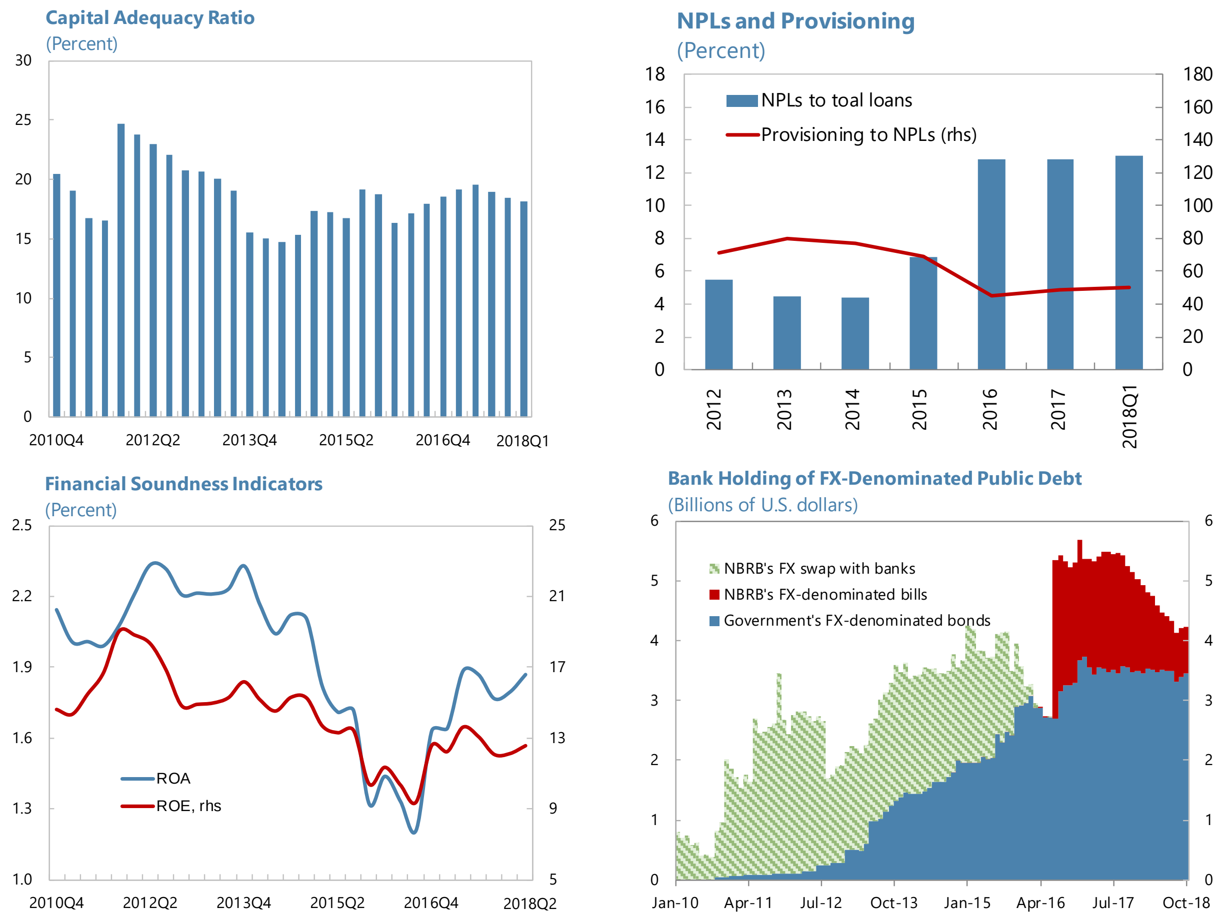
2/ Represents the residual counterparty actvities to clear the market.

Figure 9. Belarus: Financial Sector Developments



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

Figure 9. Belarus: Financial Sector Developments (concluded)



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

Table 1. Belarus: Selected Economic Indicators (Baseline), 2016–2023

	2016	2017	2018	2019	2020	2021	2022	2023
			Projections					
			(Percent Change)					
National accounts								
Real GDP	-2.5	2.4	3.7	2.4	2.8	2.3	2.0	2.0
Total domestic demand	-5.4	4.0	4.8	3.1	2.0	1.5	1.8	2.1
Consumption	-2.5	3.3	5.1	2.7	1.9	1.4	1.9	2.4
Nongovernment	-3.2	4.5	5.4	2.7	1.7	1.2	2.1	2.6
Government	0.3	-1.3	4.0	2.6	2.4	2.0	1.4	1.5
Investment	-12.2	5.8	3.9	4.1	2.4	1.9	1.4	1.4
Of which: fixed	-14.5	5.0	4.1	4.3	2.5	2.0	1.5	1.5
Inventories	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	2.2	-1.7	-0.9	-0.6	0.8	0.8	0.3	0.0
Consumer prices								
End of period	10.6	4.6	5.5	5.0	5.0	4.0	4.0	4.0
Average	11.8	6.0	5.4	5.0	5.0	4.0	4.0	4.0
GDP deflator	8.3	8.2	11.1	5.1	5.3	3.9	3.9	3.6
Monetary accounts								
Rubel base money	-1.4	67.1	25.1	16.3	7.4	8.5	7.2	5.9
Broad money	3.8	17.4	12.9	9.4	9.4	8.5	8.0	6.1
Net credit to the economy (percent of GDP)	41.5	40.2	40.1	41.0	41.4	42.6	43.1	44.7
Net credit to private sector (percent of GDP)	21.7	22.4	22.9	23.5	24.3	25.7	26.6	27.9
Base money	1.8	56.5	16.9	15.4	7.3	8.4	7.2	5.9
Rubel broad money (M2)	19.4	30.2	30.7	11.1	9.5	11.2	8.6	6.9
			(Percent of GDP)					
External debt and balance of payments								
Current account balance	-3.4	-1.6	-2.6	-4.0	-2.3	-2.4	-2.3	-2.2
Trade balance, goods	-5.3	-5.3	-5.9	-5.6	-4.3	-4.0	-4.1	-4.3
Exports of goods	48.4	52.7	53.3	52.5	53.8	54.3	53.7	52.5
Imports of goods	53.7	58.0	59.2	58.0	58.1	58.3	57.7	56.8
Gross external debt	78.6	73.3	68.3	69.0	67.5	66.8	66.1	64.3
Public	36.9	37.7	36.2	38.9	37.5	36.7	36.1	34.9
Private (incl. state-owned-enterprises)	41.7	35.7	32.1	30.1	30.0	30.1	30.0	29.5
Net IIP	-85.6	-75.9	-72.0	-72.8	-72.1	-71.7	-71.1	-69.5
Savings and investment								
Gross domestic investment	26.5	26.2	27.0	27.7	26.7	26.7	26.8	27.0
Government	4.8	5.3	7.7	7.2	4.5	3.9	3.9	3.9
Nongovernment (incl. SOEs)	21.7	21.0	19.3	20.5	22.2	22.8	22.9	23.0
National saving	23.1	24.7	24.5	23.7	24.4	24.3	24.5	24.8
Government	5.3	7.0	7.4	4.9	4.6	4.2	4.2	4.4
Nongovernment	17.8	17.7	17.0	18.8	19.7	20.1	20.3	20.4
Public sector finance								
General government primary balance	2.5	3.7	1.7	0.2	3.2	3.3	3.2	3.1
General government primary balance (excl. NPP)	3.6	4.9	4.4	3.4	3.8	3.3	3.2	3.1
General government overall balance	0.5	1.8	-0.3	-2.3	0.2	0.3	0.3	0.4
General government overall balance (excl. NPP)	1.7	2.9	2.5	1.0	0.7	0.3	0.3	0.4
Overall balance 2/	-1.7	-0.3	-1.3	-3.9	-1.2	-0.9	-0.8	-0.6
Gross public and publically guaranteed debt	53.5	53.4	51.7	54.1	55.4	55.4	55.7	56.0
Of which: Public guarantees	11.2	9.5	9.0	9.0	8.5	8.2	7.8	7.7
Memorandum items:								
Nominal GDP (billions of U.S. dollars)	47.7	54.4	59.6	62.4	65.2	67.6	70.1	73.8
Nominal GDP (billions of BYN)	94.9	105.2	121.2	130.3	141.1	150.1	159.1	168.2
Terms of trade, percentage change	-5.2	3.1	1.1	-0.4	2.9	-0.7	0.0	0.0
Real Effective Exchange Rate ("-" denotes a depreciation)	-9.2	-0.3						
Nominal Effective Exchange Rate ("-" denotes a depreciation)	-17.5	-4.9						
Official reserves (billions of U.S. dollars)	4.9	7.3	6.6	7.0	7.1	7.5	7.8	8.2
Months of imports of goods and services	1.6	2.1	1.8	1.9	1.8	1.9	1.9	1.9
Percent of short-term debt	46.4	75.3	68.1	71.9	71.0	70.7	70.6	70.4
Quota (2016): SDR 681.5 million (923.5 million U.S. dollars)								

Sources: Belarusian authorities; and IMF staff estimates.
1/ Contribution to growth.
2/ Includes general government and off balance sheet operations.

Table 2a. Belarus: Balance of Payments (Baseline), 2016–2023 1/

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023
			Projections					
Current account	-3.4	-1.6	-2.6	-4.0	-2.3	-2.4	-2.3	-2.2
Trade balance, goods	-5.3	-5.3	-5.9	-5.6	-4.3	-4.0	-4.1	-4.3
Energy balance	-5.6	-6.3	-5.9	-5.8	-4.1	-3.7	-3.5	-3.4
Nonenergy balance	0.4	1.0	0.0	0.3	-0.1	-0.3	-0.5	-0.9
Goods, credit	48.4	52.7	53.3	52.5	53.8	54.3	53.7	52.5
Energy	9.7	11.3	12.2	10.7	12.2	12.4	11.5	10.7
Nonenergy	38.8	41.5	41.1	41.7	41.6	41.9	42.1	41.8
Goods, debit	53.7	58.0	59.2	58.0	58.1	58.3	57.7	56.8
Energy	15.3	17.6	18.1	16.6	16.3	16.1	15.1	14.1
Nonenergy	38.4	40.4	41.0	41.5	41.8	42.2	42.7	42.7
Services	5.2	5.6	5.6	4.4	5.8	5.8	6.1	6.2
Credit	14.3	14.4	14.9	15.4	15.7	16.0	16.3	16.4
Debit	9.1	8.8	9.4	11.1	9.9	10.2	10.2	10.2
Primary income	-4.6	-3.8	-4.3	-4.7	-4.9	-4.9	-4.9	-4.7
Credit	1.4	1.7	1.8	1.8	1.7	1.7	1.7	1.6
Debit	6.0	5.5	6.1	6.4	6.7	6.6	6.6	6.3
Secondary income	1.3	1.9	2.1	1.8	1.1	0.6	0.6	0.5
Credit	3.2	4.1	4.3	4.1	3.3	2.8	2.8	2.7
Debit	2.0	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Capital and financial accounts								
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.9	-1.7	-1.1	-3.3	-2.5	-2.9	-2.8	-2.7
Direct investment, net	-2.4	-2.2	-2.4	-2.6	-2.8	-2.8	-2.8	-2.8
Portfolio investment, net	-1.4	-2.3	0.8	-0.8	-2.5	-3.3	-2.9	-2.7
Government, debt securities, net issuance	0.0	2.6	-0.3	1.1	2.1	3.0	2.9	2.7
Gross issuance	0.0	2.6	1.0	1.1	2.1	3.0	2.9	3.8
Gross repayment	0.0	0.0	1.3	0.0	0.0	0.0	0.0	1.1
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	2.8	2.8	0.5	0.1	2.7	3.1	2.9	2.8
Loans, net	3.4	2.6	-1.6	-1.5	1.8	2.5	2.1	2.1
Government and monetary authorities, net	0.2	0.5	-1.8	-1.6	1.8	2.5	2.1	2.1
Of which: for nuclear power plant	-1.2	-1.1	-2.6	-3.2	-0.4	0.8	0.8	0.7
Banks, net	1.8	2.7	-0.2	0.1	0.1	0.0	0.0	0.0
Other sectors, net	1.4	-0.6	0.4	0.0	0.0	0.0	0.0	0.0
Trade credits, net	-0.3	1.1	1.3	1.3	0.6	0.4	0.4	0.4
Other (excluding arrears), net	-0.3	-0.9	0.7	0.4	0.3	0.2	0.3	0.3
Of which: currency and deposits, net	-0.4	-0.8	0.7	0.4	0.3	0.2	0.3	0.3
Errors and omissions	1.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.7	1.0	-1.5	-0.8	0.2	0.5	0.5	0.5
Financing	-0.7	1.0	-1.5	-0.8	0.2	0.5	0.5	0.5
Reserve assets ('+' denotes increase)	1.0	3.8	-1.1	0.5	0.2	0.5	0.5	0.5
Use of IMF credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional financing	1.7	2.8	0.3	1.3	0.0	0.0	0.0	0.0
EFSD	1.7	1.5	0.3	0.3	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia	0.0	1.3	0.0	1.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross international reserves	10.3	13.4	11.2	11.2	10.9	11.0	11.2	11.1
In months of imports of goods and services	1.6	2.1	1.8	1.9	1.8	1.9	1.9	1.9
In percent of short-term debt	46.4	75.3	68.1	71.9	71.0	70.7	70.6	70.4
In percent of GIR/ARA EM metric (fixed ER)	37.4	51.9	44.8	44.9	45.0	46.4	48.1	49.8
Net international investment position	-85.6	-75.9	-72.0	-72.8	-72.1	-71.7	-71.1	-69.5
Real effective exchange rate 2/	-9.2	-0.3						
Export volume (goods, annual percentage change)	0.3	8.2	0.8	-0.9	7.5	4.6	2.1	2.1
Of which: nonenergy	7.5	10.9	1.6	1.8	2.0	2.7	2.7	2.6
Import volume (goods, annual percentage change)	-2.6	13.4	2.7	0.1	5.6	3.1	1.8	2.2
Of which: nonenergy	1.1	16.2	3.8	3.6	2.9	2.0	2.4	2.8
Natural gas prices (US$ per thousands m3)								
Import prices for Belarus	136.6	146.2	129.0	127.0	127.0	127.0	127.0	127.0
Russian natural gas border price in Germany	160.7	212.0	282.1	269.5	250.2	244.1	230.3	221.0
Oil prices (US$ per barrel)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import prices for Belarus	30.6	39.3	50.7	54.3	47.9	45.7	44.2	43.1
Urals market oil prices	42.6	53.0	71.5	72.3	68.5	65.3	63.1	61.6

Sources: Belarusian authorities and Fund staff estimates and projections.
1/ According to BPM6 methodology.
2/ Annual percentage change. '+' denotes appreciation.

Table 2b. Belarus: Balance of Payments (Baseline), 2016–2023 1/

(Millions of USD)

	2016	2017	2018	2019	2020	2021	2022	2023
			Projections					
Current account	-1,612	-860	-1,524	-2,503	-1,508	-1,639	-1,585	-1,628
Trade balance, goods	-2,511	-2,863	-3,505	-3,467	-2,773	-2,711	-2,862	-3,142
Energy balance	-2,693	-3,433	-3,527	-3,643	-2,684	-2,500	-2,477	-2,481
Nonenergy balance	182	570	22	176	-90	-211	-385	-661
Goods, credit	23,100	28,708	31,767	32,761	35,073	36,680	37,607	38,749
Energy	4,606	6,142	7,288	6,708	7,951	8,353	8,085	7,896
Nonenergy	18,494	22,566	24,479	26,053	27,123	28,326	29,521	30,853
Goods, debit	25,611	31,571	35,271	36,228	37,847	39,391	40,469	41,891
Energy	7,299	9,575	10,815	10,350	10,634	10,854	10,562	10,377
Nonenergy	18,312	21,996	24,457	25,877	27,212	28,537	29,906	31,514
Services	2,479	3,044	3,310	2,716	3,789	3,942	4,303	4,589
Credit	6,827	7,842	8,898	9,630	10,248	10,835	11,450	12,115
Debit	4,348	4,798	5,588	6,914	6,459	6,893	7,147	7,526
Primary income	-2,192	-2,058	-2,561	-2,906	-3,215	-3,297	-3,437	-3,463
Credit	673	909	1,079	1,115	1,135	1,152	1,167	1,180
Debit	2,864	2,967	3,640	4,021	4,350	4,449	4,604	4,643
Secondary income	612	1,018	1,231	1,154	691	427	411	388
Credit	1,546	2,256	2,548	2,533	2,131	1,920	1,959	2,018
Debit	934	1,238	1,316	1,379	1,440	1,493	1,548	1,630
Capital and financial accounts								
Capital account	7	2	0	1	1	1	1	1
Financial account	-429	-930	-654	-2,032	-1,661	-1,973	-1,943	-1,977
Direct investment, net	-1,124	-1,209	-1,422	-1,611	-1,803	-1,874	-1,946	-2,055
Portfolio investment, net	-646	-1,265	484	-513	-1,602	-2,202	-2,002	-2,003
Government, debt securities, net issuance	-7	1,400	-200	700	1,400	2,000	2,000	2,000
Gross issuance	5	1,406	600	700	1,400	2,000	2,000	2,800
Gross repayment	12	6	800	0	0	0	0	800
Financial derivatives, net	2	0	0	0	0	0	0	0
Other investment, net	1,339	1,543	284	92	1,744	2,103	2,005	2,081
Loans, net	1,640	1,425	-932	-962	1,183	1,687	1,487	1,560
Government and monetary authorities, net	93	259	-1,068	-976	1,154	1,684	1,492	1,566
Of which: for nuclear power plant	-552	-610	-1,535	-2,026	-278	542	542	542
Banks, net	865	1,482	-109	38	42	16	8	7
Other sectors, net	682	-316	244	-24	-12	-13	-13	-13
Trade credits, net	-152	621	771	781	374	264	284	314
Other (excluding arrears), net	-149	-502	445	272	187	152	235	207
Of which: currency and deposits, net	-191	-435	425	253	169	134	218	190
Errors and omissions	859	492	0	0	0	0	0	0
Overall balance	-317	564	-869	-470	153	334	359	350
Financing	-317	564	-869	-470	153	334	359	350
Reserve assets ('+' denotes increase)	483	2,064	-669	330	153	334	359	350
Use of IMF credits	0	0	0	0	0	0	0	0
Other exceptional financing	800	1,500	200	800	0	0	0	0
EFSD	800	800	200	200	0	0	0	0
World Bank	0	0	0	0	0	0	0	0
European Union	0	0	0	0	0	0	0	0
Russia	0	700	0	600	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross international reserves	4,927	7,315	6,646	6,976	7,129	7,463	7,822	8,172
In months of imports of goods and services	1.6	2.1	1.8	1.9	1.8	1.9	1.9	1.9
In percent of short-term debt	46.4	75.3	68.1	71.9	71.0	70.7	70.6	70.4
In percent of GIR/ARA EM metric (fixed ER)	37.4	51.9	44.8	44.9	45.0	46.4	48.1	49.8
Net international investment position	-40,823	-41,303	-42,926	-45,464	-46,984	-48,480	-49,822	-51,264
Real effective exchange rate 2/	-9.2	-0.3						
Export volume (goods, annual percentage change)	0.3	8.2	0.8	-0.9	7.5	4.6	2.1	2.1
Of which: nonenergy	7.5	10.9	1.6	1.8	2.0	2.7	2.7	2.6
Import volume (goods, annual percentage change)	-2.6	13.4	2.7	0.1	5.6	3.1	1.8	2.2
Of which: nonenergy	1.1	16.2	3.8	3.6	2.9	2.0	2.4	2.8
Natural gas prices (US$ per thousands m3)								
Import prices for Belarus	136.6	146.2	129.0	127.0	127.0	127.0	127.0	127.0
Russian natural gas border price in Germany	160.7	212.0	282.1	269.5	250.2	244.1	230.3	221.0
Oil prices (US$ per barrel)								
Import prices for Belarus	30.6	39.3	50.7	54.3	47.9	45.7	44.2	43.1
Urals market oil prices	42.6	53.0	71.5	72.3	68.5	65.3	63.1	61.6

Sources: Belarusian authorities and Fund staff estimates and projections.
1/ According to BPM6 methodology.
2/ Annual percentage change. '+' denotes appreciation.

Table 3a. Belarus: Fiscal Indicators and Projections (Baseline), 2016–2023

(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023
			Projections					
1. State (republican and local) budget								
Revenue	30.0	30.1	30.9	28.8	29.0	28.4	28.3	28.1
Personal income tax	4.1	4.1	4.3	4.2	4.2	4.2	4.2	4.3
Profit tax	2.4	2.8	2.9	3.0	3.0	3.0	3.0	3.0
VAT	8.7	8.8	8.7	8.8	8.8	8.8	8.7	8.7
Excises	2.3	2.2	2.1	1.8	1.8	1.8	1.8	1.8
Property tax	1.7	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Customs duties	3.6	3.4	4.5	3.1	3.8	3.7	3.5	3.4
Of which: export duties on oil products	2.2	1.3	1.6	1.1	1.6	1.4	1.3	1.2
Other tax revenues	2.3	2.2	2.1	2.3	2.3	2.3	2.3	2.3
Non tax revenues	4.9	5.0	4.9	4.3	3.8	3.4	3.4	3.4
Of which: from SoEs	1.6	2.1	1.5	1.5	1.5	1.5	1.5	1.5
Of which: oil revenues	0.0	1.0	1.4	0.9	0.4	0.0	0.0	0.0
Expenditure (economic classification)	29.8	28.5	31.4	31.1	28.8	28.2	28.0	27.7
Wages and salaries	6.9	6.7	7.2	7.4	7.3	7.3	7.3	7.4
Social protection fund contributions	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Goods and services	6.0	5.9	5.8	5.6	5.6	5.6	5.6	5.6
Interest	2.0	2.0	2.0	2.5	3.0	3.0	2.8	2.6
Subsidies and transfers	8.2	6.8	6.1	6.2	6.2	6.1	6.0	5.9
Of which: transfers to SPF	1.5	1.2	0.8	1.0	1.2	1.1	1.1	1.0
Capital expenditures	4.8	5.3	7.7	7.2	4.5	3.9	3.9	3.9
Of which: capital transfers to SOEs 1/	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
excl. Nuclear Power Plant	3.7	4.1	5.0	3.9	3.9	3.9	3.9	3.9
Nuclear Power Plant	1.1	1.1	2.7	3.2	0.6	0.0	0.0	0.0
Other	0.0	0.0	0.7	0.3	0.3	0.3	0.3	0.3
State budget balance	0.3	1.6	-0.4	-2.3	0.2	0.3	0.3	0.4
State budget balance (excl. nuclear power plant , or "NPP")	1.4	2.7	2.3	1.0	0.7	0.3	0.3	0.4
2. Social protection fund								
Revenue	12.4	11.8	11.6	11.7	11.7	11.6	11.6	11.6
Expenditure	12.2	11.7	11.4	11.7	11.7	11.6	11.6	11.6
Unemployment Benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension	9.4	9.1	8.9	9.1	9.1	9.1	9.1	9.1
Balance (cash)	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
3. General government								
Revenue	39.0	38.9	39.7	37.5	37.5	37.0	36.8	36.8
Expenditure	38.5	37.2	40.0	39.7	37.3	36.7	36.5	36.4
Balance	0.5	1.8	-0.3	-2.3	0.2	0.3	0.3	0.4
Balance (excl. nuclear power plant or NPP)	1.7	2.9	2.5	1.0	0.7	0.3	0.3	0.4
Primary balance	2.5	3.7	1.7	0.2	3.2	3.3	3.2	3.1
Primary balance (excl. nuclear power plant or NPP)	3.6	4.9	4.4	3.4	3.8	3.3	3.2	3.1
Off-balance sheet operations 2/	2.2	2.1	1.0	1.6	1.4	1.2	1.1	1.0
Overall balance 3/	-1.7	-0.3	-1.3	-3.9	-1.2	-0.9	-0.8	-0.6
4. Financing (cash)	1.7	0.3	1.3	3.9	1.2	0.9	0.8	0.6
Foreign financing, net	2.2	5.6	1.9	4.3	0.6	0.8	0.7	0.6
Memorandum items:								
Gross public and publicly guaranteed debt	53.5	53.4	51.7	54.1	55.4	55.4	55.7	56.0
Public debt	42.3	43.9	42.7	45.1	46.9	47.2	47.8	48.3
Nominal GDP (billions of BYN)	94.9	105.2	121.2	130.3	141.1	150.1	159.1	168.2

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

1/ For 2018, includes capital injections to SOEs previously classified as an off-balance sheet item (following a change in the national budget classification).

2/ Includes guarantee payments, bank and SOE recapitalizations as well as SOE debt restructuring.

3/ Includes general government and off balance sheet operations.

Table 3b. Belarus: Fiscal Indicators and Projections (Baseline), 2016–2023

(Billions of BYN, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023
					Projections			
1. State (republican and local) budget								
Revenue	28.5	31.7	37.5	37.6	40.9	42.7	45.0	47.3
Personal income tax	3.9	4.3	5.2	5.5	5.9	6.3	6.7	7.2
Profit tax	2.3	2.9	3.5	3.9	4.2	4.5	4.7	5.0
VAT	8.2	9.2	10.6	11.5	12.4	13.2	13.9	14.6
Excises	2.2	2.3	2.6	2.4	2.6	2.8	2.9	3.1
Property tax	1.6	1.6	1.7	1.7	1.8	1.9	2.1	2.2
Customs duties	3.4	3.5	5.4	4.0	5.4	5.5	5.6	5.7
Of which: export duties on oil products	2.1	1.4	2.0	1.4	2.2	2.1	2.0	2.0
Other tax revenues	2.1	2.3	2.6	3.0	3.2	3.4	3.6	3.9
Non tax revenues	4.7	5.3	6.0	5.6	5.3	5.1	5.4	5.7
Of which: from SoEs	1.5	2.2	1.8	1.9	2.1	2.2	2.4	2.5
Of which: oil revenues	0.0	1.1	1.7	1.2	0.5	0.0	0.0	0.0
Expenditure (economic classification)	28.3	30.0	38.0	40.5	40.6	42.3	44.5	46.6
Wages and salaries	6.5	7.1	8.7	9.6	10.3	10.9	11.6	12.4
Social protection fund contributions	1.8	1.9	2.4	2.6	2.8	3.0	3.2	3.4
Goods and services	5.7	6.2	7.0	7.3	7.9	8.4	8.9	9.4
Interest	1.9	2.1	2.4	3.2	4.3	4.5	4.5	4.5
Subsidies and transfers	7.8	7.2	7.4	8.1	8.7	9.2	9.6	9.9
Of which: transfers to SPF	1.4	1.2	1.0	1.3	1.6	1.7	1.8	1.7
Capital expenditures	4.6	5.5	9.3	9.3	6.3	5.9	6.2	6.6
Of which: capital transfers to SOEs 1/	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
excl. Nuclear Power Plant	3.5	4.4	6.0	5.1	5.5	5.9	6.2	6.6
Nuclear Power Plant	1.1	1.2	3.3	4.2	0.8	0.0	0.0	0.0
Other	0.0	0.0	0.8	0.4	0.4	0.4	0.4	0.5
State budget balance	0.3	1.6	-0.5	-2.9	0.2	0.4	0.5	0.7
State budget balance (excl. nuclear power plant , or "NPP")	1.4	2.8	2.8	1.3	1.0	0.4	0.5	0.7
2. Social protection fund								
Revenue	11.7	12.5	14.0	15.2	16.4	17.5	18.5	19.6
Expenditure	11.5	12.3	13.8	15.2	16.4	17.5	18.5	19.6
Unemployment Benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension	8.9	9.6	10.8	11.9	12.9	13.7	14.5	15.3
Balance (cash)	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
3. General government								
Revenue	37.1	40.9	48.2	48.8	52.9	55.5	58.6	61.9
Expenditure	36.6	39.1	48.5	51.8	52.6	55.1	58.1	61.2
Balance	0.5	1.8	-0.3	-2.9	0.2	0.4	0.5	0.7
Balance (excl. nuclear power plant or NPP)	1.6	3.0	3.0	1.3	1.0	0.4	0.5	0.7
Primary balance	2.3	3.9	2.1	0.3	4.5	4.9	5.0	5.2
Primary balance (excl. nuclear power plant or NPP)	3.4	5.1	5.4	4.5	5.3	4.9	5.0	5.2
Off-balance sheet operations 2/	2.1	2.2	1.2	2.1	2.0	1.8	1.7	1.6
Overall balance 3/	-1.6	-0.4	-1.5	-5.1	-1.7	-1.4	-1.2	-0.9
4. Financing (cash)	1.6	0.4	1.5	5.1	1.7	1.4	1.2	0.9
Foreign financing, net	2.1	5.8	2.3	5.6	0.9	1.2	1.2	1.0
Memorandum items:								
Gross public and publicly guaranteed debt	50.8	56.2	62.6	70.6	78.2	83.1	88.6	94.1
Public debt	40.1	46.2	51.7	58.8	66.1	70.8	76.1	81.2
Nominal GDP (billions of BYN)	94.9	105.2	121.2	130.3	141.1	150.1	159.1	168.2

Sources: Ministry of Finance; SPF; and IMF staff estimates.
1/ For 2018, includes capital injections to SOEs previously classified as an off-balance sheet item (following a change in the national budget classification).
2/ Includes guarantee payments, bank and SOE recapitalizations as well as SOE debt restructuring.
3/ Includes general government and off balance sheet operations.

Table 4. Belarus: Monetary Accounts (Baseline), 2016–2023

(Billions of BYN, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023
				Projections				
Monetary Survey								
Net foreign assets	0.1	7.3	6.5	8.6	9.6	10.5	11.8	12.9
(In billions of U.S. dollars)	0.1	3.7	3.1	4.1	4.3	4.7	5.2	5.7
Net domestic assets	33.8	32.5	38.5	40.6	44.2	47.9	51.2	54.0
Net domestic credit	36.6	35.3	39.8	41.8	44.6	47.7	50.2	53.0
Net claims on government	-2.8	-7.0	-8.8	-11.6	-13.9	-16.1	-18.4	-22.2
Net Credit to the economy	39.4	42.3	48.6	53.5	58.5	63.9	68.6	75.2
Other items, net	-2.8	-2.8	-1.3	-1.2	-0.4	0.1	1.0	1.0
Broad money	33.9	39.8	45.0	49.2	53.8	58.4	63.0	66.9
Accounts of the NBRB								
Net foreign assets	7.6	12.9	13.0	14.5	16.1	17.3	18.5	19.4
(In billions of U.S. dollars)	3.9	6.5	6.2	6.9	7.2	7.8	8.2	8.5
Foreign assets	10.4	15.1	14.6	15.3	16.6	17.4	18.6	19.5
(In billions of U.S. dollars)	5.3	7.6	7.0	7.3	7.5	7.8	8.2	8.5
of which: Gross international reserves	9.6	14.4	13.9	14.6	15.8	16.6	17.8	18.6
(In billions of U.S. dollars)	4.9	7.3	6.6	7.0	7.1	7.5	7.8	8.2
Foreign liabilities	2.9	2.2	1.6	0.8	0.5	0.1	0.1	0.1
(In billions of U.S. dollars)	1.5	1.1	0.8	0.4	0.2	0.0	0.0	0.0
Net domestic assets	-3.0	-5.7	-4.6	-4.8	-5.7	-6.1	-6.5	-6.6
Net domestic credit	-11.3	-14.4	-12.8	-13.0	-13.7	-14.0	-14.3	-14.3
Net claims on government	-5.8	-11.2	-11.8	-12.1	-14.0	-14.7	-15.5	-16.9
Government deposits	5.3	10.6	11.1	11.5	13.3	14.0	14.7	16.2
Net claims on the economy	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Net claims on banks	-5.7	-3.3	-1.3	-0.9	0.3	0.7	1.2	2.6
Other items, net	8.3	8.6	8.2	8.2	8.0	7.9	7.8	7.7
Base money	4.6	7.2	8.4	9.7	10.4	11.2	12.1	12.8
Rubel Base money	4.0	6.6	8.3	9.6	10.4	11.2	12.0	12.8
Non-Rubel Base money	0.6	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Currency in circulation	1.8	2.3	4.1	4.0	4.2	4.5	4.8	5.0
Banks' reserves	2.8	4.8	4.3	5.7	6.1	6.7	7.3	7.7
Deposit money banks								
Net foreign assets	-7.5	-5.5	-6.5	-5.9	-6.5	-6.8	-6.7	-6.5
(In billions of U.S. dollars)	-3.8	-2.8	-3.1	-2.8	-2.9	-3.1	-2.9	-2.8
Foreign assets	3.9	3.2	3.3	4.0	4.7	5.0	5.6	6.0
(In billions of U.S. dollars)	2.0	1.6	1.6	1.9	2.1	2.2	2.5	2.6
Foreign liabilities	11.4	8.8	9.8	10.0	11.1	11.8	12.3	12.5
(In billions of U.S. dollars)	5.8	4.4	4.7	4.8	5.0	5.3	5.4	5.5
Net domestic assets	39.6	43.0	47.4	51.1	56.1	60.7	65.0	68.4
Net domestic credit	49.7	53.4	56.8	60.5	64.5	68.5	71.8	75.0
Net claims on government	2.1	3.2	2.9	0.5	0.1	-1.4	-3.0	-5.3
Net claims on NBRB	8.5	8.1	5.5	6.6	5.9	6.0	6.1	5.1
Other items, net	-10.1	-10.4	-9.4	-9.4	-8.4	-7.8	-6.8	-6.7
Banks' liabilities included in broad money	32.1	37.5	40.9	45.2	49.6	53.9	58.3	61.9
Memorandum items:				(Percent Change)				
Base money	1.8	56.5	16.9	15.4	7.3	8.4	7.2	5.9
Rubel base money	-1.4	67.1	25.1	16.3	7.4	8.5	7.2	5.9
Broad money	3.8	17.4	12.9	9.4	9.4	8.5	8.0	6.1
Net credit to the economy	-3.4	7.6	14.7	10.5	9.3	9.3	7.5	9.6
Real net credit to economy	-13.0	2.6	8.9	4.8	4.2	5.0	3.4	5.4
Credit to private sector (inc. SOEs with below 50 percent of state ownership)	-4.5	14.2	18.0	10.1	12.1	12.6	9.6	10.8
Real credit to private sector (inc. SOEs with below 50 percent of state ownership)	-13.6	9.2	11.9	4.9	6.8	8.3	5.4	6.6
Velocity of broad money, ratio	2.8	2.6	2.7	2.6	2.6	2.6	2.5	2.5
Money multiplier, ratio	7.4	5.6	5.4	5.1	5.2	5.2	5.2	5.2
Deposit dollarization ratio	70.3	67.2	64.1	63.3	63.2	62.1	61.7	61.3
				(Billions of USD)				
Bank holdings of public FX-denominated domestic debt and debt Swaps	5.1	4.0	3.1	2.4	1.9	1.6	1.0	0.5
Non-bank holdings of FX-denominated domestic government debt	1.8	2.1	2.5	3.4	4.1	4.7	5.3	6.8

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

Table 5. Financial Soundness Indicators for the Banking Sector 1/

(Percent, unless otherwise indicated)

	2016				2017				2018	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital adequacy ratio 2/	16.3	17.2	18.0	18.6	19.1	19.6	19.0	18.5	18.2	18.6
Tier I capital adequacy ratio 2/	13.4	13.9	14.5	14.2	15.3	15.4	14.9	14.0	14.7	14.6
Foreign exchange loans to total loans	60.4	59.9	58.5	57.5	56.3	56.1	54.1	52.1	51.8	51.3
Non-performing loans to gross loans 3/	11.5	13.4	14.3	12.8	13.7	13.7	12.8	12.9	13.1	3.7
Provisions to non-performing loans 3/	41.1	39.8	39.5	45.1	44.8	46.8	51.1	48.4	50.1	171.3
Return on Assets	1.4	1.3	1.2	1.6	1.6	1.9	1.9	1.8	1.8	1.9
Return on Equity	11.4	10.4	9.4	12.6	12.3	13.6	13.1	12.1	12.1	12.6

Source: National Bank of the Republic of Belarus.

1/ Official statistics may not adequately reflect risks because of likely evergreening and reporting weaknesses. Indicators do not include the DB.

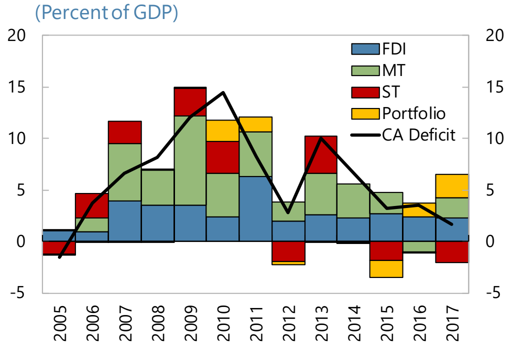
2/ CARs increased in December 2014 on account of reversing an increase in risk weights for FX assets that was introduced in October 2013.

3/ Due to a new definition of NPLs 2018 June numbers are not comparable to previous periods.

Annex I. BoP Vulnerabilities

Compared to other emerging market economies, Belarus's financial account appears less susceptible to portfolio flows. Vulnerabilities instead are rooted in the high concentration of financing and trade, leaving Belarus exposed to idiosyncratic shocks.

Current Account and Financing
(Percent of GDP)

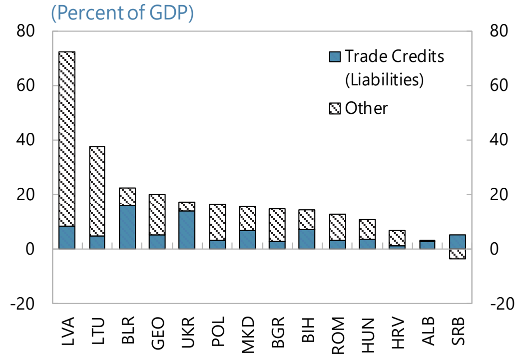


Sources: Belarusian authorities and IMF staff calculations.

1. Traditionally volatile flows don't appear to play a major role in financing the current account deficit in Belarus. Foreign direct investment has accounted for the bulk of the financing in the most recent years, while portfolio flows consist almost entirely of government issued Eurobonds at medium-to-long term maturities and whose issuance has been relatively limited. Short term loans have not been a systematic source of financing current account deficits. Unlike some other emerging market economies that are financially more integrated with the rest of the world, Belarus's financial account is less susceptible to shifts in global interest rates or risk sentiment.

2. Still, external gross financing needs are elevated. At 26 percent projected in 2018, Belarus's gross financing needs are high relative to several regional peers and substantially above the 15 percent of GDP threshold considered safe for emerging markets. However, trade credits account for half of total gross financing needs in Belarus[1] and for 70 percent of the short-term amortization, on average for recent years. While trade credits have generally exhibited high and stable rollover needs even in periods of relative stress, Belarus still needs to raise significant amounts of external financing every year to service its remaining refinancing needs.

ST Amortization, 2017
(Percent of GDP)

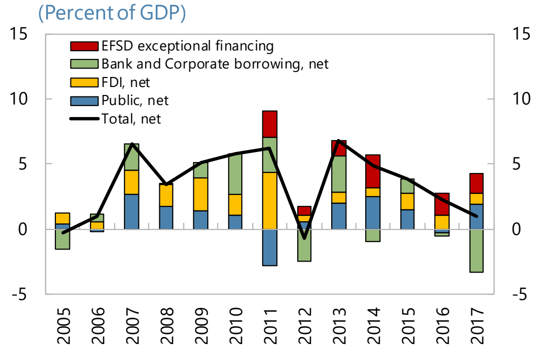


Source: IMF *World Economic Outlook*.

3. Existing financing is relatively undiversified. All sectors including government, banks and the corporate sector (including SOEs) rely substantially on limited sources for their external financing needs. This primarily includes direct and indirect financing from Russia and the Eurasian Fund for Stability and Development. These flows have been volatile in the past.

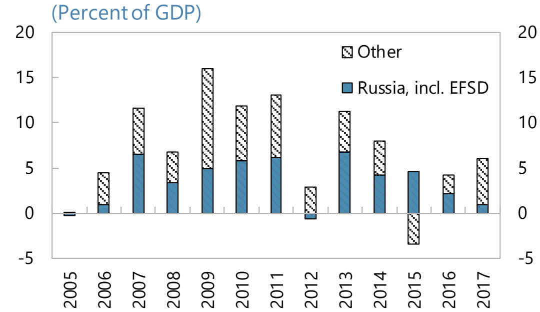
[1] Because of the short-term nature of trade credits, their entire stock is counted as part of the gross financing needs.

Net Financial Flows with Russia
(Percent of GDP)



Source: Belarusian authorities.

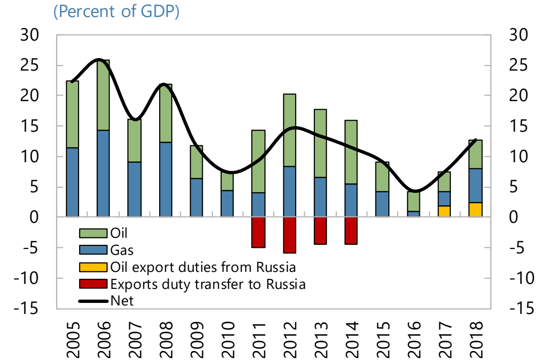
Net lending (-) / Net Borrowing (+) (from Financial Account)
(Percent of GDP)



Sources: Belarusian authorities and IMF staff calculations.

4. Similarly, trade is also concentrated. Russia accounted for 45 percent of Belarus's total exports in 2017, but more importantly it accounts for three-fourths of non-commodity exports. Belarus is also relatively un-diversified in terms of products, with potash and refined oil accounting for one third of good export proceeds. This makes Belarus vulnerable to narrow shocks to a few commodities or a few trading partners. On the import side, Belarus remains highly dependent on Russia for energy discounts and transfers. The value of the implicit subsidy has halved post-2008 but remains very substantial. Part of the subsidy is now up for re-negotiation in light of the so-called tax maneuver in Russia.

Value of Energy Discounts from Russia
(Percent of GDP)



Sources: Belarusian authorities and IMF staff calculations.

Annex II. Public Debt Sustainability Analysis

Public debt sustainability risks are substantial. The majority of general government debt is in foreign currency, making debt vulnerable to exchange rate depreciation. Contingent liabilities from SOEs add to the risks. Under the baseline scenario, public debt is projected to peak at 56 percent of GDP in 2023. Gross financing needs are forecasted to reach 8 percent of GDP in the medium term.

A. Background

1. Belarus's gross debt statistics cover the general government and government guarantees. At end-2017, general government and publicly guaranteed (PPG) debt amounted to 53.4 percent of GDP. The government has a relatively large stock of assets, including deposits in the banking sector of about 15 percent of GDP. However, much of these assets is either locked as US$ deposits at the NBRB as an offset to FX reserves generated from government external borrowing, or related to directed financing activities, and only a portion is sufficiently liquid. Therefore, this Debt Sustainability Analysis (DSA) focuses on gross, not net, PPG. Should additional deposits be freed up in the context of reductions in directed financing, these would create upside risks to this assessment.

2. Exchange rate depreciation and contingent liabilities are major factors behind debt dynamics. The share of FX-denominated debt is about 90 percent (with over 44 percent of debt *securities* denominated in US$ and over 40 percent in EUR). Contingent liabilities tied to the state's extensive involvement in economic activities are also significant, though highly uncertain. Realized off-balance sheet debt from such liabilities have totaled 8 percent of GDP over the past 3 years (2015–17), mostly related to SOE recapitalization/debt restructuring measures.

3. The main changes to the underlying assumptions for the DSA relative to the 2017 Article IV Staff Report include: (i) a better medium-term overall fiscal balance trajectory, partly through stronger growth in 2018 and 2019 than had been expected at the time of the last Article IV; (ii) lower than expected realization of risks related to off-balance sheet items in 2018; and (iii) downward revisions in the share of short-term debt in total debt based on revised historical (and the latest available) data.

B. Baseline

4. Macroeconomic assumptions. The assumptions underpinning the public sector DSA are those of the baseline scenario. Following a cumulative drop in real GDP of 6.4 percent over 2015–16, the cyclical economic recovery continues. Medium-term growth is projected to converge to its potential of 2 percent of GDP. The medium-term overall fiscal balance has been revised upwards (lower deficits) relative to the last consultation due to overall better macroeconomic performance (specifically 2018–2020), higher oil prices, and other factors. The baseline scenario assumes an additional realization of contingent liabilities of about 7 percent of GDP over 2018–2023. The primary balance excluding NPP-related expenditure is expected to deteriorate over time, from the projected 4.4 percent of GDP in 2018 to 3.1 percent in 2023. The overall deficit will decline to less than 1 percent of GDP in the medium-term, given interest payments (2½ to 3 percent of GDP) and ongoing off-balance sheet operations. Gross financing needs are projected to reach around 6–8 percent of GDP annually over the medium term. The primary balance required to stabilize debt in the baseline scenario is 1 percent of GDP.

5. Past forecast errors and realism of projections. Forecast errors in growth, primary balances, and inflation have been mixed. Belarus's projected fiscal adjustment (a change of about 3 percentage points in the cyclically adjusted primary balance/GDP) is within the range of other countries' experiences, with a 3-year cyclically adjusted primary balance at the 21st percentile among all surveillance countries.

C. Public Sector DSA: Shocks and Stress Tests

6. Stress tests indicate that debt dynamics in Belarus are particularly vulnerable to changes in the exchange rate.

7. Real GDP Growth Shock. The impact on the debt-to-GDP ratio of a 1 standard deviation shock to GDP growth for two consecutive years is large (not surprisingly given the volatility of output). In this stress scenario, real GDP growth rates become negative over 2019−20. The primary balance worsens and becomes negative in 2019–2020 before recovering in 2021. In this scenario, gross debt exceeds 70 percent of GDP in 2023 (a peak), while gross financing needs reach 11.3 percent of GDP in 2023 (a peak).

8. Real exchange rate shock. The impact on the debt-to-GDP ratio of shock to exchange rate (a 56 percent loss in value relative to the US$; the maximum achieved in the past decade) would push up gross debt close to 111 percent of GDP in 2023 (a peak), while gross financing needs would reach 17 percent of GDP in 2023 (a peak). These movements reflect high debt dollarization.

9. Primary balance and interest rate shocks. The primary balance shock introduces a deterioration of the primary balance in 2018–19 (shock equal to one-half of the 10-year historical standard deviation, or 2 percent of GDP), in comparison with the baseline. The primary balance shock drives the debt ratio up to 59.7 percent in 2023 (a peak). The interest rate shock introduces rate hikes from 2019 (by 200 bps). It drives the debt to GDP ratio close to 57 percent of GDP in 2023.

10. Combined macro-fiscal shock. A combined macro-shock scenario pushes the debt-to-GDP ratio to slightly above 215 percent in 2023 (a peak). The macro-fiscal shock combines the growth and interest rate shocks and a primary balance shock as in the standard examples in the stress tests, together with the real exchange rate shock consistent with a maximum movement of the real exchange rate over the past 10 years and a pass-through coefficient of 0.25. The effect of these shocks on debt ratios and gross financing needs is large and reflects in particular the sensitivity of debt to exchange rate depreciation, which makes the largest contribution to the change in the debt path.

D. Comparison of Fiscal Definitions Used By Staff and the Authorities

11. Staff uses a broader measure of fiscal balances and debt than the authorities, to capture fiscal risks. The authorities' have recently made some progress in aligning their presentation of fiscal aggregates with the Fund. These include reclassifying injections to statutory capital as expenses and excluding budget loans from expenses (changes to the budget classification starting in 2018). Main differences for 2015–17 are presented in tables below.

Belarus: Fiscal Balance, 2015–17

(Percent of GDP)

	2015	2016	2017
State (authorities' definition) 1/	1.8	1.3	2.8
Of which : budget loans	-0.8	-0.2	0.1
State (staff definition) 2/	1.3	0.3	1.6
Of which : NPP	-1.3	-1.1	-1.1
General Government (staff definition) 3/	0.9	0.5	1.8
Overall (staff definition) 4/	-3.0	-1.7	-0.3
Of which : off-balance sheet items	-3.9	-2.2	-2.1

Sources: Belarusian authorities and IMF staff estimates.

1/ Republican and local governments (authorities' definition).

2/ Republican (incl. NPP) and local governments; excludes budget loans through 2017.

3/ Includes SPF (consolidated).

4/ Includes debt creating off-balance sheet operations, i.e., transactions related to different forms of debt restructuring by general government, and execution of general government guarantees (given past evidence, events of debt restructuring of financial and non-financial SOEs are assigned high probability of costs ultimately being covered by general government (following actual repayments are deducted from the total amount)).

Belarus: Public Debt, 2015–17

(Percent of GDP)

	2015	2016	2017
Republican government (authorities' definition)	36.5	38.9	40.1
General government (staff definition)	39.0	42.3	43.9
Of which: Local governments	1.4	2.3	2.9
Of which: SDR allocation	1.1	1.0	1.0
General government guarantees	14.0	11.2	9.5
General government debt incl. guarantees (staff definition)	53.0	53.5	53.4

Sources: Belarusian authorities and IMF staff calculations.

Belarus Public DSA Risk Assessment

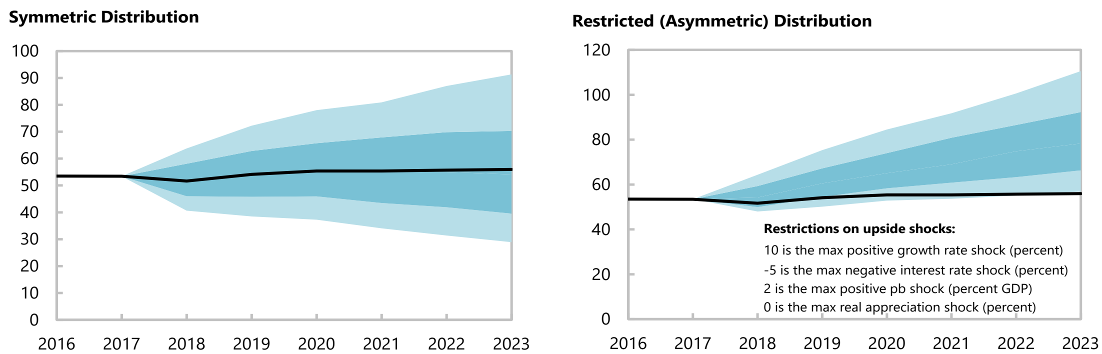
Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

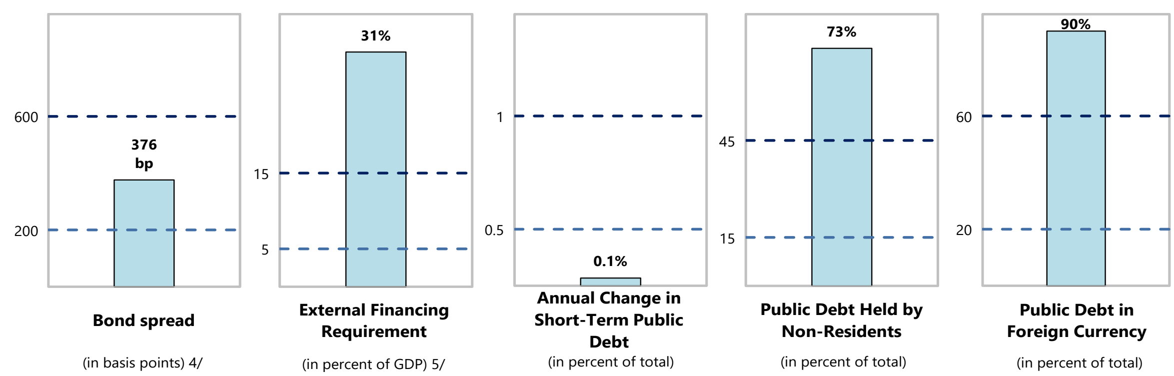
Baseline   Percentiles: 10th-25th   25th-75th   75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)

Belarus   Lower early warning   Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

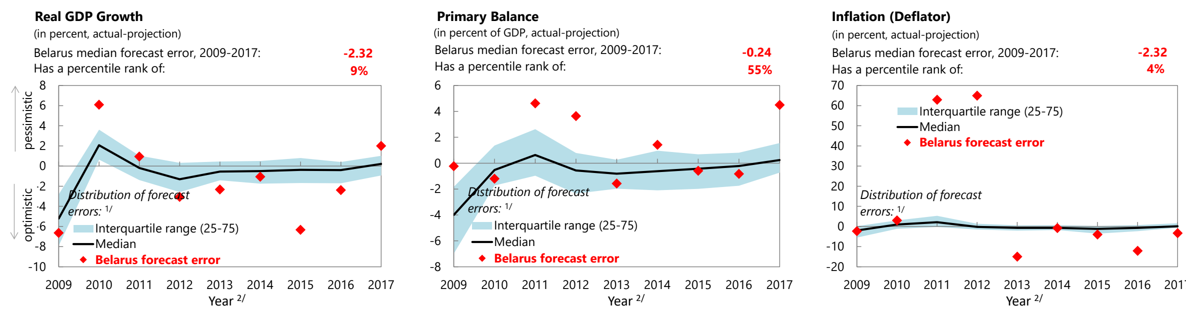
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 15-Aug-18 through 13-Nov-18.

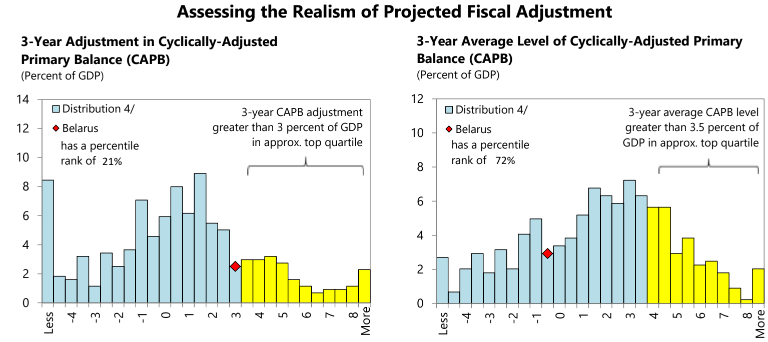
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Belarus Public DSA – Realism of Baseline Assumptions

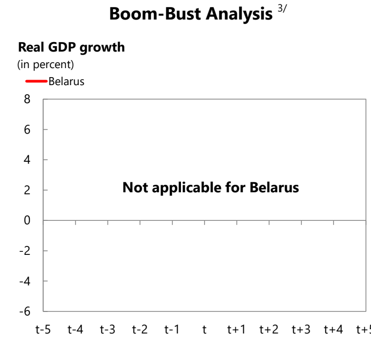
Forecast Track Record, versus all countries



Assessing the Realism of Projected Fiscal Adjustment



Boom-Bust Analysis 3/



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Belarus, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Belarus Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

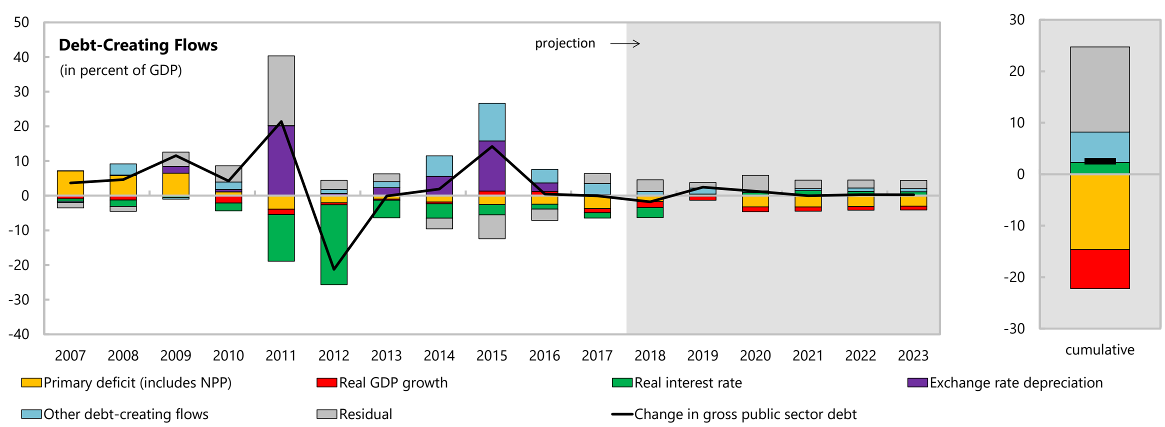
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of November 13, 2018		
	2007-2015 2/	2016	2017	2018	2019	2020	2021	2022	2023			
Nominal gross public debt	36.7	53.5	53.4	51.7	54.1	55.4	55.4	55.7	56.0	Sovereign Spreads		
Of which: guarantees	12.0	11.2	9.5	9.0	9.0	8.5	8.2	7.8	7.7	EMBIG (bp) 3/		370
Public gross financing needs	6.7	5.2	3.1	5.8	8.2	6.0	5.8	7.1	8.0	5Y CDS (bp)		n.a.
Net public debt		51.5	50.8	49.2	52.0	54.0	54.5	54.9	55.2			
Real GDP growth (in percent)	3.9	-2.5	2.4	3.7	2.4	2.8	2.3	2.0	2.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	28.5	8.3	8.2	11.1	5.1	5.3	3.9	3.9	3.6	Moody's	B3	n.a.
Nominal GDP growth (in percent)	33.1	5.6	10.8	15.2	7.6	8.2	6.4	6.0	5.7	S&Ps	B	n.a.
Effective interest rate (in percent) 4/	6.3	5.3	5.2	5.2	6.2	7.3	6.8	6.4	5.9	Fitch	B	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance 10/
Change in gross public sector debt	4.5	0.5	0.0	-1.8	2.5	1.3	0.0	0.3	0.3	2.5	
Identified debt-creating flows	2.2	3.7	-2.9	-5.2	0.9	-3.2	-2.4	-2.0	-2.1	-14.0	
Primary deficit	1.0	-2.5	-3.7	-1.7	-0.2	-3.2	-3.3	-3.2	-3.1	-14.6	1.0
Primary (noninterest) revenue and grants	39.8	39.0	38.9	39.7	37.5	37.5	37.0	36.8	36.8	225.3	
Primary (noninterest) expenditure	40.8	36.6	35.2	38.0	37.3	34.3	33.7	33.7	33.7	210.7	
Automatic debt dynamics 5/	-1.6	2.3	-2.4	-4.6	-0.7	-0.5	0.2	0.2	0.1	-5.3	
Interest rate/growth differential 6/	-6.7	-0.1	-2.7	-4.6	-0.7	-0.5	0.2	0.2	0.1	-5.3	
Of which: real interest rate	-6.0	-1.4	-1.5	-2.9	0.5	0.9	1.5	1.2	1.1	2.3	
Of which: real GDP growth	-0.7	1.3	-1.2	-1.7	-1.1	-1.4	-1.2	-1.0	-1.1	-7.6	
Exchange rate depreciation 7/	5.1	2.4	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	2.7	3.9	3.2	1.2	1.7	0.5	0.6	1.0	0.9	5.9	
General Government: Net Privatization Proceeds (negative)	-1.6	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
Contingent liabilities	2.4	2.2	2.1	1.0	1.6	1.4	1.2	1.1	1.0	7.2	
Non-budget support debt flows 8/	2.0	1.8	1.1	0.8	0.1	-0.4	-0.2	0.2	0.1	0.5	
Residual, including asset changes 9/	2.3	-3.3	2.9	3.4	1.6	4.5	2.4	2.3	2.3	16.5	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Non-budget supporting debt is debt not used for financing of budget gross financing needs. Specifically, it includes onlent project loans.

9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

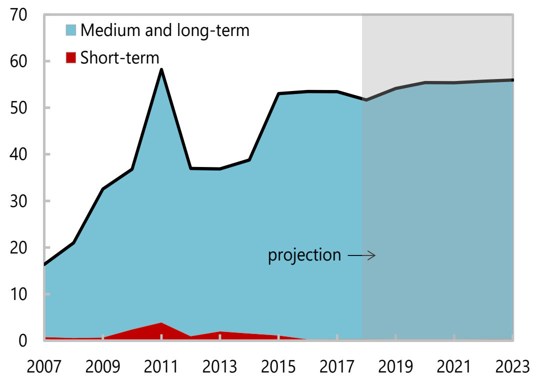
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Belarus Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

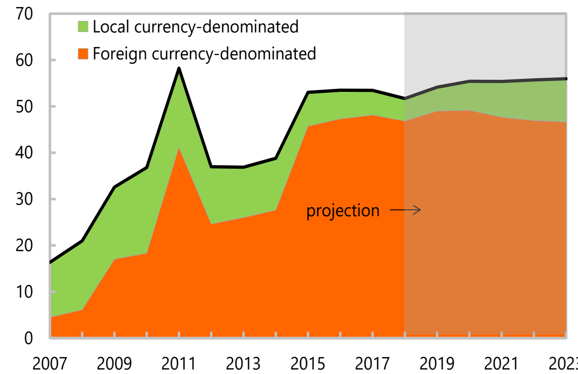
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

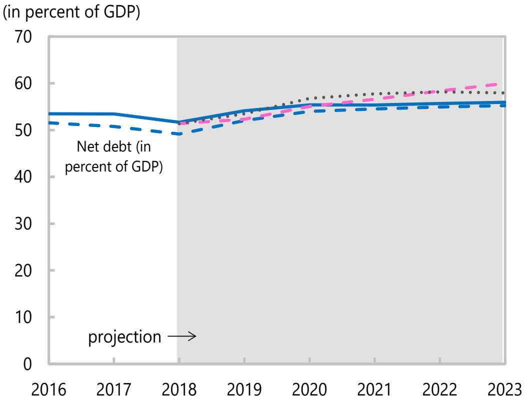


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

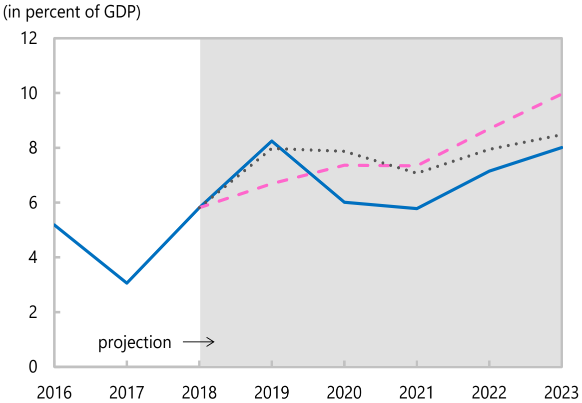
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	2.4	2.8	2.3	2.0	2.0
Inflation	11.1	5.1	5.3	3.9	3.9	3.6
Primary Balance	1.7	0.2	3.2	3.3	3.2	3.1
Effective interest rate	5.2	6.2	7.3	6.8	6.4	5.9
Constant Primary Balance Scenario						
Real GDP growth	3.7	2.4	2.8	2.3	2.0	2.0
Inflation	11.1	5.1	5.3	3.9	3.9	3.6
Primary Balance	1.7	1.7	1.7	1.7	1.7	1.7
Effective interest rate	5.2	6.2	7.4	6.9	6.4	5.8

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	2.6	2.6	2.6	2.6	2.6
Inflation	11.1	5.1	5.3	3.9	3.9	3.6
Primary Balance	1.7	0.4	0.4	0.4	0.4	0.4
Effective interest rate	5.2	6.2	5.2	3.1	1.4	0.0

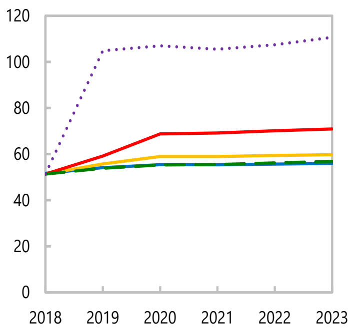
Source: IMF staff.

Belarus Public DSA – Stress Tests

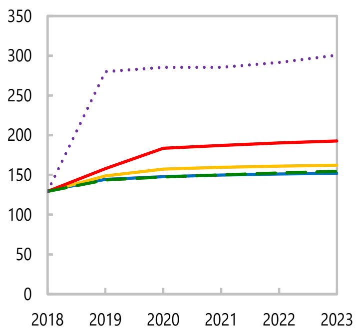
Macro-Fiscal Stress Tests

Baseline | Primary Balance Shock | Real Interest Rate Shock | Real GDP Growth Shock | Real Exchange Rate Shock

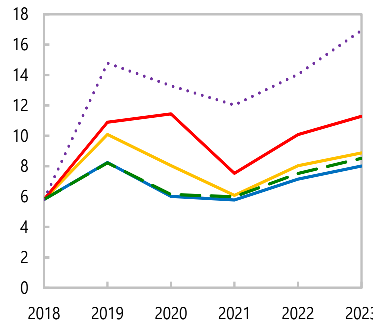
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



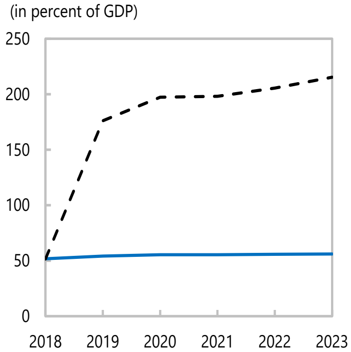
Public Gross Financing Needs
(in percent of GDP)



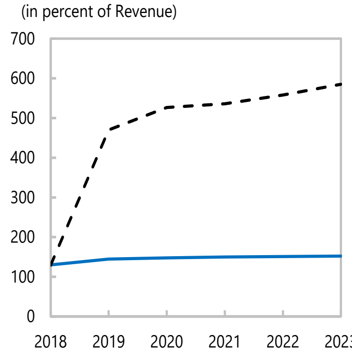
Additional Stress Tests

Baseline | Combined Macro-Fiscal Shock

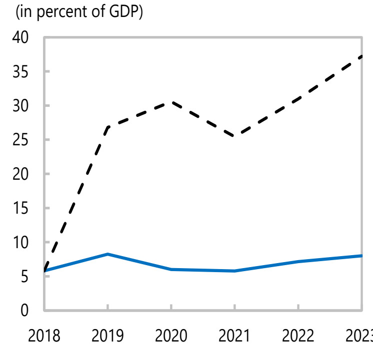
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	2.4	2.8	2.3	2.0	2.0
Inflation	11.1	5.1	5.3	3.9	3.9	3.6
Primary balance	1.7	-1.7	1.3	3.3	3.2	3.1
Effective interest rate	5.2	6.2	7.3	6.8	6.4	5.9
Real Interest Rate Shock						
Real GDP growth	3.7	2.4	2.8	2.3	2.0	2.0
Inflation	11.1	5.1	5.3	3.9	3.9	3.6
Primary balance	1.7	0.2	3.2	3.3	3.2	3.1
Effective interest rate	5.2	6.2	7.7	7.4	7.2	6.8
Combined Shock						
Real GDP growth	3.7	-2.2	-1.8	2.3	2.0	2.0
Inflation	11.1	3.9	4.1	3.9	3.9	3.6
Primary balance	1.7	-2.0	-0.9	3.3	3.2	3.1
Effective interest rate	5.2	21.2	6.7	6.6	6.4	6.2

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	-2.2	-1.8	2.3	2.0	2.0
Inflation	11.1	3.9	4.1	3.9	3.9	3.6
Primary balance	1.7	-2.0	-0.9	3.3	3.2	3.1
Effective interest rate	5.2	6.2	7.3	6.9	6.5	6.0
Real Exchange Rate Shock						
Real GDP growth	3.7	2.4	2.8	2.3	2.0	2.0
Inflation	11.1	64.5	5.3	3.9	3.9	3.6
Primary balance	1.7	0.2	3.2	3.3	3.2	3.1
Effective interest rate	5.2	21.2	7.2	6.7	6.2	5.8

Source: IMF staff.

Annex III. External Debt Sustainability Analysis

1. Following the sharp increase in the debt-to-GDP ratio in 2015-16 due to the rubel depreciation, the external debt burden decreased in 2017. While total external debt increased in level terms by US$2.4 billion to almost US$40 billion, the denominator effect dominated due to nominal GDP growth of over 11 percent and a slight appreciation of the rubel against the U.S. dollar. As a result, the debt-to GDP ratio stood at 73.3 percent of GDP in 2017, some 5 percent of GDP lower than in 2016.

2. Under the baseline projections, the debt-to-GDP ratio is projected to decline by some 9 percentage points in the medium term. An important factor is the improvement in the trade and current account balance as construction of the nuclear power plant tails off. Gross external financing needs are also projected to decline in percent of GDP. As noted in Annex 1, these gross financing needs exaggerate liquidity vulnerabilities, given that a large portion of them is constituted of trade credits with typically high and stable rollover rates.

3. The historical scenario would see a sharp increase in external debt to 90 percent of GDP. However, the "historical" period (i.e. the last ten years) encompasses two–three external crises[1], and hence should be seen as a tail scenario.

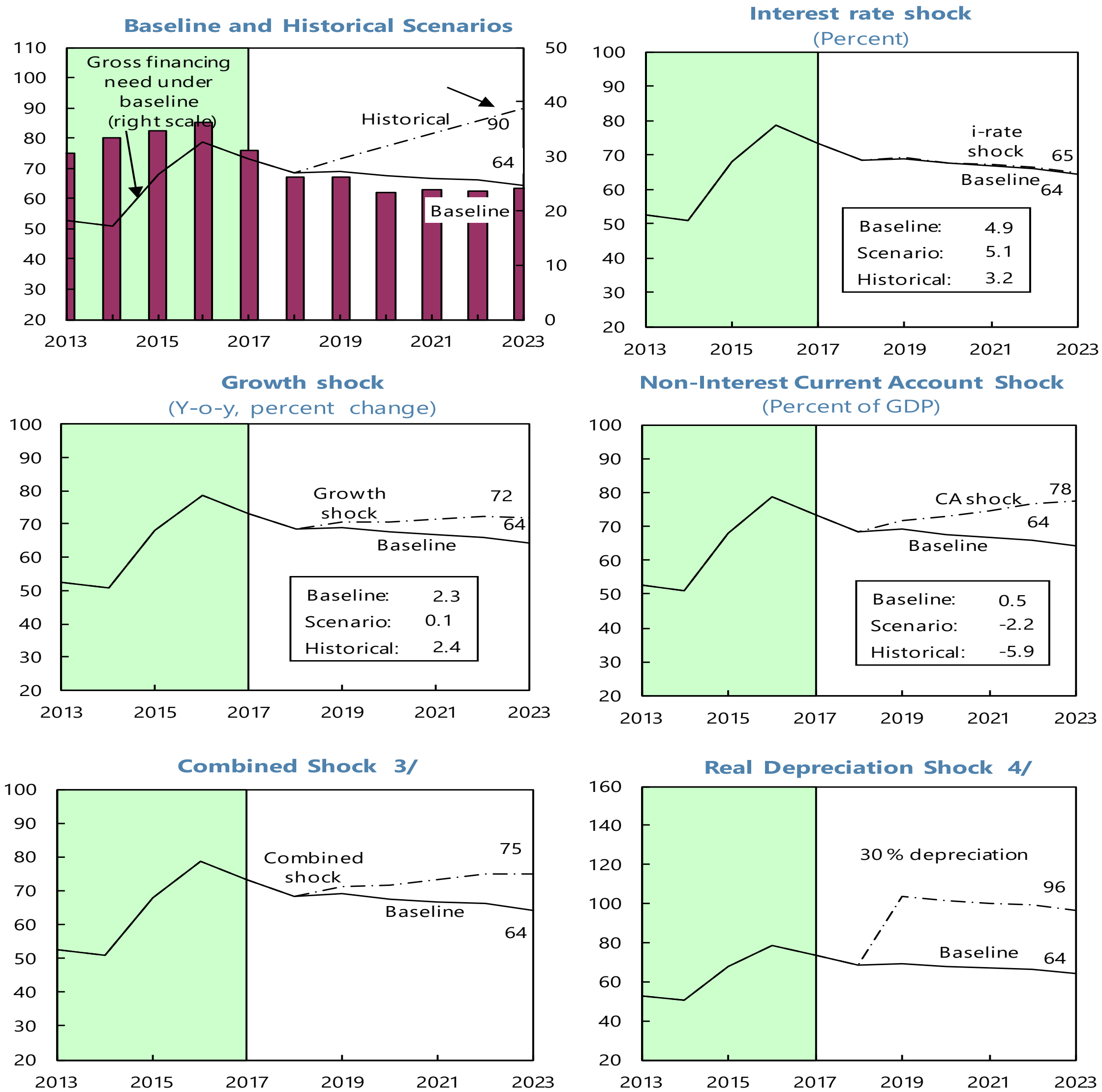
4. Debt sustainability analysis underscores the importance of relative exchange rate stability. A one-off 30 percent depreciation would increase the debt-to-GDP-ratio to 96 percent in the medium term. The experience of 2015–16 was a real-life example of such an exchange rate shock materializing.

5. Growth and current account shocks would also cause the debt burden to increase, while an interest rate shock would not make a material difference compared to the baseline. The adverse scenario presented in Annex VII is one such example of a current account shock. There, external debt does not increase only because of the simplifying assumption that the gap is entirely financed by reserves. Should the gap be partially covered by external debt issuance, the latter would increase materially.

[1] Depending on whether one considers Belarus' 2010-11 crisis as separate from the global financial crisis or a continuation of it.

Annex III. Figure 1. Belarus: External Debt Sustainability: Bound Tests 1/ 2/

(Baseline scenario; 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 to external debt under the adjustment scenario ("baseline" for the 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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

4/ One-time real depreciation of 30 percent occurs in 2017.

Annex III. Table 1. Belarus: External Debt Sustainability Framework, Baseline Scenario, 2013–2023

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	52.5	50.8	67.9	78.6	73.3			**68.3**	**69.0**	**67.5**	**66.8**	**66.1**	**64.3**	**-2.0**
Change in external debt	1.1	-1.6	17.1	10.7	-5.3			-5.0	0.7	-1.5	-0.7	-0.7	-1.8	
Identified external debt-creating flows (4+8+9)	1.3	2.6	21.1	13.6	-10.0			-1.5	0.9	-1.1	-0.6	-0.5	-0.5	
Current account deficit, excluding interest payments	8.5	5.0	1.1	1.0	-0.6			-0.3	0.9	-1.0	-0.7	-0.8	-0.6	
Deficit in balance of goods and services	3.1	0.6	-0.2	0.1	-0.3			0.3	1.2	-1.6	-1.8	-2.1	-2.0	
Exports	58.3	55.0	58.2	62.7	67.1			68.2	67.9	69.5	70.3	70.0	68.9	
Imports	61.4	55.6	58.0	62.8	66.8			68.6	69.1	68.0	68.5	67.9	67.0	
Net non-debt creating capital inflows (negative)	-2.0	-1.9	-2.4	-2.0	-1.8			-1.7	-1.7	-1.6	-1.6	-1.6	-1.6	
Automatic debt dynamics 1/	-5.1	-0.6	22.4	14.6	-7.5			0.5	1.7	1.6	1.7	1.9	1.6	
Contribution from nominal interest rate	1.6	1.6	2.2	2.3	2.2			2.9	3.2	3.4	3.3	3.2	2.9	
Contribution from real GDP growth	-0.4	-0.8	2.7	2.0	-1.7			-2.5	-1.5	-1.9	-1.5	-1.3	-1.3	
Contribution from price and exchange rate changes 2/	-6.2	-1.3	17.5	10.3	-8.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	-4.3	-4.0	-2.9	4.7			-3.5	-0.2	-0.4	-0.1	-0.2	-1.2	
External debt-to-exports ratio (in percent)	90.0	92.4	116.6	125.4	109.2			100.1	101.6	97.1	95.1	94.5	93.4	
Gross external financing need (in billions of US dollars) 4/	23.1	26.3	19.5	17.3	16.9			15.6	16.3	15.3	16.2	16.5	17.8	
in percent of GDP	30.7	33.4	34.6	36.2	31.0			26.2	26.1	23.4	24.0	23.6	24.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**68.3**	**73.0**	**77.1**	**81.3**	**85.7**	**90.0**	**-2.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	1.0	1.7	-3.8	-2.5	2.4	2.4	4.4	3.7	2.4	2.8	2.3	2.0	2.0	
GDP deflator in US dollars (change in percent)	13.8	2.6	-25.6	-13.1	11.4	0.6	14.7	5.6	2.3	1.6	1.4	1.6	3.2	
Nominal external interest rate (in percent)	3.5	3.2	3.0	2.9	3.2	3.2	0.4	4.4	4.9	5.2	5.0	5.0	4.7	
Growth of exports (US dollar terms, in percent)	-15.1	-1.7	-24.3	-8.8	22.1	6.5	28.4	11.3	4.2	6.9	4.8	3.2	3.7	
Growth of imports (US dollar terms, in percent)	-5.4	-5.6	-25.3	-8.4	21.4	4.0	22.2	12.3	5.6	2.7	4.5	2.9	3.8	
Current account balance, excluding interest payments	-8.5	-5.0	-1.1	-1.0	0.6	-5.9	5.2	0.3	-0.9	1.0	0.7	0.8	0.6	
Net non-debt creating capital inflows	2.0	1.9	2.4	2.0	1.8	2.7	1.3	1.7	1.7	1.6	1.6	1.6	1.6	

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 US 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.

Annex IV. Responses to Past Policy Recommendations

IMF 2017 Article IV Recommendations	Authorities' Responses
Structural (Limited Progress)	
Deeper SOE reform, including adoption of a comprehensive SOE reform strategy (see 2017 AIV Staff Report for further details).	Changes related to SOEs are gradual, and, at this stage, mostly limited to pilot projects. Monitoring of fiscal risks from SOEs has been set up, an important development. It is being extended to cover analysis of risks generated by SOEs at the local level. Internal quarterly reports of the MoF are prepared and an annual report on fiscal risks was submitted to CoM. The operational and analytical capacity of the MoF fiscal risk assessment unit remains limited. Some steps are being taken to reform SOE supervisory boards, and to sell minority shares (up to 10 percent) in non-systemic SOEs. The transfer of SOEs to local governments continues.
Rationalization of the utility sector, including 100 percent cost recovery by end-2019, combined with better targeted subsidies.	Utility tariffs were around 70 percent cost recovery by the end of 2017 and are expected around 76 percent by the end of 2018. The government's medium-term plan is to increase household utility costs by US$5 each year. 100 percent cost recovery was reached in all non-heating utilities in 2018, but there is no automatic adjustment mechanism in place to keep the 100 percent recovery level going forward. There was no progress in the targeting of the subsidy.
Wage adjustment should be linked to productivity	Current wage growth appears to be well above productivity growth.
Further price liberalization and addressing distortions in product markets	No progress in 2018.
Enhancing the efficiency of the SSN aiming to protect the most vulnerable population of utility sector and SOE reform	No progress in 2018.
Fiscal Policy (Progress)	
Strengthen fiscal frameworks for fiscal planning, management, and execution of fiscal policy.	Steps are taken to increase transparency of fiscal accounts, including by reclassifying injections into statutory capital as budget expenditures (following Fund TA recommendation). The authorities have initiated cooperation with Fund TA experts on strengthening revenue analysis and forecasting tools, and related institutional procedures (TA mission in May 2018). No changes to the medium-term budgeting framework have been introduced.
Fiscal consolidation to put public debt on a downward path to sustainable levels and implement mix of revenue and expenditure	Despite the cyclical recovery and overperforming budget revenues relative to the budget, the general government primary balance excluding NPP is projected to deteriorate in 2018 relative to 2017. The public sector wage bill is rising. However, off-balance activities in 2018

IMF 2017 Article IV Recommendations	Authorities' Responses
measures to secure consolidation in a growth friendly way.	have been reduced relative to 2017. The authorities continue to limit the issuance of guarantees. Public debt is projected to increase slowly in the medium term.
Monetary Policy (Broadly Consistent)	
Maintain policy stance, measures to achieve medium term inflation objective	Inflation has been reaching historically low levels. The authorities have kept a tight monetary stance to achieve the inflation objective in 2018 and are on track to meet the objective in 2019.
Sufficient conditions for transition to IT	There has been progress in reducing market distortions, such as directed lending or restrictive FX regulations. Other distortions such as interest rate caps remain. The NBRB has been improving its operational capability and its public communications in light of the transition to IT. The NBRB operational independence has been respected, but the legacy capital shortfall remains.
Maintain exchange rate flexibility while seeking opportunities to rebuild reserves	The exchange rate has remained broadly flexible.
Eliminate the remaining FX surrender requirement	The FX surrender requirement has been eliminated
Financial Sector (Limited Progress)	
Complete actions on remaining near-term FSAP priority recommendations, address weak bank balance sheets and strengthen regulation and supervision.	Asset quality reviews (AQR) have been completed and follow-up actions were taken. The NBRB strengthened provisioning requirements for unhedged foreign currency borrowers, and asset classification rules make evergreening more difficult.
Strengthen the NPL resolution framework.	The new NPL regulation is currently under assessment.

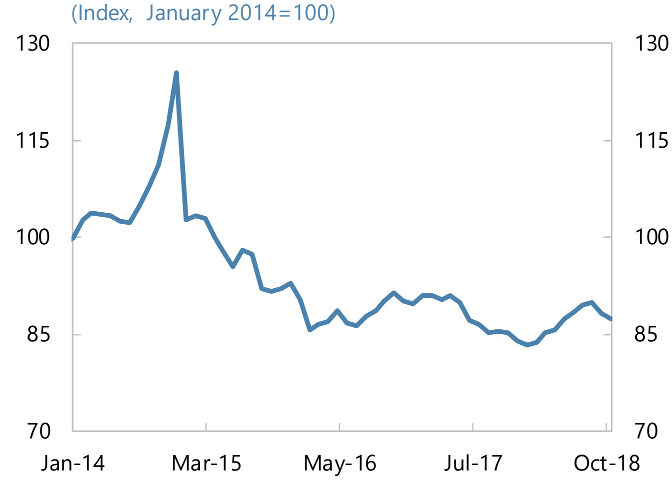
Annex V. External Stability Assessment

All in all, staff assesses the current account gap to be minus 2–3 percent of GDP, and the real effective exchange rate to be overvalued by about 10 percent, consistent with the view that the economy suffers from inefficiencies and factor misallocation. Reserves remain well below adequacy metrics, and the net international position (minus 74 percent of GDP) is in the lower half of the region's values, though slightly improving.

1. Belarus's external position improved considerably in 2017. Gross international reserves increased from US$4.9 billion at end-2016 to US$7.3 billion at end-2017 and as of end-October 2018 stood at US$7.1 billion. The narrowing of the current account deficit, Eurobond issuance by the government and bilateral financing from Russia and the Eurasian Fund for Stabilization and Development contributed to the recovery of reserves. Nevertheless, and despite the continuous growth of reserves since early 2016, they remain below desirable levels, namely 52 (72) percent of the ARA metric for countries with non-floating (floating) exchange rate regimes.

2. The real effective exchange rate has appreciated recently but remains below the pre-crisis levels of late 2014. The recent appreciation of about 9 percent owes to the nominal bilateral vis-à-vis the Russian ruble, while the inflation differential between the two countries remains low. This being said, the recent appreciation has not undone the significant depreciation during 2015–17, so that the real effective exchange rate remains 12.6 percent below January 2014 level.

Real Effective Exchange Rate, Monthly
(Index, January 2014=100)

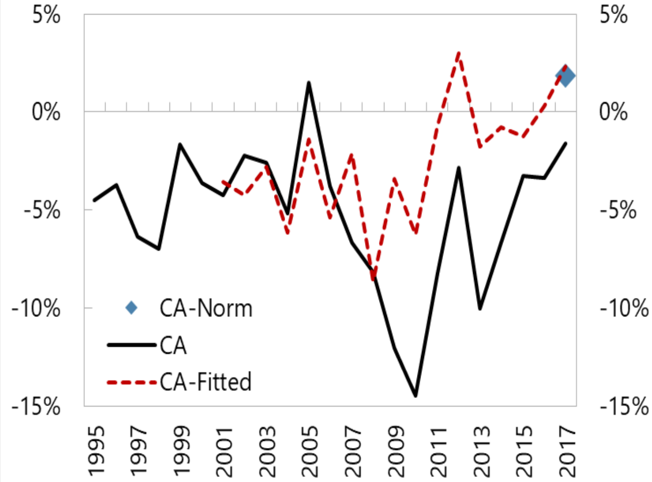


3. EBA lite methodologies indicate a negative current account gap and overvaluation of the real effective exchange rate. The current account approach estimates a current account norm of 1.9 percent of GDP in Belarus. However, the residual of the regression model has been persistently large since 2009. One structural shift that may explain this is the large reduction of implicit energy subsidies from Russia starting that same year[1]. Not capturing this deterioration of the external environment, the model would tend to overestimate the long-term competitiveness

[1] See Annex 1.

of the economy; put differently, the large persistent residual could be indicating a structural competitiveness gap that is not explicitly modelled. At the same time, part of this residual could simply be persistent poor model fit. All in all, the model estimates without adjustment yield a current account gap of *minus* 3.4 percent of GDP; allowing for the possibility of persistent model over-estimation of the gap would result in a gap of *minus* 2–3 percent of GDP. Using a semi-elasticity of the current account to the REER of -0.25[2], the model results imply a REER overvaluation of about 10 percent.

Current Account: Actual, Fitted, and Norm
(Percent of GDP)



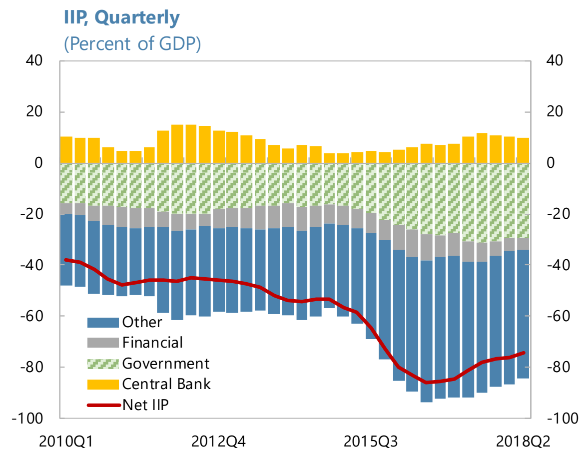
4. The external sustainability approach points to a smaller overvaluation however. Stabilizing NFA at its current value (around -76 percent of GDP) would not be "safe" enough for an economy with Belarus vulnerabilities. Consistent with practice in past consultations, the target NFA chosen is -60 percent of GDP by 2037. This yields a current account norm of -2.0 percent of GDP compared to a baseline current account balance projection of -2.2 percent of GDP in 2023, thus indicating a gap of *minus* 0.2 percent of GDP. Using the same elasticity as in the CA approach above yields a slight REER overvaluation of 0.7 percent. However, staff gauge that the very small CA gap and related overvaluation obtained by this model is not consistent with an overall assessment of an economy that suffers from inefficiencies, poor productivity and factor misallocation.

Summary Results

CA-Actual	-1.6%
Cyclical Contributions (from model)	-0.2%
Cyclically adjusted CA	-1.3%
CA-Norm	1.9%
Cyclically adjusted CA Norm	2.1%
CA-Gap	-3.4%
of/which Policy gap	0.5%
Elasticity	-25.0%
REER Gap	13.8%

[2] This is lower than the semi-elasticity used by EBA (-0.5) which is deemed too high for Belarus based on historical experience.

5. The net international investment position (NIIP) stood at around -74 percent of GDP as of end-June 2018. While stable in dollar terms over the past years, as a share of GDP the NIIP deteriorated significantly in 2014–15 and has partially recovered since then. It remains in the lower half (i.e. more negative) among NIIPs in the region.



Annex VI. Risk Assessment Matrix [1/]

Risk	Relative Likelihood and Transmission Channels	Expected Impact of Risk	Policy Recommendations
1. No compensation or partial compensation for tax maneuver in Russia; or preferential gas price is not renewed in 2020.	**Low[2]** • Reduced export margins on refined oil products, possibly leading to viability concerns among oil refineries. Lower budget transfers from Russia. Lower customs duties.	**High** • Particularly in the event of weak compensation. Lower growth. Renewed BOP pressures and potential BYR depreciation. Higher fiscal deficits. Possible FX liquidity risks in banks.	• A flexible exchange rate remains key to cushion the shock (limit interventions to dampening excessive volatility). Tightening of monetary policy might be needed. • Fiscal adjustment to contain BOP pressures and adverse debt dynamics. • Advance structural reforms to improve economic efficiency and enhance economic diversification.
2. Escalation of geopolitical tensions could depress business confidence, heighten risk aversion, lower demand for credit, limit access to international financial markets, and reduce FD in a large neighboring country.	**High** • Spillovers through foreign trade and financial sector linkages could be sizeable.	**Medium/High** • See above.	• See above.
3. Sharp tightening of global financial conditions. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by higher-than-expected inflation) or the materialization of other risks.	**Medium** • Investors could reassess risks of holding Belarusian assets, while Russian banks could come under pressure forcing deleveraging from Belarus.	**Medium** • While Belarus does not need to refinance external market borrowing in the next 18 months, tighter conditions could complicate new issuance.	• See above.
4. Larger-than-expected liabilities from quasi-fiscal activities	**Medium/High** • Liabilities larger than preliminary FAD estimates would add to the fiscal burden.	**Medium** • Higher public debt, including from state support of strategic SOEs, or indirectly through recapitalizations of state-owned banks with SOE-related losses.	• Further fiscal adjustment to achieve debt targets. Enhance monitoring of fiscal risks from SOEs and proactively pursue faster and broader structural reforms in the SOE sector.
5. Greater reform drive by the new government	**Uncertain** • New government might build political consensus over the direction, depth, and pace of reforms, leading to enhanced reform implementation.	**High** • This would help address high vulnerabilities and raise medium term growth prospects.	

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

2/ Based on the authorities' assessment.

Annex VII. Adverse Scenario

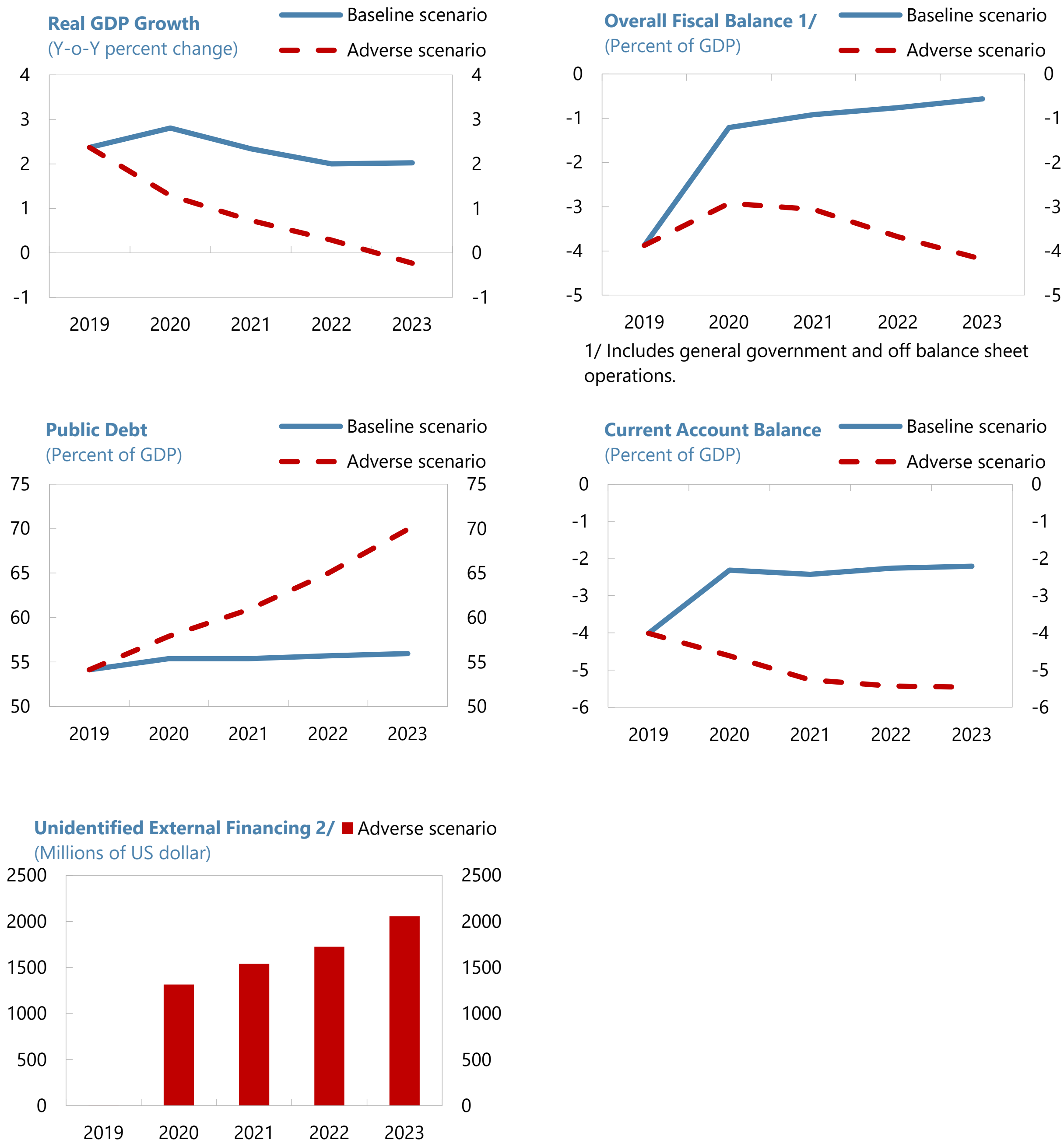
1. **The baseline scenario assumes full compensation for the gradual oil subsidy loss starting in 2020.** For the sake of simplicity, the baseline assumes that the compensation comes in the same form as the subsidy (i.e. as lower-priced imports of crude oil and as direct transfers to the budget).

2. **Here, we consider the extreme scenario of zero compensation in 2020 and beyond, assuming no policy response in order to isolate the effect of the shock.** It bears repeating that, in the view of the authorities, such a scenario is a low probability event. The impact of such a large shock is highly uncertain, hence the results should be seen as illustrative more than anything. When computing the adverse scenario, we make a few simplifying assumptions, key among them that there are no secondary shocks following the primary shock (such as a sudden stop in external financing). We also assume that there is no policy adjustment in response to the shock, for instance to contain the rise in deficits. The nominal exchange rate is also projected as in the baseline. These assumptions help isolate the direct effect of the subsidy loss on the main aggregates.

3. **The impact would be significant.** In the absence of any compensation, growth could fall to zero or negative, with much of the effect likely permanent. The current account deficit would worsen gradually by some 3 percentage points relative to the baseline, to close to 5½ percent of GDP. Financing these higher external deficits while preserving international reserves would require some U$6.5 billion in additional (and as yet unidentified) financing. Fiscal deficits would also be higher than in the baseline, hence public debt would rise to 70 percent of GDP by 2023 (and remain on an upward trend) vs. 56 percent of GDP in the baseline. While banks are not, strictly speaking, part of this quantitative scenario, they would most likely be stressed via their direct exposure to oil refineries, lower GDP growth more generally, and pressures on unhedged debtors in the face of possible rubel depreciation.

4. **These stark numbers explain the priority that the new government has placed on negotiations with Russia on a compensatory deal.** The authorities are confident that any new agreement coming out of the ongoing negotiations will leave Belarus no worse-off than what is being replaced. This scenario shows that, absent full compensation, Belarus will need to undergo additional adjustment relative to the baseline to preserve sustainability.

Annex VII. Figure 1. Belarus: Adverse Scenario, 2019–2023



1/ Includes general government and off balance sheet operations.

2/ Additional annual financing needed to keep the reserves as in baseline scenario.

Source: IMF staff calculations.

Annex VIII. FSAP Update: Status of Main Recommendations

The authorities have made progress in implementing the recommendations made by the 2016 FSAP. An Action Plan was adopted by the Council of Ministers (COM) and the NBRB on February 27, 2017, detailing measures and timeframe for each of the recommendation. The focus of the Plan for the near term is on assessing the banks' asset quality and strengthening their capital, enhancing supervisory and regulatory requirements, and improving monitoring of financial stability and risks including from foreign currency exposures. The authorities have completed the AQRs of all banks, introduced provisioning requirements on unhedged borrowers, and are making progress in preparing strategies for deposit insurance reform and the establishment of a bank resolution framework.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Systemic Risks		
Conduct AQR for banks with significant differences between IFRS and prudential provisions (NBRB).	I	*Implemented*. The AQR of the largest nine banks, accounting for 92 percent of the banking sector assets, were completed in July 2016. Follow-up measures were taken to improve the capital adequacy ratios of three banks found to have potential capital shortfalls, including recapitalization, improving the quality of collateral, optimization of expenses, and attraction of subordinated loans. The NBRB subsequently completed the AQR of the remaining 15 banks in mid-2017. Banks found to have potential capital shortfalls have submitted plans to ensure regulatory capital adequacy.
Apply Pillar 2 measures to specific banks to reinforce capital and prudential requirements (NBRB).	I	*In progress*. The NBRB has prepared a draft methodology for supervisory review and evaluation process (SREP), which is being implemented with support from the EU-funded Twinning program that started in early 2018. The program assists the NBRB in adapting the SREP methodology to Belarusian context, performing the assessment for the five largest banks, and training supervisors in applying the methodology.
Conduct bottom-up solvency and liquidity stress tests for banks on a regular basis (NBRB).	NT	*In progress*. The NBRB started conducting annual bottom-up solvency and liquidity stress testing from 2017. The results supplement the top-down stress testing conducted by the NBRB and are taken into account in assessing potential credit risk and impact of prudential measures. The results were discussed by the NBRB and participating banks and presented to the Financial Stability Committee. The aggregate results were published in "Financial Stability in the Republic of Belarus in 2016".
Increase the RR for foreign currency deposits, require its integration in foreign currency accounts at the NBRB and consider an increase in the daily maintenance requirement (NBRB).	NT	*Partially implemented*. The reserve requirement for FX deposits was increased to 11 then 15 percent from 7.5 percent from February 2017, and further to 17 percent from January 2018. Taking into consideration the recommendation of a March 2017 IMF TA, the NBRB will revisit the issue of accumulation of required reserves in foreign currency in 2020.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Consolidate and gradually phase out directed lending in Development Bank (MoE, NBRB, MoF, DB).	NT	*In progress*. The authorities are implementing a phased reduction in directed lending (DL) as stipulated in the Government Action Plan for 2016 – 2020 (approved April 2016) which envisages the reduction in stock of directed lending by 2.1 percent of GDP in 2017 and by 2.2 percent of GDP in 2018.
Financial Oversight		
Strengthen loan provisioning by issuing standards on restructuring and interest accrual (NBRB).	I	[*Implemented*. A new NBRB Instruction on Provisioning, issued in the end of 2017, defines restructured debt as those that had changes in the terms of the contract, as well as the granting of a new loan to a debtor to pay off its current debt to the bank and that they be classified as risk group IV or above and not below the level they were included in before the restructuring, and provisioned for as required. Banks can reclassify the restructured loans to lower risk groups if the debtor demonstrate timely and full servicing of obligations for at least 12 months after the restructuring, but the debt cannot be classified as risk group I.]
Link temporary forbearance only to plans for strengthening specific banks (NBRB).	I	*In progress*. The Board of the National Bank of the Republic of Belarus is taking consistent efforts to create an environment for fair competition in the banking sector and eliminate differentiated approaches to its regulation and is conducting specific policies aimed at eliminating privileges, preferences and exemptions in respect of prudential requirements provided to banks including those where the state holds a majority stake in equity.
Initiate collection of data on unhedged borrowers in foreign currency (NBRB).	I	*Implemented*. Information on unhedged borrowings has been collected as part of preparation of amendments to the instruction on the procedure for building up and use of special provisions for covering probable losses on assets and transactions not reported on the balance sheet by the banks, Development Bank of the Republic of Belarus JSC, and non-bank financial institutions of September 28, 2006 No. 138 in terms of assigning such debts to risk group II and gradual increase of contributions to special provisions. Since July 2017, the National Bank has been collecting such information on a regular basis: before May 1, 2018 as part of explanatory notes to banks' prudential reports, and after May 1, 2018 in the form of established prudential reports.
Consider an increase in the risk-weight of banks' foreign currency loans to unhedged borrowers (NBRB).	NT	*Implemented*. The NBRB introduced provisioning requirement on foreign currency loans to unhedged borrowers effective in July 2017 (the NBRB Resolution No. 11 of January 2017), which they found to be more effective than higher risk weight based on historical experiences. A schedule is set to increase the provisioning in steps to 5 percent in 2020. As of October 1, 2018, the provisions on loans to unhedged borrowers stood at 10.9 percent.

Recommendations and Authority Responsible for Implementation	**Time[1]**	**Status**
Improve risk assessment for early termination of foreign currency deposits (NBRB).	I	*Partially implemented.* The NBRB introduced irrevocable deposits in November 2015 (Decree No. 7). Prior to this, banks were obliged to fulfill within five days the request to withdraw term deposits. Risk assessment of early withdrawal of foreign currency deposits is conducted on a monthly basis by monitoring liquidity coverage ratios for foreign currencies as an aggregate as well as broken down by key foreign currency.
Improve design of liquidity indicators and supervision of liquidity for individual institutions and aggregate system with focus on foreign currency liquidity risk (NBRB).	I	*Implemented*. The NBRB started monitoring liquidity coverage ratios (LCRs) by key currencies for each bank in 2015. Pursuant to NBRB Resolution of May 18, 2017 No. 180, Basel III liquidity coverage ratios (LCR, NFSR) were introduced as safe and sound functioning standards for banks, and requirements for compliance reports and analytical information on the tools for monitoring liquidity risks were established as of January 1, 2018. Analytical information on the tools for monitoring liquidity risks provided by banks includes information on estimating the liquidity coverage ratio (LCR) in foreign currency as well as funding concentration ratio (for major currencies). As of October 1, 2018, LCR for operating banks totaled 93.2 percent in Belarusian rubels and 104.7 percent in foreign currency.
Develop risk-based insurance supervision with EWS, stress testing, and onsite risk inspection (MoF).	NT	*In progress.* MoF is developing frameworks for risk-based supervision, early warning system, stress testing and on-site inspections for the insurance sector, and plans to introduce them by end-2017.
Introduce a risk-sensitive capital regime for insurances and regulation following IAIS (MoF).	NT	*Not implemented.* MoF is studying international supervisory practices in an effort to develop reform plans for risk-oriented supervisory methods based on monitoring and forecasting of insurers' financial positions.
The recently-created Financial Stability Council should include a subcommittee on crisis management that includes DIA as a member (NBRB, MoF, MoE, DIA).	I	*In progress*. The Financial Stability Council was established in June 2016, with the working committee for the development of the financial market crisis resolution mechanism as one of the three working committees underneath it. The FSC held a meeting on May 30, 2018 and adopted a regulation on the functioning and composition of the FSC. The FSC has instructed the working committees to consider relevant issues regarding financial stability. The FSC is scheduled to meet every six months, but the second meeting is being delayed until the new government appoints a co-chair. The DIA is not a member of the FSC itself but is represented at the working committee.
Financial Infrastructure		
Refine the risk management framework to include all FMIs, risk-based scenarios and testing (NBRB).	I	*Implemented.* The Strategy for Managing Risks in the Payment System of the Republic of Belarus (Resolution of the Board No. 155, April 2017) was adopted, identifying the benchmarks for managing risks in the payment system for ensuring the effective, reliable and secure functioning the system.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Draft law and amend regulations to protect settlement finality, netting and collateral (NBRB).	NT	*In progress*. The Framework Law on Payment Services in the Republic of Belarus has been drafted, which focuses on improving the effectiveness, reliability and security of the payment system including by strengthening the NBRB's powers in supervising payment system operators and other payment service providers. The draft law has been revised taking on board comments from government agencies and has been sent to the COM.
Stress test payment system to assess sufficiency of liquidity under stressed conditions (NBRB).	NT	*Implemented.* Comprehensive stress tests were conducted in March 2017, including verification of mechanisms to facilitate the completion of interbank settlements subsequent to clearing of transactions involving BELKART bank payment cards, and guaranteed completion of interbank settlements on payments accepted through the automated information system settlement.
Governance		
Discontinue restrictions on the operational independence of the NBRB (NBRB).	NT	*In progress*. Amendments have been made to the Banking Code eliminating "the performance of actions that provide grounds for a loss of confidence in the given individual" as grounds for the removal from office of the Chairman of the National Bank Executive Board and members of the National Bank Executive Board.
Recommendations and Authority Responsible for Implementation	**Time[1]**	**Status**
Amend NBRB statute to introduce concept of independence for the NBRB (NBRB).	MT	*In progress*. Amendments to the NBRB Statute have been made, including on the goal of price stability and the discontinuation of transferring part of the NBRB's income to the DIA. A draft law has been prepared and is being considered by relevant government agencies before submission to parliament, aimed at strengthening institutional and operational independence of the NBRB.
Divest banks' stakes due to resolution to avoid conflicts of interest as supervisor (NBRB, State Property Committee, Ministry of Foreign Affairs).	MT	*Not implemented*. The government signed the Memorandum of Understanding (MOU) with the EBRD in May 2015 on re-privatization of Belinvestbank, and plans to sell its controlling stake by 2020. The NBRB is also working to divest Moscow-Minsk Bank, which it fully owns. The MOU was signed with the EBRD in September 2017 for the divestment, with planned sale by 2020.
Discontinue employing resources and powers to enforce monetary policy or criminal law (NBRB).	NT	*In progress*. Significant changes were introduced by Decree No. 510 in October 2017, that were aimed at limiting the number of inspections in the investigation of criminal cases.
Strengthen insurance supervisor's operational independence and remove conflicts of interest (MoF).	NT	*Not implemented*. MoF is exploring the possibility of dividing the functions of insurance market regulator and owner of insurance organizations within the MoF.
Allow DB to lend only to viable projects not financed by commercial banks (DB, MoE, MoF, NBRB).	NT	*In progress*. Draft amendments to the decree on the mandate of the Development Bank., which aims to limit its mandate to areas with market failure have been prepared and are under consideration by the Presidential Administration.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Amend Bankruptcy Law to upgrade priority of secured creditors and establish effective procedures for rehabilitating viable businesses (Government).	NT	*In progress.* A draft Law on Insolvency and Bankruptcy was drafted and submitted to the Parliament in July 2016. The draft Law is scheduled to be considered by the House of Representatives during the autumn session of 2017.
Establish mechanisms to enable and incentivize out-of-court debt restructuring (Government).	NT	*In progress.* The government is preparing amendments to the "Law Concerning Business Entities" involving the conversion of debt into shares to be placed among the creditors, as well as a draft Presidential Decree concerning the simplification of the procedure for restructuring debt, including credit agreements, payment to the treasury, and the number of restructuring instruments used.
Restructuring and Financial Safety Nets		
Delegate NPL resolution to a single entity with powers for restructuring/privatization (NBRB).	I	*Not implemented.* An Asset Management Company (AMC) for loans to agricultural sector was established in 2016 but its current structure and functions have major shortcomings. Loans to agricultural sector were transferred to the AMC and to local governments, in exchange with bonds issued by the government to banks. Both transfers took place at face value (with risk shifting to the government), and the creditors received blanket reduction in interest rates and lengthening of maturity. The AMC is a collection agency and does not have resolution powers. The MOF, in coordination with the NBRB and other stakeholders, report that they are working to expand the purview of the AMC. In addition, the authorities are drafting a comprehensive regulatory act defining the legislative, economic and institutional conditions under which the troubled assets market functions.
Designate the NBRB as a resolution authority (NBRB).	NT	*In progress.* A concept for Resolving Troubled Banks has been prepared with the WB TA, which proposed granting the DIA authority to resolve troubled bank. The decision to apply resolution procedures to a troubled bank is proposed to be made by the NBRB and the Financial Stability Council. The Strategy was approved by the Financial Stability Committee of the NBRB and the Financial Stability Council (Protocol No. 6, December 27, 2017). To date, a Presidential Decree on resolving troubled banks has been drafted with technical assistance from the World Bank. The draft decree is being internally reconciled among working group members and will be submitted for interested government agencies approval in early 2019.
Establish comprehensive powers for bank recovery and resolution using FSB Key Attributes (NBRB).	I	*In progress.* A concept for Resolving Troubled Banks has been prepared with the WB TA. The Strategy was approved by the Financial Stability Committee of the NBRB and the Financial Stability Council in December 2017, taking into account comments from the WB.

Recommendations and Authority Responsible for Implementation	Time[1]	Status
Establish an ELA framework and define conditions for support (NBRB).	I	*Implemented.* The NBRB Board Resolution No. 515 was adopted in September 2016, setting principles and criteria for the access to the NBRB's emergency liquidity assistance. The NBRB received Fund TA in March 2017 to develop internal operational procedures, including internal governance, collateral and counterparty policy, and risk control measures. The operational guideline has been prepared by the NBRB examining issues of stabilization refinancing and the NBRB adopted Executive Board resolutions (No. 540 in December 2017 and No. 367 August 2018) to promote the ELA framework.
Require all banks to establish and test recovery plans; initiate planning for systemic banks (NBRB).	MT	*Implemented.* Requires banks to develop contingency plans in line with NBRB Board Res. No. 550, October 2012.
Limit coverage of deposits, shorten the payout period over time and end NBRB's co-financing (DIA)	MT	*In progress.* Pursuant to Presidential Decree No. 3, June 2017, the provision calling for the annual transfer of 80 percent of NBRB earnings to DIA has been eliminated. An NBRB and DIA working group has prepared a concept paper for improving the deposit insurance system, which was approved by the Financial Stability Council in December 2017.

[1] "I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3-5 years.

INTERNATIONAL MONETARY FUND

REPUBLIC OF BELARUS

December 17, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The European Department (in consultation with other departments).

CONTENTS

FUND RELATIONS

(As of October 31, 2018)

Membership Status: Joined July 10, 1992; Article VIII

General Resources Account

	SDR million	Percent of Quota
Quota	681.50	100.00
Fund holdings of currency	681.50	100.00
Reserve Tranche Position	0.02	0.00

SDR Department	SDR million	Percent of Allocation
Net cumulative allocation	368.64	100.00
Holdings	371.81	100.86

Outstanding Purchases and Loans None

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

Projected Payments to the Fund[1]

	Forthcoming (SDR Million; based on existing use of resources and present holdings of SDRs)				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

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

Exchange Rate Arrangements

The currency of Belarus is the Belarusian ruble (BYN), which was introduced in 1994. The de jure exchange rate regime is a managed float. The de facto exchange rate arrangement is classified by Fund staff as other managed from a crawl-like arrangement, effective January 9, 2015. The NBRB does not publish data on its interventions. On July 1, 2016, the Belarusian ruble was rebased, dropping four zeros from the bilateral exchange rate with the dollar.

Belarus is an Article VIII member and maintains an exchange system free of exchange restrictions and multiple currency practices.

Article IV Consultation:

Belarus is on a 12-month consultation cycle. The last Article IV consultation was concluded on December 18, 2017. The report was published:
https://www.imf.org/en/Publications/CR/Issues/2017/12/18/Republic-of-Belarus-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-45488.

Use of Fund Resources:

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

FSAP Participation, ROSCs, and OFC Assessments:

A joint IMF-WB Stability and Development FSAP mission took place in April 2016.

A World Bank led FSAP Development Module took place in February 2014.
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.

Two FSAP missions took place in 2004 and an FSSA report was published on
http://www.imf.org/external/pubs/cat/longres.cfm?sk=18367.0.
The detailed assessment reports were disseminated in May 2006 for the Basel Core Principles for Effective Banking Supervision on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19246.0, for the Transparency of Monetary Policy and Banking Supervision on

http://www.imf.org/external/pubs/cat/longres.cfm?sk=19248.0, and the Technical Note - Deposit Insurance on http://www.imf.org/external/pubs/cat/longres.cfm?sk=19250.0.
The Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism was published in June 2007 (IMF Country Report No. 07/190, http://www.imf.org/external/pubs/cat/longres.aspx?sk=21030.0).

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.

Technical Assistance, 2010–18		
Department Counterpart	**Subject**	**Timing**
MCM	Monetary Policy Modeling	November 2018
MCM	Monetary Policy Modeling	August 2018
MCM	Resolution of Nonperforming Loans	July 2018
MCM	Monetary Policy Modeling	May–June 2018
MCM	Nonperforming Loan Assessment	April 2018
MCM	Monetary Policy Communication	April 2018
MCM	Monetary Policy Modeling	February–March 2018
MCM	Monetary Policy Modeling	November 2017
MCM	Monetary Policy Modeling	September 2017
MCM	Monetary Policy Modeling	May–June 2017
MCM	ELA and Reserve Requirement	February–March 2017
MCM	Monetary Policy Modeling	February–March 2017
MCM	Monetary Policy Modeling	November–December 2016
MCM	Asset Quality Review Oversights	July–August 2016
MCM	Central bank capital	November 2015
MCM	Liquidity forecasting and management	April 2015
MCM	Monetary targeting and foreign exchange interventions	March–April 2014
MCM	Monetary policy strategy and implementation	May–June 2013
MCM	Risk Based Supervision	July 2012
MCM	Bank Supervision	February–March 2012
MCM	TA on Development Bank	October–November 2011
MCM	Bank Supervision	October 2011
MCM	Risk Based Supervision	April 2011
MCM	Banking supervision: on-site inspections	September 2010
MCM	Banking Supervision: early warning system, risk management	March–April 2010
MCM	Strengthening central bank autonomy	March 2010
FAD	Institutional processes in respect of tax policy design, revenue forecasting and other revenue analyses	April-May 2018
FAD	Streamlining Tax Expenditures and Revenue Mobilization	March 2017
FAD	Developing a Reform Strategy for SOEs	November 2016
FAD	Oversight and Management of SOEs	June 2016

Department Counterpart	Subject	Timing
FAD	Options to Streamline Tax Expenditures and Revenue Forecasting	March 2016
FAD	Fiscal Risks and Quasi Fiscal Activities	July 2015
FAD	Social Safety Nets	November 2011
FAD	Program budgeting and medium-term framework	March–April 2011
FAD	Tax administration	September 2010
FAD	Tax policy	April 2010
FAD	Expenditure rationalization	March 2010
STA	Government Finance Statistics	November 2017
STA	Price statistics	March–April 2014
STA	National accounts statistics	September–October 2013
STA	Government finance statistics	July–August 2013
STA	National accounts statistics	April 2013
STA	Multitopic Statistics Mission	October–November 2010

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

- As of November 30, 2018, Belarus has collaborations with The World Bank Group, the European Bank for Reconstruction and Development and the European Investment Bank.

- Further information can be obtained from the following hyperlinks.

International Financial Institution	Link
The World Bank Group	http://www.worldbank.org/en/country/belarus/publication/cpf-2018-2022
European Bank for Reconstruction and Development	https://www.ebrd.com/where-we-are/belarus/overview.html
European Investment Bank	http://www.eib.org/en/infocentre/press/releases/all/2018/2018-289-first-ever-eib-support-for-belarus-development-of-water-infrastructure-and-private-sector.htm

STATISTICAL ISSUES

(As of November 30, 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance.
National Accounts: The National Statistical Committee of the Republic of Belarus (BelStat) compiles and disseminates quarterly and annual GDP estimates at current and constant prices. The quality of the estimates is good. BelStat compiles annually a full set of accounts (up to the financial accounts), institutional sector accounts, and input-output tables. Since 2008, Belstat has been compiling regional GDP estimates. The accuracy of the source data is good, and the statistical techniques used are sound. The national accounts estimates are internally consistent, and they are also consistent with other macroeconomic statistics. All other real sector data are disseminated in accordance with the SDDS requirements. Until April 2016, Belarus participated in the STA project for the Sustainable Compilation of Real Sector Statistics in Eastern Europe, funded by the Government of Japan, and received technical assistance and support from a statistics advisor resident in Moldova. BelStat has made good progress to date in implementing the concepts and methods of the 2008 SNA and in improving the compilation of the national accounts as needed.
Price Statistics: The CPI covers 31 towns and the PPI covers the entire territory of the Republic of Belarus with about 19,000 price quotations for representative goods of different kinds of economic activity. They are published monthly. Belstat also publishes indices for foodstuffs, nonfood goods, and services. For the CPI, the structure of the population's expenditures of the year 2016 is used as weights for the current year. The current PPI weights refer to the year 2014. For the most part, Belstat is producing the CPI and PPI in accordance with international standards and best practices as noted in the CPI and PPI Manuals.
Government Finance Statistics: Government finance statistics are compiled in broad compliance with the Government Finance Statistics Manual 2014 (GFSM 2014). The authorities provide timely information up to the General Government level which includes data on Revenue, Expense, Transactions in assets and liabilities, balance sheet (financial, non-financial assets and liabilities), and Expenditure by functions of government (COFOG). The authorities also send quarterly information on Revenue, Expense and Transactions assets and liabilities to the General Government level. Areas that need improvement include classification of some revenue and, in particular, expenses (for example, , social benefits and social contributions and equity injections to corporations); inconsistency between GFS and monetary data; some gaps in the balance sheet data, valuation of assets and liabilities (at nominal or market value); including the operations financed by foreign loans that are not currently covered in GFS and, importantly, compilation of data for public corporations. A GFS mission took place in November 2017.

Monetary and Financial Statistics: Monetary and Financial Statistics are compiled by the National Bank of the Republic of Belarus (NBRB), broadly following the methodology of the IMF's Monetary and Financial Statistics Manual (MFSM). The NBRB reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations, and 5SR for monetary aggregates on a monthly basis with a lag of less than one month, and SRF 4SR for the other financial corporations on a quarterly basis with a lag of two months, for publication of monetary data in the IMF's International Financial Statistics.
Financial Sector Surveillance: Belarus reports the 12 core financial soundness indicators (FSIs) and 12 of the 13 encouraged FSIs for deposit takers, 2 FSIs for other financial corporations, 2 FSIs for households, and 4 FSIs for real estate markets on a quarterly basis with one quarter lag for posting on the IMF's FSI website.
External Sector Statistics: The NBRB publishes quarterly balance of payments and international investment position statements in the BPM6 format dating back to 2000 (data in the BPM5 format for 1996–2011 are also disseminated). The coverage and methodological soundness of the external sector statistics are fully in line with international standards and their timeliness and serviceability meet the SDDS requirements.
SDR Holdings: Currently liabilities for SDR allocations are included only in the external sector statistics under the general government and are accounted neither on the NBRB balance sheet nor on the MOF balance sheet. The Fund advice to the authorities is to recognize the liability as the responsibility either of the MoF or the NBRB.
II. Data Standards and Quality
Belarus subscribed to the Special Data Dissemination System (SDDS) on December 22, 2004 and has met SDDS specifications since then.

Belarus: Table of Common Indicators Required for Surveillance

(As of December 4, 2018)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	November 2018	11/30/2018	D/W/M	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	October 2018	11/15/2018	D/W/M	M	M
Reserve/Base Money	November 2018	11/23/2018	D/W/M	W/M	M
Broad Money	November 2018	11/23/2018	W/M	W/M	M
Central Bank Balance Sheet	November 2018	11/23/2018	D/W/M	W/M	M
Consolidated Balance Sheet of the Banking System	October 2018	11/14/2018	W/M	M	M
Interest Rates[2]	November 2018	11/30/2018	D/W/M	D/W/M	D/W/M
Consumer Price Index	October 2018	11/9/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q3/18	10/31/2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	October 2018	11/30/2018	M	M	M
External Current Account Balance	Q2 2018	9/14/2018	Q	Q	Q
Exports and Imports of Goods and Services	September 2018	11/12/2018	M	M	M
GDP/GNP	Q2 2018	10/31/2018	M	M	M/Q
Gross External Debt	Q2 2018	09/14/2018	Q	Q	Q
International Investment Position[6]	Q2 2018	09/14/2018	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 banks, 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).

Statement by Raci Kaya, Executive Director for the Republic of Belarus and Alexander Zaborovskiy, Advisor to the Executive Director for the Republic of Belarus

The Belarusian authorities thank staff for the constructive discussions and policy dialogue during the 2018 Article IV consultation. There is broad concurrence between the authorities and staff about the directions of economic policies, and the new Belarusian Government, which has been appointed in August 2018, intends to move steadfastly in advancing the macroeconomic and structural policies in line with staff's recommendations.

Recent macroeconomic developments and outlook

Favorable economic developments continued in 2018, characterized by accelerated broad-based GDP growth and subdued inflation. Real GDP growth is expected to exceed 3 percent in 2018, mostly driven by strong export and robust domestic demand, including investments and consumption. All main sectors except for agriculture are to record positive growth rates. The inflation, current account deficit, income inequality and unemployment remain at low levels underpinned by sound budget and monetary policies as well as structural reforms aimed at boosting the private sector and foreign direct investments (FDIs).

To entrench the achieved macroeconomic stability and support the current growth momentum, the new Government outlined an ambitious economic policy package. A wide range of policies, that have been approved by the Parliament in the Government's Action Program up to 2020, includes measures to (i) strengthen oversight and financial discipline of state-owned enterprises (SOEs), improve corporate governance and reduce fiscal risks; (ii) streamline the regulatory framework to enhance the business climate and attract FDIs; (iii) facilitate structural transformation of the economy towards the service sectors and IT-industries, and promote trade diversification. The authorities expect these policies to further boost the growth potential and accelerate Belarus' income convergence with regional peers.

Against the challenging external outlook, the authorities remain committed to sound policies and exchange rate flexibility. On the backdrop of elevated external risks, including geopolitical tensions in the region and trade-related frictions in the Eurasian Economic Union, the authorities strongly believe that the exchange rate flexibility and prudent macroeconomic policies remain the first line of defense against adverse shocks and unfavorable developments. Growth-enhancing structural policies are also high on the authorities' agenda and continue to be implemented with due regard to preserving the economic and social stability in the country.

Fiscal policy and debt sustainability

Starting from 2015, the authorities have embarked on a sizable fiscal consolidation, comparable in its scale to some Fund-supported programs. Using the staff's broad definition of fiscal balance (*page 41*), the fiscal adjustment of 2.7 percent of GDP has been achieved in two years (since 2015). The fiscal adjustment package consisted of the pension reform, hike in utility tariffs, revenue mobilization measures (increases in personal income tax, corporate profit tax, VAT rates), significant cuts in current spending and off-balance sheet operations. The balanced budget net of cyclical revenues has been targeted to facilitate structural fiscal rebalancing and budget sustainability.

In 2018, fiscal policy continued to be disciplined. The actual fiscal outturn for 2018 is characterized by a solid primary surplus, higher revenue collection, better quality of expenditure, and restrained non-priority spending. The authorities have used the accumulated fiscal space for early redemption of public debt papers in the amount of up to US$ 0.5 billion as well as some priority capital and social expenditures.

The recently approved 2019 budget is based on conservative and risk-based assumptions. The budget: (i) rests on a lower GDP growth forecast than projected by staff; (ii) fully incorporates possible revenue losses caused by negative spillovers from the new taxation scheme in the Russian oil industry; (iii) targets the budget surplus of 1.3 percent of GDP (BYN 1.7 billion). On the expenditure side, it envisages a 10 percent spending cut of subsidies and transfers to SOEs, which is consistent with the authorities' gradual approach to restructuring and commercialization of the state-owned sector, as well as a 5 percent cut of subsidies on utilities for households which is in line with the steady increase in utilities tariffs' cost-recovery.

The 2019 budget is compliant with the medium-term budget framework aimed at putting public debt on a downward trajectory. The authorities intend to reduce the central government debt to 25 percent of GDP by 2025 by allocating budget surpluses to debt repayment. According to the fiscal rule approved by the authorities, the annual budget surpluses should be consistent with the debt reduction strategy and include revenues from export customs duties. A cap on net new domestic guarantees and stricter review procedures for both domestic and external guarantees are also in place to firmly keep publicly-guaranteed debt under control. Regarding the public DSA presented in the Staff Report, the relatively sizable contribution of the residual to changes in the public debt dynamics (*page 45*) points to the need for a more nuanced analysis of factors driving debt in Belarus. It is also worth noting the strong debt-reducing contribution of the primary surplus that stays at around 3 percent of GDP over the projection period.

The authorities press ahead with modernizing the tax administration and the revenue-neutral revision of the Tax Code. On January 1, a new version of the Tax Code entered into force which simplifies the tax administration and interaction between taxpayers and the tax authorities, liberalizes penalties (penalties will not exceed additional tax sums, which are charged after an audit), and ensures the predictability and integrity of the tax legislation. In 2019, the authorities intend to approve the methodology for assessing the effectiveness of tax expenditures and embark on the comprehensive evaluation of the existing preferential tax regimes to optimize the current system.

Efforts to further strengthen public financial management (PFM) and a fiscal risk assessment (FRA) framework are high on the authorities' agenda. The PFM Modernization Project is being implemented with the World Bank's support and a Public Expenditure Review has been launched by the Ministry of Finance recently. The implementation of the medium-term budget framework for 2019–2021 should reinforce fiscal discipline, facilitate informed policymaking, and provide predictability in planning and executing budgets. Result-oriented budgeting is also being employed to contain inefficient spending and promote growth-friendly public investment. The authorities welcome staff's positive assessment of the progress made in designing the FRA framework and intend to move forward with strengthening and advancing its architecture in line with staff's recommendations.

Monetary policy and financial stability

The National Bank of the Republic of Belarus' (NBRB) monetary aggregates targeting framework proves to be instrumental in curbing inflation and reinvigorating healthy credit growth. In 2018 inflation has been brought down to 5.5 percent against the NBRB's target of not higher than 6 percent. Against falling real interest rates, credit to the economy recovered both for households and corporations. With the monetary policy rate (the NBRB's refinancing rate) currently at 10 percent, the authorities broadly agree with staff that the current monetary policy stance is appropriate and should be maintained. The inflation target for 2019 is set at 5 percent which is consistent with the broad money supply growth (an intermediate monetary policy target) at the level of 9-12 percent (December 2019 to December 2018). The interest rate on intraday interbank credits in the national currency continues to be the monetary policy operational target.

The planned transition to a full-fledged inflation targeting framework is firmly on track. This work is supported by the EU twinning project with a consortium of European Banks, which includes the central banks of Germany, Poland, and Lithuania, as well as the ongoing Fund TA on monetary policy modelling. In December 2018, the new communication policy to strengthen the NBRB's credibility and the transparency of policy decisions has been approved and the schedule of meetings of the Board of the National Bank and briefings on monetary policy issues for 2019 has been published. Increasing openness and transparency as well as multi-channel communications help better anchor inflation expectations which is critically important for smoothly switching to inflation targeting.

The FX market has been further liberalized while preserving exchange rate flexibility. The FX surrender requirements for exporters have been fully abolished in August 2018 as well as the requirement to explain the reasons for FX purchases. Starting on March 1, 2019, the requirement to obtain NBRB's permission to open current accounts in foreign banks by households will be eliminated and legal entities' FX transactions related to capital mobility will be liberalized. Notwithstanding the ongoing FX market liberalization, the FX reserves amounted to US$ 7.2 billion at the beginning of January 2019, covering approximately 2.2 months of imports. The NBRB remains committed to a flexible exchange rate determined by market forces and intends to proceed with further FX reserves accumulation when conditions permit.

The results of the EBA-light exercise warrant cautious interpretations as the large persistent residual attests the model's poor explanation power in the case of Belarus. Belarus' current account deficit shrank from 3.3 percent of GDP in 2016 to 1.6 percent of

GDP in 2017, and to 1.1 percent of GDP in January – September 2018 supported by exchange rate flexibility, strong export receipts and increased money transfers from abroad. At the same time, the cyclically adjusted CA-Norm produced by the EBA-light for Belarus has jumped from -1.1 percent of GDP to +2.1 percent of GDP, and the residual has swelled significantly, explaining entirely the whole CA-Gap. Considering that during this period the NBRB accumulated more than US$ 3 billion in FX reserves, staff's conclusion of a slight exchange rate overvaluation is not shared by the authorities. Using several alternative methods, the NBRB estimates that REER is close to the equilibrium determined by economic fundamentals.

The authorities welcome staff's acknowledgement of the significant progress in implementing the FSAP recommendations and remain committed to steadfastly move forward in this area. Since January 2018, Belarusian banks are required to maintain capital ratios compliant with Basel III framework. The NBRB also published a list of systemically important banks which are required to maintain additional capital buffers. By October 1, 2018, the reported capital adequacy ratio of the operating banks stood at 18.2 percent for the sector as a whole and remains comfortably above the regulatory norms. Macroprudential measures (limits on loan-to-value (LTV) ratios and caps on debt service-to-income (DSTI) ratios) for addressing household sector credit risks have been employed starting on May 1, 2018. Despite the economic turbulence in 2015-2016, the deterioration in credit quality has been contained and by October 1, 2018 NPLs accounted for 4.1 percent of total assets with high coverage ratios. The authorities are determined to further develop a market for distressed assets and strengthen the operational framework of the Asset Management Company created to address the problem of NPLs transferred from the banks' balance sheets after the 2016 Asset Quality Review.

De-dollarization retains pace underpinned by the recent policy decisions. The authorities agree with staff's recommendations outlined in the report and Selected Issue Paper (SIP). They intend to employ a broad range of available instruments, including prudential policies, supervisory measures, and improved communications to bring down the dollarization to its optimal level. To develop the capital market in local currency, along with the measures presented in the SIP, as of March 1, 2019, the authorities will further limit the use of foreign currency for interbank and FX-bonds transactions, and at the domestic insurance market. The Ministry of Finance plans to extend BYN-denominated government bonds issuance for 2019. Overall, the authorities very much agree that sustainable macro policies increasing confidence in the domestic currency are the critical ingredient of the success in their de-dollarization efforts.

Structural policies

The new Government considers restructuring and commercialization of the state-owned sector as one of the key priorities. The authorities have been focusing on improving governance and the quality of management in state-owned enterprises (SOEs) based on the appropriate OECD guidelines, in parallel with tightening the budget constraints, leveling the playing field and attracting investors to the state-owned sector. Work is under way to enhance the capacity of the State Property Committee in order to strengthen the oversight of state assets. In cooperation with the EBRD and the World Bank, a number of pre-privatization projects have been launched to undertake benchmark-setting corporatization and privatization in the real and banking sectors. A successful entry of credible international investors in SOEs and state-owned banks (SOBs) would set a precedent that could be replicated further. Transferring some SOEs from the national to the regional level also facilitates small-scale privatization. This process is being conducted in close cooperation with the regional authorities considering their capacities and incentives. Staff's concerns regarding possible risks related to the devolution of some SOEs to sub-national governments are well-noted and the authorities intend to move forward carefully to mitigate these risks. Overall, the state-owned sector restructuring is being conducted with due regard to social consequences for the labor market and in close connection with expanding targeted social safety nets and creating a more favorable environment for the entrepreneurship and self-employment.

In 2019, the household utility tariffs are expected to achieve the full cost recovery level except for heating. The cost recovery level has been steadily growing since 2014 reflecting the authorities' gradual strategy. On January 1, 2019 household tariffs for electricity and gas have been increased by 21.8 percent and 25.6 percent respectively to achieve the full cost recovery. All other utility tariffs except heating, that have already been set at the level covering the full costs, have been increased up to 3.5 percent to maintain the achieved level of cost recovery. Tariffs for heating are announced to be increased on June 1, 2019. Overall, the cost recovery level of all household utility tariffs has been increased by up to 80 percent, from less than 30 percent in 2014. The increase of heating tariffs is considered in conjunction with the ongoing modernization and restructuring of the existing centralized heating system. This work is also financially supported by the World Bank and EBRD. The authorities' gradual strategy accompanied by expanding the targeted social safety nets proves to be instrumental in reducing energy subsidies and boosting cost recovery without jeopardizing social stability.

The authorities' liberalization efforts are reflected by the improved Doing Business ranking. Belarus is ranked 37th out of 190 economies in the World Bank's 2019 Doing Business report. The broad-based measures to support the private businesses, including the Presidential Decree on Entrepreneurship Development signed on November 23, 2017, made starting a business easier, and simplified the issuance of construction permits by streamlining the process to a one-stop shop. Belarus' best rankings are for registering property (5th), getting electricity (20th) and trading across borders (25th). The authorities expect that the newly adopted Tax Code and entrenched macroeconomic stability will help simplify paying taxes and getting credit, thereby further improving the business climate, encouraging investment and boosting actual and potential growth over a longer period.

The ICT sector and services became the important drivers of economic development. Export of services increased by 18.2 percent and the positive trade balance in services improved by 35.7 percent between 2015 and 2017, contributing to Belarus' overall positive trade balance in goods and services. To further promote the development of the ICT sector, a Presidential Decree on digital economy development was adopted in December 2017. The decree prolongs the special taxation and regulation regime of the High-Technology Park (HTP), introduced a liberal legal framework for Blockchain technologies and legalized “smart contracts” in Belarus. Financial and legal tools have been introduced to stimulate venture capital transactions. In 2018, production and sales revenues of HTP resident-companies are expected to have increased by 40 percent and amount to US$ 1.5 billion, with an export share of approximately 90 percent. The ICT sector accounted for approximately 5.0 per cent of GDP in 2017. The Government identified the ICT sector and service industries as the priority of structural transformation of the economy.

Liberalization and growth-friendly structural policies will keep up the momentum. The Government’s Action Program up to 2020 stipulates the following priority areas: development of the business environment by creating favorable business conditions, ensuring fair competition, and protecting property rights. The polices to promote de-monopolization are being determined with the support of the IFC. On December 19, 2018, the Parliament approved amendments to the Criminal Code to decriminalize economic offences along with the efforts to create more favorable conditions for economic activities. The thresholds of damage when criminal liability applies have been increased substantially. In addition, economic crimes not representing a great danger to the society, committed for the first time, will not entail heavy penalties. This has been done primarily to ensure that insignificant errors made by small and medium-sized businesses do not become devastating for entrepreneurs. The new Government also announced its intention to successfully complete the ongoing negotiations on Belarus’ accession to the World Trade Organization in 2020.

Belarus is shielded against the negative spillovers from the Russian tax maneuver by prudent macroeconomic policy mix in 2019 and continues to calibrate policies appropriately going forward. The 2019 budget absorbed revenue losses caused by the negative spillovers from the significant tax policy changes in Russia, the largest economy in the Eurasian Economic Union and Belarus’ main trading partner. The Governments of Belarus and Russia work closely together to resolve the matter, considering the provisions of the Eurasian Economic Union Treaty and bilateral agreements. Going forward, the economic policy mix in Belarus will be calibrated appropriately following the outcome of this work.

Final remarks

The Belarusian authorities are aware that ensuring sustained, broad-based medium-term growth requires continued policy efforts with emphasis on structural reforms. Staff’s recommendations are being carefully studied and accommodated to the extent possible. The productive and constructive dialog with the Fund’s staff and management remains an important factor for anchoring the economic policy agenda in Belarus and is highly appreciated by the authorities.