



Progress Report on compliance with conditions for the fourth tranche of the Reform Program of Government and National Bank of Belarus Supported by EFSD Financial Credit
(prepared on the basis of the Report of the Ministry of Finance of the Republic of Belarus)

Implementation of the conditions of the fourth tranche of the EFSD financial credit to the Republic of Belarus aims at:

a) reduction of the inflation and progressive build-up of the gross international reserves (GIR) through duly coordinated tight monetary and fiscal policies in the context of flexible exchange rate regime;

b) reform of goods and services markets by means of increasing the level of cost recovery by tariffs on public utility and transport services and further liberalization of pricing;

c) continued deregulation of the economy through structural reforms aimed at reduction of directed lending practices, improvement of business environment to enable more proactive engagement of the private sector, as well as increasing the efficiency of public sector enterprises and creating conditions for their subsequent privatization.

In the frame of this report, the Manager evaluated 26 conditions of the fourth tranche, including 15 control targets¹.

As of the assessment deadline (January 1, 2017), one control target was not met, which required limitation of non-project-related public borrowing in amounts not to exceed 75% of the total annual sovereign debt repayment requirement. In fact, in 2016 the borrowing amount was 101.4% of the required repayment amount. One of the main factors responsible for the above excessive borrowing was usage of debt instruments by the government to support public sector enterprises in paying off their bad debts, and replenish their statutory funds. In 2016 government bonds were issued in an amount equivalent to BYN 797.2 million², which is equal to 14.7% of the repayment amount and 0.84% of GDP. Net of the issuance of these securities, the ratio of new borrowings to the repayment requirement amounted to 86.7%. The amount of debt in excess of the 75% threshold, equal to BYN 628.3 million (equivalent to USD 327 million), almost entirely was used for replenishment of budget deposits³ amid formation of expanded surplus of the general government budget⁴ at a level of 0.5% of GDP. The Manager also notices, that the

¹ Originally, the Matrix of reforms envisaged implementation of 29 targets. In accordance with the relevant decision of the Fund Council, dated 24 April 2017 (Minutes # 31, para 2 - see Appendix 1 hereto), the Republic of Belarus was granted waiver of compliance with one control target (as it relates to one of its measures) and three indicative targets. The evaluation of these measures is not included in the Report, and they are listed in Section II as "waiver granted".

² Government bonds were issued for USD 331 million, EUR 50 million and BYN 30 million.

³ Based on the results of 2016 budget deposits increased by BYN 560.5 million.

⁴ The budget of general government comprises the consolidated budget, the budget of the Social Security Fund and other non-budget funds. The expanded balance of the general government budget constitutes difference between consolidated revenue and expenditures of these budgets, while expenditure items also include all off-balance sheet expenditures of the consolidated budget

threshold excess on the volume of government borrowings occurred in the condition of observing the threshold level of GIR.

In accordance with the recommendation of the Fund Council dated 24 April 2017 (Minutes # 31, para 4), the Manager and the Republic of Belarus agreed on the additional conditions for the sixth and seventh tranches with a view to enhancing the contents of the Program insofar as it relates to increase in efficiency of the management of state enterprises (see Appendix 2 hereto).

At the same time, the Manager recommends Belarus to strengthen the Program with additional measures, which, if implemented, will reduce the public share in the economy of Belarus.

The Manager recommends granting Belarus a waiver of non compliance of the above control indicator and disbursing the fourth tranche of the EFSD financial credit in the amount of USD 300 million, subject to receipt by the Manager of confirmation from the Government and National Bank of the Republic of Belarus on the agreed amendment of the Program.

I. Current macroeconomic situation in Belarus

The moderately tight macroeconomic policies, carried out by the authorities of Belarus in 2016, contributed to rapid decline in inflation, which at the year-end was below the target level. Control over money supply by regular auctions of NB short-term bonds, and by retaining real interest rates of the National Bank of Belarus in liquidity operations at positive level⁵, helped to curb money supply growth in the economy within the monetary targets of the EFSD Program. The tough fiscal policy, which resulted in the general government budget extended surplus⁶, contributed to decrease of inflation. Furthermore, arresting the growth of wages⁷ and stabilization of the global commodity and food prices at low levels reduced the rise in producer costs. As a result, despite the target, set by the National Bank of Belarus for inflation at a level not to exceed 12% in 2016, the actual inflation rate by the end of 2016 was down to 10.6%, compared to 12.0% at the end of 2015. The rate of decline in inflation has accelerated significantly in the current year; by April 2017 the annual inflation dropped to 6.3%. Well-coordinated and consistent macroeconomic policy of the authorities has resulted not only in substantial reduction of the actual inflation, but also impacted on inflation expectations⁸, which creates a sound basis for improving efficiency of the policy measures aimed at further reduction of inflation and keeping it at low and predictable level.

Reduced rate of decline of GDP to 2.6% in 2016 resulted from the balanced macroeconomic policies and flexible exchange rate. Flexible exchange rate policies pursued by the NB of Belarus since June 2015, enabled minimization of foreign currency interventions and using them predominantly for smoothing out the sharp fluctuations of the exchange rate. Devaluation of the real exchange rate by 8.3% in 2016 occurred in the context of lower inflation. The resultant increase in price competitiveness of exports of the Republic of Belarus, along with the low baseline performance of the previous year, and the recovery of external demand, demonstrated by Russia, have contributed to the hike in non-energy exports from Belarus. Growth in quantitative export volumes has become one of the key factors decelerating economic decline in 2016 down to -2.6% from -3.8% in 2015, despite the drop in exports of petroleum products due to the shrinking supply of crude oil from Russia. Another factor pushing down the rate of economic recession was the suspension of downfall of gross capital formation (-13.2% compared to -18.3% in 2015). The main driver boosting such developments was growth in inventories of manufacturing facilities, which had been built up due to overvalued capacity by producers. The trend toward recovery of the economy carried on in early 2017: according to the results in January-April, growth of GDP, amid continued increase in exports of goods and services, was equal to 0.5% (annual rate).

The augmented balance of the general government budget was formed with a surplus, as a result of reduction in off-balance-sheet expenditures and net lending of public programs, funded by the Development Bank. The budget of the general government

⁵ Given the actual inflation levels, the real interest rates were on the average within 14% during the year.

⁶ Including net financing of public programs by the Development Bank.

⁷ Real wages across the economy declined in 2016 by 3.8%, compared to the 2015 level. Growth of the payroll component in the consolidated budget was equal to +6.8% (compared to +19% in 2015), which is significantly below the average annual inflation rate (+11.8%).

⁸ According to the assessment by the NB of Belarus, in March 2017, the share of respondents expecting reduction of the inflation, increased by 7.2 percentage points, compared to December 2016. But inflation expectations continue to be high and exceed factual inflation significantly.

(including the off-balance-sheet transactions) for 2016 was executed with a surplus of 0.15% of GDP, compared to its deficit of 0.4% in 2015. Improvement in fiscal positions has been achieved through ongoing cuts in off-balance-sheet expenses⁹ (from 1.9% of GDP in 2015 to 1.6% of GDP in 2016) and public programs financed by the Development Bank (from 0.9% of GDP to 0.4% of GDP)¹⁰, as well as more moderate growth of current expenditures (+ 14.4%, compared to + 21.8%). In the meantime, the national budget revenue growth amounted to 7.1%, as compared to 21.5% in 2015. The main factor of the above deceleration was the fall in revenue from foreign trade operations (-12.4%, compared to + 112.8% in 2015)¹¹, which was, first and foremost, due to the reduction in 2016 of export duties on petroleum products, amid declining global oil prices and lower export volumes of oil and petroleum products sold by Belarus, reduced supplies of crude oil from Russia down to 18.2 million tons, compared to 22.9 million tons one year ago. Tax policies pursued by the authorities, specifically, the removal of some tax privileges, increasing VAT rates and excise duties in some sectors, prevented a more substantial slowdown in tax growth.

The lending portfolios of banks continued to diminish amid government-initiated measures on banks sanitation, reduction of the directed lending volumes and lower demand for loans. In 2016 the volume of lending to the economy shrank by 5.9% (for constant exchange rate). Cleaning up bank balances, including by transferring bad debt liabilities to local and national government authorities, ended up in lending portfolios slashed by BYN 1.3 billion, or by 3.1%, while the reduction in prescribed lending scaled them down by a further 2.2%. In addition, lending resources diminished, because of the low demand from business and weak balance sheets of enterprises, as well as ongoing economic recession. Yet, banking sector's sanitation measures brought about an increase in debt liabilities of the Ministry of Finance by BYN 370 million (0.9% of the lending portfolio of banks) and those of local authorities - by BYN 924 million (2.3% of the lending portfolio of banks).

The banks are faced with problems of quality of lending portfolios; however in the medium term they may gain in stability. The main problem of the banks in Belarus is still attributable to the high (and growing at a rapid pace) proportion of bad loans, which constitutes a constraint on their ability to carry out lending to the economy. In 2016 this share rose from 6.8% to 12.8%, and during the first 2 months in 2017 - to 13.3%. Such a rapid deterioration in the asset quality of banks resulted from partial termination of the policy of permanent refinancing of bad debts amid reduction of directed lending practices. To an extent, the increase in the proportion of bad loans has been curbed by cleaning up the banks' balances: according to the assessment made by the EFSD, the "sanitation" measures designed to enable transfer of bad debts to government authorities, diminished their share in the lending portfolio by 2 percentage points, according to the results for 2016. At the same time, cleaning up balances and reduction of directed lending in the midterm may generate prerequisites for market-based distribution of lending resources, which should contribute to improvement of efficiency of performance of the banking

⁹ Mostly as a result of cutting down on state programs funded from budget deposits (0.7% of GDP to 0.3% of GDP) and reducing government guarantee expenditures (from 0.5% of GDP to 0.4% of GDP).

¹⁰ On net basis.

¹¹ Significant growth in revenues from foreign trade operations in 2015 was due to the start of transfer of export duties on petroleum products from Russian oil to the national budget of the Republic of Belarus, whereas prior to 2014, inclusive, they had been transferred to the Russian Federation. Net of petroleum export duties, budget revenues from foreign trade operations in 2016 increased by 22.3% compared to a drop of 11.4% in the previous year.

sector. Another positive message for the banking sector is restoration of the BYN deposit base in the context of stabilization of the exchange rate and declining share of foreign currency deposits from 74.5% at the beginning of 2016 to 70.2% as of 1 January 2017, which improves resilience of the banking system to foreign currency shocks.

Improvement of the current account balance was accompanied by reduction of foreign direct investment and increasing external debt, which is indicative of the ongoing negative impact of the accumulated structural imbalances in the economy. With price competitiveness of Belarus on the rise, the current account deficit in 2016 decreased by USD 140 million and totaled USD 1.7 billion (3.6% of GDP), compared to USD 1.8 billion (3.2% of GDP) in 2015¹². In addition, net foreign currency sales by the population in the amount of USD 1.9 billion, including USD 1.1 billion - on non-institutional basis, proved to be one of the main sources for replenishment of GIR. Improved balance of foreign trade was accompanied by the ongoing decline in inflows of foreign direct investment and growth of external government borrowing. Foreign direct investments, which in 2010-2013 averaged about 8% of GDP, have dropped over the last three years to 2.3% of GDP. The external public debt, which increased from 22.7% of GDP in the beginning of 2016 up to 28.5% of GDP, by the end of 2016 showed such growth due to expansion of tied loans, mainly extended by Russia and China, by USD 1.1 billion. The decline in foreign direct investment severely hampers the efforts of the authorities of Belarus to overcome the trend toward shrinking productivity in the economy, and is a result of structural problems. The dominant influence of public sector enterprises, the slow progress in reforming them, the lack of a dynamic labor market, as well as persistent price controls, are the fundamental factors that strongly affect the efficiency of resource utilization and limit the capacity for economic growth.

¹² Expansion of the current account deficit in per cent to GDP is caused by the decline in GDP (in USD equivalent).

II. Status of compliance with conditions for the fourth tranche of EFSD financial credit.

Given the decision of the Fund Council to grant the Republic of Belarus a waiver of not compliance of one control target and three indicative targets, this section presents the assessment of compliance with 26 conditions, including 15 control targets. As of the assessment deadline, failure to comply with one control target was observed; it required limitation of non-project related annual public borrowing to an amount not to exceed 75% of the total annual sovereign debt repayment requirement.

I. Macroeconomic stabilization

These measures are aimed at reducing inflation and supporting gross international reserves through tight and balanced monetary and fiscal policies in the context of flexible exchange rate regime.

Reduction of the rate of inflation in the current year to single-digit values occurred in Belarus amid a global trend toward decelerating inflation processes. However, the inflation rate in Belarus is higher than in other countries of the region, which testifies once again to the relevance of tight macroeconomic policies in the country. Widespread inflation expectations at a time of persistent uncertainty, high level of real interest rates and the extensive dollarization, hamper efficient performance of the economy. Significant gap between real wages and productivity of labor, and the relentless directed lending practices, exert additional pressure on inflation. The resultant unbalanced increase of the share of incremental overheads in the gross production output constitutes a fundamental factor, responsible for poor competitiveness of the Belorussian economy.

Target 1.1. The level of gross international reserves (GIR) should be equal to at least USD 4.3 billion (equivalent to 1.6 months of imports) - a control target.

Status: met.

According to the analytical review of the NB of Belarus, as of 01/01/2017 GIR amounted to USD 4.9 billion (2.0 months of imports), compared to USD 4.7 billion (1.9 months of imports) on 01/09/2016 (deadline date for evaluation of the third tranche) and USD 4.2 billion (1.5 months of imports) at the beginning of 2016.

Building-up of GIR, measured in months of imports, is necessary to ensure improved resilience of Belarus to external shocks amid persistent current account deficit¹³, reduction in capital inflows, heavy foreign currency debt service burden.

GIR volume is increased by means of a more flexible foreign exchange policy including adoption by the NB of Belarus of the continuous auction matching method to determine the rate of exchange and the policy of monetary targeting.

By the end of 2016 GIR had grown by USD 751 million. The sources of GIR expansion were foreign currency interventions by the NB of Belarus (USD 1.6 billion), issuance by the Ministry of Finance of foreign exchange securities (USD 1.4 billion), revenue proceeds accruing from petroleum export duties (USD 1.4 billion), and the financial credit of the EFSD (USD 0.8 billion). In addition, the value of GIR increased as a result of asset revaluation, upgrading it by about USD 0.1 billion. United. At the same time, constraining impact was exerted on the growth of GIR by government foreign currency expenditures, primarily, as part of repayment of debt

¹³ A positive current account balance was last recorded in Belarus in the year-end results of 2005.

liabilities (minus USD 3.9 billion), and reduction of the short-term debt liability of the National Bank to residents and non-residents (minus USD 1 billion).

Some excess over the GIR threshold in months of imports was due to a more profound than anticipated reduction of imports.

Target 1.3. Maximum level of net domestic assets (NDA) according to the program rate does not exceed BYN 5.9 billion (subject to swap repayment adjustment to the threshold - BYN 5.6 billion) - a control target.

Status: met.

According to the analytical review of the National Bank of Belarus, as of 01.01.2017 NDA amounted to BYN 4.37 billion (compared to BYN 6.2 billion on 01/09/2016, and BYN 6.9 billion at the beginning of 2016). Compliance with this control target is required to ensure stringent and coordinated fiscal and monetary policies in order to achieve a balanced domestic demand.

Tougher monetary policies, including reduction by the NB of Belarus of volumes of lending to commercial banks, and carrying out by the NB of Belarus of active banking transactions to withdraw excess liquidity from the economy, ensured implementation of this measure, despite a minor decline in government deposits in the National Bank.

Target 1.4. Maximum level of monetary base (MB), according to the program rate, does not exceed BYN 4.9 billion - an indicative target.

Status: met.

According to the analytical review of the National Bank of Belarus, as of 01.01.2017 the volume of MD amounted to BYN 4.5 billion, compared to BYN 4.3 billion in early September 2016.

Controlling the level of MB helps to consolidate the benefits of anti-inflation policies.

This measure was implemented by restricting the growth of NDA, which was recorded at a much lower threshold. As a result of the implementation of this measure, the NB of Belarus managed to reduce inflation, which by the year-end was at the level of 10.6%, with its target at 12%.

The Manager welcomes the measures to limit the monetary base of Belarus and its anti-inflation programs, but also points out the role of external factors in reducing inflation, primarily, such as low global prices. To ensure a sustainable and low inflation rate, the NB of Belarus should carry on with its stringent monetary policy in 2017. The Economic Policy Framework provides that in the course of disbursement of the financial credit, growth of the monetary base should be contingent only on increase of the mandatory reserve fund for foreign currency deposits, because of the BYN devaluation.

Target 1.5. Maximum growth of broad money supply according to the program rate is 0% - an indicative target.

Status: met.

Money supply according to the program rate since the beginning of 2016 increased by 0.1% (compared to the reduction by 3.4% at the beginning of September 2016).

Money supply growth accelerated in Q4 of 2016, due to a significant increase of the BYN component in the monetary base. In 2016 BYN money supply rose by 19.4%, of which more than half (11.2 percentage points) - in Q4. Its accelerated growth during this period was stimulated by an increase in the expenditures of the Ministry of Finance, which resulted in

stabilization of the exchange rate and motivated economic actors to actively sell foreign currency and deposit BYN proceeds into bank accounts.

The importance of avoiding excessive growth of money supply stems from persistence of an abundant monetary overhang, generated by the accumulated gap between growth of real wages and labor productivity and the high level of inflation expectations. During the last 5 years, the inflation in Belarus has retained a double-digit rate, which is indicative of a chronic excess of money supply over demand. High and volatile inflation rates distort the price signals coming from the economy, increase the risks of uncertainty, undermine the efficiency of growth stimulus policies and downgrade investment attractiveness of the country.

Target 1.6. No multiplicity of exchange rates - an indicative target.

Status: met.

Practice of multiplicity of rates is non-existent. In 2016 the deviation of the exchange rates compared to the official rate was within 2%, despite a very serious devaluation in January (14%). In 2015, minor deviations of the rate on the over-the-counter and cash markets from the official exchange rate were observed only at times of strong devaluation (in January, when the devaluation was 30%, and in August, when the BYN-USD rate dropped by 15%).

This measure is aimed at creating equal conditions for all market actors and constitutes an important prerequisite for abatement of the devaluation expectations and building of GIR.

Implementation of this measure became possible thanks to scrapping of all administrative restrictions on currency conversion. The Manager emphasizes the importance of exclusion of practice of multiplicity of exchange rates in all future activities.

Target 1.7. Performance of stock market trading transactions in the mode of continuous two-way auction - an indicative target.

Status: met.

The mechanism of the two-way auction is implemented and has been running since 1 June 2015. The Resolution of the Board of the National Bank of 1 March 2016 # 106 enables economic entities to carry out trading operations on foreign exchange markets through Belorussian banks.

This measure aims at improving operation of the domestic foreign currency market and its liberalization, which should promote flexibility of the BYN exchange rate. Improvement of foreign currency policies will facilitate elimination of foreign trade imbalances by generating articulate price signals on the foreign currency, money and commodity markets.

Introduction of the two-way auction mechanism enabled creation of a platform for transition to a floating exchange rate and reduction of exchange rate support interventions, which proved instrumental in reaching net foreign currency purchases by the NB of Belarus totaling USD 1.5 billion by the year-end in 2016. The Resolution of the Board of the National Bank of Belarus # 106 scrubs both the 2015 ban on purchases by economic entities of foreign currency on trading floors of the Belorussian Currency and Stock Exchange, and the limitation of their trading activities by mandatory sale of foreign currency earnings only. The current analysis shows that economic entities continue to trade in foreign currency mainly on OTC markets, and over 90% of their trading come down to selling foreign currency earnings.

Target 1.8. A system of liquidity management tools compliant with the monetary targeting policy is operational - an indicative target.

Status: met.

In January 2015, the NB of Belarus adopted a policy of monetary targeting as part of its overall monetary policy, with money supply control, based on a preset level of money supply growth, as its principal tool for achieving the inflation rate target.

This measure improves effectiveness of anti-inflation policies in addressing this key economic problem, and maintains the required level of liquidity in commercial banks.

The system of liquidity management tools, compliant with the monetary targeting policy, has been up and running since 13 May 2015. Money supply management is carried out by the NB of Belarus by modifying the volume of its liquidity control transactions for the banking system. Interest rates, both for money markets and auctions, are determined by the NB of Belarus on the basis of market factors with due account of available liquidity.

Implementation of this tool had a positive impact on decelerating the rate of inflation in 2015-2016. In 2016, this tool was also actively used for the purpose of removing excess liquidity resulting from foreign currency purchases by the NB of Belarus on the market.

Target 1.9. Changes of the refinancing rate are subject to: achieving the inflation target, actual dynamics of interest rates for auction transactions of the National Bank¹⁴, interbank interest rates, status of the current account of the balance of payments and minimizing exchange rate support interventions - a control target.

Status: met.

During 2016, the National Bank of the Republic of Belarus changed the refinancing rates on four occasions, each time downward by 1-2 percentage points, reducing the rate from 25% at the beginning of the year to 18% - at the year-end. The rate reductions were made in the context of a considerable excess of foreign currency supply over demand on the domestic market. The foreign currency supply was provided mainly by the population, which uses foreign exchange savings to keep up their consumption level with real incomes sliding down. The National Bank of Belarus, purchasing the foreign currency, provided inflows of liquidity to the economy, which led to a reduction of rates at the NB auctions.

Compliance with the inflation target was observed throughout the year, and by the year-end it was 10.6%, with its target equal to 12%. The current account deficit in percentage of GDP at the year-end increased from 3.2% to 3.6%, but dropped in absolute terms from USD 1.8 to 1.7 billion. Therefore, by reducing the interest rates, in formal terms, the National Bank of Belarus followed the above requirements.

This measure is aimed at curbing the monetary overhang pressure on inflation and foreign exchange rates, as well as at reducing directed lending. The high volume of directed lending generates pressure on the balance of payments, and also raises the cost of loans for other market actors, as well as reduces effectiveness of caps and floors for the monetary policy.

The Manager therefore recommends to the authorities of Belarus to adhere to the conservative approach in addressing further rate cuts. The lower inflation observed in 2016, was largely due to the improved external market conditions and other transient factors that do not have a fundamental impact on inflation. In the context of deep-rooted inflation expectations, decisions to change rates should be based solely on the behavior of fundamental factors. The

¹⁴ Provision of liquidity by the NB of Belarus.

foreign trade balance is still volatile, and reduction of the interest rate in this context may increase the pressure on the balance of payments due to capital outflows. The high increments in BYN supply in Belarus, observed since the end of 2016, may contribute to boosting monetary inflation pressure in the second half of 2017, as other factors weaken their price depressing impact in Belarus. Macroeconomic risks still constitute a considerable issue: given the current price volatility on energy commodity markets, the scenario of sharp deterioration in external trade conditions should not be ruled out for Belarus. The present day stability of the foreign currency market, achieved largely due to the net sales by the population of their savings, is also still prone to high risks in the case of depletion of this source.

Target 1.10. Liquidity support provided to banks by the National Bank of Belarus acting in its capacity of lender-of-last-resort based on interest rates is not below the level of its rate of refinancing - a control target.

Status: met.

According to the website of the NB of Belarus, the liquidity provision rates in 2016 were permanently maintained above the refinancing rate. The spread was 5 percentage points since the beginning of the year.

This measure ensures proper performance by the NB of Belarus acting as lender-of-last-resort. As many rates on long-term loans and deposits are linked to the refinancing rate, maintaining it at a level higher than that of the liquidity provision rate may result in distorted price signals in the banking sector. In particular, they may display excessive earnings of banks coming from long-term loans, or incorrect pricing of long-term deposits showing higher levels than rates, provided by liquidity management tools. The rates of the lender-of-last-resort should remain highest, because its economy-lending capacity is contingent exclusively on demand.

Implementation of this measure enabled the National Bank to effectively manage liquidity and avoid distorted price signals on lending and deposit markets.

P. 1.12. The surplus balance of the general government budget (including net lending of the government programs funded by the Development Bank) at the year-end in 2016 is observed at zero. The expansion of the budget deficit is allowed in an amount, equivalent to the expenditures of the national budget and of the Social Security Fund to support the unemployed (unemployment benefits, retraining), but not to exceed 0.8% of GDP - a control target.¹⁵

Status: met.

According to the preliminary assessment, at the end of 2016 the said surplus balance of general government, with due account of the net funding of public programs by the Development Bank, was accumulated at the level of 0.15% of GDP (compared to the 0.4% deficit in 2015).

This measure is aimed at reducing non-market methods of support of the economy and stabilization of debt sustainability.

The large surplus was shaped up as a result of reducing the off-balance-sheet expenditures of the consolidated budget and the volumes of net funding of public programs by the Development Bank. The above off-balance-sheet expenses were reduced from 1.9% of GDP

¹⁵ For the purposes of monitoring the Program, supported by the EFSD financial credit, the surplus balance of general government is calculated according to the technique, provided in the Technical Memorandum. This technique, in particular, requires an adjustment to be made to the budget in an amount, equivalent to the domestic debt issued for the purposes of repayment of bad debts of public sector enterprises.

in 2015 to 1.6% of GDP in 2016 following substantial cuts in the volume of budget deposits, used to finance public-sector programs (from 0.7% of GDP to 0.3% GDP) and repayments under the government guarantees (from 0.5% of GDP to 0.4% of GDP) amid the increasing expenditures on replenishment of the authorized funds of public sector enterprises (from 0.6% of GDP to 0.8% of GDP). Net financing of directed lending by the Development Bank was on a positive level at 0.4% of GDP, compared to 0.9% of GDP in 2015.

Target 1.13 Increased coverage and transparency of the budget: the Law "On the republican budget for 2017" requires due documentation of all transactions, related to financing of public-sector programs from government deposits - a control target.

Status: met.

The law "On the republican budget for 2016" provides the amount of budget deposits allocated for lending to housing construction projects (Art. 10 para 3)¹⁶. In 2017, financing of public-sector programs from the budget deposits is not budgeted.

This measure is designed to ensure improvement of transparency and comprehensiveness of data on budget expenditures, including for accurate assessment of the deficit size.

Target 1.14 CB – Restriction of growth of the public sector payroll in the budget by average annual inflation rate, corresponding to the target inflation rate for the end of 2016 at a level up to 12% - a control target.

Status: met.

The increase of the payroll outlay in the consolidated budget at the end of 2016 was equal to 6.4%, well below the inflation target of 12%.

This measure is aimed at reducing inflation, optimizing and improving the efficiency of domestic demand and diminishing pressure on the balance of payments.

In 2016, payroll increase in the consolidated budget was considerably smaller, as compared to 2015 (+17.5%). Optimization of this item of expenditure, along with consolidation of capital and off-balance-sheet expenses, enabled a large budget surplus to be achieved for the general government budget in 2016 (0.5% of GDP)¹⁷, despite the slow revenue growth from 21.5% in 2015 to 7.1% in 2016.

Target 1.16. Unconditional performance under the Strategy for 2015-2020, in respect of sovereign debt service of the Republic of Belarus, which provides for annual unrelated (untied) public borrowing¹⁸ not to exceed 75% of the total annual sovereign debt repayment requirement. In case of exceeding this level, the amount of borrowings in excess of the 75% threshold is used exclusively to replenish gold and foreign currency reserves - a control target.

Status: not met.

¹⁶ "The Ministry of Finance of the Republic of Belarus for the purposes of lending to housing construction projects, in accordance with legislation, shall deposit temporarily idle resources of government target budgetary national development fund in the amount of BYN 3,000,000,000 K, into bank deposit accounts of joint stock companies "Savings Bank "Belarusbank" and "Belagroprombank"

¹⁷ Net of financing of public-sector programs by the Development Bank.

¹⁸ The unrelated (untied) borrowings are defined herein as financial credits that are not related to implementation of investment projects with a considerable import component.

By the year end of 2016, the volume of public borrowings amounted to 101.4%¹⁹ of the total repayment amount, including external debt - 91.8%, and domestic debt - 106.2%.

Compliance with this requirement should enable reducing public debt and improving the external investment position of the Republic of Belarus.

The excesses over the threshold occurred, in part, due to the issuance of government securities to support public sector enterprises, including in repayment of bad debts and replenishment of their authorized funds. For this purpose, in 2016 the government issued sovereign bonds for USD 331 million, EUR 50 million and BYN 30 million²⁰, which in an aggregate, was equal to over 17% of the total amount of borrowings. Net of these securities, the borrowings-to-repayment ratio is equal to 86.7%. Furthermore, the borrowed funds in excess of the 75% threshold were allocated for replenishment of the budget deposits. Growth in deposits, amid such a large surplus of the consolidated budget, amounted to BYN 560.5 million at the end of 2016 (equivalent to USD 275 million).

Target 1.17. The public debt-to-GDP ratio not to exceed 45% - a control target.

Status: met.

The level of public debt to GDP as of 01/01/2017 was at 39.4%.

Compliance with this requirement should enable increased debt sustainability and improvement of the external investment position of the Republic of Belarus.

Practice of raising funds through borrowing over and above the repayment requirement threshold, inter alia, stemming from significant amounts of government support of economic entities in the context of sliding down GDP, and which resulted in non-compliance with public borrowing limits (see target 1.16 above), had a negative impact on the level of sovereign debt of Belarus. Since the beginning of the year, the public debt rose by 6.9 percentage points of GDP, due to the increase of both foreign debt liabilities from 22.5% of GDP to 28.5% of GDP²¹, and domestic debt - from 9.8% to 10.9% of GDP.

II. Reform of goods and services markets and reduction of government support.

Implementation of this set of reforms is aimed at setting up market-oriented pricing mechanisms, effective use and distribution of the commodity, financial and human resources, and improvement of competitiveness of the Belorussian economy. Specific measures to perform this task are price liberalization, raising housing utility and public transport tariffs with a view to enabling full cost recovery in the medium term, as well as reduction of public program lending by the banking system, since its scope constitutes a fundamental factor of structural disparities distorting pricing mechanisms on money, foreign exchange and commodity markets.

Target 2.1. Independent anti-monopoly body on the basis of the Ministry of Trade is established and operational - an indicative target.

¹⁹ According to the account of Belarus the borrowing/repayment ratio amounted to 101.0%, the discrepancy of 0.4 percentage points should be attributable to the exchange rate difference. In particular, the Belarus takes account of the domestic foreign currency borrowing at a rate, effective on the date of transaction, whereas the Manager does it based on the monthly average rate.

²⁰ OAO "BMZ" and OAO "Automotive Components - USD 109.6 million, OAO "Ivacevichidrev"; OAO "Assets Management" Agency - USD 210 million; woodworking enterprises - USD 11.8 million; OAO "Slytsk Meat Factory", OAO "Slutsk Cheese Plant», OAO "Minsk Construction Materials Factory", "Heavy Duty Die Forgery", OAO "Baranovichi Cotton Production Association", OAO "Minsk Meat Processing Plant" - EUR 50 million.

²¹ Net of the tied (related) loans, the nominal amount of external debt liabilities remained at the level of 01.01.2016.

Status: met.

The Ministry of anti-monopoly regulation and trade was established in accordance with the Decree of the President of the Republic of Belarus of 3 June 2016 # 188 "On authorities for anti-monopoly regulation and trade", and started functioning on 8 September 2016.

Implementation of this measure is aimed at laying the groundwork for establishing an independent anti-monopoly authority, whose main objectives should be promotion of market relations on the basis of competition and entrepreneurship, prevention and restriction of monopolistic activities and unfair competition, including through price controls on monopolies and state supervision over compliance with the anti-monopoly legislation.

Target 2.2. Regulatory ordinances to establish prices and tariffs by the Government of Belarus and other government institutions are limited to lists of goods and services contained in the Presidential Decree # 72 of 25/02/2011 and in the Resolution of the Council of Ministers of Belarus # 35 of 17/01/2014, as well as per other regulatory documents, insofar as they are not inconsistent with the EEU obligations of Belarus. Repeal of price controls for vegetables and fruits by the Decree of the Government of 17.01.2014 # 35. Abolishment of a control over tariffs for specific telecommunication and postal services (per approved list).

Abolishment of a price regulation for companies having a dominant position on markets - a control target.

Status: met, subject to granting a waiver of non compliance of the target in a part of abolishing a price regulation for the companies with a dominant position on markets.

The Manager does not have evidence of administrative interference in the process of pricing in the consumer market in violation of the Presidential Decree # 72 of 25/02/2011 and Resolution of the CM of Belarus # 35 of 17/01/2014.

The Resolution of the Council of Ministers of the Republic of Belarus # 81 dated 27 January 2017, abolished permanent price controls on vegetables and fruits. These items migrated to the list of product groups, that may be subject to price controls during 90 days of a calendar year²², which is not at variance with the terms of the EEU Treaty. The Resolution of the Council of Ministers of the Republic of Belarus # 8 dated 11 January 2016, had already, in anticipation of the program requirements, eliminated price controls over telecommunications and Internet access. However, the Presidential Decree to repeal price controls for companies with a dominant position in markets was not adopted at the time of preparation of this report. In accordance with the amendments of 14 April 2017, made by the Government and the National Bank of Belarus to the Program, repeal of price controls for companies with a dominant position was re-entered into the list conditions for compliance to qualify for the seventh tranche as a a control target.

Implementation of the above measure is aimed at abolition of administrative controls over prices and at setting relative prices on the basis on market signals. Price controls adversely impact on financial condition of enterprises producing controlled goods and distort price signals required for economic decision-making.

According to the Manager's assessment, the liberalization, insofar as it has been carried out, has resulted in a decline in the proportion of prices under administrative control for products, contained in the CPI basket, down to 19.9% as compared to 32.7% a year earlier.

²² As determined by Presidential Decree # 188 and regulatory documents of regional governments and Minsk City Executive Committee.

Target 2.3. The level of cost recovery of housing utility services by tariffs for population at the end of December 2016 is 50% - a control target.

Status: met.

By the end of December 2016, the level of cost recovery, incurred in providing housing utility services to the population, by imposing relevant tariffs, according to the assessment, was equal to 60,7%, compared to 51,6% in the previous year. The increase in cost recovery over 12 months was enabled by several factors, including the growth in tariffs by 30.7%, which was carried out during this period, and measures enacted by the authorities of the Republic of Belarus to optimize the housing utility costs.

The implementation of this measure will contribute to consolidation of budget expenditures through reducing housing utility subsidies, and will increase the competitiveness of Belorussian enterprises by eliminating cross-subsidies.

The low level of cost recovery of utility services by tariffs for the population, is laden with adverse implications for the economy of Belarus, and hinders the progress toward stabilization of the macroeconomic situation. Retaining the tariffs for the population at a level, well below the costs, leading to unreasonable consumption of housing utility services, is compensated by inflated tariffs imposed on industrial enterprises, which increases their costs and undermines competitiveness. According to the assessment provided by the Ministry of Energy of Belarus, the level of cross-subsidization is about USD 1 billion.²³ One more mechanism of compensation of low tariffs for the population is enabled by housing utility budgetary subsidies. The increased cost recovery ensured a drop in the costs by the year-end of 2016 to 0.9% of GDP, compared to 1.2% of GDP in 2015.

Introduction of full housing utility cost recovery tariffs will require revision of the tariff policy. Currently, housing utility charges in Belarus may be revised upward by USD 5 per year (for all services in aggregate) and indexed on a quarterly basis by no more than the actual growth rate of nominal wages across the economy. In this context, the thresholds, agreed upon in the EFSD Program, with respect to the rate of cost recovery, were reached, largely, as a result of optimization of costs of utility services. Potential depletion of this source, given the current tariff upgrade policy, may jeopardize the achievement of the target threshold level by the end of 2017. In the opinion of the Manager, the principal target of the tariffs policy must be equal to a preset level of cost recovery, which will determine the rate of tariff increases.

In 2016, the Belarus enacted a new social protection tool, i.e. non-cash subsidies for housing utility services. Implementation of this measure alleviates the burden of increased housing utility bills for the most vulnerable segments of the population, and will also have a positive effect on the collection of charges for services. It is expected that in the future, when the said full recovery through tariffs is implemented, this social safety net should be funded by the resources saved as a result of reduction of subsidies extended to housing utilities service providers.

Target 2.4. The level of cost recovery of public transport costs by tariffs for population not less than 65% by the end of 2016 - a control target.

Status: met.

By the end of 2016, the level of cost recovery, incurred in providing transport services to the population, was equal to 65,1%, compared to 60,2% in the previous year.

²³ Assessment as of mid-2016.

Implementation of this measure is aimed at reducing subsidies from the budget, extended to public transport enterprises, and improving the efficiency of passenger traffic.

Target 2.5. Negative net growth of lending in a frame of state programs and activities by commercial banks and the Development Bank of the Republic of Belarus in the first six months of 2016 from all sources of financing with maximum levels of new lending at BYN 28 trillion (BYN 2.8 billion in denominated amount, according to the program rate) - a control target.

Status: met.

According to the NB of Belarus, the net reduction in directed lending by commercial banks and the Development Bank in 2016 was equal to 0.97% of GDP²⁴. The volume of new loans was at the level of BYN 2.7 billion.

Implementation of this measure is focused on stabilizing the macroeconomic developments by means of reduction of inefficient investments and fiscal consolidation by cutting interest rate subsidies.

Large-scale and inefficient directed lending practices constitute one of the major factors, which generated both internal and external imbalances in Belarus in recent years. Early wrap-up of this tool will contribute to improving the quality of lending portfolios of the banking system, as well as the parameters of the national budget, and the economic development and growth by means of allocation of credits and loans to implementation of efficient projects.

Reduction of net lending to public sector programs, observed in 2016, allowed to cut down the share of such loans in the lending portfolios of commercial banks from 37.3% in 2015 to 35.6% in 2016, and to slash the national budget expenditures on subsidizing interest rates by almost BYN 200 million.

Target 2.6. A database of state programs, , which includes indicators agreed upon with the Manager, and containing information on debt liabilities and actual repayment status for at least over 9 months of 2016 is compiled - a control target.

Status: met.

The Ministry of Finance of Belarus established a database on state programs, which contains indicators, previously agreed upon with the Manager, including: loan amounts, dates of issuance and repayment, financial conditions (interest rate, percent of compensation from the budget, guarantees), volume of lending and repayment in the reporting period, amount payable in arrears at the beginning and end of the reporting period. All data are broken down into commercial banks and the Development Bank, and provide references to regulatory documents with approved basic parameters of public sector programs, as well as currencies of loans. The database, built by the Ministry of Finance, incorporates data collected from commercial banks and Development Bank. The Manager has received data on the results of 9 - 11 months and overall for 2016.

Implementation of this measure is focused on strengthening monitoring and improving the quality of decision-making on public sector programs by means of compiling disparate pieces of information into one central data storage.

The information, contained in the database, was used to estimate net amounts of funding of the said programs for 2016.

²⁴ Subject to downward adjustment of the amount of repayments by issuance of government securities and prescribed loans, transferred by the Development Bank to the Asset Management Agency.

III. Commercialization/privatization of public sector enterprises and improving social protection

The measures contained in this section are aimed at optimizing the role of the government in economic activities and in consolidation of social protection of the population.

Target 3.1. Implementation of comprehensive Strategy of enhanced efficiency of management of public sector organizations in accordance with approved schedule - an indicative target.

Status: a waiver of non compliance granted.

At this point in time, the above comprehensive Strategy of enhanced efficiency of management of public sector organizations (hereinafter - the Strategy) has not been adopted and, therefore, its formal implementation has not been launched.

The main purpose of this requirement consists in developing by the authorities of principles of reforming the system of management of state commercial property, which should facilitate maximization of profits from uses of this property in the interests of the government by means of efficient allocation of resources.

The amendments of 14 April 2017 made to the Program by the Government and the National Bank of the Republic of Belarus, make provision for replacement of this measure by a number of new indicative targets, which must be implemented in order to achieve the objectives of the Strategy, as conditions for compliance to qualify for the fifth through seventh tranches. They require strengthening of corporate governance policies in 10 national joint stock companies, transfer of at least 45 companies under municipal control, and start of trading in shares of joint stock companies at the stock exchange.

Target 3.2. Regulatory documents, containing approved objectives of socio-economic development of Belarus for 2017, as well as measures to achieve them, do not include gross directive parameters to be brought to the level of enterprises - an indicative target.

Status: met.

The Decree of the President of the Republic of Belarus, dated 3 October 2016 # 358 "On tasks of socio-economic development of Belarus for 2017" and the Resolution of the Council of Ministers of Belarus of 8 December 2016 # 1008 "On implementation of objectives of social and economic development of Belarus for 2017", approve all the key performance targets for public sector enterprises. They include: net profit, growth rate of exports, profitability of sales, lower costs of production and sales, and attracting foreign direct investments.

Implementation of this measure contributes to the optimization of public sector enterprises and accelerates their transition to more efficient management formats, and enables overall improvement of competitiveness of the economy of Belarus.

At the moment, the public sector consumes most of resources of the economy: according to the National Statistics Committee (Belstat), its share in fixed assets amounts to 69.2% (as of 2016), in employment - 60.6% (as of 2015), whereas its contribution to creation of GVA is much lower - only 48.6% (as of 2015). Optimization and commercialization of such a significant segment of the economy play a key role in achieving macroeconomic stability in the country and improving the quality of economic growth.

Target 3.4. Adoption of Resolution of the Government on regulatory effect assessment of laws and regulations in respect of administrative procedures for business - an indicative target.

Status: a waiver of non compliance granted.

As of the end of March 2017, the above Presidential Decree "On assessment of regulatory effect of laws and regulations (provisions thereof) on business environment" has not been adopted.

This measure is aimed at improving business environment by reducing and streamlining the regulatory compliance burden.

The said resolution will be enacted after the adoption of the Law "On regulatory and legislative framework"; the draft of the latter is currently under consideration by the Parliament of Belarus. In accordance with the amendments to the Program of 14 April 2017, the adoption of this new law constitutes an indicative target for compliance to qualify for the fifth tranche, whereas adoption of the resolution on assessment of regulatory effect on business, was re-incorporated into the list of conditions for compliance to qualify for the sixth tranche as a control target.

Target 3.5. Proposals for the follow-up plan of action to implement the project of privatization of OAO "Belinvestbank" prepared and submitted to the Government of the Republic of Belarus - an indicative target.

Status: met.

The above plan of action on implementation of the Memorandum of Understanding between the Government of the Republic of Belarus and the European Bank for Reconstruction and Development insofar as it relates to the proposed privatization of OAO "Belinvestbank" (hereinafter - the Bank) has been endorsed by the Prime Minister of Belarus and the Chairman of the Board of the National Bank of Belarus on 7 June 2016.

This measure is aimed at encouraging the process of privatization of public sector properties, including by providing clearly defined privatization procedures and determining fair prices for property put out for sale.

In accordance with the plan of action for the implementation of the Memorandum of Understanding between the Government of the Republic of Belarus and the EBRD, in Q4 of 2016 the following activities were completed:

- The Consultant on institutional development designed a plan for the implementation of the Institutional Development Program of the Bank for November 2016 - May 2019;

- Non-core assets sale activities were carried out jointly with the relevant government agencies;

- The Bank took part in the EBRD program activities to promote women's entrepreneurship and financial support of sustainable energy projects totaling EUR 10 million;

- Improvements were made to the organization structure of the Supervisory Board of the Bank by removing from it representatives of large-scale corporate clients and by increasing the number of independent directors. The Supervisory Board established new committees.

Target 3.6. New regulatory documents have been adopted to enable restructuring/reorganization of loss-making agricultural enterprises - an indicative target.

Status: met.

The Decrees of the President of Belarus # 253 "On measures for financial improvement of agricultural enterprises" of 4 July 2016 and # 268 "On establishment and operation of Joint Stock Company "Asset Management Agency" of 14 July 2016 provide mechanisms for financial

recovery of persistently loss-making agricultural enterprises, including a new government agency with debt collection responsibilities.

This measure is designed to address financial insolvency of public sector agricultural units by means of specialized mechanisms enabling their reorganization and restructuring.

The Presidential Decree # 253 provides for such mechanisms, i.g. pre-judicial "sanitation" and filing for bankruptcy. Pre-judicial rehabilitation may be available for agricultural units, which provide a business-plan of financial improvement, acceptable to the relevant authorities. The said pre-judicial settlement mechanisms include tax breaks, repayment of the accumulated debt by installments (including debt to the budget and to contractors), reorganization, lease-out and transfer in trust²⁵, or as donation to the investor. The latter is an option to consider in negotiating with the municipal executive committee in the form of transfer of property to efficient enterprises. In addition, the investor is granted a buy-out option for the enterprises, either leased or received in trust, in the event of successful implementation of the financial recovery business-plan, subject to consent by the President. In addition, the Decree describes the procedure of filing for bankruptcy of agricultural enterprises.

The decree on the establishment of the "Asset Management Agency" provides an additional opportunity to clear up the balances of the banking system. The agency may purchase the overdue loan repayment liabilities of agricultural companies in accordance with the inventory, established by the Council of Ministers and the National Bank of Belarus, on the basis of assignment, it may restructure purchases debt liabilities, as well as participate in pre-judicial rehabilitation of borrowers.

The importance of this measure is due to both the scope of the agricultural sector in the economy of the Republic of Belarus (the share of employment in the sector is about 10%, the share of the sector in GVA - 7%), and the considerable financial challenges in the sector (return on sales - 3.2%, compared to 7.2 % average across the economy, the share of loss-making enterprises - 22.6%, compared to the average level of 19% in the economy as a whole). The accounts payable in the farming sector at the end of 2016 reached BYN 6.5 billion, which is 14.5% higher than in the previous year. The proportion of the overdue accounts payable was twice as high as the average level across the economy (36%).

IV. Improvement of business environment and development of private sector

Measures, provided herein, are aimed at development of legislative framework and establishment of institutions, enabling private sector growth.

Target 4.1. Implementation of the Presidential Directive "On development of entrepreneurial initiative and stimulation of business activity in Belarus" (specific measures will be determined upon adoption of the Directive) - an indicative target²⁶.

Status: met.

²⁵ Qualification for the third tranche was contingent on approval by a Presidential Decree of the procedure for transfer in trust of enterprises as property, but the said decree has not yet been adopted, and this mechanism, therefore, cannot be used. In accordance with the amendments of 14 April 2017, the measure was re-entered into the list of conditions for compliance to qualify for the 7th tranche as Benchmark.

²⁶ In view of the adoption of several laws aimed at promoting entrepreneurial initiatives, including the Presidential Decree # 78 and the State Program "Small and medium-sized entrepreneurship in the Republic of Belarus" for 2016-2020, which incorporate most provisions of the new version of Directive # 4, adoption of the said directive is no longer relevant. Therefore, this measure follows the progress of implementation of the Plan of Action for the current Directive # 4 (Resolution of the CM and the NB of Belarus of 28/02/2011 # 251/6) and the Plan of action for implementation of the relevant provisions of the Presidential Decree # 78 (approved by the First Deputy Prime Minister of Belarus on 04/03/2016 # 11/100-59/49).

Implementation by the Government of a number of measures aimed at improving the business climate and development of the private sector, has resulted in upgraded rating of Belarus in the annual report "Doing Business 2017". Belarus ranks 37th out of 190 countries, improving its previous rating by 13 points and hitting the top 5 countries, which showed the biggest progress in business reforms. The Government has deployed its efforts across several problem areas: reducing administrative barriers, facilitating rental and donation procedures for small and medium-sized enterprises willing to improve operation of inefficient public sector properties, as well as ensuring broader access of SMEs to financial support and borrowing facilities.

The key purpose of this measure consists in enabling private sector development as a driver of sustainable economic growth of the Republic of Belarus.

As a result of the 2016 measures to reduce administrative barriers, 32 redundant administrative procedures were eliminated; 12 procedures converted to electronic format, bringing the total number of electronic procedures to 107; work got underway on the establishment of a uniform registry of procedures; technical regulation requirements were mitigated; electronic declaration filing system has been improved by introduction of electronic proforma-invoices; administrative burden on taxpayers was alleviated by extension of reporting deadlines and reduction of certain commitments of taxpayers.

Access of economic entities to idle or inefficiently managed public sector properties was provided in the process of adjustments made to the mechanism of determination of rent and simplification of the property donation procedure to enable creation of new jobs.

Increased financial support of SMEs was enabled with the introduction of new credit products of OAO "Development Bank of the Republic of Belarus", with the program of soft lending to export or import-substitution production facilities launched by the Belorussian Fund of financial support of entrepreneurs and with the establishment of the "Russia-Belarus Venture Capital Investment Fund.

During the period under review, a number of laws were also passed to ensure development of entrepreneurial initiatives and to provide incentives for business activities.

Target 4.2. Establishment of the Office of Business Rights Commissioner (Ombudsman). The entire regulatory framework is in place, and the Commissioner has been selected upon concurrence by business community - an indicative target.

Status: a waiver of non compliance granted.

The proposed establishment of the office of the Business Rights Commissioner, included in the draft "National Business Platform of Belarus-2016", designed by the national confederation of entrepreneurship, is still under consideration.

This measure is aimed at improving the business environment and ensuring development of the private sector by enactment of the office responsible for protection of the rights of business people.

On 16 December 2016, the Social and Cultural Council on Entrepreneurship of the Ministry of Economy held a meeting to discuss the proposed establishment of the Office of Business Ombudsman. In conclusion, the meeting of the business community in attendance proposed to defer any decision on the matter up until a consolidated position has been agreed upon on establishing a unified framework to enable protection of the rights of entrepreneurs. In accordance with the amendments of 14 April 2017, the measure on establishing the office of

Business Rights Commissioner was entered into the list of conditions for compliance to qualify for the 6th tranche as a control target.

The Manager welcomes the initiative of the business community of Belarus on the proposed establishment of the Business Rights Commissioner. The private sector of Belarus in 2016 produced over half of the gross value added, given that it employed 39.4% of the active population and it managed about 31% of fixed assets. More effective protection of the rights of the most productive segments of the economy, provided by the office of the Ombudsman, would contribute to enhancing the efficiency of the Belorussian economy as a whole.

Target 4.3. Implementation of the International Financial Reporting Standards and mandatory independent audit of financial statements. Consideration of rationale for extension of the list of companies subject to mandatory IFRS compliance in preparation of annual financial statements – an indicative target.

Status: met.

As part of the IFRS enactment requirements, beginning from 2016, accounting statements, compliant with IFRS, are prepared by insurance companies, as well as by all legal entities, responsible for compiling consolidated financial statements. Banking institutions adopted IFRS in previous years.

On 11 May 2016, the IFRS Foundation and the Ministry of Finance signed an agreement whereby the Foundation waived its copyright privileges on the territory of Belarus. Under this agreement, the IFRS Foundation provided the Russian version of texts of the Conceptual Framework for Financial Reporting and the Commentaries of IFRS.

The Resolutions of the CM of the Republic of Belarus and the NB of Belarus of 19 August 2016 # 657/20 and # 1119/35 of 30 December 2016, enacted 44 IFRSs, 26 Commentaries of IFRS, 14 amendments to IFRS and IFRS Commentaries on the territory of the country, effective 1 January 2017.

Adoption of the International Financial Reporting Standards is a major step forward toward enabling favorable investment environment in Belarus by providing to supervisory authorities and potential investors reliable high-quality information on the financial condition of enterprises.

MINUTES
of voting by written correspondence polling of members
of the Council of the Eurasian Fund for Stabilization and Development (Fund)

24 April 2017

31

Moscow

These Minutes are prepared on the basis of the results of voting by written correspondence polling of the members of the Fund Council by in accordance with para 16 of Art. 14 of the Fund Regulation.

VOTING MEMBERS:

Chairman of the Fund Council, Minister of Finance of the Russian Federation: A. Siluanov

Members of the Council: V. Amarin, A. Kasymaliev, A. Kurboniyon, B. Sultanov, V. Aramyan.

On Agenda of the Council meeting**QUORUM AVAILABLE**

Approve the following agenda for the Council meeting:

- I. *On disbursement of the third tranche of the EFSD financial credit to the Republic of Belarus*

- I. **On disbursement of the third tranche of the EFSD financial credit to the Republic of Belarus**

QUORUM AVAILABLE

1. *Endorse in general the Progress Report on Implementation of the Reform Programs of the Government and the National Bank of the Republic of Belarus, funded by the EFSD financial credit (hereinafter – the Program), prepared by the Managers on the basis of the report by the Ministry of Finance of the Republic of Belarus on compliance with the conditions for the third tranche of the EFSD financial credit, which acknowledges non-compliance by the Republic of Belarus with three indicative targets and one control target, aiming at limitation of annual untied sovereign borrowings by 75% of the total annual public debt repayment requirement;*
2. *Endorse a waiver of noncompliance by the Republic of Belarus of the said control target. Enter into the Program amendments agreed upon by the Manager and Belarus, which provide for supplementing the Program with measures to enhance the efficiency of management of public sector enterprises (Appendix 1 hereto) (hereinafter – the Amendments);*
3. *Request the Manager to disburse the third tranche of the EFSD financial credit to the Republic of Belarus in the amount of USD 300 million, subject to receipt by the Manager of the official confirmation of actual entry of the above Amendments from the Government and the National Bank of the Republic of Belarus;*
4. *Request the representatives of Belarus, jointly with the Manager before 1 June 2017, to process and submit for consideration by the Fund Council, the proposed additional measures aiming at achievement of the Program objectives.*

Chairman of the Council
of the Eurasian Fund
for Stabilization and Development

(Signed)

A. Siluanov

Appendix 1

to Minutes for results of voting by written
correspondence polling of members of the
EFSD Council

31 of 24 April 2017

Amendments and supplements to the Reform Program of the Government and the National Bank of the Republic of Belarus, funded by the EFSD financial credit (hereinafter – the Program), as related to the Economic Policy Framework (hereinafter – the Framework)

1. Remove para 3.1 from the Framework for the fifth and subsequent tranches and replace it with new indicative targets:
 - For the fifth tranche:
 - 1) Incorporation of elements of corporate governance by 10 joint stock companies (including adoption of corporate codes, establishment of core committees, etc.);
 - 2) Adoption of a decree by the President of the Republic of Belarus on transfer of at least 30 enterprises in trust under municipal control.
 - For the sixth tranche:
 - 3) Election of independent directors as members of supervisory boards in 7 joint stock companies;
 - 4) Decree of the President of the Republic of Belarus on transfer of at least 25 companies in trust under municipal control;
 - 5) Decree of the President of the Republic of Belarus on sale of stock of at least 5 joint stock companies.
 - For the seventh tranche:
 - 6) Reorganization of "Belresursy", holding managing company, into a public company.
2. Include into the list of conditions for the sixth tranche a new control target "Adoption of the Resolution of the Government on enactment of a system of social protection of employees undergoing professional retraining programs, as initiated by the local authorities".
3. Re-enter para 3.6 of the Framework "Adoption and entry into effect of the Decree of the Head of State on approval of the procedure for decision making by the local authorities on transfer in trust of persistently loss-making enterprises as properties", into the list of conditions as a control target for compliance to qualify for the seventh tranche.

Draft supplements to the Reform Program of the Government and the National Bank of the Republic of Belarus, funded by the EFSD financial credit in a part of the Matrix of Economic Policy Measures and Structural Changes (hereinafter - the Matrix)

Complement the Matrix by the following control targets:

- For the sixth tranche:

1. "Development of a methodology for assessing fiscal risks generated by public sector enterprises";
2. "Submission to the Parliament of draft amendments to the Law "On privatization", which, inter alia, provide for reduction of the term of the statute of limitation for privatization-related court cases.
3. "Development of training programs for members of supervisory boards of companies and launch of training programs";
4. "Reduction of the required amount of mandatory sale of foreign currency by export-oriented enterprises from 20% to 10%.

- For the seventh tranche:

1. "Preparation of the report on fiscal risks, generated by public sector enterprises, according to the results of 9 months in 2017";
2. "Adoption of the Resolution of the Council of Ministers of the Republic of Belarus, which provides for reduction of the list of joint-stock companies, whose stock can be purchased subject to pre-emption rights of the government."
3. "Endorsement by the Government of the Republic of Belarus of the draft Concept of Competition Development Program in Belarus for 2018-2022, which makes provision for ensuring equal conditions for competitors, i.e. entities of all forms of ownership, and for elimination of barriers hampering competition on local markets of goods and services."
4. "Providing opportunities to legal entities to purchase foreign currency without explaining the purpose to the banks."