Review
of the
Report by the Ministry of Finance of Belarus on the fulfillment of Conditions for the Third Tranche of the ACF Financial Credit

Having reviewed the progress in the implementation of the Stabilization Program of the Government and the National Bank of Belarus and the status of compliance with the conditions of the third tranche of the ACF financial credit, the Manager hereby submits for the consideration of the Fund’s Council of Experts the following conclusions and recommendations:

1. The reforms supported by the ACF credit have contributed to a significant reduction of the imbalances in the economy of Belarus and have laid the groundwork for its further sustainable development (see Table 1). The current account deficit began to decline since 2nd quarter of 2011, the international reserves were replenished, and the average monthly inflation rate in January-May was down to less than 2%. Consolidation of the country's external position and reduction of the inflation rate were facilitated by the adoption of a unified and flexible currency exchange rate in October 2011, termination of directed lending by the NB of Belarus since June 2011, cuts in lending under government programs (as a share of GDP) and achieving positive interest rates in real terms towards the end of 2011. At the same time, an important contribution to the stabilization process was made by external factors, such as reduction of prices for energy imported from Russia, improvements in the terms of trade, and disbursement of credits from ACF, Sberbank and EDB.

2. Despite the success of the program supported by the ACF resources, the stabilization process has not been yet completed. Given the structure and the degree of openness of the Belarus economy, as well as the level of gross external debt (as of 01.01.2012 it amounted to 62.3% of GDP, of which short-term debt stood at 25% of GDP), the level of international reserves in months of imports is still insufficient. The large current account deficit (10.5% of GDP in 2011) does not allow the country to maintain its international reserves at their current level, to say nothing of building them up. Through a downward pressure on the exchange rate, this will continue to drive up domestic prices and costs of production and to reduce the country’s competitiveness. The currently practiced administrative price
controls prevent adjustments of relative prices and hamper appropriate decision-making, to ensure efficient allocation of resources and restructuring of the economy. In particular, these controls affect the correctness of inflation forecasts and the judgments of whether real interest rates are positive or not, which should provide the basis for changing the refinancing rate of the National Bank with a view to reaching acceptable levels of inflation.

3. Success of the stabilization program depends entirely on the commitment of the Belarus Authorities to maintain prudent monetary and fiscal policies and a flexible exchange rate regime. Further deceleration of inflation is the key prerequisite to enabling sustainable growth and improving external balances over the medium term.

4. To ensure the implementation of the stabilization program, the Government and the National Bank of Belarus have prepared and agreed upon with the Manager on an updated Letter of Intent for 2012. The Letter includes additional indicators for the ceilings on net domestic assets (NDA) in the balance sheet of the National Bank, and on the growth of credit to the economy. The main objective of these stabilization measures is to achieve the Government-established inflation targets for the medium term.

5. Given that this Letter of Intent is deemed acceptable to the Manager and that the Borrower has met 15 out of the 17 conditions set for the third tranche, including all quantitative control targets, the Manager hereby recommends to: (a) approve the disbursement of the third tranche in the amount of US$ 440 million; (b) approve the attached Letter of Intent, to be used as the basis for the monitoring and authorization of disbursement of the two subsequent tranches; and (c) instruct the Borrower to prepare, in cooperation with the Manager, by November 2012, i.e. by the time of the disbursement of the fourth tranche, a new version of the Letter of Intent for 2013, to be reviewed at the next meeting of the ACF Council.
Table 1. Key Macroeconomic Indicators of Belarus for 2010-2012

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (BYR billion)</td>
<td>3132.5</td>
<td>37 932.5</td>
<td>38 519.2</td>
</tr>
<tr>
<td>GDP (US dollar)</td>
<td>10.7714</td>
<td>12.7077</td>
<td>12.7077</td>
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<tr>
<td>GDP growth in real terms (% yoy)</td>
<td>4.3</td>
<td>9.2</td>
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<tr>
<td>Consumer price index (eap), cumulative</td>
<td>102.5</td>
<td>104.1</td>
<td>106.9</td>
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<tr>
<td>Baseline consumer price index (eap), cumulative</td>
<td>102.5</td>
<td>104.1</td>
<td>106.9</td>
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<tr>
<td>Producer’s price index (eap), cumulative</td>
<td>1100.3</td>
<td>1100.3</td>
<td>1100.3</td>
</tr>
<tr>
<td>Exports of goods (US dollar)</td>
<td>5.9292</td>
<td>5.9332</td>
<td>5.6110</td>
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<tr>
<td>Exports of goods (% of GDP)</td>
<td>49.1</td>
<td>47.6</td>
<td>38.9</td>
</tr>
<tr>
<td>Imports of goods (US dollar)</td>
<td>6.015.5</td>
<td>8.266.5</td>
<td>8.761.4</td>
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<tr>
<td>Imports of goods (% of GDP)</td>
<td>60.4</td>
<td>65.0</td>
<td>54.0</td>
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<tr>
<td>Trade balance (US dollar)</td>
<td>-1.209</td>
<td>-2.332</td>
<td>-2.400</td>
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<tr>
<td>Trade balance (% of GDP)</td>
<td>-11.2</td>
<td>-18.4</td>
<td>-15.1</td>
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<tr>
<td>Exports of goods volume index (%), cumulative</td>
<td>102.8</td>
<td>101.5</td>
<td>99.4</td>
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<tr>
<td>Imports of goods volume index (%), cumulative</td>
<td>94.7</td>
<td>100.4</td>
<td>102.2</td>
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<tr>
<td>Scholarships of goods average price index (%), cumulative</td>
<td>126.3</td>
<td>121.7</td>
<td>117.5</td>
</tr>
<tr>
<td>Scholarships of goods volume index (%), cumulative</td>
<td>114.6</td>
<td>113.3</td>
<td>112.6</td>
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<tr>
<td>Terms of trade index (%)</td>
<td>110.3</td>
<td>107.4</td>
<td>101.9</td>
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<tr>
<td>Current account balance (US dollar)</td>
<td>-1.175.4</td>
<td>-1.9606</td>
<td>-2.0088</td>
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<tr>
<td>Current account balance (% of GDP)</td>
<td>-10.9</td>
<td>-15.5</td>
<td>-12.4</td>
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<tr>
<td>Consolidated budget revenue (BYR billion)</td>
<td>10.300.3</td>
<td>11.706.0</td>
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<tr>
<td>Consolidated budget revenue (% of GDP)</td>
<td>33.1</td>
<td>31.1</td>
<td>25.7</td>
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<tr>
<td>Consolidated budget expenditure (BYR billion)</td>
<td>11.161.8</td>
<td>13.419.0</td>
<td>15.813.0</td>
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<tr>
<td>Consolidated budget expenditure (% of GDP)</td>
<td>35.6</td>
<td>34.7</td>
<td>32.4</td>
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<tr>
<td>General government budget surplus (US dollar)</td>
<td>-2.1</td>
<td>-2.7</td>
<td>-0.3</td>
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<tr>
<td>Average nominal imported wages (BYR thousand)</td>
<td>1.038.3</td>
<td>1.169.7</td>
<td>1.295.2</td>
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</tbody>
</table>

Sources: Beisat, Ministry of Finance, National Bank of Belarus, ACF, staff estimates.
I. Main results of Macroeconomic Stabilization

**Slowdown in GDP and inflation growth rates.** In January-April 2012 GDP grew by 2.9% compared to 12.3% during the same period in 2011. This significant slowdown of growth resulted from a drop in domestic demand since October 2011 aimed to resolve the currency crisis and escape from the spiral of inflation and devaluation. Key measures that reduced the domestic demand were the introduction of a unified equilibrium exchange rate in October 2011, termination of directed lending by the NB RB since June 2011, as well as achieving positive interest rates in real terms by the end of 2011. The above measures eliminated the multiplicity of exchange rates and reduced devaluation expectations. This, along with positive real interest rates, contributed to the strengthening of the exchange rate following the October devaluation, and to the deceleration of inflation. In December 2011 - May 2012 average monthly inflation rates fell below 2%, while by the end of 2012 the annual inflation rate is projected not to exceed 22%, against 108.7% in 2011.

**Reduction of the current account deficit and growth of international reserves.** The measures mentioned above, along with higher energy subsidies from Russia in 2011-2012, the overall improvement of external market conditions, as well as the mobilization of loans from ACF, Sberbank and EDB, have substantially strengthened the external position of the country. The current account deficit narrowed to 10.5% of GDP in 2011 compared to 15% in 2010, and in the first quarter of 2012 it was equivalent to 2% of GDP against 26.1% in the first quarter of 2011. International reserves doubled, reaching 2.1 months of imports by the end of the first quarter of 2012.

**Slowdown in lending to the economy.** In January-April 2012 credit to the economy grew by 5.6% against 15.4% during the same period in 2011 (based on the program exchange rate). Credit growth has been restrained by cuts in government programs funded from its deposits and by positive real interest rates. During this period volumes of lending under government programs (LGP) amounted to 1.1% of GDP, against 7.8% over the same period of 2011. According to the Manager's assessment, NBRB's refinancing rate and other liquidity support instruments have remained positive in real terms since December 2011.

**Surplus of the general budget.** In January-April 2012, the general government budget was executed with a surplus of 4% of GDP, partly due to large collections of profit taxes in 2011 caused by high inflation and devaluation. The budget of 2011 was executed with a surplus equivalent to 3% of GDP, against the originally projected deficit of 1.5%. The above surplus was mostly generated by devaluation- and inflation-driven revenues (average devaluation and inflation rates were equal to 67.5% and 53.2%, respectively), as well as by expenditure consolidation measures.

III. Risks and Recommendations

The results of stabilization efforts achieved over the past 12 months are impressive, especially given significant imbalances observed in the Belarusian economy in 2011. Yet, the attained equilibrium is rather fragile, and successful completion of the stabilization program hinges entirely on the Belarus Authorities maintaining tight monetary and fiscal policies.

**Plans of the Authorities to attain 5% GDP growth rate in 2012.** Attempts to artificially stimulate the economy with a view to achieving the projected GDP growth rate of 5% will exert strong pressure on international reserves, exchange rate, and inflation. The resultant
accumulation of structural imbalances may undermine the competitiveness of the country's economy. The Authorities' attempts to significantly raise wages may lead to similar outcomes. The Manager recommends limiting growth stimulus in 2012 to net lending under government programs at BYR 7 trillion, and overall growth of credit to the economy to 15%. These measures should allow to decelerate inflation to 20% by the end of 2012 and to maintain growth at 2-3%.

**Excess liquidity in commercial banks.** Positive interest rates in real terms and constraints on government programs have swelled liquidity in commercial banks. Real rates on ruble deposits offered by commercial banks exceed the rates on deposits in foreign currency, which contributes to the growth of ruble deposits in banks, but curtails the growth of ruble credits. Bank recapitalization in late 2011, and the reduction of government programs in 2012 have also contributed to generation of excess liquidity. Moreover, the current budget surplus equivalent to 4% of GDP has been generated mainly by local budgets, whose deposits are kept in commercial banks. The Manager recommends to limit the growth of credit to the economy to 15% in 2012 and to lower the current refinancing rate of the NB RB only gradually, paying due attention to inflation forecasts. Tight monetary policies for the medium term will help reduce administrative controls over prices, which distort price signals to the economy. This, in turn, will allow to determine the refinancing rate more accurately, and will enhance its efficiency in controlling inflation while minimizing side effects for economic growth.

The size of the current account deficit is heavily dependent on Russian energy subsidies and the conditions in external markets. The current level of international reserves is insufficient. Despite marked improvement of foreign trade balance, especially starting from early 2012, these positive shifts are largely driven by external factors, mainly by the resumption of Russian energy subsidies. Economic development of Belarus shows its considerable dependence on the state of international economy. In case of its deterioration, declining demand for key exports of Belarus will weaken the country's external position, in spite of the benefits derived from cheaper imports. Under a possible negative scenario when the world oil prices will stay at about US$ 80 per barrel for the rest of 2012, and Russia's GDP growth rate will slow down to 2% per annum, it is particularly important that Belarus Authorities pursue tight monetary policies and continue to replenish the international reserves from non debt-creating sources, since options for external funding options will be shrink significantly. Otherwise, inflation could reach 50%, while international reserves will drop to one month of imports, while GDP growth will be very low.

The Manager urges Belarus Authorities to consider the risks listed above, and to take steps to minimize their negative impact in the event of another crisis wave. Given that the country's external short-term and total debt is high, the Authorities should continue building up international reserves by pursuing balanced policies aimed at improving the economy’s competitiveness by cutting down relative costs, and by raising financing from non-debt sources.

The updated Letter of Intent and the Matrix of Economic Policy Measures (Attachment 1), signed by the Government and the National Bank of Belarus, include activities, implementation of which is expected to contribute to the achievement of economic stabilization on the domestic and international markets in the short term, and to lay the groundwork for sustainable economic growth of Belarus in the long-term.

IV. **Status of Compliance with Conditions of the Third Tranche of the ACF Financial Credit**

Out of 17 targets of the third tranche, 15 have been met. The target requiring enforcement of higher excise rates on alcohol and tobacco products was met with a month's delay (1 April against 28 February), and the target on net lending under government programs funded with government deposits is deemed met only by applying the automatic adjustment rule. The unmet
targets are: (a) increasing tariffs for public transportation and housing utilities to an agreed level of cost recovery as provided by the Matrix of Economic Policy Measures.

1. **Structural control target 1.1:** The Law aimed at strengthening the independence of the National Bank of Belarus and at prohibiting the functions that are non-core for a National Bank is in force.

   **Status:** met with a clause – the Decree of the President of Belarus has been adopted.

   The Decree # 477 of the President of Belarus "On the addenda and amendments to the Decree of the President of Belarus of 13 June 2001 # 320" envisaging further strengthening of the independence of the National Bank and forbidding it to perform functions that are non-core for central banks was signed on 21 October 2011.

   The agreed draft Law on amendments to the Banking Code was submitted to the House of Representatives in February this year and is currently under consideration.

2. **Quantitative control target 1.2:** By 1 February, 2012 the level of gross international reserves (GIR) should be no less than 1.5 months of imports.

   **Status:** met.

   As of 1 February, 2012, GIR totaled US$ 7.98 billion, or 2 months of imports (based on the IMF methodology), which exceeds the target set by the ACF program for the third tranche.

3. **Quantitative control target 1.3:** By 1 February, 2012 the level of net international reserves (NIR) should not be below their level on 1 May, 2011.

   **Status:** met.

4. **Quantitative control target 1.4:** By 1 February, 2012 the volume of commercial bank term deposits in foreign currency placed with the National Bank is reduced by US$ 126.4 million against its level on 1 May, 2011.

   **Status:** met.

   By 1 February, 2012 liabilities of the National Bank to commercial banks in the amount of US$ 126.4 million had been repaid as per schedule.

5. **Indicative target 1.5:** Regular revision of the refinancing rate to keep it positive in real terms.

   **Status:** being met on a continuous basis.

   In accordance with the Resolution # 564 of the Board of the NB RB dated 6 December, 2011, the refinancing rate was raised by 5 percentage points, and since 12 December, 2011 was equal to 45%, which allowed bringing it to a positive level in real terms and was satisfactory for the disbursement of the second tranche.

   Since mid-February 2012 the National Bank started to reduce the refinancing rate, and on 6 June, 2012 it stood at 34%. Given the projected inflation rate for 2012, this rate is still positive in real terms. However, the Manager strongly recommends the NB RB to exercise greater constraint with regards to further reductions of the rate, in order to prevent it from moving into a negative zone, and not to accelerate the growth of credit to the economy.

6. **Structural control target 1.6:** To complete the transfer of non-core assets of the National Bank of Belarus into state ownership.

   **Status:** met.

   The Decree of the President of the RB "On the optimization of the structure of assets of the National Bank" was issued on 23 December, 2011. Pursuant to the above Decree, in 2011 the transfer of NB RB’s non-core assets (such as long-term financial investments into statutory
funds of legal entities not related to core business activities of the National Bank; loans and repurchased securities approved by special decisions of the Board of the National Bank for the purposes of liquidity support to commercial banks which enabled them to lend under government programs and for socially-relevant projects) into state ownership was completed.

7. Quantitative control target 2.1: General government budget deficit in 2011 not to exceed 1.5% of GDP.
   
   Status: met.
   
   The 2011 general government budget was executed with a surplus of 3.1% of GDP.

8. Structural control target 2.2: Share of public sector wages in total consolidated budget expenditures for 2012 remains at the level of 2011.
   
   Status: met.
   
   The expenditures on wages and salaries in the approved 2012 general government budget were set at a level not exceeding their share in the 2011 budget and are equal to 28.7% (including contributions to the Social Protection Fund).

9. Indicative target 2.3: Tariffs paid by the households for housing and utility services cover at least 30% of total costs of such services in 2011.
   
   Status: not met.
   
   In the past year, tariffs for households covered 25.9% of the total cost. On 1 June, 2012 tariffs for housing and utility services, including gas and electricity, were raised by 20% on average. According to the Ministry of Finance of Belarus, the level of cost recovery by tariffs paid by households after this increase will amount to 23%, which reflects the rise in the cost of housing and utility services due to rapid inflation and devaluation in 2011.

10. Indicative target 2.4: Tariffs paid by population for public transportation services cover 70% of the total cost of such services in 2011.
    
    Status: not met.
    
    Over 2011, public transportation tariffs covered total costs by 58% in average (in Minsk - 34.4%, in regions - 64.2%). In April 2012, public transport tariffs were increased by 15-20%, but the level of cost recovery, due to the high inflation and devaluation in 2011, dropped down to 53% in the regions, and down to 34.2% in Minsk.

    
    Status: met.
    
    With a view to equalizing the level of taxation on certain goods within the common customs territory of the Customs Union, the President of Belarus issued Decree # 36 dated 17 January, 2012 "On the Amendments and Addenda to the Decrees of the President of Belarus, # 546 dated 24 November, 2005 and # 175 dated 4 April, 2009.

    The Decree abolished VAT exemptions formerly granted to legal entities importing and selling vehicles, and introduced a standard 20% VAT rate for these transactions. It also revoked the VAT exemption rule for cars manufactured by legal entities in Belarus.

12. Indicative target 2.6: Rates of excises on hard alcoholic beverages to be set at the level of 85-90% of rates currently charged in the Russian Federation; and excise rates on medium and premium brands of tobacco products to be set at 60% of those in Russia.
    
    Status: met as of 1 April, 2012.
In Belarus, excise rates on hard alcoholic beverages are equal to 85.6% of the rates currently charged in the Russian Federation. Since 1 January 2012, Belarusian excise rates on medium and premium brands of tobacco products are equal to 51.5% and 67.6%, respectively.

13. **Indicative target 3.1:** Budget revenues from the sales of public property to reach at least US$ 2.5 billion in 2011.

   **Status:** met.

   In accordance with the plan of privatization of the state property approved by the Government of Belarus, shares of 180 joint stock companies were expected to be sold in 2011, with a total book value of BYR 1.3 trillion. The actual budget revenues from the sale of the state JSC and enterprises amounted to BYR 0.5 trillion. Mainly woodworking, construction and transport companies were sold. Investors also showed interest in the enterprises in the sector of mechanical engineering.

   On 25 November, 2011, JSC "Gazprom", JSC "Beltransgaz" and the State Property Committee of RB signed a purchase agreement for 50% shares of "Beltransgaz" at the contract price of US$ 2.5 billion.

14. **Quantitative control target 4.1:** Net lending under government programs funded from government deposits in 2011 (as projected for 1 January, 2012) not to exceed 4% of GDP. (Net increase in Government’s claims on commercial banks not to exceed 4% of GDP in 2011).

   The above indicator is subject to an automatic upward adjustment over the established parameters by the amount of external borrowing (over and above the actual borrowing from the EurAsEC Anti-Crisis Fund) and proceeds from the privatization of public property, subject to the achievement of quantitative targets for gross international reserves and net international reserves.

   **Status:** met due to the use of the automatic adjustment clause.

   Net lending under government programs funded from government deposits was equivalent to 5.3% of GDP as of 1 January, 2012, according to the Monetary Survey on commercial banks.

   The Belarus Authorities believe, that since the quantitative targets for gross international reserves and net international reserves have exceeded the agreed levels, the automatic adjustment clause of the Technical Memorandum should be applied, hence additional lending under governments programs equivalent to 1.3 percentage points of GDP is allowed under the automatic adjustment clause established by the Technical Memorandum, meaning that this target should be deemed as met.

15. **Indicative target 4.2:** The Development Bank commenced its lending operations and servicing government programs; all lending operations for lending under government programs not awarded on the basis of competitive bidding, are channeled through the Development Bank.

   **Status:** met.

   The President of Belarus issued Decree # 261 dated 21 June 2011 "On the Establishment of a Joint Stock Company "Development Bank of the Republic of Belarus" (hereinafter - the Development Bank). The Decree entered into force on the date of its signing. The Development Bank started its operations in January 2012. Pursuant to the Resolution of the Council of Ministers of Belarus # 1235 dated 15 September, 2011, Deputy Prime Minister of Belarus Sergei Rumas, Minister of Finance of the RB Alexander Kharkovets, and Minister of the Economy of RB Nikolai Snopkov, were appointed to the managing bodies of the Development Bank as the representatives of the Government.

   The Resolution of the Council of Ministers # 1269 dated 21 September, 2011 approved a procedure for the restructuring by the Development Bank of the loans previously extended by state-owned banks to finance government programs.
On 5 January, 2012 the Council of Ministers and the National Bank of Belarus adopted Resolution # 14/1 "On the Approval of the Statute of Regulations and Conditions of Financing by the JSC "Development Bank of Belarus" of projects included in the programs approved by the President of Belarus and/or by the Government of Belarus". The above Statute establishes a procedure whereby the amounts and directions of lending by the Development Bank of government programs, as well as sources of their funding, are set out in its draft balance sheet according to the Financing Plan for Government Programs, which is established annually by the Council of Ministers of Belarus.
Minsk, 13 June, 2012

Letter of Intent

Dear Anton Germanovich,

This letter presents a summary of the results of the economic policy of RB in 2011 through to May 2012, and determines economic measures of the Government and National Bank of RB for 2012-2013 with a view to maintaining the achieved macroeconomic and budgetary equilibrium, stability of the domestic currency market and promotion of intra-CES financial settlements.

Please consider the forecast of key monetary and fiscal parameters for 1 October, 2012 and 1 January, 2013 contained herein, as the basis for evaluating the performance of the RB under its commitments and making a decision on approval of the disbursements of the 4th and 5th tranches of the financial credit of the EurAsEC Anti-Crisis Fund in accordance with the Agreement between RB and the Eurasian Development Bank on provision of a financial credit by the Anti-Crisis Fund of the Eurasian Economic Community. Targets for 2013 will be updated in the 4th quarter of 2012 based on the results of the nine months of 2012.

Mr. A.G. Siluanov

Minister of Finance of the Russian Federation, Chairman of the Board of the EurAsEC Anti-Crisis Fund
I. Economic Condition of RB in 2011 - early 2012

By the beginning of 2011 significant imbalances, generated by both external and internal factors, had developed in the economy of the RB. Collectively they brought about an increase in the negative current account balance and reduction of the country's gross international reserves.

The current account deficit in the 4th quarter of 2010 reached 20.2% of GDP, and in 1st quarter 2011 - 24.4%. The insufficient amounts of external financing were compensated from the gross international reserves.

As of 1 May, 2011 the level of gross international reserves declined to US$ 3.8 billion, or 1.1 months of imports.

The Government and National Bank developed a joint Stabilization Program of monetary and fiscal policies, which was supported by a credit in the amount of US$ 3 billion provided by the EurAsEC Anti-Crisis Fund.

In the process of implementation of the Stabilization Program the following results were achieved:
- It facilitated adoption of a more flexible exchange rate of the national currency ("managed floating"), driven by market demand and supply;
- Interest rates for monetary instruments were increased;
- Emission-based lending to the government programs by the National Bank and non-core functions of Central bank were forbidden;
- Execution of the budget with a surplus was recorded;
- Consolidation of budget revenues, including by raising the rates of excises on alcoholic beverages and tobacco was ensured;
- It enforced reduction of resources provided as the government support to commercial banks for the government programs lending;
- Shares of state-owned companies were put on sale for foreign investors, with proceeds therefrom credited to the foreign exchange reserves.

The above policies proved instrumental in reducing the current account deficit, in stabilizing the foreign exchange market, in preventing an extensive banking crisis and maintaining the high level of employment.

As a result the general government budget in 2011 was executed with a surplus of 3.0% of GDP, the net increase in the government programs lending by the Government and the National Bank was equal to 4.67% of GDP. The quantitative targets for the general government budget deficit and net increase in the lending under government programs by the Government are estimated in aggregate and are consistent with the conditions contained in the Matrix.

The tighter monetary and fiscal policies implemented by the Government and National Bank of RB ensured reduction of the negative current account balance from US$ 8.3 billion (15% of GDP) in 2010 down to US$ 5.8 billion (10.6%) in 2011. After stabilization of the
foreign exchange market and increase of the interest rates on monetary instruments, the heretofore shrinking retail and corporate deposits in commercial banks began to grow.

The Authorities managed to secure a considerable buildup of the gross international reserves, which by 1 February, 2012 totaled US$ 7.98 billion, or 2.0 months of imports.

Yet, the impact of the crisis on the economy manifested itself in substantial consumer price increases.

To an extent the above price rise was triggered by the administrative increase of controlled prices for socially important goods. The convergence of food prices with those in the Russian Federation, the increase of tariffs for housing utilities and transport services paid by population, raise of excise rates on alcoholic beverages and tobacco boosted all other consumer prices. These goods groups represent the basis of the consumer basket, and their prices are least of all affected by the monetary factors.

The inflation in 2011 was registered at 108%, including in October - 8.2%, in November - 8.1%, in December - 2.3%.

The current positive trends in macroeconomic stabilization have been observed since the beginning of 2012.

To a large extent they were promoted by the stringent fiscal and monetary limitations, imposed by the Government and the National Bank and retained in the 2012 budget, as well as by the monetary performance indicators. They constitute a basis for the current national social and economic development projections.

In the 1st quarter of 2012 the general government budget was executed with a surplus of BYR 4.1 trillion, or 3.9% of the GDP. Financial support to banks for the lending under the government programs is being provided in accordance with the approved schedules of the Government and the National Bank to minimize the impact of these transactions on the domestic financial market. The rate of inflation in the 1st quarter of the current year amounted to 5%, which is also consistent with the above projections.

However, the economy of RB is still exposed to fiscal and monetary risks associated with both external and internal factors, i.e. deterioration of external market conditions and terms of trade; shortage of foreign direct investments, including proceeds from privatization of public assets; restricted access to external funding. Vulnerabilities of the structure of external liabilities due to the predominance of short-term loans, as well as the above risks, call for recognition of the need to continue the external financial support of the government stabilization program by the EurAsEC Anti-Crisis Fund in previously agreed-upon amounts.

The key program measures are contained in the relevant documents of the Government and National Bank for 2012, and are, in effect, monetary and fiscal controls measures.
II. Monetary Policy

In 2012 and 2013 the National Bank in cooperation with the Government of the RB will pursue monetary policies with a view to reducing the inflation, creating conditions to ensure balanced foreign exchange market operation and improving the foreign trade balance of the country. Reducing the inflation is a top priority objective of the national macroeconomic policy.

In 2012 the National Bank will continue to pursue its exchange rate policy in a "managed floating" mode. The Belorussian ruble exchange rate will be determined with minimized direct involvement of the National Bank, based on the foreign currency demand-and-supply pattern driven by the prevailing fundamental macroeconomic factors. Foreign currency interventions will be aimed exclusively at leveling off potential abrupt fluctuations in exchange rates.

Emission lending will be carried out by the National Bank on market conditions and for short periods, using standard instruments of control of the banks' liquidity. Moreover, growth of the total bank lending to the economy will not exceed 12% (program exchange rate) as of 1 October, 2012 and 15% (program exchange rate) as of 1 January, 2013. In case the banks raise resources in excess of the projected balance of payments in the amount of US$ 250 million on the net basis for funding tied projects, the resultant increase in the volume of lending to the economy may be accordingly adjusted, given concurrence of the ACF Resources Manager.

With a view to further stabilizing the economy, including achievement of the projected rate of inflation and international reserves level, the National Bank will impose a threshold on the reserve money as of 1 October, 2012 and 1 January, 2013 at a level not to exceed BYR 23 trillion. The net domestic assets on 1 October, 2012 will not exceed BYR 36 trillion, and on 1 January, 2013 will be equal to max. BYR 33.5 trillion.

In order to ensure balanced economic development, the Government and the National Bank will continue replenishment of the national foreign currency reserves to a level that would guarantee economic security of the country. This objective will be achieved both by attracting foreign direct investments, and by accumulation of the privatization proceeds in amounts agreed upon in the program, supported by the ACF financial credit.

Given the need for timely repayment by RB of domestic and external debt liabilities in foreign currency, its forex reserves as of 1 October, 2012 will be equal to at least 1.6 months of imports, and on 1 January, 2013 - no less than 2.0 months of imports. In 2012, the vector of the interest rate policy will be focused on maintaining interest rates in a positive field in real terms on the annual basis. This requirement will be met by regular revisions of the refinancing rate and interest rates of the National Bank's instruments for controlling banks' liquidity with due account of the consumer price growth, projected for the next 12 months. The National Bank will keep the EurAsEC Anti-Crisis Fund updated on changes in the refinancing rates and provide relevant feasibility assessment.

To reinforce the independence of the National Bank, on 21 October, 2011 the President of Belarus signed Decree # 477, which put into effect addenda and amendments to the Statute of the NB RB strengthening its independence and forbidding non-core functions of central banks.
In 2012 the National Bank will continue to work on addenda and amendments to the Banking Code of the RB.

We believe it is necessary to clarify the technique of calculating international reserves in months of imports of goods and services, since for the purposes of the program the level of international reserves in months of imports must be estimated on the basis of gross international reserves as of the reporting date and data on average monthly imports over the past 12 months supported by available statistical data.

III. Fiscal Policy and Financial Sector

The Government of the RB in 2012 and 2013 will continue to pursue tight fiscal policies. Therefore, the 2012 general government budget (quantitative target) will be executed with a zero balance for 9 months of 2012 and for the remainder of 2012. Expenditures related to the public sector wages will be funded as allocated in the approved budget, and at the end of 2012 will not exceed the level of 2011, which was 24% of the total consolidated budget expenditures.

The government programs net lending from government deposits at the end of 2012 will amount to no more than BYR 7 trillion.

In order to fix growth rates of lending under the government programs, the Government of the RB adopted Resolution # 385 "On volumes of lending under the government programs and activities in 2012", which limited increase in lending to BYR7 trillion on 23 April, 2012.

Herewith the net increase in lending under the government programs from the government deposits is defined as an increase of commercial banks liabilities to the Government according to the line "other misc. deposits" (less an increase in commercial banks liabilities to the Social Security Fund and letters of credit of the government bodies at the republican level) in Belorussian rubles, in accordance with the Accounts of the Deposit Money Banks of the RB as of the reporting date and a special report of the Social Security Fund on the net increase in to the commercial banks.

The quantitative targets for the general government budget deficit and net increase in the lending under the government programs from the Government resources are estimated in aggregate.

In 2011 the Government of the RB took a number of steps toward budget revenue consolidation. Thus, additional taxes of incomes of mining industries were imposed by increasing the rate of export duty on potash fertilizers by 50%, the tax rate on extraction of potassium salt (by a factor of 12), and on crude oil (by a factor of 30). On 1 January, 2012 the RB established a value added tax on vehicles (structural target).

In order to level off tax treatment conditions for certain goods on the common market of the Customs Union, the Government annually increases excise taxes on alcoholic beverages and tobacco. By the time of completion of the program these rates will approach the level prevailing in the Russian Federation. The amendments to the Tax Code of the RB, effective starting 1 January, 2012, increased the excise rates for the above groups of goods compared to the level of
tax rates, charged in the Russian Federation: on hard alcohol - 74.5%, on tobacco of medium and premium brands 53.4% and 70.1%, respectively. As of 1 June, 2012 the proportion of the excise tax rates in Belarus to the level of rates, charged in the Russian Federation, was as follows: on hard alcohol - 90.9%, on tobacco of medium and premium brands 54.6% and 71.6%, respectively. In 2012 the excises will continue to rise - on hard alcohol on a quarterly basis, and on tobacco beginning from its second half.

The 2012 budget takes account of the need to increase housing utility tariffs for households, and as a result the share of population in the cost recovery will be equal to 35% of the cost of these services at the end of 2012, while tariffs for excess usage will be upgraded to the level of service costs.

Tariffs for transport services (public and suburban passenger traffic provided by automotive vehicles, city electric transport, inland waterways and underground rail) will be steadily growing in 2012, and by the end of 2012 their level will ensure a share of the population in the cost recovery at least 85% of the cost of providing such services.

Thus, the measures contained in the Economic policy measures Matrix of the Government and National Bank, supported by the financial credit of the EurAsEC Anti-Crisis Fund (see Appendix), are designed to ensure macro-financial stabilization in the RB, minimization of the current account deficit in the balance of payments, and to create enabling environment for robust and balanced economic growth for a medium and longer term.

Prime Minister of the Republic of Belarus

Chairperson of the Board of the National Bank of the Republic of Belarus

/s/
M.V. Myasnikovich

/s/
N.A. Ermakova

<table>
<thead>
<tr>
<th>Tranche №</th>
<th>(not later than)</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>№ 1</td>
<td>30.06.2011¹</td>
<td>US$ 800 million</td>
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<tr>
<td>№ 2</td>
<td>31.10.2011</td>
<td>US$ 440 million</td>
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<tr>
<td>№ 3</td>
<td>28.02.2012</td>
<td>US$ 440 million</td>
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<tr>
<td>№ 4</td>
<td>31.10.2012</td>
<td>US$ 440 million</td>
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<tr>
<td>№ 5</td>
<td>28.02.2013</td>
<td>US$ 440 million</td>
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<tr>
<td>№ 6</td>
<td>31.10.2013</td>
<td>US$ 440 million</td>
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</table>

1. **Monetary policy measures**

1.1 **SCT³**

- A draft Law on the Amendments to the Banking Code of the RB is prepared and submitted to the House of Representatives of the National Assembly, aimed at strengthening the independence of the National Bank and at prohibiting the non-core functions for a National Bank.
- Law on the Amendments to the Banking Code of the RB has entered into force, aimed at strengthening the independence of the National Bank and at prohibiting the non-core functions for a National Bank.

1.2 **QCT**

- The level of international reserves as of 1.06.2011 is not less than US$3.5 billion.
- Level of international reserves:
  - as of 1 October 2011 - not less than 1.3 months of imports.
  - as of 1 February 2012 - not less than 1.5 months of imports.
  - as of 1 October 2012 - not less than 1.6 months of imports.
  - as of 1 February 2013 - not less than 1.7 months of imports.

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¹ Dates for all tranches are indicative, tranche amounts are subject to final approval.
² Monetary and fiscal measures for 2013 will be worked out and included in a new Letter of intent and Matrix of economic policy measures of the Government and National Bank of the RB in November 2012.
³ SCT means Structural Control Target, QCT – Qualitative Control Target, IT – Indicative Target.
<table>
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<tbody>
<tr>
<td>Net domestic assets on the program exchange rate</td>
<td></td>
<td>as of 1 October 2012 – not more than BYR 36.0 billion.</td>
<td>as of 1 January 2013 – not more than BYR 33.5 billion.</td>
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<td>1.5 IT</td>
<td>Reserve money on the program exchange rate</td>
<td></td>
<td>as of 1 October 2012 – not more than BYR 23.0 billion.</td>
<td>as of 1 January 2013 – not more than BYR 23.0 billion.</td>
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<tr>
<td>1.6 QCT</td>
<td>Total increase of credits to economy on the program exchange rate</td>
<td></td>
<td>as of 1 October 2012 – not more than 12%</td>
<td>as of 1 January 2013 – not more than 15%</td>
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<tr>
<td>1.7 QCT</td>
<td>A Resolution is adopted by the Board of the NB of Belarus prohibiting the National Bank’s borrowing from commercial banks in foreign currency.</td>
<td>The volume of commercial bank term deposits in foreign currency placed with the National Bank is reduced by:</td>
<td>as of 1.10.2011 - by US$ 55.6 million.</td>
<td>as of 1.02.2012 - by US$ 126.4 million.</td>
<td>as of 1.10.2012 - by US$ 713.9 million.</td>
<td>as of 1.02.2013 - by US$ 724.7 million.</td>
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<tr>
<td>1.8 IT</td>
<td>The refinancing rate is revised monthly by the Board of the National Bank in order to ensure that its nominal value is not below the projected annual growth rate of CPI.</td>
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<td>1.9 SCT</td>
<td>A Presidential Decree is drafted on the sale of non-core assets from the balance of the NB of Belarus to foreign investors and/or their transfer into state property.</td>
<td>A Presidential Decree is issued on the transfer of non-core assets from the balance of the National Bank into state property.</td>
<td>The transfer of non-core assets of the National Bank of Belarus into state property is complete.</td>
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Non-core assets of the NB RB include: long-term financial investments into statutory capital of legal entities that are not connected with the main activities of the NB RBand loans extended and securities purchased by individual decisions of the Board of the National Bank, that support the liquidity of commercial banks related to their lending under government programs and for socially relevant projects.
<table>
<thead>
<tr>
<th>Tranche №1</th>
<th>Tranche №2</th>
<th>Tranche №3</th>
<th>Tranche №4</th>
<th>Tranche №5</th>
<th>Tranche №6</th>
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</table>

2. Fiscal policy measures

2.1 QCT

Budget³ of general government sector:

| In January-September 2011 executed with a deficit not higher than 1.2% of GDP. | In 2011 executed with a deficit not higher than 1.5% of GDP. | In January-September 2012 executed with a zero balance. | In 2012 executed with a zero balance |

2.3 IT

Utility tariffs on average are raised by at least 10%

| The share of tariffs for housing and utility services covers with the households’ payments: | At least 30% of the costs of extending such services in 2011. | At least 35% of the costs of extending such services in 2012. | At least 40% of the costs of extending such services in 2013. |

2.4 IT

The share of transport tariffs covers with the households’ payments:

| At least 70% of the costs of extending such services in 2011. | At least 85% of the costs of extending such services in 2012. | At least 90% of the costs of extending such services in 2013. |

2.5 QCT

VAT on vehicles introduced

2.6 IT

Excises rates on hard alcohol beverages are set up (as % of rates level in the Russian Federation):

| 85-90 % | 90-95 % | 95-97% |

2.6 IT

Excises rates on tobacco of medium and premium brands are set up (as % of the rates level in the Russian Federation)³

| до 60% | 75-80% | 85-90% |

Excises rates on tobacco of other brands are set up (as % of the rates level in the Russian Federation)³

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² Quantitative control targets for general government sector deficit and the government programs net lending from the government resources are evaluated cumulatively.
<table>
<thead>
<tr>
<th>Tranche №1</th>
<th>Tranche №2</th>
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<th>Tranche №4</th>
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3. **Structural Reform Policies**

3.1 **IT**

A list of state-owned objects available for sale in 2011-2012 is developed and published, including their real value and the feasibility of their sales.

Budget revenues from the sale of state property constitute:

- In 2011 - not less than US$ 2.5 billion.
- In 2012 - not less than US$ 2.5 billion.
- In January-September 2013 - not less than US$ 1.2 billion.

4. **Financial Sector Policies**

4.1 **QCT**

Net lending under the government programs from government deposits:

- During 2011 (forecast as of 1 January 2012) does not exceed 4% of GDP
- During January-September 2012 does not exceed BYR 6.8 trillion
- During 2012 (forecast as of 1 January 2013) does not exceed BYR 7 trillion
- (forecast as of 1 January 2014) does not exceed 1% of GDP

4.2 **IT**

A Presidential Decree on the Development Bank is adopted

The Development Bank started its lending and servicing operations under government programs.

SCT

All lending under government programs not allocated on competitive terms is implemented through the Development Bank.

Prime Minister of the Republic of Belarus

/s/
M.V. Myasnikovich

Chairperson of the Board of the National Bank of the Republic of Belarus

/s/
N.A. Ermakova