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Progress Report on Compliance with Conditions for the Fifth Tranche of the Reform Programme of the Government and National Bank of the Republic of Belarus Supported by the EFSD Financial Credit
(prepared based on the Report of the Ministry of Finance of the Republic of Belarus)

Implementation of the Reform Programme of the Government and the National Bank of the Republic of Belarus (hereinafter referred to as the Programme), in the part of the conditions set for the disbursement of the fifth tranche of the EFSD financial credit to the Republic of Belarus, focuses on:

a) reducing the inflation and progressively building up the gross international reserves (GIR) through consistent tight monetary and fiscal policies in the context of the flexible exchange rate regime;

b) reforming the markets of goods and services through further liberalisation of pricing and aligning the state price regulation with the standards of the Eurasian Economic Union; and

c) implementing further structural reforms aimed at strengthening the performance of state-owned enterprises through the introduction of the corporate governance principles, as well as at improving the business environment to boost the private sector development.

The conditionality for the disbursement of the fifth tranche of the EFSD financial credit includes 20 indicators, of which 9 are control targets. As at the control date for evaluation of compliance with the conditions (1 June 2017), 4 indicative targets of the Economic Policy and Structural Reform Matrix (hereinafter referred to as the Matrix) were not met, including one target, which covers implementation of two measures:

- *The zero broad money growth ceiling is exceeded (clause 1.5 of the Matrix).* Against the background of the recovery of economic activity, the actual broad money growth for January-May 2017 was 4.4% compared to the year start.[1] The largest contributor to the growth was the foreign currency component of the money supply – 2.5 percentage points, while the contribution of the BYN component of money supply was 1.9 percentage points. The BYN money supply grew against the background of monetary policy loosening owing to a significant reduction of the refinancing rate[2] and higher money emission by the NBRB because of its net purchases of foreign exchange in the market[3]. The growth of the foreign currency component of the money supply is practically fully explained by the decision of *Gazprom Transgaz Belarus* OJSC [open joint-stock company][4] to deposit the funds, which were received from the RB to cover

[1] At the programme exchange rate.

[2] In January 2016 – May 2017, the refinancing rate dropped from 24% to 14% in nominal terms or from 12.6% to 6.1% in real terms.

[3] Since the start of 2017, the volume of cash withdrawn has increased by BYN 0.4 billion, while the money emission associated with the interventions has been BYN 1.7 billion.

[4] A subsidiary of Russian Gazprom.

the overdue receivables for the Russian gas supplied in 2016-2017, in accounts with a Belarusian bank.[5] Net of these funds, the broad money growth was 2.2%.

As in January-May 2017, in the environment of the economic recovery in the RB, the average annual inflation dropped from 12.4% in May 2016 to 6.1% in May 2017, while the target for 2017 is set at 9%, the Manager recommends granting a waiver of compliance with this target. However, the Manager notes that the structural imbalances remaining in the RB call for extremely prudent policies of regulating further money growth. The significant reduction of the current account deficit to 1.6% of GDP for the first six months of 2017, against 6.4% of GDP for January-June 2016, was associated exclusively with the improved terms of trade[6] and was accompanied by a greater role of external government borrowings in its financing against the background of unstable net sales from the population. The government debt grew by US $1.5 billion from the year-start and reached 40.4% of GDP as at 1 July 2017, coming much closer to its threshold level of 45% of GDP[7]. Another indictor pointing at the weaker debt sustainability is the real effective interest rate for the government debt (2.9% as at end-2016) exceeding the real rate of economic growth (-2.6% in 2016 and +1.1% in January-June 2017). Despite its significant reduction, the inflation is still much higher than the rate of price growth in Belarus' main trading partners, while inflation expectations significantly exceed the actual inflation rate[8].

- *The decision of the RB President on transfer to municipal ownership of at least 20 enterprises as asset packages of republican unitary enterprises and shares in republican ownership is not adopted (subclause of clause 3.1 of the Matrix).* The State Property Committee, in cooperation with Vitebsk Oblast Executive Committee, cleared a list of 24 enterprises[9], which primarily focus their business and operation on the goals of regional development, to be transferred to the municipal ownership of Vitebsk oblast. The transfer of these enterprises under the management of the regional authorities is expected to improve their management in the context of the needs of the region[10], *inter alia* through their privatisation on decision of the local government, while focusing the efforts of the central Government on improving the quality of managing strategically important enterprises that remain under its supervisions. The relevant draft decision, which gives the rationale for the transfer of each enterprise to the local level, is currently considered by the Government.

[5] Belgazprombank

[6] The volume of goods import growth substantially outpaced the volume of export growth, which respectively reached +9.9% and +3.2% in the period under consideration.

[7] As of June 1, 2017, the level of public debt was 37.6% of GDP. The increase in debt in June 2017 is associated with the issuance of Eurobonds in the amount of USD 1.4 billion to refinance the debt obligations of previous issues due in January 2018.

[8] In view of the fact that at the time of the assessment of the 5th tranche, the assessment of the population's inflationary expectations was not performed in the RB, the Manager used the data of the Central Bank of the RF, which say that inflation expectations in Russia are twice as high as the level of actual inflation. Given that the double-digit inflation in the RB persisted for a considerably longer time than in the RF, the Manager concluded that the inflation expectations in the RB with a high probability exceed the actual inflation by at least two times. The Manager's hypothesis was confirmed by the National Bank of the RB, which stated estimating the inflationary expectations of the population since November 2017: the population estimated the expected level of inflation in November 2017 at 11.9%.

[9] At present, about 2 thousand state-owned legal entities are subordinated to the central government, while 14.4 thousand legal entities are municipally owned and subordinated to local governments.

[10] For each of the enterprises to be transferred to municipal ownership, Vitebsk Oblast Executive Committee drafted a substantiated plan of its further development, which was then submitted for the consideration of the State Property Committee.

The Manager recommends considering the adoption of the Presidential decision on transfer of at least 20 enterprises to municipal ownership as a prior action for the disbursement of the fifth tranche.

- *The condition of reducing the role of the state in economic activity, which provides for limiting the share of the state-owned sector in generation of the gross added value to no more than 45% in 2016, is not met (subclause of clause 3.6 of the Matrix).* According to Belstat, the share of the state-owned sector[11] in generation of the gross added value reached 47.2% in 2016 against 46.3% in 2015 and 45% as envisaged in the Matrix. According to the Manager, this increase is largely explained by the recovery of output of exported products at state-owned enterprises in view of the low base, depreciation of the real effective exchange rate, recovery of demand for Belarusian products in Russia, and significant government support provided to state-owned enterprises, including the replenishment of their authorised funds (0.8% of GDP) and reduction of their debt burden using budget funds (1.9% of GDP)[12].

  The Manager recommends granting a waiver of compliance with this clause as the reduction of the inflation and depreciation of the real effective exchange rate in 2016 contributed to the growth of non-commodity exports generated primarily by state-owned enterprises.

- *Amendments to the Law On Regulatory and Legal Acts, aimed at introducing the regulatory impact assessment (hereinafter referred to as the RIA) of regulatory and legal acts affecting business activities (subclause of clause 3.6 of the Matrix), are not adopted*.

  The draft Law *On Regulatory and Legal Acts* has not been adopted by the Parliament by now. Relevant amendments to the Law *On Regulatory and Legal Acts* were prepared by the Government and submitted for the consideration of the Parliament in early 2017. Parallel to that, in February 2017, the RB President adopted Decree No. 40 *On Optimisation of the Administration of the RB President*, which provides for the mandatory RIA to be performed by the Administration of the President in respect of all the decisions submitted for the consideration of the RB President. In view of this, when the draft Law *On Regulatory and Legal Acts* was discussed in the spring session of the Parliament in its second reading, Members of the Parliament argued that the provisions fixed in the Presidential Decree could be sufficient and there was no need for fixing the provisions on the RIA introduction at the level of the law to cover all regulatory and legal acts, including those issued by the executive power. The next discussion of this issue is postponed until the autumn session.

  The Manager recommends granting a waiver of compliance with this target as the Government has no direct control over the work schedule of the Parliament. However, the Manager notes that there is no legislature consensus on provisions ensuring the introduction of the mandatory RIA covering the decisions of the executive branch, which regulate business activities, and that can create high risks of failure to meet the

[11] Net of joint-stock companies, where the share of the state is below 50%.
[12] The volume of securities issued by the RB MoF and local governments to repay bad debts of state-owned enterprises.

control target for the sixth tranche, which provides for the adoption by the Government of a relevant resolution on the RIA implementation.

- *The new version of the Law On Insolvency or Bankruptcy is not adopted (clause 3.10 of the matrix).* The key objective of drafting a new version of the law is to simplify the bankruptcy procedures, as well as adapt the provisions of the law to changes in the legislative regulation of legal relations in various spheres, which have occurred over the 12-year period of this version of the law being in force. Amendments to the law *inter alia* are aimed at ensuring prompt declaration of bankruptcy — not at the stage of persistent inability to pay, but after three months of inability to pay one's creditors — that would improve the prospects of maintaining the business and recovering the ability of economic agents to pay. In addition, the remuneration of rehabilitation receivers of enterprises would significantly exceed that offered in case of the liquidation of an enterprise. The draft law provides for the centralisation of all the information on bankruptcy exclusively in the e-register on bankruptcy, strengthening the financial liability of managers working with a debtor's debt for non-transfer of the full package of accounting and other records to the receiver, and changes in the priority of creditors' claims, which is aimed at minimising the scope for non-disclosure of investment or divestment, and strengthening the guarantees of repayment of secured bank loans. The draft law also provides for the consolidation of the single state creditor function represented by the tax administration and reduction of the bankruptcy procedure timeframe. The draft law will be considered by the Parliament in its first reading in the framework of the regular autumn session. The delay in adopting the law is specifically explained by the authorities by the fact that the draft is currently being changed based on the results of piloting the bankruptcy procedures provided for in Decree of the RB President No. 253 *On Measures of Financial Rehabilitation of Agricultural Enterprises,* dated 4 July 2016, at a few agricultural enterprises.

  The Manager recommends moving implementation of this target to the seventh tranche, i.e. to the time the law is considered by the Parliament, making it a control target on condition of obtaining the RB authorities' consent.

The Manager recommends disbursing the fifth tranche of the EFSD financial credit of US $200 million to the Republic of Belarus based on granting a waiver of compliance with the indicative targets reflected in the matrix under clauses 1.5 and 3.6, and on condition that the RB authorities implement the prior actions reflected in the Matrix under clause 3.1 and agree to postpone the implementation of the action under clause 3.10 of the Matrix to the seventh tranche, with the status of the indicator changed from an indicative to a control target.

I. Current macroeconomic situation in the Republic Belarus

The positive GDP growth rates observed since March 2017 may accelerate in the second half of the year on the back of the continuing growth of exports of goods, as well as the emerging recovery of household consumption. In the first seven months of the year, the GDP grew by 1.2% in annualised terms, against -2.6% in the previous year. In the context of the flexible exchange rate policies, further depreciation of ruble (by 6.7% in real terms using the producer price index for January-May 2017) and the recovery trends in the Russian economy contributed to the growth of Belarusian non-energy exports that is the main driver of the economic recovery. The trend towards the recovery of household incomes[13], combined with lower interest rates set by commercial banks[14], contributed to a gradual slowdown in the rate of deceleration of household consumption and investments, which stimulated domestic demand. It is expected, that the projected acceleration in the growth rates of consumption and energy exports expected will lead to acceleration of the GDP growth rates in the second half of the year.

The monetary policy loosening resulted in the money supply growth, which exceeded its ceiling established under the EFSD programme. Compared to the year start, by 1 June 2017, the money supply controlled under the EFSD programme had grown by 4.4%, thus exceeding its threshold (0%). At the same time, the real money supply growth for 12 months was negative (-0.9%), and was accompanied by a significant reduction of the inflation rate (from 12.4% to 6.1%). The reduction of current inflation below the annual target (9%) allowed the NB RB to reduce rates on liquidity management operations (from 27% to 17% per annum on support operations and from 15% to 9% on withdrawal operations). Rates on auction operations of liquidity withdrawal decreased from 19.4% to 10.4% per annum in May 2017 compared to May 2016. The softer terms of lending, combined with money emission to the economy as a result of the NBRB's purchases of foreign exchange, resulted in the money supply growth beyond its threshold. The renewed growth of salaries and wages — by 2% in January-May 2017 — and the forthcoming increases in utility tariffs, increase risk of price growth acceleration by the end 2017 – beginning 2018.

The augmented general government budget surplus, based on EFSD's methodology[15], decreased to 2.7% of GDP in January-May 2017, compared to 3.1% of GDP in the same period of 2016 due to increase in capital and off-balance expenditures against the background of some growth in revenues. In the context of import recovery in the EAEU and higher excise rates, the economic recovery resulted in greater growth of consolidated budget revenues for 5 months of 2017, which reached 9.9% compared to 7.8% in the relevant period of 2016. Thus, the revenue part of the budget went up to 31.9% of GDP against 30.5% of GDP a year before. The factors accounting for the largest contribution to the revenue growth include customs duties, profit and excise taxes[16], as well as non-tax revenues in the form of

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[13] In January-May 2017, salaries and wages grew in real terms by 2%, and this growth accelerated to 2.3% by the end of the first six months of 2017. The rate of decline in the real disposable incomes of the population, which was 7.3% in 2016, decelerated to 1.2% in January-May 2017.

[14] The real interest rate for new bank loans in local currency went down from 16.6% in May 2016 to 9.9% as at end-2016 and further to 9% in May 2017.

[15] The augmented budget balance is defined as the amount of change in the deposits of central government and local authorities in the National Bank and commercial banks, adjusted for the amount of net financing of public debt. At the same time, the net financing of the public debt does not include operations for issuing government bonds aimed at solving the problem of bad debts of state enterprises in the framework of state programs.

[16] Since mid-2016, the excise tax rates for tobacco products have increased by 9.6%, for diesel fuel – by 35%, and for motor petrol under class 5 – by 72%.

dividends and profits of state-owned enterprises transferred to the budget. The size of current expenditures in the reporting period remained at the level of the same period of 2016, while capital budget expenditures increased from 2.6% of GDP to 3.1% of GDP. The off-balance sheet expenditures grew sharply to 1.9% of GDP form 0.8% of GDP a year earlier that was exclusively caused by expenditures related to replenishing the authorised funds of state-owned enterprises. At the same time, there was a significant drop in expenditures related to the execution of government guarantees and financing of government programmes.

It should be noted that part of the expenses of local authorities was implemented in the form of increase in contingent liabilities. In particular, the expenditures of local authorities on restructuring the debts of municipal enterprises to commercial banks (in the amount of 2% of GDP)[17] were carried out by issuing securities and increasing local debt[18]. Although local debts are not part of the public debt, the recent acceleration in the growth of these debts increases the risks of the transfer of contingent liabilities of the Government into direct expenses.

Since the beginning of the year, the budget of the Social Protection fund (SPF) has been executed with a deficit – 1% of GDP for 5 months. Its widening is associated both with some fundamental problems, including the low retirement age and aging of the RB population, and with some temporary factors. In particular, the SPF budget revenues were negatively affected by the deceleration of the rate of growth of salaries and wages and reduction in the number of payers of social contributions because of the decrease in the number of personnel in economy, observed since mid-2016. Republican budget loans have become the source of financing the SPF budget deficit.

Despite the interest rate reduction and growth of banks' loans provided on market terms, the overall loan portfolio of banks continued dropping against the background of the measures taken by the government to ensure bank rehabilitation and reduce directed lending. In May 2017, credit to the economy dropped by 5.4% in annualised terms at the constant exchange rate. The measures taken over the last 12 months to clean banks' balance sheets, *inter alia* through transfer of bad debts to balance sheets of local and central governments, have led to the compression of the loan portfolio by BYN 1.8 billion or 4.3%, while the cuts in directed lending additionally reduced the loan portfolio by about 2.2%. In the context of the GDP growth recovery and lower interest rates, the demand for credit increased, partially off-setting the loan portfolio reduction. At the same time, the bank rehabilitation measures resulted in an increase of the MoF debt by BYN 230 million (0.6% of banks' loan portfolio) and the debt of local governments by BYN 1.4 billion (3.2% of banks' loan portfolio).

Despite the continuing decline in the quality of banks' loan portfolio, positive trends have emerged to improve the public confidence in the banking system. The main problem faced by banks is the growing share of non-performing loans, which, combined with still unstable financial situation of enterprises, limits their ability to lend to the economy. The share of non-performing loans increased from 6.8% to 12.8% in 2016, and further to 13.6% in the first 5 months of 2017. The reasons for such a rapid deterioration in the quality of banks' assets included partially discontinued practice of recurrent refinancing of bad debts against the background of lower directed lending. In part, the growth in the share of non-performing loans was contained at the expense of clearing bank balance sheets. According to the EFSD, as a result of the transfer of bad debts to the balance of state administration bodies, share of these debts in

[17] In addition to the issued in 2016 securities equivalent to 1% of GDP.

[18] During 2016 and first half of 2017 the local authorities debt increased from 1.4% of GDP to 3.0% of GDP.

the credit portfolio decreased by 2 percentage points by the end of 2016 and by 0.6 percentage points in January-May 2017. In the medium term, the measures aimed at cleaning balance sheets and reducing directed lending will create prerequisites for more market allocation of credit resources, which will help banks improve their performance. A positive signal of growing confidence in the banking system in 2016 was the recovery of the BYN deposit base against the background of the exchange rate stabilisation and a drop in the share of foreign currency deposits to 68.4% from 74.5% in early 2016.

A significant improvement in the current account balance (CAB), which was formed amid favourable terms of trade, was accompanied by an increase in the government external debt, which indicates the negative impact of the accumulated structural imbalances in the economy. Against the backdrop of rising price competitiveness of the RB, the CAB deficit in January-June 2017 declined to 1.6% of GDP against 6.4% of GDP a year earlier. The net sale of currency by the population in the first half of the year of 1.1 billion dollars, secured, for the most part, by the restoration of the growth of remittances from the RF, was one of the sources of replenishment of the gross international reserves. At the same time, the improvement in the external balance was accompanied by an increase in external government borrowings, which retain the status of the main source of financing the balance of payments deficit. The external public debt grew both in absolute and relative terms, to 15.6 billion dollars (30.7% of GDP) as of July 1, 2017, compared to 13.6 billion dollars (28.5% of GDP) as of the beginning of the year.

The problem of the dominance of debt sources in the financing of the balance of payments is exacerbated by the trend of declining FDI, which began in 2013. If in 2013 FDI amounted to 2.0 billion dollars (2.6% of GDP), then in 2016 - only 1.1 billion (2.4% of GDP). In January-June of 2017 FDI amounted to 3.4% of GDP, against 4.1% of GDP a year earlier. The reduction of foreign direct investment significantly limits the efforts of the Belarusian authorities to increase labour productivity in the economy and is a consequence of structural problems and the continuing uncertainty of plans for further liberalization of the economy. The domination of state-owned enterprises, the slow progress in their reforming, the lack of a dynamic labour market, and the persistence of still significant price controls are fundamental reasons that considerably reduce the efficiency of resource use and limit the potential for economic growth.

II. *Status of compliance with conditions of the fifth tranche of the EFSD financial credit*

The conditionality for the disbursement of the fifth tranche includes implementation by the control date (1 June 2017) of 20 measures. The results of the evaluation show that all 9 control targets were met, while 4 (out of 11) indicative targets were not met. In particular, the broad money growth ceiling was exceeded; the decision of the President on transfer of at least 20 enterprises to municipal ownership and two laws – on bankruptcy and on amending the law on regulatory legal acts – were not adopted; and the 2016 share of the state-owned sector in generation of the gross the added value was above the level fixed in the conditions[19].

The detailed assessment of compliance with each indicator under the fifth tranche is provided below.

I. Macroeconomic stabilisation

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

Despite its reduction to the single-digit level in the period under consideration, the inflation is still much higher than in Belarus' main trading partners. It reinforces the importance of following tight macroeconomic policies in the country. The continuing high inflation expectations against the background of the remaining uncertainty, high real interest rates, and significant dollarization impede the efficient functioning of the economy. The significant accumulated gap between the real wages and labour productivity and the still high level of directed lending, which is generally characterised by low efficiency, generate additional inflationary pressure. The resulting faster growth of the marginal production costs is a fundamental factor contributing to the low competitiveness of Belarus' economy.

Target 1.1. The level of the gross international reserves (GIR) is equal to at least US $5.2 billion (equivalent to 1.9 months of imports) – a control target.

Status: met.

According to the NBRB's analytical review, its GIR made US $5.2 billion or 2.0 months of imports as at 1 June 2017, against US $4.9 billion or 2.0 months of imports as at 1 January 2017 (the evaluation date for the fourth tranche), and US $4.2 billion or 1.5 months of imports as at the start of 2016.

The GIR build-up in terms of months of imports is needed to improve Belarus' resilience to external shocks in the context of its persistent CA deficit[20], reduce the capital inflow, and bring down the high burden associated with servicing the external debt.

The flexible foreign exchange policies (based on the continuous two-way auction method to determine the exchange rate), monetary targeting policies, and net sales of foreign exchange by households contributed to the GIR build-up in the analysed period.

Since the start of 2017, the GIR have grown by US $312 million. The sources of such growth include the NBRB's foreign exchange interventions (US $0.9 billion), oil and oil product export customs duties (US $0.6 billion), issue of securities denominated in foreign currency by the MoF (US $0.4 billion), and mobilisation of the EFSD financial credit (US $0.3 billion). In addition, the GIR amount increased owing to the asset revaluation (gold price growth) by

[19] Adoption of amendments to the law on regulatory legal acts and limiting the share of the state-owned sector in generation of the gross added value are reflected in the Reform Matrix as one indicator.

[20] Last time, Belarus registered a CA surplus back in 2005.

US $0.2 billion. At the same time, the factors constraining the GIR growth include foreign exchange expenditures of the Government, primarily related to its debt obligations (-US $1.7 billion), and reduction of the NBRB's debt to residents and non-residents (-US $0.3 billion).

Some increase in the GIR in months of imports is explained by the greater than anticipated reduction of imports.

Target 1.3. The ceiling for net domestic assets (NDA) (at the programme exchange rate) is no more than BYN 5.3 billion (including an adjustment to the volume of SWAP repayments of no more than BYN 4.9 billion) – a control target.

Status: met.

According to the NBRB's analytical review, its NDAs were BYN4.6 billion as at 1 June 2017, against BYN 4.4 billion as at 1 January 2017, and BYN 6.9 billion as at the start of 2016. The NDA threshold was automatically adjusted downward owing to the NIR adjustment by BYN0.34 billion.

This measure is aimed at maintaining consistent tight monetary and fiscal policies to balance the domestic demand.

The NDA growth accelerated markedly in 2017 compared to last year that was primarily caused by an increase in the NBRB's net foreign assets in currencies with restricted convertibility[21] by BYN0.5 billion. However, owing to the tight monetary policies followed in 2016 and the NDA level at the start of 2017 significantly below the one targeted for the 4th tranche, the ceiling set for the 5th tranche was met. Nevertheless, if the current rate of NDA growth is maintained, there will be risks of failing to meet the ceiling set for this indicator and the reserve money under the subsequent tranches.

Target 1.4. The ceiling for reserve money (at the programme exchange rate) is no more than BYN 5.1 billion – indicative target.

Status: met.

According to the NBRB's analytical review, its reserve money was BYN4.9 billion as at 1 June 2017, against BYN4.5 billion as at 1 January 2017.

Controlling the reserve money level helps consolidate the benefits of the anti-inflation policies.

The implementation of this measure was ensured through compliance with the NDA ceiling. The limited reserve money growth contributed to deceleration of inflation in the RB – in May, the annualised inflation was 6.1%, while the target for 2017 is 9%. The Manager, however, notes that most of the measures to limit the NDA growth were implemented in 2016 (timely liquidity withdrawal after interventions to buy foreign exchange, maintaining a high level of interest rates for providing liquidity, reduction of the credit to the economy by the NBRB). In 2017, in the context of lower inflation, the monetary policies were loosened, primarily in the part of the volume of cash withdrawal – since the year start its growth has been BYN0.4 billion, while the money emission associated with interventions is at the level of BYN1.7 billion. The target was met to a large extent through conservative fiscal policies, owing to which the BYN deposits of the Government held with the NBRB grew by BYN0.7 billion.

[21] According to the Technical Memorandum of Understanding, this item is treated as part of the NBRB's NDAs.

The Manager welcomes the measures taken by the RB to limit the base money and fight inflation, noting, however, that a significant role in reducing the rate of price growth in 2016 was played by external factors, including, primarily, a decline of inflation in the RF and in general low international prices. In the event of deterioration in the favourable external environment, there are risks of accelerating inflation against the backdrop of softening of the monetary policy.

Target 1.5. The maximum broad money growth at the programme exchange rate is 0% – indicative target.

Status: not met.

On the background of the recovery in economic activities, the money supply at the programme exchange rate has grown by 4.4% since the start of 2017, against its growth of 0.1% in 2016, while the contribution of the BYN money supply growth was 1.9 percentage points, and that of the foreign currency component of money supply was 2.5 percentage points.

The money supply growth was supported by the growth of cash in circulation (the contribution of that factor is 0.8 percentage points), growth of local currency deposits (1.1 percentage points), and growth of the foreign currency component of money supply (2.5 percentage points). The BYN money supply growth was generated through money emission as a result of the NBRB's interventions, while the growth of its foreign exchange component supply is practically fully explained by the decision of *Gazprom Transgaz Belarus* OJSC to deposit the funds, which were received from the RB to cover the overdue debt to Russia for gas supplies, in accounts with Belgazprombank (about US $400 million or 2.2 percentage points of the money supply growth). The monetary policy loosening reflected in the reduction of the refinancing rate by 5 percentage points from the start of 2017 and by 6 percentage points in 2016 was another factor contributing to the money supply growth in excess of the set ceiling. Net of the funds related to the gas debt repayment and deposited with the bank, the money supply growth has been 2.2% since the beginning of the year.

The Manager underlines that, in the context of the persistent structural imbalances in the RB, extremely prudent policies of regulating further money supply growth are called for. The registered significant decline of the current account deficit in the first half of 2017 — down to 1.6% of GDP, against 6.4% of GDP in January-June 2016 —was associated exclusively with the improved terms of trade and was accompanied by a greater role of external borrowings in financing the balance of payments deficit. The government debt grew by US $1.5 billion from the year-start and reached 40.4% of GDP as at 1 July 2017, coming much closer to its threshold level of 45% of GDP. Another indictor pointing at the weaker debt sustainability is the real effective interest rate for the government debt (4.9% as at end-2016) exceeding the real rate of economic growth (-2.6% in 2016 and +1.1% in January-June 2017). Despite its significant reduction, the inflation is still much higher than the rate of price growth in Belarus' main trading partners, while inflation expectations significantly exceed the actual inflation rate.

Target 1.6. No multiple exchange rate practices – indicative target.

Status: met.

There are no multiple exchange rate practices. In 2017, exchange rates did not deviate from the official one by more than 2%. Some small deviations of the over-the-counter and the cash market exchange rates from the official one were last registered only in the periods of sharp depreciation in 2015 (in January, when the depreciation reached 30%, and in August, when the BYN exchange rate vis-à-vis the US $ depreciated by 15%).

This measure is aimed at creating equal conditions for all market actors, and constitutes an important prerequisite for bringing down the depreciation expectations and building up the GIR.

The implementation of this measure became possible thanks to lifting all administrative restrictions on foreign currency conversion. The Manager emphasises the importance of preventing multiple exchange rate practices in future.

Target 1.7. The exchange trading mechanism in the mode of continuous two-way auction is maintained operational – indicative target.

Status: met.

The two-way auction mechanism has been operational since 1 June 2015. Resolution of the NBRB Board No. 106, dated 1 March 2016, opened access to trading in the exchange currency market for economic agents operating through RB banks.

This measure aims at improving the operation of the domestic foreign currency market and its liberalisation, which promotes greater flexibility of the BYN exchange rate. Improvement of the foreign exchange policies also facilitates the elimination of foreign trade imbalances by generating adequate price signals in the foreign exchange, money, and commodity markets.

The implementation of the two-way auction mechanism has helped establish a platform for transition to a floating exchange rate regime and brought down the risks of foreign exchange speculation, which facilitated net purchases of foreign exchange by the NBRB of US $1.5 billion in 2016 and US $0.9 billion for 5 months of 2017. Resolution of the NBRB Board No. 106, dated 1 March 2016, lifted the ban introduced in the first half of 2015 on foreign exchange purchases by economic agents in the Belarusian Currency and Stock Exchange and restriction of their participation in trading at the exchange exclusively to surrender of part of their foreign exchange proceeds. At present, the results of analysis show that economic agents continue trading in foreign exchange mainly in the over-the-counter market, and over 90% of the volume of their transactions in the exchange is associated to sales of foreign exchange proceeds. That is explained by the fact that trading foreign currencies in the exchange is costlier for enterprises than conversion operations at banks. The NBRB is currently working on improving the terms of access of non-bank legal entities to the exchange.

Target 1.8. The operational system of bank liquidity management tools is consistent with the monetary targeting policy – indicative target.

Status: met.

In January 2015, the NBRB adopted the monetary targeting regime as part of its monetary policy implementation, with money supply control, based on a fixed target for its growth, as its principal tool for achieving the inflation rate target.

This measure improves the effectiveness of the anti-inflation policies, as inflation remains a key economic problem for the RB, and maintains the necessary level of liquidity in commercial banks.

Since 13 May 2015, a system of liquidity management tools consistent with the monetary targeting regime has been in place and running. The NBRB regulates the money market by modifying the volume of transactions of regulating the liquidity of the banking system. Both in the money market and the NBRB's auctions, the interest rates are determined on the basis of market factors, with due account of liquidity available to banks.

The implementation of this tool had a positive effect on inflation deceleration in 2015-2016. Since 2016, this tool has also been successfully used for withdrawing excess liquidity, resulting from foreign exchange purchases by the NBRB in the open market.

Target 1.9. Decisions on changing the refinancing rate are made taking into account the need to meet the inflation target, the actual developments of interest rates for the NBRB's auction transactions[22], the interbank interest rates, the status of the current account of the balance of payments, and with the aim of minimising exchange rate support interventions – a control target.

Status: met.

Since the start of 2017, the NBRB has revised the level of the refinancing rate on four occasions, every time bringing it down by 1-2 percentage points, thus, the refinancing rate was 14% as at the date of evaluation for the tranche, against 18% in early 2017. The decisions on bringing the refinancing rate down were made in the context of the foreign exchange supply significantly exceeding the foreign exchange demand in the domestic market. The currency supply was formed mainly by the population, due to the recovery of remittances as a result of the strengthening of the Russian ruble and the restoration of the growth of the Russian economy. The NBRB was purchasing the foreign exchange, generating an inflow of liquidity to the economy, which led to lower interest rates in the NBRB auctions.

Early 2017 was characterised by a sharp drop of the rate of inflation from 10.6% in December 2016 to 6.1% at end-May, while the annual target is 9%. The reduction of inflation was ensured through the implementation of tight monetary policies in 2016, the high base of 2015, and the BYN appreciation.

In the first half of the year2017, the CA deficit to GDP dropped to 16% compared to 6.4% in the same period of 2016 – respectively US $0.4 billion and US $1.4 billion in absolute terms. At the same time, the trade balance deficit, net of energy and potash fertilisers, went down to US $0.5 billion, against US $0.8 billion a year earlier. Thus, when making its decisions on interest rate reductions, the NBRB followed the programme requirements.

This measure is aimed at containing the pressure of the money overhang on the inflation and exchange rate and reducing the volume of directed lending. The high share of directed loans is a factor, which both generates pressure on the balance of payments and makes credit resources more expensive for other market players, while bringing down the effectiveness of the interest rate channel of monetary policies.

The Manager recommends the RB authorities to stick to a conservative approach when making decisions on further interest rate reductions. The rapid interest rate reduction in 2017 was one of the factors contributing to the failure to meet the money supply growth ceiling (clause 1.5). All other things equal, an unbalance growth of money supply weakens the monetary policy transmission to inflation reduction. In addition, macroeconomic risks continue to be significant. In view of the high price volatility in the energy market, the scenario of a sharp deterioration of the external economic environment for the RB cannot be ruled out. The foreign exchange market stability, which was largely achieved due to restoration of money transfers, also remains at high risk as a result of the policy of stimulating domestic demand.

[22] The NBRB's operations of providing liquidity.

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

Status: met.

According to the information posted on the NBRB's website, the interest rates for operations related to providing liquidity have been maintained above the refinancing rate throughout the EFSD programme period. At the same time, on the back of the refinancing rate reduction, the spread between the refinancing rate and the interest rate for providing liquidity was narrowed from 5 percentage points in early 2017 to 3 percentage points as at the evaluation date for the tranche.

This measure ensures proper performance by the NBRB of its function of the lender-of-last resort. As many interest rates for long-term loans and deposits are linked to the refinancing rate, maintaining the latter at a level higher than that of the liquidity provision rates may distort price signals in the banking sector. In particular, it may lead to excessive earnings of banks generated by long-term loans or pricing of long-term deposits at levels above the interest rate for liquidity management instruments, while the interest rates of the lender-of-last resort should remain the highest, because its capacity of lending to the economy are limited only by demand.

Implementation of this measure helped the NBRB effectively manage liquidity and avoid distorted price signals in the lending and deposit markets.

Target 1.16. Unconditional implementation of the Government Debt Management Strategy for 2015-2020, including the annual mobilisation of non-project related loans to the government[23] of no more than 75% of the annual government debt repayment needs. In case of exceeding this level, the amount of borrowings in excess of the 75% threshold is allocated exclusively to replenish the gold and foreign currency reserves – a control target.

Status: met.

In January-May 2017, the ratio of government borrowings to repayments was 57.4%, including the ratio for external debt of 75.0% and that for domestic debt of 48.1%.

This condition is aimed at reducing the level of government debt and improving the external investment position of the RB.

It should be noted that the risks of failing to meet this target for 2017 are extremely high. In view of the significant borrowings mobilised by the MoF in the external market in June 2017[24] and the planned until the year-end disbursements of loans provided by the RF Ministry of Finance totalling US $1,200 million, the ratio of borrowings to repayments is 139%.[25] To meet this condition for the year, the whole amount of borrowing in excess of 75% of repayments (equivalent to US $1.8 billion) should be used to replenish Government deposits.

Target 1.17. Maintaining the government debt to GDP ratio of no more than 45% – a control target.

Status: met.

[23] In the framework of this document, non-project related loans are defined as loans not related to implementation of investment projects with a significant import component.

[24] The Eurobond issues totalled US $1,400 million that is US $600 million above the amount initially planned in the approved 2017 budget.

[25] If principal repayments are kept at BYN5.2 billion (equivalent to US $2.6 billion) as provided for in the Law on the Republican Budget of RB for 2017.

As at 1 June 2017, the government debt to GDP was 37.6%, including the external debt of 27.7% of GDP and the domestic debt of 9.9% of GDP.

This measure is aimed at strengthening the debt sustainability and the external investment position of the RB.

In the first five months of the year, owing to net domestic government debt repayments and appreciation of the BYN nominal exchange rate, the level of the government debt declined by 1.8 percentage points of GDP, of which the external debt accounts for 0.8 percentage points and the domestic debt for 1 percentage point. In view of the significant unplanned MoF borrowings listed under clause 1.16, the end-year government debt is estimated by the Manager to make 42.5%, which is significantly closer to the ceiling. In addition, the debt sustainability weakening is reflected by the fact that the real effective interest rate for the government debt — 2.9% as at end-2016 — exceeds the real economic growth rates — -3.6% for 2016.

II. Goods and services market reform and reduction of government support.

The implementation of this set of reforms is aimed at setting up market-oriented pricing mechanisms, efficient use and allocation of commodity, financial, and human resources and improvement of competitiveness of the Belarusian economy. The specific measures to perform this task include price liberalisation, raising housing utility and public transportation tariffs for households to reach full cost recovery in the medium term, as well as reduction of the share of lending under government programmes in the banking system, since it is a fundamental factor of structural imbalances distorting pricing in the money, foreign exchange, and commodity markets.

Target 2.1. An independent anti-monopoly authority on the basis of the Ministry of Trade is established and functioning – indicative target.

Status: met.

The Ministry of Anti-Monopoly Regulation and Trade was established under Decree of the RB President No. 188, dated 3 June 2016, *On the Anti-Monopoly Regulation and Trade Authority* and started functioning on 8 September 2016.

The implementation of this measure is aimed at establishing an independent anti-monopoly authority, whose main objectives are the promotion of market relations on the basis of competition and entrepreneurship development, prevention and restriction of monopolistic activities and unfair competition, *inter alia* through price controls exercised on monopolies and state supervision over compliance with the anti-monopoly legislation.

КП 2.2 Liberalisation of prices for goods and services: adoption of regulatory legal acts on setting prices and tariffs by the RB Government and other government institutions is to be limited to the lists of goods and services fixed by Decree of the RB President No. 72, dated 25 February 2011, and Resolution of the RB Council of Ministers No. 35, dated 17 January 2014, as well as other regulatory legal acts consistent with the RB obligations within the framework of the EAEU. The state price regulation is made consistent with the provisions of Annex No. 19 to the Treaty on the Eurasian Economic Union – a control target.

Status: met.

Under Resolutions of the RB Council of Ministers No. 22, dated 12 January 2017, and No. 81, dated 27 January 2017, the socially important goods, which used to be permanently regulated by the MART, as well as fruits and vegetables, which used to be permanently regulated by oblast and Minsk city executive committees, were included in the lists of goods, priced for which can be regulated for no more than 90 days per year. Taking into account the liberalisation of prices for socially important goods, the RB provisions on state price regulation are aligned with the provisions of Annex No. 19 to the Treaty on the Eurasian Economic Union[26]. The only exception is the continued regulation of pricing for products of enterprises that hold a dominant position in the market (that is to be lifted in the framework of the seventh tranche), while the requirements of the EAEU for this category of entities envisage only the antitrust regulation.

The implementation of this measure is aimed at lifting administrative price controls and at setting prices on the basis on market signals. Price control practices affect the financial condition of enterprises producing regulated goods and distort price signals for economic agents.

According to the Manager's estimates, as of the control date for evaluation of compliance with the conditionality for the tranche, the liberalisation measures taken ensured a reduction of the share of administratively regulated prices to 20% of the CPI basket, of which 8.6 percentage points is the share of tariffs for the services, which are to be regulated, according to the EAEU Treaty, by national governments, while a year earlier the share of regulated prices was 22%.

Target 2.6. The established data base on lending under government programmes is updated quarterly – a control target.

Status: met.

The RB MoF has created a data base on government programmes, which includes information on the indicators agreed earlier with the Manager – the amount of loans, dates of their disbursement and repayment, financial terms and conditions (the interest rate, share compensated by the budget, guarantees), volume disbursed and repaid in the reporting period, outstanding stock as at the start and end of the reporting period. All the data are available with a breakdown by commercial banks and the Development Bank, regulatory acts approving the key parameters of government programmes and loan currency. The data base is created by the RB MoF based on the information received from commercial banks and the Development Bank. In the framework of evaluation for the fifth tranche, the Manager received data for six months of 2017, which show that net repayment under government programmes for that period was 3.4% of GDP.

This measure is aimed at strengthening the monitoring and improving the quality of decision-making on government programmes through consolidation of the fragmented information within a single data set.

III. Commercialisation / privatisation of state-owned enterprises and strengthening social safety nets

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

[26] At present, the measures of permanent government control cover only certain types of services, strong alcoholic beverages, medicines, fuel and products of enterprises that hold a dominant position in the market. In addition, the regulator is able to introduce price controls in relation to a certain list of socially important goods for a period of 90 days within a calendar year.

П 3.1 Implementation of corporate governance elements at 10 joint-stock companies, including adoption of codes of corporate governance, creation of relevant committees etc. Adoption by the RB President of a decision on transfer to municipal ownership of at least 20 enterprises – indicative target.

Status: not met.

As at the evaluation date for the fourth tranche, the condition of implementing elements of corporate governance at 10 joint-stock companies was met. However, the instruction of the RB President on transfer to the municipal ownership of at least 20 enterprises was not adopted.

The implementation of this measure is aimed at improving the quality of corporate governance of enterprises and their performance through the introduction of corporate governance principles and optimisation of the number of economic agents subordinated to central government bodies. The transfer to municipal ownership of those enterprises, whose operation is of no strategic importance, will help improve their management and align their operation with the needs of the region, *inter alia* through their privatisation on decision of local governments.

All 10 joint-stock companies[27] adopted their codes of corporate governance; strategy committees were created at the supervisory boards of 8 joint-stock companies[28]; corporate governance and personnel committees were established at the supervisory boards of 3 joint-stock companies[29]; the position of the corporate secretary was introduced at 2 joint-stock companies[30].

The State Property Committee, in cooperation with Vitebsk Oblast Executive Committee, cleared a list of 24 enterprises, which primarily focus their business and operation on the goals of regional development, to be transferred to the municipal ownership of Vitebsk oblast. For each of the enterprises, Vitebsk Oblast Executive Committee drafted a substantiated plan of its further development, which was then submitted for the consideration of the State Property Committee. The transfer of these enterprises under the management of the regional authorities is expected to improve their management and align their operation with the needs of the region, *inter alia* through their privatisation on decision of the local government, while focusing the efforts of the central Government on improving the quality of managing strategically important enterprises that remain subordinated to it. The relevant draft decision, which gives the rationale for the transfer of each enterprise to the local level, is currently considered by the Government.

П 3.6 The role of the state in economic activity is reduced. The share of the state-owned sector in generation of the gross added value is limited to no more than 45% in 2016. The Law *On Regulatory and Legal Acts*, aimed at introducing the regulatory impact assessment of regulatory and legal acts affecting business activities is amended – indicative target.

Status: not met.

According to the National Statistical Committee, the share of the state-owned sector in generation of the gross added value reached 47.2% in 2016, against 46.3% a year before (net of joint-stock companies with the share of the state ownership below 50%).

[27] Airline Company Transaviaexport, BATE, BELAZ, Belshina, Borisov Plant of Medical Preparations, Borisov Plastic Products Plant, Keramin, Minsk Margarine Plant, Belavtodor Holding Management Company, Ekzon, and JSC "Management company of the holding "Belavtodor".

[28] Airline Company Transaviaexport, Belshina, Borisov Plant of Medical Preparations, Borisov Plastic Products Plant, Keramin, Minsk Margarine Plant, and Ekzon.

[29] BATE, BELAZ, and Airline Company Transaviaexport.

[30] Airline Company Transaviaexport and Minsk Margarine Plant.

The draft Law *On Regulatory and Legal Acts,* which includes provisions on introducing the regulatory impact assessment of regulatory and legal acts affecting business activities (hereinafter referred to as the RIA), was discussed by the House of Representatives of the National Assembly in its second reading in the spring session and will be further considered in the framework of the autumn session, following its improvement by Members of the Parliament.

This measure is aimed at optimising the role of the state in the Belarusian economy.

The Manager believes that the registered share of the state-owned sector in the gross added value is largely explained by the recovery of output of exported products at state-owned enterprises in view of the low base, depreciation of the real effective exchange rate, recovery of demand for Belarusian products in Russia, and significant government support provided to state-owned enterprises, including the replenishment of their authorised funds (0.8% of GDP) and reduction of their debt burden using budget funds (1.9% of GDP)[31].

The reason for the delay in adoption of the Law *On Regulatory and Legal Acts,* according to Members of the Parliament, is the need to study further the expediency of introducing a provision on the RIA in the law, while a similar provision is covered in Decree of the RB President No. 40 *On Optimisation of the Administration of the RB President*. That Decree, dated 13 February 2017, grants the Presidential Administration the right to request from government bodies materials and information needed for the RIA for decisions offered for the consideration of the President.

The Manager believes that it is important to expand the practice of the mandatory RIA to cover decisions related to engaging in business activity, which are adopted by the executive power, including local governments.

П 3.10 Restructuring of the state-owned sector. The new version of the Law *On Insolvency or Bankruptcy* is adopted – indicative target.

Status: not met.

The draft RB Law *On Insolvency and Bankruptcy* will be considered by the House of Representatives of the RB National Assembly in its first reading in the autumn session.

The implementation of this measure is aimed at simplifying the bankruptcy procedure and creating incentives for prompt declaration of enterprises insolvent.

The new version of the law provides for the simplification of the bankruptcy procedures, as well as adjustment of the provisions of the law to changes in the legislative regulation of legal relations in various spheres, which have occurred over the 12-year period of this version of the law being in force.

Amendments to the law are *inert alia* aimed at ensuring prompt declaration of bankruptcy — not at the stage of persistent inability to pay, but after three months of inability to pay one's creditors — that would improve the prospects of maintaining the business and recovering the ability of economic agents to pay. In addition, the remuneration of rehabilitation receivers of enterprises would significantly exceed that offered in case of the liquidation of an enterprise. The draft law provides for the centralisation of all the information on bankruptcy exclusively in the e-register on bankruptcy, strengthening the financial liability of managers working with a debtor's debt for non-transfer of the full package of accounting and other records to the receiver, and changes in the priority of creditors' claims, which is aimed at minimising the scope for non-disclosure of investment or divestment, and strengthening the guarantees of repayment of

[31] The amount of securities issued by the RB MoF and local governments to repay bad debts of enterprises.

secured bank loans. The draft law also provides for the consolidation of the single state creditor function represented by the tax administration and reduction of the bankruptcy procedure timeframe. The draft law will be considered by the Parliament in its first reading in the framework of the regular autumn session.

The adoption of the law is delayed, specifically because of the amendments currently introduced to the draft in the part of bankruptcy procedures, based on the results of piloting the bankruptcy procedures, provided for by Decree of the RB President No. 253 *On Measures of Financial Rehabilitation of Agricultural Enterprises,* dated 4 July 2016, at a few agricultural enterprises.

IV. Business climate improvement / private sector development

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

П 4.1 Adoption and implementation of a Directive of the President, agreed with business community representatives, on further measures to develop the entrepreneurial initiative and promote business activity in the RB – indicative target.[32]

Status: met.

In the first six months of 2017, the RB Government implemented a few measures aimed at improving the business climate and ensuring the private sector development, including the following: (1) reduction of administrative barriers; (2) introduction of the practice of the regulatory impact assessment of decisions offered for the consideration of the President; (3) promotion of export-oriented activities; (4) simplification of the procedures related to private business entry and exit.

The key aim of this measure under the Matrix is the development of the private sector as a factor of ensuring sustainable economic growth in Belarus.

In the reporting period, further efforts were made to establish the single register of administrative procedures, including the preparation of the technical design and layout of this information resource. In January-March 2017, additional decisions were made to repeal 9 and simplify 9 administrative procedures[33]. A resolution was drafted to provide for repealing 3 administrative procedures for businesses. Resolution of the Ministry of Health No. 15, dated 17 February 2017, repealed 4 sanitary standards, rules, and hygiene standards.

The RB President adopted Decree No. 40, dated 13 February 2017, *On Optimisation of the Administration of the RB President,* which entails the introduction to the Regulations on the Administration of the RB President of provisions requiring preparation by the Administration of RIA expert reports on issues of social and economic development offered for the consideration of the RB President. The RB President adopted Decree No. 221, dated 23 June 2017, *On Amending Decree of the RB President,* which extends the timeframe for completing foreign trade

[32] In view of adoption of a range of legislative acts aimed at developing the entrepreneurial initiative, including Decree of the President No. 78 and the Government Programme *Small and Medium Businesses in the Republic of Belarus* for 2016-2020, which cover most of the strategic provisions of the new version of Directive No. 4, it is no longer reasonable to adopt this Directive. Thus, the progress in realising the Plan of Action to implement the current version of Directive No. 4 (Resolution of the RB Council of Ministers No. 251/6, dated 28 February 2011) and the Plan of Action to implement Decree of the President No. 78 (approved by RB First Deputy Prime Minister No. 11/100-59/49, dated 4 March 2016) is monitored under this measure.

[33] As a result of the measures taken in 2016 to reduce administrative barriers, 32 redundant administrative procedures were repealed; 12 procedures were digitalised, thus, the total number of e-procedures reached 107 – see the Progress Report of the Manager for the Fourth Tranche.

transactions in case of exports from 90 to 180 days following the shipping date (date of providing services, performing work), and in case of imports from 60 to 90 days following the payment date.

The RB Council of Ministers and the NBRB adopted Resolution No. 181/5, dated 3 March 2017, *On Amendments and Addenda to Resolution of the RB Council of Ministers and the NBRB No. 924/16, Dated 6 July 2011*, which provides for the right of individual entrepreneurs paying the single social tax to receive cash without using cash register equipment and payment terminals for three months following their state registration.

The RB President adopted Ordinance No. 2, dated 28 February 2017, *On Amending Ordinance of the RB President*, which provides for improving the state registration and liquidation of economic agents.

A package of regulatory acts has been offered for the consideration of the RB Government. Those are aimed at:

- developing entrepreneurship and eliminating redundant requirements to businesses through the introduction of an exhaustive list of sanitary and epidemiological requirements, administrative procedures, and types of economic activities, in case of the commencement of which a notification is to be filed in writing to the local executive and administrative body.
- reducing the tax burden of businesses through the establishment of a moratorium on introducing new taxes, fees and duties, expanding the tax base, and raising tax rates for the period of 2018-2020.
- improving the control and supervisory activities, streamlining control bodies and their functions, as well as mechanisms for carrying out inspections.
- reducing the range of licensed activities and simplifying certain requirements to license applicants and licensees.
- establishing the legal framework for tax consulting in the RB.
- boosting the development of small businesses in the field of service provision on the territory of medium, small urban settlements, and rural areas.
- liberalising the administrative legislation and repealing its punitive provisions.

The implementation of these measures will significantly improve the business environment, reduce costs and uncertainty of regulatory procedures for businesses, and facilitate engagement in foreign economic activity.

П 4.3 Introduction of the international financial reporting standards and mandatory independent audit of such reporting. Consideration of the practicability of expanding the list of companies required to prepare their annual reports based on the IFRS – indicative target.

Status: met.

In accordance with the resolutions of the Council of Ministers of Belarus and the National Bank of Belarus as of August 19, 2016 № 657/20 and December 30, 2016 № 1119/35, from January 1, 2017, 44 IFRS and 26 IFRS Clarifications are part of the national legislation.

Under the Law *On Accounting and Reporting*, starting from 1 January 2017, private individuals holding the position of the chief accountant of an insurance organisation or an open joint-stock company, which is the founder of unitary enterprises and/or the parent company of subsidiary economic entities, must have certificates of professional accountants issued by the RB

MoF. In addition, starting from the same date, organisations and individual entrepreneurs providing services in accounting and preparing accounting reports and/or financial statements for insurance organisations or open joint-stock companies must make sure that such services are provided at least by one staff member with a professional certificate issued by the RB MoF.

By the control date for evaluation of compliance with the conditionality for the tranche, 89 specialists had received certificates of professional accountants.