APPRAISAL

of the request from the Republic of Belarus
for a financial credit
from the resources of the EurAsEC Anti-Crisis Fund
in the amount equivalent to US$3 billion
Republic of Belarus

Fiscal year: 1 January - 31 December

Exchange rate as of 25 May 2011

<table>
<thead>
<tr>
<th>Currency</th>
<th>Belarusian Rubel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Euro</td>
<td>6,933.48</td>
</tr>
<tr>
<td>US$ 1</td>
<td>4,931.00</td>
</tr>
<tr>
<td>1 Russian Ruble</td>
<td>17.34</td>
</tr>
</tbody>
</table>

Weights and measures: Metric system

Abbreviations

ACF  EurAsEC Anti-Crisis Fund
ACFD  ACF Department of the Eurasian Development Bank
CIS  Commonwealth of Independent States
CU  Customs Union
CPI  Consumer price index
GDP  Gross domestic product
GNI  Gross national income
EDB  Eurasian Development Bank
EurAsEC  Eurasian Economic Community
EU  European Union
FC  Financial credit
FDI  Foreign direct investment
IMF  International Monetary Fund
IFC  International Finance Corporation
IFI  International financial institution
NBRB  National Bank of the Republic of Belarus
MA  Monetary authorities
MOF  Ministry of Finance of the Republic of Belarus
PFM  Public Finance Management
RB  Republic of Belarus
RF  Russian Federation
SPF  Social Protection Fund
UN  United Nations
WB  World Bank

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# Financial Credit to the Republic of Belarus from the Resources of the EurAsEC Anti-Crisis Fund

Main Parameters of the Credit Recommended by the ACF Manager

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Republic of Belarus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible Agency</td>
<td>Ministry of Finance of the Republic of Belarus</td>
</tr>
<tr>
<td>Volume and Financial Terms</td>
<td>Amount: US$3 billion; Interest rate: cost of funding of the Russian Federation on the international markets, calculated for each 3-month interest accrual period on the date which precedes by two business days the first day of the interest calculation period (but not higher than 4.9% per annum); Front-end commission, in % of the Credit amount: none; Maturity, including grace period: 10 years; Grace period: 3 years; Amount of co-financing by the applicant: None.</td>
</tr>
<tr>
<td>Type of Operation</td>
<td>Financial Credit</td>
</tr>
<tr>
<td>Main Areas of Support</td>
<td>Foreign trade, monetary sector, fiscal discipline.</td>
</tr>
<tr>
<td>Main Performance Indicators</td>
<td>• Current account deficit reduced to 10% of GDP or lower in 2013, due to tighter monetary and fiscal policies; • International reserves replenished to at least 2 months of imports by the end of the program, net international reserves do not fall below the level of 1 May 2011; • Net emission lending under state programs cut to 1 percent of GDP by 2013 and their management is transferred to the Development Bank; • General government budget deficit reduced to 1 percent of GDP in 2013 through spending rationalization, including the reduction of subsidies.</td>
</tr>
<tr>
<td>Main Purposes</td>
<td>Support the balance of payments and maintain international reserve assets</td>
</tr>
<tr>
<td>Key Risks and Ways to Reduce Them</td>
<td>Risks: (a) internal and external imbalances persist in case the Stabilization program goes off-course and/or medium-term structural reforms deliver poor results; (b) external debt grows significantly, especially in case of failure to mobilize non-debt resources (FDI and income from the sale of state assets) to finance the external gap; and (c) temporary drop in living standards as a result of corrective measures. To reduce these risks, the Manager recommends to: (a) extend the credit in six tranches over the period of 2011-2013, to achieve sustainable results; and (b) the Government of Belarus to attract additional financial resources through privatization and new foreign direct investments and through loans from the IMF and other IFIs; (c) pay special attention to the issues of social protection, strengthen the targeting of the social protection system and significantly improve the climate for private enterprises as a source of new jobs.</td>
</tr>
</tbody>
</table>
I. APPRAISAL OF THE ACF MANAGER

This Appraisal is prepared at the request of the Republic of Belarus (hereinafter - RB, the Applicant) to receive a financial credit from the ACF resources (hereinafter – the Credit) in the amount of US$3 billion, submitted to the EurAsEC on 22.10.2010 by letter # 12-1-21/329 with the subsequent clarification of the amount and the purpose of the Credit by the Letter of Intent dated 02.06.2011 (together – Application, found at Appendices 1 and 2 to this document). The main purpose of the Credit is to support the medium-term Stabilization Program of the new Government of the Republic of Belarus, aimed to eliminate external imbalances and to overcome the currency crisis.

The second section of this document contains a detailed justification of the Appraisal of the ACF Resource Manager (hereinafter - the Manager).

Upon considering this application, the Manager proposes to the ACF Council to consider the following recommendations and Appraisal:

1. The Application meets the objectives of the Fund, the purposes for providing ACF financing, the procedure and conditions for the provision of the Fund’s resources as defined by the Treaty Establishing the Anti-crisis Fund of the Eurasian Economic Community, the Statute of the Fund, the Regulation on the use of ACF funds for Providing Financial Credits and the decisions of the Fund Council.

2. The Application is prepared in accordance with the requirements of the Fund and is signed by the authorized person - Plenipotentiary Representative of Belarus in the Fund Council. The degree of elaboration of the Application in terms of availability of information necessary to undertake the Appraisal and the availability of supporting documentation is adequate.

3. Analysis of the situation in RB allows to make the following conclusions and recommendations:

   a) The current account deficit has remained at unacceptably high levels since 2008 and is growing steadily. In 2009-10 this deficit was 13 and 16% of GDP, respectively. This led to the reduction of gold and foreign exchange reserves and to the currency crisis in the Spring of 2011, expressed in multiple exchange rates, disruption of imports, suspension of production by import-dependent enterprises, and acceleration of inflation (10.9% for the first four months in 2011 against 3.1% over the same period of 2010);

   b) A significant imbalance of the country’s external position was the result of deteriorating terms of trade in energy, overall reduction of competitiveness of the economy, and unbalanced policy of stimulating domestic demand. Since 2007, the reduction of subsidies on energy imports from Russia led to the decline of total factor productivity in the economy. In response, to maintain high levels of economic growth, the Government increased the stimulus to domestic demand through credit expansion. During world financial and economic crisis, continued growth of investment was supported by further softening of monetary and fiscal policies.

   c) The main tool for increasing investments was directed lending under government programs through the banking system, including directly by the country’s National Bank. The Government and the National Bank of Belarus directly influenced the formation of

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1 For many years the country benefited from high demand on its key export items (petroleum products and fertilizers), and subsidized prices on imported energy. Due to price differential between imported and exported oil and gas, Belarus received in 2000-2008 energy subsidies equivalent to 6-13% of GDP.
the banks’ loan portfolios and the level of interest rates on loans. This policy maintained economic growth and the modernization of fixed assets in key sectors of the economy, and, supposedly, some increase in the efficiency of production. However, directed lending had the following negative effects:\(^2\): (a) credit expansion had accelerated the growth of aggregate demand, including on imported goods. Meanwhile, given the focus of state lending in Belarus on non-tradable sectors of the economy (above all – on housing construction), this policy has not led to commensurate growth of exports, but, on the contrary, has weakened the balance of payments; (b) net lending to the economy under state programs was equivalent to the existence of large quasi-fiscal deficit (6% of GDP in 2010), which has weakened the public finance system; (c) directed nature of loans limited the ability of commercial banks to set market interest rates and to manage credit risk, which normally weakens the efficiency of credit allocation and the quality of the loan portfolio.

d) High growth rates of the economy (over 7% annually since 2000) and even faster growth of real incomes (about 13% annually between 2000-2010) exacerbated the imbalances in domestic consumer demand. Also, since mid-2000s, the growth of productivity has slowed, and wages grew faster than productivity, which meant the loss of competitiveness of Belarus goods. Given the general deterioration of Belarus’ terms of trade in recent years, a switch to the exports of high-tech and innovative goods should be the main instrument for restoring competitiveness and stabilizing the country’s trade balance. In this regard, the Government’s plans to liberalize the economy and to improve business environment in order to attract foreign direct investment as a vehicle of technological innovation are extremely timely. Development of private sector, including in the service industries, will help diversify the economy and reduce its energy intensity.

e) The structural problem of Belarus’ economy is its heavy reliance on energy imports, which account for more than one third of all the value of imports of Belarus, and this share may increase in case of further growth of energy prices. One can only welcome consistent efforts of the Government to introduce energy-efficient technologies and energy-saving measures, as a result of which energy intensity of Belarus’ GDP was cut by 30% over the recent five years. However, the cost of further measures to reduce energy consumption will rise, since the potential for low-cost and short-term energy saving measures is exhausted. Reaping significant savings of fuel and energy resources (FER) is only possible through the retooling of the main production lines, the introduction of new energy-efficient technologies, as well as structural changes in the economy through faster development of services and other sectors that are low energy users.

f) In order to stabilize the balance of payments, it is necessary to stop stimulating domestic demand through non-market lending channels. The Manager recommends that the Government: (a) reduces the growth rate of such lending by reviewing State lending programs and by concentrating budgetary resources only on programs of the highest priority; (b) transfers the management of State lending programs to the Development Bank of Belarus; and (c) includes the amounts of net lending under government programs funded by Government deposits into consolidated budget which will improve the efficiency of public finance management. All other government programs must be funded exclusively on the basis of market principles, through competitive allocation of enterprise bids for such funds and through giving the banks complete freedom to determine interest rates based on credit risk analysis and projected level of inflation.

g) It is also necessary to tighten the fiscal policy: in recent years, budget deficit was used as yet another instrument for amplifying domestic demand, although less significant than

\(^2\) These effects occurred in all countries that have earlier resorted to directed lending to the economy.
state lending programs. At the same time, adjustment of all imbalances the accumulated in the economy will have a temporary negative effect on the living standards. For this reason, the Manager recommends to review public expenditures planned for 2011 and for medium term perspective, with the understanding that social protection expenditures should effectively support the most vulnerable population groups.

4. In order to correct accumulated internal and external imbalances and to resolve the currency crisis, the Government and the National Bank of Belarus have developed a Stabilization Program set forth in the Letter of Intent (found at Appendix 2), which includes measures to tighten monetary and fiscal policies, and to adjust the exchange rate and to align it with equilibrium market levels. The level of detail and the seniority of officials who have signed the Letter of Intent are satisfactory for the purposes of extending the requested Credit. The Manager notes that the measures included in the program are necessary, but not sufficient to redress the macroeconomic balances in Belarus, and must be supported by decisive structural reforms in the economy.

5. The Applicant’s implementation of conditions that are mandatory for the provision of financial credits:
   a) The Applicant has completed all internal government procedures, necessary for the entry into force of the Treaty Establishing of the Fund, has made an initial contribution to the Fund, and fulfilled all other requirements, necessary for Fund members to receive financial credits, in the manner and on the terms determined by the Statute of the Fund and the decisions of the Fund Council;
   b) The Credit under consideration is the first credit from the ACF resources to be extended to RB. The Applicant has no obligations under previously signed agreements for allocating the resources of the Fund;
   c) The applicant does not have overdue liabilities on servicing and repayment of external debt to the Members Governments of the Fund and to leading international financial institutions.

6. The Manager recommends defining the objective of the requested Credit to be the support of the country's the balance of payments and the replenishment of its international reserve assets.

7. The Manager recommends setting the amount of the requested Credit at US$3 billion. According to the updated balance of payments forecast, which incorporates the assumption for devaluation and the establishment of a single equilibrium exchange rate, and if all targets of the Stabilization Program outlined in the Letter of Intent are met, the recommend amount, together with forecasted privatization revenues (about US$7.5 billion during 2011-2013) will be sufficient to close the external financial gap. If privatization revenues are significantly lower than forecasted, additional resources must be mobilized in the form of loans from international financial institutions, above all – from the IMF and World Bank.

8. The Manager recommends disbursing the Credit in 2011-2013 in six tranches, each of which must be provided only on the condition of the Fund’s Council approval of the Borrower’s reports on the implementation of prior conditions for issuing a given tranche. The following amounts and dates are recommended for the provision of tranches:

<table>
<thead>
<tr>
<th></th>
<th>Amount (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First tranche</td>
<td>800</td>
</tr>
<tr>
<td>Second tranche</td>
<td>440</td>
</tr>
<tr>
<td>Third tranche</td>
<td>440</td>
</tr>
<tr>
<td>Fourth tranche</td>
<td>440</td>
</tr>
<tr>
<td>Fifth tranche</td>
<td>440</td>
</tr>
<tr>
<td>Sixth tranche</td>
<td>440</td>
</tr>
<tr>
<td>Total</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Note: Lending volumes presented in this table are indicative. They should not be viewed as a commitment of the Fund or its Manager to provide these resources in the amounts and forms indicated in this table.
9. RB’s access limit to ACF resources established by the decision of the Fund Council on February 25, 2010 is equivalent to US$1,787.73 million. The amount of recommended Credit (US$3 billion) exceeds this limit. To ensure the provision of this financial Credit in the recommended amount, the Manager recommends reallocating part of the ACF limit of the Russian Federation in the amount of US$1,212.27 for the purposes of funding this Credit.

10. In 2010, the Government of Belarus had submitted to the ACF several applications for investment projects with significant anti-crisis and integration effect. The Government has informed the Manager about the need to defer the schedule of work on these investment applications. The Manager recommends to revisit the issue of investment cooperation of ACF with Belarus in the first meeting of the Fund Council in 2012.

11. On the basis of Appendix 1 to the Regulation on the Use of ACF funds for Providing Financial Credits, the Manager recommends to establish the following financial terms for the requested Credit:

   a) Interest rate - the cost of funding of the Russian Federation on international markets, which is calculated for each 3-month interest accrual period on the date which is 2 business days before the first day of the period for which the interest is being calculated (but not higher than 4.9% per annum);

   b) Front-end fee – none;

   c) Commitment fee – none;

   d) Maturity - 10 years, including 3 years of grace period;

   e) Requirement to co-finance the Credit by the applicant - none.

12. The Manager notes high risks of this Credit and recommends the following to mitigate them:

   a) At all stages of the implementation of Stabilization Program presented in the Letter of Intent, its success should be determined by the ability of the country’s leadership to implement difficult decisions that will restore long-term growth and competitiveness of the economy, but in the short term may cause a decline in economic activity and living standards;

   b) In an effort to support economic growth and living standards of the population, the Belarus Authorities may continue the policy of unbalanced demand stimuli via mechanisms that are not included in the Program supported by this Credit, or via administrative methods of economic regulation. This will slow the elimination of imbalances that have accumulated in the economy. The Manager will on a regular basis monitor the macroeconomic situation, and will be ready to discuss emerging problems with the Government of RB. If such policies contradict the basic objective of the Credit, this matter will be passed to the consideration of the Fund Council;

   c) In case of absence of or slow progress in structural reforms the impact of macroeconomic adjustment supported by this Credit will be incomplete and/or shaky. Liberalization of the economy and encouragement of foreign direct investment inflows, especially in export-oriented sectors, will improve the structure of the economy, help to raise its energy efficiency and diversify exports. The Manager will monitor the implementation of Directive #4 of the President of Belarus on the liberalization of the economy and will facilitate the receipt of technical assistance for implementing reforms in this area by the Government of Belarus;

   d) The depth of the current crisis in the Republic of Belarus is significant, and the needs to finance the external gap and to replenish international reserves to the level which ensures the country’s economic security are larger than the size of the requested Credit. The mobilization of significant additional resources is necessary, both through non-debt instruments (privatization proceeds) and through loans from international financial institutions, above all -
from the IMF and the World Bank. The approach under which the Government’s Stabilization Program is supported not by one, but several international financial institutions will increase the effectiveness of its implementation, reduce the risks of further deterioration of the country’s external balances, and ensure the prospects of long-term investment cooperation between Belarus and ACF;

e) While considering additional sources of support to the Government’s Stabilization Program, the Government must take into account rapid growth of the country’s external debt. The level of external public and publicly-guaranteed debt has doubled since 2008 to 21.2% of GDP, while gross external debt has tripled to 52.4% of GDP. Preliminary estimates put the level of gross external debt by the end of 2011 at no less than 70% of GDP. If problems with the balance of payments persist due to artificial stimulus of domestic demand, the country’s gross debt may become excessive in terms of both fiscal and debt sustainability. Due to this, top priority should be to contract additional loans from other international institutions on as concessional terms as possible, and to stimulate direct investment inflows, including through the sales of state property. Stabilization of the balance of payments requires careful balancing of demand-reduction mechanisms on one side, and of the implementation of investment projects that improve the country’s export potential on the other.\(^3\) Currently, the Government’s ability to attract investment loans is limited by the Stabilization Program’s constraint on the consolidated budget deficit and on the net lending under Government programs for the medium term. The Manager is prepared to reconsider approaches to determining the level of budget deficit for 2012-2013 in case the Government attracts investment loans that have clearly positive impact on the country’s development;\(^4\)

f) Success of the Stabilization Program will largely depend on external conditions, including world energy prices, the level of demand from major trading partners of Belarus, and changes in the terms of trade. In the medium term, deterioration of external conditions could lead to the widening of the current account deficit even if the Program succeeds. Stabilization of domestic demand and structural changes aimed at diversifying the export base and the reduction of dependence on energy imports will be important factors that can weaken such negative effects in the long run;

g) Stabilization Program may lead to the reduction of real incomes of the population, which in recent years grew faster than overall economic growth. In this situation, an important factor of social stability should be for the Government to develop and implement effective social protection programs, improving their targeting, creating an extensive network of staff retraining programs, and revising the legislation to support increased mobility of the workforce and simplifying its shift to the private sector.

\(^3\) Import substitution projects must reflect the country’s comparative competitive advantages.
\(^4\) It will be important to carefully determine annual disbursement volumes under Government’s programs in order to reduce inefficient external borrowing.
II. JUSTIFICATION OF THE APPRAISAL

Socio-Economic Situation in the Republic of Belarus

Overview

1. Belarus is one of the most prosperous countries in the Commonwealth of Independent States (CIS) in terms of income levels and the quality of life (see Figure 1). In 2009, its Gross National Income (GNI) per capita\(^5\) stood at US$5,560 (see Figure 2). Only 5.4% of the population\(^6\) lived below the poverty line. Belarus holds leading positions in the CIS in terms of growth rates. It leads also in the annual volume of commissioning of residential housing per 1,000 people. As a result, availability of residential housing in 2010 was about 24 square meters per capita. The quality of public services and the population's access to them are high. The U.N. Index of Human Development (2010) places the country in the category of high level of human development, with a rank of 61 - the highest among the CIS countries. The level of administrative corruption in the country is lower than in other CIS countries, although still higher than in other countries of the middle-income group to which Belarus belongs.

2. In terms of progress in market reforms Belarus lags behind other transition countries considerably. The degree of the Government’s involvement in the economy is high. The economy is dominated by state-owned enterprises, which are actively supported by the Government through various mechanisms, including subsidies and concessional loans. Private sector is relatively undeveloped and generates about 30% of GDP. Industry has a major share in GDP: its share in the value added is about 27% - comparable to the combined contribution of three other leading sectors - construction, transport and communications, and trade.

3. The characteristic features of Belarusian economy are its high energy intensity (its own energy reserves are modest) and a high degree of technological dependence of its industry on foreign partners. These factors determine the structure of Belarusian imports and exports. Energy (oil, petroleum products, and gas) account for over a third of the total value of imports.

4. Belarus has achieved significant progress in reducing energy intensity of its production, in particular - given the lack of changes in the structure of its economy during the period under study. As a result of several energy efficiency programs, GDP’s energy intensity has decreased by more than 2.5 times compared to 1990 (see Box 1).

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\(^6\) Extreme poverty is estimated at 1.6%. Belarus has one of the most equal distribution of incomes in the world: in 2007 its Gini coefficient stood at 0.265 (compared to Russia at 0.44, Kazakhstan at 0.31 and Ukraine at 0.28).
5. Impressive results of the Belarusian socially-oriented growth model are largely explained by a long period of favourable external economic conditions for major export items of Belarus, and substantial subsidies on energy resources imported from Russia. These factors supported high total factor productivity and capital inflows, and were key to rapid production growth.

6. Average annual growth rates in 2002-2008 stood at 9%, due to increased capacity utilization, significant increase in export prices and economic growth in partner states. Relying on favourable energy supply agreements with Russia, the Government redistributed these benefits in order to stimulate investments and consumption. In the past decade Belarus received the largest subsidies on energy imports from Russia among the CIS countries. According to estimates of international financial institutions, in 2003 the level of these subsidies was 6.4% of GDP, and in 2006-2008 it increased to 10-13% of GDP.

7. Relying on these benefits, the Government actively expanded oil processing in order to generate profits and growth. Contribution of the oil processing sector to industrial growth increased from 8% in 1997-2000 to 20% in 2005-2008. This sector has been and still is an important source of tax payments and export earnings, but the sustainability of its development has always been vulnerable to large risks. Since 2007, an increase in world energy prices and corresponding price hikes on oil imported from Russia led to a significant decline in the profitability of oil refineries in Belarus.

8. The relatively low diversification of Belarusian exports (by commodity and by market), and very high concentration levels of production, tax generation and exports signify serious vulnerability of the country’s trading positions vis-à-vis external shocks such as terms-of-trade shocks and shifts in demand, which, in turn, affects the stability of the state budget.

9. In the last decade, a policy of stimulating domestic demand in response to deteriorating terms of trade in energy, produced internal and external imbalances, which most vividly manifested themselves in the chronic and ever-expanding current account deficit over 2007-2010 and in the currency crisis in early 2011.

8 According to “Belneftekhim” data, in Q1/2011 both Novopolotsk and Mozyr oil refineries were loss-making.
9 In 2008, some 10 leading state-owned companies accounted for almost 40% of the total industrial output, over 50% of total exports, and about one quarter of all budgetary revenues.
Box 1. Increasing the Economy’s Energy Efficiency

The Republic of Belarus is a net importer of energy, and the country’s economy is one of the most energy-intensive in the region. According to IFC, to generate a dollar of GDP, Belarus consumes 4.4 kW of energy - 1.8 times higher than in the U.S., 1.9 times higher than in Poland, and 2.6 times higher than in Germany. In comparison with Russia and Ukraine, energy intensity of the Belarusian economy is 1.2-1.3 times lower.

The Government of Belarus has always regarded saving energy as one of its top priorities. Since 1996, the country implemented three national energy-saving programs, and regional and sector programs are implemented every year. As a result, Belarus achieved impressive results: energy consumption per GDP declined by about 65% compared to 1995, and by more than 2.5 times compared to 1990.

To ensure efficient development and energy security, the Government approved at the end of 2010 a Strategy for the Development of Belarus’ Energy Potential for 2011-2015 and for the Period until 2020. The Strategy aims to further reduce energy consumption per unit of GDP (by 29-32% in 2015 compared to 2010) via developing alternative and renewable energy sources, increasing the share of domestic energy resources, reducing energy losses, and introducing new energy-saving technologies and some other activities.

Despite ample experience accumulated in implementing energy-saving programs and the Government’s strong commitment to achieve these objectives, the implementation of this program is complicated by at least three factors:

1. Currently difficult economic situation implies a reduction of economic activity, at least in the short term, and may lead to the decline of Government and enterprises’ revenues, which are the main sources of funding the program.

2. The cost of measures to be implemented is increasing steadily, since the potential for low-cost and short-term energy saving measures is all but exhausted. This is acknowledged by the authors of the program, who indicate that savings of fuel and energy resources can be significant only from retooling the main production lines, replacing energy-intensive equipment, and introducing new energy-efficient technologies. All of this is certainly expensive. Over the past five years, while energy intensity of GDP was cut by 30%, investments in energy efficiency have more than tripled and now account for nearly 3.5% of GDP.

3. The success of previous programs was largely ensured via strong administrative means. Currently, such means are largely exhausted. Greater attention is needed to the creation of economic stimuli for businesses to implement the program.

To efficiently implement this program, directives to reduce energy use by refocusing on domestic sources of energy are not sufficient. Reforms that change the structure of the economy and reduce its dependency on energy imports are needed as well.

Main macroeconomic trends in 2001-2006

10. During these years the economy grew at a rapid pace (about 8% annually), driven by strong domestic demand, which clipped at double-digit rates. The main factors for its expansion were investments into fixed capital and private consumption (see Table 1). The average annual contribution of these factors to the growth of GDP was 6.7% and 4.3%, respectively. From the sectoral perspective, growth came mainly from the increase in value added in industry and construction, which respectively contributed to growth 3.7% and 1% per annum. Macroeconomic stability was helped by stable deceleration of inflation, which declined from 61 to 7% in the context of rigidly fixed exchange rate and administrative controls over consumer prices. Real wages grew at 18% per annum - significantly faster than labour productivity (which grew at about 7.5% annually). This led to the rise in labour costs per unit of production. However, total factor productivity remained high.10

11. Despite low budget deficit, the country's fiscal vulnerability was much higher, due to significant volume of quasi-fiscal operations. State revenues, in which revenues from the exports of oil products played a major role, grew steadily and reached just under 50% of GDP in 2006. Average annual budget deficit in 2001-05 remained below 1% of GDP, and in 2006 a surplus of 1.4% of GDP was recorded. However, excluding revenues from energy exports, the budget deficit

10 Largely due to cheap energy imports from Russia.
in that year stood at about 6% of GDP. And if quasi-fiscal operations were included, the budget deficit was actually double-digit: only targeted financing of state-owned enterprises with loans from the National Bank and government deposits amounted in 2006 to 5.5% of GDP.

Table 1. Structure of GDP by Expenditure, (in current prices, % of total)

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Final consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households</td>
<td>56.0</td>
<td>55.8</td>
<td>49.7</td>
<td>50.9</td>
<td>51.6</td>
<td>51.9</td>
<td>55.5</td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>20.5</td>
<td>19.8</td>
<td>20.4</td>
<td>19.4</td>
<td>18.9</td>
<td>16.8</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>Public organizations</td>
<td>3.1</td>
<td>2.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>0.9</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Gross savings</td>
<td>24.5</td>
<td>25.8</td>
<td>27.9</td>
<td>32.6</td>
<td>34.7</td>
<td>38.3</td>
<td>37.9</td>
<td></td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed capital</td>
<td>24.7</td>
<td>25.6</td>
<td>26.0</td>
<td>30.0</td>
<td>32.0</td>
<td>33.9</td>
<td>36.5</td>
<td></td>
</tr>
<tr>
<td>Changes in inventories</td>
<td>0.1</td>
<td>0.2</td>
<td>1.9</td>
<td>2.6</td>
<td>2.7</td>
<td>4.4</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Net exports of goods and services</td>
<td>-4.4</td>
<td>-3.5</td>
<td>0.7</td>
<td>-4.2</td>
<td>-6.4</td>
<td>-7.9</td>
<td>-11.4</td>
<td></td>
</tr>
</tbody>
</table>

12. The levels of interest rates and investment were determined primarily by administrative methods. The evolution of the National Bank’s refinancing rate followed the dynamics of inflation and was significantly higher inflation’s growth rates, but this rate did not determine actual interest rates and investments. Credit to economy grew on average by 50% per annum, while refinancing rate declined from 80% to 10%. While average deposit and loan rates also declined, their level was still below the refinancing rate by an average of 40 and 25 percentage points respectively, and real rates on deposits in national currency at the beginning of the considered period were negative. Although real interest rates on loans were positive, there existed administrative caps on them, which largely explains negative real interest rates on deposits. Refinancing rate was mainly used to calculate interest rates that were several times below its level, to provide large-scale liquidity support to banks, and to lend to the economy via government programs.

13. High growth rates of credits and real wages, that outpaced labour productivity against the background of nominal exchange rate fixed to U.S. dollar, produced foreign trade deficit, which stood over that period at 7.4% of GDP on average. This policy, especially in 2004-06, led to faster growth of real effective exchange rate compared to relative productivity and terms of trade, which weakened the competitiveness of the economy while fuelling the growth of domestic consumption. Against the background of rising labour costs and declining export penetration into the Russian market, as well as high growth rates of credit to economy (nearly 50% per year), the non-oil current account deficit expanded from 2% to 10% of GDP. State controls over a wide range of economic activities and underdeveloped private sector held back FDI flows. Foreign loans have become the main form of financing both chronic current account deficit and credits to economy. Fortunately, at the beginning of that period the level of external debt was very low, and stood only at 17% of GDP by the end of 2006. However, given significant openness of the economy and its dependence on foreign energy resources, the level of international reserves remained very low, covering on average only 0.6 months of imports.

14. Although the growth of living standards in these years was impressive, it came at the cost of weakening the country’s external position. High budget revenues were distributed among economic entities through wage rises and various subsidies and transfers. During this period

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11 In addition, excise rates on petroleum products were more than doubled, while budget expenditures were cut by 1% of GDP.
12 Exports to Russia account for about 40 percent of total exports of Belarus.
13 The demand for energy imports is inelastic due to oil and gas subsidies.
14 Over the past 20 years the current account remained in deficit except in 2005, when a surplus was achieved thanks to the growth of exports in services by 22.6%, and to Belarus’ transition in its trade with Russia to the new method of levying VAT in the country of destination.
household consumption grew in real terms by almost 13% annually, which resulted in the decline of poverty rate from 27.1% in 2003 to 7.7% in 2007. High growth rates of real incomes and credit to economy and weakening fiscal position through the growth of targeted lending\textsuperscript{15} have dramatically spurred domestic demand. Also, despite the fact that external factors were quite favourable through the entire period under study, the contribution of net exports to GDP growth during these years has been negative and declining steadily. This vector of economic development against the backdrop of rigidly fixed nominal exchange rate and overvalued real effective exchange rate, laid the foundation for further worsening of Belarus’ external position in the following years.

\textit{Reduction of Energy Subsidies and the Global Crisis of 2007-09: Growing Imbalances}

15. The new agreement on energy supplies from Russia in 2007 reduced the benefits of Belarus significantly.\textsuperscript{16} In 2007 the country paid twice as much for gas supplies from Russia as in 2006. Revenues from re-exporting Russian crude and petroleum products fell significantly. In 2007, losses from worsening terms of trade in energy products amounted to 5.5% of GDP, and in 2008 the cost of imported gas and oil increased respectively by 2.7 and 1.6 times compared to 2006. The energy trade balance has changed from a small surplus in 2006 to a deficit of 3.3% of GDP in 2008, while the current account deficit widened to 8.6% of GDP against 4% in 2006.

16. Expansion of the current account was due not only to the declining terms of energy trade, but by the continued policy of stimulating domestic demand as well. Growth rates in these years were very high, amounting to 8.6 and 10.2% respectively. Growth, as in previous years, was supported by consumption and investments. Unlike in 2006, the contribution of private consumption to GDP growth was higher than the contribution of gross fixed capital formation. This structural shift cannot be explained by the dynamics of real wages, since its average annual increase in these years was about half of what it was in 2003-06, and was close to the growth rate of productivity. Meanwhile, growth of investment in fixed capital barely changed, while real lending rates of commercial banks were negative.

17. Rapid growth of consumption was mainly explained by the strengthening of real effective exchange rate due to a vast increase of lending to the economy, including loans under government programs.\textsuperscript{17} The overall growth of loans to the economy in 2007 was almost three times higher than in 2006, and in 2008 loans to the economy increased by another 50%. The volume of concessional targeted loans to public enterprises from the resources of the National Bank and from Government deposits in commercial banks stood at about 30% of all credits to the economy in 2008.\textsuperscript{18} Also, from 2007 investment policy shifted in favour of funding non-tradable sectors. This was due to the decline of competitiveness of Belarusian enterprises in foreign markets, caused by the cuts in energy subsidies from Russia. This led to a sharp increase in real effective exchange rate and inflation, and increased the pressure on the current account.

18. With the onset of the global financial crisis, whose consequences for Belarus became noticeable by the end of 2008, the country’s external imbalance problem began to aggravate.

\textsuperscript{15} These are loans extended by commercial banks to specific economic entities under state programs funded by Government deposits opened in commercial banks, and special-purpose loans from the Central Bank.

\textsuperscript{16} Export levy on crude oil in 2007 was set at 29.3% of international prices. It was further revised in 2008 to 33.5% and in 2009 to 35.6%, with the goal of reaching a levy of 100% by 2010. The price for Russian gas for Belarus increased from US$46.68 to US$100 per 1,000 m³. A new contract for 2007-2010 the price of natural gas for Belarus is calculated using the formula for Russian gas exported to Europe, with discount coefficients of 0.67 in 2008, 0.8 in 2009, and 0.9 in 2010. In 2011 gas prices for Belarus are set at European prices.

\textsuperscript{17} According to the World Bank’s estimates, the growth of productivity of Belarus’ economy has slowed. Since 2004, total factor productivity, including productivity in industry has decreased in most sectors, especially in the export-oriented machine building, which suggests that traditional sources of productivity growth were the exhausted.

\textsuperscript{18} In this situation, and with the background of arrested private sector development, state enterprises had wide access to resources (including loans), and market entry and operations of new businesses to diversify exports were complicated by a number of reasons (see the section on the conditions of doing business.)
Against the background of deteriorating terms of trade in energy resources imported from Russia, the country began to incur losses on prices for oil products, that were declining faster, than prices for imported crude oil. The fall in Russia demand for non-energy exports of Belarus, which amount to about 63% of its total exports, as well as the depreciation of the Russian Ruble by 22%, caused a significant increase in the real effective exchange rate of Belarusian currency and further reduced export earnings. At the same time, access to external financing became constrained - international credit lines to commercial banks were frozen, trade credit fell sharply, while FDI inflows that were already modest have declined even more. Since the National Bank did not allow the nominal rate to depreciate, international reserves fell to 1.2 months of imports compared to 1.6 in 2007. This happened despite extensive borrowings in external markets in 2007-08, which doubled the level of external debt to 25% of GDP.

19. As access to foreign loans needed to finance the widening current account deficit dried up, the Government of Belarus adopted a number of adjustment measures, some of which were set as conditions of the Stand-by Agreement signed with the IMF in January 2009.

20. Given the appreciation of real effective exchange rate of Belarusian Rubel, which was slowing down foreign trade, and the shrinking of foreign exchange revenues in 2008, reforms were carried out to lower the exchange rate and to introduce a more flexible exchange rate policy. On 1 January 2009 a new exchange regime was introduced and a 20% devaluation of the Belarusian Rubel against the U.S. dollar was implemented. Simultaneously, the peg was shifted to a basket of currencies more representative of the structure of the country’s trade and financial flows (U.S. dollar, Euro and Russian Ruble).

21. Reforms were initiated to adjust domestic pricing of petroleum products, aimed to reduce subsidies and to improve the balance of payments. Reforms were also initiated in the banking and credit sector. In particular, under the IMF program, it was decided to limit government direct lending, which, among other things, was supposed to release funds in the banking system for the purposes of developing private sector and to help gradual decrease of interest rates.

22. Nonetheless, external shocks, including the deterioration of terms of trade and the declining demand for Belarusian exports turned out much worse than expected. Despite the efforts of the Authorities, current account deficit continued to expand in 2009, and reached almost 13% of GDP by the end of the year.

23. Internal factors also played a certain role in all of this, leading to the increase in domestic demand, and as a consequence, causing imports to contract at a slower pace than exports. This included, in particular, continued growth in lending to the economy and the population, which increased by 31% by the end of the year, despite restrictions imposed by the IMF program. Due to this, investments in fixed assets grew in real terms by 8.6% compared to the previous year. In addition, certain weakening of the consolidated budget (from balanced level to a deficit of 0.7% of GDP) further fed demand, despite the fact that wages in the budget-funded sector in 2009 were frozen, and the pensions rises were deferred to November.

24. Active lending for investment increased the pressure on the banking sector. In May 2010 National Bank of Belarus issued a Financial Stability Report, which contained the results of stress-testing of Belarusian commercial banks, and the evaluation of the overall exposure of the banking sector to key risks. This Report showed that one of the main ways to stimulate growth in 2009 was for the banks to adopt excessive levels of risk. The Report revealed a dramatic increase in credit risk accumulated by banks, rising vulnerability of the banking sector to credit risk, and increased sensitivity to the rise of doubtful assets.

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19 This was observed in the first half of 2009 at least. Since the second half of that year, due to further depreciation of the national currency, and some reduction of government lending, imports started to shrink faster than exports.

20 In the formation of fixed capital, own funds of enterprises remain the dominant source. However, in 2009, due to the continued deterioration of financial performance of enterprises, investment from their own funds grew by only 3.3%.
25. As a result of the Government’s efforts, including supports to investment and domestic consumption, GDP growth in 2009 remained positive, albeit small (0.2% vs. 10% in 2008). Inflation decelerated to 10% (compared to 13% in 2008), against the background of falling production and international prices, and despite the devaluation of the Belarusian Ruble by 20% in January 2009 and its further weakening throughout the year. Since the current account deficit was financed by external borrowing, foreign external debt of Belarus by the end of 2009 increased to 44% of GDP, including government debt – to 25% (see Table 2).21

Table 2. Structure of gross external debt (as of the beginning of the year, % GDP)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross external debt, all sectors</td>
<td>26.7</td>
<td>23.5</td>
<td>21.3</td>
<td>17.0</td>
<td>18.5</td>
</tr>
<tr>
<td>Monetary authorities</td>
<td>2.0</td>
<td>1.6</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>General government</td>
<td>2.5</td>
<td>1.9</td>
<td>2.1</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Banks</td>
<td>1.9</td>
<td>2.3</td>
<td>2.7</td>
<td>3.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Other sectors</td>
<td>20.4</td>
<td>17.7</td>
<td>16.2</td>
<td>11.8</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Memorandum items:

<table>
<thead>
<tr>
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<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term gross external debt, US$ million</td>
<td>1,411.9</td>
<td>1,410.6</td>
<td>1,095.0</td>
<td>1,477.8</td>
<td>2,055.9</td>
</tr>
<tr>
<td>Short-term external debt, US$ million</td>
<td>2,482.8</td>
<td>2,764.3</td>
<td>3,840.4</td>
<td>3,650.4</td>
<td>4,778.2</td>
</tr>
<tr>
<td>GDP, US$ million</td>
<td>14,571.8</td>
<td>17,755.4</td>
<td>23,133.3</td>
<td>30,220.2</td>
<td>36,954.1</td>
</tr>
</tbody>
</table>

Source: NB RB

26. In sum, in the crisis years the macroeconomic policy of the Government has become the main driver of internal growth. It used short-term instruments to stimulate domestic demand, while measures for maintaining long-term macroeconomic stability were often neglected. One can say that the country’s broadly positive results in overcoming the crisis were achieved at the expense of further deterioration of macroeconomic imbalances, and not as a result of their elimination.

Post-Crisis Trends: Investment Boom Continues

27. The main characteristics of 2010 were primarily: significant increases in real incomes (by 15.2% compared to previous year) and another cycle of credit injections into the economy (these grew by 40% compared to previous year). Such a significant increase in domestic demand coupled with GDP growth of 6.7% was supported, *inter alia*, by expanding money supply. Monetary base grew by 50% compared to previous year, which, according to experts22, was the most massive injection of liquidity into the economy in the past 10 years. Net lending under government programs stood at 6% of GDP.

28. In 2010, investments in fixed capital increased by 16.6% compared to 2009, while the share of bank loans rose from 26.4% to 32.1%, while the share of enterprises’ own funds shrunk from 36.7% to 33.3%. Changes were observed not just in the structure of the sources of financing of investments into fixed capital, but also in the structure of these investments.

29. According to IMF, since 2007 investments in buildings in Belarus began to outpace investments in machinery and equipment, mainly due to the program of construction of residential housing, which was actively promoted by the Government (see Table 3). Experts estimate that investment in housing has a significant growth acceleration effect in the short run.23

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21 The largest amounts were provided by the Russian Federation under stabilization loan of US$2 billion (part of which was received in 2008), the IMF - US$3.4 billion under a Stand By Arrangement; and by the World Bank (a Development Policy Loan of US$200 million).


23 According to Zandi calculations (2008), public spending on infrastructure had an annual budget multiplier equivalent to 1.65. For this reason, investment in facilities is more capable to "drag" the economy out of recession. At the same time, long-term economic growth, including through increased productivity is characterized by investments in machinery than by other investment components.
However, excessive domestic demand created by such investments could weaken the trade balance, despite the fact that the actual share of imports in the construction sector is believed to be low. Nevertheless, housing construction increased year after year, and was funded increasingly by bank loans over the past 5 years (growth almost by half), while the share of households’ own funds decreased by almost a quarter.

### Table 3. Commissioning of Residential Housing by Source of Funding

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated budget</td>
<td>6.5</td>
<td>5.0</td>
<td>4.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Own funds of enterprises</td>
<td>5.8</td>
<td>5.4</td>
<td>3.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Households’ funds</td>
<td>50.8</td>
<td>46.2</td>
<td>46.3</td>
<td>38.6</td>
</tr>
<tr>
<td>Bank loans</td>
<td>36.6</td>
<td>43.1</td>
<td>44.5</td>
<td>53.3</td>
</tr>
<tr>
<td>Foreign sources (excluding foreign bank loans)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Belstat

30. In 2010, household consumption increased by 10.3% against 2009, due to significant growth in real wages (by 15%) and pensions (by 24%). Consumer activity peaked in the 4th quarter of 2010, when wages were raised, and again led to the increase in imports. In addition, net demand for foreign currency as a form of savings increased. This caused tensions on the foreign exchange market, and put additional pressure on the country’s gold and foreign exchange reserves.

31. The resumption of economic activity and growth of real incomes of the population led to a commensurate increase in imports (by 21.7% in 2010). Average import prices accounted for 13.3 of percentage points of this growth and physical volume – for 7.7%. Exports recovered more slowly – by 18.7% compared to 2009, with their physical volume increased by 2.5%, and average prices grew by 15.5%.

32. As a result, foreign trade balance in 2010 turned out negative by US$9,118.2 million (16.7% of GDP), while the current account deficit reached 15.6% of GDP (2009 - 13%). The current account was further weakened by the introduction of a 100% import levy on Russian oil supplies to Belarus in early 2010.

33. External deficit was financed by the surplus on capital account and financial operations (see Table 4), the structure of which points to a declining role of direct investment and an increase in borrowing. Foreign direct investments fell by 27%, with almost half of inflows accounted by the last tranche of payment for Beltransgaz shares (US$625 million). At the same time, a sharp increase in portfolio investments was observed, explained by the growth of liabilities of issuers of Belarusian securities to non-resident holders in the amount of US$1,245 million. In the third quarter, the Ministry of Finance of Belarus carried out a debut placement of long-term government bonds on international financial markets in the amount of US$1 billion. In addition, in the fourth quarter, two-year government bonds were placed on the Russian market in the amount of 7 billion Russian Rubles (equivalent to US$229.7 million).
<table>
<thead>
<tr>
<th>Table 4. Balance of Payments of Belarus: Capital and Financial Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>(US$ million)</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>Capital account</td>
</tr>
<tr>
<td>Direct investment</td>
</tr>
<tr>
<td>Portfolio investment</td>
</tr>
<tr>
<td>Other investment</td>
</tr>
<tr>
<td>International reserves (“-” means decrease)</td>
</tr>
<tr>
<td>Balance of capital and financial operations</td>
</tr>
</tbody>
</table>

| Liabilities of the general government increased by US$525.8 million, which was largely due to the disbursement of the last tranche under the IMF program in first quarter of 2010. In addition, in the past year Belarusian banks began using international loan resources to address their current financial problems, and as a result their liabilities on foreign credits and loans grew by US$2,197.4 million (in 2009 they grew only by US$41.1 million). Furthermore, short-term bank liabilities increased by US$1,241.3 million (in 2009 they decreased by US$233.4 million), while long-term liabilities grew by US$956.1 million - which is 3.5 times more than in 2009. |
| In December 2010, net foreign assets of monetary authorities decreased compared to the previous month by 20.1% or by US$894 million. This decline was due to massive interventions of the National Bank of the Republic of Belarus on the currency market, which caused net demand in this market to increase dramatically. NBRB was able to limit the depletion of net foreign assets, including - by attracting funds from commercial banks into NBRB’s foreign currency deposits, as a result of which its liabilities to commercial banks grew to US$4.6 billion. |
| Despite this, the monetary authorities continued to increase the money supply: growth rate of NBRB’s claims on banks on a year-on-year basis accelerated by 226.3% compared to 2009. The money supply grew even further due to operations of the Government, which exchanged its foreign currency deposits into Rubels and thus funded the budget deficit, which was created by the decision to raise wages and other payouts at the end of the year. As a result, as noted above, the growth rate of base money reached 50% on a year-on-year basis. The sharp growth of money supply led only to a slight decrease of interest rates on credits, deposits and on the interbank market, probably due to low demand for savings instruments in national currency and to inflation trends. |
| To stabilize the currency market, the Government placed on the Luxembourg Stock Exchange another Eurobond issue of US$800 million (for 7 years at an annual interest rate of 8.95%). Certain measures were taken to limit the growth of real household incomes, in order to neutralize their potential demand for foreign currency. In particular, the Government raised administratively-set prices on some items, such as housing and communal services, education and some food items. |
| However, in an effort to ensure high growth rates of output, the Authorities continued to stimulate domestic demand. In January 2011, regulations were adopted under which tasks were set for banks and the budget to finance programs for housing construction and for technological re-equipment of agriculture. In particular, these programs envisaged that in 2011 the banks will provide to these sectors loans in the amount of 8.7 trillion and 4.3 trillion of Belarusian Rubels, which was equivalent to approximately 15% of total debt outstanding on bank loans as of 1 January 2011. Almost all loans under these programs are concessional, and the banks’ losses from reduced interest payments are to be financed from the budget. In addition, in January 2011, the households’ access to concessional consumer credits was extended until the end of the year. |

Source: NBRB
39. This situation, aggravated by the reduction of foreign exchange inflows due to the continued widening of the trade deficit in the first months of the year\textsuperscript{24} and the panic buying of foreign currency by the population driven by rumours concerning devaluation, led to the currency crisis.

40. To address this problem the Authorities resorted to various administrative mechanisms including restrictions on the sale of foreign currency, as well as the introduction of an alternative “market” exchange rate on the OTC market, while maintaining the official exchange rate on the currency exchange. The right to buy currency at the official rate was granted only to entities engaged in gas and medical supplies, as well as entities with foreign debt service liabilities. The multiplicity of exchange rates and a large difference between them\textsuperscript{25} had created considerable uncertainty for businesses and constrained the supply of currency even further. As a result, many import-dependent companies began experiencing shortages of raw materials and semi-finished products needed for manufacturing, while devaluation expectations have increased even further.

41. The currency devaluation declared by the National Bank of Belarus has not led, at least for now, to the stabilization of the currency market.\textsuperscript{26} According to analysts, the main shortcomings of the devaluation were: (1) the newly-set official exchange rate was lower than the exchange rate indicated by the interbank market; (2) continued restrictions on servicing customers on the currency exchange; and (3) introduction of administrative band for the fluctuations of Rubel exchange rate on the interbank and spot markets within 2\% of the officially set rate. As a result, the interbank and cash markets are barely functioning due to the lack of supply of foreign currency, and the enterprises’ problems in paying for imports are worsening. In such conditions, the elimination of administrative restrictions and rapid transition to the unified equilibrium exchange rate are considered by experts as the most viable option.

\textsuperscript{24} According to preliminary data, trade deficit reached 25\% of GDP in the first quarter of 2011.

\textsuperscript{25} The official exchange rate was fixed at US$1=3100 Rubels, while the market rate ranged from 4,000 to 8,000 Rubels.

\textsuperscript{26} The new exchange rate against the U.S. dollar was set at 4930 Rubels (a decline of 56\%), against the Euro - at 6914.8 Rubel (a decline of 53\%), and against the Russian Ruble at 173.95 Rubels (a decline of 54\%). The rate of the currency basket rose to 1810 Rubels (a decline of 54.4\%).
Box 2. Performance Indicators of the Real Sector

**Growth of Real GDP and Gross Investment (%)**

- Growth of gross investment (lhs)
- GDP growth (lhs)

**Structure of GDP by Industry (%)**

- Industry
- Agriculture
- Construction
- Transport and communications
- Trade
- Others

**Inflation in Belarus and Other Countries (%)**

- Belarus
- CIS (except Belarus)
- CEE

**Growth of Real Wages and Labor Productivity (%)**

- Growth of real wage
- Growth of labor productivity

**Contribution to Real GDP Growth (%)**

- Private consumption
- Public consumption
- Fixed assets investment
- Inventories
- Net exports
- Statistical discrepancies
- Real GDP growth (%)

**External Debt and Public Sector Debt**

- External debt (% GDP)
- Public debt (% GDP)

**Sources:** National Statistical Committee, NBRB, WB, Belarusian authorities, IMF, ACF staff estimates.
Box 3. Performance Indicators of Monetary and Fiscal Sectors

Growth of Credit to the Economy (%)

Credit to the Economy in 2009 (% to 2008)

Distribution of Concessional Loans by Sector (% GDP)

NBRB Refinancing Rate (%)

Household Deposits in Commercial Banks and International Reserves

General Government: Budget Balance (% GDP)

Sources: NBRB, Belarusian authorities, IMF and ACF staff estimates.
Box 4. Performance Indicators of the External Sector

Exports, Imports and Current Account Balance

Current Account Deficit (% GDP)

Contribution to the Growth of Exports (% GDP)

International Reserves (months of imports, eop)

Benefits of Oil Imports from Russia

Benefits of Gas Imports from Russia (% GDP) 1/

1). Calculated by multiplying the volume of imported natural gas by the difference between Belarus import price and Germany and Ukraine border prices, respectively.

Sources: NBRB, Belarusian authorities, IMF and ACF staff estimates.
Public Finance Management System

Structure of the Budget System

42. Budget resources are distributed in Belarus through multiple channels, including: (1) republican and local budgets (hereinafter - consolidated budget); (2) Social Protection Fund (SPF), which pays labor pensions and other social insurance benefits; and (3) credit lines for projects under state programs, that are funded by Government’s deposits via state-owned commercial banks. At the same time, the treasury system of the Ministry of Finance monitors only revenue and expenditure flows of the consolidated budget, while quasi-fiscal operations, including lending under government programs and government guarantees associated with this type of state support, remain outside the budget framework.

43. According to assessments of international organizations, including the Public Expenditures and Financial Accountability Assessment (PEFA) which was undertaken by the World Bank in 2009, Belarus’ budget management system is effective and allows the Government to provide high-quality public services.

44. The main parameters of general government, which includes the consolidated budget and the Social Protection Fund, are given in Table 5.

Table 5. Consolidated Budget of General Government in Belarus, 2007-2014

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidated budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>37.8</td>
<td>39.3</td>
<td>34.2</td>
<td>29.9</td>
<td>28.6</td>
<td>29.4</td>
<td>29.8</td>
<td>29.6</td>
<td>29.5</td>
</tr>
<tr>
<td>Expenditures</td>
<td>38.0</td>
<td>39.1</td>
<td>35.8</td>
<td>32.5</td>
<td>32.1</td>
<td>30.9</td>
<td>31.3</td>
<td>31.1</td>
<td>30.3</td>
</tr>
<tr>
<td>Balance</td>
<td>-0.2</td>
<td>0.3</td>
<td>-1.6</td>
<td>-2.6</td>
<td>-3.5</td>
<td>-1.5</td>
<td>-1.5</td>
<td>-1.5</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>Social Protection Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Expenditures</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Balance</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total general government revenues</strong></td>
<td>37.8</td>
<td>39.3</td>
<td>34.2</td>
<td>29.9</td>
<td>28.6</td>
<td>29.4</td>
<td>29.8</td>
<td>29.6</td>
<td>29.5</td>
</tr>
<tr>
<td><strong>Total general government expenditures</strong></td>
<td>38.0</td>
<td>39.1</td>
<td>35.8</td>
<td>32.5</td>
<td>32.1</td>
<td>30.9</td>
<td>31.3</td>
<td>31.1</td>
<td>30.3</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>-0.2</td>
<td>0.3</td>
<td>-1.6</td>
<td>-2.6</td>
<td>-3.5</td>
<td>-1.5</td>
<td>-1.5</td>
<td>-1.5</td>
<td>-0.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance of Belarus

45. Due to high growth rates and correspondingly high revenues, general government budget was in surplus until the crisis of 2009. However, the policy of stimulating economic growth, actively pursued in 2009-10 in the context of the already existing distortions, had affected public finance negatively. In 2009, budget deficit amounted to 0.5% of GDP (the consolidated budget had a deficit of 1.6%), and in 2010 the deficit expanded to 1.8% of GDP (correspondingly 2.6%). In order to stabilize the macroeconomic situation and to reduce external imbalances, the Government of Belarus decided to cut the budget deficit of general government in 2011 to 1.4% of GDP (originally it was approved at 3.4% of GDP). This was done by cutting some expenses, mainly capital expenditures (cut by 20% in nominal terms against the approved budget), and transport and housing subsidies (as a result of planned increases in tariffs for the population).

46. However, given that net lending under state programs to which the Government directly contributes resources to fund lending, is sizable (5.8-7.4% of GDP in 2007-2010), this component should be factored in when analyzing the status of public finances of Belarus. To slow down domestic consumption, net lending under state programs from government sources will be reduced over the medium term. In accordance with the Government’s plans, the volume of such lending in 2011 will not exceed 4% of GDP, in 2012 - 3% of GDP and in 2013 -
1% of GDP. Given this, the general budget deficit of the Government will amount in 2011 to 5.4% of GDP (after adjustment measures).

47. In the structure of consolidated budget (as per functional classification), expenditures on national economy and social spheres are the biggest, accounting respectively for 31% and 37% of total expenditures. As per economic classification (see Table 6), the largest expenditure items are salaries, subsidies and transfers, and capital expenditures. These three items account for about 80% of all expenditures of the consolidated budget. Furthermore, spending on wages of public employees as a share of consolidated budget showed a steadily growing trend, and peaked in 2011 at 10.5% of GDP, with particularly significant growth in 2010. In order to contain government spending at acceptable levels over the medium term, the Government of Belarus plans to keep wage expenditures as a proportion of total expenditures at the 2011 levels.

48. Despite a slight decrease in the funding of subsidies and transfers over the past few years, their share in the adjusted consolidated budget of 2011 is over a quarter of all expenditures (see Table 7), or about 8% of GDP. Such a high level is very unusual for the region, particularly given the fact, that Belarus belongs to the category of middle-income countries. Targeted assistance (i.e. based on the verification of incomes) amounts to merely 30% of total expenditures under this item; all other forms of assistance have a categorical nature. In general, enterprise subsidies under this item are almost 1.5 times higher than the amount of support to the public. The largest expenditures under this item are subsidies to agricultural enterprises (3.1% of GDP), and compensations to the population for housing construction (1.15% of GDP).

49. In light of the Government’s fiscal consolidation measures and improvements in the budget balance, and in order to better protect the most vulnerable population groups under the predicted high inflation and declining real incomes, the structure of state support provided under this item should certainly be reconsidered. First, the targeting of assistance should be improved. According to the analysis by the IMF, the recipients of resources allocated under this article are

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27 This document analyzes only current transfers and subsidies. The Manager was not able to obtain any information from the Ministry of Finance of Belarus concerning the volume and structure of funding for capital subsidies that are classified under the “capital expenditures” item. We believe that their volume is also quite significant.
mostly non-poor households. Second, subsidizing of enterprises both by volume and by category of enterprises likely requires further analysis and confirmation that continued support is justified. This primarily concerns subsidies to agriculture. It is worth noting that subsidies for housing and transport (adding up to about 1% of GDP) show a clear downward trend, due to steady increases of tariffs for the population for these services.

Table 7. Subsidies and Transfers in the General Government Budget (adjusted 2011)

<table>
<thead>
<tr>
<th></th>
<th>as % of GDP</th>
<th>as % of total expenditures</th>
<th>as % of total transfers and subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated budget, total</td>
<td>7.62</td>
<td>24.06</td>
<td>42.97</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies for organizations and enterprises:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies to housing and communal services</td>
<td>4.55</td>
<td>14.72</td>
<td>25.64</td>
</tr>
<tr>
<td>Subsidies to agriculture</td>
<td>3.06</td>
<td>9.90</td>
<td>17.25</td>
</tr>
<tr>
<td>Subsidies to transport</td>
<td>0.24</td>
<td>0.77</td>
<td>1.34</td>
</tr>
<tr>
<td>Subsidies for enterprises for the reimbursement of interest on bank loans</td>
<td>0.17</td>
<td>0.53</td>
<td>0.93</td>
</tr>
<tr>
<td>Subsidies for the maintenance of residential housing</td>
<td>0.20</td>
<td>0.64</td>
<td>1.11</td>
</tr>
<tr>
<td>Subsidies to cultural organizations</td>
<td>0.07</td>
<td>0.22</td>
<td>0.38</td>
</tr>
<tr>
<td>Subsidies to organizations allocated from innovation funds</td>
<td>0.05</td>
<td>0.16</td>
<td>0.29</td>
</tr>
<tr>
<td>Other subsidies to organizations</td>
<td>0.06</td>
<td>0.21</td>
<td>0.36</td>
</tr>
<tr>
<td>Subsidies and transfer to population:</td>
<td>3.97</td>
<td>9.31</td>
<td>17.32</td>
</tr>
<tr>
<td>Reimbursement of interest payments on bank loans (for housing construction)</td>
<td>0.92</td>
<td>2.99</td>
<td>5.21</td>
</tr>
<tr>
<td>Pension and benefits to servicemen in the Armed Forces, the Prosecutor’s Office and in other law enforcement agencies</td>
<td>1.06</td>
<td>3.43</td>
<td>5.97</td>
</tr>
<tr>
<td>Discounts and reimbursements to the population (including free meals for students), affected by the Chernobyl NPP disaster</td>
<td>0.25</td>
<td>0.80</td>
<td>1.39</td>
</tr>
<tr>
<td>Scholarships</td>
<td>0.23</td>
<td>0.75</td>
<td>1.31</td>
</tr>
<tr>
<td>Expenditures for indexed quotas for housing (personalized privatization checks “Housing”):</td>
<td>0.13</td>
<td>0.43</td>
<td>0.74</td>
</tr>
<tr>
<td>Subsidized medicine and dentures for certain categories of citizens</td>
<td>0.13</td>
<td>0.41</td>
<td>0.72</td>
</tr>
<tr>
<td>State targeted social assistance</td>
<td>0.05</td>
<td>0.15</td>
<td>0.26</td>
</tr>
<tr>
<td>Free provision of food to children for the first 2 years of their life</td>
<td>0.05</td>
<td>0.16</td>
<td>0.27</td>
</tr>
<tr>
<td>Other subsidies and transfers to the population</td>
<td>0.26</td>
<td>0.24</td>
<td>1.46</td>
</tr>
<tr>
<td>Social protection fund, total</td>
<td>10.12</td>
<td>24.66</td>
<td>57.03</td>
</tr>
<tr>
<td>General government budget</td>
<td>17.74</td>
<td>48.72</td>
<td>100.00</td>
</tr>
</tbody>
</table>

1. Without capital transfers
2. Incl. administrative expenses of SPF
Source: Ministry of Finance of Belarus.

Fiduciary Aspects of the PFM System

50. While overall assessments of Belarus’ PFM system, including the one undertaken under PEFA is rather high, public procurement, internal and external audit are described in the Assessment as areas requiring further improvement.

51. Internal audit in the public sector currently focuses on verifying the conformity of actions of government agencies with current legislation, rather than assessing the effectiveness of the use of public resources. Internal control is effective at all government levels, since all expenditures of the consolidated budget are carried out in accordance with detailed rules and procedures, the execution of which is monitored by appropriate bodies. In addition to controls exercised by the budget administrators themselves, checks are also carried by the Ministry of Finance’s Control and Checks Department (CCD) (both at central and regional levels), and by the State Control Committee (SCC). The main purpose of such inspections is to verify all transactions undertaken
spending agencies for their conformity with the established rules. Usually, results of inspections indicate high levels of conformity.

52. Financial reporting in the public sector is based on national standards, which differ from international accounting and financial reporting standards. According to the assessments of experts, this difference is insignificant and is not a source of increased risks for financial management of investment projects that are carried out by government agencies. In addition, since 2009 some categories of entities (banks, largest state-owned enterprises and joint stock companies) began preparing financial statements on the basis of both national and international standards. Financial statements for the proposed Credit will be based on the standards cleared by the Manager. The format of financial reporting will be determined on the basis of requirements for quality financial management and the presence of adequate potential in the executing agency.

53. Belarus’ external audit is undertaken on the basis of national standards. The main functions of SCC, which reports to the President, is the state control over the Republican Budget, the utilization of state property and the implementation of legislation. As mentioned above, SCC mainly focuses on checking the conformity of budget operations with existing legislation, rather than on the effectiveness of resource use. Currently, there exist no clear boundaries between internal and external control and audit, since in many cases SCC conducts inspections jointly with the Ministry of Finance’s DRC. Financial reporting of operations implemented under the Credit under consideration will be subject to annual audit according to international standards. Audit will be conducted by an independent company selected by the Government of Belarus and cleared with the Manager.

54. The public procurement system needs to be reformed in order to ensure more effective use of public resources through increased transparency and competitiveness of procurement processes. In the absence of a single Law on Public Procurement, this process is regulated in Belarus’ public sector by a number of regulations (presidential decrees, government resolutions). While key presidential Decrees on public procurement define competitive bidding as the preferred method of public procurement, other regulatory documents in this area often allow direct (single-source) procurement. In addition, even in the case of competitive bidding, regulatory documents on public procurement often include various constraints (restricted tender list, price constraints, mandatory requirements to procure only from certain economic entities that are often state monopolies).

Business Environment and the Development of Entrepreneurship: Major Challenges

55. According to the study "Doing Business - 2011: Improving the Environment for Entrepreneurs" published by the International Finance Corporation and World Bank, Belarus occupies 68th position among 183 surveyed countries (see Table 8). Despite the fact that recently Belarus has taken steps to improve its business environment in several areas, its position compared to the previous survey has declined by four notches, in part - because other countries were reforming more actively.

56. According to the results of the study, main obstacles for the development of small businesses in the country are the burdensome tax system and unfavourable institutional environment for foreign economic activity.

57. If measured by "taxation" criterion in the "Doing Business 2011" ranking, Belarus has not changed its position (and remains at the last, 183th place). This certainly is one of the decisive factors for investors while considering starting a private business in the country, despite the fact that the laws for starting new enterprises in Belarus are quite simple. Recognizing this problem, the Government has taken in 2009-2010 certain steps to simplify the tax system. In particular, in those years, a number of regulations were adopted, that introduced significant amendments to tax

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28 Evaluation was conducted on the basis of 2009 data.
laws. As a result, tax rates were lowered under the simplified tax assessment system, and its coverage was expanded. Some fees and taxes were eliminated, including the fee paid into the Republican Fund for the Support of Agricultural Producers, Food and Agricultural Science; vehicle acquisition tax; local tax on retail sales of goods; and local parking fees. The tax rate on profits and dividends of foreign institutions was reduced from 24 to 12% for the purposes calculating and paying the profit tax. The system for paying profit tax was simplified. As a result, the number of tax payments declined, as compared with the previous survey, from 107 to 82, and the amount of time spent filing the taxes was cut from 900 to 800 hours per year. Nevertheless, payroll taxes remain among the highest in the region (at 39%, compared to the regional 23%).

Table 8. Results of the “Doing Business” Survey

<table>
<thead>
<tr>
<th>Areas examined</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>68</td>
<td>64</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>44</td>
<td>54</td>
</tr>
<tr>
<td>Registering Property</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>89</td>
<td>109</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>109</td>
<td>108</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>183</td>
<td>183</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>128</td>
<td>129</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>93</td>
<td>75</td>
</tr>
</tbody>
</table>

Note: numbers reflect the position of Belarus among 183 surveyed countries

58. In the medium-term, the Government plans to further reduce the tax burden on businesses, including reducing the income tax rate in 2012 from 24% to 20% and reducing mandatory insurance fees to the Social Protection Fund. These reforms are expected to create positive environment for the stabilization of enterprises' operations, increasing their own sources to invest and to replenish their working capital.

59. With regards to the indicator "trading across borders" Belarus occupies 128th place, showing slight improvements compared with the previous study. Improvement in ratings was mainly achieved due to the reduction of time needed to carry out trade operations, and by introducing electronic declarations of exports and imports. In addition, in recent years Belarus has adopted several regulations aimed at liberalizing and simplifying foreign trade procedures. In particular, the number of administrative procedures that are performed by public authorities in the field of foreign trade was reduced significantly, and they were simplified.

60. Considering the problems of developing entrepreneurship in Belarus in a broader context, one could recognize that the reason for weak development of private enterprise lies not only in the indicators recorded in the “Doing Business” survey, but is part of the Belarusian development model, which remained unchanged until very recently. In general, the idea of private enterprise development for a long period was considered by the Authorities as being alien to the nature of development of the Belarusian economy. The importance of private sector development as a source for increasing economic efficiency, and, consequently, the quality of living standards of the citizens of Belarus, was first recognized by the Presidential Directive № 4 "On the Development of Entrepreneurship and the Encouragement of Business Activity in the Republic of Belarus", issued on 31 December 2010. Only since mid-June 2010, under the law "On the
Support of Small and Medium Enterprises", such businesses have been legally allowed to participate in public procurement as suppliers (contractors).

61. Weak incentives for the development of private enterprise were coupled with economic measures of the Government aimed to support public enterprises. Concessional lending and investment supports to public enterprises were putting private enterprises at an obvious disadvantage in obtaining resources and were reducing their competitiveness. Despite recent cuts in interest rates on loans to businesses, small and medium enterprises still face a lot of barriers. Bank loans generally have maturities limited to 1-2 years, while a recovery period of an investment project is typically 3-5 years. When banks’ loans exceed US$ 10,000, small and medium-sized enterprises face barriers for obtaining such loans, since they need to provide liquid collateral for such loans, the value of which is often 30% higher than the amount of the loan itself. Further improvement of legislation on liens and collateral is needed.

62. Command setting of parameters of economic development such as the volume of production, level of wages, and administrative price regulation are equally significant deterrents for investors.

63. Availability of labour resources and their mobility is another important factor for the development of private enterprise. This problem has two aspects. On the one hand, average registered unemployment rate in Belarus in the recent decade was about 1.6%, and for the past three years it was below one percent. With high levels of social and economic guarantees for public sector employees,29 hiring qualified labour for new enterprises is sometimes problematic. On the other hand, given the Government’s efforts to provide as many jobs to the population as possible, the costs of firing workers remain relatively high. According to the "Doing Business" report, these are estimated at an equivalent of 22 weeks of wages - higher than elsewhere in the region. This greatly reduces the flexibility of employers in their HR policies, particularly when market conditions change.

64. It is not surprising in this situation that the role of small enterprises in the economic development of the country is insignificant (see Table 9).

65. At the time of increasing macro-economic imbalances, understanding of the importance of private sector development as a source of growth and export diversification has improved notably. The aforementioned Directive No.4 envisages measures for increasing investment attractiveness and improving business climate that are quite radical for the economy of Belarus.

Table 9. Share of Small Enterprises in the Economy of Belarus (%)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>6.7</td>
<td>6.5</td>
<td>6.8</td>
<td>6.7</td>
<td>6.3</td>
<td>7.6</td>
<td>8.5</td>
<td>8.3</td>
<td>5.3</td>
<td>11.4</td>
</tr>
<tr>
<td>Volume of industrial production</td>
<td>6.4</td>
<td>5.5</td>
<td>6.8</td>
<td>7.3</td>
<td>7.3</td>
<td>7.0</td>
<td>7.3</td>
<td>7.6</td>
<td>8.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Investments into fixed assets</td>
<td>6.5</td>
<td>6.6</td>
<td>6.9</td>
<td>8.4</td>
<td>8.7</td>
<td>6.9</td>
<td>7.1</td>
<td>10.6</td>
<td>13.1</td>
<td>23.9</td>
</tr>
<tr>
<td>Revenues from the sale of goods, works and services</td>
<td>17.2</td>
<td>18.3</td>
<td>20.9</td>
<td>22.0</td>
<td>22.5</td>
<td>21.2</td>
<td>22.8</td>
<td>18.1</td>
<td>20.7</td>
<td>28.3</td>
</tr>
<tr>
<td>Retail sales and catering</td>
<td>7.0</td>
<td>8.6</td>
<td>9.1</td>
<td>9.2</td>
<td>9.4</td>
<td>10.1</td>
<td>10.2</td>
<td>11.2</td>
<td>19.9</td>
<td>29.5</td>
</tr>
<tr>
<td>Foreign trade turnover</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21.9</td>
<td>25.6</td>
<td>21.3</td>
<td>23.9</td>
<td>15.2</td>
<td>16.7</td>
<td>30.5</td>
</tr>
<tr>
<td>Exports of goods</td>
<td>-</td>
<td>-</td>
<td>13.5</td>
<td>16.3</td>
<td>13.3</td>
<td>15.3</td>
<td>7.2</td>
<td>7.9</td>
<td>34.3</td>
<td></td>
</tr>
<tr>
<td>Imports of goods</td>
<td>-</td>
<td>-</td>
<td>27.4</td>
<td>32.9</td>
<td>29.1</td>
<td>31.6</td>
<td>22.0</td>
<td>24.1</td>
<td>27.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Belstat

66. In particular, the Directive envisages a transition to market pricing, strengthening the protection of property rights of private entrepreneurs, reduction in the number of procedures performed with regards to private entrepreneurs, further improvements in the tax system and its harmonization with European legislation, and some other measures.

29 During the crisis of 2007-2008, despite considerable difficulties, no layoffs have been recorded by the enterprises. As a rule, workers were sent to various types of leaves with a return guarantee.
Program of the Government of Belarus for the Reduction of Imbalances

67. The increase in the trade deficit to 22.6% of GDP in the first quarter of 2011 and the worsening of the currency crisis in January through April of 2011, forced the Government of Belarus to make significant adjustments to its current policy aimed at reducing domestic demand and increasing the competitiveness of the Belarussian economy. The main tools of this policy were: bringing the exchange rate to an equilibrium level, and tightening monetary and fiscal policies.

68. All measures of the Stabilization Program agreed upon by the Government and National Bank of Belarus, on the one hand, and the ACF Resources Manager, on the other, are set out in the Letter of Intent dated 02.06.2011 (Appendix 3).

69. In the area of monetary policy the National Bank and the Government of Belarus intend to carry out measures aimed at limiting the growth of money supply by reducing credit to the economy, and implementing an effective interest rate policy, in order to sustain interest rates at annual rates above inflation.

70. In order to improve the situation on the currency market, steps will be taken to expediently achieve an economically justified unified exchange rate and to steadily increase international reserves to a level that ensures the country’s economic security. To prevent further decline in net international reserves, the National Bank of Belarus will no longer borrow in foreign currency from commercial banks and will take steps to liquidate the deposits of commercial banks in foreign currency as per their expiration schedule.

71. The Banking Code of the Republic of Belarus will be amended, to strengthen the independence of the National Bank of Belarus from other government agencies in the process of monetary policy formulation and implementation. In addition, the National Bank of Belarus will discontinue its entrepreneurial activities and will transfer all its non-core assets from its balance sheet to the Government and to local authorities.

72. In this context, the National Bank will restructure its claims on commercial banks, accumulated in the process of directed lending under state programs, into the relevant claims of the Government on commercial banks through the issuance of government securities and their placement with the National Bank. This will undoubtedly have a positive effect for improving the stability of the banking sector. As of June 2011, the National Bank of Belarus will discontinue emission lending under state programs. Concessional financing of state programs will be conducted only from Government deposits, and in 2011 the volume of such financing will be limited to 4% of GDP.

73. Significant changes are planned in the fiscal area. In 2011 the deficit of the consolidated budget will be cut from the originally legislated levels of 3% of GDP to 1.5% of GDP through significant (by 20% of the originally approved amount) reduction in capital expenditures. Due to planned tariff increases for utilities and transport, subsidies for these services will shrink accordingly. Due to Government’s decision to freeze the growth of wages of employees of budgetary entities, spending on this item will remain at the level of 2010. To achieve the planned deficit level, certain tax and fee increases will be implemented for primary industries, while excise rates on alcoholic beverages and tobacco products will be harmonized with their levels in other countries of the Customs Union.

74. If additional resources are mobilized through external borrowing (over and above the ACF credit), the Government of Belarus intends to make appropriate automatic adjustments of the levels of budget deficit and of financing under state programs. The Manager believes that such adjustments, will adversely affect the balance of payments, particularly in the short term (see Box 5).
Main Purposes of the Credit

Size and Financial Conditions of the Credit

75. The Application (Letter of Intent) of the Republic of Belarus to receive a financial credit from the EurAsEC resources contains a request for a Credit of US$3 billion, which are to be extended over 2011-2013, with the aims of supporting the country’s balance of payments and replenishing its international reserves. The Letter of Intent also includes a Stabilization Program of the Government and National Bank, which has been summarized earlier.

76. Having appraised the Application and the measures proposed under the Stabilization Program, the Manager recommends to set the amount of the Financial Credit at US$3 billion, to be extended in six tranches over 2011-2013, with the following indicative schedule:

<table>
<thead>
<tr>
<th>Tranche</th>
<th>Amount (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First tranche</td>
<td>800</td>
</tr>
<tr>
<td>Second tranche</td>
<td>440</td>
</tr>
<tr>
<td>Third tranche</td>
<td>440</td>
</tr>
<tr>
<td>Fourth tranche</td>
<td>440</td>
</tr>
<tr>
<td>Fifth tranche</td>
<td>440</td>
</tr>
<tr>
<td>Sixth tranche</td>
<td>10. 2013</td>
</tr>
<tr>
<td>Total</td>
<td>3,000</td>
</tr>
</tbody>
</table>

77. Given that the access limit of the Republic of Belarus to ACF resources, established by the Fund Council on 25 February 2010, amounts to US$1,787.78 million, the Manager recommends reallocating part of the access limit of the Russian Federation to the resources of the EurAsEC Anti-Crisis Fund in the amount of US$1,212.27 million to fund the Credit under consideration.

78. The Manager recommends extending this Credit on financial terms that are established for middle-income Member States. Specifically:

- **Interest rate**: the cost of funding of the Russian Federation in the international markets, calculated for each 3-month interest accrual period on the date which precedes by 2 business days the first day of the interest calculation period, but not higher than 4.9% per annum;
- **Front-end commission as a percentage of Credit amount**: none;
- **Loan maturity, including grace period**: 10 years;
- **Grace period**: 3 years;
- **Amount of co-financing by the applicant**: none.
Box 5. Risks of Automatic Adjustments to the State Budget Deficit

To restrain the growth of domestic consumption, which is one of the most important factors in the deterioration of the balance of payments, the Stabilization Program of the Government of Belarus aims to reduce the state budget deficit in 2011 to 1.5% of GDP, and the volume of lending under government programs to 4% of GDP. However, the Government of Belarus intends, in the case it mobilizes additional resources via borrowing, to automatically raise this indicator. The main argument in favour of such an approach is a likely increase in state financing requirements for the purposes of social protection and support to businesses through Government programs.

The Manager believes that exceeding the established limits in the current year is highly undesirable, since credit expansion will lead to deterioration in the trade balance for several reasons:

1) The Government's investment policy implemented in recent years has led to distorted growth of nontradable sectors. The stimulus to their further growth through continued lending will result in increased demand for imports.

Due to several factors, including increased costs due to rising energy prices and the growth of wages that outpaced productivity growth, the competitiveness of tradeable sectors and their contribution to economic growth in recent years have declined significantly.

To maintain high GDP growth rates, a policy was pursued that stimulated the growth of non-tradable sectors (notably construction) through fiscal subsidies and bank lending under government programs. From 2003 to 2010, the share of construction in GDP had increased from 6% to 11%, while the share of industry over the same period had increased only by 1% of GDP. Although the direct impact of the construction sector on the trade balance is not significant, indirect costs of its expansion, including the absence of hard currency earnings, high labour-intensity of the sector and the high level of wages significantly increase the pressure on the balance of payments through the growth of non-energy imports.

2) The growth in consumer demand, which was largely spurred by faster growth of real wages compared to the growth of productivity, has caused steady growth in import propensity of the economy of Belarus. From 2003 to 2010, real wages in the economy grew by 235% (in construction – by 400%), while productivity grew only by 70%.

In 2003-2010 average growth rates of lending to the economy were about 50% per year. Public financing of the economy in 2009-2010 was particularly significant, amounting to 74% and 65% of all credits to the economy, respectively. It was mainly aimed at financing housing and agricultural construction. The volume of lending under state programs in the first quarter of 2011 was significantly higher than in the first quarter of 2010.

In these circumstances, any increase in investment, while maintaining the current structure of the economy will lead to further pressure on the balance of payments. In the short term, this will be true even in the case of investments in fixed assets of tradable sectors, since these sectors will generate returns with a lag of several years. Given the current import propensity of the economy, an increase in disposable incomes associated with these investments will lead to an increase in imports.

1/ The level of wages in the construction sector is above the industry- and economy-wide averages

Reforms supported by the ACF Credit

79. The Stabilization Program of the Government and the National Bank of Belarus aims at adjusting domestic demand, whose excessive growth was an important factor of widening external payments’ imbalances and the currency crisis.

80. To achieve the declared results, the Manager agreed with the Belarus Authorities on the following quantitative and structural targets, the implementation of which are prerequisite for the disbursement of individual tranches:30

First Tranche:

(1) The level of international reserves on 01.06.2011 shall be no less than US$3.5 billion (quantitative control target);

(2) The level of net international reserves as of 01.06.2011 shall be no less than minus US$5.1 billion (quantitative control target);

(3) The Board of the National Bank of Belarus shall adopt a Resolution banning borrowing from commercial banks in foreign currency, so as not to reduce the level of net international reserves (structural control target);

30 Only quantitative and qualitative control indicators are listed in this text. A complete list of conditions is included in the Matrix of economic measures (Appendix 2).
The Board of the National Bank of Belarus shall adopt a Resolution prohibiting lending under State programs starting from 1 July 2011 (structural control target);

A Presidential Decree will be drafted on the sale non-core assets of the National Bank of Belarus to foreign investors and/or their transfer from its balance into state ownership (structural control target).

Second Tranche:

1. A Draft Law of the Republic of Belarus shall be prepared and submitted to the House of Representatives of the National Assembly on amending the Banking Code of the Republic of Belarus aimed at strengthening the independence of the National Bank and prohibiting it to perform functions that are not typical for central banks (structural control target);

2. The level of international reserves as of 1.10.2011 is no less than 1.3 months of imports (quantitative control target);

3. The level of net international reserves as of 1.10.2011 is no less than the level of 01.05.2011 (quantitative control target);

4. The Resolution of the Board of the National Bank of Belarus banning emission lending under state programs enters into force on 01.07.2011 (structural control target);

5. The volume of bank deposits in foreign currency placed with the National Bank in accordance with the contractual maturities is cut as of 01.10.2011 by US$55.6 million (quantitative control target);

6. A Presidential Decree is adopted on the sale to foreign investors and/or on the transfer of non-core assets from the balance of the National Bank of Belarus into state ownership (structural control target);

7. The budget deficit of general government for January-September 2011 does not exceed 1.2% of GDP (quantitative control target).

Third tranche:

1. A Law of the Republic of Belarus has entered into force on amendments to the Banking Code of the Republic of Belarus aimed at strengthening the independence of the National Bank and banning its functions that are non-core for the central banks (structural control target);

2. The level of international reserves as of 01.02.2012 is no less than 1.5 months of imports (quantitative control target);

3. The level of net international reserves as of 01.02.2012 is no less than their level of 01.05.2011 (quantitative control target);

4. The Resolution of the National Bank of Belarus banning emission lending under State programs is in force as of 01.07. 2011 (structural control target);

5. The volume of bank deposits in foreign currency placed with the National Bank, in accordance with their contractual maturities, is reduced by US$126.4 million as of 01.02.2012 (quantitative control target);

6. A transfer of non-core assets of the National Bank of Belarus to the Government has been completed (structural control target);

7. The budget deficit of general government for 2011 does not exceed 1.5% of GDP (quantitative control target);

8. The share of budget sector wages in total expenditures of the consolidated budget remains at 2011 level (structural control target);

9. Net emission lending under government programs in 2011 (estimate as of 01.01.2012) amounted to no more than 4% of GDP (quantitative control target);

10. All lending under state programs not undertaken on competitive (tender) terms is implemented through the Development Bank (structural control target);
Net increase in Government claims on commercial banks in 2011 (estimate as of 01.01.2012, excluding SPF deposits) is no more than 4% of GDP (quantitative control target).

Fourth tranche:

1. The level of international reserves as of 01.10.2012 is no less than 1.6 months of imports (quantitative control target);
2. The level of net international reserves as of 01.10.2012 is no less than their level of 01.05.2011 (quantitative control target);
3. Regulation of the Board of the National Bank of Belarus banning emission lending under state programs is in force since 1 July 2011 (structural control target);
4. The volume of bank deposits in foreign currency placed with the National Bank, in accordance with their contractual maturities is reduced as of 01.10.2012 by US$210.8 million (quantitative control target);
5. The fiscal deficit of general government in January-September 2012 does not exceed 1.2% of GDP (quantitative control target);
6. The share of budget sector wages in total expenditures of the consolidated budget remains at 2011 level (structural control target);
7. Net emission lending under government programs during January-September 2012 amounts to no more than 2.25% of GDP (quantitative control target);
8. All lending under state programs not undertaken on competitive (tender) terms is implemented through the Development Bank (structural control target);
9. Net increase in Government claims on commercial banks in January-September 2012 (excluding SPF deposits) is no more than 2.25% of GDP (quantitative control target).

Fifth tranche:

1. The level of international reserves as of 01.02.2013 is no less than 1.7 months of imports (quantitative control target);
2. The level of net international reserves as of 01.02.2013 is no less than their level of 01.05.2011 (quantitative control target);
3. Regulation of the Board of the National Bank of Belarus banning emission lending under state programs is in force since 1 July 2011 (structural control target);
4. The volume of bank deposits in foreign currency placed with the National Bank, in accordance with their contractual maturities is reduced as of 01.02.2013 by US$226.4 million (quantitative control target);
5. The fiscal deficit of general government in 2012 does not exceed 1.5% of GDP (quantitative control target);
6. The share of budget sector wages in total expenditures of the consolidated budget remains at 2011 level (structural control target);
7. Net emission lending under government programs in 2012 amounts (estimated on 01.01.2013) amounts to no more than 3% of GDP (quantitative control target);
8. All lending under state programs not undertaken on competitive (tender) terms is implemented through the Development Bank (structural control target);
9. Net increase in Government claims on commercial banks in 2012 (forecast as of 01.01.2013 and excluding SPF deposits) is no more than 3% of GDP (quantitative control target).
Sixth tranche:

1. The level of international reserves as of 01.10.2013 is no less than 2 months of imports (quantitative control target);
2. The level of net international reserves as of 01.10.2013 is no less than their level of 01.05.2011 (quantitative control target);
3. Regulation of the Board of the National Bank of Belarus banning emission lending under state programs is in force since 1 July 2011 (structural control target);
4. The volume of bank deposits in foreign currency placed with the National Bank in accordance with their contractual maturities is reduced as of 01.10.2013 by US$1,131.8 million (quantitative control target);
5. The fiscal deficit of general government in January-September 2013 does not exceed 0.8% of GDP, with the aim of not exceeding 1% of GDP for the whole of 2013 (quantitative control target);
6. The share of budget sector wages in total expenditures of the consolidated budget remains at 2011 level (structural control target);
7. Net emission lending under government programs in January-September 2013 (as of 01.10.2013) amounts to no more than 0.75% of GDP with the aim of not exceeding 1% of GDP for the whole of 2013 (quantitative control target);
8. All lending under state programs not undertaken on competitive (tender) terms is implemented through the Development Bank (structural control target);
9. Net increase in Government claims on commercial banks as of 01.10.2013 (excluding SPF deposits) is no more than 0.75% of GDP, with the aim of not exceeding 1% of GDP for the whole of 2013 (quantitative control target).

Loan Implementation Procedures

81. Agencies responsible for implementing the Stabilization Program. The Ministry of Finance will lead the coordination of activities of all ministries and agencies in the implementation of the reform program with regards to fiscal policy. The National Bank will be responsible for implementing reforms with regards to monetary policy. The Council of Ministers of the Republic will exercise overall management and control.

82. Monitoring and evaluation. The ACF Resources Manager will constantly monitor the implementation of reforms included in the Matrix of the proposed operation, both via its own assessments, as well as through consultations with development partners which provide technical and advisory assistance to the Government in carrying out these reforms. Reports on the implementation of the reform program supported by this FC will be submitted by the Government of Belarus to the ACF Resources Manager upon the implementation of each tranche of the Credit. All targets included in the Matrix will be monitored through reports, which will be submitted by the Belarus Authorities on the basis of agreements set forth in the Technical Memorandum, which is annexed to the Letter of Intent. These reports and the Manager's appraisals of these reports will provide the basis for the Fund Council to make decisions on the disbursement of the subsequent tranche. The final report on the use of funds will be submitted no later than six months after the expiration of the loan.

83. Risks of the misallocation of the funds. Due to the nature of Credit, its funds will be deposited in the account with the National Bank and will be considered part of international reserves, the increase in the level of which during the disbursement period of the Credit is one of the quantitative control targets under the program and will be monitored by the Manager. Cases of failure to meet this target will be carefully analyzed by the Manager and the Fund Council, while deciding on the extension of the following tranche.
84. **Withdrawal of funds from the account.** The Recipient of funds is the Republic of Belarus represented by its Ministry of Finance. The recipient will open and maintain a Special Account in U.S. dollars at the National Bank of Belarus, which will be an integral part of the official gold and currency reserves of the country. The Manager will transfer the proceeds of the Credit to this Special Account in tranches, at the request of the Ministry of Finance, and on the basis of the decision of the ACF Council on the status of implementation of all the conditions included in the Matrix of reforms, which are prerequisite for the disbursement of each tranche. Within five business days upon the positive decision of the Fund Council to extend the tranche, the amount of the tranche will be deposited in the recipient’s special account. If the proceeds of the ACF financial credit will be used for the purposes that differ from those defined in the Agreement of the ACF Loan, the Manager will demand that the misallocated amount is redeposited into the ACF account.

85. **Reporting and audit.** In addition to the abovementioned reports of the Government on the implementation of the conditions of the Letter of Intent, set forth as triggers for the release of the subsequent tranche, the Belarus Ministry of Finance will provide to the ACF Resources’ Manager quarterly reports on the amounts deposited into the accounts of the National Bank of Belarus and on their movement, regular reports on issues listed in the Technical Memorandum attached to the Letter of Intent, and a final report on the implementation of the proceeds of the Financial Credit. The final report on the use of the proceeds of the financial credit shall be subject to independent audit by an independent auditor approved by the Manager. This audit shall be conducted at the expense of the Recipient no later than 31 March of the year that follows the year in which the disbursement of the Financial Credit was completed.

**Possible Risks of Proposed Operation and Ways to Reduce Them**

86. At all stages of the implementation of the Stabilization Program presented in the Letter of Intent, its success will hinge upon the political will of the country's leadership to implement difficult decisions which should restore long-term growth and the competitiveness of the economy, but in the short term may cause a decline in effective demand.

87. In an effort to support economic growth and living standards of the population, the Belarus Authorities may continue the policy of unbalanced demand stimulus through mechanisms that are not covered by the program supported by the Credit, or through administrative regulation of the economy. This will slow the elimination of imbalances that have accumulated in the economy. The Manager will monitor macroeconomic situation constantly, and will be prepared to discuss emerging problems with the Government of Belarus. If such policy measures will contradict with core purposes of the Credit, this matter will be submitted to the consideration of the Fund Council.

88. In the absence of structural reforms, or in case of their slow progress, the effect of macroeconomic adjustments supported by this Credit will be incomplete and/or unstable. Only the liberalization of the economy and the encouragement of the inflow of foreign direct investment, especially into the export sectors, will change the structure of the economy, help reduce its energy consumption, and diversify exports. The Manager will monitor the implementation of Presidential Directive № 4 on the Liberalization of the Economy and will assist the Government of Belarus with the mobilization of technical assistance on reforms in this area.

89. The depth of the current crisis in the Republic of Belarus is significant, and the need for financial resources to finance the external gap and to replenish international reserves to the level that ensures the country’s economic security, is higher than the amount of the Credit under consideration. The mobilization of significant additional resources is necessary, both via non-debt instruments (privatization proceeds) and via loans from international financial institutions, above all – from the IMF and World Bank. The approach under which the Government’s
Stabilization Program is supported by several international financial institutions will enhance the effectiveness of its implementation and will ensure the prospects of investment cooperation between Belarus and the ACF in the long-term.

90. When considering additional sources of support for the Government’s Stabilization Program, rapid growth of the country’s foreign debt must be taken into account. The level of external government debt has doubled since 2008, reaching 21.2% of GDP, while gross external debt of the country has tripled to 52.4% of GDP. If problems with the balance of payments persist under the scenario of continued excessive domestic demand stimulus, by the end of 2013 the country’s gross debt could reach 75% of GDP.31 In this context, borrowing from other international institutions, on as soft terms as possible, as well as encouraging direct investment inflows, including through the sale of state property, should be treated as top priorities. The task of balance of payments’ adjustment requires a balanced combination of domestic demand cuts, on the one hand, and the implementation of investment projects that improve the country’s export potential, on the other. Currently, the Government’s ability to attract investment loans is constrained by the Program’s ceilings on consolidated budget deficit and on net lending under state programs in the medium term. The Manager will be ready to reconsider approaches to determining the level of budget deficit in 2012-2013 if the Government of Belarus attracts investment loans with clearly positive impact on the country’s development.

91. The success of the Stabilization Program will largely depend on external conditions, including the dynamics of world energy prices, the level of demand from countries that are major trading partners of Belarus, and changes in its terms of trade. In the medium term, worsening of economic conditions could lead to further expansion of the current account deficit even if the program succeeds. However, the stabilization of domestic demand and structural changes aimed at diversifying exports and reducing energy dependence will be important factors in mitigating such adverse effects in the long run.

92. The Stabilization Program will temporarily lead to a decrease in real incomes, which in recent years outpaced the growth of the economy. In this situation, an important factor of social stability will be the formulation and implementation by the Government of effective social protection programs, improvements to their targeting, the establishment of extensive network of programs for staff retraining, and the review of legislation aimed at increasing the mobility of labor and its shift to the private sector.

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31 IMF projections, including external debt of the corporate sector.
## Appendix 1. Belarus: Key Socio-economic Indicators, 2007-2010

(annual growth rates, unless otherwise indicated)

### National Accounts

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP</strong></td>
<td>8.6</td>
<td>10.2</td>
<td>0.2</td>
<td>7.6</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>11.9</td>
<td>17.8</td>
<td>-1.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Consumption</td>
<td>9.7</td>
<td>12.5</td>
<td>0.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Private</td>
<td>13.4</td>
<td>16.3</td>
<td>0.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Public</td>
<td>-0.5</td>
<td>0.3</td>
<td>-0.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Investment</td>
<td>16.4</td>
<td>28.2</td>
<td>-2.9</td>
<td>16.1</td>
</tr>
<tr>
<td>Of which - into fixed capital</td>
<td>16.4</td>
<td>23.8</td>
<td>5.0</td>
<td>16.6</td>
</tr>
<tr>
<td>Net exports¹</td>
<td>-1.5</td>
<td>-9.4</td>
<td>1.5</td>
<td>-4.3</td>
</tr>
<tr>
<td><strong>Consumer prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of period</td>
<td>12.1</td>
<td>13.3</td>
<td>10.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Period average</td>
<td>8.4</td>
<td>14.8</td>
<td>13.0</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Monetary accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve money</td>
<td>38.4</td>
<td>11.7</td>
<td>-11.3</td>
<td>49.5</td>
</tr>
<tr>
<td>Broad Rubel money</td>
<td>35.0</td>
<td>22.5</td>
<td>1.0</td>
<td>27.5</td>
</tr>
<tr>
<td>Growth of credit to the economy (at constant exchange rate)</td>
<td>48.5</td>
<td>50.0</td>
<td>27.7</td>
<td>38.2</td>
</tr>
</tbody>
</table>

### External debt and balance of payments

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current account balance</strong></td>
<td>-6.7</td>
<td>-8.6</td>
<td>-13.0</td>
<td>-16.0</td>
</tr>
<tr>
<td><strong>Trade balance</strong></td>
<td>-8.9</td>
<td>-10.3</td>
<td>-14.1</td>
<td>-16.9</td>
</tr>
<tr>
<td><strong>Exports of goods</strong></td>
<td>53.8</td>
<td>54.0</td>
<td>43.4</td>
<td>46.3</td>
</tr>
<tr>
<td><strong>Imports of goods</strong></td>
<td>-62.7</td>
<td>-64.3</td>
<td>-57.5</td>
<td>-63.2</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>-1.9</td>
<td>-1.6</td>
<td>-1.9</td>
<td>-1.9</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>-6.0</td>
<td>1.9</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Reserves («+» indicates increase)</td>
<td>-6.1</td>
<td>1.7</td>
<td>-5.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Net use of IMF funds</td>
<td>0.0</td>
<td>0.0</td>
<td>5.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Other donors and exceptional funding</td>
<td>0.1</td>
<td>0.2</td>
<td>0.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Gross external debt</td>
<td>27.7</td>
<td>25.0</td>
<td>44.9</td>
<td>52.4</td>
</tr>
<tr>
<td>Government²</td>
<td>6.5</td>
<td>6.8</td>
<td>18.1</td>
<td>21.2</td>
</tr>
<tr>
<td><strong>Private (mainly debt of state-owned entities)</strong></td>
<td>21.2</td>
<td>18.1</td>
<td>26.7</td>
<td>31.2</td>
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</table>

### Savings and investment

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td><strong>Gross domestic investment</strong></td>
<td>34.1</td>
<td>37.6</td>
<td>37.3</td>
<td>42.8</td>
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<tr>
<td><strong>National savings</strong></td>
<td>27.4</td>
<td>29.0</td>
<td>24.3</td>
<td>26.8</td>
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</table>

### Public finances

<table>
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<tr>
<th></th>
<th>2007</th>
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<tr>
<td><strong>Balance of national and local budgets</strong></td>
<td>-0.6</td>
<td>0.0</td>
<td>-1.8</td>
<td>-2.6</td>
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<tr>
<td><strong>Balance of the consolidated budget³</strong></td>
<td>0.4</td>
<td>-3.5</td>
<td>-0.7</td>
<td>-4.3</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>49.5</td>
<td>50.6</td>
<td>45.7</td>
<td>41.9</td>
</tr>
<tr>
<td><strong>Expenditures⁴</strong></td>
<td>49.0</td>
<td>54.1</td>
<td>46.4</td>
<td>46.3</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>8.0</td>
<td>6.6</td>
<td>6.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>10.5</td>
<td>11.5</td>
<td>11.7</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>8.5</td>
<td>10.0</td>
<td>8.1</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Gross public debt</strong></td>
<td>8.9</td>
<td>10.7</td>
<td>20.0</td>
<td>22.4</td>
</tr>
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</table>

### Memorandum items:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
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<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td><strong>Nominal GDP (US$ billion)</strong></td>
<td>45.3</td>
<td>60.8</td>
<td>49.2</td>
<td>54.7</td>
</tr>
<tr>
<td><strong>Nominal GDP (trillion Rubels)</strong></td>
<td>97.2</td>
<td>129.8</td>
<td>137.4</td>
<td>163.0</td>
</tr>
<tr>
<td><strong>Terms of trade</strong></td>
<td>-1.5</td>
<td>8.6</td>
<td>-8.0</td>
<td>-1.0</td>
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<tr>
<td><strong>Real effective exchange rate</strong></td>
<td>-3.9</td>
<td>1.6</td>
<td>-5.5</td>
<td>-4.9</td>
</tr>
<tr>
<td><strong>Official reserves (US$ billion)</strong></td>
<td>4.2</td>
<td>3.1</td>
<td>5.7</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>In % of imports of goods and services</strong></td>
<td>1.2</td>
<td>1.2</td>
<td>1.8</td>
<td>1.4</td>
</tr>
</tbody>
</table>

¹) Contribution to economic growth.
²) Consolidated gross public debt (including NBRB debt, public authorities, and government-guaranteed debt).
³) Budget balance of general government.
⁴) Budget expenditures of general government.

**Sources:** Government of the Republic of Belarus, National Bank of Belarus, IMF staff estimates.
Appendix 2. Application for the ACF Financial Credit

Ministry of Finance of the Republic of Belarus
Sovetskaya street, 7, Minsk 220010
Phone (017) 222 61 37, fax (017) 222 45 93
OKOGU 02200 P/C 3604900000573
OJSC Belarusbank code 795 UNN 100691903

22.10.2010
#12-1-21/392

To the Resource Manager of the Anti-Crisis Fund of the Eurasian Economic Community
Eurasian Development Bank
Republic of Kazakhstan, 050051
Almaty, Dostyk avenue, 220
Phone +7 (727) 244 40 44
Fax +7 (727) 250 81 58
Email: info@eabr.org

As per the Treaty on the Establishment of the EurAsEC Anti-Crisis Fund (hereinafter - the Fund) hereby we submit the application of the Republic of Belarus for a financial credit from the resources of the Fund in the amount of two billion U.S. dollars for the consideration of the ACF Resources’ Manager and the preparation of its appraisal in accordance with the Regulation on the Use of ACF Funds for Providing Financial Credits, which is approved by the Fund Council.

To stabilize the country’s economic situation, the Government and the National Bank of Belarus have developed a Program for the mobilization of a financial credit from the EurAsEC Anti-Crisis Fund, which aims to minimize the negative consequences for the national economy of the changes of the terms of foreign energy trade (hereinafter – the Program). This Program aims to adapt the economy to external shocks caused by the rising energy prices and to reduce its economic vulnerability. These goals match the purposes of the Fund.

To achieve these goals in the context of the Program’s implementation, the following tasks will be addressed:

- Reforming of the financial sector;
- Constraining quasi-fiscal financing of the economy;
- Lowering the role of government in the economy;

The main results expected from the implementation of the Program are as follows:

- Reduction of the current account deficit for the period that is necessary to implement macroeconomic adjustment and to adapt the economy to the new economic conditions;
- Increase in the international reserve assets to the level which assures economic security of the State;

Implementation of the Program is scheduled over three years.

The effectiveness of the Program at different stages of its implementation will be evaluated by the following criteria:

- Reduction of the tax burden resulting from the cancellation of some taxes and fees, as well as due to the implementation of measures to further optimize and improve the mechanisms of collecting taxes and fees;
- Effective utilization of budget funds and reduction of budget deficit;
• Flexibility of the exchange rate of Belarusian Rubel vis-a-vis the basket of foreign currencies within the set corridor, stability and purchasing strength of the national currency;
• GDP energy intensity and the share of domestic energy resources in the balance of boiler and furnace fuels, share of natural gas in the consumption of boiler and furnace fuels.

The necessity in the Fund resources is caused by the need for budget resources to cover the current account deficit over the period that is necessary to implement macroeconomic adjustments and to adapt the economy to the new terms of operation, as well as to maintain international reserves at the level which assures economic security of the State.

The requested resources will be used to finance the balance of payments of the Republic of Belarus.

The Fund’s resources are expected to be fully used by 31 December 2013.

The resources of the Fund are expected to be mobilized on the following terms:
• Interest rate - 3%;
• Credit maturity, including grace period – 10 years;
• Grace period – 5 years.

We request that the application of the Republic of Belarus for a financial credit from the resources of the Fund is expeditiously considered and submitted for the evaluation of the ACF Council of Experts, so that this issue is considered at the meeting of the Fund Council in November of the current year.

The Ministry of Finance is committed to assist as necessary with the preparation of documents for the meetings of experts and the Fund Council.

The Ministry of Finance of the Republic of Belarus shall be the government agency responsible for the implementation of the Program on behalf of the Member State of the Fund. All questions related to this Application should be addressed to the following authorized representatives:
- Amarin Vladimir Viktorovich, First Deputy Minister of Finance of Belarus, phone: (375) 17 222 66 32;

Appendix: The Program of Anti-crisis/stabilization measures, on 18 pages.

Minister /signed/ A.M. Kharkovetz
Letter of Intent

Minsk, 2 June 2011

To Mr. Alexei Leonidovich Kudrin
Deputy Prime Minister - Minister of Finance of the Russian Federation
Chairman of the Council of the EurAsEC Anti-Crisis Fund

Dear Alexey Leonidovich!

This letter describes economic policies of the Government and the National Bank of the Republic of Belarus in 2011 and for the period of 2012-2013, aimed at ensuring macroeconomic and fiscal balance of the Republic of Belarus. This letter reflects the agreements reached by the leaders of Belarus and Russia in March 2011 at the Council of Ministers of the Union State.

Our program, for which we now seek support, is aimed to strengthen gold and foreign exchange reserves of the Republic, to balance the domestic exchange market and to support settlements that are undertaken in bilateral trade.

Based on the balance of payments’ needs, the Government of the Republic of Belarus is requesting a financial credit from the EurAsEC Anti-Crisis Fund in the amount of US$3 billion to support a three-year program of measures.

I. Program Goals

In recent years, the balance of payments of Belarus is experiencing significant pressure due to the rise of international energy prices and the worsening of the terms of foreign trade caused by global financial and economic crisis. In the changed conditions, the country’s economy could not adapt quickly and to adequately counter the mounting external shocks. Measures aimed at sustaining high rates of economic growth and real incomes of the population, also did not help such adaptation. As a result, during this year, if no adjustment measures are taken, the deficit on the current account can reach US$10.2 billion, or 15.9 percent of GDP, which is practically the same as in 2010.

The planned measures of monetary and fiscal policies are designed to reduce this financial gap and to ensure the balancing of macroeconomic and fiscal accounts within the current year. To preserve and strengthen this balance, and to increase the economy’s flexibility and its ability to withstand external shocks, structural reforms will be implemented in the medium term.

II. Monetary policy

The National Bank of Belarus, together with the Government, will conduct monetary policy that helps to eliminate internal and external imbalances by changing the exchange regime, restricting the growth of money supply, and conducting an effective interest rate policy.

In order to stabilize the situation on the currency market, measures will be taken for an expedient introduction of an economically feasible unified exchange rate.

On June 1, 2011 The National Bank will discontinue emission lending under government programs and will initiate the transfer of all non-core assets that it had accumulated on its balance sheet into the hands of the Government and of local authorities.

To this end, the Banking Code of the Republic of Belarus will be amended accordingly, to strengthen the independence of the National Bank from other government agencies while
formulating and implementing monetary policy. Also, a Presidential Decree will be issued, envisaging the transfer of non-core financial and non-financial assets from the balance sheet of the National Bank by no later than February 2012.

As a result of these measures, the independence of the National Bank will increase and its activities will be limited solely to the implementation of a balanced monetary policy.

In order to stabilize the monetary sector and to balance the economy, the National Bank will deploy all instruments of monetary and credit regulation.

The National Bank’s policy will deliver a steady build-up of international reserves, until they reach the level that ensures the country’s economic security. On 1 February 2012 their level will reach 1.5 months of imports, followed by the rise to 1.7 months of imports by 1 February 2013 and 2 months of imports by 1 October 2013 (quantitative control target).

In order to progressively increase net international reserves, the National Bank will discontinue the practice of borrowing from commercial banks in foreign currency, and will take steps to close foreign currency-denominated deposits of commercial banks in the National Bank as they mature.

Interest rate policy will be focused at keeping key interest rates at a positive level on an annual basis. This condition will be achieved through a monthly review of the refinancing rate and of the instrument rates that the National Bank uses to regulate the banks’ liquidity, taking into account actual growth of consumer prices and of its 3-month forecast.

III. Budgetary policy

In 2011 the Government of the Republic of Belarus will continue tight fiscal policy. In this regard, we have decided to limit the budget deficit of general government to 1.5 percent of GDP in the current year and to cut it to 1 per cent of GDP in 2013 (quantitative control target).

The quantitative control targets of the budget deficit of general government and net claims of government bodies on commercial banks as of control dates are subject to automatic adjustment (increase) by the amount of external borrowing (over and above actual borrowing from the EurAsEC Anti-Crisis Fund) and incomes from the privatization of state property, in case quantitative control targets for the level of international reserves and net international reserves are met.

Among our key initiatives aimed to meet the quantitative control target for the budget deficit of general government during the period of the program are: achieving as complete revenue consolidation as possible; and the policy of public expenditure cuts.

In the area of tax policy, the Government is implementing the following fiscal consolidation measures:

The Government will raise additional revenues from the commodity sector by:
- in the first half of 2011, export levies on potash fertilizers will be raised by 1.5 times;
- in the second half of 2011, the tax rates on the extraction of potassium salts will increase by 12 times and on crude oil by 30 times.

In the area of fiscal policy, the Government is implementing the following cost-cutting measures:

1. In 2012-2013, the share of public sector wages in the total consolidated budget expenditures will remain at the 2011 levels (structural control target);

2. Tariffs for housing and communal services and for passenger transport will be raised (indicative target).

Tariffs for housing and utility services for the population will gradually increase to a level that ensures the coverage with payments from the population of no less than 30 percent of the cost of their provision in 2011, no less than 35 percent in 2012, and no less than 40 percent in 2013. The households will pay the full cost of provision of certain types of housing and communal services, and for the cost of consumption of such services above standard norms.

Tariffs for passenger transport (urban and suburban passenger transportation by automobiles, electric city trains, inland water-borne fleet and by underground) will be gradually
raised to the level covering 70 percent of the cost of provision of such services by the end of 2011. In 2012, the level of transport tariffs will have to cover no less than 85 percent of the costs, and in 2013 - no less than 90 percent.

IV. Structural reforms

The Government has embarked on an ambitious privatization program. Decree № 348 of the Council of Ministers of Belarus dated 21 March 2011 approved a three-year privatization plan for 245 companies currently owned by the Republic of Belarus, as well as a three-year plan to transform 134 republican unitary enterprises into joint stock companies and eventually to privatize them. In the future we plan to expand the list of enterprises to be privatized, and to ensure systematic work in this direction. In the current year the Government will develop and publish a list of state properties which will be offered for sale in 2011-2012. By June 2012, this list will be supplemented by enterprises to be privatized in 2013.

The privatization program is aimed at attracting additional budgetary resources in the amount of no less than US$2.5 billion per annum (indicative target).

Changes in the structure of ownership of the economy will increase the efficiency of its operation, the competitiveness of its products in the foreign markets and will expand the opportunities for attracting foreign investments.

V. Financial Sector Issues

In order to stabilize the banking sector, the Government will change the system of lending under government programs and will create a Development Bank, which will take over such lending. A draft law to this effect has already been prepared by the President of the Republic of Belarus.

Claims of the National Bank on commercial banks accumulated under government programs will be re-registered as corresponding government claims on commercial banks through the issuance of government securities and their transfer to the National Bank.

In 2012, the [Development] Bank will start lending operations and servicing the existing and newly adopted state programs, except those which will be funded with resources allocated to commercial banks on a competitive basis (structural control target).

In 2011 net lending under government programs (quantitative control target) will be conducted with government resources, and in 2011 will not exceed 4% of GDP (forecast as of 1 January 2012), with its further reduction to no more than 3% of GDP in 2012 (forecast as of 1 January 2013), and to no more than 1% of GDP in 2013 (forecast as of 1 January 2014).

Net increase of government claims on commercial banks excluding deposits of the Social Protection Fund (quantitative control target) for 2011 (forecast as of 1 January 2012) will be no more than 4% of GDP, with its further reduction to no more than 3% of GDP in 2012 (forecast as of 1 January 2013), and to no more than 1% of GDP in 2013 (forecast as of 1 January 2014).

The economic policy measures of the Government and the National Bank that are listed above, and supported by the financial credit from the EurAsEC Anti-Crisis Fund are reflected in the corresponding Matrix appended to this Letter. Their implementation is time-bound to six tranches of the financial credit totalling to US$3 billion, including US$1.24 billion in 2011, and US$0.88 billion in 2012 and 2013 each.

Attached hereto is the Technical Memorandum outlining agreements on the definitions of quantitative targets for the implementation of economic policy.

In addition to the economic policy measures indicated in the Matrix, the Government and the National Bank of Belarus will take further measures to achieve macro-financial stabilization and balanced economic growth of the Republic of Belarus.

Appendix: on 6 pages in 1 copy.
Appendix to the Letter of Intent dated 2 July 2011


<table>
<thead>
<tr>
<th>Tranche №</th>
<th>Amount (US$)</th>
<th>Date (Minimum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>№1</td>
<td>800 million</td>
<td>30.06.2011</td>
</tr>
<tr>
<td>№2</td>
<td>440 million</td>
<td>31.10.2011</td>
</tr>
<tr>
<td>№3</td>
<td>440 million</td>
<td>28.02.2012</td>
</tr>
<tr>
<td>№4</td>
<td>440 million</td>
<td>31.10.2012</td>
</tr>
<tr>
<td>№5</td>
<td>440 million</td>
<td>28.02.2013</td>
</tr>
<tr>
<td>№6</td>
<td>440 million</td>
<td>31.10.2013</td>
</tr>
</tbody>
</table>

1. Monetary policy measures

1.1 SCT

A draft Law on the Amendments to the Banking Code of the Republic of Belarus 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 Republic of Belarus 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.
- as of 1 October 2013 - not less than 2 months of imports.

32 Dates for all tranches are indicative, tranche amounts are subject to final approval.

33 SCT means Structural Control Target, QCT – Qualitative Control Target, IT – Indicative Target.
### 1.3 QCT

**Level of net international reserves:**

- **Tranche №1**
  - (not later than 30.06.2011, US$ 800 million)
  - As of June 1, 2011 is not lower than minus US$ 5.1 billion.
- **Tranche №2**
  - (not later than 31.10.2011, US$440 million)
  - As of 1 October 2011 is not lower than the level of 01.05.2011.
- **Tranche №3**
  - (not later than 28.02.2012, US$ 440 million)
  - As of 1 February 2012 is not lower than the level of 01.05.2011.
- **Tranche №4**
  - (not later than 31.10.2012, US$ 440 million)
  - As of 1 October 2012 is not lower than the level of 01.05.2011.
- **Tranche №5**
  - (not later than 28.02.2013, US$ 440 million)
  - As of 1 February 2013 is not lower than the level of 01.05.2011.
- **Tranche №6**
  - (not later than 31.10.2013, US$ 440 million)
  - As of 1 October 2013 not lower than the level of 01.05.2011.

### 1.4 QCT

**A Resolution is adopted by the Board of the National Bank prohibiting the National Bank’s borrowing from commercial banks in foreign currency.**

The volume of commercial bank term deposits in foreign currency placed with the National Bank is reduced by:

- **As of 1.10.2011** - by US$ 55.6 million.
- **As of 1.02.2012** - by US$ 126.4 million.
- **As of 1.10.2012** - by US$ 210.8 million.
- **As of 1.02.2013** - by US$ 226.4 million.
- **As of 1.10.2013** - by US$ 1,131.8 million.

### 1.5 IT

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.

### 1.6 SCT

**A Presidential Decree is drafted on the sale of non-core assets from the balance of the National Bank of Belarus to foreign investors and/or their transfer into state property.**

- **A Presidential Decree is issued on the transfer of non-core assets from the balance of the National Bank into state property.**
  - The transfer of non-core assets of the National Bank of Belarus into state property is complete.

---

34 Non-core assets of the National Bank of Belarus include: long-term financial investments into statutory capital of legal entities that are not connected with the main activities of the National Bank of Belarus and 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.
### 2. Fiscal policy measures

#### 2.1 QCT

**Budget deficit**\(^{35}\) of general government sector:

- **Tranche \#1**: (not later than 30.06.2011, US$ 800 million) - In January-September 2011 - does not exceed 1.2% of GDP.
- **Tranche \#2**: (not later than 31.10.2011, US$ 440 million) - In 2011 - does not exceed 1.5% of GDP.
- **Tranche \#3**: (not later than 28.02.2012, US$ 440 million) - in 2012 - does not exceed 1.5% of GDP.
- **Tranche \#4**: (not later than 31.10.2012, US$ 440 million) - In Jan.-Sep. 2013 - does not exceed 0.8% of GDP.
- **Tranche \#5**: (not later than 28.02.2013, US$ 440 million) - In 2013 - does not exceed 1% of GDP.
- **Tranche \#6**: (not later than 31.10.2013, US$ 440 million)

#### 2.2 SCT

The share of public sector wages in the total consolidated budget expenditures:

- **2011**: In 2012 remains at the level of 2011.
- **2012**: In 2013 remains at the level of 2011.
- **2013**: In 2013 remains at the level of 2011.

#### 2.3 IT

Utility tariffs on average are raised by at least 10%

- **2011**: At least 30% of the costs of extending such services in 2011.
- **2012**: At least 35% of the costs of extending such services in 2012.
- **2013**: 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:

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

### 3. Structural Reform Policies

#### 3.1 IT

A list of state-owned objects available for sale in:

- **2011**: In 2011 - not less than US$ in January-September
- **2012**: In 2012 - not less than US$ in January-September

---

\(^{35}\) The sum of quantitative control targets for budget deficit of general government and net increase in the Government’s claims on commercial banks as of control dates is subject to an automatic adjustment (increase) by the amount of external borrowing (over and above actual borrowing from the ACF) and revenues from the privatization of state property, in case quantitative control targets for the level of international reserves and next international reserves are met.
<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>
</tr>
</thead>
</table>

2011-2012 is developed and published, including their real value and the feasibility of their sales.  
2.5 billion.  
2012 - not less than US$ 1.2 billion.  
US$ 2.5 billion.  
2013 - not less than US$ 1.2 billion.

### 4. Financial Sector Policies

#### 4.1 QCT

<table>
<thead>
<tr>
<th>Net lending under state programs using government resources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>During 2011 (forecast as of 1 January 2012) does not exceed 4% of GDP</td>
</tr>
<tr>
<td>During January-September 2012 does not exceed 2.25% of GDP</td>
</tr>
<tr>
<td>During 2012 (forecast as of 1 January 2013) does not exceed 3% of GDP.</td>
</tr>
<tr>
<td>During January-September 2012 (as of 1 October 2013) does not exceed 0.75% of GDP.</td>
</tr>
</tbody>
</table>

### Indicative Target: net lending under state programs in 2013 (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.

Net increase of government claims to commercial banks:

| for 2011 (forecast as of 1 January 2012, excluding SPF deposits) - does not exceed 4% of GDP. |
| for January-September 2012 (excluding SPF deposits) - does not exceed 2.25% of GDP. |
| for 2012 (forecast as of 1 January 2013, excluding SPF deposits) -does not exceed 3% of GDP. |
| as of October 1, 2013 (excluding SPF deposits) - does not exceed 0.75% of GDP. |

### Indicative target: Net
| Tranche №1  
(not later than  
30.06.2011\textsuperscript{32}, US$ 800 million) | Tranche №2  
(not later than 31.10.2011,  
US$440 million) | Tranche №3  
(not later than 28.02.2012,  
US$ 440 million) | Tranche №4  
(not later than 31.10.2012,  
US$ 440 million) | Tranche №5  
(not later than 28.02.2013,  
US$ 440 million) | Tranche №6  
(not later than 31.10.2013,  
US$ 440 million) |
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>increase of government claims on commercial banks in 2013 (forecast as of 1 January 2014) does not exceed 1% of GDP.</td>
</tr>
</tbody>
</table>
Appendix 4. State Symbols and Map of Belarus

National Flag of the Republic of Belarus

National Coat of Arms of the Republic of Belarus

MAP OF THE REPUBLIC OF BELARUS