Document
of the Eurasian Fund for Stabilisation
and Development
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Eurasian Development Bank
Manager of the Eurasian Fund for Stabilisation and Development Resources

APPRAISAL

of the request

of the Republic of Belarus

for a stabilization credit
from the resources of the Eurasian Fund for Stabilisation and Development

in the amount of US $2 billion

March 2016

Republic of Belarus
Fiscal year: 1 January – 31 December

National Currency Exchange Rate
As at 1 March 2016

Currency	**BYR**
1 Euro	23,550.00
1 US dollar	21,506.00
1 Armenian dram	43.85
1 Russian rouble	283.33
1 Kyrgyz som	289.63
1 Tajik somoni	2,737.61
1 Kazakhstani tenge	61.50

System of weights and measures: Metric
Acronyms and Abbreviations

EFSD	Eurasian Fund for Stabilisation and Development
WB	World Bank
GDP	Gross domestic product
GIR	Gross international reserves
GNI	Gross national income
EDB	Eurasian Development Bank
EU	European Union
IMF	International Monetary Fund
CPI	Consumer price index
MoF RB	Ministry of Finance of the Republic of Belarus
NBRB	National Bank of the Republic of Belarus
RB	Republic of Belarus
FDI	Foreign direct investment
CA	Current account
NDA	Net domestic assets
NIR	Net international reserves

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KEY INDICATIVE PARAMETERS OF CREDIT

Borrower	Republic of Belarus
Responsible agency	Ministry of Finance of the Republic of Belarus, National Bank of the Republic of Belarus
Credit amount	US $2,000,000,000 (two billion) in seven tranches: The first tranche – US $500,000,000.00 (five hundred million); The second tranche – US $300,000,000.00 (three hundred million); The third tranche – US $300,000,000.00 (three hundred million); The fourth tranche – US $300,000,000.00 (three hundred million); The fifth tranche – US $200,000,000.00 (two hundred million); The sixth tranche – US $200,000,000.00 (two hundred million); The seventh tranche – US $200,000,000.00 (two hundred million).
Type of operation	Stabilization credit
Proposed areas of use of funds	Budget support and replenishment of international reserve assets
Programme to be supported with the stabilization credit	The Reform Programme presented in the Letter of Intent of the Government of the Republic of Belarus and the National Bank of the Republic of Belarus.
Main areas of support	Macroeconomic stabilisation, fiscal discipline, monetary area, pricing, state-owned enterprise management.
Key performance indicators	Reduction of external and internal macroeconomic imbalances, including reduction of the CA deficit and bringing the inflation down to the single-digit level. Raising the GIR up to at least 2 months of imports. Ensuring a balanced augmented general government budget. Price liberalisation to reduce the share of regulated prices in the CPI basket from 29% as at the programme start to 18% as at the programme end. Achievement of utility and transportation cost recovery through tariffs for households of at least 70% for each type of services. Reduction of the net growth of credit under state programmes (from all sources) to negative 2% of GDP in 2017. Abolishing directed and indicative targets for state-owned enterprises; implementation of reforms aimed at commercialisation of state-owned enterprises.
Stabilization credit availability termination date	30 June 2018 or another later date established in accordance with the provisions of paragraph F), Section 1.03 of the Standard Terms and Conditions.

Stabilization credit maturity	Maximum 10 (ten) years from the Effectiveness Date, including the period, during which no principal repayments are to be made (Grace Period) – of maximum 5 (five) years from the Effectiveness Date. The Effectiveness Date shall be defined in accordance with the Stabilization Credit Agreement.
Front-end fee	Not applicable
Commitment fee	Not applicable
Margin	Not applicable
Interest	The interest rate is fixed for the whole period of credit maturity. It reflects yields for RF and RK Eurobonds consistent with the average weighted maturity of the credit (7 years), weighted to the country's share in the EFSD capital. The interest rate level shall be set based on the results of trading on 23 March 2016 using Bloomberg data. The interest shall be assessed and paid each quarter in accordance with the terms and conditions of the Stabilization Credit Agreement, on the Payment Dates agreed with the Borrower and specified in the Agreement, starting from the first of these dates following the date of disbursement of the first tranche of the Stabilization Credit by the Manager to the Borrower and ending on the date of the final Principal payment under the Stabilization Credit.
Principal repayment schedule	To be established separately for each tranche, based on the amount of the tranche disbursed. The Borrower shall repay the principal for each tranche making equal quarterly payments on the 30th day of the last month of each quarter, starting from the 30th day of the last of the quarter immediately preceding the end date of the 5 (five) year Grace Period from the date of disbursement of the relevant tranche, and finishing on the 30th day of the last month of the quarter immediately preceding the end date of the 10 (ten) year period from the date of disbursement of the relevant tranche. After disbursement of each tranche of the Stabilization Credit, the Manager shall send to the Borrower a notification with the established schedule of principal repayment under the relevant tranche.
Key risks and their mitigation techniques	Risks: (a) persistent or increasing macroeconomic imbalances in case of the Stabilisation Programme getting off track and/or incomplete implementation of the package of structural reforms under the programme; (b) temporary deterioration of living standards of the population as a result of adjustment measures. To mitigate the risks, the Manager recommends: (a) to develop a package of adjustment measures to be used in case of strengthened risks of the programme getting off-track by including these measures in the Addendum to the Letter of Intent; (b) to disburse the credit in seven tranches over the period of 2016-2018 to achieve sustainable results; (c) to fix in the budget of the RB higher allocations to finance expenditures on safety nets for vulnerable groups of the population, *inter alia* through reallocation of resources saved as a result of reducing the support of state-owned enterprises.

1. MANAGER'S EVALUATION REPORT

This Appraisal has been prepared at the request of the Republic of Belarus (hereinafter – the RB, the Applicant) for a stabilization credit financed from resources of the EFSD (hereinafter – the Credit) in the amount of US $3 billion, submitted to Eurasian Development Bank (EDB) on 9 March 2015 by letter No. 11-27/146 (hereinafter – the Application, Annex 1). The main purpose of the Credit is to support the Reform Programme presented in the Letter of Intent of the Government of the RB and the National Bank of the RB (hereinafter – the Letter of Intent). The Manager states that the Economic Policy and Structural Reform Matrix of the Government of the RB and the National Bank of the RB (hereinafter – the Matrix), which is an integral part of the Letter of Intent, has been finalised in accordance with the recommendation of the Fund Council of 8 December 2015 (Minutes No. 24). The terms and conditions of the first tranche disbursement have been supplemented with structural measures aimed at addressing the issues of systemic and fundamental nature. In addition, certain key conditions reflected in the Matrix have been revised and clarified.

Having considered the Application, the Manager offers the following recommendations and conclusions for consideration of the EFSD Council:

1. The Application conforms to the mission of the Fund, its funding objectives, lending policy and conditionality, as defined by the Treaty on the Establishment of the Fund, the Fund Statute, and Regulation on the use of EFSD resources for providing stabilization credits, and decisions of the Fund Council.

2. The Application is executed in compliance with the requirements of the Fund and signed by the Minister of Finance, who is the plenipotentiary representative of the RB at the Fund Council. The level of the Application preparation in terms of the required data for assessment purposes and supporting documentation is deemed satisfactory.

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

3.1. The economic recession in the RB in 2015 and further in 2016 is a result of the worsening external market situation and imbalances accumulated over previous years. The worsening terms of trade, weakening external demand and foreign capital inflow, as well as the low level of national savings, high depreciation and inflation expectations and interest rates have a negative impact on the rates of short-term economic growth. The excessive involvement of the state in managing the economy by means of directed distribution of financial and labour resources, combined with the persistent accumulated imbalance between the rates of growth of real wages and labour productivity result in a steady decline of competitiveness of the economy of the RB and restrain the country's long-term growth potential.

3.2. In 2015, the GDP declined by 3.9% due to a significant contraction of domestic demand (by 6.8%) and in spite of export volume growth (by 2%). The domestic demand weakened against the background of a significant deterioration of the terms of trade (by 14.4%)[1] and lower capital inflow, which went down from 4.6% of GDP to 0.8% of GDP. The fixed capital formation went down by

[1] The data for the balance of payments are presented for January-November of the relevant year.

16.6% and was accompanied by an increase of the interest rate from 9% to 17% in real terms. Consumption went down by 2.1% due to lower real disposable incomes, which declined by 5.6%.

3.3. The noticeable increase of oil product export volume in 2015 by 21.6% is primarily associated with a decline of oil product consumption in the domestic market due to a lower volume of freight traffic through the territory of the RB and higher relative domestic oil product prices compared to Russia. The lower freight traffic volume is largely a result of declining transit traffic between the RF and the EU due to a drop in demand in the RF and Russia's embargo on imports of foodstuffs from the EU. The increase of relative fuel prices in the RB combined with the Russian rouble depreciation, especially in the first half of 2015, resulted in lower fuel consumption on the territory of the RB in the framework of transborder traffic with the RF. The volume of foodstuff exports grew by 10.1%, primarily in view of the opening niche in the RF due to Russia's retaliatory sanctions.

3.4. The decline of exports of goods with a high added value observed since 2013 accelerated significantly in 2015. Over the period of 2013-2015, the volume of exports of these goods fell by half, with nearly fifty percent of this decline experienced in 2015. In addition to the deterioration of the situation in the RF and Russian rouble depreciation, this decline is a result of weaker competitiveness of the Belarusian economy and its potential stemming from domestic economic policies. The key factors of declining competitiveness include imbalanced policies of wage increases; significant excess employment, and directed lending to state-owned enterprises that limits redistribution of resources to more promising sectors; cross-subsidisation resulting in growing costs and prices; and overvalued exchange rate.

3.5. The domestic demand compression and improved transfers balance due to discontinued transfer of customs duties to the RF have resulted in a significant reduction of the current account deficit from 5.8% of GDP in January-November 2014 to 3.1% of GDP in the relevant period of 2015. Nevertheless, in the context of the decelerating capital inflow, the balance of payments demonstrated a deficit that resulted in further reduction of the international reserves by 0.4% of GDP against 0.9% of GDP a year earlier.

3.6. The capital inflow decline has been observed since 2013. In 2015, the net inflow went down to 0.9% of GDP from 5.1% of GDP in 2014.[2] Such developments in the financial account are a result of not only peak external debt payments, weaker economic activity in the country, an overall capital outflow from developing markets, but also lack of exceptional financing inflow, which was US $2 billion in 2014. As at 1 October 2015, the gross external debt was 62.4% of GDP, while the net investment position was negative 66% of GDP that is above the established ceilings for these indicators (correspondingly 55% and -60% of GDP[3]). Against the background of the insufficient and declining gross international reserves—1.3 months of imports as at the beginning of 2016—such developments call for prudent external borrowing policies.

3.7. The capital outflow and sharp Russian rouble depreciation in 2014-2015 resulted in depreciation in the RB and interest rate growth. At the same time, the exchange rate remains overvalued and, combined with the remaining accumulated imbalance between wages and labour productivity,

[2] Based on data for January-November of the relevant years.
[3] The national ceiling is given for domestic debt, and the international one – for the net investment position.

continues to be a risk factor leading to further competitiveness decline. In the context of uncertainty and high depreciation expectations, the overvalued exchange rate restrains export growth, while the increased level of interest rates leads to lower private investments that aggravates economic growth challenges.

3.8. The deceleration of annualized inflation to the record low for the last 5 years level of 11.4% was achieved in January 2016 in spite of the local currency depreciation by 39%. A non-monetary factor, i.e. decline in external prices, combined with tight monetary policies, contributed greatly to the inflation deceleration. In addition, weaker economic activity, overvaluation of the exchange rate, and decelerating growth of household incomes also contributed to the CPI decline.

3.9. According to the authorities, the price liberalisation implemented in January 2016 helped reduce the share of administratively controlled prices in the CPI basket from 23% to 12%. The Manager's estimates differ—reduction from 29% to 19%—as the Manager has no detailed information on the weights of regulated items. Reduction of administrative controls over inflation, in spite of persistent inertia risks of non-market pricing, will contribute to more efficient resource allocation and bring down the risks of sharp changes in relative prices.

3.10. In 2015, the net directed lending was BYR 10.3 trillion or 1.2% of GDP against 3.0% of GDP in 2014. The volume of directed lending is excessive – 42% of total credit to the economy, including loans of the Development Bank as at end-2015 – and is used to finance marginally profitable and long-term projects, primarily in agriculture and construction. The interest rate for these loans is below the market one,[4] while interest payments under these loans are subsidised from the state budget, with the subsidy covering from 50% to 100% of these payments. The preferential nature of directed loans leads to crowding out of private investments and higher interest rates in the banking system.

3.11. The practice of directed planning used in the RB at all levels of economic management was abolished by Resolution of the Council of Ministers of the RB No. 1085 of 24 December 2015. The current performance indicators set for enterprises focus on growth of profits and profitability through expansion of exports and reduction of inventories above permitted levels. The Resolution prohibits setting any other targets for state-owned enterprises or including them in labour contracts with enterprise directors. At the same time, the Resolution includes a provision requiring that implementing enterprises must rigorously comply with gross directed targets in the framework of state programmes that generates some risks to the objective of full elimination of directed planning. The Manager is of the opinion, however, that introduction of competitive selection of entities implementing state programmes will help off-set these risks. Directed planning curtails enterprises' ability to flexibly respond to changes in the external environment through adjustment of output and cost parameters, leading to lower profits and competitiveness of their products and inventory build-up.

[4] The interest rate for the loans equals the refinancing rate plus 3%

3.12. There is significant excess employment in state-owned enterprises[5] of the RB (about 20%, according to the Manager's estimates) that is one of the key factors for the formation of unsustainable macroeconomic imbalances, including an imbalance between the level of real disposable incomes and labour productivity. The indirect costs resulting from this imbalance is the price growth, pressure on the exchange rate, balance of payments, and international reserves, as well as an imbalance between consumption and investments. The fact that state-owned enterprises maintained excess employment, that limited reallocation of labour to more profitable sectors and the private sector, was explained by the limited capacity to shed labour that was fixed in contracts with enterprise managers until 2015.

4. To overcome the recession and get to a trajectory of sustainable growth, it is essential, first of all, to arrive at an equilibrium exchange rate and bring down interest rates. The key instruments for addressing this challenge is further reduction of inflation that will primarily call for tight monetary and fiscal policies, including containment of wage growth and base money growth. The medium-term sustainability of these developments will depend on the progress achieved by the authorities in implementing structural reforms aimed at improving the efficiency of investments and building up the national savings as fundamental factors of the balance of payment and exchange rate stabilisation, and ensuring an acceptable level of interest rates.

5. The Reform Programme of the Government and the National Bank of the RB presented in the Letter of Intent and the Matrix aims at creating the conditions for the country to get to the trajectory of sustainable growth by improving the quality of economic policies and implementing structural reforms. The key measures from the Matrix and their expected results are described below.

5.1. *Bringing down the inflation and raising the national savings through implementation of balanced monetary, foreign exchange, and fiscal policies, including balanced wage policies, as well as improving the efficiency of domestic demand.* To achieve the objectives of bringing the inflation down, the Matrix includes a range of indicators limiting money supply through setting ceilings for such indicators as money supply (indicative target), base money (indicative target), and net domestic assets (control target). Limiting the NDA will help contain the money supply growth by ensuring consistency of monetary and fiscal policies. Taking into account persistent two-digit inflation rates observed in the RB over the last 5 years, the programme entails freezing the money supply growth at the programme exchange rate and setting the base money growth equal only to the depreciation factor that actually entails absence of growth of money in circulation. The prudent fiscal policies aimed at achieving a balanced augmented budget[6] (control target), the nominal budget expenditures on wages limited by the level of targeted inflation (control target), and the improvement of utility and transportation cost recovery through tariffs for households (control targets), *inter alia* by raising the tariffs, will facilitate optimisation and improved efficiency of domestic demand and easing the pressure on the balance of payments. Supported with flexible foreign exchange policies (indicative target) and structural reforms (described below), these measures will also help raise the level of the

[5] Enterprises with government share in capital

[6] Including off-balance sheet expenditures of the Government and local governments, as well as net lending using the Development Bank sources.

GIR (control target) from 1.5 months of imports as at 1 January 2016 to at least 2 months of imports in 2017. The GIR level fixed in the Matrix will be achieved in the context of foreign currency public debt repayment of around US $3.3 billion in 2016. At the same time, under the Public Debt Management Strategy of the RB, new public borrowings of the Government of the RB used for public debt repayment are not to exceed half of the annual needs of this debt repayment, while the budget will be the source for repaying the remaining amount (indicative condition).

5.2. *Setting relative prices based on market signals for efficient distribution and use of commodity, financial, and labour resources and improvement of competitiveness of the Belarusian economy*. In the framework of this area of reforms, prices for a range of socially important goods formerly regulated by government bodies were liberalised in January 2016 (control target). By end-2016, price regulation will be abolished for enterprises dominating the marketplace (control target). The function of monitoring compliance of such enterprises with the anti-monopoly legislation will be assigned to an independent anti-monopoly authority, the process of creating which is to be launched by 2017 (indicative target).

5.3. In the opinion of the Manager, the net lending under state programmes envisaged by the Matrix[7] at the level of negative 1% and 2% of GDP correspondingly in 2016-2017 and financed from all the sources (budget, commercial banks, and the Development Bank of the RB) (control target) will help reduce the share of lending under state programmes in the loan portfolio from 42% in 2015 to 28.5% in 2017. If implemented, this measure will release financial resources for expanding market-based lending, promote reduction of interest rates in financial markets, bring down budget expenditures on interest rate subsidies and recapitalisation of state-owned banks, and alleviate the pressure on prices, the exchange rate, and the country's gold and foreign currency reserves.

5.4. At end-2015, the Council of Ministers of the RB adopted Resolution No. 1085 abolishing the practice of assigning gross directed targets for state-owned enterprises (control target). The development and adoption of the new Conceptual Framework of State-Owned Asset Management (indicative target) will also facilitate the transition of enterprises to commercial principles of operation. The Conceptual Framework envisages separation of the functions of the state as the regulator and the owner, and optimisation of the structure of state-owned assets, *inter alai* through privatisation of part of state-owned assets and divestiture of non-core assets. After the Conceptual Framework is officially approved, the Manager will clear its key measures with the RB authorities to be incorporated into the Matrix as conditions for disbursement of further tranches. In view of a potential unemployment increase, the Government of the RB is developing a package of measures to strengthen the social protection of released personnel (indicative target).

5.5. *Business climate improvement as the basis for the private sector development*. This area of reforms entails adoption of a Directive of the President on further measures to develop the entrepreneurial initiative and promote business activity in the Republic of Belarus (indicative target) in 2016. The draft Directive in particular includes a ban on termination of property rights of private owners in the

[7] The criteria of classifying credit to the economy as lending under state programmes will be agreed with the RB authorities and incorporated into the Technical Memorandum, which is an annex to the Letter of Intent of the Government and the National Bank of the RB.

absence of a court decision, reduction of time limits for recognition of privatization deals invalid, more active privatisation of small and medium state-owned enterprises, and transfer of marginally profitable and loss-making state-owned enterprises under trust management by private businesses, ensuring a possibility to buy out state-owned assets leased by private businesses for over three years, and a range of other measures. After adoption of the Directive, its key measures are to be incorporated into the Matrix as conditions for the disbursement of further tranches. The institute of the Ombudsman to protect the rights of entrepreneurs is to be established to improve the protection of such rights (indicative condition).

6. The Applicant's implementation of conditions that are mandatory for the provision of stabilization credits:

6.1. The Applicant has completed all internal government procedures necessary for the entry into force of the Treaty Establishing the Fund, has made an initial contribution to the Fund, and fulfilled all other requirements necessary for Fund members to receive stabilization credits, in the manner and on the terms determined by the Statute of the Fund and decisions of the Fund Council.

6.2. The considered credit is the second credit for the RB financed with the resources of the EFSD. In 2011, the parties signed an Agreement on Providing a Stabilization Credit Financed with Resources of the EFSD to the RB in the amount of US $3 billion in six tranches, of which the RB received US $2,560 billion. Under the decision of the Fund Council of 27 November 2014, the sixth tranche of US $440 million was not disbursed as the RB failed to meet five control targets, and the Stabilisation Programme supported with the credit got off-track. The disbursed amount has been serviced in full and in a timely fashion.

6.3. 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.

7. Under the instruction of the Fund Council (Minutes No. 20 of 3 July 2015), the Manager and the RB authorities have prepared a joint note on the status of implementation of the Stabilisation Programme supported under the previous stabilization credit of the EFSD in 2011-2013. The conclusion is that the key reasons for the failure to meet the programme targets were the policies of unbalanced domestic demand stimulation in response to the worsening external market situation combined with significant imbalances already generated by that time. The note also assessed the prospects of the RB for complying with the thresholds set for the sixth tranche, which are still valid in the framework of the programme under preparation, i.e. with 9 of the 14 targets. The thresholds for four of those targets under the sixth tranche have been met by now (positive refinancing rate) or will be met in the process of the new programme implementation (the GIR level and utility cost recovery through tariffs for households). As to the transportation cost recovery through tariffs for households, the target set for the sixth tranche will not be met. For five of the targets, the thresholds are no longer valid.

8. The Manager recommends taking a positive decision on providing stabilization credit to the RB for the purposes of budget support and replenishing the country's international reserves.

9. The Manager recommends setting the requested amount of the Credit at US $2 billion. The demonstration of the authorities' commitments to structural reforms can serve as a basis for mobilising financial support from international financial institutions, first of all the IMF and the World Bank.

10. The Manager recommends disbursement of the credit over the period of 2016-2018 in seven tranches—each to be provided on approval by the Fund Council of the Borrower's reports on compliance with prior conditions for tranche disbursement. The following amounts and control dates for assessing compliance with tranche disbursement conditions are recommended:

	Tranche 1, 1 March 2016	Tranche 2, 1 June 2016	Tranche 3, 1 September 2016	Tranche 4, 1 January 2017	Tranche 5, 1 June 2017	Tranche 6, 1 September 2017	Tranche 7 1 January 2018	Total
Amount, million US $	500	300	300	300	200	200	200	2,000

Note: the amounts of lending proposed in the table are indicative and should not be seen as a commitment of the Fund or its Manager to provide the resources in the amount and forms specified in the table.

11. The limit of the RB access to the EFSD resources established by the decision of the Fund Council of 25 February 2010 is equivalent to US$1,787.73 million. The amount of the recommended Credit of US$2 billion, taking into account the funds disbursed earlier under the first EFSD stabilization credit to the RB, exceeds this limit. To ensure the provision of this stabilization credit in the stated amount, the Manager recommends reallocating part of the EFSD limit of the Russian Federation in the amount of US$2 billion in favour of the RB.

12. In accordance with the Fund's cash flow projection as at 29 February 2016 prepared taking into account the commitments already undertaken based on decisions of the Fund Council and the positive decision on the Credit for the RB, the Fund's bills of US $251 million in 2017 and US $121 million in 2018 would need to be cashed to ensure a sufficient amount of resources available in the Fund's accounts.

13. On the basis of Appendix 1 to the Regulation on the use of EFSD resources for providing stabilization credits, the Manager recommends to establish the following financial terms for the requested Credit

- the interest rate reflects yields for RF and RK Eurobonds consistent with the average weighted maturity of the credit (7 years), weighted to the country's share in the EFSD capital and shall be set based on the results of trading on 23 March 2016 using Bloomberg data.
- margin – not applicable;
- front-end fee – not applicable,
- commitment fee – not applicable,
- maturity – no more than 10 years, including a grace period of no more than 5 years,
- Programme implementation period (credit availability period) – until 30 June 2018 or another later date established in accordance with the provisions of paragraph F), Section 1.03 of the Standard Terms and Conditions.
- Required co-financing of the credit by the Borrower – not applicable.

14. The Manager notes the following risks for this Credit and recommends the following ways to mitigate them:

14.1. The lessons learned as result of implementation of the previous Stabilisation Programme of Belarus' authorities supported with a stabilization credit of the EFSD in 2011-2013 show that the key reason for non-compliance with the targets of the programme was the fact that the country's authorities opted for policies of boosting domestic demand in response to the worsening external market situation and expanding current account deficit. In the context of persistent significant structural imbalances, high inflation, deep-rooted inflation and depreciation expectations, low international reserves and high external debts, those policies did not generate the improvement expected by the authorities; on the contrary, there was a sharp deterioration of macroeconomic indicators. As a result, 10 of the 14 conditions for the final sixth tranche were not met, including 5 control ones. To bring down the risks of failing to meet the targets set under the new programme in the context of potential worsening of the situation, there are measures envisaged to tighten the key targets in the Matrix[8] to ensure a balanced level of domestic demand. To ensure sustainable results, the credit is to be disbursed in seven tranches over the period of 2016-2018. In addition, most of the measures in the Matrix for the new programme reflect those fixed in programme documents of the Government and the National Bank of the RB that strengthens their status and mitigates the risks of their failure.

14.2. Reduction of the accumulated imbalances will, in the short-term, result in lower real incomes of the population, which have been growing in recent years at a rate exceeding the rate of labour productivity growth. In addition, putting state-owned enterprises on a commercial basis would help optimise their costs and use of resources, including labour, that will result in higher unemployment in the country. In this case, an important factor of social stability will be the development and implementation by the Government of programmes of social protection of the unemployed and other vulnerable groups of the population, creation of a wide network of retraining programmes and establishing conditions for free flow of labour resources to sectors with higher labour productivity. Taking into account that implementation of these measures will result in budget expenditure growth, the Matrix envisages an option of a budget deficit equivalent to financing social support of the unemployed. Implementation of the conditions fixed in the Matrix in the area of phasing out state programmes and raising tariffs for households will help release significant budget resources to strengthen the targeted social assistance system, which is much more efficient than the currently used mechanisms of subsidising all layers of the population, irrespective of their incomes, through low tariffs.

14.3. The potential further deterioration of the external market situation strengthens the risks of external imbalance expansion. Prudent macroeconomic policies and structural reforms aimed at improving

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[8] In case of imbalance expansion and strengthening risks of failure to meet the GIR and inflation thresholds, the following measures will be considered: faster rates of phasing out state programmes compared to the ones agreed in the Matrix; reduction of the wage bill in the budget in real terms; transition to the augmented budget execution with a surplus; as well as tightening the thresholds for monetary targets (NDA, money supply, and base money).

the efficiency and building up the capacity of the economy are, however, to become essential factors mitigating such negative effects.

ANNEX 1.

Application of the RB for a stabilization credit financed with resources of the Eurasian Fund for Stabilisation and Development in the amount of US $3 billion (attached in a separate file)

ANNEX 2.

ECONOMIC POLICY AND STRUCTURAL REFORM MATRIX

of the Government and the National Bank of the Republic of Belarus to be supported with a stabilization credit of the Eurasian Fund for Stabilization and Development

(US $2 billion in seven tranches over 2015-2018)

CT – control target
IT – indicative target[9].

#	Target	Tranche 1 – USD 500 million (control date for conditionality evaluation – March 1, 2016)	Tranche 2 – USD 300 million (control date for conditionality evaluation – June 1, 2016)	Tranche 3 – USD 300 million (control date for conditionality evaluation – September 1, 2016)	Tranche 4 – USD 300 million (control date for conditionality evaluation – January 1, 2017)	Tranche 5 – USD 200 million (control date for conditionality evaluation – June 1, 2017)	Tranche 6 – USD 200 million (control date for conditionality evaluation – October 1, 2017)	Tranche 7 – USD 200 million (control date for conditionality evaluation – January 1, 2018)
1. MACROECONOMIC STABILIZATION								
1.1 CT	Gross international reserves* of:	at least USD 4.1 billion *(equivalent to 1.5 months of imports)*	at least USD 4.2 billion *(equivalent to 1.6 months of imports)*	at least USD 4.3 billion *(equivalent to 1.6 months of imports)*	at least USD 4.9 billion *(equivalent to 1.9 months of imports)*	at least USD 5.2 billion *(equivalent to 1.9 months of imports)*	at least USD 5.3 billion *(equivalent to 1.9 months of imports)*	at least USD 5.4 billion *(equivalent to 2.0 months of imports)*
1.3** CT	Ceiling for net domestic assets (at the programme exchange rate[2]) of:	no more than BYR 74 trillion	no more than BYR 73 trillion	no more than BYR 66 trillion	no more than BYR 59 trillion	no more than BYR 53 trillion	no more than BYR 48 trillion	no more than BYR 46 trillion

[9] If indicative targets are not met, the Manager reserves the right to unilaterally change the status of the target to the “control” one notifying the authorised representative of the RB of that.

#	Target	Tranche 1 – USD 500 million (control date for conditionality evaluation – March 1, 2016)	Tranche 2 – USD 300 million (control date for conditionality evaluation – June 1, 2016)	Tranche 3 – USD 300 million (control date for conditionality evaluation – September 1, 2016)	Tranche 4 – USD 300 million (control date for conditionality evaluation – January 1, 2017)	Tranche 5 – USD 200 million (control date for conditionality evaluation – June 1, 2017)	Tranche 6 – USD 200 million (control date for conditionality evaluation – October 1, 2017)	Tranche 7 – USD 200 million (control date for conditionality evaluation – January 1, 2018)
1.4** IT	Ceiling for reserve money (at the programme exchange rate)	no more than BYR 46 trillion	no more than BYR 46 trillion	no more than BYR 47 trillion	no more than BYR 49 trillion	no more than BYR 51 trillion	no more than BYR 52 trillion	no more than BYR 53 trillion
1.5 IT	Maximum broad money growth (at the programme exchange rate)[10]:	0%	0%	0%	0%	0%	0%	0%
1.6 IT	No multiple exchange rate practices							
1.7. IT	Introduction of a two-way continuous auction mechanism for exchange trading	mechanism fully functioning	mechanism fully functioning Granting to economic entities access to purchases/sales of foreign exchange at the Belarusian Currency and Stock Exchange through banks	mechanism fully functioning	mechanism fully functioning	mechanism fully functioning	mechanism fully functioning	mechanism fully functioning
1.8. IT	Introduction of a framework of bank	The framework of instruments fully	The framework of instruments fully	The framework of instruments fully	The framework of instruments fully	The framework of instruments fully	The framework of instruments fully	The framework of instruments fully

[10]The thresholds for tranches 5, 6 and 7 can be revised in late 2016 subject to changes in the economic environment.

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	liquidity regulation instruments consistent with the monetary targeting regime	functioning	functioning	functioning	functioning	functioning	functioning	functioning
1.9** IT	A decision is taken on changing the refinancing rate taking into account the actual pattern of interest rates in auctions of the National Bank, interest rates in the interbank market and with the objective of minimizing interventions to support the exchange rate.							
1.10 CT	Liquidity support is provided to banks by the NBRB performing its lender of last resort function at interest rates not lower than the refinancing rate of the NBRB							
1.11 IT	Republican budget formation	- with a surplus equivalent at least to the amount of export customs duties from crude oil and selected oil products exported from the territory of the Republic of Belarus outside the customs territory of the Customs Union.						
1.12** CT	Broad general government budget balance (including net lending of the Development Bank)[11]	For January-February 2016 – fixed at the zero level			For 2016 – fixed at the zero level. Budget deficit expansion is allowed within the amount equivalent to republican budget and Social Protection Fund			For 2017 – fixed at the zero level

[11]Excluding operations of the Government on restructuring and refinancing of state enterprises' debts by issuing long-term government bonds and selling them to the banks - holders of problem debts, as well as operations on banks' recapitalisation on account of the government deposits, which were earlier provided to these banks to finance government programmes.

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					expenditures to support the unemployed (unemployment benefits, expenditures on retraining), but by no more than 0.8% of GDP. If implementation of an IMF programme is launched, the deficit can be further expanded by the amount of expenditures provided for in the programme of cooperation with the IMF			
1.13** CT	Nominal wage bill in the budget sector	in the budget for 2016, the wage bill growth in the budget sector is limited by the targeted level of inflation of up to			the wage bill growth is no more than the amount of the average annual inflation consistent with the targeted			the wage bill growth is no more than the amount of the average annual inflation consistent with the targeted

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		12%			inflation as at end-2016 at 12%			inflation as at end-2017 at 9%
1.14 IT	Taking decisions on staged expansion of the tax base	Amendments aimed at reducing tax preferences are introduced to the tax legislation						
1.15 IT	The Public Debt Management Strategy for 2015-2020 to be fully implemented, including annual borrowings of not-earmarked loans in an amount not exceeding - as a rule - half of due annual public debt payments; and use of receipts from export customs duties on crude oil and selected oil products exported from Belarus to the countries outside of Eurasian Customs Union for public debt payments.							
2. GOODS AND SERVICES MARKET REFORMS AND REDUCTION OF STATE SUPPORT								
2.1 IT	Establishing an independent anti-monopoly authority	The Government takes a decision on establishing an independent anti-monopoly authority	A Conceptual Framework of establishing an independent anti-monopoly authority on the basis of the Ministry of Trade is agreed	A Decree of the Head of State on establishing an independent anti-monopoly authority is adopted	An independent anti-monopoly authority is established and functioning	An independent anti-monopoly authority is established and functioning	An independent anti-monopoly authority is established and functioning	An independent anti-monopoly authority is established and functioning
2.2 CT	Liberalization of prices for goods and services	A resolution is adopted on complete elimination of price and trade mark-up	Regulation of prices for nitrogen fertilizers in the domestic market is abolished and price formation is	The government develops an action plan to eliminate non-market transfer pricing in	Regulation of prices for fruit and vegetables under Government Resolution # 35	The state price regulation is made consistent with the provisions of Annex # 19 to the Treaty on the		

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		regulation for socially important goods listed in Government Resolution # 35 of January 17, 2014, except for fruit and vegetables, solid fuels, fuel briquettes and fuel wood for households	based on a formula depending on the external market situation	vertically-integrated holdings of state enterprises.	of January 17, 2014 is abolished. Regulation of tariffs is abolished for certain telecommunication and postal services: - provision of local telephone connections to landline telecommunication network users utilising public pay phones; - provision of access to the Internet at telecenters, where the fee includes: a) a time rate for Internet connection; b) a fee for messages sent or received by e-mail within the	Eurasian Economic Union		

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					country. Price regulation is abolished for enterprises dominating the marketplace.			
2.3** CT	Level of cost recovery through utility tariffs for households	As at end-February 2016 at least – 40%	As at end-April 2016 at least – 40%		As at end-December 2016 – 50%			As at end-December 2017 – 70%
2.4** CT	Level of cost recovery through transport tariffs for households	at least 60% for 2015			at least 65% for 2016			at least 70% for 2017
2.5** CT	The increase of credit in terms of directed lending given out by commercial banks and the Development Bank including all sources of finance (State budget, banks money, the Development Bank money) estimated at the programme exchange rate	Resolution of the Government *On Approving Regulations on Procedure of State Programme Formulation, Financing, Implementation, and Performance Evaluation, on Procedure of Formation and Revision of State*	A Decree of the Head of State is adopted providing for bringing the Development Bank of the RB into the framework of bank regulation of the National Bank. Prudential requirements are set for the Development Bank	Negative net increase for the first half of the year, with maximum new disbursement of BYR 17 trillion	Negative net increase (-1% of GDP) for 2016, with maximum new disbursement of BYR 28 trillion		Negative net increase for the first half of 2017, with maximum new disbursement of BYR 13 trillion	Negative net increase (-2% of GDP) for 2017, with maximum new disbursement of BYR 20 trillion

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		Programme List and Resolution of the Government setting the ceiling for lending under state programmes in 2016 at no more than BYR 28 trillion are adopted	of the RB					
3. COMMERCIALIZATION / PRIVATIZATION OF STATE-OWNED ENTERPRISES AND STRENGTHENING SOCIAL SAFETY NETS								
3.1 IT	Developing a new conceptual framework of state-owned asset management to create a basis for shifting to new methods of managing state-owned assets, streamlining the structure of state-owned assets through privatization and divestiture of non-core assets, and developing outsourcing, as well as separating the functions of the state as the	The Decree of the Head of State On Issuing and Circulation of Shares Using Foreign Depository Receipts that will facilitate the reduction of the share of the state in equity capital is adopted		The Conceptual Framework of State-Owned Asset Management until 2020 is adopted	Implementation of the Conceptual Framework according to the approved schedule (the specific measured will be defined after the development of the conceptual framework)	Implementation of the Conceptual Framework according to the approved schedule (the specific measured will be defined after the development of the conceptual framework)	Implementation of the Conceptual Framework according to the approved schedule (the specific measured will be defined after the development of the conceptual framework)	Implementation of the Conceptual Framework according to the approved schedule (the specific measured will be defined after the development of the conceptual framework)

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	regulator and the owner							
3.2 CT	Abolishing directed targets for state-owned enterprises	No assignment of gross directed targets to enterprises in 2016			Normative legal acts, which approve the key parameters of social and economic development of Belarus for 2017, as well as measures to achieve them, do not envisage assignment of directed targets to enterprises.			Normative legal acts, which approve the key parameters of social and economic development of Belarus for 2018, as well as measures to achieve them, do not envisage assignment of the directed targets to enterprises.
3.3 IT	Strengthening social safety nets in the context of potential unemployment growth		Formation of reserves in local budgets to finance expenditures on non-cash housing subsidies is ensured. The mechanisms of targeted state social support are strengthened,	A package of regulatory legal acts agreed with the Fund is adopted to ensure adequate protection of workers shifting to the category of the unemployed due to enterprise				

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			inter alia through revision of the size of social benefits	commercialisation and optimisation				
3.4 IT	Reducing the role of the state in economic activity[12]	The Parliament has adopted the Law on Public-Private Partnership in the Republic of Belarus		In 2015, the share of the state sector in generation of the gross added value is no more than 47%	The Government adopts a resolution on the methodology of the regulatory impact assessment of regulatory legal acts in the part of administrative procedures for businesses	In 2016, the share of the state sector in generation of the gross added value is no more than 45%		For the first half of 2017, the share of the state sector is no more than 41%
3.5 IT	Privatization of state-owned assets	Proposals are presented to the Government of the Republic of Belarus to change the composition of the Supervisory Board of	A resolution is adopted by the Government on setting the initial selling price of enterprises as asset packages (stakes in	Participation in the institutional development needs assessment performed by the EBRD for Belinvestbank OJSC and	Proposals on the plan of further actions to implement the project of privatising Belinvestbank OJSC are			Activities are implemented in accordance with the plan for the NBRB to withdraw from shareholders of Moscow-Minsk

[12] This target will be supplemented with a condition on privatisation, the contents of which will be agreed between the Manager and the Government in 2016.

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		Belinvestbank OJSC to make it consistent with international standards	statutory funds) of business entities in republican and municipal ownership exclusively based on the market (not balance sheet) price	preparation of the institutional development programme. A plan is adopted for the NBRB to withdraw from shareholders of Moscow-Minsk Bank OJSC The current legislation in the area of privatisation (divestiture of facilities) in state ownership is analysed for consistency with the principles of transparency, promptness and efficiency, proposals are made to the Government on amending it	prepared and presented to the Government of the Republic of Belarus			Bank OJSC

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3.6. IT	State-owned sector restructuring		A draft decision of the Head of State approving the procedure of fast decision-making by local governments on transfer into trust management of enterprises as asset packages in case of persistently insolvent municipal agricultural enterprises is prepared and presented to the Government	A decision of the Head of State has been adopted and come into force	A package of regulatory acts is adopted on restructuring / reorganization of loss-making agricultural enterprises	A new Law On Insolvency or Bankruptcy is adopted		The Law has come into force and is effective
4. BUSINESS CLIMATE IMPROVEMENT / PRIVATE SECTOR DEVELOPMENT								
4.1 IT	Adoption and implementation of a Directive of the President agreed with business community representatives on further	The State Programme of Small and Medium Business Support in the RB is adopted for	An updated directive on entrepreneurial initiative development and business activity	The Government has adopted a resolution on implementing the directive, its implementation is	Implementation of measures under the directive (specific measures will be defined after the	Implementation of measures under the directive (specific measures will be defined after the	Implementation of measures under the directive (specific measures will be defined after the	Implementation of measures under the directive (specific measures will be defined after the

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	measures to develop the entrepreneurial initiative and promote business activity in the Republic of Belarus	2016-2020	promotion in the RB is adopted	launched	directive is adopted)	directive is adopted)	directive is adopted)	directive is adopted)
4.2 IT	Establishing the institute of the Ombudsman to protect the rights of entrepreneurs		Considering the need to establish the institute of the Ombudsman to protect the rights of entrepreneurs		The legislative framework is fully prepared, the Ombudsman is elected with engagement and approval of business community representatives	The institute of the Ombudsman is functioning	The institute of the Ombudsman is functioning	The institute of the Ombudsman is functioning
4.3 IT	Introduction of the international financial reporting standards and mandatory independent audit of such reporting. Consideration of the practicability of expanding the list of companies required to prepare their annual reports based on the IFRS							

* Additional net increases of foreign exchange inflows under CA items compared to the current projection will be used to further replenish the GIR, while decreases of foreign exchange inflows under CA items and the balance of payment financing deficit will be off-set with weaker domestic demand, primarily through faster reduction of state programmes.

** The targets marked with an asterisk will be subject to tightening if there are risks of failing to meet the programme objectives. Specific measures and updated thresholds will be specified in addenda to the Letter of Intent for the relevant tranche.

Prime Minister of the Republic of Belarus	Board Chairman of the National Bank of the Republic of Belarus
A.V. Kobyakov	P.V. Kallaur
_____________ ___, 2016	_____________ ___, 2016