International Monetary Fund

Republic of Belarus
and the IMF

Press Release:
IMF Executive Board Approves US$2.46 Billion Stand-By Arrangement for Belarus
January 12, 2009

Country's Policy Intentions Documents

Republic of Belarus: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 31, 2008

Minsk, December 31, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431 U.S.A.

Dear Mr. Strauss-Kahn:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic policies and objectives of the authorities of the Republic of Belarus for the remainder of 2008 and for 2009-10. Based on our balance of payments needs and our policies as set in the MEFP, we request the approval of a Stand-By Arrangement (SBA) in an amount of SDR 1,618.118 million (418.77 percent of our quota, equivalent to US$2.5 billion) for the period January 2009 through March 2010. We believe that the policies described in the MEFP will help us adjust in an orderly manner to the external shocks we now face, and eliminate existing vulnerabilities. Structural challenges in our economy would, nevertheless, remain to be addressed further, and we might consider a follow-up Extended Fund Facility (EFF) arrangement to support these efforts.

The program will be monitored through regular reviews, prior actions, quantitative performance criteria and indicative targets, and structural performance criteria and structural benchmarks. The first purchase of SDR 517.798 million will become available on approval of the program by the Executive Board, the second purchase of SDR 275.08 million on or after May 15, 2009, conditional on the observance of end-March performance criteria and completion of the first review, and the third purchase of SDR 275.08 million on or after August 15, 2009 conditional on observance of the end-June performance criteria and completion of the second review of the program. The full schedule of phasing of purchases under the arrangement and program reviews is set out in Table 1 of this memorandum; the quantitative targets for end-March 2009, end-June 2009, end-September 2009 and end-December 2009, and continuous performance criteria are set out in Table 2; and the prior actions, structural performance criteria and structural benchmarks are set out in Table 3. The understandings between the Belarusian authorities and IMF staff regarding the quantitative performance criteria and the structural measures described in this memorandum are further specified in the Technical Memorandum attached to this memorandum.

In addition to the policies outlined in this MEFP, the government stands ready to take additional policy measures as appropriate to ensure the attainment of the program's objectives. We will consult with the Fund on adoption of new measures, and in advance of revisions to the policies contained in this memorandum in accordance of the Fund's policies on such consultations, and provide the Fund with the information it requests for monitoring progress during program implementation. We will also consult with the Fund on our economic policies after the expiration of the arrangement, in line with the Fund's policies on such consultations.

In continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF's website.

Yours sincerely,

/s/	/s/
S. S. Sidorsky	P. P. Prokopovich
Prime Minister	Governor of the National Bank
of the Republic of Belarus	of the Republic of Belarus

BELARUS—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. BACKGROUND

1. **The Republic of Belarus has been developing a socially-oriented, market-based economic model, with a view to raising the welfare of the population through rapid GDP growth and economic reforms.** Since 2002, GDP growth has averaged close to 9 percent, reflecting strong improvements in labor productivity, reductions in energy intensity, and a high level of investment. Moreover, our economy benefited from favorable developments in the terms of trade, as well as strong growth of the global economy. Prudently managed public finances, on the back of strong growth performance, have allowed us to keep Belarus' foreign and public debt ratios among the lowest in the region, while social spending and indicators of social well being have been maintained at a high level.

2. **However, the recent weakening of global activity has created significant challenges for Belarus.** Prices for our commodity exports have fallen, and demand for our products is dropping off (as growth in our trading partners slows down). The problem has been exacerbated by delays in export payments. Lingering effects of past booming demand in Belarus and the rapid appreciation of the U.S. dollar, to which we peg our currency, will put further pressure on our trade balance. At the same time, we, like most other countries, are facing much less accessible and more expensive credit markets. We have handled this tension to date by using our currency reserves, but this can be only a temporary response, since we need to raise our reserves to a safer level (and had been doing so through August).

3. **We expect that the less favorable external environment will continue into 2009–10, creating a need for adjustment.** With overall growth in the region slowing, we will face continued weak demand for our exports, adversely affecting both their volumes and prices. These developments will be further aggravated by an increase in the gas import price in 2009, in line with agreements reached with Russia in 2007. Notwithstanding our efforts to liberalize the economy and attract larger FDI inflows, we do not expect a rapid improvement in our access to foreign financing on market terms in 2009, owing to the global crisis. Thus, exceptional financing needs in the period ahead are large. We intend to implement strong adjustment measures under our program and pursue available financing from private sector and official sources, but we still expect to face a financing gap of $4 billion in the period through 2010. Taking into account the just signed loan agreement with the Russian Federation providing $1 billion next year, a residual gap of about $3 billion remains.

II. PROGRAM OBJECTIVES

4. **Our program, for which we are seeking assistance, aims at minimizing the impact of the unfavorable external factors, adjusting our economy to the new environment, and reducing vulnerability to future external shocks.** This will be accomplished both via upfront actions targeted to solving our most immediate challenges, and aggregate demand management measures to address current account imbalances (combined with adequate safety net measures to protect the most vulnerable). To guard

against future risk, actions will be taken to increase the NBRB's level of international reserves, reduce the rigidity in our exchange rate arrangement, ensure the stability of the financial sector, and introduce more appropriate wage targets.

5. **In line with projected developments in the rest of Eastern Europe, we expect our economy to slow in 2009.** In setting our program we have made conservative assumptions about prospects for external finance. To help contain the external current account deficit at a level that can be financed, our demand growth will need to slow substantially. For this reason, moderation of the growth of wages and investment is unavoidable. We expect improved competitiveness to partially compensate for lower demand, with the net result being modest growth of about 1-2 percent and a sharp drop in the current account deficit, to 5½ percent of GDP. Inflation will gradually come down from existing levels, and we expect it to drop to 11½ percent by end-2009. We are working to secure additional financing and with this in place, or if external shocks prove milder than projected, our growth prospects could be better.

6. **We expect the economy to rebound in the medium term as the effects of the global shocks on the region wane, but are prepared to respond flexibly to economic developments**. Growth should return close to potential by 2011, and inflation to single digits by late 2010. We anticipate moderate current account deficits, and with capital inflows improving in 2010, we expect significant reserve accumulation. However, we also believe that the implementation of our structural policies (discussed below), including reductions in the tax burden, accelerated privatization, and price liberalization, will create significant upside growth potential, and could help us attract additional external financing. In this event, we would target faster reserve accumulation, and might also consider a less restrictive fiscal stance. The macroeconomic program and policy measures for 2010 will be initiated during the second review.

III. Policies for 2009

A. Monetary and Exchange Rate Policies

7. **Implementing a more robust exchange rate regime is a cornerstone of our program**. We will continue to use the exchange rate as a nominal anchor, but will shift our peg to a basket of currencies, and apply a wider band (± 5 percent) around the basket parity. We intend to use the band in a flexible manner, including allowing the exchange rate to weaken relative to the central rate if meeting the target on the accumulation of net international reserves (NIR) is at risk. Our basket will comprise of the US dollar, the euro and the Russian ruble with a weight of one-third each, and we expect the new parity will be consistent with our economic fundamentals (setting up this new regime is a **prior action** for our program). This new regime will help us cope with shocks in a challenging external environment.

8. **Monetary policy will stand ready to support the new currency band, and be set consistent with our CPI inflation target of 11½ percent for end-2009**. Consistent with both of these goals, we will keep NBRB interest rates positive in real terms. We will adjust the refinancing rate and our other policy rates regularly based on updated inflation projections. To better transmit our policy to lending rates (and encourage better risk management by banks), we will abolish the interest rate ceiling on ruble loans by banks to the corporate sector **(prior action)**. We will adapt the monetary guidelines for the NBRB to reflect our policy intentions, in particular our indicative base money target (which has been calculated in line with projected nominal income, but assuming a small velocity increase). Our floor for net international reserves and ceiling for net domestic assets of the NBRB will be **quantitative performance criteria** under the program.

B. Financial Sector Policies

9. **We have already taken a range of measures aimed at maintaining financial system stability, and these have been effective to date, but we see a need for several refinements:**

- To further strengthen depositors' faith in banks, on November 4, 2008, the President signed Decree No. 22 extending a full guarantee to household deposits effective immediately. Moreover, the recently passed law on deposit insurance (effective from January 1, 2009) establishes a strengthened framework under which the new Agency for Deposit Insurance is able to provide a more equitable treatment of banks and a fixed timeline for compensation of deposits in case of bank closure.

- We recognize that uncollateralized liquidity support to banks must remain truly exceptional, and that once the current pressures abate, such liquidity support will generally be provided against good quality collateral. Furthermore, to ensure that liquidity support to banks is appropriately limited and does not unintentionally evolve into financing for insolvent institutions, the NBRB will apply strengthened monitoring and supervision to those banks using the new uncollateralized lending facility, or any other exceptional form of financing. In particular, banks using the facility over an extended period will be subject to more frequent on-site inspections and some restrictions on their activities (for instance, bank-specific prudential norms).

- To ensure adequate capitalization of state banks, we have allocated additional budget resources in the amount of 3 trillion rubels to their equity funds. At present we have no plans to recapitalize any banks in 2009. The foreign banks operating in Belarus have all confirmed their commitment to remain well capitalized to finance their expected lending in 2009. Should capitalization issues arise in private banks we will use our existing framework, including negotiations with shareholders, liquidation and nationalization (supported by government resources), as appropriate, to rapidly resolve the issues.

- We intend to formalize the institutional framework for dealing with a potential financial crisis. We will adopt and implement a memorandum of understanding between the Ministry of Finance, the Ministry of Economy, the NBRB, and the new Agency for Deposit Insurance. This will define the roles and powers of various authorities, as well as practical guidelines for coordination and information exchange.

- In accordance with the recommendations of the FSAP mission, we will by end-September 2009 bring our loan classification and provisioning requirements in line with the best international practices, possibly using MCM TA for this purpose **(structural benchmark)**. In addition, we will introduce a requirement for banks to form reserves on loans classified in group I (0.5 percent of these loans).[1]

10. **The key pillar of our financial sector agenda is the transfer of directed lending programs to the budget.** This will stimulate banks to update their credit risk assessment and management practices. Specifically, we intend to:

- Amend the relevant legislation[2] to prohibit the central and local governments from making any additional transfers to its deposit accounts with the commercial banks, either short or long term (**prior action**). The existing stock of these deposits will be transferred back to the NBRB accounts in line with the schedule for repayment of the corresponding loans. All funding to the only two projects remaining in force, “On Construction of Dairy Farms” (Presidential Decree Number 332 dated June 13, 2008) and “On Certain Issues of the Bellegprom Concern” (Presidential Decree 282 dated May 19, 2008) that had not been fully disbursed, has been discontinued as of December 19, 2008. Funding to these projects will only resume once they have been brought back on to the budget. We will not approve any new directed lending programs financed with budget deposits (**structural benchmark)**.

- The NBRB will gradually disengage from direct lending to other sectors of the economy (non-financial organizations). In 2009, we will limit the growth of such loans to 350 billion rubels. Starting in 2010 the NBRB will stop extending new loans to non-financial organizations.

11. **We will also begin the process of privatizing the large state-owned banks**. We are looking for a strategic investor to sell the majority shareholding in two state banks (OJSC Belpromstroibank and OJSC Belinvestbank) and a minority holding in JSSB Belarusbank and OJSC Belagroprombank as soon as market conditions permit. By end-August 2009 we

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[1] There are five groups of loans. Group I consists of good quality or standard loans.

[2] Agreement #447/D of November 28, 2006 On the Investment of Deposits In Belarusian Rubel at the NBRB by the Ministry of Finance of the Republic of Belarus.

will engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist us in preparing state-owned banks for partial or full privatization (**structural benchmark**). The objective will be to attract strategic investors capable of know-how and technology transfer, as well as reliable funding support.

C. Fiscal Policy

12. **We intend to target a balanced central government budget in both 2008 and 2009, excluding bank recapitalization operations (up to minimum regulatory norms).** The 2009 budget will be based on prudent macroeconomic assumptions. Taking into account the discontinuation of directed lending through banks in 2009 overall state funding will be reduced compared to 2008 by 3 percent of GDP. Moreover, some of our adjustment measures would apply to the full public sector, leading to a much stronger adjustment and thus a much firmer assurance that economy-wide consumption and investment can be restrained in line with our external financing constraint. As a **prior action**, we have approved a zero budget target of the central government for 2009 by presidential decree. In line with legislative procedures, which provide ample time for consultations on priorities within the government and with the legislative branch,[3] we will approve a revised 2009 budget, in line with the program's objectives, by end-June 2009. The fiscal performance will be monitored by a **quantitative performance criterion**. We understand the need in the first half of the year to execute the budget very cautiously. As discussed below, if economic conditions permit, the budget targets for end-September and end-December would be adjusted to allow a higher deficit if more financing than programmed were to materialize.

13. **Our key initiatives to meet our 2009 budget target include**:

- *Prudent public sector wage growth.* As **a prior action**, on November 29, 2008, the Government of the Republic of Belarus adopted Resolution No 1818, in accordance with which the 1st grade wage has been reduced from 91,000 rubels to 77,000 rubels. A similar decision on wages for state and military servants has been adopted by the Presidential Decree No 654, dated November 28, 2008. These decisions have above that prevailing in October. We will consider a further 5 percent increase in the 1st grade wage in May 2009, economic conditions permitting. Assessment of these conditions and the feasibility of an increase will be a focus for the first review. Wage setting in state enterprises will also be based on the need to contribute to improving the economy's competitiveness. For that purpose, by end-January 2009 the Ministry of Economy, the Ministry of Finance, and the Ministry of Labor, in line with the

[3] In the normal budget preparation process, the government gets one month to approve the draft budget, the President then has another month to offer corrections and adjustments, before submission to the Parliament, which has two months to adopt the budget. Finally, one more month is provided for its approval by the Council of the Republic and its signature into law by the President.

established practice will approve a decree that will limit growth of wages in companies that are fully state owned, or in which the government has a dominant influence, a majority, or a blocking shareholder position, to 5 percent in nominal terms in 2009. We are confident that this measure will cover about 80 percent of all employees in the Republic of Belarus.

- *A pause in growth of capital expenditure*. For several years, we have had one of the highest rates of public investment in the region, and can afford to pause. In 2009 we intend to reduce central government capital expenditures relative to 2008, while maintaining our public investment rate above our peers. We will also take steps to contain state enterprise investment, and in the context of less favorable financing environment avoid payment arrears. Against this background, to the extent higher financing materializes, it would be a priority for us to restore some growth in investment. In particular, we will spend 50 percent of foreign-financed project resources in excess of program projections. Additional resources from international financial institutions will be exempt from this limit.

- *Increases in utility tariffs*. Our communal service tariffs have not kept pace with rising input costs, and we need to correct this, given the fiscal burden. The tariffs charged to households (average payment for an apartment, including heating), currently equal to 141,862 rubels, will be raised to 162,865 rubels by January 1, 2009, and possibly increased further during the year. Additional increases will be implemented in 2010, to improve the cost recovery ratio.

14. **Targeted social spending will be increased to protect the most vulnerable from adjustment measures**. While Belarus has a developed an institutional framework that provides an extensive safety net, we will consult with the World Bank about additional measures in the context of possibly higher unemployment. Regarding the effects of the energy price increases, until a better targeted assistance is developed, we will implement a limited social tariff scheme.

15. **We will continue to seek additional external financing for the budget, with a view to countering downward pressures on growth via fiscal stimulus later in 2009**. We are aiming to accelerate our program of privatization, with a focus on large scale enterprises.

16. Our list[4] contains 147 corporations, including in the telecommunications, chemical, petrochemical, and construction industries, the shares of which the government will sell. We will also pursue additional official loans. To the extent that we can secure additional financing, we intend to save at a minimum 50 percent of the excess (adding to our international reserves). If economic conditions permit, the remainder would be used towards

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[4]Approved by Resolution #1021 of the Council of Ministers of the Republic of Belarus dated July 14, 2008.

higher productive spending, in particular to lift investment towards 2008 levels, to a limit of a 1.8 percent of GDP central government deficit. Our fiscal targets for the second half of 2009 would be adjusted to accommodate such increased spending. More generally, given our strong public finances, we will keep fiscal targets as a focus for each review, to account for macroeconomic and financing developments.

17. **We intend to establish an agency that would facilitate leasing equipment for our exporters.** The modalities to do so, including the fiscal treatment of expenditures will be discussed during the first review. However, we recognize that the proper treatment of expenditures by this agency may entail its recognition as spending under the central government budget. Moreover, for the purpose of the Memorandum, we intend to treat capital injections into entities outside the general government as expenditure on the general government's budget.

D. Policies to Improve the Business Climate

18. **We are aware that our wage and price controls and targets, while providing for short-term stability, create significant inefficiencies and even vulnerabilities.** The rigidities that they introduce undermine the efficient adaptation of the economy to shocks. To address this issue, we have already adopted measures in 2008, and are planning additional measures for 2009 that will reduce price controls. Our present macroeconomic stabilization challenge precludes a rapid liberalization—pent up forces could overwhelm the benefits of faster adaptation—but we consider a credible phase out over 2009-11 to be an important contribution to confidence in our macroeconomic framework. To this end we envision:

- We will no longer announce medium-term dollar wage targets—which threaten competitiveness and the viability of our exchange rate regime.
- We will not extend the regulatory act imposing a general ceiling on monthly prices increases of ½ percent beyond March 2009 (**structural benchmark**).
- Over time, we will reduce the number of products considered subject to additional price controls under current legislation.
- And in 2010, after the economy has adjusted to its shocks, we will take the necessary legal steps to stop the application of mandatory wage policy to companies in which the government does not have majority control.

19. **We are also determined to increase the scope for private sector activity, open the economy to FDI, and improve the business climate**. We are in the process of implementing a comprehensive plan for both creating a favorable investment and business climate and putting in place mechanisms and instruments needed for the private sector to develop. In particular, we intend to create an attractive environment for foreign investment. Our most

important plans in this area, which could allow us to rank among the 30 most leading countries from the point of view of conditions for creating and doing business, include:

- A reduction in the size of the general government and the tax burden, including by halving the turnover tax in 2009, and reducing the local sales tax rate and the effective personal income tax rate.

- Reducing state control and influence over productive enterprises. We will exclude all companies in which the government has a minority share from all legal norms set for state-owned companies. The government's right in such companies will not extend beyond the rights of all other minority shareholders.

- We will also accelerate privatization of companies and banks, as envisaged in our plan adopted earlier in 2008.

Table 1. Belarus: Access and Phasing Under the Proposed Stand-By Arrangement

Date Available	In millions of SDRs	In percent of quota	Conditions
January 12, 2009	517.798	134.01	Board approval of Stand-by Arrangement
May 15, 2009	275.080	71.19	Observance of end-March 2009 performance criteria and completion of the first review
August 15, 2009	275.080	71.19	Observance of end-June 2009 performance criteria and completion of the second review
November 15, 2009	275.080	71.19	Observance of end-September 2009 performance criteria and completion of the third review
February 15, 2010	275.080	71.19	Observance of end-December 2009 performance criteria and completion of the fourth review

Table 2. Quantitative and Continuous Performance Criteria 1/

(End-of-period; in billions of Belarusian rubels, unless otherwise indicated)

	Stock 2008	2009			
	End-Nov.	Mar. Prog.	June Prog.	Sept Proj.	Dec Proj.
I. Performance criteria					
		Cumulative flow from end-November 2008			
Ceiling on the cash deficit of the republican government (- implies a surplus) 2/ 3/	. . .	-400	-400	-1100	0
Floor on net international reserves of the NBRB (in millions of U.S. dollars) 4/	2,541	-510	-486	-647	-647
Ceiling on net domestic assets of the NBRB 5/	2,112	74	780	1,566	1,709
II. Continuous performance criteria					
Prohibition on the accumulation of external payments arrears.					
Prohibition on the imposition or intensification of restrictions on the making of payments and transfers for current international transactions					
Prohibition on the introduction or modification of multiple currency practices					
Prohibition on the conclusion of bilateral payments agreements that are inconsistent with Article VIII					
Prohibition on the imposition or intensification of import restrictions for balance of payments reasons					
III. Adjusters					
Republican government budget support and privatization proceeds (millions of US dollars)		1,625	21	21	21
Republican government project support		70.5	70.5	70.5	70.4
NBRB Balance of payments financing		0	0	0	0

Sources: Belarusian authorities; and Fund staff estimates and projections.

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU). Targets for end-September and end-December 2009 will be set at the time of the first and second reviews respectively.
2/ The ceiling on the cash deficits of the republican government for end-September and end-December will be adjusted as described in paragraphs 32-34 of the TMU.
3/ Data are cumulative flows from end-December 2008.
4/ The floor on NIR of the NBRB will be adjusted as described in paragraph 25 of the TMU.
5/ Calculated as base money less NIR. The ceiling on NDA will be adjusted using adjusted NIR figures.

Table 3: Prior Actions and Structural Benchmarks Under the Stand-By Arrangement

Prior Actions	***Status***
A1. Re-peg the exchange rate to a basket of currencies consisting of the U.S. dollar, the Russian ruble and the Euro, and apply a band of ± 5 percent around the central parity. (MEFP ¶7)	
A2. Eliminate additional deposit transfers from the central and local governments to commercial banks (MEFP ¶10)	
A3. Legal approval of a central government budget with a zero deficit by a Presidential decree. (MEFP ¶12)	Observed
A4. Limit the wage increase for budgetary workers in November 2008 to 5.3 percent (MEFP ¶13)	Observed
A5. Abolish the interest rate ceiling for rubel lending to the corporate sector by the President adopting an appropriate Resolution. (MEFP ¶8)	
Structural Benchmarks	***Date***
C1. Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization (MEFP ¶11)	August 31 2009
C2. Eliminate the regulatory act imposing a general ceiling on monthly prices increases of ½ percent (MEFP ¶17).	March 31 2009
C3. In line with FSAP recommendations, bring loan classification practices in line with best international practices (MEFP ¶9).	September 30, 2009
C4. Refrain from approving any new directed lending programs financed with budget deposits (MEFP ¶10).	Continuous

BELARUS: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)
December 31, 2008

1. This memorandum sets out the understandings between Belarus's authorities and the IMF staff regarding the definitions of quantitative and structural performance criteria and indicative targets. These performance criteria and indicative targets are reported in Tables 2 and 3 of the Memorandum of Economic and Financial Policies (MEFP), attached to the Letter of Intent dated December 31, 2008.

2. Quantitative performance criteria are shown in Table 2. The definitions of these quantitative targets and the adjustment mechanisms are described in Section I below. Background on prior actions and structural benchmarks, where necessary, is given in Section I below. Reporting requirements are specified in Section II.

3. The exchange rates and the price of gold to be used for the purpose of monitoring the program are in Table 1 of this attachment, and projections for privatization proceeds and government foreign borrowing in Tables 2 and 3.

I. QUANTITATIVE TARGETS

A. Net International Reserves of the National Bank of the Republic of Belarus (NBRB)

Definition

4. Net international reserves (NIR) of the NBRB are defined as the difference between usable gross international reserve assets and reserve liabilities, evaluated in U.S. dollars at the program exchange rates (see Table 1 below). Usable gross international reserves assets comprise all reserve assets of the NBRB denominated in foreign convertible currencies, to the extent that they are readily available for intervention in the foreign exchange market and held in first-rank international banks or as securities issued by G7 countries. Excluded from usable reserves, inter alia, are:

- any assets denominated in foreign currencies held at, or which are claims on, domestic institutions (i.e., institutions headquartered domestically, but located either domestically or abroad, or institutions headquartered abroad, but located domestically). Excluded are, *inter alia*, all foreign currency claims of the NBRB on domestic banks, and NBRB deposits held in domestic banks for trading purposes;

- any precious metals or metal deposits, other than monetary gold, held by the NBRB;

- any reserve assets that are: (i) encumbered; or (ii) pledged as collateral (in so far as not already included in foreign liabilities, or excluded from reserve assets); or (iii) frozen;

- any reserve assets that are not readily available for intervention in the foreign exchange market, *inter alia*, because of lack of quality or lack of liquidity that limits marketability at the book price.

5. For the purpose of this program, reserve liabilities comprise:

- all short-term liabilities of the NBRB vis-à-vis non-residents with an original maturity of one year or less;
- all foreign exchange liabilities to resident entities (e.g. claims in foreign exchange of domestic banks on the NBRB), excluding to the general government;
- the stock of IMF credit outstanding;
- the nominal value of all derivative positions[5] of the NBRB and government, implying the sale of foreign currency or other reserve assets against domestic currency.

6. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBRB shall be valued at program exchange rates, as described in **paragraph 3** above. On this basis, and consistent with the definition above, the stock of NIR amounted to $2,541 million on November 30, 2008.

Adjustment mechanism

7. The floor on the NIR of the NBRB is subject to an automatic adjuster, based on deviations of external balance of payments support (defined as disbursements from bilateral and multilateral creditors to the NBRB, or as Republican government[6] budget support) from program projections (shown in Table 2 of the MEFP).

A. If the proceeds from external balance of payments support to the NBRB (in U.S. dollars evaluated at program exchange rates):

a) cumulatively exceeds program projections, the floor on the NIR of the NBRB will be adjusted upward by 100 percent of the excess in external balance of payments support;

b) in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

B. If the proceeds from external Republican government budget support and external privatization proceeds (valued in U.S. dollars at program exchange rates):

[11] This refers to the notional value of the commitments, not the market value.

[6] As defined in paragraph 11 below.

a) cumulatively exceed program projections, the floor on the NIR of the NBRB will be adjusted upwards by 50 percent of the excess in external balance of payments support.

b) in any quarter falls short of program projections, the floor on the NIR of the NBRB will be adjusted downward by 100 percent of the shortfall in that quarter, and 50 percent of the shortfall in the previous quarter. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall for the previous quarter in calculating the adjusted target.

B. Net Domestic Assets of the NBRB

Definition

8. Net domestic assets (NDA) of the NBRB is defined as the difference between the NBRB's monetary base and its NIR.

- The NBRB's monetary base comprises notes and coins issued by the NBRB (excluding cash in vault in the NBRB), banks' balances held at the NBRB as required reserves, correspondent accounts and other deposits, and funds of customers at the NBRB, banks' investments in NBRB securities, and deposits of enterprises, organizations, and individuals at the NBRB in local and foreign currencies.
- The NIR of the NBRB is defined as in paragraph 4 above.

9. Performance against the NDA target will be measured at program exchange rates. On this basis, and consistent with the definition above, the NBRB's NDA amounted to BYR2,112 billion on November 30, 2008.

Adjustment mechanism

10. The ceiling on the NDA of the NBRB is subject to an automatic adjuster, based on deviations of external budget support (defined as disbursements from bilateral and multilateral creditors to the Republican government as budget support) and balance of payments support to the NBRB from program projections (shown in Table 2 of the MEFP). Specifically, for the purposes of adjusting the NDA target, the NIR of the NBRB, adjusted as in paragraph 7 above.

C. Ceiling on the Cash Deficit of the Republican Government

Definitions

11. The Republican government includes the central government ministries, and the funds included in the Republican budget, including the National Development Fund. In case the government establishes new extrabudgetary funds, they will be integrated into the Republican government.

12. The cash deficit of the Republican government will be measured from the financing side as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.

(i) Net domestic financing consists of bank and nonbank financing to the Republican government and will be defined as follows:

i. The change in the claims on the Republican government of commercial banks minus the change in deposits held by the Republican government in commercial banks.

ii. The change in the claims on the Republican government of the NBRB minus the change in deposits of the Republican government held at the NBRB in Belarusian rubels and foreign currency.

iii. Net claims on the government of the commercial banks and the NBRB will be monitored based on the monetary survey prepared by the NBRB.

iv. Also included are any other liability instrument issued by the Republican government, for example, promissory notes, any other increase in liability of the Republican government to domestic nonbank institutions.

v. Net sales of Treasury bills, bonds, or other government securities to nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other increase in liability of the Republican government to domestic nonbank institutions.

(ii) Net external financing is defined as:

vi. Total of loans disbursed to the Republican government for general budget support and project financing (capital expenditure and net lending), the change in the stock of outstanding international bonds, net change in external arrears, change in the accounts of the Republican government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the Republican government.

vii. Amortization to external creditors via third parties is accounted for at the time and in the amount of payment by the budget to the third party, rather than at the time of recognition of amortization by the external creditor.

(iii) Privatization receipts:

viii. The privatization receipts of the central government consist of all transfers of monies received by the Ministry of Finance in connection with the sale of Republican government assets, including privatization proceeds, which were transferred to the National Development Fund.

ix. This includes receipts from the sales of shares, the sale of assets and the sale of licenses with duration of 10 years and longer.

13. For the purposes of measuring the deficit of the Republican government, all flows to/from the budget in foreign currency will be converted into Belarusian rubels at the official exchange rate prevailing at close of business on the date of the transaction. On this basis, and consistent with the definition above, the cash deficit of the Republican government for the first nine months of 2008 amounted to BYR -3,336.3 billion.

Adjustment mechanism

14. The ceilings on the cash deficit of the Republican government for end-September and end-December are subject to automatic adjusters, based on deviations of external budget and

project support and privatization receipts from program projections (shown in Table 2 of the MEFP). If the total proceeds from external budget and project support (excluding from international financial institutions) to the Republican government budget or privatization proceeds (in Belarusian rubels converted at the official exchange rate on the days of its receipt):

- cumulatively exceed program projections, the ceiling on the cash deficit of the Republican government will be adjusted upwards by 50 percent of the excess.

- cumulatively falls short of program projections, the ceiling on the cash deficit of the Republican budget will be adjusted downward by 50 percent of the shortfall in the previous quarter, if any. Disbursements in excess of its programmed level in any quarter, will be fully applied to reduce the shortfall, if any, for the previous quarter in calculating the adjusted target.

- For project support from international financial institutions, if disbursements in foreign currency exceed (fall short of) program projections, the ceiling on the cash deficit of the Republican government will be adjusted upwards (down) by 100 percent of the excess (shortfall) in project support.

15. The ceiling on the cash deficit of the Republican government is also subject to an automatic adjuster for recapitalization of banks. Specifically, the ceiling on the deficit will be adjusted upward for the amount of funds provided by the republican budget to banks to bring regulatory capital to minimum statutory levels.

16. The total adjustor annual for higher-than-programmed international financial assistance is capped at 1.8 percent of GDP.

D. Continuous Performance Criteria on Non-accumulation of External Arrears

17. During the period of arrangement, the Republican government and the NBRB will not accumulate any new external payments arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the Republican government and the NBRB beyond 30 days after the due date. The performance criterion on non-accumulation of external arrears is continuous.

II. Reporting Requirements

A. National Bank of the Republic of Belarus

18. The NBRB will provide to the IMF an aggregate balance sheet for the NBRB on the 1st, 8th, 15th, and 22nd days of each month.

19. The NBRB will provide to the IMF on a weekly and monthly basis, no later than the 25th of the following month, the full breakdown of NBRB accounts included in net international reserves (defined in paragraph 4), at both actual and program exchange rates.

20. The NBRB will provide to the IMF on a weekly basis a data sheet on currency operations including Government foreign receipts and payments, breakdown of interbank market operations by currencies, explanations for main currency flows. The NBRB will also provide daily information on exchange market transactions, including exchange rates.

21. The NBRB will provide to the IMF, on a monthly basis, a projection for external payments falling due in the next twelve months.

22. The NBRB will provide to the IMF, on a quarterly basis, the stock of external debt for both public and private sector in the format of the *IMF Debt Statistics Manual*, Table 4.1 (http:/www.imf.org/external/pubs/ft/eds/eng/guide/index.htm). The public sector includes the Republican government; the private sector excludes banks and other non-banking financial institutions.

23. The NBRB will provide to the IMF on a monthly basis, no later than 25 days after the end of the month, financial soundness indicators for the banking sector in an agreed format, as well as the level of compliance of bank performance with the indicative parameters of banking sector development set by the Republic of Belarus monetary policy guidelines.

24. The NBRB will provide to the IMF consolidated bank balance sheet with loan classification (standard, watch, sub-standard, doubtful, loss) on a quarterly basis, no later than 30 days after the end of the quarter.

25. The NBRB will provide preliminary monthly balance of payments data in electronic format no later than forty-eight days after the end of the month.

26. The NBRB will inform IMF staff of any changes to reserve requirements for deposit money banks. The NBRB will communicate in writing to the IMF staff any changes in accounting conventions and valuation principles incorporated into the balance sheet data and will notify the staff before introducing any change to the Charts of Accounts of the NBRB and the Commercial Banks, as well as changes in the reporting forms.

B. Ministry of Finance

27. The Ministry of Finance will continue to provide to the IMF in electronic form monthly treasury reports, including revenue and expenditure figures of the consolidated Republican government budget and local budgets no later than 30 days after the end of the month. These reports will provide expenditure data by programs, and on standard functional and economic classifications. Data for local governments will be provided at similar frequency, but only on functional and economic classifications.

28. The Ministry of Finance will continue to report the final fiscal accounts at the end of each fiscal year, no later than March of the following year. These reports will provide

expenditure data by programs, as well as based on standard functional and economic classifications.

29. The Ministry of Finance will report any revisions to monthly and annual fiscal reports of the Republican budget within a week after their approval.

30. The Ministry of Finance will continue to provide on its web site the weekly report on the primary treasury bill market, reports on each treasury bill auction, and provide to the IMF the monthly report on treasury bills.

31. The Ministry of Finance will inform IMF staff if the Treasury does not pay interest or principal on treasury bills due to the NBRB, deposit money banks, or non-bank entities and individuals. In such case, the Ministry of Finance will provide information on outstanding interest and principal payments.

32. The Ministry of Finance will provide available data on the stock of budgetary arrears on a monthly basis, no more than 30 days after the end of the month, including separate line items for wages, pensions and social benefits.

33. The Ministry of Finance will provide to the IMF in electronic format monthly information, no later than 30 days after the end of each month, on the amounts and terms of all external debt contracted or guaranteed by the general government.

34. The Ministry of Finance will provide to the IMF in electronic form on a monthly basis, no later than 30 days after the end of the month, (a) data on the outstanding stock of domestic and external debt of the Republican government, (b) the standard files on planned and actual external debt disbursement, amortization, and interest payments. The Ministry of Finance will also report the accumulation of any budgetary arrears on external and domestic debt service.

35. The Ministry of Finance and the NBRB will provide data on external and domestic credit to nongovernment units that is guaranteed by the Republican government or the NBRB on a monthly basis, no later than 30 days after the end of the month.

36. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with the recapitalization of banks. This cost includes the upfront impact on the cash deficit of the Republican government of the recapitalization of banks as well as the costs associated with the payment of interests.

37. The Ministry of Finance will provide, no later than 30 days after the end of each quarter, quarterly data on the budgetary costs associated with sponsored loans under state programs, separately identifying the costs associated with subsidized loans extended below refinance rate, and the quarterly data on the amount of central and local government guarantees issued on bank loans.

38. The Ministry of Economy will provide quarterly information on levels of communal service tariffs for population (heating, water supply, sewage, natural gas supply, maintenance, and rent for a family of three, living in a standard (total of 48 square meters apartment) and level of recovery of services' costs by population in accordance with existing methodology).

Table 1. Program Exchange Rates, as of end-November, 2008

	Currency	Currency per US dollar unless indicated otherwise
Gold 1/	Gold	$814.5 per troy ounce
SDR 2/	Special Drawing Rights	0.672057
RBL 3/	Belarusian rubel	2,156
RBR 4/	Russian ruble	27.4230
EUR 5/	Euro	0.7746

1/ Source: http://www.bankofengland.co.uk
2/ Rate as of November 28, 2008 (www.IMF.org).
3/ NBRB official rate as of November 30, 2008 disseminated on www.nbrb.by.
4/ CBR official rate as of November 29, 2008, disseminated on www.cbr.ru.
5/ Reference rate as of November 28, 2008, disseminated on www.ecb.int.

Table 2. Projected Foreign Borrowing of the Republican Government Related to Budget Support or Balance of Payments Financing

(in millions of US$)

Date	Amount	Cumulative amount
Quarter ending:		
March 31, 2009	1,000.0	1,000.0
June 30, 2009	0	1,000.0
September 30, 2009	0	1,000.0
December 31, 2009	0	1,000.0

Table 3. Projected Foreign Borrowing of the Republican Government Related to Project Financing
(in millions of US$)

Date	Total amount	Cumulative Amount	Amount from IFIs	Cumulative amount from IFIs
Quarter ending:				
March 31, 2009	70.5	70.5	17.8	17.8
June 30, 2009	70.5	141	17.8	36
September 30, 2009	70.5	212	17.8	53
December 31, 2009	70.4	282	17.7	71

Table 4. Projected External Privatization Proceeds of the Republican Government Under the SBA1/

(in billions of BYR)

Date	Amount	Cumulative amount
Quarter ending:		
March 31, 2009	1,656	1,656
June 30, 2009	55	1,711
September 30, 2009	55	1,766
December 31, 2009	55	1,820