International Monetary Fund

Republic of Belarus
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Press Release:
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December 18, 2009

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Republic of Belarus: Letter of Intent and Technical Memorandum of Understanding

December 11, 2009

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REPUBLIC OF BELARUS: LETTER OF INTENT

Minsk, December 11, 2009

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

Dear Mr. Strauss-Kahn:

1. This letter describes the economic policies and objectives of the authorities of the Republic of Belarus for the remainder of 2009 and for 2010. It supplements and amends the commitments made during the second review under the Stand-By Arrangement (SBA) with the International Monetary Fund. Based on the policies we have pursued since the initiation of the SBA, we request the completion of the third review under the SBA.

2. We met all end-September program targets and end-September structural benchmarks outlined in our Letter of Intent (LOI) of September 30, 2009:

- We tightened our credit policy by curtailing lending under government programs and suspending adoption of new programs through end-2009. Thanks to these measures, the end-September performance criteria on net international reserves (NIR) and net domestic assets (NDA) were met.

- Continued tight fiscal policy allowed us to meet the adjusted performance criterion for cash deficit at end-September 2009.

- We implemented the structural benchmarks related to privatization and financial sector reform for end-September.

3. We were unable to implement some of the measures envisaged by our LOI as planned. To achieve budgetary savings we decided not to increase wages in the budgetary sector in 2009. To avoid erosion of households' incomes we also decided to postpone an increase in tariffs on households' utilities and transportation until 2010. We were unable to completely eliminate new lending to banks extended by the NBRB at below market rates due to our commitments to banks made prior to signing the previous LOI, but we have provided no other new lending, apart from that under housing construction.

4. We request a modification of the end-December performance criteria. A withdrawal of a commitment by Russia to provide the final $500 million tranche of a bilateral loan opened a financing gap. We have implemented fiscal and exchange rate measures to close the financing gap over the program period but we are unable to fully close it this year, since the full effect of these measures will be achieved only in 2010. We therefore request a modification of the end-December NIR and NDA targets by $150 million and 265 billion rubels, respectively. The requested

modification of performance criteria, prior actions and structural benchmarks are summarized in Tables 2 and 3. Table 2 also proposes indicative targets for end-March 2010. The fourth review will be held after February 15, 2010.

5. We believe that the policies set out in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. As is standard under all IMF arrangements, we will continue to consult with the IMF on the adoption of new measures, and in advance of revisions to the policies described in this letter. We will consult with Fund staff about the appropriate policy response if gross reserves fall below $5.6 billion before end-March 2010. We will also continue to provide the Fund with information as required to monitor progress on program implementation. We will consult with the Fund on our economic policies after the expiration of the arrangement, in line with the Fund's policies on such consultations. Finally, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

I. Program Objectives and Macroeconomic Framework

6. Macroeconomic stability and sustainable economic growth remain our key objectives. Our macroeconomic policies would strengthen our external position and create opportunities for private sector development. Closing the financing gap during the remainder of the program required greater use of the exchange rate flexibility provided by the current regime, while maintaining tight fiscal and monetary policies. Our structural reforms focus on promoting macroeconomic stability and private initiative, while reducing government intervention in economic activity. Our social policies will ensure adequate social safety for the most needy.

7. The previously agreed macroeconomic framework remains largely valid for the balance of 2009. We were able to avoid a deep recession and real GDP is expected to remain almost unchanged this year, compared with a year ago. However, the continued deterioration in the terms of trade would further widen the current account deficit bringing it close to 11 percent of GDP. The year-on-year inflation is expected to reach 10½ percent in 2009.

8. Our macroeconomic framework for 2010 would promote economic recovery, while bringing inflation to single digits and narrowing the external current account deficit. We will formulate our macroeconomic policies with the view of bringing the current account deficit to about 7 percent of GDP. This will be achieved by maintaining prudent fiscal and monetary policies and permitting exchange rate flexibility if needed, and will be facilitated by a gradual recovery in external demand and also some improvement in the terms of trade. Our objective is to increase international reserves to about $8½ billion (over 3 months of imports) during 2010. To further consolidate macroeconomic stability and reduce inflation we will keep the general government deficit to 1.7 percent of GDP. Credit to the economy is expected to rise by 15 percent, broadly in line with nominal GDP growth. The economy-wide wage policy would support our goal of improving international competitiveness. This disciplined approach is reflected in the budget and

monetary policy guidelines and Main Economic Indicators. It is consistent with 3¾ percent GDP growth, while the budget is based on a slightly more conservative GDP growth.

9. The nascent global economic recovery opens new opportunities for Belarus although risks remain high due to the uncertainty of the outlook. We are prepared to take timely measures to adjust our policies to seize every opportunity for a speedy economic recovery while maintaining macroeconomic stability. On the upside, a better than projected external economic environment, improved economic efficiency, bold structural reforms promoting private sector development and an increase in external financing, primarily through foreign direct investment, could generate economic growth in excess of the projected 3¾ percent. Moreover, if additional external financing becomes available the credit to the economy could be expanded in 2010. On the downside, a deterioration in the external economic environment or a shortfall in external financing would worsen prospects for economic growth.

II. Macroeconomic Policies for the Remainder of 2009

10. Our macroeconomic policies for the remainder of the year aim at achieving end-December performance criteria and closing the financing gap. To bolster our external competitiveness and to help us meet the NIR target we have brought the basket value to the level of 1,038 rubels (**prior action**). We have published in the Monetary Policy Guidelines for 2010 the decision that the exchange rate parity will be recentered at its December 31, 2009 level to ensure continued exchange rate flexibility (**prior action**). We will issue a press statement following the approval of the Monetary Policy Guidelines for 2010 and publicly announce our decision on the central exchange rate parity. To support the exchange rate and to meet the NDA target we will reduce lending under government programs in line with the limit agreed during the second review of the SBA and will also contain credit to state enterprises with high levels of inventories. To meet our fiscal target despite budget support falling short of our projections, we have cut spending on goods and services and untargeted subsidies, while refraining from social spending cuts. We will offset local spending in excess of programmed levels by additional spending cuts by the central government.

III. Macroeconomic Policies in 2010

A. Monetary and Exchange Rate Policies

11. Our monetary policy will continue to support the credibility of the exchange rate regime, while also keeping inflationary pressures under control. To this end, we will maintain tight credit policy by limiting lending under government programs. By end-2010 we will bring its share down to 46 percent of total claims on the economy and by end-2012 below 40 percent of total claims on the economy. To meet this objective we will limit net credit under government programs to 3¼ trillion rubels in 2010 and to 0.8 trillion rubels in the first quarter of 2010. This limit could be raised, in consultation with Fund staff, if additional foreign financing is received during 2010, or if additional lending is consistent with reducing its share in total claims on the economy to the agreed levels.

12. Curtailing lending under government programs would free resources for market-based lending. To improve access to finance for the non-government sector we have recently reduced policy interest rates by 50 basis points. Any further interest rate reduction would depend on our ability to meet the reserve targets envisaged in the program, further dedollarization of the economy and progress on enforcing the limits on credit under government programs.

13. Our exchange rate regime has served us well and we will keep it in 2010. To maintain the flexibility of the exchange rate we will retain the ±10 percent trading band around the new recentered level. Barring unexpected external shocks we have no plans for additional exchange rate adjustment. However, we will be prepared to make more use of the flexibility within the band in order to support adjustment in the current account and to meet targeted levels of reserves.

B. Fiscal Policy

14. We remain committed to disciplined fiscal policy. Our fiscal policy will continue to support the exchange rate regime, while also facilitating economic recovery. To this end we decided to limit the general government deficit to 2.7 trillion rubels (1.7 percent of GDP) in 2010. The budget will be consistent with this commitment and will be submitted to Parliament by the President by December 11, 2009 (**prior action**) and signed into law by December 31, 2009.

15. We will continue our tight expenditure policy to meet our fiscal targets in 2010 and implement the following measures:

- *Wage and pension policies*. We limited the increase in the wage bill to 11 percent in 2010 which is consistent with the GDP growth of 3¾ percent. During the first quarter of 2010 the increase in wages in the budgetary sector in nominal terms will be no more than 5 percent. Any further wage increase in the budgetary sector after the first quarter will only be considered if macroeconomic conditions permit. We will maintain the practice of limiting wage growth in state-owned enterprises receiving government support. Our decisions on pension increases would be guided by the need to safeguard the viability of the Social Protection Fund and will maintain the normal relationship between pensions and wages.

- *Budget support to the economy*. We will reduce net lending and spending on subsidies and transfers—the largest item in the budget—by cutting untargeted subsidies and transfers.

    - We will reduce fiscal subsidies on household utilities by increasing fees by US$7 during the first half of 2010 and promoting cost cutting measures. We will adjust our policy on utility fees in line with changes in the price of imported natural gas.

    - We will also improve the cost recovery level of transportation fees by raising them by 18 percent during the first half of 2010.

    - We will streamline other subsidies to the economy to improve the allocation of resources.

- We will significantly reduce net lending by limiting new lending and by enforcing the repayment of maturing loans.

16. We introduced a new provision in our 2010 budget law limiting local governments' deficits to 1 percent of their revenue (about 0.1 percent of GDP), if they are financed domestically. Moreover, our decisions on transfers from the central to local governments will ensure fiscal discipline of the local governments. If necessary, as in 2009, we will offset local governments' overruns by reducing the central government non-priority spending on goods and services and subsidies.

17. Our fiscal policy aims at reducing the tax burden and the size of the government. In the context of the 2010 budget we will eliminate the turnover tax and also the local retail sales tax and other local taxes and fees. To offset the revenue loss arising from the elimination of some taxes, we will increase the rate on the value added tax by 2 percentage points bringing it to 20 percent. We will develop the tax reform strategy based on the recommendations of the FAD Technical Assistance mission on Tax Policy scheduled for the first quarter of 2010. To achieve expenditure savings we will request technical assistance on expenditure rationalization in the first quarter of 2010.

18. We recently established an agency that would facilitate leasing of equipment by our exporters. To account for the potential fiscal costs of default by lessees, we have appropriated as a contingency line in the 2010 budget an amount equivalent to the expected repayment of the agency's leases in that year, with the contingency line being reduced as payments are received.

IV. Financial Sector Issues

19. We adopted amendments to the regulation on loan classification and provisioning in September 2009, in line with the recommendations of the MCM TA mission. We have recently conducted an impact study of this new regulation on bank performance indicators. A schedule for implementing this regulation will then be designed on a bank-by-bank basis with the expectation that most banks would implement it by June 2010 and that it would be fully implemented by all banks by end-December 2010.

20. We have prepared a draft decree on establishing a special agency (SA) which will help clean banks' balance sheets and assume the role currently played by banks in financing government programs, in line with the recommendations of the 2009 Financial Sector Stability Assessment (FSSA). We will submit this draft decree to the Head of State by end-December 2009. Loans disbursed under government programs and government funding held at banks will be transferred from commercial banks to this agency, which will replace commercial banks as the source of financing government programs. Banks, however, would be allowed to retain on their balance sheets a portion of the existing loans under government programs which they consider commercially viable. The agency will start functioning in 2010. The structure and governance of this agency will be discussed with the IMF staff. Initially, the functions of this agency will be

limited to managing the earlier disbursed loans, but during 2011 the agency will start distributing all new government program loans, with all new lending included in the budget above the line. To minimize problem loans associated with lending under government programs, we will strengthen the targeting and monitoring of such lending.

21. Banks remain adequately capitalized and we have no plans for bank recapitalization in 2009 and 2010. Moreover, we expect that the capitalization of banks would automatically improve following the transfer of assets and liabilities associated with lending under government programs to the SA. However, we will be prepared to provide some limited recapitalization to those banks whose capital adequacy indicators would fall below the prudential minimum or would be expected to fall below the minimum based on plausible stress tests even after the transfer of assets and liabilities to the SA. Should private banks become undercapitalized, we will use our existing framework, as appropriate, to rapidly resolve the issues.

22. We have been working on strengthening the financial system and the independence of the NBRB. Specifically we are focusing on the following areas:

- *Strengthening banks' liquidity*. We will strictly enforce prudential liquidity ratios for all banks. We will ensure that state banks remain liquid by further curtailing their ability to extend new loans if their liquidity ratios fall below the prudential norms. Moreover, the limit on credit under government programs should prevent a deterioration of liquidity ratios at state-owned banks, while a transfer of assets and liabilities related to lending under government programs to the SA would improve banks' liquidity.

- *Phasing out non-market liquidity support*. We recognize that the NBRB liquidity support on non-market terms is distortionary and has to be phased out. To this end in 2009 we will not extend new loans to banks at interest rates below rates on standard refinancing facilities (e.g. Lombard auctions) except credits for housing construction. We will also refrain from any new liquidity support on non-market terms in 2010 and will refinance banks in line with the repayment schedule of such loans based on earlier commitments until the SA is established and begins lending under the government programs. The outstanding stock of non-market-based lending will not exceed 8.0 trillion rubels.

- *Formalizing the framework for emergency liquidity assistance to banks.* In line with the recommendations of the recent MCM technical assistance mission, the NBRB will adopt a formal framework and guidelines for the provision of emergency liquidity assistance (ELA) to banks. The framework should specify when and in what situations ELA can be granted, who makes the decisions and determines the terms, coordination and information sharing amongst the relevant bodies, and any special conditions attached. Guidelines should refer to the term and interest rates which apply, eligible collateral, additional conditions imposed upon the borrowing bank, and communication policy.

- *Improving operational and financial independence of the NBRB*. Building on the recommendations of the FSSA and the Safeguards Assessments, we have prepared draft amendments and supplements to the Statute of the NBRB approved by Decree of the President of the Republic of Belarus #320 dated June 13, 2001 with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (**structural benchmark**). We requested an IMF technical assistance mission to assist us with finalizing these documents and we will submit the revised drafts of this legislation to the President by end-February 2010.

- *Disengaging the NBRB from non-core business.* In line with earlier program commitments, net increase in NBRB's direct or equity financing of non-financial organizations will remain within the ceiling of 350 billion rubels in 2009 and any new lending or equity investment in non-financial organizations will be discontinued thereafter. We have been working on developing an action plan for divesting all NBRB non-financial subsidiaries and associated companies and will finalize it by end-December.

- *Curbing directed lending financed with government deposits.* In line with our legislation prohibiting the central and local governments from making any additional transfers to their deposit accounts with commercial banks, we will continue transferring the existing stock of these deposits back to NBRB accounts in line with the schedule for repayment of corresponding loans. An exception will be made for certain central and local government demand deposits held for operational purposes. We will continue to refrain from approving any new directed lending programs financed with budget deposits (**continuous structural benchmark**).

- *Bank privatization.* We are close to completing a sale of Belpromstroibank, and we have been looking for strategic investors to buy the majority shareholding in OJSC Belinvestbank and minority holdings in JSSB Belarusbank and OJSC Belagroprombank. We will engage qualified, experienced and reputable consultants, on a competitive basis, to assist us in preparing state-owned banks for partial or full privatization after strategic investors have been identified.

23. In line with the recommendations of the Safeguards Assessment the end-September quantitative PCs relating to NIR and NDA have been audited by international accountants and we will continue this practice until the end of the program.

V. Structural Reforms

24. Our structural reform agenda aims at supporting macroeconomic stability allowing market forces to play a greater role in resource allocation and foster private sector development. To this end we developed a legal framework for privatization to become competitive, transparent and professionally executed. A draft Privatization Law and the draft decree on establishing a privatization agency incorporating comments from the World Bank were submitted to Parliament

and the President, respectively, on September 30, 2009. We have selected five enterprises as candidates for privatization and their controlling equity stakes will be offered for sale through an open, international, transparent, and competitive tender by end-February, 2010. In November we submitted the list of these enterprises to the Head of State for approval. Furthermore, by end-February 2010 we will compile a list of enterprises from the list of companies included in the privatization plan for 2008-10 (**structural benchmark**) and task the privatization agency with preparing these enterprises for privatization through an open, international, transparent and competitive bidding process.

25. We attach great importance to promoting market-based economic growth. We have eliminated all instructions that are not consistent with our commitment not to impose a general ceiling on monthly price increases. We recently implemented several measures bringing us closer to market based pricing. These included (i) removing the restrictions on retail trade margins, except for a limited list of goods and (ii) eliminating requirements for price registration. We have been working towards eliminating quantitative economic targets. The Council of Ministers will issue by end-December 2009, a recommendation to the line ministries and other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share (**structural benchmark**). We will refrain from the application of mandatory wage policy to companies in which the government does not have majority control. The government's right in such companies will not extend beyond the rights of all minority shareholders. The government together with the IMF and the World Bank will prepare proposals to be used in order to migrate from mandatory quantitative targets to a market-based incentive system.

Sincerely yours,

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

Table 1. Belarus: Schedule of Purchases Under the Stand-By Arrangement

	Amount of Purchase		Conditions
Date Available	Millions of SDRs	Percent of quota	
January 12, 2009	517.798	134.006	Board approval of Stand-By Arrangement (completed)
May 15, 2009	437.930	113.336	Observance of end-March 2009 performance criteria and completion of first review (completed)
August 15, 2009	437.930	113.336	Observance of end-June 2009 performance criteria and completion of second review (completed)
November 15, 2009	437.930	113.336	Observance of end-September 2009 performance criteria and completion of third review
February 15, 2010	437.929	113.336	Observance of end-December 2009 performance criteria and completion of fourth review
Total	**2,269.517**	**587.349**	

Source: IMF staff calculations.

Table 2. Belarus: Quantitative and Continuous Performance Criteria under SBA approved on January 12, 2009 1/

	March, 2009			June, 2009			Sep., 2009			Dec., 2009		Mar., 2010
	Program PC	Adjusted PC	Actual	Revised PC	Adjusted PC	Actual	PC	Adjusted PC	Actual	PC	Revised PC	Indicative target
I. Performance criteria												
Ceiling on the cash deficit of the general government (billions of Belarusian rubels, -implies a surplus) 2/ 3/	-400	…	-708	-700	1,111	961	-1,000	254	158	0	0	500
Floor on net international reserves of the NBRB (millions of U.S. dollars) 4/	-510	-1,010	-1,231	-1,819	-2,321	-2,285	-1,938	-2,066	-1,916	-1,388	-1,539	-800
Ceiling on net domestic assets of the NBRB (billions of Belarusian rubels) 4/	74	1,152	915	2,603	3,685	3,330	3,190	3,467	2,972	2,379	2,644	1,274
II. Continuous performance criteria												
Non-accumulation of external payments arrears.												
Prohibition on the imposition or intensification of restrictions on 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. Benchmarks for calculating adjustors (cumulative flows from end-December 2008)												
3.1 Adjustor for the net international reserves (millions of US dollars)												
External privatization receipts	625	…	625	627	…	625	853	…	625	1,074	1,074	…
NBRB balance of payments financing other than IMF	0	…	0	0	…	0	0	…	0	0	0	…
General government budget support	1,000	…	500	1,000	…	500	1,200	…	500	1,490	1,490	…
3.2 Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels unless indicated otherwise)												
General government budget support	2,650	…	1,440	2,911	…	1,440	3,514	…	1,440	4,370	4,370	…
General government project support for projects initiated after January 2009	187	…	0	293	…	233.6	506	…	234	718	718	…
Of which: IFI project support	47	…	0	59	…	0.0	113	…	0.8	166	166	
Bank recapitalization	0	...	0	0	...	0	0	…	0	0	0	…
Local government's cash deficit	…	…	…	0	…	1,115	0	…	1,301	0	0	…
Memorandum item: SDR allocation (millions of US dollars at program exchange rate)	…	…	…	…	…	…	548.53	…	548.53	548.53	548.53	…

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

1/ Definitions are specified in the Technical Memorandum of Understanding (TMU).
2/ Cumulative flows from end-December 2008.
3/ The performance criterion on the ceiling of the government deficit was adjusted for projects initiated before the program up to the limit of $353 million and for the cash deficit of local governments up to a limit of 1.4 trillion rubels.
4/ Cumulative flows from end-November 2008 at program exchange rates.

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

I. Prior Actions	**Status**
Bring the basket value to the level of 1,038 rubels.	met
Publish in the Monetary Policy Guidelines for 2010 the decision that exchange rate parity will be recentered at its December 31, 2009 level.	met
The budget, consistent with the general government deficit of 2.7 trillion rubels (1.7 percent of GDP), to be submitted to Parliament by the President by December 11, 2009	met
II. Structural Benchmarks	**Date**
Refrain from approving any new directed lending programs financed with budget deposits (LOI ¶22).	Continuous
Eliminate the regulatory act imposing a general ceiling on monthly price increases of 1/2 percent.	March 31, 2009 (met)
Engage a qualified, experienced, and reputable consultant, on a competitive basis, to assist in preparing state-owned banks for partial or full privatization (LOI ¶22).	August 31, 2009 (partially met)
Submit to the Head of State a draft Decree on establishing a Privatization Agency (LOI ¶24).	September 30, 2009 (met)
In line with FSAP recommendations, bring loan classification and provisioning requirements in line with best international practices (LOI ¶19).	September 30, 2009 (met)
Prepare draft amendments and supplements to the Statute of the NBRB with further amendments being introduced into the Banking Code to ensure operational and financial independence of the NBRB (LOI ¶22).	December 31, 2009
Issue a Council of Ministers recommendation to the line ministries and, other government agencies in charge of economic activity, including local governments, not to set any quantitative targets for 2010, such as output and employment targets, for the companies that do not benefit from government's financial support and in which the government has a minority share (LOI ¶25).	December 31, 2009
Compile a list of enterprises from the list of companies included in the privatization plan for 2008-10 and task the privatization agency with preparing these enterprises for privatization through an open, international, transparent and competitive bidding process (LOI ¶24).	February 28, 2010

BELARUS—TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 11, 2009

1. This memorandum sets out the understandings between Belarus's authorities and the IMF staff regarding the definitions of performance criteria. The performance criteria are reported in Table 2 of the Letter of Intent (LOI) dated December 11, 2009.

2. The definitions of the performance criteria and the adjustment mechanisms are described 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 benchmarks for calculating the adjustors in Table 2.

I. QUANTITATIVE TARGETS

A. Floor on 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 gross international reserve assets and reserve liabilities, evaluated in U.S. dollars at the program exchange rates (Table 1). Gross international reserve assets are defined as readily available claims on nonresidents, denominated in foreign convertible currencies. They include the NBRB's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from gross international reserve assets 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);
- 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 (iii) frozen; and
- 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 nonresidents 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 (i) foreign exchange liabilities to the general government, to the Agency for Deposit Guarantee, and (ii) the NBRB's foreign exchange transitory accounts;
- the stock of IMF credit outstanding; and
- the nominal value of all derivative positions[1] 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. In addition, a purchase from the IMF will be reflected in the stock of IMF credit outstanding on the same day when the purchase is reflected in the gross international reserves.

Adjustment mechanism

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

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; and

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.

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

[2] As defined in paragraph 12 below.

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

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 budget support and privatization proceeds; and

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.

8. If Belarus participates in any SDR allocation(s) between March 31, 2009 and any subsequent test dates, the NIR target will be adjusted upwards by 100 percent of the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date, measured at program exchange rates.

B. Ceiling on Net Domestic Assets of the NBRB

Definition

9. Net domestic assets (NDA) of the NBRB is defined as the difference between the NBRB's monetary base, as defined by the NBRB's methodology as of March 31, 2009, and NIR. The NIR of the NBRB is defined as in paragraph 4 above.

10. 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 RBL 2,112 billion on November 30, 2008.

Adjustment mechanism

11. The ceiling on the NDA of the NBRB is subject to an automatic adjustor, based on adjustment of the NIR of the NBRB, as stipulated in paragraphs 7 and 8 above.

C. Ceiling on the Cash Deficit of the General Government

Definitions

12. The general government includes the Republican government and local governments. The Republican government is defined as the central government ministries, the funds included in the Republican budget, including the National Development Fund and the Social Protection Fund. In case the government establishes new extrabudgetary funds, they will be integrated into the Republican government.

13. The cash deficit of the general 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 general government and will be defined as follows:

i. The change in the claims on the general government of commercial banks minus the change in deposits held by the general government in commercial banks, net of revaluation effect for foreign currency deposits.

ii. The change in the claims on the general government of the NBRB minus the change in deposits of the general government held at the NBRB in RBLs and foreign currency, net of revaluation effect for foreign currency deposits.

iii. Net claims on the general 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 instruments issued by the general government, for example, promissory notes, any other increase in liability of the general 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 general government to domestic nonbank institutions.

(ii) Net external financing is defined as:

i. Total of loans disbursed to the general government for general budget support and project financing, 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 general government.

ii. 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:

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

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

14. For the purposes of measuring the deficit of the general government, all flows to/from the budget in foreign currency will be converted into RBLs 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 general government in the first half of 2009 amounted to 961 billion rubels.

Adjustment mechanism

15. The ceilings on the cash deficit of the general government for end-September and end-December are subject to automatic adjustors, based on deviations of external budget and project support from program projections (Table 2 of the LOI). If the total proceeds from external budget and project support (excluding from international financial institutions and projects initiated before the original program) to the general government budget (in RBLs converted at the official exchange rate on the days of its receipt):

- Cumulatively exceed program projections, the ceiling on the cash deficit of the general government will be adjusted upwards by 50 percent of the excess in budget and project support to the government.

- Cumulatively falls short of program projections, the ceiling on the cash deficit of the general government will be adjusted downward by 50 percent of the cumulative 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 general government will be adjusted upwards (down) by 100 percent of the excess (shortfall) in project support.

- For project support for projects initiated before the original program was approved, the ceiling on the cash deficit of the general government will be adjusted upwards by 100 percent of the excess in project support. The adjustor for such projects is capped at $353 million.

16. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor 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 their regulatory capital to minimum statutory levels.

17. Total annual adjustor for higher-than-programmed international financial assistance, including project support for projects initiated before the original program was approved, is capped at 1.8 percent of GDP.

18. The ceiling on the cash deficit of the general government is also subject to an automatic adjustor for local governments' deficit financed with surpluses accumulated in 2008. Total annual adjustor for the deficits of local governments is capped at RBL 1.4 trillion.

D. Continuous Performance Criteria on Nonaccumulation of External Arrears

19. 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 nonaccumulation of external arrears is continuous.

II. Reporting Requirements

A. National Bank of the Republic of Belarus

20. The NBRB will provide to the IMF an aggregate balance sheet for the NBRB, as well as the monetary survey of the NBRB, banks and the banking system of the Republic of Belarus, on the 1st, 8th, 15th, and 22nd days of each month.

21. 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.

22. The NBRB will provide to the IMF on a monthly basis, no later than the 20th of the following month, data on the amounts of disbursements and changes in the stocks of loans extended by banks under government programs, and a weighted average interest rate charged on these loans. Data on the stocks and disbursements of the loans in foreign exchange will be converted into rubel equivalent using current exchange rates on a reporting date and the date of transaction, respectively.

23. The NBRB will provide to the IMF, on a weekly basis, data on the stocks and flows of refinancing under standard facilities and the resolutions of the NBRB Board outside standard refinancing facilities, including interest rates charged on these loans and their maturity.

24. 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.

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

26. The NBRB will provide to the IMF, on a quarterly basis, the stock of external debt in the format of the *IMF Debt Statistics Manual*, Table 4.1. (http://www.imf.org/external/pubs/ft/eds/eng/guide/index.htm).

27. 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.

28. The NBRB will provide to the IMF consolidated bank balance sheet and also information about assets subject to credit risk broken down on five groups of risk on a quarterly basis, no later than 30 days after the end of the quarter.

29. The NBRB will provide preliminary monthly balance of payments data in electronic format no later than 48 days after the end of the month.

30. 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

31. 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.

32. 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.

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

34. 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.

35. 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 nonbank entities and individuals. In such case, the Ministry of Finance will provide information on outstanding interest and principal payments.

36. 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.

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

38. 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; and (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.

39. The Ministry of Finance and the NBRB will provide data on external and domestic credit to nongovernmental 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.

40. 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.

41. 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.

42. The Ministry of Finance will provide monthly data on the export leasing agency. The data include revenue and expenditures of the agency as well as its net deposits in the banks and any net claims or liabilities.

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	27.423
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. Assumptions for Calculating Adjustors under the Stand-By Arrangement for 2009

	Q1	Q2		Q3		Q4
Financing item	Actual	Prog.	Actual	Prog.	Actual	Prog.
I. Adjustor for the NIR performance criterion (millions of US dollars)						
External privatization proceeds of the general government under the SBA	625	2	0	226	0	221
NBRB balance of payments financing other than IMF	0	0	0	0	0	0
Projected foreign borrowing of the general government related to budget support or BOP financing	500	500	0	200	0	290
II. Adjustor for the ceiling on the cash deficit of the general government (billions of Belarusian rubels)						
Projected foreign borrowing of the general government related to budget support or BOP financing	1,440	1,471	0	603	0	856
General government project support for projects initiated after January 2009	0.0	207	233.6	213	0.8	212
Of which: from IFIs	0.0	52	0	54	0.8	53

Source: Belarusian authorities.