DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

EBS/93/116

CONFIDENTIAL

July 14, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Belarus - Use of Fund Resources - Request for Purchase Under the Systemic Transformation Facility (STF)

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Belarus for a first purchase under the systemic transformation facility in an amount equivalent to SDR 70.1 million. A draft decision appears on page 18.

This subject is tentatively scheduled for discussion on Wednesday, July 28, 1993.

Mr. G. Spencer (ext. 38899) or Ms. Ross (ext. 37188) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

BELARUS

Use of Fund Resources--Request for Purchase Under the Systemic Transformation Facility (STF)

Prepared by the European II and
Policy Department and Review Departments

(In consultation with other departments)

Approved by John Odling-Smee and Mark Allen

July 14, 1993

Contents

Charts

Annexes

Annex Table

I. Introduction

In a letter accompanying their Statement of Economic Policies (dated July 8, 1993, Annex I), the Belarussian authorities indicate their intention to request an initial purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 70.1 million (25 percent of quota). A second purchase, in the same amount, is expected to be requested when the conditions under the STF are met. Discussions on an economic and financial program to be supported by Fund resources were conducted in Minsk during June 9-24, 1993. The Belarussian representatives included the Chairman of the Council of Ministers, Mr. Kebich, and his first deputy, Mr. Mjasnikovich; the Chairman of the National Bank of Belarus (NBB), Mr. Bogdankevich; and senior officials of several state committees and ministries. The mission also met with parliamentary deputies. 1/

Belarus joined the IMF on July 10, 1992, with a quota of SDR 187 million; in connection with the Ninth Review of Quotas, the quota was increased to SDR 280.4 million on January 25, 1993.

The first Article IV consultation with Belarus was completed on May 21, 1993 (EBM/93/75). In the Chairman's Summing Up (SUR/93/55), Executive Directors urged Belarus to accelerate its reform efforts in order to deal effectively with the major balance of payments problem it faces, to achieve a successful transition to a market economy, and to lay the basis for a sustained economic recovery. Speakers emphasized the need for firm stabilization policies aimed at bringing down inflation, and for a more rapid introduction of market structures. This message was reinforced at the Pre-Consultative Group Meeting in Paris on May 24 where participants urged the Belarussian authorities to develop their reform efforts within the context of support from the Fund under the STF which could in turn lead to broader-based external financial support.

The eligibility of Belarus to use the STF is discussed in Annex II. Fund relations and relations with the World Bank are covered in Annexes III and IV, respectively.

1/ The staff team comprised Grant Spencer (head), Henri Lorie, Doris Ross, Anastassios Gagales (all EUR II); Klaus Enders (PDR); Sergio Lugaresi (FAD); and Gordana Rodic (ADM) as staff assistant. Daniela Gressani of the World Bank and Wim Middelkoop, the Fund's Resident Representative, also participated in the discussions.

II. Recent Developments 1/

Industrial output continued to decline in the first five months of 1993, falling almost 30 percent below its 1990 level (Chart 1). Reflecting much reduced energy and other raw material imports, the contraction was sharpest in the energy and heavy industry sectors, but pervaded the whole economy. Net Material Product (NMP) is estimated to have declined by 13-14 percent in January-May 1993 compared to the same period in 1992. The staff estimate that GDP for the full 1993 year will decline by 14 1/2 percent, following the 10 percent decline in 1992 (Chart 2). So far in 1993, employment has declined only marginally, with officially recorded unemployment remaining around 1 percent of the labor force.

Inflation has continued at relatively high levels, averaging nearly 30 percent per month over the first half of 1993 (Chart 3). Inflation has been higher than in Russia, where it has averaged about 22 percent per month over the first half, due to energy price increases higher than in Russia, somewhat higher rates of money and credit expansion, and the depreciation of the non-cash exchange rate relative to the Russian ruble following the introduction of auctions for Russian rubles in early 1993. While some slowdown was recorded in May, a further liberalization of prices and adjustments in administered prices is expected to keep the rate of increase in retail prices high over June-July. 2/ Wages rose more slowly than retail prices in early 1993. The Minimum Wage (MW) was adjusted three times in the first half of 1993, reaching rub 6,600 in June. While some enterprises reportedly paid below the MW due to the worsening business conditions, trade union pressure for further increases in the MW remained strong.

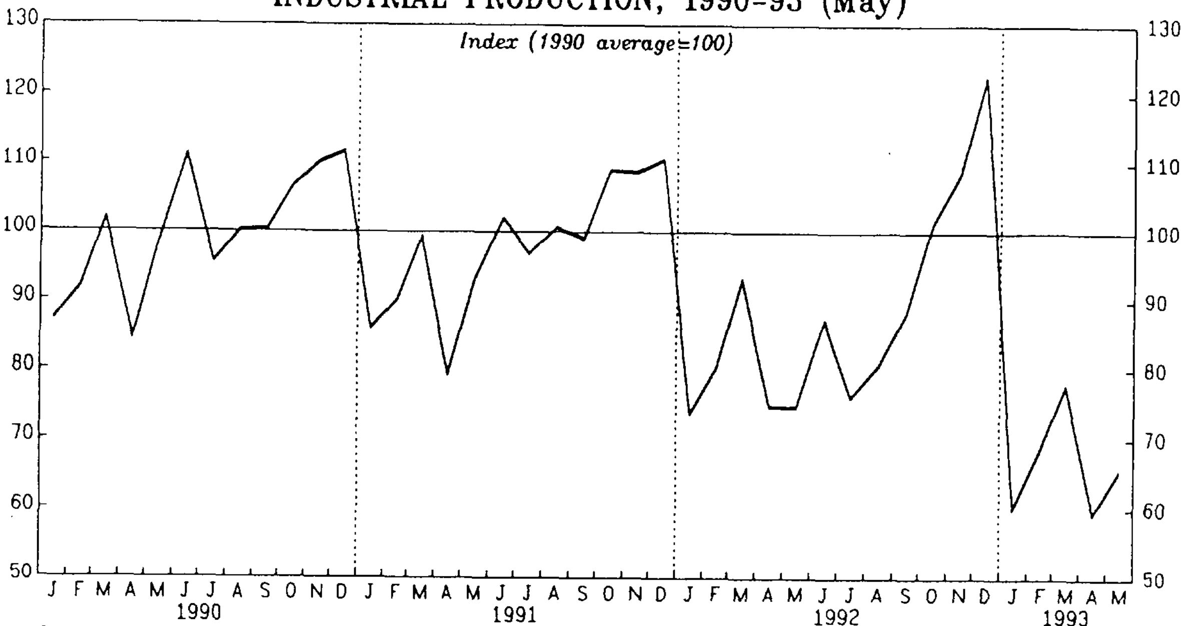
In 1992, the general government deficit was limited to rub 27 billion or 3 percent of GDP. The consolidated budget recorded a modest deficit of rub 8.4 billion in January-April 1993 based on expenditure authorizations; monetary data, however, indicate a lower deficit on a cash basis. The revenue performance exceeded the authorities' expectations due to higher inflation, while expenditures were largely kept in line with available resources despite pressures for increased spending. In June, parliament authorized additional subsidies to agriculture to be financed with credit

---

1/ For a detailed review of developments through early 1993, see SM/93/100 (May 12, 1993).

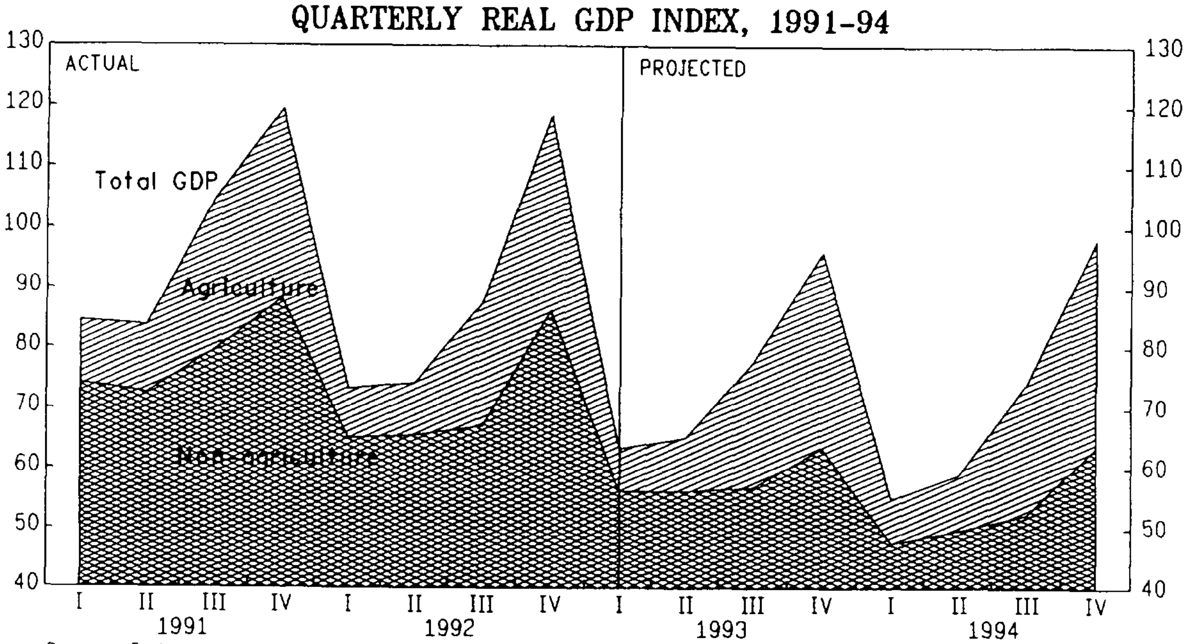
2/ The prices of beef, pork, meat products, and butter were liberalized on June 5. The prices of milk and other dairy products were doubled, but remain administered. Tariffs for household services were adjusted on June 1: electricity was increased 3 times, water and sewage 4 times, hot water and heating 5 times. Among other administered prices, those of bread were last adjusted in April 1993, and rents in November 1992.

CHART 1
BELARUS
INDUSTRIAL PRODUCTION, 1990-93 (May)



Source: Goskomstat and staff estimates.

CHART 2
BELARUS
QUARTERLY REAL GDP INDEX, 1991-94



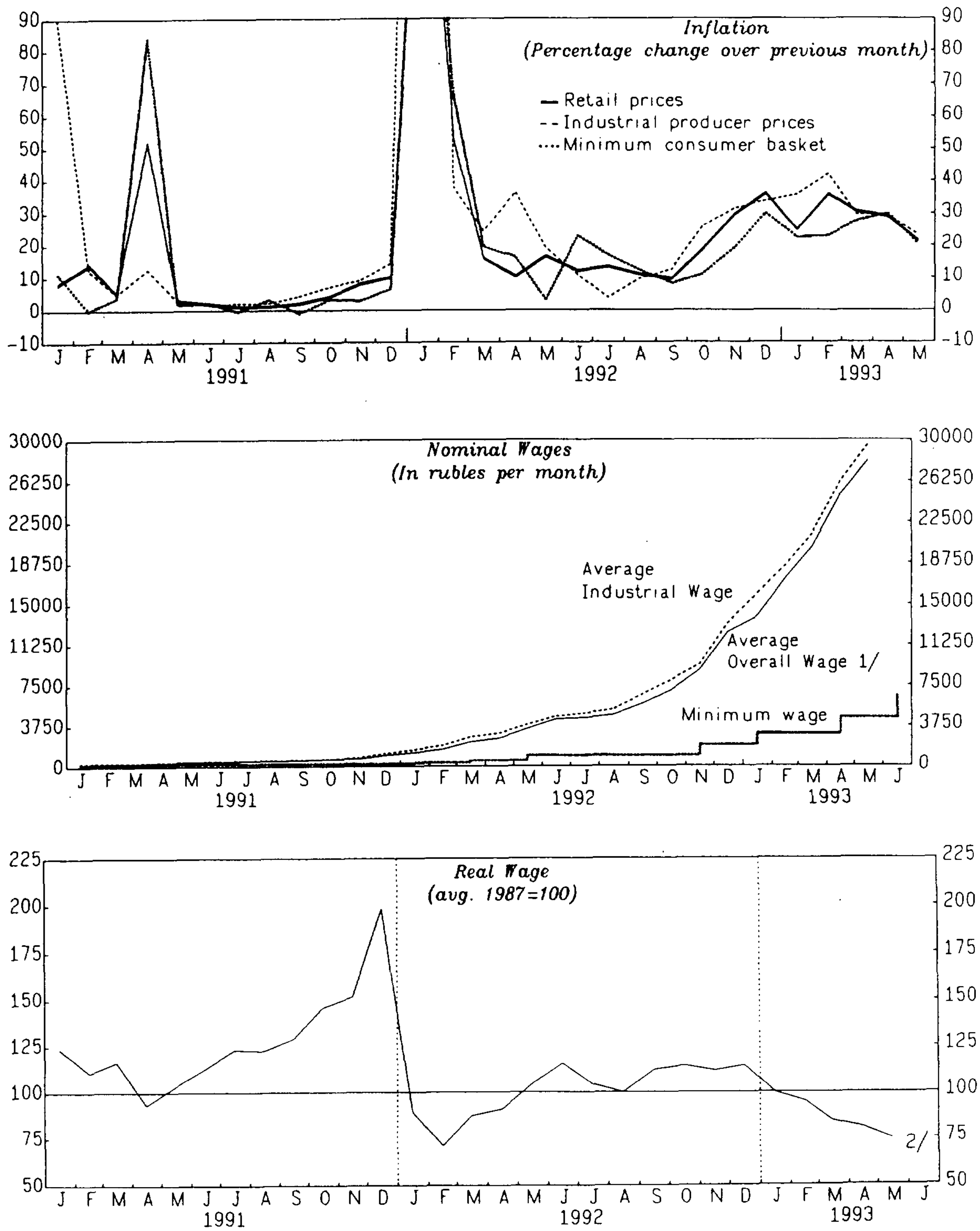
Source: Data provided by Belarussian authorities and staff estimates.

CHART 3

BELARUS

INFLATION AND WAGES

January 1991 - June 1993



Source: Data provided by Belarussian authorities and staff estimates.
1/Excluding kolkhozes.
2/Average wage in the economy deflated by the retail price index.

from the NBB (rub 89 billion). 1/ At the same time, due to the lagged adjustments in administered food prices, the authorities quickly used up the budget allocations for food subsidies at the processing level. Thus the liberalization of prices for meat and dairy products was brought forward from July to June. Future tax revenues could be adversely affected by a commission that was set up in May to review enterprise taxation on a case-by-case basis in response to increasing financial difficulties of some enterprises. So far, the commission has approved deferments of tax obligations under the VAT and profit tax, and it is expected to reduce the incidence of excises which had been increased early in 1993.

Monetary data show that the social extra-budgetary funds achieved a small surplus in their operations during January-May. However, with the shortening of the lag between pension benefits and average wages, the increase in the MW in June, and a further increase in the minimum pension from 1.25 to 1.4 times the MW in July, the Pension Fund has recently started to come under some pressure.

From January to May 1993, monetary and credit aggregates increased on average by 18-19 percent per month; with retail price inflation averaging 28 percent, the decline in real terms was significant, but somewhat less than the decline recorded in economic activity (Chart 4). The resulting decline in income velocity was similar to that observed in the first quarter of 1992. Bank credit to enterprises--mainly in the form of short-term directed credits to agriculture--increased over the first quarter of 1993 at an average monthly rate of 27 percent, but decelerated in April and May to some 16 percent. Net credit to the general government fell in the first five months of 1993 as the accumulation of extra-budgetary deposits more than offset gross lending by banks.

Interest rates have remained highly negative in real terms. The NBB raised its basic refinancing rate in steps from 30 percent in March 1993 to 100 percent in June, and the average interest rate at the NBB credit auctions reached 152 percent in June. However, with most NBB lending still extended on preferential terms, the average interest rate on total NBB lending to banks remained less than one third of the basic refinancing rate. In May, Sberbank deposit rates ranged between 20 percent and 60 percent. Commercial bank deposit and lending rates averaged around 40 percent, but varied substantially between sectors.

1/ This was in partial compensation to farms for the difference between the costs of purchased inputs and the prices farms obtained for output sold to state outlets in 1992.

Preliminary trade data for the first quarter of 1993 are difficult to assess in view of the lack of comparable quarterly data for 1992. 1/ It appears that trade with the FSU was sharply down, in line with the decline in economic activity, while trade with other countries increased compared to early 1992. With Russia, Belarus exhausted available technical credits by May, thus constraining imports in the second quarter. Trade with the FSU was also severely hampered by delays (up to three months) in interstate payments. Under the major barter agreement with Russia, imports (mainly of oil) were broadly on track, but Belarus' exports fell behind schedule. The principal cause of this shortfall was the setting of a domestic oil price that was insufficient to generate the resources necessary to purchase the manufactured goods that Belarus had agreed to deliver under the contract. Trade with other FSU countries also suffered from payments problems, as Belarus restrained trade credits through the correspondent accounts to countries with whom it traditionally ran a trade surplus.

In the capital account, disbursements of credits from Germany, the EC, and the inflow related to the barter deal with Russia, were more than offset by large outflows of short-term capital and other items. The short-term outflow is associated with a build-up of reported enterprise deposits abroad and commodity credits implicit in the non-FSU barter trade. Anecdotal evidence points also to a high level of unreported capital outflows and delays in the repatriation of foreign exchange (including Russian ruble) earnings. Such outflows, together with unrecorded imports, are likely to account for the large negative item under errors and omissions. The overall balance of payments deficit of around US$150 million in the first quarter of 1993 was largely financed by technical credits from Russia, and the repayment of arrears from other FSU countries.

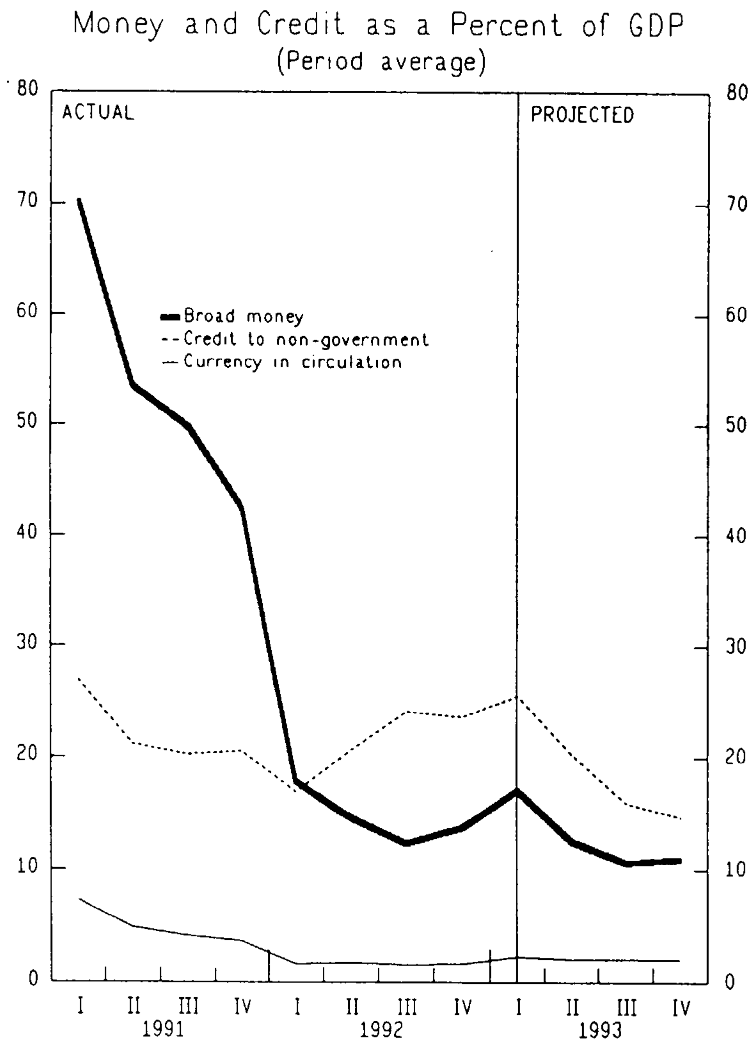
In early 1993, the Belarussian authorities moved to a market-based allocation of foreign exchange through the interbank market (for convertible currencies) and to auctions of surrendered FSU currencies at the new Currency Exchange; both markets remained thin throughout the first half of 1993. The "unified" exchange rate quoted by the NBB (a weekly average of interbank market rates) depreciated rapidly, from rub 547/US$1 in January to rub 1,906/US$1 on July 1 (Chart 5). The "investment" rate, which was used for most official exchange transactions including export surrender and priority imports, was raised from rub 300/US$1 to rub 500/US$1 in May 1993. Restrictions on the use of Russian cash rubles in state stores were lifted in May. Broadly consistent with the differential in U.S. dollar exchange rates for non-cash rubles between Moscow and Minsk, the Belarussian non-cash

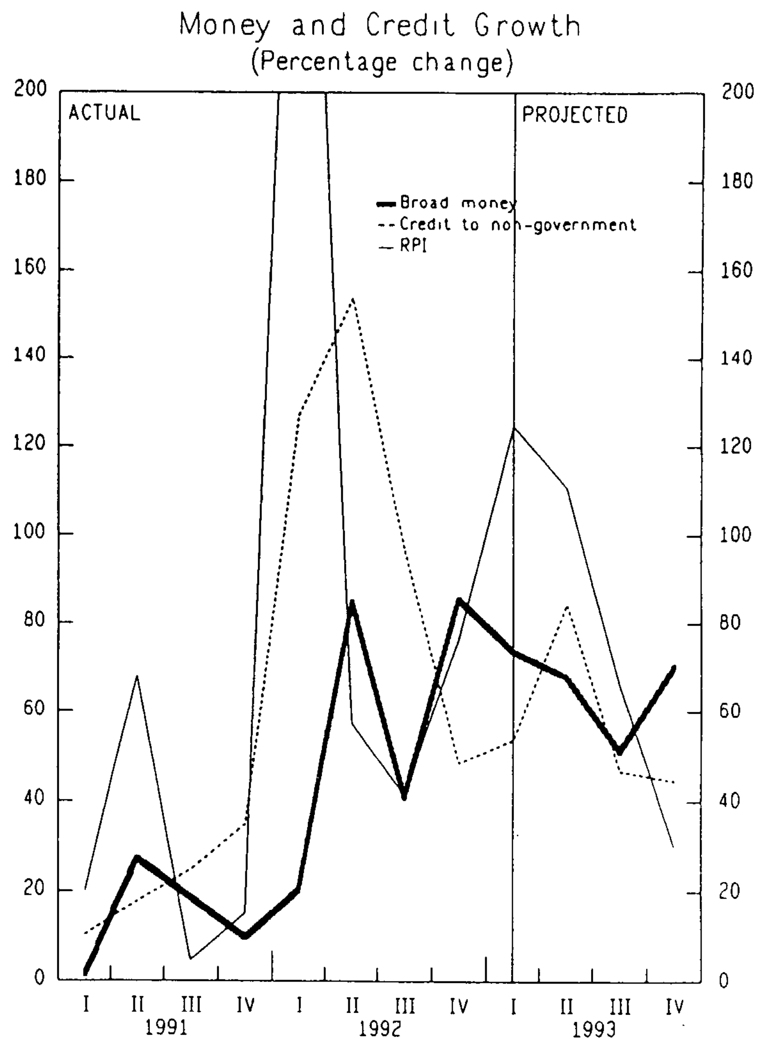
1/ Official balance of payments data are compiled by the NBB and Goskomstat. These are based on enterprise surveys and may not be fully representative. Furthermore, trade with Russia under the interstate barter agreement was recorded at domestic transactions prices rather than at the trade prices implicit in the agreement. Estimates based on the latter prices result in a substantial trade deficit with the FSU rather than the surplus recorded by Goskomstat.

CHART 4

BELARUS

FINANCIAL INDICATORS





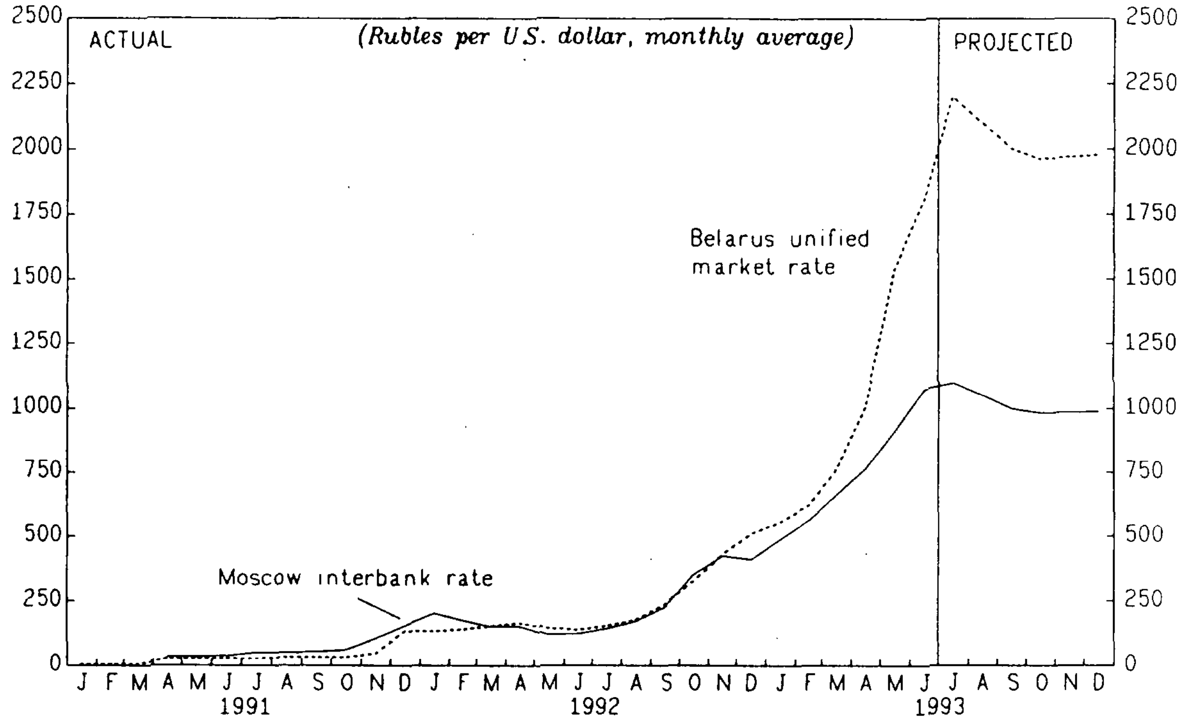
Source: Natioal Bank of Belarus; and staff estimates.

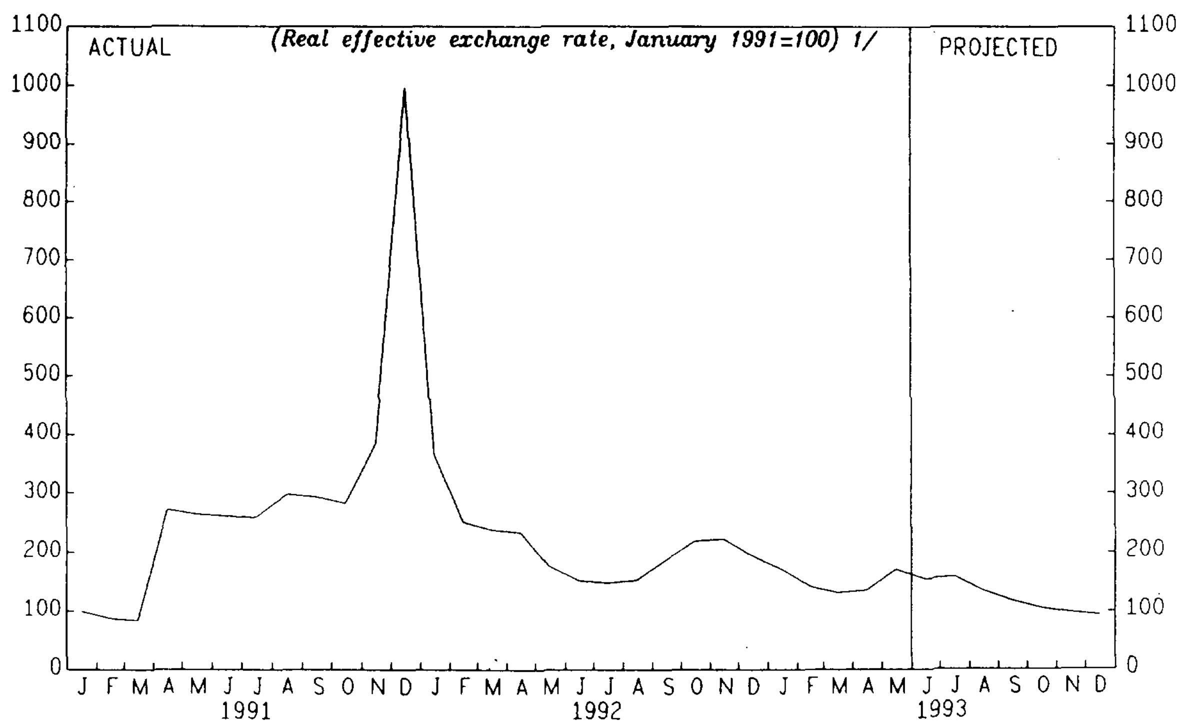
1/ The real interest rate is deflated by the retail price index.

CHART 5

BELARUS

EXCHANGE RATES





Source: National Bank of Belarus.

1/ Belarus unified market rate adjusted for relative prices in Belarus (RPI) vis-a-vis the U.S. (CPI).

ruble depreciated rapidly against the Russian ruble, reaching about Brub 1.8/Rrub 1 by July 1. This decline reflected the large current account deficit with Russia and somewhat easier monetary conditions in Belarus compared to Russia over the early part of the year.

Recent progress has been made in de-monopolizing Belarus' external trade with some 10,000 new trading entities authorized over the past year and plans soon to eliminate altogether the registration requirements for foreign trade. Trade policy has been under review for some time, and a new "unified" system of trade regulations for licensing and export quotas, applying equally to trade with the states of the FSU and the rest of the world, was to be introduced on July 1; the review included a modest reduction in the overall coverage of licensing requirements. New and somewhat reduced export and import tariff rates are to be introduced shortly.

III. The Economic Program, 1993-94

1. Objectives

The program of policies is described in the Statement of Economic Policies (SEP) submitted by the authorities in support of their request for access to the STF (Annex I). The program aims to reduce inflation substantially and to accelerate market reforms in order to alleviate the tightening balance of payments constraint and provide a basis for sustained growth. While the program period covers the 12 months from July 1993 to June 1994, most of the program targets and benchmarks are currently set for the first six months. This approach is taken because of the high level of uncertainty surrounding the second half of the program period; in particular, there is a complete lack of official projections beyond 1993, and the future shape of monetary and economic relations with the FSU states is yet to be determined. Targets and policy benchmarks for the latter six months will be set later in 1993, possibly in conjunction with a move to an upper-credit tranche stand-by arrangement.

The stabilization objective is to reduce inflation to single digits by the end of the year, and to achieve further reductions thereafter. Under the assumption of continued ruble area participation by Belarus, and if the objectives of both the Russian and Belarussian STF programs are achieved, then inflation is expected to reach close to 5 percent per month by December 1993. The program seeks to limit the decline in output to about 15 percent in 1993 and 5 percent in 1994; availability of external financing to achieve the necessary level of imports will be crucial for this purpose.

In the area of systemic reforms, the STF program aims to develop market structures and improve competition. This will be achieved by expanding the scope of market price mechanisms, and by promoting commercial behavior on the part of enterprises. The price mechanism will be enhanced by the further liberalization of domestic prices and domestic business activity, and by removing restrictions on external trade and payments. Commercial behavior by enterprises will be enhanced by promoting private enterprise and by hardening the budget constraints on state enterprises.

2. Financial policies

a. Monetary policy

In order to achieve the inflation objective shared with the other major members of the ruble area (Russia and Kazakhstan), Belarus intends to link the monetary policy of the National Bank of Belarus (NBB) to that of the Central Bank of Russia (CBR). Accordingly, the general refinance rate of the NBB will be moved before the program commences to the level of the refinance rate of the CBR and will be adjusted in line with the CBR rate thereafter. It will be necessary also to control the quantity of NBB credit to reduce the rate of monetary expansion and therefore inflation. Indicative quantitative targets have been set for the growth in Net Domestic Assets (NDA) of the NBB over the third and fourth quarters of 1993, such that average NDA growth will be no more than about 13 percent per month over the second semester; this compares with an average growth in projected nominal GDP of 20 percent per month over the same semester. Due to the strong seasonality in the Belarus economy, the rates of growth projected for nominal GDP and the monetary aggregates over the second half of 1993 are higher than observed in the Russia and Kazakhstan programs.

The NBB intends to move towards a market-based allocation of credit over the program period. To facilitate this objective, by the fourth quarter of 1993, the NBB credit auctions will be expanded to cover at least 25 percent of outstanding NBB credit and the share of directed credit will be reduced from its present 90 percent to no more than 30 percent. As a transitional arrangement, the remainder of NBB credit will be allocated via a rediscount window, at the general refinance rate, with access to commercial banks based on their respective capitalization. The NBB intends to achieve a further shift towards market-based methods of credit allocation in 1994.

A large proportion of directed credits are presently issued at subsidized interest rates. Such subsidies will be severely curtailed as the share of directed credits is reduced over the first half of the 1993-94 program year. Any credit subsidies remaining at the end of 1993 will be channeled through the budget and paid directly to enterprises rather than through the banking system as at present. This approach, combined with the removal of on-lending restrictions on non-directed credits, will help to expand the interbank money market and promote more active competition between the banks, both in deposit taking and in lending.

The authorities recognize that present monetary arrangements in Belarus, with cash transactions linked directly to the ruble but non-cash transactions based on a floating exchange rate, are highly distortionary and must be rationalized as soon as possible. Once Belarus makes a final decision on this matter, it will be necessary to reset the financial program, preferably in the context of a stand-by arrangement which would aim to build on the initial STF program. Whether Belarus chooses to integrate fully in the ruble area or to introduce a separate national currency, the staff are ready to offer further advice, on both the technical aspects of implementing the new monetary arrangements and the financial policies that will be required to support those arrangements.

b. Fiscal policy

In support of the target for credit growth over the first half of the program period, fiscal policy will be aimed at containing domestic bank financing of the general government deficit to 5 percent of GDP over this period; targets are specified in ruble terms in the Technical Memorandum attached to the Statement of Economic Policies (Annex I, Attachment 1). Taking into account an estimate of foreign financing and a small amount of non-bank domestic financing of the deficit, the government aims to contain the general government deficit in the second semester to no more than 7 percent of GDP. Further reductions in the deficit and its domestic bank financing will be targeted in the second half of the program.

Belarus has maintained a relatively strong fiscal performance to date and important measures were introduced in June to contain the growth of budgetary subsidies on food and household services. It seems likely, however, that further substantial savings will be required to achieve the fiscal objectives under the STF program. Assuming no policy changes, the general government deficit is projected to reach 10 percent of GDP in the second half of 1993 and some 16 percent of GDP in the full program year. The full year deficit would be further increased by the planned removal of the foreign exchange tax by the end of 1993 and by possible reductions in some excise taxes. Measures are therefore required to achieve savings of at least 3 percent of GDP in the first half of the program and substantially larger savings in the second half of the program. While the primary objective of the planned policy measures is to ensure that the fiscal targets for the first half are reached, they are also intended to address the larger fiscal problem for the full program year. The measures contained in the program include:

(i) Further reductions in the remaining food subsidies and further increases in rents and tariffs for household services, as described in Section III. 3a below;

(ii) Restrictions on the growth in the budgetary wage bill to no more than 70 percent of the rise in the retail price index. This measure will require a delinking of the budgetary wage scale from the minimum wage which is in turn linked to the Minimum Consumer Basket (MCB) cost index. Support for low income earners within the budgetary sphere may be maintained by offering close to full indexation on the lowest pay grades while holding increases in higher grades to less than 70 percent of price increases;

(iii) Maintenance of the tax base in the face of growing pressure from enterprises to create new tax exemptions. It may be necessary for the government to lower some of the excise taxes that were introduced at the start of 1993 in order to avoid handicapping certain export businesses. At the same time, however, the Government intends to close off existing tax exemptions to the VAT and the enterprise profit tax, so that the overall revenue base is broadened during the program period;

(iv) As a specific measure to reduce tax exemptions, the VAT will be extended to cover non-FSU imports before the end of 1993. Before implementing this measure, however, it will be necessary to introduce a system of VAT crediting; a VAT on imports under present arrangements would simply amount to a uniform increase in the import tariff;

(v) Changes to the national pension scheme so as to avoid a large worsening in the financial position of the Pension Fund. Under present arrangements, the growth of pensions is linked to wage developments two months previous, while revenues are linked to current wage growth via a 36.3 percent payroll tax. Thus, were inflation to decline as projected during the program period, the outlays of the Pension Fund would decelerate more slowly than revenues, leading to a Pension Fund deficit of some 6 percent of projected GDP in the program year. To avoid such an outcome, pension outlays will have to be contained within the existing revenue base of the Fund. The Government is considering means to achieve this goal both by compressing pension differentials, for example by reducing the cap on maximum pension, and by lowering the overall level of pensions relative to existing wage levels.

In the broader context of social protection, the spending of all of the social funds--including the Employment and Social Insurance Funds--will need to be maintained within their respective revenue bases. In order to meet budgetary constraints, the Government intends increasingly to target social support at the most needy in society. This will be achieved in part through higher wage adjustments for low wage scales in the budgetary sphere and through recommendations for similar adjustments in the enterprise sector. The Government is also considering a system of means testing to assist in the targeting of social benefits;

(vi) The removal of implicit subsidies on the domestic consumption of petroleum products. The domestic price of oil for priority sectors over the first half of the year, at around rub 27,500 per ton, was insufficient to cover the domestic cost of manufactures necessary to fulfill Belarus' commitments under the barter contract with Russia. The Government intends to cover the first half of 1993 deficit under the contract through a mixture of oil price increases and additional budgetary outlays. For the second half of 1993, the Government intends to increase oil prices sufficiently to meet the full domestic cost of Belarus' remaining delivery obligations under the contract. Furthermore, the Government intends to pass on to all domestic users the full extent of future increases--either explicit or implicit--in the cost of energy.

The staff is confident that this set of measures, to be implemented over the first six months of the program, will be sufficient to achieve the target for the general government deficit of 7 percent of GDP. Further, under current projections, the measures are expected to deal substantially with the problem of a worsening deficit outlook for the first semester of 1994. However, the fiscal outlook for the full 1993-94 year and the possible need for further fiscal measures will be reconsidered later in 1993 in the context of the preparation of a revised budget for 1993 and the 1994 budget proposal.

3. Systemic reforms

a. Price liberalization

Under the STF program, the authorities will make further progress toward liberalizing all food prices and increasing administered prices for household services to cover an increasing part of their total cost. Specifically, they aim to liberalize the prices of most dairy products in the near future, and to further reduce the number of bread products for which fixed prices apply. These measures will make more effective the liberalization of agricultural producer prices that occurred earlier in 1992. In addition, the administered prices of household services--including rents--will be further adjusted, with the aim of covering at least 30 percent of the costs of such services by end-1993.

While domestic prices for imported natural gas and coal are to remain controlled for the time being, the anticipated large increases in the cost of importing these products will be passed on to domestic users. Also, as indicated above, the authorities intend to raise the administered domestic price of oil for priority sectors--set at rub 27,500 per ton over the first semester--to at least balance the barter contract with Russia over the second semester of 1993. Recently, the list of priority sectors for oil deliveries has been reduced to include agro-businesses and households. However, free prices--currently around rub 50,000 per ton--presently apply only to about 20 percent of total oil consumption.

With a view to containing the cost-based price increases associated with liberalization, limits on manufacturers' profit margins, as well as fixed wholesale (20 percent) and retail (12 percent) trade margins were introduced in 1992. Notwithstanding the legitimate concern about abuses of market power, these restrictions are likely to have discouraged new entry and therefore hampered rather than promoted competition. Increasingly aware of the ineffectiveness of these restrictions, the authorities have agreed to scale back by half, before end-1993, the number of goods subject to profitability limits and to abolish limits on trade margins before mid-1994.

b. External policies

The authorities will aim under the STF program to further rationalize the exchange system and to increase the role of market forces in the allocation of foreign exchange. 1/ Before the request for a purchase under the STF is considered by the Executive Board, a single unified exchange rate will be introduced for all official foreign exchange transactions, effectively extending the NBB's "unified" exchange rate to cover all transactions of the State Foreign Exchange Fund (SFEF) and foreign transactions of the NBB. The unified rate, which staff would recommend be set daily rather than weekly as at present, will also be used for the accounting of all foreign transactions of the general government. However, the authorities have argued that an immediate and full unification of the exchange rate for official transactions would have an excessively negative impact on the budget, owing to the elimination of the export tax implied by the surrender requirement at a highly appreciated rate. Accordingly, as a transitional arrangement, the 20 percent surrender of export proceeds to the SFEF, in the case of export contracts that were signed before end-July 1993, will continue to be converted at a discount from the unified exchange rate. The discount will be phased out progressively and fully eliminated before the end of 1993.

Although Belarus remains for the time being a member of the ruble area, financing of its balance of payments deficit vis-à-vis the other states--essentially Russia--is no longer automatic. Current account imbalances larger than the available financing have resulted in the Russian non-cash ruble acquiring greater value in relation to the Belarussian non-cash ruble. The authorities are fully aware that the existence of separate exchange rates for cash and Belarussian non-cash rubles generates major distortions in trade and capital flows. 2/ However, while the authorities will endeavor to reduce these distortions, including through more effective financial policies, they also recognize that the only effective solution will be to choose between full monetary cooperation with the ruble area partners, or a separate national currency. Given that full ruble area coordination has so far remained elusive, the authorities are preparing contingency plans for the introduction of a national currency.

The authorities agree with the staff that there is an urgent need to remove obstacles to the growth of exports, and to encourage the repatriation of foreign exchange to Belarus. The unification of the exchange rate for official transactions and the tightening of monetary policy will be critical steps in that direction. The removal of quantitative export restrictions and export taxes is also essential and this is becoming more feasible as

---

1/ Belarus continues to maintain exchange measures which are subject to the jurisdiction of the Fund. These are listed in SM/93/100, Appendix IV.

2/ The staff is in the process of assessing the jurisdictional implications of these developments.

most traded goods prices become liberalized. Consistent with these objectives, and taking into account international agreements, the authorities have decided to phase out by end-1993 all export taxes and quantitative restrictions on goods not subject to price controls. All quantitative restrictions on consumer goods in this category will be lifted as of September 1993. In addition, the authorities are committed to remove before end-1993 the 10 percent foreign exchange tax on net export receipts in convertible currencies.

c. Deregulation and privatization

The authorities are committed to reduce direct government intervention in the economy and to put in place a legal and institutional environment conducive to the development of markets and of private enterprise. As a first step, the system of state orders is being dismantled. While the share of turnover covered by state orders amounted to 45 percent in 1992, their importance has been substantially reduced in early 1993 to less than 20 percent of turnover. Remaining state orders cover mainly the Government's own procurement needs, and the goods necessary to fulfill the interstate bilateral trade agreements. The small number of state orders remaining on general production will be eliminated before end-1993; furthermore, the authorities intend to phase out the state orders related to bilateral trade agreements as trade is increasingly conducted on a market basis.

While the number of new (private) businesses nearly tripled between January 1992 and April 1993, reaching 20,000 and employing about 3 percent of the work force, the conditions for starting new private sector activities remain difficult. The Government will address some of these difficulties in coming months, in particular by making specific proposals for streamlining and simplifying cumbersome registration and licensing procedures.

Regarding existing businesses, a significant part of the Belarussian economy is no longer directly run by the State. For instance, some 15 percent of the industrial sector enterprises are leased to collectives of workers and management, and some 2,400 farms (10 percent of the total) are operated independently of the State. However, while some 260 enterprises representing about 79,000 workers (1.6 percent of the labor force) were privatized ahead of the moratorium on privatization in early 1992, Belarus has lagged behind other states of the FSU in putting in place the legal and institutional framework necessary to implement full-fledged privatization.

Parliament passed the Privatization Law in January 1993 and approved the Privatization Program for 1993-95 in June. In the latter, the authorities have set the ambitious target to privatize 10 percent of the total value of fixed assets of Republican enterprises before end-1993. This is to be achieved through buy-outs of leaseholds, the creation of joint-stock companies and the transfer of shares to the non-state sector, and auctions or competitive tender sales to natural or juridical persons (under the law, an enterprise is privatized if the non-state sector holds at least

75 percent of its capital). The program gives priority to the privatization of enterprises in the light manufacturing, food, construction and distribution industries. In addition to the privatization of Republican enterprises, the authorities have decided to accelerate the privatization of small and medium-size enterprises in the trade, catering, and service sectors, involving mainly municipal enterprises. A "fast track" approach in this area will be formulated with the assistance of the IFC, which is currently organizing a pilot privatization project in the city of Brest. Amendments to the Foreign Investment Law are being introduced, with a view to encouraging foreign participation in the privatization process.

The staff expressed concern that the Government's preference not to rely on a voucher scheme for large-scale privatization could hamper its efforts to transfer ownership of state property to the population, in particular to meet the requirement of the Privatization Law that 50 percent of State property be distributed to the population free of charge. However, a modified form of voucher scheme could yet proceed and the authorities believe that other forms of free transfers, for instance through the social security system, could also be used to produce similar results.

The new Law on Private Land Ownership, passed by Parliament in June 1993, is viewed as a preliminary step towards land and agricultural reform. While under the Law some 85-90 percent of the land will remain state-owned, the law clarifies the private ownership rights to plots for individual farming or construction (up to one hectare). Furthermore, private farmers and foreign investors will be allowed to lease larger areas of agricultural land for periods up to 50 and 100 years, respectively.

While the process of land reform has been very slow, the authorities are achieving better progress with housing privatization, for which a special voucher scheme (quotas) has been introduced. While a three-year time restriction on resale currently applies, some 40-45 percent of Belarus' housing stock is reportedly now in private hands.

IV. Balance of Payments and Capacity to Repay

The assessment of Belarus' external outlook is fraught with uncertainty; in particular, a firm statistical base remains to be established and key economic relations with Russia and other FSU states remain subject to negotiation. Nevertheless, while timing is always difficult to predict, the main forces behind external developments over the next year or two are reasonably clear: the trend towards world market prices for energy imported from the FSU will continue, resulting in a further large terms of trade shock; and external trade will continue to be redirected towards non-FSU countries. The staff's baseline scenario assumes that prices for energy increase faster than in Russia but do not reach world market levels until 1995, that Belarus introduces and maintains tight financial policies which constrain imports while encouraging exports, and that the resulting financing gap can be financed with credits on broadly commercial terms. It is also assumed that Belarus draws 50 percent of quota under the STF facility, in two equal installments, in August 1993 and January 1994. 1/

For 1993-94, the baseline assumptions are broadly similar to those adopted in the staff report (SM/93/95) for the 1993 Article IV consultation. 2/ In particular, oil import prices are assumed to reach about 60 percent of world market prices on average in 1993, with natural gas import prices somewhat lower. Taking into account preliminary data on the outcome in the first quarter of 1993, which point to a lower level of imports than previously expected, and in line with a larger projected decline in real GDP in 1993, the current account deficit is now projected to reach about 7 percent of GDP in 1993. The current account deficits in both 1993 and 1994 are concentrated in the second half of each year, reflecting the strong seasonal pattern of production and trade in the Belarus economy.

In contrast to the improved current account outlook, the capital account in 1993 is sharply worse than under earlier projections; this reflects a downward revision of medium- and long-term loan disbursements, and large outflows of short-term capital and errors and omissions in the first half. While it is assumed in the projections that the stabilization program succeeds in halting capital flight in the second half of 1993, the capital balance for 1993 is projected to show a modest deficit, compared to a significant surplus previously. Finally, the program provides for a smaller build-up of convertible currency reserves, to the equivalent of one week of total imports by end-1993, and assumes that the remainder of the agreed technical credits from Russia (rub 150 billion for the year) will be made available in the second semester. As a result, the financing gap for 1993, before any Fund support, is now estimated at about US$600 million or some 6 1/2 percent of GDP. In the program year, covering the second semester of 1993 and the first semester of 1994, the estimated financing gap, at US$700 million, is again in the order of 6 1/2 percent of GDP.

The balance of payments outlook remains difficult over the medium term (Table 5); this is despite optimistic assumptions about export growth and the ability to constrain overall import growth below GDP growth, particularly through savings on energy. Export volumes to non-FSU countries are projected to grow at double-digit rates during 1994-95 and to continue growing faster than GDP over the outer years; meanwhile, the decline in exports to the FSU would be arrested in 1994, with FSU exports rebounding in 1995 and beyond. Imports from the FSU would drop sharply in 1993-94 in volume terms and energy imports would continue growing slower than GDP; non-energy imports on the other hand are assumed to grow broadly in line with GDP. Despite these favorable assumptions, the current account deficit is

---

1/ If Belarus enters into a stand-by arrangement in late 1993, then the second STF purchase would also occur at that time.

2/ Assumptions underlying the present baseline projection are summarized in Tables 4 and 5.

expected to remain around US$600 million over 1994 and 1995, as the continued increase in energy prices offsets favorable volume developments. Subsequently, however, the current account deficit declines rapidly in the outer years.

The projections allow for a gradual build-up of gross reserves to about two months of total imports by the year 2000; this requires increases in gross reserves of some US$200 million per annum over the full projection period. In the capital account, ordinary medium- and long-term loan disbursements are expected to rise broadly in line with GDP during 1994-2000, and foreign direct investment even faster. Amortization on earlier loans (including those to fill the financing gap) also rises rapidly through the period. Consequently, while the financing gaps decline after 1995, they nevertheless are projected to persist through the end of the decade. For illustrative purposes, it is assumed that these gaps will be filled by credits with an average maturity of eight years (three years grace) carrying an average interest rate 2 percent above LIBOR.

The ongoing financing requirements contribute to a rapid build-up of foreign debt over the next few years. The level of debt peaks at about 53 percent of exports of goods and non-factor services or 31 percent of GDP in 1998. Debt service peaks at 14 percent of exports in 1999. Payments to the Fund resulting from the expected STF drawings would only account for a negligible portion of this: at their peak in 1998, they would account for less than 1 percent of exports, 3 percent of gross reserves, and 4 percent of total debt service. Despite the difficult financing outlook over the next few years, the staff urged the authorities to protect their debt servicing capacity by ensuring a continued build up of gross reserves over the medium term.

The balance of payments scenario is of course sensitive to the underlying assumptions. In particular, the timing of the energy import price increase, while not changing the overall outlook, will affect importantly the distribution of the deficits over time. In the staff's view, there are two main risks. The first would be a failure to implement fully the assumed aggressive export-oriented strategy, based on tight financial policies to constrain imports and structural reforms to promote less energy-intensive production and consumption patterns. Such a failure would result rapidly in unsustainable financing gaps that would quickly exhaust Belarus' debt servicing capacity, leading to a forced adjustment through retrenchment in output and cuts in living standards. The second main risk would be a failure to fill the 1993 financing gap, despite a successful implementation of the policy program. While a Consultative Group (CG) meeting, under the chairmanship of the World Bank, is intended for mid-October, administrative delays with the contributions of creditors other than the Fund could result in an overall shortfall of financing for 1993. Unless implementation of the policy program initiated a significant reflow of flight capital, this eventuality would imply a more stringent adjustment of domestic spending and output levels than assumed for the latter part of 1993.

V. Staff Appraisal

To date, Belarus has displayed a cautious approach to economic reform. In response to the increasing cost of imported raw materials and the shrinking of exports to traditional markets, the authorities have tended to retain direct centralized control over key economic resources. While this approach helped to contain the decline in GDP to 10 percent in 1992, the staff project a 14 1/2 percent GDP decline in 1993. At the same time, inflation was running at around 30 percent per month in the first half of the year and the current account deficit for the year is projected to reach US$700 million, or 7 percent of GDP.

At the conclusion of the first Article IV consultation with Belarus on May 21, 1993 (EBM/93/75), members of the Executive Board gave a clear message that reform efforts in Belarus should be accelerated. Directors indicated that such a strategy would be essential to achieve a successful transition to a market economy and to deal effectively with the major balance of payments problem that Belarus faces. While a faster approach to reform could increase the costs of adjustment in the short term, it would achieve a substantial net benefit in the longer term.

The agreement of the Belarussian authorities to pursue an economic program under the Systemic Transformation Facility represents a commitment to accelerate moves toward a market economy. The program will establish a clear framework for the coordination of Belarus' reform efforts and provide a basis for a further strengthening of policies over the year ahead. Specifically, Belarus intends to develop further its economic program within the context of a stand-by arrangement from the Fund, most probably in late 1993. The staff has emphasized that an essential prerequisite for moving to a stand-by will be a clarification of interstate economic relations and, in particular, a final decision on Belarus' monetary arrangements and its status within the ruble area. While the authorities have indicated that they intend to make this decision during the second half of 1993, the stabilization objectives under the STF program, in the meantime, assume continued ruble area participation through the end of 1993. Monetary and fiscal policies are accordingly aimed at reducing inflation, in line with the STF programs of the other major ruble area states (Russia and Kazakhstan), to around 5 percent per month by December 1993. The principal objectives on the structural side of the program are to promote market-based competition, to remove distortions between the foreign and domestic sectors, and to encourage an increasing role for private economic activity. The authorities are also committed to further strengthen--with the support of technical assistance from the international community--the policy-making and market-based institutions that will be essential for effective implementation of the reform program.

Consistent with the common inflation objective for the ruble area, monetary policy will be substantially tightened under the STF program. At the same time, a major effort will be made to reduce the role of the state, and increase the role of the financial markets and the banking system, in the allocation of credit. In support of the tight limits on credit expansion by the NBB, the Government will aim to contain the general government deficit and its domestic bank financing to 7 percent and 5 percent of GDP, respectively, in the second half of 1993. The Government then aims to achieve a somewhat better result over the full program year. The policy measures agreed in the program include reducing subsidies further, extending the VAT to non-FSU imports, containing the growth of budgetary wages, and reducing the growing demands on the Pension Fund. This latter measure will be particularly important for achieving the overall deficit target.

The staff recommended that the newly established enterprise commission show extreme caution in offering exemptions to "distressed" enterprises. Staff emphasized the need to reduce the value of existing exemptions and to avoid offering new exemptions. Furthermore, the concept of a commission with discretionary powers to reduce taxes for enterprises on a case-by-case basis is inconsistent with a transparent and even-handed tax policy; the commission should therefore be abolished as soon as possible.

In the area of systemic reform, the staff urged the Government to extend recent moves to free prices and to accelerate the liberalization of trade and exchange arrangements. Program commitments will reduce limits on profit and retail margins, raise further the tariffs on household services to better reflect costs, and bring domestic energy prices into line with the true cost of energy imports. Of central importance to the STF program, the authorities have committed to unify the two remaining exchange rates for official transactions prior to Executive Board consideration of the STF request, although surrendered receipts from exports under existing contracts will continue to be remunerated at a discounted rate until end-1993. This and other measures to remove restrictions on exports will help to alleviate the external and fiscal imbalances, both by increasing foreign exports and by improving the incentives for repatriation of export receipts. On the import side, the staff recommended the implementation of a low, relatively uniform tariff structure. Regarding inter-FSU trade, there is an urgent need to stabilize Belarus' interstate relationships in the areas of payments, credit and trade policy. Present arrangements in these areas remain highly uncertain, and continue to hinder commerce while encouraging the further expansion of barter.

The staff strongly urged Belarus to push forward its efforts to expand the role of private enterprise in the economy, in particular through deregulation and privatization. This goal will be assisted by commitments under the program to eliminate state orders not related to government purchases or trade agreements and to simplify existing registration and licensing procedures. Also, the privatization effort, which has so far lagged programs in other FSU states, is expected to accelerate under the recently approved Privatization Program.

The balance of payments projections of the staff indicate an external financing need over the 12 months of the program in the order of US$700 million, the bulk of which would be required in the second half of 1993. While further Russian credits and an eventual stand-by arrangement may help to meet this need, there clearly remains a sizeable gap to be filled. Accordingly, once the STF program is approved, it will be necessary for the authorities to reach quick agreement with the World Bank on a program of structural reforms that could be supported by an Import Rehabilitation Loan, and to promptly marshall additional credit resources through the Consultative Group process.

Apart from the lack of full financing assurances, the risks to the STF program are substantial. As mentioned, the absence of clear economic relationships with the other FSU states leaves a high degree of uncertainty over future trade and financing flows, particularly with respect to the volume and price of imported energy. Furthermore, Belarus' continued participation in the ruble area leaves the STF program vulnerable to any lapses in other ruble area states' monetary policies. The domestic risks arise from the political pressures that will come to bear on the Government and NBB to maintain existing financial supports--either through the budget or directly through the NBB--for enterprises, agriculture and the general population. To reduce the external risks, Belarus must clarify its economic relationships with Russia and make a final decision on its future monetary arrangements. On the domestic side, the Government must resist demands to expand the budget deficit and NBB credit beyond the program targets, and indeed work towards more ambitious stabilization objectives in 1994. Such discipline will promote the structural adjustments necessary to achieve a market-led recovery in the medium term.

The staff recommends that the Fund grant the authorities' request for a first purchase under the STF.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund has received a request by the Government of Belarus for a purchase equivalent to [SDR 70.1 million] under the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

2. The Fund approves the purchase in accordance with the request.

Table 1. Belarus: Basic Data, 1992-94

	1992	1993	1994	1993/94 Program year	1993 First Half	1993 Second Half	1994 First Half	1994 Second Half
				(Percentage change over the previous period, unless otherwise specified)				
Prices								
1. Retail prices	1,075	1,027	98.9	388.5	345.4	158.4	31.1	10.4
(percentage change during period)	1,920	732	23.5	111.8	353.4	83.4	15.5	6.9
2. Import prices, interrepublican trade	2,022	1,279	...	...	...	...	...	...
Energy	...	1,982	...	...	...	...	...	...
Non-energy	5,434	907	...	...	...	...	...	...
3. Oil price (period average)								
Import prices (Rrub/ton)	4,724	62,191	95,608	83,000	49,000	73,000	93,000	98,000
Domestic prices (Brub/ton)	...	55,903	104,847	91,415	32,235	80,637	102,193	107,500
4. Export prices, interrepublican trade	1,741	927	...	...	...	...	...	...
Energy	6,320	1,674	...	...	...	...	...	...
Non-energy	1,311	907	...	...	...	...	...	...
5. GDP deflator	1,224	987	72.8	354.3	358.1	144.8	26.1	6.1
6. Exchange rates								
Rrub/US$	152	878	995	1004	740	1017	992	998
Brub/US$	226	1,542	1,989	2,009	1,050	2,034	1,984	1,995
Wages								
7. Average wage	840	767	76.5	306.1	251.8	135.6	21.3	7.2
8. Minimum wage (rub per month, average)	983	6,440	16,297	11,932	4,100	8,780	15,085	17,510
GDP								
9. At constant prices	-10.0	-14.4	-5.2	-13.8	-37.6	35.6	-34.4	51.3
10. At current prices (in billions of rubles)	950	8,842	14,485	12,367	2,037	6,805	5,561	8,924
				(In percent of GDP)				
Government finance								
11. Consolidated budget balance	-2.0	-6.3	...	-9.1	-8.1	-5.8	-13.2	...
Revenue	31.1	31.5	...	33.1	40.5	28.8	38.5	...
Expenditure	33.1	37.8	...	42.3	48.5	34.6	51.7	...
12. Balance of extra-budgetary funds	-0.8	-3.4	...	-6.6	-0.2	-4.3	-9.4	...
13. General government balance before measures (11 + 12)	-2.8	-9.7	...	-15.8	-8.3	-10.1	-22.6	...
Money and credit				(Percentage change during period)				
14. Broad money (M3)	482	650	...	144.2	191.4	157.2	-5.1	...
15. Net domestic assets of the banking system	654	567	...	131.1	182.8	136.0	-2.1	...
				(In millions of U.S. dollars unless otherwise specified)				
External								
16. Trade balance	68	-613	-451	-690	12	-625	-65	-386
Of which: Foreign	314	225	462	355	78	147	208	255
Interrepublican (Rrub billion)	-37	-811	-910	-1,045	-36	-775	-271	-640
17. Net services and transfers	118	-80	-246	-219	38	-118	-101	-145
18. Capital account	-441	-78	365	292	-220	143	150	215
19. Increase in net foreign assets of banks (-)	446	210	-104	73	133	77	-4	-100
20. Extraordinary financing	-191	40	--	3	37	3	--	--
21. Financing gap (= 16 + 17 + 18 + 19 + 20)	--	-521	-436	-541	--	-520	-20	-416
				(In percent of GDP)				
Savings/investment								
22. GDP	100.0	100.0	...	...	...	...	...	...
23. Consumption	76.6	87.3	...	...	...	...	...	...
24. Domestic savings (= 22 - 23)	23.4	12.7	...	...	...	...	...	...
25. Investment	24.5	25.6	...	...	...	...	...	...
26. Foreign savings (= 25-24; = -16)	1.1	12.9	...	...	...	...	...	...
Memorandum items:								
27. GDP/M3	7.0	8.1	5.8	7.5	7.0	9.4	5.7	6.0
28. Oil price (end of period, in percent of world market price)	43.6	75.1	80.8	79.0	34.9	75.1	79.0	80.8
29. Percent change in the ratio of export to import prices (interrepublican trade)	-11.0	-28.0	...	...	...	...	...	...
30. External current account/GDP	3.0	-7.4	-5.3	...	...	...	...	...
31. Gross foreign reserves in convertible currencies in months of total imports	--	0.3	0.6	...	...	...	...	...

Table 2. Belarus: General Government, 1992-94

	1992	Projections 1993	Projections 1993/94 Program year	Estimated 1993 1st half	Projections 1993 2nd half	Projections 1994 1st half
			(In billions of rubles)			
Consolidated budget						
Total revenue and grants	295	2,785	4,099	824	1,960	2,139
Income taxes	99	942	1,363	289	653	710
Indirect taxes	168	1,512	2,240	443	1,069	1,171
Other taxes	9	184	323	41	143	180
Non-tax revenue	15	145	173	50	95	78
Grants	5	2	--	2	--	--
Total expenditure and net lending	314	3,345	5,229	988	2,356	2,873
Of which:						
Subsidies	105	826	1,171	289	537	634
Wage bill	52	484	807	157	327	480
Domestic interest	6	101	291	6	95	196
Subsides to foreign trade 1/	--	160	160	--	160	--
Price compensation for agriculture	--	89	--	89	--	--
Balance	-19	-560	-1,130	-164	-396	-734
Extra-budgetary funds and operations 2/						
Revenue	30	776	1,335	214	561	773
Expenditure	48	791	1,351	215	576	775
Balance	-18	-15	-17	-1	-14	-2
Social funds						
Revenue	98	806	1,319	220	586	732
Pension Fund	79	660	1,095	176	484	611
Social Insurance Fund	15	123	189	37	86	103
Employment Fund	3	22	34	7	16	19
Expenditure	88	1,090	2,119	224	866	1,253
Pension Fund	74	958	1,871	188	770	1,101
Social Insurance Fund	12	104	174	30	74	100
Employment Fund	2	28	74	6	22	52
Balance	10	-284	-801	-4	-280	-521
Pension Fund	6	-298	-776	-12	-286	-490
Social Insurance Fund	3	20	15	7	12	3
Employment Fund	1	-6	-40	--	-6	-34
General Government						
Revenue	417	4,210	6,446	1,234	2,977	3,469
Expenditure	444	5,070	8,394	1,402	3,667	4,727
Balance	-27	-859	-1,948	-169	-690	-1,257
Available financing	27	645	810	169	476	334
Domestic Bank Financing	...	449	618	108	340	278
Others	...	196	192	60	136	56
Measures required	...	214	1,138	...	214	923
Measures envisaged						
Wage policy 3/		29	110		29	81
Vat on non-FSU imports		--	253		--	253
Measures to balance the Pension Fund		286	776		286	490
Abolition of export tax (SFEF)		--	-80		--	-80
Higher coverage of the cost of household utilities		12	41		12	29
Reduction in bread subsidies 4/		73	171		73	97
Memorandum items:						
GDP	950	8,842	12,367	2,037	6,805	5,561
GDP (seasonally adjusted)	950	8,842	13,091	2,549	6,294	6,797
Import subsidies 5/	20	...	...	...	...	...

Table 2 (concluded). Belarus: General Government, 1992-94

	1992	Projections 1993	Projections 1993/94 Program year	Estimated 1993 1st half	Projections 1993 2nd half	Projections 1994 1st half
	(In percent of seasonally adjusted GDP)					
Consolidated budget						
Total revenue and grants	31.1	31.5	31.3	32.3	31.1	31.5
Income taxes	10.4	10.7	10.4	11.4	10.4	10.4
Indirect taxes	17.7	17.1	17.1	17.4	17.0	17.2
Other taxes	1.0	2.1	2.5	1.6	2.3	2.6
Non-tax revenue	1.6	1.6	1.3	1.9	1.5	1.1
Grants	0.5	--	--	0.1	--	--
Total expenditure and net lending	33.1	37.8	39.9	38.8	37.4	42.3
Of which:						
Subsidies	11.1	9.3	8.9	11.3	8.5	9.3
Wage bill	5.5	5.5	6.2	6.1	5.2	7.1
Domestic interest	0.6	1.1	2.2	0.2	1.5	2.9
Price compensation for agriculture	--	1.0	--	3.5	--	--
Subsidy to foreign trade 1/	--	1.8	1.2	--	2.5	--
Balance	-2.0	-6.3	-8.6	-6.4	-6.3	-10.8
Extra-budgetary funds and operations 2/						
Revenue	3.1	8.8	10.2	8.4	8.9	11.4
Expenditure	5.1	8.9	10.3	8.4	9.2	11.4
Balance	-1.9	-0.2	-0.1	--	-0.2	--
Social funds						
Revenue	10.3	9.1	10.1	8.6	9.3	10.8
Pension Fund	8.4	7.5	8.4	6.9	7.7	9.0
Social Insurance Fund	1.6	1.4	1.4	1.5	1.4	1.5
Employment Fund	0.3	0.3	0.3	0.3	0.2	0.3
Expenditure	9.2	12.3	16.2	8.8	13.8	18.4
Pension Fund	7.8	10.8	14.3	7.4	12.2	16.2
Social Insurance Fund	1.3	1.2	1.3	1.2	1.2	1.5
Employment Fund	0.2	0.3	0.6	0.3	0.3	0.8
Balance	1.1	-3.2	-6.1	-0.2	-4.4	-7.7
Pension Fund	0.6	-3.4	-5.9	-0.5	-4.5	-7.2
Social Insurance Fund	0.4	0.2	0.1	0.3	0.2	--
Employment Fund	0.1	-0.1	-0.3	--	-0.1	-0.5
General Government						
Revenue	43.9	47.6	49.2	48.4	47.3	51.0
Expenditure	46.7	57.3	64.1	55.0	58.3	69.5
Balance	-2.9	-9.7	-14.9	-6.6	-11.0	-18.5
Available financing	-2.9	7.3	6.2	6.6	7.6	4.9
Domestic bank financing	...	5.1	4.7	4.3	5.4	4.1
Others	...	2.2	1.5	2.4	2.2	0.8
Measures required	...	2.4	8.7	...	3.4	13.6
Measures envisaged						
Wage policy 3/		0.3	0.8		0.5	1.2
VAT on non-FSU imports		--	1.9		--	3.7
Measures to balance the Pension fund		3.2	5.9		4.5	7.2
Abolition of export tax		--	-0.6		--	-1.2
Higher coverage of the cost of household utilities		0.1	0.3		0.2	0.4
Reduction in bread subsidies 4/		0.8	1.3		1.2	1.4
Memorandum items:						
Import subsidies 5/	2.1	...	...	...	...	...
As percentage of nonseasonally adjusted GDP						
Total balance	-2.9	-9.7	-15.7	-8.3	-10.1	-22.6
Available financing	2.9	7.3	6.6	8.3	7.0	6.0
Domestic bank financing	...	5.1	5.0	5.3	5.0	5.0

Sources: Belarus authorities; and staff projections.

1/ To fulfill the agreement with Roscontract.

2/ Includes the State Foreign Exchange Fund, the Road Fund, the Price Regulation Fund and other extra-budgetary operations.

3/ Indexation of budgetary wages to 70 percent of current inflation.

4/ Reduction by half in real terms.

5/ Expenditures financed through foreign loans (especially grain imports) at an appreciated exchange rate. Staff estimate for QI 1993 is 2.2 percent of seasonally adjusted GDP.

Table 3. Belarus: Monetary Survey, 1992-93

(End of period balances, in million rubles, unless otherwise indicated)

	1992				1993				1993 2nd half Projected change in percent
	March	June	September	December	March	June Est.	September Projected	December Projected	
Banking system									
Broad money, M3	63,164	116,709	164,529	305,397	530,296	890,000	1,345,689	2,289,475	157
Currency, M0	5,999	15,695	21,635	38,156	76,007	160,000	284,096	399,951	150
Ruble deposits	57,165	101,014	142,894	267,241	454,289	730,000	1,061,593	1,889,524	159
Population	31,156	37,035	43,524	57,102	73,509	130,000	209,305	334,159	157
Enterprises	26,009	63,979	99,370	210,139	380,780	600,000	852,288	1,555,365	159
Foreign exchange deposits	16,986	11,332	24,781	24,365	147,095	310,000	335,500	369,500	19
Net foreign assets	-14,392	-33,559	-65,145	-68,056	-40,266	75,130	-88,770	-3,770	137
Of which: commercial bank claims in convertible currencies	236	10,288	17,138	18,954	120,481	240,000	240,000	240,000	112
Direct correspondent accounts	--	--	--	-209	-3,797	-11,000	-11,000	-11,000	207
Net domestic assets	94,542	161,600	254,455	397,818	717,657	1,124,870	1,769,959	2,662,745	137
Credit to enterprises and population	54,789	139,074	273,572	406,071	624,045	1,150,000	1,685,664	2,434,717	112
Net claims on general government 1/	20,646	25,872	17,128	55,584	32,526	164,000	296,175	504,265	207
Other assets (net)	19,107	-3,346	-36,245	-63,837	61,086	-189,130	-211,880	-276,237	...
National Bank of Belarus									
Reserve money	19,746	29,456	43,881	84,090	176,416	283,000	449,418	697,742	147
Required reserves	6,625	11,025	15,629	26,877	37,698	73,000	101,626	184,419	153
Free reserves	7,122	2,736	6,617	19,057	62,711	50,000	63,696	113,371	127
Currency outside banks, M0	5,999	15,695	21,635	38,156	76,007	160,000	284,096	399,951	150
Net international reserves	-14,628	-43,847	-82,283	-86,801	-156,950	-153,870	-317,770	-232,770	...
In convertible currencies	470	60	583	777	3,920	7,000	-72,900	12,100	...
Net claims on FSU central banks	-15,098	-43,907	-82,866	-87,578	-160,870	-160,870	-244,870	-244,870	...
Of which: Central Bank of Russia	-25,900	-43,149	-131,960	-116,455	-181,993	-181,993	-265,993	-265,993	...
Net domestic assets	34,374	73,303	126,164	170,891	333,366	436,870	767,188	930,512	113
Credit to enterprises	39	54	53	85	870	80	80	80	--
Net credit to general government 1/	855	4,896	8,093	41,602	49,460	175,000	287,175	455,265	160
Credit to banks	28,289	64,797	143,558	185,911	270,955	350,000	590,893	650,484	86
Other assets (net)	5,191	3,556	-25,540	-56,707	12,081	-88,210	-110,960	-175,317	...
Memorandum items:									
Money multiplier	3.20	3.96	3.75	3.63	3.01	3.14	2.99	3.28	...
Required reserve ratio (in percent)	11.6	10.9	10.9	10.1	8.3	10.0	9.6	9.8	...
Velocity 2/	5.60	6.85	8.11	7.32	5.88	8.01	9.46	9.16	...
Basic refinancing rate of the NBB	20	20	30	30	60	100	...	...	...
Interest rate in NBB credit auctions (in percent)	...	...	...	...	181	165	...	...	...
Accounting exchange rate (Brub/US$)	100	100	150	150	872	1700	1700	1,700	...
Nominal GDP	81,000	154,000	285,000	430,000	614,200	1,422,800	2,643,500	4,161,800	...
Quantitative targets							(Quarterly flows)		
Net domestic assets of NBB 3/							330,318	163,324	
Net claims of the banking system on general government							132,175	208,090	
NIR of NBB (in millions of US$) 4/							-126.1	50.0	
NBB holdings of convertible currencies (in millions of US$)							-47.0	50.0	
NBB net claims on CBR (in millions of US$)							-79.1	--	

Sources: National Bank of Belarus; and staff estimates.

1/ Republican government, local authorities, extrabudgetary funds, and liabilities to Sberbank.
2/ Annualized quarterly GDP over period average of broad money.
3/ Includes also net claims on FSU central banks other than the CBR.
4/ Does not include net claims on FSU central banks other than the CBR.

Table 4. Belarus: Balance of Payments (All Countries), 1992-94

	Prel. Actual 1992	Projected 1993	Projected 1993-94 Program year	Estimated Jan.-June 1993	Projected June-Dec. 1993	Projected Jan.-June 1994	Projected Q3 1993	Projected Q4 1993
				(In millions of U.S. dollars)				
Current account balance	186	-694	-909	50	-744	-166	-164	-580
Trade balance	68	-613	-690	12	-625	-65	-142	-483
Exports f.o.b.	3,580	3,608	4,615	1,398	2,210	2,405	925	1,285
Imports f.o.b.	-3,512	-4,221	-5,305	-1,386	-2,835	-2,470	-1,066	-1,768
Services, net	43	-157	-294	3	-160	-134	-43	-117
Of which:								
Interest, net 1/	--	-73	-146	-13	-60	-86	-10	-50
Transfers, net	75	77	75	35	42	33	21	21
Capital account balance	-441	-78	292	-220	143	150	-6	149
Medium- and long-term capital	181	439	419	144	296	123	83	213
Disbursements	181	484	520	144	340	180	127	213
Amortization	--	45	101	--	44	57	44	--
Foreign direct investment	7	8	30	4	4	26	2	2
Short term capital, net	-325	-254	-157	-97	-157	--	-91	-67
Errors and omissions	-305	-270	--	-270	--	--	--	--
Overall balance	-255	-771	-617	-170	-601	-16	-170	-431
Financing								
NFA of banking system 2/	446	210	73	133	77	-4	127	-50
NIR of Central Bank	571	199	73	122	77	-4	127	-50
Gross reserves (-, increase)	-198	-93	-200	7	-100	-100	-50	-50
Liabilities (+, increase)	769	291	273	114	177	96	177	--
Of which: IMF 3/		97	193	--	97	96	97	--
NFA of commercial banks	-125	11	--	11	--	--	--	--
Arrears	-191	40	3	37	3	--	3	--
Financing gap (-)/surplus (+)	--	-522	-541	--	-521	-20	-40	-481
Memorandum items:				(In percent)				
Export volume growth	-40	-5	...	...	...	...	...	...
Import volume growth	-38	-10	...	...	...	...	...	...
Of which: Energy	-29	-18	...	...	...	...	...	...
Debt service (in percent of exports of goods and nonfactor services)	--	3	...	...	...	...	...	...
Gross convertible currency reserves (in weeks of imports)	0.1	1.3	...	...	...	...	...	...
Exchange rate Rrub/US$	152	878	1,004	740	1,017	992		

Table 4 (continued). Belarus: Balance of Payments (FSU), 1992-94

	Prel. Actual 1992	Projected 1993	Projected 1993-94 Program year	Estimated Jan.-June 1993	Projected June-Dec. 1993	Projected Jan.-June 1994	Projected Q3 1993	Projected Q4 1993
	(In billions of Russian rubles)							
Current account balance	-26	-881	-1,177	-22	-859	-318	-272	-587
Trade balance	-37	-811	-1,045	-36	-775	-271	-245	-530
Exports f.o.b.	380	2,160	3,179	701	1,459	1,720	605	854
Imports f.o.b.	-417	-2,971	-4,224	-737	-2,234	-1,990	-850	-1,384
Services, net	6	-97	-165	5	-102	-63	-36	-66
Of which: Interest, net	--	-23	-43	-6	-17	-27	-7	-10
Transfers, net	5	27	33	9	18	15	9	9
Capital account balance	-32	-290	-254	-84	-206	-48	-140	-66
Medium- and long-term capital	20	-45	-93	--	-45	-48	-45	--
Disbursements	20	--	--	--	--	--	--	--
Amortization	--	45	93	--	45	48	45	--
Foreign direct investment	--	--	--	--	--	--	--	--
Short-term capital, net	-16	-154	-161	7	-161	--	-95	-66
Errors and omissions	-36	-91	--	-91	--	--	--	--
Overall balance	-59	-1,171	-1,431	-106	-1,065	-366	-412	-653
Financing								
Net claims on FSU banks 4/	88	165	84	80	84	--	84	--
NBB net claims (correspondent accounts)	88	154	84	69	84	--	84	--
Claims (-, increase)	-29	4	--	4	--	--	--	--
Liabilities (+, increase)	116	150	84	66	84	--	84	--
NFA of commercial banks	--	11	--	11	--	--	--	--
Arrears	-29	29	--	26	--	--	3	--
Financing gap (-)/surplus (+)	--	-977	-1,346	--	-977	-366	-325	-653
Memorandum items:								
Export volume growth (in percent)	-45	-14	...	...	...	...	...	...
Import volume growth (in percent)	-38	-23	...	...	...	...	...	...
Of which: Energy	-29	-18	...	...	...	...	...	...
Export unit price change (in percent)	2,250	561	...	...	...	...	...	...
Import unit price change (in percent)	2,530	821	...	...	...	...	...	...
Of which: Energy	5,434	1,259	...	...	...	...	...	...

Table 4 (concluded). Belarus: Balance of Payments (non-FSU countries), 1992-94

	Prel. Actual 1992	Projected 1993	Projected 1993-94 Program year	Estimated Jan.-June 1993	Projected June-Dec. 1993	Jan.-June 1994	Q3 1993	Q4 1993
	(In millions of U.S. dollars)							
Current account balance	360	205	268	93	112	156	95	17
Trade balance	314	225	355	78	147	208	92	55
Exports f.o.b.	1,082	1,216	1,437	450	765	671	349	417
Imports f.o.b.	-768	-991	-1,082	-372	-619	-464	-257	-362
Services, net	--	-68	-129	-10	-59	-70	-9	-50
Of which: Interest, net 1/	--	-50	-102	-7	-43	-59	-3	-40
Transfers, net	46	48	42	24	24	18	12	12
Capital account balance	-229	252	540	-91	343	197	128	215
Medium- and long-term capital	53	482	510	144	339	171	126	213
Disbursements	53	484	520	144	340	180	127	213
Amortization	--	2	10	--	1	9	1	--
Foreign direct investment	7	8	30	4	4	26	2	2
Short-term capital, net	-221	-126	--	-126	--	--	--	--
Errors and omissions	-67	-112	--	-112	--	--	--	--
Overall balance	132	457	808	2	455	353	223	232
Financing								
NFA of banking system	-132	-6	-7	-2	-3	-4	47	-50
NIR of Central Bank	-5	-3	-7	1	-3	-4	47	-50
Gross reserves (-, increase)	-8	-100	-200	--	-100	-100	-50	-50
Liabilities (+, increase)	3	97	193	--	97	96	97	--
Of which: IMF 3/		97	193	--	97	96	97	--
NFA of commercial banks	-126	-3	--	-3	--	--	--	--
Arrears	--	--	--	--	--	--	--	--
Financing gap (-)/surplus (+)	--	451	800	--	451	349	269	182
Memorandum items:								
Export volume growth (in percent)	3	16	...	...	...	...	...	...
Import volume growth (in percent)	-38	33	...	...	...	...	...	...
Debt service in percent of exports of goods and nonfactor services	--	4	...	...	...	...	...	...
Gross convertible currency reserves in weeks of imports	0.5	5.6	...	...	...	...	...	...

Sources: Data provided by the Belarussian authorities; and staff estimates.

1/ Including interest on financing gap.
2/ Net Foreign Assets of the banking system comprise the Net International Reserves (NIR) of the central bank and the commercial banks. Claims and liabilities on non-Russian FSU central banks are included in the Table 4 presentation, but excluded from the quantified NIR targets defined in Attachment I of Annex I.
3/ Assumes disbursements of 25 percent of quota each in August 1993 and January 1994 under the STF.
4/ Excluding frozen VEB deposits.

Table 5. Belarus: Medium-Term Balance of Payments Projection (all Countries), 1992-2000

	Prel. Actual	Projected							
	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(In millions of U.S. dollars)								
Current account balance	186	-694	-697	-576	-383	-333	-264	-171	-57
Trade balance	68	-613	-451	-513	-320	-263	-198	-124	-41
Exports f.o.b.	3,580	3,608	5,212	5,887	6,360	6,752	7,170	7,616	8,091
Imports f.o.b.	-3,512	-4,221	-5,663	-6,400	-6,680	-7,015	-7,367	-7,740	-8,132
Services, net	43	-157	-312	-102	-102	-110	-106	-86	-55
Of which: Interest, net 1/	--	-73	-176	-244	-275	-303	-320	-323	-316
Transfers, net	75	77	66	39	39	39	39	39	39
Capital account balance	-441	-78	365	399	352	295	245	219	263
Medium- and long-term capital	181	439	312	299	202	95	-55	-181	-137
Disbursements	181	484	469	510	536	562	590	620	651
Amortization	--	45	157	211	334	468	645	801	788
Foreign direct investment	7	8	53	100	150	200	300	400	400
Short term capital, net	-325	-254	--	--	--	--	--	--	--
Errors and omissions	-305	-270	--	--	--	--	--	--	--
Overall balance	-255	-771	-332	-177	-31	-39	-19	48	206
Financing									
NIR of banking system	446	210	-104	-200	-200	-200	-224	-232	-232
NIR of Central Bank	571	199	-104	-200	-200	-200	-224	-232	-232
Gross reserves (-, increase)	-198	-93	-200	-200	-200	-200	-200	-200	-200
Liabilities (+, increase)	769	291	96	--	--	--	-24	-32	-32
Of which: IMF 2/		97	96	--	--	--	-24	-32	-32
NIR banks	-125	11	--	--	--	--	--	--	--
Arrears	-191	40	--	--	--	--	--	--	--
Financing gap (-)/surplus (+)	--	-522	-435	-377	-231	-239	-243	-185	-26
Memorandum items:									
Export volume growth (in percent)	-40	-5	5	10	7	6	6	6	6
Import volume growth (in percent)	-38	-10	-9	1	3	4	4	4	4
Of which: Energy (in percent)	-29	-18	-13	-2	2	2	2	2	2
Debt service (in percent of exports of goods and nonfactor services)	--	3	6	7	9	10	12	14	13
Gross convertible currency reserves (in weeks of imports)	0.1	1.3	2.8	4.1	5.5	6.7	7.8	8.8	9.6
Current account deficit (in percent of GDP)	3.0	-7.4	-5.3	-4.0	-2.7	-2.4	-1.9	-1.3	-0.4
Financing gap (in percent of GDP)	-0.0	-5.6	-3.3	-2.6	-1.6	-1.7	-1.8	-1.4	-0.2

Sources: Data provided the Belarussian authorities; and staff estimates.

1/ Including interest on financing gap.

2/ Assumes disbursements of 25 percent of quota each in August 1993 and January 1994 under the STF.

Table 6. Belarus: Indicators of Fund Credit, 1992-2000

	1992	1993	1994	1995	1996	1997	1998	1999	2000
		Projected							
Outstanding Fund credit (in percent of):									
Quota	--	25.0	50.0	50.0	50.0	50.0	43.8	35.4	27.1
Exports	--	2.4	3.4	3.0	2.7	2.6	2.1	1.6	1.2
Reserves	--	89.8	62.6	38.2	27.4	21.4	15.3	10.5	7.0
Total external debt	--	5.5	7.4	5.9	5.2	4.8	4.0	3.3	2.6
Fund charges and repurchases (in percent of):									
Quota	--	0.4	2.7	2.9	2.8	2.8	8.9	10.6	10.1
Exports	--	0.0	0.2	0.2	0.2	0.1	0.4	0.5	0.4
Reserves	--	1.3	3.4	2.2	1.5	1.2	3.1	3.1	2.6
Total external debt	--	0.1	0.4	0.3	0.3	0.3	0.8	1.0	1.0
				(In millions of U.S. dollars)					
Memorandum items:									
Fund purchases	--	96.5	96.2	--	--	--	--	--	--
Fund repurchases	--	--	--	--	--	--	24.2	32.3	32.3
Total liabilities to Fund	--	96.5	192.5	193.8	193.8	193.8	169.6	137.2	104.9
Fund charges	--	1.4	10.3	11.2	10.9	10.9	10.2	8.6	6.8
SDR/US$ exchange rate	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4

Source: Fund staff estimates.

1/ Assuming purchase of SDR 70.1 million under the STF in August 1993 and January 1994.

Table 7. Belarus: Major Structural Reforms, January 1992 - June 1993

Area	Actions
Price System	- Liberalization of prices of most domestic goods and services - Substantial adjustment of administered prices - Substantial reduction of compulsory state orders to cover only fulfillment of foreign trade agreements and government procurement
Foreign Trade	- Decentralization of trading rights - reduction in coverage and simplification of quota and licensing system
Exchange System	- Simplification of exchange rate system - Establishment of free inter-bank market for foreign exchange - Introduction of foreign exchange auctions for FSU currencies - Current account convertibility for residents
Fiscal Operations	- Introduction of VAT - Progress towards full-fledged Treasury - Progress towards reorganization of Tax Inspectorate
Financial System	- Adoption of Amendment to Banking Law strengthening the competence of the NBB in the areas of monetary policy and banking supervision - Introduction of credit auctions for NBB resources - Adjustment of interest rates and their structure
Privatization	- Adoption of privatization laws and privatization plan - Progress on privatization of housing and small-scale enterprises - Adoption of Land Reform Law
Statistics	- Improvement in statistical systems, e.g. monetary, balance of payments, and external debt statistics, and revision of consumer and producer price statistics

Source: Information provided by the Belarussian authorities.

July 8, 1993

Dear Mr. Camdessus:

The Government of Belarus has taken decisive steps since last year to reform the Belarussian economy based on market principles and mechanisms. In particular, the process of price and trade liberalization is now substantially advanced. Such accomplishments have been secured despite extremely difficult external circumstances.

Much work remains, however, to be done, both in the area of systemic reforms and macroeconomic stabilization. Particularly in view of the further severe terms of trade shock we will be facing during 1993-94 as a result of the dramatic increase in the cost of our energy imports, that work could not be completed without the support of the international financial community.

For this reason, and on the basis of the economic policy commitments detailed in the attached Statement, we intend to request two purchases from the International Monetary Fund under the Systemic Transformation Facility (STF) in the aggregate amount of SDR 140.2 million (50 percent of quota). It is intended that the first purchase of SDR 70.1 million (25 percent of quota) would be made on the date of its approval by the Executive Board of the Fund.

In line with the provisions of the STF, we intend to reach understandings with the Fund as soon as possible following commencement of the STF program on a comprehensive economic and financial program that could be supported by further assistance from the Fund in the form of an upper-credit tranche stand-by arrangement.

Yours sincerely,

/s/

M.V. Mjasnikovich
First Deputy Chairman
of the Council of Ministers
Republic of Belarus

/s/

S.A. Bogdankevich
Chairman
National Bank of Belarus

Mr. Michel Camdessus
The Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Government of the Republic of Belarus

STATEMENT OF ECONOMIC POLICIES

I. Introduction

1. Since its independence, Belarus has undertaken significant economic reforms to transform its economic system from central planning to one based on market mechanisms. This process has been associated with an extremely difficult external environment characterized by a disruption in traditional trade patterns with other states of the former Soviet Union (FSU), a breakdown of the payments system, and a loss of monetary control and coordination within the ruble area, leading to disjointed monetary and exchange arrangements and an acceleration of inflation to some 30 percent a month in early 1993.

2. During 1992, Belarus was confronted with both a sharp deterioration in its terms of trade resulting from a substantial increase in the relative price for its energy imports, and a significant decline in demand for some of its key industrial products. Substantially lower volumes of oil imports have also constrained production in many sectors. Despite attempts to limit the impact of these adverse developments on economic activity by carefully managing available resources, real GDP declined by 10 percent in 1992, and the overall external trade balance worsened by more than 2 percent of GDP, caused by a 10 percentage point of GDP deterioration in the trade balance with the FSU states.

3. The terms of trade are expected to deteriorate further during 1993-94, by as much as 15-20 percent on the assumption that the energy import prices paid by Belarus will move toward their world levels. The Government of Belarus views this move to world market prices for energy imports as inevitable over the next one to two years. As a result, Belarus will be facing balance of payment problems of major proportions during 1993-94. These problems will at the same time complicate and enhance the urgency of moving ahead with our economic reforms. The Government intends to address these difficulties with a two-pronged economic program, which will consist, first, of stabilizing the economy through the implementation of appropriately tight financial policies, and second, of accelerating systemic reforms that will facilitate both the stabilization process itself and the early restructuring of the Belarussian economy.

4. We seek assistance from the international financial institutions, including the IMF, and the international community of donor countries, in providing financial assistance in support of our economic program. The overall external financing needs of Belarus for the coming 12 months between July 1993 and June 1994 are estimated to be in the order of US$700 million, the bulk of which will be required in the remainder of 1993. On the basis of the balance of payments shock we have been experiencing and the policies we intend to pursue, as detailed below, the Government intends to request shortly a first purchase under the Systemic Transformation Facility (STF).

In line with the provisions of the STF, the Government intends to reach understandings as soon as possible on a comprehensive adjustment program that could be supported by an upper-credit tranche stand-by arrangement. The Government would intend at the time of approval of a stand-by arrangement, to make a final decision on its monetary arrangements, which presently remain highly distortionary. Specifically, the Government will choose whether to introduce a separate national currency or to coordinate monetary policy fully with the ruble area partners.

II. Financial Policies

5. Our primary objectives are, first, to reduce the monthly rate of inflation to a single digit level by the end of 1993 and to achieve further progress toward price stability in 1994; and, second, to contain our external current account deficit to a level which is consistent with the amount of foreign financing we are aiming at, without reliance on a rationing of imports. Attainment of the objectives would also help to put Belarus on the path toward a viable and sustainable balance of payments position, which is our medium-term goal. As long as we remain in the ruble area, the above targets for reducing inflation are based on the assumption of a similar objective in Russia; the latter to be backed by similarly tight monetary and fiscal conditions in that country.

6. Control of credit expansion and a more realistic interest rate will be the main instruments of monetary policy used to stabilize the economy. As a first step, we will adjust, before end-July 1993, the National Bank of Belarus' (NBB) general refinance rate in line with the refinance interest rate policy pursued by the Central Bank of Russia. The aim is to encourage the holding of money balances within Belarus, and to promote the allocation of the limited credit available to the most productive uses. At the same time, we will enhance the higher refinance rate as an instrument of credit control by reducing the amount of refinance provided on subsidized terms. Any remaining interest subsidies on directed credit will be fully budgeted in the 1994 Budget.

7. With a view to increasing competition and efficiency in the credit allocation process and to reinforce market signals, we will also raise the share of total outstanding NBB credit to banks going through auctions to one fourth by the fourth quarter of 1993, compared with less than 5 percent in the first half of the year. Also, the "directed" component of NBB credit to banks will be limited to 30 percent in the fourth quarter of 1993, compared with 90 percent in the first half of the year. The shares of auctioned and non-directed credit will continue to be raised in 1994. As a transitional measure, we plan to establish a rediscount "window" through which non-auction and non-directed credit will be allocated at the refinance rate, with the access of individual banks based on their level of capitalization.

8. To increase the efficiency of the interbank market, we intend to remove before end-1993 the regulation prohibiting commercial banks from on-lending any nondirected and own credit resources into the interbank market.

9. In line with our objectives to reduce inflation, to increase Belarus' official gross international reserves by the equivalent of US$100 million by end-1993, and to reach the increase in net international reserves of the NBB as defined in the Technical Memorandum, we will limit the expansion in net domestic assets of the NBB to rub 330 billion during the period July 1, 1993-September 30, 1993, and to rub 500 billion during the period July 1, 1993-December 31, 1993.

10. Fiscal policy must be supportive of the stabilization effort. We will aim at limiting the deficit of the general government to less than 7 percent of (semester) GDP in the second half of 1993 and to 6 percent for the full year. The preparations for the 1994 Budget will aim at further fiscal consolidation. Taking into account the amount of foreign financing that could be available to the general government for the remainder of 1993, we intend to contain the domestic bank financing of the general government to 5 percent of (semester) GDP in the second half of 1993; targets in ruble terms are specified in the attached Technical Memorandum.

11. The 1993 Budget approved by parliament in February implied a consolidated deficit of 7 percent of GDP (IMF presentation). On this basis, the general government deficit, that is, including certain government operations not covered by the budget and the operations of extra-budgetary funds, 1/ was estimated at 7.7 percent of GDP (IMF presentation). However, based on the actual budgetary outcome through May and projected government obligations for the rest of the year--including meeting commitments under the trade agreement with Russia--the actual outcome for 1993 would be substantially worse on the basis of no policy change.

12. The Government has already taken a number of difficult decisions which will help to achieve the general government deficit target set for the second half of 1993. First, most remaining processing subsidies were removed with the liberalization of prices on meat and butter and the adjustment of administered prices for dairy products (except milk) in June 1993. Second, all agricultural producer subsidies (for meat, milk, and grains) have been fixed in nominal terms at their level of early 1993, thereby ensuring a reduction in real terms in the level of subsidization for the remainder of the year. Third, with the aim of reducing the subsidies provided by Government to the suppliers of household services--housing, water, sewage, heating, electricity, and public transportation--, the administered prices of most of these services were also adjusted in early June, 1993 (by 3-5 times).

1/ In particular, the State Foreign Exchange Fund (SFEF), the new Price Regulation Fund, and the three extra-budgetary social funds.

13. Attainment of the general government deficit target for the second half of 1993 will necessitate at the level of the consolidated budget, additional revenue and expenditure measures. Accordingly, we intend:

(a) to make further progress in phasing out remaining subsidies on bread and milk before end-1993, including through liberalizing the price of some of these products;

(b) to continue progressively adjusting the administered prices of household services in the remainder of 1993 in such a way as to cover about 30 percent of the cost of providing these services before the end of the year (compared to the 5-10 percent coverage early in the year);

(c) to contain the increase in the nominal wage bill in the budgetary sphere to no more than 70 percent of the increase in the retail price index.

(d) Preservation, and indeed broadening, of the revenue base will continue to be an important objective of our fiscal policy. To this effect, we will aim at reducing in the remainder of 1993 and beyond tax preferences and exemptions applying in particular to the VAT and the profit tax. The application of VAT will be extended to non-FSU imports following establishment of a crediting system before end-1993. We intend to pursue a more even-handed approach to taxation and to strengthen tax revenues by compensating any reductions in tax rates with reduced tax preferences.

14. So far in 1993, the combination of high inflation rates and lags in the adjustment of benefits has tended to yield a favorable financial outcome for the social funds. However, the situation of these funds is expected to deteriorate significantly in the remainder of the year as inflation decelerates and the wage policy becomes more restrictive. To prevent the social funds, and in particular the Pension Fund, from adding to the deficit of the general government, the outlays of the funds will have to be contained within the existing revenue bases; payroll taxes are already high and should not be increased further. Measures we are envisaging include a compression of pension differentials, for example by reducing the cap on maximum pensions, and a reduction in the minimum replacement rate. The increases in food prices in June and early July will require compensation to segments of the population, including pensioners, for the resulting increase in the cost of subsistence. Our limited resources will be directed at those in the lowest income groups with the greatest needs, while containing the overall fiscal cost of social spending.

15. Implicit subsidization of domestic prices of petroleum products occurred during the first half of 1993 in the context of the bilateral trade agreement with Russia. Ruble receipts for domestic oil sales were insufficient to purchase in Belarus the amounts of manufactured goods required to meet the agreement; consequently, Belarus incurred a trade deficit in the first half of 1993 of some US$300 million in "world" prices, or about rub 120 billion in terms of the actual price of manufactures in Belarus. Government will raise the necessary funds, including by increasing the domestic ruble price of oil, in order to meet Belarus' remaining

delivery obligations under the first half of the contract. In the second half, the domestic price of oil will be increased sufficiently to meet in full the domestic cost of Belarus' remaining delivery obligations under the contract. Further, the Government's general policy with regard to imported oil and gas in the remainder of 1993 and beyond will be to pass on to all domestic users the full extent of increases in import costs. Energy subsidies to households will therefore be contained to the amount included in the original 1993 budget, irrespective of the developments in energy import costs. Cross-subsidization among energy users will also be contained to a minimum.

16. The remaining elements of the general government are expected to be in balance during 1993-94 (with the exception of certain imported foreign financed outlays, which will be limited to the amount of the available external financing). The Government does not intend to introduce new extrabudgetary accounts or funds in the duration of the STF program; any such account or fund would be included in the coverage of the general government for the purpose of assessing performance under the fiscal targets.

17. The Government has embarked on a medium term program to enhance its capabilities for effective tax collection, expenditure control, and cash management, for which we are receiving technical assistance from the IMF and other donors. Specifically, we are in the process of strengthening our Tax Inspectorate, including through computerization, and of setting up a modern Treasury. The pilot project to computerize tax collections for the city of Minsk will be in place by July 1993 and the processing of major taxes will be computerized by end-1993. Also, we expect phases I and II of the Treasury project to be completed by end-1993.

18. Given the uncertainty surrounding the likely revenue performance in coming months, the Government will, nevertheless, continue to adhere to the principle of limiting monthly expenditure authorizations in line with available resources.

III. Structural Policies

19. The Government's gradual approach to price liberalization so far has been motivated by concerns about excessive price hikes and their adverse effects on the population, particularly as the level of competition within the Belarussian economy remains limited. We decided, however, to speed up the price liberalization process, which is necessary to encourage supply responses and to reduce the burden of subsidies on the budget. The liberalization of most remaining administered prices for food products from June will allow the full liberalization of agricultural producer prices for foodstuffs although, as indicated earlier, we will continue to pay agricultural producer subsidies fixed in ruble terms per unit of output.

20. We also intend progressively to scale back the number of goods subject to profitability limits or limits on wholesale and retail margins, with the objective of removing most of these regulations before mid-1994 except in the case of natural monopolies and enterprises explicitly judged by the Anti-Monopoly Committee to be abusing their market dominance. The incidence of "monopoly" profit margin controls will be reduced by half by end-1993 and limits on trade margins will be abolished before mid-1994.

21. In the area of external policies, we have made considerable progress since late 1992 in rationalizing the exchange system--by limiting the number of official exchange rates to two, by ensuring broad current account convertibility, and by letting market forces affect the allocation of foreign exchange. The latter principle now also applies to the allocation of other FSU currencies and non-cash Russian rubles, which have become scarce as a result of the trade imbalance with Russia and the strict limits that have been imposed on correspondent account credit. Over the coming months we will make further progress toward the elimination of remaining distortions in the exchange system.

22. Before end-July 1993, the "investment" exchange rate will be abolished, and all official foreign exchange transactions, including those of the State Foreign Exchange Fund, will be conducted at the unified exchange rate. The unified rate will also apply for all government accounting of foreign exchange. However, as a transitory arrangement to mitigate the budgetary impact of the exchange rate unification, the 20 percent of proceeds from export contracts that have been signed before end-July 1993 will be surrendered to the State Foreign Exchange Fund at a discount from the unified exchange rate. We intend to phase out progressively this discount and fully eliminate it. Convertibility for current international transactions will also be ensured.

23. The Government intends to overhaul foreign trade regulations with the view to provide greater incentives to exporters. Reflecting this objective, the government intends by end-1993 to phase out all export taxes on goods not subject to domestic price controls and to remove quantitative restrictions on exports when this is consistent with international practices--including international treaties and intergovernment agreements. As long as price controls remain--for instance in the case of energy--export taxes will be maintained to ensure adequate supplies to the domestic market. As an initial step, all quantitative restrictions on exports of free domestic price consumer goods will be eliminated as of September 1993.

24. During the program period, the government does not intend to introduce or intensify restrictions on payments and transfers for current international transactions, introduce or modify any multiple currency practices, accumulate new external arrears, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement, or impose any new import restrictions for balance of payments reasons.

25. Pending the outcome of our discussions with Russia and other states of the FSU on economic collaboration and policy coordination in the context of the ruble area, we will strive at both reducing the distortions associated with the current currency arrangements, and at increasing the effectiveness of our financial policies. However, these aims can only be achieved once a clear choice is made between a separate national currency and full policy coordination in the ruble area at a common (cash and non-cash) exchange rate. Given the difficulty of achieving a fully coordinated and effective ruble area monetary policy, the Government is making contingency plans for introduction of a national currency. This option could be pursued rapidly should the ruble area discussions not succeed. Furthermore, such a measure could usefully form the basis of a revised Fund program that could be supported under a stand-by arrangement.

26. The Government will continue to pursue a well-balanced approach with regard to the contracting of foreign debt, particularly on terms other than concessional. The foreign financing requirement of around US$700 million that has been identified as necessary to meet our macroeconomic and reform objectives during the coming year is substantial. It is our hope that the significant steps toward economic stabilization and reform that we are committed to, and which are described in this policy statement, will attract financial assistance on preferential terms from the international community as well as encourage much needed direct foreign investment. The responsibility for the decisions on state foreign borrowing, its allocation, and its management, will ultimately rest with the Monetary and Credit Committee of the Council of Ministers of the Republic of Belarus.

27. The Government is committed to pursue the setting up of an institutional and legal environment that will allow the development of a market oriented economy based on individual initiative and competition. To help achieve this, the state will become less involved in the direct management and regulation of economic activity. In particular, the remaining state orders for general production--i.e. not directly related to the fulfillment of bilateral trade agreements or for the Government's own procurement--will be eliminated before end-1993. The remaining state orders related to bilateral trade agreements will be phased out as trade moves increasingly to a market basis.

28. The Government will facilitate the growth of new private sector activities through further deregulation of the economy. Particularly targeted for simplification are the cumbersome registration and licensing procedures, and the removal of discriminatory practices regarding access to inputs, credits, and markets. We will also submit to Parliament amendments to the Foreign Investment Law aimed at further clarification and liberalization of its provisions.

29. Privatization of large parts of the state enterprise sector will play a key role in the eventual revitalization of the Belarussian economy. An important step in this direction was made with the approval of the Privatization Law in January 1993. The Privatization Program for the period 1993-95 was approved by Parliament in June. The program's target is to have

10 percent of the total value of fixed assets of Republican enterprises privatized by end-1993 (meaning that no less than 75 percent of privatized enterprises' capital should be in private hands). In addition, the privatization of small and medium-size enterprises in the trade, catering, and service sectors, involving mainly municipal enterprises, will accelerate and be given the highest priority. We will formulate before the end of 1993, with the assistance of the IFC, a "fast track" approach for the privatization of small and medium-size enterprises in these sectors. We are committed to accelerate the transfer of enterprise ownership to the private sector in accordance with the provision of the Privatization Law which stipulates that up to 50 percent of state property be transferred to the population free of charge. Recently, Parliament has passed the Law on Private Land Ownership; and privatization of housing is proceeding rapidly, with some 40-45 percent of the housing stock already owned privately.

30. A key to the success of both the market reforms and the stabilization effort will be our ability to impose harder budget constraints on enterprises. This will be made more critical by the fact that the wage bill has to be restricted by enterprises to adjust to the deterioration in the terms of trade. The hardening of budget constraints requires that the enterprises be given clear signals that they are responsible for mobilizing resources on their own, including financing from increasingly profit oriented commercial banks. The Government and the NBB can no longer guarantee access to budget transfers or credit on subsidized terms. The increased reliance on auctions to allocate NBB credit to banks, and the reduction in the amount of directed and subsidized NBB refinancing, are important steps in this direction. The Government and the NBB will announce by end-July that there will be no more generalized settlement of interenterprise arrears, nor generalized indexation of working capital of enterprises through credit expansion. It will also make it clear that the granting of tax exemptions and preferences will not be allowed to weaken the effectiveness of tighter budgetary and credit policies in encouraging the enterprises to adjust to the new economic environment. With a view to achieving a positive demonstration effect and to impress on enterprise managers the need for adjustment, it is the Government's intention to target a few insolvent enterprises for bankruptcy proceedings, to proceed before the end of 1993.

IV. Monitoring and Conclusion

31. Progress in the implementation of the program will be monitored on the basis of quantified financial targets and policy benchmarks. Both sets of criteria are detailed in the attached Technical Memorandum; it also lists a series of short-term economic indicators for which data will be transmitted to the Fund staff on a monthly basis as soon as they become available for the purpose of monitoring economic developments in Belarus.

32. Concerted efforts will be made to strengthen the capacity of various agencies for policy-making and implementation, particularly at the NBB, the Ministry of Finance, and Goseconomplan for developing the institutional and

legal arrangements of a market economy, for dealing with the monitoring and reform of the enterprise sector, and for gathering information in the area of prices, balance of payments, national accounts, and fiscal and monetary statistics. In this task, the Government intends to follow through on the technical assistance recommendations of the Fund and to seek ongoing assistance from international institutions and donor countries.

33. In view of the considerable uncertainty surrounding economic developments in Belarus, the Government intends to monitor developments closely and adjust as necessary its policy program. In particular, the Government stands ready to strengthen its adjustment efforts should external circumstances significantly deteriorate relative to expectations, including the possibility of a shortfall in available financing.

34. The Government intends to remain in close consultation with the IMF staff and will provide information required for the purpose of monitoring progress in implementing the economic program. We will assess with the staff the appropriate timetable for discussions toward agreement on a program to be supported by an upper credit tranche stand-by arrangement, hopefully in the second half of 1993. If such agreement were not possible before the end of the year, the Government would intend to make a second purchase under the STF as soon as the conditions for it are met. This would require, inter alia, a review of progress made over the third and fourth quarters of 1993, and satisfactory progress towards a stand-by program in early 1994.

Belarus: Technical Memorandum

I. Quantitative Targets 1/

Increase in National Bank of Belarus (NBB) net domestic assets 2/ not to exceed Brub 330 billion between July 1, 1993 and end-September 1993, and Brub 500 billion between July 1, 1993 and end-December 1993.

Increase in net credit from the NBB and domestic banks to the General Government--including the consolidated budget, all extrabudgetary funds, 3/ extrabudgetary operations, and the social funds 4/--not to exceed Brub 140 billion between July 1, 1993 and end-September 1993 and Brub 360 billion between July 1, 1993 and end-December 1993.

Limit decrease in NBB holdings of net international reserves 5/ to not more than US$130 million between July 1, 1993 and end-September 1993, and US$75 million between July 1, 1993 and end-December 1993. The corresponding targets for gross convertible currency reserves are increases from the level prevailing at July 1, 1993 of US$50 million by end-September 1993 and US$100 million by end-December 1993. 6/

1/ For monitoring purposes, a fixed accounting exchange rate of Brub 1,700 to US$1 will be used.

2/ Net domestic assets of the NBB are defined as the difference between base money (including currency, required and excess reserves) minus net international reserves (as defined below). Thus defined, the NBB's net domestic assets would comprise: credit to all levels of government minus deposits of government, holdings of government securities by banks, credit to domestic banks, net credit to domestic enterprises, and all other net assets (excluding net claims on the Central Bank of Russia).

3/ Including the State Foreign Exchange Fund, the Price Regulation Fund, and the Road Fund.

4/ Pension Fund, Social Insurance Fund, and the Employment Fund.

5/ Net international reserves are defined as gross reserves (including gold valued at US$350 per ounce, but excluding claims on FSU banks other than the Central Bank of Russia) minus short-term liabilities (including Fund credit but excluding liabilities to FSU banks other than to the Central Bank of Russia).

6/ For monitoring purposes, claims and liabilities to the Central Bank of Russia will be converted into Belarussian rubles at a fixed accounting rate of Brub 1.6 to Rrub 1. The net international reserve targets will be adjusted upwards and net domestic assets downwards for any conversion of technical credits from Russia into state credits.

II. Performance Benchmarks

1. Monetary policy

- Adjust NBB refinance rate to remain broadly in line with Central Bank of Russia rate;

- Reduce "directed" share of outstanding NBB credit to 30 percent or less by Q4 1993;

- Increase the share of outstanding NBB credit allocated through auctions to 25 percent by Q4 1993;

- Channel all interest rate subsidies through the budget by end-1993; and

- Remove restrictions on interbank lending of directed funds by end-1993.

2. Fiscal policy

- Contain the increase in the nominal wage bill in the budgetary sphere to no more than 70 percent of the increase in the retail price index.

- Strengthen tax revenues by compensating any reductions in tax rates with reduced tax preferences.

- Take the necessary measures to contain the outlays of the social funds, in particular the Pension Fund, within the existing revenue base;

- Achieve substantial progress in implementation of tax administration and Treasury technical assistance projects.

3. Price policy

- Increase tariffs on household services so as to cover at least 30 percent of costs by end-1993;

- Make progress in phasing out remaining subsidies on bread and milk before end-1993, including through liberalization of the price of some of these products.

- Raise domestic prices of oil products to a level at least sufficient to fulfill bilateral trade agreement with Russia in the second half of 1993.

- Pass through fully to households and enterprises all increases in energy prices during the program period;

- Reduce the incidence of "monopoly" profit margin controls by 50 percent by end-1993;

- Abolish the limits on trade margins before mid-1994.

4. External policy

- Remove quantitative export restrictions on all free price consumer goods by September 1993.

- Remove all quantitative export restrictions and licenses by end-1993;

- Remove all export taxes on goods with free domestic prices by end-1993; and

- No intensification of trade and exchange restrictions and no accumulation of new external arrears.

5. Systemic policy

- Eliminate state orders not related to trade agreements or the Government's own procurement by end-1993;

- Phase out remaining state orders related to bilateral trade agreements;

- Privatize 10 percent of Republican enterprises (meaning no less than 75 percent of these enterprises' capital should be in private hands) by end-1993;

- Establish fast track approach for privatization of small- and medium-sized businesses by end-1993; and

- Implement the bankruptcy law in a few selected cases by end-1993.

III. Monitoring and Statistical Information

To monitor performance under the arrangement, the Government of Belarus will regularly provide the IMF with the necessary economic and financial statistical data. In particular, it will provide monthly an aggregate balance sheet of the National Bank and the commercial banks with a delay of at most two weeks, including separately: net international reserves excluding net claims on Russia, net claims on Russia, net claims on other FSU countries, and net claims on the government. It will also provide a monetary survey with a delay of at most two weeks; data on foreign credits received and amortization paid (including those related to Russia or any other FSU country) with a delay of at most two weeks; the breakdown of NBB credits by interest rate charged; and any other such data as may be requested by the Fund staff.

July 8, 1993

Dear Mr. Camdessus:

Further to our Statement of Economic Policies, on the basis of which we will request support from the International Monetary Fund under the Systemic Transformation Facility, we intend:

1. To eliminate before end-1993 the discount from the unified market exchange rate temporarily applied to the 20 percent surrender of proceeds from export contracts signed before end-July 1993; furthermore, the discount from the unified market rate will be reduced to no more than 40 percent by end-September 1993; and

2. To remove by end-1993 the 10 percent foreign exchange tax on export proceeds.

Yours sincerely,

/s/

M.V. Mjasnikovich
First Deputy Chairman
of the Council of Ministers
Republic of Belarus

/s/

S.A. Bogdankevich
Chairman
National Bank of Belarus

Mr. Michel Camdessus
The Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Eligibility and Access Under the STF

Belarus' eligibility to draw under the Systemic Transformation Facility (STF) can be established on the basis of either a sharp fall in exports or a substantial and permanent increase in net import costs, or a combination of both, when such are caused by a shift away from trading at nonmarket prices. 1/ In the case of Belarus, the sharp fall in exports as well as the increase in net energy import costs that have occurred would each, on its own, be a sufficient basis to establish eligibility under the STF.

Belarus' eligibility and access under the STF are demonstrated based on an increase in net energy import costs in 1993 as shown in Table 8. The projections are based on an increase in oil prices to about 60 percent of world market prices in 1993, consistent with the balance of payments projections in Table 4. Projected net energy payments for 1993 amount to SDR 1.3 billion, an increase of SDR 0.6 billion (229 percent of quota) over 1992, notwithstanding substantial declines in net energy import volumes except for natural gas. Further increases in net energy import costs are expected in 1994, as energy import prices move further towards world market levels. The staff is therefore of the view that the effects of these disruptions continue to give rise to balance of payments difficulties in an amount in excess of 50 percent of quota.

As a substantial net energy importer, Belarus is adversely affected by the movement towards world market levels of energy prices charged by its FSU trading partners (virtually all such trade is with FSU countries). Energy imports largely comprise crude oil and natural gas (broadly equivalent in value in 1993), with much smaller amounts of electricity and various refined products accounting for the balance. Although Belarus has a large refining capacity and was an important exporter of refined products before the breakup of the Union, exports of energy products were very small in 1992. In 1993, diesel oil and domestic crude that has to be refined in special refineries abroad are expected to account for the bulk of exports.

1/ Decision No. 10348-(93/61) STF, adopted April 23, 1993: this decision provides that the Fund is prepared to provide financing to "members that are experiencing balance of payments difficulties as a result of severe disruptions in their traditional trade and payments arrangements that are manifested by: (i) a sharp fall in total export receipts due to a shift from significant reliance on trading at nonmarket prices to multilateral, market-based trade; (ii) a substantial and permanent increase in net import costs, due to a shift from significant reliance on trading at nonmarket prices toward world-market pricing, particularly for energy products; or (iii) a combination of both."

Table 8. Belarus: Calculation of Increase in Net Energy Imports, 1992-94

	1992 Preliminary Actual	1993 Projected	1994 Projected
	(In millions of U.S. dollars, unless otherwise indicated)		
Imports	1,030	1,988	2,675
Of which:			
Electricity			
Volume (in billions of kwh)	8.0	5.0	4.4
Value	59.9	85.3	101.2
Price (US$ per 1,000 kwh)	7.5	17.0	23.1
Crude oil			
Volume (in millions of tons)	19.8	11.6	10.1
Value	616.1	822.3	975.1
Price (US$ per ton)	31.1	70.8	96.1
Natural gas			
Volume (in billions of m^3)	17.2	20.4	17.8
Value	294.2	905.5	1,391.2
Price (US$ per 1,000 m^3)	17.1	44.3	78.0
Exports	72	168	218
Of which:			
Crude oil			
Volume (in millions of tons)	1.0	1.3	1.3
Value	32.3	91.0	122.5
Price (US$ per ton)	31.1	70.8	96.1
Diesel oil			
Volume (in millions of tons)	1.0	0.3	0.3
Value	35.1	22.6	30.9
Price (US$ per ton)	34.3	81.0	111.7
Total net energy imports (in millions of SDRs)	680	1,321	1,790
Increase in net energy imports from 1992			
In millions of SDRs		641	1,109
In percent of quota		229	396

Sources: Belarussian authorities; and Fund staff estimates.

Belarus: Fund Relations

(As of July 1, 1993)

I. Membership Status: Joined on July 10, 1992; Article XIV status.

II. General Resources Account:

	In millions of SDRs	As percent of quota
Quota (under Ninth Review)	280.40	100.00
Fund holdings of currency	280.40	100.00
Reserve position in the Fund	0.02	--
Operational budget transfers (net)	--	--

III. SDR Department:

Allocations	None
Holdings	None

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to the Fund (based on existing use of resources and present holdings of SDRs): None

VII. Exchange Rate Arrangements:

The currency of the Republic of Belarus is the ruble. The Belarussian ruble (rubel) was introduced on May 25, 1992 as a supplementary form of currency and accounted for about 80 percent of cash in circulation in May 1993. The conversion factor for cash has been fixed at 10 rubles = 1 rubel. In November 1992, a distinction was introduced between non-cash Belarussian rubles and non-cash rubles from other FSU countries, their exchange rate being determined in weekly auctions at the Minsk Exchange until June 22, 1993, and since then in the Interbank Currency Exchange. On July 1, 1993, Russian non-cash rubles traded at 1.8 Belarussian non-cash rubles.

As of January 4, 1993, two official exchange rates for convertible currencies were in effect: (i) A "unified" exchange rate, set weekly by the National Bank of Belarus (NBB) on the basis of the (cash and non-cash) market exchange rates during the preceding week; it is used for taxation and accounting purposes. On July 1, 1993, the unified exchange rate was rub 1,906/US$1. (ii) The investment exchange rate, set by the NBB at rub 500/US$1, is used to convert foreign inward investment into rubles, to compensate exporters for foreign exchange sold under the mandatory surrender requirement on foreign currency export receipts, and for other operations of the State Foreign Exchange Fund.

Belarus maintains exchange restrictions in accordance with Article XIV.

VIII. Article IV Consultations:

The first Article IV consultation was concluded on May 21, 1993 (EBM/93/75). Belarus has been placed on a 12-month consultation cycle.

	Last Use of Fund Resources mission	June 9-24, 1993

IX. Technical Assistance Missions:

FAD

1992	Fiscal multi-purpose	February 11-28
	Tax administration	June 6-July 13
	Identification of fiscal issues	July 8-9
	Tax administration	September 14-25 1/ and September 14-November 16 2/
	Establishment of Treasury	October 20-November 2
1993	Social safety net issues	January 14-26
	Tax administration	January 24-March 5 2/
	Establishment of Treasury	February 9-16
	Advising on Treasury system	February 22-29 2/
	Tax administration	March 1-8 1/ May 9-21 2/ May 16-Sept. 16 2/ June 27-July 2 1/ and June 14-July 23 2/
	Establishment of Treasury	May 31-June 2 and May 30-August 31 2/

MAE

1992	Monetary and central bank operations	April 7-21 and August 6-18

1/ Provided by a headquarters-based consultant.
2/ Provided by FAD panel experts.

	Introduction of national currency foreign exchange legislation, central bank operations	November 18-24
1993	Foreign exchange legislation and issues related to introduction of national currency, follow-up	March 28-April 8

STA

1992	Balance of payments statistics	January 27-February 11 and April 7-21
	Development of a consumer price index	May 13-25 and October 19-30
1993	Consumer price index	February 15-26
	Producer price statistics (Also participation in OECD workshop on price statistics, March 31-April 2)	March 16-30 1/
	Multitopic (monetary, balance of payments, government finance, national accounts)	March 31-April 23
	Participation in USTAT/OECD seminar on implementation of SNA in transition economies	April 27-29

INS

1992	Seminar for high level officials on macroeconomic and financial policies	April 14-26
	Course on financial programming policies for senior officials	October 19-30

1/ Provided by consultants.

EU1

1993	Seminar on the Polish reform experience	January 27

X. Resident Representative

Mr. Middelkoop took up his position in Minsk on October 5, 1992. A resident advisor to the National Bank has been identified.

XI. Other

The authorities have agreed to the Third Amendment of the Articles of Agreement but parliamentary approval is pending.

A Pre-Consultative Group meeting focusing on technical assistance was held in Paris on May 24, 1993.

Belarus: Relations with the World Bank

Belarus became a member of the International Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency in July 1992. Prior to formal membership, a World Bank economic mission visited Belarus in May 1992 to prepare the first Country Economic Memorandum. The World Bank is preparing studies of agriculture, environment, and the social sectors.

The World Bank provided technical assistance in 1992 for institution building, under the Technical Cooperation Program, in the areas of privatization and enterprise reform, economic advisory services, and social safety. In addition, it approved a grant of US$1 million from the Global Environment Facility to finance a forest biodiversity protection project in the Belovezhskaya National Park.

The Government has requested the World Bank to provide financial assistance for its reform program and for institutional development. The preparation of a Rehabilitation Loan is underway. The loan would support the design and implementation of economic reforms aimed at increasing competition and efficiency in the economy. The preparation of an Institution Building Loan is also in progress; this project would support the strengthening of economic management for the transition to a private market economy, in particular in the areas of public resource mobilization and management, privatization, financial sector reform, social safety, and aid coordination. The World Bank has also approved a grant of US$350,000 from its Institutional Development Fund to finance additional technical assistance for enterprise and banking sector reform. Finally, the World Bank has initiated the preparation of a Forestry Development Project, which would focus on improving management in forestry and wood processing.

In 1993, the Consultative Group for Belarus was constituted, and a preliminary meeting, chaired by the World Bank, was convened in May. At the meeting, the Government outlined the steps that had been taken to facilitate market development, and presented a core program of institution-building technical assistance. Participants expressed support for this program and indicated that increasing levels of assistance can be expected to flow to Belarus as market reforms progress.