This English translation is provided only for the convenience of a reader. The Russian version is the only official version of this document. Any discrepancies that may arise between the translation and the Russian original have no legal consequences for parties engaged in the project or activity described in this document.

Minsk, 25 June, 2013

Mr. Anton G. Siluanov
Minister of Finance of the Russian Federation
Chairman of the Council of the EurAsEC Anti-Crisis Fund

Letter of Intent

Dear Anton Germanovich,

This letter summarises the outcomes of economic policies of the Republic of Belarus in 2012 and defines the policies to be implemented by the Government and the National Bank of the Republic of Belarus in 2013 to maintain the achieved macroeconomic and fiscal balance and the stability in the domestic foreign exchange market.

Please, consider the projections of the key monetary and fiscal indicators as of 1 October, 2013 presented in the Letter as a basis for appraisal of the Republic of Belarus' compliance with its commitments and for making a decision on the disbursement of the 6th tranche of the financial credit of the EurAsEC Anti-Crisis Fund as provided for by the Agreement between the Republic of Belarus and Eurasian Development Bank on the financial credit to be extended by the Eurasian Economic Community Anti-Crisis Fund.

I. Developments in the Republic of Belarus in 2012

By the beginning of 2011, the economy of the Republic of Belarus faced significant imbalances caused by both external and domestic factors. The overall result was an increase of the current account deficit and a decline of official gold and foreign currency reserves.

The Government and the National Bank prepared a joint Stabilisation Programme of Monetary and Fiscal Policies supported with a US $ 3 billion financial credit of the EurAsEC Anti-Crisis Fund.

Implementation of the stabilisation programme has resulted in:

- transition to a more flexible exchange rate regime for the national currency;

- higher interest rates for the instruments of monetary regulation;
- a ban on emission lending by the National Bank under government programmes;
- budget execution with a surplus;
- budget revenue consolidation measures taken; and
- lower amount of resources provided by the Government to support commercial banks for the purposes of lending under government programmes.

Implementation of the Programme measures helped to reduce the current account deficit, stabilise the foreign exchange market, prevent a deep bank crisis, and maintain a high level of employment. Thus, already in the third quarter of 2011, the negative contribution of the external sector to GDP growth changed to positive, pointing at positive changes in the composition of sources of economic growth.

The results of social and economic development of the Republic of Belarus in January-December 2012 were characterised by relatively stable functioning of the economy and improvement of most of the macroeconomic indicators compared to the previous year.

Moderate economic growth of 1.5 percent was achieved; led by external demand, which is a key for achieving external sustainability. The moderate rate of economic growth is explained by implementation of a range of measures, including those aimed at containing domestic demand, with the objective of eliminating the macroeconomic imbalances that emerged earlier.

The general government budget for 2012 was executed with a surplus of 0.7 percent of GDP, and the net growth of lending under government programmes funded with Government resources was BYR 6.8 trillion (with an annual ceiling of BYR 7 trillion).

The domestic foreign exchange market stabilised. In particular, net sales of foreign exchange by the residents added up to US $ 1.63 billion in 2012.

As to the developments in the deposit market in 2012, there was growth of household rubel time deposits. In 2012, they increased by 62.3 percent.

Tight monetary and fiscal policies allowed the reduction of inflation from 108 percent in 2011 to 21.8 percent in 2012, i.e. the average monthly inflation was about 1.7 percent. *Inter alia,* this level of inflation was explained by the need to bring food prices closer to the level of prices in the Russian Federation, several increases in housing and utility, and transportation tariffs for households, and realignment of the rates of excise taxes on alcohol and tobacco products with those applicable in Russia.

As inflation decelerated, the refinancing rate was gradually reduced—by 15 percentage points from the beginning of 2012—and made 30 percent annual from September 12,

2012. To maintain tight monetary policies, the refinancing rate was not reduced over the period from September 2012 to the year-end.

Gold and foreign currency reserves were further built up and stood at US $ 8.1 billion as of 1 January, 2013, having increased compared to the previous year by US $ 0.2 billion. Accumulated reserves cover 2.0 months of imports.

As to foreign trade in 2012, exports of goods and services continued growing at a faster rate than imports (the rate of exports growth being 111.2 percent and that of imports growth – 102.3 percent), and the trade balance was positive. In particular, the trade in goods and services showed a surplus of 4.6 percent of GDP in 2012 (in 2011 it showed a deficit of 2 percent of GDP), the current account had a deficit of 2.9 percent of GDP (in 2011 the deficit was 8.5 percent of GDP).

At the same time, in spite of the success achieved since the end of 2011, the trends emerging in recent months point to the fact that the economy is still facing risks. In particular, there are continued fiscal and monetary risks related to both external and domestic factors: worsening of the situation in external markets and the terms of trade, insufficient inflow of foreign direct investment, low proceeds from privatisation of state-owned assets. These, as well as other risks create an objective need for continued external support of the Programme of the Government and the National Bank from the EurAsEC Anti-Crisis Fund in the amount agreed earlier.

The key measures under the Programme are reflected in the main strategic documents of the Government and the National Bank for 2013 and include measures of monetary and fiscal regulation.

II. Monetary Policies

In 2013, the National Bank, together with the Government, will implement monetary policies aimed at reducing inflation, ensuring a balance in the foreign exchange market, and improvement in the country’s external balance. The National Bank and the Government will undertake all the measures needed to prevent growth in consumer prices over 12 percent in 2013 (December to December).

The exchange rate policies will continue to be such that the Belarusian rubel exchange rate is formed based on supply and demand of foreign exchange with limited interventions of the National Bank.

The credit emission of the National Bank will be exclusively market-based and short-term with reliance on the use of standard instruments of banks’ liquidity regulation. At the same time, the increase in banks’ claims on the economy (at the new programme exchange rate of BYR 8,570 per US $ 1) will not exceed 19 percent in 2013, and 15 percent as of 1 October, 2013 compared to 1 January, 2013 (including credits of the Development Bank).

To ensure further stabilisation of the economy, including achievement of the planned rate of inflation and level of international reserves, the National Bank will take measures to contain the amount of reserve money at the level of no more than BYR 34 trillion as of 1 October, 2013. The amount of net domestic assets will not exceed BYR 25.4 as of 1 October, 2013 at the new programme exchange rate.

The National Bank and the Government will continue efforts to build up official gold and foreign currency reserves to such a level that ensures economic security of the country. That will be achieved through both raising foreign direct investments and accumulating privatisation proceeds in the amounts agreed in the framework of the Programme supported with the ACF credit.

Taking into account the fact that the Republic of Belarus needs to repay foreign currency denominated domestic and external liabilities, the level of official gold and foreign currency reserves will make at least 2.1 months of imports as of 1 October, 2013.

In 2013, interest rate policies will continue to aim at maintaining positive annual interest rates in real terms. This condition will be met by means of regular revision of the refinancing rate and interest rates for the instruments the National Bank uses to regulate banks' liquidity, taking into account the projected consumer price growth for the next 12 months. The National Bank will furnish the EurAsEC Anti-Crisis Fund with information about changes in refinancing rates accompanied by relevant substantiations.

For the purposes of the programme, the level of international reserves in months of imports will be calculated based on the information on gross international reserves as of the reporting date and data on the average monthly imports over the last 12 months, for which statistics are available.

III. Fiscal Policies and Financial Sector Issues

In recent years, budget revenue consolidation measures were accompanied by a range of steps to improve the tax system and bring the tax burden on the economy down to 26.2 percent of GDP in 2012.

In 2013, the Government of the Republic of Belarus will continue following tight fiscal policies. To this end, the general government budget will have a zero balance this year. Taking into account this intention, the Government will use its deposits held with the National Bank only to finance government programmes in the amount of BYR 6 trillion, repay and service the domestic and external debt, exercise Government guarantees, and replenish authorised funds of non-banking entities.

The policies of wage increases in the budget sector will continue to be restrained with the wage bill of the consolidate budget (including that for 9 months) increasing in 2013 compared to the same period of 2012 by no more than 25 percent in nominal terms.

Net lending under government programmes funded with Government resources did not exceed BYR 6.8 trillion in 2012 and will make no more than BYR 6 trillion in 2013. The amount of borrowing raised by the Development Bank to finance government programmes in 2013 will make no more than BYR 2 trillion.

The net increase in lending under government programmes funded with Government resources is defined as the sum of (1) the increase in rubel liabilities of commercial banks to the Government under the item of “other deposits” (except for the increase of commercial banks’ liabilities to the SPF and letters of credit of republican government bodies) according to the monetary survey of banks of the Republic of Belarus as of the reporting date and a special SPF report on the increase in net claims to commercial banks and (2) the increase of Government deposits placed with the Development Bank during the reporting period to fund lending under government programmes and to (re)capitalise the Development Bank.

The quantitative control targets of the general government budget deficit and net increase of lending under government programmes funded with Government resources are assessed cumulatively.

In the 2013 budget, the expenditures to subsidise the cost of housing and utilities were planned based on the level of the average annual cost recovery by households of 28 percent and the assumption of achieving the level of 35-40 percent by end-2013. In the case of public transportation services, the cost recovery by households in oblasts was planned to reach 90 percent by end-2013.

Besides the overall increase in tariffs for these services, a sequenced approach will be taken to establish differentiated tariffs for transportation services and housing and utilities. Active discussions are underway on the proposal to delegate the functions of housing and utility tariff regulation (except for heating, gas, and electricity supply) to local governments. Taken together, these measures will help raise the cost recovery ratio of tariffs for households in 2013.

To equalise the terms of taxation of certain goods in the market of the Customs Union member states, the Government annually raises the rates of excise taxes on alcohol and tobacco products.

To meet the targets of excise tax rates fixed in the programme for disbursement of the sixth tranche of the EurAsEC ACF credit, the Tax Code provides for an increase of excise rates for tobacco products from July 1, 2013 as follows: for tobacco products of the medium price range – up to 80 percent of the excise rate applicable in the Russian Federation, and for those of the premium class – up to 90 percent (on average that makes 85 percent while the indicative target is 85-90 percent).

Measures will be taken to get proceeds from the sales of state-owned assets in the amount of US $ 2.5 billion in 2013, of which US $ 1.2 billion – for 9 months of 2013.

Thus, the measures included in the Programme of Economic Policies of the Government and the National Bank of the Republic of Belarus and supported with the financial credit of the EurAsEC Anti-Crisis Fund (see Annex) aim at macro financial stabilisation in the Republic of Belarus, minimisation of the current account deficit, and putting in place favourable conditions for balanced economic growth in the medium- and long-term perspective.

Prime Minister
of the Republic of Belarus

/signature/

Mikhail V. Myasnikovich

Chairperson of the Board
of the National Bank
of the Republic of Belarus

/signature/

Nadezhda A. Ermakova

Appendix to the Letter of Intent dated 25 June, 2013

Economic Policy Measures of the Government and the National Bank of the Republic of Belarus, Supported by the Financial Credit of the EurAsEC Anti-crisis Fund (US$ 3 billion allocated in six tranches over 2011-2013)

	Tranche №1 (not later than 30.06.2011, US$ 800 million)	Tranche № 2 (not later than 31.10.2011, US$440 million)	Tranche №3 (not later than 28.02.2012, US$ 440 million)	Tranche №4 (not later than 31.10.2012, US$ 440 million)	Tranche №5 (not later than 28.02.2013, US$ 440 million)	Tranche №6 (not later than 31.10.2013, US$ 440 million)
	1. **Monetary policy measures**					
1.1 SCT		A draft Law on the Amendments to the Banking Code of the Republic of Belarus is prepared and submitted to the House of Representatives of the National Assembly, aimed at strengthening the independence of the National Bank and at prohibiting the non-core functions for a National Banks	Law on the Amendments to the Banking Code of the Republic of Belarus has entered into force, aimed at strengthening the independence of the National Bank and at prohibiting the non-core functions for a National Bank.			
1.2 QCT	The level of international reserves as of 1.06.2011 is not less than US$3.5 billion.	The level of international reserves:				
		as of 1 October 2011 - not less than 1.3 months of imports.	as of 1 February 2012 - not less than 1.5 months of imports.	as of 1 October 2012 - not less than 1.6 months of imports.	as of 1 February 2013 - not less than 2.0 months of imports.	as of 1 October 2013 - not less than 2.1 months of imports.
1.3 QCT	The level of net international reserves:					
	as of June 1, 2011 is not lower than minus US$ 5.1 billion.	as of 1 October 2011 is not lower than the level of 01.05.2011	as of 1 February 2012 is not lower than the level of 01.05.2011	as of 1 October 2012 is not lower than the level of 01.05.2011	as of 1 February 2013 is not lower than the level of 01.05.2011	as of 1 October 2013 not lower than the level of 01.05.2011
1.4	The lever of net domestic assets at the program exchange rate:					

	Tranche №1 (not later than 30.06.2011, US$ 800 million)	**Tranche № 2 (not later than 31.10.2011, US$440 million)**	**Tranche №3 (not later than 28.02.2012, US$ 440 million)**	**Tranche №4 (not later than 31.10.2012, US$ 440 million)**	**Tranche №5 (not later than 28.02.2013, US$ 440 million)**	**Tranche №6 (not later than 31.10.2013, US$ 440 million)**
QCT				as of 1 October 2012, is not higher than BYR 25.4 trillion	as of 1 January 2013, is not higher than BYR 24.5 trillion[3]	as of 1 October 2013, is not higher than BYR 25.4 trillion.
1.5 IT	Reserve money at the program exchange rate:					
				as of 1 October 2012, is not higher than BYR 23.0 trillion.[3]	as of 1 January 2013, is not higher than BYR 29.7 trillion[3]	as of 1 October 2013, is not higher than BYR 34.0 trillion.
1.6 QCT	The increase of the bank system claims to the economy at the program exchange rate:					
				as of 1 October 2012, is not higher than 12 percent	as of 1 January 2013, is not higher than 15 percent	as of 1 October 2013, is not higher than 15 percent
1.4 QCT	A Resolution is adopted by the Board of the National Bank prohibiting the National Bank's borrowing from commercial banks in foreign currency.	The volume of commercial bank term deposits in foreign currency placed with the National Bank is reduced by:				
		as of 1.10.2011 - by US$ 55.6 million.	as of 1.02.2012 - by US$ 126.4 million.	as of 1.10.2012 - by US$ 713.9 million.	as of 1.02.2013 - by US$ 724.7 million.	as of 1.10.2013 - by US$ 1,636.7 million.
1.5 IT	The refinancing rate is revised monthly by the Board of the National Bank in order to ensure that its nominal value is not below the projected annual growth rate of CPI.					
1.6 SCT	A Presidential Decree is drafted on the sale of non-core assets from the balance of the National Bank of Belarus to foreign investors and/or their transfer into state property.	A Presidential Decree is issued on the transfer of non-core assets from the balance of the National Bank into state property.	The transfer of non-core assets of the National Bank of Belarus into state property is complete.			
	2. Fiscal policy measures					
2.1	Budget of the general government sector:					

	Tranche №1 (not later than 30.06.2011, US$ 800 million)	Tranche № 2 (not later than 31.10.2011, US$440 million)	Tranche №3 (not later than 28.02.2012, US$ 440 million)	Tranche №4 (not later than 31.10.2012, US$ 440 million)	Tranche №5 (not later than 28.02.2013, US$ 440 million)	Tranche №6 (not later than 31.10.2013, US$ 440 million)
QCT		in January-September 2011 is executed with deficit not higher than 1.2 percent of GDP.	in 2011 is executed with deficit not higher than 1.5 percent of GDP. .	in January-September 2012 is executed with zero balance. .	in 2012 is executed with zero balance..	in January-September 2013 is executed with zero balance.
2.2 SCT	The share of public sector wages in the total consolidated budget expenditures:					Wage bill in the consolidated budget for 2013 (including for 9 months) increased not more then by 25 percent in nominal terms against the corresponding period of 2012
			in 2012 remains at the level of 2011.	in 2012 remains at the level of 2011.	in 2013 remains at the level of 2011.	
2.3 IT		Utility tariffs on average are raised by at least 10%	The share of tariffs for housing and utility services covers with the households' payments:			
			at least 30 percent of the costs of extending such services in 2011.		at least 35 percent of the costs of extending such services in 2012.	at least 40 pecent of the costs of extending such services as of 1 October2013.
2.4 IT			The share of transport tariffs covers with the households' payments:			
			at least 70 percent of the costs of extending such services in 2011.		at least 85 percent of the costs of extending such services in 2012.	at least 90 percent of the costs of extending such services as of 1 October 2013.
2.5 IT		Excise rates for strong alcoholic beverages to be set up (in percent to the corresponding level applicable in the Russian Federation):				
			at 85-90 percent		at 90-95 percent	at 95-97 percent
		Excise rates for tobacco products of medium and premium classes to be set up (in percent to the corresponding level applicable in the Russian Federation):				
			not less than 60 percent		at 75-80 percent	at 85-90 percent

	Tranche №1 (not later than 30.06.2011, US$ 800 million)	Tranche № 2 (not later than 31.10.2011, US$440 million)	Tranche №3 (not later than 28.02.2012, US$ 440 million)	Tranche №4 (not later than 31.10.2012, US$ 440 million)	Tranche №5 (not later than 28.02.2013, US$ 440 million)	Tranche №6 (not later than 31.10.2013, US$ 440 million)
		Excise rates for other tobacco products to be set up (in percent to the corresponding level applicable in the Russian Federation):				
					not less than 30 percent	
3. Structural Reform Policies						
3.1 IT		A list of state-owned objects available for sale in 2011-2012 is developed and published, including their real value and the feasibility of their sales.	Budget revenues from the sale of state property constitute:			
			In 2011 - not less than US$ 2.5 billion.	In January- September 2012 - not less than US$ 1.2 billion.	In 2012 - not less than US$ 2.5 billion.	In January-September 2013 - not less than US$ 1.2 billion.
4. Financial Sector Policies						
4.1 QCT			Net lending under state programs using government resources:			
			during 2011 (forecast as of 1 January 2012) does not exceed 4% of GDP	during January-September 2012 does not exceed BYR 6.8 trillion	during 2012 (forecast as of 1 January 2013) does not exceed BYR 7 trillion	during 2013does not exceed BYR 6 trillion
4.2 IT	A Presidential Decree on the Development Bank is adopted		The Development Bank started its lending and servicing operations under government programs.			

Prime Minister
of the Republic of Belarus

/signature/

Mikhail V. Myasnikovich

Chairperson of the Board
of the National Bank
of the Republic of Belarus

/signature/

Nadezhda A. Ermakova