Document
of the Eurasian Development Bank

Eurasian Development Bank
Resources Manager of Eurasian Fund for Stabilization and Development

# FINAL REPORT

on implementation of the Reform Programme supported with a Financial Credit,
provided to the Republic of Belarus

by the Eurasian Fund for Stabilization and Development

in the amount of US$ 2 billion

**Background information**

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| Borrower | Republic of Belarus |
| Responsible agency | Ministry of Finance |
| Implementation agencies | Ministry of Finance, Ministry of Economy, Ministry of Antimonopoly Regulation and Trade, Ministry of Labour and Social Protection, Ministry of Justice, State Property Committee, National Bank |
| Credit amount | US$ 2 billion |
| Financial conditions | Interest rate – 4.06% per annum; maturity – up to 10 years from the date of disbursement of the corresponding tranche, including a 5-year grace period |
| Date of application | 9 February 2015 |
| Date of credit approval by the EFSD Council | 25 March 2016 |
| Date of termination of credit availability | 30 June 2019 |
| Number of extensions of date of termination of credit availability | 30 June 2018 – originally established by the agreement;<br><br>Three extensions:<br>Until 1 December 2018;<br>Until 31 March 2019;<br>Until 30 June 2019. |
| Amount of credit actually disbursed | US$ 1.8 billion |
| Tranche disbursement dates: | |
| 1st tranche (target date of assessment – 1 March 2016) | US$ 500 million disbursed on 30 March 2016 |
| 2nd tranche (target date of assessment – 1 June 2016) | US$ 300 million disbursed on 29 July 2016 |
| 3rd tranche (target date of assessment – 1 September 2016) | US$ 300 million disbursed on 25 April 2017 |
| 4th tranche (target date of assessment – 1 January 2017) | US$ 300 million disbursed on 29 June 2017 |
| 5th tranche (target date of assessment – 1 June 2017) | US$ 200 million disbursed on 25 October 2017 |
| 6th tranche (target date of assessment – 1 October 2017) | US$ 200 million disbursed on 11 October 2018 |
| 7th tranche (target date of assessment – 1 December 2018) | The remaining credit amount of US$ 200 million was cancelled due to the termination of the credit availability. |
| **Objective** | Support the Reform Programme of the Government and National Bank of the Republic of Belarus aimed at achieving macroeconomic stabilisation, improving the performance of state-owned enterprises and developing private businesses.<br>The Programme targets are presented in Annex 1. |

**Contents**

# I. PROGRAMME SUPPORTED WITH THE FINANCIAL CREDIT: OBJECTIVES AND STRUCTURE

The authorities of the Republic of Belarus (hereinafter referred to as the RB) submitted a request for a financial credit in the amount of US$ 3 billion to the Eurasian Fund for Stabilization and Development (hereinafter referred to as the EFSD) in March 2015. The requested amount was justified in the Request by the need to support the budget and the RB international foreign currency reserves while the country's economy was adjusting to the new environment, characterised by lower demand in its major foreign trade partners.

The EFSD Financial Credit Agreement (hereinafter referred to as the Agreement) was signed in March 2016. The amount of the credit to be provided was set at US$ 2 billion, and the purpose of the credit was to support the gross international reserves (GIR) and the budget. The agreement provided for the allocation of EFSD resources in seven tranches over the period of 2016-2018 based on the implementation of the measures fixed in the Reform Programme of the Government and the National Bank of the Republic of Belarus supported with the EFSD financial credit (hereinafter referred to as the Reform Programme)[1]. Six tranches, totalling US$ 1.8 billion, were actually disbursed to the country. The Progress Report on Compliance with Conditions for the Seventh Tranche (the target date of assessment – 1 December 2018) was submitted by the RB MoF to the EFSD on 30 January 2019. The EFSD Report on Assessment of Compliance with Conditions for the Seventh Tranche was approved by the Manager (Minutes of the EDB Management Board meeting No. 87/EFSD dated 18 February 2019) and submitted for the consideration by the EFSD governing bodies. However, the issue was not considered in meetings of the Fund’s governing bodies, and the Belarusian side did not submit a request to extend the period of availability of the financial credit despite the notification sent by the Manager. On 30 June 2019, due to the termination of the availability period, the undisbursed balance of US$ 200 million was cancelled by the EFSD Resources Manager in line with provisions of the Agreement (Section 7.03 of the Standard Terms and Conditions of Agreements on Financial Credits Supported with the EFSD Resources)[2].

In accordance with the Agreement (clause 4.4.), the RB Ministry of Finance shall submit a final report on the results of the Programme implementation to the Manager within six months following the termination of the credit availability period. Due to the failure to comply with this obligation, the Fund Council considered this issue on 17 July 2020 (Minutes No. 52) and recommended the RB Ministry of Finance to submit the final report to the Manager by 15 August 2020. In case of non-compliance of the Belarusian side with the Council's recommendation, the Manager was instructed to prepare and submit to the Fund Council a final report on the implementation of the Programme covering the issues within the competence of the Manager.

The Final Report on the implementation of the Programme was prepared due to the failure of the RB Ministry of Finance to submit its final report on the implementation of the Programme. The independent auditor's opinion on the final report on cash flows in the financial credit account confirming the fact of targeted use of proceeds of the financial credit was sent to the Manager by Letter of the RB Minister of Finance No. 11-27/149 dated 17 September 2020 and was recognised by the Manager as satisfactory.

[1] This Reform Programme is set out in the Letter of Intent (LoI) of the Government and the National Bank of the Republic of Belarus.
[2] Annex No. 1 to the Credit Agreement.

***Appraisal of the social and economic environment in the Republic of Belarus at the stage of the credit preparation***

External shocks associated with the economic downturn in Russia and the drop in world commodity prices served as a trigger for the sharp deterioration of the macroeconomic situation in Belarus in 2015-2016 (Box 1, Figure 1). As a result, the overall economic recession in those two years was 6.3%. However, the country's economy showed signs of deceleration already in 2012-2014, against the background of mounting macroeconomic imbalances and persistent structural constraints, including non-market exchange rate formation, high levels of dollarization, continued pervasive practice of price and tariff regulation, and low efficiency of state-owned enterprises (Box 1, Figure 2).

The proactive policies of boosting the domestic demand in the pre-crisis years led to significant imbalances, including deterioration of the country's external position. The current account deficit expanded from 2.8% of GDP in 2012 to 8.4% of GDP in 2013-2014, the gross international reserves (GIR) were only 1.4 months of imports as at end-2014 against the 3-month threshold recommended by the IMF, the country's gross external debt exceeded 50% of GDP. The international investment position fell below the threshold of -60% of GDP recommended for developing countries, reaching -60.5% of GDP. The lack of sufficient fiscal and foreign exchange reserves prevented full implementation of countercyclical measures when external shocks materialised.

In the context of the poor functioning of the interest rate transmission channel, fiscal policies became the main channel for boosting the domestic demand (Box 1, Figure 3). The key instruments used to boost the demand included directed lending subsidised by the state (40.3% of all loans to the economy as at end-2014), support for state-owned enterprises through off-balance sheet expenditures (replenishment of their statutory funds, lending, guarantee execution), as well as growth of wages in the budgetary sector, which stimulated wage growth in other sectors of the economy. The policies resulted in a high inflation rate, averaging at 18.0% in 2013-2014 (Box 1, Figure 4), which was three times the average inflation rate in the key trading partner countries. It exacerbated the problems of competitiveness of Belarusian products and put pressure on the exchange rate.

Russian ruble depreciation further contributed to the deterioration of the balance of payments, which resulted in BYN depreciation by 39% in 2015. At the same time, the agreement reached with the Russian Federation on transfer of export customs duties on oil products produced from Russian oil to the budget of Belarus starting in 2015 had a positive effect on the current account (CA) deficit, which declined to 3.3% of GDP in 2015 from 6.7% a year earlier. However, the decelerated capital flows under the financial account proved insufficient to finance the CA deficit, resulting in lower GIR. Their level fell from US$ 5,716 million as at end-2014 to US$ 4,467.7 million as at end-2015, although they did not change in months of imports.

The Government debt increased in 2015 by almost 10 p.p. of GDP to 31.4% of GDP, mainly due to the nominal domestic debt practically doubling because of significant budget support extended to state-owned enterprises in a number of sectors of the economy by raising the share of the State in their capital and recapitalising the commercial banks lending to those enterprises. However, the support provided did not address structural problems of loss-making enterprises, whose share increased from 5.2% in 2012 to 13.5% in 2014 and to 20% in 2015-2016.

**Box 1. Republic of Belarus: Selected economic indicators, 2012-2018**

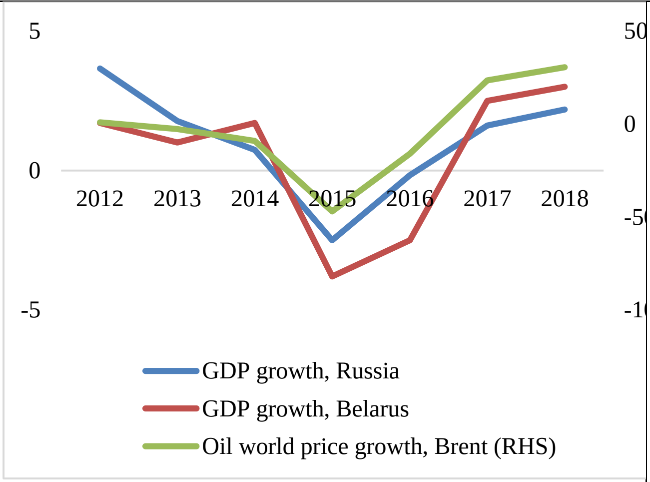


**Figure 1** – Evolution of the economic growth in the RB, RF and the world oil prices, %

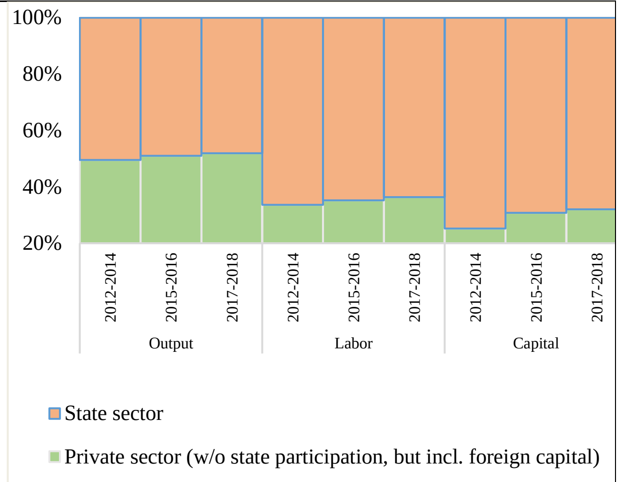


**Figure 2** – Composition of output, employment and capital of RB state-owned and private enterprises, %

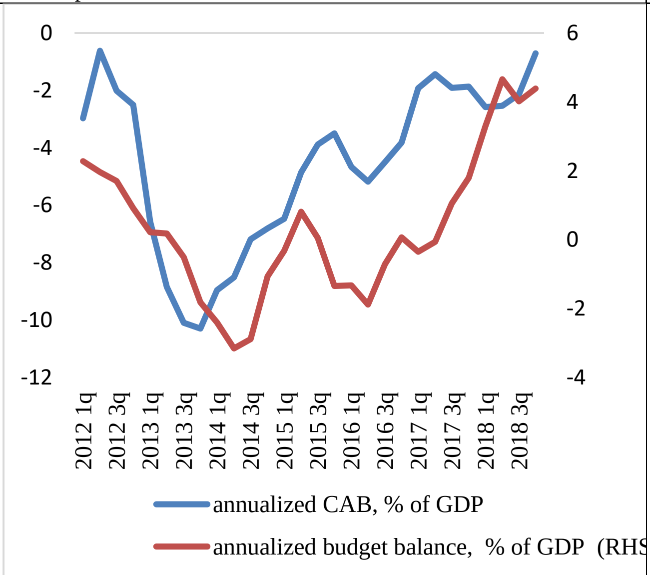


**Figure 3** – Evolution of the CA and the budget balance, % of GDP

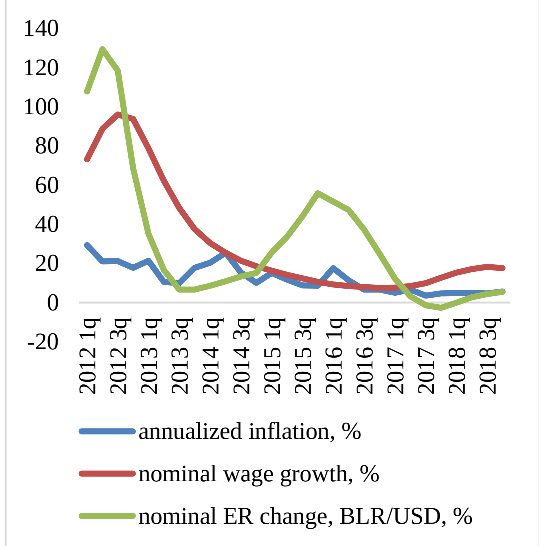


**Figure 4** – Evolution of inflation, nominal BYN exchange rate vis-à-vis the US$ and nominal wages, YoY

**Sources:** *Belstat, NBRB, RB MoF, World Bank, EFSD estimates*

***Objectives of the Programme and its components (in accordance with the Manager's appraisal of the request)***

The key objectives stated in the Reform Programme of the Government and National Bank of the Republic of Belarus include achieving macroeconomic stabilisation, improving the performance of state-owned enterprises and developing the private sector.

To achieve the established objectives, the Programme envisaged the implementation of measures in the following areas:

1. **Macroeconomic stabilisation**. The main objectives in this area were: (1) to bring down the inflation, and (2) to raise the national savings and ensure balanced growth of domestic demand through the implementation of balanced monetary, foreign exchange, and fiscal policies. In terms of monetary policies, in the context of the NBRB’s transition to the principles of monetary targeting, to reduce the rate of inflation, it was envisaged to limit the money supply by setting thresholds for a number of indicators, as well as tightening the criteria used to justify

decisions on changing the refinancing rate. The measures to balance the augmented budget[3], *inter alia* by limiting the nominal growth of the budget wage bill to the targeted inflation rate, aimed at optimising and ensuring balanced growth of the domestic demand and reducing pressures on the balance of payments. The implementation of these measures, combined with flexible monetary policies and structural reforms (described below), was aimed at replenishing the GIR. At the same time, in accordance with the RB Government Debt Management Strategy, new borrowings by the RB Government were not to exceed half of the annual debt repayment needs and the source for repaying the remaining amount was to be domestic budget resources.

2. **Goods and services market reforms and reduction of state support.** The objective in this area is to strengthen market signals in pricing, necessary for the efficient allocation and use of commodities, financial and labour resources and enhance the competitiveness of the Belarusian economy. As part of this reform, the process of liberalising prices for a number of socially important goods previously regulated by government bodies was initiated in January 2016. It was envisaged that, by mid-2017, the regulation of prices for an agreed list of goods and services and prices of enterprises holding a dominant position in the market would be lifted. The function of monitoring compliance of such enterprises with the anti-monopoly legislation was assigned to an independent anti-monopoly authority to be created by end-2016. The planned increase in the utilities and transport cost recovery through tariffs for households was to contribute to reduction of budget subsidies and elimination of cross-subsidies, the burden of which was born by enterprises that reduced their competitiveness. The negative net lending provided for under Government programmes in 2016-2017, including financing from all sources (budget, commercial banks, and RB Development Bank), was aimed at releasing financial resources to expand market lending, bring down interest rates in financial markets, reduce budget expenditures on interest rate subsidies and state-owned bank recapitalisation.

3. **Commercialisation / privatisation of state-owned enterprises and strengthening the social protection of the unemployed.** The measures in this area were aimed at improving the efficiency and competitiveness of the Belarusian economy by reforming the management of state-owned enterprises. At end-2015, the RB Council of Ministers adopted a resolution abolishing the practice of setting gross directed targets for state-owned enterprises, and the approach was supposed to be followed within the framework of the Programme implementation. The aim of the development, adoption, and implementation of the new Conceptual Framework of State-Owned Asset Management was also to facilitate the transition of enterprises to commercial principles of operation. The draft Conceptual Framework provided for separating the functions of the state as the regulator and the owner, and streamlining the structure of state-owned assets, *inter alia* through privatisation of part of state-owned assets and divestiture of non-core assets of state-owned enterprises through privatisation or transfer of such assets to the balance sheets of local governments. The Reform Programme envisaged that the Conceptual Framework would be approved by September 2016, followed by the implementation of its key measures. In view of the potential increase in unemployment as a result of streamlining the operation of state-owned enterprises, it was planned to develop a package of measures to strengthen the social protection of released personnel.

4. **Business climate improvement / private sector development**. The key objective of this component was to improve the competitiveness of the Belarusian economy through the expansion of private sector activity. This area of reforms included the adoption of a Directive of the President on further measures to develop the entrepreneurial initiative and promote business activity by end-2016. The draft Directive included the following key measures: (1) a ban on termination of property rights of private owners in the absence of a court decision; (2) reduction of time limits for recognition of privatisation deals invalid; (3) more active privatisation of small

[3] Including off-balance sheet expenditures of the central and local governments, as well as net lending by the Development Bank.

and medium state-owned enterprises; (4) transfer of marginally profitable and loss-making state-owned enterprises under trust management by private businesses, and (5) ensuring a possibility to buy out state-owned assets leased by private businesses for over three years. The programme provided for the approval of the Directive by the end of the first half of 2016 and the implementation of its key measures during the credit period as conditions for the disbursement of subsequent tranches. To improve the protection of the rights of private entrepreneurs, it was planned to establish the institute of the Ombudsman to protect the rights of entrepreneurs.

***Amendments introduced to the Reform Programme in the process of its implementation***

During the period of the Programme implementation (March 2016 – June 2019), its main objective remained unchanged. However, the Programme evolved considerably due to both changes in the macroeconomic situation and slow progress in the implementation of individual measures. It should be noted that an agreement between the Manager and the Belarusian side on the possibility of making amendments to the Programme (as needed) was reached at the stage of signing the credit agreements. In particular, it was agreed that (a) subject to changes in the economic conditions and increased risks of failure to meet the objectives of the Programme, the thresholds of individual quantitative targets could be tightened, and (b) if indicative targets were not met, their status would be changed to that of controlled targets. During the entire period of implementation, the Reform Programme was amended five times on the basis of proposals made by the country's authorities and approved by the EFSD Council. The following amendments were introduced in the main areas:

1. **Macroeconomic stabilisation**

- *Improving the debt sustainability*. The maximum threshold for the mobilisation of new non-project related loans to the Government was raised from 50% of the annual Government debt repayment needs to 75%, but with the condition that the amount of borrowings in excess of the threshold should be allocated exclusively to replenish the international reserves. The condition of maintaining the Government debt to GDP ratio of no more than 45% was added (Amendments to the LoI dated 15 July 2016).
- *Improving the budget transparency*. A number of requirements were added to bring the budget expenditure classification in line with the international standards of government finance statistics, *inter alia* to record operations of bank recapitalisation and replenishment of statutory funds of state-owned enterprises as expenditures (Amendments to the LoI dated 15 July 2016).
- *Improving the quality of monetary policies*. The list of factors that should be taken into account when deciding to change the refinancing rate was expanded. The actual evolution of interest rates in auctions of the NBRB and in the interbank market, as well as the status of the current account of the balance of payments and the goal of minimising interventions to support the exchange rate were added to the inflation target (Amendments to the LoI dated 15 July 2016). Due to the postponement of the target date of assessment for the 7$^{th}$ tranche from 1 January 2018 to 1 December 2018, the threshold values of monetary indicators were updated in accordance with the current trends of the macroeconomic situation (Amendments to the LoI dated 16 November 2018).

2. **Goods and services market reforms and reduction of state support.**

- *Streamlining Government programmes and improving their monitoring*. A requirement to create and regularly update a database of Government programmes, including information on their volumes, outstanding debts and schedule of upcoming payments, was added (Amendments to the LoI dated 15 July 2016).

- *Liberalising markets.* An additional condition was set that provided for making the process of pricing and tariff-setting fully consistent with the relevant requirements of the EEU (Amendments to the LoI dated 15 July 2016). Due to the failure to meet the conditionality for the 4th tranche of lifting the price regulation for enterprises holding a dominant position in the market, that condition was re-included in the Reform Matrix as part of conditionality for the 7th tranche (Amendments to the LoI dated 14 April 2017). Conditions were added to deepen the liberalisation of the foreign exchange market through the reduction of the foreign exchange surrender requirement for exporters from 20% to 10% and the elimination of requirements to legal entities to submit to banks information on the purpose of buying foreign exchange (Amendments to the LoI dated 14 April 2017). Due to the postponement of the target date of assessment for the 7th tranche from 1 January 2018 to 1 December 2018, the utilities and transport cost recovery through tariffs for households was raised (Amendments to the LoI dated 16 November 2018).

## 3. Commercialisation and privatisation of state-owned enterprises and strengthening the social protection of the unemployed

- *Reforming state-owned enterprise management.* The condition of preparing and implementing the Conceptual Framework of State-Owned Asset Management, implying an integrated approach to the reform, was replaced with a package of measures to reform pilot state-owned enterprises, mainly through the introduction of corporate governance methods and transfer of the enterprises to municipal ownership. Due to the lack of political support for the condition to raise the unemployment benefit to the level of the minimum consumption budget, the compensatory condition provided for strengthening the social protection of employees undergoing professional retraining on decision of local executive authorities (Amendments to the LoI dated 14 April 2017). To improve the quality of policies in terms of reforming enterprises with a stake of the state, a measure was included to develop a methodology for assessing quasi-fiscal risks generated by this category of enterprises and prepare reports on the results of the assessment (Amendments to the LoI dated 23 June 2017).
- *Relief of the burden of doing business.* In order to prevent excessive regulation of business activities, the Programme was supplemented with an indicative target for the 5th tranche, which provided for amendments to the Law on Regulatory Legal Acts aimed at introducing the regulatory impact assessment (RIA) of all regulatory and legal acts affecting business activities. The conditions for the 6th tranche were supplemented with a control target to adopt a resolution of the Government to implement this provision (Amendments to the LoI dated 14 April 2017). Due to the failure to implement the latter measure within the framework of the 6th tranche as the amendments to the Law had not been approved, it was re-included in the framework of the 7th tranche (Amendments to the LoI dated 16 November 2018).
- *Encouraging privatisation.* The Programme was supplemented with a condition to amend the Law on Privatization, *inter alia* providing for a shorter term of limitation for action in case of privatisation deals (Amendments to the LoI dated 23 June 2017).

## 4. Business climate improvement and private sector development[4]:

- *Improving the protection of rights of private entrepreneurs.* A clarification was introduced to the Programme that the functions of the Ombudsman for entrepreneurs' rights

[4] At the stage of the credit preparation, including negotiations on the Reform Programme, a number of legislative acts aimed at developing the business initiative were adopted, including Decree of the President No. 78 "On Measures to Improve the Efficiency of the Socio-Economic Complex" and the Government Programme "Small and Medium Business in the Republic of Belarus" for 2016-2020. Those

(Business Ombudsman) would be assigned to the Council for Entrepreneurship Development under the RB President and relevant addenda would be made to the Regulations on the Council (Amendments to the LoI dated 14 April 2017). The conditionality for the 7$^{th}$ tranche was expanded with a measure to adopt a new Law on Insolvency and Bankruptcy, giving this measure the status of a control target (Amendments to the LoI dated 19 October 2017). However, in view of the protracted process of clearance of the new version of the law by executive authorities, this condition was worded by the country's authorities as “submitting to the Parliament the draft Law on Insolvency and Bankruptcy” (Amendments to the LoI dated 16 November 2018).

## II. KEY PROGRAMME OUTCOMES

### *Measures implemented and assessment of their effectiveness*

The progress in the implementation of the Reform Programme was uneven: while the implementation of measures of the stabilisation reform package was sufficiently successful, structural reforms, especially with regard to the reform of the state-owned asset management, were delayed and not fully implemented.

1. **Macroeconomic stabilisation.**

The NBRB's moderately tight policies followed within the framework of the monetary targeting regime and its compliance with the thresholds set for monetary aggregates under the Programme became the key factors contributing to lower inflation in 2016-2018.

During the Programme implementation period, the authorities adhered to conservative monetary policies aimed at slowing the inflation down. In the first year of the Programme implementation in the context of an economic recession, the National Bank ensured zero growth of money supply (in line with the EFSD's recommendations) at the programme exchange rate by maintaining a high interest rate and actively using its instruments to sterilise liquidity, which were introduced as part of its transition to monetary targeting. In subsequent years, in the context of recovery of the economic growth, the NBRB maintained the growth of monetary aggregates at a level, which did not generate inflationary pressures, by reducing the refinancing rate and the volumes of liquidity sterilisation. The balanced policies followed by the NBRB helped restore the growth of bank lending—the growth of the loan portfolio at the programme exchange rate amounted to 7.7% in 2017 against a decrease of 6.1% a year earlier—that supported the GDP growth. The thresholds for monetary aggregates revised for the last tranches in view of the changed economic environment were also met by the authorities. The liquidity growth observed during that period due to the NBRB's interventions to buy foreign exchange was neutralised through timely sterilisation operations—auctions to sell short-term securities of the NBRB and deposit auctions—that enabled banks to deposit excess liquidity with the National Bank at interest rates higher than those for overnight deposits.

There were significant changes in the foreign exchange policies. The transparency and flexibility of the exchange rate formation as a key instrument of monetary targeting improved. The BYN exchange rate came to be determined as a result of exchange trading through a two-way continuous auction. The NBRB actively participated in the market in order to prevent exchange rate appreciation due to market

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documents took into account most of the programmatic provisions of the draft new version of Directive No. 4, the requirement for the adoption and implementation of which was originally included in the Reform Programme. In this regard, an agreement was reached between the Manager and the Belarusian side to monitor—in the framework of the Programme, without amending it—progress under the Plan to Implement the current version of Directive No. 4 (Resolution of the CoM and the NBRB No. 251/6 dated 28 February 2011) and the Action Plan to Implement the Provisions of Decree of the President No. 78 (approved by the RB First Deputy Prime Minister No. 11/100-59/49 dated 4 March 2016).

factors – the growing oil prices and remittances of migrant workers. The official exchange rate set on the basis of market-based exchange trading guaranteed the absence of multiple exchange rate practices in the RB.

As a result of prudent monetary policies and its consistency with fiscal policies, there was a significant slowdown in inflation: the consumer price growth decreased from 12% at the beginning of the Programme implementation period to a historic low of 5.6% at the end of the period (as at end-2019, the inflation was 4.7%, below the target of 5%). The gross reserves rose from US$ 4.2 billion (1.5 months of imports) as at end-2015 to US$ 8.3 billion (2.7 months of imports) as at 1 July 2019. The main source of growth in reserves was purchases of foreign exchange from households. At the same time, the National Bank significantly improved the composition of reserves by repaying its domestic foreign currency debt—the volume of repayments amounted to US$ 2.5 billion during the Programme period.

Balanced fiscal policies contributed significantly to the macroeconomic stabilisation. In view of the sizeable budget support to state-owned enterprises, and the insufficiently transparent reflection of those expenditures in the budget documentation, a methodology for calculating the so-called "augmented budget balance" was agreed at the stage of the credit preparation to classify all the off-balance sheet items related to state-owned sector financing[5] as expenditures[6]. In accordance with the Reform Programme, the consolidated budget of the RB general government[7] was executed with a surplus. Thus, in 2016, the augmented budget surplus amounted to 0.25% of GDP, in 2018 it was 5.2% of GDP, in the first half of 2019 it was 3.8% of GDP. In the first year of the Programme period, a major contribution to the formation of the surplus was made by the policy of restrained growth of the wage bill of the budget sector, which was limited under the Programme by the inflation target set by the NBRB for 2016 (no more than 12%). As a result, this expenditure item grew by 6.4% in 2016 against 17.5% growth in 2015.[8] That policy had a deterrent effect on inflation. The reduction in off-balance sheet expenditures observed during the implementation of the Programme and the amount of resources of the budget and the Development Bank allocated to directed lending was another factor contributing to the consolidation of expenditures.

However, it must be borne in mind that the budget surplus was largely supported by favourable external conditions, including high oil prices, which generated additional revenues to the RB budget in the form of customs export duties on petroleum products previously received in the RF budget (from 2015), and export duties from 6 million tons of oil transferred by the RF to the RB budget within the framework of the so-called "customs re-clearance" (from 2017). Lower revenues under that item, against the background of the launch of the tax manoeuvre in Russia's oil industry in 2019, was one of the reasons for the formation of a deficit in the 2020 budget. The substantial dependence of the RB budget on oil revenues indicates the need for both further optimisation of budget expenditures and search for alternative sources of revenues, including expansion of the tax base through diversification of output and exports.

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[5] Including, but not limited to, expenditures on replenishment of statutory funds of enterprises and banks, execution of Government guarantees.

[6] In 2017-2018, the Ministry of Finance took a number of measures aimed at improving the budget classification in accordance with the GFS 2001 principles. As a result, off-balance sheet items were included in budget expenditures, and the budget documentation was supplemented with information on the amounts of borrowed funds that are received by state-owned enterprises against Government guarantees to implement investment projects in the form of equipment, salaries for foreign specialists, etc. (e.g. the loan provided by the Russian Federation for the construction of the nuclear power plant).

[7] Including, in accordance with the Technical Memorandum agreed between the Manager and the Belarusian authorities, the republican budget, local budgets, the budget of the state extrabudgetary Social Protection Fund, and net lending by the Development Bank.

[8] The Programme did not provide for limiting growth of the wage bill in the budget sector in 2017-2018. Due to that, the growth of budget expenditures under that item accelerated significantly, with the wage bill in the 2018 budget increasing by 20.7%, compared to the previous year.

Maintaining an augmented surplus helped the Government generally meet the condition of the Reform Programme[9] related to the annual mobilisation of new non-project related loans to the Government in the amount of no more than 75% of the annual Government debt repayment needs, and—in case of exceeding that level—the allocation of the amount of borrowings in excess of the threshold to replenish the GIR or budget deposits. In 2016-2017, new borrowings significantly exceeded the established threshold, amounting to 101.0% and 146.4%, respectively, which was due to the Eurobond issue (US$ 1.4 billion), the proceeds of which were used to repay Government debt in subsequent years. As a result, the ratio of the debt raised and repaid in 2018 and the first half of 2019 amounted to 46.4% and 50.3%, respectively. In addition, the consolidation of borrowed funds in Government deposits with the National Bank (previously partially placed with commercial banks) also had a positive effect on the performance of monetary aggregates in the context of curbing the inflation.

The condition of containing the debt level at no more than 45% of GDP[10] was met during the Programme implementation period. Maintained at around 40.0% of GDP during 2016-2017, this indicator, despite its growth in nominal terms, declined in subsequent years, reaching 34.9% of GDP as at end-June 2019. Despite the positive performance, the vulnerability of the RB debt position is quite high, and manifests itself in the following: (a) almost all Government debt (97%) is denominated in foreign currency (including domestic debt, where the share of foreign currency is more than 85%), while government foreign exchange revenues tend to decrease, *inter alia* due to the tax manoeuvre in Russia; (b) this indicator does not include the debt guaranteed by the Government; despite its reduction, it amounted to about 4.7% of GDP in mid-2019; (c) there are accumulated quasi-fiscal risks associated with debts of state-owned enterprises, estimated by the authorities at 15% of GDP; and (d) the precedent of foreign currency debt issuance by local government, despite the lack of any foreign exchange revenues and their unconditional obligations to meet their debts as established by the legislation, boosts the risks of this burden being shifted to the republican authorities[11]. Taking into account the debt of local governments, the total direct debt obligations of the Government as at end-2017 made it closest to the threshold, amounting to 41.9% of GDP. As at end-June 2019, that indicator was 37.2% of GDP. Taking into account guarantees of republican and local authorities, the aggregate indicator of the Government debt was 51.2% of GDP as at end-2017, and 43.3% of GDP as at end-June 2019.

**2. Goods and services market reforms and reduction of state support.**

In 2016-2018, the country's authorities took considerable measures to reduce the state regulation in the commodity, financial and foreign exchange markets.

In order to form a competitive environment by improving the principles of regulation of activities of natural monopolies and pricing policies, the Ministry of Anti-Monopoly Regulation and Trade (hereinafter referred to as the MART) was established on the basis of the Ministry of Trade and a number of departments of regional executive committees; the MART became operational in September 2016. The MART is actively working on improving the legislative and regulatory framework in the areas of countering monopolistic behaviour, development of competition, liberalisation of business (including, the trade sector), and public procurement. In particular, in 2019, the Ministry continued to work on draft amendments to the Law on State Regulation of Trade, a draft Decree on countering monopolisation in the field of trade, a draft Programme of Competition Development. The conceptual framework of the Programme, approved at end-2017, highlights such obstacles to the development of competition, as excessive state regulation, excessive administrative barriers, lack of a level playing field for entities of

[9] It is also a requirement of the RB Government Debt Management Strategy for 2015-2020.

[10] Excluding Government guarantees.

[11] In 2016-2017, with the aim of rehabilitation of enterprises in the agricultural sector and the agro-industrial complex, local governments acquired their debts from commercial banks. This operation was financed by issuing bonds denominated in foreign currency, which resulted in a sharp increase in the direct debt of local government and self-government bodies from 1.3% of GDP in 2015 to 2.8% of GDP in 2017.

various forms of ownership against the background of significant preferences for state-owned enterprises, imperfections in the anti-monopoly regulation, presence of regional protectionism that impedes competition in local markets and interregional cooperation development.

As a result of phased liberalisation of pricing for socially important goods and certain types of services carried out in 2016-2017, the share of regulated goods in the consumer basket, used for the calculation of the consumer price index, decreased from 38% to 20.7%[12] during the Programme implementation period. The progress in liberalising pricing by economic entities holding a dominant position in commodity markets was less significant. The updated Reform Programme required that the direct regulation of pricing in this segment was to have been abolished by December 2017. Nevertheless, under the Anti-Inflation Programme, adopted by the country's authorities in September 2018, the full transition of enterprises holding a dominant position in their market to the procedure for setting and applying prices[13] was expected to be completed in 2019-2020, following a review of commodity markets and an update of the information on their market share and performance.

Quite notable progress was achieved in terms of improving the utilities and transport cost recovery through regulated tariffs for households. While at the beginning of the Programme implementation, the cost recovery was 51.6% and 60.2%, respectively, at the end of the Programme period it was 75.6% and 70%, which corresponds to the objectives of the Programme. By end-2018, the costs of a number utilities[14] were fully recovered through tariffs for households. According to the authorities' plans, the full cost recovery through tariffs for electricity should be achieved by end-2019, while for heating this level is expected to be achieved by 2026[15]—currently the tariff only covers 21% of the cost. The increase in the cost recovery was achieved as a result of both cost optimisation and tariff increases for consumers—on average by 14% annually over 2016-2018—and lower gas prices in those years[16]. The tariff increase was accompanied by improved social protection of vulnerable segments of the population. In 2016, the RB President adopted a Decree approving the introduction of non-cash housing subsidies provided to pensioners and other categories of low-income households to compensate from the budget part of their expenses on housing and utilities. At the same time, budget spending on subsidies to utilities and transport enterprises decreased from 1.2% of GDP (2015) to 0.7% of GDP (2018). The increase in utilities tariffs for households, however, did not lead to the elimination of cross-subsidisation: electricity tariffs for real sector enterprises remain on average twice as high as those for households, which reduces their competitiveness.

Within the framework of the Reform Programme, a significant reduction in directed lending was achieved. Starting in 2017, no more resources were provided for lending under Government programmes through the placement of RB MoF deposits with commercial banks, the volume of which amounted to 0.8% of GDP annually in 2013-2015.[17] Due to net repayments, which was about 1% of GDP each year, the share of directed lending in portfolios of commercial banks decreased from 37.3% to 20.5% during the Programme period. The shift to more market-based lending under Government programmes enabled a reduction of the fiscal burden: the budget spending on interest rate subsidies under this type of lending is estimated to drop from 0.2% of GDP (2015) to 0.07% (2018). The difference between the average market interest rates and those under directed lending fell from 18.1 p.p. to 2.7 p.p., contributing to a more competitive environment for market participants.

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[12] As to the remaining items, education and health services, medicines and fuel account for 8.6 p.p., housing and utilities and passenger transportation services, and postal services – for another 8.2 p.p., and strong liquor – for 3.1 p.p. The regulation of pricing for these categories of goods and services does not contradict the EEU requirements.

[13] This method includes granting the right to dominant enterprises to respond flexibly to developments in markets and promptly change their selling prices, informing the regulator about those changes.

[14] Water supply and sewage, maintenance, waste disposal, and use of elevators.

[15] Taking into account the arrangements for natural gas prices, as recorded in the Agreement between the RB Government and the RF Government for 2018-2020.

[16] In 2016-2018, natural gas prices were on average 4.2% below the 2015 levels, contributing to lower costs.

[17] In 2016, it was 0.3% of GDP.

The role of the RB Development Bank (DB) in coordinating and implementing Government programmes strengthened, which corresponds to the goal of its establishment. While 6 commercial banks and the DB—with its share at 36% of the total financing—participated in the implementation of Government programmes in 2016 with their limit fixed at 3% of GDP, the limit was set at 0.7% of GDP in 2019 and only 2 banks and the DB—with its share at 82%—participated in the process. However, during 2019, the initially approved funding limits for Government programmes (for directed lending) were revised upward, with the complete repeal of directed lending postponed to 2021-2022 (previously planned for 2020).

The regulation of the foreign exchange market has been significantly relaxed. Within the framework of the Programme, the foreign exchange surrender requirement for exporters was reduced from 20% to 10% and completely lifted in August 2018. Moreover, the rules for businesses purchasing foreign exchange were simplified: while in the past, such purchases could be made subject to the submission of information to banks on the purpose of the purchase, this requirement is now abolished. The lifting of the restrictions did not have any negative impact on the volume of foreign exchange supply in the market—in 2019, businesses were net sellers of foreign exchange. A new version of the Law on Foreign Exchange Regulation and Foreign Exchange Control, providing for further liberalisation of the foreign exchange market, was adopted in June 2020.

**3. Commercialisation and privatisation of state-owned enterprises and strengthening the social protection.**

The list of reforms under this section has undergone the most significant changes during the implementation of the Programme as a result of amendments made by the authorities based on the decision of the country's senior authorities not to approve the Strategy for Reforming State-Owned Enterprise Management prepared earlier. Thus, the previously envisaged implementation of the Strategy[18] was replaced with several pilot measures: (1) the introduction of corporate governance principles at pilot joint stock companies with a dominant share of the state (26 JSCs) as an alternative to the methods of owner supervision by line ministries; (2) training of members of Boards of Directors in best practices of corporate governance; and (3) the transfer of 46 enterprises of no strategic importance from the republican to the municipal level. The latter measure was expected to reduce the burden on line ministries, reorient enterprises to the needs of regions and facilitate their privatisation if relevant decisions are adopted[19]. In the context of the objective of preserving labour collectives declared by the authorities, the measure of the Programme to improve the social protection of workers at risk of dismissal was not implemented. According to the Belarusian authorities, the existing social protection package provides sufficient financial assistance to the unemployed in the current environment and does not need improving[20]. According to the Manager, in view of their pilot nature, the changes had practically no effect in terms of improving the quality of state-owned asset management and the performance of state-owned enterprises.

Little progress was made in privatisation. In accordance with the requirements of the Programme, there was a measure implemented to reduce the number of joint-stock companies with the pre-emptive right of the state to purchase their shares (from 91 JSCs in 2013 to 13 JSCs as at end-2017) aiming at stimulating privatisation. However, the effectiveness of this measure has so far remained low, *inter alia* due to the fact that the President sent the new version of the Law on Privatization back for further improvement because of his disagreement with the term of limitation for action in case of privatisation

[18] The programme of measures included the development of a conceptual framework that was later transformed into a draft strategy.

[19] In accordance with the RB Law on Divestiture and Privatisation of State-Owned Assets of the Republic of Belarus dated 19 January 1993, the programme of privatisation of municipally-owned assets is approved and implemented by local Councils of Deputies.

[20] As at end-December 2019, the average unemployment benefit was BYN 27, equivalent to US$ 13 or 12% of the minimum consumption budget. The unemployed and members of their families have the right to apply to social protection bodies for additional financial assistance; have the opportunity to participate in paid public works during the period of searching for a permanent job; have the right to free advice provided by state employment service bodies and to undergo retraining getting a scholarship.

deals reduced from 10 to 3 years, which had been approved by the Parliament. Pre-privatisation activities at banks “Belinvestbank” and “Moscow-Minsk” supported by the EBRD were implemented during the Programme period in accordance with an agreed plan. However, by mid-2020, there had been no reduction in the share of the state in Belinvestbank's capital. The NBRB did not exit the capital of “Bank Moscow-Minsk”[21] either (it was envisaged that the bank would be privatised by end-2019).

One of the significant achievements of the Programme is the abolition, at end-2015, of the practice of directed planning used in the RB at all levels of economic management. As a result, gross directed targets for enterprises were replaced with financial performance indicators, including growth in profits and profitability, *inter alia* through increased exports, reduction of excess inventories of finished goods and production costs of products, goods and services. During the entire Programme implementation period, this condition was met, at least, *de jure*. However, the absence of ambitious reforms in the state-owned enterprise sector, the maintenance by line ministries of the functions of both the regulator and the owner, and the significant financial dependence of state-owned enterprises on budget support substantially limit the operational independence of enterprises. An indirect sign of that could be a marked increase in inventories of finished goods of industrial enterprises during periods of GDP growth deceleration. For instance, as at 1 January 2020, they increased to 66.3% of the average monthly output, or by 5.4 p.p. compared to the previous year.

In order to develop an integrated approach to risk assessment generated by state-owned enterprises, within the framework of the Programme implementation, the RB Ministry of Finance, in cooperation with development partners, designed a methodology using which the Ministry of Finance prepares regular management reports. Due to the limited distribution of those reports, the Manager was unable to review their content and recommendations. Based on publicly available information, the size of potential risks associated with the fragile financial position of major state-owned enterprises was estimated at 15% of GDP in 2018.

In accordance with the Programme, the problems of financially fragile enterprises were addressed through the adoption of a package of regulations on restructuring and/or reorganisation of unprofitable agricultural enterprises, including the establishment of the Asset Management Agency in 2016. The main task of the Agency was financial rehabilitation of persistently unprofitable enterprises of the agro-industrial complex through the acquisition of bad debts of those enterprises from banks and the Development Bank based on asset claim assignment contracts, and improvement of the quality of managing those assets. Within the framework of its powers, as at 1 July 2020, the Agency was performing pre-trial rehabilitation of 132 enterprises, reorganisation of 81 enterprises, and had launched liquidation procedures for 18 enterprises. The Government's plans to develop a way to transfer agricultural enterprises under trust management as an alternative method for their rehabilitation were not supported by senior management.

In March 2019, in accordance with the Programme, the Belarusian side reported on submitting a new version of the Law on Insolvency or Bankruptcy to the Parliament. The draft Law provided for some simplification of bankruptcy proceedings, *inter alia* lifting restrictions on the number of bankruptcy cases for individual managers, improving the openness and transparency of bankruptcy proceedings by introducing an electronic register of information and sale of assets of the debtor through electronic auctions. In addition, the draft envisaged the consolidation of the functions of representing state creditors on the basis of the tax authorities and raising the priority of sustaining creditors' claims secured by pledged property. However, as at mid-2020, the draft Law was not passed.

**4. Business climate improvement and private sector development.**

During the Programme implementation period, a significant number of amendments and additions were made to the legislative and regulatory framework aimed at removing barriers, minimising

[21] Now – “Bank Dabrabyt”.

Government interventions in the economic activity of business entities, creating a competitive business environment. Specifically: (1) a notification system to launch the activity was introduced for 19 types of businesses; (2) many outdated administrative procedures were abolished; (3) the minimum sufficient list of fire safety, sanitary and epidemiological, veterinary, environmental, and other mandatory requirements was reduced by about 10 times; (4) a moratorium on raising tax rates and introducing new taxes against the background of simplification of taxation of small and medium-sized businesses was introduced. In December 2017, the Parliament approved amendments to the legislation aimed at substantial easing of administrative sanctions, *inter alia* easing those imposed on economic entities for minor acts, reducing pecuniary sanctions for a number of economic offences and expanding alternatives to confiscation of assets in relation to a number of economic offences. On 1 October 2019, in accordance with a Decree of the RB President, the licensing of 8 types of activities was abolished, and the requirements for engaging in some other activities were simplified. At the same time, the decriminalisation of economic offences, defined by business as one of the key factors for a real improvement of the business climate, progressed quite slowly.

In order to create a more favourable business environment, the Reform Programme envisaged the establishment of an independent institution of the Ombudsman to protect the rights of entrepreneurs (Business Ombudsman) by end-2016. During the Programme implementation, the country's authorities decided that this institution would be established at the Council for Entrepreneurship Development (CED) under the RB President. However, the Manager is of the opinion that the addenda made to the Regulations on CED were insufficient to comply with the international standards for the protection of the rights of entrepreneurs. In accordance with its mandate, the CED is quite actively involved in the process of improving regulatory and legal acts related to business activities. However, the Manager does not have data on the activities of the Council related to the consideration of appeals of business entities and actions to protect the rights and legitimate interests of entrepreneurs. The status of the CED also involves a conflict of interest, which does not allow the structure to be seen as an independent Business Ombudsman.

The effect of many private business development initiatives will fully manifest itself over a longer period, which goes beyond the Programme implementation, and will also depend significantly on quality enforcement of the improved legislation. However, some quantitative indicators of performance of small and medium-sized enterprises tended to improve during the Programme implementation. The number of small and medium-sized businesses[22] and the number of people employed by them increased. The share of SMEs in the GDP increased from 23.4% in 2015 to 26.1% in 2019, and their share in sales of goods, works and services increased from 39.6% to 43.2%[23]. However, the role of SMEs in the economy of Belarus is much lower than in other countries of the region. According to the Doing Business Report, the main obstacles to further development of private businesses include difficulties with obtaining loans, business closures, and protection of minority investors. The fact that targeted budget support for state-owned enterprises was maintained, although on a significantly smaller scale than at the beginning of the Programme, combined with other preferences and lack of progress in privatisation, also impedes the development of the private sector.

***Assessment of the macroeconomic situation in the Republic of Belarus as at the end of the Programme period***

Improvements in the quality of macroeconomic regulation observed during the Programme implementation contributed to addressing both domestic and external imbalances faced by the country and achieving more balanced economic growth. At the same time, the remaining structural and institutional problems significantly limit the potential for economic growth in the RB.

The favourable external economic environment, characterised by recovery of economic growth in Belarus' major trading partners and world commodity prices, as well as the use of traditional

[22] Including individual entrepreneurs.

[23] Statistical bulletin “Small and Medium Business in the Republic of Belarus”, 2020.

instruments to boost domestic demand contributed to the exit of the Belarusian economy from recession in 2017-2018 (Box 2, Figure 1). The real GDP growth was 2.5% in 2017, followed by growth by 3.1% in 2018. The main contributors to the economic growth included the consumer demand, which increased as a result of significant hikes in real wages and consumer lending. In the first half of 2019, the GDP growth slowed to 0.9%, against 4.6% in the corresponding period of 2018[24], due to sharp deterioration of foreign economic conditions[25] and mounting structural constraints.

Official statistics indicate tightening labour market conditions. The unemployment rate (based on the ILO methodology) fell from 6.1% in 2015 to 4.4% in the first half of 2019 amid the continued decline in the number of people employed in the economy. Only the budgetary and retail trade sectors saw some improvements in employment. The real wage growth rates, outpacing those of productivity growth for many years, point at the weakening of the economy's competitiveness.

The monetary policies pursued by the authorities had a deterrent effect on inflation. The annual inflation was 4.6% in 2017 and accelerated slightly to 5.6% in 2018, remaining below the NBRB's target of 6%. To keep the inflation within the target, the National Bank adhered to conservative interest rate policies. The reduction of the refinancing rate by 70 bps and 10 bps in 2017-2018 helped maintain the real interest rate within the range of 5-6%. As a result of those policies, the growth of the broad money supply at the current exchange rate decreased from 15.3% in 2017 to 8.1% in 2018. In the first half of 2019, the annual inflation accelerated to 5.7% (against 4.1% a year earlier), *inter alia* as a result of rapid wage growth[26]. Under those conditions, the National Bank kept the level of the refinancing rate unchanged from July 2018 until August 2019.

After the economy emerged from the recession of 2015-2016, the fiscal policies continued to have a deterrent effect on economic growth, as evidenced by the augmented budget surplus maintained during the Programme implementation period. An important contributor to the surplus, along with the favourable external conditions, was the reduction of budget support for state-owned enterprises. The prudent policies continued in the first half of 2019 (Box 2, Figure 4), despite a shortfall of revenues from trade in oil and petroleum products. Thus, in the first half of 2019, the augmented budget surplus amounted to 2.3% of GDP against 3.8% a year earlier.

The prudent fiscal policies pursued by the authorities were *inter alia* explained by the high debt burden for the medium term perspective: the annual size of payments related to the Government debt in 2020-2022 will average at US$ 3.2 billion, including US$ 0.9 billion of interest payments. At the same time, the real interest rate of the current debt portfolio exceeds the projected medium-term growth rate of the economy, which may lead to a further increase in the debt burden, especially in the context of a budget deficit, and boosts the foreign debt refinancing risks.

The favourable terms of trade and the economic recovery in Belarus' trading partners contributed to a lower CA deficit, which reached its historical lows of 1.3% of GDP and 0.4% of GDP in 2017 and 2018, respectively. However, it was also facilitated by the implementation of prudent fiscal and monetary policies, which is evidenced by a decline of the non-commodity trade deficit from its average of 6.0% of GDP for 2013-2016 to 3.6% GDP in 2017-2018.

***The Borrower's macroeconomic situation at the time of the report preparation (performance in the first half of 2020)***

Despite the fact that the RB authorities did not impose severe internal restrictions to prevent the spread of COVID-19, the Belarusian economy faced significant negative effects of external shocks in the first half of 2020, associated with weakening external demand, falling commodity prices, as well as

[24] As at end-2019, the growth of Belarus' economy decelerated to 1.2%.

[25] Including the suspension of imports of substandard oil and the imposition of restrictions on the supply of petroleum products from Russia within the framework of interstate agreements in the second half of 2018. In 2019, there were no imports of finished petroleum products from Russia that necessitated a reduction in exports to fully meet the demand in the RB domestic market.

[26] As at end-2019, the inflation was 4.7%.

lack of agreements with the RF on oil supplies for 2020. In these circumstances, the country's authorities took a number of measures to stimulate the economy. The refinancing rate was reduced three times over the period of six months, in total by 1.25 bps to 7.75%. That was accompanied by a significant expansion of directed lending. As a result of repeated revisions, the limit for Government programme financing for 2020 amounted to BYN 1.3 billion (US$ 540 million), which is 70% above the original threshold. A decision of the Government temporarily—until 31 December 2020—lifted the requirement to raise wages of employees of state-owned enterprises only on condition of the growth of productivity outpacing that of wages. As a result, the real wage growth in the first half of 2020 remained at the level of the previous year (7.9%)[27].

Despite the measures taken to stimulate the economy, in the first half of 2020, the RB GDP shrank by 1.7%, compared to its growth by 0.9% a year earlier. The recession was not so significant as predicted by many analysts, which was largely due to a considerable increase in inventories: as at 1 June 2020, the inventories of finished products reached 81.4% of the average monthly output (65.9% a year earlier), including the manufacturing industry – 96.4% (75.0%).

The marked easing of monetary policies against the backdrop of a rising budget deficit caused significant acceleration of the base money growth—34.3% against 16.4% a year earlier—which may lead to unbalanced money supply growth and, thus, to accelerated inflation in the second half of 2020 and in 2021. As at end-June, the annual inflation amounted to 5.2% against 5.7% as at end-June 2019. Some of the inflation deceleration was mainly explained by slower increases in food prices, *inter alia* due to the administrative price controls for socially important goods imposed in early April 2020[28].

The fiscal indicators for the first half of the year deteriorated significantly, reflecting lower economic activity and deteriorating financial performance of economic entities, *inter alia* due to significant BYN depreciation in March. The consolidated budget revenues decreased by 4.1 p.p. compared to the first half of 2019, reaching 26.9% of GDP. The main contributors to lower revenues were a decrease in profit tax revenues (by 1.1 p.p.), customs duties (by 1.5 p.p.), as well as zero RB budget revenues from "customs re-clearance"[29] (by 0.8 p.p. of GDP). Budget spending rose by 3.2 p.p. to 30.3% of GDP due to increased capital spending as part of stimulating the economy. As a result, the budget deficit was at the level of 3.4% of GDP against a surplus of 4.0% of GDP a year earlier. Following the US$ 1.25 billion Eurobond issue in June, the Government debt increased from 33.7% of GDP at the beginning of 2020 to 34.9% at the end of the first half of the year.

The physical volume of imports of goods decelerated at a rate slightly higher than the fall of exports (-10.9% and -9.4% respectively) and, combined with a slight improvement in the terms of trade, contributed to a lower deficit of trade in goods, which went down to 4.0% of GDP against 5.7% a year earlier. An expansion of the surplus of trade in services (7.2% against 6.2% of GDP), supported by an increase in net exports of IT services, somewhat off-set the significant deterioration of the primary income deficit (-9.5% and -7.8% of GDP) resulting from more intensive outflows of investment income abroad than a year ago. As a result, the CA deficit formed at the level of 5.0% of GDP against 5.2% a year earlier. It was financed mainly through net foreign direct investment inflows (6.6% of GDP against 5.8% of GDP a year earlier), and a reduction in gross international reserves (-8.4% of GDP and +4.0%).

An increase in the net demand for foreign exchange on the part of both enterprises and households in the face of lower foreign exchange revenues and substantial BYN depreciation in Q1 significantly reduced the capacity of the monetary authorities to replenish the foreign currency reserves. As at end-May, the GIR amounted to US$ 7,882.9 million (2.4 months of imports of goods and services), which

[27] In January-May.

[28] In the period from 30 March to 18 April 2020, Resolution of the Council of Ministers No. 184 "On temporary measures to stabilise the situation in the consumer market" was in force, prohibiting growth of selling prices and tariffs for goods and services beyond 0.5% monthly. On 15 April 2020, temporary state regulation of prices was introduced for socially important goods, the list of which was determined by resolutions of the MART.

[29] The mechanism of the RF subsidising fixed gas prices for Belarus through the transfer to the Belarusian budget of the amount of oil export duties from exports of 6 million tons of oil.

is 16% lower than at the beginning of the year. The country's declining investment attractiveness amid the global recession, combined with the rising political uncertainty, could lead to deterioration in the financial account and increased risks to the balance of payments.

## Box 2. Republic of Belarus: Selected economic indicators, 2016-2018

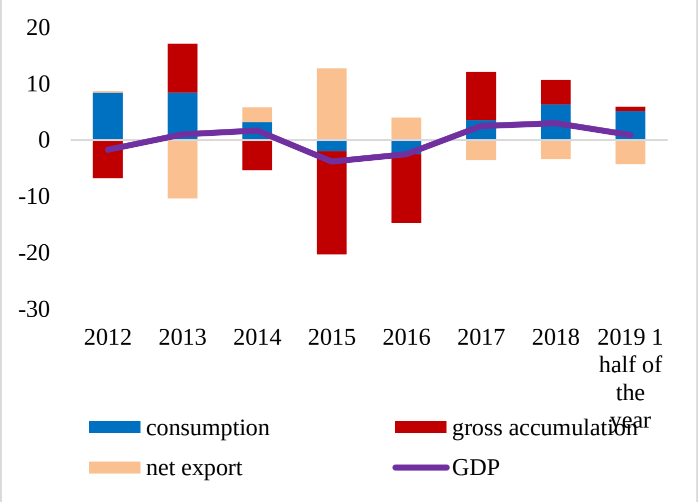


**Figure 1 –** Composition of economic growth, by use components (p.p., YoY)

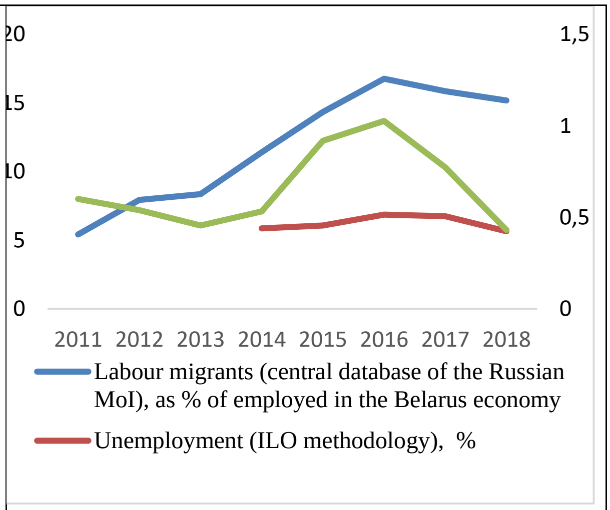


**Figure 2 –** Evolution of labour migration and unemployment, %

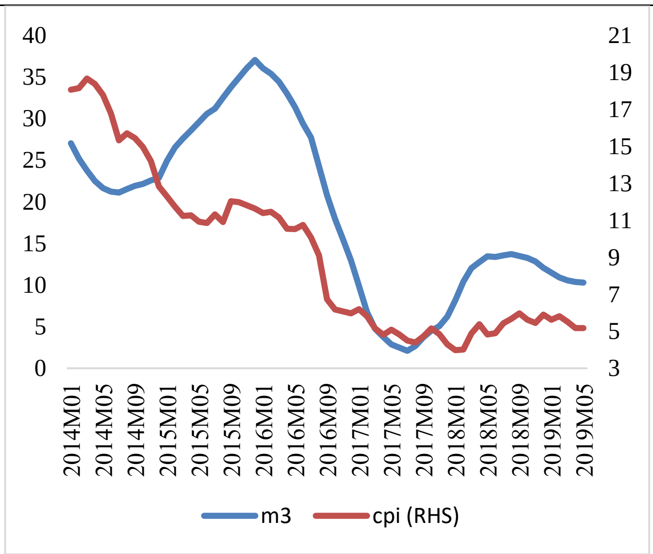


**Figure 3 –** Evolution of broad money supply and inflation, %

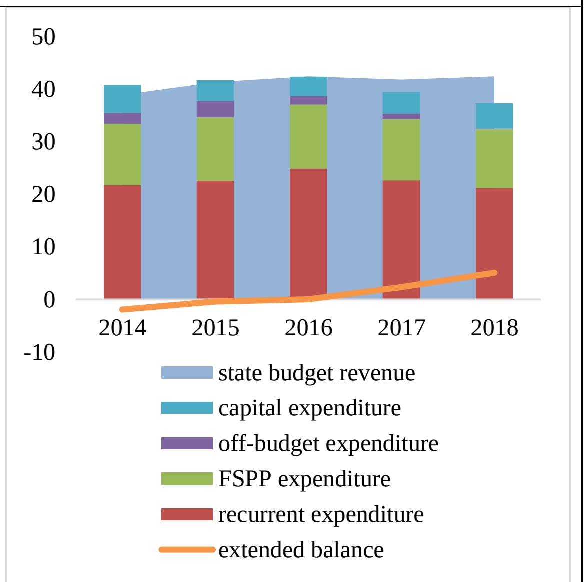


**Figure 4 –** Composition of augmented budget balance

***Sources:*** *Belstat, NBRB, RB MoF, Central Data Bank for Registration of Foreign Citizens of the Ministry of Internal Affairs of the Russian Federation, EFSD estimates*

**Annex 1 Reform Programme Targets**

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| **1. Macroeconomic stabilisation** | | |
| 1.1. CT Maintaining the level of gross international reserves (GIR) at an economically secure level. | | |
| At least US$ 5.4 billion (2 months of imports) as at 1 January 2018 | At least US$ 7.0 billion (2 months of imports) as at 1 December 2018 (subject to an adjustment for the amount of the oil transfer received from the RF) | *Met.* The actual level of the GIR, taking into account the amount of the oil transfer received from the RF, was US$ 7.4 billion or 2.2 months of imports against 1.5 months of imports at the start of the Programme (1 March 2016). |
| 1.2. CT The net domestic asset (NDA) growth rate consistent with the objectives of balancing the domestic demand, at the programme exchange rate | | |
| The NDA level is no more than BYN 4.6 billion as at 1 January 2018 | The NDA level is no more than BYN 2.3 billion as at 1 December 2018 | *Met.* The actual NDA amounted to BYN 1.3 billion. |
| 1.3. IT The reserve money (RM) growth rates consistent with the objectives of inflation deceleration, at the programme exchange rate | | |
| The RM ceiling is no more than BYN 5.3 billion as at 1 January 2018 | The RM ceiling is no more than BYN 7.64 billion as at 1 December 2018 | *Met.* The RM amounted to BYN 7.47 billion |
| 1.4. IT Limiting the growth of the broad money supply in order to slow down the inflation, at the programme exchange rate | | |
| The maximum broad money growth at the programme exchange rate is 0%. | The maximum broad money growth at the programme exchange rate is 5% as at 1 December 2018. | *Met.* The money supply grew by 2.2% compared to the beginning of 2018 |
| 1.5. IT Improving the quality of foreign exchange policies | | |
| No multiple exchange rate practices | No multiple exchange rate practices | *Met.* In 2018, exchange rates did not deviate from the official one by more than 2%. The last minor devaluations of the exchange rate in the OTC and in the cash currency market from the official exchange rate were observed only during periods of strong depreciation in 2015—in January, when the depreciation was 30%, and in August, when the BYN exchange rate vis-à-vis the US$ depreciated by 15%. |
| 1.6. IT Improving the mechanisms of the domestic foreign exchange market functioning to create a more flexible exchange rate | | |
| Introduction of a two-way continuous auction mechanism for exchange trading | Introduction of a two-way continuous auction mechanism for exchange trading | *Met.* The two-way auction mechanism was introduced on 1 June 2015 by Resolution of the Board of the National Bank No. 106 dated 1 March 2016, business entities have access to trading on the exchange currency |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | | market through RB banks. The introduction of the two-way auction mechanism created a platform for transition to a floating exchange rate regime and reduced the risks of currency speculations. |
| 1.7. IT Launching tools consistent with the objectives of monetary targeting | | |
| The operational system of bank liquidity management tools is consistent with the monetary targeting policy | The operational system of bank liquidity management tools is consistent with the monetary targeting policy | *Met.* In January 2015, the NBRB moved to the monetary targeting regime in its monetary policies, within which the main tools of achieving the inflation target is control over monetary supply using a benchmark for the money supply growth. Since 13 May 2015, the system of bank liquidity regulation consistent with the monetary targeting regime has been used. In the framework of the monetary targeting, the NBRB has achieved a significant reduction in the inflation rate, which, combined with transition to a more flexible exchange rate regime, will facilitate the transition to an inflationary targeting regime. |
| 1.8. CT Improving the quality of interest rate policies | | |
| Decisions are taken on changing the refinancing rate taking into account the achievement of the inflation target | Decisions are taken on changing the refinancing rate taking into account the achievement of the inflation target, the actual pattern of interest rates in auctions of the National Bank, the interest rates in the interbank market, and the status of the current account of the balance of payments, and with the aim of minimising interventions to support the exchange rate. | *Met.* When deciding on changing the refinancing rate, the NBRB takes into account the trends in inflation and the performance of the banking and external sectors. Decisions on interest rate changes are accompanied by brief press releases and press conferences, which present the key factors that influenced the decision on the interest rate. |
| 1.9. CT Improving the quality of liquidity management by the NBRB | | |
| Liquidity support is provided to banks by the NBRB performing its lender of last resort function at interest rates not lower than the refinancing rate of the NBRB. | Liquidity support is provided to banks by the NBRB performing its lender of last resort function at interest rates not lower than the refinancing rate of the NBRB. | *Met*. The interest rates for liquidity support operations were consistently maintained above the refinancing rate during the EFSD Programme implementation. |
| 1.10. IT Ensuring the republican budget execution with a surplus in order to reduce the debt burden | | |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| The formation of the republican budget with a surplus equivalent at least to the amount of export customs duties from crude oil and selected oil products exported from the territory of the RB outside the customs territory of the Customs Union | *The condition was only valid for the 1st and 2nd tranches.* | *Met*. |
| 1.11. CT Pursuing prudent fiscal policies with the aim of achieving macroeconomic stabilisation and debt burden reduction | | |
| The augmented general government budget balance (including net lending by the RB Development Bank) is fixed at the zero level as at end-year | The augmented general government budget balance (including net lending by the RB Development Bank) is fixed at the zero level as at end-year | *Met.* As at the end of 2016, 2017, and 2018, the augmented budget balance was positive. A surplus is also expected in 2019, but the Law on the Republican Budget for 2020 provides for a deficit due to higher budget expenditures and lower revenues from trade in petroleum products. |
| 1.12. CT Bringing public finance accounting standards in line with the international standards | | |
| | The Law on the Republican Budget for 2019 provides for recording operations of recapitalisation of banks and replenishment of statutory funds of state-owned enterprises as budget expenditures | *Met.* Since 2018, expenditures under the item "replenishment of statutory funds", previously reflected as a source of financing the budget deficit, have been recorded as budget expenditures under the heading "capital transfers." In order to expand the coverage of budget operations and improve the transparency of the budget, starting from 2018, the budget reflects operations, whose source of financing is foreign loans provided to state-owned enterprises of the RB on the basis of intergovernmental agreements (the so-called "project-related" loans, the proceeds of which are not reflected in the TSA). |
| 1.13. CT Regulation of domestic demand by limiting the growth of the wage bill in the consolidated budget | | |
| The growth of the nominal wage bill in the consolidated budget is limited by the targeted inflation rate | The growth of the nominal wage bill in the consolidated budget is limited by the targeted inflation rate | *Met.* In 2016, the wage bill of the consolidated budget increased by 6.4% (against the inflation target of 12%); in 2017, the increase amounted to 8.6% (the inflation target of 9%). However, in 2018, the year for which this parameter was not agreed, the budget wage bill |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | | increased against the previous year by 20.7% as part of the intention of the RB authorities to reduce the gap between the average wage in the economy and in the budget sector. This expenditure item grew further in 2019 (24.5% for 9 months), and it is envisaged in the 2020 budget to achieve the ratio of wages of workers in budget sector organisations and of those employed in the economy of 80%. |
| 1.14. IT Expansion of the tax base | | |
| Amendments aimed at reducing tax preferences introduced to the tax legislation | *The condition was only valid for the 1st and 2nd tranches.* | *Met.* In 2016, decisions were made to abolish a number of tax preferences: the VAT on gas and electricity for households; VAT on sales of vehicles for urban, suburban and intercity passenger transportation, and services of passenger transportation by urban and suburban transport; profit tax preferences for organisations in the part of sales of manufactured products of most agricultural sectors and for manufacturers of laser optical equipment. |
| 1.15. CT Reducing the debt burden | | |
| Unconditional implementation of the RB Government Debt Management Strategy for 2015-2020, including annual mobilisation of non-project related loans to the Government usually not exceeding half of the annual Government debt repayment needs; and using revenues from export customs duties on crude oil and selected oil products, exported from the territory of the RB outside the customs territory of the Customs Union, to make foreign exchange payments related to the Government debt service and repayment. | Unconditional implementation of the RB Government Debt Management Strategy in 2015-2020, including annual mobilisation of new non-project related loans to the Government in the amount of no more than 75% of the annual Government debt repayment needs. In case of exceeding that level, the amount of borrowings in excess of the threshold of 75% should be allocated to replenish the gold and foreign currency reserves. | *Met, taking into account that borrowings above the threshold were used to replenish budget deposits of the RB MoF.* During the Programme implementation period (2016 – first half of 2019), new external borrowings of the RB Government amounted to US$ 4.5 billion and those mobilised in the domestic market – to US$ 3.5 billion, of which only 11% – in local currency. In general, those borrowings were well above the established threshold of 75% of the annual repayment needs, mainly because of their high level in 2016-2017. However, the requirement to use foreign exchange proceeds in excess of the threshold to replenish budget deposits of the MoF was generally observed. The remaining 25% of the amount required |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | | for repayment was financed from non-debt sources (budget surplus). Despite the fact that the nominal amount of the Government debt increased by US$ 3.4 billion during that period, mainly due to project-related (investment) loans, its share in GDP tended to decline in general, except for 2016. Thus, as at 1 January 2016 (beginning of the Programme implementation), the Government debt amounted to 31.4% of GDP, as at 1 January 2017 – to 39.2%, and as at 30 June 2019 (the end date of credit availability) – to 34.9% of GDP. |
| 1.16. CT Limiting the Government debt burden | | |
| | Maintaining the Government debt to GDP ratio of no more than 45%. | In 2018, the Government debt was fixed at 35.1% of GDP, and as at end-June 2019 – at 34.9% of GDP. |
| **2. Goods and services market reforms and reduction of state support** | | |
| 2.1. IT Establishing an independent anti-monopoly authority | | |
| An independent anti-monopoly authority on the basis of the Ministry of Trade is established and functioning. | An independent anti-monopoly authority on the basis of the Ministry of Trade is established and functioning. | *Met.* The MART was established in September 2016. The main declared objectives of the Ministry include the design of policies to counter monopolistic behaviour and to promote competition, regulation of activities of natural monopolies, pricing, trade, catering, household services, consumer protection, advertising, public procurement of goods (works, services).<br>Since then, the agency has actively worked on improving the legislative and regulatory framework in the areas of countering monopolistic behaviour and developing competition, business liberalisation, including trade, and public procurement. In 2019, further work was done to amend the Law on State Regulation of Trade, prepare a draft decree on countering monopolisation in the area of trade, and a draft of the Competition Development Programme. |
| 2.2. CT Liberalisation of prices for goods and services | | |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| The state price regulation is made consistent with the provisions agreed under the Treaty on the Eurasian Economic Union (Annex No. 19) | The state price regulation is made consistent with the provisions agreed under the Treaty on the Eurasian Economic Union (Annex No. 19) | *Met.* As a result of the gradual liberalisation of prices for consumer goods and services performed in 2016-2017, the share of regulated prices in the CPI basket decreased from 32.7% as at the beginning of the Programme implementation to 20.7% as at end-2018. However, there was indirect evidence of increased control over pricing on the part of the MART. In particular, almost all enterprises of the meat, dairy and bakery industry, which had been merged into regional state-owned holdings, were put on the list of enterprises holding a dominant position in the market and Government regulation of their pricing was automatically introduced that is a controversial measure to promote market liberalisation and competition development. |
| 2.3. CT Improving the utility cost recovery through tariffs for households | | |
| As at end-December 2017, the utility cost recovery through tariffs for households is not less than 70% | As at end-September 2018, the utility cost recovery through tariffs for households is not less than 75% | *Met.* As at end-September 2018, the indicator was 78.5% against 53.3% as at the start of the Programme. |
| 2.4. CT Improving the transport cost recovery through tariffs for households | | |
| As at end-December 2017, the transport cost recovery through tariffs for households is not less than 70% | As at end-2016, the transport cost recovery through tariffs for households is not less than 65% | *Met.* As at end-2016, the transport cost recovery through tariffs for households amounted to 65%. Based on a request of the Belarusian side, the condition of the tariff increases during 2017 was removed from the Reform Programme by a decision of the Fund Council. However, progress in improving the cost recovery was observed during 2017-2019 and, as at end-2019, it was 66.4%. |
| 2.5. CT Improving interest rate policies by reducing the share of concessional lending under Government programmes | | |
| Negative net increase of Government programmes (-2% of GDP) for 2017, with maximum new disbursements of BYN 20 trillion (at the programme exchange rate) | Negative net increase of lending under Government programmes and measures (-1.9% of GDP) by commercial banks and the RB Development Bank using all | *Met.* In 9 months of 2018, the net increase of Government programmes amounted to negative 1.9% of GDP. In 2019, Government programmes continued to decline: in January-September 2019, the net funding |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | sources of financing (at the programme exchange rate) as at the end of 9 months of 2018 | of Government programmes decreased by 1.2% of GDP.<br>The reduction in the net lending under Government programmes recorded in 2016-2018 helped bring down their share in the loan portfolio of commercial banks from 38.4% as at end-2015 to 24.5% as at end-2018.<br>In May 2016, the RB President adopted a decree providing for expanded coverage of the requirements fixed in the legislation in terms of banking supervision to include the Development Bank, which became the main operator of Government programmes based on a decision of the RB authorities. |
| 2.6. CT Improving the quality of monitoring the implementation of Government programmes | | |
| | A database of all Government programmes financed with loans provided by commercial banks and the Development Bank, including data on outstanding debts, projected and actual payments, was created. The data base is updated quarterly. | *Met.* A first-ever database, including all the key financial information on all Government programmes, has been created by the RB MoF and updated on a quarterly basis. |
| **3. Commercialisation and privatisation of state-owned enterprises and strengthening the social protection** | | |
| 3.1. IT Improving the performance of the state-owned sector through the development and implementation of a comprehensive reform programme | | |
| Developing a new conceptual framework of state-owned asset management to create a basis for shifting to new methods of managing state-owned assets, streamlining the structure of state-owned assets through privatisation and divestiture of non-core assets, and developing outsourcing, as well as separating the functions of the state as the regulator and the owner | Implementation of corporate governance elements at pilot state-owned enterprises, streamlining the list of enterprises in republican ownership by transferring part of the enterprises to the municipal level and sales of shares of joint-stock companies held by the state through the stock exchange. | *Met.* In view of the decision at the senior level not to endorse the strategy developed jointly with donors for the reform of state-owned enterprises, the Programme was supplemented with measures to improve the management of state-owned assets, which were piecemeal (pilot) in their nature. Corporate governance elements (adoption of corporate codes, inclusion of independent directors in supervisory boards) were introduced at 21 JSCs with a dominant share of the state; 46 enterprises were transferred from the republican to the municipal level; shares of 5 JSCs |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | | owned by the state were offered through an open auction on the exchange. The lack of a comprehensive approach and the evolutionary/pilot nature of the changes did not promote a qualitative improvement in the management of state-owned assets and performance of state-owned enterprises. |
| 3.2. CT Building the capacity of the Government for managing state-owned enterprises | | |
| | Developing a methodology to assess the fiscal risks generated by state-owned enterprises and preparing relevant reports for 2017.<br>Developing a training programme for members of supervisory boards of open joint stock companies and launching the training. | *Met.* The methodology for fiscal risk assessment has been prepared by the RB MoF and is used for regular monitoring of state-owned enterprises and preparation of MoF reports on the scale of the risks generated by that sector. As those reports are not public, it is impossible to assess the effectiveness of this measure.<br>The State Property Committee and donors prepared a programme of advanced training for representatives of the state and other members of supervisory boards of state-owned enterprises in terms of management of state-owned assets. |
| 3.3. CT Liberalisation of state-owned enterprises | | |
| Abolishing gross directed targets for state-owned enterprises, starting in 2016 | Abolishing gross directed targets for state-owned enterprises, starting in 2016.<br>Reducing the regulatory impact of the state on the activity of enterprises in terms of foreign exchange transactions (reduction of the foreign exchange surrender requirement, provision of the opportunity to buy foreign exchange without informing banks about the purpose of buying it). | *Met.* Since 2016, only a few qualitative targets have been set for state-owned enterprises: those of net profits, export growth rates, profitability of sales, reduction of production costs and costs of sales of products, and mobilisation of foreign direct investments. The abolition of production targets and removal of restrictions on foreign exchange transactions of economic entities had a positive effect in terms of the optimisation of the operation of state-owned enterprises, but a limited impact in view of the slow progress of other Government reforms in the area of state-owned sector management. |
| 3.4. CT Developing competition by creating a level playing field for enterprises of all forms of ownership | | |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
|---|---|---|
| | Approval by the RB Government of the draft Conceptual Framework of the RB Competition Development Programme for 2018-2022 providing for the creation of a level playing field for entities of all forms of ownership and the removal of barriers to the development of competition in local commodity markets. | *Met.* The Presidium of the RB Council of Ministers approved the Conceptual Framework of the RB Competition Development Programme at end-2017. The Conceptual Framework noted *inter alia* excessive Government regulation, excessive administrative barriers, unequal conditions for the functioning of entities of various forms of ownership against the background of significant preferences for state-owned economic entities, imperfections of the anti-monopoly regulation, regional protectionism impeding competition in local markets and the development of interregional cooperation as factors impeding competition development.<br>In April 2019, the MART and the International Finance Corporation signed an agreement on cooperation in drafting and implementing the RB Competition Development Programme and Roadmaps to Develop Competition in Certain Sectors of the Economy. |
| 3.5. CT Strengthening the social protection in the context of potential unemployment growth due to headcount optimisation at state-owned enterprises | | |
| A package of regulatory legal acts ensuring proper protection of employees falling into the category of the unemployed due to the commercialisation and optimisation of enterprises was adopted. | Introducing a system of social protection of workers undergoing professional retraining on decision of local governments | *Not met.* The condition *inter alia* envisaged that local governments would coordinate the reduction of excess employment, which was determined by enterprises on the basis of the methodology developed by the Ministry of Labour and Social Protection, by arranging retraining courses for employees at risk of dismissal, offering them a scholarship not lower than the subsistence budget. The Belarusian side considered that the social costs of implementing reforms to optimise the number of employees might be extremely high and, in the absence of fundamental reforms, the current instruments of social protection were sufficient. |
| 3.6. IT Reduction of the role of the state in economic activity | | |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
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| For the first half of 2017, the share of the state-owned sector in generation of the gross added value is no more than 41%.<br>Adoption of the Law on Public-Private Partnerships. | As at end-2016, the share of the state-owned sector in generation of the gross added value is no more than 45%.<br>Adoption of the Law on Public-Private Partnerships.<br>Introduction of the institute of regulatory impact assessment of draft regulatory and legal acts affecting business operations | *Not met.* The share of the public sector in generation of the GVA as at end-2016 reached 47.2% against 46.3% a year earlier (excluding JSCs with a share of the state less than 50%), which is explained *inter alia* by significant state support for this category of enterprises.<br>The Law on Public-Private Partnerships (PPP) was adopted at the end of 2015, but the extent of PPPs in the country is small, due to the bureaucratic complexity of clearing PPP projects with experts at the stage their initiation: since the adoption of the PPP Law, only 2 projects have passed that stage.<br>The Law on Regulatory Legal Acts, which provides for the introduction of the regulatory impact assessment (RIA), had not been adopted by the Parliament by the time of the condition assessment (June 2017). Based on a decision of the EFSD Council, this condition was moved to the 6th tranche in the form of a control target. |
| 3.7. CT Reduction of the regulatory pressure on the private sector | | |
| | Introduction of the institute of regulatory impact assessment of draft regulatory and legal acts affecting business operations | *Met with a delay.* After a two-year delay in meeting the target, which changed its status from an indicative to a control one, in January 2019, the RB Government issued a resolution approving the Instruction on Forecasting the Consequences of Adoption (Issue) of Regulatory Legal Acts, Including Forecasting the Regulatory Impact of Relevant Regulatory Legal Acts. The introduction of the RIA is provided for by the new version of the Law on Regulatory Legal Acts adopted in July 2018. The introduction of the institute of Regulatory Impact Assessment is aimed at creating a more enabling environment for private sector development. At the moment, all regulatory legal acts affecting the interests of entrepreneurs are adopted on the basis of an assessment of their regulatory impact. |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
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| 3.8. CT Promoting privatisation by introducing amendments to the legislation | | |
| | Submitting to the Parliament draft amendments to the Law on Privatisation, *inter alia* providing for a shorter term of limitation for action in case of privatisation deals.<br>Reduction of the list of JSCs whose shares are subject to the pre-emptive right of the state | *Not met.* The new version of the draft Law on Privatization, adopted by the Parliament and consistent with the objectives of the Programme, was rejected by the President and sent back for further improvement (March 2019). One of the principal points the Head of State disagreed with was related to the term of limitation for action in case of privatisation deals reduced from 10 to 3 years. At the same time, the Law on Investments regulating the procedure for compensation for nationalised and seized assets was rejected. According to the expert community, this decision can have a negative effect on the country's investment attractiveness. Against this background, the effectiveness of the Government's decision to reduce the list of JSCs, whose shares are subject to the pre-emptive right of the state, also decreased. As at end-2017, the number of such JSCs was 13, against 91 in 2013. |
| 3.9. IT Privatization of state-owned assets | | |
| Adoption of a Government resolution establishing market-based valuation to determine the starting price of state-owned enterprises.<br>Support for the pre-privatisation activities at JSC Belinvestbank and OJSC "Bank Moscow-Minsk" | Adoption of a Government resolution establishing market-based valuation to determine the starting price of state-owned enterprises.<br>Support for the pre-privatisation activities at JSC Belinvestbank and OJSC "Bank Moscow-Minsk" | *Met.* The Government Resolution of 16 August 2016 approves the Regulations on the procedure for determining the starting price of privatised objects on the basis of market valuation. Since there have been no privatisation transactions closed during the Programme implementation period, it is impossible to draw a conclusion about the effectiveness of the approved approaches.<br>In general, the pre-privatisation activities at the banks, supported by the EBRD, took place during the Programme implementation period in accordance with the agreed plans. However, the state share in the capital of Belinvestbank had not decreased by end-2019. The |

| **Expected outcome (in accordance with the Manager's Appraisal of the Request)** | **Expected outcome (revised)** | **Effectively achieved result** |
| --- | --- | --- |
| | | NBRB did not exit the capital of "Bank Moscow-Minsk" either (it was envisaged that the bank would be privatised by end-2019). |
| 3.10. IT State-owned sector restructuring | | |
| Adoption of a regulation on developing the procedure of decision-making on transfer of insolvent municipal agricultural enterprises into trust management.<br>Adoption of a package of regulations on restructuring/reorganisation of unprofitable agricultural enterprises.<br>Adoption and enactment of a new Law on Insolvency or Bankruptcy. | Adoption of a regulation on developing the procedure of decision-making on transfer of insolvent municipal agricultural enterprises into trust management.<br>Adoption of a package of regulations on restructuring/reorganisation of unprofitable agricultural enterprises.<br>Submitting to the Parliament the revised draft Law on Insolvency or Bankruptcy. | *Met partially and with a delay.* The procedure for transfer into trust management was not approved due to a decision adopted by the authorities to consider the possibility of transferring enterprises into trust management on a case-by-case basis. The EFSD has no evidence of such transactions.<br>Decrees adopted by the RB President No. 253 "On Measures for Financial Rehabilitation of Agricultural Organisations" dated 4 July 2016 and No. 268 "On Creation and Operation of Open Joint Stock Company "Asset Management Agency" dated 14 July 2016 prescribe mechanisms of financial rehabilitation of persistently unprofitable agricultural enterprises, *inter alia* through pre-trial rehabilitation and bankruptcy proceedings, as well as with the help of the new state agency performing collector functions. The implementation of those decrees had a positive effect of reducing the number of loss-making enterprises in the sector (by 44% in 2018 compared to 2016) and the amount of net losses, but the performance of those enterprises is all still much poorer than that of private enterprises (the profitability of products sold is 7 times lower, that of sales – 7 times lower).<br>The revised draft Law on Insolvency or Bankruptcy, aimed at simplifying the bankruptcy proceedings and improving their openness and transparency, was submitted by the Government to the Parliament in March 2019 (it was originally envisaged that the new Law would come into effect in the first half of 2017). |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
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| | | The draft Law is allegedly being considered by the Parliament. |
| **4. Business climate improvement / private sector development** | | |
| 4.1. IT Improving the regulatory environment for private sector development | | |
| Adoption and implementation of Directive of the President No. 4 on further measures to develop the entrepreneurial initiative and promote business activity | Implementation of the Plan to Implement Directive No. 4 (Resolution of the CoM and the NBRB No. 251/6 dated 28 February 2011) and the Action Plan to Implement the Provisions of Decree of the President No. 78 (approved by the RB First Deputy Prime Minister No. 11/100-59/49 dated 4 March 2016). | *Met.* Taking into account the adoption of a number of legislative acts aimed at the development of entrepreneurial initiative, including Decree of the President No. 78 and the Government Programme “Small and Medium Business in the Republic of Belarus” for 2016-2020, covering most of the programme provisions of the draft new version of Directive No. 4, the expediency in the adoption of that new version, according to the Belarusian sides, faded away.<br>During the Programme implementation period, the RB Government adopted a significant package of regulations aimed at improving the business climate and the private sector development. Statistics show some growth of small and medium-sized enterprises (+3.6% in 2016-2018), as well as the number of people employed in the sector (+1.5%) during the Programme implementation period. However, the enhanced role of the private sector is hampered by the lack of a level playing field for private and state-owned enterprises due to the persistence of preferences for the latter both in the legislative framework and in terms of support by the state. |
| 4.2. CT Improving the protection of the rights of entrepreneurs | | |
| Establishing the institute of the Ombudsman to protect the rights of entrepreneurs (Business Ombudsman) | Assigning the functions of the Ombudsman to protect the rights of entrepreneurs the Council for Entrepreneurship Development (CED) under the RB President and introducing | *Not met.* Amendments to the Regulations on the CED, which mainly deal with enhancement of the role of the CED in law drafting, are not sufficient to recognise the CED as the Ombudsman to protect the rights of entrepreneurs according to the standards followed in the |

| Expected outcome (in accordance with the Manager's Appraisal of the Request) | Expected outcome (revised) | Effectively achieved result |
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| | relevant addenda to the Regulations on the Council. | global practice. In accordance with the Regulations, the CED is a permanent advisory body under the RB President, carrying out its activities in a voluntary capacity, whose decisions are advisory in nature, which is not sufficient to exercise due control over the observance of the rights and legitimate interests of entrepreneurs. |
| 4.3. IT Improvement of the state-owned sector transparency through the implementation of the international reporting standards | | |
| Introduction of the international financial reporting standards and mandatory independent audit of such reporting. Consideration of the practicability of expanding the list of companies required to prepare their annual reports based on the IFRS | Introduction of the international financial reporting standards and mandatory independent audit of such reporting. Consideration of the practicability of expanding the list of companies required to prepare their annual reports based on the IFRS | *Met*. Starting from 1 January 2020, 3 IFRS standards will become part of the national legislation. In Q4 2019, the draft amendments to the Law on Accounting and Reporting are expected to be submitted to the Parliament. They cover the issues of the preparation and presentation of IFRS-based financial statements, starting from 2022, by state-owned entities that meet certain criteria: these must be republican unitary enterprises, municipal unitary enterprises, and state-owned enterprises with a share of the state above 50%, and their IFRS-based sales must be at least 4 million base values for the previous year. |