

EDICT

of the President of the Republic of Belarus
No. 687, dated December 30, 2007

On Approval of the Monetary Policy Guidelines
of the Republic of Belarus
for 2008

1. To approve the Monetary Policy Guidelines of the Republic of Belarus for 2008.
2. To ensure the execution by the National Bank, in concert with the Council of Ministers of the Republic of Belarus, of the Monetary Policy Guidelines of the Republic of Belarus for 2008.
3. This Edict shall come into force on January 1, 2008.

A. Lukashenko
President
Republic of Belarus

NATIONAL BANK OF THE REPUBLIC OF BELARUS

REPUBLIC OF BELARUS MONETARY POLICY GUIDELINES
FOR 2008

Minsk

CONTENTS

Section I.	Basic Provisions	4
Section II.	Monetary Policy Implementation in 2007	5
Chapter 1.	Macroeconomic Situation	5
Chapter 2.	Attaining Monetary Policy Objectives	6
Chapter 3.	Monetary Policy Instruments	8
Chapter 4.	Monetary Indicators Compilation	9
Chapter 5.	Banking Sector and Payment System Development	11
Chapter 6.	International Cooperation	13
Section III.	Monetary Policy Objectives and Instruments in 2008	15
Chapter 7.	Economic Developments	15
Chapter 8.	Monetary Policy Objectives	16
Chapter 9.	Development of Monetary Policy Instruments	17
Chapter 10.	Monetary Indicators	18
Section IV.	Improving the Banking System, Banking Supervision, Financial Market, and Payment System of the Republic of Belarus in 2008	20
Chapter 11.	Banking System Development and Banking Supervision Improvement	20
Chapter 12.	Financial Market Development	21
Chapter 13.	International Cooperation	22
Chapter 14.	Payment System Improvement	23
Chapter 15.	Closing Provisions	25
	Appendix	26

SECTION I BASIC PROVISIONS

1. The Republic of Belarus Monetary Policy Guidelines for 2008 (hereinafter “the Guidelines”) are designed to inform economic entities and the general public about the actions of the monetary authorities in the sphere of monetary policy. In 2008, like in previous years, these actions will be aimed at creating conditions for meeting the targets of social and economic development, ensuring sustainable economic growth and higher living standards primarily by:

- ensuring the stability of the Belarusian ruble, including its purchasing power and exchange rate against foreign currencies;
- developing and strengthening the banking system; and
- enhancing the efficiency, reliability, and secure functioning of the payment system.

2. In 2008, the National Bank will continue to comply with the basic monetary policy principles, which include:

- forming the hierarchy of the monetary policy objectives;
- identifying a mechanism for applying the instruments of monetary policy directed towards the attainment of its goals;
- ensuring transparency and availability of information on objectives, tasks and activities of the central bank of the country, which implies that it is expected to inform the general public about its decisions, monetary policy instruments, and publish statistics and reports on a regular basis; and
- the unity and interrelation of monetary policy and other components of state macroeconomic policy.

3. The Guidelines have been developed taking into account Edicts of the President of the Republic of Belarus No. 384 “On the Approval of the Program of Social and Economic Development of the Republic of Belarus for 2006-2010” dated June 12, 2006 (National Register of Legal Acts of the Republic of Belarus, 2006, No. 92, 1/7667) and No. 27 “On the Approval of the Program of Development of the Banking Sector of the Economy of the Republic of Belarus for 2006-2010” dated January 15, 2007 (National Register of Legal Acts of the Republic of Belarus, 2007, No. 16, 1/8268).

SECTION II MONETARY POLICY IMPLEMENTATION IN 2007

CHAPTER 1 MACROECONOMIC SITUATION

4. The macroeconomic situation in January-September 2007, compared with the same period in 2006, was characterized by:

- high rates of economic growth – gross domestic product (hereinafter “GDP”) in comparable prices grew by 8.4%, industrial production by 8.2%, and agricultural output by 5.6%;
- high investment activity in the majority of the sectors of the national economy – the volume of investments in fixed capital grew by 16.6% in comparable prices;
- rising households’ real monetary incomes and real wages by 16.2% and 10.2%, respectively;
- a surplus of the consolidated budget (2.7 trillion Belarusian rubles, or 3.9% of GDP) and the republican budget (2.4 trillion Belarusian rubles, or 3.5% of GDP), and
- declining unemployment – as of end-September 2007, the number of the unemployed officially registered with the state employment service stood at 46.5 thousand, a 10.6 % decrease compared with the beginning of 2007.

Due to the changes in the conditions of Russian oil supplies, industrial output growth was accompanied by a decline in profitability of sold products, above all, in fuel industry.

5. According to the balance of payments, exports of goods and services at actual prices increased in January-September 2007 by 18.3% against the previous year’s period, amounting to USD19.6 billion. Imports of goods and services at actual prices reached USD21.1 billion in January-September 2007, a 23.1% increase compared with the same period in 2006. As a result, net imports amounted to USD1.5 billion versus USD563.1 million in January-September 2006. At the same time, the deficit of the trade balance amounted to USD2.3 billion and services transactions surplus amounted to USD825.3 million.

6. In January-September 2007 the situation in the foreign exchange market was as follows.

The turnover of the domestic foreign exchange market increased by 16% compared with January-September 2006, amounting to USD37.2 billion.

The outstripping growth of foreign exchange supply compared with foreign exchange demand resulted in the decline of net sales of foreign exchange by legal persons from USD869.6 million in January-September 2006 to USD595.4 million in the period under review in 2007. Net purchase of foreign exchange by households with their personal funds and by means of non-cash transfers decreased amounting to USD326.3 million versus USD481.8 million in the same period in 2006.

During January-September 2007, organizations' foreign exchange proceeds from exports of goods and services, as well as from domestic trade in foreign currency reached USD19.2 billion, a 19.9% increase on the same period in 2006.

7. According to the Ministry of Economy, the tendencies that emerged during January-September 2007 in the social and economic development of the country testify to the growth in 2007 of GDP by 8.5%, real wages by 9%, households' real monetary incomes by 13%, and productivity by 7.4%. Industrial output is expected to grow by 107.5%, agricultural output by 106%, and fixed capital investments by 114.5%.

Continued outstripping wage and income growth compared with productivity growth creates an excess demand for imports and causes extra strain in the foreign exchange market.

CHAPTER 2 ATTAINING MONETARY POLICY OBJECTIVES

8. In 2007, the final objective of monetary policy was keeping, in conjunction with the Government's economic policy measures, inflation measured by the consumer price index growth at the level of 6-8%.

The consumer price index grew by 5.4% in January-September 2007 (0.6% per month on average) versus 3.1% in January-September 2006 (0.3% per month on average).

9. To achieve the final objective of monetary policy in January-September 2007, the National Bank applied a system of monetary targets, i.e. the exchange rates of the Belarusian ruble against the US dollar and the Russian ruble as well as the active ruble money supply (M1- cash money in circulation and transferable deposits of legal and natural persons- residents of the Republic of Belarus).

Exchange rate policy ensured stability of the exchange rate of the Belarusian ruble against the US dollar, which declined by 0.4% during January-September 2007 and amounted to 2,149 Belarusian rubles per US dollar as at October 1, 2007.

Changes in the exchange rate of the Russian ruble against the US dollar resulted in a 6.1% decline of the official exchange rate of the Belarusian ruble against the Russian

ruble in January-September 2007, amounting to 86.09 Belarusian rubles per Russian ruble as at October 1, 2007.

Such exchange rate setting policy was conducive to maintaining positive price conditions for enhancing the competitiveness of the Belarusian goods in the domestic and foreign markets. The real exchange rate index of the Belarusian ruble against the Russian ruble calculated on the basis of the consumer prices index and real effective exchange rate in January-September 2007 fell by 6.1% and 4.9%, respectively, compared with the same period in 2006.

10. Developments in the economy and monetary sphere in January-September 2007 show that, on the whole, the targets envisioned in the Republic of Belarus Monetary Policy Guidelines for 2007 approved by Edict of the President of the Republic of Belarus No. 703, dated November 30, 2006 (National Register of Legal Acts of the Republic of Belarus No. 1, 1/8121, 2006) (hereinafter “the Guidelines for 2006”), will be met.

The official exchange rate of the Belarusian ruble against the US dollar as at January 1, 2008 will be fluctuating between 2,150 and 2,160 Belarusian rubles per US dollar.

It is expected that the real exchange rate in 2007 will decline by more than 4% forecast in the Guidelines for 2007.

11. M1 is used as a monetary target of monetary policy along with the exchange rate indicators.

M1 grew by 1.9% in January-September 2007, during which period its structure was characterized by an increase in cash money in circulation and by the growth of natural persons' transferable deposits by 11.7% and 17.3%, respectively, with legal persons' transferable deposits falling by 14.7%.

The dynamics of cash and natural persons' transferable deposits was determined by a significant growth of households' real money incomes, an increase in the purchase of foreign currency in cash by households, retail turnover of goods and services, and a wider use of bank cards in natural persons' payments.

The reduction in legal persons' transferable deposits was the result of the excess of organizations' expenditure (primarily due to rising energy prices) over cash inflows to their current accounts, declining real profit and products profitability in January-September 2007 and net accounts payable, as well as a substantial increase in the stock of unsold products at industrial enterprises.

12. The economy's demand for M1 is estimated to be 20% in 2007, the forecast being 20-25%.

CHAPTER 3 MONETARY POLICY INSTRUMENTS

13. The quantitative parameters of the monetary policy instruments and their implementation were subject to the attainment of the monetary policy objectives and targets stated for 2007.

The National Bank's operations ensured the movement of the intraday interbank market rate in the national currency within the band formed by the interest rates on the permanently available instruments and smoothed out its everyday fluctuations. The overall dynamics of interest rates on the National Bank's operations was determined by the refinance rate.

14. In January 2007, the refinance rate of the National Bank remained unchanged. On February 1, 2007 it was raised from 10% to 11% per annum with a view to stimulating savings in the national currency and neutralizing inflationary and devaluation pressures caused by the adverse foreign economic conditions.

Taking into account the normalization of situation as well as positive trends in the economic development, the level of inflation, and stable exchange rate of the Belarusian ruble, the National Bank cut the refinance rate to 10% per annum from July 1 to October 1, 2007. The level of the refinance rate averaged 10.7% per annum in January-September 2007, against 10.8% per annum in the same period in 2006. In real terms, the refinance rate was positive amounting to 3.7% per annum in January-September 2007, against 6.7% per annum in January-September 2006.

The refinance rate is projected to reach 10% per annum by the end of 2007.

With a view to restricting the money supply and, consequently, reducing demand in the foreign exchange market, the interest rates on the permanently available and bilateral refinancing operations were raised to 20% per annum on January 17, 2007.

Beginning April 18, 2007, funds for 1-5 days were deposited with the National Bank at a uniform interest rate, i.e. 3% per annum.

In January-September 2007, for the purpose of preventing a decrease in the interest rates on ruble resources in the short-term money market, the National Bank carried out liquidity withdrawal operations by means of placing its short-term bonds as well as through the deposit auctions and attraction of banks' deposits at fixed interest rates. In January-September 2007, banks placed 11.77 trillion Belarusian rubles in the liquidity withdrawal instruments.

To assure stable payments and to smooth out interest rates fluctuations in the interbank credit market, the National Bank used open market operations (lombard credit auction, lombard credit at a fixed rate, SWAP operations) and permanently

available instruments designed to support banks' liquidity (overnight credits, including credits repaid on the day of their issuance, and SWAP operations). In January-September 2007, banks obtained 9.34 trillion Belarusian rubles by means of the above-mentioned operations.

Due to increasing liquidity of the banking system the level of the intraday interbank market rate in the national currency had been decreasing and amounted to 9.8% per annum in September 2007 (13.4% per annum in January, 19.4% per annum in March, and 11.7% per annum in April 2007).

15. Banks were building up their required reserves in January-September 2007 on the basis of averaged compliance with the reserve requirements. Beginning April 15, 2007, it became feasible to apply averaged compliance with the reserve requirements to the reserve requirements calculated as a percentage of the foreign exchange deposits.

The required reserves ratios remained unchanged in January-September 2007. As at October 1, 2007, banks' required reserves with the National Bank amounted to 1.3 trillion Belarusian rubles. According to the estimates, as at October 1, 2007, the actual required reserves ratio in the banking system was 6.4% (6.3% as at January 1, 2007).

CHAPTER 4 MONETARY INDICATORS COMPILATION

16. The dynamics of the refinance rate and interbank market rate determined, to a great extent, changes in the interest rates on credits and deposits.

The interest rate on banks' newly issued credits in the national currency in January-September 2007 averaged 14% per annum, a 0.6 percentage points increase compared with January-September 2006. The interest rate in real terms amounted to 6.9% per annum during January-September 2007, a 2.4 percentage points decline compared with January-September 2006.

In January-September 2007, the interest rate on the legal and natural persons' newly attracted time deposits in the national currency averaged 11.3% per annum, 2.2 percentage points higher than in January-September 2006. In real terms, the interest rate was positive – 4.2% per annum, declining by 0.8 percentage points compared with January-September 2006.

17. It is expected that the interest rate on banks' newly granted credits (excluding credits granted out of the corresponding credits of the National Bank and government authorities as well as soft credits granted in accordance with the decision of the President and the Government of the Republic of Belarus) will average 13.2% per annum and on attracted time deposits 10% per annum.

18. In January-September 2007, the ruble money supply (M2) grew by 1.39 trillion Belarusian rubles, or by 11.2% (in January-September 2006, by 2.71 trillion Belarusian rubles, or by 31.5%), and amounted, as at October 1, 2007, to 13.8 trillion Belarusian rubles, M1 increasing by 1.9%, time deposits and deposits in escrow of legal and natural persons by 20.5%.

In 2007, M2 is estimated to grow by 25%.

Broad money (M3) grew in January-September 2007 by 2.77 trillion Belarusian rubles (by 15.8%).

Foreign exchange deposits rose in January-September 2007 by USD623.9 million (by 26.4%). Time deposits and deposits in escrow were growing faster than transferable deposits - by 42% and 7.6%, respectively. As at October 1, 2007, natural persons' time deposits accounted, since the beginning of 2007, for the main share in the volume and growth of time deposits and deposits in escrow in foreign exchange (81.5% and 75%, respectively).

The monetization ratio (broad money to GDP) increased from 18.5% as at the beginning of 2007 to 19.5% as at October 1, 2007 and the monetization ratio (M2 to GDP) from 12.9% to 13.4%, respectively.

19. The ruble monetary base grew by 8.7% (by 413.1 billion Belarusian rubles) during January-September 2007.

The key factors responsible for this growth were a 422.6 billion Belarusian rubles increase in the National Bank's claims on the economy, purchase by the National Bank of foreign exchange worth 396.4 billion Belarusian rubles (the equivalent of USD195.3 million), and securities worth 253.8 billion Belarusian rubles in the secondary market. The Government's deposits growth by 481.2 billion Belarusian rubles contributed to the contraction of the ruble monetary base.

20. As at October 1, 2007, the international reserve assets (gold and foreign exchange reserves) of the Republic of Belarus amounted to:

- USD3.12 billion on the national definition, increasing in January-September 2007 by 81.1% (by USD1.4 billion); and
- USD2.15 billion on the IMF's Special Data Dissemination Standard definition, increasing since the beginning of the year by 55.8% (by USD0.77 billion).

The key factors responsible for the international reserve assets increase were the purchase of foreign exchange by the National Bank and receipts from the sale of 12.5% of shares of Open Joint-Stock Company "Beltransgaz".

CHAPTER 5 BANKING SECTOR AND PAYMENT SYSTEM DEVELOPMENT

21. In January-September 2007, the banking sector of the Republic of Belarus, consisting of 27 banks, continued to develop and strengthen.

Its development was aimed at enhancing sustainability and performance efficiency, strengthening the Belarusian banks' competitiveness, and expanding the scope and quality of their interaction with the non-financial sector's organizations and households.

The growth of the banking sector's assets continued to outstrip that of the economy. In January-September 2007, banks' resource base increased by 7.98 trillion Belarusian rubles (by 27.5%) and amounted to 36.98 trillion Belarusian rubles. This growth was conducive to maintaining positive dynamics of the resource base/GDP ratio (40.4% as at October 1, 2007, compared with 36.6% as at January 1, 2007).

The main sources of banks' resources growth were funds of non-residents of the Republic of Belarus and natural persons, which increased, in the aggregate, by 4.48 trillion Belarusian rubles (by 41.6%), of which those of non-residents by 2.53 trillion Belarusian rubles (by 85.7%) and natural persons by 1.96 trillion Belarusian rubles (by 25%). The natural persons' funds remained virtually unchanged and, as at October 1, 2007, amounted to 7.1 trillion Belarusian rubles.

With a view to reducing bank exposure and, consequently, enhancing financial sustainability, banks were endeavoring to build up their authorized capital, which amounted to 5.78 trillion as at October 1, 2007, up by 0.63 trillion Belarusian rubles (by 12.2%) compared with the beginning of 2007.

22. In January-September 2007, the banking system satisfied the economy's demand for credits. Banks' claims on the economy increased by 30.6% and as at October 1, 2007 amounted to 29.6% of nominal GDP, with the rates of credit growth outstripping those of GDP. In January-September 2007, the increase in banks' claims on the economy in the national and foreign currencies amounted, in real terms, to 37.3% compared with the corresponding period of 2006 (32.5% in the national currency), real GDP increasing by 8.4%.

The focus of banks' funds placement was on lending to legal persons. As at October 1, 2007, the share of claims on this category of borrowers in the structure of banks' assets amounted to 53.8%. At the same time, since the beginning of 2007 their volume increased by 4.61 trillion Belarusian rubles (by 30.1%). Significant funds were also used for lending to natural persons.

23. In January-September 2007, banks' claims on the Government denominated in the Government securities dropped by 303.5 billion Belarusian rubles (by 11.7%) and

amounted to 2.29 trillion Belarusian rubles.

The volume of Government securities (short-term and long-term bonds) trading in the secondary market carried out through the trading system of Open Joint-Stock Company “Belarusian Currency and Stock Exchange” amounted in January-September 2007 to 4.06 trillion Belarusian rubles.

24. The banks, the National Bank, and the Government exercised continuous control over the quality of the banks' assets. The share of problem assets in the assets subject to credit risk declined in January-September 2007 from 2.83% to 2.04% (the recommended parameter being not more than 4%). The share of problem debts on credit operations fell from 1.16% to 0.81% (the recommended parameter being not more than 2% as at the end of 2007).

The efficiency of the banking system's performance improved in the period under review. Banks' profit in January-September 2007 amounted to 415.7 billion Belarusian rubles, a 119.3 billion Belarusian rubles increase compared with the same period of 2006.

Return on capital in the banking sector in October 2006 - September 2007 amounted to 10.08% (the forecast for 2007 being not less than 8%).

25. During January-September 2007, efficient, smooth, reliable, and secure functioning of the national payment system was ensured.

38 million payments worth 369 trillion Belarusian rubles were effected during the period under review in the Automated System of Interbank Settlements (ASIS), an 8.4% increase by number and an 11.5% increase by value compared with January-September 2006.

Payment system performance in January-September 2007 was characterized by the following achievements:

- the computer-based terminal of the ASIS meets the requirements of the guiding documents and standards of the Republic of Belarus designed to ensure technical capacity for interbank settlements;
- no unauthorized access to the payment system was allowed; and
- customers' accessibility to the ASIS as at October 1, 2007 amounted to 99.7% of the daily working hours fund (the norm being not less than 99.5%).

There were no late (cancelled) payments.

During the period under review the upgrading of the ASIS central computing

complex continued. Technical requirements were designed and a contract for upgrading the Central Archive of Interbank Settlements of the National Bank was put out to tender.

The implementation of the technical project of the second line of the ASIS's computer-based terminal management system commenced with a view to increasing economic and operational efficiency of the system of interbank settlements, with all types of risks being minimized.

CHAPTER 6 INTERNATIONAL COOPERATION

26. The 26th meeting of the Interbank Currency Council of the National Bank and the Central Bank of the Russian Federation held in Minsk in May 2007 arrived at specific decisions to continue unification of the mechanisms and instruments of monetary policy of both countries.

During regular meetings with the heads of the biggest banks of the Russian Federation issues pertaining to the attraction of investments into the banking system of the Republic of Belarus were addressed.

In June 2007, the 17th meeting of the Council of the Heads of the Central (National) Banks of the Member States of the Euro-Asian Economic Community (EAEC) was held in Dushanbe (Republic of Tajikistan). At the meeting, the Agreement on information cooperation and experience sharing in the field of anti-counterfeiting was signed; the Recommendations on developing the structure of the monetary and foreign exchange markets of the EAEC Member States were approved; the International program of issue and sale of collection coins from precious metals of the EAEC Member States for 2008-2011, the Program of organization of international mobile exhibitions of current currencies in the EAEC Member States for 2007-2012, and the Program of action of the Council of the Heads of the Central (National) Banks of the EAEC Member States for 2007-2008 were approved.

The 34th meeting of the Interstate Bank Council held in Moscow in April 2007 reviewed the Bank's performance in 2006, approved its budget for 2007, and considered a number of draft documents related to the investment and lending activities.

27. In January-September 2007, cooperation with the international financial institutions (the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, and others) continued. Experts of the above-mentioned institutions provided technical assistance to the National Bank and the banking system as a whole.

In the course of the accession of the Republic of Belarus to the World Trade

Organization, a certain convergence of views of the interested WTO member-states and the Belarusian side regarding the access of foreign suppliers of financial (including banking) services to the country's market began to show.

Bilateral cooperation with the central (national) banks of the Republic of Azerbaijan, the Republic of Armenia, the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Republic of Lithuania, the Republic of Moldova, and the Republic of Uzbekistan was also developing.

SECTION III MONETARY POLICY OBJECTIVES AND INSTRUMENTS IN 2008

CHAPTER 7 ECONOMIC DEVELOPMENTS

28. In accordance with the forecast for 2008, social and economic development of the country is characterized by high rates of growth of the key macroeconomic indicators, including GDP growth up to 11%. Profitability of the sold industrial products will amount to 12-13%, GDP energy intensity will fall by 7-8%. Given domestic social and economic conditions and external trends, inflation is projected to run at 6-8% in 2008.

Growing households' expenditures for consumption and acquisition of real estate which outstrip the increase in their monetary income will restrict their propensity to save.

Mounting demand for funding non-financial institutions' current and investment activities will have a direct impact on the growth of their deposits.

The consolidated budget deficit is not expected to exceed 1.9% of GDP.

29. The forecast of social and economic development of the Republic of Belarus for 2008 stipulates that goods and services exports will grow faster than their imports, the negative balance of foreign trade amounting to USD1.4 billion. The current external balance will be negative in the amount of USD1.7 billion (about 3.3% of GDP).

Net foreign capital inflow of the capital and financial account is forecasted to continue in 2008. Taking into consideration the inflow of USD625 million from the sale of shares of Open Joint-Stock Company "Beltransgaz", foreign borrowings of the Ministry of Finance, and the schedule of foreign debt repayment, the above-mentioned account will have a USD2 billion surplus. Given this, the balance of the balance of payments in 2008 will be nearly USD0.35 billion.

At the same time, the inflow of foreign direct investments in the amount of at least USD2.5 billion (excluding funds obtained from the sale of state property) which is forecasted because of the improvement in the investment climate in the republic might increase the volume of net capital inflow of the capital and financial account. As a result, the balance of payments surplus will be about USD2.2 billion.

CHAPTER 8 MONETARY POLICY OBJECTIVES

30. In 2008, the strategic aim of monetary policy will be to ensure favorable conditions for the sustainable economic growth and to meet the targets of social and economic development by attaining monetary objectives and tasks.

Maintaining financial sustainability which is based on the stability of the national currency is the most important basic condition of ensuring high rates of long-term economic growth.

The objective of monetary policy in 2008 is to protect and ensure stability of the Belarusian ruble, including its purchasing power and exchange rate against foreign currencies.

31. Maintenance of a stable exchange rate of the Belarusian ruble against the US dollar remains the most efficient channel of monetary policy influence on the internal and external stability of the Belarusian ruble, due to the fact that the US dollar accounts for a significant share in the domestic foreign exchange market and in the structure of households' foreign exchange savings, as well as in foreign trade settlements.

The exchange rate of the Belarusian ruble will be used as a monetary target.

In 2008, the National Bank will make sure that the official exchange rate of the Belarusian ruble against the US dollar fluctuates within the plus/minus 2.5% band with respect to the exchange rate as at the beginning of 2008, allowing exchange rate fluctuations to gradually increase in order to ensure a flexible response to the changes in the demand and supply in the foreign exchange market.

Determining the extent of the Belarusian ruble/USD exchange rate fluctuations would make it possible to influence the lowering of inflationary and devaluation expectations, that define, to a great extent, the behavior of the economic agents stabilizing thereby the price level and exchange rate dynamics.

Given transparency of the Belarusian economy, the exchange rate may also be used as an instrument of influencing the dynamics of domestic prices on the basis of restriction of import prices growth. Restraining the growth of the ruble equivalent of the prices for imported materials, raw materials and components will make it possible to slow cost growth and, accordingly, domestic prices for the Belarusian products.

Taking into consideration the world trends of the mutual dynamics of the world currencies exchange rates, the above-mentioned exchange rate policy will not be conducive to the substantial strengthening of the real exchange rate which could adversely affect price competitiveness of the domestic industries.

CHAPTER 9 DEVELOPMENT OF MONETARY POLICY INSTRUMENTS

32. Monetary instruments will be used to attain the monetary policy objectives.

It is planned to further intensify the role of the interest rate as a monetary policy instrument. Since the money supply is mainly formed through the credit channel, the importance and efficiency of this instrument in curbing inflation is increasing.

If the projections of the inflation rate and fluctuations in the exchange rate of the Belarusian ruble are achieved, the refinance rate can be cut to 7-9% per annum by the end of 2008.

The overall dynamics of interest rates on the National Bank's operations will be determined by the refinance rate which will set the minimal level of interest rates on auction operations designed to provide banks with liquidity and the maximal level of interest rates on auction operations designed to withdraw liquidity.

In pursuing monetary policy the National Bank will give priority to the interest rate as the main operational instrument affecting the monetary sphere. The intraday interbank credit rate in the national currency will be the operational objective. The range of its fluctuations will be defined by the rates on the permanently available instruments (overnight credit, SWAP operations, and fixed interest rate deposits with the National Bank).

Interest rates on the permanently available instruments will be conducive to increasing stability and predictability of money markets and narrowing the ranges of the resources cost fluctuations in the interbank market, and will also increase the impact of the interest rates signal on the banking system and economy as a whole.

Rates on the National Bank's operations in the financial market will ensure the movement of the intraday interbank credit rate in the national currency within the required range/band and will also reduce its day-to-day fluctuations.

The standard-term auction operations conducted by the National Bank on a regular basis will be the main instrument regulating banking system liquidity. Liquidity provision and withdrawal auction operations are aimed at reducing interbank interest rates fluctuations within the band, increasing stability and liquidity of the domestic market, making yield projections for different periods, and, based on this, at mitigating market risks.

Besides, it will still be possible to shore up banks' liquidity on a non-auction basis, including at the expense of increasing the aggregate limit on the permanently available instruments of liquidity regulation.

33. The basic principles of interest rate policy, i.e. the maintenance of interest rates at the level which facilitates the growth of savings in the national currency and the expansion of credit availability for economic agents, will be maintained. Ensuring attractive terms for savings in the national currency promotes the attainment of the monetary policy objectives of curbing inflationary and devaluation processes, while better access to the credit resources is a stimulus to economic growth.

As at the end of 2008, interest rates on newly attracted term deposits with banks can amount to 7-10% per annum and on credits to the non-financial sector to 10-12% per annum.

CHAPTER 10 MONETARY INDICATORS

34. Given an estimated GDP growth and assessments of changes in the money circulation velocity, the ruble money supply is forecasted to rise in 2008 by 34-38% and broad money by 33-37%.

Natural persons' deposits in broad money will rise by 3.3-3.7 trillion Belarusian rubles owing to the projected increase in households' monetary incomes, the structure of prospective spending, the inflation and interest rates, the expansion of the list of banking operations and services along with their quality improvement.

The major factors of legal persons' deposits growth (by 3-3.4 trillion Belarusian rubles) will be as follows:

- growing sales of products, goods, works, and services stemming from the output growth and bringing the stock of finished goods in industry down to branch levels, reducing the stock of unsold commodities in trade and construction in progress;
- growing monetary share in total proceeds from the sale of products, goods, works, and services stemming from the reduction in the share of non-monetary forms of settlements and unpaid proceeds;
- growing profitability thanks to the reduction of material, energy, and labor intensity in the production of products, works, and services;- reducing the number of loss-making organizations by means of enhancing their efficiency; and
- reducing tax burden.

Given the projected growth of the money supply in the national currency, the ruble money base is expected to increase by 29-33%.

The implementation of the monetary and economic policy measures will make it possible to increase the monetization ratio (M2 to GDP) up to 15.9% and the monetization ratio (M3 to GDP) up to 23.4%.

35. In 2008, the international reserve assets of the Republic of Belarus will grow by USD280 million mainly due to the foreign capital inflow of the financial account. At the same time, if foreign investments of USD2.5 billion are attracted to the economy, the state gold and foreign exchange reserves are projected to amount to nearly USD2.2 billion.

In managing the state gold and foreign exchange reserves the National Bank will endeavor to ensure the best combination of their safety, liquidity, and yield.

SECTION IV
IMPROVING THE BANKING SYSTEM, BANKING SUPERVISION,
FINANCIAL MARKET, AND PAYMENT SYSTEM OF
THE REPUBLIC OF BELARUS IN 2008

CHAPTER 11
BANKING SYSTEM DEVELOPMENT AND
BANKING SUPERVISION IMPROVEMENT

36. In 2008, priority in banking sector development will be given to improving the sustainability of its performance.

The efficiency of fulfilling the financial mediation functions by the banking sector will continue to increase.

Consistent reduction in the scope of shifting the non-financial sector's risks onto banks will have a favorable effect on the security and efficiency of their operation. The introduction of a mechanism for inviting banks to make their bids to take part in lending to the Governmental programs and activities and improvements in the practice of making and honoring Government commitments to banks, including those under guarantees issued as a security for bank credits, will enhance the banking sector's performance.

Capital expansion will promote sustainability of banks' operation and investment attractiveness of the banking sector.

In 2008, banks' capital will grow by 17-21% while the return on capital will exceed 8%.

The banking sector's assets and the resource base (liabilities) of banks are forecasted to grow by 33-37%. The assets/GDP ratio will increase up to 47.2-47.8% by the end of 2008.

Banks' claims on the economy in the total volume of assets operations will increase by 36-41% amounting to 35-35.8% of GDP.

Banks' investment lending in 2008 is projected to amount to 5.2-5.7 trillion Belarusian rubles, of which 2.6-2.8 trillion Belarusian rubles to home building.

The quality of corporate governance, including greater banks' transparency and risk management efficiency, as well as relations between the managerial bodies of banks, shareholders, and interested parties, will improve. The creation of and subsequent improvement in risk management systems, as well as bringing them closer to the relevant international standards will reduce the banking sector's exposure to the risks assumed. Also, the implementation of measures designed to bring the growth

dynamics of the banking sector's assets into line with economic growth rates will have a favorable effect on banking risks.

It is expected that in 2008 banks will maintain high quality of their assets and the share of problem assets in the assets subject to credit risk will not exceed 4%. The share of clients' and banks' problem indebtedness under credit operations will not exceed 2%.

37. The establishment of a regulatory framework governing banks' activities and supervision over their operation will underlie the relations between the National Bank and other banks.

In improving the banking supervision principles and instruments, the focus will be on bringing them closer to the international standards, including those stipulated in the Capital Accord (Basel-II), as well as on the implementation of the internationally-tested approaches to banking regulation and supervision.

38. In order to improve the quality of banks' management and investment attractiveness of their business, as well as to enhance banking statistics transparency, further efforts will be undertaken in 2008 to introduce the international accounting standards into the banking sector through the improvement of the national standards, rules, and principles, designed to establish a system of reliable accounting and reporting and to raise the requirements to the amount, quality, and frequency of published information.

CHAPTER 12 FINANCIAL MARKET DEVELOPMENT

39. Securities market development in 2008 will stimulate the investment processes in the country, enhance the efficiency of the interest rates instrument and the effectiveness of monetary policy implementation. The role of the financial market in the redistribution of financial resources and their accumulation for the purposes of tackling the priority tasks, as well as in the mitigation of risks will grow.

The Government securities market will continue to underlie the securities market. Its size and other parameters will be determined by the budget demand for the borrowed funds while taking account of the economic security of the country. Banks will continue to play an active role as investors in the Government bonds market.

Activities aimed at restructuring the Government debt owed to the National Bank into the Government securities will continue with a view to improving the structure of the Government debt and increasing its liquidity.

For the purpose of regulating the banking system liquidity the National Bank will issue its own short-term bonds on an auction basis and conduct open market operations involving the Government securities.

Banks will use the practice of issuing their own bonds more extensively. The conditions of taxation in individual segments of the bond market will enable banks to be more proactive in expanding the resource base and improving its structure in order to increase the potential of long-term lending, including lending to housing projects.

40. With the financial market development, the focus in 2008 will be on the expansion of the term financial instruments market (futures, forwards, and options). These instruments designed to provide insurance against risks of the exchange rates and interest rates movement will enhance sustainability of the financial market, thus involving new market participants.

41. The National Bank makes plans to implement in 2008 a package of measures aimed at further liberalization of foreign exchange legislation.

In the sphere of foreign exchange regulation the National Bank will move from the licensing to registering procedure for carrying out foreign exchange operations involving capital flows in cases where residents of the Republic of Belarus receive loans/credits from non-residents of the Republic of Belarus for a period exceeding 180 days.

Concerning the opening of accounts outside the Republic of Belarus, the National Bank will move from the licensing to registering procedure for opening accounts by residents of the Republic of Belarus with the banks of EurAsEC member states in the national currency of the country where such an account is opened.

42. The National Bank will implement measures designed to improve foreign exchange control through the employment of progressive methods for exercising it on the basis of modern communicative technologies.

Work aimed at streamlining legislation on anti-money laundering/combating terrorism financing will be continued.

CHAPTER 13 INTERNATIONAL COOPERATION

43. In accordance with the Treaty on the Establishment of the Union State, the Interbank Currency Council of the National Bank of the Republic of Belarus and the Central Bank of the Russian Federation will continue their efforts to further harmonize the core principles, mechanisms, and instruments of monetary policy, as well as legislation in the banking sphere of both states.

The integration in the banking sphere of the Republic of Belarus with other CIS member states will be implemented within the framework of the Council of Governors of Central (National) Banks of Member States of the Euro-Asian Economic Community Establishment Treaty, Consultative Council of the Belarusian and Ukrainian Central Banks, CIS Interstate Foreign Exchange Committee, and Interstate Bank.

44. The National Bank and the banking sector of the country collaborate with the international financial institutions, above all with the International Monetary Fund, on the employment of technical assistance in the relevant areas of banking system activity, such as the development of monetary policy and banking supervision, transition to the International Financial Reporting Standards, and implementation of measures aimed at anti-money laundering/combating terrorism financing.

Relationship with the group of the institutions of the World Bank and the European Bank for Reconstruction and Development involving current strategies of cooperation with the Republic of Belarus will be aimed at attracting financial resources of the above institutions to the banking system of the country in order to meet the needs of micro-, small and medium-size business, as well as to the authorized capital of Belarusian banks.

The positions of interested WTO member states and the Republic of Belarus regarding the access of foreign banking (financial) services suppliers to the country's market subject to the economic interests of our state will move closer in pursuance of the goal of joining the World Trade Organization.

Cooperation with the national (central) banks of foreign countries centers on sharing experience about the practical aspects of monetary policy, organization of research, information, and analytic activities, and establishment of a basis for developing cooperation between countries' banking systems, with a view to increasing foreign investments into the economy of the country.

CHAPTER 14 PAYMENT SYSTEM IMPROVEMENT

45. Ensuring effective, sound, and secure functioning of the national payment system, assuring banks' access to the ASIS at the level not lower than 99.5% of the daily working time fund, and bringing the payment system into line with the Key Principles for Systemically Significant Payment Systems, as well as further development of the national system of cashless settlements based on the electronic payment instruments, with an increase in the share of cashless settlements in the retail payments turnover, will be the main targets of national payment system development in 2008.

46. The following measures are planned to be implemented in order to meet the above targets:

- to improve the regulatory framework of the national payment system and cashless settlements system;
- to reduce, stage-by-stage, the amount of money transfer subject to processing in the clearing system of other payments and to ensure by the end of 2008 a changeover to full-scale electronic payment documents processing of all interbank payments;
- to streamline the pricing policy in respect of the ASIS settlement services ensuring a uniform hourly load on the ASIS's central processing complex within a transaction day and coverage of the costs incurred by the ASIS operation;
- to organize supervision over the payment system by the National Bank;
- to enhance the operational efficiency of the payment system infrastructure, productivity and processing capacity of the ASIS functional components, minimizing at the same time operational risk;
- to carry out an in-depth analysis and monitoring of the ASIS state and to identify on this basis capacity for its subsequent development;
- to enhance the reliability of the technical systems and the safety of the payment system operation;
- to continue to improve and modernize the ASIS's software/hardware infrastructure in line with global trends towards the employment of modern information technologies;
- to expand the scope of application of the electronic document flow in the payment system based on the activities aimed at the standardization and unification of the formats of electronic documents used in settlements;
- to ensure the agreed growth rates of the issue of the electronic payment instruments (bank cards, e-money, and others) and the development of the technological infrastructure of their usage, the uniformity in the infrastructure facilities distribution in the Republic of Belarus, and equal conditions for accessing the electronic payment instruments across the country, and
- to pursue agreed and economically sound interest rate and tariff policies aimed at balancing the economic interests of the participants of the settlements systems with respect to retail payments.

CHAPTER 15 CLOSING PROVISIONS

47. In 2008, monetary policy will be aimed at ensuring sustainable economic growth rates and meeting the targets of social and economic development by means of attaining the monetary objectives and tasks.

Maintaining financial stability which is based on the national currency stability is the key to high rates of sustainable economic growth.

The 2008 monetary policy objective is to protect and ensure stability of the Belarusian ruble, including its purchasing power and exchange rate against foreign currencies.

The National Bank's exchange rate setting policy is aimed at mitigating macroeconomic risks, as well as improving investment climate in the country and foreign trade and domestic output efficiency.

Appendix
to the Republic of Belarus
Monetary Policy Guidelines
for 2008

Key Performance Indicators of the National Bank and Banks for 2008

Indicators	Forecast as at January 1, 2009
Changes in the Belarusian ruble official exchange rate against the US dollar, %	plus 2.5-minus 2.5
The refinance rate, %	7-9
Growth	
of international reserve assets of the Republic of Belarus, million US dollars	not less than 280
of ruble monetary base, %	29-33
of banks' regulatory capital, %	17-21
of banks' claims on the economy, %	36-41
International reserve assets of the Republic of Belarus on the national definition, million US dollars	3,580-5,500
Investment credits issue, trillion Belarusian rubles	5.2-5.7
Share of banks' problem assets in the assets subject to credit risk, %	not to exceed 4
Share of problem debt in clients' and banks' indebtedness under credit operations, %	not to exceed 2
Return on regulatory capital, %	not less than 8
Average annual parameter of clients' access to ASIS, as % of its daily working hours fund	not lower than 99.5