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**Republic of Belarus Monetary Policy Guidelines
for 2005**

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SECTION I BASIC PROVISIONS

CHAPTER 1 GENERAL

1. The Republic of Belarus Monetary Policy Guidelines for 2005 (hereinafter “the Guidelines for 2005”) have been developed by the National Bank of the Republic of Belarus (hereinafter “the National Bank”) in concert with the Government of the Republic of Belarus in accordance with the Banking Code of the Republic of Belarus.

The purpose of this document is to provide economic agents and the general public with information on activities of the monetary authorities in the monetary and foreign exchange spheres in 2005 which, like in the previous years, will be devoted to:

- protecting and ensuring stability of the Belarusian ruble, including its purchasing power and exchange rate with respect to foreign currencies;
- developing and strengthening the Belarusian banking system, broadening the composition and enhancing quality of banking services;
- ensuring efficient, reliable, and safe functioning of the payment system; and
- creating conditions for strict compliance with the targets of social and economic development in 2005 and prerequisites for long-term and stable economic growth in 2006-2010.

2. The Guidelines for 2005 have been devised on the basis of the following critical documents which underlie the country’s economic policy:

- Decree of the President of the Republic of Belarus No. 554 “On Approval of the Republic of Belarus Monetary Policy Guidelines for 2004” dated December 4, 2003 (National Register of Legal Acts of the Republic of Belarus, 2003, No. 136, 1/5155) (hereinafter “the Guidelines for 2004”);
- Decree of the President of the Republic of Belarus No. 555 “On Approval of Principal Parameters of the Republic of Belarus Social and Economic Development Forecast for 2004” dated December 4, 2003 (National Register of Legal Acts of the Republic of Belarus, 2003, No. 136, 1/5156) (hereinafter “the Forecast”);

- Law of the Republic of Belarus “On Budget of the Republic of Belarus for 2004” (National Register of Legal Acts of the Republic of Belarus, 2003, No. 3, 2/1008) (hereinafter “the Budget”);
- Republic of Belarus Social and Economic Development Program for 2001-2005 approved by Decree of the President of the Republic of Belarus No. 427 dated August 8, 2001 (National Register of Legal Acts of the Republic of Belarus, 2001, No. 75, 1/2901) (hereinafter “the Program for 2001-2005”);
- Republic of Belarus Banking System Development Concept for 2001-2010 approved by Decree of the President of the Republic of Belarus No.274 dated May 28, 2002 (National Register of Legal Acts of the Republic of Belarus, 2002, No. 63, 1/3717) (hereinafter “the Banking System Development Concept”);
- draft Republic of Belarus Social and Economic Development Forecast for 2005 (hereinafter “the Forecast for 2005”); and
- draft Law of the Republic of Belarus “On Budget of the Republic of Belarus for 2005” (hereinafter “the Budget for 2005”).

Monetary policy of the Republic of Belarus in 2005 will be based on compliance with the following major principles:

- ensuring monetary policy transparency which implies clarity of functions, responsibilities, and tasks of the National Bank, procedures for making decisions by the National Bank on monetary policy and communicating same to the general public, and availability of information on monetary policy results to the general public;
- clear-cut hierarchy of monetary policy targets; and
- determination by the National Bank, on its own, of the list of and procedures for employment of monetary policy instruments designed to meet monetary policy objectives.

Meeting targets and realizing measures stipulated in the Guidelines for 2005 will be one of the major conditions of dynamic social and economic development of the Republic of Belarus.

SECTION II
REPUBLIC OF BELARUS MONETARY POLICY IN 2004

CHAPTER 2
STATE OF THE ECONOMY IN 2004

3. In accomplishing monetary policy objectives and measures, trends of the country's social and economic development play a major role. This accomplishment depends, above all, on the execution of the Comprehensive Plan of Actions of the Government of the Republic of Belarus and the National Bank designed to attain parameters of the social and economic forecast and to implement the budget and Guidelines for 2004.

4. The macroeconomic situation in January – July 2004 compared with the same period in 2003 was characterized by:

- a substantial slowing of inflationary and devaluation processes;
- an increase in growth rates of GDP, industrial and agricultural output, consumer goods production, investment in fixed capital, households' real income, and retail trade turnover; and
- continued qualitative growth trends including: growth of profitability of sold products in industry and a number of other branches, reduction of the GDP energy-output ratio and materials-output ratio, an increase in productivity, and deceleration of non-payments growth.

5. According to the Ministry of Economy of the Republic of Belarus estimates, trends that emerged in social and economic development of the country in January – July 2004 will assure annualized growth of GDP in the amount of 110 per cent, real wages 118.3 per cent, and households' real income 114.2 per cent.

Industrial and agricultural output is expected to grow at a rate of 110 and 109 per cent, respectively.

Increasing production in the real sector of the economy and households' real money income will promote demand and supply in the domestic market. Retail trade turnover will grow by 114 per cent and volume of paid services to the public by 111 per cent.

Enhancing competitiveness of the economy and foreign economic conditions will facilitate exports and imports growth by 124 and 123 per cent, respectively.

CHAPTER 3 TRENDS IN MONETARY SPHERE IN 2004

6. Monetary policy objectives in 2004

The nature of trends in the monetary sphere in January – July 2004 suggests that monetary policy targets set forth in the Guidelines for 2004 will be met.

The official exchange rate of the Belarusian ruble to the Russian ruble which is a monetary policy benchmark in 2004 fell in January – July 2004 by 1.3 per cent, which is in line with the forecast band. The official exchange rate of the Belarusian ruble to the US dollar decreased by BYR1 in the same period.

As a result, the index of the aggregative nominal exchange rate of the Belarusian ruble calculated on the basis of the basket of currencies involved in payments for imports in January – July 2004 declined by 0.1 per cent (by 10.8 per cent compared with the same period in 2003) which was conducive to restraining inflationary processes in the country. The consumer price index grew in January – July 2004 by 9.1 per cent compared with 16.4 per cent in January – July 2003.

The index of the real exchange rate of the Belarusian ruble with respect to the Russian ruble in January – July 2004 was 6.7 per cent lower than in the same period in 2003 and 4.8 per cent lower against the currencies of the countries that are main trade partners of the Republic of Belarus.

Assessment of the balance of payments and developments in the domestic foreign exchange market gives grounds for believing that the exchange rate of the Belarusian ruble against the Russian ruble in 2004 will drop by not more than 3.7 per cent and will not exceed BYR75.86 per RUR1 as at January 1, 2005. Given the anticipated level of the Russian ruble-US dollar exchange rate, the Belarusian ruble will be trading at below 2200 to the dollar by the end of 2004.

It is anticipated that the real effective exchange rate of the Belarusian ruble (on annual average) in 2004 will decline, compared with 2003, by 1-1.5 per cent, the real exchange rate of the Belarusian ruble to the Russian ruble decreasing by nearly 4%. Given similar trend in 2003, this will create conditions for non-decrease of price competitiveness of domestic producers and reduction in 2005 of the Belarusian ruble devaluation rates, which in turn is needed to assure financial stabilization.

7. Money program in 2004

Monetary indicators in January – July 2004 were maintained at the level and in proportions required for meeting the Belarusian ruble exchange rate target.

Parameters of money supply in Belarusian rubles in January – July 2004 were formed in a situation where the country's balance of payments was in surplus and the process of converting foreign exchange savings into Belarusian rubles savings became more vigorous.

According to the balance of payments preliminary data, exports of goods and services in January – June 2004 grew by 127.8 per cent compared with the same period in 2003 and imports of goods and services by 129.9 per cent which pushed the unfavorable balance of trade in goods and services up to USD276.6 million compared with the deficit in the amount of USD126.6 in January – June 2003. At the same time, there was a USD100 million increase in attracted foreign investment, including a USD38.5 million increase in direct investment which, given certain growth in current transfers and favorable balance of unregistered transactions, made it possible to increase reserve assets by USD47 million.

The deepening process of converting households' foreign exchange savings into Belarusian rubles savings due to, in the first place, growing confidence in the domestic currency brought about a greater supply of foreign exchange by the people. For example, net sales of foreign exchange by households in January – July 2004 amounted to USD17.5 million versus its purchase in the amount of USD58.1 million in the same period in 2003.

The situation in the foreign exchange market resulted in the purchase by the National Bank in January – July 2004 of foreign exchange in the amount of USD118.5 million which increased the country's gold and foreign exchange reserves. As at August 1, 2004, net foreign assets of the monetary authorities stood at USD694.3 million, a USD93 million increase in January – July 2004. International reserve assets of the Republic of Belarus (by methodology of the IMF's Special Data Dissemination Standard) grew in January – July 2004 by USD44.5 million, amounting to USD539.9 million as at August 1, 2004.

Purchase by the National Bank of foreign exchange was the main factor of the increment in the ruble money base in January – July 2004, which amounted to BYR252.7 billion. On the whole, the money base in Belarusian rubles increased in January – July 2004 by BYR286.3 billion, or by 17.4 per cent.

The ruble money supply in January – July 2004 increased by 30.5 per cent as a result of sound provision of financing by banks to cover growing needs of economic enterprises and population and at the expense of conversion transactions carried out by economic entities and citizens. The active portion of the ruble money supply increased by 27.1 per cent and term deposits, including those of households, by 48.4 and 54.1 per cent, respectively. Banks' claims to the economy in Belarusian rubles in January – July 2004 grew by 31.5 per cent and by 20.5 per cent in real terms.

Money supply in Belarusian rubles for 2004 as a whole may grow by around 55 per cent, provided favorable conditions in the foreign exchange market persist and an adequate (taking into account the task of ensuring forecast inflation rates in 2004) real demand of the economy for the ruble money balances to engage in transactions and to save is formed. It is to be noted that among the monetary aggregates term ruble deposits will be increasing most vigorously – given adequate macroeconomic conditions, these may increase by around 70 per cent. Thus, the active ruble money supply may expand by nearly 45 per cent.

Expansion of the ruble money supply will broaden banks' capacity to provide credits to the economy. Banks' claims to the economy in Belarusian rubles for 2004 as a whole may increase by 47 per cent.

As part of such expansion of the ruble money supply and banks' credits, taking into account assessment of the multiplication level, the money base in Belarusian rubles may grow by 33 per cent. The major source of said growth will be the purchase by the National Bank of foreign exchange. Having regard to this and other factors, net foreign assets of the monetary authorities by the end of 2004 may amount to USD672 million and international reserve assets of the Republic of Belarus to USD540 million.

8. Monetary policy instruments in 2004

Interest rate policy of the National Bank in 2004 was aimed at maintaining positive interest rates in the economy which are conducive to the growth of savings in the national currency and greater access of economic entities to credit resources. These targets were attained, above all, through regulation of the refinance rate and interest rates on the National Bank's transactions in the money market.

Taking into consideration the actual and anticipated deceleration of inflationary processes, as well as due to substantial stabilization of the exchange rate of the Belarusian ruble, the National Bank reduced the refinance rate from 28 per cent

per annum in early 2004 to 19 per cent on July 19, 2004. The average refinance rate in January – July 2004 amounted to 24.1 per cent per annum, whilst in real terms it was 0.7 per cent per month, on average. By the end of 2004, the refinance rate is expected to go down to 15-19 per cent, provided that inflationary processes continue to decelerate to the forecast level.

Rates for liquidity support and withdrawal instruments were reduced. The overnight credit rate was brought down from 40 per cent per annum in early 2004 to 27 per cent per annum in June 2004. Rates for receiving money on deposit with various maturities were reduced from 15-18 per cent per annum in early 2004 to 7-8 per cent per annum in June 2004. By the end of 2004, the band of rates for permanently available instruments is expected continue narrowing, while the overnight credit rate is forecast to be moved down to 20-24 per cent per annum and deposit rate to 4-5 per cent per annum, provided banks enjoy a high degree of liquidity and the foreign exchange market remains stable.

Like in 2003, the required reserves fund was created in January – July 2004 on the basis of using the mechanism of averaged reserves maintenance in the required amounts during the month which allows banks to flexibly regulate their liquidity by temporarily borrowing money from the required reserves fund. In order to spur growth of households' term deposits, reserve ratio differentiation was introduced on April 1, 2004. The reserve requirements ratio as a share of funds attracted from individuals in Belarusian rubles was reduced from 10 to 8 per cent.

9. Interest rates in the credit and deposit market

Interest rate measures and current economic situation, above all, deceleration of inflationary processes, create incentives for reducing the entire range of interest rates in the financial market.

The average interest rate on banks' fresh credits¹ in the national currency was reduced in July 2004 by 8.3 percentage points compared with December 2003, amounting to 22.6 per cent per annum. The average monthly rate in real terms dropped to 1 per cent in January – July 2004 against 1.4 per cent in January – July 2003. By the end of 2004, interest rates on granted credits are projected to go down to 17-22 per cent per annum.

¹ Without credits granted from the resources of the National Bank, Government of the Republic of Belarus, and other bodies of state administration of the Republic of Belarus, and from a bank's resources at reduced rates subject to the bank's compensation by state bodies.

The interest rate on fresh term credits in the domestic currency in July 2004 was 16.4 per cent per annum, a 7.4 percentage points decrease compared with December 2003. In real terms, the interest rate on fresh term credits in January – July 2004 averaged 0.4 per cent per month, 0.2 percentage point lower than in the same period in 2003. By the end of 2004, the interest rate on term deposits may go down to 13-18 per cent per annum.

10. Banking system development and strengthening

Development of banking system of the Republic of Belarus in 2004 was aimed at enhancing its stability and bringing its parameters closer to the European level as well as at strengthening its functional role in social and economic development of the country.

Banks' resource base expanded in January – July 2004 by 19.7 per cent. The aggregate authorized capital increased in January – July 2004 by 11.5 per cent and banks' own capital by 16.7 per cent. The main source of resource base growth were the funds of households and enterprises, accounting for 54 per cent of its growth. Households' funds in the form of deposits and savings certificates grew in January – July 2004 by BYR828.7 billion, or by 35.5 per cent. Besides, banks' resources expanded due to the shrinking share of problem debts in consumers' and banks' credit arrears which in January – July 2004 decreased by 0.96 percentage point, amounting to 2.7 per cent as at August 1, 2004.

Growth of banks' resources ensured an adequate increase in lending to the economy, including investment projects. For example, overall issuance of long-term (investment) credits to the economy by banks in January – July 2004 amounted to BYR1.2 trillion. On the whole, banks' claims to the economy in January – July 2004 grew by 26 per cent, including in Belarusian rubles by 31.5 per cent (in real terms by 20.5 per cent), and in foreign exchange by 20.2 per cent.

Banking system development trends which emerged in January – July 2004 suggest that banks' development parameters set forth in the Guidelines for 2004 will be met.

In the course of bank supervision banks are constantly monitored for mastering sophisticated transactions and services, quality of bank management, and their compliance with the prescribed decision-making regulations.

Until the end of 2004, the National Bank will continue developing and introducing the National Financial Accounting Standards and instructions on

how to use them in the form of regulatory legal acts of the National Bank as well as harmonizing accounting and reporting principles in the banking sectors of the Republic of Belarus and the Russian Federation.

11. Payment system development

Efficient, reliable, and secure functioning of the national payment system in January – July 2004 is characterized by the following features. 22.2 million payments worth BYR119.2 trillion were made in the Automated System of Interbank Settlements (ASIS), a 18.1 and 66.4 per cent increase, respectively, compared with the same period in 2003. The ASIS computer system 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 the average parameter of consumers' accessibility to ASIS was 99.77 per cent of the daily working hours fund (the norm being not less than 97 per cent).

As part of implementing regional programs of developing the cashless settlement system using bank cards for 2004 – 2005, as at August 1, 2004, banks issued 574,000 cards, set up 164 ATMs, 427 service firms and sales outlets accepted bank cards as payment for goods and services. As at August 1, 2004, there were 1.7 million cards of domestic and international settlement systems in circulation in the Republic of Belarus. Transactions involving the use of cards can be carried out at 2,554 sales outlets (service firms), 1,556 cash-issue centers, and 671 ATMs.

Until the end of 2004, upgrading of the national payment system will be continued with a view to enhancing operational efficiency, reliability, and a high degree of security of ASIS.

SECTION III
REPUBLIC OF BELARUS MONETARY POLICY
OBJECTIVES AND INSTRUMENTS IN 2005

CHAPTER 4
ECONOMIC DEVELOPMENTS IN 2005

12. Underlying the Guidelines for 2005 are parameters of social and economic development of the Republic of Belarus in 2005 set forth in the Forecast for 2005.

13. The targets should be met on the basis of:

- maintaining high rates of economic growth (108.5-110 per cent);
- improving qualitative parameters of economic performance based on the implementation of the program of structural changes and enhancing competitiveness of the Belarusian economy;
- **leading** growth of savings and investment in the real sector of the economy compared with consumption growth in order to improve the quality of the production potential and competitiveness of manufactured products. Investments in fixed capital are estimated to grow by 15.5-18.5 per cent;
- improving financial situation, increasing paying capacity and financial stability of economic entities on the basis of implementing programs of financial rehabilitation of the economy's real sector enterprises;
- greater entrepreneurial activity on the basis of the Concept of State Support and Development of Small Businesses in the Republic of Belarus for 2002-2005 towards creating conditions for sustainable development of this sector of the economy, its production base, and creation of additional jobs, as well as bolstering innovation and investment activities;
- reduction of tax burden by 0.5 per cent of GDP with simultaneous reduction of tax privileges and other kinds of state support rendered to economic entities. Cuts in state spending at the expense of individual non-productive items, expansion of paid services, higher efficiency in distribution and employment of budgetary funds, higher salaries and wages in the budgetary sphere, and an increase in expenditures for scientific purposes. The republican budget deficit should not exceed 1.5 per cent of GDP;
- an increase in households' real money income by 13-14 per cent and salaries and wages by 15-17 per cent on the basis of higher efficiency in the economy and labor productivity;

- maintaining and deepening positive trends which have emerged in the monetary sphere and foreign exchange market. Meeting targets for further reduction of inflation rates (to 108-110 per cent) and devaluation of the exchange rate of the Belarusian ruble (100-102.4 per cent to the Russian ruble and 100-103.4 per cent to the US dollar). Maintaining an attractive level of return on term ruble deposits and reduction of deposit rates to the level ensuring easier access to credit resources for natural and legal persons;
- improving economic relations in the agro-industrial complex, reforming loss-making entities;
- enhancing competitiveness of the national economy on the basis of growth of its innovation activity and developing the system of scientific and technological potential; and
- ensuring high export growth rates on the basis of raising competitive capacity of goods, providing financial and credit support, lowering tax burden on domestic producers of goods and services intended for foreign markets; and implementing objectives and tasks of the National Exports Development Program for 2000-2005.

CHAPTER 5 MONETARY POLICY OBJECTIVES IN 2005

14. In accordance with the Banking Code of the Republic of Belarus, the main monetary policy objective is to protect and ensure stability of the Belarusian ruble, including its purchasing power and exchange rate with respect to foreign currencies. Ensuring and maintaining stability of the Belarusian ruble is a major monetary policy contribution to the creation of conditions for sustainable development of the national economy in the long term.

Monetary policy in 2005 will therefore be aimed at, above all, facilitating consistent deceleration of inflationary processes in the country which quantitatively will be characterized by restraining rates of inflation measured by an increment in the consumer price index to the level of 8-10 per cent.

Along with protecting and ensuring stability of the Belarusian ruble, monetary policy will also be aimed at developing and strengthening the banking system and ensuring efficient, reliable, and secure functioning of the payment system.

15. Achieving monetary policy objectives will create conditions for ensuring high rates of economic growth and raising living standards both in 2005 and in the coming five years. These conditions include:

- ensuring stability of the Belarusian ruble exchange rate and aiding in curbing inflationary processes;
- expanding the scope of banks' lending (particularly investment lending) to enterprises and households;
- reducing the nominal level of interest rates and maintaining them at the level conducive to the growth of savings in the national currency and making credits for enterprises and households easier to obtain; and
- banks' involvement in funding the republican budget deficit in the amount stipulated in the Budget for 2005.

CHAPTER 6 MONETARY POLICY BENCHMARK IN 2005

16. In conducting monetary policy, the National Bank will seek to follow the structured system of guides that comprises a target (i.e. the nominal anchor) and indicative variables.

The decisive role in protecting and ensuring stability of the Belarusian ruble will belong to the dynamics of the exchange rate of the Belarusian ruble which will be used by the National Bank as the nominal anchor curbing inflation and, as a result, spurring economic growth.

Since the Russian Federation is the main trade partner of the Republic of Belarus and, hence, economic processes in said country exert the most powerful influence on the characteristics of social and economic development in the Republic of Belarus, the dynamics of the exchange rate of the Belarusian ruble to the Russian ruble will receive heightened attention.

That is why the official exchange rate of the Belarusian ruble to the Russian ruble will remain the monetary policy benchmark in 2005. The dynamics of the Belarusian ruble exchange rate to other foreign currencies will be determined on the basis of relevant cross rates.

Assessment of economic factors of setting the Belarusian ruble exchange rate shows that in 2005 the official exchange rate of the Belarusian ruble to the Russian ruble may drop by not more than 2.4 per cent, RUR1 buying BYR77.65 as at January 1, 2006.

Based on the anticipated dynamics of the RUR-USD exchange rate in 2005, the official exchange rate of the Belarusian ruble to the US dollar which will be an indicative variable of monetary policy in 2005 may fall by 3.4 per cent, USD1 buying not more than BYR2,275 as at January 1, 2006.

Under planned exchange rate policy it is expected that the real effective exchange rate of the Belarusian ruble (at an average annual rate) will grow by not more than 6 per cent and the real exchange rate of the Belarusian ruble to the Russian ruble by not more than 4 per cent.

It is to be noted that, given scheduled in 2005 labor productivity gains, lower tax burden on the economy, and declined energy-output ratio, as well as lower real effective exchange rate of the Belarusian ruble in 2003 and 2004, the National Bank believes that in 2005 the real effective exchange rate could edge up to 6 per cent.

Such real strengthening of the Belarusian ruble will be conducive to further conversion of households' foreign exchange savings into domestic currency savings, will be beneficial to importing investment goods which may be used for renewal of the fixed capital stock and introduction of sophisticated production technologies, and, on the whole, will be in line with the long-term strategy of stimulating the development of the major factors of domestic production and real living standards and bringing these indicators closer to those of the leading countries in the world at large.

Should there be the risk of higher growth of this indicator due to the more-vigorous-than-expected runup in the US dollar in the world foreign exchange markets or unpredictable appreciable movements in exchange rates of currencies of the countries that are main trade partners, adjustment of the monetary policy benchmark may be considered following a comprehensive analysis of the current economic situation, having regard to the task of attaining financial stability of the Republic of Belarus.

CHAPTER 7 MONETARY POLICY INDICATIVE VARIABLES IN 2005

17. Money supply in Belarusian rubles will play the key part in the system of indicative variables.

As analysis suggests, currently among various monetary aggregates the closest statistical relationship is observed between indicators of Belarusian ruble exchange rate inflation and devaluation and the active ruble money supply (M1 – cash in circulation and household and enterprise transferable deposits). One of the significant factors determining such trend is the fact that at present a considerable portion of savings exists in the form of unorganized foreign exchange savings in people's hands and their conversion into organized savings

in banks may not be regarded as additional pressure on devaluation and inflationary processes on the part of factors of the aggregate demand for goods and services. The National Bank therefore intends to use the increment in the active ruble money supply as a major indicative variable. According to the National Bank's estimates, the permissible interval of increasing the above monetary aggregate in 2005 may amount to 25-29 per cent, or BYR725-830 billion.

Assessment of processes of monetary base multiplication into the money supply shows that the ruble money supply in 2005 may increase in the projected economic environment by not more than 17-21 per cent, or BYR370-460 billion.

Increases in gold and foreign exchange reserves, owing to the purchase by the National Bank of foreign exchange, and in net domestic assets of the monetary authorities in the national currency, owing, in part, to banks' refinancing, will be the major source of money supply growth on the part of the monetary authorities. As a result, international reserve assets of the Republic of Belarus may amount to USD620-680 million as at January 1, 2006.

Thus, along with M1 and exchange rate of the Belarusian ruble to the US dollar, increments in the ruble money base and international reserve assets will also be used as monetary policy indicative variables in 2005.

All indicative variables are not rigidly fixed and, depending on domestic and foreign economic developments, may be adjusted in order to attain the main monetary policy objective.

CHAPTER 8 MONETARY POLICY INSTRUMENTS IN 2005

18. The National Bank will use monetary policy instruments in 2005 to meet the target for Belarusian ruble exchange rate and curbing inflationary processes.

Basic interest rate principles, i.e. maintenance of interest rates at the level contributing to the growth of savings in the domestic currency and easing access to credits for economic entities, will remain intact. Ensuring attractive conditions for savings in the domestic currency will be conducive to attaining monetary policy objectives of curbing inflationary and devaluation processes, while easier access to credit resources will be one of the impetuses for economic growth.

To achieve the above objectives, the National Bank will seek to regulate the level of interest rates on its instruments.

Barring banks' refinancing at reduced rates will be the factor conditioning interest rate policy efficiency.

In 2005, the National Bank does not intend to apply administrative pressure to banks (such as issuance of requirements or instructions) regarding interest rates on their credits and deposits as well as qualitative parameters of their active and passive operations.

Open market operations on an auction basis will be one of the principal monetary policy instruments of the National Bank.

The National Bank's refinance rate will set the minimum level of interest rates on auction transactions designed to provide banks with liquidity and the maximum level of interest rates on auction transactions designed to withdraw banks' liquidity. Thus, changing the refinance rate level will directly affect the level of interest rates in the interbank credit market and in the entire financial sector thereafter.

Interest rates on the overnight credit will be maintained at the level above the refinance rate which implies that the cost of resources under this instrument involves paying fines and therefore banks will have to carefully plan their liquidity and to resort to obtaining refinancing primarily through auction procedures.

The level of interest rates on National Bank deposits permanently available to banks will be set based on the need for withdrawing from the market banks' temporary idle short-term liquidity volumes which, among other things, will contribute to smoothing demand and supply fluctuations in the foreign exchange market. It is worthwhile noting that the level of interest rates on such deposits will be lower than that of the cost of resources obtained by banks under procedures for provision of liquidity by the National Bank and somewhat higher than the pace of Belarusian ruble devaluation with respect to the basket of the main currencies.

Interest rates on permanently available instruments (i.e. overnight credit and deposits) will establish the band of resource cost fluctuation in the interbank market.

Based on economic developments which are expected to create conditions for decelerating inflation and restraining the rate of Belarusian ruble devaluation, the National Bank will be reducing the refinance rate and interest rates on National Bank transactions which will ensure interest rates reduction in the financial market both in nominal and real terms. By the end of 2005, the refinance rate may be decreased to 9-12 per cent per annum.

If there is enough liquidity in the money market in 2005, interest rates on term deposits will vary insignificantly from the refinance rate and are projected to finish next year in the neighborhood of 9-12 per cent per annum.

As inflationary processes decelerate, lending risks diminish, interest rates on National Bank resources and cost of resources attracted from other sources decline, interest rates on credits granted by banks will be gradually reduced. They are projected to drop to 12-15 per cent by the end of 2005 per annum. Decreasing the cost of credit will help expand demand therefor, make it easier for economic entities of all forms of ownership to obtain it, and, on the whole, boost economic growth, provided inflationary processes fail to accelerate.

Reserve requirements ratios and mechanisms will be used to regulate money supply and current liquidity of banks. If Belarusian ruble devaluation and inflation rates decelerate in 2005, transfers to the required reserves will be gradually reduced and the significance of this instrument in the entire range of monetary instruments will diminish which will result in better conditions for deposit attraction by banks, easing access to credits, and higher competitiveness of Belarusian banks.

SECTION IV
DEVELOPMENT OF BANKING AND PAYMENT SYSTEMS,
FINANCIAL AND FOREIGN EXCHANGE MARKETS,
INTERNATIONAL COOPERATION IN 2005

CHAPTER 9
BANKING SYSTEM DEVELOPMENT AND STRENGTHENING

19. In 2005, banking system development will be subject to the common objectives and tasks set forth in the Banking System Development Concept.

Further build-up of banks' resource base which may grow in 2005 by 32-37 per cent must become one of the critical conditions for expanding the composition of their transactions, improving the quality of bank services, and enhancing the functional role of the banking system in social and economic development of the country.

Banks' resources will be growing at the expense of internal sources created by economic development and external investment. The general public and enterprises will remain major counterparts contributing to the banks' resource base growth. If households step up the transfer of their unorganized savings to banks, deposits of natural persons may grow in 2005 by BYR1.4-1.7 trillion, the increment in the ruble money supply in 2005 being, according to estimates, 34-40 per cent, or BYR1.8-2.1 trillion.

Growth of banks' resources will, in turn, allow them to provide adequate financial support to the economy. For example, their potential may ensure growth of lending to the economy in real terms by 14-18 per cent, real GDP growing by 8.5-10 per cent. Banks will lend nearly BYR2.8-3.0 trillion to investment projects.

Apart from building up the resource base and increasing lending to the economy much attention will be paid to the improvement of assets and liabilities, mainly through:

- increasing the share of attracted long-term funds;
- improving the quality of banks' liquidity management;
- streamlining economic norms in the field of permissibility of individual active and passive transactions; and

- expanding the list of modern bank transactions and services, particularly paid services to the general public, and establishing a sound system of guaranteeing household deposits.

As bank transactions expand, capitalization of the banking system will be enhanced with a view to reducing bank risks and, consequently, increasing sustainability of banks' activities. The aggregate authorized capital and own capital of banks in 2005 may grow by 19-21 per cent.

Like in previous years, National Bank relationship with other banks in this respect will rest on the creation of a regulatory framework governing banks' activities and the tightening of supervision and control over their functioning.

The main target for improving banking supervision principles and instruments will, like in previous years, be movement towards international standards devised by the Basel Committee on Banking Supervision and other international financial institutions and consistent introduction of universally tested principles of and approaches to banking regulation and supervision and compliance therewith.

As the adequate regulatory and legal framework is established, requirements for state registration and licensing as regards mandatory requirements for business-plan preparation at the time of setting up a bank and raising requirements to business reputation of applicants for executive positions in a bank will be tightened. Improvement of the system of economic standards for banks restraining banking risks will be continued.

Requirements to track, assess, and restrain market risks as well as requirements for capital adequacy to cover operational risks and recommendations for their management in accordance with the recommendations of the Basel Committee on Banking Supervision will be introduced.

Further efforts will be undertaken to ensure information transparency of Belarusian banks and non-bank credit and financial institutions at the level meeting the recommendations of the Basel Committee on Banking Supervision.

To enhance objectivity when assessing banks' financial standing and to shore up enterprise and household confidence in the banking system as a whole, banks will continue a gradual transition to the international financial accounting standards, which will be realized through:

- developing and introducing national financial accounting standards for the Belarusian banking system;
- improving methodological support of domestic bank accounting; and
- harmonizing basic accounting and reporting principles and methods in the banking sectors of the Republic of Belarus and the Russian Federation.

CHAPTER 10 PAYMENT SYSTEM DEVELOPMENT

20. Monetary policy implementation will to a great extent depend on the efficient, reliable, and secure functioning of the payment system. Primary targets of national payment system development in 2005 will be as follows:

- realization of measures designed to achieve full compliance of the national payment system with the Key principles for system-significant payment systems devised by the Bank for International Settlements (Basel, Switzerland);
- further improvement of the regulatory and legal framework of the national payment system;
- continued supervision over the payment system through compilation and systematic analysis of indices characterizing the state of the payment system and determination on this basis of trends of its development in the future;
- commissioning the upgraded settlement system in real time with elements of the clearing system developed on the basis of the BISS system;
- realization of measures designed to enhance economic and operational efficiency of the interbank settlement system minimizing all kinds of risks;
- realization of measures designed to upgrade the clearing system of other payments intended to redirect its activities to processing retail payments;
- maintaining the coefficient of consumer accessibility to ASIS at the level not lower than 99.5 per cent; and
- continuation of Russian and Belarusian payment systems integration.

The cashless settlement system using bank cards will be developing towards reducing cash turnover and expanding the range of services which banks provide to bank card holders. To this end, implementation of regional programs for introducing wage-and-salary technologies, expanding payments of goods and services using bank cards, establishing a common settlement space for utilizing bank cards of various systems, and expanding technological infrastructure for servicing cards in order to achieve comparable growth rates of card issue and technological infrastructure facilities will be continued.

CHAPTER 11 FINANCIAL MARKET DEVELOPMENT

21. Financial market development in 2005 will be dependent on the processes occurring in the economy and on the broadening and deepening of interaction with other countries and international financial institutions.

Implementation of a range of measures designed to enhance efficiency of the Belarusian financial market in 2005 will make it possible to:

- establish a smooth-functioning infrastructure of the securities market, including completion of an efficient mechanism of exchange business, and harmonize depository registration of all securities;
- enhance coordination of activities of interested state agencies in the government securities market with a view to increasing its liquidity;
- create conditions for developing an institutional investors system;
- properly develop new financial instruments, such as corporate bonds, derivative securities, etc.;
- raise the level of information and analytical services rendered to financial market participants; and
- attract funds from natural persons to circulate in the securities market.

Cooperation with foreign countries and international financial institutions will pursue the employment of world experience in order to come up with the best ways of Belarusian securities market development. In doing so, the National Bank will place particular emphasis on:

- the improvement of the securities trade system technology;
- the enhancement of investors' interests protection; and
- the creation of favorable conditions for attracting foreign investors to the Belarusian securities market.

Implementation of said measures will be conducive to better use of the securities market potential for funding the republican budget deficit and developing the Belarusian economy.

CHAPTER 12 FOREIGN EXCHANGE MARKET DEVELOPMENT

22. In 2005, foreign exchange regulation and foreign exchange control will continue improving.

The National Bank will seek to further improve and liberalize foreign exchange transactions, in particular, foreign exchange business, in various segments of the domestic foreign exchange market and procedures for opening accounts with foreign banks by residents.

To increase the attractiveness of the Russian ruble as a currency for bilateral settlements, the National Bank intends to consider gradual reduction and possible cancellation of mandatory sale of Russian rubles received from exports of goods, works, and services.

To harmonize conditions of Belarusian and Russian foreign exchange markets functioning and to accelerate settlements, the National Bank will consider permitting the sale at the interbank foreign exchange market of a portion of foreign exchange proceeds from exports of goods, works, and services subject to mandatory sale.

The National Bank will, jointly with Open Joint-Stock Company “Belarusian Currency and Stock Exchange”, continue working towards establishing the term foreign exchange market which will expand capacity of economic entities to manage foreign exchange risks.

Improvement of foreign exchange control in 2005 will be aimed at streamlining control activities methodology and strengthening cooperation with other foreign exchange control agencies, including through the rationalization of activities pertaining to exchange of information for the purpose of timely response.

CHAPTER 13 INTERNATIONAL COOPERATION

23. The National Bank will continue working towards integration of the banking systems of the Republic of Belarus and other CIS countries, above all, the Russian Federation, in accordance with the Union State Establishment Treaty, as well as 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 Belarusian and Ukrainian Central Banks, CIS Inter-State Foreign Exchange Committee, and Inter-State Bank Council. Much attention will be paid to measures in the field of banking activities designed to establish a Single Economic Space between the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan, and Ukraine.

In 2005, the main focus of bilateral cooperation with the IMF will be on attracting technical assistance in individual lines of business of the National Bank and the banking system as a whole, including further strengthening of the banking system with due regard for recommendations of the IMF experts under the FSAP program, streamlining the system of collecting, compiling, and disseminating statistical information, adoption of the International Financial Accounting Standards, and realization of further measures designed to counter terrorism financing and laundering of illegally obtained proceeds.

Relationship with EBRD, taking into account the adoption of a new strategy of cooperation with the Republic of Belarus, will be aimed at attracting EBRD's financial resources into the banking system of the country to cover the needs of micro-, small, and medium-sized business; participation in equity capital of Belarusian banks; and establishing a micro-lending bank.

Over the course of negotiations for the accession of the Republic of Belarus to the World Trade Organization, legislation regarding access of foreign suppliers of banking and financial services to the country's market will be streamlined further, having regard to the economic interests of the state.

CHAPTER 14 CLOSING PROVISIONS

24. Like in previous years, monetary policy in 2005 will be aimed, above all, at consistent deceleration of inflationary processes in the country.

To this end, the National Bank intends to use the Belarusian ruble exchange rate as a nominal anchor curbing inflation. In this connection the exchange rate of the Belarusian ruble to the Russian ruble will remain the benchmark of the Guidelines for 2005.

All other parameters are indicative ones. They will be formed at the levels and in proportions which ensure attainment of the monetary policy main objective.

Projected dynamics of the exchange rate of the Belarusian ruble to the Russian ruble will be achieved on the basis of monitoring and analysis of all key macroeconomic and monetary indices of the country's development.

Monetary indices stipulated by the Guidelines for 2005 ensure fulfillment of the Forecast for 2005 and execution of the Budget for 2005 but are not sufficient for meeting parameters laid down in the Banking System Development Concept. Therefore, the Government of the Republic of Belarus and the

National Bank should develop and implement a Plan of Actions of the Government of the Republic of Belarus and the National Bank designed to meet said parameters. Such actions should be focused, above all, on stimulating reduction of non-cash forms of settlement, lowering tax burden, enhancing production efficiency and improving financial standing of enterprises, greater activity in the field of public property privatization, improving investment climate in the country, increasing the share of investment goods imports in the total amount of imports, and creating conditions for reducing the scope of “shadow” business and return of capital taken out of the country in previous years. Implementing the above measures will also be conducive to creating conditions necessary for stable economic growth and higher standards of living in the coming five years.

Should actual values of macroeconomic parameters appreciably diverge from the targets, the National Bank will, in agreement with the Government of the Republic of Belarus, adjust monetary policy as required.

Major Monetary Indices for 2005

Indices	Forecast as at January 1, 2006
Benchmark	
Official exchange rate at the end of the period, BYR per RUR1	75.86 – 77.65
growth, %	100 – 102.4
Indicative variables	
Official exchange rate at the end of the period, BYR per USD1	2,200 – 2,275
growth, %	100 – 103.4
Growth of active ruble money supply (M1), %	125 – 129
Ruble money supply growth, %	117 – 121
International reserve assets of the Republic of Belarus, USD mln	620 – 680