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**Republic of Belarus Monetary Policy Guidelines  
for 2007**

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SECTION I  
BASIC PROVISIONS

CHAPTER 1  
GENERAL

1. The Republic of Belarus Monetary Policy Guidelines for 2007 (hereinafter the Guidelines) 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 Guidelines are designed to provide the economic agents and the general public with information on the actions of the monetary authorities in the monetary and foreign exchange spheres of the Republic of Belarus. In 2007, like in previous years, these actions will be directed towards creating conditions for meeting the socioeconomic development targets, achieving a sustainable economic growth, and enhancing the households' prosperity primarily by:

ensuring stability of the Belarusian ruble, including its purchasing power and exchange rate against foreign currencies;

developing and strengthening the banking system, and

improving efficiency, reliability, and secure functioning of the payment system.

2. The Guidelines have been developed taking into account Decree of the President of the Republic of Belarus No. 384 "On the Approval of the Program of Socioeconomic 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) (hereinafter the Program for 2006-2010).

3. In 2007, the National Bank will continue observing the monetary policy principles, underlying which are:

determination of the monetary policy final objective and intermediate targets;

assurance of monetary policy transparency, which implies the clarity of the procedure for taking monetary policy decisions and communicating them, as well as the results of monetary policy implementation, to the general public, and

independent identification by the National Bank of a mechanism for applying monetary policy instruments directed towards the attainment of its goals, as well as timely explanation to the economic agents and the general public of changes in the parameters and structure of said instruments.

Meeting targets and implementing measures set in the Guidelines will be one of the most important factors of dynamic economic and social development of the Republic of Belarus.

## SECTION II MONETARY POLICY IMPLEMENTATION IN 2006

### CHAPTER 2 MACROECONOMIC SITUATION

4. The macroeconomic situation in January-September 2006, compared with the same period in 2005, was characterized by:

maintenance of high rates of economic growth - gross domestic product (hereinafter GDP) in comparable prices grew by 9.6%, industrial production by 12.2%, and agricultural output by 2.2%;

maintenance of high investment activity in the majority of the sectors of the national economy - the volume of investments in fixed capital grew by 31.9% in comparable prices;

a slowdown of inflationary and devaluatory processes and a reduction in the nominal level of interest rates in the deposit and credit market;

a rise in the households' real monetary incomes (by 17.8% in January-August 2006) and wages (by 19.1%);

a surplus of the consolidated budget (1.61 trillion Belarusian rubles, or 2.8% of GDP) and the republican budget (1.33 trillion Belarusian rubles, or 2.3% of GDP), and

a fall in unemployment - as of October 1, 2006, the number of the unemployed officially registered with the state employment service stood at 56.4 thousand, a 16.9 % decrease as of January 1, 2006.

5. The dynamics of foreign trade turnover in January-September 2006 was characterized by exports and imports growth with the outstripping growth rates of imports, which had a major effect on the balance of payments current account.

The export of goods and services at actual prices increased by 25.8%, amounting to USD16.5 billion in January-September 2006, compared with the same period in 2005. The imports of goods and services at actual prices amounted to USD17.1 billion in January-September 2006, a 36.7% increase compared with January-September 2005.

A high level of crude oil supplies and growing purchases of intermediate goods from Russia, which declined in 2005 due to changes in the VAT taxation mechanism, as well as growing demand for imports of investment goods mainly from non-CIS countries caused rapid import growth. The outstripping growth of imports under foreign trade transactions resulted in net imports amounting to USD627.7 million versus net exports in the amount of USD586.2 million in January-September 2005.

The parameters of foreign trade determined the dynamics of the domestic foreign exchange market of the Republic of Belarus, whose turnover increased by 18.6%, amounting to USD32.1 billion in January-September 2006, compared with the same period in 2005. Net demand in all the segments of the market was USD155.3 million in January-September 2006, whereas over the same period in 2005 there was a net supply of USD467.5 million.

During January-September 2006, enterprises' foreign exchange proceeds from exports of goods and services, as well as from domestic trade in foreign currency amounted to USD16 billion, 27.5% higher than in the same period in 2005.

6. According to the estimates of the Ministry of Economy, the tendencies that emerged during the period under review in the social and economic development of the country will ensure a 9.6% GDP growth, a 17.8% rise in real wages, and a 15% rise in the households' real monetary incomes. Industrial and agricultural output is expected to grow by 112% and 104.8% respectively.

Growing production and the households' real monetary incomes will stimulate supply and demand in the domestic market. Retail sales will rise by 17.5% and paid services to households by 11.5%.

It is estimated that foreign currency proceeds will amount to USD22 billion by the end of 2006, up by 26.5%, or USD4.6 billion, on a year earlier.

### CHAPTER 3 ATTAINING MONETARY POLICY OBJECTIVES

7. In January-September 2006, monetary policy, along with the general economic measures, was directed primarily towards consistent reduction of inflationary processes in the country through the attainment of monetary objectives and tasks by means of instruments of monetary and foreign exchange regulation.

The consumer price index amounted to 103.1% in January-September 2006 (the permissible level for 2006 being 107-109%), compared with 104.6% during the same period in 2005.

The exchange rate policy of the National Bank was instrumental in curbing inflation.

The average official exchange rate of the Belarusian ruble against the Russian ruble in January-September 2006 was 78.37 Belarusian rubles per Russian ruble, a 4.4% decrease compared with the same period in 2005. As of October 1, 2006, the official exchange rate of the Belarusian ruble against the Russian ruble amounted to 80.04 Belarusian rubles per Russian ruble, a 6.9% decrease since the beginning of 2006. The fall in the exchange rate within said limits did not accelerate inflationary processes, and at the same time created the necessary prerequisites for enhancing price competitiveness of the Belarusian goods in the Russian market.

The external economic factors had a major effect on the dynamics of the official exchange rate of the Belarusian ruble against foreign currencies in January-September 2006, the most significant being a 7.1% appreciation of the Russian ruble against the US dollar.

Given the structure of the domestic foreign exchange market and the households' foreign currency savings dominated by the US dollar, the National Bank, in pursuing its exchange rate policy, was endeavoring to curb fluctuations of the Belarusian ruble against the US dollar.

The official exchange rate in January-September 2006 averaged 2145.9 Belarusian rubles per US dollar, appreciating by 0.4% compared with the same period in 2005. The official exchange rate of the Belarusian ruble against the US dollar as of October 1, 2006 was set at 2141 Belarusian rubles per US dollar, strengthening by 0.5% since the beginning of the year, which

had a favorable effect on curbing inflation and forming reasonable households' and economic entities' inflationary and devaluatory expectations.

The real exchange rate index of the Belarusian ruble against the Russian ruble calculated on the basis of the consumer prices index fell by 4.9% in January-September 2006, compared with January-September 2005.

In January-September 2006, the real effective exchange rate of the Belarusian ruble against the Russian ruble was 1.1% lower than a year ago. At the same time, the figure fell by 5.3% in September 2006 compared with December 2005, which forms the dynamics of gradual depreciation in the real effective exchange rate during the period on average and promotes price competitiveness of domestic goods in foreign markets.

8. Developments in the economy and monetary sphere in January-September 2006 show that, on the whole, the targets envisioned in the Republic of Belarus Monetary Policy Guidelines for 2006 (hereinafter the Guidelines for 2006), will be met.

The consumer price index in 2006 will not exceed 107%.

If the January-June 2006 trends in the foreign economic sphere and the situation in the world foreign exchange markets continue into the second part of the year, the exchange rate of the Belarusian ruble against the Russian ruble can go beyond the originally projected range. However, it is estimated that inflation is not likely to exceed the forecasts, but at the same time it will have a positive effect on foreign trade and the situation in the foreign exchange market.

The most likely range of the exchange rate of the Belarusian ruble against the US dollar as at January 1, 2007 will be 2130-2150 Belarusian rubles per US dollar.

It is expected that the real exchange rate in 2006 will be lower than a 4% gain with respect to the Russian ruble and the effective exchange rate stipulated in the Guidelines for 2006.

9. The indicator of the active ruble money supply (M1- cash money in circulation and transferable deposits of legal and natural persons- residents of the Republic of Belarus) is used as a monetary policy benchmark along with the exchange rate indicators.

The active ruble money supply grew by 1 trillion Belarusian rubles (or by 21%) in January-September 2006 in accordance with the economy's money demand growth. This change in M1 is mainly due to the growth of natural persons' transferable deposits by 335 billion Belarusian rubles (by 35.7%), and the increase in cash money in circulation by 672.2 billion Belarusian rubles (by 33.3%), which is caused by the households' monetary incomes growth. In January-September 2005, the active money supply increased by 29.1%.

10. Given growing real demand for money on the part of the economy, the active money supply is estimated to range between 32% and 40% in 2006.

#### CHAPTER 4 MONETARY POLICY INSTRUMENTS

11. Taking into consideration positive trends in the economic development, decelerating inflation, and stable exchange rate of the Belarusian ruble, the National Bank continued to reduce the refinance rate – from 11% per annum at the start of 2006 to 10.5% on June 1, 2006.

The level of the refinance rate in January-September 2006 averaged 10.8% per annum against 14.4% per annum in the same period in 2005. In real terms, the refinance rate was positive amounting to 6.7% per annum in January-September 2006, a 1.6 percentage points decrease with respect to January-September 2005, which corresponds to the general dynamics of macroeconomic stabilization.

The refinance rate is projected to reach 10% per annum by the end of 2006.

Taking into consideration the state of the financial market, the National Bank's interest rates on non-auction liquidity support and withdrawal instruments remained unchanged in January-September 2006:

on Belarusian banks' deposits with the National Bank between 3% and 4% per annum, and

on overnight and lombard credit 16% per annum.

The amount of non-auction operations is insignificant. For example, the average debt balance on overnight and lombard credit in January-September 2006 amounted to 6.8 billion Belarusian rubles and on banks' deposits 10.8 billion Belarusian rubles.

The bulk of the banks' liquidity is regulated through the auction operations of the National Bank. Given excess liquidity in the money market in January-May 2006, the auction operations were aimed mainly at liquidity withdrawal and were represented, principally, by short-term bonds placement. The average daily balance of the National Bank short-term bonds in circulation for the said period fell from 356 billion Belarusian rubles in January 2006 to 134.3 billion Belarusian rubles in May 2006. The average interest rate decreased from 9.8% in January 2006 to 9.7% in May 2006.

In March-September 2006, at a time when liquidity in the banking system was declining, the amount of lombard credits granted to the banks through auctions increased. The average balance of the banks' debt on such credits increased from 41 billion Belarusian rubles in March 2006 to 279.8 billion Belarusian rubles in September 2006. At the same time the average interest rate declined by 0.1 percentage points in September 2006 compared with March 2006, and amounted to 11.2% per annum.

12. The required reserves ratios were lowered in January-September 2006.

On June 1, 2006, the required reserves ratio against funds attracted from legal persons in Belarusian rubles and foreign currency was reduced from 9% to 8%.

As a result, the actual required reserves ratio against attracted funds as at October 1, 2006 averaged 6.37% (compared with 7% as at January 1, 2006).

## CHAPTER 5 MONETARY INDICATORS

Economic developments and deceleration of inflationary processes make it possible to continue reducing the overall level of interest rates in the money market.

The interest rate on the banks' newly issued credits in Belarusian rubles in January-September 2006 averaged 13.4% per annum, a 3.8 percentage points decline compared with January-September 2005. Interest rates in real terms amounted to 9.3% per annum during January-September 2006, a 1.8 percentage points decline compared with January-September 2005.

In January-September 2006, the interest rate on the legal and natural persons' newly attracted time deposits in the national currency averaged 9.1% per annum, 3.8 percentage points lower than in January-September 2005. In real terms, the interest rate on newly attracted time deposits was positive - 5% per annum, declining by 1.8 percentage points compared with January-September 2005.

14. It is expected that the average interest rate on the banks' newly granted credits (excluding credits granted out of the funds of the National Bank, budget, and other government authorities as well as the banks' funds at reduced rates subject to compensation to the banks by the state) can amount to 11-13% and on attracted time deposits 8-10% per annum.

15. In January-September 2006, the ruble money supply grew by 2.7 trillion Belarusian rubles, or by 31.5%. The households' funds which rose by 1.8 trillion Belarusian rubles, or by 31.7%, accounted for the main share in the ruble money supply growth over the same period.

According to the estimates, the ruble money supply can increase by 29-36% by the end of 2006.

Broad money amounted to 16 trillion Belarusian rubles as of October 1, 2006, a 27.5% (or 3.5 trillion Belarusian rubles) increase compared with the beginning of 2006. The share of the ruble money supply in broad money increased by 2.1% in the year to October, amounting to 70.5%.

Foreign exchange deposits rose in January-September 2006 by USD351.8 million, or by 19.2%, including natural persons' deposits by USD166.9 million, or by 19.3%, and legal persons' deposits by USD185 million, or by 19%.

The monetization coefficient of the economy with regard to broad money increased from 16% at the beginning of 2006 to 18.1% as of October 1, 2006, and with regard to the ruble money supply from 10.3% to 12.4%, respectively.

16. The ruble monetary base grew by 230.6 billion Belarusian rubles, or by 5.9%, during January-September 2006. The key factor of this growth was a 920.4 billion Belarusian rubles increase in the National Bank's claims on the economy. The factors affecting the contraction of the ruble monetary base were the sale by the National Bank of foreign exchange worth 370.5 billion Belarusian rubles and the Government's deposits growth by 420.2 billion Belarusian rubles.

17. As of October 1, 2006, the international reserve assets (gold and foreign exchange reserves) of the Republic of Belarus amounted to:

USD1.58 billion by the national methodology, decreasing in January-September 2006 by USD23.7 million, or by 1.5%; and

USD1.16 billion by the IMF's Special Data Dissemination Standard methodology, decreasing since the beginning of the year by USD141.3 million, or by 10.9%.

The key factor responsible for the international reserve assets decrease was the excess of imports growth rate over that of exports.

Further build-up of gold and foreign exchange reserves is predetermined by the state of the foreign economic sector.

## CHAPTER 6 BANKING AND PAYMENT SYSTEMS DEVELOPMENT

18. In January-September 2006, the banking system of the Republic of Belarus, consisting of 30 banks as of October 1, 2006, continued to develop and strengthen.

The banks' resource base expanded by 5.1 trillion Belarusian rubles, or by 24.9%. This growth was conducive to maintaining positive dynamics of the resource base-to-GDP ratio, which increased from 25.7% in December 2005 to 28.4% in September 2006.

The main contributors to the banks' resource base growth were the households' and legal persons' funds, which rose by 2.8 trillion Belarusian rubles, or by 27.1%, amounting to 51.5% in the total volume of resources.

At the same time, natural persons' deposits rose by 1.8 trillion Belarusian rubles, or by 32.5%, and legal persons' deposits by 1 trillion Belarusian rubles, or by 20.9%. Funds of the National Bank and the Government increased by 752 billion Belarusian rubles, or by 2.2%, and by 528.6 billion Belarusian rubles, or by 30.5%, respectively, while the funds of the local executive and administrative organs decreased by 52 billion Belarusian rubles, or by 17.9%.

During January-September 2006, the banks' regulatory capital grew by 251.5 billion Belarusian rubles, or by 6.3%, profit being the main source of its growth. The banks' aggregate authorized capital increased by 18 billion Belarusian rubles.

During the same period, the bank's claims on the economy increased by 5.1 trillion Belarusian rubles, or by 38.8%, including in Belarusian rubles by 3.8 trillion, or by 46.6%. The share of the banks' claims on the economy in Belarusian rubles in their total volume increased from 62.1% to 65.6%.

The banks' lending to the economy in Belarusian rubles and foreign exchange rose by 38.3% (in real terms by 34.1%).

Long-term lending increased by 45.5%, including in Belarusian rubles by 54.8%, while short-term lending grew by 30.8% and by 40.2%, respectively.

As a result, the share of long-term credits in the total volume of the banks' credits to the economy increased by 2.7 percentage points, amounting to 54.1% as of October 1, 2006, including in Belarusian rubles by 2.5 percentage points and to 55.1%, respectively.

In January-September 2006, the banks were increasing long-term (investment) lending. During this period the issue of long-term credits to the economy and households amounted to 4.4 trillion Belarusian rubles.

In comparable prices the amount of long-term credits to the economy and households issued by the banks rose by 51.6% compared with January-September 2005, while the total volume of investment to the fixed capital increased by 31.9%.

19. The share of the banks' problem assets continued to decline. As of October 1, 2006, this share in the assets subject to credit risk amounted to 2.6% (3.12% as of January 1, 2006), while the share of problem debt on credit operations amounted to 1.36% (1.88% as of January 1, 2006).

Return on capital in the banking system in January-September 2006 amounted to 7.2%, and assets profitability to 1.3% (compared with 5.4% and 1.1%, respectively, in the same period in 2005).

The banking system development trends in January-September 2006 suggest that banks development parameters set forth in the Guidelines for 2006 will be met.

20. During January-September 2006, work was in progress to enhance the efficiency, reliability, and security of the national payment system functioning. 35.3 million payments worth 330.9 trillion Belarusian rubles were effected, an 11.1% increase by number and a 44.1% increase by value compared with the same period in 2005.

The efficient, reliable, and secure functioning of the payment system was characterized by the following:

the computer-based terminal of the Automated System of Interbank Settlements (hereinafter ASIS) satisfies 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

consumers' accessibility to ASIS (on an accrual basis since the start of 2006) as of October 1, 2006 amounted to 99.98% of the daily working hours fund (the norm being not less than 99%).

The 2006–2010 State program for developing the technical infrastructure ensuring the use of plastic cards was approved by Resolution of the Council of Ministers of the Republic of Belarus and the National Bank № 817/11 dated June 29, 2006 (National Register of Legal Acts of the Republic of Belarus, 2006, No. 109, 5/22548).

This program is aimed at expanding cashless settlements in the structure of the retail turnover up to 30% at the expense of extensive use of the domestically produced software and hardware tools and complexes meeting the international standards, as well as providing the households with the opportunity of payment for goods and services at a modern technology-intensive level.

21. Until the end of 2006, the implementation of measures ensuring reliable and safe functioning, as well as higher effectiveness of the state payment system taking into consideration the necessity for its compliance with the Key Principles for Systemically Significant Payment Systems, developed by the Committee on Payment and Settlement Systems (Basel, Switzerland) (hereinafter the Key Principles) will continue.

Besides, the computer-based infrastructure of plastic cards maintenance, increasing the cashless settlement share, will continue developing.

## CHAPTER 7 INTERNATIONAL COOPERATION

22. Two meetings of the Interbank Currency Council of the National Bank and the Central Bank of the Russian Federation were held in January-September 2006, resulting in specific decisions to continue unification of the key principles, mechanisms, and instruments of monetary policy and the legislative framework of the National Bank and the Central Bank of the Russian Federation.

Meetings of the Council of Heads of the Central (National) Banks of Member States (hereinafter the Council) of the Euro-Asian Economic Community Establishment Treaty (hereinafter EAEC) held in February and June 2006 discussed and outlined further steps towards the unification of foreign exchange regulation and foreign exchange control, as well as payment and settlement systems of EAEC Member States. Also, a decision about the accession of the Central Bank of the Republic of Uzbekistan to the Council was taken. The List of the common indicators characterizing the state of the EAEC countries' financial markets and the Plan of Actions of the Central (National) Banks of EAEC Member States for Implementing the Guidelines for Cooperation regarding banknotes and coins production, the development of the numismatic market, the issue of commemorative and collection coins, and anti-counterfeiting have been approved.

Work was underway to prepare agreements in the sphere of monetary and foreign exchange policies, foreign exchange regulation and foreign exchange control, bank supervision harmonization, foreign exchange transfer by natural persons, and natural persons' deposit insurance as part of establishing a single economic space between the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation, and Ukraine.

23. Within the framework of cooperation with the international financial institutions (the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, and others), the National Bank and the banking system as a whole were provided with expert technical assistance in key areas of their activities.

Over the course of the accession of the Republic of Belarus to the World Trade Organization, a certain convergence of positions between the interested WTO member states and Belarus regarding the access of foreign suppliers of financial (including banking) services to the country's market began to show.

Work was in progress designed to foster bilateral cooperation with the Central (National) Banks of the Republic of Azerbaijan, the Republic of Armenia, the People's Republic of China, the Republic of Lithuania, the Republic of Moldova, and the Republic of Uzbekistan.

### SECTION III MONETARY POLICY OBJECTIVES AND INSTRUMENTS IN 2007

#### CHAPTER 8 ECONOMIC DEVELOPMENTS

24. Underlying the Guidelines are the major parameters of social and economic development of the Republic of Belarus set forth in the Program for 2006-2010.

For example, in 2007 GDP is forecasted to rise by 8-9%, investments in the fixed capital by 14.5-17%, retail turnover by 9.5-10.5%, paid services to the households by 9-10%, and foreign investments in the total volume of investments up to 10-11%.

Macroeconomic and institutional policies will be aimed at improving qualitative characteristics of the economy, including through the intensification of innovation and investment activities, enhancement of production efficiency, and improvement of organizations' financial situation.

The republican budget deficit is not expected to exceed 1.5% of GDP.

25. The dynamics of prices for oil and oil products, the economic situation in the Russian Federation, and the competitiveness of Belarusian goods in this market will have a major effect on Belarusian foreign trade development in 2007.

In 2007, the forecast of monetary and foreign exchange spheres development is based on the surplus of foreign trade, which the Ministry of Economy puts at USD500-600 million. At the same time, enterprises' and individual entrepreneurs' foreign exchange proceeds may increase by 11.5-17.5%.

#### CHAPTER 9 FINAL OBJECTIVE OF MONETARY POLICY

26. In 2007, the strategic aim of monetary policy will be to create favorable conditions for the sustainable economic growth and to meet the targets of social and economic development by attaining monetary objectives and tasks.

27. The final objective of monetary policy in 2007 is to maintain, in conjunction with the Government' economic policy, inflation measured by consumer price index growth at the level of 6-8%.

#### CHAPTER 10 INTERMEDIATE MONETARY TARGETS

28. In attaining the final monetary policy objective in 2007, the National Bank will use intermediate monetary targets, namely, the exchange rates of the Belarusian ruble against the Russian ruble and the US dollar as well as the active ruble money supply.

The exchange rate of the Belarusian ruble against the Russian ruble is used as an intermediate monetary target because the Russian Federation is the main foreign trade partner of the Republic of Belarus, whose share in the foreign trade turnover of goods and services is nearly 50%.

The practicability of using the exchange rate of the Belarusian ruble against the US dollar as the intermediate monetary target stems from a high share of the US dollar in foreign trade operations settlements, as well as its significant share in the domestic exchange market and in the structure of households' foreign exchange savings.

Setting targets for changing the exchange rate of the Belarusian ruble with respect to the US dollar would enhance information transparency of the exchange rate policy for economic agents and households, lower inflationary and devaluatory expectations, and stimulate the dedollarization process of the economy.

Given the situation in the foreign exchange market and the state of foreign trade in 2007, the exchange rate of the Belarusian ruble against the US dollar will be within the range of +/- 2.5%.

Taking into account projected mutual changes in the exchange rate of the Belarusian ruble against the Russian ruble and the US dollar, the nominal exchange rate of the Belarusian ruble against the Russian ruble will fluctuate within +/-4%.

As a result, the official exchange rate will amount to 2090-2200 Belarusian rubles per US dollar and to 77.7-84.3 Belarusian rubles per Russian ruble.

Based on the projected dynamics of non-exchange-rate factors of the economy's competitiveness, the maximum increase in the real effective exchange rate is estimated to reach 4% compared with 2006.

In setting the range of likely changes in the nominal exchange rate, the National Bank is seeking to reduce inflation and the maximum allowable for the economy increase in the real effective exchange rate.

29. The use of the index of the active ruble money supply, represented by the highly liquid monetary assets, as an intermediate target, is conditioned by its significant influence on the formation of the aggregate demand for goods and services in the economy.

To reduce inflation in the context of the projected increase in the economy's demand for money required to pay for goods and services, the active ruble money supply will increase by 20-25% in 2007.

## CHAPTER 11 MONETARY POLICY INSTRUMENTS

30. The quantitative parameters of the monetary policy instruments and their implementation are subject to the attainment of the above-mentioned monetary policy objectives and targets for 2007.

The attainment of the final monetary policy objective of reducing inflation implies further intensification of the role of the interest rate as a monetary policy instrument. This will make it possible to gradually move to the management of the price of money in the economy, thereby enhancing the role of the refinance rate as a signal of monetary policy from the point of view of toughening or softening the borrowing conditions in the short-term money market.

The refinance rate is projected to amount to 7-9% per annum by the end of 2007.

The overall dynamics of interest rates on the National Bank's operations will be defined by the refinance rate, and the bounds of the band will be formed by the interest rates on the instruments permanently available to the banks, i.e. overnight credit and deposits with the National Bank.

Adjusting the intraday interbank market rate in the national currency will be the main task of the National Bank in carrying out its operations in the money market.

The range of the exchange rate fluctuations in the interbank credit market, formed by the instruments permanently available to the banks, will be narrowed. The difference between overnight and deposit rates may amount to 9-11 percentage points.

Rates on the National Bank's operations in the financial market (lombard credit and intraday settlement credit against securities pledged as collateral; the buying and selling of the government securities, including REPO operations; term purchase of foreign exchange (SWAP operations; attraction of deposits; and issue of own securities) will ensure the movement of the intraday interbank market rate in the national currency within the required range (band) and smooth out its everyday 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 reducing market risks.

Thus, the refinance rate will define the minimal level of interest rates on auction operations designed to provide the banks with liquidity and the maximal level of interest rates on auction operations designed to withdraw liquidity.

Besides, it will be possible to support the banks' liquidity on a non-auction basis, including at the expense of increasing the aggregate limit of overnight credit.

An important component of monetary policy implementation will still be the provision of information on implemented and planned operations, required reserves, as well as the dynamics and factors of liquidity in the banking system, which is conducive to promoting the effectiveness of the monetary policy instruments and enhancing the transparency of the National Bank's activities.

31. The basic principles of interest rate policy, i.e. the maintenance of the 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 preserved.

Ensuring attractive terms for savings in the national currency is aimed at curbing inflationary and devaluationary processes, while expanding the availability of credit resources will encourage economic growth.

32. The required reserves ratio and mechanism will be used to regulate the money supply and liquidity in the banking system.

As the monetary sphere enjoys further stabilization, it is planned to gradually reduce the required reserves ratios, which would improve the terms for the attraction of households' and

enterprises' funds by the banks, as well as enhance the competitiveness of the Belarusian banks as a whole.

The build-up of required reserves exclusively in Belarusian rubles will continue.

The share of the required reserves used by the banks as part of the averaged maintenance of its level will grow, enhancing the role of this mechanism in the banking liquidity regulation.

## CHAPTER 12 MONETARY INDICATORS

33. The need for enterprises to finance their current production and investment activities as well as the projected increase in the households' monetary incomes and foreign trade and the balance of payments indicators underlie the growth of the ruble money supply, which is forecasted to be within 25-29% in 2007. Taking into consideration the projected increase in the share of the foreign exchange component, broad money will increase by 21-25%.

Assessing processes of money base multiplication into the money supply shows that the ruble money base can increase by 20-24%.

The attainment of targets and monetary policy implementation will make it possible to increase the monetization coefficient with respect to the ruble money supply up to 14.3-14.6%, and with respect to broad money up to 20%.

Given the macroeconomic environment stipulated by the forecast of social and economic development of the Republic of Belarus for 2007, the state gold and foreign exchange reserves will increase by USD200-400 million.

Net credit of the National Bank to the Government and local executive and administrative bodies will not undergo significant changes.

34. Interest rates on new credits granted by the banks (excluding credits issued out of the funds of the National Bank, budget funds and banks' resources at reduced rates subject to compensation by the Government to the banks) can amount to 10-12% per annum by the end of 2007.

In order to maintain the yield of newly attracted term deposits at a real positive level, the interest rate will average at least 7-9% per annum by the end of 2007.

SECTION IV  
ACTIVITIES AIMED AT THE IMPROVEMENT OF THE BANKING SYSTEM, BANKING  
SUPERVISION, FINANCIAL MARKETS, AND PAYMENT SYSTEM IN 2007

CHAPTER 13  
BANKING SYSTEM AND BANKING SUPERVISION IMPROVEMENT

35. In 2007, the development of the banking sector aims to further enhance its stability and performance efficiency, to strengthen the Belarusian banks' competitiveness, to expand the scope and quality of their interaction with non-financial institutions and households.

In attaining the above goals, the National Bank and the Government will undertake concerted actions and pursue a balanced and consistent policy of banking sector development by means of:

enhancing the effectiveness of banking regulation and supervision;

developing the institutional structure of the banking sector and creating an environment for fair competition, and

creating favorable conditions for banks' participation in the financial mediation and taking into consideration the interests of the banking sector as well as other sectors of the economy, based on mutual commercial benefit and system stability.

To compensate for the banking sector costs caused by the participation of individual banks in the implementation of the governmental programs and activities, the Government will provide state support in the amount stipulated in the Law of the Republic of Belarus "On the Republic of Belarus Budget for 2007".

The resource base (liabilities) of the banking sector whose replenishment depends, to a certain extent, on the efficient functioning of all economic sectors, households' prosperity, and the state of the country's budget sphere, will increase by 20-24% in 2007.

At the same time, the growth of the banking sector assets, which outstrips that of the economy, will be conducive to increasing the assets/GDP ratio up to 36-38% by the end of 2007.

Building up the banks' resource base is one of the major conditions for expanding the number of banking transactions and enhancing the functional role of the banking system in the social and economic development of the country.

In 2007, natural persons' deposits with the banks will increase by 1.7-2 trillion Belarusian rubles. The increase will be, above all, due to the growing share of long-term deposits and expanding list of banking operations and services along with their quality improvement.

The major factors of legal persons' deposits growth will be as follows:

growing sales of products (goods, works, services) stemming from the expansion of their production output growth and relative reduction of finished goods stock in industry, of commodity stock in trade, and of construction in progress;

larger monetary share in the proceeds from the sale of products (goods, works, services);

profitability growth owing to the reduction in input of materials, energy, and labor, and lower tax burden.

Given these and other factors, the volume of economic agents' deposits with the banks will rise by 1.1-1.3 trillion Belarusian rubles by the end of 2007.

Profit and investment in the banks' authorized capital will be the major sources of regulatory capital growth, with the profit share as a source of regulatory capital formation increasing. Regulatory capital increase at the expense of all sources is estimated to amount to 18-19% in 2007. The regulatory capital/GDP ratio may increase up to 6% by the end of 2007.

Said growth of the banks' regulatory capital will be conducive to maintaining the level of capital adequacy required for covering risks and ensuring the banks' functioning reliability, the rates of lending to the non-financial sector of the economy being relatively high.

36 If legal and natural persons' deposits grow as forecasted, the banks claims on the economy will rise by 21-24%, which will ensure credit support required for the economy. The deposits can amount to 26-27% of GDP by the end of 2007.

The investment lending requirements are estimated to be 3.96 trillion Belarusian rubles.

At the same time, home loans are planned to amount to 2.19 trillion Belarusian rubles (of which 1.8-2 trillion Belarusian rubles on easy terms). Importantly, home construction for those in need of better housing will increase up to 75-80%, while budgetary funds will be used to replenish the banks' long-term resource base and compensate losses incurred by the banks as a result of easy credit for home construction.

Lending to export-oriented and agro-industrial complex organizations as part of the implementation of the Government Program for Rural Revival and Development in 2005-2010, as well as to home construction, will remain a priority.

Retail lending will continue developing.

37. On the whole, it is expected that measures taken in 2007 will ensure reasonable quality of the banking sector assets, permitting only insignificant deviation of the problem assets share in the assets subject to credit risk from its average 2005-2006 value not exceeding 4%.

Clients' and banks' problem debt on credit transactions will not exceed 2%.

The positive trend towards greater profitability of the banks' performance will continue.

The banks' return on regulatory capital is expected to exceed the projected inflation level, amounting to no less than 8%.

38. In order to improve the quality of the banks' management and investment attractiveness of banking business and to enhance transparency of the accounting and reporting information, further efforts will be undertaken to introduce the international accounting standards into the banking system through the improvement of the national standards, rules, and principles, designed to establish a system of reliable accounting and reporting, to raise the requirements to the amount, quality, and frequency of published information in 2007.

39. Improvement of banking supervision will be geared at reaching the international standards developed by the Basel Committee for Banking Supervision and other international financial institutions, including those stipulated in the Capital Accord (Basel-II), as well as at gradual implementation of and compliance with the internationally-tested banking regulation and supervision principles and approaches.

Also, the National Bank and the banks' authorized management and executive bodies will pay close attention to improving the system of managing risks arising in the course of banking activity and to enhancing the efficiency of the banks' internal control system.

## CHAPTER 14 FINANCIAL MARKETS DEVELOPMENT

40. Securities market development in 2007 will stimulate the investment processes in the country as well as increase the efficiency of interest rate instrument and the effectiveness of monetary policy implementation. The role of the financial market in the redistribution of financial resources and their accumulation for purposes of tackling the priority tasks of social and economic development as well as in the reduction of risks in the banking sector will grow.

The size and other parameters of the Government securities market will be determined by the budget demand for borrowed funds. At the same time, the principle of Government economic security will be observed, while the banks will continue to finance the republican budget deficit.

41. Activities aimed at restructuring the Government debt to the National Bank into the Government securities with a view to improving the structure of the Government debt and improving its liquidity will continue. This will enable the National Bank to conduct open market operations using them to regulate liquidity, thereby reducing the need for issuing its own short-term bonds. At the same time, the National Bank's short-term bonds, being one of the monetary policy instruments, are planned to be placed on an auction basis.

42. Tackling mounting tasks of investment in the production and social sectors and of home construction requires the development of the corporate securities market.

Given the banks' role in providing funds for investment and home construction, it is essential to create favorable conditions for the issuance and circulation of the banks' bonds. This would enable the banks to expand the resource base using internal and external sources, streamline the structure of their balance sheets, and improve the risk management system.

43. In order to enhance monetary policy efficiency it is planned to improve the financial market infrastructure.

The National Bank, as well as other banks of the Republic of Belarus will help set up financial institutions accumulating long-term money resources, establish a mortgage lending legislative framework, and develop the term financial instruments market and expand the spectrum of such instruments.

For the purpose of enhancing the quality of liquidity management and the efficiency of monetary policy instruments employment, the Government and the National Bank will ensure greater coordination between monetary and fiscal policies, particularly in the sphere of sharing information about the operations in the financial market.

CHAPTER 15  
ACTIVITIES AIMED AT PAYMENT SYSTEM IMPROVEMENT

44. The main targets of national payment system development in 2007 will be to ensure effective, sound, and secure functioning of the system on the basis of bringing it in 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 increasing share of cashless settlements in the retail payments turnover.

45. The above targets will be met by implementing the following measures:

improving the regulatory legal framework of the national payment system and cashless settlements system, as well as tariff policy in the sphere of providing services by the payment system to its clients;

tightening the National Bank's supervision over the payment system;

enhancing economic and operational efficiency of the components of the payment system infrastructure, productivity and processing capacity of the functional components of ASIS, minimizing at the same time all kinds of risks;

analyzing and monitoring the ASIS state and identifying on this basis capacity for its subsequent development;

continuing modernization of ASIS's computer-based infrastructure, establishment an integrated settlement and information space within the Republic of Belarus, creation of conditions for expanding settlement services to clients based on a "single-window" principle;

expanding the scope of electronic document flow in the payment system based on the activities aimed at the standardization and unification of the format of electronic documents used in settlements;

establishing a modern center for managing key information in order to enhance settlements security in the payment system;

maintaining the parameter of the banks' access to ASIS at the level not lower than 99.5% of the daily working time fund;

attaining the agreed growth rates of issue of the electronic payment instruments and developing the technological infrastructure of their usage, as well as ensuring uniform distribution of the infrastructure facilities within the Republic of Belarus and equal conditions of accessing the electronic payment instruments across the country, and

pursuing economically sound interest rate and tariff policies aimed at balancing the economic interests of participants of the settlements systems with respect to retail payments.

SECTION V  
FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL.  
INTERNATIONAL COOPERATION IN 2007

CHAPTER 16  
FOREIGN EXCHANGE REGULATION AND FOREIGN EXCHANGE CONTROL

46. In 2007, the National Bank will implement a package of measures aimed at further liberalization of foreign exchange transactions in the sphere of foreign exchange regulation.

With a view to stimulating foreign capital inflow to the country's economy, the National Bank will move from the licensing to notice-filing procedure when residents of the Republic of Belarus engage in foreign exchange transactions designed to attract loans and credits from non-residents of the Republic of Belarus by means of lifting restrictions on the amounts.

In order to enhance the efficiency of foreign economic activity, the National Bank will lift quantitative restrictions on advance payments by the residents of the Republic of Belarus to non-residents of the Republic of Belarus.

For the purpose of further dedollarization of the country's economy, as well as the development of the domestic foreign exchange market, the National Bank will take measures to curtail the use of foreign currency within the Republic of Belarus.

47. As regards foreign exchange control improvement, the National Bank will continue seeking interaction between foreign exchange control and anti-money laundering and terrorism financing.

CHAPTER 17  
INTERNATIONAL COOPERATION

48. In accordance with the inter-state Agreement on the introduction of a single currency and establishment of a single center of issue of the Union State dated November 30, 2000 as part of the Inter-bank Currency Council of the National Bank of the Republic of Belarus and the Central Bank of the Russian Federation, both banks will continue in its efforts to achieve the utmost unification of principles, mechanisms, and instruments of monetary policy of the two countries.

49. The integration of the banking system of the Republic of Belarus with the banking systems of 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, High Level Group set up to establish a Single Economic Space between the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan, and Ukraine, Consultative Council of the Belarusian and Ukrainian Central Banks, CIS Inter-State Foreign Exchange Committee, and Inter-State Bank Council.

50. The main focus of the development of cooperation with the international financial institutions (the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, and others) will be on further employment of technical assistance in key areas of business of the National Bank and the banking system as a whole, and on the creation of conditions for attracting foreign capital into the country's banking system.

51. In pursuing the goal of the accession of the Republic of Belarus to the World Trade Organization, the National Bank will continue working towards converging the WTO and Belarusian positions regarding the access of foreign suppliers of financial (banking) services to the country's market.

52. The National Bank will continue cooperation with the central banks of foreign countries in the sphere of experience sharing regarding the practical aspects of monetary policy, organization of research, information, and analytic activities, and establishment of the basis for developing cooperation between countries' banking systems, with a view to attracting foreign investments to the economy of the country.

## CHAPTER 18 CLOSING PROVISIONS

53. The strategic aim of monetary policy in 2007 will be to ensure sustainable economic growth and achievement of the social and economic development targets through the implementation of monetary objectives and tasks.

The final objective of monetary policy in 2007 will be to ensure, in conjunction with the measures of the Government's economic policy, reduction of inflation measured by the increment in the consumer prices index to 6-8%.

In attaining this objective, the National Bank will apply a system of intermediate monetary targets, i.e. the exchange rates of the Belarusian ruble against the Russian ruble and the US dollar and the active ruble money supply.

Gradual reduction of inflation and predictable dynamics of the exchange rate of the national currency are aimed at reducing macroeconomic risks, improving the investment environment in the country, and enhancing the efficiency of the foreign economic activities and domestic production, consolidating thereby positive trends of the social and economic development of the country.

Appendix  
to the Republic of Belarus  
Monetary Policy Guidelines  
for 2007

Key Performance Indicators of the National Bank and Banks for 2007

<b>Indicators</b>	<b>Forecast as at January 1, 2008</b>
Consumer price index, %, December-to-December	106-108
Changes in the Belarusian ruble official exchange rate against	
the Russian ruble, %	+4 -4
the US dollar, %	+2.5 -2.5
The refinance rate, %	7 - 9
Growth	
of international reserve assets of the Republic of Belarus, million US dollars	200-400
of active ruble money supply (M1), %	20-25
of ruble monetary base, %	20-24
of banks' regulatory capital, %	18-19
of banks' claims on the economy, %	21-24
Return on regulatory capital, %	not less than 8
Investment credits issue, billion Belarusian rubles	3960
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
Average annual parameter of clients' access to ASIS, as % of its daily working hours fund	not lower than 99.5