Crisis Response Policies in Russia, Ukraine, Kazakhstan and Belarus – Stock-Taking and Comparative Assessment

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This study focuses on comparing and assessing the policy measures Russia, Ukraine, Kazakhstan and Belarus took in response to the impact of the U.S. subprime crisis (2007) and of the Great Recession (2008–2009). Being most dependent on cross-border capital inflows, Kazakhstan was most affected by, and reacted most intensively to, the subprime turmoil, followed by Russia. In contrast, all four countries responded to the second crisis with a panoply of fiscal, monetary, exchange rate and other measures. After sharp across-the-board devaluations in late 2008 and early 2009, and accompanying the recovery of the oil price, the currencies of the oil exporters Russia and Kazakhstan soon stabilized, whereas the currencies of the oil importers Ukraine and Belarus stayed under pressure – giving rise to intermittent interventions. Opposing – if hitherto successful – macrofinancial restabilization strategies have been conducted: Oil exporters employed their oil stabilization funds to deliver generous fiscal stimuli, whereas oil importers took recourse to IMF Stand-By Arrangements and exchange controls. With respect to the banking turmoil and restructuring since late 2007, the following can be concluded: Although measuring recapitalization costs is not unproblematic, systems dominated by state-owned banks (Russia, Belarus) appear to have fared better in precisely this time span in the sense that they have incurred less crisis-triggered recapitalization spending than systems dominated by private domestic or even foreign-owned capital (Kazakhstan, Ukraine). One of the reasons that might explain this result is the (with hindsight) excessive pre-crisis credit booms in the privately dominated banking systems, financed largely from abroad, coupled with the possibly even weaker rule of law outside the sphere of direct state control in the CIS region.

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1 Introduction

The purpose of this study is to present, compare and assess the crisis response measures of the four CIS countries with the highest total GDP. In addition to Russia and Ukraine, these are oil-rich and FDI-intensive Kazakhstan, and highly centralized Belarus. The crisis referred to is the current global financial and economic crisis, starting with the U.S. subprime turmoil (since August 2007) and culminating in the crisis triggered by the collapse of Lehman Brothers (since September 2008).

The study starts with an overview of macroeconomic developments, policies and reforms in the four countries in the years leading up to the major 2007–2008 upheavals, which enables us to point to accumulating economic vulnerabilities. The various country-specific impacts of the crisis are briefly outlined in section 2. This leads us to the documentation of the way the authorities reacted, which forms the core part of the study in section 3. Key crisis response measures are systematically outlined for the areas of monetary and exchange rate policies, trade

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protection, fiscal policy, oil stabilization funds (if any), banking regulation, supervision and bailouts, privatization and other policy measures. Detailed information on key policy measures is included in the tables in the annex. The most important sources of comparative policy information are the national statistical agencies of Russia, Ukraine, Kazakhstan and Belarus, IMF Staff Reports 2005–2010 on the four countries, OECD Economic Surveys of Russia and Ukraine, World Bank Russian Economic Reports and the annual reports of the four national central banks. Section 4 synthetically and comparatively assesses the policy measures described and draws conclusions. Finally, the study is summarized in section 5.

2 Pre-Crisis Economic Developments and Vulnerabilities and the Impact of the Crisis from 2007 to 2009

2.1 Economic Developments and Vulnerabilities before 2007–2008: Signs of Overheating

In the years preceding the outbreak of the crisis, which intervened in the CIS region as an external shock, all four countries under discussion boasted average GDP growth rates of around 7% to 8% p.a. (see chart 1) and witnessed signs of economic overheating. These included:

Buoyant oil and commodity prices

In the two oil-producing and -exporting countries Russia and Kazakhstan (henceforth called "hydrocarbon countries" – HCCs), a key underlying force that supported domestic demand were skyrocketing oil and raw material prices (up to mid-2008); in contrast, the two oil-importing countries Ukraine and Belarus (in the following referred to as "nonhydrocarbon countries" – NHCs) had to contend with a negative net impact of high energy prices on their terms of trade and external balances.[2] However, the NHCs have, in a more limited sense, both benefited from high processed commodity prices: Ukraine's key export staple continues to be steel, while Belarus has traditionally profited from large-scale refining of relatively cheap Russian oil and from the sale of petrochemical products at world market prices (Barisitz 2007a, p. 132–133, 140) (see chart 4).

Credit booms and dollarization of loans

Credit booms unfolded in all of the four countries under observation (see chart 2). These booms partly embodied the swift expansion of foreign exchange (mostly U.S. dollar)-denominated loans, which attained 45% to 50% of total loans (before the crisis) in Ukraine and Kazakhstan. Foreign currency-denominated lending to unhedged borrowers (notably households) has been pronounced in all four countries, if somewhat less so in Russia and Belarus. Together with rising wages and profits, strong loan growth fueled surging domestic demand and high inflation (see chart 3).

Capital inflows, swelling current account deficits and external debt

Credit booms were also driven by substantial capital inflows: In the case of Russia and particularly Kazakhstan, these inflows largely consisted of syndicated loans

[2] *IMF and EBRD publications frequently divide CIS countries into "hydrocarbon countries" and "nonhydrocarbon countries" for analytical purposes (see IMF 2010, p. 34; EBRD 2009, p. 78–90)*

from international financial markets and eurobond placements, pushing up private external debt (Barisitz, 2009, p. 42–43). In Ukraine, where foreign strategic investors accounted for a higher share of banking assets, loans and refinancing from parent banks also fueled credit expansion. The surge of domestic demand contributed to deteriorating current account balances across the board, although Russia continued to register surpluses (see chart 6).

Belarus: Outlier boasting extensive government control, forced growth

In Belarus, credit growth and economic expansion have partly been driven by government instructions (directed lending, forced growth, inventory accumulation), buttressed by subsidized energy deliveries from Russia (as mentioned above), even if the latter subsidies have been steadily rolled back since early 2007, which rendered Belarus' financial situation more difficult.[3] The Belarusian economy to some degree constitutes an exception in that the authorities have held on to administrative control over a wide range of activities. The banking sector is still dominated by state-owned banks (SOBs, accounting for over three-quarters of total banking assets). Inflation grew despite tightening price controls. Also with respect to foreign exchange reserves, Belarus, equipped with a relatively low stock, has been an outlier.

Largely accommodative fiscal and monetary policies, eroding competitiveness

Pre-crisis macroeconomic policies generally tended to be accommodative. While HCCs' oil-related budget revenues surged and delivered headline surpluses, their underlying non-oil budget balances are estimated to have remained in the red.[4] Notwithstanding its relatively tight fiscal stance, Belarus' quasi-fiscal policies, prominently featuring directed credits extended by SOBs, have remained quite loose in recent years (see chart 2). Exchange rate regimes have tended toward de facto pegs to the U.S. dollar. These exerted expansionary monetary effects because of pre-crisis appreciation pressures, substantial resource revenue and/or capital inflows, sizeable – but largely unsterilized – foreign currency purchases by central banks and high rates of base money growth and liquidity expansion.[5] Resulting real appreciations put pressure on industrial competitiveness margins.[6]

[3] *For a more detailed description of the Belarusian "economic model," see Barisitz 2007b, p. 86–88.*

[4] *For instance, according to IMF calculations, Russia's non-oil federal budget deficits in 2006 and 2007 came to 3.9% and 3.0% of GDP, respectively, while the country's headline federal budget surpluses stood at 7.4% and 6.2% of GDP, respectively (IMF 2009a, p. 29).*

[5] *There have been sterilization operations from the fiscal side, through oil stabilization funds in Russia and Kazakhstan. These interventions have prevented even stronger appreciation pressures.*

[6] *With the exception of the Belarusian ruble, which experienced substantial nominal exchange rate reductions in the early years of the decade, real effective exchange rates of the analyzed countries' currencies increased in the period from 2000 to 2008, most strongly in the case of the Russian ruble, which rose over 80%.*

Chart 1

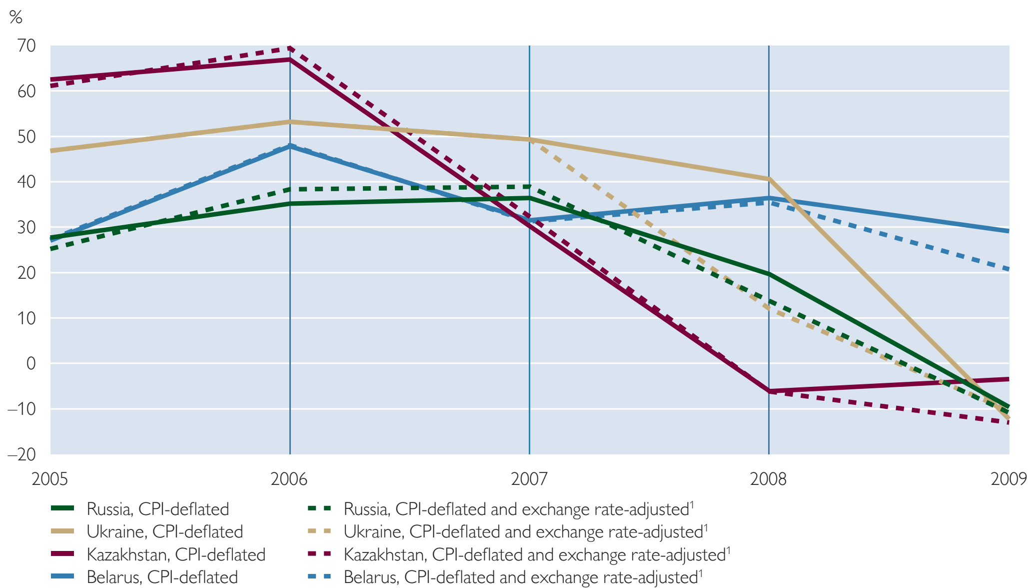
GDP Growth 2005–2010

Source: National statistics, IMF.

[1] *IMF forecast (World Economic Outlook October 2010).*

Chart 2

Real Credit Growth (year-end)

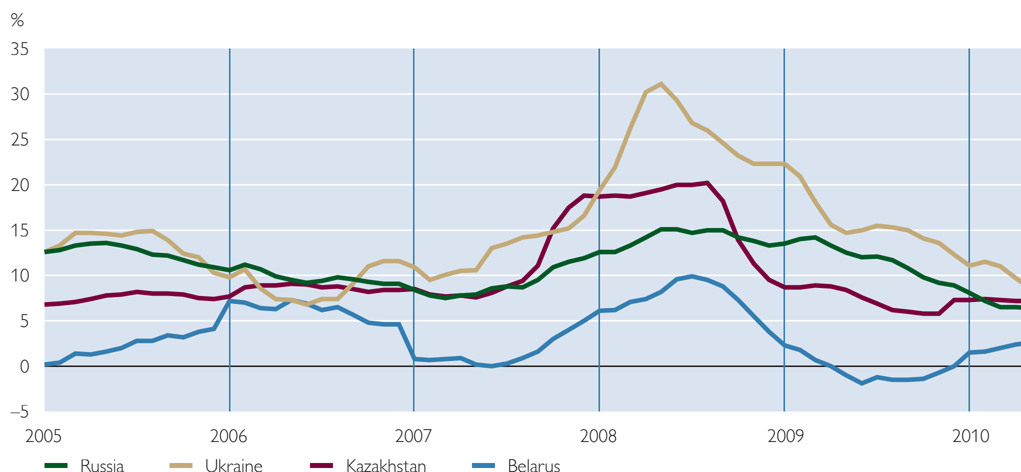


Source: National statistics, IMF.

[1] *Based on the U.S. dollar exchange rate.*

Chart 3

CPI Inflation (year on year)



Source: wiiw, IMF.

Chart 4

Oil and Steel Prices

Source: Thomson Reuters.

2.2 Differential Impact of the Crisis from 2007 to 2009

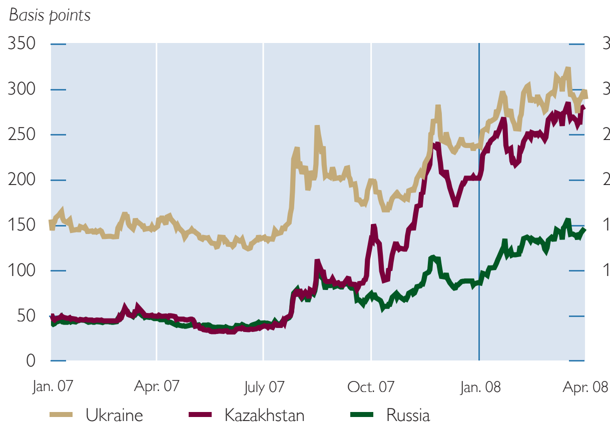
2.2.1 Repercussions of the U.S. Subprime Crisis (August 2007 to mid-2008)

The major repercussions of the U.S. subprime crisis on the four largest CIS countries embodied rising external borrowing costs and the temporary drying-up of bank and corporate funding sources from international financial markets or heightened volatility of capital inflows (capital channel). Mainly due to the particularly high degree of the Kazakh banking sector's dependence on external finance (which comprised around half of its total liabilities), against the backdrop of a low deposit base and a relative dearth of FDI in this sector, Kazakhstan was hit strongest, followed by Russia (see chart 6).

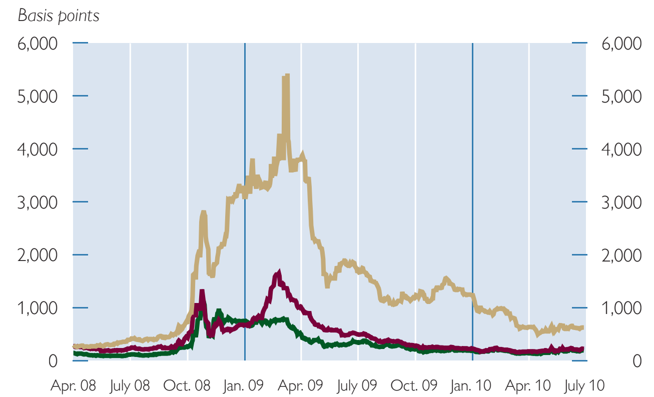
Chart 5

CDS Spreads

January 2007 to April 2008[1] (five-year maturity)



April 2008 to June 2010[1] (five-year maturity)



Source: Thomson Reuters.

[1] CDS spreads for Belarus are not available.

Thus, the Kazakh CDS premiums rose strongest (in relative terms) from mid-2007 to early 2008. Kazakhstan also witnessed a credit squeeze (month-on-month credit volume growth rates ground to a halt in the fall of 2007), a reversal of property price growth (burst of the housing bubble), and, more generally, a deterioration of asset quality (IMF, 2008a, p. 3–6). As a result, Kazakh GDP growth slumped from about 10% in the first half of 2007 to 5% in the same period of 2008 (year on year). In the last quarter of 2007, for the first time since early 2000, seasonally adjusted real GDP registered a decline related to the previous quarter (see also Jandosov, Sabyrova and Mogilevsky, 2010, p. 8). While capital inflows into Russia declined initially following the outbreak of the financial turmoil, eurobond issuances by a few large Russian state-dominated energy companies and banks soon recovered, as did recourse to the syndicated loan market. Ukraine and Belarus were hardly touched by the subprime crisis: At mid-2007, foreign strategic investors already accounted for 39% of Ukrainian banking sector assets[7]; most of these actors held open refinancing channels for their subsidiaries. The Belarusian banking sector was still quite small, mostly state-owned and -directed and less dependent on foreign financial flows.

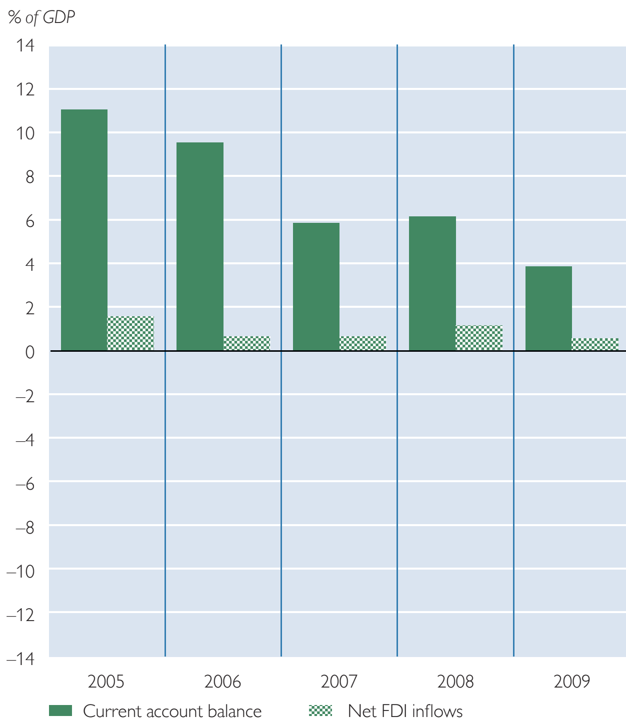
2.2.2 Heavy Impact of the Collapse of Lehman Brothers and of the Ensuing Great Recession (from September 2008)

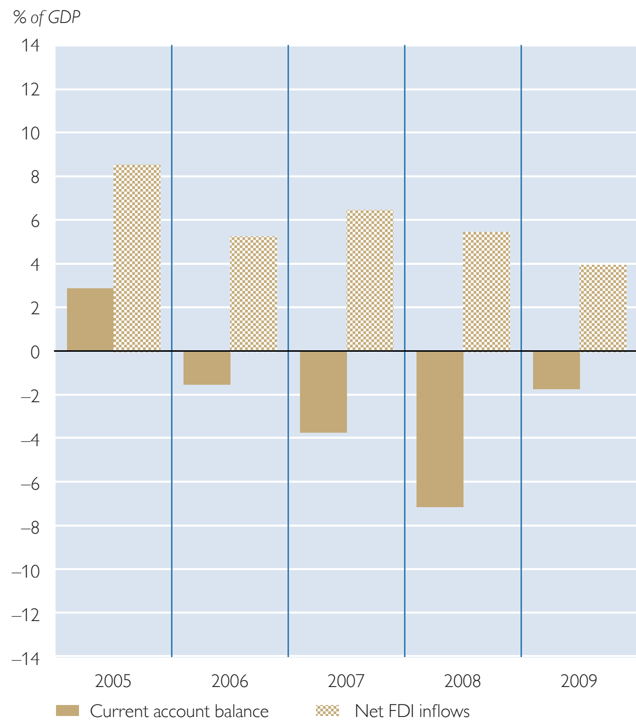
The crisis had a heavy dual impact on all four countries: They were practically shut out of international financial markets (implying skyrocketing spreads and sharp reversals of capital inflows, see chart 5, right-hand panel) and the collapse of export demand and of oil and commodity prices contributed to plummeting GDP

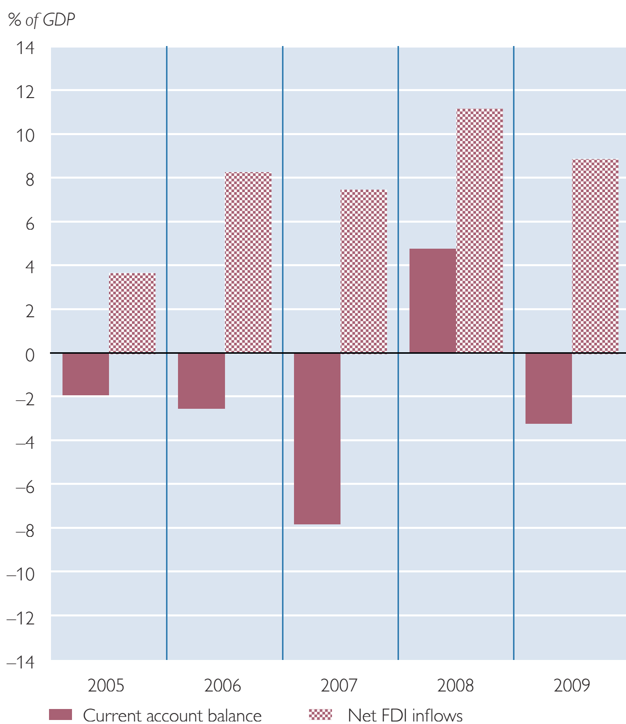
[7] In contrast to Ukraine, the other three countries observed have featured much lower shares of foreign-owned banks in total sector assets. As of end-2007, the respective shares were: 17% (Russia), 16% (Kazakhstan) and 20% (Belarus).

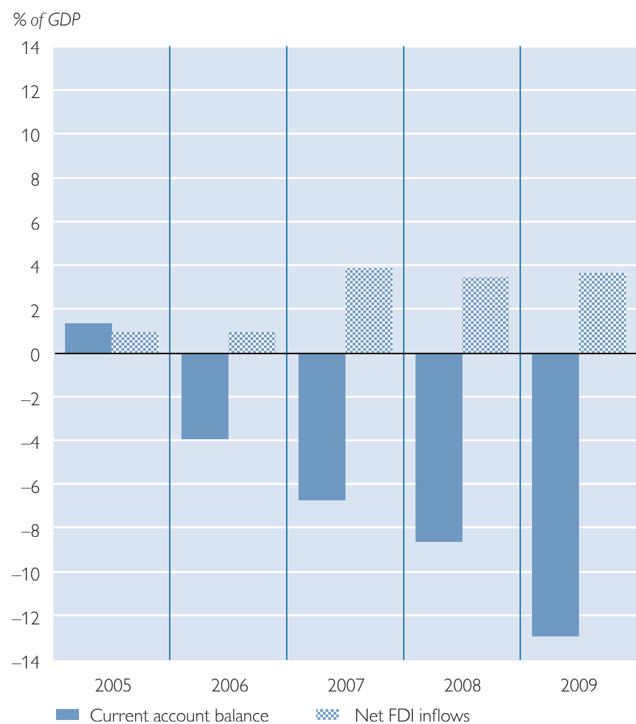
Chart 6

Current Account Balance and Net FDI Inflows 2005–2009









Source: National statistics.

growth (capital and trade channels); moreover, in the case of Ukraine and Russia, these developments contributed to deep recessions (see chart 1).[8] Therefore, banks' balance sheets came under increasing strain, nonperforming assets and loans swelled and Russia, Ukraine and Belarus were also caught by a credit squeeze, like Kazakhstan beforehand (see chart 2). Only in Belarus did the authorities uphold credit growth through government programs.[9] Confidence in banks weakened again, and gave rise to renewed deposit withdrawals.

Capital outflows, decreasing export demand, declining commodity prices and, therefore, deteriorating terms of trade as well as the sagging confidence in domestic banks quickly reversed exchange rate expectations and put strong depreciation pressure on all four currencies. Initial interventions to defend exchange rates led to sharp declines of central banks' foreign currency reserves which, however, were only critical in the case of Belarus (see chart 8). While eventual devaluations could not be avoided (see chart 9), they contributed to banking turmoil via aggravating the solvency problems of unhedged borrowers. While all four countries were hit by a banking turmoil, which in some cases triggered failures of smaller and medium-sized credit institutions, only in Kazakhstan did two of the largest four banks default (on their foreign debt). As the crisis impact deepened, inflationary pressures eased (see chart 3), and unemployment rose across the board. One of the reasons Ukraine was especially hard hit by the crisis was its stubborn political instability and turmoil (since 2005), which fed into protracted uncertainties about its economic policy stance and exacerbated the lack of confidence in the domestic currency (IMF, 2009b, p. 4; Raiffeisen Research – Raiffeisen Bank Aval, 2009, p. 3). Year-on-year economic growth resumed or recovered in all four countries by the first quarter of 2010.

3 How Did the Authorities React?

3.1 Policy Response to the Impact of the Subprime Crisis

Having been most affected by the impact of the subprime crisis, Kazakhstan also made the strongest policy effort to tackle the crisis (see table 3 in the annex). This effort was centered on liquidity support by the National Bank of the Republic of Kazakhstan (NBK) and by the government. This included the government's establishment in November 2007 of a USD 1 billion (1.0% of GDP) facility of earmarked deposits with banks, to be onlent to support construction companies and SMEs. After strongly intervening in the foreign currency market to support the Kazakh tenge, using USD 6 billion (about a quarter of its international reserves), the NBK in October 2007 declared that it had pegged the Kazakh tenge to the U.S. dollar, which contributed to stabilizing the situation. Moreover, the

[8] *The fact that Russian growth performance was so much weaker than Kazakh growth performance in 2009 was probably due to Russia's much higher share of manufacturing industry in GDP and the latter's greater dependence on external demand, as opposed to Kazakhstan's less diversified economic structure (Sabyrova 2009, p. 9).*

[9] *As pointed out by Astrov (2010, p. 13), loan growth through directed credits to state-owned enterprises (SOEs) – often based on negative real interest rates – bolstered fixed investment, while wage increases in SOEs fueled private consumption in Belarus. Thus, publicly supported domestic demand largely compensated for crisis-triggered export losses and prevented a recession in Belarus. Yet this was achieved at the cost of a widening current account gap (2009: 12.9% of GDP), expanding borrowing needs and swelling foreign debt (near-doubling to 44% of GDP at end-2009).*

Kazakh Financial Supervision Agency (FSA)[10] stepped up its monitoring activities in the country's largest banks. Russia largely confined its crisis response to CBR (Bank Rossii) and government liquidity injections (see table 1 in the annex).

3.2 Policy Response to the Impact of the Collapse of Lehman Brothers and the Great Recession

Confronted with the above-mentioned substantial dual impact of the U.S. and global financial and economic crisis, all of the four largest CIS countries reacted with a broad range of policy measures. Because of their weak external positions (see chart 6 and 8) and overall difficult financial situation, the NHCs (Ukraine and Belarus) solicited and received IMF Stand-By Arrangements (SBAs)[11], while the HCCs (Russia and Kazakhstan) did not apply for international financial assistance.

3.2.1 Monetary Policy Easing, Foreign Exchange Interventions Followed by Devaluations

Once again, wide-ranging liquidity assistance was provided, e.g. Natsionalny bank Ukraini (NBU) injections of some 6% of GDP or bank deposit inflows of USD 1.4 billion (1.3% of GDP) from firms of the Kazakh state holding company Samruk-Kazyna[12]. While aiming at emergency intervention to help the financial system, these liquidity injections also probably added to depreciation pressure on domestic currencies and thus gave rise to a policy dilemma. Foreign currency interventions from September 2008 to January 2009 consumed sizeable amounts of international reserves (up to one-third in the case of Russia), but could not prevent substantial devaluations (by between 20% and 50%) in all four countries (see chart 9). The Russian and Kazakh devaluations were either stepwise or one-off, but appear to have been tightly controlled by the authorities using their bountiful reserves.[13] In the cases of Ukraine and Belarus, though, the authorities at certain points seem to have been forced to step back and allow markets a greater say in determining currency values. Still, all four countries have continued to aim at maintaining the relative stability of their currency's exchange rate against the U.S. dollar, even if Russia, managing a U.S. dollar-euro currency basket, has allowed somewhat greater flexibility since September 2008.

Once the height of the financial crisis had passed, the new exchange rate levels had been defended and inflation had started to decline, in the second quarter of 2009 monetary policy was eased in all four countries in order to further support liquidity and credit activity. While the loosening monetary policy stance has since been largely upheld in Russia and Kazakhstan (World Bank, 2010, p. 11), the Ukrainian and Belarusian authorities intermittently reversed their stances in order

[10] *Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations.*

[11] *The SBA for Ukraine took effect in November 2008, providing a total earmarked amount of USD 16.4 billion, of which USD 10.6 billion were disbursed by end-2009; a new arrangement was reached in July 2010, covering an amount of USD 14.9 billion. The SBA for Belarus was concluded in January 2009, providing for an augmented amount of USD 3.5 billion.*

[12] *Samruk-Kazyna, also known as the National Welfare Fund, is a Kazakh public entity created by the end-2008 merger of the state asset holding company Samruk and the sustainable development fund Kazyna.*

[13] *The fact that the CBR used up about one-third of its currency reserves defending the Russian ruble and managing the gradual depreciation was not necessarily a "lost" investment, since it gave banks and corporates – some of whom were saddled with high external debt – time to adjust their balance sheets.*

to counter new depreciation pressures or support new (lower) exchange rate levels (see tables in the annex). This recalls the above-mentioned dilemma which respective authorities faced by choosing a policy trade-off.

Reappreciation pressures set in for the Russian ruble and the Kazakh tenge toward the end of the first quarter of 2009, on the back of the recovery of the oil price; reappreciation pressures for the Ukrainian hryvnia and the Belarusian ruble have only emerged in late 2009 and early 2010 and partly stemmed from the recovery of Ukrainian terms of trade and the readjustment of its external balance (around mid-2009), followed by political restabilization since the change of its presidency and government in February and March 2010. However, the fragility of the world economic recovery was underlined by the impact of the Greek and euro area debt crisis of May 2010 on global confidence and commodity prices: Oil prices plunged by about one-fifth in just two weeks, before recovering again. Steel prices also dropped sharply. This put intermittent downward pressure on the Russian ruble, less so on the Ukrainian hryvnia.

3.2.2 Fiscal Policy and Oil Stabilization Funds (If Any)

Prominent fiscal stimulus packages were assembled in the HCCs. The Russian authorities, in late 2008 and in April 2009, passed supplementary budgets: The revised federal budget for 2009 produced a deficit of 5.9% of GDP (see chart 7), which corresponds to a swing of 9.5 percentage points, compared to the original budget plan.[14] While the fiscal stimulus is dominated by spending measures, revenue measures also feature prominently (see table 1 in the annex and Ponomarenko and Vlasov, 2010, p. 8–9). But, as traditional in Russia, the execution of the budget was heavily backloaded; after witnessing a surge of government spending in late 2008, in the first quarter of 2009 – during the depth of the crisis – the fiscal stimulus was withdrawn. It only made itself felt in the second half of the year, in a possibly procyclical manner. Most of the budget deficit of 2009 was financed by the Reserve Fund.[15] Although the Russian authorities announced plans to reduce the fiscal stimulus in 2010, they passed a supplementary budget providing for expenditures of 0.7% of GDP in June 2010 and earmarked an additional supplementary budget for the fall of the year. The federal budget shortfall is expected to come to about 5% of GDP in 2010.

Kazakhstan put together a comprehensive anticrisis program[16], providing for the allocation of about USD 12 billion (10% to 11% of annual GDP) over the period from 2009 to 2010 and drawing on combined efforts of the government, the NBK and the FSA. While the National Fund of the Republic of Kazakhstan (NFRK, the country's oil stabilization fund) largely provided the necessary

[14] *Based on OECD calculations (OECD 2009, p. 43).*

[15] *In February 2008, the Russian oil stabilization fund was split into a Reserve Fund and a National Welfare Fund. The Reserve Fund fulfills the functions of a fiscal stabilization fund, accumulating budget revenues from oil and gas, and is capped at 10% of GDP. The National Welfare Fund is earmarked to support the state pension system. While prior to the most recent crisis period, in mid-2008, the Reserve Fund came to about 8.5% of GDP, it declined to 4.9% of GDP at end-2009 and is expected to be used up in the course of 2010.*

[16] *Including the Joint Action Plan of the Government, National Bank and Financial Supervision Agency on the stabilization of the economy and financial sector for 2009–2010, adopted in late 2008 and later slightly amended, and other measures. In addition, certain budgetary adjustments (e.g. a rise in current and social expenditures in the context of declining tax revenues) are estimated to come to around USD 5 billion in 2009.*

Chart 7

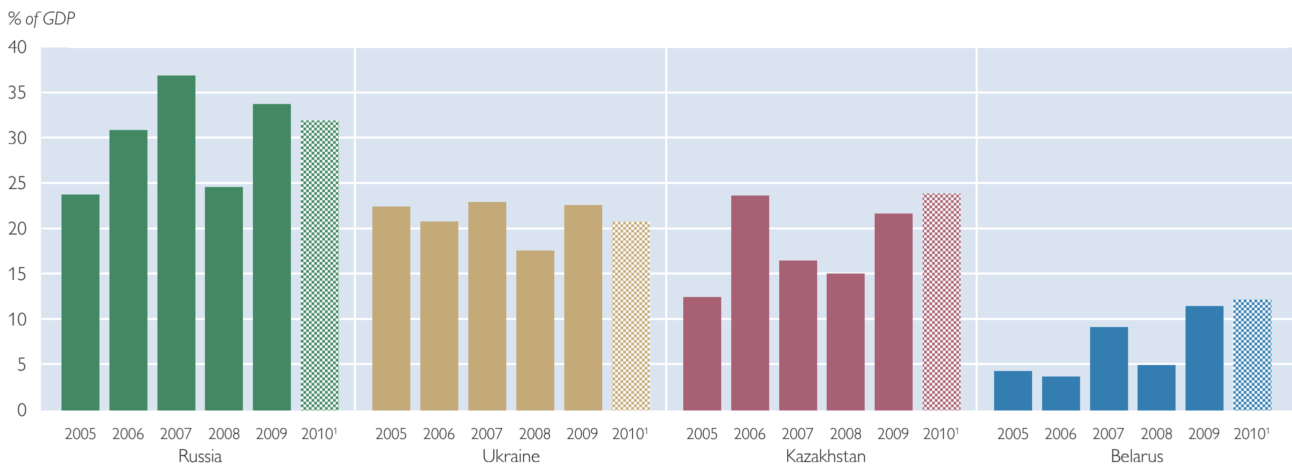
General Government Budget Balances 2005–2009

Source: National statistics.

Note: Dotted columns depict non-oil budget balances (RU, KZ) or augmented budget balances (including noncash bank restructuring measures, net lending to financial institutions and/or quasifiscal activity, BY) as calculated by the IMF.

Chart 8

Central Banks' Foreign Exchange Reserves 2005–2010



Source: National statistics.

[1] *End-March.*

Note: In the cases of Russia and Kazakhstan, the authorities' total foreign currency assets also include oil stabilization funds. However, the Russian fund (split between the Reserve and National Welfare Funds) cannot be clearly delimited from the CBR's foreign exchange reserves.

funds[17], Samruk-Kazyna has served as the main vehicle for crisis relief: Public support was provided to the largest (in terms of assets) four banks, to unfinished housing projects, SMEs, farms and to other hard-hit parts of the real sector (see table 3 in the annex). Like in Russia, spending measures predominate. According to preliminary estimates, overall about 59% of the 2009 fiscal package was allocated to the financial sector, 28% to the corporate sector and 13% to households (Jandosov and Sabyrova, 2009, p. 7). The Kazakh authorities also plan to

[17] *In mid-2007, the NFRK amounted to 19.8% of GDP, then stagnated at about this level until mid-2009 (20.9%), before expanding to 22.3% of GDP at end-March 2010.*

trim their budgetary stimulus in 2010, but they, too, amended their budget in March 2010 in order to deliver increases in social expenditures.

Ukraine and Belarus, recipients of IMF financial assistance (as mentioned above), appear to have followed an alternative, even opposite, strategy: The NHC did not deliver fiscal stimuli (of any appreciable size), but rather maintained a relatively tight fiscal stance (see chart 7) to support macroeconomic stability and underpin feeble confidence. Ukraine even had recourse to some unorthodox tightening measures (e.g. accumulation of VAT refund arrears, enforcement of advanced tax payments by large enterprises). However, a few months before the presidential elections of early 2010, the Ukrainian authorities abstained from adjusting low retail gas tariffs, and parliament raised minimum wages and pensions by 20% – inconsistent with the goals of the country's IMF program, which thus veered off-track. The new government in June 2010 received a bridging loan of USD 2 billion from Russia's Vneshtorgbank (VTB). In early July, a new SBA was agreed upon with the IMF (see above), a major plank of which is budgetary consolidation. While satisfying the IMF's fiscal stringency conditions, Belarus continued its long-standing policy of serving quasi-fiscal stimuli (see subsection 3.2.4).

3.2.3 Banking Regulation, Supervision and Bailouts

As a first crisis response reaction in this field and as a complement to liquidity injections, central banks tended to introduce regulatory forbearance (e.g. loosening of loan classification and provisioning requirements), which was later (in the second half of 2009) at least partly withdrawn again. Also, to some degree preemptively, deposit insurance limits were raised or blanket guarantees extended to all retail deposits. While some smaller banks that had defaulted on interbank markets were closed, the authorities saved or nationalized most smaller or medium-sized credit institutions that had gotten into trouble. Large SOBs (e.g. in Russia: Sberbank, VTB, Vneshekonombank (VEB); in Ukraine: Oschadbank (State Savings Bank)) were among the first to receive government capital injections and then were also used as instruments to keep other parts of the sector afloat (via subordinated loans, etc.) (see table 1 in the annex).

In Ukraine, after diagnostic studies carried out in response to IMF recommendations had revealed large capital deficiencies, the state as well as foreign and most – but not all – domestic private owners of ailing banks took recapitalization measures deemed necessary. Remaining credit institutions were put in receivership or entered liquidation procedures (see table 2 in the annex).[18] Up to mid-2009, public costs of bank restructuring in Ukraine were estimated at UAH 40 to 45 billion or about 5% of GDP, while total costs may have reached twice that level (IMF, 2009b, p. 22).

Bank restructuring in Kazakhstan has evolved in a much different way but entailed costs of a comparable dimension: In the framework of the authorities' anti-crisis program, in February 2009 Samruk-Kazyna recapitalized the country's largest four banks (together accounting for about two-thirds of banking assets) with a total capital injection of USD 2.5 billion (2.3% of GDP). In April 2009, however, Bank Turan Alem (BTA, the country's largest credit institution) and Alliance Bank (the fourth-largest) – in both, the state had just become a

[18] *As of end-September 2010, 4 banks were still under receivership and 18 banks in the liquidation phase.*

majority owner – defaulted on their foreign obligations of about USD 16 billion (or up to 15% of the country's external debt). In the second half of 2009, BTA and Alliance Bank reached preliminary debt restructuring agreements with their foreign creditors in which the latter accepted major haircuts (in both cases 60% and higher); these haircuts were confirmed in final arrangements reached in the spring of 2010 (see table 3 in the annex). BTA's contract, which accounts for three-quarters of the mentioned sum, corresponds to the biggest debt restructuring deal seen in emerging markets in recent years (Gorst, 2010). As of mid-2010, in Ukraine as well as Kazakhstan still deteriorating asset quality and expanding provisions will likely necessitate further restructuring and recapitalization efforts.

In Belarus the authorities provided capital injections of USD 1.5 billion (2.5% of GDP) to SOBs in December 2008, aimed at compensating losses stemming from traditional quasifiscal activities and expected from the slump. In 2009, Belarusian bank privatization continued to progress slowly, with only Belpromstroibank, the fifth-largest bank, sold to Sberbank (see table 4 in the annex).

3.2.4 Administrative, Trade Protection and Other Policy Measures

This subsection refers to a heterogeneous group of measures. Some countries did not withstand the temptation to raise selected tariff and/or nontariff barriers to trade. This refers e.g. to the widely publicized and controversial adjustment of Russian import duties on foreign cars and trucks in December 2008. Russian authorities are also reported to have intensified practices of granting price preferences to domestic suppliers in public procurement. Ukrainian authorities imposed a 13% import surcharge on a range of products, subsequently restricted to two (cars and refrigerators). In contrast to the HCCs, which had already liberalized their capital accounts (Russia in mid-2006, Kazakhstan in early 2007), the NHCs introduced new exchange controls on top of already existing ones: In October 2008, Ukraine imposed a set of multiple restrictions to stem crisis-triggered capital outflows (see table 2 in the annex) (IMF, 2008b, p. 8); from May 2009, Belarus took a number of administrative measures to check dollarization and curb foreign currency outflows.

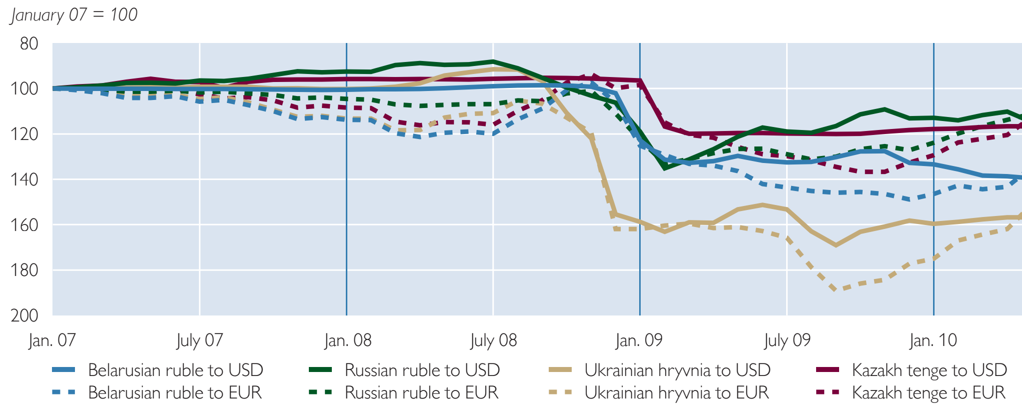
In the framework of their IMF program, the Belarusian authorities consented to refrain from further increasing directed lending financed with government deposits in credit institutions; however they continued to bolster domestic investment (mainly public residential construction and agricultural capital formation) by stepping up instructed lending through decrees under government programs procuring nongovernment financial sources (see table 4 in the annex) (IMF, 2009c, p. 7). Belarusian quasifiscal expansion has in recent years essentially taken the place and functions of fiscal stimuli. To support Russia's economic recovery (more money to finance the budget deficit and the remaining fiscal stimulus) and to facilitate corporate borrowing on international financial markets, the authorities in Moscow successfully issued eurobonds of USD 5.5 billion in April 2010 (which constitutes the country's first eurobond issuance since the crisis of 1998). Belarus followed suit and issued USD 1 billion of eurobonds in July and August 2010, largely to strengthen its foreign currency reserves. In mid-September, the Ukrainian authorities issued USD 2 billion of eurobonds to repay the bridging loan they had received from VTB. Kazakhstan plans a similar measure.[19]

[19] *The Kazakh authorities envisage a bond sale of between USD 500 million and USD 750 million soon.*

Chart 9

Exchange Rates against the U.S. Dollar and the Euro

January 07 = 100

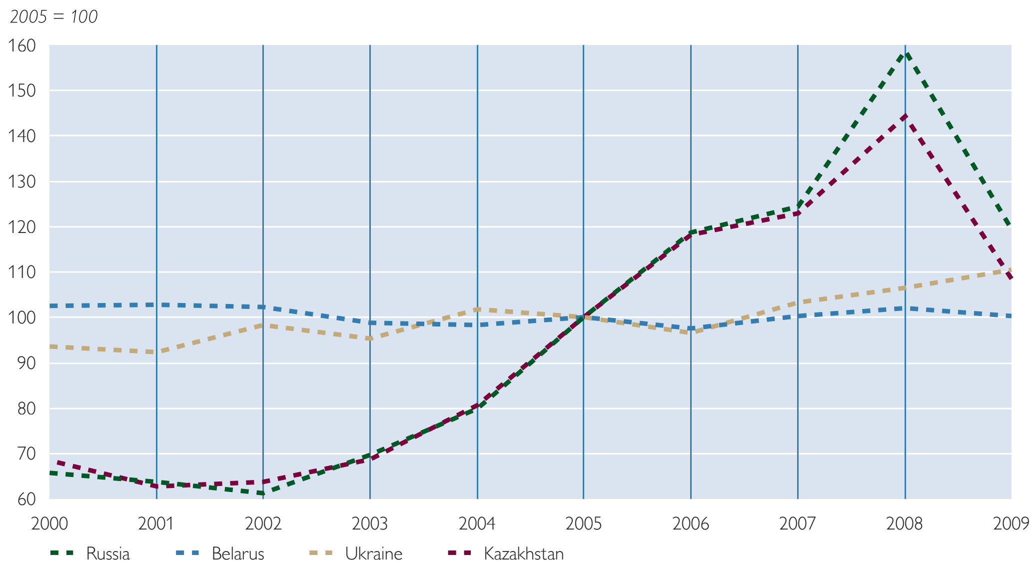


Source: Thomson Reuters.

Chart 10

Merchandise Terms of Trade[1]

2005 = 100



Source: UNCTAD Handbook of Statistics.

[1] *Terms of trade correspond to "net barter t.o.t"., defined as the ratio of the export unit value index to the import unit value index (UNCTAD).*

4 Comparative Assessment and Conclusions

4.1 Subprime Crisis (2007): Kazakhstan Most Affected Macrofinancially and Policywise

Being most dependent on cross-border capital inflows from international financial markets, Kazakhstan was most affected by repercussions of the U.S. subprime turmoil in terms of financial instability and shrinking GDP growth. Therefore, and since it had the means, Kazakhstan also put in place the most intensive and comprehensive policy response.

4.2 After Trough of Great Recession (early 2009), Russian Ruble and Kazakh Tenge Soon Stabilized, whereas Ukrainian Hryvnia and Belarusian Ruble Stayed under Pressure

One can detect a stylized pattern of monetary and exchange rate policy crisis response in all four countries: The period from September 2008 to January 2009 featured initial strong liquidity injections and a general loosening of monetary policy. January and February 2009 witnessed substantial devaluations of domestic currencies, accompanied – at least for a short period – by monetary tightening to defend new exchange rate levels. Then, around March 2009, the HCCs loosened their monetary policies again, and this time in a sustained manner, in order to enable or help recovery of lending.

The NHCs, in contrast, possessed only limited room for monetary loosening because they had to cope with continuing or intermittent exchange rate pressures. These pressures persisted until recently (late 2009, early 2010), when recovery gathered momentum, which may have allowed Ukrainian and Belarusian monetary authorities to ease their stances more durably (see tables in the annex). In recent months – somewhat reminding of the pre-crisis period – all four currencies (with the possible exception of the Belarusian ruble) have tended to come under appreciation pressures again. As the distinction between HCCs and NHCs suggests, differences in the terms-of-trade development between oil exporters and oil importers in the year since the first quarter of 2009[20] likely explain the differential stability of respective currencies in this period.[21]

4.3 U.S. Dollar Remains Reference Currency for CIS Currencies, with Qualifications for the Russian Ruble

One of the official goals of the four countries' currency policies has been, and remains, to render exchange rates more flexible once conditions permit. Russia continues to aim to move to inflation targeting in the medium term (although the authorities are not prepared to commit to timetables). For the time being, however, all four monetary authorities have held on to relatively stable exchange rates of their currencies to the U.S. dollar (of course disregarding the one-off or repeated discretionary devaluations). This applies with the partial exception of the exchange rate of the Russian ruble, which is officially managed with regard to a currency basket (containing the U.S. dollar with a weight of 55% and the euro with a weight of 45%) and whose nominal relationship to the U.S. currency has been more volatile since September 2008.

4.4 Opposing Policies in Pursuit of Macrofinancial Restabilization: Oil Money and Fiscal Stimuli (HCCs) versus IMF Assistance and Exchange Controls (NHCs)

Facing the crisis, the HCCs successfully upheld their capital account convertibility while they served generous fiscal stimuli, largely financed by their accumulated oil

[20] *The oil importers were also hit by successive reductions of Russian gas price subsidies.*

[21] *For lack of most recent data, chart 10 is unfortunately not fully up to date. But chart 4, depicting oil and steel price developments until mid-2010, may at least give a partial indication on where terms of trade have likely gone for countries like Russia and Ukraine (for Ukraine the indication is weaker than for Russia).*

stabilization funds.[22] The HCCs have not needed to and did not approach the IMF for financial assistance. In contrast, the crisis exacerbated the already tenuous financial situation of the NHCs, which were forced to apply for IMF assistance and to conclude SBAs.[23] Cash-strapped NHCs may have had no choice but to opt for budgetary austerity as a crisis response measure which was in any case in line with IMF recommendations, even if Ukraine failed to observe the respective conditionality. In this connection it could be argued that in a comparably fragile environment, confidence may preferably be enhanced not by injecting additional money but by demonstrating fiscal prudence.

At the same time, to stabilize their financial and economic situation, the NHCs took recourse to new exchange controls on top of their already existing restrictions; the IMF accepted the new controls as temporary measures. Disregarding this interventionism, which bore an emergency character, the pursuit (outlined above) of obviously the same underlying or final goals with exactly opposite fiscal strategies points to a remarkable dichotomy. All the more so, as both strategies hitherto seem to have worked, although not necessarily efficiently, in contributing to macrofinancial restabilization.

4.5 Surprising Results of Comparative Crisis Management Experience of State-Dominated Banking Sectors (Russia, Belarus) versus Privately Dominated Banking Sectors (Ukraine, Kazakhstan)

With respect to the banking turmoil and bank restructuring since late 2007, we arrive at the following assessment: Although it is not always easy to distinguish recapitalization costs from other costs, particularly in the countries analyzed here, SOB-dominated systems (Russia, Belarus) do appear to have fared better in precisely this time span in the sense that they have faced less crisis-triggered recapitalization needs than systems dominated by private domestic or even foreign-owned capital (Kazakhstan and Ukraine, respectively). Thus, the Russian and Belarusian banking sectors have possibly faced recapitalization costs of about 3% to 5% of GDP, whereas the Ukrainian and Kazakh sectors have been saddled with recapitalization costs of around 8% to 12% of GDP (including steep haircuts for foreign creditors in the case of insolvent Kazakh banks).[24] Enlarging this limited

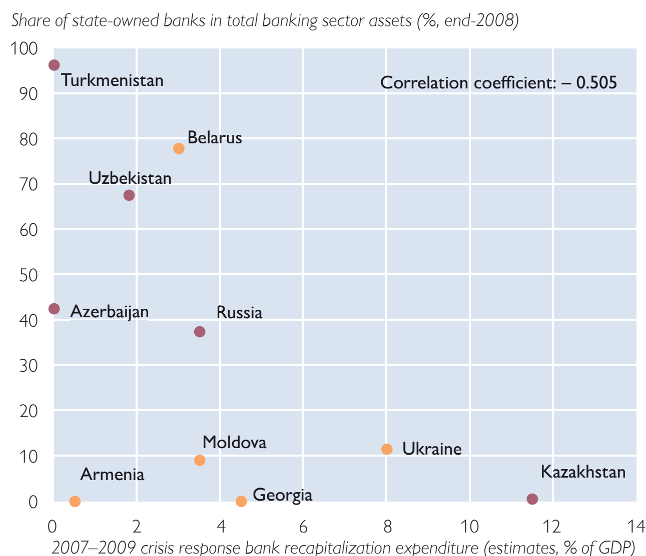
[22] *Looking at selected other countries equipped with oil stabilization funds (CIS member Azerbaijan, emerging-market Kuwait, advanced economy Norway), we can see that the average size of their funds is much higher (late 2008: Azerbaijan: 25% of GDP, Kuwait: 165%, Norway 125%; for comparison: Russia: 8%, Kazakhstan: 20%). While this is certainly related to different economic structures and policy choices, it may also have to do with the fact that these countries' oil stabilization funds are older and have had more time to accumulate than those of Russia and Kazakhstan, which were established around the turn of the millennium. Of the three additional countries mentioned here, only Azerbaijan appears to have employed its fund to deliver a sizeable contribution to anticrisis fiscal stimulus measures, whereas the other two countries have not taken such actions. Generally, one may identify an ambiguous impact of oil resources over the economic cycle: While they can contribute to the downturn (via a plunge in oil prices), the subsequent turnaround and recovery can be supported by oil money (if it is set aside in time).*

[23] *This, of course, does not exclude the possibility that countries lacking hydrocarbon resources, and therefore, oil stabilization funds, may be in a position to accumulate budgetary reserves or stabilization funds. Estonia and Bulgaria, for instance, have piled up fiscal reserves by saving parts of budget surpluses achieved in the pre-crisis period. Assuring the strength and stability of their currency board arrangements has certainly been an important incentive for fiscal thrift in the case of these two countries. Estonia and Bulgaria have since benefited by drawing on these funds to cushion the impact of the crisis.*

[24] *The estimates mentioned refer to public and private costs incurred up to late 2009. Recapitalization and nationalization costs borne by the state may, of course, be partly recouped through future reprivatization.*

Chart 11

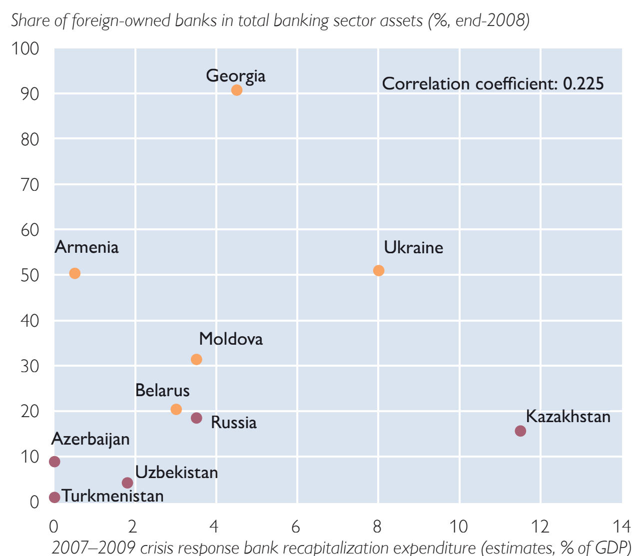
State Control of Banking Sector and Global Crisis-Triggered Recapitalization Costs in Selected CIS Countries and Georgia



Source: Share of SOBs: EBRD; recapitalization expenditure: estimates based on IMF Staff Reports.

Note: Purple points refer to HCCs, orange points to NHCs.

Foreign Control of Banking Sector and Global Crisis-Triggered Recapitalization Costs in Selected CIS Countries and Georgia



Source: Share of foreign-owned banks: EBRD; recapitalization expenditure: estimates based on IMF Staff Reports.

Note: Purple points refer to HCCs, orange points to NHCs.

sample by some other CIS countries (both HCCs and NHCs) does not change the overall picture (see chart 11, left-hand panel). Even more surprisingly, the relationship between foreign banking sector control and crisis response recapitalization expenditure does not seem to be negative for the above sample (see chart 11, right-hand panel).[25] Note that in chart 11 we show only bivariate correlations without controlling for the impact of other relevant variables (i.e. we do not show conditional correlations). This is mostly due to a lack of respective data. We are aware of interpreting unconditional correlations with caution. In the following, we very briefly discuss the impact of potential control variables in qualitative and logical terms. Relatively low recapitalization costs in SOB-dominated systems are probably not connected to the respective countries' differing GDP growth or impacts of devaluation, since steering clear of a recession in 2009 and boasting a relatively mild depreciation (20%) did not prevent Kazakhstan from being saddled with very high recapitalization expenditures. Also, Russia's and Belarus' relatively strong devaluations did not trigger substantial recapitalization spending.

Neither do possible differences of bank size or bank concentration from country to country (as indicated e.g. by the share of the five largest credit institutions in

[25] *This may not be quite as surprising if one takes into account that foreign-owned banks contributed to credit booms and external debt accumulation in emerging Europe, as Berglöf et al. (2009, p. 23) point out. Furthermore, the overall picture does not seem to change when looking outside the CIS at other large emerging markets. In Brazil, China and India (which, together with Russia, make up the four countries of the "BRIC" group) state-owned banks claim the absolute or relative majority of total banking sector assets, with domestic privately owned and foreign-owned banks accounting for the rest. According to a recent special report of The Economist, many of the largest emerging market credit institutions "are state-controlled and most were handsomely profitable through the crisis and have good capital and funding profiles. Few have business overseas." (Foulis 2010, p. 6).*

total assets) appear to wield important influence: Again, in Russia and Belarus, recapitalization expenditure was below average despite the fact that some systemically relevant banks (notably the state-owned savings banks Sberbank and Belarusbank) were particularly large. It could be that regulatory forbearance and liquidity injections have been more generous vis-à-vis SOBs; however, the information available suggests that regulatory forbearance has also been extended to struggling private credit institutions, and there are examples of specific and substantial liquidity help being afforded to selected private banking groups (e.g. Alfagroup).

One of the reasons that might explain this result is the excessive, with hindsight, pre-crisis credit booms in the privately dominated banking systems (financed largely from abroad),[26] coupled with the possibly even weaker rule of law outside the area of direct state control in the CIS region. Or it could be that the state, as an owner of banks, has been able to more successfully control its own banks than other owners have been capable of controlling their credit institutions. Weakness of rule of law in this sense may mean insufficient (as is now recognized) pre-crisis banking supervisory and regulatory frameworks as well as inadequate enforcement of the existing banking rules and of creditor rights outside the sphere of immediate public purview due to shortcomings in the judicial system. Thus, surveillance of the domestic private sector, including connected lending activities, has probably fallen short of what would be required (Moody's Investors Service, 2010, p. 6–7).[27] The relationship between bank ownership and crisis-response recapitalization needs is certainly an issue that would merit further investigation. Such research might not be easy given data requirements (comparative data on single banks would likely be needed). Overall, while the banking sectors remain fragile in all four countries, the major shock – relating to the impact of the Great Recession – seems to have been weathered.[28]

4.6 Government Operative Economic Control – Where It Exists – Has Claimed a Prominent Role in Crisis Response Policies

The countries where state influence on corporates (as measured by the EBRD index on enterprise reform[29]) is stronger, namely Belarus and Kazakhstan, have prominently used as anticrisis tools either directed lending or onlending of government funds and the placement of state-owned enterprises' deposits in the portfolios of ailing banks. For Russia and Ukraine, these instruments are less important.

5 Summary

This study focuses on comparing and assessing the crisis response measures of the four CIS countries with the highest total GDP. These are the two oil producers Russia and Kazakhstan – here also called "hydrocarbon countries" (HCCs) – and the oil-importing countries Ukraine and Belarus – "nonhydrocarbon countries"

[26] *Excessive pre-crisis credit booms may also have been exacerbated by relatively high shares of foreign currency-denominated loans (implying heightened credit risk in case of devaluation).*

[27] *Moreover, in the case of Kazakhstan, rapid pre-crisis accumulation of NFRK assets may have engendered expectations of bank bailouts on the part of foreign lenders, who thus chose to opt for high-risk strategies.*

[28] *Of course, the degree to which banks' impaired balance sheets still need repair (in the sense of a fully realistic booking of nonperforming loans) may delay a new upswing in lending.*

[29] *The EBRD index on enterprise reform basically refers to the degree by which enterprises' budget constraints have been hardened (see Fries and Taci, 2002, p. 4, and EBRD; 2009, pp. 146, 178, 214, 242).*

(NHCs). An important distinguishing feature between HCCs and NHCs is that the former possess substantial foreign currency assets (foreign currency reserves plus oil stabilization funds), whereas the latter do not. The crisis referred to is the current global financial and economic crisis, starting with the U.S. subprime turmoil (since August 2007) and culminating in the Great Recession triggered by the collapse of Lehman Brothers (September 2008). All four countries under observation showed signs of overheating in the years leading up to the major 2007–2008 external shock.

Given its high dependence on cross-border capital inflows from international financial markets, Kazakhstan was most affected by repercussions of the U.S. subprime crisis, followed by Russia. In contrast, the bankruptcy of Lehman Brothers and the ensuing Great Recession had a heavy dual impact on all four countries: They were practically shut out of international financial markets, and the collapse of export demand and of oil and commodity prices sharply drove down growth rates and even entailed deep recessions in Ukraine and Russia. Nonperforming loans swelled, and all four countries suffered from a credit squeeze.

Kazakhstan and Russia reacted to the subprime crisis with substantial liquidity support; substantial foreign currency intervention to prop up the domestic currency confined itself to Kazakhstan during this stage. Confronted with the impact of the September 2008 crisis, all of the countries under discussion reacted with a panoply of measures, including strong liquidity injections, foreign currency interventions consuming a sizeable amount (up to one-third) of their international reserves (September 2008 to January 2009) and important devaluations of between 20% and 50%, made unavoidable by the sharp deterioration of terms of trade (January and February 2009). In their difficult financial situation, Ukraine and Belarus applied for and received IMF SBAs.

Prominent fiscal stimulus packages were prepared and served in the HCCs: In Russia, the stimulus compared to the original budget plan for 2009 reached 9% to 10% of GDP. Kazakhstan put together a comprehensive anticrisis program of 10% to 11% of GDP, comprising fiscal measures (including financial assistance to credit institutions and the real sector) and bank recapitalization. In both cases, stimulus measures were predominantly financed by the HCCs' oil stabilization funds. In contrast, the NHCs – committed to IMF programs and in pursuit of the same ultimate goals – appear to have followed an opposite strategy of fiscal austerity to support macroeconomic stability and confidence. However, as opposed to the HCCs, which upheld full capital account convertibility, the NHCs took recourse to new exchange controls on top of their already existing restrictions.

Once quarter-on-quarter economic growth returned again (around mid-2009), the Russian ruble and the Kazakh tenge soon stabilized, while the Ukrainian hryvnia and the Belarusian ruble remained under recurrent pressure – until most recently. As the distinction between HCCs and NHCs suggests, differences in terms of trade developments – with oil prices on the recovery again compared to the fall of 2008 – may help explain the differential stability of the respective currencies. As in the past, the U.S. dollar remained the reference currency for the CIS currencies, with qualifications for the Russian ruble, whose exchange rate against the U.S. dollar has been somewhat more flexible since September 2008.

With respect to the banking turmoil and restructuring since late 2007, the following can be concluded: Even though the measurement and delimitation of recapitalization costs is not unproblematic in the countries under investigation, systems dominated by state-owned banks (Russia, Belarus) appear to have fared better in precisely this time span in the sense that they have incurred less crisis-triggered recapitalization spending than systems dominated by private domestic or even foreign-owned capital (Kazakhstan, Ukraine). One of the reasons that might explain this result is the (with hindsight) excessive pre-crisis credit booms in the privately dominated banking systems (financed largely from abroad), coupled with the possibly even weaker rule of law outside the area of direct state control in the CIS region. Certainly further work would be needed to investigate this issue, which seems to give rise to more questions than answers. While banking sectors remain fragile in the region, the major shock appears to have been surmounted.

Cut-off date for information: October 1, 2010

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Annex: Key Crisis Response Policies in the Four Largest CIS Countries (2007–2010)

Table 1

Russian Crisis Response Policies

Policy category of measures[1]	**Subprime crisis** (triggered by the collapse of the U.S. subprime market; 2nd half of 2007 to 2008)	**Great Recession** (triggered by the collapse of Lehman Brothers; since September 2008)
Monetary policy easing and/or bank/enterprise liquidity assistance	**September 2007 to April 2008:** CBR and government liquidity injections: – reduction of reserve requirements for a term of three months (October 2007 to January 2008, estimated to have provided RUB 100 billion in support); – expansion of eligible collateral for refinancing operations (October 2007, again in February 2008); – average haircuts of collateral lowered from 19% to 10%; – recycling of a portion of government cash surplus via deposit auctions, etc.	**From September 2008:** – CBR (Bank Rossii) provides wide array of liquidity facilities, including • reserve requirements cut to 0.5% (boosting bank liquidity by RUB 400 billion) until April 2009; after that, reserve requirements were lifted again; • interest rates paid to banks by CBR on deposits raised; • repo operations stepped up; • expansion of list of eligible collateral; • even uncollateralized loans granted to banks with designated credit ratings (maximum balance: end-February 2009: RUB 1900 billion; withdrawn in early 2010); • guarantees for interbank lending made by largest banks to smaller banks. – USD 50 billion of foreign currency reserves made available to Vneshekonombank (VEB) for lending to banks and enterprises to help them refinance foreign loans: USD 11 billion disbursed by end-Oct 2009; – government guarantee of bank loans to corporates (up to 70% of loans, amount available: RUB 300 billion); – short-term deposits of RUB 530 billion of budget funds with credit institutions until end-2009. **February 2009:** in defense of the devalued lower level of the exchange rate (see below), the CBR curtails liquidity support somewhat, allowing interest rates to rise to more market-based levels (thus, repo rates increase by almost 3% to about 12%). **Q2 2009:** in the light of the stabilization of the Russian ruble and of rising oil prices, monetary policy gradually eased to support banks and stimulate credit activity: – the CBR's new uncollateralized lending facility amounts to RUB 720 billion until mid-Jun 2009; – VEB collateralized lending of USD 2 billion to Alfagroup; – government switches deposits (of RUB 1.5 trillion) from central to commercial banks (on auction basis); – monetization of fiscal deficit launched via drawing on Reserve Fund; – April 2009 to end-May 2010: the CBR cuts its refinancing rate in 14 steps from 13% to 7.75 %, repo rates also come down.
Substantial foreign currency market intervention and/or domestic currency devaluation	–	**August to October 2008:** foreign currency intervention by the CBR to defend the ruble exchange rate. **November 2008 to January 2009:** substantial but stepwise devaluation against U.S. dollar/euro basket (on the whole by 28%, total cost of defense of Russian ruble: about one-third of reserves); – authorities view this as justifiable measure to give exposed banks and enterprises breathing space to accumulate enough foreign currency liquidity to meet debt service obligations; – however, policy raises short-term expectations of further ruble depreciation, encouraging dollarization; end-January 2009: the CBR declares that it will defend the new level of exchange rate within a trading band of ±10% Q3 2009: after stabilization of exchange rate, ruble appreciation tendencies on back of rising oil prices: – the CBR occasionally intervenes in the market, buying an excessive amount of foreign currency, contributing to recovery of reserves; – but it allows a greater volatility of the exchange rate than before the crisis.
Trade protection measures: tariff barriers increased	–	**January 2009:** increase of import duty on new and used foreign cars and trucks, farm machinery and machine tools, and products of ferrous metallurgy; tariff adjustments to be phased out from mid-2010.
Nontariff barriers to trade increased		Price preferences for domestic suppliers in public procurement.

[1] *Including only policy categories that refer to actually implemented measures.*

Table 1 continued

Russian Crisis Response Policies

Fiscal stimuli (discretionary measures)	End-2007 surge in government spending, including capitalization of Russia's development institutions	**Late 2008 and April 2009:** supplementary budgets passed, providing for expansionary fiscal policy in the second half of 2008, but withdrawing stimulus in Q1 2009: – budgetary expenditures tend to be heavily backloaded (38% of expenditures of 2008 executed in Q4; non-oil general government deficit contracts from some 6% of annual GDP in Q4 2008 to roughly 0.8% in Q1 2009); – **December 2008:** revenue-side anticrisis measures are adopted, comprising corporate income tax reductions, an easing of depreciation rules and the simplification of SME taxation; – **April 2009:** supplementary budget includes large increases in spending in many areas, including defense and security, strategic sectors (e.g. car industry), health, education, social assistance (increase of unemployment benefits), intergovernmental transfers; – revised 2009 federal budget produces deficit of 5.9% of GDP (= swing of 9.5 percentage points compared to original budget plan). In 2010, the government plans to introduce more modest anticrisis fiscal measures.
Oil stabilization fund (where existing) used	–	Most of the 2009 budget deficit was financed by the Reserve Fund; government purchases mortgages from banks up to RUB 200 billion, financed by National Welfare Fund.
Bank regulations/supervision softened	–	The CBR introduces regulatory forbearance by easing loan classification and provisioning requirements (as of mid-2010, to be gradually brought back in line with pre-crisis norms).
Bank recapitalization measures/ bailouts/resolution measures/ restructuring	–	**From September 2008:** – a number of small and medium-sized private banks exposed to securities markets (e.g. Globex, Kit Finance, Sobinbank, Sviaz) default on their obligations in the interbank market; they are acquired via VEB, Vneshtorgbank (VTB) or SOEs or closed, and their obligations to other banks are honored; – partly to achieve this goal, government capital (subordinated loans) is injected to VEB, VTB, Sberbank, Rosselkhozbank, Rosagroleasing; injections are discontinued in late 2009; – VEB is authorized to provide subordinated loans (to support capital positions) of up to RUB 450 billion to banks other than Sberbank; – the CBR is authorized to provide up to RUB 500 billion to Sberbank.
Deposit insurance strengthened	–	The deposit insurance limit is raised from RUB 100,000 to RUB 200,000, and 90% of deposits are insured up to RUB 700,000; the government injects RUB 200 billion from the budget into the Deposit Insurance Agency.
Other crisis response measures	–	Government capital injection of RUB 60 billion into State Mortgage Agency; guarantee by State Mortgage Agency of housing bonds and lending up to RUB 500 billion; **April 2010:** to facilitate corporate borrowing on international financial markets and create a benchmark for security price comparison, the government issued USD 5.5 billion of U.S. dollar-denominated eurobonds with maturities of five and ten years and coupon rates of 3.6% and 5.0% (historically low for Russian sovereign debt; last government eurobond issuance dates back to before crisis of 1998).
Results of impact assessments of crisis response measures, if any	–	Overall 2009 fiscal and nonfiscal "anticrisis package" estimated at 7.5% of GDP, of which 6.4% have fiscal implications for the budget (OECD, Eco Survey Russian Federation, July 2009, p. 43); according to government calculations, the fiscal stimulus mitigated Russia's 2009 GDP contraction by 2 percentage points (BOFIT Weekly, February 12, 2010).

Source: IMF Staff Reports 2007–2010: Russian Federation; OECD Economic Surveys Russia 2007, 2009; World Bank Russian Economic Reports 2007–2010; Bank Rossii Annual Reports 2007 and 2008; wiiw Current Analyses and Forecasts 2007–2010: Russia; OeNB, Focus on European Economic Integration, 2007–2010: Recent Economic Developments: Russia; OeNB, Financial Stability Reports 2009: Russia; BOFIT Weekly, February 12, 2010.

Table 2

Ukrainian Crisis Response Policies

Policy category of measures[1]	**Great Recession** (triggered by the collapse of Lehman Brothers; since September 2008)
Monetary policy easing and/or bank/enterprise liquidity assistance	**September to December 2008:** the Natsionalny bank Ukraini (NBU) injects liquidity of some 6% of GDP into the banking system (reserve requirements are almost eliminated, refinancing against expanded collateral list, etc.). **October 2008 to March 2009:** ample refinancing (total outstanding refinancing credits amount to about 7.5% of GDP). **December 2008:** in view of exchange rate pressures which could trigger balance sheet effects associated with unhedged borrowing, authorities tighten monetary policy: – the refinancing rate is raised from 16% to 20% and turns positive in real terms in spring 2009; – collateral requirements are tightened again; – to discourage deposit dollarization, reserve requirements for foreign currency deposits are increased. **June 2009:** against the backdrop of falling inflation, the NBU reduces key policy interest rates. **August to October 2009:** – however, to cut excess liquidity and support the Ukrainian hryvnia, the NBU tightens its monetary stance again; – the NBU continues providing stabilization loans to ailing banks while actively absorbing excess liquidity by selling certificates of deposit to banks. **Late 2009:** – most of OVDPs (treasury bills) issued in 2009 are bought out by the NBU; – throughout 2009, the NBU abstains from large interest rate cuts. **December 2009 to April 2010:** the NBU maintains a tight monetary stance to check depreciation pressure on the hryvnia. **April to August 2010:** following exchange rate stabilization and given declining inflation, the NBU cuts the refinancing rate in three steps to 7.75%.
Substantial foreign currency market intervention and/or domestic currency devaluation	**October to November 2008:** – NBU intervention amounts to over USD 4 billion (from reserves of USD 38 billion) and keeps the hryvnia at a repegged level of UAH 5.8/ USD 1; – however, increasing reserve losses force the NBU to step back. **November 2008:** the NBU moves to introduce a flexible exchange rate policy (in line with the country's IMF program); – at the same time, large NBU injections of hryvnia liquidity to stabilize the banking sector leak into the foreign currency market, adding pressure on exchange rate and reserves; – given possible balance sheet effects, the NBU takes action to avoid excessive exchange rate depreciation. **September 2008 to April 2009:** the hryvnia's nominal effective exchange rate depreciates by about 35%, but stabilizes in spring 2009, reflecting increasing confidence and allowing the NBU to scale back interventions. **H2 2009:** renewed downward pressure on the Ukrainian hryvnia triggers more frequent interventions and moral suasion. **March to April 2010:** the NBU intervenes to limit exchange rate volatility, prevent excessive appreciation and replenish foreign currency reserves.
New exchange controls introduced	Imposition of a set of restrictions to stem capital outflows: **– mid-Oct 2008:** ban on early withdrawal of time deposits (lifted in spring 2009); – six-day delay for investors wishing to convert hryvnia profits, revenues or sale of assets into foreign currency; – ceiling for monthly wiring of foreign currency out of the country (UAH 15,000 if no documents are presented, UAH 75,000 otherwise); – large discrepancy between official and market exchange rates (alignment of official and market rate of previous day in spring 2009 in line with IMF program); – **August to September 2009:** to dedollarize the economy, the NBU orders banks to pay interest on foreign currency deposits in national currency and bans foreign currency lending (except to exporters); – **December 2009:** parliament passes a law prohibiting foreign currency lending to households.
Trade tariff barriers increased	**March 2009:** imposition of a 13% import surcharge on a range of commodities for balance of payments reasons (nonobservance of IMF program); subsequently, the import surcharge is restricted to cars and refrigerators.
Fiscal stimuli (discretionary measures, including social policy adjustments, but not automatic stabilizers)	No fiscal stimulus (but IMF conditionality is not observed). **November 2008:** the government adopts a resolution to contain the seasonal year-end spending surge; despite efforts, economic contraction leads to a fiscal deficit of 3.2% of GDP in 2008. **December 2008:** parliament adopts the budget for 2009 which, according to IMF staff calculations, entails a deficit of 5.5% of GDP; authorities then take measures to contain the deficit to a revised level of 4% (in line with the country's IMF program): – increases of excise duties on tobacco, alcohol and diesel; – adjustments of domestic prices for gas, electricity and coal, etc. **March 2009:** parliament revokes the article from the 2009 budget law that had paved the way for the monetization of the fiscal deficit; given deeper-than-expected economic contraction; the deficit target is revised once more to 6% of GDP; – introduction of a temporary 13% import surcharge. **Mid-2009:** government deficit stands at 3% of GDP, which, however, largely reflects – increases in VAT refund arrears; – advanced tax payments by large enterprises. **October to November 2009:** unorthodox fiscal measures continue, including the government's use of USD 2 billion obtained from the IMF under a quota redistribution exercise for budgetary gas payments. The Ministry of Finance steps up the issuance of OVDPs (treasury bills): – outstanding volume triples (to UAH 85 billion) over 2009 as the government has to finance the widening fiscal gap and recapitalize ailing systemic banks; – high needs and absence of other sources to cover the budget deficit push yields upward (to 29% in October, before they level off to 25% by year-end); – most of OVDPs issued are bought out by the NBU. **November 2009:** parliament adopts Status law (minimum wage and pension law) which, according to IMF calculations, could add up to 7% of GDP to the budget deficit in 2010 and which, together with the failure to adjust retail gas tariffs, pushes the IMF program off-track. **April 2010:** Ukraine signs gas fleet treaty with Russia, providing for an around 30% discount on gas delivery prices to Ukraine; the deal is estimated to save up to USD 4 billion p.a. until 2019 (particularly central budget). **July 2010:** the budget law revises the deficit target from 5.3% to 5.0% of GDP (precondition of the new IMF program).

[1] *Including only policy categories that refer to actually implemented measures.*

Table 2 continued

Ukrainian Crisis Response Policies

Bank regulations/ supervision/accounting requirements softened	Authorities put in place a loan loss classification and provisioning framework in line with international practice. **October to November 2009:** to encourage lending, the NBU relaxes the provisioning requirements for banks; specifically, it allows banks to temporarily refrain from downgrading loan categories despite the deteriorating financial stance of borrowers, if borrowers service their loans on time. **Early 2010:** new law eases capital requirements for banks: – banks' subordinated loans may constitute up to 100% of additional capital (up from 50%); – introduction of a moratorium on collateral repossession if a borrower makes interest payments with less than two months' delay; – up to 100% of loan loss reserves is made tax deductible (previously: 10% of loan portfolio).
Bank recapitalization measures/bailouts/ resolution measures/ restructuring	**October 2008:** Prominvestbank (the country's sixth-largest bank) is put under receivership; in November, it is sold to private strategic investors, but these were unable to inject the required additional capital, therefore the bank was nationalized in December 2008; finally, Prominvestbank was successfully sold to an investor in 2009. **Spring 2009:** diagnostic studies covering 38 banks accounting for 85% of sector assets reveal large capital deficiencies; – subsequently, the two SOBs Oschadbank and Eximbank are recapitalized (UAH 15 billion and USD 1.8 billion, respectively); – shareholders of all majority foreign-owned banks inject the necessary capital of about UAH 16.5 billion (USD 2 billion) as do most domestically owned private banks (UAH 5 billion or USD 625 million); – however, for seven domestically owned private banks (accounting for 15% of total deposits), shareholders are unable to come up with the additional capital; – the NBU introduces temporary administration in these banks; – the government decides to recapitalize/restructure five of the above-mentioned seven problem banks (capital needs were calculated at about UAH 25 billion). All in all, the public cost of bank restructuring is estimated at around UAH 40 to 45 billion (about 5% of GDP). **Mid-October 2009:** 17 banks under NBU receivership, including Nadra, Ukrprom, Rodovid; two banks (Kyiv and Ukrgaz) are recapitalized by the state and exit receivership. **September 2010:** four banks are still under receivership, 18 banks are in the liquidation phase.
Privatization accelerated	**Late 2008:** the government approves an expanded list of enterprises slated for privatization in 2009. However, privatization targets are missed by a wide margin.
Other crisis response measures	**December 2008:** in order to improve the financial situation of Naftogaz Ukraini, gas prices for households are raised by 35% (i.e. to about one-third of import prices). **March 2009:** parliament revokes two articles from the 2009 budget law which paved the way for government interference with NBU refinancing decisions and facilitated the monetization of the fiscal deficit. **June 2010:** the government receives a six-month bridging loan of USD 2 billion from Vneshtorgbank (Russia). **July 2010:** the government raises household gas tariffs by 50% (effective as of August 1, 2010) and adopts a law that strengthens NBU independence (preconditions of the new IMF program). **Mid-September 2010:** the government issues USD 2 billion of eurobonds with maturities of five and ten years and coupon rates of 6.9% and 7.8%; this issue is the first successful eurobond placement by the Ukrainian sovereign since 2007; the authorities plan to use the proceeds to repay the USD 2 billion VTB loan (see above).
IMF program (if any): major anticrisis commitments realized and funds disbursed	**November 2008:** a two-year IMF SBA is approved by the IMF Executive Board, totaling USD 16.4 billion; – a more flexible exchange rate policy is thus partly realized; – the fiscal target for 2009 is revised from balance to a deficit of 4% of GDP, then to a deficit of 6%; – the first tranche of USD 4.5 billion is disbursed following approval of the SBA; **May 2009:** second and third tranches (USD 5.4 billion together) are disbursed; **November 2009:** suspension of disbursement of fourth tranche until authorities reach consensus on economic policy; **July 2010:** a new two-year IMF SBA is approved by the IMF Executive Board, totaling USD 14.9 billion. Important targets: reduction of budget deficit and public debt, strengthening of NBU independence.

Source: Lytvyn 2010; IMF Staff Reports 2007–2010: Ukraine; OECD Economic Assessment Ukraine 2007; Natsionalny bank Ukraini Annual Reports 2007 and 2008; wiiw Current Analyses and Forecasts 2007–2010: Ukraine; OeNB, Financial Stability Reports 2009: Ukraine.

Table 3

Kazakh Crisis Response Policies

Policy category of measures[1]	**Subprime crisis** (triggered by the collapse of the U.S. subprime market; 2nd half of 2007 to summer 2008)	**Great Recession** (triggered by the collapse of Lehman Brothers; since September 2008)
Monetary policy easing and/or bank/enterprise liquidity assistance	**August to October 2007:** in reaction to a sudden stop of capital inflows, the National Bank of Kazakhstan (NBK) – postpones the earlier-planned tightening of reserve requirements; – provides large-scale liquidity support to banks through repurchase agreements, foreign currency swaps, early redemption of NBK notes, easing of reserve requirements, expansion of the list of collateral accepted at refinance window. **November 2007:** the government establishes a USD 1 billion (1.1% of GDP) financing facility in form of earmarked government deposits with banks, to be onlent to assist construction companies and support SMEs. **December 2007:** the NBK raises its policy rate from 9% to 11% to help contain inflationary pressures. **H1 2008:** however, the NBK then cuts reserve requirements on foreign liabilities to support bank liquidity.	**Late 2008/H1 2009:** within the framework of the authorities' anticrisis program (see below): – about USD 1.4 billion of bank deposit inflows are registered from firms under the umbrella of the state holding company Samruk-Kazyna (SK, National Welfare Fund); – USD 1 billion is provided to banks to refinance the completion of viable construction projects and mortgages; – USD 1 billion is supplied to credit institutions for onlending to SMEs at favorable interest rates. Monetary policy is eased as economy weakens and inflation pressures decline: – the NBK initially provides direct liquidity support and cuts reserve requirements; – **January to September 2009:** to stimulate lending, the NBK, in a series of cuts, adjusts its policy interest rate by 3.5 percentage points to 7.0% (a historical low).
Substantial foreign currency market intervention and/or domestic currency devaluation	**August to October 2007:** in the context of the heavily managed float of the Kazakh tenge and in response to depreciation pressures, the NBK strongly intervenes in the foreign currency market, using USD 6 billion (25%) of its reserves. **Late 2007:** the NBK effectively pegs the tenge to U.S. dollar. **Early 2008:** intervention in foreign currency market substantially scaled back.	**January to February 2009:** sizeable foreign exchange market interventions by the NBK (USD 6 billion) to defend the exchange rate of the Kazakh tenge (KZT 120/USD 1). **February 2009:** the NBK devalues the tenge by 20% against the U.S. dollar in one step (with a ±5% band established around a central parity of KZT 150/USD 1). **March 2010:** the NBK widens the tenge exchange rate corridor to +10/–15%, providing some room for appreciation on the back of stronger export performance and increased capital inflows, – but the CBR allows greater exchange rate volatility than before the crisis.
Trade protection measures: tariff barriers increased	–	Local content rules for purchases by state-near companies are tightened. **July 2010:** as a result of the introduction of the customs union between Russia, Belarus and Kazakhstan and of unified customs tariffs, more than 30% of Kazakh customs tariff positions are to be raised (including tariffs on machinery and equipment, vehicles, fertilizers, wood, medicine and medical equipment, meat, and footwear).

[1] *Including only policy categories that refer to actually implemented measures.*

Table 3 continued

Kazakh Crisis Response Policies

Fiscal stimuli (discretionary measures, including social policy adjustments, but not automatic stabilizers)	–	The authorities' broad anticrisis program includes the Joint Action Plan, estimated to come to at least USD 12 billion (10% to 11% of GDP) over the 2009–2010 period, and additional budgetary measures. It draws on combined efforts of the government, the NBK and the FSA, with the oil stabilization fund (National Fund of the Republic of Kazakhstan – NFRK) largely providing the necessary funds, and with SK serving as the main vehicle for crisis relief. The Joint Action Plan broadly entails: – the provision of public support to the country's top four banks; – steps to aid the completion of unfinished residential construction projects and to spur housing demand; – financial assistance to the SME and farming sectors; – stepped-up public investment in infrastructure and the industrial sector. By mid-2010, approximately 80% of Joint Action Plan funds are disbursed, including direct equity support and deposits. **2009:** a new budget and tax code bring increased current/social expenditures in the context of falling revenues: – the corporate income tax rate is cut by 10 percentage points to 20% in 2009 and earmarked for a further cut by 5 percentage points in 2011; – the VAT rate is reduced by 1 percentage point to 12%; – strengthening of the social safety net: introduction of a uniform 11% rate for social tax; pension payments and child care allowances are raised.
Oil stabilization fund used	–	Funding for anticrisis program largely comes from the NFRK (see above).
Bank regulations/supervision/ accounting requirements softened	The Financial Supervision Agency (FSA) intensifies the supervision of credit institutions: – onsite inspections of largest banks are stepped up; – an FSA representative is installed at each large bank to enhance contacts with the bank management and more closely monitor operations; – strengthening of stress-testing methodologies, in close cooperation with the NBK.	Bank supervisors step up their analysis of banks' balance sheets; as a result, banks substantially adjust their provisioning levels. **October 2009:** the FSA raises banks' minimum capital requirements more than threefold to KZT 5.0 billion; an exception is made for credit institutions operating outside Almaty and Astana and not registered there: these banks have to meet minimum capital requirements of KZT 2.0 billion. **Early 2010:** the FSA decides to curb new domestic foreign exchange lending through higher provisioning requirements on loans to borrowers that do not possess effective currency hedges (10% from mid-2010, 20% from 2011); foreign loans are limited to a maximum of 30% of liabilities. **February 2010:** a new Concept for the Development of the Financial Sector is approved, aiming at countercyclical macroprudential regulation.
Bank recapitalization measures/ bailouts/resolution measures/ restructuring	–	**October 2008:** the Law on Financial Stability is passed, granting to the FSA new powers to intervene in banks and to the government new authority to acquire shares to cover capital deficiencies; these powers are subsequently used for intervention (see below); the banking resolution framework is strengthened. **February 2009:** to cushion the impact of deteriorating asset quality, and as part of authorities' anticrisis program, the government (through Samruk-Kazyna) seizes control of two banks and capitalizes two other banks (these four banks account for about two-thirds of total banking sector assets): – Bank Turan-Alem (BTA, largest credit institution in terms of total assets, 75% of equity acquired); – Halyk (second-largest, savings bank, 28%); – Kazkommertsbank (third-largest bank, 18%); – Alliance (fourth-largest, 100% acquired in December 2009), resulting in a total capital injection of USD 2.5 billion. **March 2009:** bond swap between SK, BTA and Alliance banks for about USD 5 billion (the swap in essence corresponds to collateral-free lending by SK to these credit institutions); **April 2009:** faced with increasing liquidity problems, BTA and Alliance default on their obligations to foreign creditors: – the combined foreign liabilities of the two banks come to over USD 16 billion, of which BTA owes around three-quarters; their combined debt exceeds 40% of the sector's total external debt; – authorities declare that they do not intend to guarantee loans of (nationalized) BTA, Alliance or of any other credit institution. **May 2009:** Astana-Finance defaults on its debt; restructuring of its obligations is ongoing. **Summer 2009:** BTA and Alliance sign MoUs with their foreign creditors in which these principally approve the restructuring of the two banks' foreign debt. **October and December 2009:** general-term debt restructuring agreements are signed with Alliance's and BTA's foreign creditors (agreements include steep haircuts). **November 2009:** TemirBank defaults on its foreign debt. **March 2010:** Alliance signs its final agreement, which provides for creditors to take a 33% stake in Alliance (besides SK's remaining 67%) and for the bank's debt to be cut from USD 4.5 billion to USD 1.1 billion (–76%). **End-May 2010:** BTA's final agreement is signed, providing for creditors to acquire 18.5% of BTA (besides SK's remaining 81.5%) and for the bank's debt to be reduced from USD 12.2 billion to USD 4.4 billion (–64%). **July 2010:** TemirBank completes its restructuring efforts (bank debt is reduced from USD 1.4 billion to USD 0.7 billion).

Table 3 continued

Kazakh Crisis Response Policies

Deposit insurance strengthened	The NBK increases the capital of the Kazakh Deposit Insurance Fund (KDIF). **Mid-2008:** a limit on individual deposit insurance of KZT 700,000 (USD 5,800) is introduced, which covers about 90% of household deposits.	The capital base of the KDIF is increased fourfold to KZT 100 billion (about 0.6% of GDP) and the deposit ceiling for individuals is raised from KZT 700,000 to KZT 5 million (ca. USD 33,333). However, the NBK acknowledges that the KDIF would only be sufficient to cover deposits in the event of the failure of small banks or of a limited number of medium-sized banks, but not of large banks; the KDIF has the right to borrow from the NBK.
Other crisis response measures	**November 2007:** a Memorandum of Understanding (MoU) on Financial Stability is signed by the government, the NBK and the FSA, setting out the framework for cooperation in periods of financial distress.	**2008 to 2009:** numerous memoranda are concluded between regional authorities and local companies on preserving jobs (by mid-2009 reportedly more than 5,000 enterprises with over 800,000 workers had signed memoranda with state bodies). **Mid-2009:** USD 2.4 billion earmarked for plan to further modernize the economy and employment strategy for 2010 to 2011. Reforms are introduced to ease regulatory and administrative burdens, particularly for the SME sector. Part of anticrisis policy are micro-credit programs operated through offices of Kazpost. **Early 2010:** to facilitate corporate borrowing on international financial markets, the government plans to create a benchmark for security price comparison by issuing USD 500 million of U.S. dollar-denominated securities (the last Kazakh issuance of international bonds was in 2000).
Results of impact assessments of crisis response measures (if any)		According to calculations in Jandovov, Sabyrova and Mogilevsky (2010), the Kazakh fiscal anticrisis package dampened the weakening of economic activity in 2009 by around 2.5 percentage points.

Source: Holzhacker and Sabyrova (2010); IMF Staff Reports 2007–2010: Kazakhstan; National Bank of the Republic of Kazakhstan Annual Reports 2007 and 2008; wiiw Current Analyses and Forecasts 2007–2010: Kazakhstan; OeNB, Financial Stability Reports 2010: Kazakhstan; Jandosov and Sabyrova (2009); Jandosov, Sabyrova and Mogilevsky (2010).

Table 4

Belarusian Crisis Response Policies

Policy category of measures[1]	**Great Recession** (triggered by the collapse of Lehman Brothers; since September 2008)
Monetary policy easing and/or bank/enterprise liquidity assistance	**Late 2008:** the Natsionalny bank Respubliki Belarus (NBRB) grants noncollateralized emergency loans to banks and reduces reserve requirements. **Early 2009:** to support the new exchange rate regime, the NBRB raises its interest rates (Lombard auction rate floor, overnight rate) by about 4 percentage points. **April 2009:** to support liquidity and credit activity, the NBRB cuts the interest rate on overnight liquidity support by 2 percentage points. **June 2009:** the NBRB increases the interest rate of overnight loans by 2 percentage points, while leaving the refinancing rate unchanged. **February 2010:** to promote market-based lending and dedollarization, the NBRB reduces the interest rate on overnight loans by 1 percentage point and the refinancing rate by 0.5 percentage point. **April to May 2010:** the refinancing rate is cut further by 1 percentage point to 12%.
Substantial foreign exchange market intervention and/or domestic currency devaluation	**From September 2008:** the Belarusian ruble's peg to the U.S. dollar comes under pressure, the NBRB intervenes heavily to slow depreciation, official reserves fall from USD 4.6 billion at end-August to USD 3.2 billion at end-2008 (worth 0.9 month of imports); **January 2009:** one-step devaluation to new U.S. dollar parity 20% below previous level; – new exchange rate regime includes switch to currency basket (equal weights on euro, U.S. dollar and Russian ruble); – widening of fluctuation rate band to ±5% allows exchange rate regime to better absorb shocks. The NBRB initially allows the exchange rate to appreciate against the central parity, despite the loss of reserves, in an attempt to limit currency substitution by keeping the U.S. dollar/Belarusian ruble exchange rate as stable as possible. **May to June 2009:** depreciation of the Belarusian ruble and widening of the trading band from 5% to 10%, followed by a stabilization of the market. **November to December 2009:** the need to close the financing gap and to contain the current account deficit calls for – another depreciation (by 8%) of the Belarusian ruble within a widened fluctuation band; – a recentering of the band at the exchange rate level of end-December 2009.
New exchange controls introduced	From May 2009, the authorities take a number of administrative measures to promote the dedollarization of the economy and curb foreign exchange outflows.
Fiscal stimuli (discretionary measures, but not automatic stabilizers)	No fiscal stimulus; the tight fiscal stance is viewed as necessary to check domestic demand and support macroeconomic stability (in line with the country's IMF program): – wage freeze for civil servants and workers of companies receiving public resources in 2009; – revenue shortfalls offset by spending restraint regarding nonpriority goods, services and investment, etc. In response to the shortfall of (expected) budget financing (by USD 500 million), the authorities execute a package of contingency measures.
Bank regulations softened	**September 2009:** loan classification and provisioning requirements are brought into line with best international practice (in line with FSAP recommendations).
Bank restructuring measures	**December 2008:** the authorities provide a capital injection of USD 1.5 billion (2.5% of GDP) to SOBs, aimed at compensating the losses banks expect as a result of economic shocks.
Deposit insurance strengthened	Presidential decree extends full guarantee to all household deposits.
Privatization accelerated	The authorities make tangible progress in developing legal and institutional frameworks for privatization; – privatization proceeds are higher than expected; – but bank privatization progresses slowly, with only Belpromstroibank being acquired by Sberbank (Russia) in 2009.

[1] *Including only policy categories that refer to actually implemented measures.*

Table 4 continued

Belarusian Crisis Response Policies

Other crisis response measures	**First quarter 2009:** the authorities – agree not to increase directed lending financed with government deposits in credit institutions; – do not extend a regulatory act imposing a general ceiling on monthly price increases of 0.5%; – cut the number of goods and services subject to price regulation; – stop announcing medium-term wage targets (in line with the IMF program). On the other hand, authorities continue to bolster domestic demand by – instructing lending at below market rates through decrees and resolutions under government programs using nongovernment deposit financing, which mainly boosts housing construction and agricultural capital formation. Therefore in H1 2009, gross disbursements under government programs are 40% higher than in the same period of 2008. Under pressure to meet official lending targets, banks turn to the NBRB for refinancing. The NBRB supports this credit activity using mechanisms outside its standard refinancing facilities (via ad-hoc decisions of the NBRB Board). This helps boosting fixed investment (+17% from January to August 2009 year on year) and building up inventories (contributing about 2% to GDP growth in 2008 and up to 4% in 2009). Progress is made on adjusting NBRB governance and the focus on its core functions (in line with the IMF program): **January 2010:** the Statute of the NBRB is amended; under the new statute – voting rights of government officials at the NBRB Board are revoked, allowing them to act only in an advisory capacity; – the NBRB Chairman participates in meetings of the Council of Ministers only in an advisory capacity. **July to August 2010:** the government issues USD 1 billion of eurobonds with a maturity of five years and an average coupon rate of 8.7%; the sale is to boost Belarus' foreign currency reserves.
IMF program (if any): major anticrisis commitments realized and funds disbursed	**January 2009:** a 15-month IMF SBA is approved by the IMF Executive Board, totaling USD 2.5 billion; it is augmented to USD 3.5 billion in mid-2009; – the first tranche of USD 810 million is disbursed upon SBA approval; – the second to fifth tranches, of USD 610 million each, are disbursed in May, August, November 2009 and February 2010, respectively; the program is successfully concluded in March 2010.

Source: IMF Staff Reports 2007–2010: Belarus; Natsionalny bank Respubliki Belarus Annual Reports 2007 and 2008; OeNB Financial Stability Reports 2007: Belarus; Barisitz, S.: Belarus: Economy and Banking Sector 2009–2010 Dependent on Foreign Financing, OeNB, AUSA Info No. 10/2010.