Belarus Economy Monitor:
trends, attitudes, and expectations

Fiscal Environment Review
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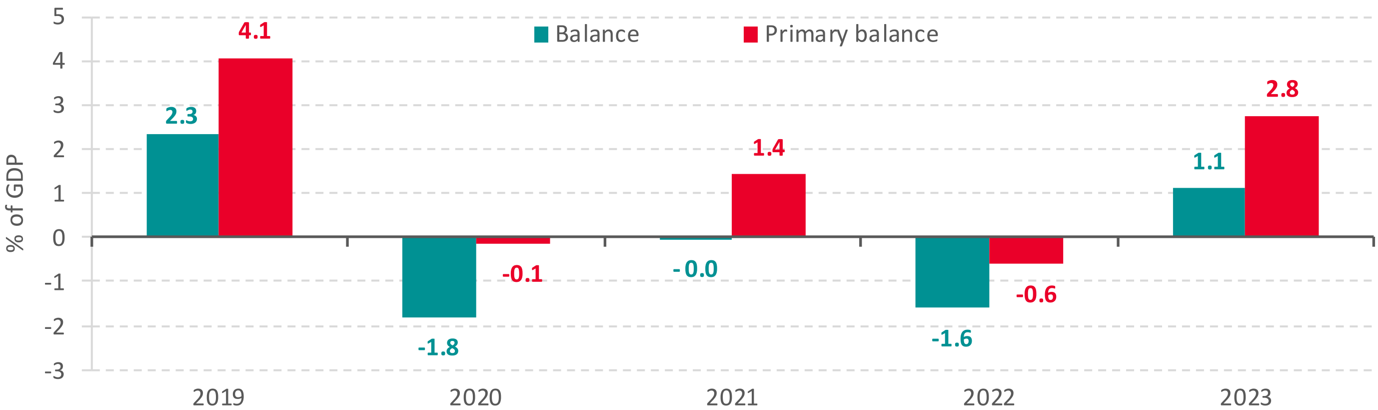
Fiscal policy in Belarus supported economic activity in 2023 with a budget execution surplus

In 2023, the consolidated budget was executed with a surplus of 1.1% of GDP (Figure 1). Budget revenues grew by 4.6 percentage points of GDP due to high growth in domestic demand and foreign trade volumes, and growing transfers from Russia. Budget expenditures grew by 1.9 percentage points mostly because of increased spending on wages and debt servicing. Spending increased faster than trend rates, and fiscal policy supported economic activity. In 2024, fiscal policy will remain expansionary, and the consolidated budget will be close to balance or have a small surplus.

Public debt decreased by 1.1 percentage points in 2023: to 32.2% of GDP at the beginning of 2024. The size of public debt and the volume of debt repayments (less than 5% of GDP per year) are not large, but even such a scope of repayments requires refinancing a larger share of them to avoid major budget adjustments. Maintaining public debt at 30% of GDP in the medium term will require a primary budget surplus of about 0.3% of GDP per year, and if economic conditions worsen, this will require more than 2% of GDP. Space for fiscal stimulus is limited, and fiscal sustainability depends on Russian support.

Figure 1. State of the consolidated budget of the Republic of Belarus



Source: BEROC's calculations based on data from the Ministry of Finance of Belarus, Belstat, EEC, EFSD, IMF.
Note: The Consolidated Budget of the Republic of Belarus includes both central and local government budgets. The budget balance is the difference between budget revenues and expenditures. The primary balance is the budget balance excluding expenses for public debt servicing.

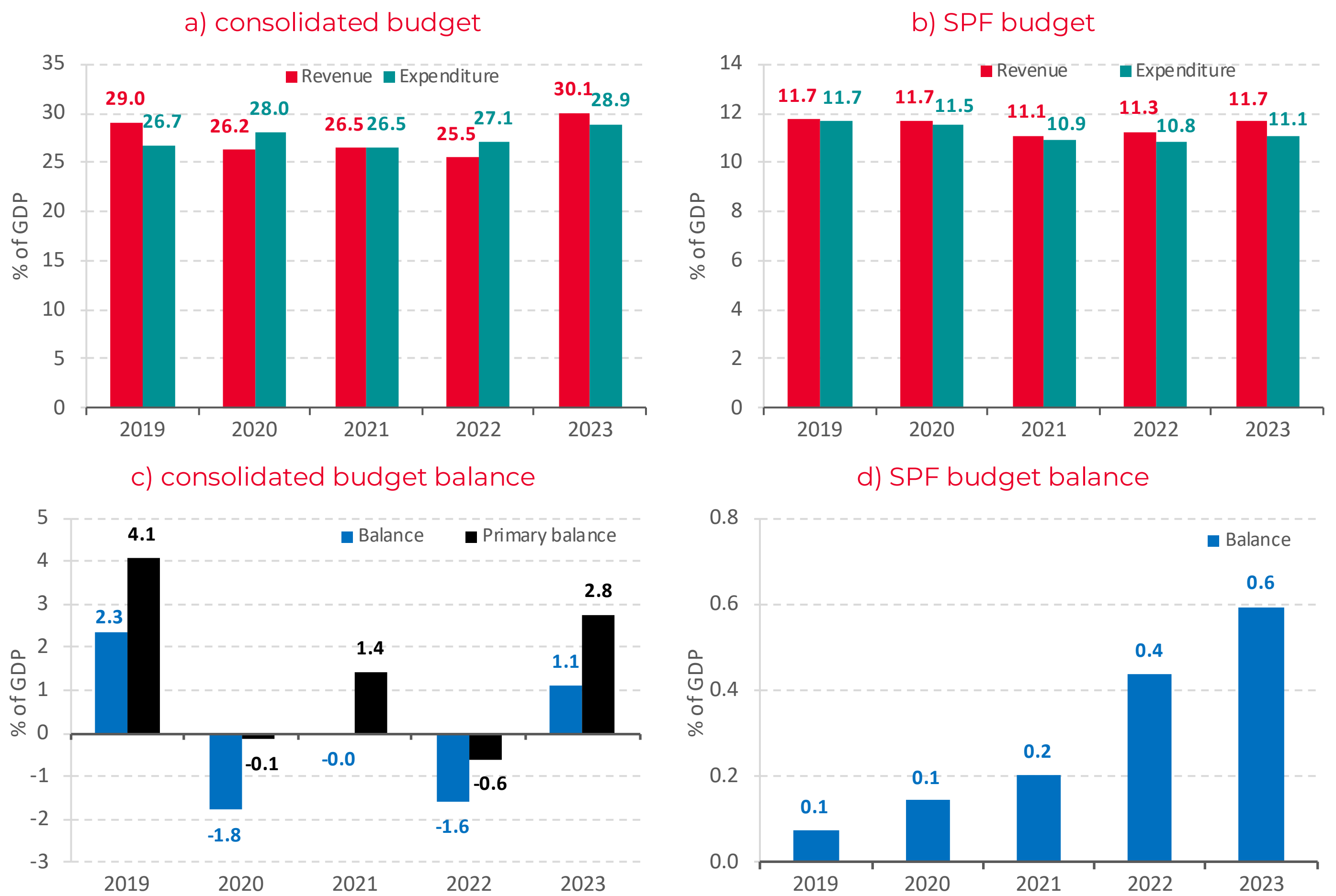
The Fiscal Environment Review bulletin provides expert analysis of fiscal policy and debt sustainability of the Republic of Belarus. The bulletin assesses the state of fiscal policy, its impact on economic activity in Belarus, the state of public debt and its sustainability. Due to the lack of current official statistics on the state budget and public debt, the analysis in this bulletin is primarily based on available public information and data from the National Bank of Belarus, the IMF, and the EFSD.

1 State Budget

The consolidated budget was executed with a surplus of 1.1% of GDP in 2023

The consolidated budget surplus was recorded for the first time since 2019 (Figure 2.c). This became possible thanks to a significant increase in budget revenues by 4.6 percentage points of GDP to 30.1%. Consolidated budget expenditures increased by 1.9 percentage points to 28.9% of GDP in 2023 (Figure 2.a). The budget of the Social Protection Fund (SPF) was also executed with a surplus of 0.6% of GDP in 2023 (Figure 2.b). Thus, the excess of the consolidated budget revenues (under extended definition, i.e., including the Social Protection Fund) over consolidated budget expenditures was probably more than 1.5% of GDP.

Figure 2. Indicators of the consolidated budget of the Republic of Belarus and the budget of the Social Protection Fund (SPF)



Source: BEROC's calculations based on data from the National Bank and the Ministry of Finance of Belarus, Belstat, EEC, EFSD, IMF.

Note: The budget balance is the difference between budget revenues and expenditures. The primary balance is the budget balance excluding expenses for public debt servicing.

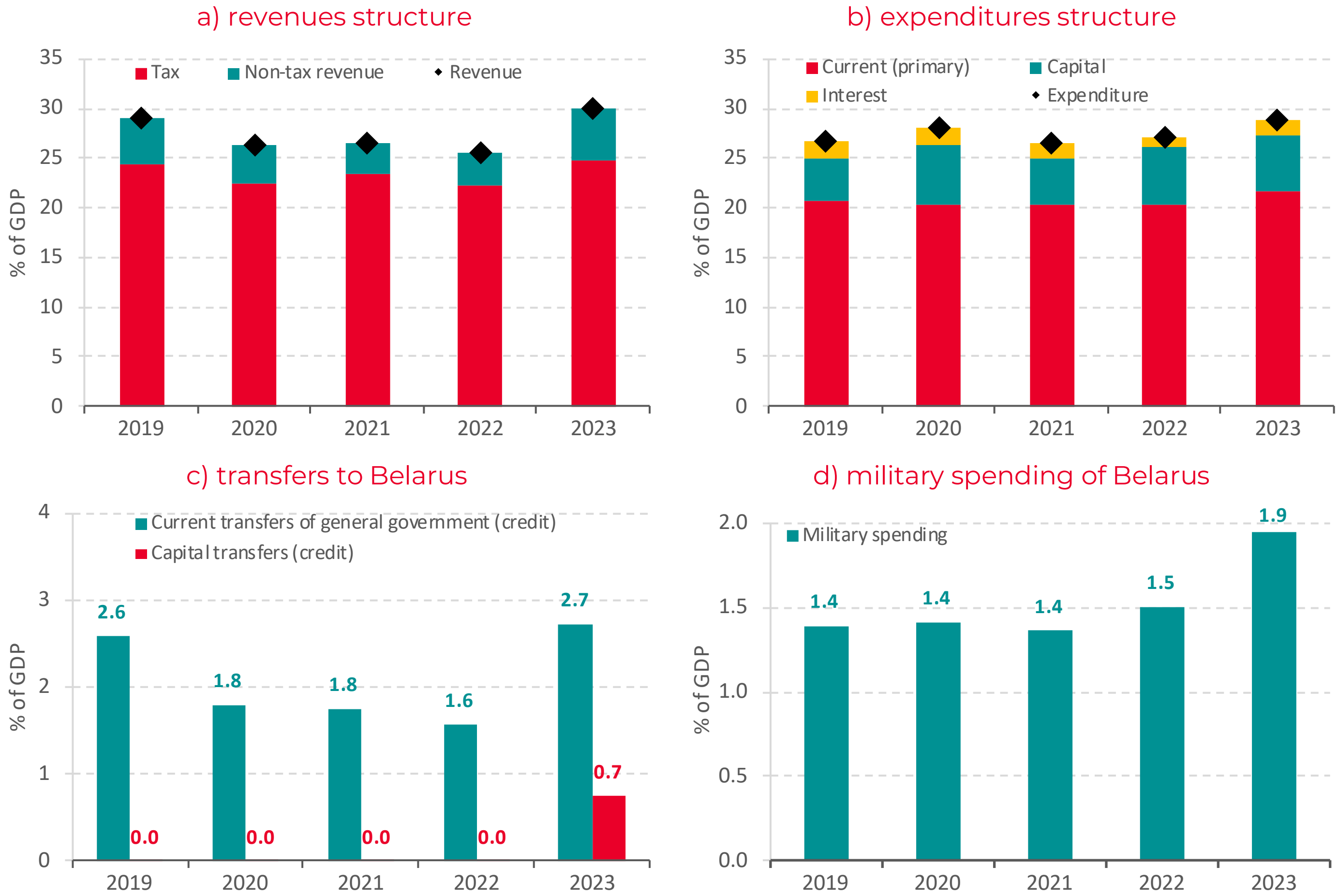
Budget revenue growth by 4.6 percentage points of GDP was largely cyclical in nature and associated with increased domestic demand and foreign trade volumes

Budget tax revenues increased by 2.6 percentage points to 24.8% of GDP in 2023 (Figure 3.a). Tax revenue growth relative to GDP can be explained by a significant outpacing growth in domestic demand and foreign trade volumes over GDP growth. The latter was affected by deteriorating net exports due to a larger increase in imports versus exports in 2023.

However, since foreign trade turnover has grown significantly, the indirect tax base (VAT, excise taxes, and duties) could grow more than GDP. In addition, amid a shortage of workers and rapid growth in wages, the share of wages in GDP increased by 1.1 percentage points to 48.8% of GDP in 2023. This could provide a significant increase in the income tax base. In addition, raising the profit tax rate by 2 percentage points increased tax revenues relative to GDP.

Non-tax revenues increased by 2 percentage points to 5.3% of GDP in 2023, which was the highest value for the last decade (Figure 3.a). This growth was likely due to receivables from the Russian budget as part of a reverse excise duty compensation for Belarusian refineries. Thus, the influx of current transfers of the government sector increased by 1.2 percentage points of GDP (by $0.8 billion) and reached 2.7% of GDP ($1.96 billion) in 2023 (Figure 3.c). In US dollar terms, this was a record-breaking value in the 21st century, and in relation to GDP, it is close to the levels of 2017–2019, when the “re-customs clearance” scheme for 6 mln t. of Russian oil was operational.

Figure 3. Revenues and expenditures of the consolidated budget of the Republic of Belarus



Source: BEROC's calculations based on data from the SIPRI Military Expenditure Database 2024 (https://www.sipri.org/databases/milex), the National Bank and the Ministry of Finance of Belarus, Belstat, EEC, EFSD, and IMF.
Note: primary current expenditures are current expenditures minus the cost of public debt servicing.

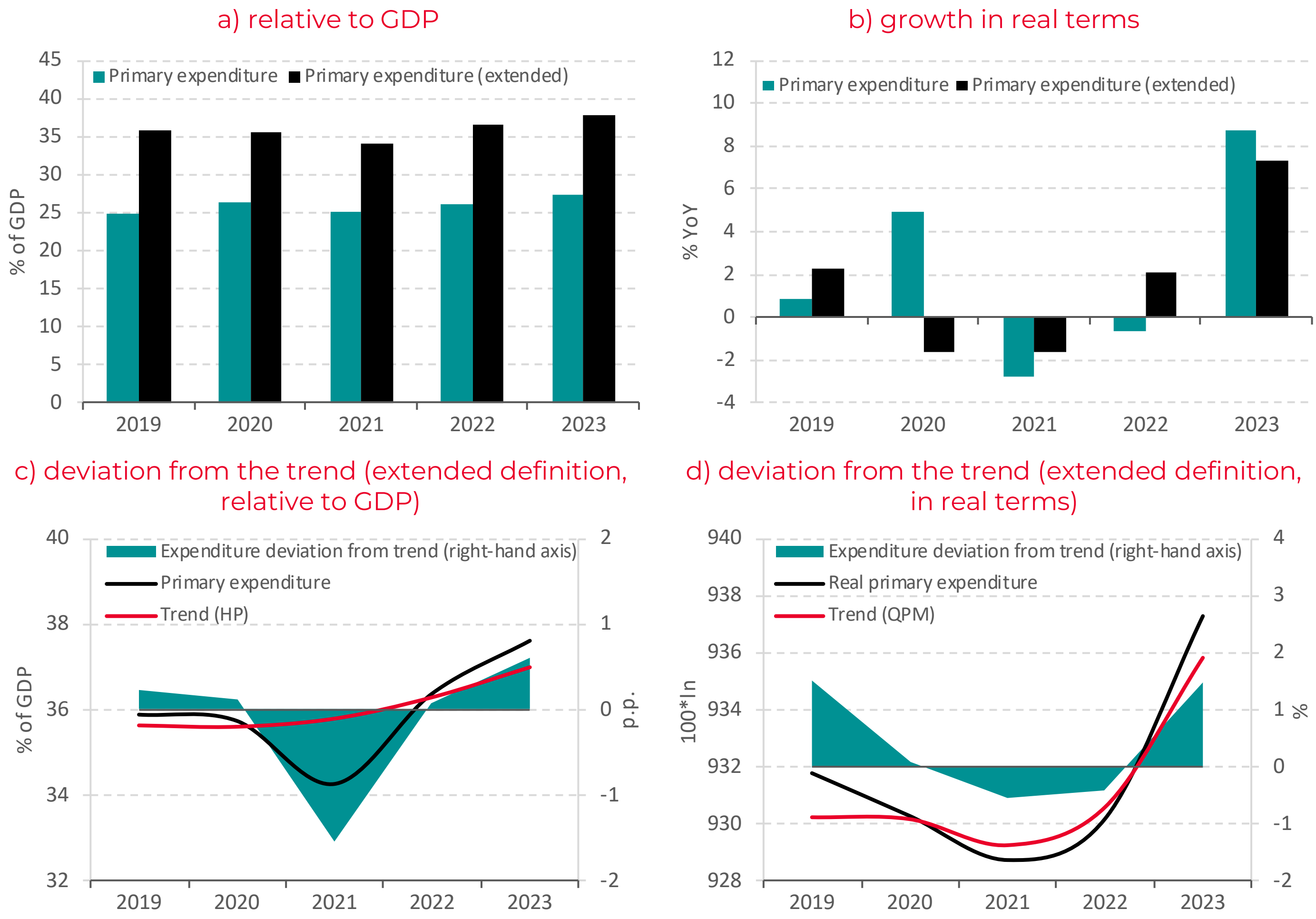
Increase in budget expenditures by 1.9 percentage points of GDP is associated with increased current spending

Current expenditures of the consolidated budget increased by 2 percentage points to 23.4% of GDP in 2023. Among them, both non-interest expenditures and the cost of servicing public debt actively increased: non-interest expenditures grew by 1.4 percentage points to 21.7% of GDP, and the cost of public debt servicing grew by 0.6 percentage points to 1.6% of GDP (Figure 3.b).

Current non-interest budget expenditures have increased because of increased labor costs for public sector employees by 0.5 percentage points of GDP. Most likely, a significant increase in spending on wages was a consequence of the shortage of workers and the increased competition in such conditions between the public budgetary sector and the private sector, and non-budgetary public sector. It is also likely that wage growth is stimulated in the public sector through administrative methods in the pre-election years.

Capital expenditures of the consolidated budget decreased in 2023; this was likely due to decreased investments in the authorized capital of state-owned banks. At the same time, military spending (based on the SIPRI data) increased by 0.4 percentage points to 1.9% of GDP in 2023 (Figure 3.d). Military spending started increasing in 2022: it was about 1.4% of GDP per year in 2019–2021.

Figure 4. Dynamics of primary expenditures of the consolidated budget



Source: BEROC's calculations based on data from the National Bank and the Ministry of Finance of Belarus, Belstat, EEC, EFSD, IMF, as well as based on the use of a quarterly projection model for Belarus (QPM BEROC).

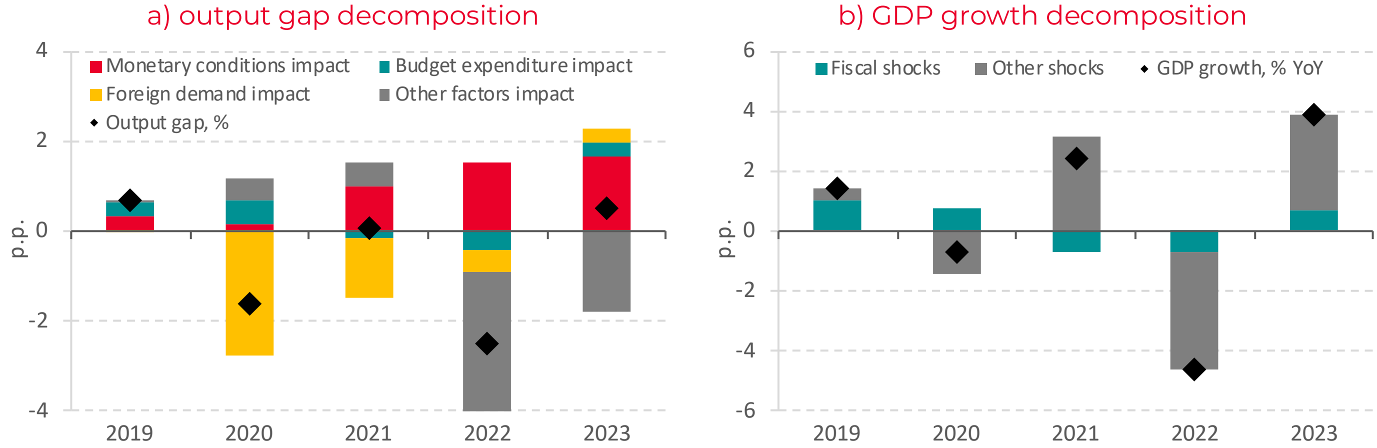
Note: primary expenditures are expenditures minus the costs of public debt servicing. Primary expenditures (extended definition) include primary expenditures of the consolidated budget and expenditures of the Social Protection Fund. Real expenditures are calculated by adjusting nominal expenditures by the GDP deflator. The trend of real primary expenditures (under extended definition) was estimated under the quarterly projection model (QPM BEROC). The trend of primary expenditures (under extended definition) relative to GDP was calculated based on the application of a univariate Hodrick-Prescott filter. % YoY (year-on-year) is a growth rate in the period versus the corresponding period of the previous year.

Primary budget expenditures grew at a high rate in 2023: budget policy stimulated economic activity

Primary (non-interest) expenditures of the consolidated budget increased by 1.2 percentage points to 27.3% of GDP in 2023, and primary expenditures of the consolidated budget under the extended definition (including the Social Protection Fund) increased to 37.7% of GDP (Figure 4.a). In real terms (adjusted for the GDP deflator), primary expenditures increased by 8.7% in the consolidated budget and by 7.3% including the Social Protection Fund budget in 2023 (Figure 4.b). The volume of primary expenditures exceeded the trend level significantly (Figures 4.c and 4.d), which indicated a loose fiscal policy and its stimulating nature for economic activity in 2023. At the same time, the very trend level of budget expenditures increased in 2022–2023. This is due to both structural changes in the economy because of the sanctions' impact and the replacement of the expenditures that had been largely financed by the resources attracted from international development banks and other financial institutions prior to 2022.

Fiscal policy was one of the factors for Belarus' GDP recovery in 2023, and this policy facilitated excess demand in the second half of 2023 (Figure 5.a). The contribution of fiscal policy to Belarus' 3.9% GDP growth in 2023 was estimated (through the BEROC's quarterly forecasting model) as 0.7 percentage points (Figure 5.b).

Figure 5. Impact of fiscal policy on economic activity (QPM-based)



Source: BEROC's calculations based on the quarterly projection model for Belarus (QPM BEROC).
Note: the output gap is the deviation of real GDP from its potential (equilibrium) level.

Fiscal policy will remain expansionary with the likely execution of the consolidated budget close to balance in 2024

In 2024, budget expenditures will remain elevated both because of the need to support the structural transformation of the economy and due to stimulus spending in the year preceding the presidential election. The increase in real expenditures of the consolidated budget is expected to be about 4–5% in 2024.

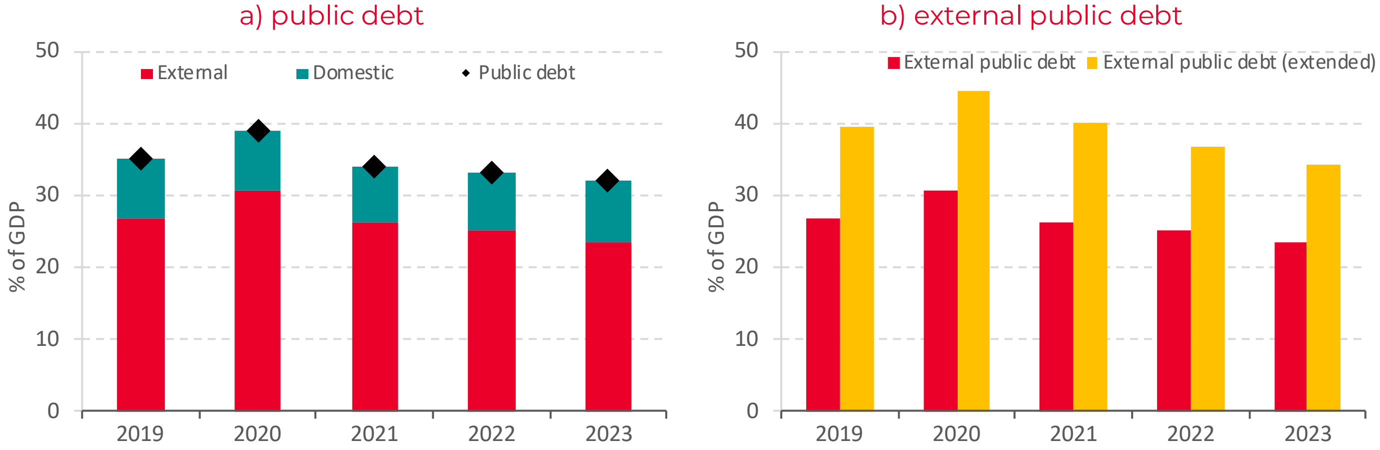
Maintaining relatively high growth rates of GDP, wages and foreign trade volumes creates the conditions for maintaining a high level of tax revenues. Non-tax budget revenues, in turn, can be supported by transfers from Russia as part of compensation for the reverse excise tax on crude oil. As a result, the consolidated budget balance may get close to balance or even show some surplus in 2024.

2 Public debt and fiscal sustainability

Public debt decreased by 1.1 percentage points in 2023: to 32.2% of GDP at the beginning of 2024. Public debt, including guarantees issued by the public administration sector, most likely did not exceed 40% of GDP at the beginning of 2024

The decrease in public debt is explained by a decrease in external debt of the public administration sector by 1.7 percentage points (by $1.56 billion, according to the National Bank) to 23.5% of GDP (Figure 6.a). External public debt reduction is mainly associated with repaying Eurobonds for $0.8 billion (according to EFSD,[1] a significant number of bond holders have been failing to collect their Eurobond income due), as well as with a revaluation of liabilities by $0.6 billion (most likely due to the weakening of the Russian ruble against the US dollar in 2023). In 2023, the debt position of Belarus could be supported by Russia through refinancing a part of Belarusian public debt and through writing ca. $0.5 billion off Belarusian public debt, which probably happened in Q4-2023 (Figure 3.c).[2] External public debt (under extended definition)[3] also decreased by 2.4 percentage points (by $2.2 billion, according to the National Bank) to 34.3% of GDP in 2023 (Figure 6.b).

Figure 6. Public debt of the Republic of Belarus



Source: BEROC's calculations based on data from the National Bank and the Ministry of Finance of Belarus, Belstat, EEC, EFSD, IMF.
Note: Public debt includes the central and local government debt. External debt (under extended definition) includes external debt liabilities of government bodies, the central bank, as well as of the sector of depository organizations and of other sectors, where the share of state ownership in the authorized funds is 50+%.

Debt sustainability is de facto ensured, but the mechanism for sustaining it largely lies in access to refinancing of debt obligations

Neither the size of public debt (less than 50% of GDP, even under the extended definition that includes government guarantees), nor the total annual volume of repaying and servicing it (less than 5% of GDP) look threatening by the standards of generally accepted criteria. However, in the context of the Belarusian economy, even this size of public debt repayments requires refinancing their significant share to ensure fiscal sustainability.

[1] For details, see: EFSD Regional Economic Review 2024, No. 1(1). Moscow: Eurasian Fund for Stabilization and Development.

[2] In Q4-2023, a net inflow of capital transfers (which included writing off the debt) to Belarus was $538.3 million. Prior to 2023, the maximum volume of net receipts of capital transfers in the 21st century was recorded in 2014 at $4.6 million for the entire year.

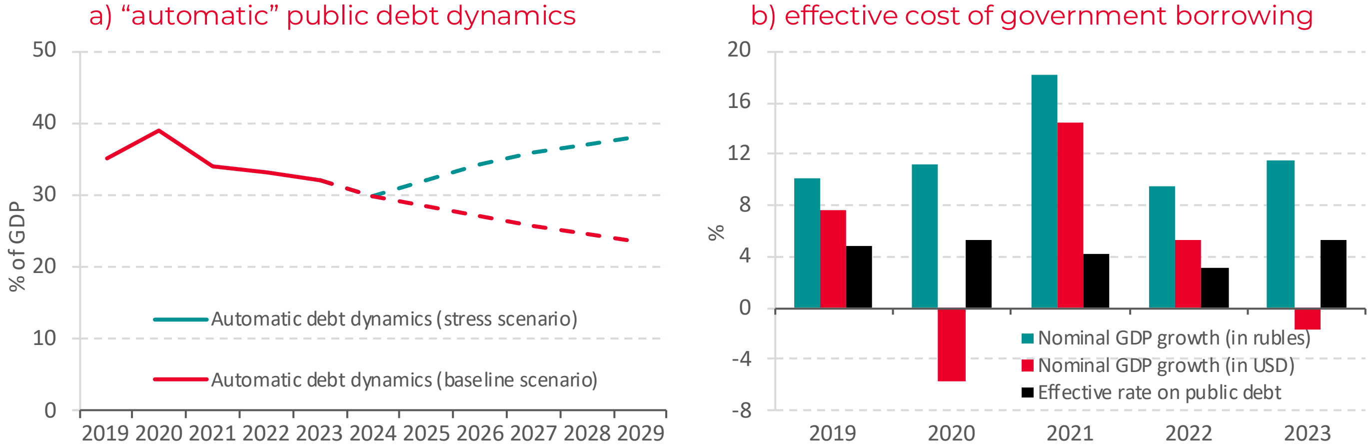
[3] External debt (under extended definition) includes external debt liabilities of government bodies, the central bank, as well as of the sector of depository organizations and of other sectors, where the share of state ownership in the authorized funds is 50+%.

Since the consolidated budget is usually executed with only a small primary surplus (Figure 2.c), the need for domestic sources of financing has increased greatly after strengthened sanctions pressure, and the effective rate on public debt over long periods turns out to be higher than GDP growth (Figure 7.b); therefore, executing public debt obligations without refinancing them would mean significant fiscal policy adjustments to ensure its consolidation.

The inertial trajectory of public debt assumes a further decline in its volume relative to GDP in 2024–2025 in the baseline scenario (Figure 7.a)

Public debt could reduce if a relatively favorable scenario materializes in the Belarusian economy, where an output decline and an inflationary surge are avoided, and fiscal policy stance gradually becomes neutral. At the same time, the inertial dynamics of public debt assumes that the observed previously pattern of its repayment and servicing will continue, i.e., Russia will refinance a significant share of Belarusian public debt.

Figure 7. Belarusian public debt sustainability



Source: BEROC's calculations based on data from the National Bank and the Ministry of Finance of Belarus, Belstat, EEC, EFSD, IMF.

Note: the effective rate on public debt is calculated as the ratio of payments to service public debt per year to the volume of public debt at the beginning of the year. "Automatic" debt dynamics indicates the inertial dynamics of public debt under the given values of real GDP growth, the real effective interest rate on public debt, and the primary balance of the consolidated budget. Baseline scenario prerequisites: 1) GDP growth: 3.3% in 2024 and 1% per year on average in 2025–2029; 2) GDP deflator: 9% in 2024 and 8% per year on average in 2025–2029; 3) the nominal effective rate on public debt: remaining at the 2023 level (5.3%); 4) weakening of the Belarusian ruble (in terms of a basket of foreign currencies): 3.6% in 2024 and 4.7% per year on average in 2025–2029; 5) primary budget balance (surplus): 1.4% of GDP in 2024 and 1.6% of GDP annually in 2025–2029. Prerequisites for the stress scenario in 2024 are similar to the baseline scenario. Prerequisites for the stress scenario in 2025–2029: 1) GDP growth: 0% annually; 2) GDP deflator: 10% annually; 3) the nominal effective rate on public debt is 2 p.p. higher than the baseline scenario value; 4) weakening of the Belarusian ruble: 10% annually; 5) primary budget balance (surplus): 0% of GDP in 2025–2026, and 1.4% of GDP per year on average in 2027–2029.

Ensuring fiscal sustainability in the medium term is highly dependent on Russian support

Under the baseline scenario parameters, the size of the primary balance of the consolidated budget allowing to maintain the ratio of public debt to GDP close to 30% in 2025–2029 is estimated to be positive at about 0.3% of GDP per year on average. The need to maintain a primary budget surplus means that the space for fiscal stimulus in the event of a crisis is very limited.

Reduced support from Russia provided both in the form of direct transfers and refinancing of public debt repayments, and indirectly through reduced energy subsidies and limited access to the Russian market and infrastructure, will mean a high probability of fiscal consolidation in Belarus. At the same time, even a moderate deterioration in the operating conditions of the Belarusian economy under the risk scenario may lead to the need to increase public debt to finance government spending (Figure 7.a). An alternative to increasing public debt would be fiscal consolidation, but it would affect economic growth and the well-being of citizens. In the risk scenario, the primary balance of the consolidated budget should have a surplus of about 2.2% of GDP per year on average in 2025–2029 to prevent public debt from expanding.