

## GENERAL CHARACTERISTIC OF PUBLIC DEBT OF THE REPUBLIC OF BELARUS

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At present, the public budget deficit is a very urgent problem in most countries. One of the most popular ways of financing is the debt method of financing public spending, which, in turn, leads to an increase in public debt. The consequence is the fact that almost all countries of the world have a debt economic system that is deficient in domestic investment and current payments and that systematically fills the shortage of national resources by attracting funds from abroad. Therefore, solving the problems of public debt is the key to macroeconomic stabilization. The problems of public debt are also among the key problems that are actively dealt with by the state regulatory bodies of any market economy and the effectiveness of the solution of which directly depends on the economic growth of the country.

By the report of the Ministry of Finance of the Republic of Belarus the external public debt of the Republic of Belarus (RB) increased in 2017 by \$3.1 billion

(+ 22.6%) and amounted to \$16.7 billion by January 1, 2018 [1]. In 2017 Belarus attracted foreign state loans for \$4 billion 40.7 million, including \$1.4 billion raised through Eurobonds, the government and banks of Russia issued loans for \$1 billion 309.5 million, the Eurasian Fund for Stabilization and Development (EFSD) – \$800 million, banks of China – \$306.6 million, the International Bank for Reconstruction and Development (IBRD) – \$159.4 million, the European Bank for Reconstruction and Development (EBRD) and NIB – \$65.2 million.

To repay the external debt of Belarus in 2017 were directed \$1 billion 29.4 million, including \$ 364.3 million to the government of the Russian Federation, \$353.1 million to the EFSR, \$245.8 million to the banks of China, \$62.1 million to the EBRD, \$3.6 million to US banks, \$500 thousand to the EBRD and NIB [2].

Meanwhile, the internal debt of Belarus increased in 2017 by 1.1 billion BYN (+10.3%) and reached 9.2 billion BYN. Last year, the Ministry of Finance of the Republic of Belarus placed internal foreign currency state bonds for legal entities and individuals for \$449.9 million and 200 million BYN. To repay foreign currency and ruble bonds for legal entities and physical persons were directed \$1 billion 290.6 million and 189.7 million BYN [3].

The total debt of Belarus increased by 5.2 billion BYN in 2017 (+14.1%) reached 42.2 billion BYN. External debt of the Republic of Belarus amounted \$13.6 billion (+9.6% for 2016), internal debt – 10.2 billion BYN (+5%) at January 1, 2017.

Thus, the Republic of Belarus is not an exception to the countries faced with the problem of public debt. This problem has not reached a critical point and the level of public debt is at an acceptable level. At the same time, Belarus' public debt, both domestic and foreign, tends to increase.

How Belarus will pay off its debts..?

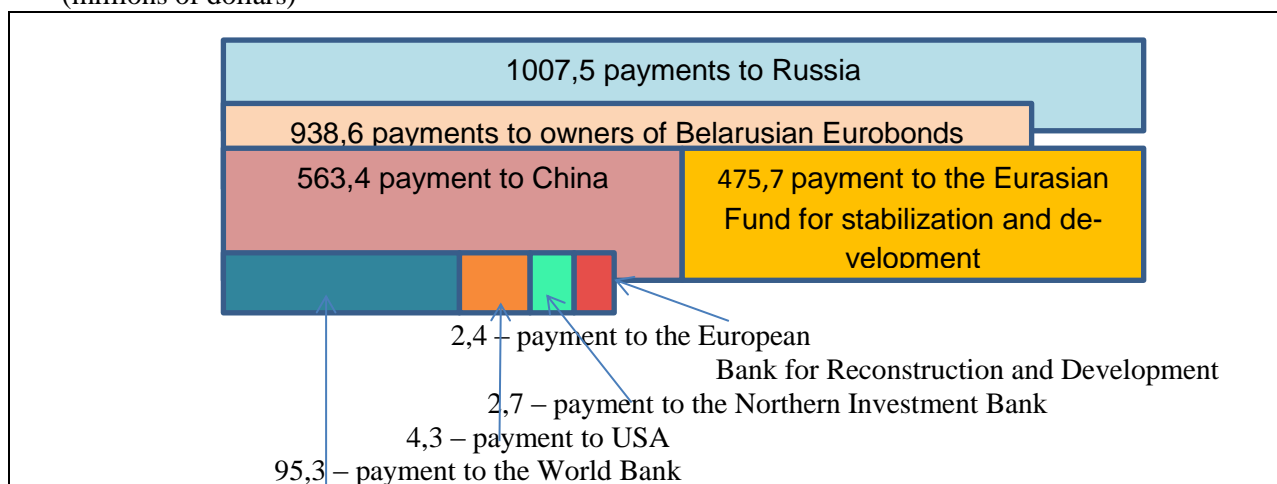
For public debt service in 2018, Belarus should send 2.54 billion BYN. According to the authorities, this amount will be about 25% more than the debt burden that the budget bore in 2017 due to the need to pay interest on previously attracted loans. The expenses for repayment of the state debt in 2018 will amount to 5.49 billion BYN. Thus, taking into account payments for repayment and maintenance of the state debt, the Republic of Belarus will have to return to creditors about 8 billion BYN.

At the same time, almost all of the country's debt obligations are formed in foreign currency – foreign currency payments under the state debt in 2018 are estimated by the authorities in the amount of 3.8 billion dollars. By the way, the average annual rate of the dollar, which is included in the budget for 2018 year – 2.0379 BYN per dollar. The principal payments relate to debts owed to external creditors. In 2018, payments for external debt will amount to about \$ 3.1 billion. Two-thirds of this money the Republic of Belarus should return to Eastern creditors.

According to the BelaPAN, this year Belarus should pay \$ 1 billion 7.5 million to Russia (including debt servicing and repayment) and \$ 475.7 million to the Eurasian Fund for stabilization and development, which is de facto managed by the Russian Ministry of Finance. In addition, 563.4 million dollars will need to be spent on the payment of loans from Chinese banks (see para. Figure).

### Expenses of the Republic of Belarus on foreign debt in 2018

(millions of dollars)



**Figure – Expenses of the Republic of Belarus for external public debt in 2018**

More than a billion dollars will also have to be paid to Western creditors, including the owners of Belarusian Eurobonds – \$936.6 million and the World Bank – \$95.3 million. The Ministry of Finance of the Republic of Belarus is now guided by the budget rule, the essence of which is that 75% of the principal debt is refinanced, and 25% is paid from non-debt sources. It is significant that the International Monetary Fund, which provides low-cost financial resources, today is not a creditor of Belarus [4]. In 2018 it is planned to direct revenues from export customs duties on oil products (486.5 million dollars) and part of the foreign currency balances (about 1 billion dollars) of the budget formed in connection with the placement of Eurobonds in 2017 to repay the state debt.

New borrowings will also be used to pay off old liabilities. In 2018, it is planned to issue a new \$ 600 million Eurobond in the foreign market, as well as new bond issues in the domestic market for \$ 400 million.

In addition, in the first quarter of 2018, as the Minister of Finance of the Republic of Belarus Vladimir Amarin said in December in the Parliament, answering questions from BelaPAN, the Belarusian side expects to receive the last two tranches of the loan from the Eurasian Fund for stabilization and development, which is another \$ 400 million.

Thus, in general, it is clear at the expense of what sources the Republic of Belarus will pay to creditors in 2018. But it is not clear yet, according to experts, when large payments by Belarus on public debt will finally begin to decline, and this is a barrier to economic growth. For example, as of December 1, 2017, according to the latest published data of the Ministry of Finance, the state debt of Belarus was 39% of GDP. The Ministry of Finance of the Republic of Belarus does not exclude that by the end of 2018 this figure may increase to 44.5% (the Minister of Finance said in December, speaking in Parliament). At the same time, the threshold value of the state debt level is defined in the RB at the level of 45%. Thus, the amount of the state debt of Belarus in the near future may approach the maximum value for the entire sovereign history of the country.

Experts also note that the level of public debt can be reduced only if the economy accelerates. Due to the growth of GDP level of the debt burden could be reduced in a natural way. In addition, there would be new sources to pay off old debts.

And to accelerate the economy, the authorities are trying not to reform the public sector of the economy, but to create points for the development of a new, parallel economy. Recent documents (decrees on the development of entrepreneurship and digitalization of the economy) confirm attempts in this direction.

However, the state has been trying unsuccessfully to create a parallel economy for many years, so there is no confidence that now it will be possible to do this, and the fundamental prerequisites for accelerating the Belarusian economy are not yet visible.

Foreign experts hold a similar point of view. According to analysts of the Russian "Sberbank", the growth of the Belarusian economy in 2018 will be 2.2%, which will be comparable to the result of last year. According to Sberbank's estimates, the GDP growth of Belarus will be about 2.2% by the end of the year and will be limited by the accumulated structural problems in the Belarusian economy. Experts

explain their forecast by the fact that the Belarusian authorities "still have not solved the issue of extremely inefficient, but impressive in size of the public sector."

Belarusian economists also believe that the country has fallen into a vicious circle: low growth rates don't enable to reduce the level of public debt, and a high level of debt burden is an obstacle to economic growth. Republic of Belarus is already few years in this trap. The great pressure on the budget associated with public debt payments leads to underfunding of budget items (education, health), which form the basis for long-term economic growth. Experts from Belarus also share the forecasts of many foreign organizations that believe that in the next 3–4 years the growth of the Belarusian economy will remain low – around 2%.

In the absence of external shocks and the presence of small economic growth rates, the level of public debt can be maintained at the current level (40–45% to GDP) for a long time, experts from BEROC suggest. Another thing is that the light at the end of the tunnel, which would be expressed in a decrease in the level of public debt, is not yet visible, and any external shock (for example, the devaluation of the Russian ruble after the elections in Russia) can further increase the debt burden on the Belarusian economy, given that the country attracts borrowing mainly in foreign currency.

As you can see, the amount of public debt has a significant impact on the national economy and the financial system of Belarus. Therefore, a combination of two aggregated factors is needed for successful debt management:

- on the one hand, active and effective economic development, which creates a material basis for debt payments and its attractiveness for investors,

- on the other hand, competent and rational policy in the field of the external borrowings which is carried out according to the main objective of activity of any state – increase of its welfare [5].

Possible recommendations on improving the management of external debt are:

- diversification of external borrowing in the direction of increasing the role of financial market instruments, as well as more active use in the future of another source of external financing – foreign direct investment.

- more active entry into the international market of government debt. On the one hand, their issuance will enable to diversify sources of external borrowing, and on the other – will allow financiers to monitor the dynamics of interest rates for Belarus, thereby creating a tool for assessing its solvency and sustainability.

Thus, proper and balanced management of public debt will serve as a source of strengthening of the financial situation and accelerated social and economic development in the Republic of Belarus.

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