



THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON PUBLIC SERVICE DELIVERY IN BELARUS

*Gleb Shymanovich,
Dzmitry Kruk,
economists of the IPM Research Center (Minsk)*



Macroeconomic trends: The sources of growth

Decade of the rapid economic growth (6.7% average growth rate),
due to

- privileged terms of oil and gas import from Russia,
- economic growth in Russia (main trade partner),
- macroeconomic stabilization (relatively low inflation, stable ER, banking sector development)



Macroeconomic trends: Crisis

The first consequences in the 4th quarter of 2008.

- foreign demand contraction (crisis in Russia, fall of oil prices).

Reaction

- shift to the domestic demand as a main driver of economic growth,
- investment boost in the first half of the year, via banks quasi-fiscal activity,
- public support to the agriculture and construction sector,

Outcome

- current account deficit,
- external debt accumulation and one-time devaluation,
- risk exposure of banking sector,
- fiscal deficit,
- but economic growth.



Macroeconomic trends: Main indicators

	2003	2004	2005	2006	2007	2008	2009
GDP growth rate, %yoy	7.0	11.4	9.4	10.0	8.6	10.2	0.2
GDP, USD bn (current exchange rate)	17.8	23.1	30.2	37.0	45.3	60.8	49.2
Fixed capital growth rate, % yoy	1.8	1.5	2.0	2.5	2.1	3.0	5.0
Real money income of households growth rate, % yoy	3.9	9.8	18.4	17.8	13.2	11.8	2.7
Labor productivity growth rate, % yoy	8.0	12.0	7.3	8.7	7.5	8.1	-0.5
CPI inflation (annual average), %	28.4	18.1	10.3	7.0	8.4	14.8	13.0
Real exchange rate vs. US dollar growth rate, % yoy	9.3	9.5	7.1	4.1	5.2	11.1	-13.3
Current account balance, % of GDP	-2.4	-5.2	1.7	-4.1	-6.6	-8.6	-13.0
Gross external debt, % of GDP	23.7	21.4	17.9	18.5	27.6	24.9	45.1



Public finance: Main trends in pre-crisis period

	2003	2004	2005	2006	2007	2008	2009
General government							
Revenue, % of GDP	33.9	46.5	48.4	48.4	49.5	51.0	45.9
expenditures, % of GDP	35.2	45.6	48.0	47.0	49.0	49.5	46.6
<i>SSF, BYR bn</i>	--	5387.8	7404.7	9287.7	11257.0	14496.5	15741.0
Local government budgets							
Revenue, % of GDP	20.3	19.0	18.9	17.5	18.5	18.1	16.1
Including inter-government transfers	3.1	2.9	3.8	5.3	6.4	5.2	4.4
expenditures, % of GDP	20.3	18.6	18.8	17.6	18.2	17.9	17.1



Public finance: Crisis

Revenues contraction by 5.1% of GDP:

- Profit tax (1.4% of GDP),
- Taxes on foreign trade (2.4%),
- Turnover taxes (1% of GDP due to tax system simplification),

As there were only minor measures to raise tax revenues (import duties increase, export duty on potash introduction, excises on alcohol growth)

Expenditures were cut by 2.9% of GDP.

- National economy (oil import subsidies↓ vs agriculture↑),
- General public expenditures, or
- Subsidies and capital expenditures

The fall took place only in the second half of the year, underpinned by growing distortions and SBA IMF.



Public finance: Expenditures

Functional classification (% of GDP)

	2004	2005	2006	2007	2008	2009
Total	45.6	48.0	47.0	49.0	49.5	46.6
General public expenditures	5.1	6.3	6.2	6.7	8.3	5.9
Defense issues	1.0	1.1	1.3	1.2	1.1	1.0
Law enforcement issues	2.0	2.2	2.2	2.1	1.8	1.8
National economy	9.1	9.4	9.6	11.5	12.8	12.0
Environmental issues	0.6	0.6	0.6	0.6	0.4	0.3
Household utilities	2.8	2.6	2.1	2.2	2.4	2.2
Healthcare	4.6	4.7	4.5	4.5	3.9	3.9
Sports, culture, mass media	1.1	1.1	1.2	1.2	1.1	1.0
Education	6.0	6.3	6.0	5.7	5.2	4.9
Social policy (incl. social security)	13.2	13.7	13.4	13.4	12.6	13.6



Public finance:

Challenges of the middle-term perspective

- Twin deficit challenge, taking into account banking sector quasi-fiscal activity,
- Debt servicing costs (4% of GDP in 2012–2013),
- Post-election year challenges (unsustainable wages growth, boost of investments),
- SSF deficit in coming years due to demographic factors.

Limited fiscal space for financing expenditures on healthcare and education.



Education: policy reforms (1)

Needed due to soviet heritage (focus on natural science, unification of curricula, ignorance of individual creative potential, incompatibility of the standards in secondary school with the requirements of higher education, overload of pupils).

Secondary education. Reform of 1998 targeted all these drawbacks. The scheme 4+6+2 was introduced instead of 4+5+2. Primary school was given a role of adaptation period for further studying, basic school – preparedness for vocational training and specialized education, upper secondary school – preparedness for higher education based on chosen specialization.

It claimed a failure in 2008, as it ignores demand of the economy in blue-color labour, lost of one year in working-age, no evidence of improved quality of education, increased expenditures.



Education: policy reforms (2)

Higher education. Reform concept adopted in 1998. It was a mixed of Humboldt-type and Bologna process trends, with three grades: bachelor, specialist, master. In early 2000's BSU adopted 2-staged higher education, and all other universities were expected to shift to Bologna-type system, but...

the reform was revised. It was decided to orient on the own experience, and specialist-master scheme was established (master degree is viewed only as a step for a scientific career and postgraduate courses), while the education term for some specialties was cut to 4 years (instead of 5). True reason is a desire:

1. to cut expenditures,
2. to prevent "brain drain".



Education: policy reforms (3)

Vocational education. Reform of 2006.

1. It integrated vocational training with secondary specialized and higher education,
2. The number of entrants by specialties is set annually by state body (Republican Institute of Vocational Education) in accordance with the labour market demand,
3. Support to the links between enterprises and vocational schools (innovation funds of the enterprises can be used for acquisition of assets for the school).



Education: public spending (1)

	General government expenditures				Local government expenditures			
	% GDP				% of total general government expenditures			
	2006	2007	2008	2009	2006	2007	2008	2009
<i>Education</i>	6.04	5.69	5.15	4.95	79.4	80.5	81.0	81.2
Preschool education	0.99	0.97	0.94	0.95	96.8	97.0	99.3	99.2
General secondary education	2.93	2.75	2.46	2.34	99.4	99.3	99.5	98.8
Vocational education and training	0.40	0.38	0.34	0.34	97.1	97.1	96.9	97.5
Secondary specialized education	0.40	0.36	0.30	0.29	27.5	27.3	29.9	31.9
Higher and post-graduate education	0.77	0.69	0.64	0.63	0.0	0.0	0.0	0.0
Career enhancement and continuing education	0.07	0.07	0.06	0.06	37.2	39.3	37.5	39.1
Out-of-school education	0.28	0.27	0.24	0.22	94.3	94.4	95.2	97.4
Applied engineering and research	0.02	0.02	0.01	0.01	0.0	0.0	0.0	0.0
Others	0.18	0.19	0.15	0.12	75.8	83.0	78.3	85.8

Note. Line “others” is constituted largely by capital construction and repair and related expenditures.



Education: public spending (2)

Reduction of the expenditures may be related to the:

1. Demographic factors,
2. State policy (abolishment of the reforms),
3. Commercialization of higher and specialized secondary education (in 2002 52.6% students studied at the expenses of the budget, and only 34.6% in 2010),
4. Crisis in case of sub-branches (capital expenditures mainly). Crisis also implied frozen wages that contributed to the reduction of expenditures in % of GDP.

The most suffered sectors are vocational training, secondary specialized and higher education.



Education: public spending (3)

Real budget expenditures per capita, index (2006=100)

	2006	2007	2008	2009
Preschool education	100.0	106.5	111.7	112.4
General secondary education	100.0	105.8	108.5	112.2
Vocational education and training	100.0	113.7	119.3	111.5
Secondary specialized education	100.0	96.6	87.6	79.7
Higher and post-graduate education	100.0	92.8	93.6	90.1

Note. GDP deflator was used.

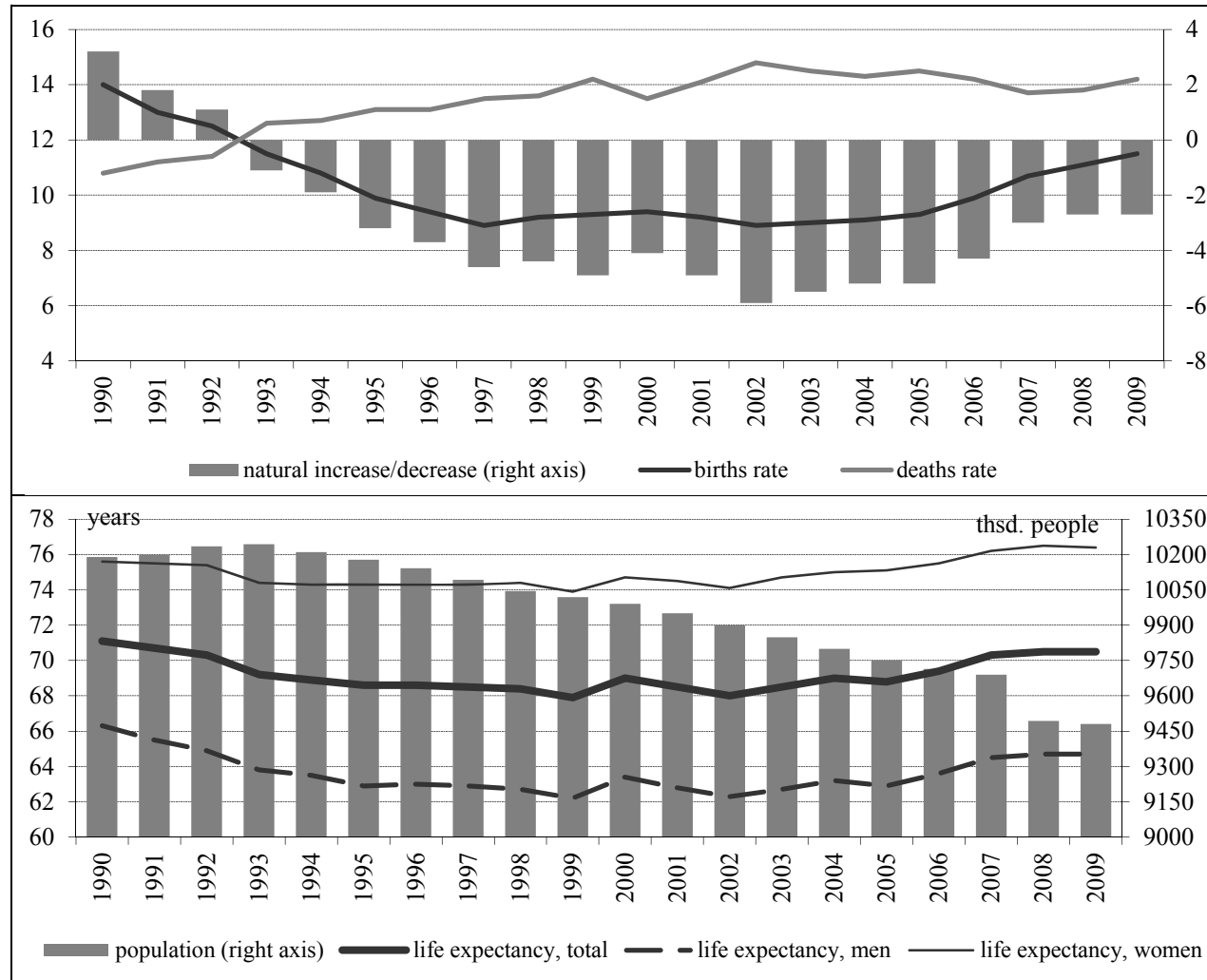


Education: efficiency of spending

- + Share of teachers in general secondary education with higher education grew from 82.5 in 1999 to 90.7% in 2009,
- + Share of population aged 20-24 with only basic secondary education reduced from 8.0% in 1999 to 4.4% in 2009 (drop-out rate),
- + Share of population aged 25-29 with higher education increased from 18.3% in 1999 to 31.1% in 2009,
- + Pupil-to-teacher ratio fell from 10.2 to 7.4
- No PISA, PIRLMS, TIMMS, so no international comparison of attainment level,
- Decrease of the pre-school enrolment rate despite growing expenditures,
- Reduction of the secondary education length, reduction of expenditures on higher education may be a threat to the quality of human capital.



Healthcare: demographic trends





Healthcare:

Mortality and morbidity rates

	2002	2005	2007	2008	2009	2002	2005	2007	2008	2009
	Mortality, per 1000					Morbidity, per 1000				
certain infections	0.13	0.16	0.13	0.12	0.12	36.9	36.6	36.4	35.0	34.2
Neoplasms	1.95	1.90	1.88	1.94	1.92	8.2	9.9	10.1	10.3	10.6
endocrine, nutritional, metabolic diseases	0.08	0.06	0.05	0.04	0.04	7.0	7.2	6.7	8.1	7.3
mental disorders	0.08	0.08	0.07	0.08	0.10	12.1	15.6	16.6	16.6	16.5
diseases of the nervous system	0.10	0.08	0.10	0.10	0.12	8.3	7.4	6.8	6.5	6.3
diseases of the circulatory system	8.00	8.13	7.26	7.44	7.70	21.4	26.2	27.7	32.3	29.1
diseases of the respiratory system	0.64	0.54	0.48	0.42	0.43	391.1	419.2	418.9	421.6	509.6
diseases of the digestive system	0.40	0.44	0.47	0.48	0.53	30.3	29.4	26.0	28.0	24.1
diseases of the genitourinary system	0.12	0.10	0.11	0.10	0.10	1.0	1.1	1.2	1.2	1.3
abnormal clinical and laboratory findings	1.49	1.23	1.61	1.77	1.62					
external causes	1.73	1.73	1.48	1.51	1.47	77.5	82.7	82.8	81.3	82.1
others						174.9	195.7	196.2	197.9	196.4
Total	14.82	14.55	13.73	14.10	14.25	768.7	831.0	829.4	838.8	917.5

Stabilization of the death rate, increase of the life expectancy, while morbidity (non-communicable diseases) is growing.



Healthcare: Reforms

Semashko healthcare system (universal access, centralized planning, focus on inpatient treatment, quality differentiation). In order not to lose general access there were only minor and gradual reforms:

- General practice in the rural area (problem of double duplication of specialists),
- Capitation of public expenditures on secondary healthcare (reduction of hospitals from 830 to 730 between 2000 and 2003),
- Excessive hospital beds in rural areas were transformed into long-term social care facilities (financed by SSF).

Not addressed problems:

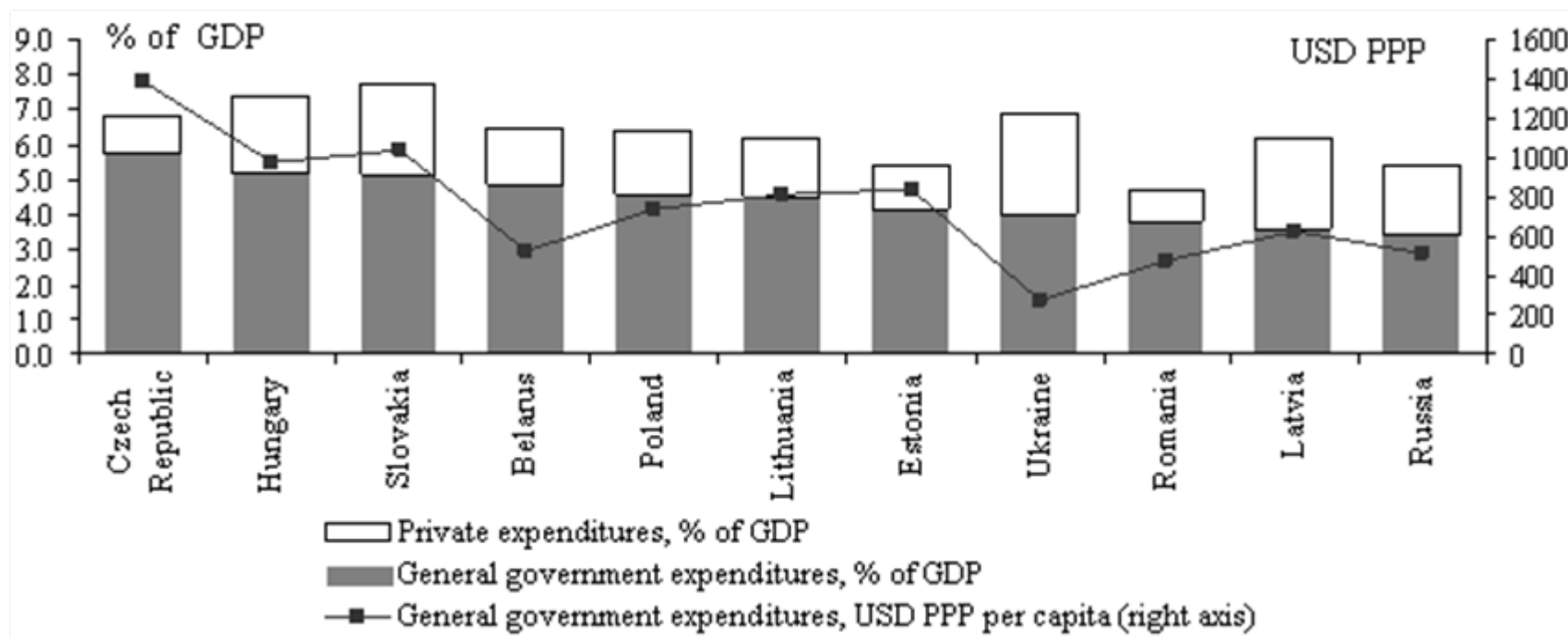
- Primary healthcare (lack of physicians, in rural areas in particular, lack of finance - 35% of public expenditures).



Healthcare: Expenditure financing

	1995	2000	2005	2006	2007	2008
Public expenditures on health, % of GG expenditures	11.2	10.7	10.7	10.2	9.9	9.9
Expenditures on health from SSF, % of public expenditures on health	3.0	5.8	2.4	2.7	2.7	2.7
Private insurance, % of private expenditures of health	0.0	0.1	0.1	0.1	0.1	0.1
Out of pocket expenditure, % of private expenditures of health	64.5	57.1	68.9	69.4	69.4	70.6
External resources on health, % of total health expenditures	0.0	0.1	--	0.2	0.2	0.2
Public expenditures on health, USD PPP per capita	168	251	426	465	528	602

Healthcare: Expenditures efficiency (1)



Expenditures on health in selected CEE, CIS countries, 2007

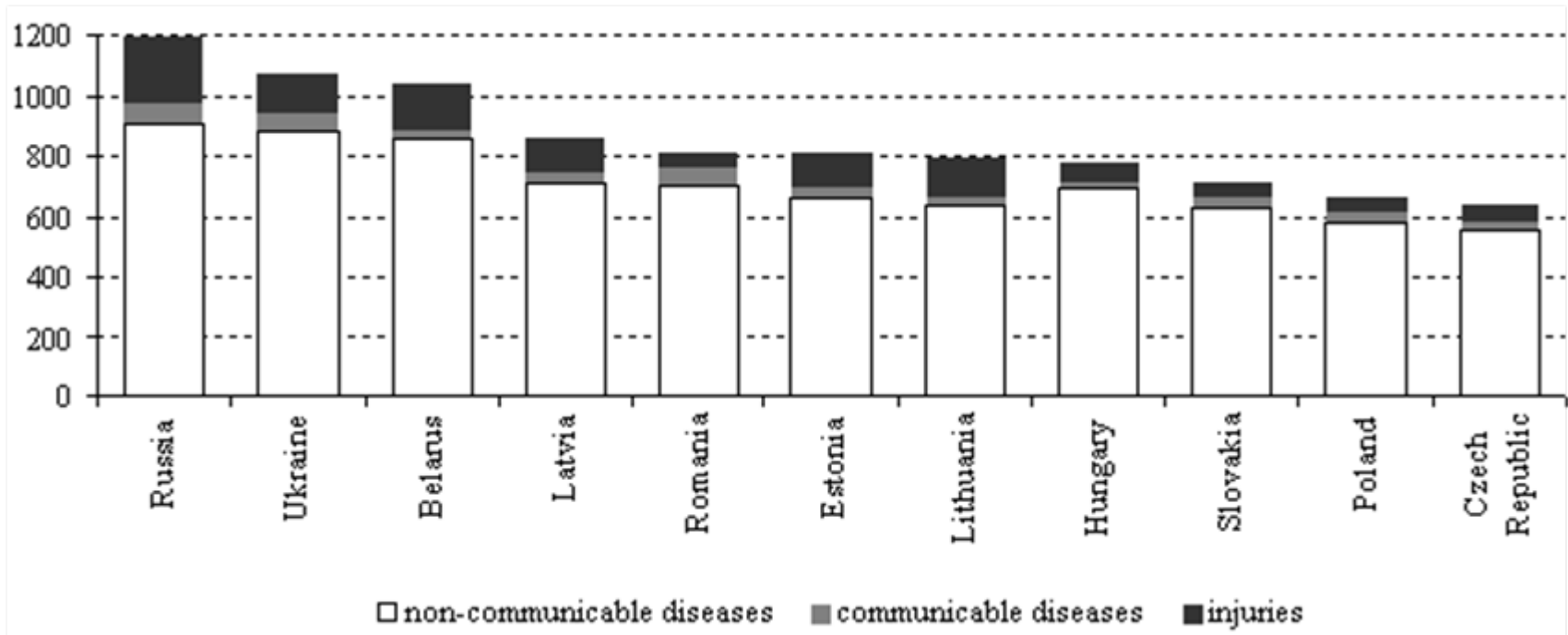


Healthcare: Expenditures efficiency (2)

Selected healthcare indicators

	Maternal mortality ratio, 2000- 2009 (per 100,000 births)	TB mortality rate, 2008 (per 100,000)	Incidence of TB, 2008 (per 100,000)	Physicians, 2000-2009 (per 10,000)	Nursing and midwifery personnel, 2000-2009 (per 10,000)	Hospital beds, 2000- 2009 (per 10,000)
Belarus	7	5.2	43	49	126	112
Czech Republic	6	0.6	9	36	90	81
Estonia	0	1.9	34	33	70	56
Hungary	8	1.0	16	28	92	71
Latvia	26	5.5	50	30	57	76
Lithuania	9	9.3	71	40	76	81
Poland	3	2.6	25	20	52	52
Romania	14	7.7	130	19	42	65
Russia	24	15.0	110	43	85	97
Slovakia	6	0.7	12	31	66	68
Ukraine	15	15.0	100	31	84	87

Healthcare: Expenditures efficiency (3)



Mortality rate per 100000, 2007



Healthcare: Crisis and challenges

Challenge of low efficiency, taking into account post-crisis developments:

- Restructure public finance in favor of primary care,
- Prevention of cardiovascular, respiratory system diseases, alcoholism,
- Growth of salaries (in both sectors),
- Private insurance schemes development,
- Outpatient care, day care, day surgery should be developed.



Conclusions

1. Reduction of expenditures on healthcare and education is observed, but it is largely a long-term trend (supported by depopulation), rather than the consequence of the crisis.
2. Still crisis affected these expenditures: capital expenditures mostly.
3. Wages in the sectors are below average, so there is double challenge of increasing financing of wages and capital expenses in the years to come.
4. Fiscal constraint limits this possibility.
5. The solution is increasing efficiency of expenditures.