

здійснення діяльності установами – емітентами електронних грошей та пруденційний нагляд за ними, що вносить зміни до Директиви 2005/60/ЕС та 2006/48/ЕС, та скасовує Директиву 2000/46/ЕС від 16 вересня 2009 р. № 994\_a18 [Електронний ресурс]. – Режим доступу : [http://zakon4.rada.gov.ua/laws/show/994\\_a18](http://zakon4.rada.gov.ua/laws/show/994_a18)

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## **THE MARKET OF UKRAINIAN GOVERNMENT BONDS: PROBLEMS AND PROSPECTS**

Government bonds serve as a very attractive tool for investors in markets around the world because of their high liquidity, low risk, a wide range of available application.

In generally, government bonds are bonds issued by the government. Issuance of Ukrainian government bonds is regulated by the Law of Ukraine on State Budget of Ukraine for the year, which set size limits of public external and internal debt. This market plays a key role in forming the fiscal and monetary policies of the central bank in order to regulate money supply and the bank liquidity support system.

The reasons of issue government bonds: a portion of the savings of population can be removed and used for economic needs; it constrains and regulates inflation, for instance in terms of inflation growth the government can issue bonds, implement them into domestic market and received cash keep at the National Bank for some time in order not to put it in use.

Ukrainian government bonds are divided into three main types: government bonds and targeted government bonds (inner market) and government bonds (outside market). In time measure, there are long term bond (more than five years); medium term - one to five years; short term - up to one year [1].

The National Bank of Ukraine is responsible for the public debt service related to the issuing of government bonds, and paying their repayment and interest payments. Ministry of Finance is responsible for determine the maturity of bonds, interest rates, and the amount of the volumes of government bonds.

In January-June 2016 the Ministry of Finance of Ukraine has placed bonds worth about 36 billion. UAH. with average yield of 13.14% and 2 bln. dollars. US average called yield of 7.74%. On 23.11.2016 total volume of bonds was about 541 billion. UAH. 66,77% owned by the National Bank of Ukraine, 28,83% - owned by commercial banks, 2,53% - other residents and 1,87 – non-residents [2].

During the first quarter of 2017, Ministry of Finance plans to hold 13 auctions, during which bonds with maturity of 3, 6, 9, 12 months and 2 and 3 years will be offered [3].

At the first primary auction of the year (10.01.2017), the Ministry of Finance received UAH 129.58m of proceeds from the sales of only 1-year and 2-year bonds, keeping interest rates at the usual levels. Of the UAH 440m in total volume in bids, the Ministry of Finance satisfied only UAH 140m (par value), accepting only two bids. As a result, the Ministry of Finance sold UAH 80m (par value) of 12-month bonds and UAH60m of 2-year bonds, maintaining routine conditions, with low proceeds to the budget [4].

Historically, the main part of government bonds is owned by NBU and by commercial banks. The largest part of government bonds owned by others was in 2009 (21,8%) and owned by non-residents was in 2010 (7,65%) [2].

Until 2008 NBU almost was not able to buy government bonds. For instance, the part of government bonds owned by NBU was only 1,1% from the total amount. In 2008 this situation has been changed, as the result the general structure of the owners of government bonds has also been changed and now NBU has a dominant role as the owner of government bonds. Such changes may be caused by the fact that after the financial crises in 2008, the need to raise funds to finance the budget deficit. The government need to increase budget revenues has been growing every year, so authorities has been increased the issuing of government bonds. Starting from 2010, the amount of government bonds owned by others has been decreasing rapidly, as well as the amount of government bonds owned by non-residents. The changes in the number of government bonds owned by non-residents may be considered as changes in the amount of foreign investments.

In 2011 there was an attempt to attract individuals to buy government bonds issued in foreign currency as in that time in addition to traditional reliability (probability of default is estimated by the state almost always lower than for resident banks), they also had relatively higher yield that significantly exceeded the annual profitability of foreign currency deposits in large banks. However, this attempt failed.

In 2016 Ministry of finance plans to liquidate the primary dealers of the inner market government bonds. Banks and clients of securities traders will have direct access to government bonds auctions. The primary dealer has not justified itself because of creating barriers on the market. This may liquidate the problem of limited access to the primary market.

#### Problems of the government bond market:

- complexity of the mechanism of acquisition of government bonds in foreign currency for individuals (high transaction costs)
- misconceptions in law treatment
- small size of the market
- mistrust of the population
- significant risk of devaluation of the Ukrainian national currency
- limited access to the primary market
- the portfolios of non-residents are mainly in foreign currency bonds and in 2015 some of them were blocked in bank accounts at the request of law enforcement
- financial institutions such as insurance companies, pension funds, asset management companies and commercial banks deprived of one of the most liquid financial instruments – government bonds.

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