

GOVERNMENT DEBT OF UKRAINE: TENDENCIES AND CONSEQUENCES

Government debt is an ordinary phenomenon in the world economy. Government debt can be a source of investment and can influence the economic development. However, at the same time it can be a burden for the economy. It is proved that in case of financial instability, countries are forced to borrow on the internal and external financial markets, which can influence the economic stability. What is the case for Ukraine? This paper considers the current tendencies of the government debt of Ukraine. It examines the indicators of government indebtedness and their impact on the economy. The state and structure of the government debt of Ukraine have been analyzed. The results show the existence of a range of risks that can influence the economic development in Ukraine. The risks of high amounts of external government borrowings, the increase of state-guaranteed debt, ineffective usage of borrowed resources, and lack of control have been analyzed. The article presents propositions for the debt management improvement in Ukraine. The importance of government debt of Ukraine decrease has been proved. The propositions to cut the official level of government indebtedness has been expressed. Government borrowings can be an effective instrument for the development of the economy and the infrastructure development, but only on condition of effective usage and maintenance of a limited amount of government indebtedness.

Keywords: government debt, government borrowings, debt management, debt restructuring, sovereign default.

JEL classification: H63, H74, H81

Introduction and Research Problem. Financial systems of different countries in the world in the conditions of globalization and economic crises are characterised by the usage of government borrowings. Public debt is an important element of economic systems and an efficient instrument of the macroeconomic policy of the country. During the recent years, a stable tendency of the government debt increase has been observed in Ukraine. The question of the influence of the government debt of Ukraine on the economic processes and the international competitiveness of the country is of a high importance.

Recent publications analysis. The significance of the government indebtedness in the economic system induces a constant interest of researchers to the problem of the debt management. The problems of government indebtedness were widely studied by foreign scientists, such as R. Barro, Reinhart, M. Carmen, Kenneth S. Rogoff, S. Kitano, E. Borenstein, U. Panizza, C. Niche, P. Rother, L. Zimmermann, P. Bolton, O. Jeanne. Ukrainian economists O. Baranovskyy, T. Bogdan (Vahnenko), N. Zrazevska, V. Kozyuk, I. Liuty, O. Rozko, and others have researched the problems of the government debt.

Unsolved parts of the problem. Based on the significance of the topic of the government indebt-

edness for Ukrainian economy and the tendency of government debt rapid growth, it is important to analyze the indicators of government debt vulnerability and the risks which can appear.

Research goal and questions. The aim of the paper is to analyze the current situation and tendencies of the government debt of Ukraine, pay particular attention to its structure, elements, and influence on the Ukrainian economy.

Main findings. According to the Budget Code of Ukraine, the government debt to GDP should be limited to 60 % of GDP.

Although the results of IMF research show that during the past 30 years 35 % of defaults were registered in countries with the government debt lower than 40 % of GDP, 55 % of defaults happened in countries with the government debt lower than 60 % of GDP. The average level of government debt in the year preceding the default was 50 % of GDP.

According to the research of C.Reinhart and K Rogoff, defaults can happen in the developing countries even if the debt reaches 35 % of GDP [13, p. 2].

In our PhD thesis, we have researched the limited levels of government debt to GDP. To our mind, the most secure level of government debt in relation to a gross domestic product is 30–35 % to GDP.

Besides, we have established that the possibility of the country to service its debt highly depends on the competitiveness of the economy, economic growth, the export potential, and the reputation of the country on the financial markets. Accordingly, every country should establish its own limited numbers of government debt based on the economic potential. To our opinion and the opinion of other Ukrainian researchers [17, p. 5], the limit of the government debt to GDP around 60 % is overestimated and should be decreased.

In general, in order to analyze the debt insolvency, it is not enough to estimate the debt to GDP ratio (which is the most popular); it is important to analyze the government debt structure, the tendency, and the ability of the country to pay. There is a range of indicators proposed by IMF, World Bank, INTOSAI to analyze the government debt vulnerability. We will pay attention to some of them.

The analysis of the government debt to GDP in Ukraine shows that there was a rapid increase of government borrowings in the years of 2014–2015. According to the data of the Ministry of Finance, in 2014 the government debt jumped to 69.4 % of GDP from 39.9 % in 2013.

As we can see in Figure 1, there is some difference in the Ministry of Finance and International Monetary Fund data. It is connected with the difference of the government debt estimation methodology. As we can see, the rates of the International Monetary Fund are higher during all the researched period, which causes misunderstanding in analyzing.

To our mind, the jump of the government debt to GDP rate in 2014 was caused by several factors: political instability, military operations, economic instability, and banking crisis.

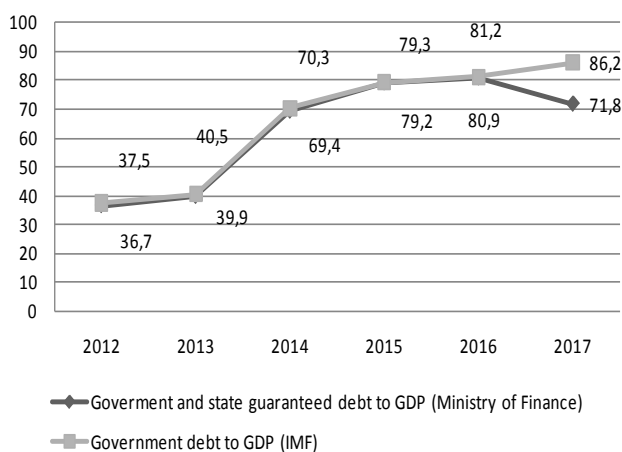


Fig. 1. Government debt to GDP in Ukraine [7; 9]

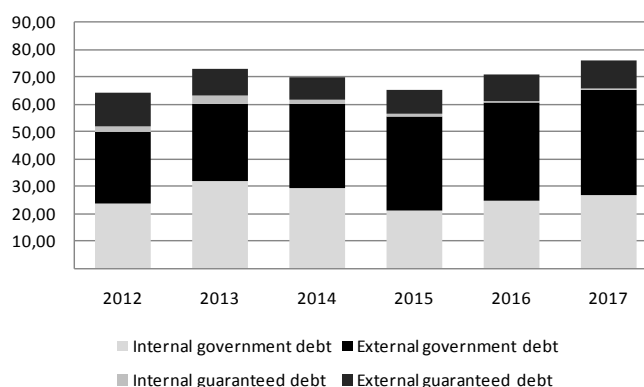


Fig. 2. Government and state guaranteed debt in the years 2012–2017, billion USD dollars [9]

According to the data of the Institute of Strategic Research, in 2013, 1.4 billion hryvnias internal bonds were used for “Oschadbank” capitalization. In 2014, the general amount of budget supporting of state banks was 26.7 billion hryvnias. In 2015 this amount reached 45.3 billion hryvnias. This tendency continued. In the first six months of 2016, the amount of 14.5 billion hryvnias of bonds was issued for bank capitalization [17, p. 12–13]. And in 2017, 70.7 billion hryvnias, or 18.8 % of all internal borrowings, were issued for the capitalization of state banks [14, p. 3].

In 2015 Kyiv municipal authority was not able to service its debt. As a result, 351 million dollars of external municipal bonds were transferred to the government debt [17, p. 12–13].

If we analyze the structure of the government debt of Ukraine (Figure 2), it also has different risks. As we can see, the external government debt predominates in the structure of the government debt of Ukraine. The same situation can be observed with the state guaranteed debt: it is mainly external.

According to the research of S. Kitano, external government debt is one of the indicators of currency crisis [8, p. 10]. That is completely logical, and we can also observe the problems of government debt increase in the time of currency crisis in 2014 in Ukraine (in hryvnia value). In this case, the currency crisis is one of the reasons for the debt crisis in Ukraine.

As we can see from Figure 3, in 2017 Ukrainian hryvnia composed only 30 % of the government debt. To our mind, it is quite a risky factor, especially in the current period of political and economic instability.

If we analyze the external government borrowings, a great part of them are the borrowings from the international financial institutions, especially the International Monetary Fund and the World Bank.

It is worth paying attention that a great variety of scientists criticize the activity of the IMF and the World Bank, as far as the United States of America have the biggest part of votes in these organizations. At the same time, for example, O. Baranovskyy stresses that IMF credits are rather cheeped and favourable for Ukraine, as far as the period of loan payment is usually 3–5 years, and the interest rates are 5.75–6.29 % [1, p. 86]. At the same time, the IMF sets up a range of requirements while giving the credit lines for the Ukrainian government, which are quite disputable among the Ukrainian researchers and civil society. Credit resources of the IMF are used to maintain the stability of the national currency and the current account balance. They are not used for crediting particular sectors of the national economy, and therefore, their influence on the economy is quite disputable.

We would like to note that the credits of the World Bank are cheaper resources of borrowing than bond especially and have a long period of maturity. The credits of the World Bank are not criticised by economists like the loans of the International Monetary Fund. To our mind, credits of the World Bank are more favourable for Ukraine, as they have special goals and the projects are concentrated on the infrastructure development or public services improvement.

The cooperation with the World Bank started in 1992. Over 25 years of cooperation, the Bank’s commitments to the country have totalled close to US\$12 billion in about 70 projects and programs. After the Revolution of Dignity in 2014, the World Bank increased the amount of credit for Ukraine. The current International Bank for Reconstruction and Development portfolio consists of eight investment operations of US\$2.5 billion and one guarantee of US\$500 million. As it was reported by the World Bank, it is planning to wide up the financial support for Ukraine with the aim to reform the public sector, improve public services, for example, district heating, water and sanitation, health, and social protection, and public infrastructure (the power transmission networks and roads) [16, p. 2].

However, it is worth noting that the credits of the World Bank are quite often characterized by the low effectiveness of usage. For example, untill 2000 none of the projects was realized in the total amount.

In the years 2009–2010, as the Accounting Chamber of Ukraine reported, only the commision for the annual projects exceeded 5 million hryvnias [15, p. 5]. From 1993 till the beginning of 2018,

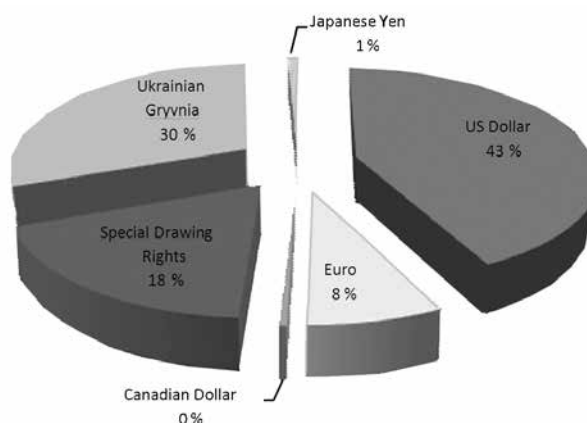


Fig. 3. Currency structure of the government and state guaranteed debt in 2017 [9]

17 projects of the World Bank were dropped [16, p. 2]. The reasons were the following: a lack of specialists; poor control; transfer of responsibility. At the same time, we must admit that recently the World Bank announced the increase of effectiveness of the World Bank loans realization.

Another important element we would like to pay attention to is the amount of the state-guaranteed debt. As we can see from Figure 4, the amount of the guaranteed debt is considerable. It is decreasing from 2015, but still it forms a great part of the public debt and amounts to 10.3 % of GDP. And, as we mentioned before, it is mostly external one.

According to the data of the Ministry of Finance of Ukraine, on 01.01.2018 out of 10.97 billion dollars of the state-guaranteed debt, 1.71 billion dollars, make past-due loans and 290.49 million are the loans of the companies which have already gone bankrupt [9]. As we can see, the state guaranteed debt is a risky element of the public debt of Ukraine, and the companies which receive a guarantee from the state should be examined carefully.

The main indicators of the external government debt include the external government debt to GDP rate and the relation of the external government debt to export.

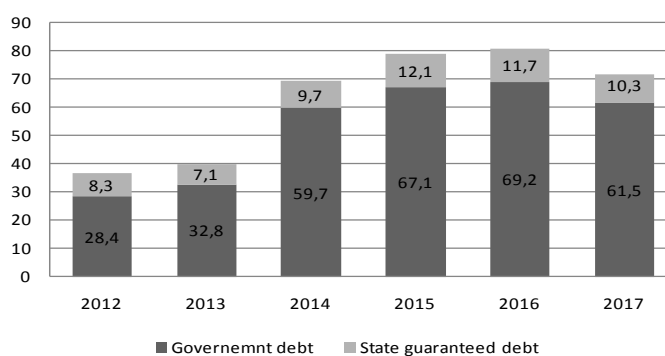


Fig. 4. Government and state guaranteed debt in relation to GDP, % [9]

According to the general requirements, if a country has the external government debt to GDP rate higher than 60 % (we can see it in Ukraine), it belongs to the countries of excessive indebtedness (Figure 5).

The analysis of international reserves to external government rate also shows the low tolerance of the external government debt by international reserves which is a risk factor. Besides, the net international reserves form only a small part of the international reserves of Ukraine. Dependence of international

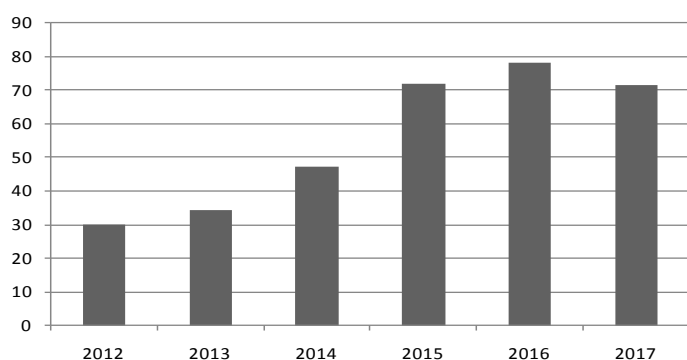


Fig. 5. Relation of external government debt to export, % [9; 10]

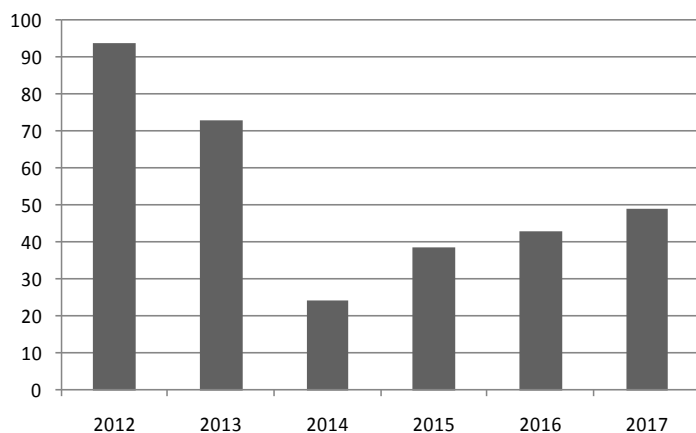


Fig. 6. Relation of international reserves to the external debt in Ukraine, % [9; 10]

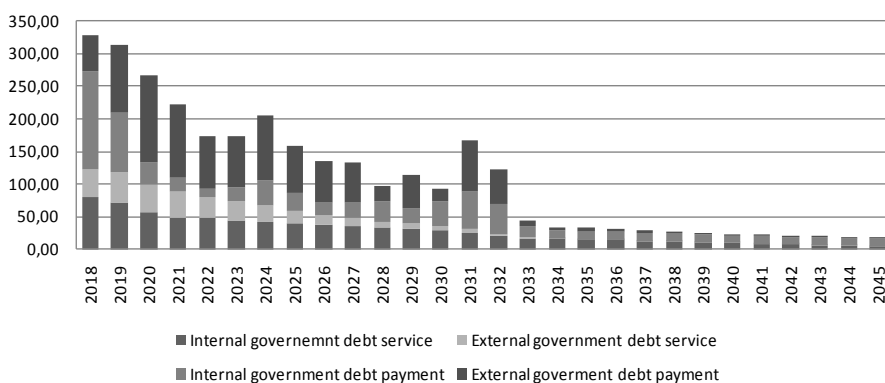


Fig. 7. Government debt payments and service [9]

reserves on the credits of the International Monetary Fund and currency market instability influences further risks.

The country has a possibility to service and repay its external debt in the case of stable economic growth, export receipts, and international reserves availabilities.

In Figure 7, we can see the schedule of the government debt payments and service. According to the data of the Ministry of Finance of Ukraine, the predominant part of costs will be used for servicing and payment of the external debt. It makes a possibility of currency risk appearance.

The government debt of Ukraine was restructured in 2015. A part of the debt was prolonged for 4 years, 20 % of government debt was written off. However, to write off this part of the government debt, the Value Recovery Instruments were issued; they were tied to the gross domestic product till 2040. Payments will occur in the case of achieving the determined debt level and economic growth of 3 %. However, according to the estimations of V. Pynzenyk, this example of restructuring was negative for Ukraine, and it raises the question of its influence on the economic development and growth [12, p. 110–115].

In 2015 Ukraine restructured its debt to avoid the probability of default. The questions of default and default consequences are disputable in the economic literature. Traditionally there are two types of losses of default: the loss of reputation, which can influence restriction of access to the international markets, and direct sanctions, such as seizing property or sanctions in the international trade, which are used by countries-lenders [5, p. 5–10].

Research of E. Borensztein and U. Panizza defines 4 types of default consequences: loss of reputation, losses in the international trade, and losses for the national economy in the financial system, political losses [4; 2].

E. Borenstein and U. Panizza revealed that defaults influence the economic growth, but in the short period. So, there is a decline in the economic growth rate for

2.6 % the first year after default. However, they have not detected a further influence of defaults on the economic growth. At the same time, the researchers discovered a high influence of defaults on the international trade, in particular, on export-oriented branches. However, according to their research, this effect is also short-term and becomes apparent the second year after default [4, p. 1–10].

Gelos, R. Gaston, Ratna Sahay, and Guido Sandleris wrote that a country restores the access to an international market of capital in 4 years [6, p. 12].

As we can see, the effects of defaults are usually short-term, and usually the defaults are not such a financial disaster as society thinks; rather, that is the average statistical data. It is understandable that every country has its own peculiarities. To our mind, a default option can be a risk factor for Ukraine, especially because of the reaction of society, which can cause the instability on the financial market. Therefore, for example, we were able to see the influence of the herd mentality as a model of behavioural economics in the period of the currency crisis in 2014 in Ukraine, when people influenced the further depreciation of Ukrainian currency and an increase of prices. It is also worth mentioning that a lack of financial literacy influences the behaviour of people, in the time of debt or currency crisis as well. In this case, we can assume that the debt crisis, especially the debt defaults are better to be avoided in Ukraine to prevent the social movements which can influence the financial system, and especially the banking system stability.

The research of the Bank of England shows that losses for the countries which have not achieved the agreement with creditors are 3 times higher than for those which were able to restructure their debt. The practice of other countries shows that restructuring of the government debt is a less costly process for the economy than the overcoming the consequences of defaults [3, p. 6].

Nevertheless, it is always important to raise the question and analyze the conditions of the debt restructuring. The conditions of Ukrainian government debt restructuring in 2015 are quite disputable.

The government debt management is the process of creation and implementation of the debt management process with the aim of attracting a considerable amount of resources with the desired value and level of risk. It also includes the control of debt borrowing usage, its effectiveness, and favourable schedule creation.

Research of the European Central Bank shows that the consolidation of expenditures, based on the decrease of the social allowances and cut of the wages in the state institutions, influence the debt

reduction most. In the Ukrainian case, the wages have fallen substantially because of the currency crisis. The ECB research shows that cutting of state subsidies and the expenses on the government institutions influence the government debt reduction, but insignificantly [11, p. 6]. However, to our mind, subsidies and government institutions expenses should be controlled and decreased in Ukraine, and they can positively influence the budget deficit and the government debt reduction.

At the same time, the research shows that a stable and significant economic growth influences the decrease of the government debt [11, p.10]. In this case, we should pay attention to the issuance of the Value Recovery Instruments which are tied to the economic growth rates and can decrease a positive effect of the economic growth on the government debt reduction.

Conclusions and further research proposals.

The research shows the decrease of the government debt to GDP ration in 2017. However, there are a variety of risks connected with the government debt in Ukraine: a high rate of external government debt and its predominance in the structure of the government debt; the currency structure of the government debt; a high amount of state-guaranteed borrowings; a lack of control of the usage of borrowed resources.

To our mind, in order to improve the debt management in Ukraine, the following measures should be considered:

1. Implementation of the strategy of effective government borrowing, avoiding the further increase of government borrowings, selection of the best alternatives, diversification of borrowings in the currency structure, decreasing the number of external government borrowings.

2. Usage of the borrowed resources for financing the competitive industries and infrastructure development.

3. Decrease of the amount of guaranteed borrowing with the further rejection of this instrument usage.

4. Goal oriented usage of borrowed resources and control of effectiveness.

5. Coordination of the schedules of debt payments and services to avoid peaks and burden for the budget for some years.

6. Further revision of the limited amount of the government debt and its decrease to 30–35 % of GDP. Certainly, at the current moment, it is very hard to decrease the amount of the government debt in Ukraine. However, to our mind, the decreased limited number should be set up and followed in the future.

Further research may be focused on the international experience of the government debt reduction and the possibility to use it in Ukraine.

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Слав'юк Н. Р.

ДЕРЖАВНИЙ БОРГ УКРАЇНИ: ТЕНДЕНЦІЇ І НАСЛІДКИ

Державний борг є звичайним явищем економічної системи. Державні запозичення можуть бути джерелом інвестиційних ресурсів і впливати на економічний розвиток країни. Але водночас державний борг може бути і тягарем для економіки. В умовах фінансової нестабільності країни часто вдаються до запозичень на внутрішніх і зовнішніх ринках капіталу. Однак значні темпи нарощування державної заборгованості можуть становити загрозу для економіки країни. Метою дослідження є аналіз стану та структури державних запозичень в Україні. В статті проведено оцінку тенденцій державної заборгованості та можливих загроз для економіки країни, висловлено пропозиції щодо подальшого обмеження граничного розміру державного боргу. При написанні статті використано загальнонаукові та спеціальні методи пізнання. Зокрема, за допомогою діалектичного методу пізнання, логічного та формально-логічного методів, методів порівняння та синтезу було досліджено значення державного боргу та можливі ризики, що виникають у зв'язку з нарощуванням державних запозичень в Україні. Методи аналізу та синтезу було використано при здійсненні оцінки державної заборгованості в Україні. Проведене дослідження дало змогу зробити висновки про необхідність зменшення державної заборгованості України, контролю за граничними розмірами державних запозичень, необхідність дотримання оптимальної структури запозичень та обов'язкового контролю за їх використанням. У статті висловлено пропозиції щодо вдосконалення системи управління державним боргом України. Результати дослідження можуть бути використані для подальшого аналізу впливу державної заборгованості на економіку України. Державні запозичення можуть бути ефективним ресурсом для розвитку окремих галузей, розбудови інфраструктури, але лише у разі ефективного використання та дотримання граничних розмірів державної заборгованості.

Ключові слова: державний борг, державні запозичення, управління державним боргом, реструктуризація боргу, суверенний дефолт.

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