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PUBLIC DEBT OF UKRAINE: ANALYSIS OF CURRENT PROBLEMS AND MANAGEMENT STRATEGIES

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The article examines causes of public debt origin and its increase in Ukraine. The current problems and consequences of the impact by a high level of debt burden on the economy of Ukraine are disclosed. The dynamics of the main indicator (debt to GDP ratio) for the period 2012-2016 are represented. The tendency of growing debt during 2012–2017 is analyzed. Strategies for public debt management are proposed with a view to reduce its volume and further economic growth in Ukraine.

Keywords: Public debt, debt burden, budget deficit, GDP, ratio of public debt to GDP, management of government debt, debt obligation.

Problem statement. The primary assignment of the country's economic policy, according to the stability of its financial system, is to manage and service the country's public debt. Government debt is an important tool, ineffective use of which may create conditions for the contravention of the stable functioning of the economy. For Ukraine, this aspect is quite problematic, and as a result is relevant, because the country experiences significant annual growth of public debt, the imperfection of the legislative framework and the mechanism of debt management and its servicing. Therefore, establishment of strategies and providing efficient solutions regarding the public debt are among the priority tasks of Ukrainian government.

Analyses of recent studies and publications. Debt burden investigation focuses on Ukraine's public debt at current stage of development [1; 5], the identification of topical problems and debt policy [3], cooperation with IMF [6], the study of the main indicator of the debt burden [8; 9], the determination of further prospects [10]. Nevertheless, the issue of public debt requires detailed analysis, the search of priority and urgent reasons for the emergence of debt, and the formation of effective strategies to reduce amount of public debt in order to increase the level of economic security of the state.

Selection of previously unsettled parts of the general problem. This paper puts more emphasis on the identification of the topical causes of the emergence and growth of debt in Ukraine. There is an increasing focus on present conditions of public debt and its indicators, that enables proceed the calculations and illustrate the current situation and structure of Ukrainian government debt.

Purpose of research. The main tasks of the article are the investigation of the current state of debt load in Ukraine, and identification methods and strategies for efficient debt management.

Presentation of the research material. Public debt is an important component of government finances. The need for analysis of the dynamics and structure of public debt is caused by the need to determine the priorities of the government's debt policy, the objectives of public debt management at the current stage and in the future, its impact on the state of government finances, etc. The current

economic situation in Ukraine is characterized by the rise in debt burden [1, p. 66].

The main cause of the emergence and increase of public debt is the chronic shortage of the budget of Ukraine. There is a correlation between the size of the budget deficit and the public debt. The budget deficit increases government debt and the increase in debt, in turn, requires additional budget expenditures for its servicing, and thus increases the budget deficit. The volume of the budget deficit reflects all changes in the size of the public debt, including those that are caused by the influence of inflation.

The other important reasons for the creation and increase of public debt are:

- increase of state expenditures without corresponding growth of state revenues;
- cyclical recessions and automatic stabilizers of the economy;
- reduction of taxes with the aim to stimulate the economy without appropriate adjustment (reduction) of state expenditures;
- the impact of political business cycles (excessive increase in government spending before the election in order to gain popularity among the electors and the preservation of power) [2, p. 129].

Nowadays, the growth of debt in Ukraine is directly influenced by increasing burden on the expenditure part of the state budget – defense expenditures, support for internally displaced people, provision of budget support to state banks and companies (JSC "Oschad-Bank", JSC "Ukreximbank", NJSC "Naftogaz of Ukraine", Deposit Guarantee Fund of individuals), the growth of debt repayments, along with an increase in the amount of state and guaranteed by the state debt; underperforming the revenue side (reducing of tax revenues, underperforming state property privatization plans, revenues from state guarantees, non-payment of overdue debts); devaluation of hryvna; attraction of external financial resources on not always favorable conditions [3, p. 106].

According to the Ministry of Finance on September 30, 2017, the total public debt of Ukraine was 77.03 billion dollars, including the state debt – 65.03 billion dollars (84.40%), and the state-guaranteed debt – 12 billion dollars (15.60%) (table 1) [4].

According to the 2012–2017, the analysis of the indicators (table 2) shows that over the last six years the total amount of state and guaranteed by state

Table 1

State debt and guaranteed by state debt on 30.01.17, bln

	USD	UAH
Total sum of state and guaranteed by state debt	77,03	2 043,03
State debt	65,03	1 724,72
Domestic debt	26,38	699,72
External debt	38,65	1 025,00
Guaranteed by state debt	12,00	318,31
Domestic debt	0,76	20,03
External debt	11,25	298,28

Source: [4]

Table 2

Dynamics of state and guaranteed by state debt in Ukraine in 2012-2017, bln UAH

	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016	30.09.2017
Total sum of state and guaranteed by state debt	515,51	584,79	1 100,83	1 572,18	1 929,81	2 043,03
State debt	399,22	480,22	947,03	1 334,27	1 650,83	1 724,72
Domestic	190,30	256,96	461,00	508,00	670,65	699,72
External	208,92	223,26	486,03	826,27	980,19	1 025,00
Guaranteed by state debt	116,29	104,57	153,80	237,91	278,98	318,31
Domestic	16,21	27,13	27,86	21,46	19,08	20,03
External	100,08	77,44	125,94	216,45	259,89	298,28

Source: [4]

debt has increased in 4 times, including the state debt – 4,3 times, and guaranteed by state – 2,7 times.

Against the background of a sharp increase in state debt, the amount of guaranteed by state debt also increased, but at a relatively moderate pace [5, p. 10]. In just six years, the amount of such debt increased in 2,7 times, including domestic – 1,2 times and external – 2.9 times.

Analyzing the dynamics of government debt and loan obligations in 2016, it should be noted that last year the tendency towards its sharply threatening growth, which was evident in 2014 and 2015, has considerably slowed down. In particular, if in 2014 and 2015 the respective indicators were 88,24% and 42,82%, then in 2016 the state and guaranteed by state debt increased by 22,74%, that is almost twice less than in 2015, and four times less than in 2014 (fig. 1) [5, p. 10].

During the period of 2012–2017, the size of debt of Ukraine has steadily increased (fig. 2). Such a rapid growth of Ukraine's state debt and state foreign debt in particular, leads to increased financial dependence on creditors and threatens its financial and economic security [6, p. 161].

Overall, during the years of cooperation with the IMF Ukraine has received almost 69% of the total amount of loans from international financial institutions. The largest payments occurred in 2013.

The importance of foreign loans for Ukraine lies in the fact that the government can raise funds that lead to overcoming the problems of fiscal and budgetary system and structural modernization of the economy. Therefore, cooperation with the IMF at a certain stage of Ukraine's development has become a very profitable and necessary [6, p. 156–157].

In addition to assessing the volume and structure of borrowing by the state, the meaning of the use of borrowed funds becomes important for the study of the effectiveness of debt policy [1, p. 66].

The current economic situation in Ukraine is characterized by a looming rise in debt burden. The growth of the state and guaranteed by state debt in 2016 was caused by the devaluation of the national currency, financing of the state budget deficit, the capitalization of state-owned banks, including the case of the transition to state ownership of PJSC CB "PrivatBank" [4].

Considering the debt impact on the economy, the consequences of such phenomena can be divided into short-term and long-term. Short-term – are the consequences of the budget deficit, known as the effects of "displacement" (the effects of displacement of investments and net exports). The long-term economic consequences of a public debt are known as the "debt burden" [2, p. 130].

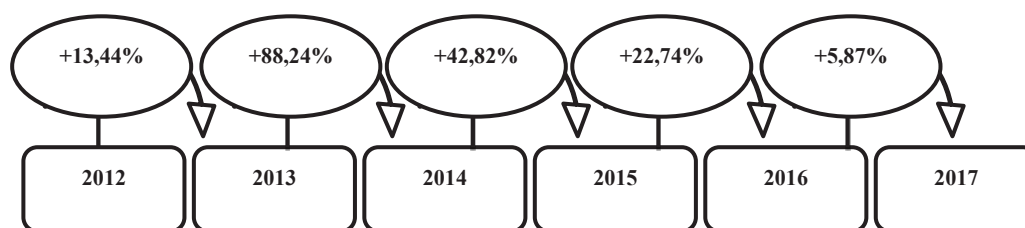


Fig. 1. Percentage growth of public debt in 2012–2017

Source: compiled and calculated by author according to the data of Ministry of Finance [4]

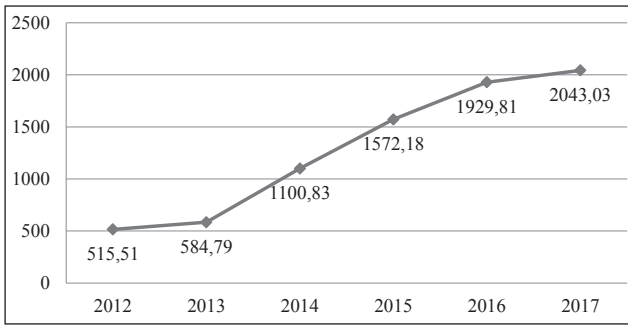


Fig. 2. Tendency of growing debt in 2012–2017

Source: compiled by author according to the data of Ministry of Finance [4]

This indicator [debt burden] is characterized by the ratio of the size of the public debt to the value of the aggregate income (GDP) and depends on the size of the real interest rate, which determines the size of payments on debt, the growth rates of real GDP and the magnitude of the primary budget deficit [7, p. 253].

Excess of government debt over GDP is considered potentially dangerous indicator for the stability of the economy, especially for the sustainable monetary circulation [8, p. 587]. In accordance with the requirements of the Maastricht Treaty, public debt should not be higher than 60% of the country's GDP. If the value of this indicator exceeds the critical level, then it informs about the threatening state of economic security of the country [9, p. 28]. The ratio of Ukraine's government debt (%) to the gross domestic product during 2012–2016 is presented in Table 3.

In order to represent a change in the ratio of the state and guaranteed by state debt to GDP and its compliance according to the above indicators, the dynamics of this ratio is shown in the Chart 1.

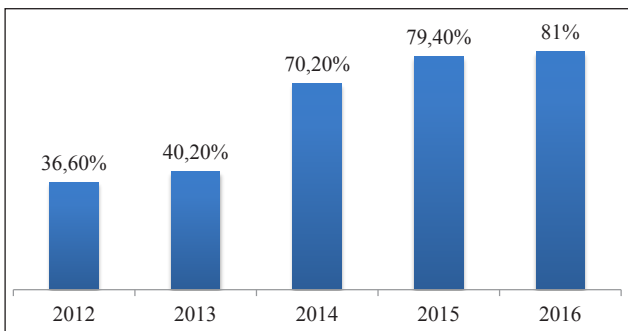


Chart 1. Ratio of government debt to GDP in percentage form over 2012–2016

Source: compiled and calculated by author according to the data of Ministry of Fi-nance [4]

As can be seen from the chart, ratio of government debt to GDP in percentage points rose rapidly in 2014. Consequently, the chart reflects the non-compliance to the specified legislative norm from 2014. The chart also reflects the tendency of an increase in the indicator, which negatively affects the debt security of the state and is determinative for it [5, p. 15].

During 2015–2018, Ukraine needs about \$40 billion to cover the "financial hole" that arose as a result of the geopolitical conflict in the east and the irrational economic policies of the country's previous leadership. It will be difficult for Ukraine to cover financial gaps, so cooperation with the IMF is an important factor in further economic development of the country and fulfillment of external obligations. Cooperation with the IMF allows to attract the financial resources of international organizations, governments of other countries and private ones [10, p. 5–6].

Efficient public debt management must be established with the goal to provide the state's debt security. That is a compliance to the such level of government debt that satisfies the needs of the state in financial resources, enables the stability of the country's financial system to be maintained and does not put in jeopardy the ability of the state to fulfill its functions and obligations in accordance to repayment and servicing of debts in particular [11, p. 358].

First of all, one of the main criteria for debt burden (the ratio of state and guaranteed by state debt to GDP) should be reduced from 60% to 35–40% in Ukraine, what would allow to determine more substantiated debt policy objectives [3, p. 109].

Realization of such assignment includes:

- Improvement of legislative provision for the formation and servicing of public debt, in particular the adoption of the Law of Ukraine "On Public Debt of Ukraine";
- Development of a well-established strategy for attracting loans, both domestic and external;
- Conducting the inventory of public debt;
- Changes in the structure of public debt and its transfer to long-term servicing;
- Reduction in the cost of borrowed funds and, accordingly, the cost of servicing public debt;
- Monitoring and forecasting of the conditions, preparing political decisions projects according to the volume, structure, cost and other parameters of public debt [12, p. 464].

It is also necessary to implement **conversion** and **consolidation** of public debt.

Conversion – a change in the profitability of a loan. The state often reduces the amount of interest paid on the loan. However, the increase in the profitability of a loan is not excluded [12, p. 457].

The debt conversion can take such forms: 1) debt redemption; 2) capitalization of debt (ex-

Table 3

Public debt, GDP and percentage ratio over 2012–2016 years

Indicators	Years				
	2012	2013	2014	2015	2016
Total public debt, bln UAH	515,51	584,79	1 100,83	1 572,18	1 929,81
GDP, mln UAH	1408889	1454931	1566728	1979458	2383182
Ratio of the public debt to GDP, %	36,6 %	40,2%	70,2 %	79,4%	81%

Source: compiled and calculated by author according to the data of Ministry of Fi-nance [4]

change of external debt for property with a discount); 3) debt-to-debt conversion (replacing of existing debt obligations to the new ones: the percentage of income may be lower, the nominal value of new obligations may be less, the currency of the debt may change) [2, p. 133].

Consolidation – a change in conditions of the loan, related to its terms (the transformation of short-term obligations on the long- and medium term) [11, p. 358].

It is also should be noted that foreign direct investment helps the external debt management, which involves the importation of capital into the country (in monetary or commodity form), and does not create debt obligations [2, p. 131].

Nowadays, it is determined that the Ministry of Finance, while managing the public debt, did not provide submission for approval of regulatory acts that define the priorities and assignments of managing the government debt in the short, medium or long-term perspective [5, p. 22].

According to the Ministry of Finance explanation, nowadays it is impossible to bring the volume of state debt and guaranteed by state debt into compliance with the requirements of the Budget Code of Ukraine without the following prerequisites:

- stabilization of the macroeconomic situation in the country,
- revision of the financial and fiscal policy of the state in order to reduce the expenditures of the state budget, increasing the incomes,
- adoption of a entailing no deficit budget.
- freezing the increase of all social standards,
- limiting investment from the budget.

Establishment of such measures is impossible in conditions, when the state has to protect its territo-

ry from external aggression or to overcome unforeseen occasions that have caused significant damage to the economy, because for the stabilization of the situation, it is necessary to take fast and capital-intensive measures, the financing source of which is often the funds of state loans. According to this explanation, after the stabilization of the situation and the termination of the ATO, the Government will be obliged to submit a plan of measures to bring the total amount of debt to the established requirements (if such excess takes place) for approval by the Verkhovna Rada of Ukraine [5, p. 16].

Conclusions from research and prospects. The investigations show that the public debt is an important part either of government finances and the economy in general. The dynamics of debt should be controlled by the central government body because of the need to establish the policy about the debt management at the actual period and for the future.

Based on the results of the analysis of the public debt and the investigation of the current state of debt load in Ukraine, it can be concluded that the current level of economic security in the country is threatening, according to the tendency of a rapid growth of the volume of external and domestic debt.

Public debt can reach a fairly large size, but it must always be in some degree dependent on GDP. Excess of the national debt index relatively to the limited size of GDP, and hence other macroeconomic indicators, begins to pose a threat to the country's economic security.

Therefore, the Government of Ukraine should develop the right strategies and manage the public debt in order to provide the debt security of the state and its economic growth.

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ДЕРЖАВНИЙ БОРГ УКРАЇНИ: АНАЛІЗ ПОТОЧНИХ ПРОБЛЕМ ТА СТРАТЕГІЇ ПО УПРАВЛІННЮ

Анотація

У статті розглянуті причини виникнення і збільшення державного боргу в Україні. Розкрито поточні проблеми і наслідки впливу високого рівня боргового навантаження на економіку України. Динаміка основного показника (відношення боргу до ВВП) за період 2012–2016 роки представлена. Проаналізовано тенденцію зростання боргу з 2012–2017 роки. Запропоновано стратегії управління державною заборгованістю з метою зменшення її об'єму і подальшим економічним зростанням України.

Ключові слова: Державний борг, боргове навантаження, дефіцит бюджету, ВВП, відношення державного боргу до ВВП, управління державним боргом, боргове зобов'язання.

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ГОСУДАРСТВЕННЫЙ ДОЛГ УКРАИНЫ: АНАЛИЗ ТЕКУЩИХ ПРОБЛЕМ И СТРАТЕГИИ ПО УПРАВЛЕНИЮ

Аннотация

В статье рассмотрены причины возникновения и увеличения государственного долга в Украине. Раскрыты текущие проблемы и последствия влияния высокого уровня долговой нагрузки на экономику Украины. Динамика основного показателя (отношение долга к ВВП) за период 2012–2016 годы представлена. Проанализирована тенденция роста долга с 2012–2017 годы. Предложены стратегии управления государственной задолженностью с целью уменьшения ее объема и дальнейшего экономического роста Украины.

Ключевые слова: Государственный долг, долговая нагрузка, дефицит бюджета, ВВП, отношение государственного долга к ВВП, управление государственным долгом, долговое обязательство.