PUBLIC DEBT MANAGEMENT IN THE SYSTEM OF COUNTRY'S DEBT SECURITY ENSURING

УПРАВЛЕНИЕ ГОСУДАРСТВЕННЫМ ДОЛГОМ В СИСТЕМЕ ОБЕСПЕЧЕНИЯ ДОЛГОВОЙ БЕЗОПАСНОСТИ СТРАНЫ

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Abstract. *The relevance of this study is related to the growing importance of reasoning the recommendations for the development of a balanced debt policy in accordance with the real state of public debt and the implementation of efficient measures on public debt management given the growing risks of deteriorating debt security of national economies. This paper is aimed at studying the public debt management as an integral part of the system of country's debt security ensuring, determining the current features and trends of public debt formation in Moldova and Ukraine and on this basis reasoning the recommendations towards public debt problems adjustment in the context of debt security. The study has been conducted using historical and logical methods, methods of generalization and abstraction, analysis and synthesis, a systematic approach. The comparison of the situation in the field of public and, in particular, external debt in Moldova and Ukraine is based on a comparative analysis of indicators that characterize the state of debt, the level of debt security and solvency of countries. Taking into consideration the state of indebtedness and the level of debt security of Moldovan and Ukrainian economies and based on the international experience of debt policy implementation and debt security ensuring, the prior measures for public debt management improving in both countries have been defined.*

Key words: *public debt, public debt management, domestic and foreign debt, debt policy, debt security.*
JEL: *F34, F52, H63*

1. Introduction

Public debt nowadays is an integral part of the financial systems of the vast majority of countries and. Given the efficient use of borrowed funds, public debt is rather an efficient tool for implementing the economic strategy of the state. The sensitivity of the national economy to the size of public debt depends on many factors, including the level of financial market development, the quality of its infrastructure, the level and historical dynamics of debt, the ability of government and central bank to solve the most acute problems of public debt management.

Alongside it, in recent decades the tendency of increasing dependence of the national economies on domestic and foreign borrowings has been observed, which potentially increases the risk of debt crisis and reduces the level of countries' debt security. The experts of World Economic Forum identify the current high level of countries' debt as one of the most significant global risks. According to the International Monetary Fund, the level of debt burden is particularly significant in those countries whose financial sectors are systemically important for the global economy, reaching 250% of GDP. Moreover, according to the Global Financial Stability Report, over time, there is an increase in the level of debt, as far as in 2008 it averaged 210% [IMF, 2018].

Theoretical and empirical aspects of study of the public debt formation and service, debt policy implementation and countries' debt security assurance are presented in the analytical papers of the experts of the International Monetary Fund, the World Bank, the Bank for International Settlements, in the research works of foreign and Ukrainian scholars – B.M. Friedman [Friedman B.M., 2014], I. Liutyi [Liutyi I., Zykova S., 2019], T. Vakhnenko [Vakhnenko T., 2015], etc. The problems of ensuring countries' economic and, in particular, debt security are studied by O. Bulatova and O. Hrybinenko [Hrybinenko O., Bulatova O., Zakharova O., 2020], S. Londar [Londar L., 2016], O. Vlasyuk [Vlasiuk O., Shemaieva L., Londar L., 2016], etc.

However, due to a number of economic, political, social factors, the situation in the sphere of public debt in the vast majority of countries is very vulnerable. Countries' external debt in terms of financial globalization tends to increase, and the debt security indicators of the national economies show that the situation in the debt sphere is quite volatile. That is why, despite the large number of studies in this area, the task of reasoning the recommendations for the development of a balanced debt policy in accordance with the real state of public debt and the implementation of efficient measures on public debt management to achieve its secure level remains relevant.

2. Methodology

This paper is aimed at studying the public debt management as an integral part of the system of country's debt security ensuring, determining the current features and trends of public debt formation in Moldova and Ukraine and on this basis reasoning the recommendations towards public debt problems adjustment in the context of debt security.

To achieve this goal, historical and logical methods, methods of generalization and abstraction, a systematic approach, analysis and synthesis, structural and functional analysis, statistical methods are applied. The comparison of the situation in the field of public and, in particular, external debt in Moldova and Ukraine is based on a comparative analysis of indicators that characterize the state of debt, the level of debt security and solvency of countries. In particular, the dynamics of absolute and relative indicators are analyzed, including: Public Debt (USD million), Gross External Debt (USD million), Public Debt to GDP Ratio (%), External Debt to Export Ratio (%), External Debt per Capita (USD), International Reserves to **External** Debt Ratio (%), Total Reserves in Months of Imports. The statistical base of the survey is represented by the official reports and statistical databases of the International Monetary Fund, the World Bank, UNCTAD.

3. Results

The existence of public debt is an objective consequence of government borrowing. The Budget Code of Ukraine determines public debt as the total amount of the state debt obligations to repay received and outstanding loans (borrowings) on the reporting date, arising from government borrowing [The Budget Code of Ukraine, 2010]. Government borrowings are an important tool for ensuring the performance of state functions and economic growth accelerating. However, excessive accumulation of public debt can exacerbate the problems of state solvency, lead to the impossibility of its maintenance and entail a debt crisis.

The state budgets in Moldova and Ukraine have for many years been formed with a deficit, which requires the use of internal and external borrowing to finance the gap between revenues and expenditures. This is the main reason for the growth of public debt in nominal dimension. In addition, after the global financial crisis, the government had to issue debt instruments in large quantities, in particular, to stabilize the banking system, and to attract funding from the IMF [Liutyi I., Zykova S., 2019].

Nowadays, under the impact of internal factors and external challenges, Ukraine's financial system has suffered and continues to suffer significant losses, which is reflected in the deterioration of almost all its components, in particular, the growing imbalances of state and local budgets, some manifestations of instability of the banking system, exacerbation of debt problems, declining liquidity of the state, etc. Among the main reasons for the increase in public debt are the following: annexation of the Autonomous Republic of Crimea and the military conflict in the East of Ukraine, political and socio-economic crisis, the need for the governmental support of state enterprises and banks, small and medium business, destruction of infrastructure and most industrial facilities in the temporarily occupied territory of the country. The main macroeconomic factors that have led to a critical increase in the debt burden in recent years are: a sharp decline in real GDP, declining domestic consumer demand due to inflation and the lack of significant growth in household incomes, the negative impact of the real interest rate of the National Bank of Ukraine on the debt sector and the restrictions of the capital market functioning [Vlasiuk O., 2016; Liutyi I., Zykova S., 2019].

The growth of public debt in Ukraine was also influenced by a number of budgetary factors including: a sharp increase in the state budget deficit due to lower budget revenues and an increase in budget expenditures (including expenditures on security and defense, financial and social support for internally displaced persons, social support for the Joint Forces Operation participants and volunteers, etc.); the need to cover the deficit of the Pension Fund at the expense of budget revenues; the need for further budget support for state-owned enterprises and banks; increase in the state budget expenditures on the domestic government bonds service [Liutyi I., Zykova S., 2019]. An important factor of exacerbating the budget deficit and public debt problems in Moldova and Ukraine is the growth of expenditures on health care due to the COVID-19 pandemic.

Therefore, the importance of public debt management as an element of national economic policy is growing, which requires the formation of an efficient debt policy. Current debt policy both in Moldova and in Ukraine in terms of external challenges and internal threats needs to be improved in order to ensure the stability of the national financial system. This task is especially relevant given the volatility of the situation in the debt sphere, which is confirmed by the dynamics of the public debt. During the period under analysis, Moldova's public debt has almost tripled, while Ukraine's debt has more than quadrupled (Figure 1).

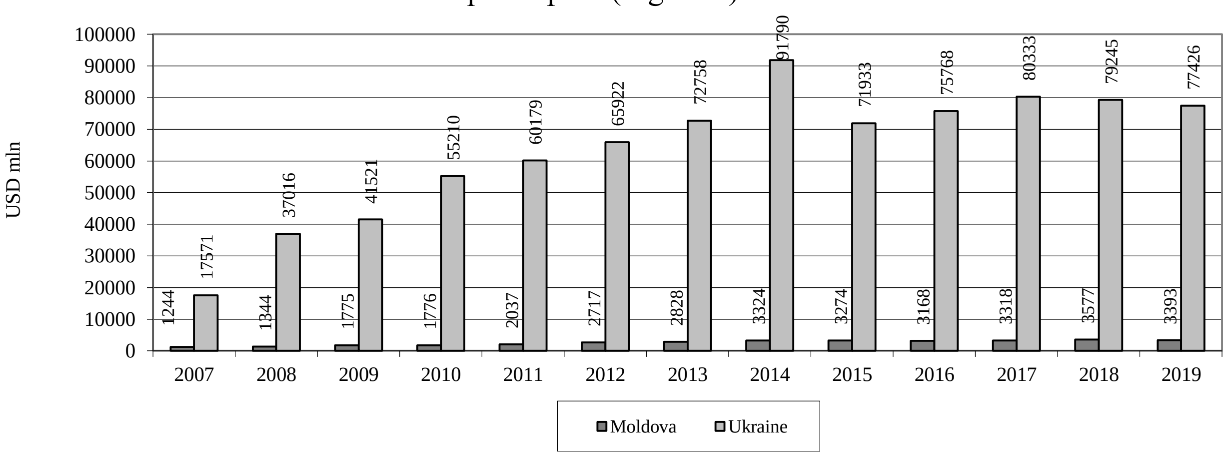

Figure 1. Public Debt of Moldova and Ukraine, 2007-2019, USD million

Source: IMF, World Bank

Given the limited own financial resources and deepening financial globalization, there is an increase in demand for borrowing from external sources, resulting in the formation of external debt. External public debt is the debt of the state to foreign lenders, mainly states, banks and international financial organizations. External public debt is a part of the total external debt, which also includes the debt of the private sector. During 2007-2019 Moldova's gross external debt more than doubled, and Ukraine's external debt increased by 50 percent (Figure 2).

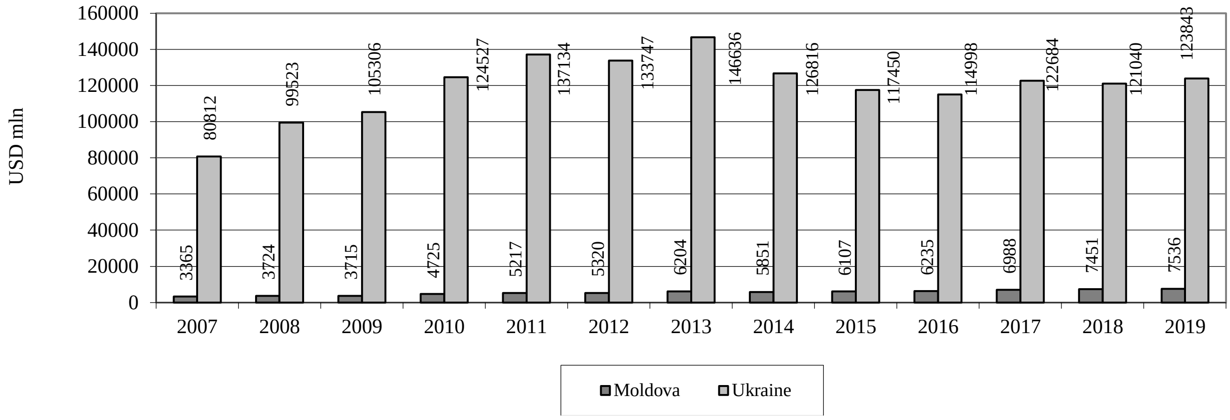

Figure 2. Gross External Debt of Moldova and Ukraine, 2007-2019, USD million
Source: IMF, World Bank

In order to compare the situation in the field of debt security in Moldova and Ukraine, the relative indicators of indebtedness and solvency of both countries have been analyzed (Table 1).

Table 1. The indicators of debt and solvency of Moldova and Ukraine, 2007-2019

Indicator	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Moldova													
Public Debt to GDP, %	28.3	22.2	32.6	25.5	24.2	31.2	29.8	35.0	42.4	39.2	34.3	31.6	28.4
External Debt to Export, %	167.8	150.7	185.2	243.4	190.5	196.2	203.6	197.4	247.2	239.1	232.4	215.8	200.5
External Debt per Capita, USD	815	906	907	1156	1279	1305	1522	1437	1500	1534	1721	1839	1864
The International Reserves to **External** Debt Ratio, %	39.6	44.9	39.8	36.4	37.7	47.3	45.5	36.9	28.8	35.4	40.1	40.2	40.6
Total Reserves in Months of Imports	3.7	3.5	4.5	4.6	4.0	5.1	5.4	4.2	4.3	5.5	5.9	5.3	5.2
Ukraine													
Public Debt to GDP, %	12.3	20.5	34.7	39.9	35.9	36.6	40.1	70.2	79.4	81.0	71.8	60.9	50.3
External Debt to Export, %	133.5	124.6	204.8	194.6	168.7	159.4	186.2	195.5	245.3	249.9	227.8	204.6	195.6
External Debt per Capita, USD	1743	2156	2291	2719	3006	2942	3238	2811	2615	2572	2758	2736	2815
The International Reserves to **External** Debt Ratio, %	40.2	31.7	25.2	27.8	23.2	18.4	13.9	5.9	11.3	13.5	15.3	17.2	20.4
Total Reserves in Months of Imports	5.3	3.6	5.2	5.4	3.7	2.7	2.3	1.2	3.1	3.2	3.2	3.1	3.5

Source: IMF, World Bank, UNCTAD

The level of debt security of Ukraine compared to Moldova is lower according to the indicators of the Public Debt to GDP Ratio, External Debt per Capita, International Reserves to **External** Debt Ratio, Total Reserves in Months of Imports. The dynamics of the indicator of External Debt to Export Ratio in Ukraine is slightly better than in Moldova. Alongside it, the level of some indicators in both countries (External Debt to Export Ratio, External Debt per Capita) exceeds the threshold recommended by international organizations. For instance, the external debt is considered to be normal if its amount per capita does not exceed 200 USD.

In general, one can state slight improvement of some debt indicators in both countries in 2019. Alongside it, further prospects for the development of the public debt situation are rather uncertain. This is due both to the expected worldwide slowdown in countries' economic growth and the corresponding deterioration of the global economic situation, as well as to the formation of tighter and changing conditions in the global financial environment. The latest global non-economic factor that is shaping current challenges to debt security is the COVID-19 pandemic. Increasing the risks threatening Moldova's and Ukraine's financial systems and debt sustainability requires the development of a flexible adaptive system of public debt regulation.

The efficient system of public debt management should include three interrelated processes: selection of the appropriate type of financing; decision on the amount of borrowings; maintaining full reporting on government debt. The main criterion for the efficiency of public debt operations is achievement of the state budget fund savings [Liutyi I., Zykova S., 2019].

The main purpose of public debt management is to attract the necessary financing at the lowest possible cost, taking into account the risks. In this regard, four main goals of public debt management have been identified in the Medium-Term Public Debt Management Strategy for 2019-2022 (approved by the Cabinet of Ministers of Ukraine), namely: increasing the share of public debt nominated in the national currency, extending the medium maturity and ensuring a uniform schedule of public debt repayment, attracting long-term concessional financing, developing strong relations with investors and further public debt policy improving. The Strategy also contains an indicative action plan for the next two years, which provides, in particular, the possibility of issuing government bonds in euros and other currencies which don't have a high level of correlation with the Ukrainian hryvnia, issuing government bonds in hryvnia for international investors, expanding cooperation with the international financial institutions and foreign governments on preferential financing [Medium-Term Public Debt Management Strategy for 2019-2022, 2019].

An important prerequisite for the efficient functioning of the public debt management system is the choice of an effective model of debt policy. IMF experts distinguish three models of debt policy:

- the model of budget incentives (it provides for a coordinated budget and monetary policy to stimulate effective demand and economic growth by increasing government spending; it may result in short-term increase in the budget deficit);
- the model of budgetary consolidation (it consists in the achievement of control over the budget deficit and ensuring a reduction in the public debt growth rate; this can be achieved by a coordinated reduction of the budget expenditures and increase in the tax burden);
- the model of "financial suppression" (the government achieves an acceptable level of debt burden by creating a situation of simultaneous high inflation and relatively low nominal interest rates for commercial loans and government borrowing) [Vlasiuk O., Shemaieva L., Londar L., 2016].

Given the specifics of the Moldovan and Ukrainian economies functioning and the public debt formation, both countries have to develop their own model of debt management. Taking into account international experience in implementing debt policy and ensuring financial security, recommendations of leading domestic and foreign scholars, priority areas for improving public debt management in Moldova and Ukraine should include the following ones:

- development and implementation of a long-term public debt management strategy, consistent with the relevant short-term programs and medium-term strategies;
- close coordination of the public debt management system with the budgetary and monetary policy;
- revision of the structure of received loans, reorientation to loans in national currency, which allow to eliminate currency risks;
- intensification of the use of macroprudential tools to regulate borrowings;
- introduction of measures to overcome budget imbalances by continuing budget consolidation, increasing state budget revenues by improving the administration of taxes and customs payments, fighting corruption and shadow economy;

- improving the methodology for assessing the level of debt security, the implementation of the IMF methodology for assessing the debt sustainability of the economy;
- improvement of debt policy in terms of institutional regulation of state guarantees;
- transformation of sources of external financing by means of the gradual reorientation from attracting loans to foreign direct investment, which does not cause the accumulation of external debt;
- development of the financial market in general and the securities market in particular, in order to shape conditions for intensifying the processes of lending operations securitization.

The implementation of the above mentioned measures will allow to promote the debt sustainability and predictability of economic development, taking into account possible internal and external risks.

4. Conclusion

The problem of debt growth nowadays has become a global trend and is identified as one of the most serious risks to the functioning of the world economic system in general and national economies in particular. The level of debt security of Ukraine compared to Moldova is lower according to most indicators of indebtedness and solvency. Alongside it, the level of some indicators in both countries exceeds the threshold recommended by international practice. Moreover, further prospects for the development of the public debt situation are rather uncertain due to the expected worldwide slowdown in countries' economic growth and the deterioration of the global economic situation, the vulnerable conditions in the global financial environment. An important factor of exacerbating the budget deficit and public debt problems in Moldova and Ukraine is the growth of expenditures on health care due to the COVID-19 pandemic.

The optimization of debt policy in order to increase the level of financial security of Moldova and Ukraine requires the development and implementation of a complex strategy that combines the tasks of improving the institutional support of debt policy, taking into account short-, medium- and long-term markers of public debt management, debt burden reduction, reorientation to borrowing in the national currency and the development of alternative, non-loan instruments for financing budget expenditures. At the same time, national debt policy must be flexible and adapt quickly to changing conditions of the internal environment and external challenges.

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