УДК 336.27

PUBLIC DEBT: STATE AND PROBLEMS OF MANAGING

SLAVIUK N. R.
PhD student
Kyiv

Financial instability of the world capital markets substantially aggravated the economic situation in particular countries. Public debt of many countries could not remain intact being one of sources of financial capital.

The matter of government borrowings has been a contentious issue for centuries. Nowadays the economists understand that public debt is a huge source of financial capital for economy, the basis for investments and economic growth. Together with that, there is common understanding of the necessity to stabilize the public debt at a reasonable level. The recent financial crisis revealed the danger of ineffective public debt management. The theme of public debt has been considered by different authors, such as J. Tobin, R. J. Barro, R. Dornbush, M. Draghi, H. Bohn, E. J. Elton, M. J. Gruber, A. Missale and others. The Ukrainian scholars O. Baranowkij, T. Bondarchuk, T. Vakchnenko, V. Kozyuk, S. Koba, L. Novosad, I. Radionova, V. Shpachuk substantially contributed to the study of public debt.

Recent events in the European countries known as PIIGS (Portugal, Italy, Ireland, Greece and Spain) exacerbated the public debt repayment and stimulated attention of leading economists trying to resolve this problem. The aim of the article is to analyze tendencies of incurring public debt in different countries, to investigate current problems related to the government indebtedness in European countries.

According to Article 2 of the Budget Code of Ukraine, public debt is the total amount of liabilities, which comprise all issued outstanding obligations including liabilities which arise due to state guaranties on credits as well as liabilities which arise as legal or contractual obligations. The requirement of the Budget Code of Ukraine is maintaining public debt less then 60% of GDP. The Maastricht Treaty similarly requires the member states of European Union to maintain government debt at 60% [1].

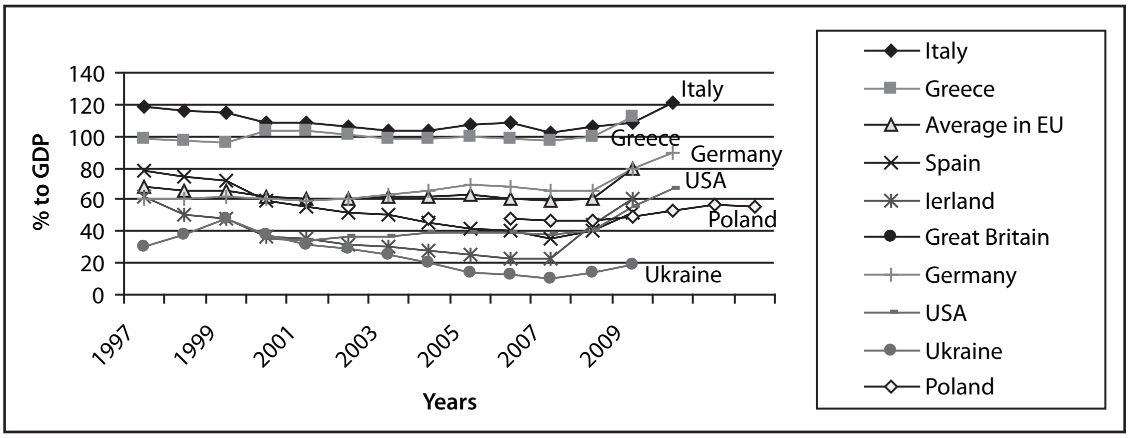
However, as we can see from comparative statistics of the EU countries the debt to GDP ratio has never been lower than 60%.

When the euro was launched as the single European currency the average figure of European countries liabilities was nearly 70%. After introducing the euro the majority of the countries managed to decrease their obligations. Financial instability caused the growth of government debt in most of the European countries.

Greece was the first country that faced serious problems of its payment system. It joined the European Union in 2000 with the economic system being not ready for this. In 2004 it became obvious that there was understatement of some statistical data in Greece: in 1996 the actual figure of budget deficit was 6,6%, but not 4% as it was shown in official sources. In 2009 the Greek public debt reached 113,4% of GDP (*Picture 1*).

Public debt in Spain is lower than in Greece and accounts for nearly 66% of GDP, but at the same time the budget deficit was 11,4% of GDP in 2009 (the cap set by the Maastricht Treaty is 3%). Contemporary economic analysts believe that a country can safely pay its public debt if the monetary equivalent of incremental GDP is higher than annual debt payments. However, in the opinion of the IMF, Spain will be the world major economy not to post year-on-year growth in 2010 and its economy will expand only 0,9% in 2011 [8]. In view of that mentioned above, repayment of debt by Spain remains problematic.

In Paul Krugman's view Europe adopted a single currency «before the continent was ready for such an experiment». Of course, there were obvious advantages of joining the euro, but the downside of Euro zone membership is



Picture 1. Public debt to GDP, % [5; 6]

inability for its members to depreciate their currency and improve their balance of payments. In the article «The Making of a Euromess» P. Krugman stresses that it is the inflexibility of the economy that is the basis for crises, but not the problem of deficit. The single European currency could be in a stronger position if supported by common budget, social and tax policy. The problem is expected to worsen in the next few years. By the end of 2010, more than half of the countries comprising the European Union are projected to surpass the maximum of 60% debt-to-GDP ratio mandated by the EU necessary the financial stability [4].

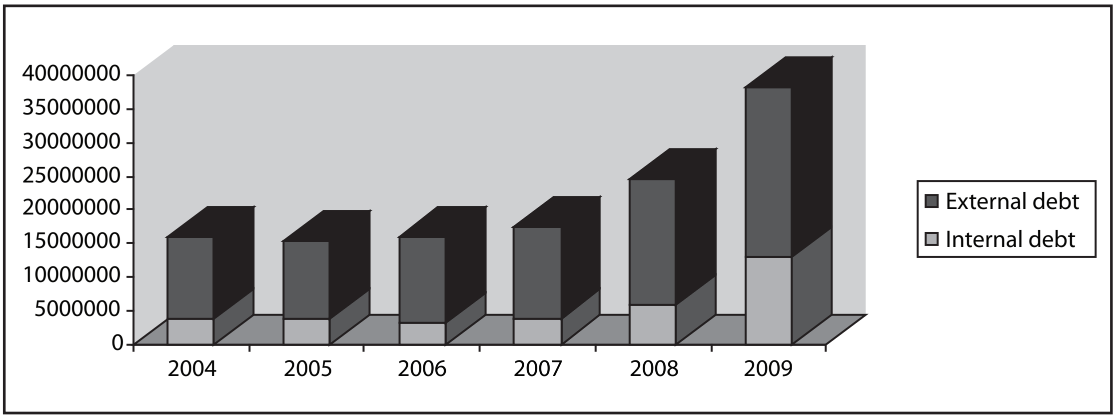
Regarding the state budget of Ukraine, during last years we could observe the tendencies of rapid growth of the public debt amount and worsening debt structure of the country. During 2007 – 2010 public debt has skyrocketed from 17,573 to 33, 517 billions dollars, only during January- September 2010 it has grown for 28,3% [6]. The IMF expected public debt to reach 40 – 41% of GDP till the end of 2010 (comparing 32 – 33% in 2009). The main feature of Ukrainian government debt is the large external debt (*Picture 2*).

In 2009 it accounted for 73,36% of the total indebtedness. In September 2010 the amount of external debt of Ukraine was 21,832 billion dollars. The problem arises in rapid growth of external borrowings during last years, for example, during January-September 2010 external indebtedness has grown for 28,3% or for 4,809 billion dollars. The main sources of external debt increasing were IMF credits and issuing of Eurobonds; rise of euro also has made big impact on the amount of indebtedness.

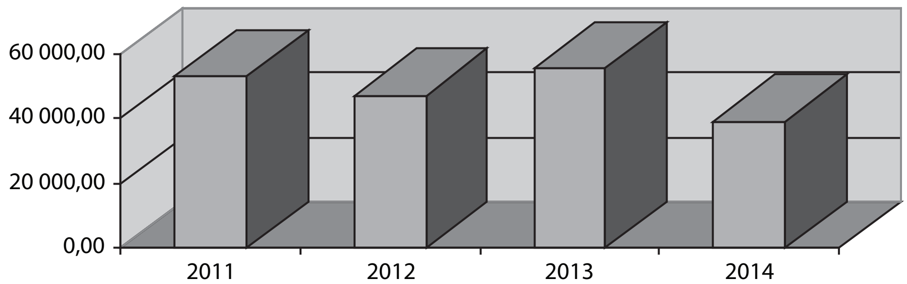
On the 6th of November 2008 the IMF extended credit to the Ukrainian government in the amount of 16,4 billions USD, government has received just 10 billions USD. But in 2010 new arrangement with the IMF was set up a about receiving 15,15 billions dollars during next 2,5 years, the IMF allowed to use first 2 billions USD for recovering budget deficit of Ukraine. Besides in 2010 Eurobonds were issued for the sum of 2 billions USD [7].

We must admit that according to the IMF research, budget deficit in Ukraine in 2010 will account 6,5%, in 2011 – 3,5%. Its lower comparing 8,9% in 2009, but still high, that makes risks for the government. Besides the amounts of debt payments are considerable (*Picture 3*).

These figures are representing the direct government indebtedness; besides the public debt of Ukrainian government includes liabilities of state and state guarantees on borrowings of business entities received from international organizations, which make high risk for the government in the case of financial instability. Besides public debt doesn't comprise liabilities of local authorities. There is a legal constraint of 10% of local budget expenditures, which can be paid as local debts. The government is not responsible for local authorities' liabilities but controls them (it is worth mentioning that in Denmark and Germany local governments are not allowed to borrow money for operational spending). The analysis of official statistics proves that a detailed debt structure of the country is not reflected in integrated official sources.



Picture 2. Public debt of Ukraine: external and internal one, thousands USD [6]



Picture 3. Public debt: amounts of payments and services, mln. UAH [6; 7]

The leading Ukrainian economists believe that necessary fundamental changes in debt management should include the following:

- in legislation base – a law on government debt as legal foundation;
- better public control over spending funds received from international institutions;
- transforming the external debt into internal one, since the problem of liquidity can arise [2].

The system of managing state debt, system of indicators and controlling of payments should be set up.

CONCLUSIONS

Financial instability attracted attention of leading economists and general public to management of the public debt. It is necessarily to introduce the common legal framework of government debt estimates in international practices.

Very important issue is public control of debt statistics, which can prevent cases of understatement of government indebtedness. ■

REFERENCES

1. Budget code of Ukraine № 25-42-III from 21.06.2001 p. //Government messenger.– 2001.– № 29.– p. 5 – 12.

2. Vakhnenko T. Limited amount of the public debt// Bank affairs, 2004.– № 4.– p. 33 – 45.

3. Greece tragedy, European spectators: http://www.zgroup.com.ua/article.php?articleid=3717.

4. Krugman Paul. The Making of a Euromess: www.nytimes.com/2010/02/15/opinion/15krugman.html.

5. http://epp.eurostat.ec.europa.eu/

6. http://minfinkmu.gov.ua

7. www://newsru.ua/finance

8. www.businessweek.com/news/2010-03-10