External State Debts and their Impact on Economic Security

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Abstract* – *Theses are devoted to problem of state debts growing and their impact on economic security. Economic essence of state debts and methods of state debts management are considered. Dynamics of state debts in Ukraine is analyzed. Role of state debts in economy and their impact on economic security are discussed.

Key words – stade debts, world debt crise, external and internal debts, loans, bonds, investments, shutdown, payback, interest, economic security.

I. Introduction

The existence of state debts is objectively conditioned phenomenon for countries with market economies. If state tries to enhance the business activities and try to raise additional capital, it will lead to arising of state debts. Major cause of state debts arising is the inability of the state to live on their own funds. And major case of their growth - the inability to use the raised financial resources effectively.

The debt problem is not only important for the state as a whole, but also for ordinary citizens, because as long as the government does not pay the national debt , it will not be able to put more money into the social sphere: in education, in health care, in social protection and support etc. Thus, the problem of the state debt of any country has a fairly weighty importance.

II. Economic essence of state debts

State debt is a mechanist to cover the budget deficit. State debt consists of the debt of the central government, regional and local authorities, as well as all the debts of state corporations. The allowed amount state debts is regulated by law in the most of countries.

Gross external debt includes all total debts on all existing obligations that have to be paid by the debtors-residents of national economy to non-residents. In other words, it is the total debt of the country on foreign loans and unpaid interest on them.

Existing of external or foreign debt became normal international practice. However, there are limits beyond which the increase of state debt became dangerous. Large-scale borrowing can lead the country to dependence on creditors and even to default.

The past 50 years are characterized by catastrophic increase of the external debts in many countries, so we can talk about the global debt crisis. World leaders on external debts are developed countries – USA, Great Britain, Japan, Germany, France, etc (Fig. 1). State debt of USA is equal to it's annual GDP, state debt of Great Britain is 4 times more than annual GDP [1].

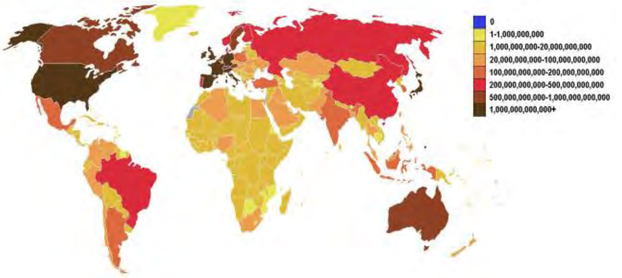

Fig. 1. External debts of the countries, USD [1]

Slowdown of economic grows in developed countries will lead to deficit of recources to payback the debts, as national economies don't produce enough GDP. As result we could see situation with "shutdown" in USA, which will lead to crise or another state debt growth. External debts of Ukraine were significantly increased for last years and have to be analyzed and effectively managed to avoid equal to "shutdown" situation.

Modern economic theory offers next methods of state debts management [2]:

1) Conversion is a change in the yield loans. It is carried out in case of unfavorable changes at financial market or worsening of the financial situation in the state;

2) Consolidation is the transfer of previously issued bonds into new prolonged bonds;

3) Unification of loans is accumulation of several loans into one. Unification can be done either separately or together with the consolidation;

4) Exchange the bonds of previous loans on new bonds with regression to reduce the state debt means that state partially failures of it's debts;

5) Deferral of repayment - is the postponement of the debts paymants;

6) Restructuring - is the application of all or some mentioned above methods;

7) Cancellation of debt means the total failure of the state from its debts and default.

III. Analysis of external debts in Ukraine

Dynamics of GDP and Gross external debt of Ukraine is given at Fig. 2 [3]. As we can see, external debts increased from 2007 to 2013 more than twice. Gross external debt (GED) was equal to 15% GDP in 2005, to 50% GDP in 2007, and in 2013 it increased to 76% GDP. But problem is not only GED growing by itself, but accompanying it GDP decreasing.

World financial crise of 2008 significantly influenced Ukrainian economy. Ukrainian import traditionally is more than export, so there is negative balance of national payments. After world financial crise export of metal, pipes and other important industrial products decreased. It leaded to foreign currency deficit, and to keep financial stability government had to borrow foreign resources. It was required and reasonable measure in 2008-2009, but external debts continue to grow. But if using of external debts allows to stimulate economy and support GDP growth, such debts are reasonable. That is why all developed countries have quite big external debts (Fig. 1).

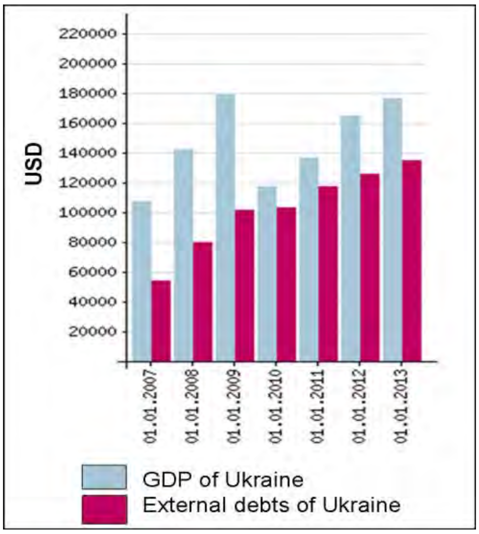

Fig. 2. Dynamics of GDP and Gross external debt of Ukraine, USD [3]

But even with effective using of loans, increasing the GDP can not continue forever, as global and national economies develop cyclically. Amout of external debts in developes countries signify, that economic peak passed and new global crise is quite possible. In such situation Ukraine and other countries, which are strongly dependent from American dollar and euro, have to be careful with external debts to keep economic safety.

IV. State debts and economic security

The debt security is the amount of internal and external debts and interest payments on them, which is efficient for use and has optimal structure, which is sufficient to meet the pressing social and economic needs, and which would't leed to the loss of sovereignty and the destruction of the domestic financial system. Calculation of external debts depends from country and methodology, so results of it's estimation by experts may be different.

External debts have double impact on financial security of the state. From one side, if state receives resources in amount less than required or later than required, it may cause to breaking of budget programs, decline of payment balance etc. From other side, amount of external debts is a risk factor for national economy and it's unreasonable increasing is dangerous.

Gross external debt less than 60% GDP used to consider as economically secure for state. Until 2013 amout of external debt in Ukraine was economically safe. Even when it came to 76% GDP in 2013, it's still much less than in developed countries.

But burden of external debts on State budget in Ukraine always have been high, as budget and tax systems are ineffective and big part of economy is in the shade. So external debts are served only by resouces, which pass through taxation.

Importance of external debts for national economic safety is underlined by fact, that American independent Central Intelligence Agency provides external debts monitoring in different countries.

Conclusion

One of the main tasks of the Ukrainian economy at present is to reduce indebtedness and improve the system of internal and external debt management.

There are measures to improve the negative situation in the state debt management:

1) Implementation the regular procedure of consolidation all cash and information flows, using the principles of controlling.

2) Advanced cooperation between the Ministry of Finance and the National Bank of Ukraine on the development of general predictive estimates;

3) Improvement of the forecasting system to entire block of interrelated indicators that directly affect the formation of the state debt.

Debt management policy should be focused on the following issues:

1) To form the debt strategy aimed at ensuring the stability and validity of state debts;

2) To achieve a balanced debt structure;

3) To save potential refinancing of debt when the opportunistic markets;

4) Performance targets over the cost of debt service and an acceptable level of risk;

5) Keep the level of debts in the economically reasonable level .

In order to reduce the budget deficit state have to reach a balanced budget, which must be formed on the basis of a realistic macroeconomic forecasts and aims at overcoming the crisis.

Also it is important to know, that external debt increasing impact not only on national economic safety, but on global also. As continuing growth of external debts transforms developed economies into financial pyramides and drives them to financial crise.

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