Vitalina Perevozniuk
PhD in Economics, Associate Professor
of the Department of Finance named S. I. Yuriy
Ternopil National Economic University

SOME ASPECTS OF DEBT FINANCING OF UKRAINE WITHIN THE NEW GLOBAL FINANCIAL ORDER

In the terms of the current stagnation of the economy, threat of default and military operations in the East of Ukraine, governmental borrowings and international financial assistance is considered to be the only source of expenditures of the State Budget of Ukraine. In most cases in order to receive financial resources from a foreign government, international financial institution borrowers have to comply with certain conditions of the world financial order, including conditions that the creditors establish to pursue their own profit oriented goals. In order to create an image of an honest borrower, it is crucial for a country which participates in the integration processes to fulfill these essential conditions. However, it is not always the case due to the following reasons: 1) they are difficult to be fulfilled because of the specifics of the social and economic development of the country and the mentality of the population, 2) the ruling elite is not interested in meeting the terms. Moreover, they increase the national debt by focusing primarily on personal enrichment or implementation of their political promises, which are often far from the realities of the domestic economy needs. Consequently, that may lead to future loan refusals, which is especially dangerous for a country on the edge of default. In view of this fact and in order to minimize the negative effects of the governmental debt, the most urgent current issue for Ukraine, would be to improve the state debt financing.

The issue of a state debt financing has been investigated by numerous scientists and economists, such as T. Bogdan, N. Kravchuk A. Kolot, V. Mishchenko, V. Fedosov, F. Yaroshenko, etc. However, the prospects of a state debt financing within the terms of a new global financial order need more grounding.

Ukraine has currently attracted a significant amount of financial resources from international financial organizations and foreign governments, which resulted in a very large public debt. Thus, in 2014 it amounted to 70.7% of GDP, which exceeds by 30.5% the debt of 2013 [1]. Despite the lack of success in carrying out reforms declared by the government, which was required by the international community, the lenders are still providing financial support for Ukraine. Obviously, this is due to respect for the high morality and European values of its citizens who were able to overthrow the dictatorship, and confront the actions of the Russian Federation, striving to change the world order.

Through the annexation of the Crimea, its military presence in the East of Ukraine and in Syria, Russia has violated international agreements, dividing the world into three basic centers: 1) countries that support Russia's actions; 2) countries that oppose Russia's actions; 3) countries that keep neutrality. That is to say, a large group of countries (the United States, the European Union, Japan, Canada and others), which do not support Russia's actions, provide Ukraine with financial and humanitarian assistance, by granting loans and introducing sanctions against the aggressor country.

However, in the absence of real reforms important for economic development, Ukraine threatens to default, since it will not receive support from international lenders, predominantly comprising of the second block countries (those that do not support the actions of Russia). On the other hand, there is a big concern as for the rapid grows of public debt, which might be very risky in future in terms of the debt security and financial independence of our country.

Therefore, in our opinion, it is necessary to minimize the risks of public debt and dependence on external creditors. Sharing the viewpoint of a number of scientists, we believe that it is essential for Ukraine to develop a long-term debt management strategy, which should take into account all areas of implementation of the debt risk management as well as common terms stipulated by credit institutions. This strategy primarily aims at the usage of borrowed funds exclusively for investment purposes, particularly for development of priority sectors and innovation, which is a common international practice. Another key point would be creation of favorable conditions for economic growth in Ukraine. To achieve this goal it is necessary to define specific objectives.

The latter can be classified as follows: a gradual reduction in consumer expenditure and the budget deficit up to 3% of GDP or less; wide coverage of performance indexes of the debt in media to increase transparency of debt financing policy; enhancing of the credit image of Ukraine as a sovereign borrower through corporate ratings of reputable Ukrainian banks and credit companies which will receive loans under more favorable terms; shifting the focus to the domestic public debt with the help of expansion of the national subjects of debt financing and the issue of new financial instruments by increasing their reliability and effectiveness of debt risks-management; active placement of treasury bonds to attract financial resources of the population; formation of holistic system of legal regulation of public debt and improvement of the environment inside credit institutions; increasing mass awareness among the population about the importance of development of the domestic securities market, etc.

The above mentioned policy directions on improvement of state debt financing are not final and are open for further research.

Literature:

1. Analysis of the current state of public debt and key areas of debt security of Ukraine providing [electronic resource] / Access: http://www.niss.gov.ua/public/File/2015_analit/derzh_borg.pdf. – Title from the screen.