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CONCEPTUAL APPROACHES TO CRISIS MANAGEMENT OF PUBLIC DEBT IN THE DEVELOPING COUNTRIES

The main causes and manifestations of debt crisis in the developing countries are covered. The debt crises depending on the causes are classified which makes for the use of various tools and ways to overcome them. The features of the implementation are studied and the effectiveness of public debt crisis management arrangements in Greece, Latin America and Southeast Asia is assessesed. New approaches to address the public debt problem are suggested.

Key words: debt crisis, public debt, crisis management, public debt management

Problem statement. Liberalization of cross-border movement of capital and the intensification of globalization processes strengthen the negative consequences of the use of external financial resources and cause difficulties associated with forecasting and settlement of debt crises. Increase in the number of crises in the global economy in recent decades has a negative impact on public finances in many countries. The implementation of large-scale anti-crisis measures and programs to stimulate the economy leads to a sharp increase in budget deficits and public debt. Therefore, the formation of the complex of measures and instruments of implementing crisis management of public debt is a topical scientific task, as it will deepen existing theoretical groundwork in this area and suggest new approaches to further develop practical ways to implement them.

Analysis of recent researches and publications. Beginning from the 80's of the 20th century debt problems have been the subject of numerous studies of domestic scientists, including A. Baranowskyi, T. Vakhnenko, V. Demianyshyn, V. Dudchenko, A. Kyrylenko, V. Konchyn, S. Korablin, V. Koziuk, V. Lisovenko, V. Oparin, S. Yurii. Among the Western scholars special attention is deserved by the works of B. Eichengreen, R. Davis, P. Krugman, A. Radziwill, B.Heifetz, G. Shafer.

A credit must be given to the high level of research of the above scientists, but nowadays the incidence of debt crises demonstrates the need for further search of instruments and methods of public debt crisis management.

Research objective. The article aims at studying basic approaches and instruments to implement crisis management of public debt of the developing countries. To achieve this objective the following tasks were set: to analyze the processes which have taken place in the economic system of the developing countries during the development of debt crises; to identify the major causes and manifestations of debt crises in Greece, Latin America and Southeast Asia; to evaluate the effectiveness of public debt crisis management by the governments of the above countries; and suggest new approaches to addressing the problem of public debt.

Research findings. The modern system of international loan is imperfect, as evidenced by the recurrent debt crises. In the early 80’s of the 20th century the scale of accumulation of public debt in the developing countries and payments for debt servicing reached a critical level. In such conditions, bankruptcy of one country threatened with chain reaction among other creditors. In the early 90’s debt crisis in the countries with emerging markets has substantially increased covering most areas of production and conditioned aggravation of a number of social problems. Thus, the group of countries that have begun to face difficulties with servicing debt grew rapidly.

In the economic literature ‘debt crisis’ is a suspension of payments of principal and inability of the debtor country to serve external liabilities under the initial conditions (default) [2, 58].

Today, the scientists do not have single position on the causes for debt crises. A number of economists consider the adverse macroeconomic indicators as the main causes for the debt crisis, while others focus on the importance of institutional mechanism of the financial system and excessive amount of foreign debt.

The main causes underlying the formation of debt crises are given in Table 1.

Table 1

Systematization of causes and prerequisites of debt crises*

Authors	Main causes
V. Dudchenko	- direct: ineffective tax policy measures, stagnation in real estate markets, debt redemption or private sector losses transfer on taxpayers; - secondary: issuing loans with a significant risk, trade deficit, global financial crisis, low economic growth rates.
V. Koziuk	the major cause of modern debt imbalances is different rates of economic development among the countries.
B. Ayhenhrin, H.-B. Schaefer	- lack of an adequate mechanism for correcting imbalances between countries; - limitations for countries' monetary policy; - lack of banking regulation at the country level.
D. Vtoryhin, A. Korchagin	- the use of loans to finance unprofitable production; - limiting of direct investment and their replacement by government's loans; - interest rates increased by lenders that do not meet the pace of economic growth; - considerable dependence of national financial markets on international investment flows
V. Konchyn	- inflexible monetary policy; - loss of country's competitiveness; - inefficient use of borrowed funds; - reduction in export earnings; - increasing role of external funding sources in the national economy development.
B. Heifetz	- general: change of economic development patterns, shortcomings in the implementation of neo-liberal model; - structural: backward export-oriented economic structure of borrowers, debt 'trap' – servicing of a significant amount of debt requires the involvement of new loans which increase debt, the impact of debt crises in other countries

* Composed by the author based upon [4, 7, 13, 10, 9, 11]

In our view, the formation of debt crises is caused by unsustainable economic policy of the state, chronic budget deficits, disadvantages of institutional structure of the financial system, considerable national markets vulnerability to external shocks, a high proportion of short-term debt, poor investment climate, problems in the real economy, slow GDP growth, inefficient regulation of cross-border capital flows, high level of integration of the debtor country in global or regional financial markets.

Thus, we believe it is appropriate to divide debt crises into 2 groups: actual and fictitious depending on the causes, that conditions the use of different instruments and ways to overcome them.

Fictitious crises are caused by the inefficient structure of government debt with a predominance of short-term external debt, excessive liberalization of the economy, low level of institutional support of the financial system.

Development of fictitious crises is not associated with an imbalance of the financial system, and is conditioned by inefficient use of foreign loan, low level of competitiveness of the economy, chronic state budget deficit.

Therefore, the actual debt crisis was seen in Latin America (1982-1989) And Greece (2010-2014).

The debt crisis in Latin America was caused by involving of excessive amount of external loans in the global financial market in the 70's of the 20^{tt} century. It is considered that debt crisis began in the middle of 1982, when Mexico suspended servicing of its external debt. The key moment in the emergence of the debt crisis was worsening of the terms of trade and a sharp increase in interest rates in the USA. This resulted in increase in the share of interest payments in the total amount of external debt service. For example, in Argentina in 1982 interest payments amounted to 80% of servicing the external debt, in Brazil - 60%, in Mexico - 71% [6, p. 103].

The growth of public debt in Greece was due to general problems for Europe (low level of economic diversification, minimal progress of the process of labour market liberalization and pension system reformation) which were manifested in a very advanced form. Due to the inability to service the public debt, the Greek Government was forced to seek loans from its European partners and the IMF. Thus the Greek debt crisis is caused by the problems with servicing of public debt most of which is represented by the external liabilities to creditors.

Table 2 shows the debt figures for Greece in 2010 and Latin America in 1982.

Table 2

Debt indicators of Greece and Latin America in the crisis year

Indicators	Countries			
	Greece	Argentina	Brasilia	Mexico
Public debt to GDP ratio, %	148	55.2	52.3	36.7
GDP growth rate, %	-3.5	-5	0.6	-0.6
Gross foreign debt growth rate, %	-2.3	22.4	15.3	10.1
Share of short-term debt in gross foreign debt, %	45	37.9	18.6	30.4
Rates of increase in short-term debt, %	36.8	27.9	13.9	4.9
The ratio of servicing foreign debt to the export volume, %	61. 2	63.5	89.6	58.9

* Composed by the author based upon [14, 15]

Thus, in a crisis year the public debt in some countries increased by more than 100%. The maximum value of this indicator is observed in Greece - 148% of GDP; in Latin America public debt to GDP ratio ranged from 36.7% to 55.2%. However, in the surveyed countries there was an increase in short-term loans. For example, in Greece the growth rate of short-term debt accounted for 36.8%, in Latin America the figure ranged from 4.9 to 27.9%. As a result, the share of short-term debt in gross foreign debt was 45% in Greece and 37.9% in Argentina, 18.6 and 30.4% in Brazil and Mexico, respectively.

The policy of stabilization of debt crises in Latin America and Greece consisted in reducing public spending while increasing revenues to form the necessary financial resources to service the debt.

The main components of the process of debt crisis settlement in Latin America and Greece are listed in Table 3.

Table 3

Key government measures to overcome the debt crisis in Greece and Latin America*

Greece	Latin America
- introduction of a progressive tax on large real estate; - taxation of up to 90% of bank employees' bonuses; - greater control over the issuance of fiscal receipts in retail trade and the provision of services to facilitate the fight against tax evasion; - maintenance of electronic control over the fuel market to address smuggling and corruption in the government; - reduction of the total expenditures in the public sector by 10%; - reduction of contract workers in most areas of the public sector by one third; - establishment of an independent institution - Financial Stability Fund, which main function is to maintain stability of the financial sector through forecasting solvency threats and providing financial support to problem banks.	- adoption of a law that provides for a monthly publication of information about the budget deficit; - pension reform aimed at reducing costs and change of the mechanism for calculating pensions; - strengthening of public administration to reduce fixed costs in the provision of public services by merging municipalities; - reforming the institutional structure of the labour market; - reducing the cost of overtime, payroll depending on financial results; - liberalization of the wholesale electricity market; - reducing the barriers to the formation of new companies and organizations; - improving the investment climate and attracting foreign direct investment into innovation economy sector.

* Composed by the author based upon [2, 6]

It is appropriate to consider debt crisis in Southeast Asia peaked in 1997-1998 as fictitious crisis. The root cause of the crisis was refinancing the real economy through foreign bank loans. Crisis in South-East Asia had a corporate nature, since it was the companies and not the state that accumulated a significant amount of debt. Using the investment model of funding and increasing export potential, the countries of South-East Asia were characterized by high rates of economic growth, but the effectiveness of investments decreased. So in 1996-1997 Indonesia's gold and foreign currency reserves declined from 19.4 to 17.5 billion US dollars, in Malaysia - from 27.9 to 21.5 billion US dollars, in Thailand from 38.5 to 27 billion US dollars. As a result, in 1997 the volume of short-term debt exceeded international reserves halved. So long debt crisis in the countries of South-East Asia can be attributed to large-scale outflow of short-term capital [12, 406].

The main crisis management arrangements of Southeast Asia are presented in Table 4.

The main drawback of crisis management arrangements in South-East Asia, in our opinion, is inefficient fiscal policy contributing to further economic decline as a result of mass closure of banks and credit load growth.

Table 4

Crisis management arrangements of public debt of South-East Asia [1, 29]

Arrangements	Decription
Financial	- rejection of binding national currencies to US dollar; - strengthening of national currency by increasing the refinancing rate; - reducing government deficit; - using of strict banking standards, mass liquidation of financial institutions; - fulfillment of all liabilities of banks to individuals; - opening of the financial market to foreign capital to develop competitive national economy;
Political	change the top government officials in all countries except Malaysia
Social and economic	- the abolition of state subsidies on goods; - fighting corruption; - abolition of the system of lifetime employment and the development of public social insurance; - elimination of cross-crediting systems within industrial and financial groups; - acceleration of scientific and technological advance, increasing of knowledge intensity of national production.
Foreign policy	- strengthening of relations with the United States; - desire to strengthen the political consensus in ASEAN; - strenghtening of international pressure on China to prevent the devaluation of the yuan.

In terms of financial globalization, a strengthening of supervision over the stock markets, improving the quality of financial information should become the components of effective debt management. It is advisable to improve institutional mechanisms and practices of debt management by providing the optimal level of debt burden, develop adequate potential to negotiate on the harmonization of debt terms, use in calculating debt indicators, and increase the transparency of debt management.

Therefore, crisis management arrangements of external debt provide for maintaining consensus of key socio-economic parameters of social development, solving economic problems of development of the country or region. In particular, issues of socio-economic and political integration shall be solved through regional cooperation structure.

In our view, the main focus in crisis debt management should be made on conducting more effective and responsible policy of government loans. Given the current debt situation of the countries in the global financial market, it seems appropriate to address the following practical issues related to the creation of public debt management system:

1) Methods of attracting public loans

Making foreign loans, government should pursue debt policy by matching the total amount of the financial package the national priorities, that is ensure the benefits of foreign loans while preventing problems associated with the balance of payments. At the same time we recommend to evaluate such issues as currency of loans, interest rate fluctuations, the impact on the liability structure.

2) Optimization of debt portfolio of the country and identifying the ways to use attracted loans

Formation of the optimal debt structure is one of the important components of crisis management of foreign debt. Since the structure of public debt which is not optimal by its terms could result in "peaks" of payments, which in turn causes the formation of debt crisis. Therefore we suggest forming public debt structure in terms of such factors as currency of the loan, term of borrowing, the level of the loan, the degree of flexibility of macroeconomic policy, capacity of the financial market and stability of investors' base. At the same time the use of borrowed resources to finance current expenditures should be minimized while giving priority to investment project.

3) Regulation of debt risks

To minimize the risks it is appropriate to apply the active management of public debt which includes its hedging through the use of derivatives, repurchase, exchange and early repayment of government securities, reverse repo transactions.

4) Record keeping and monitoring of public debt

To ensure effective regulation of government debt relations, in our view, it is appropriate:

- to forecast budget revenues;

- to approve debt repayment schedules (decision on raising new loans is appropriate to be made in terms of their middle- and long-term ‘payment’ effects;

- to monitor potential repayment or refinancing of public debt to obtain new loans on more favorable terms and adapt loans with further maturity dates coinciding with the expected budget revenues;

- to provide maintaining records and statistics on debt transactions of the state that will ensure payment of amounts due to creditors, to assess the current need for funds for repayment and servicing of public debt.

These programs consistent with the methods of public debt management and regulation of the economic situation in the country that include regulations violation of which restricts or suspends acceptance of new debt liabilities can be a reliable basis for crisis management of public debt.

Conclusions and prospects for further research. The emergence of debt crises in the economic systems of different countries is a naturally caused phenomenon. To prevent debt crises and reduce their negative effects, the state should exercise effective debt crisis management.

The analysis of genesis of debt processes shows that in times of crisis economic slowdowns are observed in all the countries. In particular, economic recession in South-East Asia was much more large-scale in comparison with Greece and Latin America that is explained by the outflow of short-term capital which played a prominent role in the mechanism of market reproduction.

To ensure effective crisis management of public debt of developing countries, in our opinion, it is advisable to implement arrangements aimed at reforming fiscal policy, reducing the share of unproductive expenditures, limiting short-term capital inflows, formation of debt policy given the anticipated reduction of export revenues, creating favourable conditions for internal lending, formation of a stabilization fund by assignments of corporate sector.

However, an important area of improving public debt crisis management of developing countries is the reform of public loan policy. We suggested instruments to manage public debt which include four interrelated functional blocks: techniques to attract public loans, optimization of debt portfolio structure of the state and identifying the ways to use raised loans, managing debt risks, maintaining records and monitoring of public debt.

Thus, overcoming of debt crises requires an integrated approach and joined efforts not only of debtor countries but the entire world community.

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