https://doi.org/10.15407/econforecast.2022.01.84
JEL: H63

Valentyna Harkavenko[1],
Galina Yershova[2]

THE INFLUENCE OF GOVERNMENT DEBT POLICY ON THE DEVELOPMENT OF UKRAINE'S ECONOMY

The influence of the government's debt policy on the development of Ukraine's economy is analyzed. It is determined that today almost all indicators of debt stability in Ukraine exceed the critical limit, beyond which the state loses the ability to solve debt problems on its own. Thus, during 2014–2021, the domestic public and state-guaranteed debt of Ukraine increased in hryvnia equivalent by 3.9 times and as of the end of 2021 amounted to UAH 1,111.6 billion. The increase in debt was primarily due to direct public debt, which increased 4.1 times during the analyzed period.

It is concluded that the scale of government borrowing in Ukraine makes it a threat to the economy, because without a change in the current government debt policy, the risk of the government's inability to meet its obligations to repay and service the debt will increase. Emphasis is placed on rethinking the country's economic policy in the direction of limiting the country's debt dependence, improving the structure of balance of payments and foreign trade balances, a balanced approach to the liberalization of relations in the foreign economic sphere and attracting foreign investment.

A detailed analysis of trends in the issuance of domestic and external government bonds, as well as attracting debt financing from international financial organizations. The study of trends, and most importantly the structure of domestic government bonds, suggests that their growth is due to the need to finance not only the state

[1] **Harkavenko**, **Valentyna Ivanivna** – Researcher, State Institution "Institute for Economics and Forecasting, NAS of Ukraine" (26, Panasa Myrnoho St., Kyiv, 01011, Ukraine), e-mail: gvi1953@ukr.net

[2] **Yershova, Galina Vitaliivna –** PhD (Economics) Senior Researcher, State Institution "Institute for Economics and Forecasting, NAS of Ukraine" (26, Panasa Myrnoho St., Kyiv, 01011, Ukraine), ORCID: 0000-0002-8807-130X, e-mail: galina_yershova@ukr.net

budget deficit, but also the shortcomings and miscalculations of monetary and debt policy, as well as protectionist interests of individual businesses.

Emphasis is placed on the fact that a significant share of non-residents' funds in domestic government bonds increases the country's exchange rate and financial vulnerability and is a factor that allows non-residents to influence the foreign exchange market and, accordingly, the national currency and international reserves of Ukraine[3].

Keywords: *government debt policy, state budget deficit, public debt, debt sustainability, domestic government bonds, external government bonds*

The problem of public debt has long been characterized as one of the most urgent not only in many countries, but also at the level of international organizations. The growth of debt burden has become an integral part of the financial system of most countries, because in developed and developing countries, over the past 30 years there has been a steady trend of increasing budget deficits.

Presently, servicing public debt is one of the determinants of macroeconomic stability and welfare growth in most countries. The budget capacity, the state of the country's forex reserves and hence the stability of its national currency, the level of interest rates, investment climate, etc. all depend on the ways to solve this problem.

Economists could not ignore the extremely important issue of national debt policy. Numerous scientific papers on national debt policy, harmonization of public borrowing policy, its consistency with other important components of the financial system and the condition of national financial security, testify to considerable scientific relevance of this topic. The impact of public debt on the development of a national economy has been a subject of attention of many researchers, including such prominent economists as J. Keynes, D. Ricardo, A. Smith, J.S. Mill and others. They were among the first to think about the reasons for the emergence and growth of national public debt and tried to assess its impact on the state and future development of national economy. It is worth noting that the representatives of classical political economy, including A. Smith, D. Ricardo, were mostly quite cautious about the active debt policy of

[3] The publication was prepared within the research project on "Transformations in the financing of corporate business in conditions of instability" (State Registration No: 0121U112770).

states and warned against waste, which could eventually lead to bankruptcy [1]. At the same time, there were supporters of increasing public debt (in particular, K. Ditzel, L. von Stein), who believed that the economic development via borrowing is a manifestation of the country's power and largely ensures its prosperity [2].

Significant scientific achievements in the study of public debt policy was made by domestic scholars, among which are the works of V. Heyets [3], T. Bogdan [4], O. Vasylyk [5], S. Hasanov [6], N. Padchenko [7], A. Galchinsky and others. They investigated the impact of debt policy on the national economic development and worked on defining criteria, and developing indicators to assess the effectiveness of national debt policy.

At the same time, the fact that Ukraine has been pursuing an active debt policy in the recent decade, and external and domestic debt obligations are constantly increasing, necessitates the analysis of the current system of government borrowing and identifying its impact on economic processes and economic development, which is ***the goal of the present article***.

In the recent decade, most countries around the world have actively used debt financing instruments to solve domestic economic problems. At the end of 2017, total global debt amounted to 184 trillion USD, which is equivalent to 225% of world GDP [8], which raises a rightful concern about the stability of global economy. At the same time, despite warnings from international financial organizations, the debt burden in the world continues to grow at a considerable pace. This is due to a number of factors, the main ones being the financial and economic crisis (2008-2009) and the coronavirus pandemic, which severely affected economic activities and macroeconomic stability in many countries. Thus, in 2020–2021, public spending in the world – in both developed and developing countries - to finance anti-crisis measures increased primarily due to *rising public debt*. In developed countries, about 17% of GDP was spent on the COVID-19 pandemic, in middle-income countries 4% of GDP, and in the least developed countries 1.6% of GDP [9].

High rates of public debt growth are characteristic not only for developing economies, but also for developed ones. Thus, in the seven leading developed economies in 2020 was a rapid increase in public debt (Table 1). In some developed countries, including the United States, Italy, and Japan, public debt exceeded the country's GDP in 2013–2020.

Table 1

Public debt (including guaranteed) relative to the country's GDP, %

No	Country	2019	2020
1.	USA	108.5	**133.9**
2.	Germany	59.2	**69.1**
3.	France	97.6	**115.1**
4.	Italy	134.6	**155.8**
5.	Japan	235.4	**254.1**
6.	United Kingdom	85.2	**104.5**
7.	Canada	86.8	**117.5**

Source: Prospects for the development of the world economy. Pandemic recovery: health risk warnings, supply disruptions, price pressures / IMF. October 2021.URL: https://www.imf.org/

It should be noted that in many countries, high levels of public debt signal about problems with public finances. Although the low level of public debt does not always indicate the absence of problems in the economy, but may be due to its weakness, which does not provide full opportunities to borrow. Conversely, the high level of public debt is not always a definite evidence of problems in the country [10]. Often the richer is the country and the higher is its living standard, the greater the amount of public debt it has, because social obligations and the implementation of large-scale macroeconomic programs require additional funds that can be only attracted in the debt market. At the same time, high levels of public debt, not necessarily indicating the country's problems, all the same divert resources from more productive spending, and limit the government's ability to expand spending on health, education, infrastructure, or reduce taxes to encourage economic growth.

The clearest examples of the fact that high levels of public debt not necessarily indicate economic problems are Japan and the United States. By the ratio of public debt to GDP (254% in 2020), Japan has been ranked first in the world for more than ten years, while the United States is among the top 20 countries [11]. It should be considered that the economies of these countries are among the most efficient and competitive. Besides, these countries are actually the main issuing centers of the world's leading currencies, which enables them to generate emission revenues and, if necessary, finance their expenditures at any time through multibillion issues that will be absorbed by the world economy. Also, the United States and Japan are among the largest creditors of the world economy, having not only public debt, but also assets against them in the form of debt obligations of other countries. That is why, despite the trend of further growth of public debt, which is by itself certainly a risk factor, Japan and the United States are still far from the problems threatening other countries with high debt burdens. It is worth noting that Japan, along with China, is the largest creditor of the United States, and in mutual settlements, Japan's position may be better than the position of the United States.

For Ukraine, the growth of public debt is a natural consequence of this country's budget deficit, because since gaining independence and until today, a significant budget deficit and finding ways to finance it have been one of the most pressing economic problems. The moderate ratio of public debt to Ukraine's GDP (60.8% in 2020, including guaranteed) does not indicate the absence of problems in the country. Presently, almost all indicators of debt stability in Ukraine exceed the critical limit beyond which this country loses the ability to solve debt problems on its own (Table 2).

In particular, analysis of Ukraine's debt sustainability indicators shows that: public debt exceeds budget revenues more than twice; about 60% of this country's public debt is due to external borrowing; the share of debt denominated in foreign currency in total public debt exceeds 60%.

Under extreme conditions, Ukraine will not be able to make payments on external public debt due to lack of currency, since this country's current account balance has long been negative and the level of coverage of total external debt by forex reserves barely exceeds 50%.

It should be noted that *the amount of external public debt* in early 2014 already threatened Ukraine's economic sovereignty due to the intensity of external government borrowing during the financial crisis of 2008-2009 and in the post-crisis period, due to the replacement of loans granted by international financial organizations with borrowings in the form of government bonds placed in foreign markets and growth of their value[4]. Against the background of the short-term character of Ukraine's gross external debt and the negative balance of current account of the balance of payments, the risk of government's inability to meet its obligations to external creditors increased. The insufficient level of forex reserves exacerbated the vulnerability of the public finance sector to currency risks due to the significant amount of foreign currency debt on the domestic market, much of which had been granted on condition of early repayment.

[4] An example of the increase in the cost of borrowing on foreign markets is the placement of 2.25 billion USD worth government's external bonds in 2012 for ten years with a yield of 7.8% and 2.6 billion USD worth for a period of five years with a yield of 9.25%, which is the highest interest rate for government's external bonds, which have been previously placed by Ukraine not only for five-year bonds, but also for ten-year ones.

Table 2

Dynamics of Ukraine's public debt* and indicators of debt sustainability (period end)

Indicator	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total amount of public debt in hryvnia equivalent, *billion UAH*	584.8	1100.8	1572.2	1929.8	2141.7	2168.6	1998.3	2551.9	2671.8
External	300.7	612.0	1042.7	1240.1	1375.0	1397.2	1159.4	1518.9	1560.2
Internal	284.1	488.8	529.5	689.7	766.7	771.4	838.8	1032.9	1111.6
Total amount of public debt in dollar equivalent, *billion USD*	73.2	69.8	65.5	71.0	76.3	78.3	84.4	90.2	97.9
External	37.6	38.8	43.4	45.6	49.0	50.5	49	53.7	57.2
Internal	35.6	31	22.1	25.4	27.3	27.8	35.4	36.5	40.7
Total amount of public debt denominated in foreign currency (USD), *billion USD*	43.7	43.1	46	49.5	53.4	55.5	53.5	58.6	61.9
Total amount of public debt, denominated in the national currency, *billion UAH*	235	421.7	468.4	584.1	643.6	631.7	732.2	894.3	982.7
including debt for domestic government bonds, *billion UAH*	202	391	444.1	561.9	627.5	618.1	717.4	854.2	937
Exchange rate, period end, *hryvnias for 1 USD*	7.99	15.77	24.00	27.19	28.07	27.69	23.69	28.28	27.28
Public debt/GDP, % (no more than 60%)**	38.4	69.4	79.1	80.9	71.8	60.9	50.3	60.8	
Public debt/state budget revenues, *% (no more than 100%)***	172.4	308.3	294	313.1	269.9	233.6	200.2	237.2	206
Specific weight of external debt in total public debt, *% (no more than 40%)***	51.4	55.6	66.3	64.3	64.2	64.4	58.0	59.5	58.4
Specific weight of debt denominated in foreign currency in total public debt, *% (no more than 40,3%)***	59.8	61.7	70.2	69.7	69.9	70.9	63.4	65	63.2
Expenses for servicing the public debt, % to state budget revenues *(no more than 10%)***	10.1	14.3	16.2	15.8	14.1	12.5	12.0	11.2	11.8

* Taking into account the guaranteed debt

** The limit value is in parentheses

Source: compiled according to: Public and state-guaranteed debt of Ukraine for relevant years. http://minfin.kmu.gov.ua; domestic government bonds in circulation in the amount of principal debt. https://bank.gov.ua.

The threat of declaring Ukraine a bankrupt country was a key factor in the growth of external public debt in 2014-2021: taking into account the state-guaranteed debt, it increased by 9.6 billion USD or 1.5 times (in UAH – by 1.26 trillion, or 5.2 times) - primarily due to loans from international economic development organizations[5] and the placement of bonds of the government's external loans. As of December 31, 2021, it amounted to 57.2 billion USD [12]. This led to the government's request to the IMF for another loan, and to the restructuring of part of the external public debt. Ukraine managed to avoid declaring default on its foreign obligations, but the problems in the economy did not disappear.

It should be noted that the implementation of certain IMF recommendations, which is a condition for its lending, does not help improve the economic situation in Ukraine. In particular, the IMF recommendations in 1994-1999 on, firstly, the inexpediency of state regulation of macroeconomic processes, secondly, the forced pace of privatization, despite the lack of appropriate conditions, and thirdly, tight monetary policy, led to the destruction of macroeconomic proportions in the process of reproduction and to the deepening of economic crisis in Ukraine. Despite considerable borrowings from the IMF in 2008–2010 and 2014–2018, there was no impetus to economic development in Ukraine. Moreover, the introduction of standard recommendations from the abroad, without any appropriate calculations and forecasts of the consequences of their impact on the economy, and the premature liberalization of relations in the economic sphere led to the creation of a speculative model of Ukraine's financial system.

It is worth noting that after the global financial crisis of 2007-2009, the official position of the IMF on the liberalization of the capital account has radically changed. Thus, while before the crisis in the support programs for developing countries, one of the IMF requirements was the liberalization of capital operations, now the following is emphasized: "if the inflow of foreign capital is temporary, the need to control capital movements is undeniable" [13]. But at the same time the policy towards Ukraine remains unchanged.

Significant threats of unpredictable growth of external public debt and expenditures of the State Budget of Ukraine and aggravation of the situation in the budget sphere of the country are posed by the restructuring of part (3.2

[5] The debt to them during this period increased from 11.8 to 28.3 billion USD, i.e. by 16.5 billion USD, or 2.4 times.

billion USD) of external public debt in 2015 by issuing derivatives (GDP warrants). Their profitability is pegged to the rate of economic growth, while the potential damage from this restructuring is unprecedented by its scale for the whole world.

Another factor increasing the risk of further exacerbation of the debt problem is the increase in 2014-2021 of the debt on government bonds by almost 5.5 billion USD[6], which was accompanied by increase in the cost of such borrowings. It is demonstrable that interest rates on government's foreign bonds were significantly higher than on government's domestic bonds (GDBs) denominated in foreign currency, being the latter a comparatively acceptable (by amount) and appropriate (as reducing the country's external dependence) alternative to international bonds.

An important factor in the deterioration of the government's solvency, which could undermine financial stability in Ukraine, was the more than fifteen-fold increase in public domestic debt (including guaranteed debt) during the crisis and post-crisis periods[7] (2008-2013). At the same time, its further increase brought the country on the verge of default since 2014 - not only on the government's external debt liabilities, but also on domestic ones, due to the rapid growth of public debt caused by increased domestic borrowing in the national currency and increased debt in the national currency on foreign currency liabilities due to the devaluation of the hryvnia and rising interest rates on its servicing.

Thus, during 2014–2021, the domestic public and state-guaranteed debt of Ukraine increased in hryvnia equivalent 3.9 times, or by UAH 827.5 billion, and as of December 31, 2021, it amounted to UAH 1,111.6 billion, including a direct debt of UAH 1,062.6 billion. This was primarily due to the growth of direct public debt (during the analyzed period - 4.1 times, an increase by UAH 805.6 billion).

The increased debt on government's domestic bonds was due exclusively to bonds denominated in national currency. During 2014–2021 (except for 2018), the debt on these government securities increased 4.6 times, or by UAH 735 billion. Debts on domestic bonds denominated in foreign currency

[6] Including as a result of the transfer to the state debt during the restructuring of the external state debt, of part of the local debt of the Kyiv City Council on local external borrowings and bonds of the state enterprise "Financing Infrastructure Projects" issued under state guarantees.
[7] From 18.8 billion UAH as of January 1, 2008 to 284.1 billion UAH as of January 1, 2014 (by UAH 265.3 billion, or 15 times).

decreased by 1.4 billion USD, or by 25%. At the same time, the depreciation of the national currency led to an increase in the hryvnia equivalent of debt by 2.6 times, or by UAH 71.7 billion[8] [14].

Analysis of trends and, most importantly, the structure of the issues of government's domestic bonds suggests that its growth is due not only to the need to finance the state budget deficit, but also to shortcomings and miscalculations of monetary and debt policy, as well as targeted decisions by government agencies to create sources of super profits for nonresidents and domestic oligarchic structures and for the clan of investment bankers. The facts confirming this include the following trends.

1. During 2014–2021, the issue of denominated in UAH government's domestic bonds in order to increase the capital of state-owned banks and banks with state participation and to nationalize of PrivatBank amounted to UAH 219 billion (15% of total government's domestic bonds issued during this period) (Fig. 1).

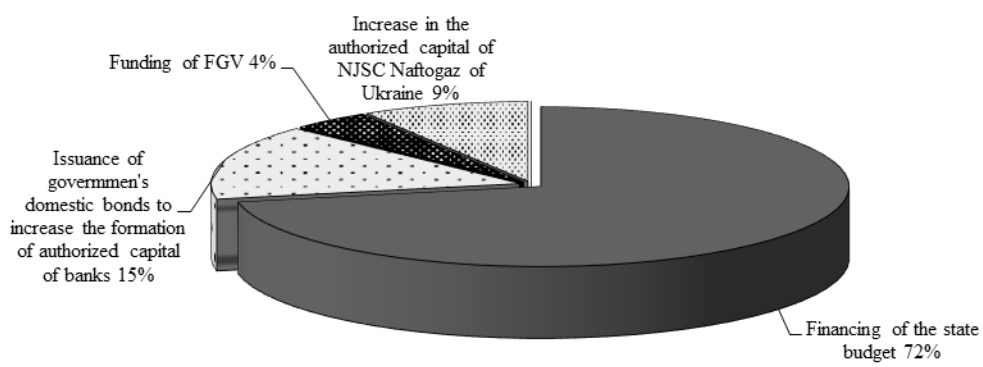

Fig. 1. **Structure of the total volume of UAH-denominated government domestic bonds issued in 2014–2021 (UAH 1,440.8 billion)**, *by purpose*

Source: calculated according to the data of the Ministry of Finance of Ukraine.

[8] The debt for government's domestic bonds denominated in hryvnia increased from 204.9 billion UAH at the beginning of 2014 to 937 billion UAH as of January 1, 2022, while the debt for government domestic bonds denominated in foreign currency decreased from 5.7 billion USD at the beginning of 2014 to 4.3 billion USD as of 01.01.2022

It should be noted that the nominal value of government's domestic bonds issued in 2014-2017 for the recapitalization of state-owned and partly state-owned banks and the nationalization of PrivatBank exceeded tax revenues to the state budget for this period in the form of personal income tax and fees, and was almost equal to the state budget expenditures on defense[9]. Almost 60 billion UAH, or more than 4% of the total issue of government's domestic bonds, was used to finance the DGF to reimburse guaranteed amounts to bankrupt banks. Thus, miscalculations in the monetary and exchange rate policy of the NBU, its failure to properly perform the supervisory function, and risky activities of the banks, which led to the loss of bank capital and bankruptcy of many banks, were passed on all taxpayers.

2. The price of increasing the authorized capital of NJSC Naftogaz of Ukraine in 2014–2015 was disproportionately expensive for taxpayers [15, 16], for which government's domestic bonds were issued with a yield of 14.3–14.5% per annum and a turnover period of 5 to 7 years in the amount of UAH 126.3 billion at face value. Their amount is almost 9% of total government's domestic bond issue in 2014-2021.

3. Extremely high threats of destructive impact on the state budget in the future can be posed by government's bonds with indexed value, whose conditions, with a considerable amount of such issues, can turn the country into a chronic debtor, who loses practical opportunities to get out of debt. The experience of their issuance in 2011-2013 shows that the bonds repaid in 2014-2016 for a total amount of UAH 10 billion at face value amounted to (according to estimates) UAH 17 billion, while the level of their profitability (considering the amount of indexation and coupon income and the term of their circulation) ranged from 29 to 85% per annum. The largest (in nominal value) amount of government's domestic bonds with indexed value to maturity was in 2015 - by a "strange" coincidence, in 2015 there was the greatest depreciation of Ukraine's national currency. Under the conditions of non-fulfillment of the state's legally established obligations to the least protected groups on the indexation of pensions and other social benefits and legislative decisions on taxation of deposits and pensions for working pensioners, the income of the government's domestic bonds was indexed in the amount equal to almost 15% tax revenues to the state budget for this period in the form of taxes and fees on personal income.

[9] The nominal value of government's domestic bonds issued for this purpose in 2014–2017 amounted to 212 billion UAH, while the state budget revenues in the form of taxes and fees on the income of individuals was 192 billion UAH, and defense spending was 213 billion UAH.

Note that three banks with foreign capital (PJSC "Raiffeisen Bank Aval", PJSC "Citibank" and PJSC "Alfa-Bank") owned almost 45% of the government's domestic bonds with indexed value, maturing in 2014-2016.

Instead of assessing the impact of the conditions of government's borrowing on the state budget and the economy as a whole and in the future not only to abandon the issuance of such bonds with indexed value on the current terms, but also to decide on the inadmissibility of indexation of government's domestic bonds issued in 2011-2013 and to negotiate with their owners to review the terms of repayment, the Ministry of Finance of Ukraine - after the change of power in 2014 - significantly increased the volume of bonds with indexed value, and stopped issuing them only in 2018. In total for 2014–2017, the amount of issuance and placement of government's domestic bonds with indexed value and with maturities of 7 to 15 years was UAH 120.3 billion, or almost 11% of the total issuance of government's domestic bonds in hryvnia. The issuance of bonds with indexation linked to changes in exchange rates, for such periods and in such amounts, is a "ticking bomb", because the chronic current account deficit and lack of real steps to improve it create preconditions for devaluation of the national currency, which is aggravated by the current floating exchange rate regime and, accordingly, by the threat of unpredictable growth of state budget expenditures and further deterioration of the situation in Ukraine's budget sphere.

4. The amount of government's domestic bonds with an indexed value of UAH 111.6 billion (almost 93% of their issuance) with a maturity of 10 to 15 years, issued to finance state contributions to the authorized capital of state-owned banks and nationalization and recapitalization of PrivatBank in accordance with the Cabinet of Ministers of Ukraine, not only makes it impossible to objectively estimate the actual cost of support of banks by taxpayers, but also provides grounds for assuming that the issuance of these bonds is associated with attempts to privatize state-owned banks and provide a guaranteed source of income not only in the form of interest income, but also from the indexation of domestic government bonds. In the case of sale of the bonds obtained from the government with an indexed value on the open market, the new owners of these bonds will receive extra profits. Obviously, the owners of seven-year bonds with an indexed value, placed in 2016 in the amount of UAH 8.7 billion (at face value) according to the decision of the Ministry of Finance, will also receive extra profits.

5. During 2014–2021, the issuance of hryvnia bonds related to the

financing of state budget deficit[10] amounted to UAH 1,035.7 billion, or 72% of the total volume of government's hryvnia domestic bonds during this period. They were issued at rates that considerably exceeded interest rates on national currency deposits of both legal entities and individuals[11].

Despite the change of government in Ukraine, a sharp increase in the amount of GDBs denominated in hryvnia was observed in 2019-2021. Thus, while in 2018 it was UAH 5 billion, in 2020 it was UAH 265.7 billion, and in 2021 - UAH 309.7 billion [17]. A significant part of the new borrowings was aimed at repaying previous bond issues, which is due to rising yields and the fact that GDBs were issued for a shorter period, because at the end of 2017 a "course to increase GDB yield" was taken and priority was given to bonds with a maturity of up to one year[12], which led to the emergence of a so-called "financial pyramid". Only in summer of 2019, the Ministry of Finance began to reduce rates on hryvnia GDBs and reoriented the priority in issuing GDBs to maturity terms, but in 2020 this trend changed for the opposite - from September in terms of maturity periods and from November in terms of rates.

Borrowings in foreign currency on domestic market are first of all aimed at providing funds to finance the state budget deficit - primarily for the fulfillment of obligations to service and repay public debt. The amount of foreign currency GDBs issued in 2014–2021 was: those denominated in USD - 21 billion USD, and those denominated in euros - 2.8 billion euros. The term of circulation of the placed foreign currency GDBs was mainly up to one year. Until December 2019, the previously initiated practice of expensive borrowings in foreign currency on domestic market continued[13], and only after that these borrowings were performed at much lower rates.

---

[10] Taking into account the government's domestic bonds issued for the re-registration of the debt of the Cabinet of Ministers of Ukraine to the NBU regarding the repayment of the government tranche, as well as the government's domestic bonds issued for the reimbursement of value added tax amounts.

[11] For example, the weighted average yield on government's domestic issued in December 2018 was 20%, while interest rates on deposits in the national currency: for individuals – 11.7%, and for legal entities – 14.5%.

[12] The issuance of government's hryvnia domestic bonds with a maturity of up to one year was: in December 2017 – 93%; in 2018 – 93%; in January–May 2019 – from 60 to 99%, and as a whole for the year – 46%; in January–December 2020 – from 8 to 100%, and as a whole for the year – 72%.

[13] Weighted average yield on government's domestic bonds in USD: 2014 – 5.8%, 2015 – 8.74%, 2016 – 7.29%, 2017 – 4.8%, 2018 – 5, 97%, January–September 2019 – 5.29–7%, December 2019 – 3.7%; 2020 - 3.38% per annum.

Until 2014, both residents and non-residents showed interest in foreign currency GDBs. During 2014–2016 and the first half of 2017, non-residents owned almost exclusively foreign currency GDBs, and by the end of the first half of 2017 the amount in their possession decreased from 1.5 billion USD[14] at the end of 2013 to 12 million USD. At the end of 2017, non-residents' interest in Ukrainian government securities resumed, but it concerned hryvnia GDBs. *One of the highest yields of Ukrainian government securities in the world*, combined with significant amount of their placement, led to non-residents*'* *expansion* into the market of hryvnia GDBs, which occurred during 2019 and January-February 2020. Characteristically, hryvnia GDBs accounted for 99% of the non-residents' total portfolio due to the difference in the profitability between hryvnia GDBs and those denominated in foreign currency.

The amount of hryvnia GDBs owned by non-residents in 2019 increased by UAH 108 billion (from UAH 6.1 billion to UAH 114.2 billion), in January-February 2020 - by another UAH 11.1 billion, while their share in total GDBs increased from 1% at the beginning of 2019 to 17.5% at the beginning of March 2020. Thanks to non-residents, it became possible to place hryvnia GDBs in the amount of UAH 227 billion in 2019 – non-residents purchased almost half of their issuance, and in January-February 2020 - almost 40%. Excluding GDBs issued for the recapitalization of state-owned banks and nationalization of PrivatBank, and GDBs owned by the NBU, non-residents at the end of February 2020 owned 67.6% of all government hryvnia debt securities actually traded in the domestic market.

Apparently, the admission of non-residents to the GDB market and the government's policy leading to their high returns encourage foreign investors to invest in GDBs, financing the needs of the state budget instead of investing in the real sector. However, a significant share of non-residents' funds in GDBs increases Ukraine's exchange rate and financial vulnerability and serves as a factor that allows non-residents to influence the foreign exchange market and, accordingly, the national currency and forex reserves, as confirmed by the events of 2019-2022.

The inflow of speculative foreign capital through the GDBs channel (4.3 billion USD in 2019, and 0.3 billion USD in January – February 2020) became the main factor for the **growth of the amounts** on interbank **foreign exchange market and the excess** of the foreign currency supply over its demand and, **as a consequence**, a significant strengthening of the hryvnia exchange rate in

[14] More than 20% of foreign currency government's domestic bonds.

2019 (by 14.4%) and an increase in forex reserves. **In the process, there was a direct relationship between the strengthening of the hryvnia and the purchase of hryvnia GDBs by nonresidents, for which a convincing argument is the fact that the increases in GDBs owned by nonresidents were recorded in 1-3 days after the increases in the customers' sales and strengthening of the exchange rate.** The considerable revaluation of Ukraine's national currency made hryvnia GDBs even more attractive, as it allowed non-residents to additionally earn on the exchange rate difference.

The inflow of non-residents' funds into the GDB market in March 2020 instantly turned into an outflow that lasted until December 2020 and led to a sharp devaluation of the hryvnia: by 14.2% in March alone and 19.4% in 2020 (December to December). And the devaluation of the hryvnia would have been much deeper if the National Bank had not spent almost 3.9 billion USD on its support. [18]. The devaluation was also constrained by the excess of foreign currency supply owned by customers over its demand in the foreign exchange market in April-June 2020, which was due to a considerable reduction in foreign currency purchases by importers due to quarantine restrictions established during the coronavirus pandemic. In total, in 2020, the volume of hryvnia GDBs owned by non-residents decreased by UAH 30 billion (by 1.9 billion USD in dollar equivalent), and their share in the total volume of GDBs - from 15.9 to 9.8%.

Non-residents' interest in Ukrainian domestic debt securities, which resumed in December 2020, only lasted until the end of June 2021, after which non-residents began to gradually leave the GDBs market, and in January 2022 they began to flee the market (due to the threat of a full-scale invasion of Ukraine by Russian troops) - in just one month the amount of GDBs owned by non-residents reduced by more than 11 billion UAH (equivalent to 560 million USD), while the exchange rate depreciated by almost 6%.

Despite the fact that Ukraine has had its own negative experience of unrestricted and uncontrolled access of non-residents to the domestic securities market since 1998, which was one of the main causes of the crisis in Ukraine's foreign exchange market and the sharp fall of the hryvnia exchange rate, no restrictions are imposed in Ukraine on the purchase of GDBs by non-residents. Moreover, Ukraine – via corresponding decisions by the Verkhovna Rada of Ukraine, the Cabinet of Ministers of Ukraine, the National Bank of Ukraine, and the Ministry of Finance of Ukraine - encourages and stimulates non-residents to increase investment in the virtually risk-free and high-yield Ukrainian GDBs [19].

The policy of Ukraine's government as to high yields of GDBs with their high issuance leads to low efficiency of using the potential of this country's banking system to finance the real sector and encourage structural changes, as it orients commercial banks to focus on GDB purchase instead of lending. During four consecutive years (2018-2021), the banking sector as a whole has been profitable largely due to GDB operations, whose share in the banks' total assets during this period ranged from 17-23.5% (in some banks exceeded 60%) [20].

Obviously, the continued practice of increasing government debt dependence in the future may complicate the fulfillment of its obligations to repay and service GDBs within the period defined by the terms of their issuance, and, consequently, may necessitate application to international financial organizations for another loan.

Conclusions

The economic policy pursued in Ukraine during all the years of independence ignored the need to limit this country's debt dependence, improve the structure of balance of payments and foreign trade, observe a balanced approach to liberalization of foreign economic relations and attracting foreign investment, which not only resulted in the extremely high dependence of Ukraine's economy on the situation in foreign commodity and financial markets, but also supported and continued to support the development of other economies to the detriment of Ukraine's own. In 2014-2021 alone, Ukraine invested 72 billion USD to other economies by transferring income from foreign investments and loans to non-residents (including in 2021 - 19.1 billion USD). While foreign capital is attracted to any country in order to develop domestic high-tech production and structural changes that ultimately contribute to economic development, in Ukraine, unfortunately, it was not the case.

On the contrary, the scale of government borrowing in Ukraine makes it a threat to this country's economy, as the risk of the government's inability to meet its obligations to repay and service debt to both foreign and domestic investors will continue to grow and - whether Ukraine is declared insolvent or not - depends exclusively on the situation on the international financial markets and on the position of foreign creditors as to further cooperation with Ukraine.

P.S. of 29.03.2022: This article was prepared and submitted to the journal before the beginning of the military invasion of the Russian Federation on the territory of Ukraine and, accordingly, the problems were analyzed from a different angle. Due to the war on the territory of Ukraine, trends in this country’s economy, including the government's debt policy, have undergone drastic changes, which are currently impossible to analyze. It will be only possible after the final victory over the enemy to fully assess the losses and shape a new national policy (including debt policy) aimed at full economic recovery.

References

1. Izyumskaya, V., Chicken, N. (2018). Historical and economic aspects of public debt research. *Ekonomika i suspil'stvo – Economy and society*, 16, 745-750 [in Ukrainian].
2. Theory of Finance (2010). Kyiv: Center for Educational Literature [in Ukrainian].
3. Ukraine and the world economy: Interaction at the turn of the millennium (2002). Kyiv: Lybid' [in Ukrainian].
4. Bogdan, T. (2019). Global debt as an indicator of the problems of the world economy and challenges for Ukraine's financial policy. *Finansy Ukrainy – Finance of Ukraine*, 9, 43-63. https://doi.org/10.33763/finukr2019.09.043 [in Ukrainian].
5. Vasilyk, O. (2004). Public Finance. Kyiv: Literature [in Ukrainian].
6. Hasanov, S., Kudryashov, V., Balakin, R. (2014). EU experience in crisis management of public finances and its use in Ukraine. *Finansy Ukrainy – Finance of Ukraine*, 7, 17-30 [in Ukrainian].
7. Pedchenko, N., Lugovskaya, L. (2021). The essence of the concept of "debt policy of the state". *Naukovyj visnyk Poltavs'koho universytetu ekonomiky i torhivli – Scientific Bulletin of Poltava University of Economics and Trade*, 2 (53), 229-236 [in Ukrainian].
8. IMF (2019). Our Interconnected World. Annual Report. Retrieved from https://www.imf.org
9. Tabah, A., Podrugina, A. (2021, 6 August). Budget policy: a new turn. ECONOS. Economic conversation. Retrieved from https://econs.online/articles/opinions/byudzhetnaya-politika-novyy-povorot [in Ukrainian].
10. Risks and threats to financial security of the public finance sector and ways to overcome them (2013). Kyiv: SESI "Academy of Financial Management" [in Ukrainian].
11. IMF (October 2021). Prospects for the development of the world economy. Recovery during a pandemic: health concerns, supply disruptions, price pressures. Retrieved from https://www.imf.org
12. Data on Ukraine's external debt. Ministry of Finance of Ukraine. Retrieved from https://www.mof.gov.ua [in Ukrainian].

13. Anti-crisis financial management in conditions of uncertainty (2021). Kyiv: "Summit Book" [in Ukrainian].
14. Debts on IGLBs for the respective periods. Ministry of Finance of Ukraine. Retrieved from https://www.mof.gov.ua [in Ukrainian].
15. Resolution of the Cabinet of Ministers of Ukraine "On increasing the authorized capital of the National Joint-Stock Company" Naftogaz of Ukraine "of August 4, 2014 No. 302. Retrieved from https://www.kmu.gov.ua/npas/247502705 [in Ukrainian].
16. Resolution of the Cabinet of Ministers of Ukraine On increasing the authorized capital of the National Joint Stock Company "Naftogaz of Ukraine" of January 23, 2015 No. 13. Retrieved from https://zakon.rada.gov.ua/laws/show/13-2015-%D0%BF#Text [in Ukrainian].
17. Results of placement of domestic government bonds (for relevant periods). Retrieved from https://bank.gov.ua/ua/markets/ovdp-table [in Ukrainian].
18. Official news of the NBU. Retrieved from https://bank.gov.ua [in Ukrainian].
19. Garkavenko, V., Yeshova, G. (2020). The impact of currency liberalization on the economy of Ukraine. *Ekon. prognozuvannâ – Economy and forecasting*, 3, 25-40. https://doi.org/10.15407/eip2020.03.025 [in Ukrainian].
20. Banking statistics. Retrieved from https://bank.gov.ua [in Ukrainian].

Received 14.02.22.
Reviewed 10.03.22.
Signed for print 03.08.22.

Валентина Гаркавенко[15]
Галина Єршова[16]

ВПЛИВ БОРГОВОЇ ПОЛІТИКИ УРЯДУ НА РОЗВИТОК ЕКОНОМІКИ УКРАЇНИ

Аналізується вплив боргової політики уряду на розвиток економіки України. Визначено, що нині практично всі показники боргової стійкості в Україні перевищують критичну межу, за якою

[15] **Гаркавенко, Валентина Іванівна** – науковий співробітник відділу фінансів реального сектору, ДУ "Інститут економіки та прогнозування НАН України" (вул. П.Мирного, 26, Київ, 01011, Україна), e-mail: gvi1953@ukr.net
[16] **Єршова, Галина Віталіївна –** канд. екон. наук, старший науковий співробітник відділу фінансів реального сектору, ДУ "Інститут економіки та прогнозування НАН України" "(вул. Панаса Мирного, 26, Київ, 01011, Україна), ORCID: 0000-0002-8807-130X, e-mail: galina_yershova@ukr.net

вона втрачає можливості самостійно вирішити боргові проблеми. Так упродовж 2014–2021 рр. внутрішній державний та гарантований державою борг України збільшився у гривневому еквіваленті у 3,9 раза і станом на кінець 2021 р. становив 1111,6 млрд грн. Збільшення боргу відбулося передусім за рахунок прямого державного боргу, який за аналізований період зріс у 4,1 раза.

Зроблено висновок, що масштабність державних запозичень в Україні перетворює їх на загрозу для економіки, оскільки без зміни чинної державної боргової політики ризик неспроможності уряду виконувати свої зобов'язання з погашення та обслуговування боргу зростатиме. Акцентовано на переосмисленні економічної політики країни у напрямі обмеження боргової залежності країни, удосконалення структури платіжного та зовнішньоторговельного балансів, виваженого підходу до лібералізації відносин у зовнішньоекономічній сфері та залучення іноземних інвестицій.

Здійснено детальний аналіз тенденцій щодо випуску ОВДП, ОЗДП, а також залучення боргового фінансування від міжнародних фінансових організацій. Дослідження тенденцій, а головне структури ОВДП дає підстави стверджувати, що зростання випуску зумовлене не лише необхідністю фінансування дефіциту державного бюджету, а й недоліками і прорахунками грошово-кредитної та боргової політики, а також політикою протекціонізму інтересів окремих бізнес-структур.

Акцентовано увагу на тому, що значна частка коштів нерезидентів в ОВДП збільшує валютно-курсову та фінансову вразливість країни і є фактором, що надає нерезидентам можливість впливати на валютний ринок та, відповідно, на курс національної валюти і стан міжнародних резервів України[17].

Ключові слова: *боргова політика уряду, дефіцит державного бюджету, державний борг, боргова стійкість, облігації внутрішньої державної позики, облігації зовнішньої державної позики*

[17] Публікацію підготовлено в рамках виконання НДР "Трансформації у фінансуванні корпоративного бізнесу в умовах нестабільності " (№ ДР: 0121U112770).