

THE PROBLEM OF EXTERNAL DEBT: CASE OF UKRAINE

External debt refers to money borrowed from a source outside the country. External debt can be obtained from different institutions: foreign commercial banks, International Monetary Fund, World Bank and government of foreign nations.

There are four main reasons why countries take international loans :

- to improve system designs (macroeconomic stabilization of the economy): the financial stabilization of the economy; the structural changes in the economy; the reforming of economic relations; the implementation of administrative reforms;

- to improve structural designs (structural changes in separate sectors of economy): restructuring long-term debt; institutional development, state administration transformation; transformation of legal system;

- to improve investment designs: the development of production, industries and sectors of economy;

- to improve technical assistance designs: to conduct staff training; provide documentation, equipment and technology assistance.

Ukraine borrows money because of some reasons:

- Replenish gold and foreign currency reserves and the state budget deficit.

- Financing programs of socio-economic development, strengthening of the material and financial base.

- Financing gas purchases.

- Servicing already existing loans and carrying out reforms.

The total volume of loans attracted during the years of independence from IMF is equal to 29.5 billion dollars. Ukrainian government has been carefully signing various programs of cooperation with the IMF, however, it has never completely fulfilled its commitment to reform. According to the Ministry of Finance, in the 90's Ukraine signed two programs of cooperation with the IMF - TNS (System Transformation Loan) and Stand-by. These two programs were established to bring around 0.763 billion dollars and 1.935 billion dollars respectively. Subsequently, the sample for any of the programs signed with the IMF was not complete - as a rule, Ukraine received several tranches, then a political or economic crisis took place in the country, and cooperation with the creditor become frozen until better times.

According to the EU office in Ukraine, over the years of independence, the volume of lending and grants provided exceeded 12 billion euros (Figure 1).

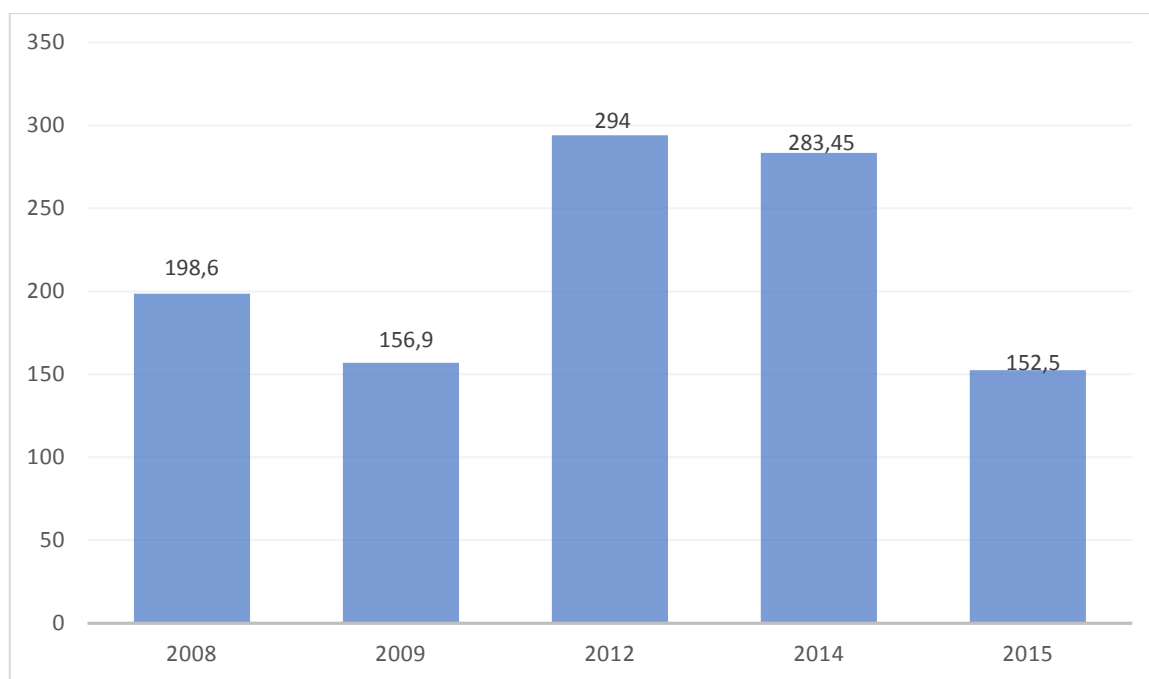


Figure 1. EU's loans to Ukraine (million Euros)

Ukraine received EUR 198.6 million of EU grants in 2008 and this tendency was increasing, then in 2009 the amount of aid decreased EUR 156.9 million. Subsequently, the volume of grants again began to increase gradually and in 2012 reached the mark of 294 million euros. In recent years, we have witnessed a decline - in 2014, it received 283, 45 million euros, in 2015 - 46% less, or 152.5 million euros. Generally, from year to year, the total amount of funding from the European Union is increasing. The third major lender is the World Bank. According to the Ministry of Finance, from the moment Ukraine gained independence, the Bank provided loans of \$ 11.9 billion.

During 2017, the state and state-guaranteed debt of Ukraine increased by 10.98% as compared to the previous year and as of December 31 was UAH 2141.67 billion (\$ 76.31 billion). At the same time, the state domestic debt amounted to UAH 753.4 billion (35.18%), the external - UAH 1080.31 billion (50.44%), guaranteed by the state - UAH 307.96 billion (14.38%). The external economic debt of Ukraine in 2018 is 83% of GDP or \$ 1.8-1.9 thousand per Ukrainian.

It is essential to note that there is negative effects of international credit. International loans can cause disproportions in the economies of creditor countries. Excessive attraction of international loans and their ineffective use can cause worsens solvency of borrowers as a result of paying large interest. Dynamics of external public debt and gross external debt of Ukraine from 2009 to 2018

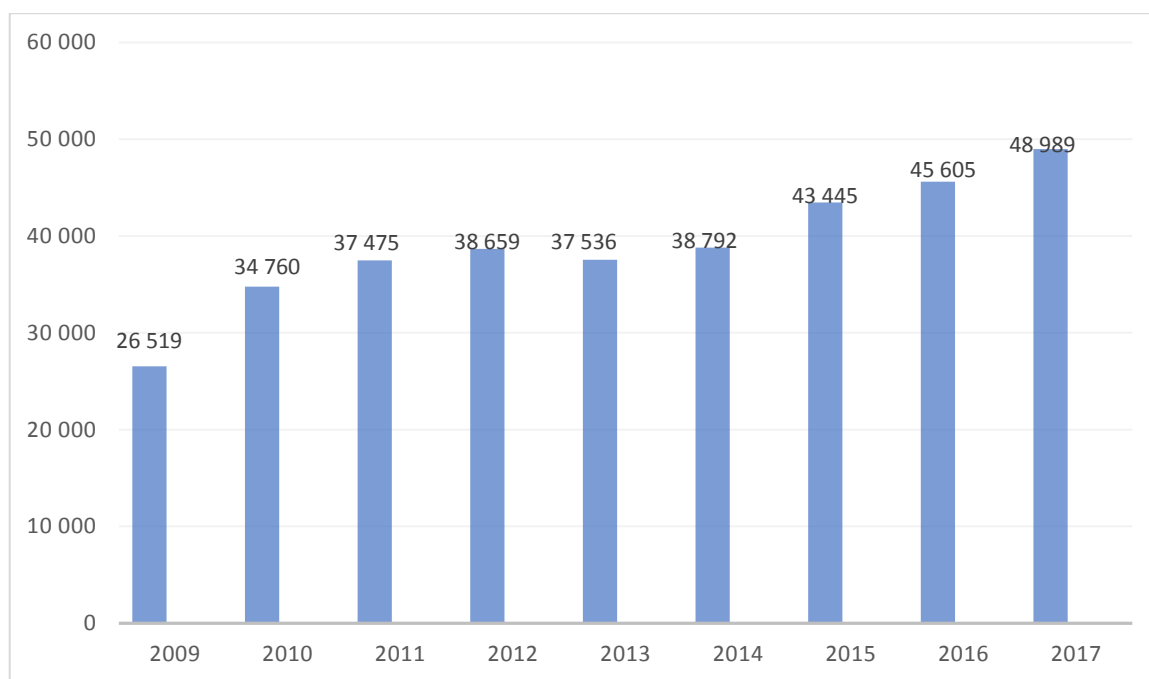


Figure 2. Dynamics of Ukraine's External Public Debt from 2009 to 2017 (USD million)

The previous two years Ukraine have not made payments on external debt. But today, the National Bank has to transfer the IMF a little over \$ 85 million in 2017. The next payment is scheduled for August 15 2018 and should be as much as \$ 356 million. In general, by 2021, Ukraine will give the fund \$ 7.9 billion - approximately \$ 192 per Ukrainian.

External debt is the total debt of the country in foreign loans, which consists of outstanding loans and unpaid interest. According to research, the safe level of state and state-guaranteed debt for Ukraine is about 35% of GDP. Now Ukraine has a critical significance. At the same time, unfortunately, the source of finance for the fulfillment of debt obligations is new loans, which only worsen the financial condition of the state. Therefore, the main principles of public debt management should be: minimization of costs and risks associated with debt; optimization of debt structure; development of the domestic market of state borrowings. Transparency in the use of funds is important in optimizing Ukraine's external debt. The most radical way to solve the problem of external debt is to declare default and write off the debt.

References:

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