

Debt Sustainability in Strengthening the Financial Sovereignty of Ukraine

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ABSTRACT. This article considers the problem of increasing the debt sustainability of Ukraine in the context of country's financial sovereignty maintenance. The analysis of debt processes in Ukraine for 30 years of independence was carried out, the influence of the existing institutional traps in the economy on the debt policy was determined. The following problems were defined as the institutional traps formed in the Ukrainian economy (tax evasion and shadowing of the economy): problems with pumping up the budget, its deficit and financing mainly due to an increase in government debt. The special aspects of the situation in the field of government debt in modern conditions in the world and in Ukraine were identified, the existing approaches to government debt management in the context of the Covid-19 pandemic were identified, which is accompanied by problems of debt complications and may cause deterioration in the financial stability of countries. It is noted that Ukraine is now faced with the problem of excessive debt burden under uncertain conditions of economic growth and is forced to balance between the challenges of fiscal consolidation to reduce the volume of government debt and keep refinancing risks at a moderate level, on the one hand, and the need for fiscal incentives to revive economic activity, on the other. The priorities for increasing the level of debt sustainability of Ukraine are proposed, providing for the improvement of debt policy, in particular, in the direction of optimization of the structure of government debt in terms of ratio of service costs and risks while maintaining an acceptable level of debt burden, taking into account the principles of government debt management: increasing the share of government debt in national currency; extending the average maturity and ensuring a uniform repayment schedule for government debt; attraction of long-term concessional financing; continuation of strong investor relationships development. It is also noted that it is necessary to solve the basic problems of the development of the stock market of Ukraine as a source of available resources for financing current activities and investments; creation of liquid markets for financial instruments and mechanisms to reduce risk thereof; ensuring the modernization, consolidation and development of exchange and depository infrastructure of capital markets. It is substantiated that in order to ensure the financial sovereignty of Ukraine in modern conditions, a transition from conservative to progressive financial stability is required, which, in turn, should be the result of achieving a

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comprehensive functionality of the financial system. It is also necessary to create perfect institutional mechanisms to ensure coordination of actions of economic management institutions to overcome existing imbalances and prevent the creation of new ones.

KEY WORDS: government debt, debt sustainability, financial sovereignty, debt policy, institutional traps.

Introduction

In today's unfavorable pandemic conditions, the possibilities of ensuring the long-term economic growth of Ukraine (as a result of the exhaustion of the possibilities of traditional models and development drivers) and the preservation of its economic sovereignty will be significantly complicated due to the tangible narrowing of financial, economic and organizational resources for economic stimulation. Therefore, due to the increased volatility of the global economy under the COVID-19 pandemic's influence, an important task and the main component of strengthening the country's financial sovereignty (as one that forms a national model for the implementation of strategic financial and investment priorities of the national economy, while actively participating in global financial transactions)³, is the development of the stability of the financial system, which, according to the definition provided in the work⁴, lies in its ability to withstand threats, adapt to their action, function smoothly before and during a crisis, and quickly recover from a crisis to the desired balance (at the same or new level). According to N.V. Omelekhina, the sovereignty of the state in the financial sphere (financial sovereignty of the state) is an integral part of the sovereignty of the state in the economic sphere (economic sovereignty of the state), it provides for the right of the state to establish and collect monetary payments from the population within its territory, to receive other incomes, to accumulate them in certain funds and to redistribute them for material support of the tasks and functions of the state, expressed in the subjects of the conduct of the relevant public law formation and enshrined in the powers of its institutions. The financial sovereignty also has its external demonstration — the independence of the state in participation in international relations and the conclusion of agreements on the fiscal competence of states, on the one hand, and the implementation of

³ Mazaraki A.A., Melnyk T.M., Yukhymenko V.V., Kostiuchenko V.M. et al. Ekonomichnyi suverenitet Ukrainy: monohrafiia /za zah. red. A.A. Mazaraki ta T.M. Melnyk. Kyiv. nats. torh.-ekon. un-t, 2015. 700 p. [In Ukrainian].

⁴ Shemaieva L. H., Zhalilo Ya. A., Yurkiv N. Ya. ta in. Problemy ta perspektyvy zmitsnennia stiikosti finansovoi systemy Ukrainy: analit. dop. / za nauk. red. Ya. A. Zhalila. Kyiv: NISD, 2021. — 104 p. [In Ukrainian].

material support for international obligations, on the other hand, as well as in cooperation in these areas⁵.

This is especially true of the country's debt sector, as international experts, including Barclays⁶ analysts, predict, in the period following the Covid-19 pandemic, Ukraine, along with other emerging market countries, will face problems of debt complications and cause a deterioration in the country's financial stability. The reasons for this may be a decrease in the inflow of long-term foreign capital (FDI, portfolio investment, bank loans) and a shortage of external financing, which can increase productivity erosion and reduce potential production volumes.

With the aim to stabilize public finances and maintain a balance of payments in crisis conditions, Ukraine, like most countries of the world, voluntarily limits its financial sovereignty, entering into debt dependence on other states and international financial institutions, because receiving financial resources from them imposes certain liabilities on the country⁷. This actualizes the search for a structural solution to the *problem of increasing the debt sustainability of the country* (that according to the definition given in the works^{8,9}, is the ability of the state to fulfill its own debt liabilities (both current and future), in a timely manner and in full, avoiding debt restructuring, accumulation of arrears in payments and without resorting to a significant adjustment of the balance of income and expenses of the state) *in the context of maintaining the country's financial sovereignty* (by the definition provided in the work⁷ it means the right of the state to impose taxes and duties on its own territory, prohibit or encourage the import or export of capital, issue money, take loans, etc.).

The unsolved part of the general problem is the need to identify ways to increase the country's debt sustainability, taking into account the existing institutional traps in the Ukrainian economy, which form the need to accumulate government debt. The purpose of the article is to substantiate ways to ensure the financial stability of Ukraine, taking into account the requirements of maintenance of its financial sovereignty based on the analysis of the evolution of Ukraine's debt policy and using modern global trends in debt policy.

⁵ Omelekhina N.V. Financial sovereignty of the state: before posing the problem of research of legal identification. URL: <https://wiselawyer.ru/poleznoe/104991-finansovyy-suverenitet-gosudarstva-postanovke-problemy-issledovaniya-pravovoj> [In Ukrainian].

⁶ Barclays. Equity Gilt Study 2020: Putting the post-Covid world in context. URL: <https://www.investmentbank.barclays.com/news-and-events/2020-equity-gilt-study.html>

⁷ Tkachenko N.V. Finansova polityka yak instrument realizatsii ekonomichnoho suverenitetu derzhavy. *Ekonomichnyi analiz*, 2015. T. 20. - S.203-209. [In Ukrainian].

⁸ Beqiraj E., Fedeli S., Forte F. Public debt sustainability: An empirical study on OECD countries. *Journal of Macroeconomics*, Elsevier. 2018. Vol. 58 (C). Pp. 238–248.

⁹Sovereign Debt: A Guide for Economists and Practitioners. *Oxford University Press*, 2019. 464 p.

Stages of the formation of the government debt of Ukraine

The situation in the debt sector in the world is characterized by the accumulation of global debt and the increasing unevenness of its accumulation in different groups of countries and sectors of the economy. According to the Institute of International Finance, the volume of global debt at the end of 2020 reached USD 277 trillion, or 365% of global GDP, while the debt of developed countries accounts for 71.9% of the total debt (over the year from October 01, 2019 to August 30, 2020, the debt of developed countries increased by USD 14.5 trillion, or 8%, while the debt of emerging markets increased by USD 5.5 trillion, or by 7.8%). In the sectoral context, government debt grew most dynamically in the world, the volume of which increased by USD 8.5 trillion, or by 12.3%, from October 01, 2019 to September 30, 2020. Debts of non-financial corporations (by 5.9 UAD trillion, or 8%) and the financial sector (by \$ 3.5 trillion, or 5.6%) also grew at a high rate. The rapid growth of government debts and debts of non-financial corporations, as well as the need to service these debts, increase the vulnerability of their financial condition to changes in financial market conditions (primarily, changes in interest rates and exchange rates)¹⁰.

In response to the spread of the crisis in the world, according to T. Bohdan¹¹, many governments of countries increase the state's debt liabilities, using the available financial resources and reserves to finance programs aimed at maintenance of aggregate demand and strengthening the balance sheets of entrepreneurial structures which help to reduce the depth of the GDP recession and the financial system's destabilization degree, but reduce the ability to use fiscal incentives.

Ukraine, like most countries in the world, in the period of 2014-2018 (the beginning and strengthening of hybrid aggression from the Russian Federation against Ukraine) and in 2020-2021 (corona crisis impact), also faced the problem of excessive debt burden amid uncertain economic growth conditions and had to balance between the challenges of fiscal consolidation to reduce the volume of government debt and keep refinancing risks at a moderate level, on the one hand, and the need for fiscal incentives to revive economic activity, on the other.

In monitoring of the debt sustainability of countries around the world (*World Bank, IMF*), since the beginning of the rating in 2000 (Fig. 1) in terms of the level of accumulated government debt to GDP in 2020, Ukraine (65.7% of GDP) almost corresponds to the average

¹⁰ Institute for international Finance. Official web-site. URL: <https://www.iif.com/Research/Capital-Flows-end-Debt/Global-Debt-Monitor>.

¹¹ Bogdan T.P. Financializing the World Economy and Increasing Global Debt: Challenges and Opportunities for Ukraine. URL: <https://www.growford.org.ua/research/finansyalizatsiya-svitovoyi-ekonomiky-ta-naroshhuvannya-globalnogo-borgu-vyklyky-ta-mozhlyvosti-dlya-ukrayiny/>. [In Ukrainian].

indicator for countries with emerging markets (62.2% of GDP) and twice lags behind the indicator of foreign countries (125.5% of GDP). At the same time, the indicator of the external total debt of Ukraine as of October 01, 2020 (73.4% of GDP) is three times higher than the average level of countries with low and middle income¹².

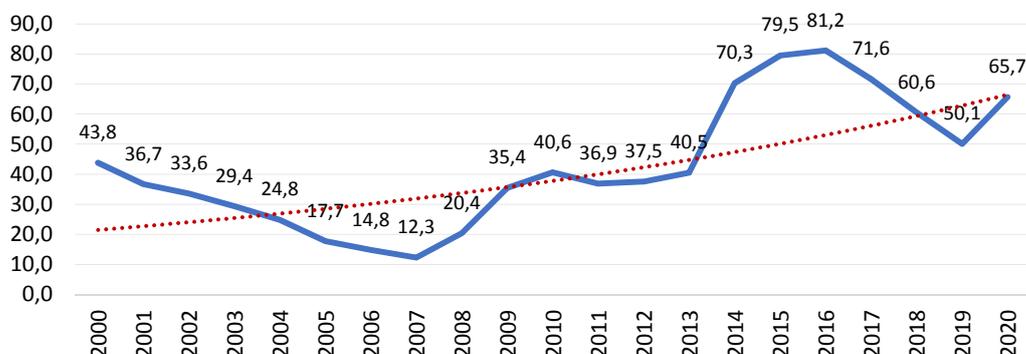


Fig. 1. Dynamics of the debt ratio to GDP in Ukraine in 2000 – 2020, %.

Source: developed by the authors according to the IMF, General government gross debt¹³.

The formation of the government debt of Ukraine at the initial stages of the formation of our state was objective due to: the lack of its own monetary system and a sufficient volume of foreign exchange reserves, energy-consuming structure of the economy and the formation of debts for the import of energy resources, depreciation of the population's funds and the washing out of working capital of enterprises due to hyperinflation. The evolution of debt processes in Ukraine was characterized by the following stages¹⁴:

1991–1994 – unsystematic formation and accumulation of government debt of Ukraine due to the deficit of the state budget, formation of a stabilization fund for the national currency and an imbalance in the trade balance. With the aim to finance the budget deficit, direct loans from the NBU were attracted, government guarantees of foreign loans were provided to Ukrainian enterprises, and debt relations with the Russian Federation were settled. The debt

¹² World Economic Outlook Database, April 2021. URL: <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases>.

¹³ IMF, General government gross debt. URL: <https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405>.

¹⁴ Developed on the basis of: *Yefymenko T. I., Yerokhina S. A., Bohdan T. P.* Borhova stiikist derzhavnykh finansiv. DNNU. Akad. fin. upravlinnia, 2014. — 712 p. [In Ukrainian].

situation was aggravated by the lack of a clear distinction between the finances of enterprises and the state, the weakening of the finances of enterprises, massive non-fulfillment of contractual liabilities;

1995-first half of 1998 – along with the continuation of the debt policy of previous years, relations with international financial organizations and commercial creditors were intensified (during this period, the external debt grew almost 4 times). However, over time, under the influence of the 1998 global financial crisis, the creditworthiness of Ukraine in the international capital markets deteriorated significantly. The failure of the state to refinance the accumulated debts in the context of the rapid growth of budget expenditures for servicing external debt created risks of default;

second half of 1998-2000 – the period of restructuring of debt liabilities against the background of large gaps in the balance of payments and a low level of foreign exchange reserves. The government debt of Ukraine in 2000 reached 48.8% of the country's GDP (total debt payments amounted to 71.4% of the annual volume of the state budget revenues). During 1999-2000 two restructuring of Ukraine's external debt were carried out (in August 1999, the government carried out an additional issue of Eurobonds worth DM 538 million with the aim of converting debts to Bavarian United Bank and Merrill Lynch Bank; in April 2000, as a result of the issuance of long-term liabilities for up to seven years, denominated in EUR and USD, Ukraine extended its debt in the amount of USD 2.6 billion). However, the restructuring of debt liabilities had a limited and temporary impact on the solution of the debt problem, since they did not lead to a significant decrease in the debt burden on the country's economy. The negative impact on the debt situation from the action of internal factors during this period was complemented by exogenous shocks, in particular, an increase in interest rates on world capital markets, a significant outflow of foreign capital from Ukraine and a narrowing of sales markets for Ukrainian export goods;

2001-2007 – a period of a balanced debt policy aimed at preventing uncontrolled growth of government debt. A balanced fiscal policy was pursued: maintaining the state budget deficit at a moderate level; active involvement of privatization revenues into sources of financing the budget deficit. This was facilitated by the dynamic growth of the Ukrainian economy and an increase in the country's credit rating. In fact, at this stage, the transition from anti-crisis management of government debt to the implementation of a targeted policy of government debt management in Ukraine took place. Direct public and publicly guaranteed debt gradually declined to 12.2% of Ukraine's GDP in 2007;

2008–2009 – increase of external debt burden on the economy and public finances of Ukraine due to the sharp depreciation of the national currency during the financial crisis of 2008-2009. In the context of a deteriorating credit rating and a corresponding increase in the cost of borrowing in the international capital market, the government was forced to carry out external borrowings through MFIs and official bilateral lenders (the IMF became the largest borrower). The reduction in budget revenues in 2009 as a result of the economic downturn and an increase in the expenditure side of the budget led to an increase in the consolidated budget deficit and, as a result, the growth of government debt to 29.2% of GDP by the beginning of 2010;

2010–2013 – an unsystematic increase in the government debt of Ukraine against the background of a moderate increase in tax revenues and an increase in the volume of government liabilities. In September 2010, the Ministry of Finance of Ukraine returned to the international capital market to place Eurobonds, but the funds raised were mainly used to finance current budget expenditures. In addition, a significant share of short-term debt exacerbated the risks of the country's financial stability. In 2013, the government began to place foreign currency-denominated domestic government bonds in the conditions of limited government access to international capital markets due to rising risks of a debt crisis in the Eurozone. The implementation of new borrowings was accompanied by an increase in government debt payments, which increased the debt burden on the budget.

During this period, considerable attention was paid to the strategic aspects of government debt management: in 2011 the Cabinet of Ministers of Ukraine adopted the Medium-Term Government Debt Management Strategy for 2011-2013¹⁵, however, its main weakness was uncertainty about the sources of future government debt reduction. Later, in May 2012, a new Strategy for the period 2012–2014 was adopted to replace this document, and the Medium-Term Government Debt Management Strategy was approved by the Resolution of the Cabinet of Ministers of Ukraine No. 320 dated April 29, 2013. Despite this, the level of Ukraine's government debt rose to 39.9% of GDP;

2014–2019 – a hybrid aggression and annexation of the Crimea by the Russian Federation, together with the macroeconomic imbalances accumulated in previous years, destroyed the financial stability of the state. Public and publicly guaranteed debt at the end of 2014 increased to 69.4% of GDP, at the end of 2015 – 79.4% (largely due to the rapid rise in the cost of external debt due to the devaluation of the hryvnia),

¹⁵ On approval of the Medium-Term Public Debt Management Strategy for 2011–2013: Resolution of the Cabinet of Ministers of Ukraine of March 2, 2011. No 170. URL: <https://zakon.rada.gov.ua/laws/show/170-2011-%D0%BF> [In Ukrainian].

which exceeded the limit of the debt burden of 60% of GDP, provided for by the Budget Code of Ukraine. There are acute problems of ensuring effective management of government debt and its servicing, increasing the country's debt sustainability. In 2015, an operation was carried out to restructure and partially write off government and government-guaranteed external commercial debt in order to improve medium-term debt sustainability under the Memorandum between the Government of Ukraine and the International Monetary Fund. As a result, in 2016 the volume of public and publicly guaranteed debt was kept within the planned limit values, which positively influenced the resumption of economic growth and the stabilization of macroeconomic indicators. After a long pause, IMF lending under the Extended Financing Program has resumed since 2017; there was a successful return of the country to international capital markets through the placement of external government loan bonds (EGLB) in the amount of USD 3 billion; the first active government debt management operation in the history of Ukraine was carried out through the purchase of EGLB with maturity in 2019 and 2020 in the amount of USD 1.6 billion. By the Resolution of the Cabinet of Ministers of Ukraine No. 883 dated August 22, 2018, the "Medium-Term Debt Management Strategy for 2018-2020" was approved. During 2017-2019 the relative indicators of government debt in Ukraine gradually improved: the level of public and publicly guaranteed debt in relation to GDP decreased from a peak level of 81% of GDP at the end of 2016 to 71.6% in 2017, 60.6% in 2018 and 49.8% of GDP – at the end of 2019.

Current state and prospects of settling debt problems in Ukraine

In 2020-2021, the situation in the debt sphere has changed dramatically: the government resumed active accumulation of debts due to the devaluation of the hryvnia and the downward dynamics of real GDP due to the economic epidemiological crisis when it is necessary to conduct a stimulating fiscal policy. The level of Ukraine's government debt relative to GDP in 2020 (65.7%)¹³ again exceeded the limit for emerging market countries (60% of GDP), which, however, was inherent in this period in many developed countries and countries with emerging markets.

Since 1996, the World Bank and the International Monetary Fund have been conducting quarterly monitoring of the debt sustainability of the countries of the world, the main indicator of which is the ratio of the level of government debt to GDP. In the context of the COVID-19 pandemic, there has been a rapid accumulation of global debt and an

increase in the unevenness of its accumulation across different groups of countries and sectors of the economy. (Fig. 1).

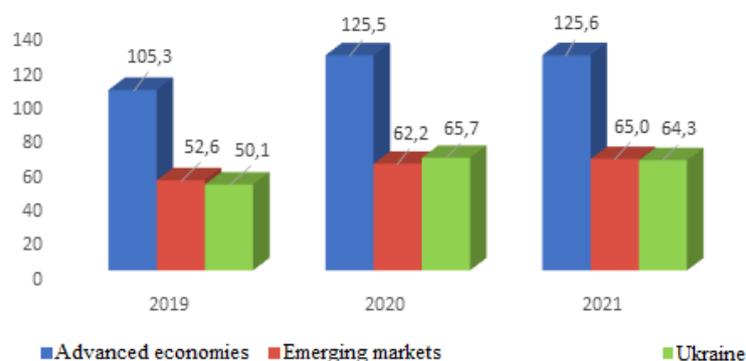


Fig. 1. Government debt by groups of countries and in Ukraine, % to GDP (2021 – IMF forecast) *Source:* prepared according to IMF data, Fiscal Monitor Oct.2020.

In Ukraine, the use of fiscal incentives during the 2020-2021 pandemic also led to an increase in the relative size of public and publicly guaranteed debt (from 50.3% of GDP at the end of 2019 to 64.3% of GDP by the end of 2021), which is almost in line with the average for countries with emerging markets and is half that of developed countries (Fig. 2).

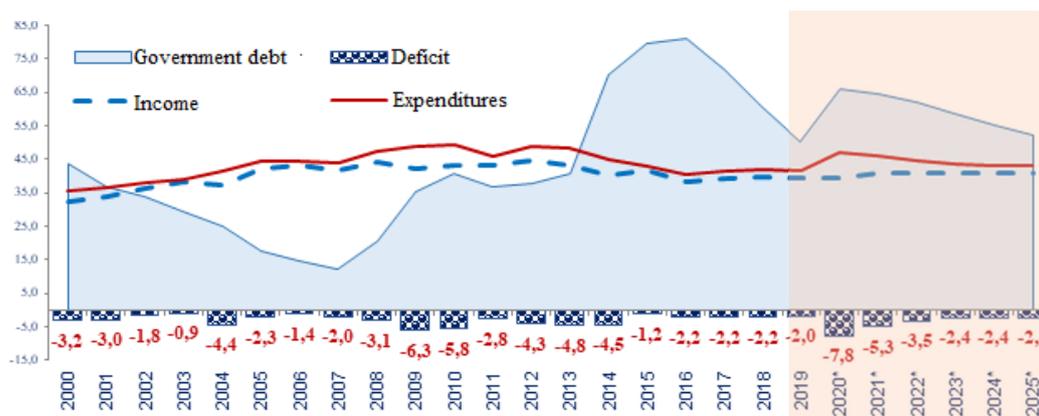


Fig. 2. Dynamics of income, expenditures and deficit of the general government sector, gross government debt of Ukraine in 2000–2025*, % of GDP.

Source: IMF¹⁶. * – 2021 – 2025 forecast data

¹⁶ Economic Outlook Database (October 2020 URL: <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases>)

The rapid growth of government debts and debts of non-financial corporations, as well as the need to service these debts, increase the vulnerability of their financial position to changes in financial market conditions (primarily, changes in interest rates and exchange rates).

An analysis of the international experience of countries with high and middle incomes per capita in solving the problem of high debt burden caused by the COVID-19 pandemic makes it possible to identify several groups of instruments that states have in different countries, in particular:

stimulating economic growth (which will reduce the relative size of government debt), in particular, due to increased employment of the population and public and private investment, since there is a direct link between higher economic growth rates and a decrease in the ratio of government debt to GDP (increase in the nominal level of GDP).

However, according to experts, the COVID-19 crisis differs from the "normal" recession in its "sectoral" nature, while it should be considered both a sectoral supply shock (through a "halt" of some sectors due to government social distancing measures) and a sectoral demand shock as households and companies voluntarily reduce the demand for travel, tourism and other contact-intensive services.

During a sectoral downturn, stimulating aggregate demand becomes less effective, so it should not try to keep the budget deficit at the rates used in a normal downturn, but the fiscal space that remains with the country should be used to purposefully stimulate economic growth by supporting restructuring and creating new jobs, rather than making direct payments from the government to households that will increase their savings;

conducting fiscal consolidation or reducing the budget deficit is one of the most widespread methods of restoring debt sustainability in world practice, including fiscal policy measures aimed at reducing the debt burden by increasing revenues and/or reducing government budget expenditures¹⁷. At the same time, many experts acknowledge that with rising debt service costs, fewer resources will remain at the disposal of governments to fund critical government needs, including health care and social benefits. Meanwhile, in a pandemic, the need for such spending will grow amid rising poverty, rising social inequality and problems in the accumulation of human capital.

Consequently, a reduction in government spending in the new environment is unlikely, and therefore tax increases will be a more

¹⁷ Baldacci E. How Effective Is Fiscal Policy Response in Systemic Banking Crises /E. Baldacci, S. Gupta, C. Mulas-Granados. IMF Working Paper. 2009. WP/09/160. URL: www.imf.org/external/pubs/ft/wp/2009/wp09160.pdf.

realistic form of fiscal consolidation. The IMF experts also believe that in the medium term, maintaining debt sustainability will require many countries to increase the progressiveness of personal income taxation, raising taxes on property, wealth and capital gains, and introducing changes to the corporate income tax system that will reduce tax abuse and raise tax rates for high-yielding corporations.

The most expedient way of the expenditure side of the budget is the elimination of ineffective subsidies to companies and the search for opportunities to improve the efficiency of existing expenditure programs. On the other hand, governments cannot resort to radical fiscal consolidation as the main method of reducing the debt burden, since they usually have negative consequences for economic growth and social stability. According to analysts of Barclays⁷, the experience of fiscal austerity after the global financial crisis has called into question its effectiveness in reducing the debt burden, given the negative impact on the economy;

lowering the present value of government debt due to high inflation (inflationary depreciation of debt). By a weird coincidence, it is inflation that the developed world sees as a way out of a potential debt crisis triggered by a pandemic: regulators in developed countries are pouring huge amounts of liquidity into the economy to avoid a debt crisis. The arguments are the opinions that a soft, gradual inflationary decrease in the debt burden will be better for the economy: the nominal level of debt does not increase, and the real level gradually decreases with the help of moderate inflation; in this way jobs and nominal economic growth can be saved¹⁷;

using financial repression to suppress interest rates and keep the cost of servicing public debt at a reasonable level. According to experts¹⁸, financial repression, as a hidden method of resolving debt problems, will cause the least resistance, and therefore will continue to be actively used by many states of the world. The concept of monetary repression extends to such processes as: direct lending to the government by affiliated institutions (including central banks), the establishment of direct or indirect limits on the level of interest rates, regulation of cross-border capital movements. In practical terms, financial repression has been widely used in the past, mainly to reduce interest rates on government debt, as it allows to reduce the size of government debt or the cost of servicing it without undertaking the necessary fiscal consolidations. Since the start of COVID-19 pandemic, central banks

¹⁸ Institute for international Finance. Official web-site. URL: <https://www.iif.com/Research/Capital-Flows-end-Debt/Global-Debt-Monitor>

around the world have resorted to active buybacks of government debt in the primary and secondary markets¹⁹;

attracting cheap official financing from international financial institutions. IMF experts²⁰ note that many emerging market countries should maintain access to the resources of official lenders and donors, given the high volatility of the international capital market;

restructuring of government debt during COVID-19 pandemic, according to IMF experts and specialists, it may be necessary in some cases to restore debt sustainability and eliminate financing gaps in some developing countries but politically unrealistic in developed countries, since this method creates many challenges and has a long-term destructive effect on the creditworthiness of the state. In addition, not entire volume of external debts is subject to restructuring: credit relations with international financial institutions (IMF, World Bank and other structures) have a tough financial perspective with clearly fixed amounts and repayment periods;

improving the country's government debt management model by: application of anti-crisis instruments of debt policy (introduction of new securities and changes in the composition of securities offered to the market; changes in procedures and mechanisms for placing loans; operations in the open market); introduction of a portfolio approach to the management of external government debt. A government debt management agency is created with the aim to carry out such operations, its activities are controlled by the Ministry of Finance.

Each of the above methods of resolving debt problems has its own "side" effects and limited scope.

Consequently, high growth rates of government debt, an uncertain situation with the refinancing of accumulated debts, significant currency risks of government debt, the high cost of attracting new loans and significant amounts of potentially dangerous contingent liabilities of the state actualize the problems of determination of ways to increase debt sustainability and require both a balanced management of the government debt of Ukraine, and the formation of mechanisms for getting out of institutional traps, leading to its preservation and growth with negative consequences for the financial sovereignty of the country.

The manifestation of the institutional traps formed in the Ukrainian economy associated with tax evasion and shadowing of the economy are problems with filling the budget, its deficit and financing the deficit

¹⁹ Gros D. Lessons From the COVID-19 Crisis for Euro Area Fiscal Rules/Centre for European Policy Studies. URL: <https://www.intereconomics.eu/contents/year/2020/number/5/article/lessons-from-the-covid-19-crisis-for-euro-area-fiscal-rules.html>

²⁰ World Economic Outlook, October 2020 URL: <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

mainly due to an increase in the government debt. The permanent deficit of public finances in Ukraine is a *fundamental factor* that determines the processes of consistent accumulation of government debt, since all other sectors of the economy, *apart from the government one*, are characterized by relatively low levels of accumulated debts. This indirectly indicates the insufficient level of lending to the national economy and the absence of a healthy credit process. In addition, there is a *shortage of internal financial resources*, for the leveling of which the Government and enterprises of Ukraine resort to active placement of external loans. As a result, these sectors accumulate deformations in favor of external financing, which increases the currency risks of existing debts and increases the vulnerability of the financial condition of borrowers to the effects of external shocks⁸. Consequently, a critical component of the country's financial sovereignty is maintenance of the debt sustainability of the national economy and requires a balanced debt policy, which should aim at maintenance of an acceptable level of government debt.

According to Barclays analysts⁶, an integrated approach should be applied to resolve debt problems in post-pandemic financial policy, which will rely on a different set of instruments for different countries (stimulating economic growth, conducting fiscal consolidation/reducing budget deficits, inflationary debt depreciation, "financial repression", attraction of financing from MFOs, etc.).

Taking into account the existing threats and risks of the global financial system, such a state of affairs will objectively require the Government of Ukraine, in accordance with world trends, to conduct a more balanced fiscal policy (preventing an increase in fiscal deficits) after the Ukrainian economy has overcome the crisis and a gradual decrease in the relative size of the debt burden.

By the Resolution of the Cabinet of Ministers of Ukraine No. 127 "On the Formation of the Agency for the Management of Government Debt of Ukraine" dated February 12, 2020, it was decided to create a central executive institution that implements the state budgetary policy in the management of government debt and publicly guaranteed debt in accordance with international best practices in order to increase the effectiveness of policies aimed at reducing the debt burden and reducing the cost of servicing government debt. However, a full-fledged "launch" of the Agency has not yet taken place.

Increase of the level of debt sustainability of the state presupposes the improvement of debt policy, in particular, in the direction of optimizing the structure of government debt in terms of the ratio of service cost and risks while maintaining an acceptable level of debt burden, taking into account the principles of government debt

management: an increase in the share of government debt in national currency; extending the average maturity and ensuring a uniform repayment schedule for government debt; attraction of long-term concessional financing; continuation of development of strong investor relationships.

Solution of following basic tasks is also acquiring strategic significance for Ukraine, in the context of a predicted decrease in external financing opportunities and a high level of government debt: the development of the stock market of Ukraine as a source of available resources for financing current activities and investments; creation of liquid markets for financial instruments and mechanisms to reduce their risk; ensuring the modernization, consolidation and development of the exchange and depository infrastructure of capital markets.

This will allow for the transition from passive debt financing of the budget deficit to active influence on the implementation of strategic development guidelines and structural modernization of the national economy, which will turn the policy of state borrowing from a technical fiscal mechanism into a full-fledged component of macroeconomic policy.

Conclusions

In the context of financial globalization, when there is a cross-border movement of financial flows, and the financial component becomes dominant in the development of the global economy, achieving a sovereign competitive position of the national economy is possible subject to the support of financial independence based on banking, fiscal sovereignty, budgetary and debt stability and currency sovereignty, and should be focused on choosing a model of financial behavior based on national economic priorities while maintaining independence in making strategically important decisions. With the aim to ensure the country financial sovereignty in modern conditions, a transition from conservative to progressive financial stability is required, which, in turn, should be the result of achievement of the comprehensive functionality of the financial system.

Ensuring the financial stability of the state in the medium term requires the adoption of a number of interrelated measures to respond to challenges in the monetary and fiscal spheres, aimed at reducing the corresponding risks. There are no perfect institutional mechanisms that would ensure coordination of actions of economic management institutions to overcome existing imbalances and prevent the emergence of new ones in Ukraine. In this context, it is necessary to determine the institution responsible for monitoring imbalances and formulate

appropriate recommendations, including using the European experience of forming a "scoreboard" of macroeconomic imbalances and preventing crises, which is the prospect of further research in this direction.

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