

THE PROBLEMS OF DEFAULT IN UKRAINE: CAUSES AND CONSEQUENCES

Lately has become actual a question of possible default in Ukraine, which is actively discussed by experts, specialists, politicians and mass-media [1 — 5]. In our opinion, this problem in that or another aspect is arising very sharply in many countries of world. This can be explained by the peculiarities of the world economy as a result of the financial crisis and rates of development of national economies. We will make an attempt to understand some aspects of this problem.

A term “default” means non-fulfillment of liabilities, i. e. non-fulfillment of agreement of borrowing, non-payment of percents in time or main debt on promissory note or contractual requirements about issuing of lending bonds

Default can be declared by companies and states what are unable to serve all or part of the liabilities. If default is declared by the state, debts would be regulated at an international level.

Will mark that according to official information of International Monetary Fund from 1941 till 2004 135 defaults in a world took place as a result of the state borrowing. So this problem is not new for the world economy. But from time to time it becomes sharp, taking into account changes in the financial system, displays of economic recurrence. The risk of default is always, it does not follow to be afraid, but it can not be underestimate.

As a rule, default is cause of forming of national debts as a result of state financial borrowing for coverage of budget deficit. A national debt consists debt of central government, regional and local organs of power, state organizations and enterprises.

There are distinguished two types of national debt:

1) Internal-state debt to the proprietors of state securities and other creditors, which is denominated in national currency;

2) External-state debt to other countries, international financial organizations and other persons, which is denominated in foreign currency. This debt can be prepaid due to export commodities or new borrowing.

It should be noted that a problem of national debts now is very actual for a world economy on the whole. The main question is not in a debt, but how it will be repaying.

Scientists and practices of different countries lately are actively searching indicators that are able to foresee the state default. The following approaches became causes of these researches:

- Construction of theoretical models;
- Research of passing ahead indicators of default;

— Studying of prognosis possibility of the credit rating and spreads.

According to report of International Monetary Fund (IMF), there are 50 different indicators the changes of which can be signals about approaching state default which are usually exploring. The experts of IMF forecast that in every year some country with probability about 20 % will not be able to meet its obligations.

In many countries of the world the sizes of national debt are very large. Usually ratio of national debt toward Gross Domestic Product (GDP) is a criterion of the default threat level. For example, in Italy and Greece the level of state debts is exceed of 100 % of GDP, in the countries of European Union according to report of 2009 — 60% and arrives at 73,7% now, in the USA to January, 31, 2010 the general volume of national debt was 14,131 trillions of USD or 96,5% GDP of the USA. There are countries, in which national debt exceeds 200 — 300% national wealth, — Japan, Venezuela. In Ukraine a national debt makes now 40,5 % of GDP (2010 year — 40% of GDP). According to the experts of the World Bank the external debt of Ukraine arrives at 82% GDP.

It should be noted that in some countries this number is considerably less. So, in China correlation of national debt to GDP arrives at 22%, in Russia — only 10%.

At the same time in some countries a situation is determined by negative tendencies. For example, in Brazil and Hungary ratio of national debt to GDP exceeds today universal recognized level of security in 60%. Sometimes the state debt reaches the level of GDP of country. Japan during a few years has aggregate national debt higher 150% of GDP. The specialists of Organization of Economic Cooperation and Development counted up, that at preservation of the noted tendencies until 2050 the national debt of Italy can reach 250% of GDP, Germany — 300%, France — 400%, the USA — 450%, Great Britain — 500%, Japan — 600%.

Let's notice that real threat of a default has arisen in America in August, 2011. Not to admit a default and repetition of financial crisis, the Congress of the USA at the desire of the President has agreed to lift public debt level around to 1,5 billions of USD.

Foreign experts made a few rating of countries, in which the threat of default is high enough. After one of these prognoses, Ukraine takes sixth place in this list. This list looks thus: 1 place — Venezuela, 2 — Greece, 3 — Argentina, 4 — Ireland, 5 — Portugal.

In order to elucidate whether there is a situation

about default in Ukraine critical, we will consider the structure of national debt of Ukraine, and also, what sum it must pay in 2011 — 2013 years.

We should note, in year 2011 Ukraine must repay debts and to pay for them credits on more than a 54 billions of UAH or 6,8 billions of USD. In the structure of national debt we will distinguish the following components:

1) Certain part of basic internal debts is on Internal Public Bonds (IPB). In year 2011 it will be necessary to repay IPB to the amount of 25,6 billion of UAH plus to repay percents on them — 13 billions of UAH (a total sum achieves 38,6 billions of UAH). Now there are approximately 49% of all issued IPB in portfolio of National Bank of Ukraine, additionally 36% are in own of commercial banks. Non-residents keep only to a 6% amount IPB. Therefore Ministry of Finance of Ukraine can sell new issued IPB and use such money to repay previous issues;

2) On Eurobonds Ukraine must repay 600 million of USA plus percents on them at 440 millions of USD. If will be no unexpected events on the world financial market, these debts it is possible would be repay without superfluous problems;

3) On external debts is needed to pay for credit, which was given by EBRD on sum about 250 millions of USD. It is possible to realize by placing of new bonds and by prolongation of this credit;

4) It is necessary also to pay percents on credits of IMF and other international financial institutes on the sum about 350 millions of USD. It is possible to attract new tranches for this.

Thus, a situation on the whole would be not critical, if to realize applicable steps for payment by Ukraine its national debt in time.

In 2012 — 2013 is necessary to expect the increase of sum of debts because of new borrowing that will be carried out, and it is necessary additional money for their maintenance. As foreign experts consider, the peak of debts payment on external borrowing of Ukraine is expected in 2013.

Negative estimation by the experts of threat of default in Ukraine is based on the low level of indexes which testify to development of economy and country on the whole. For example, in 2011 Ukraine took 73 places (from 192) in rating of life quality, 89 (from 130) in rating of global competition and 162 (from 183) in rating of economic freedoms.

By analyzing the financial state of any country, it is necessary to take into account, in what conditions it appeals financial resources, would be able to pay for these borrowings, and also as far as they are sufficient for further economic development. Another question is connected with that: cheap or expensive is credit for legal and natural persons?

It should be noted that money are enough expensive for Ukraine because foreign investors consider that

securities of the USA, Germany and Japan are more durable investment than Ukrainian. Therefore our country must pay higher percents for the attracted resources. In addition, in the Europe and the USA the state provides to enterprises and population credits without limitations on annual 3 — 5%, in Ukraine it takes place not always (the level of percent exceeds 20%). Thus, credit resources in foreign countries are considerably cheaper, than in Ukraine.

The main problem of default touches providing of normal work of financial sector, realizing clear policy relative to the management of money-market.

It should be noted that now a question is not practically examined in relation to the risks of corporate defaults, which have deeper basis and negatively influence on macroeconomic situation in Ukraine. It is typical for large state companies, in particular “Oil-gas of Ukraine”.

As a negative fact will note that the sum of percents on credits, which our state borrows from International financial organizations, grows with every year. If in a before — crisis period this amount was 2% on the profits of the state budget (3,4 billions of UAH), in 2009 attained 4% (billions of UAH), in 2010 — grew to 6% (15, 5 billions of UAH), in 2011 — will be 8% (23 millions of UAH) and it is without taking into account “body of credit”.

Nowadays the sum of debt on one Ukrainian citizen is 9,5 thousands of UAH, in the same time in the USA at the total sum of national debt in 14 trillions of USD, there is more than 45 thousands of USD debt on each American. In 2011 every Ukrainian must repay 1250 UAH of debt, including that 750 of UAH makes “body of credit” and 500 UAH are percents. In order to prevent default, a government must continue collaboration with MVF in order to receipt new borrowing. Here the question of consequences of new borrowing and increasing of public debt. Some experts consider that such situation is a threat for national safety of Ukraine.

Except external economic consequences, default negatively affects on the real economy of country — loaner. Most substantial consequences are observed in a bank sector. Banks hold considerable part of assets in state securities; that is why default can sharply worsen the indexes of liquidity of financial institutions and create the threat of mass outflow of population deposits. It is possible to deliver to the negative consequences of default the following:

1. The state loses the trust of internal and external investors, including international financial institutions (World Bank, IMF, European Bank for Reconstruction and Development and others).

2. Problems can cover financial sector that will result in depreciation of national currency.

3. The critical import reduces to minimum.

4. The take place the falling of business activities.

5. In a private sector that is “strung” on import, activity of firms in such industries like food industry, assembly production and others can reduce

6. Falling of standard of living of repressing part of

population as a result of permanent increase of prices on the imported commodities, food stuffs, petrol and utilities.

7. Rapid growth of inflation, decrease of pensions, social payments as a result of deficit of state budget.

8. The decrease of population profits will strengthen social tension in society that will cause conflicts with power. Already now as a result of growth of utility payments and tariffs, reforms of the pension system take place negative reaction on these “innovations” from the side of low-income groups. It is possible to conclude that citizens of Ukraine with the consequences of default constantly live in the so called permanent regime.

But it is necessary to take into account that default can set to positive consequences in medium-term prospect. Default in Russia in 1998 can be used as an example. After its consequences there was sanitation of economy, redistribution of resources in more than profitable sectors, strengthening of national currency (now Russian ruble pretend to the place of regional currency in international accounts), and also paying of state external debts and refusing of borrowing of IMF.

For Ukraine as a first step in direction of overcoming of threat of default, would be exhilaration of rates of the economy growing, nurturing of considerable part of economy out of was “shadows”, where considerable resources and money are. By estimation of Ministry of Economics of Ukraine, the level of shadowing in 2010 was 34% of GDP.

In opinion of Ukrainian Academic Valerij Geyets, it is necessary to review borrowing question immediately. For this purpose it is necessary to decrease the volumes of the state borrowing from 120 billions of UAH in 2010 to 80 — 85 billion of UAH, to reduce the state budget deficit to the level 3% of GDP, to strengthen the investment component of budgetary spending.

Taking into account considerable influence of internal factors on the difficult financial state of Ukraine, it is necessary to provide:

— stability and transparency of government actions and power at a different level of management;

— realization of effective budgetary — tax and social policy;

— reducing of inflation rates and adjusting of money-market;

— widening of export sources of currency inflow into Ukraine;

— realization of structural reform in an economy;

— development of the program of covering of budget deficit mainly by internal borrowing;

— realization of actions on increasing of National Bank of Ukraine currency reserves.

There are also important actions on providing of growth of competition in a national economy. According to report of the Antimonopoly Committee of Ukraine, in 2010 the parts of markets with competitive structure are decreased on 6%, markets

of “perfect monopoly” grew on 2%, markets with the signs of prevailing — on 8%. The level of monopolization grew in 29 branches, its decreasing happened in 14 branches of economy. Thus strengthening of competition in an economy can result in a growth of financial incomes to budget and reduction of Ukraine dependence from the external help and credits of international financial institutions.

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Matrosova L. M. The Problems of Default in Ukraine: Causes and Consequences

The questions of possibility of default in Ukraine are considered, its reasons and consequences are analyzed. Measures on the decline of risk of threat of default and stabilization of economy are formulated.

Key words: default, national debt, borrowing, bonds, securities, credit resources.

Матросова Л. М. Проблеми дефолту в Україні: причини та наслідки

Розглянуто питання можливості дефолту в Україні, проаналізовано його причини та наслідки. Сформульовано заходи щодо зниження ризику загрози дефолту та стабілізації економіки.

Ключові слова: дефолт, державний борг, запозичення, облигації, цінні папери, кредитні ресурси.

Матросова Л. Н. Проблемы дефолта в Украине: причины и последствия

Рассмотрены вопросы возможности дефолта в Украине, проанализированы его причины и последствия. Сформулированы меры по снижению риска угрозы дефолта и стабилизации экономики.

Ключевые слова: дефолт, государственный долг, займы, облигации, ценные бумаги, кредитные ресурсы.

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