

## INFLUENCE OF EXTERNAL AND INTERNAL DEBT ON FINANCIAL AND ECONOMIC SECURITY OF UKRAINE

*Kosharna V., Ptashchenko O., Stankova A.*

*Simon Kuznetz Kharkiv National University of economics*

**Abstract.** Increasing threats to financial security are one of the major economic problems in Ukraine in terms of accelerated globalization of the world economy against the background of overcoming the global financial crisis. Ensuring of effective response to real threats in the financial sector needs to improve state financial control. The paper analyzes the impact of the state debt on economic security and considers the negative consequences.

**Keywords:** economic security, external public debt, internal public debt.

## ВПЛИВ ЗОВНІШНЬОГО І ВНУТРІШНЬОГО БОРГУ НА ФІНАНСОВО-ЕКОНОМІЧНУ БЕЗПЕКУ УКРАЇНИ

*Кошарна В.В., бакалавр, Птащенко О.В., к.е.н., доцент,*

*Станкова А.О., бакалавр*

*Харківський національний економічний університет імені Семена Кузнеця*

**Анотація.** Однією з найважливіших економічних проблем в Україні в умовах прискореної глобалізації світового господарства на фоні процесів подолання світової фінансової кризи є зростання загроз фінансовій безпеці держави. Забезпечення ефективної протидії реальним загрозам у фінансовій сфері потребує удосконалення державного фінансового контролю. В роботі проаналізовано вплив державного боргу на економічну безпеку і розглянуті негативні наслідки.

**Ключові слова:** економічна безпека, зовнішній державний борг, внутрішній державний борг.

## ВЛИЯНИЕ ВНЕШНЕГО И ВНУТРЕННЕГО ДОЛГА НА ФИНАНСОВО- ЭКОНОМИЧЕСКУЮ БЕЗОПАСНОСТЬ УКРАИНЫ

*Кошарная В.В., бакалавр, Птащенко Е.В., к.э.н. доцент,*

*Станкова А.А., бакалавр*

*Харьковский национальный экономический университет им. Семена Кузнеця*

**Аннотация.** Одной из важнейших экономических проблем в Украине в условиях ускоренной глобализации мирового хозяйства на фоне процессов преодоления мирового финансового кризиса является рост угроз финансовой безопасности государства. Обеспечение эффективного противодействия реальным угрозам в финансовой сфере нуждается в усовершенствовании государственного финансового контроля. В работе проанализировано влияние государственного долга на экономическую безопасность и рассмотрены негативные последствия.

**Ключевые слова:** экономическая безопасность, внешний государственный долг, внутренний государственный долг.

**Introduction.** The peculiarity of the current stage of the economy development of Ukraine is its integration into the world economic and legal space, which is actually in difficult conditions of overcoming the financial crisis. In this connection, the further development of the economy will apparently take place in quite rigid constraints of public financial resources. The latter affects the growth of threats, primarily financial security.

Fundamental works of foreign authors such as: R. Adams, A. Arens, A. Vysser, R. Konyng, J. Mozer are dedicated to disclosure of the theory and practice of organization and functioning of SFC.

Among the important researches regarding the SFC in the state financial security context it can be identified the works of foreign and domestic scientists O. Baranovsky, I. Basanczov,

L. Dikan, O. Dyshkant, H. Dmytrenko, I. Ivanova, L. Ivashova, S. Kulpinskyu, A. Lyubenko, Ye. Mnykh, V. Symonenko, Y. Chumakova, N. Shevchenko, O. Shevchuk and other.

Moreover, it should be noted that Ukraine seeks to acquire the status of candidate for accession to the European Union and keeps the course to the comprehensive integration in political, legal and economic space of the European Community. This is confirmed by the conclusion of the Association Agreement with the EU in 2014, and the development of the Strategy of sustainable development «Ukraine – 2020» [8–10].

In addition to other conditions, it needs immediate modernization of state financial management, especially by reforming the system of the SFC through its harmonization with EU standards in the field of the SFC, and strengthening, in this regard, the institutional role of the Ministry of Finance of Ukraine as the main authority that creates both the financial policy in general and the policy in the SFC sphere in particular, as well as ensures its implementation in the system of central executive bodies to ensure an adequate level of financial security.

**Aim of the article.** The paper analyzes the impact of the state debt on economic security and considers the negative consequences.

**Main results of the research.** The need for security is the basic need of the state, of an individual, and of society as a whole. Economic security is one of the urgent needs at the present time, due to the unstable economic and political situation in Ukraine. Economic security is a part of national security, its foundation and material basis. Therefore, the presence of threats to economic security, causes a direct or indirect threat to the national security of Ukraine.

The urgency of studying the state of economic security, namely the threats that affect it, lies in the fact that economic security in Ukraine is at a low level due to the negative development of political, economic and social factors. All this prompts to actively explore this problem [2].

Economic security – the state of the economy, which provides a sufficiently high and stable economic growth; effective satisfaction of economic needs; control of the state over the movement and use of national resources; protection of the economic interests of the country at the national and international levels. An integral part of economic security is also state control aimed at protecting the economic interests of both the state as a whole and its individual regions.

In the analysis of economic security, there are, first of all, three main components:

1. Economic independence, which means, first of all, the possibility of exercising state control over national resources, the ability to use national competitive advantages to ensure equal participation in international trade.

2. The stability and stability of the national economy implies the strength and reliability of all elements of the economic system, the protection of all forms of property, the creation of guarantees for effective business activity, the containment of destabilizing factors.

3. Ability to self-development and progress, that is, the ability to independently implement and protect national economic interests, to carry out continuous modernization of production, effective investment and innovation policy, and to develop the intellectual and labor potential of the country.

An adequate level of economic security is achieved through the implementation of a unified state policy, backed up by a system of coordinated measures adequate to internal and external threats. Without such a policy it is impossible to get out of the crisis, to force the mechanism of managing the economic situation, to create effective mechanisms of social protection of the population.

Economic policy is the activity of the legislative and management bodies, which defines goals and tasks, priorities, methods and means of their achievement in the national economy. The essence of economic policy lies in the fact that the state through the legislative acts defines its position on the processes taking place in the economy, outlines specific goals, clarifies the priority and the progress of their achievement, regulates the fundamental national interests of the country in

foreign economic relations, which is the determining basis for application of economic and legal instruments.

In particular, the main principles of ensuring economic security of Ukraine include [4, 13]:

- compliance with legality at all stages of ensuring economic security;
- balance of economic interests of a person, family, society, state;
- mutual responsibility of the individual, family, society, and state for ensuring economic security;
- timeliness and adequacy of measures related to the prevention of threats and the protection of national economic interests;
- giving priority to peaceful measures in resolving both internal and external conflicts of an economic nature;
- integration of national economic security with international economic security.

The economic security of the state is subject to a number of threats that are manifested in various processes and phenomena that have a negative impact on the economic interests of a citizen of Ukraine, society and the state as a whole.

Indicators of economic security, which in turn are qualitative and quantitative indicators of the processes occurring in the state in various spheres of his life, testify to the threats that or may have a negative impact on the economic security of the state.

The most striking indicators that indicate a decrease in the level of economic security are the reduction in GDP, a decrease in the level and quality of life of Ukrainian citizens, an increase in unemployment, a deterioration in the technical base of economic entities, import dependence, and significant domestic and external debt [2].

Economic security is traditionally regarded as the most important qualitative characteristic of the economic system, which determines its ability to maintain normal living conditions of the population, sustainable provision of resources for the development of the national economy, and the consistent realization of national and state interests [2].

As the world experience shows, ensuring economic security is a guarantee of the independence of the country, a condition for stability and effective life of the society, achievement of success. This is explained by the fact that the economy is one of the vital aspects of the activities of society, the state and the individual, and therefore the notion of national security will be an empty word without assessing the viability of the economy, its durability with possible external and internal threats. Therefore, ensuring economic security is one of the most important national priorities.

The growth of domestic debt is less dangerous for the national economy compared with the growth of its external debt. Leaks of goods and services with the repayment of domestic debt does not occur, but there are certain changes in economic life, the consequences of which can be very significant. This is due to the fact that the repayment of state domestic debt leads to a redistribution of income within the country.

In developing countries external debt is the main of the public debt structure. However, recently many developing countries have changed their debt structure by adopting the policies to substitute the public external debt with domestically issued debt [4, 13].

For economic security, not the indicators themselves matter but their threshold values. Threshold values are limiting values, non-observance of the values of which impedes the normal course of development of various elements of reproduction, leads to the formation of negative, destructive tendencies in the field of economic security.

Approaching their maximum permissible value indicates an increase in threats to the social and economic stability of society, and exceeding the threshold or threshold values - about the entry of society into a zone of instability and social conflicts, that is, a real undermining of economic security. From the point of view of external threats, the maximum permissible level of external and internal public debt can act as an indicator.

The growth of internal and external public debt entails real negative economic consequences, i.e. negatively affects the economic security of the country.

Firstly, the payment of interest on public debt increases inequality in incomes, since a significant part of state obligations is concentrated among the wealthiest part of the population. Repayment of the state internal debt leads to the fact that money from the pockets of less well-off strata of the population goes to better-off people, i.e. those who own bonds are getting richer.

Secondly, the increase in tax rates as a means of paying the state domestic debt or its reduction can undermine the effect of economic incentives for production development, reduce interest in investing in new ventures, and increase social tensions in society.

Thirdly, the existence of an external debt involves the transfer of part of the product created within the country abroad (in the event of payment of interest or principal amounts).

Fourthly, the growth of external debt reduces the international authority of the country.

Fifthly, when the government takes loans in the capital market to refinance a debt or pay interest on public debt, it inevitably leads to an increase in the interest rate on capital. The growth of the interest rate entails a decrease in capitalized value, a reduction in private investment, as a result, subsequent generations may inherit an economy with a reduced production potential and all the ensuing negative consequences [1, 2, 13].

Sixthly, the rich international creditors such as the World Bank, the IMF and the Paris Club have been negligent towards the risk of poverty trap for low income countries. Many poor countries become more poor after taking foreign assistance from these institutions as they are not able to bear the debt service burdens and the poor countries become more vulnerable to even small economic shocks [4, 13].

**Conclusion.** Domestic debt is the total amount of all government loans that have been issued but not yet repaid, and interest not paid on them, and external debt is debt to citizens and organizations of foreign countries.

It can be said that Ukraine's domestic and external debt market is an integral part of the national financial system, in connection with which its positive and negative characteristics directly affect both the state of the financial sphere and the progressive development of the country's real economy. The main benefit for the state, proving the usefulness of domestic and external public debt, is the ability to attract borrowed money resources to the budget and at the same time maintain a relative amount of debt – as a percentage of GDP (for a certain period of time, for an economic cycle).

Consequently, the negative consequences of public debt are due to the fact that interest payments on domestic debt increase income inequality and require higher taxes, which undermines the economic incentives for production development, and can raise the overall level of interest rates and displace private investment financing.

Debt service affects Gross Domestic Product depressingly, whereas capital and labor affect it optimistically. This means the increased servicing liabilities reduces the economic growth as large portion of government income is used in paying interest payments. On the other hand economic growth is increased by increase in capital and labor force.

Higher exports of developing countries can help to balance out the level of external debt. But unsustainable external debt is a great threat to the economic prosperity because of the higher debt service charges which is the factor of the higher current account deficit ultimately may results to debt overhang.

The growth of Ukraine's external and internal debt negatively affects the economic security of the country - a complex socio-economic concept reflecting a large range of constantly changing conditions of material production, external and internal threats to the economy of the country. An effective system for ensuring economic security is a matter of life for any state. This is all the more important for today's Ukraine, which strives to occupy a worthy place in the world geopolitical and economic space.

### References

1. Аренс А. Аудит / А. Аренс, Дж. Лоббек; пер. с англ.; гл. редактор серии проф. Я.В. Соколов. – М.: Финансы и статистика, 2001. – 560 с.
2. Вечканов Г.С. Экономическая безопасность: учебник для вузов / Г.С. Вечканов. – СПб.: Питер, 2007. – 374 с.
3. Виссер А. XXI век и наши дальнейшие перспективы / А. Виссер // EUROSAI. – 2015. – № 21. – С. 92–94.
4. Конинг Р. Государственный внутренний финансовый контроль / Р. Конинг; пер. с англ. Р. Рудницкой. – Словения, 2007. – 209 с.
5. Концепція розвитку системи управління державними фінансами: розпорядження Кабінету Міністрів України від 03.09.2012 № 633-р [Електронний ресурс] // Офіційний сайт Верховної ради України. – Режим доступу: <http://zakon2.rada.gov.ua/laws/show/633-2012>.
6. Мілюха Г.В. Актуальні питання економічної безпеки України [Електронний ресурс] / Г.В. Мілюха, А.С. Чумакова. – Режим доступу: <http://www.nbu.gov.ua/portal/natural/vkhnu/Ekon/851/09mgvbcu.pdf>.
7. Мозер Й. Вклад ВОФК в добросовестное управление и устойчивое развитие благодаря содействию прозрачности и подотчетности государственной администрации / Й. Мозер // EUROSAI. – 2015. – № 21. – С. 102–105.
8. Стратегія розвитку системи управління державними фінансами: Розпорядження Кабінету Міністрів України від 01.08.2013 № 774-р. [Електронний ресурс] // Офіційний сайт Верховної ради України. – Режим доступу: [http://search.ligazakon.ua/l\\_doc2.nsf](http://search.ligazakon.ua/l_doc2.nsf).
9. Стратегія сталого розвитку «Україна – 2020»: Указ Президента України від 12.01.2015 № 5/2015 [Електронний ресурс] // Офіційний сайт Верховної ради України. – Режим доступу: <http://zakon3.rada.gov.ua/laws/show/5/2015#n10>.
10. Угода про асоціацію між Україною, з однієї сторони, та Європейським Союзом, Європейським Співтовариством з атомної енергії і їхніми державами-членами, з іншої сторони [Електронний ресурс]. – Режим доступу: [http://www.kmu.gov.ua/kmu/docs/EA/00\\_UkraineEU\\_Association\\_Agreement\\_\(body\).pdf](http://www.kmu.gov.ua/kmu/docs/EA/00_UkraineEU_Association_Agreement_(body).pdf).
11. Чумакова И.Ю. Инновационные механизмы развития государственного финансового контроля в Украине / И.Ю. Чумакова // Terra Economicus. – 2013. – Т. 11, № 1, Ч. 3. – С. 86–92.
12. Шевченко Н.В. Реформування системи державного фінансового контролю в Україні: проблеми та перспективи / Н.В. Шевченко // Вісник Української академії банківської справи. – 2010. – № 2 (29). – С. 34–39.
13. Panizza U. Domestic and External Public Debt in Developing Countries // United Nations Conference on Trade and Development. – 2008. – No. 188 (3). – P. 2–20.