



Priorities of public debt policy and security of the national economy

Prioridades de la política de deuda pública y seguridad de la economía nacional

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(recibido/received: 11-mayo-2021; aceptado/accepted: 28-julio-2021)

ABSTRACT

The article examines the content of public debt policy as an object of economic security in terms of methodological and practical aspects based on the assessment of debt sustainability using a system of indicators. The authors raise the issue of the need to develop a public debt management mechanism, to search for new strategies and tools, including by strengthening the functional role of international financial institutions.

Keywords: Public debt policy; Public debt management; Economic security; Public debt; National economy; Regulation.

RESUMEN

El artículo examina el contenido de la política de deuda pública como objeto de seguridad económica en términos de aspectos metodológicos y prácticos basados en la evaluación de la sostenibilidad de la deuda mediante un sistema de indicadores. Los autores plantean la cuestión de la necesidad de desarrollar un mecanismo de gestión de la deuda pública, para buscar nuevas estrategias y herramientas, incluso mediante el fortalecimiento del papel funcional de las instituciones financieras internacionales.

Palabras claves: Política de deuda pública; Gestión de la deuda pública; Seguridad económica; La deuda pública; Economía nacional; Regulación.

1. INTRODUCTION

Analysis of the public debt volume and dynamics in different countries of the world and on a global scale shows that the problem of public debt is becoming more and more urgent from year to year. Due to the crisis and the slowdown in the global economy, the public debt of most countries of the world has a

positive trend. In 2018, the global public debt amounted to 82.3% of GDP, in 2019, the indicator added 1.2 p.p., while in 2020, its growth was already equal to 14.1 p.p. resulted from large-scale support for economies influenced by COVID pandemic restrictions (Figure 1).

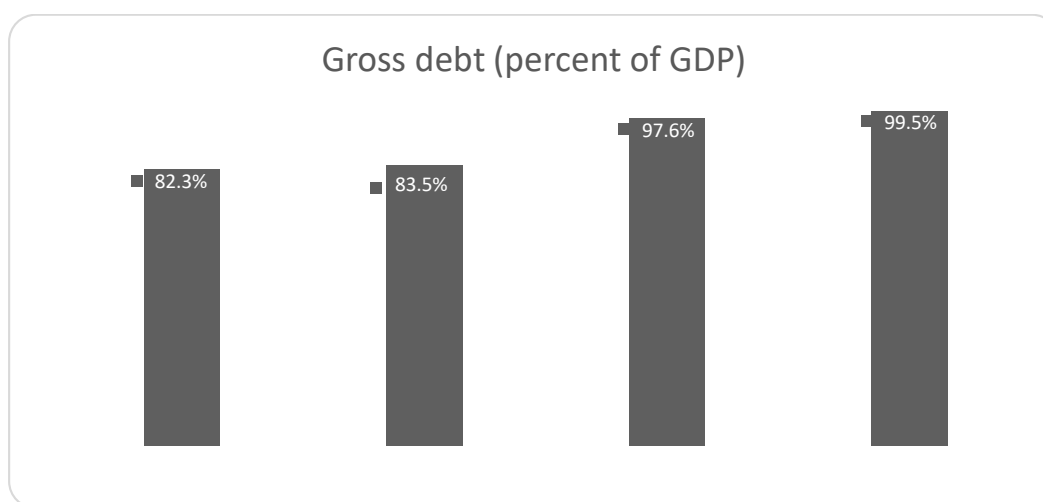


Figure 1. Global debt dynamics as a percentage of GDP¹
Source: Compiled by the authors according to International Monetary Fund, 2021

The increase in public debt risks in the world has been observed since 2008, when during the global financial crisis, some countries faced the inability to refinance the public debt accumulated over previous periods, which, according to Ahlers (2015) and Schneider (2019) led to the destabilization of their financial systems and economies, the introduction of strict measures to limit government loans through budget cuts, and increased control of sovereign debt parameters. The past year was marked by a record number of sovereign defaults declared by states with high levels of public debt (Argentina, Lebanon, Ecuador, Venezuela, Belize, Suriname, Zambia, etc.). The most vulnerable countries are currently the African states, where debt service costs reach 30% of the budget (Abrahamson, Berkowitz and Dumez, 2018; Iskander, 2019).

Despite the ambiguous assessment of the public debt consequences for the country's economy, the formation of a debt mechanism to cover budget expenditures should be recognized as a normal practice of public administration. The emergence of debt is a natural consequence of economic activity (Bae and Yoo, 2015; Kosov *et al.*, 2019). At the same time, a steady and rapid increase in the national debt threatens the economic security of the state and may lead to the loss of the country's economic sovereignty (Slepov, Kosov, Chalova, Gromova and Voronkova, 2019; Roy, 2021). At that, growing debt encumbrances and crises in the debt instrument markets increase the role of public debt policy, require developing mechanisms for protecting national economies against debt threats, as well as monitoring criteria and indicators of public debt sustainability (Dincer, 2019; Akhmadeev *et al.*, 2019), assessing their compliance with international standards, and creating new approaches and regulatory tools in the public debt management system (Weyzig, 2013).

2. MATERIALS AND METHODS

When studying methodological and practical issues of debt policy and economic security, their interrelation, assessment, and monitoring in the context of general instability, and increasing global challenges, we proceeded from the fundamental provisions on concerned problems, developed by D.

¹ Data for 2020 and 2021 are shown based on the forecast of the International Monetary Fund

Brummerhoff, E.J. Dolan, R.J. Campbell, J. Stiglitz, and other scientists (Arping, Lóránth and Morrison, 2010; Zhiqun, 2018; Christiaens, 2020). The presented material develops theoretical, methodological, and practical approaches to solving the problems of economic security in the public debt management system. The methodology of the present study is based on general scientific methods of cognition, such as dialectics, induction, deduction, analysis, synthesis, system, and dynamic analysis. The analytical data used in the article to form the author's standpoint are obtained from the databases of international and national financial institutions, as well as from our calculations.

3. RESULTS

The methodological provisions of the state debt policy are formulated in international standards developed by the International Monetary Fund (IMF) and the World Bank. According to the international documents, state debt obligations are recognized as financial claims, for which the obligators are public legal entities and non-market non-profit organizations controlled by them. These are debt obligations to individuals and legal entities, foreign states, international organizations, and other subjects of international law, including obligations under state guarantees. *Public debt policy* is the process of developing and implementing a strategy to attract the necessary amount of financing to the state at the lowest possible cost in the medium and long term subject to the acceptance of a reasonable degree of risk. Specifically, the debt policy of the state includes the issue and placement of public debt obligations, servicing, repayment, and refinancing of public debt, etc.

The key point in the state debt policy is to achieve a balance between the needs, costs, and risks when borrowing. The attraction of resources on the domestic and international capital markets to finance government needs should be carried out in compliance with the optimal ratio of duration and sovereign debt yields, the development of the domestic debt capital market, and the maintenance of credit ratings. The factor of the public debt management strategy is the economic development of the country, which determines the targets of the national economy, the need to attract financial resources. At that, the permissible limits of state debt are established, and the possibilities and expediency of financing state activities at the expense of state loans are justified. It is also taken into account that public debt has an impact on macroeconomic growth and is reflected in the real economy at the levels of consumption, savings, and investment, while in the monetary sphere – on the state of currency circulation. The stabilizing effect of public debt on the economy is possible only with sufficient borrowings. But it is important to prevent excessive growth of the national debt when it becomes unmanageable that results in a possible self-reproduction of public debt. Such a destabilizing effect of the public debt on the economy undermines the country's economic security.

Economic security from the perspective of the public debt policy is manifested through the state of the national financial system, primarily, through the state budget, and represents the ability of this system to provide the state with sufficient financial resources to perform its internal and external functions.

It is advisable to assess the level of economic security of the state in the field of public debt management using indicators, common in international practice, characterizing the quality of public debt policy. These indicators can be combined into four groups:

Group 1 – volumetric indicators of public debt;

Group 2 – indicators that characterize the state's ability to service public debt;

Group 3 – indicators of public debt servicing cost and the structure;

Group 4 – indicators of public debt infrastructure, namely, target market conditions, the financial and economic condition of investors, etc.

The dynamic analysis of these indicators of economic security assessment allows identifying the financial robustness and sustainability of the public debt, the debt vulnerabilities of the economy, and the economic security problems through the relationship between the imbalances in the public debt management system and other segments of the economy. On their basis, it is possible to model the directions and scope of changes in debt at different stages of the economic cycle, to make decisions concerning the correctness of the implemented debt policy, or the need to adjust it. The specific list of indicators for assessing the economic security of public debt included in the monitoring may vary depending on the objectives of the study, the country-specific nature of public debt management, and so on. Some of these indicators are shown in Figure 2.

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|---|
| Group 1 – Volumetric indicators of public debt |
| • public debt/GDP |
| • external public debt/GDP |
| • internal public debt/GDP |
| Group 2 – Indicators characterizing the state's ability to service public debt |
| • public revenues/public debt |
| • debt growth rates/GDP growth rate |
| • public external debt servicing expenses/export income |
| • international reserves/public debt |
| Group 3 – Indicators of the debt servicing cost and the structure of public debt |
| • share of internal public debt |
| • share of external public debt |
| • share of public debt at a floating rate |
| • the weighted average interest rate on government borrowings |
| • average debt collection period |
| Group 4 – Indicators of public debt infrastructure |
| • target markets conjuncture |
| • the financial and economic status of investors |

Figure 2. Some indicators for assessing the economic security of public debt

Source: Compiled by the authors

The economic security of the state requires (and this is recommended by the IMF) that, when justifying decisions on each subsequent attraction of financial resources, the state proceed from the consolidated values of the accumulated public debt, as well as the potential possibility of debt settlement. For this purpose, in the case of new borrowings, it is advisable to take an indicator, which can be called an *indicator of the feasibility of new borrowing* as a base (1):

$$\text{Indicator of the feasibility of new borrowing} = \text{Indebtedness} / \text{Repayment potential (International Monetary Fund, 2014)} \quad (1)$$

At the present development stage of the world and national economies, it is necessary to modernize the existing system of indicators for assessing the economic security of public debt. International organizations do not have a common attitude on the minimum acceptable levels of noted indicators, while their recommended levels have not been revised for many years and are not fully adequate for the current period (Cosleff, Grimpe and Rammer, 2015).

Even though certain de-globalization processes are observed in the world, international financial organizations should strengthen their work on developing recommendations for forming a differentiated system of indicators for assessing the economic security of public debt and their numerical benchmarks at the national level, taking into account differences in macroeconomics and debt burden by state (Cosomagni and Capello, 2010; Bykanova, Avvakumova, Akhmadeev, Morozova and Protasov, 2020).

The existing indicator systems for assessing the economic security of public debt differ by country. States form their own, usually rather limited, indicator systems that characterize government debt policy, while the indicator limit values set at the national level are not always objective by value, often differ in discreteness in time, and by loans. This situation, in our opinion, does not allow giving an adequate assessment of the state of sovereign debt sustainability, and economic security in the system of public debt management (Flachenecker, 2018; Zvereva, Akhmadeev, Morozova, Bykanova and Avvakumova, 2020).

To improve the accuracy of assessments of the economic security of public debt and the productivity of public debt policy, it is more justified to operate on a wide range of characteristics. At that, it is quite reasonable to form a range of indicators and their critical values individually for external, internal, and consolidated debt. It is this point that should become decisive in the development of the international financial organizations' policy concerning public debt management as a factor of national economic security (Farinha, Ferreira and Nunes, 2018). Leading from the differences in the economic security level of the national debt, international institutions, using multidimensional ranking, can determine the objective normative boundaries of indicators according to the cluster scheme. The cluster, to which the particular state will be assigned, and, accordingly, the estimated indicators of the economic security of the public debt, will depend not only on the status of the consolidated public debt but also on individual problem public loans with improper disbursement of funds and servicing of payments, as well as public loans with an increased risk of the occurrence of a state guarantee.

4. CONCLUSION

Thus, the status of the state debt policy should be considered concerning the security of the national economy. Improving the effectiveness of the public debt policy is an important condition for countering threats to economic security and sustained economic growth of the country. Improving the public debt management system involves forming an adequate long-term policy of public borrowing and establishing the state debt limits, the directions, and objectives of the impact on the national markets indicators, justifying the feasibility of financing national programs at the expense of public loans.

International financial institutions associate the prospects for relief of debt burden with the development of public-private partnerships (PPPs). In several countries, PPP programs and the tools of this mechanism are successfully used in the practice of generating sources of funds for budget replenishment. Thus, the Private Finance Initiative program in the United Kingdom, which has begun in 1992 and was active until 2018, eventually provided about a sixth of public investment. The PPP programs are implemented in Australia, Canada, Finland, Germany, Greece, Ireland, Italy, Japan, the Netherlands, and Spain. It is believed that in the near future, the increasing involvement of PPP in the green transformation of economies, which is considered as a source of sustainable growth based on innovation and new technologies, will have a positive impact on the economic security in the public debt system based on the efficient use of resources, including financial, and optimization of public spending.

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