MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
SUMY STATE UNIVERSITY
Educational and Research Institute of Business, Economics and Management
Department of International Economic Relations

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MASTER’S LEVEL QUALIFICATION PAPER

on the topic “Ukraine’s external debt management”

Specialty 292 “International Economic Relations”

Student of II course
group IE.м-21en ___________ Ihor Hordiienko

It is submitted for the Master`s level degree requirements fulfillment.

Master's level degree qualification paper contains the results of own research. The use of the ideas, results and texts of other authors has a link to the corresponding source.
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TASKS FOR MASTER'S LEVEL DEGREE QUALIFICATION PAPER

(specialty 292 “International Economic Relations”)

student II course, group IE.м-21en

Ihor Hordiienko

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Research Advisor _______ Fedir Zhuravka

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ABSTRACT

of Master’s level degree qualification paper on the topic

«UKRAINE`S EXTERNAL DEBT MANAGEMENT»

student Ihor Hordiienko

The main content of the master`s level degree qualification paper is set out on 39 pages, including a list of used sources of 32 titles, which is placed on 4 pages. The work contains 2 tables, 5 figures.

KEYWORDS: EXTERNAL DEBT, EXTERNAL DEBT MANAGEMENT, RISKS, APPROACHES, LOANS, UKRAINE.

The purpose of the master`s level degree qualification paper is to develop theoretical fundamentals, expand scientific approaches, and consider practical recommendations for Ukraine`s external debt management during the wartime.

The object of the research Ukraine`s external public debt itself.

The subject of the research is scientific and methodological bases and practical tools for managing Ukraine`s external debt.

To achieve the goal and objectives the following scientific methods of research were used: analysis, synthesis, logical generalization, statistical analysis, comparative analysis, etc.

The information base of the master`s level qualification paper are legislative and regulatory acts of Ukraine, statistical materials of the State Statistics Service of Ukraine, data of the Ministry of Finance of Ukraine, the National Bank of Ukraine, the State Treasury Service of Ukraine, materials of the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, scientific works of domestic and foreign scholars on public debt management, Internet data, etc.

The main scientific results of the work are as follows:

1) investigation of the concepts “external debt”, “external debt management”;
2) own concept of external public debt management as an integral part of the state`s national security system is proposed;
3) consideration of the macroeconomic effects of external public debt;
4) systematization of the risks of external public debt management;
5) improving the system for monitoring and controlling of Ukraine`s external debt management;

The obtained results can be used in the process of Ukraine`s external debt management both during the wartime and post war development.

Year of Master’s level qualification paper fulfillment is 2023.

Year of Master’s level paper defense is 2023.

CONTENT

INTRODUCTION

Over the last years, the Ukrainian economy was developing in conditions of the increasing number of geopolitical and geo-economic shocks. Initially, there was external encroachment on the country`s territorial integrity in 2014-2015. Subsequently, there was a need for deterrence and military counteraction against the Russia in the east of Ukraine. Furthermore, the global situation was complicated due to the COVID-19 pandemic in 2020-2022. Since the start of 2022, there have been extensive military operations and an active phase of military confrontation due to Russia`s aggression. Together with several internal factors affecting the sustainability of the country`s budget, all abovementioned factors impact the composition and institutional role of Ukraine`s external public debt management mechanism significantly. All of the above determines the relevance of the topic of the master`s qualification work.

The object of external public debt management is Ukraine`s external public debt itself.

The subject of the study is scientific and methodological bases as well as practical tools for managing Ukraine`s external debt.

The aim of the study is to develop theoretical fundamentals, expand scientific approaches, and consider practical recommendations for Ukraine`s external debt management.

The stated goal necessitated the following tasks:

- ✓ to analyze the content of the concept of “external debt management”;
- ✓ to identify factors affecting state`s external debt management;
- ✓ to consider methods and approaches to the external public debt management;
- ✓ to assess the state and structure of the Ukraine`s external debt;
- ✓ to evaluate Ukraine`s external public debt management risks;

- ✓ to provide recommendations concerning monitoring and controlling of Ukraine`s external debt management.

The theoretical basis of the qualification work is the fundamental provisions of economic theory, theory of finance, money and credit, public finance, econometrics, as well as scientific works on assessing the country's public debt. The following research methods were used in the work: analysis, synthesis, logical generalization, statistical analysis, comparative analysis, etc.

The information base of the work is grounded on legislative and regulatory acts of Ukraine, statistical materials of the State Statistics Service of Ukraine, data of the Ministry of Finance of Ukraine, the National Bank of Ukraine, the State Treasury Service of Ukraine, materials of the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, scientific works of domestic and foreign scholars on public debt management, Internet data, etc.

The master`s qualification work consists of an introduction, 3 chapters, conclusions, and a list of references.

1. THEORETICAL BASES AND CONCEPTS OF EXTERNAL DEBT MANAGEMENT

1.1. The essence of external debt management

The military conflict that initially began in 2014 in certain areas of the Donetsk and Luhansk oblasts and escalated into a full-scale war on February 24, 2022, has resulted in massive human losses and a humanitarian crisis, financial instability, accelerating inflation, reduced investment in sustainable development, and rising food and fuel prices.

The government has increased external public debt due to higher military spending, public expenditures, and lower revenues. This is an attempt to finance these costs and stabilize the economy.

Before these events, the scientific literature mostly considered the term “external public debt management” as a set of methods and financial instruments aimed at ensuring the sustainability of managing external public debt. However, due to the outbreak of war and changes in the economic and political situation, Ukraine's external public debt has become a key source of financing critical sectors of the economy. It covers the budget deficit, finances defense and recovery programs, and supports structural reforms to balance the country's monetary and financial position.

Therefore, it is crucial to establish a precise conceptual framework for managing external public debt. This will ensure effective management of this financing source while considering national economic needs and constraints.

The management of Ukraine`s external public debt must encompass a broad range of objectives, such as maintaining financial stability, ensuring sustainable economic growth, reducing financial risks, and ensuring the long-term sustainability of external debt. It is crucial that all of these objectives are implemented within the framework of the country's overall strategy for military and post-war recovery.

When interpreting the concept of external public debt management, there are several main areas of characterization: structural, systemic, functional, managerial, institutional, and mixed:

1. The structural approach to external public debt management focuses on the components of debt and their interrelationships. This approach considers debt components, such as principal and interest, debt structure in terms of distribution by sources and maturity, and the degree of dependence on external creditors. The interrelationship of these elements and their impact on the effective management of external public debt is examined by authors using the structural approach. The structural approach analyzes the effect of the debt structure on the financial sustainability of the country and determines the optimal debt structure for effective management.
2. The systemic approach views external public debt management as a complex system in which various elements interact and influence each other. This approach examines the relationships between different actors involved in debt management, such as the government, central bank, and international financial institutions. It also analyzes the interaction between different instruments and external debt policies. The systemic approach views external public debt as an integral part of the country's economic system. The management of external public debt takes into account its interaction with other elements of the economic system, such as the financial market, macroeconomic policy, trade, and investment. This systemic approach enables an understanding of the impact of external debt on a country's economic sustainability and development.
3. The functional approach to public external debt management focuses on the functions performed by the debt management system. One approach focuses on attracting and managing external capital, controlling risks associated with debt obligations, and managing interest and debt repayment. The functional approach examines how debt is used to finance important sectors of the economy and how its

management can contribute to the achievement of the country's macroeconomic objectives.

4. The managerial approach emphasizes the practical aspects of managing external public debt. The text emphasizes the development and implementation of strategies, tools, and procedures to effectively manage the country's external debt. The management approach considers debt analysis, risk management, debt policy development, and debt repayment planning.
5. The institutional approach emphasizes the importance of institutional structures in the process of managing debt. The institutional approach examines the role of institutional structures in a country's external debt management process. This includes the organizational structure, legal framework, regulatory policy, and governance mechanisms.
6. The mixed approach combines elements of different debt management approaches and utilizes a comprehensive strategy for managing external public debt. This approach considers the structural, systemic, functional, and managerial aspects of debt management. Authors using the mixed approach study the management of external public debt, taking into account a wide range of factors that affect debt policy and its effective management.

These areas, presented by various authors and scholars, provide valuable insights into the multifaceted nature of managing external public debt. However, it is important to emphasize a comprehensive approach to understanding the concept of external public debt management, which should also consider financial, macroeconomic, and managerial aspects to ensure sustainable and effective management of external public debt:

1. From the financial perspective, external public debt management focuses on the borrowing and repayment of funds from international sources. This includes strategies and actions taken by governments to access international capital markets, negotiate favorable borrowing terms, and ensure timely repayment of external debt obligations.

The financial perspective prioritizes minimizing borrowing costs and managing financial risks associated with external debt by optimizing debt structure, interest rates, and repayment schedules.

Reinhart and Rogoff emphasize the importance of debt sustainability analysis and risk mitigation strategies to address financial vulnerability associated with external debt [23].

2. From the macroeconomic perspective, public external debt management is seen as an integral part of macroeconomic policy and stability. Governments take measures to manage the impact of external debt on key macroeconomic variables, such as the exchange rate, inflation, and balance of payments. The macroeconomic perspective emphasizes the importance of maintaining sustainable levels of external debt, promoting economic growth, and guarding against vulnerabilities that can arise from excessive reliance on external financing.

In their exploration of the historical link between high levels of external debt and macroeconomic crises, Reinhart and Trebesch highlight the need for prudent debt management [24]. Petrushenko et al. highlight the significance of debt management strategies that promote growth and the role of external debt in stimulating economic development [20].

3. From a sovereign risk management perspective, external public debt management involves evaluating and managing the risks associated with external borrowing. This includes assessing the borrowing country's creditworthiness, monitoring debt sustainability indicators, and implementing risk mitigation strategies to safeguard the country's financial stability. The management of sovereign risk emphasizes the importance of maintaining a prudent debt profile, diversifying funding sources, and increasing resilience to external shocks.

Aiyedogbon et al. examine the role of creditor coordination and debt restructuring mechanisms in managing external debt crises [1].

Thus, after summarizing the approaches, we propose our concept of external public debt management as an integral part of the state`s national security system. This concept encompasses a set of measures, tools, and methods for effectively managing the country's external debt, determining its optimal structure, managing debt risks, achieving sustainable economic development, and ensuring the financial sustainability, sovereignty, and ownership of the country.

1.2. Methods and approaches to the external public debt management

Considering the historical and economic conditions, the tasks of external public debt management are realized by the management entities in relation to the objects of management using a number of conventional methods (Figure 1.1).

External public debt management during times of war requires a unique approach and may involve various subsystems that are crucial during crises:

- ✓ the crisis planning and response subsystem involves developing crisis plans for managing external public debt. These plans should anticipate the possible consequences of war and provide solutions to potential problems. This includes preparing strategies to respond to changes in the economic, financial, and political environment. Analyzing the risks associated with changes in the political, economic, and financial situation resulting from the war and setting priorities for debt repayment helps ensure a balanced approach to debt management in a resource-constrained environment.

Methods of external public debt management

PUBLIC DEBT REFINANCING

Principal and interest are repaid from funds received from the placement of new loans and loans from credit organizations.

REPAYMENT

The advance full or partial repayment of the external public debt before its final maturity. It provides for budgetary savings in case of the need for their future servicing.

RENOVATION

It involves the conclusion of an agreement between the borrower and the lender to replace some obligations with others.

UNIFICATION

State decisions to consolidate several previously issued loans, as well as the exchange of previously issued bonds and certificates for bonds and certificates of new loans.

RESTRUCTURING

Signing an agreement to terminate debt obligations and replace them with other debt obligations that have different terms of service and repayment.

CONVERSION

It involves changes in the profitability of loans received by the state as a borrower.

CONSOLIDATION

It allows for modifications to the borrowing terms by extending the duration of debt obligations.

LOAN REPAYMENT DEFERRAL

It encompasses the application of the consolidation method with the simultaneous refusal of the state to pay funds on debt obligations.

CANCELLATION OF PUBLIC DEBT

The state's renunciation of all previously assumed debt obligations.

Figure 1.1 – Methods of external public debt management

- ✓ the external debt management subsystem provides for consideration of the possibilities of restructuring public external debt in order to alleviate financial pressures in the context of war. Negotiations with creditors may be necessary to modify the terms of loans, maturity, and other parameters of debt obligations. It is crucial to seek and secure diverse sources of financing to minimize risk and reduce dependence on a single source. This can be achieved through diversification of funding sources.
- ✓ the subsystem for ensuring international cooperation involves diplomatic efforts to collaborate with international partners, creditors, and investors to secure support and facilitate the management of external public debt during times of war. Diplomatic negotiations may include discussions on debt restructuring, obtaining new financial sources, and seeking support from international organizations. The use of funds must be closely monitored. Establishing an effective system of control over the use of funds received for managing external public debt during times of war helps prevent corruption and misuse of financial resources. It also ensures transparency and accountability in spending.

Based on the structural and logical scheme of the external public debt management system, the following main tasks have been identified:

- ✓ monitoring and analysis: ensuring continuous monitoring and analysis of external public debt, including its volume, structure, interest rates, maturity and other parameters. This enables the assessment of financial risks and informed decision-making on debt management;
- ✓ planning and forecasting: developing strategic plans and forecasts for the external public debt, taking into account the country's financial objectives and ability to repay its debt obligations. This helps to prevent unexpected financial challenges and ensure the stability of the financial system;
- ✓ risk management: identifying, assessing and managing the various risks associated with the external public debt (credit risk, currency risk, interest rate risk and other

factors that may affect the country's solvency and ability to meet its debt obligations);
- ✓ interaction with creditors (communication with international creditors, including negotiations on the terms of debt financing, debt restructuring and repayment of debt obligations);
- ✓ legislative regulation: development and implementation of appropriate regulatory policies, regulations and legislative means governing the external public debt in times of war.

1.3. Macroeconomic effects of external public debt

The macroeconomic implications of external public debt refer to the qualitative evaluation of economic phenomena resulting from the influence of external debt on various facets of the economy. These effects materialize through alterations in macroeconomic parameters, fiscal and monetary policies, national wealth, economic progress, political stability, and the degree of economic reliance within a country (Figure 1.2).

In general, the growth of external public debt can have negative consequences on a country`s economic security, namely:

- ✓ slowdown in economic growth due to the country's dependence on foreign debt;
- ✓ increasing the country's dependence on creditors, namely international organizations and foreign states, in conducting financial and economic policies based on its own national interests;
- ✓ increase in the cost of servicing public debt in case of its significant size or inefficient use of public loans, leading to further tax increases and aggravation of budgetary problems;

- ✓ significant amounts of borrowing within two to three years lead to the formation of pyramid schemes, which are harbingers of financial crisis, as the repayment of debt and interest on it causes a constant increase in debt;
- ✓ the need to service the external public debt (if it is substantial) causes a significant reduction in domestic consumption;
- ✓ borrowing on the foreign market is a threat to all elements of the country's financial market, as the problems of significant foreign debt are directly related to monetary, currency, budget, tax policies, balance of payments and trade, stability of the banking system and national currency, economic development, as well as processes taking place on domestic and global capital markets;
- ✓ excessive amounts of foreign debt may lead to control of the situation in the country by non-residents and negatively affect the financial security of the state.

The effect of monetary policy on external debt: it can lead to an increase in interest rates, which encourages the government to pursue a monetary policy aimed at reducing them.

The effect of fiscal policy: the possibility of using borrowing affects the reduction of the corresponding purpose of budget financing.

The effect of economic dependence of the state: a slight change in market conditions can cause fluctuations.

The effect of political dependence of the state: in the conditions of a large amount of public debt, the only way to avoid default while maintaining the proper level of financing is to attract external financing.

The effect of loss of tax revenues: the use of part of the tax revenues to service the external debt.

Figure 1.2 – Macroeconomic effects of external public debt

Given the potential negative consequences of excessive accumulation of external public debt, it is important to conduct a comprehensive study of external public debt management and its integration into the broader system of national security management. Studying the relationship between external public debt management and national security can provide a deeper understanding of the role and importance of effective debt management practices in ensuring the economic stability and sustainability of the country.

Thus, successful external public debt management requires the development of effective strategies for borrowing, monitoring and assessing risks, meeting obligations to creditors, and establishing transparent governance and accountability mechanisms.

2. ANALYSIS OF UKRAINE`S EXTERNAL PUBLIC DEBT MANAGEMENT

2.1. Ukraine`s external public debt management risks assessment

The war in Ukraine is hindering its sustainable development. It has been evident since the early stages of the Russian invasion that Ukraine's recovery will require substantial resources and the implementation of the “Marshall Plan 2”. However, financial support comes with significant liabilities, as loans must be repaid with interest. It is challenging to address the debt burden, which was already a concern before the war.

As correctly pointed out by Zhuravka et al., Ukraine faces the main challenge of finding sources of financing during the war. Attracting new funding in such a high-risk and uncertain environment can be difficult. However, it is crucial to ensure a diversity of funding sources to reduce risk and dependence on a single source [32].

In May 2022, Moody`s Investors Service, one of the world's largest credit rating agencies, downgraded Ukraine's credit rating to the third lowest level due to the instability of the debt. Creditors are generally reluctant to lend money if there is a risk that it will not be repaid. However, Ukraine's political situation and statements of support from Western powers suggest that it is likely to receive funding to prevent a new default.

Currently, the government spends up to UAH 250 billion per month, more than half of which goes to defense. However, its budget revenues are insufficient to cover even military spending, let alone essential areas such as social and medical services for the population. The formation of Ukraine`s external public debt during times of war is often haphazard, driven by the need to quickly finance current budget expenditures. The accumulation of a significant amount of external public debt was a result of the lack of a systematic approach to its management [15, 31].

As of December 31, 2022, Ukraine`s public and publicly guaranteed debt amounted to UAH 4,072.85 billion or USD 111.38 billion, with state and state-guaranteed external debt accounting for UAH 2,610.96 billion (64.11% of the total state debt) or USD 71.40 billion (Figure 2.1).

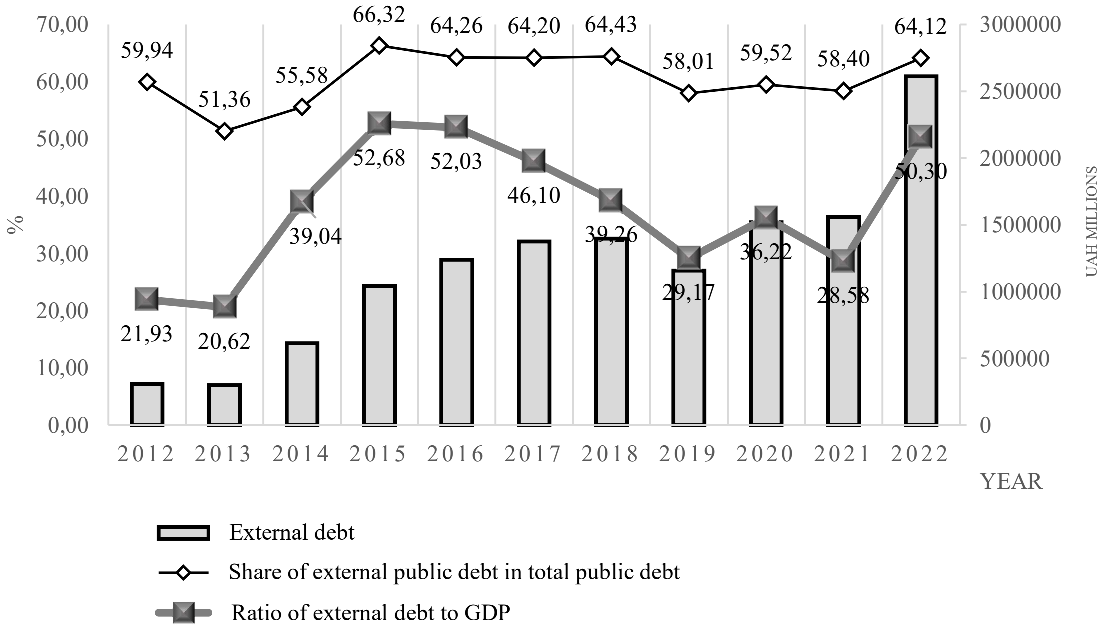

Figure 2.1 - Key indicators of Ukraine`s external debt burden in 2012-2022

Source: compiled by the author based on data from the Ministry of Finance [15]

Ukraine`s participation in international cooperation is crucial for managing its external public debt and achieving its economic development objectives. Collaborating with international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, has provided Ukraine with financial aid, policy guidance, and technical expertise. These partnerships have been crucial in implementing structural reforms, strengthening governance, and improving public debt management practices.

In 2023, Ukraine anticipates receiving funding from the IMF, the US, the EU, and other G7 countries. As per the draft state budget for 2023, the Ukrainian government plans to raise USD 51.5 billion. However, Figure 2.1 shows that the share of external public debt in total GDP has already reached 50.3%. This indicates a significant external debt burden and highlights the need for a systematic approach to managing external public debt.

The “Guiding Principles for Managing Sovereign Risk and High Levels of Public Debt”, known as the “Stockholm Principles”, justify the importance of analyzing and monitoring macroeconomic risks that affect the public debt risk management framework (Figure 2.2).

COUNTRY`S DEBT MANAGEMENT RISKS

BUDGET RISK

Causes: significant underperformance of the state (local) budget revenues, which may lead to an increase in state (local) borrowings and/or failure to fulfill debt service obligations.

EXCHANGE RATE RISK

Causes: changes in the official exchange rate of the national currency against foreign currencies, and a corresponding increase in foreign currency denominated debt.

INTEREST RATE RISK

Causes: increase in floating interest rates stipulated by the terms of debt agreements.

LIQUIDITY RISK

Causes: temporary shortage of state budget funds to fulfill debt obligations due to a possible rapid decrease in liquid assets as a result of unforeseen current liabilities and/or difficulties in raising funds through borrowings.

REFINANCING RISK

Causes: a decrease in the capacity of capital markets, which makes it impossible to borrow in the amount necessary to refinance debt at an acceptable price and leads to an increase in the cost of borrowing.

RISK ASSOCIATED WITH DEBT MANAGEMENT

Causes: occurrence of an event (circumstance) that will lead to an increase in state budget expenditures related to debt repayment and servicing, and a decrease in the volume of state (local) borrowings.

Figure 2.2 – Risks of external public debt management

To ensure external debt security during wartime and post-war periods in Ukraine, it is essential to increase economic growth and implement reforms within the framework of the Recovery Plan. These measures would improve the country's credit rating and reliability.

Managing external public debt in wartime requires a comprehensive and strategic roadmap to address the unique challenges and risks associated with such circumstances. We offer a roadmap for managing external public debt in wartime:

1. Assessing the debt situation: conduct a thorough assessment of the level of external public debt, its composition and currency structure, including the composition of creditors. This analysis will provide a clear understanding of the debt burden and its implications for financial stability in times of war.
2. Prioritizing debt obligations based on their urgency, interest rates and maturity. Identify critical debt repayments that need to be made to maintain the confidence of international creditors and ensure continued access to financial markets.
3. Developing strategic plans for debt restructuring and engage in dialogue with creditors to negotiate favorable agreements to extend maturities, reduce interest rates, or write off debt that will alleviate immediate financial pressures and provide breathing room during the war.
4. Seeking external financial assistance: explore opportunities to obtain external financial assistance through international financial institutions, bilateral assistance, or support from allied countries. Search for financial packages that can help cover immediate financial gaps, stabilize the economy and provide resources for post-war reconstruction.
5. Implementing measures to ensure fiscal discipline and control over wartime spending. This may include cutting non-essential spending, reallocating resources to critical areas such as defense and humanitarian aid, and increasing budget revenues through effective taxation or other means.

6. Improving risk management mechanisms: develop robust risk management mechanisms to address the uncertainty and instability associated with war. This includes assessing and managing currency, interest rate and refinancing risks to protect against adverse market conditions and fluctuations.
7. Strengthening the institutional capacity of the relevant government institutions responsible for debt management. This includes providing training, resources, and expertise to effectively manage the complexities of external public debt in wartime.
8. Ensuring transparency and accountability in debt management, in line with international standards and reporting requirements.
9. Developing a post-war debt management and recovery plan.

2.2. Effect of international financial organizations loans on Ukraine`s external public debt

The national economy has faced challenges due to the COVID-19 pandemic and military aggression, leading to unpredictable macroeconomic and political factors. Therefore, it is necessary to reconsider traditional methods of managing Ukraine's external public debt and explore alternative solutions to address financial issues.

During the research period that began in 2014, there were constant appeals for external financing to cover Ukraine`s state budget deficit. The increasing trend of the country's external public borrowing necessitates a comprehensive study of other countries' experiences, a thorough analysis of internal and external factors contributing to the state budget deficit, and the development of new scientific solutions to find optimal responses to challenges and threats to the national economy. The state's policy on managing external public debt should shift from a reactive approach to internal and external shocks to actively seeking additional external revenue to overcome the crisis and its associated problems. In this context, it is crucial to assess the current state of Ukraine's external public debt management mechanism, which was established and implemented in collaboration with foreign financial supporters of the country. This assessment will help identify and justify promising forms and instruments for its future continuation.

International experience offers numerous examples and arguments that a substantial amount of public debt may not necessarily be a problem for a country. The United States has the most successful global economy but also holds the title of the largest debtor in history. Currently, the national debt of the country stands at over USD 30 trillion, and as of the end of 2022, the US public debt-to-GDP ratio was 120%. The stability of the United States depends on the continuous development of its economy and effective management of public borrowing. These positive trends help to keep the public debt problem under control. For instance, Japan, the country with the third largest economy in the world, already has a public debt that is 2.3 times higher than its annual GDP [6, 27].

Ukraine's budget and debt policies from 2014 to 2019 were prudent, with the aim of keeping the budget deficit within 3% of GDP and maintaining a primary budget surplus. Despite the pandemic, the country reduced its debt burden from 79% of GDP to 49% in 2021.

However, the outbreak of a full-scale war in 2022 led to an increase in Ukraine's public and guaranteed debt by USD 120 billion, due to the need to finance extremely high military expenditures and the associated budget deficit (16.3% of GDP). This amount includes more than 50% of the state's external debt [6, 7].

Due to the war, Ukraine has lost access to foreign markets and the ability to obtain sufficient financial resources domestically. Financial assistance from foreign partners was not always in the form of grants.

In addition to these factors, it is important to note that the country's economic activity has decreased by almost one-third due to the loss of 12% (and up to 20% at the peak of the invasion) of territories (compared to 2021 data), mass migration, significant damage to settlements and energy infrastructure, and a resulting increase in business risks. These factors caused a 29% drop in GDP in 2022 [23].

The devaluation of the national currency resulted in a revaluation of foreign currency-denominated debt. As of the end of 2022, the total public and guaranteed debt to GDP amounted to 78% [24].

However, significant inflows of international financial support through grants (about USD 17.7 billion in 2022) helped to slow the growth of the debt burden. Without these resources, the debt burden could have been 10% higher.

Ukraine`s external public debt consists mainly of loans received from international financial organizations. The main creditors are the following international organizations of a global/European scale:

– International Monetary Fund;
– International Bank for Reconstruction and Development;
– European Union;
– European Bank for Reconstruction and Development;
– European Investment Bank, etc.

The external public debt of Ukraine includes liabilities on loans received from various countries such as the United States, the United Kingdom, Germany, Japan, Poland, France, Canada, and others. Additionally, foreign banks and financial institutions, including Chase Manhattan Bank (USA), Credit Agricole Corporate and Investment Bank (France), Deutsche Bank (Germany), Cargill (USA), and others, acted as commercial creditors. Foreign private entities were among the investors in government bonds issued by the government.

The external debt guaranteed by the state includes loans taken by state institutions and organizations from international financial organizations such as the

European Bank for Reconstruction and Development, the European Atomic Energy Community, and the European Investment Bank.

Furthermore, the state has frequently acted as a guarantor for external borrowings made by state-owned enterprises by issuing and selling their own securities on the foreign market. For instance, bonds of Ukravtodor and Ukrenergo [11, 12].

Table 2.1 illustrates Ukraine`s cooperation with international financial organizations.

Table 2.1 – Debt on loans received from international financial organizations

Creditors (IFOs)	Values over the years of the study period, USD billion								
	2014	2015	2016	2017	2018	2019	2020	2021	2022
European Bank for Reconstruction and Development (EBRD)	0,59	0,58	0,59	0,64	0,58	0,51	0,48	0,39	0,26
European Investment Bank (EIB)	0,49	0,52	0,53	0,69	0,68	0,78	0,95	1,02	2,68
European Union (EU)	1,66	2,41	2,31	3,35	3,79	3,69	4,68	5,00	12,37
International Bank for Reconstruction and Development (IBRD)	4,33	5,20	5,06	4,91	4,88	4,90	5,29	6,16	8,30
International Monetary Fund (IMF)	3,65	5,34	5,18	4,91	3,45	2,43	4,23	4,36	6,40
Other IFOs	0,00	0,00	0,00	0,01	0,01	0,02	0,04	0,06	0,08
Total loan volumes	**10,72**	**14,06**	**13,68**	**14,52**	**13,39**	**12,34**	**15,68**	**16,98**	**30,09**

The table shows that Ukraine's borrowing requests from international lending organizations were uneven, with the amount of debt ranging from USD 10.72 billion (UAH 169.09 billion) in 2014 to USD 16.98 billion (UAH 463.17 billion) in 2015. The debt increased to USD 30.09 billion (UAH 1.1 trillion) in 2021 and 2022, respectively.

3. IMPROVING THE SYSTEM FOR MONITORING AND CONTROLLING OF UKRAINE`S EXTERNAL DEBT MANAGEMENT

In today's environment, external public debt serves not only as an economic but also as a financial instrument for the government to create a social circle with material interests aimed at strengthening the state. Ensuring the effective implementation of the debt function can promote financial, economic, and political stability in the country.

To address the problems caused by the war, it is necessary to implement measures that overcome the excessive debt burden. This can be achieved by addressing regulatory, methodological, organizational, and informational issues while ensuring compliance with international principles. These measures are crucial for ensuring debt security in the state's economic security system:

1. The implementation of a systematic monitoring system for early detection of crisis situations necessitates the mandatory regular calculation of external debt security indicators. The objective is to evaluate the influence of economic development factors on public debt to identify the key connections in the economy where public debt is present, whether openly or covertly. Additionally, it aims to predict the level of public debt and its impact on key macroeconomic indicators in the short and medium term to ensure effective forecasting and planning.
2. Introducing the principles of monitoring the effectiveness of the state's debt security management in accordance with national practices of disclosing information on external debt burden in Ukraine and international standards for ensuring the country's economic security contributes to improving the efficiency of the system for providing the state's debt security.

It is important to consider the possibilities of implementing the previously mentioned measures. To achieve the goal of countering debt threats, the economic security system should:

- ✓ create conditions under which borrowing is not only economically justified and financially sound, but also contributes to economic growth by expanding investment and lending opportunities. Efficient attraction and use of credit resources is crucial to avoid an excessive increase in the debt burden and debt service payments, which can threaten financial dependence and undermine the economic security of the state.
- ✓ reduce the risks associated with public borrowing (currency, liquidity, interest rate, deflationary, inflationary, political, investment and other);
- ✓ ensure an appropriate ratio between the different components of the total debt (internal and external, long term, short and medium term). This will allow efficient debt repayment and avoid peaks in debt payments, thus financially strengthening the public finance system.

As previously stated, in order to reduce Ukraine's external debt burden, it is necessary to address regulatory, methodological, organizational, and information problems in compliance with international principles. These principles include the Stockholm Principles for Sovereign Risk and Public Debt Management, the Public Debt Audit Guidelines, and the Public Debt and Debt Sustainability Guidelines established by the IMF and the World Bank.

One of the issues with information support (as shown in Table 3.1) is the necessity of reforming the current practice of disclosing information regarding the state of public debt. This reform should include an audit of the effectiveness of external public debt, the development of systems for assessing, monitoring, and forecasting external debt security, as well as an increase in transparency and completeness of information disclosure regarding the level of external public debt.

The issues are mainly focused on the lack of consideration of international experience, statistics and information on public debt and debt security.

Table 3.1 - Issues with information and methodological support for the development of the debt security system in Ukraine

Direction	Key issues
Underdeveloped system of external debt security assessment	The absence systematic assessment of Ukraine's external debt security is currently underway. Data is generally limited to indicators of the volume and structure of public debt, as well as debt repayment and servicing payments.
Time delays, lack of transparency and incomplete information on external debt security	The lack of complete and timely publication of information regarding external debt security and certain aspects of the state's economic security system is incomplete and delayed.
Lack of systems for monitoring and forecasting the state of external debt security	The absence of these systems makes it difficult to timely identify the main potential threats and sources of instability, forecast their future dynamics, and calculate the integrated debt security index.
Lack of methodology for assessing the impact of various factors on debt security over different time periods	Introduce a methodology, principles, procedures, and reporting forms for assessing the interrelationships in the economy where external public debt is a variable in the context of short- and medium-term planning and forecasting.
Failure to consider international best practices in implementing monitoring and performance audit systems that ensure external debt security	The necessity to implement a monitoring system that comprehensively assesses the disclosure of information on Ukraine's external debt burden. This will align with international principles for ensuring the economic security of the state.

Source: compiled by the author

It is important to note that the current approach to assessing the level of external debt security of Ukraine is unsystematic and is aimed at tracking the compliance of debt policy parameters with selected performance criteria. The main emphasis is placed on indicators that reflect the volume, structure, and maturity of external public debt. It should be considered that the Ukrainian government authorities provide information on the state of public debt and payments, as well as forecast values. However, the calculation of the debt security indicators included in the Guidelines is not systematic or periodic, except for the public debt to GDP indicators. These indicators are reflected in the report on the implementation of the public debt management program for the respective year.

Improving the mechanisms for monitoring and controlling Ukraine's external debt is crucial for ensuring the sustainability of the economy and financial security of the country. To achieve this, clear debt management strategies and policies should be developed, and the external debt should be monitored and analyzed.

Effective control and audit mechanisms should also be established to ensure transparency and openness in debt management. Information regarding the state and amount of external debt should be made publicly available and comprehensible to citizens, experts, and investors. Developing financial skills and competencies within the government is also a crucial aspect of successful external debt management.

Furthermore, enhancing legislation and regulation, effectively communicating with the public and stakeholders, and involving consultants and experts can aid in optimizing debt security management processes. Analysis and consideration of risks associated with external debt are necessary components of developing strategies for debt management.

The above stated measures aim to ensure effective and sustainable management of Ukraine's external debt, which is crucial for the country's economic stability and development.

The following measures will contribute to improving the level of management and monitoring of external debt security:

- ✓ the Law “On the State Debt of Ukraine” should be adopted to establish the primary provisions for the state`s internal and external debt at a legislative level;
- ✓ development and justification of a strategy for attracting and directing financial resources of the state;
- ✓ coordinated policy of public debt management;
- ✓ monitoring of management decisions related to the management of external debt security in the system of the state’s economic security (Figure 3.1).

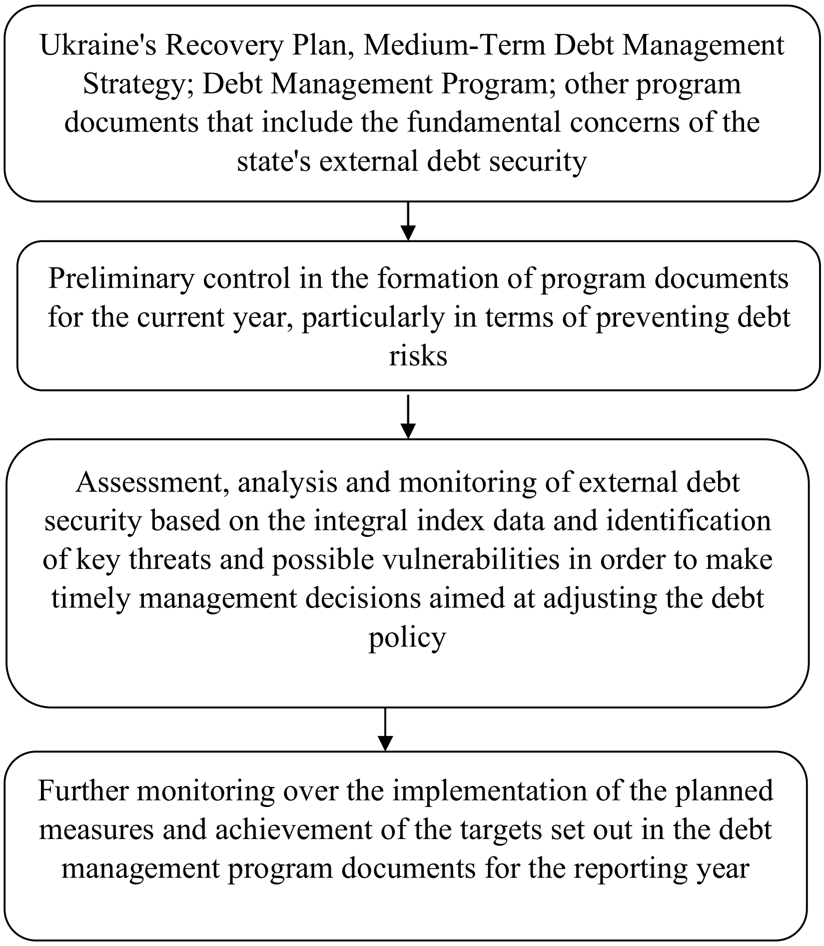

Figure 3.1 - Subsystem for controlling and adjusting management decisions related to external debt security management

Source: compiled by the author

CONCLUSIONS

The qualification paper is devoted to the developing of theoretical fundamentals, expanding scientific approaches, and considering practical recommendations for Ukraine`s external debt management during the wartime and post war period.

The main conclusions are as follows:

1. Over the last years, the Ukrainian economy was developing in conditions of the increasing number of geopolitical and geo-economic shocks. Initially, there was external encroachment on the country`s territorial integrity in 2014-2015. Subsequently, there was a need for deterrence and military counteraction against the Russia in the east of Ukraine. Furthermore, the global situation was complicated due to the COVID-19 pandemic in 2020-2022. Since the start of 2022, there have been extensive military operations and an active phase of military confrontation due to Russia`s aggression. Together with several internal factors affecting the sustainability of the country`s budget, all abovementioned factors impact the composition and institutional role of Ukraine`s external public debt management mechanism significantly.

2. The concepts "external debt" and "external debt management" were deeply investigated using structural, systemic, functional, managerial, institutional, and mixed approaches. Moreover, the author`s concept of external public debt management as an integral part of the state`s national security system is offered. This concept encompasses a set of measures, tools, and methods for effectively managing the country`s external debt, determining its optimal structure, managing debt risks, achieving sustainable economic development, and ensuring the financial sustainability and sovereignty of the country.

3. The macroeconomic implications of external public debt refer to the qualitative evaluation of economic phenomena resulting from the influence of external

debt on various facets of the economy. These effects materialize through alterations in macroeconomic parameters, fiscal and monetary policies, national wealth, economic progress, political stability, and the degree of economic reliance within a country.

4. Managing external public debt in wartime requires a comprehensive and strategic roadmap to address the unique challenges and risks associated with such circumstances:

- ✓ Assessing the debt situation: conduct a thorough assessment of the level of external public debt, its composition and currency structure, including the composition of creditors. This analysis will provide a clear understanding of the debt burden and its implications for financial stability in times of war.
- ✓ Prioritizing debt obligations based on their urgency, interest rates and maturity. Identify critical debt repayments that need to be made to maintain the confidence of international creditors and ensure continued access to financial markets.
- ✓ Developing strategic plans for debt restructuring and engage in dialogue with creditors to negotiate favorable agreements to extend maturities, reduce interest rates, or write off debt that will alleviate immediate financial pressures and provide breathing room during the war.
- ✓ Seeking external financial assistance: explore opportunities to obtain external financial assistance through international financial institutions, bilateral assistance, or support from allied countries. Search for financial packages that can help cover immediate financial gaps, stabilize the economy and provide resources for post-war reconstruction.
- ✓ Implementing measures to ensure fiscal discipline and control over wartime spending. This may include cutting non-essential spending, reallocating.
- ✓ Improving risk management mechanisms: developing robust risk management mechanisms to address the uncertainty and instability associated with war. This includes assessing and managing currency, interest rate and refinancing risks to protect against adverse market conditions and fluctuations.

- ✓ Strengthening the institutional capacity of the relevant government institutions responsible for debt management. This includes providing training, resources, and expertise to effectively manage the complexities of external public debt in wartime.
- ✓ Ensuring transparency and accountability in debt management, in line with international standards and reporting requirements.
- ✓ Developing a post-war debt management and recovery plan.

5. Improving the mechanisms for monitoring and controlling Ukraine`s external debt is crucial for ensuring the sustainability of the economy and financial security of the country. To achieve this, clear debt management strategies and policies should be developed, and the external debt should be monitored and analyzed.

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ANNEX A

SUMMARY

Hordiienko Ihor. Ukraine’s external debt management. – Master`s level qualification paper. Sumy State University, Sumy, 2023.

The master`s level qualification work focused on developing of theoretical fundamentals, expanding scientific approaches, and considering practical recommendations for Ukraine`s external debt management during the wartime and post war period.

Keywords: external debt, external debt management, risks, approaches, loans, Ukraine.

АНОТАЦІЯ

Гордієнко І. О. Управління зовнішнім боргом України. – Кваліфікаційна магістерська робота. Сумський державний університет, Суми, 2023 р.

Кваліфікаційна магістерська робота присвячена розвитку теоретичних засад, розширенню наукових підходів та розгляду практичних рекомендацій щодо управління зовнішнім боргом України у воєнний та післявоєнний період.

Ключові слова: зовнішній борг, управління зовнішнім боргом, ризики, підходи, позики, Україна.