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PUBLIC DEBT AS A LEVERAGE OF MACRO-FINANCIAL INSTABILITY IN THE CONDITIONS OF MODERN TRANSFORMATIONS

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The development of the global economy as a whole today takes place in complex, extraordinary conditions of the crisis of state finances and the monetary system, a significant weakening of financial stability and balance, and acute internal and external challenges. All this is reflected in the fall in GDP, the general deficit of trade and payment balances, financial resources at the macro and micro levels, the growth of inflation, the budget deficit and public debt. Public debt is an integral part of the functioning of the macroeconomic system of any country.

This is explained by the fact that relations regarding the formation, maintenance and repayment of debt have a significant impact on the state of public finances, money circulation, investment climate, the structure of consumption and the development of international cooperation. In market economic conditions, almost all countries are faced with a lack of resources to ensure the necessary level of development. The public debt formation is an integral part of economic performance and an effective tool for macroeconomic regulation. Qualitative (structural) and quantitative (dynamic) characteristics of debt formation are interrelated with all macroeconomic and macrofinancial processes in the country [1].

The risks and threats of increasing public debt are manifested primarily in the fiscal and monetary spheres. We will analyze in more detail the role and importance of public debt as a risk factor for fiscal stability and macroeconomic stability and will explore its main parameters in the context of the monetary component of macrofinancial stabilization. Public debt is closely linked to fiscal policy in general and to the budget deficit in particular. The main reason for the increase in public debt is the budget deficit. In recent decades, there has been an increase in public expenditures in all developed world economies, resulting in deficit budgets of the countries and increase in public debt.

If the budget deficit persists for a long time, constantly increasing the amount of public debt, the government's ability to pursue a stabilization policy reduces. In such circumstances, the payment of interest on public debt becomes the main item of state budget expenditures. With large amounts of public debt, the cost of its management may be the main or even the only cause of the budget deficit. If GDP is constant or decreases, and the budget deficit is further financed due to an increase of public debt, there may arise a situation where tax revenues will not be sufficient to pay interest on the debt. Therefore, in order to reduce the share of public debt to GDP, it is necessary to ensure a budget surplus and the excess of economic growth over the real interest rate. These conclusions are the basis of the theory of fiscal sustainability, on which modern approaches to debt policy are based. Achieving long-term sustainability of public finances is a priority task of fiscal policy. Sustainability should be understood as solvency, i.e., the ability of the borrower to manage the debt, avoiding default. The analysis of fiscal sustainability aims to show what the current fiscal policy should be, so that the state remains solvent in the long run.

Budget constraints play a key role in assessing public finances, interpreting budget policy, and anticipating the consequences of separate shocks to the budget. The budget constraint assumes that the difference between government expenditures and revenues is compensated by a corresponding change in the amount of public debt. The sustainability of public finances in the long run depends on the difference between borrowing rates and GDP growth rate. Borrowing rates usually exceed economic growth rate. Therefore, in order to maintain a stable level of debt, it is necessary to increase the level of taxation and/or reduce expenditures on the purchase of goods and services, as well as transfers to the private sector, which can significantly reduce the positive short-term results of debt financing.

Public debt is interrelated with monetary policy tools. The increase in public debt is one of the reasons for the rapid increase in money supply and inflation deepening. Today, a large number of studies mainly argue for the interdependence of public debt increase and inflation.

Economic growth is a key element in determining the future debt burden. In the simplest theoretical model, where the primary budget balance (the difference between revenues and expenditures before debt service) is zero, the change in the ratio of debt to GDP takes place due to two factors only: the real effective interest rate (r) and real GDP growth rate (g). If r> g, the debt-to-GDP ratio will increase, and vice versa. In practice, a big number of factors affect debt, but the importance of economic growth does not diminish [2].

Thus, the specification of the direction of resources borrowed on loan market is of great importance in reforming the debt policy. In order to achieve macroeconomic and macrofinancial stability, it is necessary to spend a part of funds raised through loans on the implementation of specific investment projects, minimizing the financing at their cost of current budget expenditures.

At the same time, the use of debt policy mechanisms and tools, not theoretically supported (due to the lack of an appropriate doctrine in the basis of the debt policy), just increases the risks of debt financing for macrofinancial stability. Only debt policy, based on the current provisions of the world theory and practice of financial science, will offer an opportunity to fully reveal the potentials of debt finance.

References:

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