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OPTIMIZATION OF THE FINANCING STRUCTURE OF GOVERNMENT BORROWING DUE TO BONDS OF INTERNAL STATE LOANS

Setting the problem. Traditionally, financial and credit system is an effective tool for the accumulation and raising funds in the economy to further their capitalization. However, in the current conditions of global development of the world economy and crisis phenomena the role of domestic instruments for raising funds and operating conditions of financial instruments have undergone a significant transformation, which requires additional research. The market conjuncture of financial investments in Ukraine has also undergone a transformation.

In certain circumstances bonds of internal state loans can not be overemphasized. Today the need of Ukraine in financial investments is colossal.

It is possible to implement it not only on domestic but also on foreign markets, but it is necessary to adapt the existing mechanism of interaction of investors on the financial market of the state.

Analysis of recent research and publications. The following outstanding scientists considered the economic essence of the concept “public borrowing”. Among them are V.D. Lahutin, V.D. Bazylevych [1], V.M. Oparin, O.R. Romanenko. Famous Ukrainian scientists, as T. Vakhnenko, V. Kozyuk, S. Omelchuk, O. Okhrimenko investigated the issues of development the market bonds of internal state loans. However, in the present conditions of the economy transformation and the need to find of long-term additional sources of financing at the state level, this issue remains not enough researched.

Setting the objective. The aim of this article is to study market functioning of the internal state loans and determine ways of optimizing the structure of government borrowing.

The main material of the research. Government bonds are widely used by governments of the countries as instruments of raising borrowing funds to finance current budget of deficits and servicing the public debt. In addition, underdeveloped market for domestic government bonds is a guarantee of effective use of such key instruments of monetary and credit policy such as open market operations [2; 3].

The governments of developed countries use the issue of government securities as non-equity source for financing the budget deficit. Its own specific emission of government securities is characterized for each country.

In Ukraine, securities are issued behalf of the state by the Ministry of Finance, which is the guarantor of timely repayment.

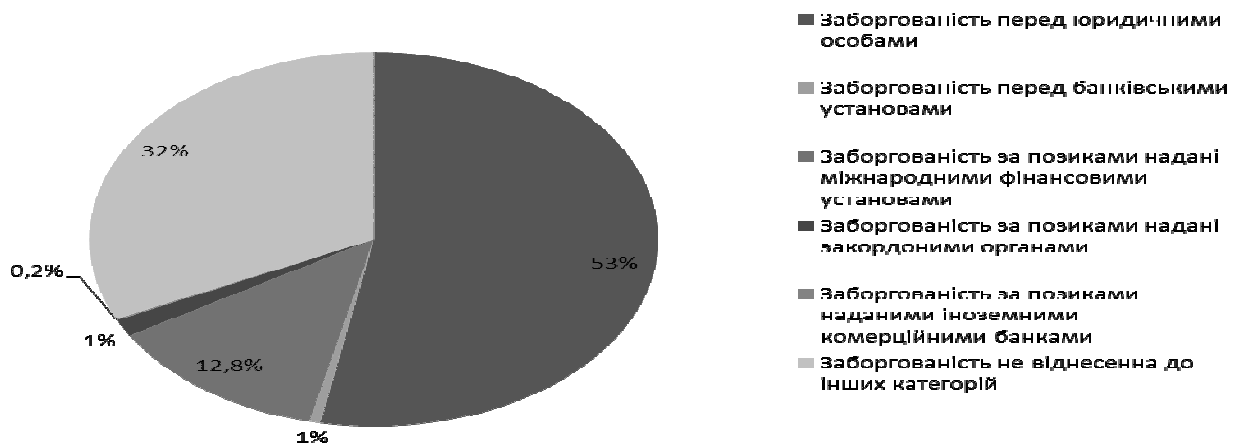
According to the Law of Ukraine “On Securities and the Stock Market”, bonds of internal state loans (BISL), bonds of external state loans (BESL) and target bonds of internal state loans may imitated as in a documentary and in without documentary form [10].

The Decree of the National Bank of Ukraine from 31.12.97 No 477 “On approval normative documents on issues the turnover of bonds of internal state loans at the Ukrainian Stock Exchange” refers to the main normative and legal acts that implemented the regulation of trading on the market of bonds of internal loans. The rules for exchange trading of secondary circulation at the Ukrainian stock Exchange of bonds of internal state loans (hereinafter – BISL) and payment arrangements on concluded agreements at Ukrainian stock exchange were established by this Decree [9].

For the analysis of placement BISL by the Government of Ukraine in the context of the debt policy is necessary to analyze the structure of internal state debt, and also the structure of the debt according to the BISL. The structure of the internal state debt is shown at the Figure 1.

Data as of 04.31.2014 indicate that indebtedness to the juridical persons (53%) is represented by BISL and treasury obligations. This debt refers to the structure of internal state debt of Ukraine; indebtedness to banking institutions (1%), which includes the debt to the National Bank of Ukraine; indebtedness on loans is provided

by international financial institutions (12.8%), indebtedness on loans is granted by foreign bodies (1%), indebtedness on loans is granted by foreign commercial banks (0.2%) and indebtedness is not attributable to other categories (32%).

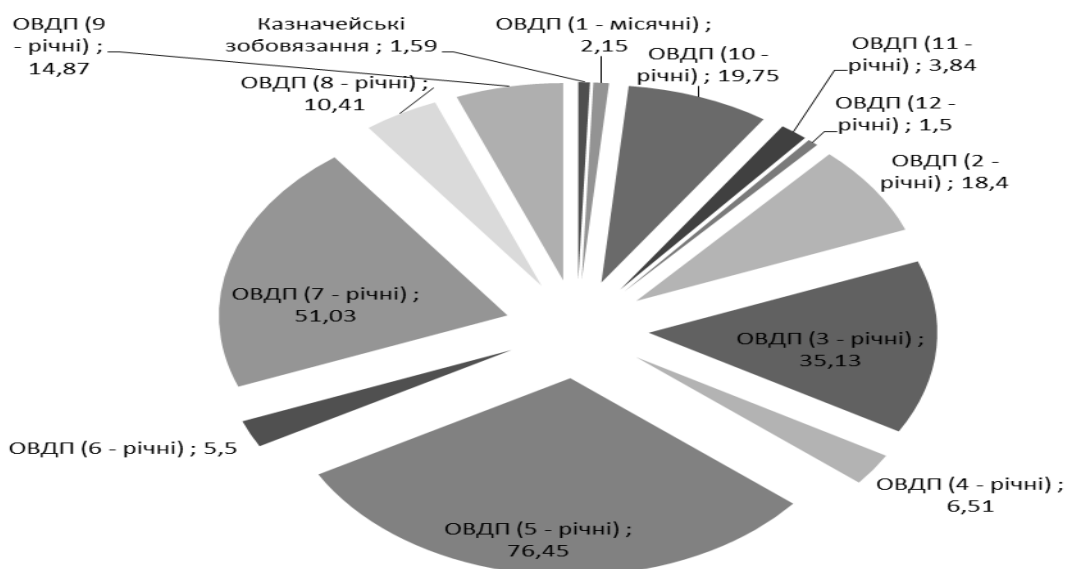


- indebtedness to the juridical persons
- indebtedness to banking institutions
- indebtedness on loans is provided by international financial institutions
- indebtedness on loans is granted by foreign bodies
- indebtedness on loans is granted by foreign commercial banks
- indebtedness is not attributable to other categories

Figure. 1. The structure of internal government debt

Source: compiled by the authors on the basis [6; 7]

Structure of debts to the juridical persons is shown in Fig. 1



BISL (9- annual); 14.87		BISL (1- monthly); 2.15	BISL (11- annual); 3.84
	BISL (8- annual); 10.41	BISL (10- annual); 19.75	BISL (12- annual); 1.5
			BISL (2- annual); 18.4
BISL (6- annual); 5.5			BISL (4- annual); 6.51
	BISL (5- annual); 76.45		

Figure 2. The structure of the indebtedness to juridical persons as turnover in the total volume of the government debt

Source: compiled by the author on the basis of [5; 6; 7]

According to the Ministry of Finance of Ukraine, indebtedness on BISL and treasury obligations as at 31.01.2014 amounts to 31.87 billion hrn., that constitutes 43.53% of the state debt in Ukraine. This structure of indebtedness on BISL emphasizes the great importance of managing the deployment BISL in the implementation of the debt policy of the state. A significant amount of internal debt on BISL is primarily due to the large volume of 5-annual and 7 annual BISL.

Their share of the internal debts on the government bonds is 21.7% and the amount of indebtedness on them constitutes 36980 billion hrn.

3-annual BISL – 6 % occupy a significant part in the national debt. Insignificant share of indebtedness on BISL accounted for 2-annual, 8-annual, 9-annual BISL – less than 5.0% in the amount of indebtedness on BISL. The remaining issues on BISL are characterized by relatively insignificant share of both the public debt on BISL (less than 2.0%) [5].

The government debt is an integral part of functioning economy of most countries of the world, a powerful lever for macroeconomic management and the tool for economic strategy implementing.

During the transformation process in Ukraine the forming government debt was chaotically. Only in recent years was the implementation of a consistent and balanced long-term state policy. At this stage it is important to limit the increasing

budget deficit in order to avoid having to selling BISL in the portfolio of National Bank of Ukraine [3].

It should be noted that today in the market of borrowings BISL is not fully used, namely not enough take into account long-term trends on the market BISL. It is therefore necessary to increase the effectiveness of the Ministry of Finance and the National Bank of Ukraine on the market of BISL with regard to the overall financial performance and taking into account the achievement of strategic objectives.

Sources of domestic financing of the state budget today stands raising funds by issuing bonds of domestic government loans in domestic and foreign currencies that are provided for placement among commercial banks, legal entities and the public, but actually placed only among commercial banks. Ministry of Finance of Ukraine will produce bonds of domestic government loans “Military Bonds” in the national currency for attracting additional funds from domestic investors (commercial banks, other businesses and individuals).

Decree of the Cabinet of Ministers in Ukraine from April 1, 2014 No 101 "On the issue of bonds of domestic government loans “Military Bonds” adopted in order to raise additional funds for certain purposes for financing the state budget through the issuance and placement of bonds of domestic government loans “Military Bonds” in without documentary form, feature of which is a fixed rate of return [8].

The main terms of issue of bonds of domestic government loans “Military Bonds”: the total volume of issue up to 1 billion hrn.; nominal value of one bond equals the sum of 1000 hrn.; term of circulation bonds – 2 years; coupon period – 6 months; annual percentage rate of return – 7 percent [7].

Placement of bonds will be conducted at auction by the National Bank of Ukraine through the primary dealers (now their number constitutes 17 banks and can continue to grow).

Also the Ministry of Finance of Ukraine from May 21, 2014 begins the placement of treasury bills “Military” series V to the bearer in documentary form, totaling 100 million hrn., with maturities in 24 months, the nominal value 1.000 hrn.,

an interest rate 7% per annum and coupon payment every six months in the amount of 35 hrn. [8].

In order to provide the same level of profitability for customers, cost of sales of treasury bills changes depending on the time of their placement. On the first day treasury bills are sold at par value, and the next days of their placement is done at a cost of sales, which increases taking into account of accumulated income, based on the established amount of interest on the coupon (the nearer the time of coupon payments, the higher selling price).

For the successful realization of the project issue treasury bills “Military” clearly defined purpose of raising funds and formulated appeal to the community to join efforts, desires and intentions to participate in building of a new country by directing their funds to purchase government securities, as well as the creation the opportunities to feel involvement in solving national problems, combining efforts and resources to provide financial assistance to domestic armed forces to enhance their combat readiness and strengthen the country's defenses.

We believe that by placing BISL, state administration bodies should consider not only the question of financing the budget deficit, but also to consider possible strategic changes and trends that occur not only in the financial market, to prevent negative changes to take measures to resolve the problems and disparities.

Therefore, to form the effective market of BISL is necessary:

- to fulfill a constant check of the dynamics of the securities market;
- to coordinate policy in the sphere of formation of government securities yield with the general trends that exist on the financial market of Ukraine;
- take into account the interests of the state not only in the current but also in the perspective periods;
- maximum harmonization of the financial interests of investors and states on the government securities market;
- to use timely measures to harmonize the dynamics of the government bond market and the financial market as a whole.

Conclusions from the study. Government borrowing is an important tool for financial regulation of the state policy. The market of domestic borrowing with proper allocation of funds hinders the increasing state debt. Funds received from the bond issue are used for economic development, investment and innovation projects.

Attracting resources through domestic public borrowing is limited by capacity of the national stock market, the high cost of servicing domestic debt, low public confidence and high level of shadow economy.

An important aspect of domestic government borrowings should be the development of the financial market in Ukraine as a mechanism to provide relative stability and consistency of the whole financial system.

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Рибак О.М., Парацій Х.В. ОПТИМІЗАЦІЯ СТРУКТУРИ ФІНАНСУВАННЯ ДЕРЖАВНИХ ЗАПОЗИЧЕНЬ ЗА РАХУНОК ОБЛІГАЦІЙ ВНУТРІШНІХ ДЕРЖАВНИХ ПОЗИК

Мета. Метою даної роботи є дослідження функціонування ринку внутрішніх державних позик та визначення шляхів їх оптимізації в структурі державних запозичень.

Методика дослідження. В процесі отримання результатів дослідження використано систему економіко-статистичних методів. Зокрема застосовано: метод аналізу і синтезу - при визначенні впливу державних запозичень на зміну показників державного боргу; метод узагальнення – при встановленні зв'язку між розвитком фінансового ринку України і стабільністю всієї фінансової системи; метод порівняння – при визначенні чинників збільшення обсягів, залучення фінансових ресурсів.

Результати. Встановлено, що державні запозичення є важливим інструментом регулювання фінансової політики держави, що стримує зростання державного боргу. Виявлено, що залучення ресурсів за допомогою внутрішніх державних позик обмежується можливостями національного фондового ринку, високою вартістю обслуговування внутрішніх боргових зобов'язань, низьким рівнем

довіри населення, високим рівнем тінізації економіки. Обґрунтовано, що важливим моментом розвитку внутрішнього ринку державних запозичень повинен стати розвиток фінансового ринку України як механізму, який забезпечить відносну стабільність і послідовність розвитку всієї фінансової системи.

Наукова новизна. Сформовано шляхи ефективного використання облігацій внутрішньої державної позики не лише як інструменту погашення внутрішнього державного боргу країни, але як засобу досягнення певних стратегічних цілей.

Практична значущість. Отримані результати дослідження направлені на підвищення ефективності використання облігацій внутрішньої державної позики і вони можуть бути використані у фінансових організаціях країни.

Ключові слова: облігації, державні цінні папери, фондовий ринок, інвестиції, державний борг, державні запозичення, «військові» облігації.

Рыбак А.Н., Парацый Х.В. ОПТИМИЗАЦИЯ СТРУКТУРЫ ФИНАНСИРОВАНИЯ ГОСУДАРСТВЕННЫХ ЗАИМСТВОВАНИЙ ЗА СЧЕТ ОБЛИГАЦИЙ ВНУТРЕННЕГО ГОСУДАРСТВЕННОГО ЗАЙМА

Цель исследования. Целью данной работы является исследование функционирования рынка внутренних государственных займов и определение путей их оптимизации в структуре государственных заимствований.

Методика исследования. В процессе получения результатов исследования использована система экономико-статистических методов. В частности применены: метод анализа и синтеза - при определении влияния государственных заимствований на изменение показателей государственного долга; метод обобщения - при установлении связи между развитием финансового рынка Украины и стабильностью всей финансовой системы; метод сравнения - при определении факторов увеличения объемов, привлечения финансовых ресурсов.

Результаты. Установлено, что государственные заимствования являются важным инструментом регулирования финансовой политики государства, что сдерживает рост государственного долга. Выявлено, что привлечение ресурсов за счет внутренних государственных займов ограничивается возможностями национального фондового рынка, высокой стоимостью обслуживания внутренних долговых обязательств, низким уровнем доверия населения, высоким уровнем тенизации экономики. Обосновано, что важным моментом развития внутреннего рынка государственных заимствований должно стать развитие финансового рынка Украины как механизма, который обеспечит относительную стабильность и последовательность развития всей финансовой системы.

Научная новизна. Сформированы пути эффективного использования облигаций внутреннего государственного займа не только как инструмента погашения внутреннего государственного долга страны, но как средства достижения определенных стратегических целей.

Практическая значимость. Полученные результаты исследования направлены на повышение эффективности использования облигаций внутреннего государственного займа и они могут быть использованы в финансовых организациях страны.

Ключевые слова: облигации, государственные ценные бумаги, фондовый рынок, инвестиции, государственный долг, государственные заимствования, «военные» облигации.

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Purpose. The aim of this article is to study market functioning of the internal state loans and determine ways of optimizing the structure of government borrowing.

Methodology of research. The system of economic and statistical methods was used in the process of obtaining results of the research. In particular, it has been used: the method of analysis and synthesis – in determining the impact of government borrowing on the change of indicators of state debt; the method of generalization – in establishing the connection between the development of the financial market in Ukraine and stability of the whole financial system; the method of comparison – to determine factors of increasing volumes, attracting financial resources.

Findings. It has been established that government borrowing is an important tool to regulate financial policy that inhibits the growth of state debt. It has been detected that attracting resources through internal state loans is limited by capabilities of the national stock market, the high cost of servicing domestic debt obligations, low level of public confidence and high level of shadow economy. It has been substantiated that an important aspect of internal government borrowing should be the development of the financial market in Ukraine as a mechanism that provide relative stability and consistency of the whole financial system.

Originality. It has been formed ways of the effective use of bonds of internal government loans not only as a tool for repayment of internal state debt, but as a means to achieve certain strategic objectives.

Practical value. The obtained results of research aimed at improving the use of bonds of internal government loans and these results can be used in financial institutions of the country.

Key words: bonds, government securities, stock market, investments, government debt, government

borrowing, "military" bonds.