

Regulation of the Debt Sustainability of the Russian Economy

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ABSTRACT

The relevance of the investigating problem is caused by the need to reduce the total aggregated amount of debt in Russian economy in conditions of crisis and the strengthening of external anti-Russian sanctions. In this context, the purpose of this article is to identify measures aimed to regulate debt sustainability of the Russian economy using indicators characterizing the effectiveness of state regulation of internal and external debt. The leading method of research of this problem is a statistical analysis of the external debt that allows to consider this issue, as the process of changing the debt sustainability indicators, as well as the audit of total amount of debt in the economy. Results: it was concluded that the traditional financing expenditure of the federal budget commitment is reduced by structural changes of the state debt policy in conditions of decreasing dependence on exports of energy resources; showed a trend of relative decline of public external debt, while the growth of corporate; concluded that the possibility of optimizing the debt burden on the economy remain under-utilized; confirmed the feasibility of using the proposed indicators of debt sustainability.

KEYWORDS

State domestic and foreign debt, corporate debt, cost of servicing government debt, indicators of debt, sustainability of the national economy, effective debt policy, a strategic audit of the state debt policy

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Introduction

Formation of the federal and local budgets of Russian Federation is carried out in accordance with the strategic objectives and priorities of socio-economic policy of the state, determine the annual message of the President of the Russian Federation, acts of the Federal Assembly of the Russian Federation Government. Strategically important goals established on an annual basis are the top values of the state internal and external debt.

Audit of debt burden assumes variation of the process of formation of revenues and expenditures, the budget deficit and its cover by funds received in debt. A

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comprehensive approach of audit of performance involves the use of a number of debt sustainability indicators of the national economy. This is especially important in the conditions when the internal and external public debt represent a value close to the volume of the state budget. In conditions of crisis, the government comes to help corporations with repayment of their debt.

In the management of components of debt and total (consolidated) debt is very important to perform monitoring indicators (indicators) of debt sustainability. Should not be allowed excessive growth of the debt, including both public and corporate since there is a direct correlation between the total debt and the value of payments on its repayment. In consequence of increasing the repayment of amounts of borrowing entities have to take additional loans to have the means to service the debt, not "trimming" adjustable-established expenditure commitments and expenditure of budgets of all levels. Debt service (repayment of debt and interest on it) always reduces the value of real spending of the budget. It is therefore important to monitor the growth of the debt burden on the economy.

Materials and Methods

Research methods

During the research the following methods were used: theoretical (analysis, including comparative and statistical, the use of time series, synthesis, concretization and generalization of experience).

Research base

Experimental research base is the Russian and foreign practice of debt control budget balance and the debt sustainability of the national economy based on the use of aggregate indicators; generalization of experience of strategic audit of the debt burden on the economy.

Results

1. The debt policy of the Russian Federation in the conditions of dependence the federal budget from the revenues derived from the export energy resources, aims to increase liabilities associated with the volume of service costs government debt, the relatively reduces funding of traditional expenditure obligations of federal budget (excluding government debt-servicing costs).

2. The positive trend of reducing the volume of total Russian debt (corporate and government) arise due to a crisis situation, external economic sanctions, rather than the policy of optimization of the volume and structure of the debt burden. In this direction, the adjustment to be debt policy, its activation in the part of the debt sustainability of the national economy.

3. Opportunities for streamlining the tax burden on the Russian economy remain under-utilized. In order to reduce consolidated debt of Russia should intensify the implementation of measures the impact on the corporate sector of the national economy. Corporate debt bondage slowly overcome the inefficient use of the financial reserves of the state. Corporations with state participation are major recipients of state support the repayment of their debt. This government support became a real alternative to foreign direct investment support to the development of state-owned corporations. This support has become an alternative to the real support of foreign direct investment which are necessary for the development of public corporations.

4. In the management of public debt should be more active and fuller use of the possibilities of auditing the debt sustainability of the entire system using indicators of management efficiency state internal and external debt. In this regard, increasing the value of a strategic audit of the debt sustainability of the national economy, implemented by the Accounts Chamber of the Russian Federation in accordance with the new law on its status, accepted in 2013. In our opinion, it is required to determine its scope in time (five years a year for three years) for a strategic audit of the debt sustainability of the national economy.

Discussions

International financial institutions such as the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF), the countries - members of the Paris Club of creditors, the international rating agencies use a number of indicators to assess the quality (reliability) of debt and assigning sovereign credit ratings. The most important of them are the following (Seleznev & Chaplyuk, 2012):

- the ratio of general government debt to GDP. This indicator shows the scale of the accumulated domestic and external debt. Ratio of External Debt to GDP - the ability to repay the debt indicator. This indicator may be calculated as the ratio of variation in:

- a) only public external debt to GDP;
- b) corporate debt to GDP;
- c) total external debt to GDP;

d) the volume of the budget deficit to GDP - characterizes the state of the public sector, where the budget deficit cover an appropriate share of GDP will have to redistribute through internal loans or recourse to outside.

- the ratio of the cost of repayment and servicing of public debt to GDP. It describes the proportion of GDP, which will make "deduction" from the scope of the actual budget expenditures determined by budgetary commitments to be established by regulations of the state. This value characterizes the scale of the return to creditors of the state, together with interest in the form of the total cost of borrowing;

- the ratio of the cost of servicing the foreign national debt to income from exports. This indicator shows the resource's ability to repay debt, for export is the main source of foreign currency inflow to provide liquidity to the whole payment system;

- the ratio of external debt denominated in foreign currency to the amount of total debt in the same currency, which characterizes the relative demand in foreign currency for debt service;

- the ratio of interest expenses (government debt servicing costs) to the budget, which characterizes the "burden" on the spending budget, which is not actually related to the financing of the public sector;

- the ratio of debt service to GDP, the share of interest payments in the total value of GDP;

- the ratio of foreign reserves to the volume of short-term debt to be repaid in the current year;

- index of the economy's ability to make payments on the public debt during the year due to accumulated reserves. The presence of sufficient foreign exchange reserves contributes to the country's rating as a borrower, allows for borrowing at lower rates;

- weighted average interest rate, which indicates that the total cost of borrowing;

- composition and structure government debt, reflecting the volume of market and non-market shares, the structure of debt by the time of occurrence of liabilities by instrument and maturity (Chapluk, 2013).

The above-mentioned figures are determined annually in justifying the basic directions of budgetary policy. On the basis of the official materials of the Ministry of Finance after the year 2010 it was determined actual values of a number of core indicators, which are presented in Table 1 (Chapluk, 2011).

Table 1. Indicators of the debt sustainability of the Russian Federation (Report of the Ministry of Finance of the Russian Federation, 2011)

| Indicators / Years | 2011 | 2012 | 2013 | 2014 | Threshold |
|--|------|------|------|------|-----------|
| 1 The ratio of government debt to GDP in (%) | 11,2 | 14,1 | 16,1 | 17 | 25 |
| 2 The share of expenditure on debt service in total federal budget expenditures (%) | 3,2 | 3,6 | 4 | 4,5 | 10 |
| 3 The ratio of the cost of repayment and servicing of government debt to the federal budget revenues (%) | 8,2 | 9,7 | 10,4 | 11,8 | 10 |
| 4 The ratio of public debt to the federal budget revenues (%) | 58 | 76,3 | 87,7 | 94,5 | 100 |
| 5 Public external debt to export ratio (%) | 8,7 | 10,9 | 12,5 | 13,2 | 220 |
| 6 The ratio of foreign debt servicing costs for the annual export volume (%) | 0,6 | 0,6 | 0,6 | 0,7 | 25 |

*Federation Conclusion of the Accounts Chamber of the Russian Federation on the draft Federal Law (2015)

The above list of indicators of debt sustainability can be supplemented with a number of other indicators. In our opinion, they should include:

- outstanding public debt (including interest receivable) as a share of gross domestic product;
- debt per capita characterizing the burden attributable to each citizen;
- the ratio of the debt covered by the budget deficit to gross domestic product, which characterizes the debt burden of the fiscal year.

Significantly the reference value and the use of indicators such as:

- the share of new borrowing in the state budget expenditures;
- the ratio of expenditure on interest payments to total government debt service costs.

The debt sustainability of a state defined by the values of the above indicators is monitored over time and adequately characterizes not only the current situation but also the tendency of its change. Eventually it is important to monitor the trend and take action if there is deterioration in the situation. If it turns out to be dangerous, adequate measures are important to reduce economic dependence on the import, export

promotion, reduction of the budget deficit volume, etc. (Goreyeva, Demidova & Chernyaev, 2013a).

Audit of the debt sustainability of the national economy is not always the center of attention of governments of several countries, including Russia. According to estimates of Budget Management under the President of the USA, in the current decade, every two years, the US national debt increased by \$ 2 trillion. dollars. This means that by the end of 2016 it will exceed 20 trillion. dollars - more than the annual GDP, and in per capita - more than 60 thousand dollars. It is clear that further will be involved budgetary arrangements for its maturity, and the "safety net" debt bondage involvement in the economy of the country by external sources of investment by some countries existing foreign exchange reserves in US Treasury bonds at a certain low percentage (Chaplyuk & Karagod, 2012).

Official statistics is that at the beginning of October 2015 the US major holders of Treasury bonds were many countries (Table 2).

Table 2. Investments in US Treasuries on October 1, 2015

*Compiled by the authors according to IMF

| | Countries | Investments in a portfolio of US Treasury bonds (US \$ billion) |
|----|---------------------------|---|
| 1 | China | 1 270 |
| 2 | Japan | 1 197 |
| 3 | Caribbean countries | 329 |
| 4 | Oil-exporting countries | 293,2 |
| 5 | Brazil | 255,3 |
| 6 | United Kingdom | 222,8 |
| 7 | Switzerland | 227,7 |
| 8 | Ireland | 216,4 |
| 9 | Hong Kong | 193,2 |
| 10 | Grand Duchy of Luxembourg | 184,8 |
| 11 | Russian Federation | 89,9* |

In regulation of the debt burden by Russia (represented by the total external debt) there is a next positive trend identify: after volume growth took place in 2006 -2013 years, has become a reality its reduction after 2013 (Belotelova et al., 2015; Mirkin, 2015) (Table 3).

Table 3. Russian gross external debt in the years 2006-2016 (US \$ billion, at the beginning of the year)

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 257,2 | 313,2 | 464,3 | 479,8 | 466,2 | 488,5 | 538,8 | 636,4 | 728,8 | 599,0 | 538,1 |

*Compiled by the authors according to the Central Bank of Russia (CBR)

However, this trend is associated with an increase in the proportion of corporate debt. Total amount of external public debt makes a proportion of one to ten to the balance of the corporate debt. The acute is the problem of optimization of the external corporate debt. Significant measures of the state in this regard has been not taken.

Reduced consolidated Russia's external debt over the past two years, that overcome the maximum value, which as of the beginning of 2014 to \$ 728.8 billion is



not the result of optimization of the external debt of the state policy but primarily arise due to economic sanctions against Russia. Accordingly, the observed response - limit meet the growing needs of the state and corporations in external borrowing. This is a consequence of the application of sanctions against Russia. Estimated external borrowing limited Russian real opportunities in terms of sanctions (Chernyaev et al., 2014).

In fact, during the reform period Russian debt policy is clearly expressed in the growth and promoting the growth of external and domestic debt. Since 1994, the upper limits of the state internal and external debt involve a substantial increase (Chapluk & Grigorieva, 2015a, 2015b) (Table 4).

Table 4. Limits of Russian internal and external debt in the period 1994-2013 (at the end of the relevant year)

| Year | The limit state internal debt (billion RUB) | The limit state external debt (billion USD) |
|------|--|--|
| 2004 | 988,1 | 115,0 |
| 2005 | 998,5 | 106,9 |
| 2006 | 1 143,7 | 79,2 |
| 2007 | 1 363,2 | 46,7 |
| 2008 | 1 554,9 | 44,0 |
| 2009 | 2 513,3 | 42,8 |
| 2010 | 3 301,8 | 63,3 |
| 2011 | 4 109,7 | 83,4 |
| 2012 | 6 976,4 | 65,2 |
| 2013 | 8 826,3 | 75,6 |
| 2014 | 7 245,5 | 71,9 |
| 2015 | 8 466,5 | 78,8 |
| 2016 | 8 817,8 | 55,1 |

*(Seleznev, 2015a, 2012b)

The above dynamics of Russian debt in a similar process of growth of indebtedness of other countries. Significant rate of debt growth also observed in the United States (Table 5).

Table 5. Quantitative characteristics of US government debt (in the period 1929 - 2013)

| Year | Public debt (billion dollars) | GNP (billion dollars) | Public Debt | |
|------|----------------------------------|--------------------------|-------------|-------------|
| | | | % to GNP | Per capita |
| 1929 | 16,9 | 103,9 | 16% | 134 |
| 1940 | 50,7 | 100,4 | 51% | 384 |
| 1946 | 271,0 | 212,4 | 128% | 1917 |
| 1950 | 256,9 | 288,3 | 89% | 1667 |
| 1960 | 290,5 | 515,3 | 56% | 1610 |
| 1970 | 380,9 | 1015,5 | 37% | 1858 |
| 1980 | 908,5 | 2732,0 | 33% | 3989 |
| 1985 | 1817,0 | 4014,9 | 130% | 7594 |
| 1988 | 2600,8 | 4861,8 | 154% | 10568 |
| 2009 | 12867,0 | 14000,0 | Over 80% | 45300 |
| 2011 | 14300,0 | Over 15000,0 | Over 100% | About 50000 |
| 2013 | Over 16000,0 | Over 16700,0 | Over 100% | Over 55000 |
| 2015 | Over 18000,0 | Over 17000,0 | Over 100% | About 60000 |

| | | | | |
|------|--------------|---------------|-----------|------------|
| 2016 | Over 20000,0 | About 18700,0 | Over 100% | Over 60000 |
|------|--------------|---------------|-----------|------------|

*Compiled by authors based Economic Report of the President 1989, and Economic Indicators February 1989

Also noteworthy active policy of increasing public debt in the developed countries of Europe. Here is the information in the two tables that reflect the situation in different periods - from 1998 to 2010 for the euro area (Table 6) and from 2011 to 2015 - for a number of the largest countries in Europe (Table 7).

Table 6. Public debt in the Euro area (in% of GDP, at the end of the year)

| | Euro-zone countries | 1998 | 2007 | 2009 | 2010 |
|----|---------------------------|-------|-------|-------|---------|
| 1 | Finland | 48,4 | 35,2 | 44,0 | 45,0 |
| 2 | Germany | 60,3 | 65,0 | 73,2 | 81,1 |
| 3 | Austria | 64,8 | 59,5 | 66,5 | 76,0 |
| 4 | Netherlands | 65,7 | 45,5 | 60,9 | 70,3 |
| 5 | Italy | 114,9 | 103,5 | 117,4 | 118,6 |
| 6 | Belgium | 117,4 | 84,2 | 96,7 | 102,9 |
| 7 | Slovakia | 34,5 | 29,3 | 35,7 | 38,5 |
| 8 | France | 59,4 | 63,8 | 77,6 | 86,1 |
| 9 | Portugal | 52,1 | 63,6 | 76,8 | 81,3 |
| 10 | Spain | 64,1 | 36,2 | 53,2 | 60,9 |
| 11 | Greece | 94,5 | 95,7 | 115,1 | 108,3 |
| 12 | Ireland | 53,6 | 25,0 | 64,0 | no info |
| | Average for the euro area | 72,9 | 66,0 | 78,7* | 86,0 |

* Prepared by the authors on the basis of materials of Commerce and Industry Chamber of the Russian Federation

Table 7. The tendency of growth public debt in most major European countries (as % of GDP)

| Country | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------|-------|-------|-------|-------|-------|
| Germany | 81,2 | 83,0 | 81,5 | 79,6 | 77,6 |
| France | 85,8 | 90,0 | 92,1 | 92,9 | 92,3 |
| Italy | 120,1 | 126,3 | 127,8 | 127,3 | 125,6 |
| Spain | 68,5 | 90,7 | 96,9 | 100,0 | 101,1 |

*(Mikin, 2013)

In Russia, the conditions of crisis and the growth the dollar exchange rate external Russian debt (government and corporations) in relation to GDP increased. At the beginning of 2015 it amounted to 32.2% of GDP at the beginning of 2016 - 42.4% of GDP at the threshold of the order of 25-30% (Goreyeva, Demidova & Chernyaev, 2013b, 2013c).

It should be noted that the accumulation of foreign exchange reserves of the Reserve Fund and National Welfare Fund was stable factor in terms of reduction of external debt at the growing share of domestic (Table 8).

Table 8. Russian state Internal and External debt in 2005 - 2014 (billions RUR, %)



| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------------|-------|-------|-------|-------|-------|-------|
| Internal debt | 779 | 876 | 1 065 | 1 301 | 1 500 | 2 095 |
| External debt | 3 166 | 2 201 | 1 370 | 1 102 | 1 192 | 1 138 |
| Total amount of Public Debt | 3 945 | 3 077 | 2 435 | 2 403 | 2 692 | 3 233 |
| Total Debt to GDP, in % | 23,20 | 14,30 | 9,00 | 7,20 | 6,60 | 8,30 |
| Internal debt to Total, in % | 19,80 | 28,50 | 43,70 | 57,40 | 55,70 | 64,80 |
| External debt to Total, in % | 80,20 | 71,50 | 56,30 | 42,60 | 44,20 | 35,20 |

| Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------------|-------|-------|-------|-------|--------|
| Internal debt | 2 940 | 4 733 | 5 462 | 6 601 | 7 950 |
| External debt | 2 181 | 2 421 | 1 793 | 2 146 | 2 546 |
| Total amount of Public Debt | 5 121 | 7 154 | 7 255 | 8 747 | 10 496 |
| Total Debt to GDP, in % | 9,30 | 11,30 | 11,80 | 13,10 | 13,70 |
| Internal debt to Total, in % | 57,40 | 66,20 | 75,30 | 75,50 | 75,70 |
| External debt to Total, in % | 42,60 | 33,80 | 24,70 | 24,10 | 24,30 |

* Compiled by authors, United nations: situation in the World Economy and its Perspectives (2013)

The regulation of the burden of domestic debt is essential insurance depending on the national economy by non-residents. Such insurance assumes control of the process of globalization so it is important to constantly monitor. As you know, during 2012 - 2013, Russia was embroiled in a significant dependence on foreign creditors, who bought 3.7% of the federal loan bonds (beginning of 2012) to their quarters (25%) in October 2013. The share of non-residents in a short period increased more than five times (Table 9) (Chapluk, 2012). It was a planned purchase in order to strike at the Russian economy. In practice, this meant that the deterioration of the economic situation in the country of non-residents could "reset" Russian bonds and thus reduce the rate of the ruble.

Table 9. Acquisition by non-residents of the Russian Federal loan bonds in 2012 - 2013. (billions RUB, %)

| | 01/2012 | 06/2012 | 01/2013 | 06/2013 | 09/2013 | 10/2013 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Total Russian loan bonds | 2903 | 3054 | 3297 | 3350 | 3420 | 3478 |
| Purchased by residents | 2796 | 2869 | 2642 | 2420 | 2569 | 2609 |
| in % to total | 96,3 | 93,9 | 80,1 | 72,2 | 75,1 | 75,0 |
| Purchased by non-residents | 107 | 185 | 655 | 930 | 851 | 869 |
| in % to total | 3,7 | 6,1 | 19,9 | 27,8 | 24,9 | 25,0 |

* Compiled by the author based on data of the RF Ministry of Finance, Gaidar Institute for Economic Policy, 2012.

When analyzing the changes in the debt burden on the economy should be fully taken into account the actual formation of the surplus, which has become the norm of the state derive income outside of federal budget revenues and accumulated to finance the measures in the framework of improving the state regulation of the economy in other ways. Below provides information on the dynamics of reserve funds (Table 10).

Table 10. The amount of the sovereign funds of the Russian Federation (billion rub.)

| Funds | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Reserve fund | - | - | - | - | 2,760 | 3,774 | 3,882 | 4,723 |
| National Welfare Fund | 2,584 | 2,769 | 2,696 | 2,794 | 2,782 | 2,770 | 2,843 | 2,848 |

*Report of the Ministry of Finance of the Russian Federation (2011); V.Z. Chapluk (2007).

The favorable economic situation after the crisis of 2008 in connection with the liquidation of the Stabilization Fund and the creation on its base of two funds (the Reserve Fund and National Welfare Fund), has increased the value of the Reserve Fund as the (airbag) in a decline in oil prices. Insurance Reserve Fund functions dictated by its increasing from 2011 -2015, 70%, similarly maintained at a sufficient level National Welfare Fund, its growth in 2015 compared to 2008 was 10%.

Conclusion

The article provides an overview of the individual debt problems of formation of Russian policy in the context of federal spending depending on income resulting from energy exports. It is proposed in the management of total consolidated debt to use the monitor debt sustainability indicators. The use of a number of indicators reflecting the debt sustainability of the national economy will ensure the effective management of the state internal and external debt, lead to a reduction of corporate external debt to Russia. These indicators can be used successfully in analyzing the annually established parameters limit the scope of internal and external debt, as well as the disclosure of changes in the debt burden on the economy over a long period of time. The contents of this article may be useful to researchers studying the dynamics of the debt burden and changes in surplus and budget deficit.

Disclosure statement

No potential conflict of interest was reported by the authors.

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