Y.S. Volna, I.P. Borchaninova
Ural Federal University named after the first President of Russia B.N. Yeltsin
Yekaterinburg, Russia

STATE DEBT MANAGEMENT METHODS AND PRACTICES OF APPLICATION
IN THE RUSSIAN FEDERATION

Abstract: State debt is an inalienable part of any developed and developing country's economy. In connection with this arises the issue of state debt management, just as the issue of reasonable and rational use of the borrowed funds, which are, in the author's opinion, the major concerns for the executive authorities, responsible for the budget planning.

Key words: state debt, budget, loan refinancing.

To begin with, we will look at the methods of state debt management having been used in Russia in the course of history. The object of our analysis will be the history of modern Russia along with the history of the USSR and pre-revolutionary Russia.

The main state debt management methods are:
1. Debt refinancing
2. Debt conversion
3. Debt consolidation
4. Debt unification
5. Debt restructuring
6. Partial debt liabilities denial and payments suspension
7. Cancellation of loans

In this paper the limitations of space only allow the examination of the first five. In the author's opinion, the simplest and most widely used method of state debt management is loan refinancing. However, it is worth noting that no state will publicly announce its need to refinance its debt. The urgency to refinance debt (both of the state or physical and legal persons) arises at the point of resource shortage to finance the current debt. It could be due to a cash gap or pre-default condition. It is hard to figure out when the government takes a loan to satisfy the expenditure need, and

when it does so to refinance. A sure indicator of refinancing could be a bulky share of expenditure on current debt servicing. However, refinancing is not the thing publicly admitted. If the debtor fails to pay for the current debts, it is possible to cover them at the expenses of internal or international reserves, but the lowering of international assets value could lead to decrease in sovereign credit ratings, which in its turn negatively affects the value of the international credit, making it more expensive.

Our history has no examples of loan refinancing but one. It is not disputable that refinancing was actively used by the Russian government while building the pyramid of short-term state bonds (SSB) in 1998. At the time the debt was rocketing, the bond rates were escalating. In pre-default time the profitability of state bonds reached 140% yearly.

This method is used by both corporate and private borrowers alongside with the state, but the result is the same as of careless handling of a tool, which is a default or a bankruptcy. However, the author considers it worthy of noting, that loan refinancing is a good option for trusted borrowers since the debt itself and the cost if its servicing grow at an exponential rate. A state can use this method both on the internal and the external market.

Now we will be looking at the three "traditional" methods, most often used in Russia; first of which is conversion, understood as the alteration of the loan profitability. With the purpose of decreasing state debt management costs the state most often cuts down the interest on loans. However, the rise of profitability of state obligations for creditors could also take place. Such an operation was, for instance undertaken in 1990, when the profitability of the 3% winning loan was increased up to 9%, and that of the treasury notes from 5 to 10%. As a rule, the down conversion is never used by itself. This is obvious as the simple cut down of bonds profitability will destroy the trust of population to the government.

The government is interested in taking long term loans. The prolongation of the already issued loans can be achieved through the consolidation of the state debt. Thus, consolidation is the alteration of the loan terms. One example is the consolidation of the 1938 free circulation loans with the replacement of the old obligations to the newly issued ones, the terms of those having been doubled (up to 20 years). However, the opposite is also possible, namely, cutting down the obligations expiry

terms. For example, in 1990 the expiry term of treasury bonds was diminished from 16 to 8 years.

The combination of consolidation and conversion is also possible. Such an operation was carried out in 1936, when seven state loan obligations having been placed among the population by subscription with an installment payment were replaced with new loan obligations at a lower profitability rate and doubled expiry date (up to 20 years).

State loan unification is usually conducted along with consolidation but could be done without it.

Loan unification is combining of several loans into one, when earlier issued obligations are exchanged to the new loan obligations. Such a measure provides for the decrease in the number of bonds in circulation, which simplifies work and cuts down state expenses on the state loan system. A loan unification was carried out in 1930 alongside with the issue of the "Five-year plan in four years" loan, its obligations replaced the industrialization and peasant farming strengthening obligation loans. As an exception, the government can carry out a regressive obligation exchange, i.e. a few earlier issued obligations become equaled to a new one. As an example, such an exchange was carried out in the post-war period with the purpose of withdrawing war-time obligations from circulation. The regressive exchange exempts the state from the need to pay the interest and fully redeem the bonds, having been sold for devalued war-time money. A regressive exchange of state loan obligations was carried out by the state in 1947. The obligations distributed earlier by subscription were exchanged to the new loan obligations at a 3:1 ratio. The free circulation loan obligations were replaced by new ones at a ratio 5:1. The obligation holders had a certain advantage as compared to individuals possessing personal savings, because the exchange of the old money to the new was done at a ratio 10:1.

The restructuring of debt is understood as measures of changing the conditions of the loan terms with the purpose to ease the debt servicing for the debtor. As a rule, the restructuring is accompanied with the prolongation of the debt; however, in some cases a simple interest rate decrease is possible. Russia has been both a creditor and a debtor in such cases. The most quoted example is the former USSR debt restructuring, which Russia accepted after the USSR disintegration. The restructuring had been carried out up to 2000s, in reference to various creditor countries (the Paris club and COMECON countries). The need for restructuring was

explained by the calculation complications due to currency rates differences.

The most vivid example of debt restructuring is connected with Venezuela. The issue has been raised yearly since 2014, in 2016 Russia agreed to restructure the debt to the sum of 2.84 bn dollars (the debt was loaned in 2011 for 4 bn dollars). The alteration of conditions has to do with prolongation, the country had to repay 2.2 bn dollars before March 2017, the rest – before 2021.

Conversion, consolidation and unification of state loans are usually employed by the state with internal loans only.

As any economic indicator, state debt has a number of tools helping to manage it. The main ones are: refinancing, consolidation, conversion, unification, suspension, and cancellation. Each method has its own nature and consequences. Russia has tried each of them, successfully or less so. Presently Russia has a number of problems both on the internal and the external markets. Their common problem is the high cost of borrowed funds. It is worth noting that it is not the absolute cost of the debt that matters, but the efficiency of use of the borrowed funds.

Е.С. Волна, И.П. Борчанинова
Уральский федеральный университет имени первого Президента России Б.Н. Ельцина
Екатеринбург, Россия

ПРАКТИКА ПРИМЕНЕНИЯ В РОССИЙСКОЙ ФЕДЕРАЦИИ РАЗЛИЧНЫХ МЕТОДОВ УПРАВЛЕНИЯ ГОСУДАРСТВЕННЫМ ДОЛГОМ

Аннотация: Государственный долг является неотъемлемой частью экономики любой развивающейся и развитой страны, в связи с чем актуальность проблемы управления государственным долгом, равно как и проблема оптимального и рационального использования заемных средств, по мнению автора, для любой страны оставалась и остается одной из первостепенных для органов исполнительной

власти, осуществляющих планирование бюджета. Эта статья – часть более глубокого исследования данного вопроса.

Ключевые слова: государственный долг, бюджет, кредитование.

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