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FEATURES OF PUBLIC DEBT REGULATION IN GEORGIA: CURRENT CIRCUMSTANCES AND MODERN CHALLENGES

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Abstract. The article addresses the issues of ensuring the exchange rate stability of GEL - the national currency of our country and effective management and regulation of public debt as well as attaches weight to the mechanisms for overcoming the challenges of economic development in the country and to the selection and use of flexible tools.

The article highlights the efforts of the leaders of the government and the National Bank of the country in developing and implementing the optimal macroeconomic policies, as well as in maintaining monetary policy stability and achieving sustainable economic development. Factors influencing both effective nominal and real exchange rates as well as government domestic and external debt are also assessed at different time intervals. Thus, the purpose of this article is to identify the issues related to the management and regulation of public debt based on the analysis of the dynamics and structure of public debt of Georgia, as well as to study the factors that have a positive and negative effect on them. This article aims to identify the issues related to the management and regulation of public debt obligations, on the basis of public debt sustainability analysis. The article, on the basis of statistical data, analyzes the dynamics and structure of public debt in 2010-2020. The problematic issues in the financial and monetary system are also identified and their determinants are investigated. Recommendations have been developed to reduce the debt burden and overcome the negative consequences caused by them.

Based on the analysis of the economic situation in Georgia and the dynamics of the exchange rate, the recommendations for stabilizing the exchange rate of the financial sector, effective management of public debt and achieving sustainable economic growth have been developed in this article. Subject and object of research. The subject of the article's research is to identify problems related to the fluctuation of the Georgian national currency exchange rate and public debt regulation. While the object of the article is monetary policy that have been developed and implemented by the National Bank of Georgia and the Ministry of Finance of Georgia.

Research methods. Relevant scientific literature as well as statistical data from the National Bank of Georgia, the Ministry of Finance and the National Statistics Office of Georgia were found at the initial stage of the research. In addition, the studies and articles by Georgian and foreign scholars on public debt issues and the materials of the International Monetary Fund were used.

The scientific value of the article. The article analyzes the dynamics and structure of the GEL exchange rate and public debt in 2010-2020 based on the statistical data of Geostat and the Ministry of Finance of Georgia. Problematic issues in the field of finance and monetary-credit have been identified and their causes have been investigated. The recommendations have been developed to alleviate the debt burden of Georgia and overcome the negative consequences caused by them.

Based on the analysis of the economic situation in Georgia and the dynamics of the GEL exchange rate, the article develops recommendations for improving the financial sector, stabilizing the exchange rate and ensuring effective public debt management and sustainable economic growth. It should also be noted that, the article addresses and assesses the approaches of the leaders of Government of Georgia and the National Bank to ensuring the formation and improvement of a stable macroeconomic environment. The role of monetary policy in ensuring the sustainable development of the economy is revealed. In addition, the mistakes in exchange rate regulation and public debt management are also identified and assessed.

The article substantiates the crucial role of ensuring the stability of the GEL exchange rate in achieving economic growth. Besides, reviewing the GEL exchange rate is important not only against the USD, but also against the currencies of other trading partner countries. Accordingly, the paper, based on the statistical data, also analyzes the dynamics of changes in the GEL exchange rate against the currencies of partner countries.

The article also analyzes the key factors affecting both effective nominal and real exchange rates, as well as domestic and external debt at different time intervals.

KEYWORDS: PUBLIC DEBT MANAGEMENT, EXCHANGE RATE STABILIZATION, MONETARY POLICY, SUSTAINABLE DEVELOPMENT OF ECONOMY, FACTORS AFFECTING DOMESTIC AND EXTERNAL DEBT, NOMINAL EFFECTIVE EXCHANGE RATE, REAL EXCHANGE RATE.

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PROBLEMS OF PUBLIC DEBT MANAGEMENT

The state, while performing its functions, often finds itself in a situation where financial resources are not sufficient to accomplish the set goals and objectives. In such circumstances, in order to cover the budget deficit and state expenditures, the need to attract debt is on the agenda.

Government debt usually consists of external and domestic debt, in which external debt is denominated in foreign currency and domestic debt is denominated in national currency. It should also be emphasized that the credits that countries attract from international financial institutions will only enable the country to increase its economic growth rate only if it is able to restructure its existing debt and use the loan effectively.

The repayment period of the domestic debts for poor countries is in most cases short, while the interest rate is high. In addition, 80% of public debt is represented by the soft loans. In the case of poor countries, interest rates differ significantly from market rates.

In order to avoid increasing the public debt indefinitely and creating difficulties for the country to repay it, it must be systematically evaluated. For this purpose, the liquidity and solvency ratios are used. Liquidity, for its part, means having sufficient cash in the country after a certain period of time, while solvency means ensuring high and stable growth rates of the economy through effective management of borrowed loans in order to repay liabilities on time.

In order to determine the value of public debt, its ratio to budget revenues, to gross domestic product and exports is also used. While the debt to gross domestic product ratio (GDP) is the most important indicator.

According to the International Monetary Fund, in order to maintain public debt sustainability, their ratio in developed countries should not exceed 60 percent of GDP, while in developing countries it should not exceed 40-50 percent. The above-mentioned gives us a notion of the amount of funds generated by the country and its analysis allows for the detection of fluctuations caused by external debt service.

In reference to the ratio of public debt to exports, it should also be underlined that the funds borrowed for long-term investments will not improve the situation at the initial stage.

Significant conclusions can also be drawn from the analysis of servicing the public debt, through which the country's solvency is assessed according to different periods. In addition, it is worthy to note that the longer the loan period, the higher the degree of analysis error.

Furthermore, the country's solvency capabilities also change over time. However, in the short term, this tool can more or less accurately predict fluctuations caused by servicing the debt in the economies of poor countries.

In order to ensure economic stability, the government needs to develop a flexible debt management strategy. Moreover, the government of the country must take into account the risks associated with taking on the external debt from the very beginning, the foresight of which will guarantee the fulfillment of the debt service obligations. Otherwise, the country may be in an unfavorable position due to incorrect determination of interest rate on external debt, debt repayment period, adjustment of debt amount at the exchange rate and debt burden adjustment issues.

An important aspect of the National Bank's activities is the creation and proper management of international reserves, which is crucial during periods of crisis.

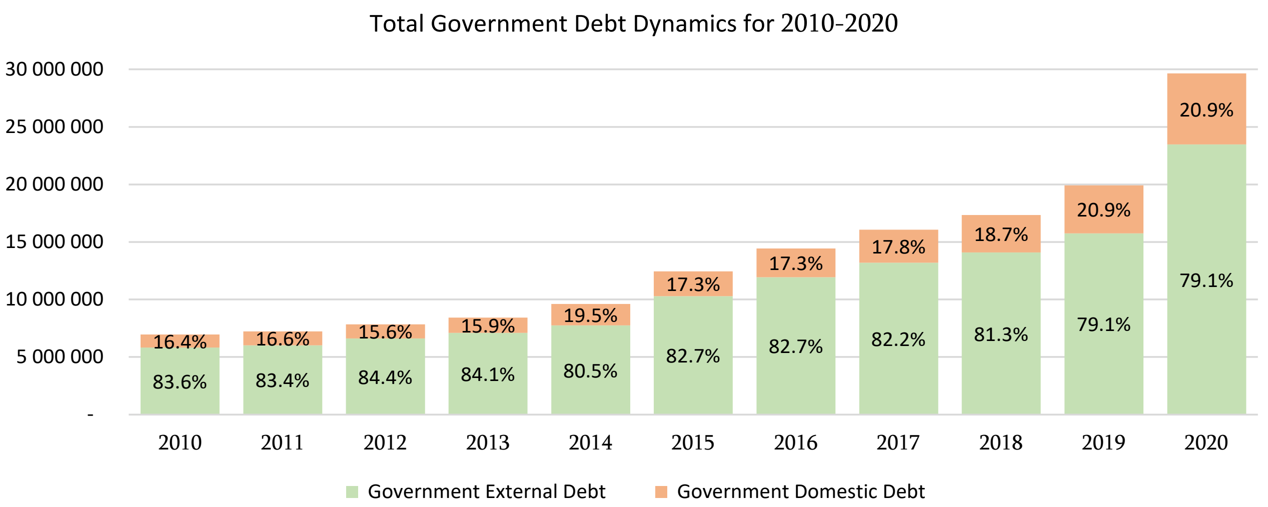
In general, the countries with a positive current account balance are almost doubling their foreign exchange reserves after moving to inflation targeting. However, for countries like Georgia with a deficit current account, the only way to accumulate reserves is to borrow, more than 90 percent of which is denominated in foreign currency.

The above situation is referred to as "Original sin" when in the international market countries are not allowed to borrow money in national currency.

It is also worth to mention that the ratio of short-term external debt of the state to the international reserves provides us with the information on whether the country can use its own reserves to meet its obligations.

Accordingly, in our point of view, financing the budget using domestic securities has many advantages, In particular:

Structure and dynamics of public debt of Georgia in 2010-2020



Source: Data of the Ministry of Finance of Georgia

The Risks associated with currency exchange rate fluctuations are reduced and servicing the domestic debt is not dependent on exchange rate volatility. Consequently, its variability does not increase costs and minimizes the risk of default;

Moreover, the less reliance on exchange rates allows the government use currency exchange rates as a stabilization mechanism during exogenous shocks and, consequently, reduce both the fiscal impact and the risk of capital outflows.

As can be seen from the graph, the total government debt of Georgia was growing dynamically from 2010 to 2020. However, during the analysis period from 2010 to 2013, the external government debt in the structure of the total government debt was quite high, at 83.6-, 83.4-, 84.4- and 84.1-percent, respectively.

In 2014, the total government debt ratio decreased significantly by 3.6 percentage points compared to the previous year and reaching 80.5 percent. In 2015-2016, the share of external government debt remained at 82.7 percent. In 2017-2018, the share of the above-mentioned indicators in the annual image decreased by 0.5 and 0.9 percentage points, respectively. As for 2019-2020, the share of external government debt was 79.1 percent.

It is also worthy to note that in 2010-2014, the domestic government debt of Georgia accounted for 16.4- 16.6- 15.6- 15.9- and 19.5-percent of total debt.

While in 2015-2016, domestic debt in the total government debt of Georgia was 17.3 and 17.3 percent, respectively.

In 2017, the domestic government debt of Georgia amounted to 17.8 percent of the total debt. In 2018, this figure increased by 0.9 percentage points to 18.7 percent.

Additionally, it is noteworthy that both in 2019 and 2020, the domestic government debt of Georgia amounted to 20.9 percent of total debt.

It should also be pointed out that in 2010-2020 the external debt portfolio of the Government of Georgia is presented in the form of both multilateral and bilateral creditors, as well as Eurobonds and guaranteed loans. Multilateral lenders have the highest share in the portfolio of external government debt.

As regards the structure of the domestic debt portfolio, the latter includes both treasury securities, as well as government bonds and loans from budget organizations.

As can be seen from the graph, the share of government bonds in 2010-2012 was 62.3-56.5-52.6 percent, respectively. From 2013 to 2020 inclusive the treasury securities and budget loans accounted for the largest share of the domestic government debt portfolio (54.6- 69.5- 75- 79.9- 83.7- 86.7- 90.4- 93.6 percent, respectively).

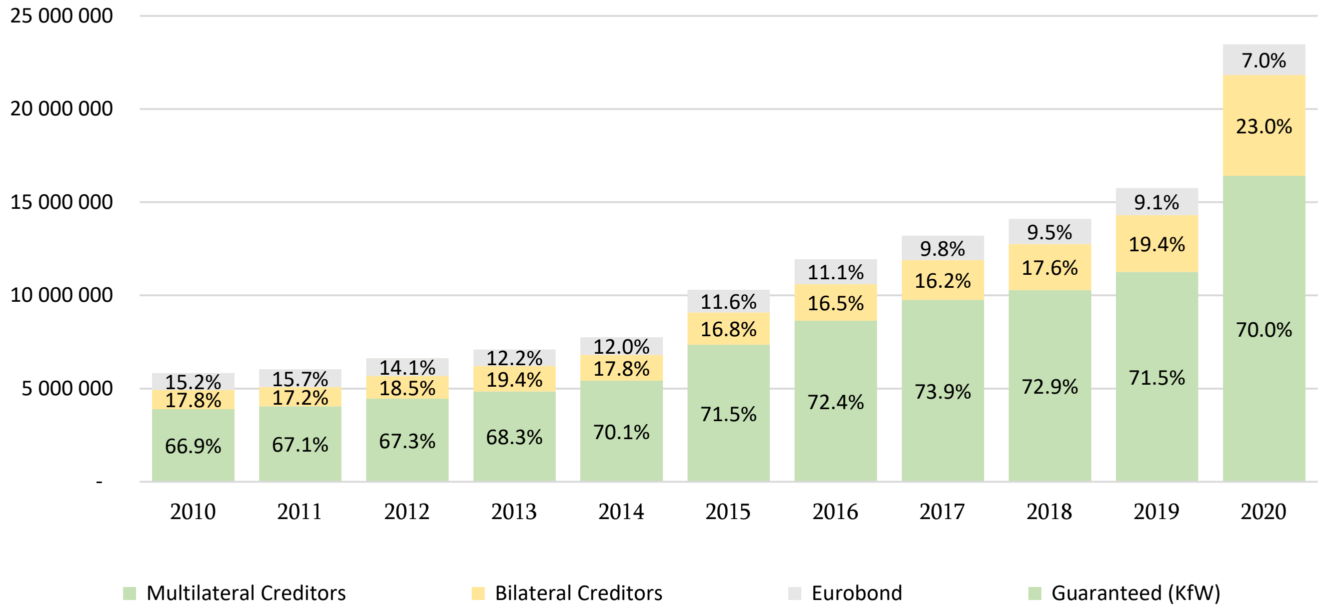
As Figure 4 illustrates, the portfolio of treasury securities includes 6-month, 12-month, 2-year, 5-year, and 10-year securities.

Problems of public debt management

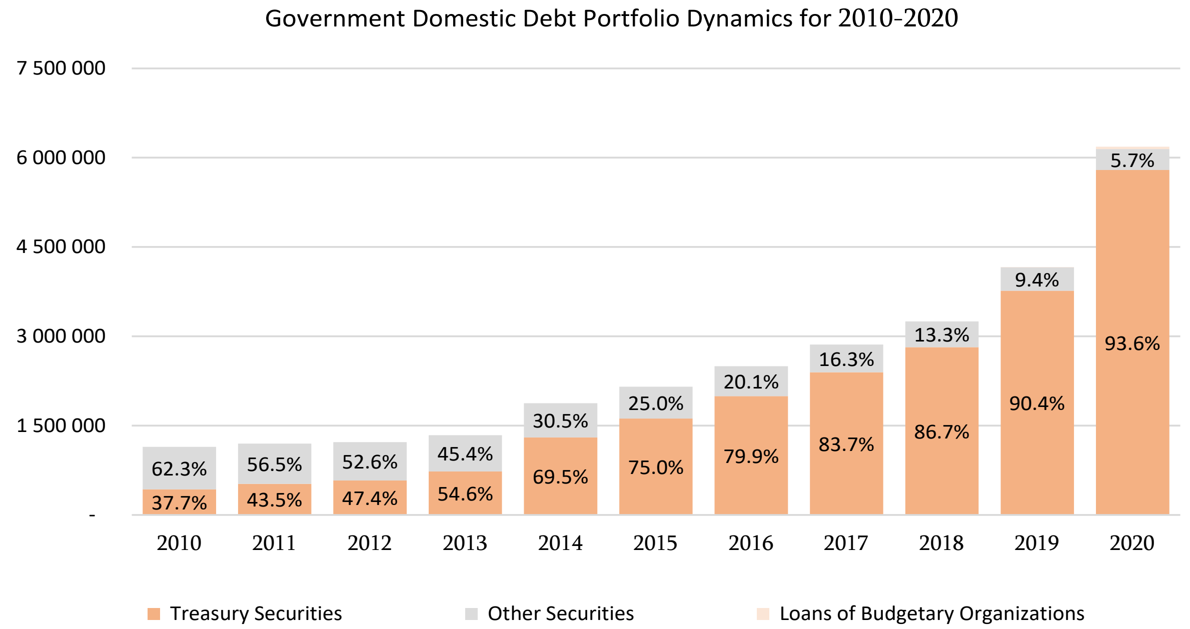
The state, while performing its functions, often finds itself in a situation where financial resources are not sufficient to accomplish the set goals and objectives. In such circumstances, in order to cover the budget deficit and state expenditures, the need to attract debt is on the agenda.

Government debt usually consists of external and domestic debt, in which external debt is denominated in foreign currency and domestic debt is denominated in national currency. It should also be emphasized that the credits that countries attract from international financial institutions will only enable the country to increase its economic growth rate only if it is able to restructure its existing debt and use the loan effectively.

Graph 2 Government External Debt Portfolio Dynamics for 2010-2020



Source: Data of the Ministry of Finance of Georgia



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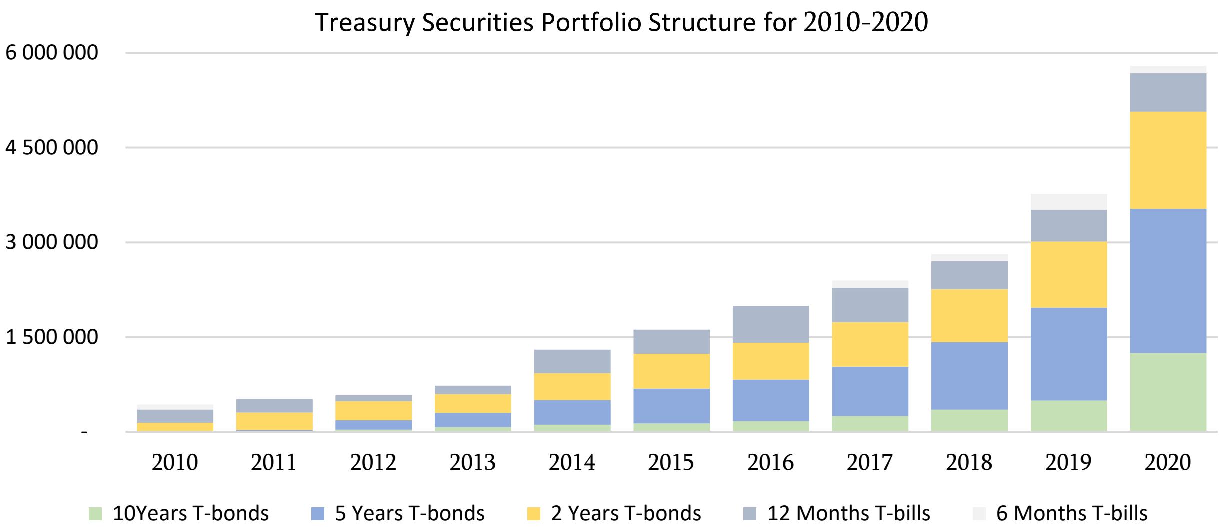

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In order to ensure economic stability, the government needs to develop a flexible debt management strategy. Moreover, the government of the country must take into account the risks associated with taking on the external debt from the very beginning, the foresight of which will guarantee the fulfillment of the debt service obligations. Otherwise, the country may be in an unfavorable position due to incorrect determination of interest rate on external debt, debt repayment period, adjustment of debt amount at the exchange rate and debt burden adjustment issues.

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CONCLUSIONS AND RECOMMENDATIONS

One of the main long-term priorities of Georgia is to achieve high rates of sustainable development and economic growth. In view of the above, significant attention is given to the proper management of public debt. Furthermore, both the external debt and the investments financed by it appear as a factor of economic growth only if the financial sector and the economy acts in agreement or financial flows of a short-term speculative nature are gradually becoming long-term investments.

Additionally, debt burden, in the conditions of budget deficit, forces the country to withdraw large amounts of liquid funds from the market. As a result, interest rates and the exchange rate increase while investment activity decreases. If the government fails to raise funds from creditors, the National Bank remains the only solution which in turn increases the risk of inflation or reduces international monetary reserves (Chikviladze, 2018).

Consequently, the public debt management strategy is directly related to the macroeconomic and financial policy of the country. Overall, the main goal of effective public debt management is to bring economic and financial benefits to the country with both external and domestic financing. And in order to avoid the negative consequences of public debt, public debt management should become a priority of macroeconomic policy.

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