DEBT MODELS OF THE FINANCIAL SYSTEMS

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Introduction. The article is devoted to the study of debt load of the developed countries financial systems, grouping them according to common grounds and identifying differences that affect the level of financial and economic development of the country. The authors conducted a comprehensive evaluation for debt models of the financial systems in different countries, and defined their advantages and disadvantages. The differences in the functioning of the financial system debt models are caused by specific geographic, historical, financial and social features.

Statement of the problem. The article considers the problems to ensure effective functioning of the state's financial system according to its debt load. The analysis of debt models of the financial systems in foreign countries are made through debt load.

Results and Discussion. A high government debt makes public finances more vulnerable to future shocks, because it reduces governments' ability to return debt and because the larger the initial debt ratio, the bigger increase in the primary surplus is required to stabilize that ratio after an adverse shock to growth or interest rates.

Indeed, when a debt is high, there is a risk of falling into a bad equilibrium caused by self-fulling expectations (high debt is unsustainable because markets believe it is so and set interest rates). Looking through the significant dependence of the European countries on debt financing, experts from World Bank and IMF have calculated indicators which provide early warning signals of fiscal sustainability problems for advanced and emerging economies. Risk is classified as high, moderate, or low. Fiscal stress has increased recently to record high levels in advanced countries, reflecting raising solvency risks and financing needs.

In emerging economies, risks are lower than in advanced economies owing to sounder fiscal fundamentals, but fiscal stress remains higher than before the crisis.

The top indicators of fiscal stress are different for advanced and emerging economies. The critical point for the indicator debt to GDP for emerging economies is 42.8% of GDP and for advanced countries is higher – 72.2%.

The authors identified 4 countries groups according to the level of debt load:

For advanced economies:

group 1 – with low debt level (less than 56.9 percent of GDP);

group 2 with moderate level of debt between 56.9 and 72.2 percent of GDP;

group 3 – with high level of debt between 72.2 and 100 percent of GDP;

group 4 – with critical debt load (greater than 100 percent of GDP).

In the first group we can see countries with a low debt level: Estonia, Chile, Luxembourg, Norway, and others. Group 2: Mexico, Netherlands, Germany, and other. The next group brings together countries with high level of debt: Ireland, United Kingdom, Canada, France and others. The highest level of debt is in Japan – over 250%. The biggest borrowers of IMF are Greece, Portugal and Ireland, which are the countries most affected by the global financial crisis.

For emerging market economies the authors grouped countries into three groups:

group 1: debt less than 29.4 percent of GDP (Russia, Kazakhstan, Chili);

group 2: debt between 29.4 and 42.2 percent of GDP (Bulgaria, Georgia, Romania, Turkey);

group 3: debt more than 42.2 percent of GDP (Poland, Argentina, Brazil, India, Ukraine, Hungary, and Egypt).

The level of total central government debt as % of GDP in Ukraine in 2016 amounted to 92.7% (the EU optimal level is considered less than 60% of GDP).

Conclusions. The authors conducted a comprehensive evaluation for the financial systems through the debt load. The debt models defining of the financial systems are based on limit indicators of countries debt burden taking into account the specific conditions (the countries are divided by the type of economic system: advanced economies and emerging market economies), also the probability of threats of the fiscal sustainability, according to the level of debt risk: “low”, “moderate” or “high”. Violation of the debt sustainability of the financial systems leads to deterioration of their credit ratings.