European countries with a diagnosis of financial default: expectancy and fear of its announcement in Ukraine

Konchyn, Vadym

National Aviation University (Kiev)

30 March 2011

Vadym Konchyn
PhD, Associate Professor
International Economics Department
National Aviation University
Kyiv

JEL Classification: G 15 **March, 2011**

EUROPEAN COUNTRIES WITH A DIAGNOSIS OF FINANCIAL DEFAULT: EXPECTANCY AND FEAR OF ITS ANNOUNCEMENT IN UKRAINE

Abstract. This paper reviews the economic situation of European countries that today are in deep external debt crisis and drew close to financial default, that can be announced by the foreign creditors and investors who can not for some reason get in time or on demand their money (the principal amount provided for use funds and (or) interest on them). However, in the article the situation of Ukraine's foreign debt is considered, which significantly increased as a result of financial management of banks, business entities and due to government and central bank policies during the Orange epoch. The prospects for economic development in Ukraine are outlined in view of external debt problem after coming into power the command of the Party of Regions.

Key words: total external debt of country, governmental external debt, external debt of monetary authority, private external debt, international investment position, balance of payments, foreign exchange reserves, financial default, toxic assets, PIGS-countries, restrictive fiscal policy, restructuring of external debt.

Problem statement. Economic growth in the world economy that began in the early 2000's, was held under the deepening of the liberalization of international capital markets and significant international financial flows. Successive phase of global economic growth ended in global financial crisis in 2008. External debt crisis as a symptom of financial troubles affected those countries, which in the process of public consumption and providing economic development overestimated their abilities in the accumulation and service of foreign debt capital. The stability of the euro area and the EU common market as a whole put into question due to the critical situation of the external debt of Greece, Portugal, Spain, Italy, Ireland, with signs of declaration of default probability. The need for financial assistance to these countries by the

ECB, in particular the restructuring of problem debts EU would mean reforming their economies and a reorganization of the financial system. In the short term this could lead to depreciation of the Euro. If this were not done within the reserve funds of the European Monetary Union (EMU), the IMF rather would help for the governments of those countries in exchange for their restrictive fiscal measures. In the medium future it will deepen economic recession in the EU. The welfare reduction in EU after debt restructuring and financial readjustment is imminent.

Ukraine, which declared its policy on deepening integration into the EU common market, faced a similar problem of service accumulated external debt, exacerbated today because of undeveloped modern industrial production and low inclusion of its economy into European transnational production and trade networks and the lack incentives to structural changes in this basis. Import-oriented economic policy of the government led by Yulia Timoshenko (2005, 2008-2009) and Yuriy Yekhanurov (2005-2006), and the formation via WTO framework a favorable environment for the inflow of financial and banking credit transnational capital contributed in the past five years to the development of local business, without proper opening the country to free international capital movement of multinational companies into industrial production have created signs of poor condition of the country's foreign debt.

Export-oriented policy of the government led by Mykola Azarov (2010) is designed to remedy the situation, but due to high current external debt, expressed in foreign key currency, Ukraine remains vulnerable to shocks related to the problems of the debt prolongation, low global demand for export products, including metallurgy and industrial chemistry, violent fluctuations in interest and exchange rates. Under these conditions, most likely Ukraine will have in the near future to repay the external debt by reducing domestic demand.

Analysis of recent publications. Examining the problems of external debt, including servicing the public debt, financial default diagnosis, its consequences and ways of prevention (particularly in PIGS-counties), devoted a number of works of such leading foreign scientists, as B. Eichengreen, C. Wyplosz, P. de Grauwe, D . Gross, R. Cabral, P. Krugman, C.Lapavitsas, R. Nelson, K. Reinhart, K. Rogoff, N. Roubini, S. Cecchetti.

Among domestic researchers who recently conducted study on the external debt of Ukraine and also paid attention to analyzing and predicting the probability of default of the Ukrainian economy should emphasize T. Vakhnenko, V. Georgishan, Y. Zhalilo, O. Kyrychenko, A. Mnykh, O. Soskin, V. Tomareva, V. Shevchuk, V. Yurchyshyn.

Unsolved aspects of the problem. In scientific literature there are no publications on the comparative analysis of indicators of external debt of European countries with the similar attributes of financial default parameters of the Ukrainian economy. Also, attention is devoted to the relationship between external debt crises in the EU and the loss of welfare in the overall EU market because of the weak effects of EU-enlargement by new economic areas and their economic characteristics. It should be noted that welfare in EU common market can be achieved today predominantly on the basis of Heckscher-Ohlin and Ricardian (neo-Ricardian) comparative advantage, New economic geography and providing structural changes.

Object-matter of the research and main material. The study is a comparative analysis of indicators of external debt of European countries which have the characteristics of financial default with similar indicators of Ukraine; detection of recent developments of external debt and its service in Ukraine; evaluation of current state economic policy of the Ukrainian government and the National Bank of Ukraine in the context of the necessity of finding points of contact between ensuring economic development and management of international capital flows.

The default (country default) is a situation when inefficient state industrial, fiscal (budgetary) and financial policy of government and monetary and exchange rate policy of the central bank, and (or) haste assets & liabilities management of companies, banks and (or) government of the country, directed at expanding the borrowed capital, lead to excess of the critical financial dependence of country residents on external and domestic contractors (creditors and investors). The financial dependence of the country can become critically high, especially in disadvantaged situation in global financial and commodity markets. In these conditions it is difficult to cover current debt by liquid financial assets at low domestic income and revenues from foreign trade, and ultimately, at low national savings. Companies, banks and (or) the government will be unable or not willing to fulfill their obligations in time and / or in full, which will lead to a breach of credit and investment agreements and allow the creditors to initiate debt collection procedures.

Systemic financial default on external debt includes public default of the government and central bank on their external debt and default of private resident companies and resident banks that received foreign loans under an obligation to pay the principal amount and accrued interest to external borrowers, and also foreign portfolio investments (primarily into corporative bonds or investments in certain financial assets) under the obligation to pay interest income to foreign investors. It should be noted that subsidiaries (branches) of transnational companies and banks operating in the country and economically (not by geographic jurisdiction) seen as residents, can be considered as non-residents if they serve the process of lending and portfolio investment by their parent companies or other subsidiaries located abroad for the counterparts in the recipient country, that is when they actually act as mediators. According to the IMF definition "*Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy* [13]. Residence of economic subjects identified as the location of their business, as well as domiciliation (place) of commitment appearance and payments for these commitments.

Sovereign debt is related to external debt of country. Sovereign debt is sovereign bonds issued in international currency (rather in Euro or US dollar) and sold by domestic government, banks and companies to non-residents abroad, i.e. money borrowed from outside (it is equivalent of borrowing money from other countries or public) to meet the country's spending. It has to be repaid on the maturity and will have to pay the interest for those borrowings. This will grow by size if a country can not increase the income from taxes because of economic growth is very slow or can not increase revenues from international investments and trade because of low global economic presence and competitiveness. Financial default on sovereign debt is considered by economists as a next crucial manifestation of global economic crisis after Dot com burst in 2000 and financial crisis 2008 which bring the whole global economy into default.

Important macroeconomic indicators, which enable to estimate the risk of occurrence and announcement of country default on external debt are: total external debt of the country to its nominal GDP, public external debt of the country (government and central bank external debt) to its nominal GDP, private external debt of the country to its nominal GDP, the net international investment position (IIP) of the country to its nominal GDP, foreign exchange reserves of central bank to total external debt of the country, total external debt of the country to goods and services exports of the country.

Financial crisis and economic recession that engulfed the entire global economy over the years 2008-2009, was clearly shown in countries characterized by weak industrial structure dominated sectors of resource and labor-intensive goods, bloated public sector with significant public expenditure and also in countries that are rapidly losing signs of global competitiveness, particularly the location of production and tend to the economic periphery.

However, the impact of the crisis sustained economies (including Ireland, Iceland, Spain, Hungary), having a high level of competitiveness, knowledge-intensive industrial sectors, strong tertiary sector (banking and non-banking financial, IT-services), but all of these economic characteristics were acquired owing to the international capital movement and these countries have become net recipients of loans, direct and financial foreign investment and now face a significant negative international investment position.

Countries that showed during global financial crisis signs of debt crisis and indicate the probability of default announcement are mostly the main Western European countries, the so-called "PIGS" - Portugal, Italy, Greece and Spain. Some economists entered into this rank Ireland and it takes the form abbreviation PIIGS. Since the debt crisis facing Iceland, Belgium and Hungary.

Actual statistics clearly indicate the fiscal instability of the EU common market, the euro area in particular and also the European Economic Area. According to the Maastricht criteria of fiscal stability all public debt (internal and external) must not exceed 60% of GDP. It should be noted that the governments of the European countries over the years accumulated considerable debt of GDP (Greece: in 2009 – 126,8%, 2010- 144%; Iceland: in 2009 - 107.6%, 2010 – 123,8%; Italy: in 2009- 115,2%, 2010 – 118,1%%; Belgium: in 2009 - 97,6%, 2010 - 98,6%; Ireland: in 2010 – 94,2%; France: in 2009 – 77,5%, 2010 – 83,5% ; Portugal: in 2009 – 76,9%, 2010 - 83,2%; Hungary: in 2009-78%, 2010 -79,6%; Germany - 72.1%, 2010 – 78,8%; Great Britain - 68.1%, 2010- 76,5%; Austria: in 2009 - 69,3%, 2010 – 70,4%;) [13, 21].

Speaking of external government debt in the structure of total government debt, we estimate, that in 2010 it was relatively large for Greece - 47,05% of GDP, Iceland – 33,37%, Italy-29,78% , Portugal – 29, 63%. Governments of these countries have used for a long time fiscal incentives for improving welfare by increasing domestic and foreign public debt. Governments of Greece, Portugal and Spain actually created in their society illusion of a high level of prosperity on average in Europe without providing for such living standard structural changes and the required characteristics of global economic competitiveness (see Global Competitiveness Index). Government expenditure on public consumption and inspiration of economic development is not covered by mobilized public revenues, which depend on labor and capital productivity in economy. As a result, in the euro area the "welfare bubble" of PIGS-societies occurs.

It should be noted, the debt crises in the EU are deepening, and external obligations of countries can not be covered by their insufficient revenues from foreign operations. A serious problem in this regard is the inability to use intensively potential trade and investment benefits that could get the EU countries from further enlargement through new members. *We believe that in the current integration format of EU the effects of comparative advantage in international trade continuously diminish and transboundary competition for sales and favorable investment and production locations aggravates despite the fact that comparative advantage effects somehow still remain on the factually saturated EU common market*.

In addition, over the last decade European countries have favorable access to financial capital at low interest rates owing to significant liberalization of international financial markets and the formation of euro area [10]. Because of low regulatory framework for setting budget deficit ceilings and/or for preventing enormous external debt such economies as Greece, Portugal, Spain and Iceland reached critically high level of external indebtedness (see table 1).

During the global financial crisis of 2008 international investors began to withdraw their receivables, which substantially accumulated in form of toxic assets, from all geographical and functional segments whenever possible. Requirements of investors and lenders affected Greek borrowers, particularly government and private sector.

Table 1

Indicators of the external indebtedness of countries with its critical level, compared with Ukraine for the years 2008-2010

Countries	Total external debt to GDP, %	External government debt to GDP, %	External debt of monetary authority (National Bank of Ukraine) to GDP, %	External private debt to GDP, %	Net interna-tional investment position (IIP) to GDP, %	Foreign Exchange reserves to total external debt, %	Total external debt to exports with goods and services, %
2008							
Ukraine	56,60	6,66	2,63	47,31	-22,38	**31,03**	93,39
Spain	71,23	9,96	1,50	59,77	-37,56	1,77	399,15
Italy	50,01	22,87	0,01	27,13	-9,92	9,10	211,60
Portugal	135,26	No data	No data	No data	-46,10	3,61	586,50
Greece	69,23	36,66	6,75	25,83	-34,21	1,40	849,48
Ireland	423,81	14,73	11,35	397,73	-32,81	0,09	946,59
Iceland	637,26	23,79	16,62	596,85	-20,95	3,19	600,35

2009							
Ukraine	88,01	15,17	5,29	67,55	-34,25	**25,66**	190,58
Spain	88,32	14,94	2,07	71,30	-49,16	2,18	601,02
Italy	62,40	27,38	0,01	35,00	-10,19	10,05	364,13
Portugal	159,35	No data	No data	No data	-57,41	4,31	897,99
Greece	90,48	48,70	10,88	30,90	-44,28	1,85	1605,62
Ireland	546,78	24,83	17,68	504,27	-51,88	0,18	1132,07
Iceland	990,86	42,15	13,41	937,30	-14,15	3,23	1931,67
2010							
Ukraine	85,92	18,29	5,5	62,13	-28,32	**31,25**	169,44
Spain	95,7	16,5	2,82	76,38	-50,8	1,86	612,96
Italy	67,46	30,29	0,11	37,06	-11,27	8,45	504,16
Portugal	133,73	29,63	20,23	83,87	-62,6	5,34	995,0
Greece	101,51	47,05	42,66	32,92	-55,9	1,6	900,6
Ireland	592,31	29,78	53,67	508,86	-55,17	0,14	1792,54
Iceland	929,18	33,37	18,97	846,84	-15,81	0,05	1576,48

Calculated by author on the data of World Bank, IMF, official sites of central banks of EEA countries, National Bank of Ukraine, Ministry of finance of Ukraine

At the beginning of 2010 Greece's current debt obligations to international investors were valued at 72,1 billion U.S. $. In April 2010 the Greek government, despite its newly issued long-term bonds at high interest rates, announced the impossibility of paying the current external and internal commitments (budget deficit amounted to 13,6% of GDP according to Eurostat) and made an appeal to the European Central Bank and the IMF to pay off debts.

The consequence of these developments was the adoption by the European Commission with the assistance of IMF "The program of stability and growth", according to which Greek government was forced to go on strict fiscal measures - to bring the budget deficit to 3% of GDP. Greek Ministry of Finance outlined the targets to gradually reduce the budget deficit - up 8.7% in 2010 to 5,6% in 2011, to 2,8% in 2012 and to 2% in 2013 [5]. The course of governmental reforms led to widespread social protests in the spring of 2010. In order to maintain the stability of the euro area and prevent the uncontrolled outflow of capital resulting from the growing distrust of international investors expressed to some EU-economies the governments of Latvia, Lithuania, Estonia (the countries-candidates on the rapid entry into European Monetary Union), Italy, France and Portugal were among the first who began fiscal restriction, which brought about a dissatisfaction within European society. Despite preventing measures, both governmental and private foreign debt continued to grow steadily in 2010 in Greece, Spain and Ireland.

Economists B. Eichengreen [4], P. de Grauwe [2] K. Reinhart [12], C. Wyplosz [16] indicated that the probability of default contagion is significant in Portugal, Ireland and Spain. R.

Cabral sees one way to solve a problem - immediately to begin the process of restructuring the public debt in the countries of euro area which have a critical external debt. Of course, this would lead to loan restriction because of rising interest rates, deepening economic recession and potential loss of lenders in the EU common market. At the same time it would give good signals for credit markets and debtor countries face in the future with higher interest rates on new loans and higher degree of responsibility and reliability within the European Community [1]. However, economists believe that at the European Commission and EU Council level it is necessary to implement directives concerning more tighten restrictions of external public debt ceilings for the governments of euro area and other EU countries.

Table 1 shows that the Ukrainian economy looks financially very stable compared with European countries with a high risk of probability of default announcement. At the same time, according to CMA Global Sovereign Credit Risk Report Ukraine in the end of 2010 took a 6th place in the rank of countries which have the most risky sovereign debt positions [22].

While during the crisis period in 2009 all indicators of external financial dependence significantly worse for Ukraine, in 2010 some of them gradually stabilized. It should first talk about the significant increase in foreign exchange reserves of the central bank, reduction of the negative balance of international investment position by reducing a large part of corporate debt. Important role played the stabilization of the hryvna exchange rate with the tendency of an appreciation and the increase in GDP and export value. At the same time governmental and central bank debt positions worse again.

Do the results mean that the quantitative improvement of some external financial macroeconomic indicators will improve the quality characteristics of Ukrainian economy development? Let it analyze external debt performance of Ukraine via economic processes that lie behind it.

During the Orange period the deindustrialization of Ukrainian economy was followed by increase of dependence on commodity imports and external debt capital. Instead of opening the economy to foreign direct investment of large industrial transnational companies and implementation by government and parliament liberal institutional and regulatory mechanisms for improving the performance of Economic Freedom Index and the Global Competitiveness Index, the Orange authorities gave impetus to expand activity of domestic medium and small businesses that mainly consisted in the sale of imported consumer and industrial goods to Ukrainian society and on this basis in development of consumer lending at still low purchasing power of the Ukrainian population. The lending process to purchase imported goods actually carried out by domestic banks, which in turn borrowed money for this purpose from big transnational banks. It forced up final prices for the consumers and they remained higher than if there were allowed transfer pricing mechanisms within multinational banks in Ukraine.

Meanwhile Orange government could not create incentives to reduce the share of influence on the economic system of low-technological industries, such as mining, metallurgy and industrial chemistry. These industrial sectors are still creating the illusion that Ukraine has to be considered as industrial country and the exchange of domestic exported goods with low added value to imported goods with high added value explains large foreign debt. Moreover, for the last five years, Ukraine has strengthened the status of the resource country, and its revealed comparative advantages for resource products in international trade only increased compared to other tradable goods.

Global economic crisis and recession in the global demand exacerbated the problems of foreign economic settlements of Ukraine. Change of the government team in 2010 led to a radical revision of the principles of state policy. The new government coalition initiated fiscal discipline and reduction of the disbalance in balance of payments by force of hidden strengthening regulation of the import-oriented private sector.

Government external debt to GDP (%) decreased from 15.17% in 2009 to 14.18% in first half of 2010. The new government coalition managed to get only part of the planned loan funds from the IMF and the World bank. So in the credit line "help the authorities in carrying out reforms and elimination of economic crisis", which involves the allocation of 15.15 billion U.S. dollars within 29 months, the government has already received in August 2010 to $ 1 billion to cover the budget deficit [19] and $ 0,89 billion to reinforce the exchange reserves of National bank of Ukraine. In this situation, debt repayment of the prior periods covered better than in 2009 due to increase the external government debt in the first half of 2010 compared with 2009 at 1.5 billion dollars (up 17.8 billion to 19.36 billion U.S. dollars) and owing to GDP growth in 2010.

From January 2011 government had to get another 1.5 billion dollars [20] in exchange for pension reform, fiscal stabilization measures, strengthening independence of central bank on government and transparent foreign exchange framework, including removal quite a number of foreign exchange restrictions to restore investor confidence and support inflow of capital.

The declared reforms have been postponed because of political struggle for business interests of different business groups and due to resistance of the Ukrainian society of their mechanisms. This leads to the situation when the government can not take the next tranche from the IMF because it has the obligations which it can not or does not want to bear eventually.

Prime Minister Mykola Azarov understood that it is possible to finance the budget deficit not at the expense of the IMF loans, but via issuing sovereign eurobonds due to increasing demand of international investors for them. Though the government eurobonds are an excellent basis for activation of balance of payments in short-term period, it should to emphasize that this external loan artificially maintain the welfare of inefficient Ukrainian public sector and provoke in the long-term period problems of external debt service. Moreover, interest rates on eurobonds are higher than the rate of the IMF (7,95% compared to 3,5% annually). In order to conserve unreasonable social standards relative to real factor productivity for keeping loyalty of potential electorate and because of unwillingness to implement actual structural changes in the economy, the use of more expensive debt instrument is well-reasoned for Party of Regions.

Some experts say that the Ukrainian government does not suffer because of termination of IMF assistance. Since 2011 IMF tranches are no longer going to finance the budget deficit, coming exclusively to the accounts of the NBU.

Mykola Azarov informed that on 16 February 2011 on the fulfillment of Law of Ukraine "On State Budget of Ukraine for 2011" Ministry of Finance carried out a bond issue of foreign government loan in 2011 of $ 1.5 billion maturing in 10 years at an interest rate of 7,95% per annum. Organizers of the issue are investment banks JPMorgan, Morgan Stanley and VTB Capital PLC.

Value of total public debt to GDP will likely grow, if the Ukrainian government still finds common ground with the IMF on fiscal stabilization. The financing of governmental investment projects via World Bank loans in view of the holding Ukraine-2012 will increase the external debt position.

Closed circle for a government coalition, represented basically by the Party of Regions, is a lack of non-inflationary financial funds which shall be forwarded to realization of declared social and economic reforms, insuring economic welfare of population. Get these funds today without substantial opening of the country to transnational capital can only be through loans of international financial and credit institutions. Instead of a liberal industrial and financial policy of enabling the establishment and operating in Ukraine subsidiaries of TNC in real sector and the creation of conditions for free international movement of corporate finance and banking capital in Ukraine through the legislative consolidation of norms for functioning in the country subsidiaries of transnational banks, the government chose unadvised alternative. It is clear that above mentioned processes would, of course, worse the net international investment position of Ukraine, but contribute in the long-term perspective to structural changes, greatly expand the tax base, increase revenue collection and reduce the pressure on the budget deficit.

The government rejects such scenario and proposes another way. For obtaining regular loans from the IMF, which in all other things being equal offers governments to reduce the budget deficit and ensure fiscal discipline, the Ukrainian government plans pervasive fiscal restriction, resulting in cuts in public spending and a primitive structural optimization - such as raising the retirement age for women in the framework of pension reform, higher gas prices for utilities and households by 50% from 15 April 2011, job cuts state employees within the administrative reform, reduction of social benefits and also expenditures on education and science, etc., the strengthening of the tax burden on the population and small and medium business that is not affiliated with the government. Ukrainian society is constantly forced upon the idea that the IMF requires the government to just such a scenario to solve the problems that there is no discussion in the publicity for other complex alternatives that are in the arsenal of the structural recommendations of the IMF.

Following the logic of actual government, fiscal policy restriction would harmonize with the regime of fixed exchange rate of the national currency. Of course, the managed-floating exchange rate, which is practiced by the National Bank of Ukraine, in fact in certain time periods may acquire characteristics of fixed one and stabilize exchange market through the active foreign exchange interventions, carried out by the NBU on the open market. Scenario of fiscal restriction with the managed-floating rate would lead already in the short- and medium- term to reduction of the life standard of Ukrainian, lowering propensity to consume imported goods and services. At the same time the reduction of external private debt would occur (if the business is not affiliated with the government). Fiscal restriction measures should reduce the pressure of private sector on external financial dependence of Ukraine. Implanted under Orange period consumerism in Ukraine would disappear.

In the first half of 2010 external debt of National Bank of Ukraine decreased by 355 million dollars (from 6.21 to 5.855 billion U.S. dollars), indicating that debt repayments made on long-term obligations that compensated the new loan inflows. Moreover, for a half year exchange reserves rose by U.S. $ 4.4 billion owing to the active foreign exchange intervention aimed at the purchase of key currencies on the open market. So we can talk about the sufficiency of exchange reserves in Ukraine. Even though NBU received in August 2010 the first tranche in the IMF credit line to reinforce its foreign exchange reserves in the amount of 890 million dollars, the foreign debt of the NBU is not critical. It should be noted that the Ukrainian population and exporters are today the major source of foreign exchange reserves of the NBU. It is actually re-orientation of foreign exchange savings for the benefit of foreign exchange reserves of the monetary institution. NBU seeks in the periods defined for the repayment of country's external obligations (so, in the periods of capital outflows from the country), to mobilize its foreign exchange reserves, maintaining macroeconomic stability. However, the majority of Ukrainian population forced today because of rising cost of living at stagnant wages to sell the saved foreign currency at artificially low exchange rate regulated by NBU, which means reducing potential consumption of Ukrainian in future periods.

External debt of the private sector in 2010 declined up 67.55% (2009) to 62,13% of GDP. This means that the private sector intensively repaid expired in 2010 long-term loans with the maturity data. At the same time, the volume of new long-term credit obligations of private sector is sharply reduced, that ceteris paribus in the next periods brings the business to downturn, reducing susceptibility to lending by international credit money and eventually reducing a domestic consumption. These processes also indicate the reduction of negative net international investment position – up -34.25% of GDP in 2009 to -28.32% of GDP in 2010.

Ukraine’s gross external debt jumped 5.12 percent in the fourth quarter 2010 as the country sold eurobonds and private companies borrowed. The external debt totaled $117.3 billion as of Jan. 1, compared with $111.6 billion as of Oct. 1., 2010.

State foreign government debt jumped to $25 billion through the end of December, 2010, compared with $23.6 billion at the end of the previous quarter. Private companies’ debt rose to $50.8 billion, compared with $47.6 billion at the end of the third quarter.

Gross external debt jumped 13.5 percent in all of 2010. Of the total debt, 70.4 percent was denominated in dollars and 10.7 percent in Euros. External debt due within the next 12 months totaled $47.3 billion.

Conclusions. Analyzing the external debt indicators for European countries (particularly PIIGS) and Ukraine, assessing the recent trends in the formation and service of the external debt of Ukraine, one can predict that the probability of financial default in Ukraine quite low. Planned fiscal policy of government implies introduction of stricter state regulation of commodity and financial markets in order to reduce external financial dependence of Ukraine, above all, the dependence of the private sector as the main source of risk that after the Orange Revolution began to reveal itself in a growing foreign private debt and, as a result, total external debt. Reducing the international investment position and a negative balance of current operations by curtailing imports flows of goods is likely to continue in the next periods and it inhibits growth of external debt. However, fiscal policy of government, monetary and foreign exchange policy of National Bank of Ukraine may hinder the qualitative structural changes which are necessary for integration of Ukraine into the EU common market. Such changes can occur, as the experience of CEE countries shows, under import-oriented economic policy and opening the country to free international capital inflows in the industrial production.

REFERENCE

1. Cabral R. (2010). The PIGS' external debt problem - http://www.voxeu.org/index.php?q=node/5008
2. De Grauwe, P (2009), "Greece: The start of a systemic crisis of the Eurozone?", VoxEU.org, 15 December.
3. De Grauwe, Paul (2010), "A Greek Endgame", Centre for European Policy Studies.
4. Eichengreen, Barry (2007), "Eurozone breakup would trigger the mother of all financial crises", VoxEU.org, 19 November.
5. Greek Ministry of Finance, *Update of the Hellenic Stability and Growth Programme*, January 2010.- http://www.mnec.gr/en/economics/growth_programme_2005-8/.
6. IMF Database - http://dsbb.imf.org/Pages/SDDS/ExternalDebt.aspx
7. IMF Ecxhange Reserves – http://www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx
8. Ken Rogoff Expects Slow Growth and Sovereign Defaults.- Edvisor Perspectives, 2010 - http://www.advisorperspectives.com/newsletters10/Ken_Rogoff_Expects_Slow_Growth_and_Sovereign_Defaults.php
9. Krugman, P. The Return of Depression Economics and the Crisis of 2008. – W.W. Norton&Company, New York, London, 2009. – 207 p.
10. Nelson R., Belkin P., Mix D. Greece's Debt Crisis: Overview, Policy Responses, and Implications. – CRS Report for Congress. – April 2010. – 18 p.

11. PIGS (economics) - http://en.wikipedia.org/wiki/PIGS_(economics)
12. Reinhart, Carmen (2010), "From financial crash to debt crisis", Interview by Romesh Vaitilingam, VoxEU.org, 9 April.
13. The Measurement of External Debt: Definition and Core Accounting Principles – IMF,2003. - http://www.imf.org/external/pubs/ft/eds/Eng/Guide/file2.pdf
14. The World Factbook, United States Central Intelligence Agency, accessed on May 23, 2010.
15. World Bank Database – http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?display=default
16. Wyplosz, Charles (2010), "And now? A dark scenario", VoxEU.org, 3 May.
17. Томарева В., Георгішан В. Аналіз впливу зовнішнього боргу на економічний розвиток держави // Держава та регіони. Серія: Економіка та підприємництво, № 2, 2010. – С. 198-202. http://www.nbuv.gov.ua/portal/Soc_Gum/Dtr_ep/2010_2/files/EC210_43.pdf
18. Шевчук В.О. Макроекономічні ризики прискореної акумуляції зовнішнього боргу в економіці України //Стратегічні пріоритети- Науково-аналітичний щоквартальний збірник, № 2 (11). -2009. - http://old.niss.gov.ua/book/StrPryor/11_2009/24.pdf
19. Україна отримала перший транш кредиту МВФ – http://www.epravda.com.ua/news/2010/08/2/243575/
20. Уряд схвалив проект Меморандуму з МВФ - http://www.epravda.com.ua/news/2010/12/14/262045/
21. www.economicshelp.org – List of National Debt by country.
22. http://www.cmavision.com/images/uploads/docs/CMA_Global_Sovereign_Credit_Risk_Report_Q4_2010.pdf -CMA Global Sovereign Credit Risk Report 2011.