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**ПРОБЛЕМАТИКА ГОСУДАРСТВЕННОГО ДОЛГА РЕСПУБЛИКИ
АРМЕНИЯ**

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Аннотация

Данная статья посвящена изучению вопросов влияния объемов государственного долга на экономическое развитие стран. Анализ литературы, проведенный автором по этой теме, свидетельствует о наличии противоположных тенденций в отношении развитых и развивающихся стран. В работе изучена динамика объемов государственного долга РА, а также наиболее значимого в этой области исследований относительного показателя – доли государственного долга в ВВП РА. На данный момент в Армении этот показатель еще не превысил свое критическое значение, однако в экономике наблюдаются предпосылки для наступления этого негативного явления. Одна из главных проблем заключается в современной структуре государственного долга Армении – превалирующая доля приходится на внешний долг.

Ключевые слова: государственный долг, экономическое развитие, развивающиеся экономики.

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THE ISSUES OF THE PUBLIC DEBT OF THE REPUBLIC OF ARMENIA

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Abstract

This article is dedicated to studying the issues of the relationships between the values of the public debt and economic development of the countries. The literature review, conducted by the author on the topic, shows the presence of the opposite tendencies for developed and developing countries. In the paper, the dynamics of the values of the RA's public debt, as well as the most important relative indicator – the «Public Debt/GDP» ratio are studied. At present, in the Armenian economy, this indicator has not exceeded its' critical level. However, in the RA's economy, we can see the conditions of this negative fact. One of the main problem is the structure of the RA's public debt: the significant share of it is the external debt.

Keywords: public dept; economic development; developing economies.

Introduction

After gaining its independence the RA's public debt level has been one of the most discussed issues in Armenia's economy development. The value of the RA's public debt started to increase significantly after the 2008 global crisis and today the RA's «Public Debt/GDP» ratio amounts almost 48.8%. In 2000, the «Public Debt/GDP» ratio was 49.3%, after that the ratio started to decrease and it amounted 16.4 percent in 2007.

Public debt is an indirect instrument of fiscal policy to help governments to promote economic growth and stabilize social security. Public debt level and its impact on economic development are widely discussed among economists. We can consider public

debt as a two-edged sword. If we use it wisely and in moderation, it may clearly improve welfare. But when it is used imprudently and in excess, the result can be disastrous. For a country, too much debt impairs the government's ability to deliver essential services to its citizens. In our days, finance is one of the building blocks of modern society, spurring economies to grow. Without finance and without debt, countries are poor and remain poor. When countries are able to borrow, fiscal authorities can play their role in stabilizing the macroeconomic situation [10].

So, in this paper we will try to answer the following questions: Do high levels of public debt reduce economic growth? Have we come to the point where public debt levels are so high that they are

harming medium- and long-term growth? These are important policy questions. A positive answer would imply that, even if effective in the short-run, expansionary fiscal policies that increase the level of debt may reduce a long-run growth, and thus partly (or fully) negate the positive effects of the fiscal stimulus. Most policymakers do seem to think that debt reduces the long-run economic growth. Whether high levels of public debt have a negative effect on the long-run growth is thus an empirical question.

Main part

Carmen M. Reinhart and Kenneth S. Rogoff in their work tried to find relationship between high public debt levels, growth and inflation [2]. According to their results the link between growth and debt seems relatively weak at «normal» debt levels, median growth rates for countries with public debt over roughly 90 percent of GDP are about one percent lower than otherwise; average (mean) growth rates are several percent lower. Surprisingly, the relationship between public debt and growth is remarkably similar across emerging markets and advanced economies. They place the threshold at which public debt is associated with a lower contemporaneous growth at about 90 percent for both advanced and emerging economies. External debt for emerging markets has a lower threshold of 60 percent but for developed countries it is 90 percent. Kumar and Woo and Stephen G. Cecchetti, Mohanty, and Zampolli also find statistical support of a similarly sized effect in their works [8; 10]. In case of inflation there is different situation. They found no systematic relationship between high debt levels and inflation for advanced economies as a group. By contrast, in emerging market countries, high public debt levels coincide with higher inflation.

A large number of empirical papers find that the relationship between debt and growth is non-linear and is characterized by the presence of a threshold above which debt starts having a negative effect on economic growth. As several recent studies indicate, the link between debt and growth appears to be nonlinear [4]; similarly, the relationship between debt and alternative measures of risk is also nonlinear [3]. The impact of sharply higher real interest rates, in turn, has the usual negative implications for investment, consumption of durables and other interest sensitive sectors, such as housing.

In their work, Ugo Panizza and Andrea F. Presbitero do not find any evidence that high public debt levels hurt the future growth in advanced

economies. Correlation, however, does not imply causation [12]. While there is evidence that public debt is negatively correlated with economic growth, the presence of such a correlation does not necessarily imply that debt reduces growth. The link between public debt and economic growth could be driven by the fact that it is low economic growth that leads to high levels of debt. Alternatively, the observed correlation between debt and growth could be due to a third factor that has a joint effect on these two variables. Moreover, in their work they show that despite the fact that many papers show that public debt is negatively correlated with economic growth no paper makes a convincing case for a causal link between debt and growth. Things are different in developing countries, where a significant fraction of public debt is external and the debt overhang argument has more bite. External public debt creates a particularly acute overhang problem because the country generally has a much narrower range of tools for reducing the debt, since typically neither inflation nor financial repression is feasible [1]. In their other paper, Ugo Panizza and Andrea F. Presbitero think that the case for a debt threshold still needs to be made [11]. The negative relationship between debt and growth and the classic 90 percent threshold are not robust across samples, specifications, and estimation techniques. In particular, there is evidence that the effect of debt depends on the quality of institutions and that its negative effect is confined to non-democratic developing countries [6].

According to IMF, there is no simple relationship between debt and growth. Instead there are many factors that matter for a country's growth and debt performance [5]. Moreover, there is no single threshold for debt ratios that can delineate the «bad» from the «good». For that reason, we need to explore public debt dynamics, the macroeconomic environment, and policies in a number of case studies. And finally, the negative effect of public debt could be much larger if high public debt increases uncertainty or leads to expectations of future confiscation, possibly through inflation and financial repression. In this case, a higher debt could have a negative effect even in the short-run.

Analyzing the RA's economic development, we can state that the economic growth was slowed down in 2015 compared to the previous year, comprising 3%. The slowdown of the growth was due to the impact of the reduction of the external demand in the

main partner countries and the decline of prices of raw materials, as well as the slowdown growth of disposable income according to the reduction of transfers from Russia [9].

In 2015, the RA's export of goods and services denominated in USD decreased by 5.4% and the import of goods and services diminished by 20.3%. The net inflow of the preliminary and the secondary income reduced by 27.8% along with the export reduction. In 2015 RA's export decreased due to difficulties of Russian economy caused by economic sanctions against Russia. Import decreased because of reducing the transfers which again mainly come from Russia [13].

The influence of the fiscal policy on the aggregate demand implemented in 2015 had an expansionary consequence. The public budget incomes in nominal value increased by 2% and the public budget tax incomes enhanced by 0.4% compared to the previous year. In 2015, the public budget deficit comprised 4.8% of GDP compared to 1.9% in 2014.

At the end of 2015, the "Government Debt/Previous Year GDP" ratio reached 48.8%. Such level of debt burden remained within manageable level and didn't exceed the 50% target specified in the RA's law «On State Debt» (Table).

Unlike the results of Kumar and Woo (2010) and Cecchetti, Mohanty, and Zampolli (2011), in case of the RA the increase of public debt does not coincided with the increase of inflation. As a result of inflation developments in 2015, the 12 months inflation fluctuated mainly within the permissible interval ($4 \pm 1.5\%$) in the consumption market¹. Inflation expanded up to 5.8% only in the first quarter, and at the end of the year it was significantly reduced at the lower level than the undermost threshold of the permissible interval comprising - 0.1%. So, we can state that the increase of public debt level in Armenia does not cause inflation pressure.

Analyzing the RA's public debt structure, we can see that from the 48.8% of «Public Debt/GDP» ratio 36.9% comes to external debt, and only 7.3% to domestic debt. This situation is usual for developing countries where external public debt exceeds domestic public debt. In case of developed countries domestic public debt is usually higher than external public debt. As we already mentioned when

significant part of the public debt is external it may bring debt overhang problem because in this case the country generally has a much narrower range of tools for reducing the debt. Analyzing Figure 1, we can state that the RA's "Public Debt/GDP" ratio increased significantly after the 2008 global financial crisis. Moreover, the RA's «Public Debt/GDP» ratio is almost at the same level as it was in 2000, but in 2000, the growth rate was 5.9% comparing with 2015 when the economic growth rate was 3%.

Table

The RA's Public Debt Structure

Таблица

Структура государственного долга РА

	31.12.2014		31.12.2015	
	% of GDP	AMD billion	% of GDP	AMD billion
Public Debt of RA	43.7	2,109.6	48.8	2,456.3
of which				
Debt of the Government of RA	39.4	1,900.6	44.2	2,225.9
of which				
<i>External Debt</i>	<i>32.9</i>	<i>1,588.9</i>	<i>36.9</i>	<i>1,857.5</i>
of which				
Credits and Loans		1,275.3		1,420.4
Government (Treasury) Bonds purchased by non-residents		0.4		0.7
Foreign Currency Denominated Bonds purchased by non-residents		313.1		436.4
External guarantees*				
<i>Domestic Debt</i>	<i>6.5</i>	<i>311.7</i>	<i>7.3</i>	<i>368.4</i>
of which				
Credits and Loans		1.9		-
Government (Treasury) Bonds purchased by residents		289.4		320.0
Foreign Currency Denominated Bonds purchased by residents		19.4		47.4
Domestic guarantees		1.0		1.0
External Debt of the Central Bank of RA	4.3	209.0	4.6	230.4
of which				
Loans provided with the Guarantee of the RA Government		71.2		68.1

Source: Public Debt of The RA. Annual Report: 2015

Источник: Государственный долг РА. Годовой отчет. 2015 г.

¹ Since 2007, inflation target has been set at 4% with permitted $\pm 1.5\%$ interval variation by CBA. Inflation target rate is fixed every year by «The law on the state budget».

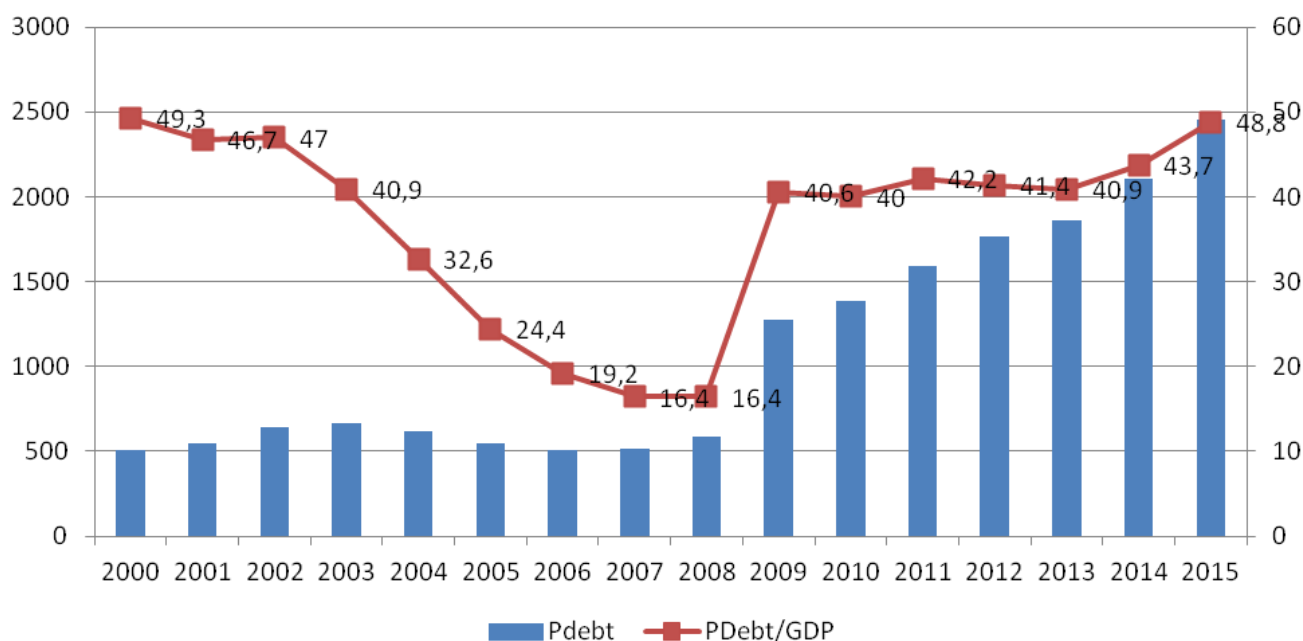


Fig. 1. Dynamics of the RA's Public Debt and "Public Debt/GDP" ratios
(Source: Public Debt of The RA. Annual Report: 2015)

Рис. 1. Динамика объема государственного долга РА и доли государственного долга в ВВП
(Источник: Государственный долг РА. Годовой отчет. 2015 г.)

Conclusions

The values of the public debt have been rising for decades for both developed and developing countries and economies have been growing. Without rising GDP, there will be no way for countries to raise the revenues governments need to reduce their exploding debts.

Public debt level may have a negative effect on growth, but the effect is likely to be small. More sophisticated models yield uncertain results on the relationship between public debt and growth and show that the link between debt and growth depends on many cyclical and structural factors.

A significant part of the RA's «Public Debt/GDP» ratio is external public debt (36.9% and only 7.3% comes to domestic public debt) it may bring debt overhang problem because in this case the country generally has a much narrower range of tools for reducing the debt.

For advanced countries ageing can sharply raise public debt burden to much higher levels in the next few decades. In case of Armenia we face a high level of emigration from the country which will raise the public debt burden in the future. According to some estimates, since 1990, almost 800,000 people emigrated from the RA [7]. At the same time, continuing emigration may reduce future growth in terms of a brain drain.

In general, we can summarize that if there are not any sources to finance the RA's public budget deficit or to implement expansionary fiscal policies public debt level has to grow. Public debt level can be critical for the RA's economy if it cause high inflation and interest rates and also brings high housing prices.

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