

JEL CLASSIFICATION: F13

## INTERNATIONAL CAPITAL FLOWS AND EXTERNAL DEBT IN THE TRANSFORMING OF THE NATIONAL ECONOMY OF UKRAINE

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*Summary. The national economy in modern circumstances cannot be presented as a completely closed system, that is why there is a constant flow of capital between countries. Nowadays the problem of regulation of international capital movement in*

*Ukraine is quite urgent. To solve this problem it is necessary to develop effective tools to influence the movement of international capital in Ukraine. The article states the need of using new tools to control international capital flows, and the optimal share of external debt of Ukraine is determined.*

**Key words:** *international capital flows, external debt, foreign investment, external risk factors, the rate of GDP growth, reserve norms, prudential regulation, interbank market, capital outflow, capital input tax.*

Globalization of the modern economy has increased the movement of international capital, which leads to a deepening of the problems of external debt of countries and a financial crisis during the periods of sudden outflow of short-term capital. Financial experts of the UN led by Nobel laureate J. Stiglitz in 2010 came to a conclusion that the rules governing the movement of international short-term capital have become the most important among the methods of macroeconomic stability.

The policy of economic liberalization, which was held in Ukraine in 2000–2008 led to the inflow of foreign capital and a significant increase in gross external debt, which by 01.10.2013 amounted to 77,3 % of GDP. According to the World Bank, the critical level is 50 % of GDP and Ukrainian standards make it 70 % of GDP. The share of external debt in total public debt in the previous 10 years has decreased from 69 % in 2003 to 46 % in 2013, but this level is very high. Our research, based on the Armi Rana model, suggest that the major rates of GDP growth in Ukraine will be when the proportion of the share of external debt in total public debts will not exceed 31 %.

International practice uses a variety of tools for risk management, which are generated by flows of foreign capital. Currently in Ukraine, they are as follows:

- Registration of credits and loans from non-residents (enables the operational monitoring of the gross external debt);
- Booking of 20 % of short-term (183 days) credits and registration of credits, loans from non-residents

(enables the operational monitoring of gross external deposits from non-residents, with subsequent reimbursement after the expiration of the contract (to deter short-term “credit boom”);

- Establishing of standards involved in bank reserve funds from foreign banks in foreign currency (other than the Russian ruble) which is 5 % (for containment credit loans in foreign currency);
- Temporary ban (since February 2014) for the purchase of foreign currency for early repayment of credits under agreements with non-residents and investment abroad.

The use of these tools in prudential banking practice gives positive results, but at the same time leads to a reduction in liquidity in the banking system.

Meanwhile, the experience of South Korea, Brazil, and Turkey shows that the short-term borrowing from non-residents can enter “input tax”. In this case, income from tax goes to the budget and liquidity of the banking system is not reduced.

Taking into consideration the realities of modern Ukraine, we support the proposal of T. Bohdan as to the need for the introduction of the “input tax”. We propose to abolish banking regulations of booking and impose a tax on short-term attraction (up to 365 days) at a rate of 0,2 % (for loans received from non-residents and bonds sold to non-residents). In addition there is an urgent need to introduce a tax on foreign loans of corporations (done by issuing bonds or loans for the period of less than one year) at the rate of 2 %. The introduction of such a tax requires the development of an appropriate legislation.

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