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FINANCIAL MANAGEMENT OF INTERNAL AND EXTERNAL DEBTS OF THE STATE

Abstract

In modern conditions, regardless of whether countries have strong or weak economic development, almost all countries have the necessity or need to attract financial resources from foreign and domestic sources. The lack of financial resources for domestic investment and current payments has led to the development of the debt economic system in many countries, the method of attracting foreign investment. Today, highly developed countries such as the United States, Canada, Germany, Japan, and England have a significant amount of public debt. The Republic of Azerbaijan is also a participant in the process of both internal and external borrowing and has benefited from such sources in the implementation of both economic and social projects. For this reason, the servicing of state debts, especially foreign state debts, remains a problem for other states that have debts in the name of these states. The emergence of a problem or the possibility of its occurrence increases the focus on the issue of financial management of debts.

Public debt and its growth, affecting all spheres of the economy, can expose the state to two dangerous situations: the possibility of bankruptcy of the nation and the risk of debt burden for the future.

Key words: *public debt, internal and external debt, government debt regulation, debt strategies.*

İNTRODUCTİON

The lack of necessary conditions and means for the development and development of the reconstruction process in the country creates the basis for foreign borrowing. It is for this reason that the large foreign public debt of the states has arisen. Today, finding a solution to the problem of paying the public debt and servicing it, as well as its functional management, is of great importance for ensuring the economic power of the state and its prospective development and sustainability.

Solving debts at the national level requires a serious analysis of the debt structure, the possibilities of its repayment, the relevance and expediency of conducting negotiations with the other parties regarding changes in the debt structure.

Thus, the relevance of the research work is that the size of the debt in relation to the GDP is the main indicator of the country's economy, since it requires additional funds from the budget for servicing the public debt. For this reason, the appropriate implementation of the financial management of the internal and external debt of the state is an important socio-economic task.

SOCIO-ECONOMIC NATURE AND IMPORTANCE OF PUBLIC DEBT

A developing country must find all possible sources in order to form the necessary financial resources for the implementation of plans related to economic development and solving necessary social issues. The state uses taxes, compulsory payments to social security and other state institutions, revenues from the private sector, shares in companies, transfers from Central Bank revenues, privatization proceeds and other sources to finance its expenditures. As one of the other sources, the state debt is also used in the formation of the state's financial resources. All financial issues of the state are implemented in accordance with its financial policy. Financial policy is the systematic activity of the state and its bodies aimed at creating, distributing and using the necessary funds for the fulfillment of the tasks that the state and its financial bodies must perform, based on the financial legislation of the state.

Public debt is debt obligations expressed in national and other currencies, accepted by the country's government from legal entities and natural persons, as well as from foreign countries, for the purpose of financing the country's urgent socio-economic expenses and budget deficit. These obligations include the terms of repaying the debt amount along with the agreed interest amounts at the stipulated time. The amount of the borrowed funds, its use and related expenses find their place in the state budget.

States often prefer one over the other, regardless of the type of expenditure to be met, taking into account the economic and political situation of the country, as a result of the economic and social policy it implements, without seeing the difference between taxation or borrowing. The fact that tax is mandatory and borrowing is a type of income formed on the basis of voluntary principle does not create any obstacle to solving the budget issues through tax or borrowing, which we tried to explain above.

The state provides the financial resources it needs, either through taxes or borrowing, at the expense of the people who make up its society. If we evaluate this issue from this point of view, borrowing appears as an alternative to taxes. However, the main point to consider here is that debt repayment will be realized at the expense of future tax revenues. From this, it can be concluded that the state is currently using the tax revenues it will get in the future through debts. Despite this, the government pays attention to the differences between the attraction of debt funds and tax revenues. These points can be highlighted as follows:

- unlike taxes, borrowing is not a formal financing method. Financial resources acquired through debt must be paid in advance. These payments are met through tax revenues. So, debts can be met only if they are paid from taxes. In modern conditions, states constantly resort to debt financing sources, and for this reason, the state's debts are never zeroed;
- the tax is taken independently of the will of the individuals, and the debt is taken voluntarily between the parties;
- after tax revenues enter the budget, the state unilaterally decides in which direction they will be used, and when the state borrows funds, it is obliged to inform the lender about where the debt will be used;
- when the state borrows, it undertakes to pay additional interest along with the principal amount to the lender; if the tax revenues are mainly collected from domestic sources, the debt is secured from both domestic and foreign sources;
- taxes cause a decrease in consumption and investment savings of individuals;
- although the tax burden is usually the responsibility of the current generation, in the case of borrowing, it falls on the responsibility of future generations.

The value promised to the lender while borrowing is called interest. Determining this interest with a high and low rate, of course, makes a lot of sense for the lending party. The main factor in determining the interest rate is the profitability of other investment objects and the current interest rates formed in the market. Along with these, it is also important to have a guarantee related to the debt. Because those who invest in bonds issued by the state want to get a steady and reliable income. Interest payments are revenue for bondholders and an expense for the government. In this regard, lenders are looking for some additional guarantees, which they consider important, especially in countries where the problem of inflation is chronic, in order not to face any loss in the level of expected income.

Public debt as an economic category is the development of society and the economic sphere, the expansion of the state's functions, the state's progress as a result of the improvement of the financial policy, it has become an important tool for the implementation of financial problems and economic goals. This method is one of the main methods applied for the purpose of financing necessary expenses of the state when tax revenues remain ineffective or are not sufficient. Depending on the level of development and financial plans, each country approaches the public debt from a different position. For this reason, public debt is explained differently in different economic literatures. As a result of summarizing a number of ideas about public debt in modern economic literature, two main groups of those ideas can be distinguished from each other. The first group of scientists explains the public debt as the difference between the sum of all deficits at the state level and all the revenues of the state. The second group of scholars considers the concept of public debt as the sum of the state's debts to individuals, legal entities, foreign states, international organizations and other subjects of international law. In the theories of the first group of scientists, attention is focused on the source of the debt, and in the second, on the mechanism of its formation.

Neither the representatives of the classical economic school nor the representatives of the modern economic school have reached a common opinion or a meaningful position regarding the explanation of the nature of the public debt and its economic importance. Although a number of economists consider public debt as a form of public credit in which the state acts as a borrower, some economists explain public debt as a method of attracting necessary financial resources by borrowing from various sources to pay the expenses provided for in the state budget.

In the theory of "Unsatisfactory monetary calculation" by T. Sargent and N. Vallas, the long-term elimination of the budget deficit by means of borrowing leads to the release of additional money and greater inflation in cases of loss of the ability to borrow. In other words, preventing monetary financing leads to more inflation in the long run. The loss of the state's ability to borrow depends on the relationship between the real interest rate and the real growth rate. If the real interest rate is higher than the real growth rate, the result of the ratio of the amount of debt to GDP is increasing, and the possibility of borrowing is limited. On the contrary, borrowing can be continued if the economic growth rate exceeds or equals the real interest rate. This theory is called unsatisfactory monetary calculation because monetarists accept the printing of additional money into circulation as the cause of inflation, and for this to occur, the real interest rate must be higher than the rate of economic growth.

INTERNAL AND EXTERNAL DEBT OF THE STATE

In the economic literature, public debt is classified into different groups according to a number of characteristics - the reason for its origin, the repayment period, its socio-economic nature, and the source of acquisition.

According to the reason of creation, public debts are divided into two groups, purposeful and non-purposeful public debts. Targeted public debt arises from the obligations undertaken by the government on purpose. That is, as in all economic subjects, the state can face a shortage of free funds. In such a case, the state temporarily attracts financial resources at the disposal of other subjects and may assume obligations related to the subsequent return of these funds. At this time, the state guarantees on its own behalf, and since its participation in such debt relations is based on a certain specific purpose, the debts received in this way are called targeted state debts. Since targeted public debt is programmatic, plans related to its management issues are prepared before these debt obligations arise. The extent of the obligation is predetermined by the state, and thus the terms for the repayment stages of debt relationships are known in advance.

In contrast to targeted public debt, non-targeted public debt is a set of unforeseeable, that is, unplanned and unexpected debt obligations. By its nature, non-purpose public debt does not have priority over any financing methods. The main reason for the creation of these debts is directly related to other issues related to the state, and they arise from gaps related to these problems. In a number of cases, direct and timely payment of the value of products imported into the country leads to non-realization of trade relations in the previously agreed upon form. As a result of this, the value to be paid becomes a liability, and against this background, the government's purposeless debt is formed.

As in all other debt relations, the main grouping criterion of public debt is the period covered by it. This criterion is important for both the lender and the borrower. The benefit that the received debt will provide for the state is mainly determined by its duration. According to the repayment period, public debts are short-term, medium-term and long-term. Short-term government debts are up to 5 years, medium-term debts are from 5 to 10 years, and long-term debts are government debts covering the period of more than 10 years.

Short-term public debt is usually acquired for the purpose of covering temporary budget deficits and is formed in the money market. These types of loans are mainly issued at low interest rates, and their low interest rates make this type of borrowing more attractive for the state. Large firms and banks prefer to direct their cash financial funds to short-term government debt instead of keeping them. Short-term debt is sometimes used as a preparation for long-term debt. Medium-term debt is purchased with intermediate interest rates. Medium-term debt is dominant in the financing of war, education, health and relief expenses.

Long-term public debt has a high interest rate and is directed to areas that will ensure financial development. These debts are mainly secured from capital or credit markets. They are also called "fixed debts" because the length of the agreed repayment period is known, and in turn, the repayment period is divided into fixed debts and perpetual debts. Debts belonging to the first part consist of state debts that have been consolidated, recorded in the state debt book, and have clearly defined payment dates when bonds are issued or sold. Although the debts belonging to the second part are recorded in the state debt book, the date of repayment is not determined precisely.

Public debts are grouped as productive and non-productive debts according to their socio-economic nature. If the state borrows for economically developed areas or for the purpose of developing high-income areas, these loans are considered productive loans. Productive debt leads to the creation of sufficient assets when used effectively. Construction of railways, development of mining and industrial areas, financing of irrigation, education and other such areas through the borrowed funds directly or indirectly leads to an increase in the state income. These debts raised increase the country's overall productivity. On the contrary, expenses that do not bring any income to the state - debts taken for the purpose of preparation for war and removal of subsequent destruction, accommodation of refugees or internally displaced persons, and elimination of famine - are considered non-performing debts.

In modern conditions, all countries of the world, regardless of their development, continuously borrow and pay their debts. It is this process that forms the state's debt market, and one of the main subjects of this market is always the state

Domestic public debt is the totality of financial debts of the state to the country's enterprises, banks, and at the same time to its population, and it is generally considered a more appropriate source of debt for the state. Domestic debt is created by the acquisition of securities of the state or the Central Bank by its residents. The fact that the specific weight of domestic debts in public debts is lower than other debts is connected with the fact that the financial markets of that country, as well as the securities market, are not fully formed. The public debt, together with domestic and foreign debts, constitutes the total debt burden. If the state needs short-term financial resources, it is considered the optimal case to finance its needs at the expense of internal resources. In its debt policy, special importance is attached to the level of investors' trust in the state's securities and their trust in the state. The confidence of investors directly depends on the level of execution of the debt obligations taken by the state from the beginning. That is, if the state does not fulfill its previous domestic debt obligations in the agreed time and volume after the expiration of its term, and if it refuses to fulfill its obligations, investors lose confidence in financial instruments, which leads to the limitation of the state's ability to use internal financial resources.

PUBLIC DEBT MANAGEMENT AND ITS REGULATION

The presence of internal and external debt automatically means that the state has an obligation to manage it. For this reason, public debt management refers to the general part of the government's actions on the part of competent authorities to regulate the volume, structure and cost of servicing the external debt of the state. Public debt management refers not only to debt repayment, but also to the development and simultaneous implementation of debt reduction plans using various methods.

Public debt management refers to the general part of the actions performed by the competent authorities of the state to regulate the volume, structure and costs of the state's debts.

Financial management of state debts - consists of a number of activities related to the payment of existing debt obligations, their servicing, forecasting and planning of future debts, attraction and placement of loans and regulation of the state credit market.

Financial management of public debt in countries with a stable economic situation includes the following issues:

- Timely and complete payment of the nominal amount of the debt related to each creditor, implementation of interest, commission fees and other payments stipulated by the terms of the concluded contracts and placement of loans;

- Forecasting and planning of attracting loans according to the forecasted ratio of income and expenses of the relevant budget. At the same time, for the future development of the state, it is important to correctly assess the possible consequences of increasing debt obligations. At this stage, predicting the indicators characterizing the state debt, finding ways to minimize debt service amounts;

- Analyzing the state debt;

-Regulation of public debt can be implemented at the institutional, technical and economic level. The institutional aspect of debt management is the preparation of legislative acts in this area, legislative regulation by revising old laws and documents. Technical regulation is related to changes in the payment, efficiency and other parameters of the placed securities. The economic adjustment of the debt is manifested in changes in the volume of public debt indicators due to the implementation of a certain macroeconomic policy.

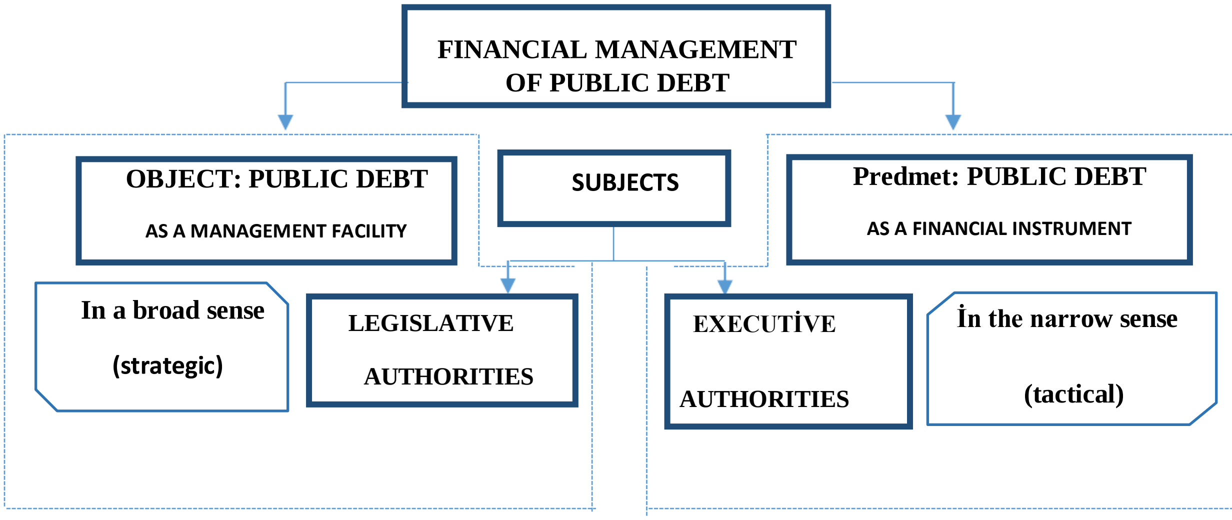
The main, main and defining aspect of each concept, development trends are hidden in its essence. Taking into account that the essence is not external, but deep and internal, it is necessary to explain it in a broad and narrow sense in order to understand the essence of the concept of public debt financial management.

The financial management of the public debt is, in a broad sense, the formation of the state as one of the directions of the economic policy. Debt management in a broad-strategic sense can be explained by the following four points:

1. establishment of economic policy aimed at domestic and foreign public debt in the form of legislative bodies;
2. determining the state debt limits by determining the level of the budget deficit and attracting appropriate loans;
3. determining the main directions and goals of the impact of debts on micro and macroeconomic indicators
4. the possibility of financing state programs related to state debts and its appropriate formulation.

The state debt and its upper limit are determined by the legislative bodies and implemented by the executive power.

In a narrow sense, the financial management of the public debt is a set of activities related to the attraction of debt obligations for the state, their appropriate placement, repayment and refinancing of the public debt, as well as the regulation of the state's securities market. This process is mainly carried out by the Ministry of Finance and the Central Bank.



Graph 1. Structure of public debt financial management: strategic and tactical

The process of public debt management involves planning the state's obligations by determining the terms and conditions for the placement of public debt obligations, raising loans, their interest payments, debt service through the implementation of operations related to refinancing and debt payments, changing the conditions related to overdue debts, and controlling the public debt. contains functional elements such as Refinancing of public debt is the process of attracting new loans for the purpose of closing the old public debt.

CONCLUSION AND SUGGESTIONS

In modern conditions, both economists and politicians consider the general debts of the state to be the same as private liabilities. We know that sovereign nations around the world have the potential to make as much money as they have to pay for the resources they have to provide from the private sector. However, these states may decide to raise funds from the private sector instead of spending additional money to close their budget deficits. Due to the political implications stemming from this point of view, we came to the conclusion that the public debt problem must be eliminated, at least the public debt should be kept at a level that can be considered normal in relation to the GDP.

In order to solve the debt problem, it is necessary to study the dynamics of the ratio of public debt to GDP, without thinking that GDP and its growth rate are independent of government expenditures, taxes, and therefore the state budget. By precisely determining the sources of state budget revenues and the directions of expenses, we consider it appropriate to evaluate expenses in the form of "productive" expenses that directly affect the growth rate of the country's economy and "unproductive" expenses that do not directly affect the economic growth rate. The state should achieve a reduction in budget deficits by spending less than the amount of funds received in the budget. For this purpose, increasing productive expenditures and reducing non-productive expenditures are appropriate. From here it can be concluded that on these grounds it is possible to stabilize or reduce the ratio of public debt to GDP due to sufficient changes in the components of public expenditure.

As a result of the conducted research, it has been proven that the economic growth rate should be increased in order to get rid of the state's debt problem and its serious consequences. In our opinion, increasing the rate of economic growth can be achieved by reducing the state's intervention in the economy and stimulating the private sector. The development of the private sector can create conditions for reducing the public debt and budget deficit.

Implementation of successful financial management can be possible directly by reforming the debt management mechanism and choosing an efficient methodology. In order to solve the state's debt problem, to improve the state finances, especially the management of debts, it is necessary to pay attention to the following issues:

- determining the volume of foreign debt obligations and the cost of services accordingly;
- optimizing the structure of the public debt, increasing the share of the market component;
- optimization of the payment schedule for the public debt, elimination of the highest payments;
- refinancing of external debt through domestic debt without significant deterioration in the maturity of the debt obligation;
- debt portfolio diversification
- increasing the efficiency of using debt funds;
- analysis and reduction of debt management risks.

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Dövlətin daxili və xarici borçlarinin maliyyə idarəetməsi

Xülasə

Müasir şəraitdə ölkələrin güclü və ya zəif iqtisadi inkişafa malik olmalarından asılı olmayaraq, demək olar ki bütün ölkələrin xarici və daxili mənbələrdən maliyyə vəsaitlərini cəlb etmə zərurəti və ya ehtiyacı vardır. Daxili investisiya və cari ödəmələrin reallaşdırılması üçün maliyyə resurslarının çatışmazlığı xarici investisiyaların cəlb edilməsi üsulu ölkələrin çoxunda borc iqtisadi sistemini inkişaf etdirmişdir. Bu gün ABŞ, Kanada, Almaniya, Yaponiya, İngiltərə kimi yüksək inkişaf etmiş ölkələr əhəmiyyətli dərəcədə dövlət borcuna malikdir. Azərbaycan Respublikası da həm daxili, həm də xarici borclanma prosesinin iştirakçısıdır və istər iqtisadi, istərsə də sosial layihələrin həyata keçirilməsində belə mənbələrdən faydalanmışdır. Bu səbəbdən də dövlət borclarına, xüsusilə xarici dövlət borclarına xidmət edilməsi bu dövlətlərin simasında borcu olan digər dövlətlər üçün də problem olaraq qalmaqdadır. Problemin yaranması və ya onun baş vermə ehtimalı borcların maliyyə menecmenti məsələsinə diqqəti daha da artırır.

Açar sözlər: *dövlət borcu, daxili və xarici dövlət borcu, dövlət borcunun tənzimlənməsi, borc strategiyaları.*

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Финансовое управление внутренним и внешним долгом государства

Резюме

В современных условиях, независимо от того, имеют ли страны сильное или слабое экономическое развитие, практически все страны имеют необходимость или потребность в привлечении финансовых ресурсов из внешних и внутренних источников. Нехватка финансовых ресурсов для внутренних инвестиций и текущих платежей привела к развитию во многих странах долговой экономической системы, метода привлечения иностранных инвестиций. Сегодня высокоразвитые страны, такие как США, Канада, Германия, Япония и Англия, имеют значительный объем государственного долга. Азербайджанская Республика также является участником процесса как внутренних, так и внешних заимствований и извлекает выгоду из таких источников при реализации как экономических, так и социальных проектов. По этой причине обслуживание государственных долгов, особенно внешних государственных долгов, остается проблемой для других государств, имеющих долги от имени этих государств. Возникновение проблемы или возможность ее возникновения увеличивает внимание к вопросу финансового управления задолженностью.

Ключевые слова: *государственный долг, внутренний и внешний государственный долг, регулирование государственного долга, долговые стратегии.*