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THE EXTERNAL DEBT PROBLEM OF DEVELOPING COUNTRIES

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Ahsan Diya Abdul Hussain. The External Debt Problem of Developing Countries

The article is aimed at researching the problem of external debt of developing countries. The current status of external debt of developing countries is analyzed. The growing demand for investors, combined with the growing number of firms looking to take on large debts, has led to a deterioration in underwriting standards and the credit quality of such loans. The grounded relevance of the use of borrowing resources today is not necessarily a bad thing, even on the contrary – it is one of the most effective ways to stimulate the growth of the economy. When these resources are used targeted and efficiently, they generate more revenue for the borrower. But this gets worse when loans are used inefficiently, that is when they stimulate excessive consumption rather than bring in additional benefits. The author concluded that the reasons for the current fears began long before the crisis of 2008. A debt is not a bad instrument if it is used to finance investments that make a profit or create assets that are worth more than the debt itself. It's hard to find such data, but if we trace the tendency of global growth and compare it to the tendency of debt accumulation, we'll see that doesn't happen. Therefore, it seems that the situation is out of control, i.e., debts continue to accumulate, excessive accumulation of loan portfolios increases, and low interest rates imply the survival of companies and countries. This leads to liquid risks with the expiration of the debt repayment period. Governments have been addicted to increased loans – none of the more developed economies could cope with a possible tightening of monetary policy. This means that when the time comes to severely lower the credit shoulder, economic growth will suffer. Central banks, in turn, find themselves trapped because maintaining such loose monetary policy and a high credit shoulder poses a risk of forming the price bubbles. It is determined that while rates remain at current low levels, investors will be looking for a bigger return, which means taking more risk – this, in turn, could trigger the «butterfly effect», causing destruction to the entire financial system.

***Keywords:** external debt, developing countries, monetary policy, problems.*
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Ахсан Дійя Абдул Хуссейн. Проблема зовнішньої заборгованості країн, що розвиваються

Метою статті є дослідження проблеми зовнішньої заборгованості країн, що розвиваються. Проаналізовано сучасний стан зовнішньої заборгованості країн, що розвиваються. Зростаючий попит інвесторів у поєднанні зі зростанням кількості фірм, які бажають взяти на себе великі заборгованості, призвело до погіршення стандартів андерайтингу та кредитної якості цих кредитів. Обґрунтована актуальність використання сьогодні позикових ресурсів – це не обов'язково погано, навіть навпаки – це один із найефективніших способів стимулювати зростання економіки. Коли ці ресурси використовуються правильно й ефективно, вони генерують більше доходів для позичальника. Але це погано, коли кредити використовуються неефективно, тобто коли вони стимулюють надмірне споживання, а не приносять додаткові вигоди. Автор дійшов висновку, що причини нинішніх побоювань починаються задовго до кризи 2008 р. Борг не є поганим інструментом, якщо він використовується для фінансування інвестицій, які приносять прибуток або створюють активи, які коштують більше, ніж сам борг. Важко знайти такі дані, але якщо ми простежимо тенденцію глобального зростання та порівняємо її з тенденцією накопичення боргу, то побачимо, що цього не відбувається. Тому складається враження, що ситуація виходить з-під контролю, борги продовжують накопичуватися, надмірне накопичення кредитних портфелів зростає, а низькі процентні ставки означають виживання компаній і держав. Це призводить до ліквідних ризиків із закінченням терміну погашення боргу. Уряди пристрастилися до збільшення кредитів – жодна з більш розвинених економік не змогла б впоратися з можливим посиленням грошово-кредитної політики. Це означає, що коли прийде час серйозно знизити кредитне плече, постраждає економічне зростання. Центральні банки, своєю чергою, опиняються в пастці, оскільки підтримка такої вільної грошово-кредитної політики та високого кредитного плеча створює ризик утворення цінових бульбашок. Встановлено, що поки ставки залишаються на нинішніх низьких рівнях, інвестори будуть шукати більшу віддачу, що означає прийняття більшого ризику – це, своєю чергою, може спровокувати реалізацію «ефекту метелика», руйнуючи всю фінансову систему.

***Ключові слова:** зовнішня заборгованість, країни, що розвиваються, грошово-кредитна політика, проблеми.*
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It's been about a decade since the last global financial crisis hit the world economy. Now, it seems, the world has overcome the hard consequences it left behind and is determined to move forward. Other issues, goals, and events are on the agenda. The global economy continues growing (by about 3% a year in recent years), financial markets are reaching new heights (the Dow Jones marked a historic peak in early 2018), and the global unemployment rate has fallen (5.5% this year, which is the lowest level since 2007). These are just a few of the factors that sum up rather positive attitudes and expectations not only of financial analysts, but also of ordinary people for stability and growth in the coming years.

At a time when the economy is growing and, like a large mountain, is forming new financial peaks, in its foothills there is (again) a huge problem that threatens to destroy it and pull down the entire financial system. A very significant consequence of the global financial crisis was an extremely rapid increase in public debt in the majority of developed countries, which thus tried to get out of a difficult situation. As is is mentioned in "World economic situation and prospects for 2019", high debt has become one of the most important elements of the global economy. Over the past decade debt levels have increased markedly in the countries and sectors fueled by over-polluted monetary policies. Public and private debt has reached historic highs in many countries [1; 3; 5].

According to the UN Conference on trade and development (UNCTAD), global debt in 2019 is almost a third higher than it was in 2008, and exceeds three times the global gross domestic product (GDP). Amid signs that global growth has peaked, and with renewed uncertainty about the trajectory of monetary policy, high global debt is not only a financial risk in itself, but also a source of vulnerability in the event of a downturn.

Faster-than-expected increases in interest rates and sudden increases in global financial costs pose risks to debt and financial stability. While high levels of corporate debt can exacerbate an economic downturn, high sovereign debt limits fiscal policy space, hindering policy responses and potentially delaying recovery. Against this background, the continued growth of debt in a number of developed countries is increasingly seen as a potential risk to financial stability. The term "loan capital" is used to describe syndicated loans at floating interest rates provided to states that already have high levels of debt.

After the collapse during the global financial crisis, the United States of America have recently re-introduced leveraged loans in Europe. The current total amount of global leveraged credit in the market is about $ 1.3 trillion, more than double what it was a decade ago.

In the US, it exceeds the size of the high-yield corporate bond market. The growth of debt loans was stimulated by investors. It happened due to the search for yield and, in recent years, to the prospect of rising interest rates. In 2017 and 2018, global leveraged lending reached pre-crisis levels of close to $ 700 billion per year (*Fig. 1*).

The growing investor demand, combined with a growing number of firms willing to take on large

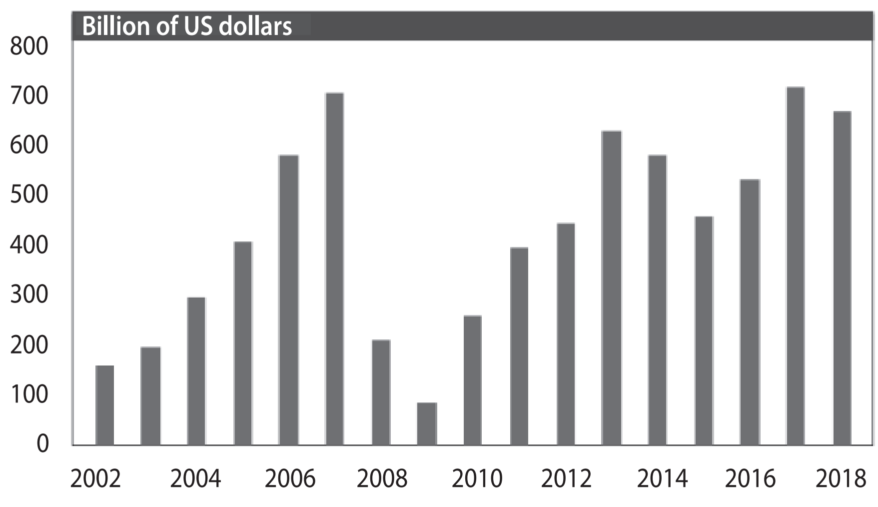

Fig. 1. Global issue of loans using borrowed funds, 2002–2018

Source: created on the basis of [6].

debts, has led to deterioration in the underwriting standards and credit quality of these loans. For example, the share of the so-called "Covenant" loans, where investors do not require borrowers to maintain certain financial ratios, has risen in price in recent years, reaching a record high of about 80 (*Fig. 2*).

In addition, most new loan issues were used to change the firm's liability structure, rather than to finance new production investments. Finally, the leverage of borrowers has also increased recently. For example, the share of debt-to-income loans issued to firms with a debt-to-income ratio at or above 6 reached about 30% in 2018, becoming the highest level since the global financial crisis. This shows an increase in investor risk tolerance in the corporate debt market. It is noteworthy that these trends in lending contain similarities with the pre-crisis mortgage market. Against the backdrop of corporate debt rising and credit quality declining, slower economic growth and higher interest rates can significantly increase the firm's difficulties with a significant increase in debt. An increasing number of bankruptcies, credit defaults, and market losses can trigger sales, bringing in lower prices and lower liquidity.

The current account of the EU-28 shows a surplus of 184.1 billion euros in 2018 (*Fig. 3*), which corresponds to 1.2% of gross domestic product (GDP). For comparison, in 2017, the current account surplus was 204.0 billion euros.

Recent developments for the EU-28 current account show a turning point in the models estab-

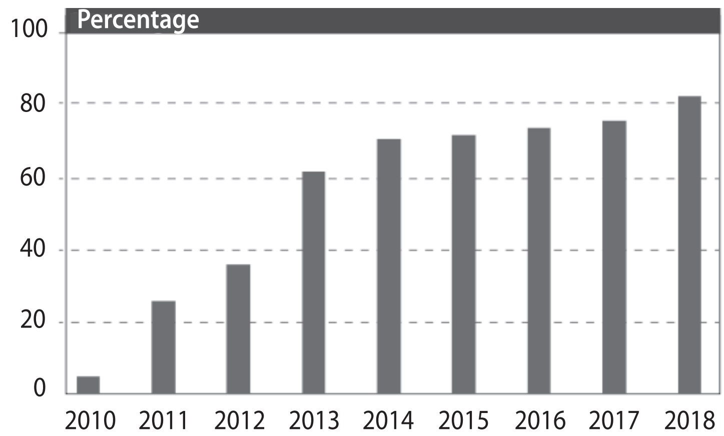

Fig. 2. Covenant-light's leverage ratio, 2010–2018

Source: created on the basis of [6].

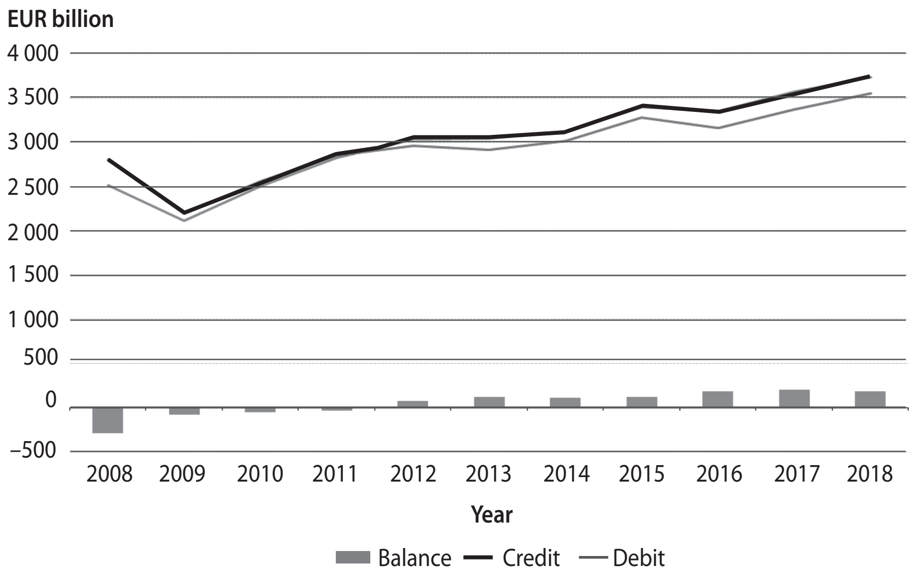

Fig. 3. Current account transactions, EU-28, 2008–2018 (billion euros)

Source: created on the basis of [2].

lished since 2008 – while the current account deficit peaked in 2008 at 2.2% of GDP, it gradually decreased and in 2012 turned into a surplus equivalent to 0.6% of GDP; the surplus culminated in 2016 and 2017 with 1.3% of GDP and decreased in 2018.

The Euro-28 current account surplus for 2018 was based on a solid surplus in the goods (0.4% of GDP) and services (1.2% of GDP) component, while the secondary income (–0.6% of GDP) and the capital account (–0.2% of GDP) are balanced somewhat negatively, and the primary income is somewhat positive (0.1% of GDP). Among the partner countries and regions shown in *Fig. 4*, the EU-28 current account deficit was the largest with China at 107.0 billion euros in 2018, followed by Russia (48.0 billion euros) and Japan (5.3 billion euros).

On the other hand, the largest current account surpluses were recorded in the United States (209.8 billion euros) and Switzerland (81.6 billion euros). Surpluses were also recorded in Canada, Hong Kong, Brazil, and offshore financial centers, as well as, to a small extent, in India.

In 2018, 11 EU member states reported current account deficits, and 17 states reported surpluses (*Fig. 5*, *Tbl. 1*).

The largest deficits (relative to GDP) were observed in Cyprus (7.0%) and Romania (4.5%), while Malta and the Netherlands reported the largest surpluses relative to GDP in their current accounts (11.2% and 10.8%), followed by Ireland (9.1%) and Germany (7.3%). In absolute terms, Germany recorded the largest current account surplus (246.4 billion euros), while the UK recorded the largest current account deficit (92.2 billion euros). When looking at the components in detail, the EU-28's current account surplus as compared with the rest of the world is strongly based on the goods and services account surplus (61.0 billion euros and 190.1 billion euros) (see Tbl. 1).

In absolute terms, Germany (221.9 billion euros), the Netherlands (68.1 billion euros) and Italy (47.2 billion euros) were the largest net exporters of goods to other countries, while more than half of the EU member states (16 countries) faced a negative balance on their commodity accounts in 2018. Among them, the UK is the largest net importer of goods (156.1 billion euros). However, with the exception of the Netherlands (a service surplus of 13.0 billion euros), the same major net exporting countries are net importers of services in 2018, respectively, and vice versa: while Germany (19.6 billion euros) and Italy (3.6 billion euros) had negative balances in their service accounts, the United Kingdom was the largest net exporter of services (121.1 billion euros) to the rest of the world. Among EFTA countries,

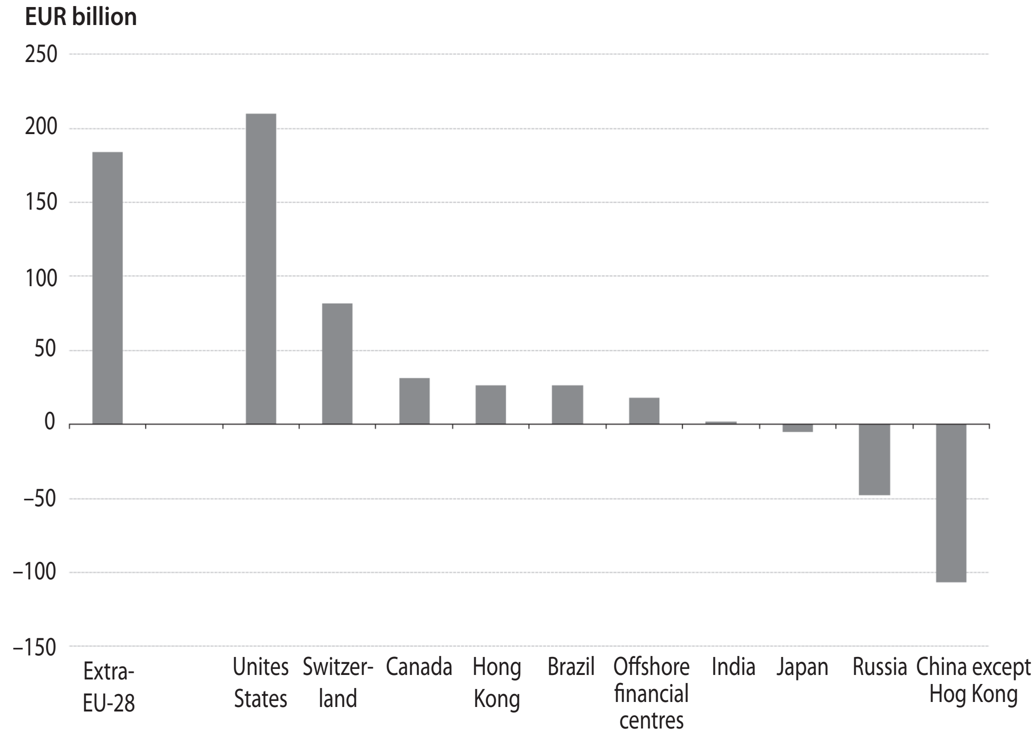

Fig. 4. Current account balance with selected partners, EU-28, 2018 (billion euros)

Source: created on the basis of [2].

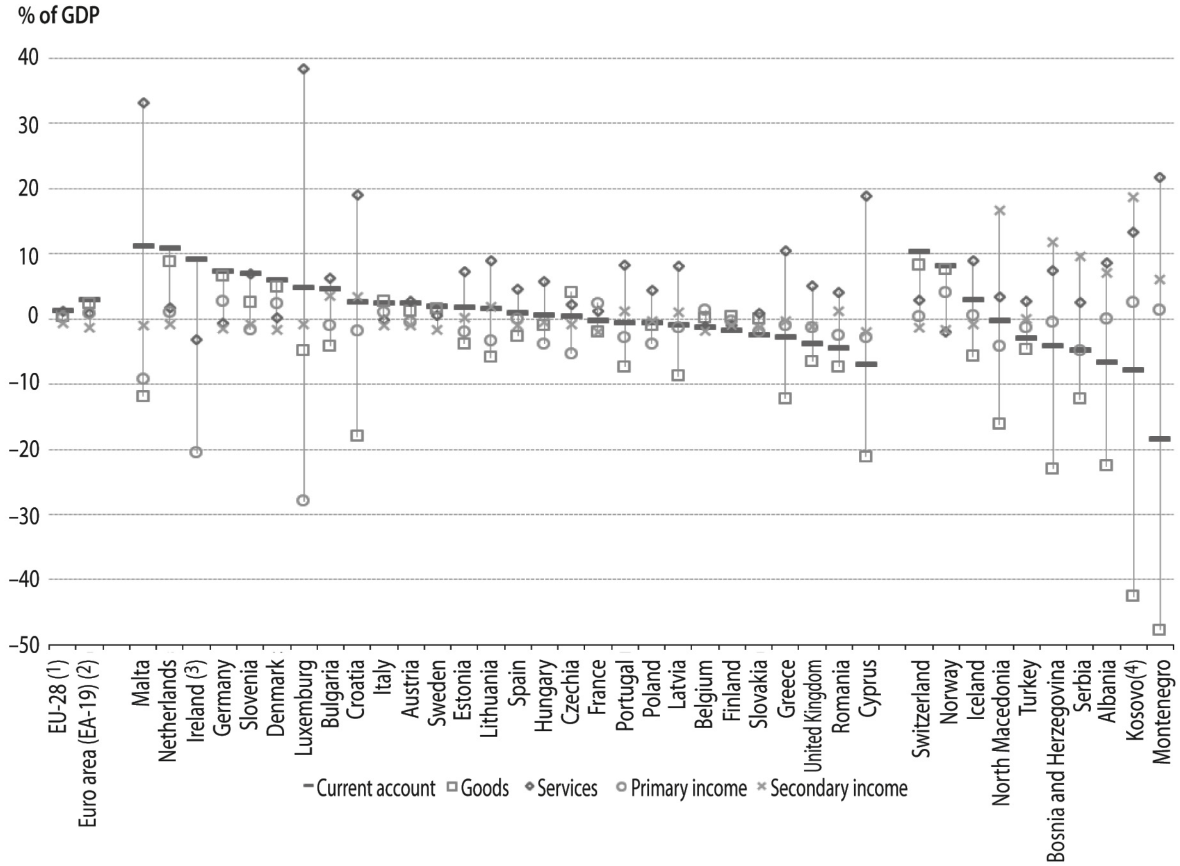

Fig. 5. Main components of the current account balance, 2018 (% of GDP)

Source: created on the basis of [2].

Table 1

Main components of the current account balance and the capital account balance, 2018 (billion euros)

Country	Current account	Goods	Services	Primary income	Secondary income	Capital account
1	2	3	4	5	6	7
EU–28	184.1	61.0	190.1	23.2	–90.3	–34.4
Euro area (EA–19)	334.7	276.4	106.9	100.8	–149.5	–3.1
Belgium	–5.9	0.6	–4.8	6.1	–7.8	–0.1
Bulgaria	2.5	–2.3	3.4	–0.5	2.0	0.6
Czech Republic	0.6	8.5	4.7	–11.0	–1.6	0.5
Denmark	17.5	14.8	0.5	7.2	–4.9	0.0
Germany	246.4	221.9	–19.6	91.7	–47.6	1.9
Estonia	0.4	–1.0	1.9	–0.5	0.1	0.3
Ireland	29.0	–	–10.2	–65.4	–	–
Greece	–5.3	–22.5	19.3	–1.7	–0.5	0.4
Spain	11.3	–31.4	54.9	–0.3	–12.0	6.4
France	–7.1	–47.5	29.8	56.3	–45.7	2.1
Croatia	1.3	–9.3	9.8	–0.9	1.7	0.8
Italy	43.2	47.2	–3.6	17.3	–17.6	–0.6
Cyprus	–1.5	–4.4	3.9	–0.6	–0.4	0.1
Latvia	–0.3	–2.6	2.4	–0.4	0.3	0.5

1	2	3	4	5	6	7
Lithuania	0.7	–2.6	4.0	–1.5	0.8	0.7
Luxembourg	2.8	–2.9	22.6	–16.4	–0.4	0.7
Hungary	0.6	–1.4	7.6	–5.1	–0.6	2.3
Malta	1.4	–1.5	4.1	–1.1	–0.1	0.1
Netherlands	83.7	68.1	13.0	8.3	–5.7	–0.8
Austria	9.0	4.5	10.3	–2.0	–3.8	–0.3
Poland	–3.5	–5.2	22.2	–19.0	–1.4	10.1
Portugal	–1.2	–14.7	16.7	–5.7	2.5	2.1
Romania	–9.2	–14.8	8.3	–5.0	2.4	2.4
Slovenia	3.2	1.1	3.1	–0.7	–0.4	–0.2
Slovakia	–2.3	0.0	0.8	–1.8	–1.2	1.5
Finland	–4.4	1.0	–2.3	–0.7	–2.4	0.2
Sweden	9.1	7.3	2.5	7.2	–7.9	–0.1
United Kingdom	–92.2	–156.1	121.1	–30.1	–27.1	–2.8
Iceland	0.6	–1.3	1.9	0.1	–0.2	0.0
Norway	29.7	28.1	–7.6	15.1	–5.8	–0.1
Switzerland	61.0	49.0	17.6	2.3	–8.0	4.0
Montenegro	–0.8	–2.1	0.9	0.1	0.3	0.0
Former Yugoslav Republic of Macedonia	0.0	–1.7	0.4	–0.5	1.8	0.0
Albania	–0.9	–2.9	1.1	0.0	0.9	0.1
Serbia	–2.1	–5.2	1.1	–2.1	4.1	0.0
Turkey	–22.8	–34.7	21.1	–10.0	0.8	0.0
Bosnia and Herzegovina	–0.7	–3.8	1.3	–0.1	2.0	0.2
Kosovo	–0.5	–2.7	0.9	0.2	1.0	0.0

Source: created on the basis of [4].

Norway and Switzerland reported significant current account surpluses in 2018 (Switzerland – 61.0 billion euros, Norway – 29.7 billion euros). They were supported by a surplus of goods in both countries (Switzerland – 49.0 billion euros, Norway – 28.1 billion euros), a steady surplus of services (Switzerland – 17.6 billion euros) and a steady inflow of primary income flows (Norway – 15.1 billion euros, respectively). On average, about two-thirds of EU member States trade in both goods and services in 2018 was related to trade with other EU partners (*Fig. 6*).

Cross-border trade in goods with EU partners was highest in Luxembourg (84.9%) and lowest in Greece (50.6%); Ireland's value is confidential. Cross-border trade in services with EU partners was highest in Romania (82.2%) and lowest in Ireland (40.9%). Among EFTA countries, Norway showed a high degree of connectivity of its trade in goods and services with the EU (71.6% in goods, 56.7% in services), data for Switzerland and Iceland were not available for publication.

Traditionally, the EU-28 capital account records a deficit accompanied by significant capital transfers to the rest of the world. Three types of investments (direct investment or FDI, portfolio and other investments) consolidate the financial account along with (net) derivatives and reserve assets. Assets and liabilities are interpreted as net worth (net acquisition of assets, net acceptance of liabilities). Accordingly, a net financial account is interpreted as net lending to the rest of the world when it is positive, and net borrowing from the rest of the world when it is negative.

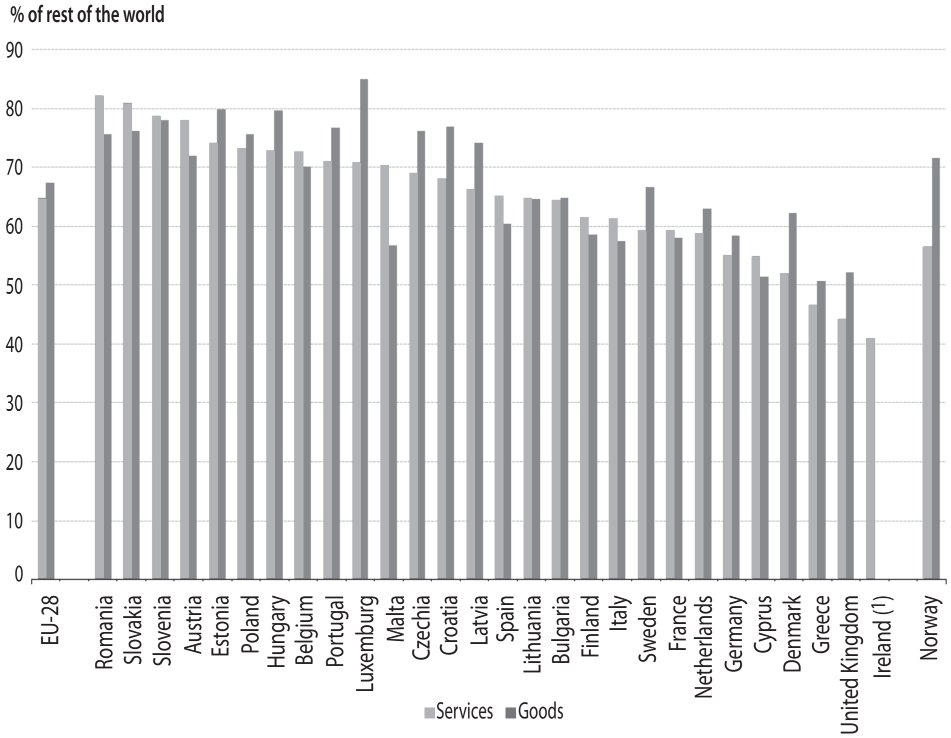

Fig. 6. Impact of trade in goods and services within the EU, 2018 (% of the rest of the world)

Source: created on the basis of [8].

In 2018, the total net value of the EU-28 financial account was positive (11.6 billion euros), and the net value of the Eurozone financial account was positive, too (317.6 billion euros). The surpluses were 0.1 % of GDP (EU-28) and 2.7% of GDP, respectively (EA-19). A total of 19 EU member states were net creditors to the rest of the world in 2018, showing a surplus on their net financial accounts, with the highest value relative to GDP reported by the Netherlands (11.0% of GDP). Nine EU member states were net borrowers, of which Cyprus was most prominent in terms of its GDP (–4.2% of GDP) (*Fig. 7*).

In absolute terms, the largest net lender, by far, in the EU-28 was Germany, with net lending of 225.6 billion euros in 2018 (*Tbl. 2*).

This has significantly affected the status of the EU-28 and the Euro area as a net lender to the rest of the world. Germany's financial surplus was supported by net acquisitions of foreign assets during 2018 in the form of direct, portfolio and other investments (132.7 billion euros, 68.1 billion euros and 124.8 billion euros), which were significantly higher than the corresponding net liabilities for these components. The latest data also confirms that the main centers of operations for financial accounts in the EU-28 in 2018 were Germany, Luxembourg, the Netherlands, Ireland and the United Kingdom.

In the second quarter of the year, the total external debt of developing countries increased by US$ 1 trillion and already exceeds 71 trillion dollars. Of this amount, 80% is in China. This is stated in the report of the International Institute of Finance (IFF).

Chile, Colombia, Egypt, and Nigeria account for almost 75 percent of the loans, because now these countries need more money. Mexico, South Africa, Brazil and Turkey also need to obtain financing in the US currency. At the same time, the situation in developed markets is different. The level of total global debt fell by US$ 1.5 trillion in the second quarter of the year, to 247 trillion dollars. The main driver of this decline is a decline in the financial and government sectors in emerging markets.

By the end of 2017, the amount of global debt had moved to $ 230 trillion, which is more than 325% of the global gross domestic product. Surprisingly little attention is paid to discussing measures to address this problem, as questions about debt are drowned out by calls for "abandoning strict policies".

What is debt really and why is its accumulation such a big problem? When a person has a debt, it means that they have borrowed some amount of money to finance their purchase, and are expected to pay back the borrowed amount in the future. This is

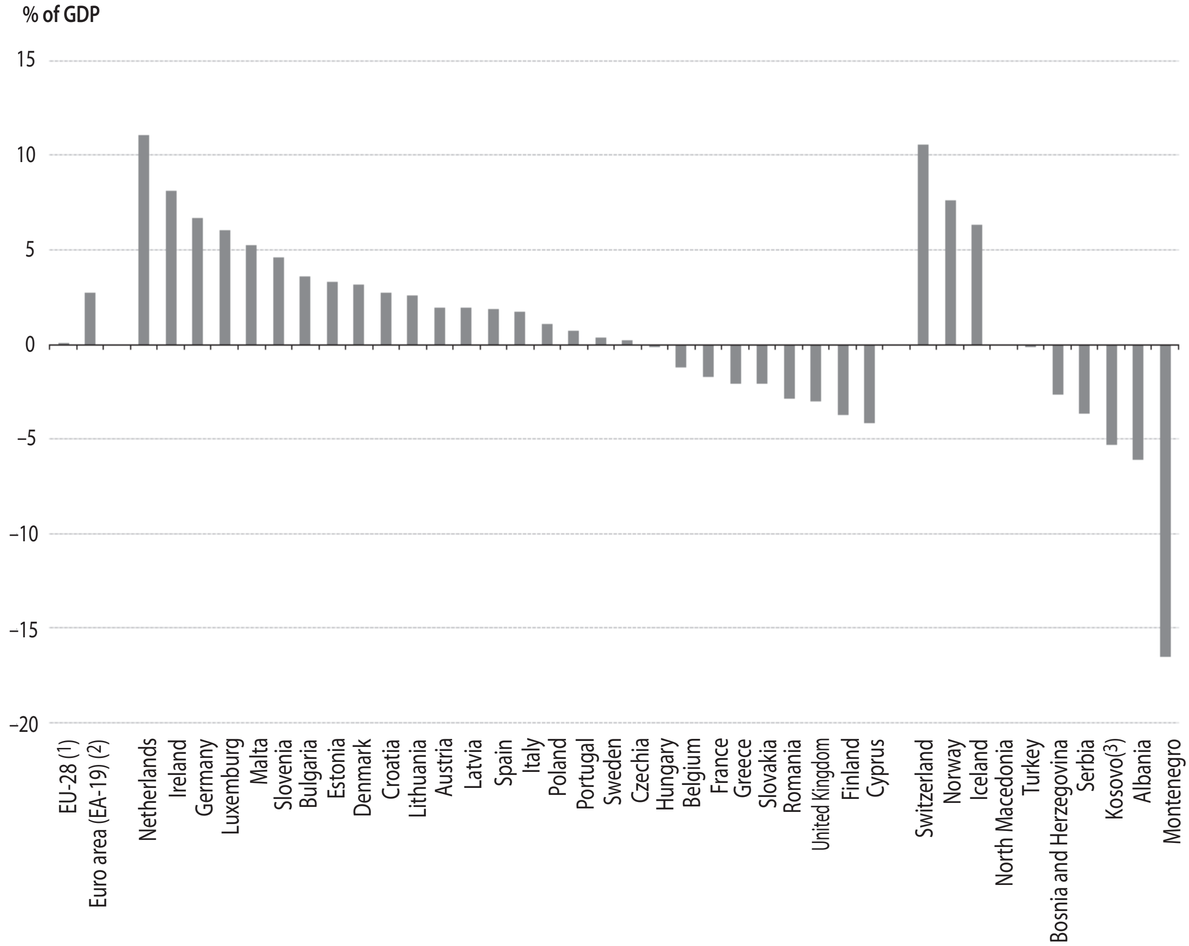

Fig. 7. Fiscal balance, 2018 (% of GDP)

Source: created on the basis of [9].

the same when the issue concerns the economy as a whole, only on a much larger scale, with a much larger number of economic agents and transactions. In a hypothetical debt-free economy, the only way to spend more is to produce more, but in real life there are no such economies. Thus, states are increasing their spending with the help of various debt instruments.

As a result, these economies spend more and allow money to exceed production, though this does not apply in the long term, but only in the short term, and this is one of the reasons for creating economic cycles. Using borrowed resources today is not necessarily bad – on the contrary, it is one of the most effective ways to stimulate economic growth. When these resources are used correctly and efficiently, they generate more revenue for the borrower, thus making borrowing possible. This is bad when loans are used inefficiently, that is, when they stimulate excessive consumption, as they do not bring additional benefits and become impossible.

In fact, the roots of the debt crisis began to make their way back in the 70s of the last century with financial deregulation. A significant reason for the 2008 crisis was increased inequality and the concentration of wealth in a very small percentage of owners. This made many people and states debtors, and more and more money was poured into speculations with dubious financial instruments. Increasing inequality limits economic growth, because fewer people with higher incomes spend less of their money on goods and services than groups with average or lower average incomes. To solve this problem, states started borrowing more and more money, which allowed the economy to continue growing, although few of these revenues went to the poor.

Meanwhile, the rich had even more money, which they invested in speculative loans and risk instruments in order to find big profits. This distinguishes the growth of inequality and financial dysregulation as the main factors that caused the insurmountable financial avalanche of 2008.

Table 2

Main components of the financial account balance with the rest of the world, 2018 (billion euros)

Country	Financial account, net	Direct investment, assets	Direct investment, liabilities	Portfolio investment, assets	Portfolio investment, liabilities	Other investment, assets	Other investment, liabilities	Financial derivatives and employee stock options, net
EU–28	11.6	–121.0	–182.4	110.1	188.6	184.0	233.1	30.4
Euro area (EA–19)	317.6	–220.2	–272.9	184.0	–30.0	237.1	310.0	98.9
Belgium	–5.4	–53.8	–55.5	–6.2	–2.2	–19.6	–11.4	4.2
Bulgaria	2.0	0.8	2.2	0.9	–0.5	1.2	0.6	0.0
Czech Republic	0.5	3.7	7.3	–0.4	–1.3	2.6	0.8	–0.6
Denmark	9.4	0.4	4.6	15.5	–26.8	–32.6	–7.6	–2.7
Germany	225.5	132.7	89.2	68.1	–45.0	124.8	79.5	23.3
Estonia	0.8	–0.3	0.9	0.9	0.0	0.2	–0.5	0.0
Ireland	25.8	85.1	17.7	127.3	138.2	38.7	134.1	54.0
Greece	–3.9	0.8	3.6	0.7	1.3	–5.8	–4.8	0.7
Spain	22.3	27.4	37.6	57.1	47.6	63.6	43.6	0.9
France	–40.7	89.1	57.8	30.4	16.3	129.7	200.4	–25.9
Croatia	1.4	0.4	1.1	0.2	–0.5	–0.7	–0.6	0.0
Italy	30.0	23.4	26.5	46.0	–75.8	21.7	110.2	–2.8
Cyprus	–0.9	–4.9	–0.2	3.4	0.9	–2.2	–3.4	0.0
Latvia	0.6	–0.3	0.3	–0.7	0.6	–0.5	–3.0	0.2
Lithuania	1.2	0.7	0.7	1.1	–0.5	–0.6	1.0	0.0
Luxembourg	3.5	–398.3	–404.0	73.5	157.2	86.2	25.0	20.3
Hungary	–0.2	–70.4	–66.2	–0.1	0.1	2.1	0.5	–.09
Malta	0.6	–5.6	4.0	3.2	0.3	3.2	–3.8	0.2
Netherlands	85.3	–117.6	–144.2	7.1	–21.8	–0.7		
Austria	7.5	0.7	9.4	–1.2	–5.7	5.7	–4.6	–0.8
Poland	5.5	0.5	9.4	0.4	–3.3	5.2	–0.3	–1.1
Portugal	1.4	0.2	4.2	7.6	–1.6	2.3	5.8	0.6
Romania	–5.8	0.8	5.8	0.4	3.5	1.8	–1.2	0.1
Slovenia	2.1	0.2	1.3	0.5	–0.3	1.7	–0.8	0.0
Slovakia	–1.9	2.0	2.2	4.5	1.0	2.0	8.6	0.0
Finland	–8.8	4.1	–4.9	3.4	25.0	2.1	–2.0	–0.1
Sweden	1.6	12.4	4.8	–4.9	3.8	11.5	13.2	4.6
United Kingdom	–72.4	37.5	50.0	–152.2	154.7	198.5	–12.8	14.8
Iceland	1.4	0.0	–0.4	0.9	0.1	0.0	–0.1	0.0
Norway	28.1	–0.4	–16.6	30.4	3.7	5.2	19.5	–
Switzerland	63.2	39.6	–57.0	–10.2	–19.7	–82.6	–29.0	–0.5
Montenegro	–0.7	0.1	0.4	0.0	0.1	0.2	0.7	–
Former Yugoslav Republic of Macedonia	0.0	–0.1	0.6	0.0	0.4	0.3	–0.1	0.0
Albania	–0.8	0.0	1.0	0.2	0.3	0.0	0.1	0.0
Serbia	–1.6	0.3	3.3	0.0	–0.9	1.6	2.2	0.0
Turkey	–1.2	3.1	11.2	2.7	0.2	9.4	0.1	0.0
Bosnia and Herzegovina	–0.4	0.0	0.4	0.1	0.0	0.0	0.7	0.0
Kosovo	–0.3	0.0	0.0	0.0	0.0	–0.1	0.0	–

Source: created on the basis of [7].

Now we should draw a parallel with the current situation. After the huge defeats it inflicted, the hope for debt reduction was combined with restrictive policies, economic recovery, and inflation. No change in policy has been seen so far, economic growth has been insufficient, and the necessary inflation cannot be achieved. In the absence of fiscal and industrial reforms, the world has resorted to the same drug pill that just a decade ago turned out to be the poison that brought the world to the brink of disaster, i. e., borrowing.

What Central banks are currently trying to do is financial repression. They pursue economic and monetary policies to maintain negative or very low interest rates in order to provide cheap loans to businesses or governments and to melt accumulated debt through inflation. Here are some of the current interest rates of Central banks: the Fed has 1.75%, the Bank of England has 0.5%, the ECB has 0.0%, and the Bank of Japan has 0.1%.

Low interest rates increase loans, which in turn cause inflation, and this devalues debt. Take, for example, the average yield on Italian bonds, which are 1.74% or even 0.04% in Japan. These countries are so busy servicing their loan portfolios that they only have problems paying interest on their debt, which requires keeping interest rates low.

The advantages of following this policy are that loans are cheap and affordable, which allows more economic entities to borrow money. So it also encourages consumption and investment, which should propel the economy forward. The negative consequences are that savings are destroyed due to the zero and negative interest on deposits.

It encourages work with high leverage, which allows corporations to finance themselves with a huge amount of foreign capital. Speculations with various assets are also encouraged. A false sense appears that the economic situation is generally good. It is obvious that financial repression is not a sufficient measure, and Central banks are caught in a trap that they themselves have set.

Russia has been exporting capital for the past 27 years, despite the fact that the Russian infrastructure (roads, bridges, ports, airports, etc.) is in poor condition compared to Europe, Canada, Australia, and many other countries [10].

The UK, Australia and Canada are countries that do not produce anything, but are recipients of capital. They have good infrastructure and a high standard of living. When the recipients of capital are China or the United States, there is a logic to this. China is facing an economic boom and a growing domestic market, so it makes sense to invest there. The US issues a reserve currency, so it is more protected from financial shocks than other countries. The movement of capital between countries is not determined by the investment climate, but by the degree of control of the donor country over the recipient country's economy (or vice versa) [10].

Tbl. 3 shows capital flows to and from OECD countries. This is the financial account of these countrie's balance of payments. The minus sign means that the country is exporting capital, and the plus sign means that the country is importing capital. 2018-I is the first half of 2018 (In millions of dollars) [10].

The financial account includes the following transactions between residents and non-residents: direct investments, portfolio investments, loans, deposits, currency purchases, and so on. When a country, for example, has sold oil and received money, it is not capital movement, it is revenue. The movement of money between residents and non-residents when performing export and import operations is reflected in the "Current account of the balance of payments" item [10].

Both the standard of living of the population and the well-being of the elite depend on the flow of capital entering the American (or any other) economy. Let's build diagrams to make it easier to comprehend (*Fig. 8*) [10].

The largest recipients of capital are the United States and the United Kingdom. The largest capital donors are Germany and Japan. (The US imports capital is worth $ 300–400 billion a year, and the UK imports capital is worth $ 100–150 billion a year. Germany exports $ 300 billion a year in capital, and Japan exports from $ 100 billion to $ 200 billion a year). Coincidentally, the largest recipients of capital are the winning countries in the WWI, and the largest donors of capital are the countries that lost in the WWI. Basically, Germany invests in Europe, but the Americans and the British get something, too. The exact sums remain unknown to the general public, as this information is not disclosed by the Bundesbank. Japan also does not detail its net investment position. The US now has a net investment position of minus 8.6 trillion. dollars'. I think there are a couple of trillions of German and a couple of trillions of Japanese. China has long been a recipient of capital, one of the largest in the world, but in 2014, rising rates in the United States led to

Table 3

Capital flows to and from OECD countries 2018–2020

Time / Country	Q2–2018	Q3–2018	Q4–2018	Q1–2019	Q2–2019	Q3–2019	Q4–2019	Q1–2020	Q2–2020
1	2	3	4	5	6	7	8	9	10
Australia	–9690.1	–7082.0	–4826.8	–1768.0	3265.1	5158.8	1490.5	5932.8	11626.0
Austria	2806.5	3305.0	1055.1	2011.9	1954.8	3303.0	4403.3	2065.2	..
Belgium	–1867.4	–2854.0	–3262.2	–2836.7	–3366.9	–37.9	–314.2	329.3	..
Canada	–11202.8	–7612.5	–11911.1	–13023.5	–6665.5	–8681.5	–7051.0	–9833.6	–6223.3
Chile	–2695.6	–2753.1	–3711.7	–2667.2	–3192.6	–2988.6	–2084.3	–1778.5	1172.0
Colombia	–3689.8	–3277.1	–3657.2	–3427.1	–3329.0	–3984.4	–3007.3	–2345.2	–2070.3
Czech Republic	1084.7	–419.3	1297.3	–1602.3	1783.5	–118.5	–810.8	619.2	..
Denmark	4259.4	7353.1	7110.1	6484.5	8480.3	8485.4	7613.8	5707.0	5971.4
Estonia	62.5	–17.1	57.5	193.0	17.4	157.8	249.9	476.6	252.7
Finland	–1111.9	–1822.7	–514.7	166.9	–1381.1	–277.0	251.4	–936.6	..
France	–5138.6	1571.8	–2614.7	–8217.8	365.8	–5815.9	–4464.2	–11898.1	..
Germany	84739.3	64891.5	61894.6	69647.6	62820.4	72458.0	69526.7	67729.7	..
Greece	–1 670.9	–2044.8	–1658.2	–874.5	–598.2	–813.1	–584.6	–465.7	..
Hungary	213.4	–564.5	–67.2	–457.8	–188.4	–762.9	–96.5	–325.0	..
Iceland	191.3	218.5	159.0	513.7	340.5	160.2	489.0	193.0	155.5
Ireland	10284.6	5529.3	–6258.0	13837.9	–43415.4	4282.5	–19725.3	–7780.0	8375.2
Israel	2117.4	2755.8	2077.0	3107.8	3871.6	2886.6	3545.0	3806.4	..
Italy	13959.0	14251.1	10066.3	14851.8	14442.2	12377.2	17495.1	15314.0	..
Japan	49406.6	42191.5	38134.0	45010.8	44135.1	43864.3	48866.2	44555.1	19739.1
Korea	21230.7	24740.5	16246.5	13759.1	13609.0	15950.3	16653.4	16888.5	7214.4
Latvia	153.7	–326.9	138.1	10.2	–151.7	–91.1	55.4	72.7	313.8
Lithuania	–202.6	–92.5	198.2	881.6	59.0	300.2	1062.3	1514.3	..
Luxembourg	–131.1	1436.1	–232.9	–1028.1	1160.8	427.6	2584.1	3863.4	..
Mexico	–5058.8	–8703.0	–6028.9	–7364.8	3250.8	–863.9	627.1	–38.5	–801.4

End of the Tbl. 3

1	2	3	4	5	6	7	8	9	10
Netherlands	25564.2	24095.5	23123.7	21677.9	20634.0	24664.5	23202.6	21984.1	..
New Zealand	–2256.3	–1901.0	–2082.6	–2009.0	–1830.3	–1848.8	–1272.2	–875.5	297.7
Norway	7519.0	10710.5	6209.6	4942.5	4126.4	3300.9	4181.0	4783.2	..
Poland	–900.2	–1633.6	–1595.9	–643.9	–68.6	775.6	2333.8	3076.5	..
Portugal	16.7	295.8	–484.9	–193.8	263.8	–396.1	123.3	–760.3	..
Slovak Republic	–835.5	–76.4	–1330.4	–653.0	–792.6	–1025.6	–557.2	–1226.7	..
Slovenia	831.4	843.8	626.0	732.9	960.6	902.1	928.8	911.0	..
Spain	7342.3	5387.7	5852.4	6613.5	6822.0	6145.2	7893.5	6705.8	..
Sweden	3046.2	3781.2	4161.6	5671.0	5151.2	6435.4	5071.5	7317.1	5687.8
Switzerland	17613.4	11678.0	14016.3	21756.3	20034.3	18755.7	20622.9	18722.1	..
Turkey	–10037.6	–1522.7	4685.7	2570.1	4005.2	2678.1	–602.0	–4763.8	..
United Kingdom	–25357.0	–25563.1	–34186.5	–46605.4	–27625.3	–27514.0	–11867.4	–27034.3	..
United States	–95414.0	–125241.0	–132452.0	–126616.0	–127691.0	–121594.0	–104324.0	–104204.0	..
Euro area	126645.6	93844.2	81938.2	101270.2	71158.4	103233.9	87165.9	54318.9	..
Argentina	–9347.3	–7011.5	–2641.2	–1955.1	–2918.0	–1127.7	2003.7	1031.7	..
Brazil	–9879.9	–9879.9	–10886.8	–9026.9	–15171.3	–13192.4	–12061.1	–9663.9	–666.3
China	–479.1	13665.5	36969.3	51397.8	28769.8	35858.9	25309.1	–16719.6	..
Costa Rica	–721.1	–270.9	–698.6	–444.0	–337.5	–346.8	–325.6	–252.5	..
India	–15415.9	–15415.9	–16171.0	–8859.0	–12607.1	–4893.8	–1299.6	–2990.0	..
Indonesia	–6959.0	–9891.4	–8037.8	–7517.2	–7398.4	–8351.2	–7109.1	–6275.0	–3491.2
Russia	24800.0	35010.8	34215.5	23837.7	18065.4	17173.4	7206.1	12556.2	..
Saudi Arabia	19285.4	24118.7	16232.6	17193.1	14066.3	8137.4	7552.5	5436.1	..
South Africa	–3421.3	–2838.1	–2467.4	–3508.0	–3017.6	–2826.1	–1299.5	117.8	..

Source: created on the basis of [10].

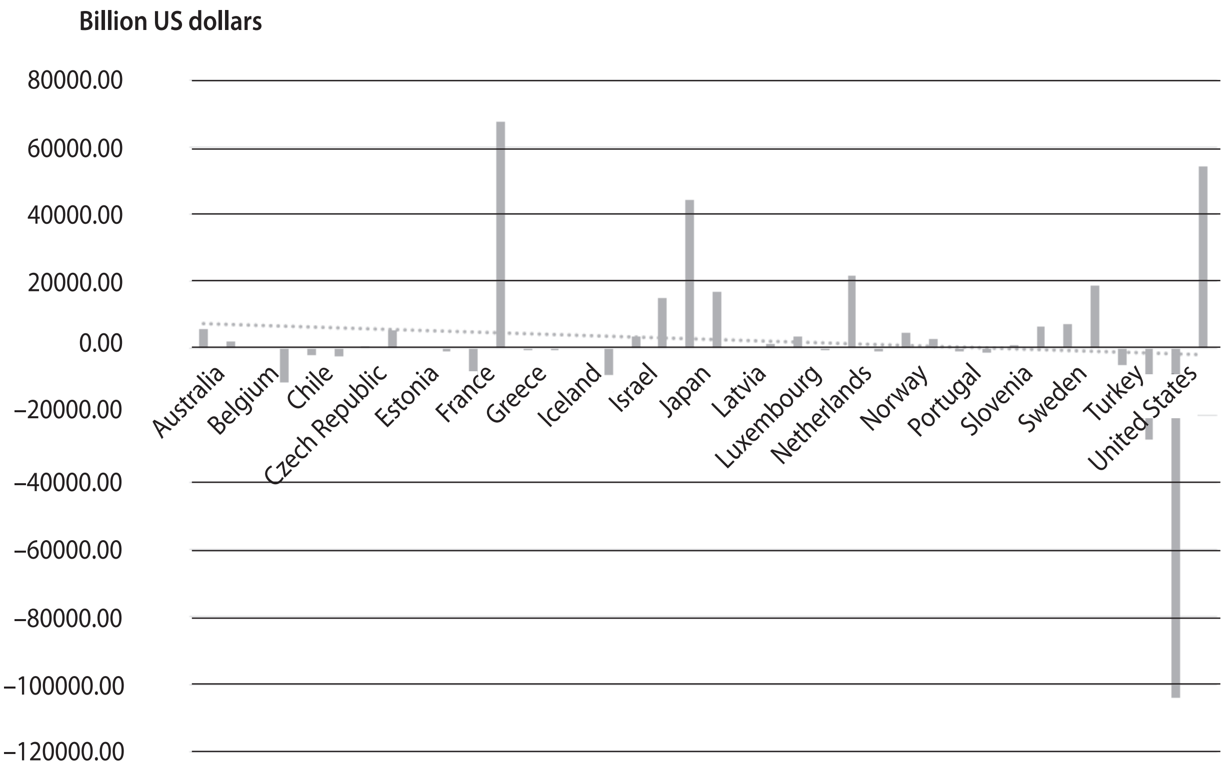

Fig. 8. Capital flows to and from OECD countries Q1-2020

Source: created on the basis of [10].

the collapse of the stock market in China, which caused capital flight from the Chinese economy and for 2 years, 2015 and 2016, China became the largest exporter of capital in the world. Russia is also an ex porter of capital, but not the largest [10].

At first glance, the solution to the global debt problem is simple and consists in raising rates, thus delaying the lending process. However, the time for these measures is over, as with a possible increase in interest rates, many countries will not be able to service their obligations, and the consequences will be unpredictable.

Since 2011, the international debt has been continuously growing after a short fall in the period of 2008–2011. This is mainly due to the fact that rich countries, in order to cope with the crisis, have started either borrowing or lending, adding to an even greater imbalance in the global economy. So in 2015, the gross debt of the United States, Italy, Greece, Belgium and others became 100% of their GDP. While France, Britain and Canada are chasing this percentage, in Japan it has already crossed the 250-point border. For developed countries as a whole, this is the highest level of debt since 1940.

In order for some states to reach such deficits and spend more than they earn, there should be countries that spend less than they can afford and thus provide the former with a balance. These deficits are both public and private: for example, in the pre-crisis period, Germany was the main creditor of Eurozone countries, such as Ireland and Greece. In the first case, the borrowers were private banks, and in the second, it was the Greek government. The more these deficits and surpluses, the more debt is generated between countries, making the global economy vulnerable. So if one country stops lending money to another one, this can lead to the collapse of the other's economy, which means that it will not be able to pay its debt to another country, which will cause a domino effect.

Today, all countries are closely interconnected, and every single negative event in one country is reflected in all the others. This means that we can consider the world economy as a kind of organism with its own systems, vessels and organs.

CONCLUSIONS

In conclusion, we can say that one thing is for sure: the reasons for the current concerns are rooted long before the 2008 crisis. Debt is not a bad tool if it is used to finance investments which make profit or create assets that are worth more than the debt itself. It is difficult to find such data, but if we track the trend of global growth and compare it with the trend of debt accumulation, we will see that this is not happening. In everything, it seems that the situation is out of control: debt continues to accumulate, excessive accumulation of loan portfolios is growing, and low interest rates mean the survival of debts both of companies and states. This leads to liquid risks with the expiration of the debt repayment period.

It is too optimistic to think that such a policy will cause a breakthrough in the mountains of accumulated debt. Governments are addicted to the increase in the loans, and none of the more developed economy would be able to cope with the possible tightening of monetary policy. This means that when the time comes to seriously reduce leverage, economic growth will suffer. Central banks, in turn, are trapped because maintaining such loose monetary policy and high leverage poses the risk of price bubbles forming. Tougher measures mean borrowers are unable to repay. Finally, as long as rates remain at current low levels, investors will look for greater returns, which means taking more risk – this, in turn, can trigger the butterfly effect, destroying the entire financial system. ■

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