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Kusakova Yu.O. *Ph.D.,*
associate professor of the department of international economics, natural resources and economics of international tourism
Tymofieiev V. O. *applicant for the second (Master's) level of higher education, 1st year of study the Educational Program "International Economics"*
Zaporizhzhia National University
(Zaporizhzhia, Ukraine)

THE IMPACT OF EXTERNAL DEBT ON THE ECONOMIC DEVELOPMENT OF COUNTRIES

The modern world economy is characterized by a significant dependence of countries on external borrowing, which makes the problem of debt security one of the most relevant in the global economic discourse. Over the past decades, we have observed a steady trend towards an increase in the volume of public debt in both developed and developing countries. According to the International Monetary Fund, the total volume of world public debt in 2023 reached a record 92% of global GDP, which indicates the systemic nature of this phenomenon in the modern financial architecture. However, the impact of external debt on the economic development of different countries demonstrates significant differences, which are due to a set of factors, among which institutional quality, economic structure, lending conditions and the effectiveness of debt management are of particular importance.

An analysis of theoretical approaches to debt assessment reveals notable differences among economists. In This Time It's Different [1], Rogoff and Reinhart identified a link between high public debt (above 90% of GDP) and slower economic growth, suggesting a decline of 1–2 percentage points annually. However, this thesis has faced criticism, notably from Nobel laureate Paul Krugman, who warned against equating correlation with causation. Krugman argues that the impact of debt largely depends on macroeconomic conditions – such as interest rates and financial market development [3].

Joseph Stiglitz offered a contrasting view in Globalization and Its Discontents [2], advancing the concept of "good debt." He argued that borrowing can boost economic development if invested in infrastructure, education, or innovation. A

prime example is South Korea, which in the 1960s – 70s used external credit to industrialize and modernize – laying the foundation for its later "economic miracle."

In contrast, Argentina's experience from 1998 to 2001 shows how mismanaged debt can trigger crisis. Accumulating debt up to 160% of GDP, the country suffered from a rigid dollar peg, delayed IMF negotiations, and severe political instability – changing five presidents in two years. GDP fell by 20%, unemployment hit 25%, and investor confidence plummeted [4]. Even after a 2005 restructuring that cut 70% of obligations, Argentina defaulted again in 2020 due to persistent fiscal mismanagement.

South Korea, by contrast, successfully overcame the 1997 Asian financial crisis through sweeping reforms supported by the IMF. Sixteen major banks were closed, capital markets liberalized, and the economy pivoted toward innovation. R&D spending rose from 2.1% of GDP in 1997 to 4.8% in 2023 [5], driving the global success of companies like Samsung and Hyundai. Korea's case illustrates how strategic debt use and reform can turn crisis into long-term growth.

Based on the analysis of relevant examples and studies, the following conclusions can be drawn. First, the critical level of debt burden significantly depends on the institutional quality and efficiency of public administration in the country. A vivid example of this is Japan, which for many years has successfully operated with a level of public debt exceeding 260% of GDP without encountering serious crisis phenomena. This was made possible by a high level of trust in the state by domestic investors, a developed financial infrastructure and an effective tax administration system.

Second, lending conditions often turn out to be more significant than the absolute amount of borrowing. Long-term loans with a fixed low interest rate (as in the case of the European Union credit lines for Ukraine) carry significantly lower risks to economic stability than short-term expensive loans that require frequent refinancing. This is especially true for countries with an unstable macroeconomic situation and limited access to international financial markets.

Third, economic diversification remains a key factor in ensuring debt sustainability. Malaysia's experience during the 1998 Asian financial crisis clearly demonstrates that having a diversified export base (in this case, a combination of oil and electronics exports) allows a country to avoid default even in the face of severe external shocks. This is particularly important for developing countries, which are often exposed to volatility in global commodity markets.

Of particular note is the role of international financial institutions in managing debt problems, such as the International Monetary Fund and the World Bank. Their involvement can be useful in providing access to financing and technical assistance, but as the experience of many countries shows, the success of overcoming a debt crisis primarily depends on the willingness of national governments to carry out the necessary structural reforms and introduce effective public finance management mechanisms institutions.

In Ukraine's case, external debt became especially urgent amid ongoing geopolitical shocks since 2014. The full-scale Russian invasion in 2022 intensified

the situation, prompting Ukraine to seek emergency financial support from international institutions. In 2021, the debt-to-GDP ratio was only 49%. However, with the outbreak of a major war in 2022, this figure surged sharply to 77.7%, reaching 84.4% in 2023, and is projected to exceed 100% of GDP by 2025. At the same time, a significant portion of external financing came in the form of concessional loans from the IMF, the World Bank, the EU, and individual donor countries, which helped mitigate debt risks in the short term.

Nevertheless, heavy reliance on external assistance poses challenges to long-term macroeconomic stability. Ukraine finds itself in a difficult situation: on one hand, it must allocate substantial resources to defense spending, while on the other, it has limited fiscal space to stimulate economic growth. The success of the country's future debt policy will largely depend on its ability to implement structural reforms, restore investor confidence, and ensure the efficient use of external funds. In this context, Ukraine's case demonstrates the importance of a strategic approach to debt management amid a deep crisis.

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МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
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Факультет аграрного менеджменту
(кафедра виробничого та інвестиційного менеджменту)
Гуманітарно-педагогічний факультет
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ЗБІРНИК МАТЕРІАЛІВ
IX МІЖНАРОДНОЇ НАУКОВО-ПРАКТИЧНОЇ КОНФЕРЕНЦІЇ ЗДОБУВАЧІВ ВИЩОЇ ОСВІТИ, АСПІРАНТІВ І МОЛОДИХ ВЧЕНИХ «РОЛЬ МОЛОДІ У РОЗВИТКУ АПК УКРАЇНИ»



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КОНФЕРЕНЦІЯ ПРОВЕДЕНА В РАМКАХ ІМПЛЕМЕНТАЦІЇ ПРОЄКТУ МОДУЛЬ ЖАНА МОНЕ «ПРАКТИКИ СОЦІАЛЬНОЇ ТА ЕКОНОМІЧНОЇ ІНКЛЮЗІЇ В ЄС» ЗА ПІДТРИМКИ ЕРАЗМУС+, 101127466 – EPSEI – ERASMUS-JMO-2023-HEI-TCH-RSCH

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