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PUBLIC DEBT AS A DETERMINANT OF INVESTMENT ACTIVITY AND ECONOMIC GROWTH IN UKRAINE

The article highlights the issue of the impact of public debt on the structure of Ukraine's capital markets, its significance for economic growth, and investment activity. The excessive presence of the state, caused by the level of public debt exceeding permissible limits, creates distortions in the supply of credit resources in the markets. An analysis of the dynamics of Ukraine's public debt has been conducted, including an assessment of its size, structure, and growth rates. Key issues related to the dominant presence of public debt instruments in the capital markets, which crowd out private economic agents, particularly non-financial corporations and households, have been systematized. Two forms of the crowding-out effect have been identified – those manifested through the rise in interest rates and the decline in investment activity due to market saturation with government bonds. The focus is on the second form.

The economic consequences of the crowding-out effect for the banking system have been analyzed, particularly the reduction in the share of loans in bank portfolios and the increase in the share of government bonds. The results of econometric modeling of the impact of public debt, bank lending, and the debt-to-GDP ratio on Ukraine's nominal GDP are presented. It has been established that an increase in the debt-to-GDP ratio has a significant negative impact on economic development, while bank lending turned out to be an insignificant factor for growth, which can be explained by the effect of crowding out in the markets.

The solution to the identified problems and the mitigation of the crowding-out effect lie in optimizing the country's debt policy, particularly in determining safe public debt limits and considering the impact of the borrowing structure on capital markets and bank lending trends to support the private sector.

Keywords: *public debt, capital markets, crowding-out effect, lending, economic growth, investment activity, government bonds*

JEL classification: *H60, H63, H81, G 21, E50*

У статті висвітлено проблематику впливу державного боргу на структуру ринку капіталів України, його значення для економічного зростання та інвестиційної активності. Надмірна присутність держави, яка зумовлюється перевищенням рівня державного боргу понад допустимі норми, викликає диспропорції у пропозиції кредитних ресурсів на ринку. Проведено аналіз динаміки державного боргу України, що включає оцінку його розміру, структури, а також темпів нарощення. Систематизовано ключові проблеми, пов'язані з переважною присутністю державних боргових інструментів на ринку капіталів, які витісняють приватних суб'єктів економіки, зокрема нефінансові корпорації та домогосподарства. Виокремлюючи дві форми прояву ефекту витіснення, зокрема ті, що проявляються через підвищення відсоткових ставок та зниження інвестиційної активності внаслідок перенасичення ринку державними облігаціями, увагу приділено саме другій формі.

Проаналізовано економічні наслідки ефекту витіснення для банківської системи, зокрема зменшення частки кредитів у портфелях банків та збільшення питомої ваги ОВДП. Наведено результати економіко-математичного моделювання впливу державного боргу, банківського кредитування та співвідношення боргу до ВВП на номінальний ВВП України. Встановлено, що зростання співвідношення боргу до ВВП має суттєвий негативний вплив на економічний розвиток, тоді як банківське кредитування виявилось несуттєвим чинником зростання, що пояснюється впливом згаданого ефекту на ринку.

Вирішення ідентифікованих проблем та пом'якшення ефекту витіснення лежить у площині оптимізації боргової політики держави, зокрема визначення безпечних меж державного боргу та врахування впливу структури запозичень на ринок капіталів і тенденції банківського кредитування для підтримки приватного сектору.

Ключові слова: *державний борг, ринок капіталів, ефект витіснення, кредитування, економічне зростання, інвестиційна активність, державні облігації*

JEL classification: *H60, H63, H81, G 21, E50*

Statement of the problem. Both the pre-war and wartime periods in Ukraine were marked by a lack of debt sustainability and were permanently characterized by the persistent need to identify sources of resource and financial provision, particularly at the state level. The active accumulation of public debt and the state's continuous borrowing in domestic and international capital markets disrupted its proportionality and created distortions. This is reflected in the fact that the capital markets begin to serve the state's debt needs: public debt instruments dominate, interest rates are distorted by 'non-market' mechanisms, and the state becomes the largest borrower. The aforementioned necessitates the study of the dynamics of public debt in the context of

its impact on the proportionality of capital markets, particularly requiring a scientific justification of the 'safe' level and growth rates of public debt, as well as an assessment of the effects of active state borrowing on investment activity and overall economic development.

Analysis of recent research and publications. The issue of debt pressure on the economy and the impact of public debt on various elements of a country's economic system has been studied by leading scholars worldwide. Particularly valuable for this study are the works of C. Reinhart and K. Rogoff [1], Y. Amann, P. Midlitch [2], T. Herndon [3], J. Wu, M. Kumar [4], K. Chechrerita-Westphal, F. Rotter [5], S. Law, C. Ng, A. Kutan, Z. Law [6]. Using

statistical and mathematical methods, scholars worldwide attempt to determine the 'safe' level of public debt for specific groups of countries and examine its patterns of impact on macroeconomic indicators.

A significant contribution to the study of the impact of public debt on the economy and of state borrowing on the capital markets has been made by domestic scholars, including: V. Bashko, T. Bohdan [15], A. Buriachenko, M. Zamkova, I. Hnydiuk, M. Dubyna, V. Koziuk [11], O. Kushch [16], L. Londar, T. Paientko, V. Marhasova, O. Melykh [7], N. Shpyhotska [12], Yu. Yurii.

Identification of unresolved parts of the overall problem. Despite extensive coverage in the scientific literature regarding the impact of public debt on the economy and capital markets, the problem remains highly relevant in the context of Ukraine's persistent budget deficit and dependence on borrowed resources. Moreover, Ukraine lacks scientifically grounded public borrowing norms, or such norms have been suspended for some time. This necessitates the development of scientific approaches to optimizing the organization of capital markets and public borrowing, particularly in the context of ensuring economic growth, investment, credit activity, and debt sustainability.

Formulation of the article's objectives (task setting). The purpose of this article is to substantiate the negative impact of excessive government debt activity on the capital markets and to quantitatively identify the crowding-out effect as one of the negative consequences of public debt on the national economy.

Summary of the main research material. The issue of the debt segment in Ukraine is an integral part of the economic landscape and is characterized by resilience to change. The size of the national debt varies both in absolute terms and in relation to key macroeconomic indicators. In the context of martial law, when emergency financing of expenditures exceeds the country's fiscal capabilities, this situation further complicates existing challenges, the resolution of which will only be possible within the framework of the post-war transformation of the financial system.

The dominant presence of the state in Ukraine's capital markets inevitably disrupts the access of other participants to financial resources. The root cause can be considered the excessive growth of the country's national debt, which highlights the need for research into debt security thresholds.

As the debt situation worsens among countries globally, scientific research aimed at exploring the various channels through which national debt impacts the economy is intensifying. At the same time, the scientific value of defining the permissible limits of state debt activity is limited for several reasons: developed countries do not exceed the threshold of such activity, while for others, a large number of accompanying factors are present. All of this complicates the determination of the debt activity security threshold for a state at a specific point in time.

The main research question of this article focuses on determining the level of debt burden that may lead to the deterioration of macroeconomic indicators (particularly the dynamics of Gross Domestic Product), as well as the configuration of capital markets (the crowding out of other economic entities by the state).

Contemporary scientific research reveals a nonlinear impact of public debt on the macroeconomic situation. When the size of public debt is relatively small, borrowing can have a stimulating effect on the economy through instruments such as investments, subsidies, grants, and public-private partnerships. However, when the size of public debt exceeds the acceptable safety threshold, the opposite effect is observed – characterized by the crowding-out of private investments, which, in turn, negatively affects macroeconomic indicators.

One of the foundational scientific works that explores the impact of public debt on economic growth is the study by Carmen Reinhart and Kenneth Rogoff [1]. After analyzing the statistics of 44 countries over 200 years, the scholars divided the countries into three groups based on the debt-to-GDP ratio: up to 30%, from 30% to 60%, and from 60% to 90% and above. They concluded that the group of countries with a debt ratio above

90% is characterized by a decrease in average economic growth rates compared to those with lower public debt. In 2015, J. Amann and P. Middleditch refuted the findings of C. Reinhart and K. Rogoff's study [2]. The scientists examined the same countries but classified them into different groups: public debt up to 50% of GDP, from 50% to 90%, and over 90%, while also expanding the time range of the study. The statistics do not show a reduction in economic growth rates in countries where public debt exceeds 90%, as claimed by previous scholars. However, J. Amann and P. Middleditch found a correlation between GDP growth rates and the pace of public debt accumulation in their study. They also observed an acceleration of economic growth in post-crisis periods across all groups of countries studied. At the same time, during periods of the lowest economic growth in countries where the public debt level did not reach the 90% threshold, no patterns were identified.

Thomas Herndon published the results of his study in 2014, which he conducted using data from a larger number of countries and years. He found even higher economic growth rates in the group of countries with the highest public debt-to-GDP ratios [3]. This approach allowed for refuting the existence of a consistent 90% threshold as noted in the studies of Reinhart and Rogoff. Instead, the authors proposed grouping countries by their public debt-to-GDP ratio into the following categories: 0-30%, 30-60%, and 60-120%. Their study demonstrates a slowdown in economic growth in the group of countries where the debt-to-GDP ratio approaches 120%. This research proves the existence of a non-linear relationship between countries and years with low and high debt-to-GDP ratios, which appears to be more of a historical pattern.

From the perspective of its value in the context of this research, the work by Jay Woo and Mahesh Kumar, published in 2015, is devoted to reviewing the relationship between debt growth and economic growth rates [4]. According to the scholars, the impact is transmitted through a slowdown in labor productivity, which occurs primarily

due to a reduction in investment and capital growth per worker. In the context of assessing the presence of the crowding-out effect in the market, this study is highly valuable, as it highlights the primacy of the configuration of capital markets as a factor in a country's economic growth. Similar aspects were observed in the research of Kristina Checherita-Westphal and Philipp Rother, who identified a relationship between the size of the debt and the dynamics of private investment. They established that this relationship is convex, and the threshold level of government debt to GDP ranges between 82-91%. The scholars argue that once this indicator exceeds the threshold (with other factors remaining constant), the growth rate of private investments begins to decline [5]. The reasons for the reduction in private investments under such conditions lie in the inflationary expectations of market participants and the reduction in expenditures on investment and infrastructure development.

An undeniable fact, given the aforementioned studies, is that the level of public debt affects economic growth differently across countries, depending on their level of development. A precise quantitative description of this process is a rather complex task, which scientists are still attempting to solve by selecting and analyzing statistical data from different groups of countries. In 2021, another study was published based on data from 71 developing countries covering the period from 1984 to 2015. A regression equation was constructed, in which several factors were analyzed. As a result of the calculations, a threshold of 51-65% of public debt to GDP was identified, beyond which the country's economic situation begins to deteriorate [6].

In continuation of this research, the scientists used the same model but included the impact of the quality of institutions. The quality of institutions is represented by an aggregated indicator that includes the level of corruption, law and order, the level of bureaucracy, government stability, and the accountability of democratic governance. Data on these indicators were taken from the

International Country Risk Guide database. Thus, this research confirms the hypothesis that the impact of the level of public debt on the economy is not simply a dependence of macroeconomic indicators, but a complex system of qualitative and quantitative parameters of state development as a whole, with econometric models describing only certain regularities that emerge within this system.

An analysis of government borrowing markets in different countries shows a stable trend: in developed countries, domestic investors dominate the government debt market, while in developing countries, as well as in countries with low levels of development, external investors prevail. At the same time, researchers note that the presence of external investors in the government debt market creates higher risks for borrowing countries. This view is shared by Ukrainian researchers, for example: “An active policy of government borrowing in the external market increases the threats to the stability of Ukraine’s public finances and balance of payments, as commercial creditors provide loans to our country at relatively high interest rates” [7].

However, whether domestic debt is as safe compared to external debt, and

what limits of domestic borrowing do not negatively affect the proportionality of the financial market, can be determined by comparing the rates of growth of domestic debt with the volumes of the financial market [8]. With a positive GDP growth dynamic, the repayment and servicing of government debt occur without noticeable negative consequences. However, if the yield on government bonds equals the GDP growth rate, the critical percentage of debt payments to GDP will correspond to the level of new debt to GDP. In global practice, there is a rule to keep the growth rate of government debt aligned with the economic growth rate.

Let us analyze the growth rates of Ukraine’s economy in comparison to the rate of increase in government debt. The data in the diagram (Fig. 1) reflect the dynamics of debt and GDP growth rates from 2014 to 2023. As mentioned, the GDP growth rates within this study represent the growth rate of Ukraine’s economy. The ratio shows an increasing indicator, which means that the GDP growth rates significantly lag behind the rate of debt accumulation in the country. While in 2019 and 2021 the indicator was within the acceptable normative values (less than 60%), in other years it showed growth and significant excess. The peak of exceeding

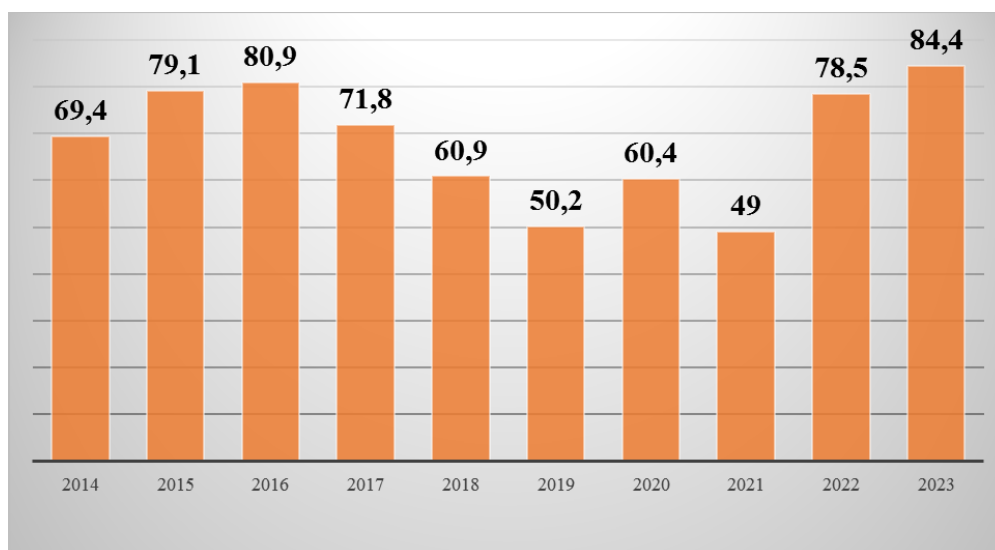


Fig. 1. The ratio of government and government-guaranteed debt of Ukraine to GDP in 2014-2023, %

Source: constructed by the authors based on data from [9,10].

the threshold occurred in 2023 – 84.4%. At the same time, Ukraine is projected to see further growth, which is characterized as a negative trend.

The structure of Ukraine's state and guaranteed debt from 2014 to 2023 illustrates the dominance of external debt (Fig. 2). Despite this, given the significant total debt of Ukraine, including state guarantees, domestic borrowings remain substantial in absolute terms.

The absence of currency risks, which are inherent in external loans, makes domestic loans more acceptable from the perspective of their impact on debt security. However, this is only true if they do not overload an underdeveloped financial market. In such cases, the crowding-out effect is almost always observed. In the context of a limited financial market, the negative impact of government debt on the economy manifests itself in the concentration of demand for investment resources within the government debt segment, which creates a crowding-out effect, pushing other economic agents out of the capital markets.

The crowding-out effect in the scientific literature is considered in two dimensions; essentially, it can be regarded as two different forms of manifestation in the capital markets. The first occurs through an increase in interest rates, which leads to a reduction in

investment volumes due to the government's borrowing activities in the money market. Stimulative fiscal policy causes an increase in interest rates, negatively impacting investment volumes. To counteract this negative trend, the government increases public spending, entering the money market, which results in a rise in demand for money and, consequently, an increase in interest rates (this response from the government occurs ideally). Credit then becomes less accessible to the real sector [11].

The second form manifests in the crowding out of private investments due to the excessive saturation of the market with government debt securities, which are considered less risky for investors compared to lending. As a result, investment activity in the private sector decreases, and the pace of economic growth slows down [12]. This study specifically focuses on this form of crowding out. However, the government's response to this crowding out does not always align with the "market rules of the game"; instead, it further stimulates demand for government debt instruments. In such conditions, the real economy and other sectors lose their investment attractiveness. Therefore, on the one hand, it is important to increase borrowing in the domestic market and maintain the investment appeal of government debt instruments, which,

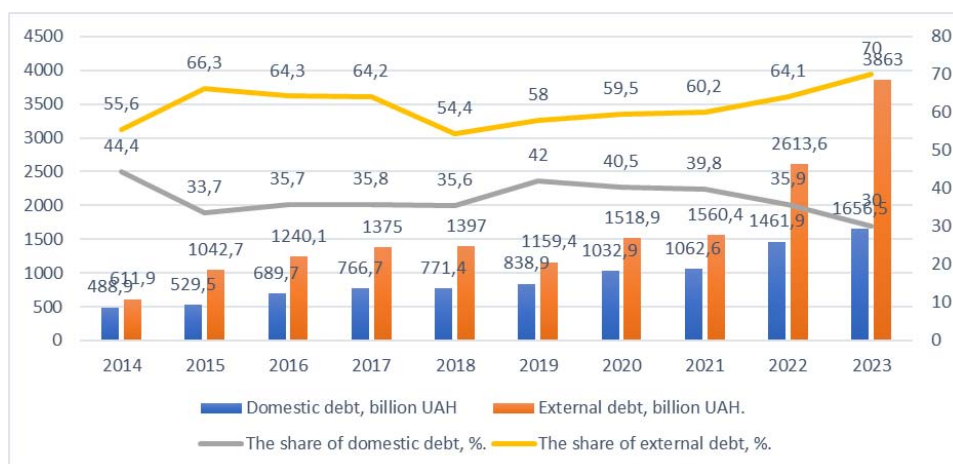


Fig. 2. The ratio of domestic and external debt in the structure of Ukraine's State and State-Guaranteed Debt from 2014 to 2023

Source: constructed by the authors based on data from [9].

for economic participants, are considered investment assets alongside other options, including banking assets. On the other hand, such a strategy results in the crowding-out effect.

The investment potential of the banking sector can be assessed by analyzing the structure of the assets of the banking system, as shown in the diagram (Fig. 3). Thus, the share of government bonds (Domestic Government Bonds) in assets fluctuates between 18-26%. At the same time, the share of loans to non-financial corporations continues to decrease. The same trend is observed in the share of loans to individuals.

The confirmation of the displacement of bank borrowers from the credit services

market due to excessive demand for government debt instruments is reflected in the higher growth rates of both assets in the portfolios of Ukrainian banks, with a direct correlation between the indicators (Table 1).

The calculations confirm the predominance of the growth rate of domestic government bonds over the growth rate of loans provided to clients. From 2016 to 2023, the rate of change in loans granted to clients by Ukrainian banks exhibited significant variability and a downward trend. Meanwhile, the rate of change in domestic government bonds in the portfolios of Ukrainian banks consistently increased, as reflected in the average value of the indicator over the period, which stands at 124.07%.

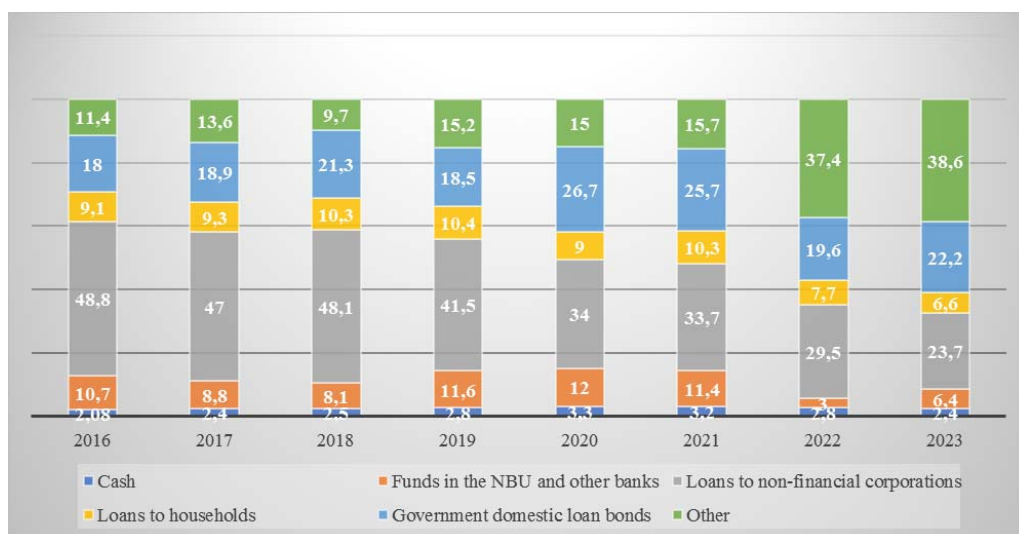


Fig. 3. Share of components in the total assets of the banking system of Ukraine, 2016–2023, %

Source: calculated by the authors based on data from [13].

Table 1

Growth rates of loans and domestic government bonds in the portfolios of Ukrainian banks, 2016–2023

The indicators/years	2016	2017	2018	2019	2020	2021	2022	2023	Average value for the period
Rate of change in loans granted to clients, %	99,96	103,06	107,92	92,36	92,95	110,90	97,27	98,89	100,41
Rate of change in Domestic Government Bonds in portfolios, %	184,97	111,57	116,88	90,09	160,28	102,88	88,01	137,88	124,07

Source: calculated by the authors based on data from [13].

The average growth rate of loans granted significantly lags behind, amounting to 100.41%.

However, despite the above, there is an opinion that banks purchase domestic government bonds not due to displacement but because of the lack of alternatives. In some periods, even a reduction in the discount rate did not lead to an active credit boost for the economy. It is clear that there are several reasons for the slowdown in lending to the Ukrainian economy, and it is not only the displacement effect. These include:

- excessively high interest rates for businesses;
- low solvency of borrowers;
- imperfect mechanisms for protecting creditors' rights;
- decline in economic activity;
- lack of "quality" borrowers (especially considering the need to comply with credit risk regulations).

We do not deny the complex impact of all the factors mentioned above, but the displacement effect, given the quantitative indicators, is still present. Banks clearly choose the more profitable investment alternative in terms of both risks and management opportunities. Considering the existing credit-investment potential of the banking system, there is competition for these resources between national economy actors and government bodies.

One of the reasons for banks' interest in government bonds is the high interest rates compared to significantly lower rates on refinancing loans. Banks also have the opportunity to use domestic government bonds as collateral for refinancing loans, which allows them to maintain liquidity and carry out direct repurchase agreement operations. In this way, the National Bank of Ukraine (NBU) creates conditions for increasing purchases of government bonds, as lowering the discount rate allows banks to obtain refinancing while simultaneously investing in bonds. In fact, this is an element of the regulatory leviathan, as, despite the need to stimulate lending to the economy, there is "non-market" stimulation of demand for government debt instruments.

With excess liquidity, banks in Ukraine are looking for channels to convert it into assets. Given the interest rates on NBU deposit certificates (which are higher than the NBU discount rate), this instrument becomes the most attractive for banks.

Another stimulating factor for the interest of Ukrainian banks in purchasing domestic government bonds is the possibility of using them as part of mandatory reserves. Starting from January 11, 2023, banks were allowed to count a specified list of benchmark domestic government bonds to cover up to 50% of the mandatory reserves. This list was defined by the National Bank of Ukraine (NBU) based on proposals from the Ministry of Finance. Additionally, starting from October 11, 2024, this list was significantly expanded to allow banks to obtain additional liquidity, which had already been in surplus in recent periods.

Evaluating the credit penetration indicator (the ratio of the credit portfolio to GDP) (Fig. 4), it can be noted that its level in Ukraine shows a sharp decline, reaching its lowest value of 15.67% in 2023. Meanwhile, in emerging market economies, this indicator reaches at least 30-40%. The average value in such countries in 2021 was 63.2%, which is significantly higher than in Ukraine [15]. Such values indicate a credit dysfunction in the Ukrainian economy and its banking system. The actual lack of incentives for launching a credit impulse has intensified the effect of investment crowding out. Ukrainian economists emphasize that the share of loans in the structure of capital investment financing in Ukraine is at the level of 5-7%, while 75% is self-financing. Under these conditions, the economy cannot develop, as there is no credit leverage effect. The risks of lending are indeed too high, but this does not mean that lending should be abandoned. There is a need to find ways to redistribute risks, especially in terms of financing the state's priority sectors. The idea of a lack of demand for credit resources is unlikely to be accurate: there is ongoing demand for financing the relocation of enterprises, energy-saving and energy-efficiency programs (amid energy shortages and high

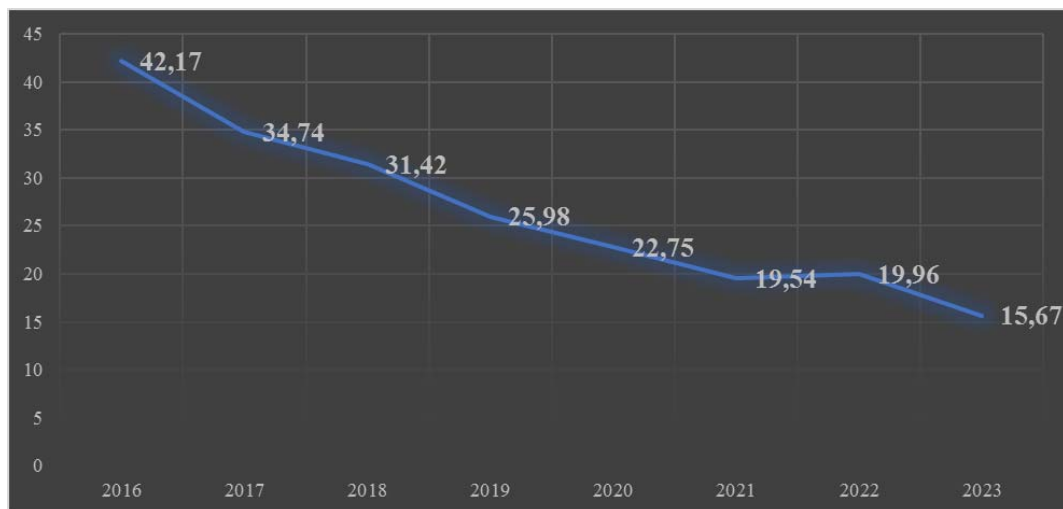


Fig. 4. Dynamics of credit penetration in Ukraine, 2016-2023, %

Source: calculated by the authors based on data from [13].

electricity prices), for import substitution of goods that have become unavailable, for financing the structural restructuring of the economy in a wartime context (for defense orders), as well as for partially restoring business processes [16].

In Ukraine, there are no regulations that limit banks' investments in government debt instruments. However, representatives of the National Bank of Ukraine have repeatedly noted that global practice demonstrates

the necessity of adhering to certain limits on banks' investments in the country's domestic government bonds. This indicator should not exceed 35% of the total deposit base [17]. The data in the diagram (Fig. 5) reflect the dynamics of the ratio of domestic government bonds to the total deposit base of Ukrainian banks in 2016-2023. During the analyzed period, only 2022 and 2023 had values within the acceptable range. In 2019, the indicator was 0.7% below the limit.

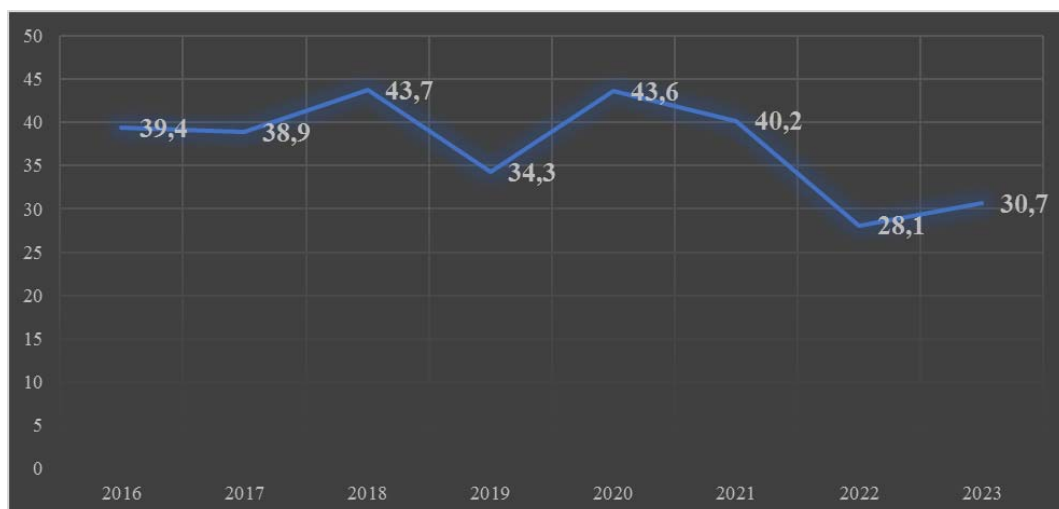


Fig. 5. Dynamics of the ratio of Domestic Government Bonds to deposits in the banking system of Ukraine, 2016-2023, %

Source: compiled by the authors based on data from [13].

Continuing the research, we will use econometric tools to construct a three-factor model of the impact on Ukraine's GDP during the analyzed period, considering the following factors: $Public_{debt}$ – Ukraine's government debt (billion UAH); $Bank_{lending}$ – bank lending to the economy (billion UAH); $Debt_to_GDP_ratio$ – the ratio of total debt to GDP (%).

To build the model, official statistical data from the National Bank of Ukraine and the Ministry of Finance of Ukraine for the period from 2014 to 2023 were used. In this case, the change in GDP value is equated to the pace of economic development, which is somewhat abstract.

The model was built using standard statistical methods, particularly multiple linear regression techniques. For the analysis, statistical software was used, including tools for econometric modeling that allow for the evaluation of the impact of various economic factors on GDP – specifically Excel and the Python tool (using libraries such as Pandas and Statsmodels).

The regression equation is as follows:

$$GDP = 3294,68 + 1,36 \times Public_{debt} + 1,63 \times Bank_{lending} - 62,74 \times Debt_to_GDP_ratio \quad (1)$$

Each coefficient shows the impact of the respective factor on GDP, while other factors remain constant.

The main parameters of the model are as follows:

R-squared: 0.984 – the model explains 98.4% of the variation in GDP.

Adjusted R-squared: 0.975 – confirms the high quality of the model, even considering the number of factors.

F-statistic: 119.6, p-value < 0.0001, indicating the model's high significance.

Additionally, the Durbin-Watson coefficient is 1.72, indicating no autocorrelation in the residuals.

Omnibus test and Jarque-Bera test: p-value > 0.05, confirming the normality of the residuals' distribution.

Table 2 presents the explanations of the main modeling results (regression coefficients) and correlation analysis.

Thus, using the constructed regression model, the impact of public debt, bank lending, and the debt-to-GDP ratio on economic development, expressed in Ukraine's GDP, was analyzed. The model showed that the main factor influencing GDP is the size of public debt. The debt-to-GDP ratio has a significant negative impact, indicating that an increase in the debt burden may limit economic growth. Bank lending does not have a significant impact on GDP, which may reflect the structural features of the economy, specifically the insufficient volume of bank lending as a factor in economic growth. Similarly, no impact of the debt-to-GDP ratio limits on economic growth was found. This suggests that, during the analyzed period, the increase in the share of debt in GDP did not affect economic growth under the given conditions.

Table 2

The main modeling results (regression coefficients) and correlation analysis

Regression coefficients	Correlation analysis
$Public_debt$: The coefficient of 1.36 (p-value < 0.0001) indicates a positive and significant impact of public debt on GDP. $Bank_lending$: The coefficient of 1.63 (p-value = 0.471) suggests that the impact is insignificant, implying a weak relationship between bank lending and GDP. $Debt_to_GDP_ratio$: The coefficient of -62.74 (p-value < 0.0001) shows that an increase in the debt-to-GDP ratio significantly reduces GDP in nominal terms.	Correlation of GDP with public debt: 0.88 (positive and high). Correlation of GDP with bank lending: -0.14 (weak and negative). Correlation of GDP with the debt-to-GDP ratio: -0.11 (weak and negative).

Source: calculated by the authors.

Conclusions. Excessive state presence in the capital markets, accompanied by a significant volume of government debt instruments, leads to reduced accessibility of credit resources for private corporations and households. The study shows that the growth rates of domestic government bonds exceed the growth rates of bank lending to the economy, which has resulted in a decrease in investment activity.

This paper uses regression analysis to assess the impact of public debt, bank lending, and the debt-to-GDP ratio on Ukraine's economic growth. The results show that the main factor influencing GDP is the size of public debt, and that an increase in the debt burden may limit economic development. Bank lending to the economy does not have a significant impact on GDP, which may indicate its insufficiency and the presence of a crowding-out effect.

This study demonstrates the need for certain measures that will contribute to addressing a complex and challenging economic issue – reducing the negative impact of public debt on the economy

without abandoning borrowing in the domestic market. The key areas for addressing these issues involve developing scientifically grounded limits on public debt that account for the specifics of economic and capital market conditions; introducing incentives to activate bank lending to the private sector; and optimizing the structure of public debt to ensure conditions for minimizing its negative impact on other segments of the market.

Further scientific research should focus on studying mechanisms to reduce the economy's dependence on state borrowing through the introduction of alternative financial instruments. Special attention should be paid to the threshold values of the debt burden, determining their criticality for the economy and their consequences for investment activity. The experience of other countries in managing debt risks is also of great interest, as it will allow the adaptation of effective practices to Ukraine's conditions, considering the specifics of martial law and the challenges of the post-crisis period.

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PUBLIC DEBT AS A DETERMINANT OF INVESTMENT ACTIVITY AND ECONOMIC GROWTH IN UKRAINE

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The scientific article highlights the important issue of the impact of public debt on the structure and functioning of Ukraine's capital markets and overall economic growth. The aim of the article is to substantiate the negative impact of excessive government debt activity in the capital markets and to provide a quantitative identification of the crowding-out effect as one of the negative consequences of the country's public debt on the economy.

It systematizes the views of leading global scholars on the size of a country's public debt in the context of ensuring economic growth. The existence of a relationship between the accumulation and size of public debt and economic growth, specifically the country's GDP, is substantiated. However, the article emphasizes that this is not the only factor determining economic growth in the country. Given the faster pace of government debt accumulation compared to GDP growth, a decrease in investment activity – particularly in bank lending – is observed. This trend is further exacerbated by the crowding-out effect, as excessive government debt activity displaces private entities, worsening overall economic dynamics.

The economic consequences of the crowding-out effect for the banking system are analyzed, particularly the decrease in the share of loans in bank portfolios and the increase in the proportion of government bonds. The results of econometric modeling of the impact of public debt, bank lending, and the debt-to-GDP ratio on Ukraine's nominal GDP are presented. It is established that an increase in the debt-to-GDP ratio has a significant negative impact on economic development, while bank lending turned out to be an insignificant growth factor, which is interpreted as a consequence of the presence of the mentioned effect in the market.

Considering the specifics of the Ukrainian economy during the period of martial law, the study proposes a relevant approach to assessing the debt burden, emphasizing the need to optimize public debt policies.

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