

Considerations regarding the Strategy for managing the Stock of Sovereign Debt of Romania

L. C. Risti, C. Nicolaescu

Lucia Camelia Risti, Cristina Nicolaescu
Faculty of Economics
"Aurel Vlaicu" University of Arad, Romania

Abstract

The paper aims an analysis of the evolution of the stock of sovereign debt of Romania in recent years, in the macroeconomic context of this period. The study aims to examine also the strategy for managing the different types of risks that are associated with public debt. At the same time, the work will result in purposeful sustainability studies of sovereign debt in the context of fiscal-budgetary strategy adapted by our Government in front of the community authorities and in front of our nation.

Keywords: sovereign debt, the stock of government debt, risk management, public debt, tax-budgetary strategy.

Introduction

Starting from the budgetary equilibrium concepts according to which "the loans granted from the State budget may be covered either on account of the final receipts, either on account of resources from the State's hiring of a long-term loan", (Talpoş, 1996, p.117) crystallized the concept of public or sovereign debt (Kamenaga, 2003, p. 239-263). As it was stipulated in the first law of public finances of budget deficits since

1989 cover shall be made by the Contracting State loans or issuing treasury bills, being prohibited from financing through coinage.

Research issue

The need to have information about the financial effort that makes a State, as a result of contracting of loans, is requested both, by the authorities as a manager of public debt, by lenders to know his client state solvency, as well as by citizens, ultimately the later benefiting from borrowed funds on public services, but the rates payers due public debt on the tax levies.

Literature review

The formulation of the concept of excessive indebtedness belongs to the economist Jeffrey Sachs (1984) who starts from the theoretical prediction that excessive debt is associated with the situation in which public debt service is directly proportional to its nominal value.

Recent works (Adam, 2011, p. 57-74) suspects that the Government debt has important implications for the conduct of monetary and fiscal policies. These considerations would induce risk budget necessity, which can provide important incentives to reduce quantitative public debt over time, but the optimal speed of debt relief is not necessarily reported in accumulated public debt levels.

For various reasons, may be significantly understated the speed optimal for debt reduction. First, constraints at the global level, the inequality of such loan limit implied by the Laffer's curve may provide additional incentives for debt relief.

W. Corden's model (1989, p. 243-257) aims to adjust excessive debt in the three sequences, because of the changes in national income distribution between consumption and investment, for the purposes of the levy in the second sequence of a larger investment.

The model proposed by Hoffman and Reisen (1990) starts from the model proposed by Corden, who added the international capital mobility hypothesis. The model of Hoffman and Reisen lies in appreciation of the constraints resulting from the debt-liquidity report. This constraint is represented graphically below.

Helpman, E., Frenkel, J., Dooley, M. and Wickman, P. propose a model that excludes the hypothesis that the consumption behavior is

determined by the public and passes a decision for household's consumption.

The starting point in the model developed by D. Cohen (1989) is his Laffer's curve on the external public debt. At a certain level of tax burden the effect is to reduce public revenue and not to increase it, as might be expecting from those who legislated the imposition.

The effect of the policy regarding the rate policy of the Central Bank on the cost of government debt was highlighted by the analysis conducted by G. Bloise and P. Reichlin (2008, p. 1721-1731) showing that, if the Central Bank stabilizes the nominal interest, the level of debt remains an undetermined cost, when at least part of the debt consists of debt securities with an infinite maturity, even under a regime of non-richardiane policy.

Research methodology

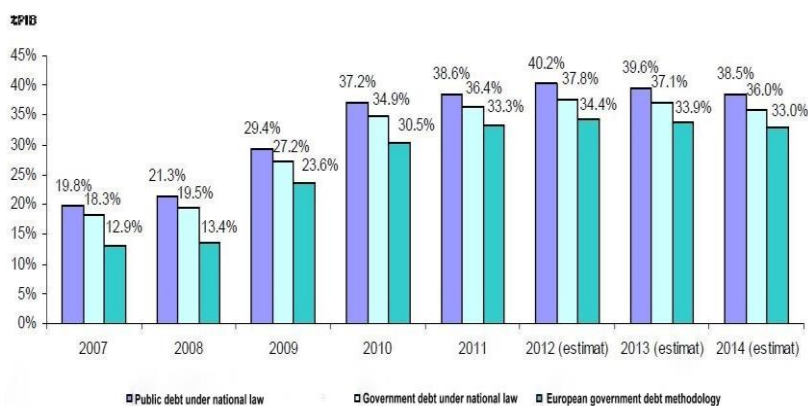
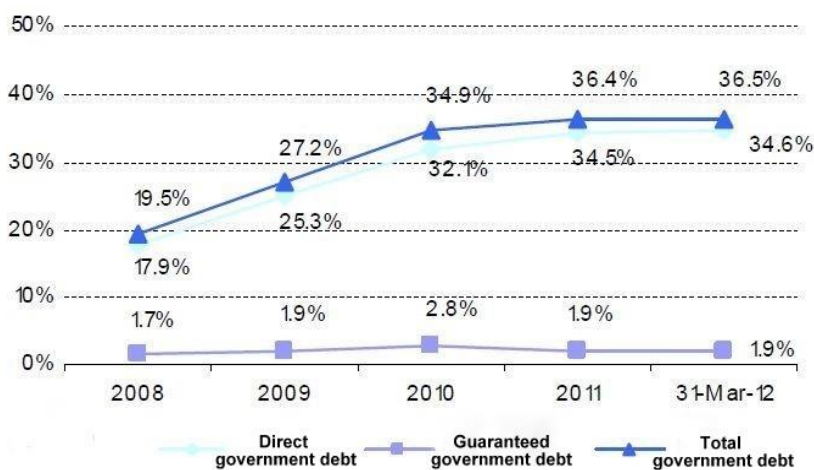
Production function Cobb-Douglas and utility function log-linear shows that there is a threshold for the initial stock of government debt at every level of government debt for public investments because of the deficit politics to be sustainable, and that threshold is increasing the stock of public capital.

Helpman model examines the interdependence of public debt and the level of investment in terms of the mobility of capital and then in its absence. In the first situation, the debt level for the purpose of the reduction has positive effect on the level of investments only where the business environment is not subject to an additional facility. In the second situation, the reduction in public debt is accompanied by increasing levels of investments only in conditions of a relaxed attitude about the risks from investors.

Laffer's curve leads to the conclusion that along with the increase in creditors' rights of public debt; it will be reducing the benefits received by them. Rational behavior of these would be in the vision of Cohen, to proceed with the restructuring of the debt so as not to lose the benefits due, the first step being in this case the determination of the maximum current value of anticipated future payments to be made by the debtor country.

Results of the study

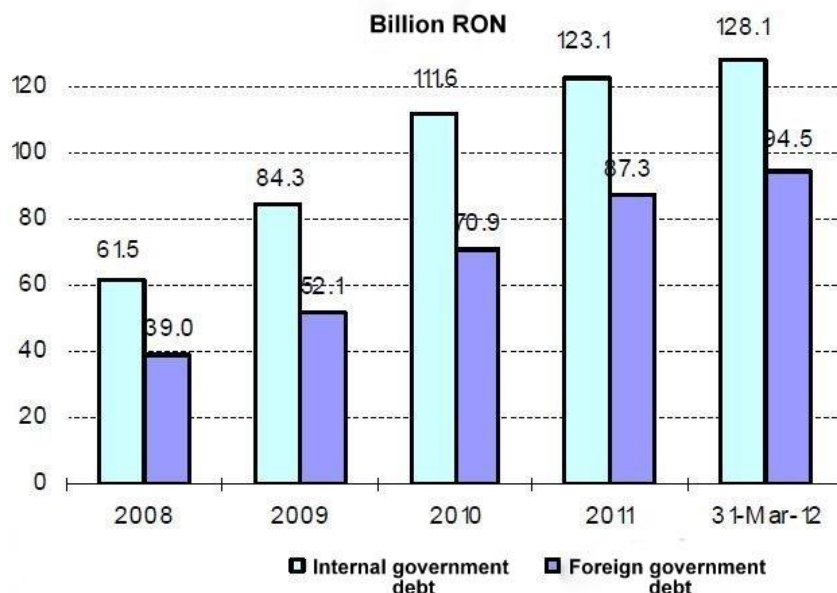
In the analyzed 2007-2014 period, the dynamics and structure of public debt in Romania has evolved as follow:

Fig. no. 1. Level government debt, %/GD (2007-2014)**Fig. no. 2.** Level government debt direct and guaranteed (2008-2012), %/GD

As shown in fig. no. 1, public debt in 2007-2014 could not overcome 40% from PIB (related to the requirements of the Stability and Growth Pact). It must be within reasonable limits, below 60% from PIB.

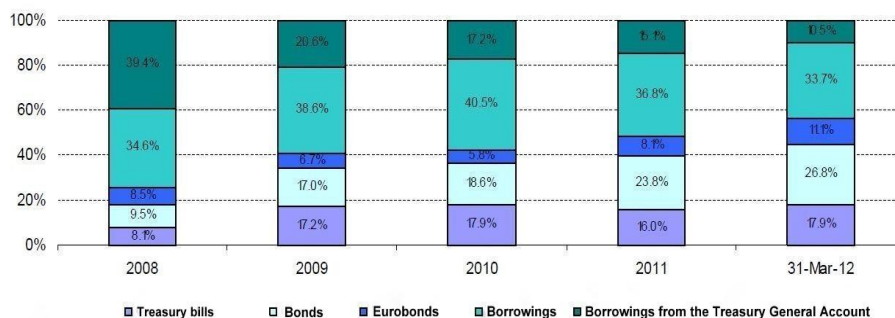
Also, the level of debt guaranteed by the Romanian State is insignificant in relation with the direct one.

Fig. no. 3. Volume government debt, billion lei (2008-2012)



In terms of the origin of its loan, it is noted in the chart above that more than 50% is internal.

Government debt structure after the financial instruments is illustrated in the graphic below; the issuance of State Securities in Romania is made by Minister of Public Finances, which has as an agent for sale transactions, settlement, transfer and storage, National Bank of Romania. As it is observed the state loans represented in recent years the preferred tool of the Romanian State for contracting government debt.

Fig. no. 4. Structure government debt after instruments (2008-20012)**Fig. no. 5.** Government debt cost (2011-2015)

As shown in fig. no. 5, in the analyzed period the interest charges on the public debt grew at a minimum level for year 2011, year 2012 achieves the maximum value in the PIB, 1.8%. In terms of the share of public debt with interest in Romania, PIB have diminished values compared with the developed or developing countries, with a 3-4% from PIB average.

Debt management involves along with a legislative framework to ensure the improvement of the financial and budgetary discipline and the development of a strategy which aims primarily to set some targets on the structure of government debt for the purposes of portfolio optimization. It also outlines the influences and sovereign debt portfolio

risks against the background of developments on domestic and foreign financial markets. In this context, two major risks are whose effects must be limited in performance management process of the public debt: the risk of refinancing, the market risk (currency risk, interest rate risk), credit risk, the risk of counterparties and the risk of payment errors in the payments system, the operational risk

Regarding to Romania's sovereign risk, it is periodically evaluated by a number of international agencies providing the country's rating.

Other findings

Techniques for budgeting of government debt are different from one state to another, as in some countries the legislature imposes limits and ceilings until that you can borrow (Denmark, USA, Canada), while in others (United Kingdom) public borrowing are included in annual budgets, however are not subject to public voting. In France the procedure is to include operations in the public budget Treasury debt (Belean, Anghelache, Risti, Gînguță, 2007, p. 282).

Conclusions

On the management strategies of government, the medium term public debt developed by the Romanian authorities (www.mfinante.ro) for the 2011-2014 period allow the detachment of general financial policy regarding the management of government debt. Considering the sources for financing the budget deficits, as well as the developments on the domestic and international financial markets management strategy of the Government public debt in recent years they are related mainly on: increase the control of public debt, reduce the cost of government debt on the medium and long term, limit the risks associated with the portfolio of governmental public debt and Government securities market development.

Bibliography

- Adam, K. (2011). Government debt and optimal monetary and fiscal policy, *European Economic Review*, Volume 55, Issue 1, p. 57-74.
- Belean, P., Anghelache, G., Risti, L., Gînguță, A. (2007). *Finanțele publice ale României*, Editura Economică, București.
- Bloise, G., Reichlin, P. (2008). Infinite-maturity public debt and the fiscal theory of the price level, *Journal of Economic Dynamics and Control*, Volume 32, Issue 6, p. 1721-1731.
- Cohen, D. (1989). Debt Relief: Implication of Secondary Market Discounts and Debt Overhangs, *World Bank Economic Review*, no. 4.
- Corden, W. (1989). Debt Relief and Adjustment Incentives, in Frenkel J.A., Dooley M.P. and Wickman P. (eds.) *Analytical Issues in Debt*, International Monetary Fund, Washington D.C., p. 243-257.
- Hofman, B., Reisen, H. (1990). Debt Overhang, *Liquidity Constraints and Adjustment Incentives*, Working Paper, no.32.
- Kamenaga Anzai, Y. (2003). Attitudes towards public debt in medieval Genoa: the Lomellini family, *Journal of Medieval History*, Volume 29, Issue 4, p. 239-263.
- Sachs, J. (1984). Theoretical Issues in International Borrowing, *Princeton Studies in International Finances*, no. 54.
- Talpoș, I. (1996). *Finanțele României*, Editura Sedona, Timișoara, p.117.
- www.mfinante.ro, archive *Raportări datorie publică*;