

# GOVERNMENTAL DEBT MANAGEMENT AND BUDGET DEFICIT FINANCING

## MANAGEMENTUL DATORIEI GUVERNAMENTALE ȘI FINANȚAREA DEFICITULUI BUGETAR

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**Abstract.** *Since 2005 the legal frame for governmental public debt is focus on the Public debt law nr 313/2004. According to this law, MFP is responsible for contracting and administrating the public debt. This paper deals with few dynamics and structure elements.*

**Keywords:** *public debt, budget deficit, state loan, guarantee, expiration.*

**Rezumat.** *Începând din 2005 cadrul legal pentru managementul datoriei publice este reprezentat de Legea datoriei publice nr.313/2004. Conform acestei legi, Ministerul Finanțelor Publice are responsabilitatea de a contracta și gestiona datoria guvernamentală. Asupra unor elemente de dinamică și de structură ne oprim în rândurile de față.*

**Cuvinte cheie:** *Datorie publică, deficit bugetar, împrumut de stat, garanții, scadențe.*

Nowadays, the rate of Romanian public debt is less than 20% from GDP. We underline that this level is much lower than the 60% limit established by the Maastricht Settlement. For example, at the end of 2005, the governmental debt, determinate by EU (ESA95) methodology, has represented 15,9% from GDP, from which, about 3,2% is the internal debt and about 12,7% is the external debt.

For the end of 2006 the level of this indicator tends to be approximately 13 % from GDP. Governmental debt recouped on types of instruments show us that at the end of 2005, government stock was represented 31,2% from the total debt, the rest being loans.

Regarding to the initial expiration of the governmental debt, 6,4% is a short term debt, while 93,6% is a medium and long term debt, the medium expiration being about 5,6 years. In the same time, it's has to be mentioned that the public debt recouped on types of instruments show us that 39,2% from the total is a debt with variable rate.

Still, the debt in national currency has represented 19,1% from the total debt, while the debt in EURO was about 51,5% from the total of debt in circulating medium.

### ***Dynamic of the governmental debt***

The approaching of recent dynamic (by the end of 2006) of the elements regarding to public debt requires a series of elucidations. As we shown previously, the internal public governmental debt is define by the public debt Law no. 313/2004 as a part of the public debt of state that represents the amount of the financial internal obligations of state resulted from directly contracted or guaranteed by Government loans, through Ministry of Public Finance, in the name of Romania, from the internal financial market.

The increase of internal public debt is accomplishing by strictly framing in the limits for internal public debt, approved by the Romanian Parliament. Thus, for 2006 the limit for internal public debt was established at the amount of 9.600,0 mil. Lei (3 billions Euro). The margin with internal credits of this limit was 29.32% at 31<sup>st</sup> December 2006.

### ***Public debt structure***

From the internal governmental public debt structure point of view, we shown that, as a part of governmental public debt, it summarizes 25.149,8 mil. lei at the 31<sup>st</sup> December 2006, and, according with the public debt Law no. 313/2004 it's presenting as it follows:

1. the direct internal governmental public debt - generated by the consolidated budgetary deficit and by the nonperforming assets undertaken by the state to public debt on the base of a special laws: 23.684,8 mil. lei;
2. the guaranteed internal governmental public debt – generated by the guarantees for internal credits contracted in lei/Romanian currency and in foreign currency: 1.465,0 mil. lei.

The internal governmental public debt is financed by contracting of state loans in lei / Romanian currency and foreign currency directly from the internal market, hereupon is adding the loans with temporary character from the resources of the governmental accounts collected in the general account of the state treasury: special social assurance fund for health, special fund for the payment of unemployment benefits, available assets in lei of the commercial debts and the incomes from privatisation, available assets in lei of the incomes from privatisation.

The direct internal public duty in sum of 23.684,8 mil. lei represents 94,2% from the total internal public debt and it's composed by government stock with a 3,21 years medium term of expiration.

In this context, the most important bench-marks are:

- a) The structure on debt instruments:
  - Certificates of treasury and certificates of deposit issued and sold to the population in lei in amount of 1.086,0 mil. lei – 4,6% from the total of direct internal public debt;

- Government stock - financing the deficit in lei in amount of 3.119,1 mil. lei – 13,2 % from the total of direct internal public debt;
- Government stock - special laws in amount of 20,6% mil. lei – 0,1% from the total of direct internal public debt;
- Temporary financing from the general account of state treasury in amount of 19.459,0 mil. lei (operative date) – 82,2% from the total of internal public debt;
- b) Structure on the expirations:
  - Government stock on the short term ( $T \leq 1$  year) in amount of 1.086,0 mil. lei – 4,6% from the total of direct internal public debt;
  - Loans from the general account of state treasury ( $T \leq 1$  year) in amount of 19.459,0 mil. lei – 82,2% from the total of direct internal public debt;
  - Government stock on the medium term ( $1 < T < 5$ ) in amount of 2.608.9mil. lei – 11,0% from the total of direct internal public debt;
  - Government stock on the long term ( $T > 5$  years) in amount of 530,8 mil. lei – 2,2% from the total of direct internal public debt.
- c) Structure on debt holders:
  - banking sector in amount of 1.928.5 mil. lei – 8,14% from the total of direct internal public debt;
  - No banking sector in amount of 2.297,3 mil. lei – 9,7% from the total of direct internal public debt;
  - Another holders (governmental accounts) in amount of 19.459,0 mil. lei – 82,16% from the total of direct internal public debt.
- d) Structure on currency issue:
  - Government stock evaluated in lei in amount of 14.854,5 mil. lei – 99,9% from the total of direct internal public debt;
  - Government stock evaluated in US dollars in amount of 14,2 mil. lei – 0,1% from the total of direct internal public debt, the equivalent of 5,4 mil. USD, calculated at the course LEI / USD from the report date.
- e) Structure on types of interests:
  - Government stock with fixed interest in amount of 23.548,6 mil. lei – 99,0% from the total of direct internal public debt;
  - Government stock with variable interest in amount of 136,2 mil. lei – 1,0% from the total of direct internal public debt.

### ***Costs, guarantees, sold***

According to official sources (PFM), the cost of the internal public governmental debt, materialized in expenses with interests afferent to the direct internal public governmental debt, Public Finance Ministry course differences and payment in the account of the state guaranties issued for internal credits is about 597,8 mil. lei representing 1,49% from the state

budget total expenditures made until 31<sup>st</sup> December 2006 and 0,18% from GDP.

According with the public internal debt Law no. 313/2004, the payment for the service of internal debt is benefiting by the permanent budgetary authorization.

Regarding to the government stock secondary market we underline that the transactions made on the secondary market are taking place accordingly with the Regulation related to operations with the government stock issued in dematerialized form approved through the Order of public finance minister no. 1408 from 22<sup>nd</sup> September 2005.

The guaranteed internal governmental public debt is connected with stipulations of the public internal debt Law no. 313/2004. Public Finance Ministry is authorized to issue state guaranties for internal loans which are contracted by a legal entity from a credit institution, for financing the projects or activities that have the highest importance for Romania or for some other destinations named and approved by the Government.

The state guaranty for an internal loan represent an indirect obligation of Romanian state, which is executed in the situation that the beneficiary of the loan doesn't have the capacity to pay, totally or partially, the loan, the interest and the other costs established accordingly with the conditions of the guaranteed loan.

In the structure of the guaranteed internal governmental public debt remains extremely important the balance account of the state guaranties for the internal loans at 30.11.2006, which is about 1.465,0 mil. lei (compounded by 66,0 mil. RON and the equivalent of: 542,1 mil. USD, 2,1 mil. EUR and 65,9 thousands RUBLE, transformed at the exchange rate from the end of the reported period in sum of 1.399,0 mil. RON) and it is constituted from the balance account of the state guaranties based on special laws, from the balance account of the state guaranties for internal credits contracted in lei and foreign currency and the balance account of the state guaranties for internal loans contracted by local public administration authorities.

The balance account of the state guaranties based on special laws totals 1.416,2 mil. lei and are constituted from guaranties in lei in amount of 24,4 mil. lei plus the equivalent in lei of 539,3 mil. USD , 2.1 mil. EUR and 65.9 thousands RUBLE in amount of 1.391,8 mil. lei.

In accordance with the special laws that had generated the grant of the guaranties, these are structured like that:

- guaranties granted based on the O.G. no. 39/1999 in favour of Romanian Commercial Banks S.A. by Guaranty letter no.22738/10.12.1999

hereby are guaranteed extra-balance sheet engagements staying in store and which totals 61,5 mil. USD.

- guaranties granted based on the H.G. no. 909/2000 for application of O.U.G. no. 131/2000 regarding the settlement of the patrimonial situation of BCR S.A. in litigation result from the activity unfolded by BANCOREX S.A. until its radiation date from the Trade Register, summarising 0,19 mil. lei and 14,0 mil. USD.

- guaranties granted based on the H.G. no. 833/27.05.2004 regarding the limit increasing of the extra-balance sheet engagements which for is granted the state guarantee under the condition of the art. 17, O.G.39/1999, by Guaranty letter no. 19860/02.06.2004 and which totals 425,6 mil. USD.

- guaranties granted based on the H.G. no. 832/27.05.2004 for modification of H.G. no. 909/2000 approved in O.U.G. no.131/2000 application, by Guaranty letters no. 19851/A1/1-35/2004, no. 19852/A2/1-3/2004, no. 19853/A3/1-3/2004, no. 19854/A4/1-15/2004 and which for are guaranteed the amounts that are the litigations object under the role of judicial instance in which is part as respondent Romanian External Trade Bank BANCOREX S.A. until the radiation date of this from the Trade Register and at 30.11.2006 totals 24,2 mil. lei, 38,2 mil. USD, 2,1 mil. EURO and 65,9 thousands RUBLE.

The balance account of the state guaranties for the internal credits contracted by economic agents and central public administration authorities contracted in lei/Romanian currency and foreign currency was about 20,4 mil. lei, which from:

- for the credits in lei is amounting to 0.6 mil. lei, and represent the credits granted in previous years by the RAIFFEISEN BANK S.A., BCR SA, BANC POST S.A. and BANKCOOP S.A., being considered overdue credits;

- the balance account for the RAIFFEISEN BANK S.A. credit in amount of 12,4 mil. lei in S.R.I. favour through Logistic Import;

- the balance account for internal credits in foreign currency is amounting to 7,2 mil. lei (2,8 mil. USD, at the 2,5676 lei exchange rate LEU / USD), the beneficiary of this credit being TAROM S.A.

The balance account of the state guaranties for internal loans contracted by the local public administration authorities' aiming to finance the investments on the Measure 2.1. in the SAPARD Program was summarising 28,6 mil. lei at 31.12.2006.

Finally, we underline that the structure of the internal public debt guaranteed on currency issue is presenting like following: 66,0 mil. lei, 542,1 mil. USD, 2,1 mil. EURO and 65,9 thousands RUBLE.

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