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DISCRETE ELEMENTS OF PUBLIC INDEBTEDNESS PLANNING

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Abstract:

The sustainable development concept was born 30 years ago, and it was defined as a program of actions developed worldwide, whose aim is to implement the targets of meeting the actual needs of people, without compromising the approach of future generations in the achievement of their own development programs.

But in order to implement this grand transnational program, all participant States have to make additional efforts, a situation that requires to analyse the risks associated with the entire process, in order to scale the efforts so as not to affect their national public budgets in a destructive way.

For this, the United Nations Organisation, through its specialised structure, UNCTAD, has organised the 10th Conference, whose main aim was to analyse the level and evolution of the public debt for the States participating in this process.

Before committing to this program that was initiated after 2015, the international community concluded that it was necessary to dimension the funding of the set of "sustainable development goals" so that, as stated, not to affect significantly the future debt of the participating States, particularly the developing ones, debt that should remain within sustainable parameters throughout the approach.

Other international activities have also been reviewed, activities that were adjacent to the program and which could affect its funding possibilities.

Among the most significant were mentioned the need to normalize the interest in developed countries, in order to maintain the incidence on public debt increase in

developing countries within sustainable limits, the repercussions of price fall for basic products on the viability of debt of exporters for these products and, not least, the risks and benefits of developing countries' access to the international capital market.

However, simultaneously with these elements of international strategy, the public debt managers have to develop effective management actions, at the level of governments of participating States, so that the task of refunding the loans contracted now would not affect the achievement of future generations projects, situation that would be contrary to the ideas of sustainable development and, consequently, would create a moral problem, brilliantly set forth by the American economist Henry Kaufman, Ph. D in banking and finance, who said ... "no one knew how to explain, neither to taxpayers nor to their elected representatives, why the loan today must diminish the ability of future generations to develop their own programs."

Considering all this, we will present below some elements necessary to streamline the public debt process, especially during the programming phase of setting the loan requirement.

Keywords: sustainable development, public debt, developing countries

Generally, the public debt management process takes place in two main phases:

- **programming phase;**
- **implementation phase.**

It has been noticed that if during the second phase the public debt manager adopts and develops their own methods and procedures, with a view to achieve a most efficient management of the contracted amounts, the phase of programming the loan requirement is given less attention, even though it should be considered at least as important as the implementation phase.

Usually, the loan requirement [Nc] is calculated as the sum of expenses to be funded, which – due to unforeseen situations – has not been included in the various budgets composing the national public budget, at the required level, or has been recorded at an undersized level.

The loan requirement can be calculated with the following mathematical formula:

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$$Nc = \sum_{i=1}^{n} C(i),$$

where:

C(i) – expenses to be funded;
n – sum of expenses to be funded.

Considering this, the financial sources attracted from the internal or external capital markets, at the level of the loan requirement, form the total public debt [Dt] , whose size is given by the total [Nc] of the loans contracted by central or local government structures over a certain period, in national currency or in various currencies converted in national currency[1].

The total public debt is expressed mathematically by the formula:

$$Dt = \sum_{i=1}^{m} Nc(i)$$

where:
m = the total number of contracted loans.

As mentioned, the total public debt [Dt] consists of the government public debt and the local public debt:

$$Dt = Dg + Dl,$$

where:
Dt – total public debt, expressed in national currency;
Dg – government public debt;
Dl – local public debt.

The two components of the total public debt are calculated as follows:

$$Dg = Dgd + Dgg$$

$$Dl = Dld + Dlg,$$

[1] Romanian Government Decision No. 1470/2007 approving the methodological norms

where:

Dgd – direct government public debt;
Dgg – guaranteed government public debt;
Dld – direct local public debt;
Dlg – guaranteed local public debt.

Still, in order to develop an efficient management, the mathematical calculation procedure presented above is not enough, considering that the programming of the loan requirement in optimal economic conditions, specifically in the framework of the three "E"s – economicity, effectiveness and efficiency – should produce, in the effectivity phase, the fourth "E", such effects so that the total amount [Nc] of the engaged loans fits within the planned levels.

In order to achieve this goal and to get a real dimension of the loan requirement, the programming phase needs to take into account, besides the level indicated by the lapidary "loan requirement, at a certain moment, of a government", definition adopted by the International Monetary Fund and mentioned in one of the protocols annex to the Treaty of Maastricht, also elements that, over the loan period, could affect the levels initially planned, plus or minus, both situations being able to determine negative effects in the budgetary systems.

An overestimation of the real loan requirement would not justify the additional costs induced and, as mentioned, neither the transfer of responsibility to future generations, for the effects of a poor and unjustified government management, morally speaking.

On the contrary, an underestimation of the loan requirement would lead to contracting other loans, mostly in emergency circumstances, so with terms briefly negotiated or imposed by the financier, determining, by the so-called „snowball" effect, increases, most often unwarranted of the level of indebtedness.

Considering this, only the "loan requirement, at a certain moment..." does not represent entirely the concept, therefore the need to analyse and take into account also other influencing elements becomes a need of first emergency.

Here are some of these elements:

1. Economy status for the forecast period[2].

The need for loan appears when, for various reasons, the budgetary provisions do not allow to achieve projects at the planned level, which is provided in different components of the national public budget.

As an immediate consequence of this situation, projects funding will no longer be possible, with all the adverse effects resulted. Considering this, the loan requirement calculated only based on the necessary amount to fund the development programs or other similar activities should be amended with the expected effects that could be induced by the evolution of the economy situation over a certain period. .

It is obvious that during the periods of economic expansion the risk of a budgetary gap is significantly low and , as a consequence, the need for loan would appear only in the case of new actions decided to be taken over the budget year.

On the other hand, the economic growth implies an increase of the assumptions for budgetary revenues growth, a situation that also would significantly reduce the need for loan.

From the facts presented, it follows that the manager responsible for public debt management, when determining the loan level against the need, has the obligation to take into account any revenues that could be collected as a consequence of the effects of economic growth, and that could cover the difference between loan requirement and loan level.

2. Structure of the public sector.

The status of the public sector, at a certain moment, is also an element that should be taken into account by the public debt manager when setting the loan level.

Usually, the public sector can be defined as the sum of state institutions and local communities, state institutions being considered both governmental structures and social protection systems, as well as various public services working outside the public budget.

The component that should not determine the need for additional funding compared to budgetary provisions and, consequently, the decrease of premises for contracting a loan generating public debt is the one that forms the social protection system, because according to the theoretical provisions of its operation, at the level of a budget year, the payments should not exceed the level of contributions collected.

[2] **Popeangă, P., Controlul financiar al contului datoriei publice, Ed.“Romania de Maine”, Bucharest,1998.**

Within these size limits, the public debt manager has the obligation to analyse also the possibility to cover part of the need for loan funding from the net assets of the public sector, calculated as the difference between the state's total assets and total liabilities.

The properties of the public sector, consisting generally of all land, mines, stocks of all kinds, including precious metals and others, record increases or losses in value over time, depending on market fluctuations.

Considering this, when dimensioning the loan requirement it is mandatory to take into account also the evolution of the value of state assets that, over the growth period, create the premises for additional sources of funding planned expenses, thus making possible to decrease the level of loan amount.

Some of the actives, qualified as non-strategic, can even be sold within the government's privatisation programs, creating new funding sources and thus diminishing the growth factors of public debt level.

For countries whose free market economies are still undergoing a consolidation process, funds obtained after the privatisation of some of state assets can also form, in case of financial gaps, important sources for financing expenses, thus avoiding to contract new loans.

3. Convertibility of national currency

For the countries with economies undergoing a consolidation phase, which do not have convertible currency, the consequences of variations on currency market can be significant, with direct effects on the loan level, considering that all external loans are contracted only in convertible currency.

Another influence arises from the inflationary phenomena that accentuate the erosion of public debt, with significant effects on the budgets of countries with inconvertible currency.

Under these circumstances, when determining the actual level of loan requirement it is imperative to take into account forecasts regarding the evolution of convertible currencies, considering that all elements of a loan – instalments, interest, fees – are dimensioned, and thus refundable, only in the convertible currency negotiated in the contract.

4. Public investments.

Due to the fact that the investment is made in human capital, a certain category of public investments, namely those made in education, culture and health, although in accounting terms are considered current public expenses, represent, ultimately, an important element that, by means of the effects induced on the system, form an important factor of economic growth, whose effects will manifest in the decrease of need for loan.

Investments in quality of life growth factors are also important elements in reducing the need for future loans, as a result of decreasing the costs in the health system and, consequently, in significantly increasing the workforce, with beneficial effects on growth, through tax systems, financial input of employed population in the various components of the national public budget.

Although hard to quantify, because of the future effects induced in the system, investments in human capital represent an important factor that must be taken into account in long term dimensioning of loan requirement.

x x

x

Considering the aspects presented above, the total public debt [Dt] does not consist only of the total contracted loans that form the sources necessary for financing expenses for which there are no budgetary provisions.

The loan requirement [Nc] should be amended with the resultant of effects of the time action of elements mentioned above, taking into consideration that the loans with guaranteed refund, contracted by central and local government structures, become public debt elements only if the loan beneficiaries do not observe anymore, for various reasons, the contractual agreements regarding the refund of rates, interests and other amounts due (fees, penalties, etc.). The burden of refund lies, in this case, with the financial structures of the State.

$$Dt = Nc + Rt,$$

where:

Rt – total resultant of effects.

$$Rt=\sum_{i=1}^{m} Re(i) +/- \sum_{j=1}^{n} Rs(j) +/- \sum_{k=1}^{p} Rc(k) +/- \sum_{l=1}^{r} Rv(l),$$

where:

Re(i) – resultant of the effects induced by the economy situation;

n – total number of effects induced by the economy situation;
Rs(j) – resultant of the effects induced by the public sector structure;
m – total number of effects induced by the time evolution of the public sector;
Rc(k) –resultant of the effects induced by the convertibility of national currency;
p – total number of effects induced by the evolution of national currency convertibility;
Rv(l) – resultant of the effects induced by the level of public investments;
r – total number of effects induced by public investments.

The procedure presented makes the public debt management more efficient and can be applied to any State participant to the program of sustainable development. Of course, it does not fill the gap, from the international financial architecture, of an efficient integrated mechanism to ensure regulation of major financial problems faced now by most of the world's States.

The purpose of this approach was to alert the public debt managers about several elements less used when programming the loan requirement, in order to limit the burden on future generations for refunding the currently contracted loans, also as a result of a less efficient management[3].

[3] 10-eme Conference ONU sur la gestion de la dette, Geneve, 2015