TOOLS USED BY ROMANIA FOR FINANCING BUDGET DEFICIT

INSTRUMENTE FOLOSITE DE ROMÂNIA PENTRU FINANȚAREA DEFICITELOR BUGETARE

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Abstract: *The budget deficit is an unconditioned[*] and irrevocable obligation of the state to pay capitals, interests, fees and other reimbursable costs incurred or guaranteed. Credit techniques and tools used in Romania up to now, for financing and refinancing public debt and budget deficits were limited to a small number of such procedures and means, including: short-term loans and other loans contracted either public or private banking system, that is, short term Treasury bills emission, such as medium or long term reimbursement*

Key-words: *deficit financing, treasury bills, bonds, Eurobond*.

INTRODUCTION

In the first years after the revolution, these types of loans were interest-free and currently their official interest is that of the Central Bank's official rate and it is paid by the state budget. In return, the National Bank pays interest on the day for all the Treasury's liquidities in the current general account located at the National Bank of Romania. The advantage of these resources is that they can be reached quickly, as needed, increasing the liquidity of the Treasury immediately, but the disadvantage consisting in that these resources should be returned just as quickly as it had been acquired

[*]GORDON O., 1989, Le Tresor et le Financement de l 'Etat, La Documentation francaise Paris, pg.89

MATERIALS AND METHODS

Regarding the procedures and instruments for financing and refinancing public debt and budget deficits, an important tool was that implemented in 1992, through bonds which are government bonds with maturities over one year and maximum five years that is more than five years after issuance, according to the terms set in the loan.

Another type of loan contracted by the State Treasury is achieved through the banking system or operators. Interest on these loans is determined by public auction, organized by the National Bank of Romania, acting as an agent of the state. Since 1999, the Treasury has used the method of borrowing from the public, by attracting available savings by using **fixed-rate certificates,** by using cash through cash subscriptions and later by account, through bank transfer. These programs were developed through its territorial units, achieving significant savings for the state budget by eliminating the fees that were paid for such operations to CEC units, currently CECBANK and other intermediaries[*].

If they are not redeemed at maturity, they are converted into certificates of deposit. In this situation, the calculation of interest on certificates of deposit shall take into account the capitalized interest plus the nominal amount of Treasury bills. The interest due for the subscribed period of the loan and certificate of deposit is calculated by the formula:

$$D = \frac{VN \times \text{number of days} \times \text{interest rate}}{360 \times 100}$$

where: D = interest in absolute amount;

VN = nominal value of the certificate of treasury turned into certificates of deposit. If the amount was in deposit over 30 days, to VN we also add the capitalized interest of treasury certificate, the number of days =

[*] Public Treasury in Romania, GABRIELA ANGHELACHE, BELEAN P., RISTI LUCIA ALINA GINGUTA ALINA, 2007, Public Budget and Economic Publishing House, Bucharest, pg.83-85;

number of days spent in storage, interest = interest at sight set in the issuing prospect.

Just as is the case of other economies, the interest that is calculated for subscriptions to state loans as well as those converted into deposits is paid on account of state budget provisions[*]. Until the financial year 2002, the interest corresponding to the amounts recorded in the accounts of deposit was paid from the Treasury budget, and since the 2003 financial year and until now it was covered from state budget expenditures. Repurchasing of government securities before maturity takes into account the following factors: nominal unitary value, unitary value of repurchasing government securities on the transaction date and the return provided by the title to maturity, determined as follows:

$$R = \left(\frac{V.N.}{V.A.} \right) - 1 \times \frac{360 \ or \ 365}{n} \times 100$$

where:VN = nominal unitary value

VA = the unitary value of repurchasing government securities on the transaction's date, n = number of days to maturity, 360 or 365, depending on the base of issuing prospect.

Another category of resources to cover the budget deficit and maturity rates of public are represented by the trances of **loans made by Romania to the international financial institutions through the NBR**[†] and which in 2009 was to the amount of 19.95 billion Euro which is added to the funds meant to cover annual budget deficits and to that regarding public debt payment. Of course these loans are interest bearing, those in euro with an interest of 4.5% per year, while loans from banks in domestic currency bear an interest of aprox.10%.

[*] Public Finance Law no.500, published in MOR nr.597/13.08.2002, as amended and supplemented;

[†] www.mfinante.ro

RESULTS AND DISCUSSIONS

At the beginning of 2010[*], the state budget owed 9.6 billion Euros to the banks, with maturities over the next five years. Only this year are due 5.17 billion Euros, representing loans from banks in 2009, with interest on payment of 500 million euros, which amounts to approximately 4.5% of GDP this year.

Regarding the issue of government securities, their value in 2009 exceeded six times the 2008 value. In 2006, the Romanian state has drawn from banks, in 62 sessions, approximately 62 billion lei issue bonds and Treasury bills discount and another series of euro-denominated bonds worth approximately 4 billion Euros in other 4 auction sessions.

But for all these massive loans last year, during 2010-2016, the Romanian state has to reimburse to the Fund approximately 12 billion Euro representing SRW[†], plus interest of 3.5%.

However, Romania still has a debt of 29%, representing half of the conditions imposed by the Maastricht Treaty, which requires Member States to maintain the debt ratio below 60% of GDP. But unlike the developed countries whose long-term maturity loans is 25-30 years, in Romania the highest maturity time period is ten years.

If we consider the Romanian state budget deficit imposed by the IMF for 2010[‡], the approximately 35 billion Lei plus debt service payment of installments on public debt of approximately 25 billion lei, it results a net borrowing for the year 2010 of 60 billion lei. The loans contracted by the state banks in 2010 amounted to approximately 38 billion lei.

But if we consider that 2009 was a special one, we can prefigure a decrease in state's appetite for loans from banks and to the extent that swat[§] credit is still at a low level, the state will be able to guide itself towards foreign capital markets involving lower funding costs than banks, **the Eurobonds**, which although scheduled for 2009 were launched in 2010. Their value was a billion euro, with five years maturity and a yield of 5.17%

[*] Eurostat Database
[†]Special Rights of Withdrawal
[‡] State Budget Law for 2010, nr.11/2010, published in Official Gazette No. 60, Part I of 27.01.2010;
[§] Cost of insurance against the risk of insolvency

per year and 5% total, which is 1.5% better than the IMF agreement and considered suitable for this region. The operation will continue in the first quarter of 2011, which may limit the impacts of crowding them financially[*].

CONCLUSIONS

In conclusion, the techniques and credit instruments used in Romania today, for financing and refinancing public debt and budget deficits, are relatively in small number consisting of:

• **Short-term loans** granted by National Bank of Romania, especially to cover temporary cash gaps and current deficits;

• **fixed-rate treasury certificates**;

• **benchmark bonds or floating rate**;

• State Treasury **loans** through **banks or businesses**;

• amounts received by the MPF from **sub-loaned** bodies under agreements made with them;

• **loans made by Romania to the international financial institutions through the NBR**;

• **Eurobond** issues;

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