GLOBALIZATION OF THE MARKETS AND PUBLIC LOANS

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Abstract: Optimal function of any state needs to cover the public financial needs through the collection of taxes and other contributions. Very often, the mentioned sources are not enough, or there are some problems regarding collecting of money at the right moments. This is one of the main reasons why the state resorting to government loans very often. The loans come from the domestic and foreign markets. These loans are so-called extraordinary sources of state funding. It is important to emphasize that government loans are routinely used by all countries for funding. Last century involved many important changes on the international level. The changes are the result of many factors: military conflicts, the collapse of communist system, important technological achievements and the important increasing of commerce (including banking commerce). Century XX brought the globalization as a main feature on planetary level. Globalization has manifested first in the technological and economic field and then, steps by step in other domain of the life. Among other benefits, globalization brought freedom and democracy ideas in different countries of the world. This phenomenon brought multiple benefits and allowed the money fluxes to freely circulate on the worldwide level, without any obstacles and barriers.

Keywords: globalization; public debt; state loan; state loan; state guarantees.

1. General information about public loans.

Public lending is not the same thing as the private loan because the returns of the money guarantee it is the responsibility of the state. Also, public borrowing will lead to a series of financial efforts from the state in terms of more efficient collection of taxes and even establishing of new ones. An analysis of the public loan outlines some advantages and disadvantages when it is used:

• the main advantage is that rapidly solve any financial deficits facing the state at a time.

• the main disadvantage is that burdening future economic growth because it involves restitution in the future.

Among the main features of any public loan are:

• complexity - any loan agreement includes a plurality of elements - interest, terms, conditions, type of program, compensatory measures, additional clauses, deadline of reimbursement etc .

• the depth consideration - assuming the payment of interest, fees, penalties, interest, accessories etc.

• legality of the agreement - is committed to strict compliance with the law, according to the will of the parties;

• contractual specifics - is done by signing an agreement between the state and bank or financial institution.

2. General notions on state loan in Romania.

Under current legislation the government is able to contract some state loans from the domestic or foreign markets. These loans may be contracted only through the Ministry of Finance. State loans are engaged only in certain circumstances and taking in consideration the necessity to meet certain financial deficits. According to Roman law, there is the possibility of concluding of state loans in the following cases:

• coverage of the state financial deficit;

• temporary financing of the deficit created in the previous years;

• maintaining of and currency balance on national level;

• financing large projects having national impact;

• keeping equilibrated balance of payments and keeping the foreign currency reserve of the country at high level;

To manage government debt, the state has at its disposal several tools:

• state guarantees - which are usually letters of guarantee in the name and on behalf of the state.

• internal state loans and loans from foreign state.

• state loans from foreign governments or foreign government agencies.

• temporary loans in special conditions.

• state bonds issued on domestic or international financial market.

Once completed procedures related to government debt, the government through the Ministry of Finance is required to meet a number of objectives:

• management of the exchange rate issues and the interest variation (this may vary depending on rating of the country);

• solving acute problems of the financial market of Romania;

• eliminating possible refinancing risk;

• increasing the efficiency of state budget expenditures;

• optimizing the efficiency of cash flows from loans obtained by the state;

3. State bonds - government debt instruments.

State bonds - is a financial instrument that confirms public debt appearing as treasury bills and vouchers for the population. The state bonds are loans of the state in foreign currency for short, medium and long term.

In the literature, the majority of theorists and authors agree that state bonds issued by the Ministry of Finance, appear in two forms:

• state bonds (in lei or foreign currency) materialized in some printed inscriptions that have some mandatory mentions (issuer, the value of the loan in question, other benefits , interest rate etc.).

• state bonds that have no material form and are registered in the accounts;

Both form of the state bonds are negotiable instruments and may be issued as mentioned in the short, medium or long term, aiming to diversify credit, limit currency risk and optimize spending of the public money.

Government bonds are offered for sale if the offer has, at least the following elements:

• the date on which the title is due and other options depending on the concrete situation;

• the value, the name and date of issuance;

• loan form of government;

• the interest and the calculation thereof;

• the interest rate;

• payment due date;

4. General considerations about public debt.

Public debt is the economic and financial category that designates all monetary obligations, the outstanding result of the loans guaranteed by the state or used by it. It includes the debts to individuals and companies within the country, and the debts to persons abroad. Public debt is the direct effect of budget deficits and consists of government debt (all monetary obligations of the state) and local authorities' debt (all monetary obligations of local authorities).

From a theoretical perspective, the public debt is divided into two main categories:

• domestic public debt - are monetary obligations contracted by government from the internal financial and banking market;

• external public debt - consists of monetary obligations incurred as a result of foreign loans;

From the perspective of the period the loans are contracted, there are two types of government debt:

• short-term - are the result of outstanding loans during the same year or, at the latest next year.

• long-term - are the result of borrowing money for a longer period of time.

However, it requires permanent management of the public debt by the state administration and its institutions. Under existing legislation, the Ministry of Finance or a specific institution having a special mandate could manage foreign loans. After using the loan is obvious that when the debt becomes due should be repaid money borrowed, plus costs and interest set. There are several sources of funding for public debt service:

• money collected from taxes existing in the State Treasury;

• loans contracted by the state to finance and refinance debt;

• public money budgeted for this purpose;

• additional money coming from additional taxes established for this purpose;

• existing risk fund established for some special situations when the final beneficiaries fail to repay the loan at established time;

State loan repayment is mandatory and consists of liquidation obligations by buying debt securities from those who have purchased.

5. State guarantees - generalities and execution procedures.

Ministry of Finance is authorized to issue state guarantees for loans contracted by any company or public authority designated by decision of the Government. As general rules, the repayment should be made from its own resources without affecting the state budget. State guarantees are issued taking into account the fact that the Ministry of Finance concludes an agreement with the beneficiary as collateral guarantee. This warranty includes some obligations and reciprocal rights and has the main goal taking the risk by the Ministry if the beneficiary cannot pay his debt. Payment should be done from the risk fund at the disposal of the government. This fund consists of different fees, interest, some penalties from borrowers guaranteed by the state and other funds from the state budget.

If one of the beneficiaries of the State guarantee is unable to repay the money borrowed will inform the Ministry of Finance and submit documents that will prove inability to pay. Then, the Ministry will ensure the refunding of the sums of money from the risk fund. In this context it is important to note that there are a number of situations where the state guarantee does not produce legal effects:

• there has been a legal situation expressly stated in the letter of guarantee which leads to termination of the guarantee;

• money from the loan guarantee shall be reimbursed by a third party;

• the validity term mentioned in the letter of guarantee expired;

It is important to note that the amounts paid from the risk fund are not lost. Recovery of amounts paid from the risk fund will take place according to the law in force for the collection of tax debts and the recovered money will be directed to the risk fund.

Theorists of the financial law show that it is very important to be kept under control rising of the public debt. This is because any increase out of control has the following consequences:

• long-term decline of the volume of available funds at the disposal of the government.

• reduce the financial resources of the private sector in favor of the public sector of the economy.

• raising taxes repayment of loans and debt service.

• disrupting the balance of payments, with the payment of interest and repayment of loans.

• accelerating inflation when the ratio of money in the economy and the volume of goods and services are significantly unbalanced.

6. Public debt management of the Ministry of Finance.

Ministry of Finance is the main institution which by law is called to manage public debt in the following ways:

• contracting, manages the government debt being careful to repay the state;

• is the only institution that prepares letters of guarantee;

• finance and refinance public debt;

• manage budget expenditures by debt volume, taking care to be a balance between incomes and expenditures;

• manages international relations related to the country's rating in close cooperation with international agencies specialized in this field, taking in account the economic and financial results of the country;

• monitor and manage the risks associated with government debt and immediately reporting any issues related to risk;

• present biannually to government the situation of the government loans guaranteed by the state;

• sets as needed public debt limit;

At international level, the main external financing organizations are the International Monetary Fund, the International Bank for Reconstruction and Development (IBRD) or World Bank plus the national central banks and commercial banks as institutional elements of the international financial market. The specifics of the local authorities' loans are the fact that their pay is made exclusively from local budgets and loans to local public debt refinancing. Local councils are the ones who approve the contracting or guaranteeing loans on different terms. These loans will be used for local investment or local public debt refinancing at proposal of mayor or chairman of the county council in their position as authorizing officers.

Local debt instruments consist of:

• securities;

• loans from commercial banks or other financial institutions for credit;

The total amount of debt incurred is included in the register of local government debt. Between procedures and techniques for financial management best known are:

• recovery - is the state loan repayment .

• conversion loans - is the process of amending the conditions of loans, especially in terms of interest .

• administration - is the process by making the necessary arrangements for the fulfillment of the contract in accordance with the agreed loan terms;

• extending the period of repayment;

• reducing of the interest;

• repudiation of the financial obligations for political reasons - revolutions, loss of independence, etc.;

7. Conclusions on loans, public debt and globalization.

Ministry of Finance is looking to have a transparent and predictive activity. For this reason is publishing annually "the strategy for the management of the government debt", "strategy for the next three years concerning the public debt" and some information on program funding. The main objective of the government is to provide the necessary government funding, minimizing costs in the medium and long term development of the government securities market and limit risks. These objectives should take in account the global issues influencing the financial markets. Other objectives of the Romanian state refer to the efficient management of public debt, timeliness of reimbursement, limitation of interest etc. It is very important for Romanian government to ensure budgetary stability and to improve financial capacity of the country. The financial measures should maintain and improve the sovereign rating of the country and to ensure economic stability in the globalization context. President of the United States of America, John Kennedy said, "It is time for new generation to solve new problems and new opportunities". He was thinking to the well-established globalization, having in mind the multinational corporations, communication networks, international banking system and the dissolution of national borders. Globalization, using financial and economic tools (including state loans and other international loan) will have great benefits:

- Economically – will improve the global market and global economy, helping free trade and the free flows of the capital, using international financial institutions (IMF and the World Bank).
- Socially and politically – encouraging democracy, human rights, international dialogue and freedom.

Giving up globalization, in this moment, means the victory of the isolationism, protectionism, of the dictatorship and poverty on the global level.

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