



Center for Economic Analyses

Marjan Nikolov

LGU Borrowing in Romania, Bulgaria and Macedonia

LGI/OSI Sponsored

Project rationale

Format of the workshop

- Reasons for the project
- Course of the project
- Country presentations
- Discussions
- Country reports distributed

Approaches to control LGU borrowing

from [Teresa Ter-Minassian from IMF 1996 paper on LGU borrowing](#)

- Reliance on market discipline
- Cooperation by different levels of government in the design of debt controls
- Rules-based controls
- Administrative controls

Reliance on market discipline

- Markets should be free and open (government should not be in a privileged position)
- Efficient market. Adequate information on the outstanding debt of the LGU and repayment capacity should be available to the supply side of the market
- No bailouts in case of default
- Information requirements for coverage, quality and timeliness
- Short sighted politicians related to the electoral cycle and the no responsiveness to early warnings by the financial market

Cooperation by different levels of government in the design of debt controls

- Limits on the indebtedness of LGU not set by law or central Gov. but set through negotiation process between the levels of Gov.
- LGU actively involved in the process of formulation of macroeconomic objectives and fiscal parameters and finally the specific limits are then agreed
- This approach promotes dialogue, raise consciousness and facilitate information exchange across levels of Gov.
- Works in countries with a culture of relatively well established fiscal discipline

Rules-based controls

- Standard rules set in the constitution or laws
- Setting limits on absolute indebtedness, purpose (for example golden rule-for investment purpose only), debt service, types of borrowing (for example not allowed to borrow from the NB)
- Advantage of being transparent and evenhandedness
- Avoiding bargaining across level of Gov. and preserving macroeconomic management soundness by avoiding short-term political factors
- These rules lack flexibility (in Romania they are about to change twice: were absolute indebtedness was 20 % of revenues, raised to 25 % and now will go to 30 %)

Rules-based controls continues

- Might motivate future reclassification of expenditures to escape current budget balance requirements, building arrears out of the debt ceilings, creation of entities that are kept off-budget
- Rules-based controls thus, require clear accounting system that limits off-budget operations, comprehensive definition of what constitutes debt, setting modern Gov. financial management system, timely and reliable data-reporting

Administrative controls

- Setting of time limits on the overall debt of individual LGU
- Review and authorization of borrowing operations (Commission in Romania but only administratively to check the documents)
- Beside ex-ante authorization of proposed borrowing there is ex-post monitoring of the financial operations (should the Commission for monitoring the development of the system for financing of LGU in Macedonia do this?)

Finally

- Reliance on market discipline in Macedonia is unlikely to be appropriate. Not well developed capital market, market is not efficient, lack of market discipline
- Cooperation in the design of debt controls might end up in a political factors overweighting the sound financial management practice
- In terms of transparency the rules-based approach is preferable

Success is a journey – not a destination!

CEA
Bul. Jane Sandanski 63/3
Skopje
President: Marjan Nikolov

+389 2 2444 766

+389 70 834 636

www.cea.org.mk

www.lsg-data.org.mk