

MODERN MODELS OF NATIONAL DEBT MANAGEMENT IN THE RUSSIAN FEDERATION (FINANCIAL-LEGAL ASPECT)

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Abstract

Financial and legal aspects in the formation of models of national debt management in the Russian Federation have become a topic of research. Having shown that the current state of legal regulation in national debt management is not effective due to the lack of legislative adherence to this concept and failure to take advantage of the various organizational models of national debt management, the authors offer a number of suggestions for the improvement of the budget legislation regulating questions of national debt management. A definition is given to the concept of “national debt management” and its standard and legal adherence in the Budget code of the Russian Federation and also three models of national debt management – traditional, alternative and mixed – are entered. National debt management is understood as a set of financial actions of the state represented by its authorities on the regulation of the size, structure and cost of servicing central government debt, and which are carried out at the strategic and tactical levels with use of a set of legal methods of regulation. It is pointed out that it is necessary to take into account the optimum scenario of social and economic development of the state – target (forced), influencing efficiency in national debt management. In practice, it has been proved that it is necessary to use the international experience in the sphere of national debt management, namely, to transform the traditional model of management into alternative, allowing it to exercise similar control of the independent subject, combining powers of public authority and financial economic entity. As a similar subject, Vnesheconombank of Russia is offered. The importance of the interrelation of national debt management model with methods of central government debt management is emphasized.

Keywords: central government debt; budget; management; budget legislation; models.

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Introduction

The central government debt exerts a certain impact on the social – economic and political – and legal life of society and state, which means that the state has debt management functions. Now the central government debt is an integral component of the financial systems of the vast majority of the countries of the world, therefore priorities and the direction of debt policy, questions of national debt management, and its legal regulation are of particular importance. Today, according to different statistical data, only a few countries have no central government debt, traditionally they include Alao, Macau, Brunei, periodically – the British Virgin Islands, Liechtenstein and Libya.

The need for improvement in the national debt management of Russia statifies the problem of an increase in efficiency of planning and forecasting of dynamics and structure of debt obligations. In this regard, the Government of the Russian Federation developed the “National debt management and the state financial assets of the Russian Federation” sub-programme within the “Management of public finances and regulation of the financial markets” state program whose implementation is planned until December 31, 2020¹.

To ensure the optimization of the national debt management of the Russian Federation, at the implementation of this program the application of the measures aimed at providing an acceptable and economically reasonable volume and structure of central government debt, reduction of the cost of service and improvement of the mechanism of national debt management, and increase in effective management of foreign financial assets of the Russian Federation is provided.

For this purpose in the sphere of national debt management it is necessary to solve the following problems: a) ensuring an economically reasonable volume and structure of central government debt on condition of the minimization of the percentage on loans; b) maintenance of credit ratings at the average level and also the creation of prerequisites for an increase in ratings in the long term; c) implementation of the means to ensure the fulfillment by borrowers of financial liabilities to the Russian Federation according to the concluded international agreements; d) ensuring safety of means of the budgetary funds and stable level of income from the management of them in the long term (this task was not feasible under modern conditions of the budgetary policy of the state of rather Reserve fund); e) development of the perspective directions of public policy in the sphere of a central government debt of territorial subjects of the Russian Federation.

Following the results of the implementation of this subprogramme achievement of the following results is provided:

- preservation of volume of a central government debt of the Russian Federation at the level of no more than 20% of GDP;
- creation of a reliable source of financing of the federal budget deficit and support of the pension system by means of ensuring safety of means of the budgetary funds and obtaining a stable level of income from their placement;

¹ About the approval of the state program of the Russian Federation “Management of public finances”: Resolution of the Government of the Russian Federation of April 15, 2014, no 320.

- creation of conditions for the implementation of a debt policy of financial and steady territorial subjects of the Russian Federation.

Effective implementation of all of the specified tasks will depend on economic development of Russia in the near future. If one is to address the forecast of the long-term social and economic development of the Russian Federation until 2030 presented by the Ministry of Economic Development of the Russian Federation, then it is possible to see three scenarios of social and economic development in this prospect – conservative, innovative and target (forced).

The conservative scenario is characterized by moderate long-term growth rates of the economy on the basis of modernization of the raw sector of the Russian economy at the preservation of an insignificant level of lag in hi-tech sectors. GDP growth in such a scenario is predicted at the level of 3.0–3.2% during 2013–2030.

The second scenario – innovative – represents a strengthening of the investment orientation of economic growth connected with the creation of modern transport infrastructure and hi-tech production in parallel with the modernization of the raw sector of economy. According to this scenario it is provided that average annual growth rates of the Russian economy are estimated at the level of 4.0–4.2% in 2013–2030 that will allow for an increase share for Russia in global GDP to 4.3% by 2030.

The target or forced scenario is based on the second scenario, but at the same time priority is given to the creation of the large-scale non-oil export sector and considerable inflow of foreign investments².

According to the experts, the total amount of Russian central government debt by 2030 in relation to GDP will have the smallest value only according to the third scenario which is submitted as the most optimum and preferable from the point of view of social and economic development and preservation of the minimum debt load on the budgetary system. This indicator is rather important as it represents one of the criteria for the evaluation of the condition of the state's homeland security.

In this regard, at the implementation of national debt management in the Russian Federation it is necessary to consider contents of the target scenario of the social and economic development of the state and to select a certain model of national debt management.

Now standard fixing of the term “national debt management” in the financial legislation does not exist. The budget code of the Russian Federation (further BC – the Russian Federation) in Article 101 defines only authorities which exercise national debt management of the Russian Federation, the territorial subject of the Russian Federation and also a municipal debt³. The BC of the Russian Federation acting before acceptance, the act of the Russian Federation “About the central internal government debt of the Russian Federation” also contained only the list of certain actions of the state indicating administrative functions of the state

² Forecast of long-term social and economic development of the Russian Federation until 2030: the expanded version of the long-term forecast approved by the Government of the Russian Federation with additional working materials.

³ See: Budget code of the Russian Federation. Russian Federation Code. 1998, no 31, Art. 3823.

concerning central government debt: definition of an order, conditions of release (delivery) and placement of debt obligations⁴.

In legal literature problems of national debt management are considered from different points of view and represent approaches concerning distribution of powers on the management of finance between various subjects (Tarasov, 2004), sets of actions of the state for payment of income to creditors, repayment of loans and also orders, to conditions of delivery and placement of debt obligations (Gracheva & Sokolova, 2001; Pokachalova, 2007) and also the set of operations influencing the structure and composition of central government debt (Proshunin, 2003) and so forth.

Proceeding from the aforesaid, generalizing various approaches to this institute, it is necessary to determine national debt management as a set of financial actions of the state represented by its authorities by regulation of the size, structure and cost of servicing the central government debt which are carried out at the strategic and tactical levels with the use of set of legal methods of regulation.

In this definition it is necessary to include Article 101 BC of the Russian Federation supplementing it with one item, increasing their total number to four. Therefore, the new version of Article 101 can be this:

“Article 101. Management of the central and municipal government debt.

1. National debt management is a set of financial actions of the state represented by its authorities on the regulation of size, structure and cost of servicing the central government debt which are carried out at the strategic and tactical levels with the use of set of legal methods of regulation.
2. National debt management of the Russian Federation is exercised by the Government of the Russian Federation or the Ministry of Finance of the Russian Federation authorized by it.
3. National debt management of the territorial subject of the Russian Federation is exercised of the supreme executive authority of the government of the territorial subject of the Russian Federation or financial authority of the territorial subject of the Russian Federation according to the law of the territorial subject of the Russian Federation.
4. Control of a municipal debt is exercised by the executive administrative authority of a municipal unit (local administration) according to the charter of the municipal unit”.

If we refer to the proposed new edition of the RF Budget Code, it should be noted that the legislator decides to close the gap in the budget legislation and the chapter devoted to the regulation of public debt begins with Article 151 “Management of the central (municipal) government debt” in which item 1 provides the following definition of this concept: “Management of the central and municipal government debt – the activity of authorities of the government (local government authorities) aimed at providing needs of public education for loan financing, timely and full execution of debt obligations at minimization of expenses on debt servicing, maintenance of volume and structure of the obligations excluding their non-execution”⁵.

⁴ About the central internal government debt of the Russian Federation: Law of the Russian Federation of November 13, 1992 No. 3877-1. Sheets of the UMP and Russian Armed Forces. 1993, no 1, Art. 4.

⁵ Quote. on: New edition of the Budget code of the Russian Federation. The text was not published.

The definition of the concept of “national debt management” and its legislative adherence is necessary in order that the optimum model of similar management was in practice created.

In addressing the international experience in the sphere of national debt management, the different models of organizational structure of this management, including public authorities of the general competence and special public authorities on national debt management function, should be noted.

The analysis of the central government debt authorities allows us to allocate three institutional and organizational models of national debt management: traditional, alternative and complex (Tsaregradskaya, 2013).

The traditional model of the creation of a system of public authorities connected with national debt management assumes the Ministry of Finance or Treasury having the leading role. In a number of the countries (the USA, France, Canada, Germany, etc.), these authorities form separate divisions (offices), the main functions of which come down to national debt management. The office of national debt management (Debt Management office) is a legal entity in the form of a state-financed organization with separate signs of a commercial structure. For example, in the USA, the bureau of central government debt is within the structure of Federal Treasury, in France – special division of Department of Economic Affairs and Finance, in the Russian Federation – a special department of the Ministry of Finance of the Russian Federation – Department of central government debt and state financial assets.

The alternative model of the organization of a control system of central government debt assumes delegation of powers on the loan of money to rather independent authorities – national debt management agencies. Similar agencies exist in Azerbaijan, Sweden, Ireland, New Zealand and other countries. These debt agencies are accountable to the Minister of Finance who carries out general observations of the activity of the agency and establishes a strategic framework of debt management in the country on the current prospect. Direct management of the activity of the agency is assigned to an individual authority of this subject. For example, in Sweden, management of government debt is assigned to the National Debt Administration (NDA) which is semi-independent structure within the Treasury (Shokhin & Makhmutova, 2002).

The third model – complex, assumes the division of functions according to national debt management between the Ministry of Finance and the Central Bank. This approach is found in practical embodiment in Italy, Holland and Great Britain.

In Italy, national debt management is exercised by a specially created Advisory Council on external debt, in Holland the equivalent is the Agency on National Debt Management of the Ministry of Finance, and in Great Britain it is the Office of National Debt Management whose powers are fixed by the Memorandum between the Ministry of Finance of Great Britain and the Office of National Debt Management (Memorandum of HM Treasury, UK Debt Management Office, national savings and national investments and credits of Office) establishing the competence of the Office of National Debt Management and the Bank of England in the sphere of public debt⁶.

⁶ See: Memorandum of HM Treasury, UK Debt Management Office, national savings and national investments and credits of Office.

Today the traditional model of national debt management existing in the Russian Federation has a number of shortcomings involving a decrease in management efficiency in this sphere. Such disadvantages include:

- debt dependence of the Ministry of Finance of the Russian Federation on the Central Bank of the Russian Federation;
- the dissociation of accounting policies of the Ministry of Finance of the Russian Federation and Vnesheconombank concerning external debt generating a difference when determining its volumes and as a result unreasonable claims from creditors;
- separate accounting of internal and external debt that does not allow one to carry out the mutual replacement of internal and external debts.

There are similar “conflicts of interests” – failure to coordinate interaction between public authorities, duplication of functions by different subjects of these relations, interference with the effective management of central government debt in Russia – therefore it is necessary, having analysed foreign experience, to differentiate between the competence of the public authorities having powers in this sphere, having built an optimum organizational model of management and improving the legislative mechanism of coordination debt and monetary policy.

In our opinion, for the most effective organizational model of national debt management, it is necessary to consider an alternative model as functions in this sphere are rather transferred to an independent agency which will be able to carry out transactions of debt obligations more objectively and independently, which is not always the case with the traditional model. Therefore we consider a justified option to be the creation in Russia of the Federal Agency on national debt management whose idea has been present for a long time in the theory of public debt management.

Creation of a similar subject in our country was undertaken in the mid-nineties in the form of the Commission on external debt and financial assets by the Government of the Russian Federation. The main objective of its creation consisted in conducting the interdepartmental examination of central government debts. This authority existed until 1997 in which it held its last meeting. After that, therefore national debt management remained under the competence of the Ministry of Finance which is compelled, generally, to concentrate its powers on the solution of operational tasks mainly connected with distribution of the available financial means. For this reason, the policy of loans pursued by the Ministry of Finance submits to the current requirements to a large extent, without providing the solution to strategic tasks of management of the obligations of the state in due measure.

Considering the current situation in the sphere of debt relations, in 2011 the Russian President Dmitry Medvedev gave an assignment to the Government of the Russian Federation to accelerate the creation of authority for Russian national debt management. Also it was supposed that this authority will operate the assets of the Reserve Fund and National Welfare Fund. According to the recommendations of the Russian President, the idea that the governing authority for central government debt will function as an open joint stock company (on a condition of the civil legislation for 2008) “The Russian financial agency” (further – RFA) begins to be worked out. The decision on the creation of the agency was made in 2008, and in August, 2011, in the document of the Ministry of Finance of the Russian Fed-

eration “The main directions of the public debt policy of the Russian Federation for 2012–2014”, assigned to this institute a part of the main subject who is responsible for interaction with investors and other participants from the financial markets⁷. The authorized capital of the RFA was supposed to be about 1.5 billion rubles⁸.

It was supposed that in the long term the functions of the main consultant of the Ministry of Finance of the Russian Federation concerning optimization of structure, a decrease in expenses on repayment, the servicing of the central government debt, and minimization of the percentage and currency risks of the federal budget will pass to RFA. Besides, RFA was charged with the authority to implement, on behalf of the Russian Federation, of internal and external state loans and for carrying out operations with these securities in the secondary market for the purpose of optimization of structure of the state debt portfolio.

In terms of the main direction of public debt policy of the Russian Federation for 2013–2015 it was noted that in the near future it will be necessary to create authorized capital of RFA, to carry out its state registration as a legal entity and to agree on requirements to the contracts signed by the Ministry of Finance of the Russian Federation with RFA on performance of functions of the managing director of sovereign funds and a central government debt agent⁹.

Besides, realization of the complexity of the organizational and regular and methodological measures connected with the development of RFA internal documents, program information support of its activity and interaction with the Ministry of Finance of the Russian Federation, Federal Treasury and the Central Bank of the Russian Federation, etc. was planned.

As the idea connected with the creation of the RFA had no unambiguous point of view, its embodiment in the Russian practice of national debt management still did not occur.

Considering the developed economic situation in the country, the creation of the new subject of national debt management can be regarded as not expedient therefore it is possible to offer the transformation of an alternative model to modern Russian realities by the reorganization of Vnesheconombank in the Federal State Unitary Debt Agency of the Russian Federation or investment of Vnesheconombank with the additional functions including an economic content which cannot be peculiar to public authorities in the sphere of national debt management.

The example offered gives Vnesheconombank the following authority:

- to carry out on behalf of the state, financial and debt operations (a swap, a repo, forward, future and option contracts, arbitration transactions) which are exchange transactions and which public authorities, in particular the Ministry of Finance, cannot carry out;
- to advise public authorities and credit institutions concerning the circulation of the state debt obligations, if necessary to coordinate their activity;
- to analyze conditions of the market of the state debt obligations for avoidance of its unbalance;

⁷ See: The main directions of the public debt policy of the Russian Federation for 2012–2014.

⁸ The Russian financial agency will receive all state accumulation, including the Pension fund.

⁹ The main directions of the public debt policy of the Russian Federation for 2013–2015.

- drawing up programs of the state internal and external loans;
- negotiating with creditors on the use of optimum methods of management of a central government debt and so forth.

Considering the tendencies to reform the budget legislation, it is possible to consider that questions of national debt management will be subjected to legal regulations taking into account the outlined changes in a long-term outlook, especially under the conditions of the gradual exhaustion of means of sovereign monetary funds of the state.

Summing up the results, it should be noted that the image of the Russian Federation as sovereign borrower in the international financial market will depend on effective management of central government debt. As of 2016, when the international rating agencies Standard & Poor's and Moody's began to improve forecasts for the Russian credit rating from "negative" to "stable", the choice of optimum model of national debt management has become more and more relevant. Until this time, the national credit rating had been underestimated to the so-called "speculative level" with the negative outlook by the same two rating agencies, most likely caused by various political reasons. In this regard it should be noted that the stable debt policy of the state will not allow for underestimation, by means of political tools, of the credit rating of the state which needs to be kept at least at the level of "BB+" which is the stable forecast and how best to bring a higher level of solvency that will help make the Russian economy investment attractive.

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