

A BRIEF STATEMENT ON THE REDUCTION OF THE PROCYCLICALITY OF BULGARIA'S EXTERNAL DEBT AS A FISCAL ANTI-CRISIS MEASURE

Petar Plamenov Petkov

University of Agribusiness and Rural Development,

Abstract:

In the scientific article, an attempt is made to examine the **problem of the external public debt** of Bulgaria and its influence on its financial situation. It briefly examines the **relationship** between government external debt and macroeconomic instability. As a **conclusion**, the positive and negative aspects of the influence of foreign debt on the national economy are identified.

Key words: public external debt, debt problem, international debt, macroeconomic instability.

INTRODUCTION

In the context of post-crisis development and the need to maintain financial stability in Bulgaria, a model for the annual increase in government spending is no longer applicable and therefore reduction tasks come to the fore budget deficit.

The achievement of these tasks primarily in the organization of the budgets of most departments based on program-target methods, which implies a significant increase in the share of target programs in the composition budget and transition to a program classification of budget expenditures. To others the vector for improving the quality of budget management is reforming the public procurement program and principles including a significant increase in the share of government spending in the innovation sector of the economy.

METHODS

In this regard, the system of measures for anti-crisis fiscal policy has to be is primarily aimed at eliminating negative feedback connections between financial and economic subsystems. This is primarily about restoring trust. to institutions and markets and reducing pressure on banks on the regulation of new loans as part of the program to reduce the amount of loan capital. Uncertainty in market expectations regarding volatility and liquidity is associated with priorities that need to be stated authorities in relation to their choice between competing demands: reduction moral hazard or protection against systematic risks.

MATERIALS

The main guidelines for increasing the efficiency of budget spending were chosen quite reasonably, while at the same time the overall improvement of the quality of management budget funds is possible only with an integrated approach to solving this problem, which allows not only to cover the widest range of the used regulatory instruments, but also to structure their application on time.

Modern instruments of debt policy and the practice of their use in Bulgaria have been formed considering aspects that seem extremely important for the correct understanding of the

essence of the instruments and methods of public borrowing and the aspects of their best use to achieve the desired result.

To a large extent, the evolution of debt policy instruments is related to the evolution and real practice of applying certain approaches to state intervention in socio-economic processes.

The main toolkit for flexible financial management is the monetary mechanism, financial management by stimulating the demand and supply of money. The fiscal mechanism within such a policy is primarily based on the idea of equality and justice for all taxpayers, which is ensured in particular through the instruments of flat tax rates and redistribution of the tax burden through a system of tax preferences and reliefs

Traditionally, monetary policy instruments are considered the most effective in the system of measures to prevent crisis phenomena in the macroeconomics. However, the modern financial crisis showed that the monetary impact of the state on the macroeconomic cycle at the stage of the crisis did not lead to the expected results.

Large-scale local and transnational crises, with an obvious increase in scale and consequences, show the inconsistency of the main approaches to the development and implementation of debt policy and require the use of flexible tools, including, in opinion of Spilimbergo (2019), fiscal policy instruments. Systematic search for optimal parameters of the tax burden, taking into account the full use of administrative potential (there is no need to increase tax rates if not all volumes of tax payments are collected - its improvement is largely related to digitalization, which improves the quality and reliability of administration and control and spreads not only in the tax sphere, but also in the system of customs payments, etc. and increasing the social responsibility of taxpayers, including through indirect methods of psychological influence, including the active using the „nudge” theory at the level of public policy, according to which the taxpayer competently concludes that he understands that it is better for him to pay the fiscal fee than to deal with the consequences of „tax optimization”).

An important vector of the budget policy, in opinion of Baldacci (2019), is the systematic review of government expenditures, abandoning those that are not urgently needed and cannot be financed at the current level of fiscal burden investment policy instruments: joint financing of large-scale projects and programs through public-private partnership instruments:

- monetary policy instruments

Pro- and anti-cyclical regulation through the policy of cheap/expensive money, inflation targeting; strengthening and modernizing state financial control by moving to monitoring based on digital regtech technologies.

The presented tools are universal and their important difference from earlier tools is that their set is not predetermined by the decisive direction of social policy or the degree of state intervention in the economy (it can be applied without strengthening the latter), but allows achieving key goals and objectives of the development of the financial system at all levels.

The modern aspects of the government debt management policy in Bulgaria are largely focused on external debt, since in the globalized world most of the economic systems of sovereign countries are open, closely integrated with the economies of other countries. For this reason, a certain part of government loans is carried out in foreign markets, thus inevitably forming external debt. Formation and accumulation of public debt in conditions where the loans themselves successfully solve the relevant fiscal problems, and servicing the public debt does not represent an overwhelming burden

This postulate can be formulated as follows: there is an objective need to attract public debt to solve specific functional problems, the result of which is aimed at ensuring economic growth, while at the same time there are objective restrictions when the increase in borrowing leads to the opposite effect, as well as limitations in relation to which borrowing, primarily externally, leads to the transmission of negative socio-economic phenomena.

In addition, the second postulate of its management in the interest of national security can be derived: recipes for public debt management cannot be universal, as it is impossible to account for the diversity of debt policy objectives and debt sustainability factors in an open economy, including considering the factors of globalization and scientific and technical progress.

RESULTS

Based on the above, it can be argued that in Bulgaria the contours of debt policy management and the assessment of debt sustainability must be tied to the priority interests of national security, including current resource provision and target indicators for future states.

In relation to the priority interests of national economic security in the continuum of multiple prerequisites and guidelines for its provision, approaches to debt settlement models and instruments can be systematized (again, it seems necessary to emphasize that key research is aimed at exploring the possibilities of the management of external public debt, but a number of the conclusions obtained also apply to domestic instruments.

Because automatic stabilizers are often limited in scope, the active use of discretionary fiscal measures is often presented as a countercyclical tool. However, a number of scholars, for instance Bangura (2000), Faraglia, (2012) and Reinhart (2010), question the ability of governments to ensure timely implementation of the measures, as well as the macroeconomic impact of discretionary fiscal measures and the long-term implications for fiscal sustainability.

According to them, discretionary fiscal measures cannot be approved quickly enough by the legislature, especially compared to the speed with which the central bank can change the interest rate. Therefore, there is a risk that fiscal stimulus will not take effect before the economy begins to emerge from recession. Moreover, critics argue, fiscal stimulus measures are unlikely to be highly targeted and are more likely to lead to wasteful and economy-distorting public spending, while revenue measures are more susceptible to pressure from interest groups, and not the needs of the economy. Moreover, these measures are unlikely to be reversed quickly enough to maintain fiscal sustainability.

The expansionary fiscal policy aims to overcome the recession in economy and ensuring economic growth. At the same time stimulation economy using fiscal measures can disrupt the budget sustainability. Fiscal sustainability characterizes the ability to maintain state budget expenditures at the planned level and adequately fulfill obligations to creditors, provided that the main characteristics of fiscal policy remain unchanged.

If the current budgetary policy in Bulgaria provides revenues sufficient for fulfillment of assumed budget obligations and in the future such a policy will not exist will lead to an increase in the deficit and uncontrolled growth of the public debt, then such a policy is sustainable. Otherwise, there is no fiscal stability and there is a possibility of a crisis of public finances. So stimulative fiscal policy can be considered effective when it is not disrupts budget sustainability in the medium and long term.

In terms of how they conducted fiscal policy, countries that used a combination of both revenue- and expenditure-side fiscal stimulus measures had less severe downturns than countries

that used only revenue policies or spending, although policies based on revenue measures ensure a faster recovery and higher growth rates in the coming years. In contrast, fiscal tightening in terms of spending led to higher growth rates in the post-recession years.

If policies become permanent and are financed by increasing debt, then the long-term effects on supply and debt become significantly more important. For all fiscal instruments, higher debt tends to crowd out private output because it leads to higher real interest rates. When there is a permanent increase in transfers, regardless of the short-term adjustment of monetary policy, real interest rates rise in the long run, causing output to contract or at least remain unchanged. On the other hand, a reduction in tax rates reduces the supply distortion and thus leads to a permanent increase in output, and this occurs more by reducing taxes on labor than taxes on consumption. The permanent reduction in tax rates in Bulgaria may lead to an increased short-term impact depending on the balance between the positive supply-side impact and the negative impact on the interest rate. The impact of a permanent increase in public investment depends on whether this expenditure will provide a higher rate of return than providing these resources to private investors.

DISCUSSION

The resulting estimates differ in both degree and sign. This is due to the fact that the following issues remain unresolved:

- Any assessment of the impact of the policy change must consider the specific economic conditions of the specific countries in which it is carried out;
- Fiscal stimulus can be achieved through many different combinations of taxes, transfers and spending, and each of these elements can have a mixed effect;
- the date on which the change in fiscal policy is measured based on the data obtained will sometimes differ from the date on which this policy becomes known to households and firms;
- Policy measures, like economic activity, are endogenous in nature - they simultaneously depend on each other, and therefore, when considering simple correlations, it is not always possible to immediately determine which is primary and which is secondary.

Since the subject area of the present study includes the assessment of debt policy in the interest of ensuring national security, in this regard it seems necessary to emphasize once again the priority nature of debt sustainability management in the public debt policy system.

In any case, discretionary fiscal policy can successfully stimulate output growth, especially if it is supported by budget revenues. However, in opinion of Traum (2010), caution should be exercised when using stimulus packages during a downturn, as evidence suggests that the underlying health of public finances must be strong for stimulus to have any success. This suggests that governments need to improve their balance sheets during the recovery phase and make credible commitments that stimulus packages will not jeopardize debt sustainability.

The analysis of the experience of the implementation of stimulating anti-crisis programs in Bulgaria allows us to note a number of main points that guarantee efficient use of budget funds: all programs to support the financial and real sectors of the economy contained clearly defined spending limits, rules and conditions provision of funds was transparent, information on incentives the measures were open and transparent, as well as the reports on the use of the allocated funds; Most support programs for banks and companies in the EU are included providing funds on a reimbursable basis, i.e. in exchange for the funds provided, the government received financial assets subject to subsequent sale; Budget guarantees were actively used to finance many programs in

developed countries, which, on the one hand, made saving possible taxpayers' money, and on the other hand, to use the mechanisms of the financial sector.

While most EU countries used expansionary fiscal policies for macroeconomic stabilization, others during the crisis were forced to use fiscal consolidation measures, which were aimed at reducing the debt burden and reducing budget deficit. Specifically, a contractionary fiscal policy was pursued by countries that experienced the negative impact of budget deficits and public debt accumulated in the pre-crisis period.

It is important that most measures with a significant anti-crisis effect in Bulgaria have a compensatory nature (mitigation of the consequences of the crisis), but there are practically no measures motivating enterprises to carry out active policies (technological modernization, diversification of production, development of new markets, etc.).

Given the lack of standard (typical) tools for unified processing of large amounts of data, methods of data analysis in the conditions of unclear formulation of tasks for the selection of debt policy guidelines, and the absence or unreliability of individual data sets in terms of financial policies, of other participants in the internal and external debt market, analytical support for the adoption of state and other management decisions in the field of debt policy remains at a low level, which necessitates the development and implementation of atypical solutions based on the opportunities provided by the use of modern digital technologies and platforms.

A key internal factor in Bulgaria is the provision of flexible and adaptable debt policy management tools, considering the advanced achievements of comprehensive digital smart technologies. The external factor is the influence of the architecture of the global monetary and financial system on the debt policy of the countries, which currently remains significant and cannot be assessed positively; but in the meantime, the transformational prospects in connection with the construction of the global financial system. rapid full launch and review in this regard of the competences of international financial institutions

In the context of unstable macroeconomic dynamics in Bulgaria, the problem of effective fiscal policy acquires important practical importance. The main guidelines for increasing the effectiveness of budget spending were chosen quite wisely, while at the same time a general improvement in the quality of budget management is possible only with an integrated approach to solving this problem, which allows not only to cover the widest possible range of used regulatory instruments, but also for structuring their application over time.

In this regard, the system of anti-crisis measures of the fiscal policy should be aimed primarily at eliminating the negative feedback between the financial and economic subsystems. This is primarily to restore confidence in institutions and markets and reduce pressure on banks to regulate new lending as part of a deleveraging program.

State bodies must define the principles of their own behavior at least in the medium term and not to change them for opportunistic reasons. Uncertainty in market expectations of volatility and liquidity is related to the priorities that authorities must set when choosing between the competing requirements of mitigating moral hazard or protecting against systematic risks.

The purpose of forming a national security system in the state debt policy is to ensure long-term debt sustainability of the state, understood as economically safe, i.e. not subject to critical changes under the influence of internal and external environmental factors, functioning of public finances, in which internal loans provide the necessary and sufficient financing of a full-fledged state that performs its constitutional functions in accordance with the established financial and

budget restrictions, aimed at timely and full servicing of the state's internal and external debt. Prospective management of public debt in the interest of national security must be based on the understanding of the fact that prescriptions for public debt management cannot be universal, as it is impossible to consider the diversity of debt policy objectives and sustainability factors of a long open economy, including considering the factors of globalization and scientific and technological progress.

As a result, the contours of debt policy management and debt sustainability assessment must be linked to priority national security interests, including current resourcing and target indicators of future states, taking into account the impact of key domestic ones (ensuring of flexible and adaptable) debt policy management tools, taking into account the modern achievements of digital intelligent technologies for a comprehensive character) and external (the state of the global monetary and financial system and its regulation by institutions and mechanisms) influencing factors.

The influence of the state debt on the Bulgarian economy is extremely controversial: entering into debt relationships, the states, regardless of desire or unwillingness, influence the state of monetary circulation, the level of interest rates, employment and other micro- and macroeconomic indicators of the economy. Such an impact is often not only positive, but also negative for those countries that are forced to increase loans without being able to service them properly.

When evaluating the economic impact of a given debt policy, it is worth noting that maintaining an active debt policy can lead to both positive (mobilization of temporarily free monetary resources to finance them for socially and economically significant programs, ensuring a budget surplus), as well as negative (excessive dependence of state public finances on external creditors, the unproductive nature of the development of loan funds) consequences for the economy. However, it is focused on stimulating the country's economic growth and maintaining the liquidity of its financial market, while applying the most proven methods of debt management in the world.

Bulgaria's external public debt, in the opinion of Stoichkova (2010), in the reality of the interdependence of the economies of different countries, really leads to the creation of a threat to national security. It is worth noting that the biggest danger for most countries is total debt, accumulating debt obligations of both the public and private sectors.

The continuous growth of budget expenditures and cyclical fluctuations in the economy are the main source of growth of the budget deficit and public debt. An increasing share of the state's financial portfolio is occupied by debt obligations. The complex structure of such financial liabilities (assets obtained from internal or external sources of financing) creates a huge risk for the budget, and the debt problem of the economy (increasing amounts of public debt) is inextricably linked to the sphere of national security of the country. National security is the state of protection of the individual, society, state, national values and interests of the country from a large number of internal and external threats.

Considering debt policy as a complex structured unit of public administration aimed at ensuring national security, it is worth paying special attention to the debt risk analysis system. The term „risk” in economic literature means the potential danger of events that have a negative effect on the economy or cause damage to it.

Regardless of the source of origin, all risks related to the implementation of debt policy must be identified in advance, analyzed in detail and controlled by the state or its subordinate apparatuses.

The issues of the effective management of the state debt in modern conditions remain extremely relevant and are among the most priority strategic tasks for guaranteeing national security, being an important factor influencing the sustainability of the country's development. In the context of the negative impact of international sanctions on the national economy from unfriendly countries, a certain decline was observed in a number of micro- and macroeconomic indicators.

It is worth noting that in order to increase the efficiency of the debt policy in the conditions of the instability of the state's economic condition, it is necessary to create a centralized state body that is responsible for the management of the public debt and the determination of the main guidelines of the debt policy (unified debt management system).

Summarizing, we can say that in Bulgaria the use of market methods for public debt management today is the most effective debt policy tool for the economy, as they, in addition to solving the problem of attracting foreign capital, increase the growth of the country's economy, can ease the debt burden on the budget. The most serious threat to national security is the debt problem, which has a negative impact not only on the economic but also on the political state of the country. The debt security of the state is a certain level of the total debt, which ensures continuous sustainable functioning of the system of public finances and the economy as a whole, while promoting the adequate (efficient) use of loans (including their servicing) and the preservation of state political and economic sovereignty.

Special methods are used to assess the level of economic security, in opinion of Traum (2010):

- monitoring of key macroeconomic indicators and their comparison with threshold values
- application of criteria and indicators in determining the country's economic security;
- methods for expert assessments;
- methods of applied mathematics, for example regression methods and analysis of variance, as well as multivariate statistical analysis.

The debt policy within the financial policy of Bulgaria is considered as an element and instrument of financial management and policy, i.e. it is conducted in line with the strategy and policy for public finance management and at the same time ensures the implementation of the main provisions of the state financial policy, compliance with its main guidelines and achievement of the target indicators. State debt policy includes the choice of borrowing methods and technologies, determination of the target structure, maximum levels of borrowing, as well as sources and methods of debt settlement, including its timely and full repayment, and is mediated by key state interests, primarily by everything, the necessity and expediency of loans as the best source for the performance of the functions of the state, above all the financial function.

The purpose of forming a national security system in the state debt policy is to ensure long-term debt sustainability of the state, understood as economically safe, i.e. not subjected to critical changes under the influence of internal and external environmental factors, functioning of public finances, in which through internal loans the necessary and sufficient financing of a full-fledged state is provided, it performs its constitutional functions in compliance with established financial and budgetary restrictions aimed at timely and full servicing of the state's internal and external debt.

CONCLUSION

The development of theoretical aspects of public debt management remains a fundamental section of economic theory, carried out over several centuries - from the classical to the latest schools and studies. At the same time, the unity of research positions not only did not form, but also became more ephemeral, clearly illustrating the main postulate of the fundamental contradiction in the field of government loans: there is an objective need to attract public debt to solve specific problems. functional problems, the result of which is aimed at ensuring economic growth, while there are objective limits when the increase in loans leads to the opposite effect, as well as limitations due to which loans, mainly external, lead to the transmission of negative socio-economic phenomena.

The prospective management of the public debt in the interest of the national security of Bulgaria must be based on the understanding of the fact that the recipes for the management of the public debt cannot be universal, since it is impossible to consider the diversity of the objectives of the debt policy and the factors for debt sustainability in an open economy, including considering the factors of globalization and scientific and technological progress. As a result, the contours of debt policy management and debt sustainability assessment must be linked to priority national security interests, including current resourcing and target indicators of future states, taking into account the impact of key domestic ones (ensuring of flexible and adaptable) debt policy management tools, taking into account the modern achievements of digital intelligent technologies for a comprehensive character) and external (the state of the global monetary and financial system and its regulation by institutions and mechanisms) influencing factors.

References

1. **СТОИЧКОВА, О. (2010).**, Инструменти за държавно икономическо регулиране, студия, Издател: „Научни известия на ЮЗУ „Н. Рилски“, Благоевград, VI, кн. 1-2, стр. 426.
2. **BALDACCI E., (2019).**, How Effective Is Fiscal Policy Response in Systemic Banking Crises? IMF Working Paper 09/160., Washington: International Monetary Fund., vol. 64, no. 5, pp. 89-91.
3. **BANGURA, S., (2000).** External debt management in low-income countries”, IMF Working Paper WP/00/196, pp. 114-115.
4. **FARAGLIA, E., (2012).**, The Impact of Government Debt Maturity on Inflation. www.iae.csic.es/investigadorsMaterial/a12204092343archivoPdf34286.pdf
5. **GALINDO, A. (2018).**, The cyclicity of international public sector borrowing in developing countries: Does the lender matter?” World Development, 112(C), pp. 119-135.
6. **GHOSH, A., (2013).**, Fiscal Fatigue, Fiscal Space and Debt Sustainability in Advanced Economies, Economic Journal. 152(B), pp. 25-28.
7. **KOSE, A. (2020).**, Global Waves of Debt: Causes and Consequences. Washington, DC: World Bank, pp. 48-49.
8. **PANIZZA, U. (2015).**, „Debt Sustainability in Low-Income Countries - The Grants versus Loans Debate in a World without Crystal Balls,” Working Papers P120., pp. 58-61.
9. **REINHART M. (2010).**, Growth in a Time of Debt. National Bureau of Economic Research Working Paper 15639, pp. 45-49.
10. **SFILIMBERGO, A. (2019).**, Fiscal Policy for the Crisis,” IMF Staff Position Note 08/01., Washington: International Monetary Fund, pp. 47-48.

11. **SUMMERS, L. (2020).**, Accepting the Reality of Secular Stagnation. Finance & Development, 2020, vol. 57, no. 1, pp. 17-19.
12. **TRAUM, N. (2010).**, Does Government Debt Crowd Out Investment? A Bayesian DSGE Approach. Congressional Budget Office, Washington., pp. 65-67.