O 22. DEBT MONETIZATION

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ABSTRACT: Although it remains one of the most discussed economic issues in various countries, everyone wants to find the best possible solution. In developing countries like Albania, alternatives are limited, but we still tend to follow the example of the West, especially the United States. Debt management strategies are very different, what is required is to choose with less additional costs. What is often attempted is to reduce the burden of generations to pay. Often policies do not bring the expected result and the situation changes. Debt settlement has also been seen as a solution, but how many times will it give us a positive result that no one predicts. We believe that the issuance of new money will bring results in certain situations. Putting new money into circulation would not create new debt, but would have other costs for the country. New emissions could create inflation. Such strategies have been used since early times in developed countries. In cases like this, the cost of new emissions and inflation costs remain to be compared. Many policymakers are affected here and follow the negative consequences of these cases and link the events one after the other. Different countries have different reactions, but a common goal, before the state budget. These and more will be addressed throughout the topic Debt Monetization.

Keywords: Money issuance, dept, inflation, cost.

1. INTRODUCTION

Monetization

WE treat this topic thinking as another solution for public debt repayment. As mentioned in other articles debt in our country is mentioned after the 1990s. In the beginning, due to the need for liquidity, the privatization of properties began to accumulate money. Later, we started to borrow, sometimes even the two processes combined together more or less, until started concessions or otherwise public-private partnership. Many discussions started at this stage. Procurement method, laws, schemes and their amounts were changed just like any other phenomenon. The monetization solution has been tried in the world for years. Its sides are more positive as they provide solutions immediately after the main role is taken by the central bank of the country. We often call monetization a legal tender, but not always the best positive solution. Monetization does not directly highlight the debt created. There are cases when governments take measures for direct payments to the state treasury in order to immediately close the deficit problem without making known to the public the need for liquidity in the budget. However, there is no idea that everything is not noticed. There is a moment when the institutions cooperate and the situation is resolved only by the central bank, either by intervening the bank itself in auctions for the purchase of issued bonds, or by the lenders that can be given by third parties.Issuance of new bonds means monetization. Monetization can be in 2 forms:

1. Money issue
2. Creation of new government bonds purchased by the central bank

In the first case all costs fall on the central bank and it must bear them alone. The CB has to deal with policy changes and up to the cost of issuing money. In this way the action in the market is direct and there is no creation of new debt. This is positive and worth noting, but for the central bank it has a negative side because its balance sheet is directly affected. From this moment the bank bears all the risks, if the bank issues and disburses money in the market and then withdraws them in other instruments then this is risky and it is the same as increasing the direct debt. Rather here leaves a new debt.

This phenomenon is related to the withdrawal of CB from the solution and is required to resume action with fiscal instruments. This phenomenon takes us away from monetization and takes us further to examples for developed countries such as the US and the UK. In these countries, monetization has been implemented for years as a solution to increase liquidity. In the policies pursued by the CBs, the solution is to intervene in situations when there is a lack of liquidity. In economics, it is the duty of the CB to monitor the performance of the monetary situation. Even if the necessary chief CB gets involved in situations and by buying government bonds directly. Only in a country where it is prohibited by law to intervene, the Central Bank is not involved in resolving situations where there are liquidity difficulties. If this does not happen and the lack of liquidity lasts for a long time, then the CB has a duty to intervene and systematize the situation.

Special Cases

The ways of political and economic organization of countries continue to remain different despite the fact that developing countries follow the examples of developed countries. Monetization requires a country to have an independent CB and it is this independent CB that makes the country independent of other countries. Monetizing this requires solving the problem individually, without involving other countries, without creating other financing instruments which later complicate the economy. This is also a positive side of monetization, solving the problem where it arises, of course we have to see the conditions and risks that we will address further, but there are also special cases.

Special cases are EU member states. Their degree of economic integration goes as far as monetary union and the main function in controlling and liquidity situation has the ECB. This is where the problem with monetization in EU countries arises. Liquidity needs vary from country to country, but the ECB cannot intervene as a central bank of a particular state. Its actions must take into account all the risks involved in the process. The ECB cannot change its policy just for the liquidity needs that only one country has. This reflects an important condition for making the monetization process real. The CB should be totally independent and thus maneuver with instruments for quick solution of the problem in cases of lack of liquidity in the budget. However, just as there is a negative side, there are also positive sides, such as the incentive for good liquidity management that they own as well as the wealth of their countries.

While there are some reasons to worry, central banks are doing the right thing and economically there seems to be no reason to panic. In the UK, the Treasury and the Bank of England have just announced the temporary reactivation of a scheme that makes it possible for the central bank to finance public spending directly. Other commentators want central banks to do even more and start some form of "helicopter money". In a way, they are practicing what helicopter money backers demanded - but in a much more targeted way than anything central banks could ever do.

At the same time, central banks have initiated new, large-scale government bond-buying programs.

It is known that China in recent years has undergone a long economic reform, the rate of growth of money supply has been consistently greater than the sum of real GDP growth and the rate of inflation. Most of the "surplus money" was absorbed by the newly earned economy and inflation was moderate. The reason is that the economy can`t absorb more excess money than it has received so far. Excess money supply above and beyond the level of real GDP growth has mainly resulted in inflation. This is what economists fear when we choose monetization.

The government can borrow money, print money, raise taxes, or cut spending.

The government decides to borrow money from the public by issuing thousands of dollars or Euros in bonds and offering bond buyers favorable interest rates.

What should not be forgotten is the fact that everyone seeks to benefit in order to secure greater resources for the future. Here we mention the example of earning trading money.

When people browse websites and click on advertisers' links, website owners - whether individuals or large media companies - make money. If a website attracts enough visitors, the money paid by advertisers can add significant profits. You can`t be profitable without taking risks or otherwise there is no benefit without taking risks. We seek to close the deficit but there are other risks to the economy. Regardless of whether the deficit gain is or not, it is often thought to have significant macroeconomic consequences. Here are 2 questions to ask about monetization:

1. Does its gain matter depending on the impact on macro models? and
2. How much money would the Bank need to intervene in the market?

At first macro models take into account the positive sides and in the first moment monetization has a positive effect. For the second the bank decides how much money it will put on the market either by issuance, or by touching the reserve and so there are no major changes in its balance sheet in figures, but simply in items. What matters is the money and future behavior of the central bank. Our previous proposal was that, as long as interest rates are close to zero, regardless of whether the consolidated government's liabilities are debt or money does not matter.

The consolidated government now has two types of debt: regular debt and interest-paying money. Neglecting the impact of the term premium, the total interest rate burden is the same regardless of the composition of the debt between the two. One of the implications of higher inflation will be the reduction of the real value of nominal debt, easing the debt burden.

If current large-scale purchases by central banks of government securities are really interpreted as a signal that, when the time comes, they will not pay interest on the big money stock and thus allow overheating, inflation and reducing the real value of government debt? It is true that the larger the government bond portfolio held by the central bank, the stronger the effect of its policy on debt sustainability. On the one hand, having the ability to lower the real value of debt if things are extremely bad is clearly a rewarding opportunity to have.

If the virus crisis lasts for a long time and imposes such a debt burden on governments that they cannot pay their debt, they will be forced to choose between inflation, debt restructuring, financial oppression and expropriation of assets and there is no a priori reason to claim that they should rule out inflation.

If we mention in our country, we continue with Eurobonds and grants. Monetization to be heard in public is still a scheme. Not even immediate intervention by the central bank. Perhaps our policymakers better judge the growing share of debt or the impact of concessions on the economy than monetization.

Risks

Like any action that has a positive side, monetization has additional costs and risks. Not only that, but monetization becomes the cause of macro problems if the situation is not managed well. Monetization brings about inflation, frequently changing interest rates, changes in monetary policy, production and economic growth. We mention these as factors that are affected but not necessarily on the negative side. We define who they are to avoid to some extent problems that can be generated by monetization. The risk that you encounter the most and that accompanies the longest monetization process is inflation. In the views of an economist, delivering new money to the market brings about many changes. What worries economists and policymakers the most is inflation and of course the case when interest rates are low and the economy still lacks liquidity. It seems that the economy itself sets up traps to make it possible to properly assess the changes that need recovery.

It can also be thought that there are high risks because the problem it solves is current. But if this lasted, then it would appear that in addition to the lack of liquidity in the long run we would also have falling interest rates, two different issues for the monetary market that need to be resolved at the same time. So if we start with the delivery of new money in the market this would increase the possibilities of consumption of course, but at the same time the increase in consumption shows an increase in aggregate demand and a real increase in prices. In the market we already have rising prices and investments that can be increased because there are low interest rates. Here it depends on which parameter gives the highest impact on the economy and normally on this basis the best solution is given. If we took together any direct claims that our production would increase, our labor market would develop and thus we would have economic growth. How many guarantees this has is not known because it depends on how much investor could eliminate the problems and risks to develop the economy, how many good initiatives we would have in a troubled economy. This is why there is no "fixed recipe" for monetization. So we try to look more positively. Putting on a scale often acknowledges the positive fact of boosting the economy and igniting inflation.

2. CONCLUSIONS

The central bank, regardless of the situation, seeks to keep its instruments within the set target. It seeks to control interest rates and inflation. In a country like ours, we have these with directives from the EU. Fluctuations in interest rates and the emergence of inflation are not positive for a developing country like ours. Making new money is really the same as driving the economy, but there are risks that need to be managed and eliminated. Fast liquidity ratios need to be addressed quickly. Often attempted with restrictive fiscal policy, but it limits consumption and production. With monetary policy, it depends on the central bank's role in the economy. They choose monetization for the reason that they do not add debt. Due to short-term estimates claiming we expect a more positive result in the long run. Monetization has costs but also benefits. Government expenditure using this new money boosts incomes and raises private demand in the economy. Thus, it fuels inflation, but a little increase in inflation is healthy as it encourages business activity. If the government doesn't stop in time, more and more money floods the market and creates high inflation.

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