# ASPECTS REGARDING THE EVOLUTION OF ROMANIA'S PUBLIC DEBT IN THE CONTEXT OF ITS INTEGRATION WITHIN THE E.U. AND OF WORLDWIDE FINANCIAL CRISIS

**MARIANA MAN,**
**ROXANA MARIA MARIN** *

**ABSTRACT:** *Governmental public debt is determined by the State's financial needs that display a permanent character. The State's financial needs are covered by cashed incomes coming from taxes and other contributions. The State's incomes and the opportunity of obtaining them are almost never enough large in order to cover all the expenditures of a period (as a rule, one year). Such a lack of resources determines the turning up of certain budget deficits whose covering is done owing to internal or external loans. All the sums loaned and not refunded at a certain moment determines the appearance of the public debt of a country.*

*Public debt consists in the total sums borrowed by the central public authorities, by the administrative and territory units, and contracted or guaranteed by the other public entities, from natural or juridical persons on the internal market or from abroad and not refunded at a certain moment. Governmental public debt represents the State's total financial obligations at a certain moment coming from refunding financings directly contracted or guaranteed by the Government on financial markets.*

*During a period when most of the countries have to face the challenges determined by the lack of sustaining internal and external public debt, we consider that the problems generated by administrating public debt mainly focus upon the impact of the present financial crisis upon the level of the public debt and upon the manner of administrating it.*

**KEY WORDS:** *public debt; governmental public debt; local public debt; internal gross product; refunding financings; governmental guarantees; country's debt degree.*

**JEL CLASSIFICATION:** *E60, G32.*

* *Prof., Ph.D., University of Petrosani, Romania, man_mariana2006@yahoo.com*
*Ph.D. Student, "Valahia" University of Targoviste, Romania, rxnmarin@yahoo.com*

## 1. INTRODUCTION

A country can consume more than it produces only in case it has access to a certain amount of external financing that allows imports higher than exports. In other words, internal absorption (including: population's consumption, governmental consumption, and the investments of non-governmental field) can be higher than the Gross Internal Product of the country only in case imports are higher than exports; such a commercial lack of balance should be financed through a proper level of external resources. One can obtain such resources through contracting and using external loans and/or foreign investments (direct and/or portfolio ones). Under such circumstances, it is essential that the external contracted and used loans should target the development and modernization of the economy and of the public services' infrastructure (and not consumption); accordingly, they determine the potential necessary in order to carry out a durable economic growth, the increase of national production in order to meet the country's consumption and investments needs; they also determine imports' decrease and exports' increase that provide the resources that allow the periodical refunding of public debt's service.

One should avoid directing the strategy of contracting public funds only towards external sources; such a fact is explicitly demonstrated by the experience of those countries that had to face serious problems connected with the administration of external public debt. The larger the funds attracted on an international level the higher dependence of the country in debt on the crediting countries. Although owing to the external loans the State rapidly collects important funds without immediate financial efforts, one should not ignore the degree of debt of the future generations that will have to pay both the due installments of the loans and the afferent interests. Through attracting funds on an internal level the country's financial dependence on foreign countries diminishes as the administration of internal public debt represents a matter of internal policy and there are no external constraints.

## 2. The evolution and composition of public debt

An adequate administration of public debt implies the carrying out of an optimum structure of public debt's instruments by the managers of public debt, namely founding out a balance between external funds and internal funds. *Romania's public debt during the period 2000 – 2008* is displayed by Table no. 1.

One can notice that during the period 2000-2003 the absolute value of governmental public debt witnessed an accelerated yearly growth. This accelerated yearly growth was interrupted during the period 2004-2006; afterwards, between 2007 and 2008 a higher rate of the yearly growth was registered. The analysis of the data displayed by the table above emphasizes the fact that although the State's public debt permanently grew, its share within the Gross Internal Product (GIP) decreased from 31.4% in 2000 to 21.8% in 2008 due to the fact that the GIP had a higher growth rate. The ratio between the State's public debt and GIP, one of the converging criteria settled by the "Protocol regarding the procedure that is to be implemented in case of excessive deficits" (annex of the Maastricht Treaty) shows that the debt degree was and still is much below the 60% margin.

**Table 1. Evolution of Romania's public debt**

- Million lei -

| Years | Governmental public debt | Local public debt* | Total public debt | Gross internal product (GIP) | Share of public debt within GIP % |
|---|---|---|---|---|---|
| 2000 | 25 231.9 | 3.3 | 25 235.2 | 80 377.3 | 31.4 |
| 2001 | 33 465.6 | 41.4 | 33 507.0 | 116 768.7 | 28.7 |
| 2002 | 43 632.7 | 73.6 | 43 706.3 | 151 475.1 | 28.9 |
| 2003 | 51 137.0 | 226.7 | 51 363.7 | 197 600.0 | 26.0 |
| 2004 | 55 147.3 | 404.9 | 55 552.1 | 246 400.0 | 22.5 |
| 2005 | 56 381.9 | 2 628.8 | 59 010.8 | 288 995.0 | 20.4 |
| 2006 | 59 868.4 | 3 472.3 | 63 340.7 | 344 651.0 | 18.4 |
| 2007 | 76 149.7 | 6 174.5 | 82 324.2 | 412 762.0 | 19.9 |
| 2008 | 100 514.3 | 9 237.7 | 109 752.0 | 503 958.7 | 21.8 |

**The data regarding local public debt are available only beginning with 2000.*
*Source: The Ministry of Public Finances*

The composition of Romania's public debt is displayed by Table no. 2.

**Table 2. Composition of Romania's public debt**

| No. | Public debt | Million lei equivalent | Million euro equivalent* |
|---|---|---|---|
| **1.** | **Total governmental public debt, out of which:** | **100 514.3** | **25 216.83** |
| 1.1 | - Directly contracted by the State | 91 904.9 | 23.056,92 |
| 1.2 | - Guaranteed by the State | 8 609.4 | 2 159.90 |
| **2.** | **Total local public debt, out of which:** | **9 237.7** | **2 317.54** |
| 2.1 | - Directly contracted by the authorities of local public administration | 8 529.8 | 2 139.94 |
| 2.2 | - Guaranteed by the authorities of the local public administration | 707.9 | 177.60 |
| **3.** | **Total public debt (1+2)** | **109 752.0** | **27 534.37** |
| **4.** | **Gross internal product (GIP)** | **503 958.7** | **-** |
| **5.** | **Share of public debt within GIP** | **21.8%** | **-** |

**According to the BNR course on 31.12.2008: 3.9860 lei/euro.*
*Source: The Ministry of Public Finances*

According to the data displayed by Table no. 2, *Romania's public debt* registered on December 31st, 2008 represented 109 752 million lei (namely, 27 534.37 million euro), out of which *governmental public debt* registering 100 514.3 million lei (namely, 25 216.8 million euro) represents 91.6% of the total public debt, and *local public debt* registering 9 237.7 million lei (namely, 2 317.5 million euro) represents only 8.4% of the total public debt. At the same time, the analysis of the data displayed by Table no. 2 shows that the balance of local public debt at the end of 2008 represented 9 237.7 million lei (namely, 2 317.5 million euro) and includes the balance of the local public debt directly contracted by the authorities of the local public administration representing 8 529.8 million lei (namely, 2 139.9 million euro) and the balance of the guaranteed local public debt representing 707.9 million lei (namely, 177.6 million euro).

## 3. THE BALANCE OF DIRECT GOVERNMENTAL PUBLIC DEBT

As regards the *balance of direct governmental public debt* at the end of 2008, it registered a growth of 24 763.9 million lei as compared with the balance at the beginning of 2008. According to the type of the instrument used, the structure of direct governmental public debt is displayed by Table no. 3.

**Table 3. Structure of direct governmental debt**

| | **Type of instrument of public debt** | **Balance on 01.01.2008 - Mil. lei-** | **Balance on 31.12.2008 - Mil. lei-** | **Growth(+) Decrease(-) Balance in 2008** |
|---|---|---|---|---|
| | **Total direct governmental loans**, out of which: | **67 141.0** | **91 904.9** | **+24 763.9** |
| A* | Treasury certificates | 2 514.4 | 8 106.9 | + 5 592.5 |
| B* | State obligations | 6 885.4 | 9 505.6 | + 2 620.2 |
| C* | Financial leasing | 268.6 | 206.3 | -62.3 |
| D* | Instruments of cash management | 0 | 1 825.0 | + 1 825 |
| E* | Other re-paying financings, out of which: | 57 472.7 | 72 261.1 | +14 788.4 |
| | 1. Loans from the general State's treasury account for temporarily financing the deficit of State budget | 29 407.8 | 39 594.7 | +10 186.9 |
| | 2. Loans approved by special laws | 764.6 | 0 | -764.6 |
| | 3. Loans operated through the State's central treasury | 11 302.5 | 13 619.3 | +2.316.8 |
| | 4. Other refunding financings | 15 997.8 | 19 047.1 | +3 049.3 |

**Represents the sections of the general account of public debt.*
*Source: The Ministry of Public Finances*

The analysis of the data displayed by Table no. 3 shows the following:

- *Treasury certificates* representing 8 106.9 million lei (2 033.8 million euro) have a share of 8.8% within the governmental public debt directly contracted by the State and represent treasury certificates issued by the inter-banking field as well as treasury certificates for population sold owing to the network of the State treasury and changed in certificates of term deposits;
- *State obligations* in lei and foreign currency registering 9 505.6 million lei (namely 2 384.8 million euro) represent 10.4% of the governmental public debt directly contracted by the State;

- *Contracts of financial leasing* registering 206.3 million lei (namely 51.7 million euro) represent 0.2% of the governmental public debt directly contracted by the State;
- *Instruments of cash management* (liquidities management) registering 1 825.0 million lei (namely 457.9 million euro) represent 2.0% of the governmental public debt directly contracted by the State;
- *Other non-refundable financings* registering 72 261.1 million lei (namely 18 128.7 million euro) represent 78.8% of the governmental public debt directly contracted by the State, out of which:
  1. *Loans from the general account of the State's treasury for temporarily financing the deficit of the State budget and refunding public debt* registering 39 594.7 million lei (namely 9 933.4 million euro) represent 43.1% of the governmental public debt directly contracted by the State;
  2. *Loans approved according to special laws* registering 0.0 million lei (namely 0.0 million euro) represent 0.0% of the governmental public debt directly contracted by the State;
  3. *Loans operated through the State's central treasury* registering 13 619.3 million lei (namely 3 416.8 million euro) represent 14.8% of the governmental public debt directly contracted by the State. Such loans include the loans contracted from BIRD, BERD, BEI, the European Union, Japan's International Bank, JP Morgan, CSFB, Deutsche Bank, ING Barings, Citigroup and UBS Warburg;
  4. *Other refundable financings registering 19 047.1 million lei (namely 4 778.5 million euro) represent 29.7% of the governmental public debt directly contracted by the State.* Such loans include the loans contracted from BIRD, BERD, BEI, BDCE, Japan's International Bank, FIDA, Eximbank Korea, the government of the U.S.A., KFW Germany, Societe Generale, Raiffeisen Zentralbank Osterreich, Calyon Bank, Dexia Kommunal Kredit Bank and Fortis Bank as well as the loan contracted by the Ministry of Public Finances and the Romanian Commercial Bank with a view of financing SN Nuclearelectrica S.A. in order to finish Unit 2 CNE Cernavoda investment works; the loan's balance represented 285.6 million lei on December 31$^{st}$, 2008. The governmental loans directly contracted by the State during 2008 were meant to finance the budget deficit and re-finance public debt as well as to finance the following projects: the integrated control of nutrients pollution; co-financing of environment projects according to the National Reference Strategic Framework, transport, economic and energetic efficiency; reconstruction forest roads affected by floods; priority works in the field of water administration and municipal infrastructure.

In 2008 the *service of direct governmental public debt* represented 12 957.8 million lei, out of which the refunding of capital installments represented 9781.6 million lei, and the payments of the interests and commissions afferent to the loans regarding direct governmental public debt represented 3 176 million lei, as follows:

- Capital installments refunding representing 9 781.6 million lei;

- Payments of interests and commissions representing 3 176 million lei.

In 2008, the Ministry of Public Finance paid 23.4 million lei representing the lei equivalent of the service afferent to the public debt for the following loans contracted by the State and sub-loaned to the beneficiaries: the loan for critical imports and technical support, the loan for financing the “Gross Market”, the loan for financing the project of industrial development, the loan for financing the project regarding the preservation of thermal energy, the loan for road rehabilitation, the loan for the second stage of railway rehabilitation. It is to be mentioned that the sums retrieved from beneficiaries for such payments represented 6.7 million lei.

## 4. THE BALANCE OF GUARANTEED GOVERNMENTAL PUBLIC DEBT

*The balance of guaranteed governmental public debt* at the end of 2008 represented 8 609.4 million lei and was 399.0 million lei smaller than the balance registered at the beginning of 2008. The structure of guaranteed governmental public debt is displayed by Table no. 4.

**Table 4. Structure of guaranteed governmental public debt**

- million lei -

| | Explanations | Equivalent balance on 01.01.2008 | Equivalent balance on 31.12.2008 |
|---|---|---|---|
| **I.** | **Governmental guaranties given according to special laws** | **1 387.47** | **1 558.72** |
| **II.** | **Other governmental guaranties, total, out of which:** | **7 621.14** | **7 050.67** |
| A. | Guaranties given for refundable financings contracted by economic operators | 7 308.86 | 6 706.68 |
| B. | Guaranties given for refundable financings contracted by the authorities of the local public administration | 312.28 | 343.99 |
| | **TOTAL guaranteed governmental public debt** | **9 008.61** | **8 609.39** |

*Source: The Ministry of Public Finance*

The analysis of the data displayed by Table no.4 shows the following:

- *Governmental guaranties given according to special laws* register, at the end of 2008, a balance of 1 558.7 million lei (namely 391.0 million euro). Governmental guaranties given according to special laws exclusively come from the banking field and represent damages of the litigations before Courts and extra-balance sheets engagements guaranteed in favor of the Romanian Commercial Bank S.A.;
- *Other governmental guaranties* register at the end of 2008 a 7 050 million lei balance (namely 1 768.9 million euro), including:
  - *Guaranties given in order to finance refundable financings contracted by economic operators* representing 6 706.68 million lei (namely 1 682 million euro);

- *Guaranties given for refundable financings contracted by the authorities of the local public administration* representing 343.99 million lei (namely 86.3 million euro) in order to finance the investments works of SAPARD Program (Measure 2.1) and to finance projects.

One should also emphasize the fact that in 2008 no State guaranties were emitted. Nevertheless, during that year, there were cases when the beneficiaries of external loans did not pay their external payment obligations; consequently, the Ministry of Public Finances, as a guarantor, made external payments of 498.4 million lei representing the obligations assumed through the guarantee letters emitted in favor of those beneficiaries. In 2008, 69.7 million lei were retrieved representing governmental guaranties given to beneficiaries, out of which 61.0 million lei from the Ministry of Public Finances, and 8.7 million lei from the Authority for the Capitalization of the State's Assets (AVAS).

## 5. CONCLUSIONS

The present economic crisis has determined a rapid growth of the public debt at a global level. At present there is a world-wide liquidity crisis of covering the short term financing needs. Although the United States of America and the countries of Western Europe visibly diminished the effects of the crisis, as a result of the State intervening, the specialists consider that the climax of the economic crisis and of extreme poverty is to be attained in 2010. In case of the countries in course of development, the scenarios of the experts of the United Nations Conference for Trade and Development foresee dramatic decreases of economic growth in 2010, poor countries being more exposed to the action of external factors. In a period when most of the countries have to face the challenges determined by the lack of sustaining internal and external public debt, we consider that the problems generated by the administration of public debt mainly focus upon the impact of the present financial crisis on the level of public debt and on the manner of administrating it. Accordingly, we consider that the managers of public debt should pay a special attention to the following aspects:

- The excessive growth of the debt level and the effects upon world economies;
- The risks of a high level of public debt;
- The economic crises determined by the high level of public debt;
- The use of public debt for goals different from those it has been contracted for;
- The part and the responsibilities of the managers of public debt, taking into account their limitations;
- Transparency in administrating public debt;
- The part played by public auditors;
- The strategies used by the national policies of administrating public debt.

With each new financial crisis, the management of public debt should develop new mechanisms able to target the following purposes:

- The reconfiguration of the instruments of public debts;
- The monitoring of the external debt of the private field;

- The integration of the strategies regarding public debt at a macro-economic level;
- The integration of the management techniques able to anticipate the inherent risks that derives from the process of public debt management.

As regards the governmental public debt obligations, let's notice that the Government (through the Ministry of Public Finances) can contract internal and external refundable financings for the following purposes: financing the deficit of the State's budget, re-financing and refunding in advance governmental public debt; permanently maintaining a proper balance (established by the Ministry of Public Finances) of the general account of the State's treasury; financing investments projects meant to develop the priority fields of economy.

As regards the financing of the investments projects meant to develop the priority fields of economy, it can be achieved through contracting supplemental refundable funds from international financial organisms. Although Romania has been allocated community funds, the need of contracting these refundable financings is determined by: resuming crediting in Romania (owing to supplementing liquidities on internal financial markets); Romania's being prepared to enter the euro zone; directing public expenditures towards investments; encouraging private investments; revitalizing certain fields of the national economy (buildings, machines industry).

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