EVOLUTION OF INTERNAL PUBLIC DEBT IN ROMANIA DURING THE LAST DECADE

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Abstract: The need to finance the public sector in different stages of economic and financial development of a state generates the need for additional funds to current or primary income which justifies public financial policies based on the accumulation of internal or external public debt at central, regional or local government level, or national currency or foreign currency. Besides the notion of public debt and how it is managed, it is also important to study its structure. The article emphasizes the presentation of theoretical concepts and the exposition of the legislative and institutional framework regarding the internal public debt and its evolution in Romania during the last decade, including the period of the global economic crisis that was declared at the beginning of 2008. The study shows that in the last ten years, domestic public debt has been steadily rising, especially in the period 2008-2012, amid the need for a loan favored by the global economic crisis.

Keywords: internal public debt, budget deficit, public debt service.
JEL Classification: H60, H63, H68

1. Introduction

Internal public debt comprises loans borrowed by the state from the domestic financial market (irrespective of the currency in which they are expressed, the maturity, the type of the lender) as well as the loans borrowed by third parties and which are guaranteed by the state.

Filip Gheorghe stated that “the internal public debt is represented by the total amount of the payments related to the loans received from the state residents, individuals and companies. This is expressed in the national currency in which the corresponding payments are made and is usually formed by borrowing on the domestic market, including by taking over from the balance of deposits from financial-banking institutions such as Savings Houses and even from loans obtained by to the (national) broadcasting bank” (Filip, 2002).

Internal public debt is determined using the following tools:
• short-term loans, contracted directly by the state, for the purpose of balancing the state budget, from the National Bank of Romania and to be reimbursed during the year;
• issuance of treasury bills for balancing the state budget, which must also be reimbursed by the end of the year from budget resources;
• placement of documents, medium and long term, through public subscription, with a view to procuring the financial resources needed to cover the annual budget deficit;
• state guarantees for domestic bank loans obtained by administrative, territorial and economic units in order to meet the needs for economic development;
• the short-term use of available resources in public Treasury accounts.

The objectives of the research are, on the one hand, to analyze the evolution of internal public debt in our country, in absolute values as well as a percentage of GDP, and, on the other hand, to analyze the internal debt structure, depending on maturity, debt instruments and currency.
2. Evolution of internal public debt in Romania

At national level, the Government, through the Ministry of Public Finance and within the limit of the amount approved by Parliament, pledges public loans in the domestic market and provides guarantees to third parties for contracted loans (Văcărel, 2003).

Internal public debt is an irrevocable obligation on the part of the state to repay the contracted loans, pay interest and other related costs on time.

In order to pay interest on internal public debt, a permanent budget authorization is granted through the annual state budget law that is to say an unlimited period of approval for the repayment of contracted loans, term interest payments and related commissions without the need for additional approvals.

In the case of Romania, the Ministry of Finance, on behalf of the state and on the basis of Government approvals, is authorized to guarantee domestic bank loans to commercial banks in the short, medium or long term by economic entities for the following destinations:

- implementation of the restructuring programs approved by the state bodies and the legally constituted authorities;
- financing the production of long-cycle manufacturing products that are destined for export;
- establishing certain stocks for the main strategic products set by the Government, which are necessary for the national economy;
- financing the execution of some agricultural works;
- achievement of certain investment objectives of national interest.

In order to issue the guarantees necessary for economic units to contract credits, the Ministry of Finance must accept the clauses contained in the credit agreement. As regards the purchase of financial resources for the repayment of the due installments as well as the payment of the interest on the credits obtained, they are charged to the economic entities benefiting from the state-guaranteed loans.

The value of public debt commitments, denominated in lei or in foreign currency, is recorded in the Internal Public Debt Registry, existing at the Ministry of Finance.

Chart no.1

Evolution of internal public debt in Romania during 2008-2017

Source: our own processing using data from the website of the Ministry of Public Finance (www.mfinante.ro)

As can be seen from the graphs above, the evolution of internal public debt in our country has seen a significant increase since 2008, amid the global economic crisis. During the first four years of the analyzed interval we can see a galloping growth, while in the following years the situation seems to stabilize.
Moreover, looking at the evolution of internal public debt as a percentage of gross domestic product, we can see that in 2013 there is a decrease in this percentage as compared to 2012 and 2011, but this is due to faster GDP growth compared to the increase in public debt, and not a reduction of the latter.

The Ministry of Finance is entrusted with the management of the internal public debt, and this implies:
- contracting of state loans;
- keeping records, in specific accounts, of internal public debt;
- calculation of interest, commissions or fees due and payment thereof;
- repayment of public debt;
- performing other specific operations.

The current Romanian practice characterizes the internal public indebtedness through a relatively sustained dynamics, in view of the use of various indebted ways, such as the issuance and placement of treasury certificates with interest to legal persons, discount treasury certificates addressed to resident legal persons in our country and treasury certificates with interest for individuals.

As far as its structure is concerned, in the graphs below we highlighted the public debt that comes from the central administration and that from the local administration.

Chart no.2 Evolution of the internal public debt of the central and local government in Romania in 2008-2017

There may be a significant difference in the structure of internal public debt from the point of view of the administration from which it originates. Most of this is made up of public debt at the central public administration level, while internal government debt from the local government is insignificant.

At local government level, internal debt is formed by the following ways: through internal loans, which are contracted from credit institutions or commercial banks by local public authorities; by means of securities issued by local public authorities to which various natural or legal persons subscribe.

Regarding the territorial-administrative units, the County and Local Councils or the General Council of the Municipality of Bucharest, they may approve the contracting of external and internal
loans, on medium and long term, both for the realization of investments of local public interest, but also for full or partial refinancing of local public debt.

Local borrowing can be contracted without the Government's guarantee, but with the prior notification of the Ministry of Finance, instead local borrowing always requires the approval of the authorization commission consisting of representatives of the National Bank of Romania, the Government and local public authorities.

In the charts below, we conducted an analysis of the structure of internal public debt by maturity, debt instruments and currency.

**Chart no. 3**

**Structure of internal public debt by debt instruments in Romania in 2008-2016**

In chart no. 3 is presented the structure of the internal public debt according to the instruments used. It is noted that a significant share is held by government securities, while debt from currency and deposits and loans is significantly reduced. Thus, if on internal public debt from currency and deposits and debt from loans we notice a steady evolution throughout the analyzed period, in terms of internal public debt obtained from government securities, the situation is different, this one increasing from 17537.2 million lei in 2008 to 129701.8 million lei.

Depending on the maturity factor, we can classify internal public debt into:
- short-term public debt, also called a floating government debt, resulting from loans contracted for less than one year;
- medium and long-term public debt, also known as a consolidated public debt, ranging for a period longer than five years;

With the help of floating public debt and consolidated public debt, one can express the degree of exigibility of public debt in a state.
Analyzing the results presented in the chart, we can see that, at the beginning of 2008, there was no significant difference between the short-term internal public debt (12532.9 million lei) and the medium and long-term internal public debt (15275.7 million lei). However, starting with 2012, the difference between the two becomes more and more pronounced, as the short-term debt is decreasing (from 36286 million lei at the end of 2011 to 19205.4 million lei at the end of 2016), while medium and long-term debt is growing rampant (from 61877.5 million lei in 2011 to 128486.6 million lei at the end of 2016).

The delineation between floating debt and consolidated debt is also important in order to assess the financial effort made by the State, usually to repay the due debt and to pay the related interest over the course of a year. Therefore, as the floating public debt has a larger weight in total public debt, the more significant is the need for current financial resources to cover public debt service, and vice versa.
Source: our own processing using data from the website of the Ministry of Public Finance (www.mfinante.ro)

Analyzing the currency in which the internal public debt is expressed, we can see that a significant percentage of this is represented by the debt in the national currency, while the debt in foreign currency (EURO and USD) is significantly lower, but rising.

3. Conclusions

As part of the public debt, internal local government debt is a general obligation that involves reimbursement of agreed and settled interest and commission rates established under the agreement. Thus, the due rates, interest and commissions due on the contracted loans are recorded in the local budget. Consequently, the Government has no obligation to pay the local public debt due (Dragotă și alții, 2003).

At the same time, the local public administration authority can guarantee the loans obtained by the territorial-administrative units through their own revenues, except those from the transfers from the state budget with special destination.

According to the current Romanian legislation, at local level, the indebtedness is limited to a maximum of 20% of the sum of the local budget revenues. For the determination of this limit, in the case of variable interest-rate borrowings, the interest rate calculated from the calculation date is taken into account, and in the case of foreign currency borrowings, the exchange rate communicated by the National Bank of Romania at the time of the calculation is considered.

Local public authorities may also borrow short-term loans in the case of temporary house gaps during budget execution, which are due to the gap between the collection of receipts and the higher spending of the local budget. In the first instance, house gaps are covered by the working capital fund, and if it is exhausted, interest-free loans that can be granted on account of the availability of the General State Treasury Account is used.

As a result of the research, we can conclude that the internal public debt registered a significant increase in the analyzed period, starting from the amount of 27808,6 million lei in 2008 and reaching the amount of 147692 million lei in 2016. This rising trend is explained by the ascendant evolution of internal public debt at the level of central public administration.

References