ASPECTS OF ECONOMIC CRISIS IN THE ADMINISTRATION OF GOVERNMENT DEBT

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Abstract

The recent years have been characterized by the general influence of the crisis on the economic growth of the states, thus triggering the significant rise in the level of budget deficit and public debt.

Under these circumstances, it is highly important that we know the real causes of the rise in public debt, its effects, and also the management strategy of the government public debt.

What we aim to do is to take a glimpse into the real economic situation of the country, and in order to understand the crisis impact on it, we will review the economic facts of the last 10 years.

Key words: *economic crisis, gouvernment debt, public debt ceiling, deficits, budget, UE*
Clasificare JEL : *M40, M41*

1. Symptoms of economic crisis

The economic crisis is no longer taboo. Concerns to this reality, frankly, surprising to most of us, continues today, and who knows how will continue.

The fact is that in 2007, when the world economy seemed to be under control, broke out the worst crisis in the past 80 years.

Who belongs the economic crisis?

One explanation provided by public institutions, said that the issue would be on the wrong behaviorur of economic agents, this market entailinginability to function properly, ensuring proper allocation of resources.

Of course, the crisis is the result of factors including perhaps monetary policy errors, distorting economic incentives, moral hazard and harmful regulations. More specifically, the crisis belongs to the State, if it wasn't so, the crisis would not affectall states.

Population is the one affected, the level of living experienced a sudden decrease, the property market is numb, no selling, no buying, mass layoffs, rising prices and wages but the are pensions over-reduced or frozen.

The situation is known by the most, but what can lead to mitigation of economic difficulties?

The number of people affected is growing, more effective, and direct proportional with these increases the concern that reduce public debt and expenditure incentives for work and capital accumulation.

What is debt?

Public debt represents all internal and external financial obligations of the state at some point, coming from loans contracted directly or guaranteed by the Government through the Ministry of Finance, or local authorities from various creditors.

Obligations are commitments a rinsing from borrowing, namely: loan repayment, interest payments, commissions, special advantages granted to creditors.

Public debt is establish and manage separate the two forms of it:

- Government debt, debt which is part of all internal and external financial obligations of the state, at some point, coming from loans contracted directly or guaranteed by the Government through the Ministry of Finance, on behalf of Romania s financial markets.
- Local public debt, part of the debt, which represents all internal and external financial obligations of local authorities at time, coming from direct loans or guaranteed by financial markets.

Loans taken by local public administration authorities, which are local government debt tools are part of Romania's public debt, but not the debt or liability of the Government.

Depending on the term debt are classified as follows:

- Short-term debt (floating);
- Debt on medium and long term (consolidated).

Public debt may be submitted and issued according to documents or other means of management, and on creditors (if debt).

Depending on the quality of creditors, debt may be:

- Gross public debt, the total amount of loans given, no matter where they are placed;
- Net public debt, the falling value of loans placed in state institutions.

Obligations of state from state loans and guarantees for a period of one year are limited by public debt ceiling set annually by law.

Public debt ceiling, that all financial obligations that can contract and ensure that public authorities, both central and local authorities as a period of one year, is set annually by law.

This includes: public debt ceiling.

- Domestic public debt ceiling - the maximum amount of loans and guaranteed by central and local government authorities of the internal market over a period of one year.
- External public debt ceiling - the maximum amount of loans contracted and guaranteed by central government and local authorities for a period of one year.

The total public debt is included in "debt register", the debt situation is shown in chronological order. It has four components, each having two distinct positions, namely debt and guaranteed debt.

- Sub internal government public debt;
- Sub external government public debt;
- Sub-national local government debt;
- Local sub external debt.

At the end of debt employed is shown in document called "general account of public debt". This is accompanied by a report that the main issues analyses debt level, debt service and state guarantees for loans to businesses.

2. The research methodology

The approached theme is out of date being in the global financial and economic crisis, felt in Romania. More than that, we are concerned with the current situation and future euro area.

Both the increase in public debt and budget deficit have become a crucial issue in many emerging states or highly developed.

To borrow resources continuously and maintain them constant over time means to have a sustain able public debt, important fiscal policy objective of any of a state. A sustain able debt is the result of market and fiscal policy and budgetary decisions.

Finance public expenditure, as an expression of society's needs is achieved through:

- Public funds taken from tax payers and highlighted in the general consolidated budget, its components;
- External grants
- Internal and external loans, directly or indirectly guaranteed by public administration authorities, both

central and local.

Given the complexity of the subject, the book will be a thorough research, using the descriptive method, by providing interest on the specialized literature, both the domestic and foreign, case studies and articles.

Also, to achieve the material is proposed and used the comparison, the story of differences and similarities can and the economic situation of Romania in the lasted case, trying to determine the impact of economic crisis on the economic situation, with explanatory approach

3. Study on Romania's government debt

In 2007 with the adoption of Government Emergency Ordinance no.64/2007 on public debt legal frame work was required to develop a medium-term strategy for its management.

Government debt to be reviewed annually according to changes in market conditions or the needs of budget deficit financing and /or refinancing the debt.

The purpose of debt management

Public debt management concerns the establishment of a state debt management strategies capable of mobilizing the necessary EU grant amounts, to achieve cost and risk objectives set by the authorities, and other objectives set by them, for example, developing and maintaining a government securities market performance.

In other words, the state must ensure that both the level and growth of public debt to be sustain able, and debt service can be provided in various situations while respecting the objectives by cost and risk.

It is necessary also to maintain public sector duty on a sustain able path and implementation of a credible strategy to reduce debt levels, if it is excessive.

Public debt should be properly structured in terms of interest rates, maturities and borrow the currency.

A weak structure, on the evidence presented above, and a high level of guarantees granted by government borrowing by public institutions or private businesses were the factors that contributed to the initiation or propagation of economic crisis

For example, crises have often been triggered by strategies that have prioritized excessive borrowing cost savings, resulting in the short term loans with variable interest rate.

They expose a serious state budget if, when refinancing, market conditions change adversely.

The main objective of public debt management, more specifically, involves financing the budget deficit and refinance debt, while limiting the costs and risks associated with medium and long term, effectively managing liquidity available in the state treasury general current account. It aims to provide short-term financial resources necessary for the public expenditure by avoiding gaps between receipts and payments.

Public debt management strategy the government intended "optimization" of this activity for the period 2008 -2010, in the context of macroeconomic forecasts, economic growth, budget deficit and inflation.

The main objectives of the strategy:

•*controlled growth of government debt,*

• *Reducing government debt costs over the medium term and long term*

• *limiting the risk to the stock of government debt,*

• *Governments securities market development*

In performing the calculation of government debt indicators, are envisaged:

• *Macroeconomic indicators (budget deficit, GDP, exchange rates, exports of goods and services) estimated by the Ministry of Economy and Finance (MEF) and the National Commission for Prognosis (CNP);*

• *Implementation of pessimistic assumptions to the original script:*

a) Budget deficit higher than expected in the official forecasts correlated with lower economic growth;

b) Lower growth during the period under review;

c) increased key interest rates on international financial markets (Libor and Euribor) and domestic and

d)exchange rate depreciation against the main currencies by denomination of debt government public (EUR and USD).

Constraints and limitations in the management of government debt

Law no.81 / 1999 public debt was he legal framework for direct loans or guaranteed by the state by financial markets in 2002-2004.

Under this law, the state resorted to borrowing to finance the budget deficit and to finance projects.

Applying the principles by government debt management was very difficult borrowing conditions being imposed by the specificity often (duration, time completion, etc.) funded projects and the ability to repay financial obligations to the beneficiaries state guarantees / sub loans.

This has generated a structure of government debt "suboptimal" in terms of market risk associated with a high percentage of debt in foreign currency debt invariable rate debt and government guaranteed debt in total (see Table structure for public debt period2002-2007).

Also, the short and medium term debt represented 44.8% of total government debt at the end of 2006.

Based on IMF and World Bank recommendations on effective institutional and legislative frame work for public debt management, but given the difficulties in the government debt management in achieving strategic objectives in early 2005 came into effect Public Debt Law no.313/2004, which created the legal framework for improved management of public debt, replacing Law no.81 / 1999 public debt.

Approval of new rules on public debt have established efficient debt contracting process by eliminating the possibility that the line ministries to contract directly with state guarantees and loans were clarified regarding the integration of local government debt as part of debt.

It was also considered a clear definition of objectives en is aged in the public debt management and functions of state institutions in this complex process.

However, the Public Debt Law no. 313/2004 to harmonize Romanian law on public debt with the "acquis communautaire" and have that Romania fulfilled its commitments assumed during the negotiations with the European Union.

In this sense, the main issues dealt with are concerned the state prohibition of direct financing by the central bank full independence of the central bank.

In the context of legislative and institutional measures taken strong increase and of economic use of privatization receipts and recoveries AVAS for redemption

debt in 2004-2006, government debt was reduced continuously recorded at the end of 2006 level of 17.5% of GDP, domestic debt (in lei) and foreign (currency) is balancing, as follows :

a). the domestic debt was 7.5% (compared to 5.9% at the end of 2004) and

b. the foreign debt was 10.0% (vs. 16.5% at the end of 2004).

Default management strategy government debt in 2004-2006 should not be detached from the context of investment in Romania, while the main investors were resident banks.

Access to non-residents buying government securities in domestic restricted until 2006, in conjunction with the fact that domestic institutional investors were almost nonexistent this approach led to the strategy.

4. Reports on Romania's government debt, macroeconomic developments prior to the "turbulences" of the economic crisis

According to the data presented by the Ministry of Finance, the evolution of government debt in the period 2002 - 2006, was made as follows:

2002 was characterized by macroeconomic developments, with a prudent fiscal policy and mostly external financing. Priority has been given disinflation, this year its rate standing at 17, 8%, below the central bank target of 22%. This year, the budget deficit was kept under control (2.4% of GDP) realizing its funding mainly from external sources (equivalent to 1.5% of GDP) taking into account the interest differential between yields than securities issued on domestic and foreign loan borrowing conditions.

Also, in 2003 was achieved a lower deficit than originally envisaged by law. In these circumstances, the fiscal policy, for financing the budget deficit and public debt refinancing contributed significantly to the objectives of monetary policy, at the end of it the inflation was 14.1%. Also during this year, the foreign trade transactions made in euro together with EU integration requirements "caused" the change to EUR as the reference currency for foreign exchange.

In 2004 Romania recorded the best performance during the transition period (1989-2004) in terms of economic growth. Budget deficit, originally scheduled to 3% of GDP was revised in July to 2.1% of GDP in August being adjusted again to 1.5% of GDP.

2005 was affected by tax reform by introducing a flat income tax of 16%, and concomitant reduction of income tax from 25% to 16%, which, surprisingly perhaps, has brought an improvement in revenue collection and helped to obtain a very good budget result. The problem was the uneven execution of budget expenditures (the entire accumulated deficit to practice in the last two months of the year, standing at 0.8% level of GDP, well below the initial target of 1.5%) and insufficient share of revenues and expenditures in GDP.

The year 2006 marked the establishment of inflation target under the one proposed by the central bank, completion of capital account liberalization, and fiscal policy easing budgetary funding under a policy that excluded all activity on the primary market for government securities.

The main tax measures adopted in 2006 aimed at reducing social security contributions by 1.5 percentage points, the introduction of vice tax on tobacco products and alcohol for additional funding to the Ministry of Health budget and harmonization in the flat and other charges.

Although in 2006 there has been a relaxation of fiscal policy, reflected in an increase in general government deficit to 1.5% of GDP compared to 0.8% of GDP last year, it occurred towards the end of the year, recording the same budgetary execution asymmetrically.

The uneven nature of the budget execution has made fiscal policy to have an ex-post anti-inflationary character most of the year, however making cash management more difficult both at the end and beginning of 2007.

In 2007, changes in government management of public debt management

The year 2007 was marked by Romania's EU accession. In the first semester, they made significant inputs of external funds, but the second half was affected by three external factors:

- Crisis in U.S. mortgage
- Higher food prices
- "Escalation" in oil prices, all contributing to rising inflation and widening external deficit

However, growth remained high. To improve the legal framework afferent public debt management, was adopted Emergency Ordinance No. Government's debt. 64/2007, the main changes brought by this new regulation are:

1. separate approach and centralized management of the process of government debt, which is exclusively MEF activity, from local public debt management, which is local government;
2. elimination the criterion of residence at the time of contracting debt, given its irrelevance in terms of complete liberalization of capital account
3. elimination in loans to central public administration authorities;
4. approval by law to issue state guarantees and the granting of loans and the elimination of default under the debt ceiling;
5. taking over for administration by the Ministry of Finance since 2009, borrowing the principal loan with state guarantee or contracted directly by the MEF and in their borrowed, to centralizing all government public debt operations (refunds / withdrawals) who as the only source of repayment the state budget, state social insurance budget and the budget to pay unemployment benefits to more efficient management of budget resources and liquidity in domestic and foreign.
6. obligation administration development strategy over the medium term government debt;
7. increased flexibility in the use of specific instruments of government debt management by removing provisions related to specific instruments, as well as how to use them Although Romania since 2001 meets the convergence criterion on budget deficit (keep it below the ceiling of 3% of GDP), its share in GDP increased to 2.5% of GDP, versus 2.2% of GDP in 2006.

MEF having it only powers on permitting, monitoring and control in terms of fiscal budget so as not to be affected by macroeconomic balance.

It made the transition from project financing to finance the budget deficit, the annual costs
projects proposed by the central government are included in their annual budgets. This is the reported and confirmed by Eurostat, according to ESA 95 methodology

5. The impact of crisis on the economic growth in Romania

In 2007, starting from the necessity of having an efficient management of the public government debt, closely connected to the purpose of developing the securities market, the Ministry of Economy and Finances has come back to the 2005 strategy, focusing on financing by issuing securities on the internal market.

At the end of 2007, the public government debt represented 18,8 % of the GDP, out of which:

- The debt contracted directly by the state represented 88,2%
- The guarantees represented only 11,8%.

Analyzing the Romanian public debt, we can see that although its level increases from year to year, reaching from 43706 billion lei in 2002, to 82324.3 billion. lei in 2007, actually the state's effort to solve financial obligations diminishes, as the growth rate of the GDP surpasses the growth rate of debt. Therefore, the balance of public debt decreases from 28,9% at the beginning of the analysed period to 18,4 % in 2006.

Starting with 2007, the balance of government debt in the GDP increases, reaching approximately 30% in 2009.

According to the data published by the Ministry of Public Finance (MFP), between 2008-2010, the loans from the IMF, European comission and the banks from the local market have doubled the public debt.

Therefore, from a public debt of 109,1 billion lei, equal to 21, 6 % of the GDP, at the end of 2008, Romania has contracted a public debt of 147,3 billion lei, equal to 29,99% of the GDP in 2009, and 193,89 billion lei (37,9% din PIB), on 31st December 2010.

In these circumstances of economic crisis, under the pressure of an austere budget, the Romanian government has become more in debt, and the level of public debt, as well as the rate at wich it grows, have become quite concerning.

How can we have economic growth, when we are more and more in debt?

When the concern of debt has been a burden for a long time, when the lack of financial resources is present in our everyday life, and we rethorically ask ourselves "what more could go wrong?" the economic crisis struck again. We are talking about the crisis of the most powerful states governing the euro zone. Although various ways of solving the crisis are widely spoken of, we will have to adhere to the most efficient one. The problem of the Euro zone, the fall of the common currency and therefore the possibility of the destruction of the European Union is highly interesting for both the academic world and the citizens of the European countries.

The leaders of the European Union have agreed about signing an intergovernmental agreement between the Euro countries, which will harden the financial discipline. The financial discipline refers to the fact that no country within the EU will be allowed to have too much financial deficit or public debt.

Romania is part of the six countries which are not part of the Euro zone, but which have accepted to adhere to the new intergovernmental treaty which the Euro zone wants to establish.

Mediafax writes that the treaty basically means financial regulations to balance budgets and coordinate the economic policy at European level, according to the reports sent by the European Council, following the debates during the Bruxelles summit, of December 8th. For the "stability of the continent", we have to rethink Europe. Moreover, during the summit a new idea of failure has been accepted, from the point when the European Union was created:

- a new, common currency was created, but without economic government
- for ten years, the economies in the Euro zone diverged, and this can no longer be accepted.

The President Sarkozy and the German Chacellar suggested a greater control over national budgets and sanctions for those which do not meet the requirements set by the EU, with the purpose of increased investment in the Euro zone and greater integrity.

The main objective, formulated by the EC President is that the states in the Euro zone keep their financial deficits under 3% of the GDP, and the debt under 60% of the GDP. In case the new regulations are not respected, the states in question lose their veto role in the EU and receive financial sanctions from the European Union.

Our President declared that the EU financial agreement to which Romania will subscribe will not change the financial budget for 2012. He also declares that the deficit target settled for 2015 is of 0%, and that this year the realities of the markets forced us to adopt a cash deficit of 1,9%. Clearly, the intention is to borrow less, while the 13 billion Euro we borrowed are only necessary to touc upon older debts. The 1,9 % deficit means another 2,5 billion Euro borrowed.

In what the economic growth is concerned for 2011, during the first trimester of this year, it was 1,7 %, during the second trimester, it was 1,4 %, 4,4 %in the third trimester and in the fourth trimester it could be 2,5 %. That way, we could close the year with an economic growth of about 2%.

The growth was as follows:

- constructions 6,9 %
- agriculture, hunting, foresting, fishing registered 22,1 %
- industry 5,9 %
- tourism, with a growth of 17 %. In comparison with the third trimester, the GDP registered a growth of 1,8 % more than the last trimester, and 4,4 % in comparison with the same period of last year.

The Prime Minister of the Romanian Government was recently declaring that 2011 ends with a deficit of 4,4 %, and that he targets a deficit of 1,9 in 2012 and 0 % in 2012, exactly the same as the EU expectations.

In what the public debt is concerned, Romania is much below the level of 60 % of the GDP, the maximum level accepted by the EU, the year 2011 and 2012 is expected to finish with a public debt of about 33 % of the GDP.

Romania is aiming at adhering to the Euro currency in 2015, and the fulfilment of the conditions from the European Treaty of Financial Government guarantee Romania's accession in the Euro zone in 2015.

Outlook and conclusions

The objectives included in government debt management strategy for the medium term, including the most important are:

1. controlled growth of government debt;
2. reduce government debt costs and long term;
3. limiting the risk to the stock of public debt the government;
4. government securities market development.

Increasing market economy is not easily achieved, especially for Romania. This approach requires good priorities and a strategy for proper management of public debt, especially the emergence of the economic crisis caused the debt to grow more and more.

Factors such as instability of international financial markets, concern going into default, internal political instability, backed by the global economic situation from 2008 - 2011 Romania have made access to international finance markets to be limited.

We need measures to stimulate the economy.

The globalization of financial markets, public finance policies are needed to ensure stability and development conditions imposed by states in the context of the Maastricht Treaty

Therefore, governments of member states should pay attention to fiscal and budgetary policies to ensure long term sustainability

If short-term risks in Romania there is sustainability of public finances, medium and long term, the existence of sound public finances can become a problem.

Currently, Romania has a relatively low share of public debt to GDP, at least compared to Europe, but its growth was quite robust in recent years, given that since 2003 have been met discounts substantial

The growth rate is dangerous in the absence of fiscal consolidation measures are currently the main problem being a consolidated budget deficit

Socio-economic context of current national and global, EU member countries especially in conjunction with the urgent need to identify the austerity measures in addressing the crisis, call for scientific research of the theme both at European and local level.

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