PUBLIC DEBT: STRUCTURE AND CHARACTERISTICS ROMANIA'S CASE

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Abstract

Addressing the issue of public debt in the present context is extremely useful, both at the global level, especially at the level of Romania, since the country has faced and faces the difficulty of identifying and collecting the necessary resources from taxes, fees, mandatory contributions and other sources in sufficient size, so as to appeal to the borrowed resources as little as possible.

The article presents the concept of government debt and its main features with reference to both the contracting public debt goal and its structure. In terms of the structure of public debt, the article makes reference to the concepts of internal public debt and external public debt.

Key words: *public debt, internal public debt, external public debt, public debt service, local public debt, government public debt.*

JEL Classification: *H6- National Budget, Deficit, and Debt*

1. Introduction

The issue of government debt has been and remains one of the most pressing and controversial one in any State, generated mainly by the strong manifestation of budgetary deficits. Thus, the unfavorable ratio recorded between the growth of public income and the one of social needs has resulted in the high use of borrowed resources. The central policy debate across Europe, Japan, and the United States now centers on how fast to stabilize soaring public debt/GDP ratios, given that post crisis growth remains fragile.[1]

The increased government spending amid the economic development rate reduction and, implicitly, the reduction in revenues from taxes, fees or compulsory contributions, determines the increase in government debt. In turn, this will lead to a deepening of the deficit, an increase in the level of taxation, a reduction of government spending for goods and services (if tax revenues decrease or remain constant) and a rise in public debt service.

Pre-empting the growth rate of public revenues of the corresponding public spending, amid the recording of social needs increasingly larger, generates more keenly the necessity of the efficient use of the available resources and the identification of new resources, enabling the provision of public goods for the corresponding public needs. In this context, public borrowing contracted from external or internal markets have become more and more a reality of our time, at the level of many countries. Obviously, the option which should prevail at the level of any Government is allocating the resources from loans to productive objectives, so as to ensure their return and the payment of interest corresponding to the value created at the level of the productive capital.

2.The concept of public debt

The issue of public debt is extremely complex and a thorough analysis of the effects in correlation with the level of interest generated, the level of gross domestic product and the budget deficit is needed. In this sense, the neoclassical model of the effects of government debt bolster the central idea that the financing of the projects initiated by Governments, whatever the mode of funding (taxes or loans), causes a reduction in the use of private sector resources. Thus, taking a portion of the taxes levied for the realization of a project equates to reducing resources allocated to consumption, while loans involve reducing resources that could be obtained from the private sector for the investment projects.

Over the long term, the effects are more pronounced at the level of the internal sources and of the foreign sources of borrowed funds. [2]

The faster increase of public debt than the gross domestic product generates an opportunity cost to equate either with a permanent high tax burden in the future, either with a period of inflation, either with a period during in which the State will reduce costs. [3]

The rapid growth of the level of public debt and for a long period of time may have implications for a nation's ability to borrow in the future, amid its credibility reduction in front of the owners of resources to be able to pay the interest. In the context of the specified above, nowadays, it is found a change in the opinion that the public debt is a negative element, a threat to any savings, forming even a parallel with the situation observed at the level of transnational companies, which use the available resources for the realization of new investments and not for payment of their debts.

In Romania, the public debt is regulated by the GUO No. 64/2007, references to it making it the subject to other regulations (Law 273/2006 on local public finances). According to the regulations presented, the public debt is defined as" the total debt obligations of the Government and the local administrative units" and by the government public debt we understand „the obligations of the State, at one point, generated by reimbursable funding committed on contract basis or guaranteed by the Government through the Ministry of public finance.

Local public debt includes all obligations relating to the payment of the administrative-territorial units, registered at a time, corresponding to the repayable financing arising out of contracts or guaranteed by local public administration authorities. An important point of view relates to another concept, namely the public debt service, which differs from the public debt. Thus, the mentioned indicator relates to the totality of the amounts, regardless of their nature (the amounts to be reimbursed or the interest) to be repaid within a specified period.

3.The purpose of the contraction of public debt

The need for resources borrowed cannot be questioned given that social needs are increasingly large and diverse, while the volume of resources is dependent on several factors, the determinant being the degree of economic development of a country. As a result, a process of increasing the public debt does not appear to be inadmissible, especially since any Government resorts to loans for its own citizens and not for others. And yet, the rate of growth is very important, at least from two points of view. Thus, the fast increase of public debt in comparison with the economic production generates greater State intervention in the economy and a higher level of taxation in the future. Secondly, the carry-over balance from a prior time period to the next one can adversely affect future budgets and the strategy and the credibility of future Governments.

In Romania, the Ministry of Public Finances is authorized, according to the normative act regulating the management of the public debt, to contract loans for: [4]

- Financing the State budget deficit;
- Temporary funding of deficits from previous years of the State social insurance budget, pending the allocation of sums to this destination;
- Funding of temporary deficits of the State budget and the State social insurance budget in the current financial year;
- Replenishment and early repayment of government public debt;
- Maintaining at any time a proper balance in the current account of the State Treasury;
- Funding based on the law of some programs/projects or of other priority needs for the Romanian economy;

To cover of the budget deficit through the public credit involves contracting loans directly by the State, by the natural or legal persons who hold available capital or through specialized institutions. Although the annual budget shall be drawn up in a balanced way, however, during the year may be recorded gaps between the receipt of revenue and expenditures made. The manifestation of such situations generates a temporary insufficiency of resources which must be covered.

Obviously, the goal (purpose) for which the public credit is used do not exempt the borrower of the credit and interest rates payment. The difference that occurs is given by the fact that the use of public credit for production purposes allows the debt and interest repayment from the profit obtained through the use of the target. But, in such a case, what remains unpaid shall be carried over into the State budget and shall be covered all on account of the income from taxes and fees.

4. Characteristics and classification of public debt

In accordance with the previous provisions, the public debt includes are all money borrowed by the State authorities (Central or local administration) or by public institutions, regardless of the quality of the creditor (natural or legal), its origin in terms of residence or the deadline.

Having as a starting point this instance, it is obvious that public debt analysis must be carried out primarily in relation to the contracting authority. In light of the contracting authority we take into account two types of public debt: Government public debt and local public debt.

Also, the public debt can be classified as follows:

- according to the contracting term: short term debt (floating) and medium and long term debt (consolidated);
- depending on the creditors relation with the analyzed country: internal public debt and external public debt;
- according to the creditors' quality: gross debt and net debt;
- depending on the creditor's type: debt contracted from public creditors and debt contracted from private creditors;
- in terms of the guarantee: direct public debt and private public debt, guaranteed by the State.

No matter from what angle it is viewed the public debt remains a major factor in determining the coordinates of the government policy on the development of a country. Reporting to different classification criteria outlines a structure that conforms to all types listed above. Thus, whether the local or government debt is analyzed, or the debt on the short term or medium and long term etc., all of them can be differentiated on two important components: the internal public debt and the external public debt.

4.1 The internal public debt

The internal public debt allows the identification of the loans from the domestic market, either directly or guaranteed by the State, from individuals and legal entities resident, in lei or foreign currency, by the local authorities or Governments, on different time periods (with a later maturity).

Contracting the internal public debt can be achieved through the following tools: [5]

- State securities in domestic currency;
- State loans from NBR to balance the State budget;
- State loans contracted from commercial banks of Romania;
- State loans contracted from credit institutions of Romania and from government agencies.

In addition, you can include in the category of the instruments of internal public debt also the guarantees granted by the State to domestic bank loans offered to businesses or local authorities for the achievement of objectives at the national level, the structured instruments (e.g. the credit provider), the financial leasing, the cash management tools.

4.2 The external public

The necessity of the State intervention in the economy in the process of stimulating the investments, capital formation or implementation of measures in the social field generates ,most of the times, an increase in the level of public debt. Whereas at the level of many countries (especially those in developing process), the volume of resources required to meet the needs related to the assimilation of progress, the modernization, the refurbishment of the economy, the insurance of the economic growth, the improvement of living standards of the population, etc. is insufficient and the availability of internal resources and those made from exports do not cover their value, the option to contract foreign debt is recorded. As a rule, developed countries choose the domestic borrowing, however, LDCs are unable to procure the necessary resources only on this segment.

A pertinent analysis of the concept of external public debt starts from the fact that it does not overlap completely with the external debt. Thus, the external debt includes in addition to the external public debt also loans contracted by various persons on foreign markets without the guarantee of the State. Thus, it is defined by the literature as „the total amount of the contractual liabilities used and unpaid of residents towards non-residents and residents requirement to repay the capital rates, with or without interest, or to pay interest with or without a capital rates". [6]

The external public debt is represented by the loans contracted by the State directly or guaranteed by it, from non-resident natural or legal persons. The meaning of the IMF regarding the gross external debt at some point is represented by the current actual amounts that require the payment of the rates and interest by the debtor in the future and that are owed by non-residents to the residents of an economy.[6] The same body defines the external public debt through foreign loans with initial and longer than one year maturity, contracted directly by the Government, State, public institutions and bodies, as well as by businesses or other legal private persons, when repayment is guaranteed by a public body.

The external public debt is the result of the State actions to purchase some additional resources corresponding to the objectives set by the Government, as I have noted previously, but it can be considered also as a resultant of the action carried out by a number of issues: [8]

- Insufficient or inefficient production capacity in terms of technological developments;

- Low and inadequate level of internal saving compared to the investments and the budget deficit;
- The widening of the current account deficit, compared with the net inflow of funds;
- Massive exodus of capital, either through direct investment or by „capital leaks" outside the boundaries.

The level of the external public debt in the total external debt of a country outlines differences in accordance with the degree of economic development of a country. Thus, at the level of the developed countries it is much lower compared to developing countries, since the latter does not have a significant volume of resources, the domestic capital market is not sufficiently developed and the trade balance records a high deficit. As a result, the external public debt complements the internal resources by allowing the allocation of larger amounts for investments with beneficial effects on economic development, the improvement of the quality of the economic activity, the improvement of the ratio of exchange and, consequently, of the country's competitive position at international level.

At the same time, the external debt does not generate an increase in interest rates internally and, so, has no adverse effect on domestic private investments. This aspect must not give rise to the idea that the external debt is a good thing, without difficulty. The problems characteristic to it (institutional, financial, social) require a careful management.

The public debt evolution in Romania recorded an upward trend, accentuated by the economic and financial crisis of 2008, as it can be seen in table no. 1.

Table no. 1. **The Romania public debt evolution during 2008-2012**

Public debt	2008	2009	2010	2011	2012
%GDP	13,4	23,6	30,5	34,7	37,8
Total (mil. lei)	69020,4	118428	159510,6	193156,8	222211,5
Short term maturity	12776,4	26954,6	39131,3	44281,6	33746,8
Medium and long term maturity	56243,9	91473,4	120379,3	148875,2	188464,7

Source: www.bnr.ro

If we take into consideration the Government's debt structure referring to the external debt and internal debt, it can be observed the same trend, stating that at the component level there have been slight reversals in terms of the ratio of these (table no.2):

Table no.2 **The internal and external government debt during 2008-2012**

Government debt(%GDP)	2008	2009	2010	2011	2012
External	8	11,5	14,9	17,1	19,2
Internal	5,4	12,1	15,6	17,6	18,6

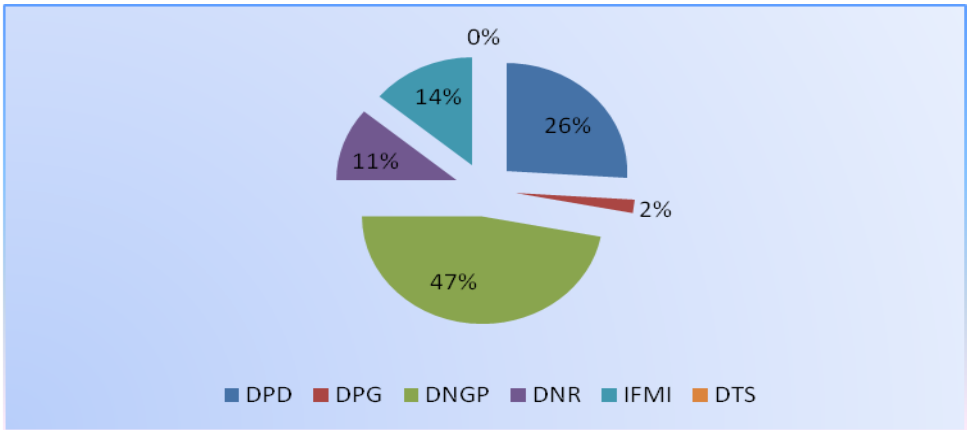
Source: www.mfinante.ro

In what concerns the external debt level, it has reached in 2011 the value of 98425 million euro and in the first six months of the year 2012 this has been exceeded, the amount of the total external debt reaching 99040 million euro.

The structure of public debt recorded in year 2011 is presented in Figure no. 1, the main components being:

- The direct public debt (DPD);
- The guaranteed public debt (DPG);
- The unguaranteed public debt (DNGP);
- Medium and long term deposits of non-residents (DNR);
- Loans from IMF (ÎFMI);
- Short term external debt (DTS).

Figure no. 1 The structure of the Romanian external debt for year 2011



Source: own contribution based on the data from www.mfinante.ro

The level of public debt cannot reach any threshold as it is important to comply with certain standards for sustainability and indebtedness. In addition, it should be correlated with the public deficit because any increase in the deficit has an impact on the level of public debt and the public debt service will be more difficult to bear. Management of the public debt must relate to both the reduction in the cost of the service debt and the reduction of risks associated to its portfolio: the risk of the market; the liquidity risk; the credit risk, the risk of refinancing; the operational risk and the settlement risk. In Romania, the increase in the external public debt has been accompanied by the rise of the external public debt service, as it results in the following table.

Table no 3. The public debt and the service public debt dynamics during 1990-2011

Year	External public debt Mil USD	Share of external public debt in GDP	EPDS Mil. ISD
1990	209,9	0,9	3,9
1991	1005,8	8,6	33,9
1992	2199,1	16,8	293.4
1993	3116,8	19,8	302,6
1994	4230,1	15	442,5
1995	4934,1	17,5	839,7
1996	6149,8	22,7	1042
1997	6848,9	21,8	1553,3
1998	6966,1	20,7	1558,8
1999	6174,2	20,7	2193,9
2000	6857,6	22,1	1331,1
2001	8354,94	20,8	1816,4
2002	9684,33	21,1	2176,3
2003	11935,79	20,8	2048
2004	12481,67	17	2280,1
2005	13815,62	14,58	2727,22
2006	12118,62	10,46	3133,61
2007	14067,67	9	2606,66
2008	15479,48	8,45	3526,67
2009	16886,83	11,4	2142,07
2010	18020,85	14,9	2912,63
2011	21599,77	16,8	2624,06

Source: www.mfinante.ro; www.bnr.ro

Although, as I mentioned, the level of external debt in 1990 was zero, we cannot consider that this situation was the result of a favorable economic policy but on the contrary, it has been recorded based on a process of increasing the exports and drastically diminish the imports. Subsequently, the economic imbalances generated higher financial resources needs, with negative implications on the level of the external debt, which rose by about 1 billion euro per year, reaching 11 billion euro in 2000. Neither the favorable economic trends within the range 2000-2008 has not led to a reduction in external debt, recording however some structural changes. In 2011, the public debt has increased and its share in the GDP reaching 38.5% compared to 37.2% in the previous year, in the context of a budget deficit of 4.1 percent of GDP. The situation observed can be explained both by the inefficiency of the use of the borrowed amounts and by the partial use of them for production purposes.

5. Conclusions

The registration of higher resources needs compared to the potential resources generates calls for loans, especially in the case for less developed countries, by the central or local governments or by public institutions. Their amount plus the corresponding interest show the country's public debt. It can be structured in relation to the period of the contract in the medium and long term debt and short term public debt. The medium and short term debt imposes the use of Treasury bonds which are characterized by a high degree of liquidity. In terms of long-term debt, it appears more and more, especially for the Western countries, a gradual elimination of the differences between the State securities and the other types of loans and an orientation towards new types of financial products, which has led to the appearance of new and diverse types of loans. Whether fiscal stimulus can foster growth or not, it depends to a large extent on the response of long term interest rates to a higher public debt and on the strength of the crowding-out effect on private investment.[9]

The need to balance the budget requires the use of various measures with specific effects, among which we specify: the tax increase or the decrease of Government spending, with direct impact on the aggregate demand, for the purpose of reducing it. Such a possibility, in a time of recession, is contrary to the desired effects (it is necessary to stimulate the economy through various measures but also by raising the demand for goods and services). Any tax increase under the conditions of economic and financial crisis may not have positive effects. As a result, ensuring the inclusion of economic development in a positive trend remains the most desired and relevant method.

In conclusion, the need to balance the budget requires the use of various measures with specific effects. Thus, a proper management of the public debt allows the avoidance of some difficult situations for a country, both financially and politically, and in terms of casualties that would record amid a financial crisis and the impossibility of repayment or refinancing of the loans.

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