Considerations Regarding the Analyses of Public Debt in the Current Economic Context, both National and International Level

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Abstract: This article presents an analysis of the way of manifestation of public debt in Romania in the context of the state’s economic evolution of the present complex financial media. Under the circumstances of functional market economies, the issues some states faced concerned the high levels of public debt or potential budgetary pressure risks that lead to the idea that sustainability of public finances must be a major challenge at the public political level. In this context, the politics considered to be adequate for approaching the public finances sustainability challenge must have as a basis to start the Strategy of EU, focused on the three components that are the decrease of public debt, the increase of productivity and last but not least, the pensions and welfare systems reform. To ensure some reasonable sustainable levels of public debt, the EU Member States have to accomplish some budgetary strategic objectives on a medium term basis so to ensure a descendent trend of the public debt.

Key words: public debt, state loan, public debt sustainability, budget deficit, level of indebtedness.

Classification JEL: E60, E61, H60, H61

1. The Present Economic Context Concerning Public Debt

The financial crises had negatively influenced the Government capacity to reimburse the accumulated debts that led both to budgetary difficulties appearances and to economic disruptions.

Managers of public debt now operate in complex, sophisticated environments. A global capital market can generate numerous benefits (for example an easier access to a greater capital portfolio at a lower price, more efficient internal capital markets and the possibility to better adapt the risks using new financial instruments). However, public debt strategies can become dangerously vulnerable when confronting with unexpected events such as
deterioration of the balance of private sector that can have as consequences shuttering of fiscal, financial and economic crises.

The economic shocks can have each of them or cumulated an impact on the external public debt of an economy, which can lead to vulnerability of the public debt strategy that at its turn can have an impact on the global economy and that can seriously deteriorate the financial situation of a state. The recent examples from the emergent economies showed that shocks can turn into financial crises, creating difficulties in the public debt management and these can have significant budgetary consequences.

In this context, states necessities are covered mostly by taxes, contributions, other incomes the state perceives from tax payers. In many cases, this type of resources (ordinary) is not enough so both the state and the local collectivities must address to other types of financial resources known as extraordinary resources, meaning public loans. In any economy, this kind of loans are addressed to cover the so-called “cash gaps” that intervene in a fiscal system way of functioning, that consists of non gathering on time the incomes presumed to be cashed in to the budget and also the necessity of some outstanding expenses. Under the circumstances of a functional economy, the state uses this financing source to promote new investments both to modernize and to innovate the existing assets, in this context appearing the notion of public debt.

One of the basic principles of state budget development (as for other types of budgets too) is the budget balance, but this is not automatically accomplished through covering the budgetary expenses with budgetary revenues. In these cases we say that the budget is developed with funding shortfall which is called budget deficit. Both the notion of state budget deficit and the one of state public debt are set in a large framework without taking into account the influence factors that can modify their size during the budgetary execution.

In our country, the concept of public debt was reconsidered taking into account the new realities and changes that appeared after the events of December 1989 that created the social and institutional framework of developing an economy based on the free market relations. Until now the notion of public debt was defined as follows:

- **the public debt** represents “the total pecuniary obligations at a certain moment that result from the domestic and external loans on medium or long term, contracted by the state in its own name or guaranteed by the state”

- **the public debt** represents “all the internal and external obligations of the state at a certain moment, contracted by the Govern, through the Ministry of Finance, in the name of Romania”

- **the public debt** represents “the government public debt plus the local public debt”

- **the public debt** represents “all the obligations having the features of governmental and local public debt”

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3 Evaluation of Public Debt Management, [www.curteadeconturi.ro](http://www.curteadeconturi.ro)

4 Law no. 91/1993 on public debt, published in the Official Monitor no. 3 of January 10, 1994

5 Law no. 81/1999 of public debt; published in Official Monitor no 215 of 17 May 1999

6 Law no. 313/2004 of public debt, published in Official Monitor no. 577 of 29 June 2004
Apart from the notion of public debt set by provisions of national legislation, in the European legislation the public debt is defined as being “the total of gross public liabilities outstanding at the end of the year at their nominal value in the public administration sector except for the liabilities of whose assets are owned by the public administration sector. The public debt is formed of the liabilities of the central administration in the following structure: cash and deposits, securities others than shares, except the derived financial products and credits as defined in SEC95”.

In the framework of public debt as mentioned in the specialty literature and in the legal provisions, a defining element is represented by the state loan. As a conclusion we can say that “the state loan” is of an understanding agreed by something in written form, between its financial agent and a physical or a judicial person for obtaining from these ones some cash money for a set period of time within some apriori set conditions for reimbursement and payment of interest.

Inflationary phenomena known as erosion factors of public debt have yet negative influence on budgets and especially in the case of external public debt because their effects are stronger shown upon the nonconvertible currencies than upon the convertible currencies.

2. Considerations Regarding the Public Debt Sustainability

In Romania, on the basis of the present legal provisions, “the Ministry of Public Finance has the attribute for Strategy ensuring the development of the strategy in the field of public debt and the attribute for administration of public debt and has as main duties contracting and reimbursement of the public debt and also the management of the related risks concerning the portfolio of the government public debt, elaboration of the works concerning the general annual account of the state public debt that is presented for Government approval, on the way to transmitting for Parliament approval, contracting and guaranteeing state loans from the domestic and external markets for the purpose and within the limits of the competencies established by law and also the observing of the legal commitments assumed through international agreements signed with international financial bodies in the field of public debt.

Through legal provisions there were also set out some principles that are at the basis of ensuring an efficient management of public finances, respectively of public debt so to serve to the public interest on a long term, of some economic prosperity and also to anchor fiscal and budgetary politics within a sustainable framework. In this context, the national institutions in this domain have the obligation to lead the fiscal and budgetary politics in a prudent way and to manage the budgetary resources and obligations and also the fiscal risks in a manner so as to assure the sustainability of the fiscal position on a medium and long term.

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9 SEC is the acronym for System of Accounts (European System of Accounts), according to EUROSTAT - European Statistics Institute
In this context, the sustainability of public finances assumes that on a medium and long term, the Govern has the possibility to manage risks or unforeseen situations, without being forced to significantly adjust the expenditures, revenues or budget deficit so to destabilize the society from an economic or social point of view.

In the specialty literature the concept of public finances is associated with “the state, the administrative-territorial units and other institutions of public law about the resources, expenditures, loans and liabilities”. In respect with the public finances it is mentioned that “the science of public finances deals with the study of facts, principles, techniques and effects of getting and spending funds by governmental bodies and the management of public debt”.

In the same way, according to some studies in the domain of public finances and fiscal rules, “public finances form a research field that deals with issues of revenues and expenditures of governs (federal, local and state). In modern times, these problems are divided into four big groups: public expense, public debt and some issues of the fiscal system as a whole, such as local administration and fiscal politics”.

From the analyses of the above mentioned it is shown that the public debt sustainability represents a concept that is in relation with the sustainability of public finances. So we can draw up the conclusion that “the sustainability of public debt represents the degree in which a government can maintain the existing programs and can fulfill the requests of creditors without raising the burden of public debt on the economy”.

3. Analysis Upon the Public Debt Sustainability

The analysis of public debt sustainability has the purpose to offer answers and solutions concerning the government’s capacity to maintain the same direction of expenses and revenues or if this govern should make an adjustment to keep the governmental public debt at the same level as percentage in the GDP.

So, the analysis of public debt sustainability represents a complex exercise and with multiple implications and has to take into consideration the following:

- The trend of public debt as percentage in the GDP;
- The trend of public debt as percentage in the GDP consolidated at a high level but with an acceptable refinancing risk and with a constant economic growth trend;
- Public debt structure that can increase the probability of apparition of negative circumstances on it.

The evolution of the public debt level in the total of Romania’s GDP for the period 31.12.1990 – 31.12.2014 is shown in the following chart.
Analyzing the data shown above we can find out that during 2014 compared with 1990, the public debt grew faster than the economic growth rate, situation in which the sustainability of public finances has to be a major challenge at the public politics level.

The indicator Public debt/GDP is the most used indicator for measuring the level of indebtedness compared with the economic activity of the country, being recognized as the most important in measuring the degree of indebtedness, underlying the solvency of the country. The balance between the state public debt and the GDP, one of the convergence criteria set up by the Protocol concerning the applicable procedure to excessive deficits, annex to the Maastricht Treaty demonstrates the fact that it was considerably lower than the reference value of 60% of the GDP.

The evolution in relative terms of the public debt in the total GDP for the period 1990 – 2014 is shown in the next chart, as follows in figure 2.

The National Bank of Romania [Directorate for Financial Stability] underlines the fact that because of sustainability reasons within the Group of emergent economies and also to moderate the expenses with interests and their impact on the primary deficit, the process of fiscal consolidation has to limit the level of public debt percentage below 40% of GDP.

Although the percentage of the public debt in the GDP is below the alert level of 60% we can say that if it is maintained of the public debt growth rate at a higher level than the economic growth rate, the solvability risk will become higher, with negative consequences for the macroeconomic whole.

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We can also notice that some significant growths of this indicator took place in 1996 too, respectively 30.1% and in 1999 – 33.2% after that date the trend was digressive until 2006 when its value was 18.4%. After 2007, the percentage of public debt in the GDP trend became higher and higher, reaching a maximum level of 44.4% in 2014. To have an overall view and to be able to evaluate the stage Romania reached, we present you for the period 2012 – 2014 the evolution of the indebtedness rate at the EU country level\(^{20}\), as shown in figure 3.
From the above data analyses we can notice the fact that although the indebtedness rate of Romania continues to be lower than other European Union Countries, the worrying factor is its accelerating trend, fact that imposes the analyses of the public debt sustainability and of public deficit.

When Romania joined the EU, it had among the lowest public debt levels in Europe (19.9% of the GDP in 2007 and 21.8% in 2008). The period 2009 – 2011, characterized by high budget deficits, led practically to the public debt to become double. The public debt, as it results from the calculation done on the EUROSTAT basis became stable in 2014, reaching the level of 39.8%, far lower than the European average and within the limits for nominal convergence.

According to the data presented by EUROSTAT during the period 2012 – 2014 the average level of the public debt inside EU28 had an increasing trend, from 11,227,119 mil. Euro to 12,094,614 mil. Euro, that is a growth of 7.73%. A similar but less pronounced tendency had the GDP level within EU28, which grew only by 3.81% from 13,420,148 mil Euro to 13,931,719 mil. Euro.

So, at EU28 level, we can find out that the public debt growth rate was higher than the economy growth rate. The average level of the public debt/GDP in EU28 overcame the reference value of public debt of 60% of the GDP set up by the Treaty of Maastricht.

As one can notice, during the period under analyses 16 states from the 28 member states of EU28 overcame the reference value of public debt of 60% of the GDP set up by the Treaty of Maastricht, respectively Greece, Italy, Portugal, Ireland, Cyprus, Belgium, Spain, France, UK, Croatia, Austria, Slovenia, Hungary, Germany, Holland, Malta.

The relation between GDP and deficit, according is the one that will tell us the measure the economic growth is sustainable from the perspective of the resources and debts. The evolution of the deficit/GDP, according to EUROSTAT data, recorded during 2012 – 2014 by the member states of the EU is represented in the figure 4.

From the presented data it comes out the fact that the biggest deficits reported by GDP were in 2013 in Slovenia and Greece. The countries with the highest surpluses were Denmark in 2014 and Luxembourg in 2013. There were also two member state that had surpluses during the entire period, respectively Germany (the highest level being in 2014) and Luxembourg (the highest level being in 2013). We can see that Germany during 2012 – 2014 had surpluses in the circumstances that it had an indebtedness rate over the 60% of GDP limit (79.3%, 77.1% and 74.7% of the GDP).

In 2014 the deficit was over 3% of GDP in 12 states members of EU respectively the highest public deficits were recorded in Cyprus, Spain, Croatia and UK, and in Italy it was 3% of GDP. Among these, 10 states had deficits more than 3% for each of the three previous years, meaning for the whole period. Comparing to 2013, the public deficit comparing with GDP decreased in 2014 in 10 member states, Holland and UK had the

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21 EUROSTAT - Statistical EU body - Publication "Euro area and EU government deficit at 2.4% 28.2.9% of GDP respectively and, at 91.9% and Government debt 86.8%" of April 21, 2015
22 UE28 = European Union consists of 28 member states.
23 http://eur-lex.europa.eu/, the Maastricht Treaty on European Union
24 EUROSTAT - European Institute of Statistics
same deficits in 2014 like in 2013, Estonia and Denmark passed from deficit in 2013 to surplus in 2014 and Germany had a bigger surplus in 2014 than in 2013 while Luxembourg surplus decreased slightly in 2013 until 2014. The other 12 member states of EU had greater deficits in 2014 than in 2013.

Figure 4: Evolution of the report deficit on GDP, according to EUROSTAT data, recorded during 2012 – 2014 by the member states of the EU


Considering all above – mentioned aspects, we can conclude that the indicator public deficit/GDP of our country, having the value of 1, 5% computed after the SEC 201025 methodology lies us on the 7th place from the 28 member states of EU, respectively on the third place from the 24 states that had deficit.

4. Conclusions

For maintain the public debt at an acceptable level it is necessary to focus Romania efforts and financial resources to increase the GDP through both the development of the industrial sector through investments both in smart industries that are able to generate added value and through agriculture (ecologic agriculture) and also through the development of constructions and services for population.

The growth of GDP can be obtained through the reduction of the fiscal pressure upon the economy, mainly on the productive sector from all the economy branches, and also by increasing the collection of taxes and fees which can generate financial resources, funds that should be orientated especially to investments in the productive sector of Romania economy.

Last but not least we have to mention that the status of member state of a monetary union determines the increase of the opening the economy by 10 – 26% that at its turn influences the GDP dynamics. In this respect we consider that at the time economic growth conditions for Romania are fulfilled, getting the status of member state of the monetary union will be good for our country.

25 ESA 2010 - European System of Accounts 2010 edition drafted by EUROSTAT
The growth of GDP, increasing exports and reducing imports will have as effect the increase of the international reserve (foreign currency) of the country, the increase of the reimbursement capacity of the external funds borrowed from capital markets and from international financial and banking institutions, but also the diminishing of the economy necessities in borrowing internal and external funds.

Reference: