

Romania's Public Debt - An Overview in European context

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Currently, the knowledge of the public debt and the concern for the continuous decrease of the public debt are of great significance because Romania has difficulties in the evolution of the economy. So, public debt has an important influence on the economy both in the short term and in the medium and long term. This paper aims to provide an overview of public debt in the European Union and in Romania. At the same time, this paper makes a brief assessment of the situation in which our country is in present.

Keywords: public debt, GDP, government public debt

JEL: H60, H63, H50

1. Introduction

Public debt means the debt that the state has, including administrative-territorial units, to third parties, such as private individuals, legal entities, banks, enterprises, from the country or from abroad, who have purchased bonds issued by the state, as well as other financial instruments (e.g. loans from credit institutions, supplier loans, financial leasing, guarantees for loans contracted by public entities) contracted to cover the financial needs of the state and administrative-territorial units. The ratio between Gross Domestic Product and public debt is an important indicator of financial and economic solidity/ stability in a state.

The public debt is defined by the total amounts borrowed by a public authority and existing in its charge over a period. (Stroe R., Armeanu D., 2014, p.111)

According to the Emergency Ordinance no. 64/2007 regarding the public debt, with modifications and completions, in present, the public debt represents the totality of the obligations of the nature of the governmental and local public debt.

Government public debt is defined as the totality of state obligations at a certain time, arising from repayable financing committed on a contractual basis or guaranteed by the Government through the Ministry of Economy and Finance, according to the law.

The local public debt represents the totality of the obligations of the administrative-territorial units, at a certain moment, coming from the reimbursable financing committed on a contractual basis or guaranteed by the local public administration authorities, according to the law.

2. Literature review

Government debt is the stock of total consolidated general government debt at the end of the period, expressed at the nominal value of the following category of government liabilities: cash and deposits, securities, other than shares, excluding financial derivatives, and loans (BNR, <https://www.bnr.ro/Finante-publice-8554.aspx>). Member States are required by the Maastricht Treaty of the European Union to comply with budgetary discipline by fulfilling two criteria: a deficit of no more than 3% of GDP and a debt of no more than 60% of GDP.

Public debt, as stated in the literature review, represented "the totality of pecuniary obligations at a certain time, resulting from internal and external loans, medium or long term, contracted by the state in its own name or guaranteed by the state." (Iancu V., 2002, p.179).

Payments made by a state in a year on the repayment of public debt, representing due rates, interest, commissions and other related expenses constitute the service of the external debt. (Stroe R., Armeanu D., 2014, p.119)

The American economist Paul A. Samuelson mentions that "first we must distinguish between internal debt and external debt. The internal debt is the one that the state has towards its citizens. Many say it is not a burden because we owe it to ourselves. " This idea is, in essence, as true as can be. The external debt is the one that the state has towards foreigners. It implies a net decrease in the resources available to the citizens of the debtor state.

According to Liebermann and Hall (2010, p. 740), for a responsible governance, the public debt should not grow faster than nominal GDP. Every time this rule is violated, the percentage of public debt in GDP will increase, as will the ratio of interest to GDP, and the tax burden on citizens will increase in return. Liebermann and Hall say that the real concern the government must take is linked to the interest on public debt that must be paid each year. Public debt, in the short term, has a stimulating effect on economic growth. Most empirical studies show that short-term fiscal multipliers that show the extent to which a fiscal impulse influences economic growth are positive. (Cerna S., 2014, pp. 71-80).

According to the Emergency Ordinance no. 64/2007, the governmental public debt represents the totality of the state's obligations at a certain moment, coming from the reimbursable financing committed on a contractual basis or guaranteed by the government.

3. Public debt at EU level

Table 1. General government gross debt, 2010-2019 (% GDP)

Year GEO	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU28	79,6	82,0	84.4	86.4	87.0	84.9	83.8	82.1	80.4	79.3
Belgium	100,3	103,5	104.8	105.5	107.0	105.2	104.9	101.7	99.8	98.6
Bulgaria	15,4	15,2	16.7	17.1	27.1	26.0	29.3	25.3	22.3	20.4
Czechia	37,4	39,8	44.5	44.9	42.2	40.0	36.8	34.7	32.6	30.8
Denmark	42,6	46,1	44.9	44.0	44.3	39.8	37.2	35.8	33.9	33.2
Germany	82,4	79,8	81.8	78.7	75.7	72.1	69.2	65.3	61.9	59.8
Estonia	6,6	6,1	9.8	10.2	10.6	10.0	10.2	9.3	8.4	8.4
Ireland	86,0	111,1	119.9	119.9	104.4	76.7	73.8	67.7	63.5	58.8
Greece	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.2	181.2	176.6
Spain	60.5	69.9	86.3	95.8	100.7	99.3	99.2	98.6	97.6	95.5
France	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.3	98.1	98.1
Croatia	57.8	64.4	70.1	81.2	84.7	84.3	80.8	77.8	74.7	73.2
Italy	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.1	134.8	134.8
Cyprus	56.4	65.9	80.3	104.0	109.2	107.5	103.4	93.9	100.6	95.5
Latvia	48.1	43.9	42.4	40.3	41.6	37.3	40.9	39.3	37.2	36.9
Lithuania	36.3	37.2	39.8	38.7	40.6	42.6	39.7	39.1	33.8	36.3
Luxembourg	20.2	19.0	39.8	38.7	22.7	22.0	20.1	22.3	21.0	22.1
Hungary	80.6	80.8	22.0	23.7	76.8	76.2	75.5	72.9	70.2	66.3
Malta	67.5	70.2	78.6	77.4	63.4	58.0	55.5	50.3	45.6	43.1
Netherland	59.2	61.7	66.2	67.7	67.8	64.6	61.9	56.9	52.4	48.6
Austria	82.7	82.4	81.9	81.3	84.0	84.9	82.9	78.9	74.0	70.4
Poland	53.5	54.5	54.1	56.0	50.8	51.3	54.3	50.6	48.8	46.0
Portugal	100.2	114.4	129.0	131.4	132.9	131.2	131.5	126.1	122.0	117.7
Romania	29.6	34.0	37.0	37.6	39.2	37.8	37.3	35.1	34.7	35.2
Slovenia	38.3	46.5	53.6	70.0	80.3	82.6	78.7	74.1	70.4	66.1
Slovakia	41.0	43.5	51.8	54.7	53.5	51.9	52.0	51.3	49.4	48.0
Finland	46.9	48.3	53.6	56.2	59.8	63.6	63.2	61.3	59.6	59.4

Year GEO	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sweden	38.1	37.3	37.6	40.4	45.1	43.9	42.2	40.8	38.8	35.1
United Kingdom	74.6	80.1	83.2	84.2	86.2	86.9	86.8	86.2	85.7	85.4

Source: Official data published on the site Eurostat

https://ec.europa.eu/eurostat/databrowser/view/sdg_17_40/default/table?lang=en

According to data published by Eurostat, in 2019 Romania was ranked 7th among the EU member states with the lowest level of indebtedness after Estonia, Bulgaria, Luxembourg, the Czech Republic, Denmark and Sweden.

11 European Union countries reported a debt ratio of over 60% of GDP in 2019, the highest being recorded by Greece, followed by Italy, Portugal, Belgium, France, Cyprus and Spain. The lowest values of public debt as a percentage of GDP were recorded by Estonia, Bulgaria, Luxembourg, the Czech Republic, Denmark, Sweden and Romania.

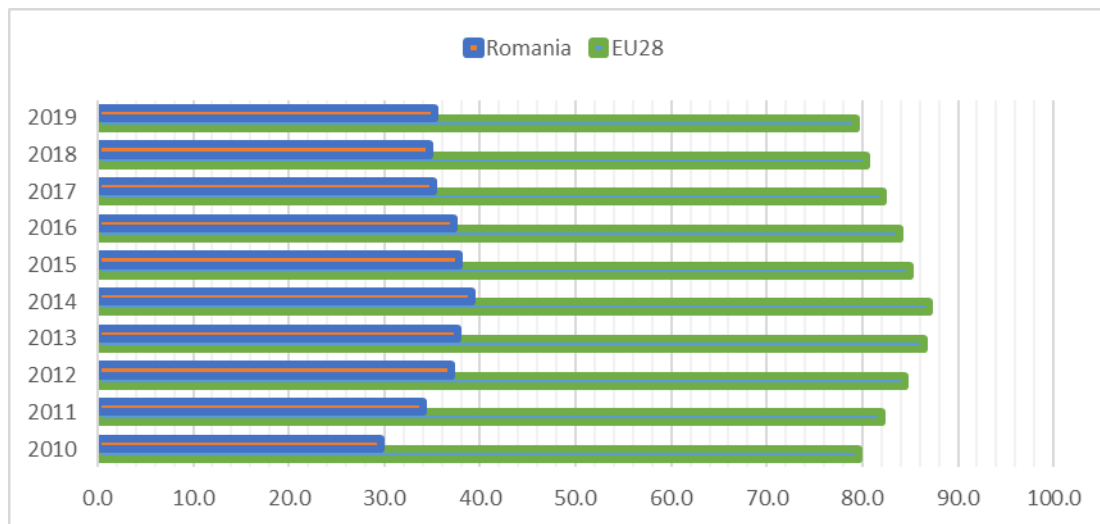


Figure 1. General government gross debt, 2010-2019, Romania and EU (% GDP)

Source: Authors' contribution using official data published on the site Eurostat

https://ec.europa.eu/eurostat/databrowser/view/sdg_17_40/default/table?lang=en

In Figure 2, we can observe, in the analyzed period 2010-2019, the lowest value of Romania's public debt was recorded in 2010 with an upward trend until 2015 followed by a decrease until 2019. In 2015 the Romania's public debt was 269 billion lei (37.8% of GDP), while at the end of 2019 the Romania's public debt was 373 billion lei means 35.2% of GDP of 1,053 billion lei.

4. Romania's public debt

Romania's public debt is below the 60% of GDP reference value set out in the Maastricht Treaty, representing 45.3% of GDP in April 2020. However, due to the structural primary deficit, the share of public debt in GDP shows a trend growth. European Commission experts estimate that if current policies are maintained, public debt will exceed 60% of GDP by 2025.

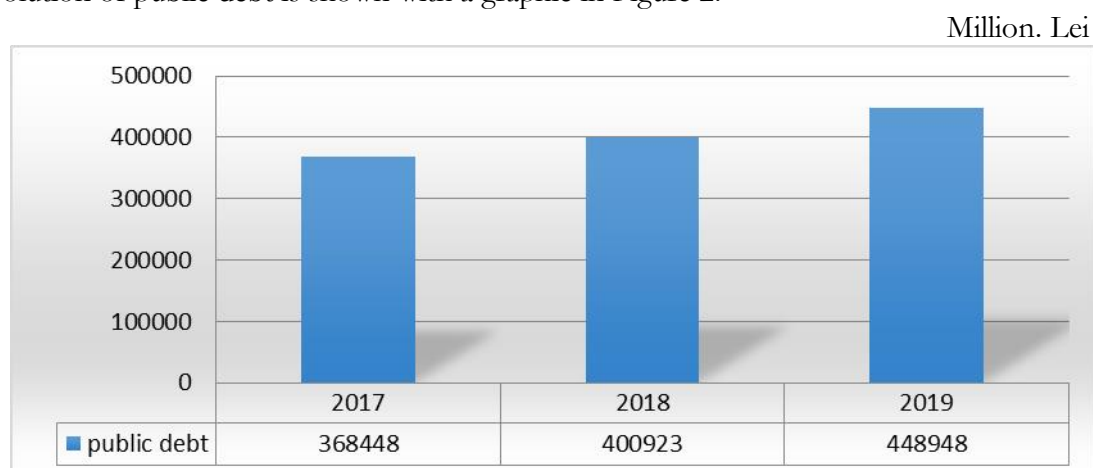
Table 2. Evolution of the public debt structure, 2017-2019

Indicators	2017	2018	2019	Differences 2018 compared to 2017(±)	2018 compared to 2017 (%)	Differences 2019 compared to 2018(±)	2019 compared to 2018 (%)
Public Debt (Million. Lei)	368.448,9	400.923,6	448.948,5	32.474,7	108,81	48.024,9	111,97
%GDP	42,9%	42,1%	42,4%				
Government public debt total	353.015,9	384.965,0	432.481,5	31.949,1	109,05	47.516,5	112,34
%GDP	41,1%	40,2%	40,8%				
1. By type:							
- direct debt	335.543,2	366.933,4	413.853,7	31.390,2	109,35	46.920,3	112,78
- guaranteed	17.472,7	18.031,6	18.627,8	558,9	103,19	596,2	103,30
2. By creditors:							
- multilateral	47.801,5	39.764,8	33.779,3	-8.036,7	83,18	-5.985,5	84,94
- bilateral	144,7	79,1	75,1	-65,6	54,66	-4	94,94
- private banks and others	305.069,7	345.121,1	398.627,1	40.051,4	113,12	53.506	115,50
3. By instruments:							
- Treasury bills (Lei and Eur)	8.428,6	3997,0	1660,4	-4.431,6	47,42	-2336,3	41,54
- Bonds (Lei and Eur)	131.343,1	158.393,7	182.760,1	27.050,6	120,59	24.366,4	115,38
- Eurobonds	95.766,3	111.320,4	131.382,6	15.554,1	116,24	20.062,2	118,02
- Loans	65.043,5	57.407,0	52.071,6	-7.636,5	88,25	-5.335,4	90,70
- Loans from State Treasury Accounts	52.434,4	53.846,9	59.353,4	1.412,5	102,69	5.506,5	110,22
4. By initial maturity:							
- short-term	60.863,0	57.843,9	61.013,9	-3.019,1	95,03	3.170	105,48
- medium-term	72.195,3	86.846,3	98.283,4	14.651	120,29	11.437,1	113,16
- long term	219.957,6	240.274,8	273.184,2	20.317,2	109,23	32.909,4	113,69
5. By interest type:							
- fixed	261.529,5	296.635,7	340.800,6	35.106,2	113,42	44.164,9	114,88
- variable	91.486,5	88.329,3	91.680,9	-3.157,2	96,54	3.351,6	103,79
Local public debt:	15.433	15.958	16.467	525	103,40	509	103,18

Source: Authors' contribution using official data published on the site of Ministry of Public Finance

http://www.mfinante.ro/static/10/Mfp/buletin/executii/Structuradatorieiipublice2000-2020iulie_Ro.pdf

The evolution of public debt is shown with a graphic in Figure 2.



Source: Figure 2. The evolution of public debt, 2017-2019

Official data published on the site of Ministry of Public Finance

http://www.mfinante.ro/static/10/Mfp/buletin/executii/Structuradatorieiipublice2000-2020iulie_Ro.pdf

Analyzing the public debt, from a structural point of view it can be seen that the evolution of public debt had an upward trend in 2017-2019, registering an increase of 8.81% in 2018 compared to 2017 and in 2019 increased by 11, 97% compared to 2018.

In Table 2. it can be seen that, in the analyzed period, the highest value was registered by the public debt after the interest rate was the fixed amount of 261,529.5 million lei in 2017, 296,635.7 million lei in 2018 and 340,800.6 million lei in 2019. After maturities, the highest value was registered in the long term, respectively 219,957.6 million lei in 2017, 240,274.8 million lei in 2018 and 273,184.2 million lei in 2019. Depending on the type of debt we can see that the direct one registered the highest values thus 335,543.2 million lei in 2017, 366,933.4 million lei in 2018, 413,853.7 million lei in 2019 and the guaranteed one registered the following values 17,472.7 million lei in 2017, 18,031.6 million lei in 2018 and 18,627.8 million lei in 2019, respectively.

The public debt contracted in accordance with the provisions of Emergency Ordinance no. 64/2007 on public debt was at the end of 2019 in the amount of 449 billion lei, of which the government public debt was 432.5 billion lei (96.3% of the total public debt) while the local public debt of was 16. billion lei (3.7% of total public debt).

The increase of the public debt in 2019 (448,948.5 million lei) compared to 2018 (400,923.6 million lei) was mainly due to the debt committed to cover the financing needs of the budget deficit initially approved by the state budget law.

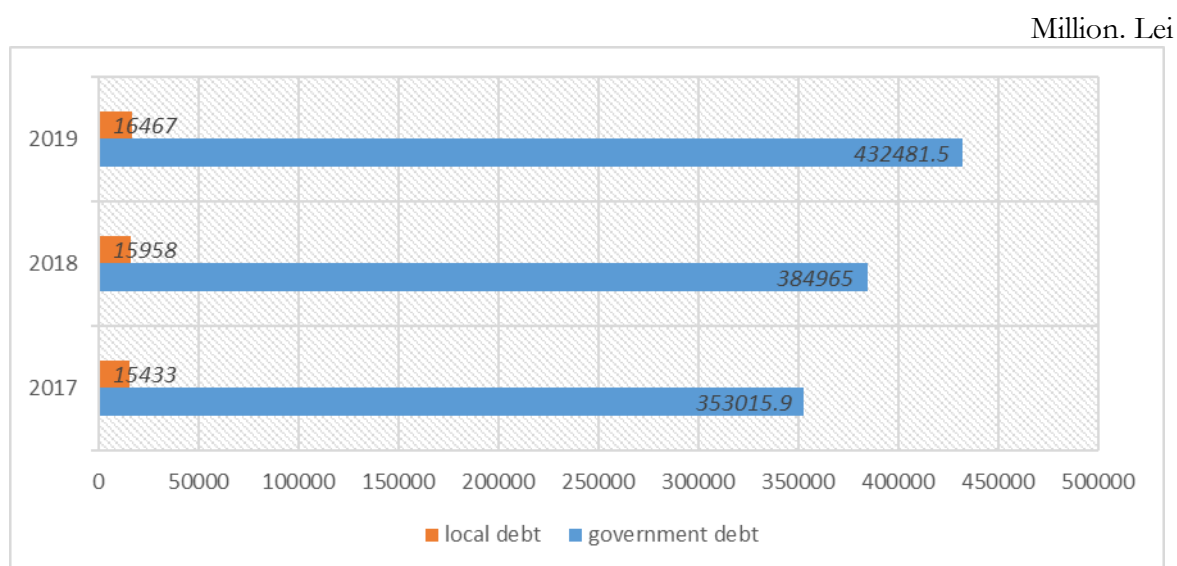


Figure 3. Evolution of government and local public debt, 2017-2019

Source: Authors' contribution using official data published on the site of Ministry of Public Finance

Government debt during this period increased as follows: it increased by 9.05% in 2018 compared to 2017, and in 2019 it increased by 12.34% compared to 2018. The local public debt increased by 3.40% in 2018 compared to 2017, and 3.18% in 2019 compared to 2018.

Table 3. Structure by institutional sector, term and financial instruments

						Mil. euro
	T1/2019	T2/2019	T3/2019	T4/2019	T1/2020	Differences T1/2020 compared to T1/2019(±Δ)
EXTERNAL DEBT	67 380,4	72 791,7	74 726,0	73 170,4	73 669,3	6 288,9
1. General government	34 900,2	38 243,9	41 256,6	39 657,3	41 087,2	6 187,0

2. Central Bank	1 220,0	1 205,1	1 231,1	1 216,6	1 229,0	9,0
3. Deposit taking corporations except the central bank	7 664,3	7 956,5	7 968,3	7 838,8	7 591,3	73,0
4. Other sectors	23 595,8	25 386,2	24 270,0	24 457,7	23 761,8	166,0

Source: Authors' contribution using official data published on the site of BNR

<https://www.bnr.ro/Statistica-datoriei-externe---BPM6-11353.aspx>

According to Table 3, the external debt stock is structured by institutional sectors, namely the general government, the central bank, deposit-taking companies, excluding the central bank and other sectors.

States must ensure that both the level and the rate of growth of public debt are sustainable and that the service of public debt can be provided according to cost and risk objectives. It is also necessary to maintain public sector indebtedness on a viable path, as well as to implement a debt reduction strategy.

Maintaining the sustainability of Romania's public debt depends on efficient management, in the sense of adopting a long-term budgetary vision, correct assessment of payment capacity over different periods of time, pursuing a coherent system of standards and warning thresholds.

The public debt must be properly structured considering interest rates, maturities and the currency in which the loans are contracted. Poor structuring, as well as the existence of an increased level of guarantees granted by government authorities to loans contracted by public institutions or private economic agents were factors that contributed to the onset or spread of economic crises.

5. Conclusion

In the context of the crisis caused by the COVID-19 pandemic, current projections foreshadow an increase of Romania's public debt in the period 2020-2021, amid high levels of the budget deficit, as well as the unfavorable differential between real GDP dynamics and financing cost.

Given the high structural deficit, the share of debt in GDP is on a steep upward trajectory. The structure of public debt with a maturity of more than one year contributes to mitigating vulnerabilities. However, the high share of public debt in GDP and the large number of government securities could be aggravating factors.

In this sense, the possibility of obtaining funds to finance the due public debt will be an important constraint of the fiscal-budgetary policy during this period.

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