CONSIDERATIONS UNDER PUBLIC DEBT WITH THE CURRENT ECONOMIC CRISIS

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Abstract
In current economic conditions, in full financial crisis, many world state governments looked for external funding to cover budgetary deficits, fact that led to explosive external debt of these states. The state must accomplish its objectives. For overtaking each economic, industrial, cultural, political, technical sector needs, needs financial resources; but not always the state internal financial resources cover entirely financial needs.
Therefore, each state needs to apply for external or internal loans.

Key-words: *public debt, external public debt, consolidated debt*

Jel Classification: H_{63}, H_{73}

1. Introduction

This paper briefly presents the concept of public debt offering at the same time a short analysis of the evolution of the concept in Romania. In a market economy in a continuous movement but also in the present economic and financial context, public debt exists and is ever growing.

The state can be compared with a person. Thereby, like any other individual, the state has specific needs; needs that come from all the subordinate sectors. For fulfilling all the requirements, the state first needs resources, rather financial resources. If it could answer to all the requirements in each domain everybody would be content; but it appears the everlasting conflict needs-resources. The need, in the economical sense, represents material requirements of goods and services, at various stages of activity development, of people lives and activities. Therefore, its gratification presumes goods and services consuming. The resources represent all the elements that can be used for production of material goods and services calculated for needs gratifications. Financial resources, as good as other resources are limited comparative with needs. Thereby, state must appeal to multiple means for answering, to some extent, to its requirements. One of the solutions is the state internal or external loans contractions.

2. **General aspects of public debt**

According to law no. 313/2004 – the law regarding public debt –, the governmental public debt designate the integrality of internal or external financial obligations of the state at specified moment of time, coming from contracted loans direct or certified by the Government through the Ministry of Finance in the name of Romania from the financial markets. In the same law it is specified the fact that all the internal or external obligations, contracted by the local public authorities, from the financial markets, compose the local public debt. Thus, the public debt contains governmental public debt and local public debt.

Generally, the state is borrowing to complete routine resources: taxes, contributions and other taxes deductible; when it has not enough cash in treasury for making its outstanding payments to subordinate domains. Thus, when the incomes are insufficient to cover the costs, the state appeals to such loans for balancing the state budget. In our country, the government is authorized to contract internal or external loans for different purposes such as:

a) needs financing at short notice of the state budget;
b) state budgetary deficit financing;
c) governmental loans liquidation and amortization; and redemption of unpaid debts;
d) interest payment but also of other costs related to public debt.

There are more concepts that define public debt term. Thereby, we can analyze floating public debt as being at short notice public debt and contains contracted loans on periods up to one year, in order to cover the downs generated by the differences in time of the income with the budgetary expenses; consolidated public debt as being the totality of the debts resulted from the state budget contracted for medium and long term, but also of the debts that have arisen from terms extensions of loans returning which means medium and long term public dept.

In terms of creditor quality, the public debt can be gross debt, designating loans total value, wherever these are placed and net public debt which do not contain loan value placed in governmental institutions.

Public debt increases every time whenever a budgetary deficit is funded by the contracted loans.

The state procure its needed both inside and outside financial resources. So we have an internal public debt and an external public debt.

For Romania, internal public debt has as activity object the financial tools: bonds, government papers, treasury certificates but also the state loans contracted at the Romanian credit institutions or from different governmental agencies.

Regarding the external debt, in the most part it consists in borrowing from other states governments, foreign banks and different regional or international financial institutions.

Maastricht Treaty, which builds the European Union, sets the economic criteria by a state can join forum. One convergence criteria, in financial field, concerned the indebtedness of relative state; this one had to be less than 60% of the

State Gross Domestic Product. Romania has fulfilled this criterion. By reference to the percentage of public debt to GDP, note that it is almost nonexistent in 1990, approximately 0.9%, then gradually increased in 2002 reaching the percentage of 28.5%, while the end of 2009 public debt to GDP ratio reached a value of 29.29%. The following table shows the public debt ratio to GDP after 1990:

Table 1

Share of total public debt to GDP 1990-2009

Year	Public debt ratio to GDP (%)
1990	0,9
1992	20,4
1994	17,5
1996	27,8
1998	27,6
2000	31,4
2002	28,5
2004	22,5
2006	20,4
2008	21,8
2009	29,29

Source: calculating on the Ministry of Finance data.

Although the share of public debt to GDP increased in the last 3 years, it is worth remembering the 7.49% percentage increase of public debt in 2009 against 2008, due to contracting loans from the International Monetary Fund and from European Union but internal loans based on bond issues as well. There is a better situation in Romania than in other EU countries, as we are not expected to exceed the 60% GDP level, which is the maximum permissible value for the European Union members.

Among European Union countries according to some transmitted data by the de Organization for Economic Cooperation and Development (OECD), regarding debt ratio, the following states are in a bad situation:

- Italy – with a debt ratio to GDP of 127,2%, is on third place in the top of World's Biggest Debtor States.
- Greece – with a debt ratio to GDP of 123,3%, is on fourth place in the same OECD top.
- Belgium – with a debt ratio of 105,2% is on fifth place.
- France – falls below percentage of 100%, so in the case of this state the debt ratio is 92,5%.

Compared to the above data, Romania looks good, but the fact that the Romanian government loans to cover current needs such as budget system regular

salary and pension payment instead of, for example, investing in infrastructure or other priority objectives is worrying.

3. **External public debt – total public debt component**

According to law no. 313/2004 – law regarding public debt – the external governmental public debt designates all financial obligations of the state coming from contracted loans direct or certified by the Government from persons or corporate body non-resident in Romania.

External public debt can be contracted directly by the state or certified in the state's name or account in order. To assess external debt level characteristic to a state and for making international comparisons between states a number of indicators are used. Among them the most important are:

– external public debt in year ... (EPD);
– external public debt service (EPDS);
– external public debt ratio to GDP;
– ratio between external debt and export goods.

External public debt service represents all payments arising from external public debt repayment, outstanding rates, interest, commissions, etc.

Another analysis indicator of external public debts is the ratio between external debt and export trade that shows how much time is necessary to refund the state's debt based on currency received from abroad sales of goods and services.

The most used indicator is the debt service rate, which is calculated as the debt service ratio that holds in external revenues of the state, respectively:

$$R_{de} = \frac{SDE}{VE} * 100;$$

where: Rde – Debt service external rate;
SDE – External debt service;
VE – Foreign income.

The year 2010 brings a debt crisis in the whole euro area. All euro area countries were overly indebted; so the public debt in euro area reaches 84% from GDP when the maximum is 60%.

In current economical conditions, in full financial crisis, many of the world's states governments looked for external funding to cover budgetary deficits, fact that conducted to explosive external debt of these states. World Bank published in 2009, top 20 The World's Biggest Debtor Nations.

In the next table (table 2) are presented the volumes of external public debt in Gross Domestic Product of top 20 The World's Biggest Debtor Nations.

Table 2

The World's Biggest Debtor Nations 2009

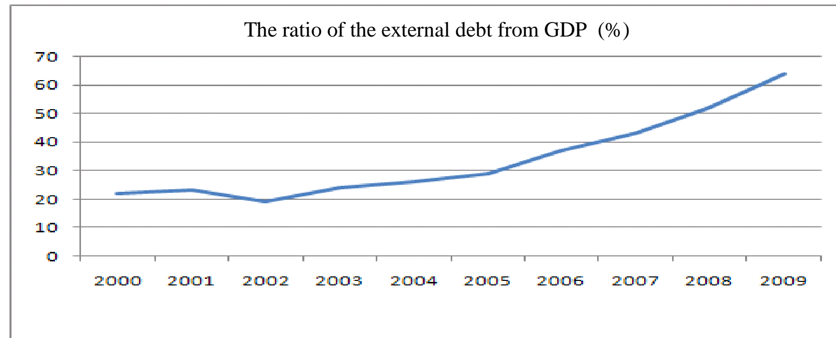
Nation	External Debt	GDP 2009	External debt (as % of GDP)
Ireland	2.39 trillion USD	77.3 billion USD	1,352%
United Kingdom	9.26 trillion USD	2.17 trillion USD	427.6%
Netherlands	2.58 trillion USD	652 billion USD	395.6%
Switzerland	1.23 trillion USD	316.1billion USD	390%
Belgium	1.32 trillion USD	381.4 billion USD	345.6%
Denmark	627.6 billion USD	99.1 billion USD	315.2%
Sweden	916.42 billion USD	333.2 billion USD	275%
Austria	869.13 billion USD	323.2 billion USD	268.9%
France	5.22 trillion USD	2.11 trillion USD	247.2%
Portugal	538.1 billion USD	232.4 billion USD	231.5%
Hong Kong	659.27 billion USD	301.3 billion USD	218.8%
Norway	577.80 billion USD	276.5 billion USD	208.9%
Finland	376.8 billion USD	183.1 billion USD	205.7%
Germany	5.33 trillion USD	2.81 trillion USD	189.4%
Spain	2.53 trillion USD	1.37 trillion USD	184.7%
Greece	594.60 billion USD	339.2 billion USD	175.3%
Italy	2.71 trillion USD	1.76 trillion USD	154.6%
Hungary	231.33 billion USD	186.3 billion USD	124.2%
Australia	891.26 billion USD	819 billion USD	108.8%
United States	13.67 trillion USD	14.25 trillion USD	95.9%

Source: www.cnbc.com.

Regarding Romania, the external public debt continues to be a main component of the total public debt. Thereby, in the 1990-1995 period Romanian authorities' constantly turned to foreign loans to cover budgetary deficits; in 1990 the external public debt ratio to gross domestic product (GDP) was 0.9% and in 1996 this ratio increased at 22.8%. Afterwards, at the same time with the decrease of the state's rating given by international agencies, Romanian authorities quit the foreign loans and the focus is on the internal loans. Since the year 2000 Romania is gradually returning to foreign loans. During the 2000-2003 period the relationship between external and internal debt was increased from 156,66% in 2000, to 292,44, which shows a much slower growth of the internal public debt than the external one. Overall, during the 1990-2009 period, foreign public debt was 60% from the total public debt, while the internal public debt was just 40%.

Graph 1

External debt ratio evolution from GDP between 2000-2009



Source: BNR; www.logec.ro

Since 2000, when the external debt ratio in GDP was registering a value of 22.2% and until 2002 when the percent got to 21.3%, the foreign debt registered a decline. Besides this period of evolution, the external debt ratio evolution is a progressive one.

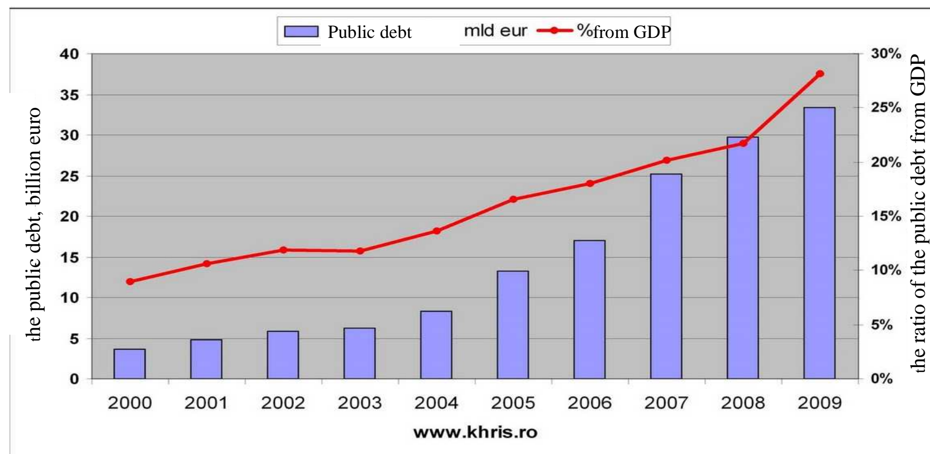
4. **Conclusions**

Although in the recent years (2007-2009) the public debt just exploded, the main public indebtedness indicators calculated show that Romania has a sustainable debt. Romania's public debt is low compared with other countries' debt, but it will continue to grow; this is one of the reasons why the state must strengthen the system of taxes to reduce future budget deficits, 3% of GDP according to the conditions set by the Maastricht Treaty.

The Romanian public debt is fitting into the maximum of 60% from the GDP; this limit is characteristic for UE members states and was established by the Maastricht Treaty. At the end of 2009, the Romanian public debt is registering a value of 30% from GDP, as shown by the graph below:

Graph 2

Public debt ratios from GDP between 2000-2009



At the end of 2009, the Romanian public debt ratio from GDP is 29.29%. This ratio is comfortable because a public debt ratio from GDP lower than 60% is a highlight condition for euro taking up.

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