ROMANIA'S PUBLIC DEBT IN THE CURRENT ECONOMIC CONTEXT

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ICHIM Cristinel
„Stefan cel Mare" University of Suceava Suceava, Faculty of Economic, Administration and Business,
Suceava, Romania
cristinel.ichim@usm.ro

Abstract: *The public debt expresses the sum of the amounts borrowed by the central public administration, territorial administrative units and other public entities from natural or legal persons (in the internal market and on the external market) and remaining to be repaid at a given time. The amount of public debt is a fundamental indicator for the sustainability of a country's public finances. If public debt is at a very high level, as a percentage of gross domestic product (GDP), it may signal difficulties in meeting financial obligations, which can lead to economic instability. In this article we intend to analyse the structure and evolution of the public debt of Romania motivated by the fact that lately it is recording a significant increase. In the first part of the paper, we clarified some theoretical aspects regarding public debt by presenting the notion, forms and indicators of appreciation of public debt. In the second part of the paper, we conducted the analysis of the evolution and structure of the public debt of Romania based on the official data available on the website of the Ministry of Finance, Public Debt Section. We note that in the period 2017-30 April 2024, public debt increased almost threefold and gross domestic product doubled. So economic growth has not kept pace with the growth of public debt. Alarming is not necessarily the size of the public debt or the percentage it holds in gross domestic product. Most countries use loans to finance various public expenditures. What we should worry about in Romania is the lack of balance and fiscal discipline that the governors of our country show year after year.*
Keywords: *loan, public debt, public debt service, gross domestic product, interest*
JEL Classification: H63

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Research methodology

The research methodology of this study combines qualitative and quantitative approaches to ensure an exhaustive understanding of the research field within the article. This mixed approach allows for the collection and analysis of various data, providing a complete and detailed picture of public debt. The first step in our approach was to clarify some conceptual aspects regarding the public debt and to identify the indicators for analysing the structure and dynamics of the public debt. Of the research methods specific to the fundamental research, we used in this paper we mention: registration, classification, measurement and comparison of all characteristics/quantitative data.

In the field of applied research, the method used is the quantitative analysis of official data available on the website of the Ministry of Finance, the Public Debt Section to highlight the size and evolution of the public debt of Romania. Then, these data were subjected to statistical techniques to identify trends, anomalies and effects on the economic life in Romania. The statistical analysis provided an objective basis for drawing conclusions and proposals regarding the evolution and structure of the public debt of Romania in the current economic context.

Public debt – The concept and appreciation indicators

The concept and the classification of public debt

The internal and/or external public loan generates public debt. To express the quantitative proportion of the public loan, the expression public debt is used, which is what some specialists in the field think (Costaş, 2016) that it represents the synthetic index of appreciation of the financial situation of the states from this point of view. The literature (Văcărel, 2003, p. 463) defines public debt as „all amounts borrowed by central public authorities, administrative-territorial units and other public entities, from natural or legal persons on the domestic market and abroad, remaining to be reimbursed at a given time."

A criterion according to which value judgments are made on the structure of the public debt is the degree of its exigibility (Moroşan, 2017, p.535). Short-term amounts payable form floating debt, while those payable at medium and long terms - consolidated debt. It is obvious that for a country the financial effort it has to make to repay the outstanding debt and pay the related interest in the coming months is more important, than the one that appears on a horizon over 5-10 years or more. Therefore, the higher the share of floating debt in the total public debt, the more pressing the need for financial resources and the more difficult their procurement.

The classification of public debt:

- depending on the term contracted: short-term public debt and public debt in the long and medium term;
- depending on the purpose of contracting the public debt: financing the budget deficit, financing investment objectives of national interest, refinancing the internal public debt, other needs approved by special laws;
- depending on where it is contracted: internal public debt and external public debt;
- depending on the level at which the public debt is contracted: government public debt (contracted by the Government, government, at central level in the name and on behalf of the state) and local public debt (contracted at local level, by the local public administration authorities on behalf of and on behalf of the territorial administrative units).

According to the legal provisions (Romanian government, GEO no. 64/2007), the contracting and guaranteeing of internal and external loans repayable in the medium and long term and the management of public debt is exercised by the Government, through the Ministry of Public Finance.

The Ministry of Public Finance is authorized to grant guarantees on behalf and account of the state for domestic bank loans, in the short, medium and long term, in the, as well as for external loans contracted by economic agents with state and sometimes private capital and public institutions, for objectives such as: implementation of restructuring programs, projects of national interest (Romanian Parliament, Law no. 109/2008).

Appreciation indicators of public debt

The characterization of the public debt and the state indebtedness capacity can be made on the basis of indicators that highlight both the absolute or relative size of the public debt, its structure and dynamics, and, as well as the financial effort that the public debt demands and the ability to honor it. For the assessment of the level of public debt, it is possible to use first the indicator *„Public debt in absolute value"* at the level of the year or at a time. At its turn indicator *„Public debt to gross domestic product ratio"* shows at macroeconomic level the degree of indebtedness of a country at a given time and is determined according to the formula: $P_{dp} = \frac{D_p}{PIB} x100$ (1)

This indicator shows to what extent the newly created value in a year is encumbered by public debt or otherwise what percentage of gross domestic product should be used if public debt should be paid in full in that year. We point out that this indicator has a purely theoretical value, because no country could allocate the entire GDP to the full payment of public debt, but only the portion of it left after making absolutely indispensable levy on the consumer fund and gross capital formation.

Compared with the indicator *„Public debt in absolute value"*, this indicator is more relevant and therefore more widely used as it relates the volume of public debt to the capacity of the economy to generate new value, expressed in terms of GDP, from which to ensure its amortization. For similar reasons (Oprea & Cigu, 2013), this indicator is also useful in making international comparisons regarding the indebtedness of a country.

Alongside indicators on the level of indebtedness of a country, a particular interest is the indicators that characterize the annual financial effort, which the public debt requires. This effort materialises in *„Public debt service" (S_{dp})* which includes payments due for the repayment of public debt, representing the principal instalments due over a period of one year (R_{dp})) to which are added the interest and related fees, as well as the expenses occasioned by the issue and placement of securities (DOB_{dp}) and is computed according to the formula: $S_{dp} = R_{dp} + DOB_{dp}$. (2)

Considered alone, however, this indicator has no special relevance, it must be reported at different sizes. Thus, in practice, the indicator *„Public debt service to GDP ratio"* is used *(P_{sdp})* which is computed as: $P_{sdp} = \frac{S_{dp}}{PIB} x100$. (3) This indicator shows in percentage, how much of a country's gross domestic product is intended in a year for payments due on account of public debt, thus providing an image of the nation's annual financial effort determined by borrowing.

Similarly it can be computed and used as an indicator *„Public debt service to expenditures of the state budget ratio" (P_{sdpch})* which is determined by the formula: $P_{sdpch} = \frac{S_{dpe}}{CH_{bs}} x100$. (4) This indicator expresses in percentage terms how much of the total expenditure in the state budget in a year is intended to pay the public debt service and can serve to assess the impact of the country's debt on the state budget.

As well as the indicator named „Share of public debt interest in GDP" *(P_{Dobdp})* provides an insight into the extent to which interest as well as expenses sustained by borrowing encumber budgetary expenditure. This indicator is determined by the formula: $P_{Dobdp} = \frac{Dob_{dp}}{PIB} x100$ (5)

In order to make comparisons with other states, a key factor that must be taken into account is the population. Thus, in this respect, the indicators can be calculated the absolute size and the average size per inhabitant of the public debt and the public debt service.

For external public debt is calculated „Indicator on the ratio of external debt to exports of

goods and services" shows how long (months or years) could repay the external debt of a countries on account of the currency received from sales of goods and supplies of services across the border. We agree with the opinion (Moroşan, 2017, p.545) that this indicator also has a theoretical value, because the entire currency acquired in this way is never used for the purpose of repayment of external loans, but only a part of it, the other, more consistent part, intended for the payment of imports of goods and services, the payment of interest and commissions on debt, and the performance of other expenses.
Similarly, indicators such as *the share of the external public debt service in the volume of exports of goods and services and the ratio between the amount of interest payments due and the value of exports* can be calculated.

The analysis of Romania's public debt
In order to highlight the indebtedness degree of the Romanian state and to identify the trends and effects of public debt on public finances and the prospects of economic development of our country, I will conduct an analysis of the evolution and the structure of the public debt of Romania for the period 2017- 30 April 2024 based on the official data available on the website of the Ministry of Finance, public debt and data section of the National Bank of Romania website on foreign public debt and balance of payments.

Analysis of the evolution of Romania's public debt
In the table below are centralized the data on the evolution of some indicators that express the size of the public debt of Romania in the period 2017-april 2024.

Table 1 Evolution of Romanian public debt in the period 2017-april 2024

Indicators (billion lei)/ Year	2017	2018	2019	2020	2021	2022	2023	april 2024
GDP	857,8	951,7	1063,7	1066,7	1189,0	140,3	1605,5	1638,0
Total public debt	300,7	330,5	372,9	498,5	576,3	665,4	783,5	852,8
Public debt-to-GDP ratio (%)	35,1%	34,7%	35,1%	46,7%	48,5%	47,5%	48,8%	52,1%
Public debt service	49,9	55,8	59,3	60,5	72,0	110,6	137,8	125,3
Public debt service-to-GDP ratio (%)	5,81	5,86	5,57	5,67	6,05	7,89	8,58	7,64

Source: processing.gov by mfinante.ro, Governmental debt, own calculations

The data in the table show us that from 2017 to 30 April 2024, the public debt of Romania increased from 300.7 billion lei to 852.8 billion lei, so it almost tripled. The government debt-to-GDP ratio also increased over this period from 35.1% to 52.1%. We note that Romania's public debt has increased year by year, but the growth rate has accelerated since 2020 when it increased by 33% compared to 2019. The same „never seen before" pace is maintained in the following years. The indicator „Public debt service" has also increased from 49.9 billion lei in 2017 to 125.3 billion lei. lei in April 2024 which puts pressure on the consolidated general budget of our country.
For a more suggestive illustration of the state of affairs regarding the public debt of Romania, we will graphically represent the evolution of the indicators „Total public debt" and „Public debt service".

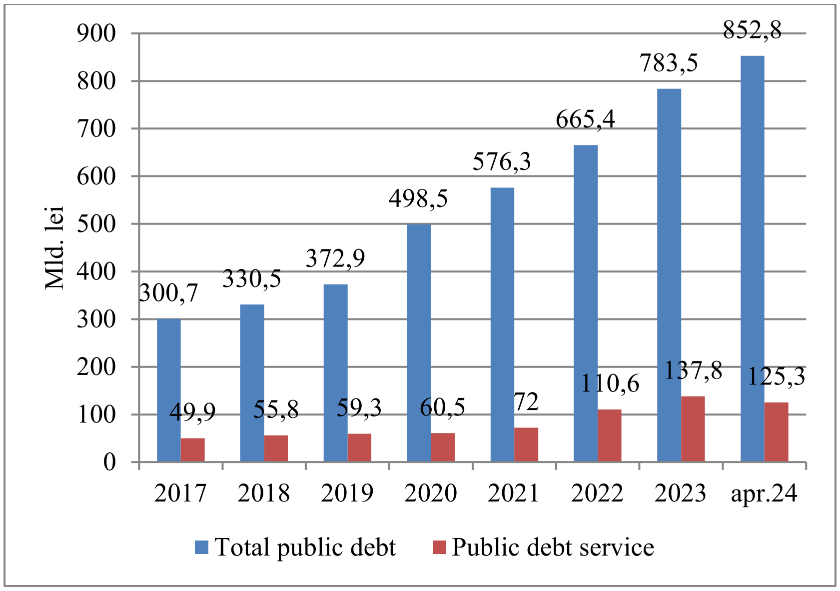

Figure 1. Evolution of the total public debt and the Romanian public debt service in the period 2017-april 2024

In the graph above, there is an accentuated upward trend of the two indicators representing the level of public debt of Romania. Public debt has a worrying path in recent years. The indebtedness rate was 12.3% of GDP in 2008, 35% in 2019 and reached up to 52% in 2024 according to official data available on the website of the Ministry of Finance. The reasons for the increase in public debt are, on the one hand, loans that have matured and must be paid, and on the other hand, loans that have matured, it is the problem of the budget deficit which is very large and which can only be covered by loans. The problem is that the borrowed money is mostly spent on pensions and salaries, not on investments.

Analysis of the public debt structure of Romania

Viewed from the perspective of the structure, the analysis of the public debt of Romania can be made taking into account the following criteria: the term on which it contracts, the, the place from which the loan is contracted and the currency in which the loan is contracted. Thus, according to the first criterion, we note that the largest share is held by the public debt in the medium and long term, that is, with maturities of over one year, fact which we consider positive because it determines a reasonable level of public debt service with favourable implications for annual public expenditure. In the period 2017-April 2024, the public short-term debt increased from 14.9 billion to 50.8 billion lei and the public debt on medium and long term increased from 285.7 billion. lei (in 2017) at 801.9 billion lei (in April 2024).

Table 2 Structure of the public debt of Romania in the period 2017-april 2024

Indicators	2017	2018	2019	2020	2021	2022	2023	April 2024
GDP	857,8	951,7	1063,7	1066,7	1189,0	1.401,3	1605,5	1638,0
Total public debt	300,7	330,5	372,9	498,5	576,3	665,4	783,5	852,8
Domestic public debt	154,6	172,5	199,8	245,1	292,7	335,3	385,0	424,1

%GDP	18%	18.1%	18,8%	23,0%	24,6%	23,9%	24,0%	25,9%
External public debt	146,1	158,0	173,0	253,4	283,6	330,1	398,4	428,6
% GDP	17%	16.6%	16,3%	23,8%	23,9%	23,6%	24,8%	26,2%
Short term debt	14,9	10,6	11,4	17,6	29,3	40,9	50,8	50,8
Medium and long debt	285,7	319,8	361,4	480,9	546,9	624,5	732,7	801,9
Public debt in lei	144,5	164,1	190,9	237,8	268,7	307,2	377,6	412,3
Public debt in euro	130,6	136,2	151,0	219,2	262,4	300,7	337,1	354,5
Public debt in dollars	23,6	28,2	29,1	39,8	43,7	56,2	67,6	84,6
Public debt in another currency	1,9	1,9	1,7	1,6	1,4	1,2	1,1	1,1

Source: processing.gov by mfinante.ro, Governmental debt, own calculations

From the data presented in Table 2 it follows that the domestic public debt-to-GDP ratio is approximately the same as the external government debt-to-GDP ratio and ranges from 17-18% in 2017 it reached 26% in April 2024. It is worrying, however, that the foreign public debt reached the value of 428.6 billion lei in April 2024, which shows us that Romania is *„dependent on the international financial market, the internal market cannot provide the necessary amounts for financing needs in good conditions*" (Moroşan, 2021).

The structure of the public debt of Romania according to the criterion of the currency in which it is contracted reveals that the loans in the Euro currency occupy the largest share (on average over the period of time analysed by 43%). Follow the loans in dollars that record values that have steadily increased from 23.6 billion lei in 2017 to 84.6 billion lei in April 2024. This level of public debt contracted in foreign currency puts pressure on the exchange rate and the costs of foreign currency loans are higher compared to the costs of loans in lei. The analysis carried out in the above must be correlated with the image of the evolution of public debt in the other states of the European Union. Romania is not the only country where the Government debt-to-GDP ratio has increased rapidly in recent years, a phenomenon encountered throughout the European Union where this indicator has increased from 77.8% from GDP at the end of 2019 (Ministry of Finance, 2019) to 81.7% at the end of 2023 (Ministry of Finance, 2024). We note that at the end of the IV quarter of 2023, Romania's public debt accounted for 48.8% of GDP, a net level below the level recorded in the European Union of 81.7% of GDP, and the Eurozone of 88.6% of GDP.

Conclusions

The realization of this work has allowed us to create a basis for drawing conclusions and appreciations on the public debt of Romania in the current economic context.

The size of the public debt is a fundamental indicator for the sustainability of a country's public finances and can be appreciated through indicators that highlight both the absolute or relative size of the public debt, the report said, its structure and dynamics, as well as the financial effort required by the public debt and the ability to honor it. Of these indicators, we believe that the most important is „Public debt to gross domestic product ratio" because it expresses the indebtedness of a country at a given time, showing to what extent the newly created value in a year is encumbered by public debt, or in other words, what percentage of gross domestic product should be used if public debt should be paid in full in that year. This indicator has seen an alarming increase in recent years from 35.1% in 2017 to 52.1% in April 2024. During this period, public debt almost tripled while gross domestic product doubled. So public debt has grown faster than the economy. And the size of the indicator „Public debt service” increased sharply from 49.9 billion lei in 2017 to 125.3 billion lei in April 2024. We note that out of the 137.8 billion lei paid in the account of the public debt service in 2023 (expenditure with interest and commissions plus capital rates), 29.4 Billion is just interest and commission expenses. They are expected to increase in 2024 to 35 billion lei, almost double compared to 2021, according to data from the Ministry of Finance.

Alarming is not necessarily the size of the public debt or the percentage it holds in gross domestic product. Most countries use loans to finance various public expenditures. What we should worry about in Romania is the lack of balance and fiscal discipline that the governors of our country show year after year.

From the perspective of structure, we note that the largest share is public debt in the medium and long term, that is, with maturities of over one year and the share of domestic public debt in GDP is about the same as the share external public debt in GDP. The analysis of the public debt structure of Romania according to the criterion of the currency in which it is contracted reveals that the loans in the Euro currency occupy the largest share (on average over the period of time analysed by 43%). Follow the loans in dollars that record values that have steadily increased from 23.6 billion lei in 2017 to 84.6 billion lei in April 2024. If we compare with the countries of the European Union, the public debt of Romania related to GDP is small. But it must be said that those countries are developed countries and a developed country is credible in international financial markets and finds funding. On the other hand, if we consider how the public debt of Romania has evolved in recent years, the growth rate is alert and too steep growth can cause financing problems.

We conclude by expressing our opinion that the excessive indebtedness of Romania is not only a financial problem, he said, but also a moral problem because it is unfair for future generations to be loaded with the burden of huge debts due to the attitude of today's decision makers in our country and Romania cannot continue on this path of reckless indebtedness.

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