"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 5, Special Issue 1, pp. 21–26
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

The Public Debt of Romania between 2008-2013

Daniela PENU

Faculty of Finance, Banking and Accountancy, "Dimitrie Cantemir" Christian University, Bucharest, Romania, E-mail: penudaniela@yahoo.com

Abstract *The paper aims to analyze the causes that have led to rising the public debt of Romania between 2008-2013. Although it is below the level set out in the Maastricht Treaty, in Romania, the public debt has grown at a fast pace. Also consider the public debt according instruments, currency and type of debt holders and try to analyze its evolution during the period 2014-2016.*

Key words:
Public debt, fiscal-budgetary strategy, fiscal policy, state bond yield
JEL Codes:
H63, H68

1. The macroeconomic situation between 2008 - 2013

The period 2008-2013 was difficult for our country's economy. To diminish the negative effects of the economic crisis, the government focused on multifarious tightened fiscal measures mirrored in a prudential policy according to the agreements signed with IMF, EU and World Bank. In 2008, the budgetary deficit went up to 5.4% of GDP (the highest in the last ten years) due to the economic crisis and a lax fiscal-budgetary policy (an obvious connection with the elections).

If in the first three quarters of the year there was an increase of the gross domestic product (9%), in the last part of the year a reduction of it can be observed (7.1% at the end of the year) due to the financial crisis, on one hand, and the investors' s diminished confidence, on the other hand. Relaxing fiscal policy has led to a decrease in the country's ratings granted by some rating agencies, while CDS spread increased from less than 100 basis points at the end of the year 2007 to over 700 basis points in the first quarter 2009 [1].

Inflation rate stood at 7.9 percentage, with 3.9 percentage points above the level of the base rate established as a result of a production decrease in 2007, the increase in prices of the imports of agricultural raw materials and processed products, as well as the growth of petroleum quotations at world level in the prices of fuels and natural gas [1]. Romania managed to attract funds amounting to 2166 million euros (most from pre-accession funds), unlike 2007 when 929 million euros were recorded.

Fiscal policy adopted during 2007-2008 had negative consequences on the economy. In 2009 GDP dropped by 7.1%, the budgetary deficit went up to 8.3% of the gross domestic product GDP (as a result, in July 2009 the Council of Europe has included Romania in the excessive deficit procedure), and the national currency depreciated against the euro by 2.9% in real terms. However, annual inflation rate calculated on the basis of the consumer price index has been able to be maintained at a level lower than the one in 2008 and had reached the end of the year 2009 to a value of 4.74%.

In 2010 macroeconomic imbalances have been slightly corrected by the agreement concluded in 2009 with the International Monetary Fund, the European Union and other international financial institutions. The DGP was 522561.1 million lei. The nominal increase of 4.3% is lower compared to the 6.09% increase in the consumer prices [2]. Real GDP contraction was 1.3 percent and budget deficit of 6.5%. A positive development had exports of goods and services, which has led to an index of industrial production of 105.5%.[3] Annual inflation rate reached in December 2010 to 7.96% as a result of the increase of VAT rate on the 1st of July the 1st, the excise duty and the problems on the domestic and international food markets.

In 2011 the policies adopted by the government aimed to maintain inflation in the range-to-target, reduce budget deficit and ensure a sustainable economic growth. Under these conditions at the end of the year, the annual inflation rate reached 3.14%. GDP growth although positive (2.5 per cent) was kept below the potential. This increase was mainly attributable to industrial sector whose gross value added has increased by 5%, agricultural sector (gross value added increased by 11.2%) and buildings (gross value added increased by 2.7%) [4]. General consolidated budget deficit decreased by 1.6 percentage points in 2010 and had reached the end of the year to 5.2 percentage of the GDP. In respect of exports and imports of goods they have had a production up. This resulted in improving the opening of the economy with up to 71.5 percentage of the GDP [4].

In 2012 Romania's economy has been affected by the events of the euro area, as well as the domestic ones. The unfavourable evolution of the economy in the euro area (problems on the financial markets, the increase in sovereign debts in some member of the euro area, the high level of the prices of the energy, reducing credit granted, ensuring sustainability public finances) have adversely affected emerging economies, including Romania [5]. Internally we must take into account the following: parliamentary elections, changing twice the government's dismissal, despite the fact that the referendum for president of Romania, severe drought and reduced absorption of the structural funds. In these circumstances inflation rate reached a level of 4.95 per cent at the end of the year, after production hunting in the course of the year. GDP dropped to 0.7 percentage as a result of reduced agricultural production (effect of severe drought), a reduction in gross value added of the industry with 1% and constructions with 0.3%. Budget deficit was 2.9 per cent of GDP (which led to the cessation of the excessive deficit procedure on the 21st of June, 2013) which generated pensions freeze, decrease of investment and intermediate consumption. Exports of goods and services fell by 3%, while imports of goods and services were reduced by 0.9%. At the end of the year unemployment rate was of 5.6%.

In the first quarter of 2013 GDP increased by 2.1 per cent as compared to the first quarter of 2012. At the end of the year 2013 it is estimated a real GDP growth of 1.6% [6]. This increase was influenced mainly by domestic demand, while gross fixed capital formation recorded a rhythm of 5%. Exports of goods and services increased only by 1.2 per cent, expecting an increase in imports of goods and services by 3%. As for the average number of employees, it increased by 2.9%, in the first two months of 2013, anticipating an unemployment rate of 5.2% at the end of 2013.

Table 1. Elements of GDP

GDP	2011	2012	2013	2014	2015	2016
Domestic demand, of which:	2,5	1,4	2,4	3,0	2,9	3,3
- Final consumption	0,9	1,2	1,4	1,9	1,6	1,7
* private consumption expenditures	1,1	1,1	1,4	2,0	1,7	1,8
* government consumption expenditures	0,2	1,7	1,5	1,4	1,3	1,4
- gross fixed capital formation	7,3	4,9	5,0	6,0	6,7	7,3
Export of goods and services	10,3	-3,0	1,2	3,4	5,1	6,3
Import of goods and services	10,0	-0,9	3,0	5,1	5,9	6,4

Source: Fiscal-Budgetary Strategy 2014 – 2016; Ministry of Public Finance

2. Evolution of governmental public debt in Romania, between 2008- 2013

As regards public debt in Romania, one must also take notice of the level of growth. In 2008 government public debt was 13.4 per cent of the GDP, and at the end of the year 2009 was 23.60% of the GDP. On December 31, 2010, Romania recorded a government debt of 30.5 per cent of the GDP. In 2011 public debt increased by 4.2 percentage, amounting to 34.7 percentage of the gross domestic product (GDP) as a result of the increase in economic growth of 2.5 per cent and the reduction in interest paid meant to attract loans, and a deflate greater than the forecast amount [7].

At the end of the year 2012 government public debt was 51bn euros, the payable debts being 14.4 bn. euros, out of which 1.2 bn. euros for the debt to the International Monetary Fund and the European Union [8]. This was determined by the necessity to cover budget deficit and public debt buying into government. In 2012, according to Eurostat data, at the EU level, Romania was the fourth, only three Member States recording a smaller debt: Estonia - 10.1 per cent of GDP, Bulgaria - 18.5 per cent of the GDP and Luxembourg - 20.8 per cent of the GDP. In 2012, the government debt per every citizen was in 2012 of 2.500 euros, approximately double compared to 2008 when it represented only 1.400 euros [8].

At the end of the first quarter of 2013, Romania's public debt increased by 0.9 percentage points compared to the same period of 2012, reaching the 38.6 per cent of the GDP and 0.8 percentages in the last quarter of the year 2012. At the end of the first quarter of 2013 at the European Union level the situation is as follows: among the countries with the lowest public debt, there are: Estonia - 10% of GDP, Bulgaria - 18% of GDP, Luxembourg - 22.4 per cent of GDP, Latvia – 39.1% of GDP, Sweden - 40.4 per cent of GDP. While large public debt is recorded in: Greece – 160.3 per cent of the gross domestic product GDP, Italy – 130.3 per cent of the gross domestic product GDP, Portugal – 127.2

per cent of the GDP and Ireland – 125.1% of the GDP. At the EU level (with 27 member states) public debt is 85.9% of the GDP.

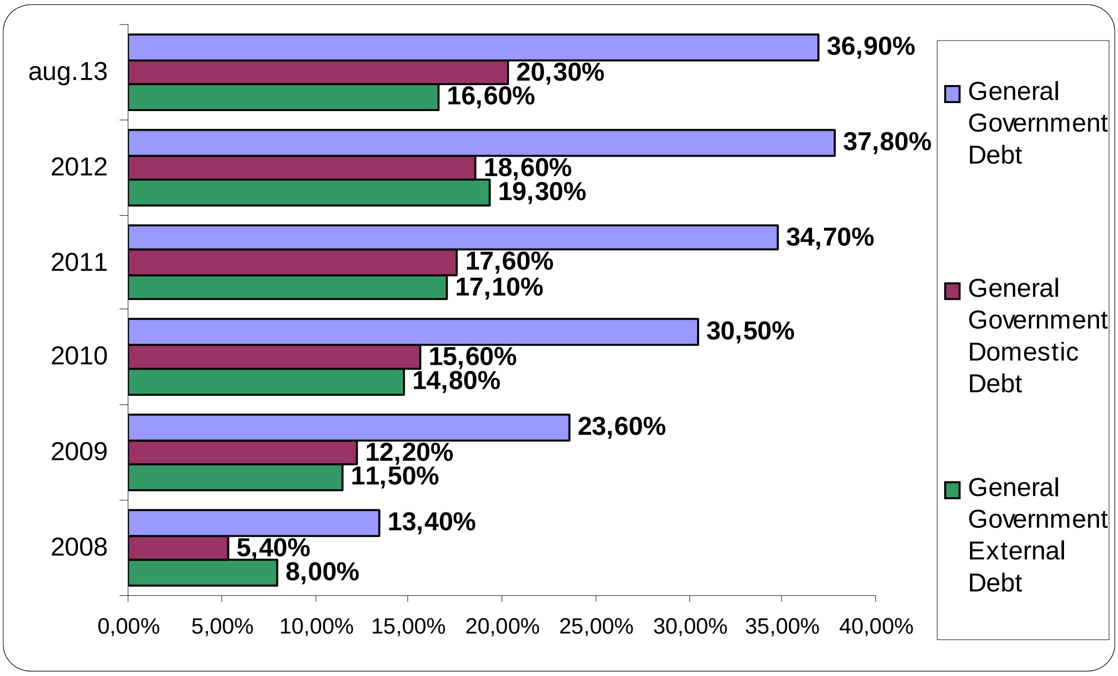


Figure 1. Evolution of government public debt in Romania 2008-2013

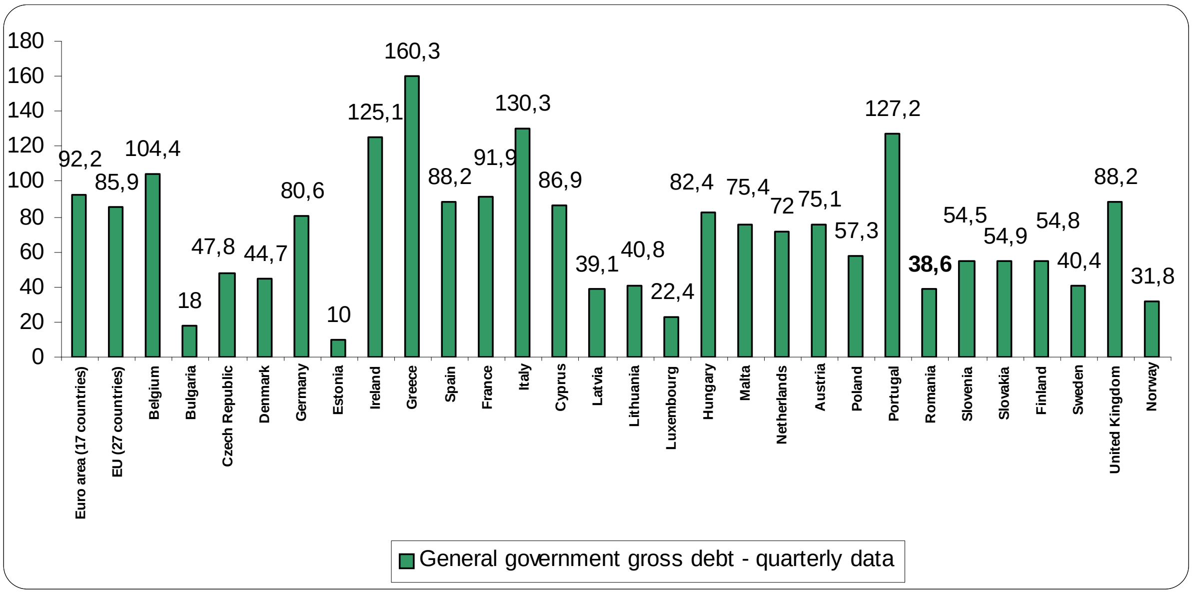
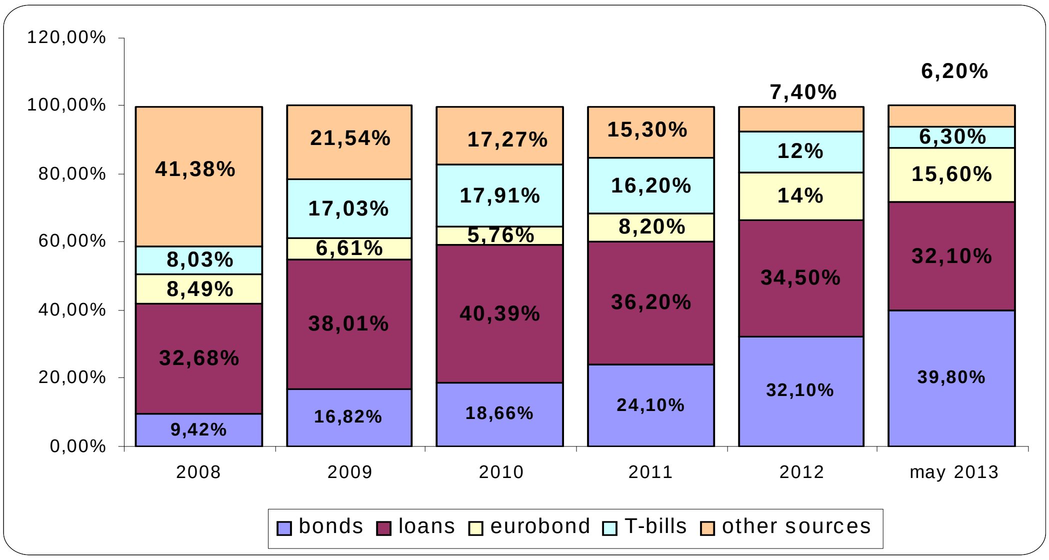


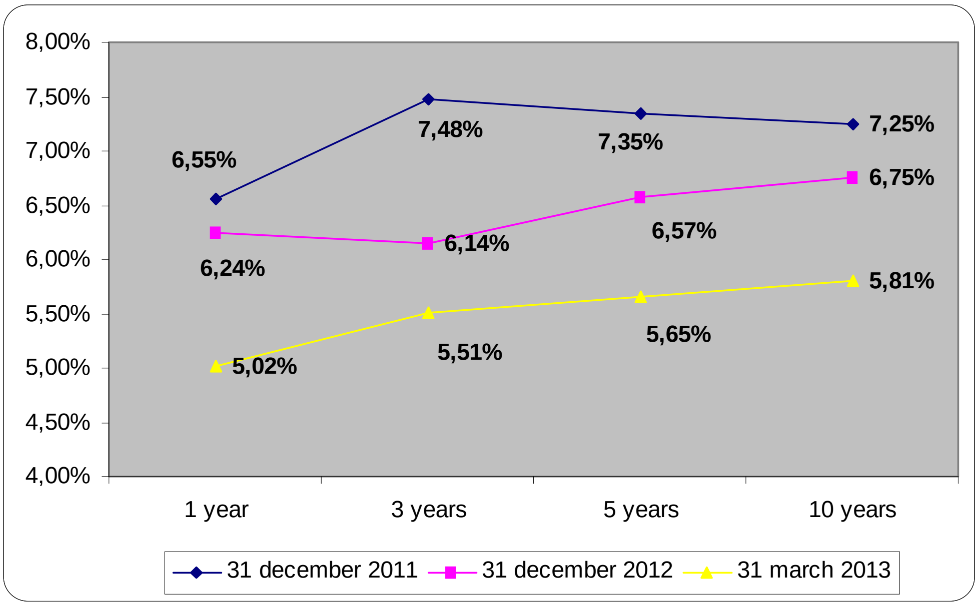
Figure 2. General government gross debt in UE- 2013Q1

In terms of structure on the types of instruments basis, we also remark an increase in the broadcasts of the bonds on the local market. If in 2008 they represented only 33.86%, in May 2013 they have reached 39.80 %. Loans also occupy an important place, displaying an upward trend from 32.68% to 40.39%. In 2011 they accounted for 36.2 per cent amounting to 32.10% in May 2013. Loans were represented by loans from commercial banks, international financial institutions, the loans to cash benefits for different programs (EBRD and EU), and loans from the International Monetary Fund, the World Bank and the European Union [9].



Source: Public Debt Bulletin 2008 – May 2013; Ministry of Public Finance

Figure 3 Government debts by instruments

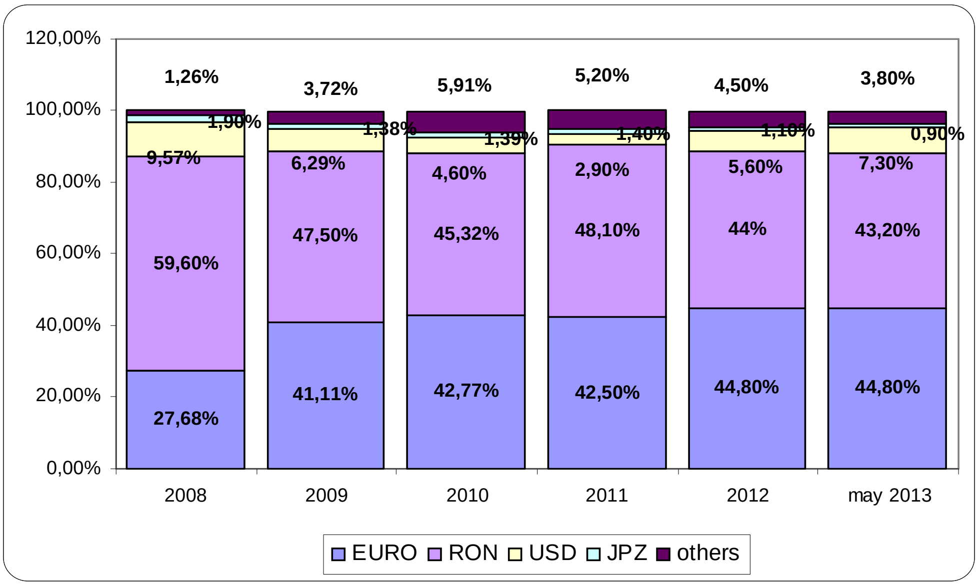


Source: Government Public Debt Management Strategy 2013 -2015, Ministry of Public Finance

Figure 4. Evolution of state bond yield between 31 December 2011-31 March 2013

In 2012, in order to finance budget deficit and public debt, there were used: medium and long term maturity government bonds worth of 58,2 billion, up to 15 years; state bonds in euro cover the amount of 769 billion euros (issuance has been carried out in two steps: in October, in the amount of 421,5 million euros, with an original maturity of 4 years and at an interest rate of 3.76 %; in November, reaching the amount of 341.75 million euros, with original maturity of 3 years and at an interest rate of 3.4 %; issues of bonds in EURO and USD on the international capital markets; entries of foreign loans earmarked for financing projects; amounts of money of the loans granted to the local public administration authorities; the amounts of non-performing assets recovered by AVAS.

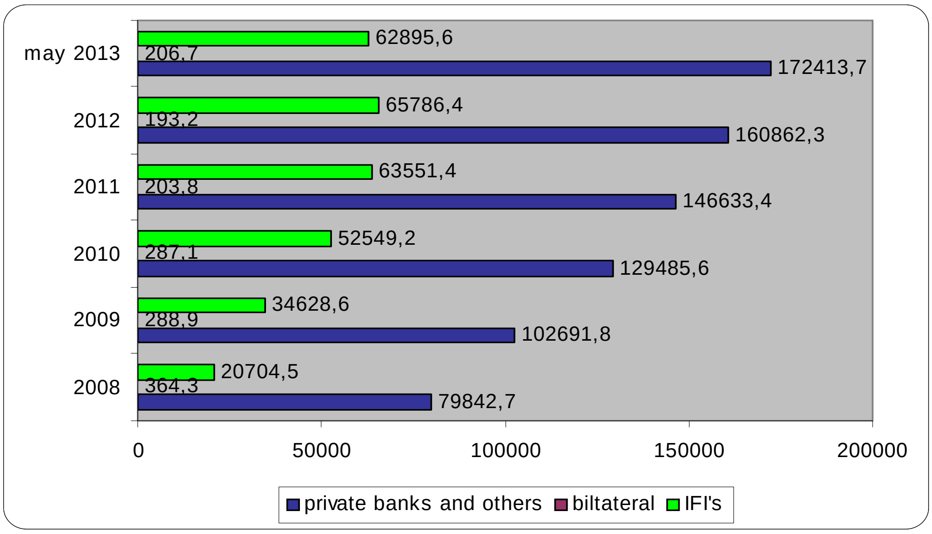
Analysing the structure of the public debt, we remark that in 2008, the debt in lei, has the greatest weight, which is 59.60%. The economic crisis, with obvious effects in Romania since 2008, has led to a change in the structure of government debt. Under these conditions starting with 2009, we noticed a significant euro debt increase. If in 2008 the share government debt in euro represented 27.68 %, in 2009, it reached 41.11 %. This trend also continued in the following few years, and at the end of May 2013, it was 44.80 %.



Source: Public Debt Bulletin 2008 – May 2013; Ministry of Public Finance

Figure 5. Government debt by currency

With respect to the structure of national debt considering the holders, we notice that Private bank prevail, displaying an upward evolution from 79842.7 m. lei in 2008 to 172413.7 m. lei in May 2013. A significant weight is given by IFI PRODUCES from 20704.5 m. lei in 2008 to 62895.6 m. lei in May 2013.



Source: Public Debt Bulletin 2008 – May 2013; Ministry of Public Finance

Figure 6. Government debt by type of debt holders – millions lei

3. Conclusions

In the period taken into account, the level of national debt was found not to exceed the limit of 60% of GDP established by the Maastricht Treaty. Representing only 13.4 per cent of the GDP in 2008, at the end of the year 2013 the level of gross government debt is estimated at 38.4 per cent of the GDP, net government debt of 31.5 per cent of the GDP. At an estimated level of the estimated budget deficit of 2% of the GDP for t 2014, gross government debt level will reach 38.5 per cent of

the GDP, while net government debt will be 32% of the gross domestic product GDP [6].
For 2013, Fitch Ratings awarded BBB rating- for long term foreign currency debts and for long term national currency debts [10]. At the same time, the agency makes a series of remarks regarding the macroeconomic situation of the country, such as reaching a structural deficit of 1% of GDP in 2014; curbing the gross public debt under 40% of GDP between 2013-2014; owning sufficient currency reserves and capital in the banking field; GDP growth in 2013 up to 2%, with a mild upward trend between 2014-2015, which will cover the imbalance of the EU incomes.
The agency shall also makes a series of observations relating to macroeconomic situation of the country: a structural deficit of 1 percent of the GDP in 2014; maintaining gross government debt below 40% of the GDP in the period 2013-2014; possession of hard currency reserves and a capital in the banking sector sufficient; GDP growth in 2013 to 2 %, with a slight acceleration in the period 2014-2015, that he will be able to reduce the delay of the revenues from the EU.
There are also comments with respect to: low efficient activities within the state companies in the strategic areas such as transport and energy, as well as the lack of efficiency health and public administration sectors; increasing rate of non-performing credits at 20.9 %; possibility of a political instability degree as a result of Euro parliamentary and presidential elections in the year 2014 [10]. Moody's Rating Agency is the only one that has granted rating Baa3, keeping Romania in the category of countries with rating recommended for investors, while S&P granted Romania a BB+ both in lei and in hard currency [10].
For the period 2014-216, we are expecting an increase in investments, decrease of budgetary expenditures, and a balance between the fiscal consolidation and the economic rebound, between economic and social [6].
To stimulate the economic growth, there were prepared an array of measures, such as [6]:
- diminishing the overdue debts of the state budget, local budget and SOE's budgets;
- implementing the programmes "grants for youth " to decrease the unemployment rate;
- applying fiscal measure that should stimulate the activity of research, innovation and development;
- increasing the capacity of absorption of EU funds;
- supporting the economical investments.

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