THE EVOLUTION OF EXTERNAL PUBLIC DEBT IN ROMANIA

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Abstract: *Since foreign loans can be contracted by other natural or legal persons, not just by public-law entities, the concept of external public debt is more complex than domestic public debt. According to the Romanian legislation in force, the Parliament approves, at the Government's proposal, the ceiling on external credits set within the external indebtedness rate, which includes the external borrowing requirement foreseen in the external public debt strategy. In this article, we aim to highlight the evolution of Romania's external debt in the period 2010-2016, given the current economic circumstances, both in absolute terms and as a percentage of GDP, but also as a structure.*

Key words*:* external public debt; budget deficit; public debt service.

JEL Classification Codes: H60, H63, H68.

1. INTRODUCTION

The issue of public debt is a complex and widely discussed concept in both the specialty literature and political discussions. The history of public debt evolution is long and highlighted by stages that have marked a real catastrophe for debtor countries. However, these tragedies have not been caused only by poverty and poor management of funds by the institutions of the debtor countries, and their production sometimes competes with the lenders themselves.

The International Monetary Fund divides public debt, in relation to the creditor's residence, into external and domestic public debt. Thus, the external public debt defines the debt existing in foreign currency and / or in the currency of the debtor country that is held by non-residents, while domestic public debt is the debt held by residents in both the currency and the currency of the debtor country.

The external debt of a state is defined by the sum of the monetary liabilities that individuals and legal residents have at a given moment in relation to foreigners.

2. MEANING OF THE CONCEPT OF EXTERNAL PUBLIC DEBT

By the term gross external debt in a large sense is meant the amount of money and other values owed to foreigners by residents of a state, natural or legal, at a given time.

Through this exhaustive interpretation, external debt includes:

- foreign loans contracted by economic units, whether or not guaranteed by the state;
- the debts of resident individuals of a state vis-à-vis external creditors.

All these debts are the result of loans contracted abroad, credit operations, credit purchases, credit services, foreign direct investment, as well as other obligations arising from the conclusion of contracts, agreements or other regulations (Miroiu, 2000).

Concerning the gross external debt in a narrow sense, it encompasses the monetary obligations of individuals and legal entities in a state vis-à-vis foreign countrie, with the following exceptions:

- foreign direct investment, due to the fact that they did not specify exact repayment or liquidation terms;
- short-term loans as they are considered to be current financial operations, being indispensable for the conduct of foreign trade activity;
- non-reimbursable financial aid that the state receives through bilateral or multilateral public assistance programs;
- loans that some external creditors give to their branches, subsidiaries or representations on more advantageous terms compared to those existing on the world market;
- loans contracted by residents, natural or legal persons but not guaranteed by the competent authorities;
- external loans for which a grace period of between 10 and 15 years or more is foreseen.

In the World Bank's interpretation, the external debt comprises, on the one hand, the amounts due to public and private creditors by the State (denominated in foreign currency or in goods and services) with a repayment period of more than one year, and, on the other, due to the private individuals of the foreign country and which have been guaranteed by the public authorities of the state in which they are resident.

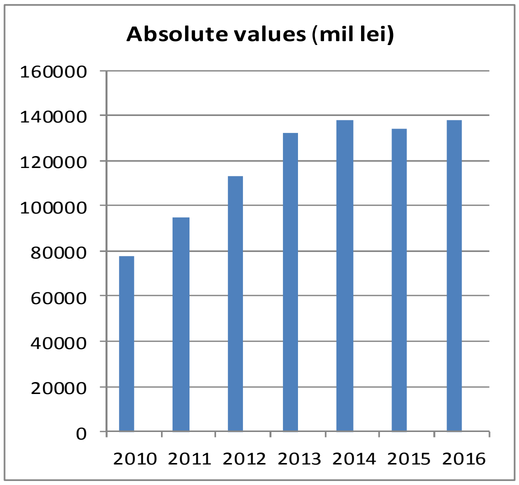
Net foreign debt is determined as the difference between the total of public and private assets held by residents of a state abroad and the total of assets held by foreign residents in the country under review.

In general, this concept is used for states that have the status of a debtor state, as well as a state that is a creditor to foreign countries, through contracted foreign loans or through assets that are abroad.

3. THE EVOLUTION OF EXTERNAL PUBLIC DEBT IN ROMANIA

Concerning the analysis of Romania's external public debt, we can see from the graphical representation no.1 that it registered an ascending evolution in absolute value, reaching the maximum in 2016 of 138302.7 million lei. Also in 2014 there was registered a value of 138217.7 million lei, close to the maximum one. The only year in which there was a decrease in the external debt was 2015, but the minimum value was recorded in 2010 of 77756.2 million lei.

Analysing the evolution of the external debt as a percentage of gross domestic product, we can see that it differs significantly from the absolute value, as the maximum external debt is 20.7% of GDP in 2013 and 2014, while the minimum values are recorded in 2010 of 14.6%. After the 2014 maximum, the external public debt registered a downward trend, reaching 20.2 percent of GDP in 2016.



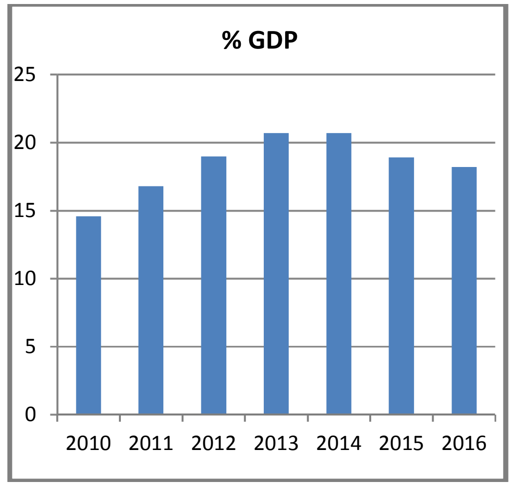


Figure 1. The Evolution of External Public Debt in Romania in the period 2010-2017
Source: our own processing using data from the website of the Ministry of Public Finance

The share of external public debt in the total public debt is different from one state to another or from one group of states to another, otherwise:

- *in the case of economically developed countries,* there is a relatively low weight of external public debt in total public debt;
- *in the situation of developing countries*, external public debt holds a significantly higher share of total public debt, as they are generally forced to resort to external financial resources in particular.

States of the world opt for domestic or foreign borrowings depending on the volume of foreign trade, the size of the domestic borrowing capital market and the ratio between exports and imports that form external trade.

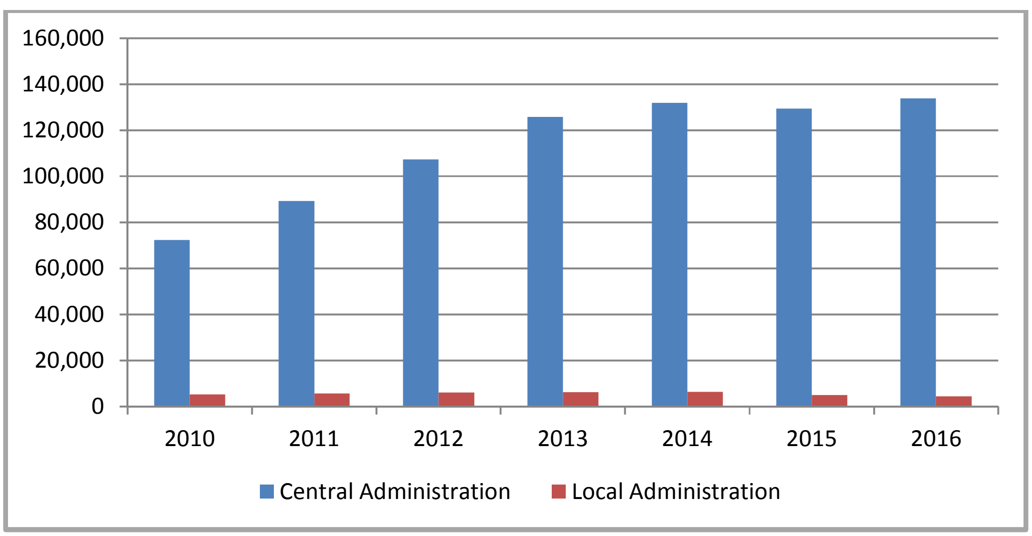


Figure 2. The Evolution of External Public Debt of Local and Central Administration in Romania in the period 2010-2017 (mil lei)
Source: our own processing using data from the website of the Ministry of Public Finance

Analysing the structure of the external public debt, we can see that the largest contribution to its formation lies with the central public administration, which defines its evolutionary trend in absolute magnitude, while the local public administration has a reduced and relatively constant contribution on the interval time 2010 - 2016.

The external borrowing contracted by the Romanian state, in its own name, but also those guaranteed by the state are recorded in a register legally established at the Ministry of Finance, called the External Public Debt Registry. In some situations, the Government analyses the conditions and the opportunity in which the external public debt can be rescheduled, refinanced or converted and submit its proposals to Parliament for approval.

4. CONCLUSIONS

The main factors that led to the formation and accumulation of public debt are represented, on the one hand, the consolidated budget deficit at the end of the year, and, on the other hand, the repayment of loans that were contracted by the state and matured.

There is a risk that a crisis, which apparently does not affect the world economy, will spread its effects to both the underdeveloped or developing countries and all economies.

External public debt is more burdensome than domestic debt because:

- repayment of external loans is imperative compared to domestic loans whose repayment may be postponed, being converted into long-term loans or convertible into perpetual loans;
- the government of the beneficiary State does not have control over interest and other external borrowing costs as these are established by external creditors;
- in the event of a devaluation of the borrower's money on the domestic money market, there will be an increase in interest and capital repayment payments;
- payments must be made within the time limits set by the creditors, not those of the country of debit;
- non-payment or non-payment of fixed commissions, interest or borrowed capital implies penalties and creates problems for obtaining future credits;
- the balance of payments is negatively impacted if the amounts obtained through external loans are not used to increase exports or to reduce imports of the debtor country;
- loss of sovereignty is sometimes the indirect cost of contracting external loans (for example, loans obtained from certain international financial institutions requiring the government of the debtor State to promote a particular economic policy).

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