

THE PUBLIC DEBT OF ROMANIA CONSIDERING THE INTEGRATION IN THE EUROPEAN UNION

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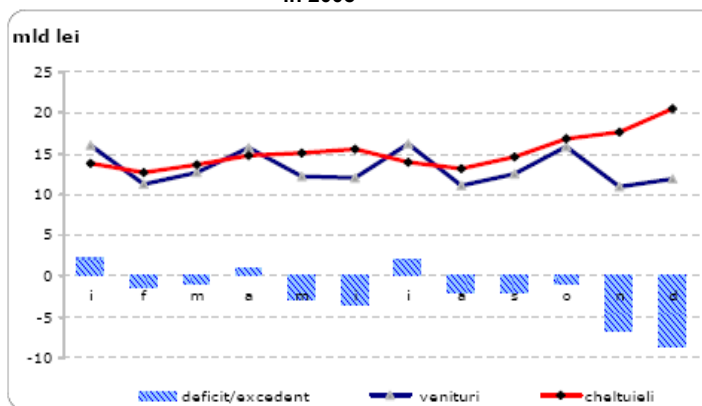
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In 2008, the budgetary politics was expansionist, pro cyclic and led to the accumulation of some significant macro economical lacks of balance manifested by budgetary deficits and of current account and a raised inflation rate. Lack of predictability of the budgetary-fiscal politics and the registered budgetary side-slips over the last year facilitated the fast degradation of perception, confirmed by the reduction of qualificatives given to Romania by the rating agencies, pressures amplification in the sense of the Romanian coin depreciation and raise of the financing costs.

According to the convergence Program elaborated by the Romanian

Government in January 2009, at the end of 2008 the situation of public finances considerably deteriorated, the budgetary deficit reaching to 4,8% of PIB, according to the cash methodology and to approximately 5,3% of PIB according to the European methodology, a twice larger level than the established budgetary goal. The monthly deficit of the consolidated general budget accentuated its tendency of deepening in the IV trimester, being the most marked in the last years, although the economic growth estimated at 7,9% in 2008 is the biggest in UE.

Graphic 1 Monthly evolution of incomes and budgetary expenses in 2008



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Although the acceleration of the economical activity in the last part of 2008 and effects of the crisis of banking liquidity upon the economical agents in the context of recent international evolutions, had a negative impact upon

the collecting of incomes to the consolidated general budget, the multiple budgetary rectifications accentuated the inflationist and pro cyclic character of the budgetary politics by raising the incomes and programmed expenses in an non

sustainable manner. The total incomes realized in 2008 represented 32% of PIB2 (164, 5 billions lei), in comparison to the programmed incomes by the budget in a total of 37, 2% of PIB (191 billions lei). The main income categories of the overestimated incomes include European funds (non realization of 1,6% of PIB), TVA (non realization of 1,2% of PIB), excise taxes (non realization of 0,5% of PIB), profit tax (non realization of 0,5% of PIB) non fiscal incomes (non realization of 1,3% PIB). The public expenses registered a raised dynamic in 2008, not being orientated towards productive activities. The personnel expenses present a nominal raise of 29% towards 2007, reaching a level of 8, 4% PIB and a percent of 23% of the total level of public expenses.

The number of occupied jobs in administration raised cumulated in 2005-2008 with approximately 162,5 thousands jobs (13%), reaching to 1.394,2 thousands employees, the biggest dynamics registering in the central administration that extended with 50 thousand jobs (17%) and the financed institutions of own incomes and subventions that had a raise of the number of occupied jobs of 28%. As well, in this period the approved number of jobs raised with 214, 9 thousand reaching to 1.531,9 thousand in 2008. The personnel expenses from the budgetary sector doubled in 2005-2008, and the biggest weight in the total of personnel expenses is detained by the central administration.

Table 1. Dynamic of personnel expenses on the main budget

	2005		2006		2007		2008	
	mil lei	% din total	mil lei	% din total	mil lei	% din total	mil lei	% din total
Administrație centrală	7.654	36,9%	10.587	38,4%	13.709	40,7%	16.439	37,9%
Administrații locale	7.442	35,8%	10.628	38,5%	12.052	35,8%	17.125	39,5%
Instituții finanțate integral/parțial din venituri proprii	5.668	27,3%	6.379	23,1%	7.935	23,5%	9.780	22,6%
Total	20.764	100%	27.594	100,0	33.696	100%	43.344	100,0

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Besides, is ascertained a systematic tendency of decreasing the base salaries weight in the total of the expenses with the salaries, corroborated with the increase of the expenses weight with the indemnities, spores and salary expenses in nature. This way, the weight of base salaries in the total of the salary expenses decreased from 55% in 2005 to 48% in 2008, meantime the other components of the salary gain increased the weight in the total of personnel expenses from 27% in 2005 (45% of the salary expenses) to 36% in 2008 (52% of the salary expenses). As a dynamic, the base salaries raised cumulated with 79% while the spores rose with 136%, and the expenses for awards and supplementary hours with 272%. As a matter of fact, the awards and supplementary hours doubled their weight in the total of personnel expenses in the reference period, from 5% in 2005 to 10% in 2008.

The expenses with the goods and services advanced with 32% comparative with the last year reaching to 6, 5% of PIB, while the capital expenses registered a weight of 4, 5% of PIB towards the programmed level of 5, and 2% of PIB. The system of the monthly limits of expenses had a decreased efficiency in their rationalization and the excessive budgetary deficit led to the increase with 16, 4 billions lei of the public governmental debt on 30 November 2008 towards the end of 2007.

The evolution of public finances on a medium term is marked by the initial damaged budgetary position on 2008 and by the international and European difficult context. The prognosis regarding the continuous economic growth to be marked by a large spectrum of elements of incertitude, the most significant being related to the perspectives of the economical activity and of the UE markets feeling.

Recognizing the necessity of a significant adjustment to reestablish the public finances balance, in the context of an economical raise more decreased for

2009, the Government decided the promotion of a combination of economical politics and budgetary to:

- To lead to a diminution of the budgetary deficits and of the net needs of financing of public sector;

- To limit the effects of the financial international crisis upon the Romanian economy;

- To consolidate the level of budgetary level by promoting some enlargement measures of the tax base, improving of collecting and raising of some taxes categories;

- To maintain under control and rationalize the dynamic of the current expenses, of functioning of the public administration (expenses with the salaries, materials, etc);

- To create and maintain a sufficient space of public investments.

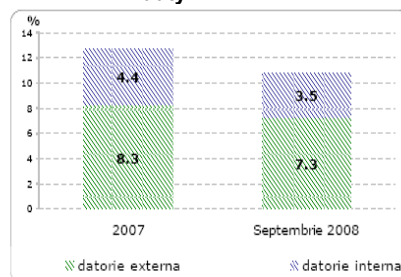
As a consequence, the budget represents a commitment for the realization of a significant and continuous progress in the fiscal consolidation for the next three years.

The fiscal politics will be characterized by the coherence, predictability and stability by the elaborating and rewriting of some projects of the Fiscal Code and the Code of fiscal procedure, unitary integrated and harmonized with the UE directives, as well as with the economical realities. The consolidation of the budgetary incomes base continues to be essential for the ensuring of necessary resources for the economical development and fulfillment of the commitments assumed by Romania as a UE member.

In the context of continuing the reform efforts of the fiscal administration and collecting improvement, the incomes of the general consolidated incomes are estimated at 193,78 billions lei (33,5% of PIB), increasing with 1,54% towards 2008. In the total of the budgetary incomes were included also the supplementary resources generated by the return to the level of social contributions in January 2008 (4, 34 billions lei), the outrunning of the increasing calendar of excise taxes in

2010 supplementary towards what was foreseen for 2009 (0, 70 billions lei), and updating the taxable base to the local taxes for buildings, terrains and cars (0, 79 billions lei). Realizing a high level of absorption of the European funds in 2007-2013 represents one of the strategic objectives of Romania and at the same time, fructifying a major benefit of UE adhering. This desideratum supposes the concentration of some substantial efforts to ensure an efficient accessing system and implementing of the funds and removing/limiting the barriers that may affect the absorption process. The public level of obliging of Romania situated under 15 % of PIB, net inferior to the price ceiling is of 60% established by the Treaty of Maastricht. This way, on the fond of sustained economical growth, at the end of 2007 the governmental duty calculated according to the UE methodology (ESA95) represented 12, 7% of PIB, meanwhile at the end of September 2008 the level of this indicator was of 10, 8% of PIB, from which the internal duty 3,5%, and the external 7,3%. For the end of 2008 is estimated that this indicator will be situated at the level of 13, 5 % of PIB.

Graphic 2. Structure of the governmental duty

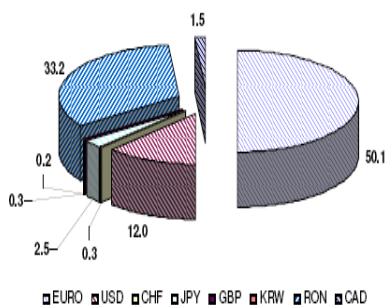


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The structure of the governmental duty on 30 September 2008 on instruments of duty shows that the emissions of governmental titles represented 23, 7% of the total duty, being covered with loans. In what regards the initial maturity afferent to the governmental duty, 9, 1% of the duty had the date on a short term, and 90, 9% had

the date on a medium and long term. At the same time, there must be mentioned that in what regards the structure of the governmental duty according to the type of interests, 47, 2% was a debt with a variable rate of interest. The governmental debt in a local coin at the end of September 2008 represented 33,2 % of the total debt, meanwhile the governmental debt contracted in foreign currency, the biggest weight was represented by the debt denominated in EUR, respectively 50,1% of the total governmental debt.

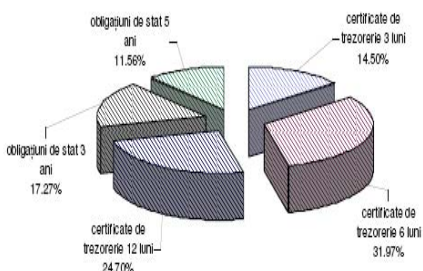
Graphic 3. Structure of governmental debt on foreign currency types



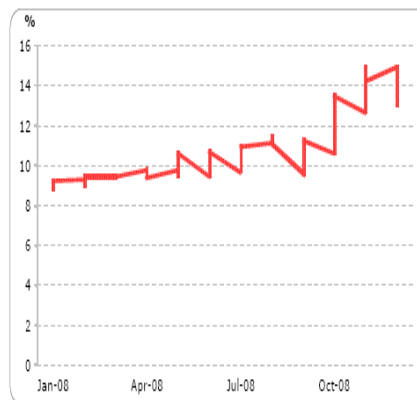
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In 2008 were emitted titles of state on the internal market, according to the calendar announced in the emissions, for accomplishing the objective of market developing of state titles and of constructing the output curve afferent to the state titles on the intern market.

Graphic 4. State structures issued in 2008 on term types



Graphic 5. Annualized outputs evolution of the state titles on 31 December 2008



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In what regards the state guarantees, the national legislative regulations in force foresee their conferring by the Ministry of Public Finances only in base of some special law emitted in the purpose, for the projects of a major importance and only with the notice of the Competition Council for observing the Romania's commitments in the state help area. In 2008 there were not emitted state guaranties.

Table 2. State guarantees

	2005	2006	2007	2008
Valoarea garanțiilor de stat pentru împrumuturi interne și externe, din care :				
- contractate de autorități ale administrației publice locale	12,8	7,2	0,0	0,0
- contractate de operatori economici	390,5	51,4	118,9	0,0

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In 2009-2011 will be followed the realized of the main objective regarding the maintaining in sustainable limits of the governmental public debt and ensuring the necessary sources to the financing of budgetary deficits and payment resources of the of the debt service at a reduced cost and a level of the acceptable risk, in the conditions of developing the market of the state titles. Financing the budgetary deficit will be

realized in principal of internal sources, and in completion of external sources, trying depending on the evolutions of the internal and external financial markets, its framing in the objective included in Strategy regarding the administration of governmental public administration for the period 2008-2010, among which the most important are:

1. the controlled raise of the governmental public debt;
2. reducing the costs with a governmental public debt on a medium and long term;
3. limiting the afferent risks to the portfolio of governmental public debt;
4. development of the state titles market.

Until present, in base of the consulting with the participants on the state titles in what regards the volume and debt instruments used for financing the budgetary deficit, were issued state titles with a total of 12, 7 billions lei, of which certificates of treasury of 12, 5 billions lei with the term at 1, 3 and 6 months, the difference being represented by obligations of type benchmark with the term on 5 years. By this aggressive politics of issuing the state titles to cover the financing necessary from the first part of 2009 is intended the creation of a buffer in the state treasury, so that may be reduced the state interventions to cover the temporary voids.

Comparative to the output of the issued state titles in December, the output of issued state titles at the beginning of the year were reduced with 1,5% -1,9% depending on the term of the state titles, and as a result of the BNR decision on 5 February 2009 of reducing the interest rate of monetary politics at 10% and the goal of medium inflation established in this year at 5%, is expected that the level of this outputs to be continuously reduced.

For dynamic quantification of the public sector debt, most often it starts from the well known relation of definition of constraining the governmental budget. This way, the modification of the debt of public sector D , between the two

successive periods (years) $t-1$, is given by the next equality¹:

$$D_t - D_{t-1} = i_t D_{t-1} + P_t + a_t D_{t-1} - DB_t \quad (1)$$

where i is the medium rate of the nominal interest afferent to the public sector debt, P – the primary deficit (without paid interests), a – the effect of reevaluation upon the existent debt (in Romania this is entirely due to the depreciation of the effective change rate of the Romanian coin) and DB – direct financing of the budget at the Central Bank.

Some remarks of methodological order are imposed as it flows. This way in accordance to the definition of the public debt Law, public debt includes among other obligations also the loans on long term dismissals to the government by the National Bank of Romania, as well as the treasury tickets detained by BNR. These loans on a long term and public money tickets create obligations of the debt service for the central government. In these conditions, DB in the equation (1) will not represent the modification of the monetary base, DM , but a part of it, determined by the modifications in the special accounts of the government to the bank. Another important aspect is related to the income assignment of seignorage. In spite that BNR does not pay the entire profit to the Finances (Treasury), it subsidizes the activity of the different commercial banks and of some special institutions of credit, partially or entirely detained by the state, whose funds and obligations are not included in the definition of public debt.

The direct financing of the budget at BNR represents the modification, DB , in the main balance of the government accounts with the bank. In the case where this one cannot exceed a certain limit established by the law. This is actually the modification (restriction) in the balance of this account that constitutes the direct financing of the so-

¹ Albu, L. L., Pelinescu, E., *Sustenabilitatea datoriei publice și a deficitului bugetar*, CRPE, 1999

called PSBR (English for Primary State Budget Refinancing) by BNR and which is not considered by the Finances as a supplementary debt. It should be noted that the effective limit that restrains the direct financing is smaller than that established by law, because only a (small) rate of the interest is imputed on the negative balances.

As a conclusion, in the case of decreased accuracy of the primary statistic data, it can be used, in the evaluation of debt dynamic of the public sector, D , gross public debt (excluding the guaranteed public debt) and will be obtained DB as a difference between the sum of the first three components of the equation (1) and DD . As it follows, dividing the equation (1) to the nominal PIB, Y_t , and performing some algebraic operations, is obtained the following relation:

$$d_t - d_{t-1} = (i_t + a_t - g_t) [d_{t-1} / (1 + g_t)] + p_t - b_t \quad (2)$$

where d_t și d_{t-1} are the weights in PIB of the public sector debt in two years consecutive, t and respectively $t-1$, p – the deficit of the public sector as a weight in PIB, g – the annual rhythm of the modification of the nominal PIB between the years t and respectively $t-1$ and b is DB/Y . In an alternative manner, we can approximate the nominal growth rate g as a sum of the deflator modification PIB, p and the real growth rate of PIB, q , rewriting the equation (2) as it follows:

$$d_t - d_{t-1} = (i^*_t - q_t) [d_{t-1} / (1 + g_t)] + p_t - b_t \quad (3)$$

where i^* is defined as a medium rate of the real interest effective of the public sector debt (its is equal to the real medium interest rate, $i-p$, plus the effect of reevaluation, a).

Conclusions

Financing the budgetary deficit in 2008 and refinancing the public governmental debt was realized by:

- Certificate emissions by the treasury and estate obligations of type benchmark on the internal market with the value of 12,5 billions and a emission of Euro obligations on the external capital markets, with a value of 750 millions Euro;

- Drawings from the loans destined to the financing of contracted projects with the international financial institutions, with a total of 2,2 billions lei and a rate of 250 millions Euro from the contracted loan by BEI, destined to the co financing of contribution to the state budget of the eligible investments programs for the non reimbursable assistance UE;

- Temporary loans from the availabilities of the general account of the state treasury, with a total of 12,3 billions lei;

- Contracted loans by the local public administration, with a total of 3 billions lei;

- Recovered sums by the Authority for the Valuing of State Actives from the banking actives non performing and incomes from the privatization activity, with a total of 0,4 billions lei.

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