THE NEED FOR PUBLIC DEBT MANAGEMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT WITHIN THE EUROPEAN UNION

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Public debt is created when the necessary resources for the socio-economic development of a state are greater than the opportunities that exist at that time. The destination of the necessary resources acquired from foreign markets can be either consumption by raising the standard of living (on short term) or investments in order to reduce the discrepancies in relation to the European Union through investments in infrastructure, jobs, human and technical capital development.

The scientific research aims to clarify several key objectives, namely: the theoretical concept and its belonging in the governance politics; the dynamics of public debt in Romania and the identification of specific features of the indebtedness decision, the influence of the current global economic crisis on the Romanian economy, the analysis of Romania's public debt sustainability integrated in the European structures, and proposals for action in order to return as soon as possible to a positive economic dynamics with direct impact on people's standard of living.

The theme of this research is contemporary in the context of the financial and economical global crisis and the difficulties in overcoming this period. The need to coordination the fiscal and budgetary policies in Romania, the awareness that the accumulation of a large public debt presents a threat to future generations, the increase of the tax pressure over a market that trends towards globalization and the impact that the aging of the population will have on the public finances sparked public controversy, both in the academic environment and in the media. To continuously borrow resources and maintain a stable level for them requires a sustainable public debt, an important objective of any state's tax policy. A sustainable public debt is the result of the market and of the fiscal and budgetary policy decisions.

Although the sustainability of public finances and implicitly of public debt has been an issue extensively debated for over a century, they currently remain vague concepts. Although, intuitively, it is natural to consider that a fiscal policy is sustainable if it avoids financial collapse, there is no generally accepted definition in terms of sustainable public debt, respectively a sustainable level of public debt. The methodology of this research is stressed by the large number of statistical data on public debt dynamics used in the analysis, relevant in this regard are the national and international databases: the National Bank of Romania, Ministry of Public Finances, World Bank, Euro stat, the statistical database of the European Commission, the database of the International Monetary Fund, the Organization for Economic Cooperation and Development, the normative documents consulted in order to ensure the terminological accuracy of the concepts, the numerous theoretical and empirical studies of Romanian and foreign specialists, the views and arguments of scientific researchers with high experience in the field.

The personal contribution to the researched field is present throughout this work. Thus, I aimed to clarify some theoretical aspects of the issues addressed, of some concepts and economic notions to elucidate the studied phenomenon by using a large number of statistical data in order to analyses the dynamics of public debt in Romania, in comparison with other former communist countries and to formulate proposals for a long-term sustained recovery and a sustainable economic growth.

Keywords: public debt, budget deficit, external financing, public debt management, degree of indebtedness, public debt service

JEL Codes: H63 - Debt, Debt Management, Sovereign Debt

I. Introduction:

"The need for public debt management in the context of sustainable development within the European Union" presents the main theoretical issues related to public debt management and its importance in the effective management of public debt, over the objectives and risks associated with public debt management. Moreover, the main objective of public debt management is to ensure that the government's need of funding and its payment obligations are met at the lowest possible cost, on medium and long term, consistent with a prudent degree of risk . The issues of public debt management often start from the lack of attention of decision-makers regarding the benefits of a cautious debt management strategy and the costs of a weak macroeconomic management of excessive levels of public debt. In the first case, public authorities should pay attention to the beneficiaries resulting from the use of a prudent public debt management strategy and of public policies that are coordinated in a complete macroeconomic framework. In the second case, fiscal-budgetary policies, monetary policies and exchange rate policies that are inappropriate to the economic situation generate uncertainty in the financial markets regarding the future returns of investment expressed in local currency, which will lead investors to request higher risk premiums. Particularly in emerging or developed markets, debtors and creditors alike, applying long-term commitments can suffocate the development of financial markets and they can severely impede public debt managers' efforts to protect the government from refinancing and currency exchange risks.

Moreover, poorly structured public debt in terms of maturity, currency or the composition of the interest rate to which unfunded big liabilities are added, were important factors in the induction and propagation of the debt crisis in many countries over time.

The process of managing public debt portfolio is a priority for every government in order to reduce medium and long term exposure to risks.

The main objective in process of public debt management is represented by providing for the governmental financing needs in terms of minimizing long term costs and limiting the risks involved. In our country, during the period proposed for analysis, a series of measures for the permanent improvement of the legal and institutional framework for public debt management were taken. These measures corresponded to a positive macroeconomic context; Romania obtained the best results at the beginning of the transition period. Analyzing the macroeconomic and policies - fiscal, budgetary, monetary, of exchange rate – one can see their continuous orientation towards public debt and budgetary deficit. The financing strategy for the budget deficit and the refinancing strategy for public debt will focus on contracting domestic loans by launching the issuance of public securities.

Domestic public debt represents the total of loans contracted directly by the state or guaranteed by it, from the internal market, in order to cover fiscal deficits, by financing and refinancing them. Also, domestic public debt represents the state's takeover of debts based on special laws, due to losses registered by some companies and state-owned banks. A series of public spending, financed in order to achieve objectives of national interest can also be seen as domestic public debt. The annual growth of external public debt (direct and guaranteed) was based on a rigorous foundation regarding the contract criteria, within limits that did not exceed the country's capacity to assure the service, respectively the reimbursement of capital rates, interests and related fees without a strict policy regarding the use of borrowed resources.

An incorrect structured debt by maturity date is an important factor in triggering the economic crisis. Short and medium term contracted loans with variable interest rates may expose the state budget to a high risk if the international capital markets have changed the conditions regarding the refinancement of these loans. International financial organizations, the IMF and the World Bank, make suggestions on contracting loans for the purposes of directing those loans towards those on long term, thus avoiding countries' indebtedness on short and medium term. Also, an analysis of internal and external public debt service is presented.

II. Literature review

Foreign loans allow a country to invest and consume beyond its domestic production capacity and therefore, to finance the development of capital not only by mobilizing domestic savings, but also by drawing resources from countries with capital surplus. In order to define external public debt will start from the definition of external debt as the due amount in currency, at some point, by one country(s) to other countries and / or international financial institution on the basis of the credits received by the state (government), by private companies with the state's guarantee and also by companies or individuals, that remains to be paid in a period longer than one year[35].

The internationally accepted definition of external debt that results from the research conducted by international organizations, which have as the main field of activity crediting those countries that face problems in providing for their financial needs, presents gross external debt at one point as "the total of contractual liabilities used and unpaid by residents to nonresidents and the residents' obligation to reimburse capital rates, with or without interest, or to pay interest with or without capital rates[36]."

In Romania, the Law of Public Debt No. 313/2004 defines the external governmental public debt as "the part of the governmental public debt representing all financial obligations of the state that derive from loans contracted directly or guaranteed by the state from nonresidents individuals or legal entities in Romania"

External public debt is a key parameter to assess the state of public finances; it can be defined as a consequence of the following macro economical issues[37]:

- low production capacity in relation to consumption, investments and public expenditures;
- insufficient domestic saving, in relation to investments and the budgetary deficit,
- a overly high current account deficit, compared with net inflows of funds (debt is exempted);
- Excessive capital outflows in the form of direct investment or "capital leaks" abroad.

Consequently, the role of external public debt can be seen through the following implications[38]:

a) external loans allow the contracting country to invest and consume beyond its current internal possibilities and, in fact, to finance capital development not only by mobilizing domestic savings, but also by using the savings of countries with capital surplus;

b) External loans may lead to a faster economic growth, enabling the financing of a greater volume of investments and the mobilization of the country's available resources, giving them a more cautious but a more effective usage.

c) External loans can also serve to finance temporary deficits of the balance of payments and can provide the authorities with the solution to avoid to taking

[35] Ceauşu, Iulian. Enciclopedic Managerial Dictionary, Vol. I. Bucharest: Academic Management Publishing, 2000;, p. 264.

[36] Klein, Thomas M., External Debt Management – An Introduction, World Bank Technical Paper Number 245, Washington, D.C., p. 56.

[37] Gaftoniuc, Simona. International Finances. Bucharest: Economic Publishing, 2000, p. 403.

[38] Klein, Thomas M., External Debt Management – An Introduction, World Bank Technical Paper Number 245, Washington, D.C., p. 2.

actions that could jeopardize the country's development program.

III. Research Methodology.

In order to assess the level of external public debt and to correlate it with the situation of other macroeconomic variables (these ratios are more conclusive than the absolute size of debt), a series of indicators are being used:

- external public debt in the year (DPE):
  - $DPE = DPE_d + DPE_g$,
- where:
- DPEd is the external public debt of the state;
- DPEg is the external public debt guaranteed by the state.
- External public debt service (SDPE), which represents the payments due in order to reimburse external public debt, representing the mature rates in a period of one year (RDPE), the interests and the related fees as well as the costs of issuance and placement of securities (Dob_{DPE})[39][40]:
  - $SDPE = R_{DPE} + Dob_{DPE}$; (1)

- the share of external public debt in GDP:
  - $DPE_{/PIB} = \frac{DPE}{PIB} \cdot 100$; (2)
- the share of external public debt in the volume of exports of goods and services (E)
  - $DPE_{/E} = \frac{DPE}{E} \cdot 100$; (3)
- the share of interests of the existing external debt in GDP
  - $Dob_{DPE/PIB} = \frac{Dob_{DPE}}{PIB} \cdot 100$; (4)
- the share of the external public debt service in GDP:
  - $SDPE_{/PIB} = \frac{SDPE}{PIB} \cdot 100$; (5)
- the share of external public debt service in the volume of exports of goods and services:
  - $SDPE_{/E} = \frac{SDPE}{E} \cdot 100$; (6)
- external public debt service in the state's budget expenditures (Ch_{BS}):

$$SDPE_{/Ch_{BS}} = \frac{SDPE}{Ch_{BS}} \cdot 100 . \ (7)$$

IV. Results of the research

The period 2007-2010 was characterized by the expression of the global financial and economical crisis. Although all European countries have been marked by different bubbles (the most frequent being the real estate bubbles), the crisis manifested unevenly, depending on specific conditions and governmental policies from each country and especially depending on the anti-crisis measures taken as a response to the crisis.

In Romania, in comparison with developed countries, external public debt has been and continues to be the main component of public debt. Throughout the period, the actual public debt was fueled substantially by external loans and only to a lesser extent on the domestic loans, this structure being specific to developing countries which lack their own capital market capable of meeting the needs of the private and the public sector. The funds attracted were from international organizations (IMF, IEB) with compliance to the conditions imposed and in the cases where the government could not meet those conditions, it turned to private banks that granted loans but with a higher interest rate.

Under the pressure of external financing of budgetary deficit, the authorities have promoted macroeconomic austerity measures, aimed to restrict governmental spending, reorganize the system of pensions paid from

[39] Moşteanu, Tatiana (coord.) şi colectiv, Finanţe publice: note de curs şi aplicaţii pentru seminar, Editura Universitară, Bucureşti, 2005, p. 264

public funds, the system of social benefits and health insurances, which had short-term constriction effects.

The painful budgetary adjustments, especially in the field of social benefits have been politically legitimated by the "state reform" slogan and the construction of a neoliberal minimal state.

In reality, this approach was not accompanied by an appropriate and encouraging fiscal recovery, especially in the field of labor taxation nor by a real liberalization of some services or the entrustment of infrastructure works to the market.

An extremely important issue for fiscal and budgetary sustainability on long-term remains the reduced capacity to collect public revenues, which causes an additional tax burden on taxpayers and keeps the premises for structural budget deficits. In this respect, the areas that require special attention should aim to modernize the rural economy, adjust the tax level of properties, the taxed labor shortages, tax evasion and the numerous exceptions to the general tax regime. The reduced ability to collect or to generate additional budgetary revenues imposes on Romania a redefinition of the fields of state intervention.

In the long term, macroeconomic policies should aim to achieve general economic balance, a medium and long-term sustainable economic growth with the purpose to achieve real convergence, whether it will be expressed by growth of GDP per capita, by reducing labor costs, by the relocation of the share of national economy branches in the generation of GDP or by the degree of openness of the Romanian economy.

The draining budgetary measures taken in 2010 have been misinterpreted as an actual reduction of the Romanian state's intervention in the economy; they rather represent the only solution to reduce the budget deficit because of its funding difficulties.

V. Conclusions

For the recovery of the Central and Eastern European economies several groups of countries can be distinguished. Some countries have managed to contradict the experts forecasts, obtaining better results (Poland, Czech Republic), others have met their forecasts, those being the countries with the strongest economies in the EU (France, Germany), while others faced the collapse of their national economies (Greece, Spain).

To help cushion the impact on their citizens, governments have implemented a variety of initiatives. There are three important reasons why the analyzed countries were affected by the crisis. Firstly, the dependence on the foreign capital inflows (the ability to attract foreign investments meant to develop the national economy) and the money sent home by those working abroad to support consumption and hence the national budget. For example, in Romania and Bulgaria in 2009, the money sent home dropped by 30% - 50% compared to 2008 levels. Secondly, a large part of their exports were for countries in the region and the euro zone, so that the volume of transactions fell dramatically. Thirdly, several of the analyzed countries had their national currency dependent on the Euro and the weakened economies had been strongly influenced by Euros fluctuations which have often suffocated the exports.

In the case of Poland, the government used quickly and effectively all the European funds at its disposal in order to cover the capital withdrawals amid the international crisis, the current account deficit became stable and zloty's fall was stopped by the central bank of Warsaw with the help of BCE, avoiding mortgage debtors' entry into payment incapacity on mortgage loans denominated in foreign currencies.

Although the government has contracted a loan through the new "flexible credit arrangement" of the IMF, in very favorable conditions, the National Bank of Poland was not forced to resort to these reserves. Although it had to postpone its accession to the European exchange rate mechanism (ERM II), the Polish government initiated an extensive privatization program to reduce the budget deficit and maintain public debt below 50% of GDP. Thus, Poland regained the investors' confidence that began to return to their country. Because of the fact that this economic crisis was much longer than expected, the 50% threshold was exceeded due to the financing needs of the budget deficit which has increased 5 times in the period under review. The goal of the deficit was the need for co-financing the projects with EU grants and also the investments in infrastructure that is why the output from this EU recession will find Poland with a healthy economy based on sustainable development.

Before the crisis started, Romania faced a high budget deficit, an overly indebted private sector, a real estate bubble and an over heated economy, Romania called on the help of the IMF in order to flatten the adjustment of internal and external imbalances set in motion by the global economic crisis.

Because of the delay of the Government in adopting tough structural reform measures and reduce public spending, eventually to channel the funds at its disposal to the economic sectors that would really help the development of a sustainable economic development, Romania was looked at and cataloged by the analysts as being without an economic horizon. Even though the percentage of the public debt in the GDP is a reduced one (30.8% in 2010) it is alarming that this public debt has risen with 300% in the analyzed period, from the borrowed sums being financed the social budgets deficits, the Government being content with a relative quietness of the social strata and waiting for the passing of this period without major interventions. The measure to reduce budgetary spending by cutting 25% in the public sector did not have a macroeconomic result because of the useless spending made from the same amount. In the analyzed period, Romania was the only country that had registered a decrease in productivity.

An aspect that probably did not get enough attention is that the financing of the excessive budgetary deficits, whether is done internally or internationally, is not a costless action. On the contrary, the level of the interest rate at which the debt has been contracted, as well as its schedule are extremely important aspects and can become an extreme burden, as situations exist in which the principal of the debt can be compared with the interest. Confronted with the lack of immediate low cost financing, some states have even advanced the unorthodox solution that the government securities be repurchased by the central bank. This option can not even be taken into consideration, as the conditions of the Romania's accession to the Monetary Union targets too also other dimensions of the nominal convergence, beside the stability of the public finances, as would be: inflation, the stability of the exchange rate, interest rates, which would strongly affected by such a decision.

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