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ROMANIA'S PUBLIC DEBTS AND THEIR CONSEQUENCES UPON THE ECONOMY

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Abstract

In June 2009, Romania's public debts rose by 12.6% more than late last year, that is up to 123.61 billion Lei (29.4 billion Euros), meaning 23.27% of the gross domestic product originally estimated for this year.

Foreign loans are not a new phenomenon. Yet, in the current economic context, it is the consequences which might occur that bother most of us as a result of the (significant) increase of public debts.

Concluding a loan agreement with the International Monetary Fund is « necessary evil » because it has both advantages and disadvantages. This paper aims at analyzing aspects regarding the benefits, direct and indirect costs, and social effects of such a loan.

Key words: public debts, elbows, benefits, economy

JEL Classification: G38, F34, H63

1. Introduction

External debt of a country are formed in relation to loans or credits received by a country or private economic agents, in international relation.

Before proceeding to the actual presentation of the development of Romania's foreign debt, we consider it useful to be mentioned several coordinated principles of content, place and role of that concept in the context of a country's macroeconomic parameters, as follows: [1] [Bernard G., 1979]

a) A country can consume more than produce only provided access to a certain amount of external financing, which allows acquisition of a higher import volume of exports volume. In other

[1] Bernard G. - "A Drastic Proposal for Tax Reform Reforms of the International set of Public Finance", Taormina, 1979, pag. 102

words, domestic absorption (consumption consists of population, government consumption and investment, non-government sector) may be greater than the GDP created in that country, unless imports are greater than exports, the trade imbalance has to be covered by providing external finance in an appropriate volume.

Purchase of this funding can be achieved by contracting and use of foreign loans and direct foreign investment.

In turn, foreign loans may come from the following sources: International financial institutions (IMF, IBRD, EBRD, EIB, etc.); other institutional lenders (the EU, G-24, other developed countries); private international capital market (banks, investment funds etc.).

b) a developing country, in transition from centralized to market economy, like Romania, which was forced by the new international conjuncture, characterized by economic globalization, to liberalize trade policy can not build a strong democracy based on a market economy, sustainable, involving upgrading concomitant economic and social infrastructure than by recourse to external financing, generating foreign debt.

Essential to this is that external loans and used to be aimed at developing and modernizing the economy and public services infrastructure (not consumption), because thus creating the potential for achieving sustainable economic growth, increase exports and thus resources Rhythmic honor the external debt service.[2] [Talpoş I., 2007]

2. Romania's foreign debt: the legal framework, development

The legal framework of Romania's foreign debt is represented pulice EMERGENCY ORDINANCE no.64 of debt on June 27, 2007, amended by Law nr.149 of 11 July 2008 approving Government Emergency Ordinance no. 141/2007 amending and supplementing Government Emergency Ordinance no. 64/2007 on public debt.

Statistics, Romania's foreign debt is as follows:

Table 1: Evolution of external public debt of Romania in the period 2005 to 2009

Year	debt external debt (USD million)
2005	24641.5
2006	28622.2

[2] Talpos I., Dima B., Mutascu M., Enache C. - *"An Empirical Analysis of the Budget Deficit",* Theoretical and applied economics, AGER, Bucuresti, pagina 22, 2007

2007	38710.5	
2008	51221.2	
2009		
Quarter	I	51114.6
Quarter	II	57236.5

There is a significant increase in public debt contracted by Romania in recent years, resulting in a corresponding increase in debt service.

3. Loan Agreement with the IMF - costs and benefits

From the overall situation, we decided to analyze the impact of loan taken by Romania in international organizations (IMF, EU) in the month of May this year in terms of costs and benefits involved. Established in 1944 in the UN system, the IMF is a specialized interstate body whose statutory objectives are:

- Promote international monetary cooperation;
- Facilitating balanced growth of international trade, promote exchange stability and avoid competitive depreciation of exchange rates;
- Support for a multilateral system of payments in terms of current transactions between members and elimination of foreign exchange restrictions that hinder growth of international trade;
- The temporary member countries on IMF resources for adequate guarantees to cover the balance of payments imbalance;
- Providing, together with the World Bank, the Structural Adjustment loans.

Among the general obligations of IMF members are mentioned:

- Avoid restrictions on payments and transfers agreed;
- Avoidance of discriminatory currency practices;
- Conversion of balances in national currency held by another member country in accordance with its Statute:
- Providing data necessary for the IMF work and preparation of studies to support policy for achieving the objectives of IMF members;
- Full payment of share participation in the IMF, generally at a rate of 25% in SDR or in freely convertible currency and 75% in local currency.

In terms of Romania, it became a member of the International Monetary Fund (IMF) since 1972, with a participation rate currently is 1 SDR 030.2 million or 0.47% of total quota. Romania holds 10 552 votes, representing 0.48% of the total.

In the IMF, Romania is part of the group of countries (constituency) including the Netherlands, Ukraine, Israel, Cyprus, Moldova, Georgia, Armenia, Bulgaria, Bosnia Herzegovina, Croatia, Macedonia, Montenegro. Groups of countries represented in the Executive Board of the Dutch Executive Director - Mr. Age Bakker in the office of Executive Director, Romania has a representative who shall act as advisor.

Romania's Governor at the IMF is the BNR Governor, Alternate Governor is the Secretary of State at the Ministry of Economy and Finance with responsibilities in the field. Romania has accepted the obligations under Article VIII of the IMF, to March 25, 1998. Thus, Romania is committed to refrain from introducing restrictions on payments and transfers for current international transactions, not to participate in discriminatory currency arrangements or multiple currency practices without the approval / consultation with the IMF.

Since 1991 IMF financial assistance has resulted in the approval of eight stand-by arrangements. On May 4, 2009, the IMF Executive Board approved the request of Romania on the conclusion of a stand-by arrangement for a period of two years. Romania has agreed to a standby agreement by two years the International Monetary Fund (IMF) to 12.95 billion euros, the total package of external financing from the Fund, the European Union, World Bank and EBRD, will reach 19, 95 billion. EU is to contribute five billion euros. World Bank Romania will provide one billion euros and the European Bank for Reconstruction and Development (EBRD), together with other international financial institutions, will provide one billion euros. The program aims to enhance the effects of falling strong private capital flows to Romania and to implement, while the economic policy measures to reduce fiscal imbalances and strengthen the financial system.

The loan from the International Monetary Fund (IMF), due to finance balance of payments of a country in the context of tight global liquidity, a solution is criticized for tough economic and social reforms that traditionally assumed.[3][Talpoş I., 2007]

One unknown is how the Fund but will adapt economic policies to the needs of states, modified by the current world crisis. A significant advantage derived from the fact that the concept "control" and "discipline", frequently used in discussions with the IMF, and have positive connotations. After a 2008 election ended with a budget deficit of about 5% of GDP, the Romanian government should drastically reduce costs and find solutions to limit the fall in income in a year when the budget deficit is growing. Forecast European Commission for Romania's budget deficit was 7.5% of GDP in 2009, but shall not include measures to reduce costs. The annual report on Romania published by credit rating agency Moody's in early September of this year is projected budget deficit of Romania will reach this year to 9.2% of gross domestic product (GDP), after the European standard ESA 95, above the 7.8% of GDP (7.3%, after the Romanian standards) approved by the Romanian authorities with representatives of the International Monetary Fund (IMF) and European Commission, the assessment mission in August. One of the main weaknesses of the economic policies of Romania in recent years has focused on pro-cyclical fiscal policy. Specifically, did the opposite Romania imposed economic theory.

Rather than focus on the development of low budget deficits during the economic boom of recent years, the country's budget was in all this time on a less important, which would have been justified only for expenses in areas such as infrastructure investment. Such logic, indeed correct, we would be allowed only widening budget deficit during a time of crisis, when the economy should be stimulated, including fiscal measures.

Limits imposed by the IMF can translate to limit spending on wages in the public sector reform and restructuring of state institutions and, on the other hand, possible tax increases and tax. So-called social costs could materialize in increasing unemployment in certain sectors of the economy. In terms of wages, the debate may be more complex, considering that the euphoria of recent years consumption of normal population with annual growth rates of 20-

[3] Talpos I., Dima B., Mutascu M., Enache C., Munteanu V. - *"The impact of the public authorities"*, Theoretical and applied economics, Bucuresti, pagina 32, 2007

30% which, uncorrelated with productivity advances were still unsustainable.

4. Conclusions

It is particularly important in terms of contracting foreign loans is that most of cestora were used for consumption and not for implementation of restructuring programs and projects. Were contracted with frenzy, after 1990, consumer loans, while serious issues were ignored by the irresponsibility of the economy with tremendous candor and wait for things to get into the vicinity of situations. Only in 1994, loans for development began to prevail and have reached a modest share in 1998 to 60%. Imports of consumption had as today compared to financing priority structural reform. What is missing so Romania is not reform but funds to finance money to cover deficits arising from some eccentric imports. Romania would need foreign loans to finance domestic consumption, but only for development projects, but governors have financed consumption and investment have failed, leaving to erode productive capacity, trade and financial to a dangerous limit.

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