EVOLUTION OF PUBLIC DEBT IN ROMANIA AFTER 2020

POPEANGĂ VASILE NICOLAE
UNIVERSITY LECTURER DOCTOR, UNIVERSITY „CONSTANTIN BRÂNCUŞI” TG-JIU
e-mail: alyn77ro@yahoo.com

Abstract

Public debt has become an omnipresent reality of modern economies, regardless of their type, structure or level of development. Considered by theory as an instrument with strong influences on economic, and implicitly social, processes, public debt can generate benefits or costs at the macro and micro levels, the difference being determined only by the particularities and quality of its management policy. The indicators regarding the country's degree of indebtedness at a given time are those that transmit a first signal regarding a country's financial capacity. Their high values indicate present and future risks. The financial effort required by public debt allows for the formulation of other conclusions about a state's development prospects. The greater the annual effort to cover the debt and its costs, the more the current quality of public services for the population is affected. The structure of public debt helps to formulate conclusions about its role in creating added value domestically or about its export abroad. Following these lines of analysis, we aim to determine the present and future influences of public debt on Romania's economic development.

Keywords: resource requirement, loan, public debt, public debt service, capital expenditure, current expenditure

1. Introduction

"In a modern economy, as a rule, the need for resources exceeds the possibilities of their procurement. While resources are limited, the demand for resources registers a continuous growth trend"[1]. Obviously, this gap is also manifested in the field of state financial resources. Most countries in the world collect, nowadays, current revenues insufficient to cover public expenditures of the period. In this context, they are forced to resort to loan resources, offered by capital holders.

2. Paper body

"From a legal perspective, public credit is the expression of an agreement between a natural or legal person, on the one hand, and the state, on the other hand, by which the former agrees to make available to the state an amount of money, in the form of a loan, for a determined period, and the state undertakes to repay it on the established date and to pay the interest and other due costs[2]".

The contracting of loans by the state generates public debt. Etymologically, debt is understood as "a sum of money or any other asset owed to someone"[3]. In the Romanian legislator's understanding, "public debt, according to the European Union methodology, is the public administration debt reported to the European Commission (Eurostat) and published by Eurostat, expressed as a percentage of the gross domestic product"[4]. The specialized doctrine considers that "public debt represents the set of financial resources mobilized as loans by central and local public authorities and other subjects of public law from various creditors, natural or legal persons, on the domestic and/or foreign market and remaining to be repaid at a given time"[5].

In the theory of public finance, it is considered that public debt, depending on how it is managed, can contribute positively or negatively to the overall development of the economy and society. In order to formulate a pertinent opinion on the impact of public debt, a series of indicators are analyzed, namely:

- the country's debt level;
- the debt structure;
- the annual financial effort generated by loans;
- their destination.

In Romania, the evolution of public debt, after 2020, is presented as follows:

Table no. 1 Evolution of the degree of indebtedness, in absolute and relative terms

- millions of lei -

Public debt	2020	2021	2022	2023	2024	2025
Value	498.571,3	576.338,8	665.490,7	784.235,2	964.807,9	1.138.312,1
Share in GDP (%)	46,6%	48,6%	48,1%	49,3%	54,8%	59,6%

Data source. www.mfinante.gov.ro

Chart No. 1 Absolute dynamics of public debt

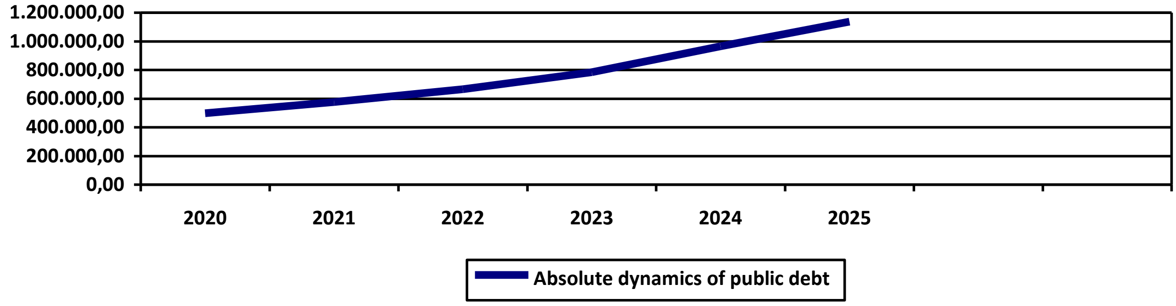
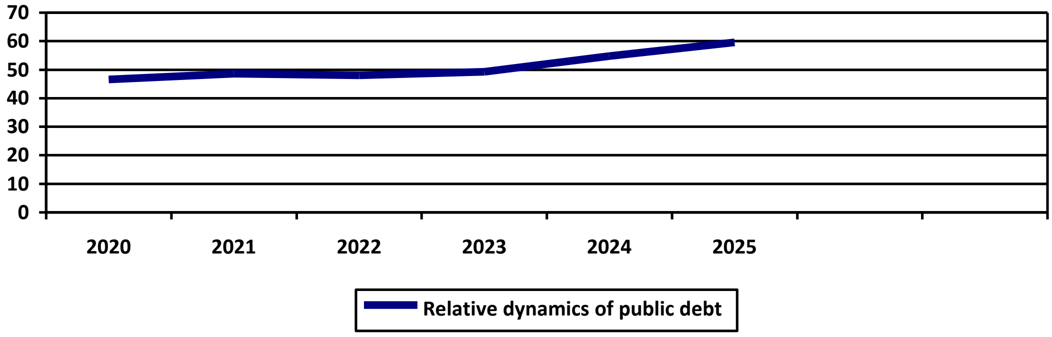


Chart No. 2 Relative dynamics of public debt



An upward trend of the indicator is noted, which attests to a continuous increase in the gap between needs and resources, Romania being increasingly unable to cover state expenditures through ordinary revenues. Practically, in the time interval presented, the debt level increased by +639,740.8 million lei, i.e. a relative increase of approximately +128%. The pace recorded by the indicator demonstrates an alteration in the health of national public finances, being a negative signal of the impact of public credit on economic processes. And in relative terms, public debt has increased significantly, its share in GDP increasing, in just five years, by +13 p.p. It is, moreover, worth mentioning that, in our country, it is explicitly regulated that "public debt, according to the European Union methodology, will not exceed 60% of the gross domestic product"[6]. Therefore, except for the value of depreciation, Romania still has a small margin of action, of about 0.4% of GDP, within which it can still contract new loans.

The structure of public debt can be analyzed through two criteria. According to its maturity, public debt is floating (due in the short term, up to one year) and consolidated (due in the long term). According to the source of origin, public debt is internal and external. The values of the structure indicators, in the time interval 2020 - 2025, in milions of lei, are given below:

Table No. 2 Structure of public debt

PUBLIC DEBT	2020	2021	2022	2023	2024	2025
- short-term	17.663,0	29.343,0	40.980,1	50.803,2	80.253,7	78.942,6
- long-term	480.908,3	546.995,7	624.510,6	733.432,0	884.554,1	1.059.369,5
- domestic	245.143,9	292.719,1	335.305,8	385.803,3	485.656,6	570.173,3
- external	253.427,4	283.619,7	330.184,9	398.431,9	479.151,2	568.138,8

Data source. www.mfinante.gov.ro

The overwhelming share of consolidated public debt is observed (93% of the total), a beneficial fact for the sustainability of public finances, since the burden of immediate repayments does not affect the financial resources of the present period, which can be used, if the debt management policy is efficient, for gross capital formation (investments) capable of generating future added value, on the account of which the contracted loans can be repaid. As for the market on which the debt was constituted, the data indicate a relatively equal structure. Practically, the holders of temporarily free monetary capital in the national economy contribute to the same extent as creditors of Romania as foreign subjects. In financial theory, it is considered that public debt can bring domestic benefits to the extent that it is contracted as much as possible from the national market, otherwise becoming an instrument through which added value is exported. From this perspective, Romania does not register a favorable situation, almost half of the financial flows generated by public credit being made abroad.

Public debt generates, every year, obligations regarding the payment of interest and related fees, as well as a part of the contracted credits. This financial effort is known under the generic name of "public debt service". Its payment is a fundamental objective of Romania's fiscal-budgetary policy, the Government being obliged to ensure "the maintenance of an adequate level of budgetary resources" to cover it [7].

An evolution of public debt service, by structural components, in milions of lei, is presented below:

Table no. 3 Structure and share of public debt service in GDP

Public debt service (PDS) of which:	2020	2021	2022	2023	2024	2025
- Interest and fees	11.593,81	17.462,51	28.067,14	29.493,76	35.178,95	50.071,18
- Capital payments	47.715,35	54.594,13	82.578,22	108.344,55	95.654,63	115.610,09
Total	**59.309,16**	**72.056,64**	**110.645,36**	**137.838,31**	**130.833,58**	**165.681,27**
Share of PDS in GDP (%)	**5,70**	**6,05**	**7,75**	**8,70**	**7,41**	**8,68**

Data source. www.mfinante.gov.ro și calcule proprii

Chart no. 3 Dynamics of the absolute value of public debt service

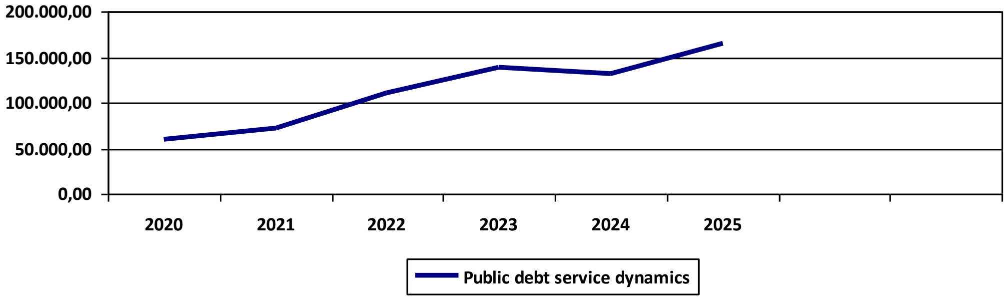
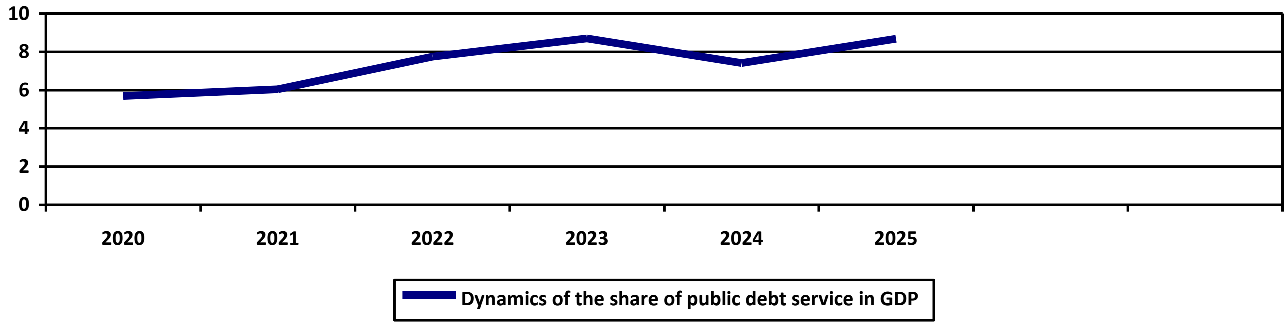


Chart no. 4 Dynamics of the share of public debt service in GDP



The data analysis reflects an increase in the annual financial effort required by public debt. At the end of the interval, Romania has higher public borrowing costs by + 106,372.11 million lei, or + 179%. The upward trend has remained constant, except for 2024, when, amid the amortization of a smaller loan portfolio, public debt service decreases slightly. The share of the indicator in gross domestic product follows the same trajectory, marking a peak in 2023, followed by a decrease in 2024 and a return to the maximum level in 2025. The values are extremely worrying, with the annual cost of public debt reaching about a quarter of the total public funds collected in a budgetary exercise by Romania, transmitting a negative influence on the state's capacity to meet current public needs.

Another important aspect that must be analyzed to demonstrate the effects of public debt on the economy is that related to the destination of loans. Given the fact that budget revenues are depersonalized, loans generally do not have a special, predetermined use, but are used to cover public spending as a whole. That is why we follow the evolution of current and investment spending to identify the pillar on which a country's economic development is based and whether public debt generates future added value or a definitive consumption of gross domestic product.

As a share in GDP, the evolution of the two categories of expenditure is as follows [8]:

Table No. 4 Dynamics of shares in gross domestic product of current expenditures and capital expenditures

AN	2020	2021	2022	2023	2024	2025
INVESTMENT EXPENDITURE (%)	5,04	5,01	5,14	6,27	6,79	7,2
CURRENT EXPENDITURE (%)	37,8	35,9	35,2	36,3	37,7	39

Data source. www.mfinante.gov.ro

The overwhelming prevalence of current expenditures demonstrates a destination of government debt that does not stimulate the formation of future resources, through which the credits and their costs can be paid. Basically, the state borrows mainly to cover current needs, not to implement massive investments, which would become the main engine of the national economy's development.

3.Conclusions

Analyzing the information and data presented, we can formulate a series of conclusions, as follows:

- ✓ the volume, in absolute terms, of Romania's public debt, as well as its share in the gross domestic product, evolved significantly during the studied period, being very close to exceeding the ceiling set by the European Union, namely 60%;
- ✓ the specific weight of external debt in total public debt, of approximately 50%, indicates its significant contribution to the process of exporting added value abroad;
- ✓ the annual public financial effort generated by debt is becoming increasingly consistent, with about a quarter of the Romanian state's annual resources being used for this purpose, and exceeding, in value and as a share in GDP, the country's annual investment expenditures. It is estimated that in 2026 the annual expenditures in the form of interest will be 60 billion lei, approximately 1 billion euros per month [9];
- ✓ considering the share of current expenditures in total public expenditures, it can be stated that public debt has a reduced contribution to the future advance of gross domestic product.

The general conclusion is that, in Romania, public debt is not a factor stimulating economic and social development, but rather a means of ensuring the annual functioning of the state.

4.Bibliography

[1] Văcărel Iulian and others – Public Finance, Didactic and Pedagogical Publishing House, Bucharest, 2007, page 94

[2] Văcărel Iulian and others – Public Finance, Didactic and Pedagogical Publishing House, Bucharest, 2007, page 195

[3] Explanatory Dictionary of the Romanian Language, 2016 edition

[4] Fiscal-Budgetary Responsibility Law no. 69/2010, article 3, point 4

[5] See in this regard: Văcărel Iulian and others – Public Finance, Didactic and Pedagogical Publishing House, Bucharest, 2007; Moșteanu Tatiana and others – Public Budget and Treasury, University Publishing House, Bucharest, 2004; Belean Pavel -, Public Budget and Public Treasury in Romania, Economic Publishing House, Bucharest, 2007

[6] Fiscal-Budgetary Responsibility Law no. 69/2010, article 9

[7] Fiscal Responsibility Law no. 69/2010, article 5, paragraph (2) letter c)

[8] Investment expenditure includes capital expenditure, as well as those related to development programs financed from domestic and foreign sources

[9] Badea Leonardo - "Why Romania can no longer afford the luxury of growth without reform", opinion article for HotNews, 19.05.2026