

## THE EVOLUTION OF LOCAL PUBLIC DEBT IN ROMANIA AFTER 2020

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### Abstract

*The chronic gap between needs and resources is manifested in contemporary societies and at the level of local administrations. Therefore, they are also obliged to identify new financial resources, so that they can satisfy the general needs of the communities. In addition to the sources attracted, the most important of which is represented by non-reimbursable European funds, local public decision-makers also resort to loan resources, thus constituting the local public debt. This is an instrument that can contribute to the socio-economic development of communities, to the extent that it is contracted, used and managed efficiently, so as to bring future added value. In most countries, including Romania, the management of local public debt is carried out within certain limits and conditions determined by the government factor, local administrations having, in this area, a pre-established decision-making autonomy. The volume of local public debt, its share in the total revenues of these links of the administration, the specific weight of loans in capital expenditures, the annual effort generated by debt are just a few indicators that outline the health of local public finances and that we intend to analyze further.*

**Keywords:** local public finances, loan, local public debt, local public debt service, capital expenditure, local revenues

### 1. Introduction

"Local public finances constitute the activity of local administrations in their capacity as users of special financial techniques, such as: budget, taxes, levies, allocations, expenditures, loans, etc." [1].

After 1990, a broad transformation process took place in Romania in the field of public finances, one of its objectives being decentralization and local financial autonomy. In this regard, we can talk about:

“- an internal decentralization, at the level of the Ministry of Public Finance, by transferring multiple attributions and competencies to the territorial units;

- an external decentralization, by transferring financial competencies and responsibilities to the local public administration bodies” [2].

In the context of these new realities, local decision-makers develop and implement financial policy at the community level, generating revenues and incurring expenses.

The financial resources of local public administration authorities are regulated at European level and are based on the following set of principles:

- “within the framework of national economic policy, local public administration authorities have the right to sufficient own resources, which they may freely dispose of in the exercise of their powers;
- the financial resources of local public administration authorities must be proportional to the powers provided for by the Constitution or by law;
- part of the financial resources of local public administration authorities must come from local taxes and levies, the level of which they have the power to establish within the limits of the law;
- the levy system on which the resources available to local public administration authorities are based must be sufficiently diversified and evolving to allow them to follow in practice, as far as possible, the real evolution of the costs of exercising their powers;
- administrative-territorial units with a more difficult financial situation must be protected by the establishment of financial equalization procedures or equivalent measures, designed to correct the effects of the unequal distribution of potential financing

resources, as well as of the fiscal burdens incumbent on them. The protective procedures or measures must not restrict the freedom of choice of local public administration authorities within their sphere of competence;

- local public administration authorities must be consulted, in an appropriate manner, on the modalities of distribution of the resources from the redistribution that are in their power;
- subsidies allocated to administrative-territorial units must, as far as possible, not be intended for financing specific projects. The allocation of subsidies must not prejudice the fundamental freedom of policies of local public administration authorities within their sphere of competence;
- in order to finance their investment expenditure, local public administration authorities must have access, in accordance with the law, to the national capital market” [3].

Therefore, the right of local authorities to become subjects of public credit reports is established at European level and has also been implemented in Romania, “Local public administration authorities have the following powers and responsibilities regarding local public finances:

f) directly contracting domestic and foreign loans, short, medium and long term, and monitoring the payment of the payment obligations resulting from them when due;

g) guaranteeing domestic and foreign loans, short, medium and long term, and monitoring the payment of the payment obligations resulting from the respective loans by the beneficiaries when due” [4]. “Local, county councils and the General Council of Bucharest Municipality, as the case may be, may approve the contracting or guaranteeing of short, medium and long-term internal or external loans, for the realization of public investments of local interest, as well as for the refinancing of local public debt” [5].

It is worth mentioning that this right is exercised, according to the relevant legislation in the field, only in compliance with certain conditions, limits and procedures.

## 2. Paper body

In our opinion, local public debt represents the totality of financial resources attracted as loans from legal entities and/or individuals, from the domestic market and/or from abroad by local public administration authorities and remaining to be repaid at a given time. In the view of the Romanian legislator, “local public debt represents a general obligation that must be repaid, according to the agreements concluded, from the own revenues of the borrowed administrative-territorial unit, as well as from the revenues of the beneficiaries of loans guaranteed by local public administration authorities, as the case may be” [6].

In Romania, “local public debt instruments are:

- a) securities;
- b) loans from commercial banks or other credit institutions;
- c) supplier credits;
- d) financial leasing;
- e) local guarantee” [7].

The dynamics and particularities of local public debt in our country, after 2020, which we will analyze further, have been and are influenced by a series of exogenous factors, namely

- the global pandemic crisis, which significantly modified the structure of local budgets and national and international flows of loan capital;

- military conflicts with a direct influence on the prices of energy products and electricity, which have consistently increased the financing needs of local power structures;

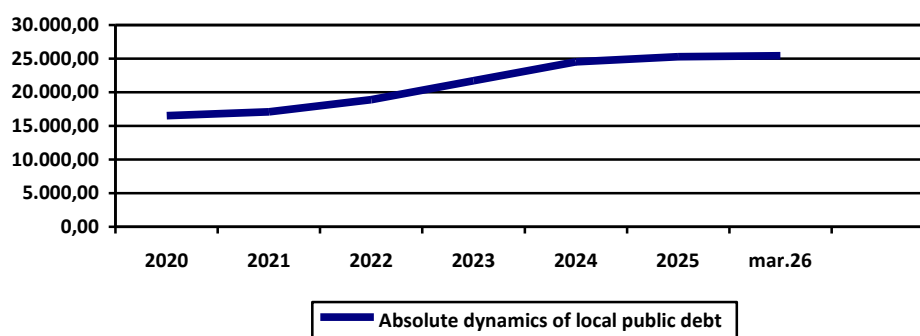
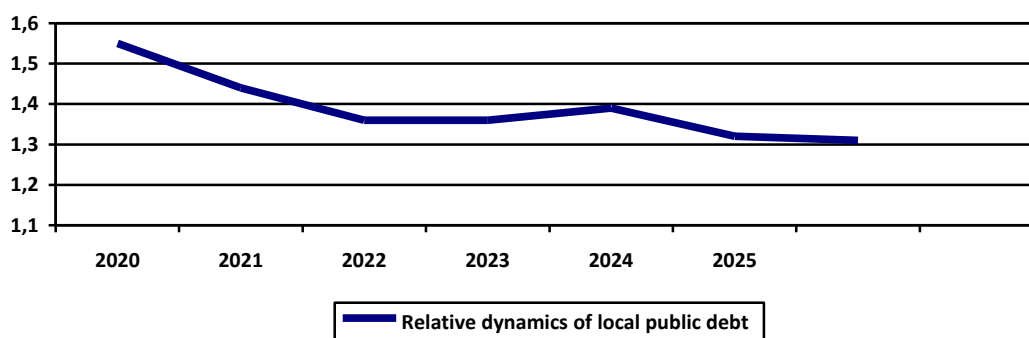
- the national imperative to reduce the deficit of the general consolidated budget, which changes the transfers of resources from the central level to the local area.

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

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

- millions of lei -

| Local public debt       | 2020     | 2021     | 2022     | 2023     | 2024     | 2025     | March 2026 |
|-------------------------|----------|----------|----------|----------|----------|----------|------------|
| <b>Value</b>            | 16.501,8 | 17.115,3 | 18.905,9 | 21.700,8 | 24.538,3 | 25.273,0 | 25.407,9   |
| <b>Share in GDP (%)</b> | 1,55     | 1,44     | 1,36     | 1,36     | 1,39     | 1,32     | 1,31       |

Data sourcer: [www.mfinante.gov.ro](http://www.mfinante.gov.ro)**Chart no. 1 Absolute dynamics of local public debt****Chart no. 2 Relative dynamics of local public debt**

An upward trend of the indicator is noted, which attests to a continuous increase in the loan requirement for local administrations. Practically, in the presented time interval, the degree of local indebtedness increased by +8905.2 million lei, i.e. a relative increase of about +54%. The pace recorded by the indicator demonstrates, at a first analysis, considering the purpose for which the loans can be contracted, an increase in the volumes of investments at the local level, an element with a significant impact on the quality of life of the communities. In relative terms, local public debt represents almost negligible values, in relation to the overall debt situation of the country (over 60% of GDP) and the trend is a decreasing one, at the end of the interval its share decreasing by – 0.24 p.p.

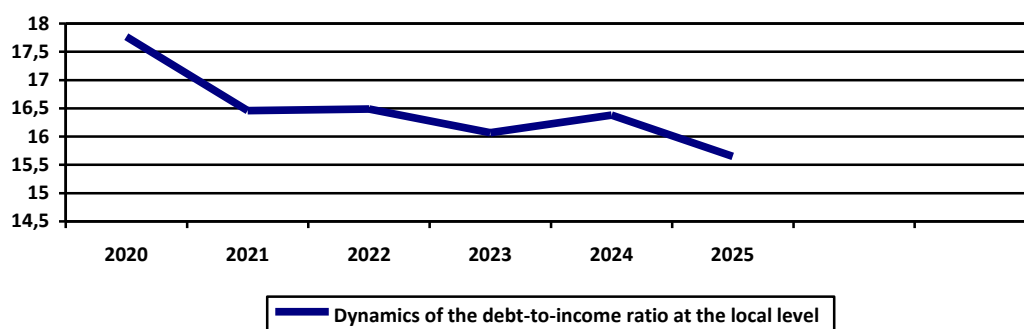
An important indicator in the analysis of local public debt is also represented by its specific weight in the total revenues of local budgets. In the period 2020 - 2025, the data are presented as follows:

**Table no. 2 Evolution of local revenues, local public debt and the ratio between them**

- millions of lei -

| Year                                       | 2020     | 2021      | 2022      | 2023      | 2024      | 2025      |
|--------------------------------------------|----------|-----------|-----------|-----------|-----------|-----------|
| <b>Local Revenues</b>                      | 92.855,1 | 103.958,6 | 114,614.0 | 135,048.1 | 149,788.8 | 161,459.7 |
| <b>Local Public Debt</b>                   | 16.501,8 | 17.115,3  | 18.905,9  | 21.700,8  | 24.538,3  | 25.273,0  |
| <b>Share of Debt in Local Revenues (%)</b> | 17,77    | 16,46     | 16,49     | 16,07     | 16,38     | 15,65     |

Data source: www.mfinante.gov.ro

**Chart no. 3 Dynamics of the debt-to-income ratio at local level**

We observe a good factual state of local administrations from this perspective, the volume of loans in total revenues registering a slightly sustainable level, but also a decreasing evolution of the indicator, which attests to a fairly efficient debt management. The comparison with the reality at the national level (where in 2025 the absolute government public debt was about twice as high as the collected revenues) is extremely suggestive, demonstrating the good health of local finances.

Given that the destination of local loans is mainly the financing of public investments of local interest, we propose to analyze the values of capital expenditures executed through local budgets in the period 2020 -2025, the ratio between them and the amount of public debt, as well as the share of debt in total local investment expenditures. The data are presented in the following table:

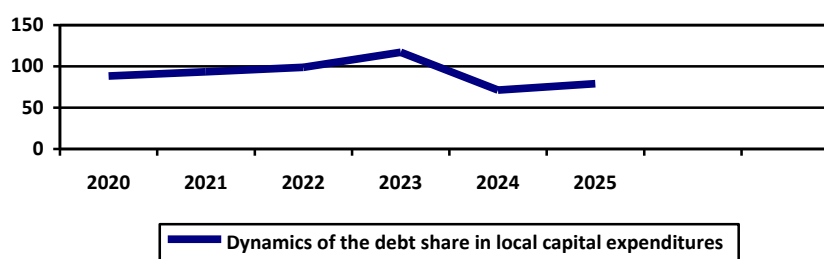
**Table no. 3 Evolution of local capital expenditures, local public debt and the ratio between them**

- millions of lei -

| Year                                                  | 2020     | 2021     | 2022     | 2023     | 2024     | 2025     |
|-------------------------------------------------------|----------|----------|----------|----------|----------|----------|
| <b>Capital Expenditure</b>                            | 18.675,7 | 18.295,5 | 19,101.6 | 18,548.1 | 34,437.0 | 31,891.1 |
| <b>Local Public Debt</b>                              | 16.501,8 | 17.115,3 | 18.905,9 | 21.700,8 | 24.538,3 | 25.273,0 |
| <b>Share of Debt in Local Capital Expenditure (%)</b> | 88,36    | 93,55    | 98,97    | 117      | 71,25    | 79.25    |

Data source: www.mfinante.gov.ro

The graphic evolution of the ratio between the two indicators is shown below:

**Chart No. 4 Dynamics of the debt share in local capital expenditures**

The analysis shows us the overwhelming importance of loan resources in financing local development. Although we note, towards the end of the interval, a slight tendency to reduce the indicator, the dependence on public debt remains significant. Practically, ordinary local public revenues are used massively to finance the current functioning of administrations, their contribution to the generation of future added value being marginal. From this perspective, we believe that a rethinking of the current model of building local budgets is required.

Other important indicators for our analysis are the annual public financial effort determined by local public debt (loan repayments and interest payments) and the share recorded in total local budget revenues. For the period 2020 - 2025, their values and the trends covered are as follows:

**Table no. 4 Evolution of local revenues, local public debt service and the ratio between them**

- millions of lei -

| Year                                            | 2020     | 2021      | 2022      | 2023      | 2024      | 2025      |
|-------------------------------------------------|----------|-----------|-----------|-----------|-----------|-----------|
| <b>Local Revenues</b>                           | 92.855,1 | 103.958,6 | 114,614.0 | 135,048.1 | 149,788.8 | 161,459.7 |
| <b>Public Financial Effort</b>                  | 2844,6   | 2411,1    | 3442,9    | 4639,1    | 4572,8    | 5478,4    |
| <b>Share of Debt Cost in Local Revenues (%)</b> | 3,1      | 2,32      | 3         | 3,43      | 3,05      | 3,39      |

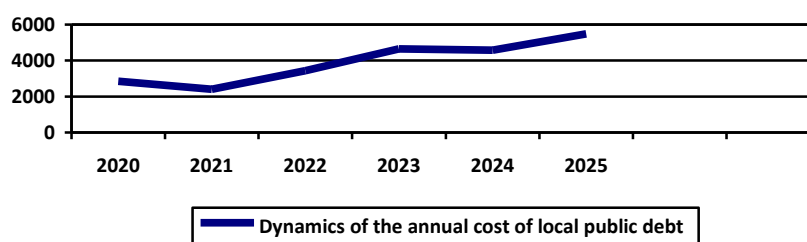
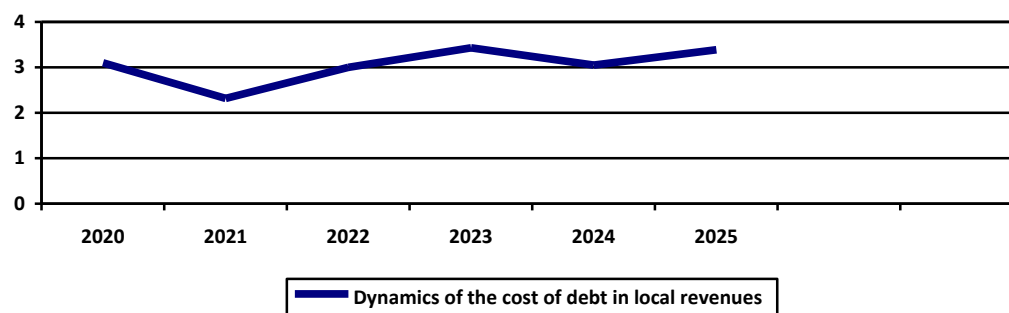
Data source: [www.mfinante.gov.ro](http://www.mfinante.gov.ro)**Chart no. 5 Absolute dynamics of the annual public financial effort claimed by local debt**

**Chart no. 6 Dynamics of the cost of debt in local revenues**

The study reflects a fairly low financial effort generated annually by public debt on local administrations, this also as a result of the relatively low degree of local indebtedness. A percentage of about 3% of all revenues collected annually expresses a sustainable financial capacity of local indebtedness, as well as an efficient management strategy for it. Comparing with the annual effort supported by the central administration for the debt burden (for example in 2025 of about 25% of total revenues collected) we can say that the local financial policy is a prudent one, from this perspective.

### 3. Conclusions

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

- the value volume, in absolute terms, of local public debt in Romania, as well as its share in the gross domestic product, have good developments, which demonstrate a fairly efficient management of credit resources at the level of local administrations;
- the degree of local indebtedness can be easily covered by the financial strength of the administrative-territorial units, the risk of inability to pay loans being extremely low;
- the use of loans as an almost sole source of financing for local investments is the only aspect that reflects a vulnerable point of local finances, from this perspective, administrations having to reduce the level of current expenditures and transfer increasingly consistent own resources to the development section of local budgets;
- the annual burden of local public debt has an almost neutral impact on the financial capacity of the authorities to satisfy current needs of local interest.

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- [6] Law No. 273/2006 on local public finances, article 62, paragraph (1)
- [7] Law No. 273/2006 on local public finances, article 62, paragraph (2)