

The Role of Sovereign Debts in the Development of the Actual Macroeconomic Environment

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Abstract: Globally, the volume of public debt, most of which is sovereign debt, has increased significantly and although the macroeconomic development of most states has made good progress since the consequences of the global financial crisis triggered by the United States since 2007, their share has become a major concern for global financial equilibrium. In this context, the analysis of the evolution of public debt in each country as well as in the geographic areas of strategic importance for the international economic conjuncture is an imperative for international financial analysts and institutions as well as for those who develop forecasts and propose economic-financial policies in the short term, and especially in the medium and long term. The analysis of public debt in each country, region or community / association of sovereign states is of major importance both for assessing the financial stability and, implicitly, the economic at national, global as well as presently when capital, as well as goods and services circulate with great ease between countries and continents to identify potential risk factors that may affect the macroeconomic development and social life of the communities involved. The aggravation of free movement, along with the increase in public debt, along with other factors of an economic, political and social nature, contributes to the establishment of a new world economic order characterized by a new hierarchy of world states, new economic and financial relations between countries with a developed economy and those with important natural and human resources, but whose level of macroeconomic performance is well below the level of developed ones.

Keywords: public debt, gross public debt, net public debt, public debt ratio, budget deficit, public finance, negative balance.

1 Introduction

The purpose of public debt contracting may have two different directions: on the one hand, balancing public finances, covering current and / or accumulated deficits in previous years, and, on the other hand, funding of investment programs / projects of major importance great for the community, both from the social point of view and as producing added value.

At the same time, the position of the state towards its debtors, especially foreigners, allows analysts to assess the country's financial standing. Thus, international rating agencies, such as Moody's, Standard & Poor's, Fitch, etc., embrace the national economy on a specific risk scale, which has an immediate impact on the behavior of economic agents, both internal and external. Risk degradation causes a decline in national macroeconomic developments caused by the diminished investment activity of domestic entrepreneurs, as well as external capital flows for business financing, so-called foreign direct investment. Also, the international financial environment borrowing funds is worsening in the direction of rising real interest rates, all of which exert an increasing pressure on the domestic currency exchange rate, which makes it even more difficult to pay public debt service, affecting even the sustainability of public finances.

The theoretical approach, in order to evaluate how the evolution of public debt influences macroeconomic development, as well as the social life of a country, takes into account the internal and external conjuncture characteristics as well as the specificity of the respective economy.

There are many currents of thought, but according to the assessment of the consequences, especially in the medium and long term, and the proposed strategies to be applied in the management of public debt and the national economic and financial balance, they can be divided into two distinct categories: classical and neoclassic currents, which argue that the public deficit is damaging to the national economy, and its borrowing funding leads to a drain effect - the crowding-out effect of credit to the private sector means that it is declining due to the targeting of capital temporarily free to the public sector, which has the zero risk, to the detriment of credit to the private sector - the financing of private investment, with immediate consequence in the diminishing of domestic demand, which will lead to the decrease of the domestic productive activity and the accumulation of the added value in the economy. As a consequence, public revenue resulting from taxation, being mandatory levies from the newly created value, will decrease, deepening the primary budget deficit, i.e. the negative balance between revenues and expenditures of the budget, which decrease the expenditures related to the public debt.

Financing of the deficit by loan will involve contracting new loans, the pressure exerted by the increase in the public debt service - especially as the real interest rates will increase and the national currency will depreciate as a result of the deterioration of the country rating - will contribute to unbalance of public finance. International financial institutions support these theories, considering that they apply especially to developing countries with a high leverage ratio, their economies being more vulnerable to economic or financial shocks than developed economies.

In the table below, we selected a few countries classified according to the position of the GDP per capita indicator as compared to the world average, eight years after the financial crisis. This indicator shows the level of development of the national economy and the information in the table shows the very large differences between the states of the world, and consequently the degree to which each economy feels the pressure exerted by the public debt. It shows the place that our country occupies in the world hierarchy, which means that together with a sustainable rate of external public debt, it gives the Romanian economy an average level towards low financial risk.

Per capita GDP (current USD) selecting a few states

- % of the world average-

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017
Luxembourg	1172.9	1103.2	1107.6	1010.6	1058.9	1094.8	996.3	986.8	971.0
US	534.2	508.4	476.4	487.1	491.9	502.2	554.3	564.1	555.2
Germany	474.3	439.2	447.9	417.2	433.6	441.1	405.8	413.7	414.8
UK	434.9	408.8	396.2	395.6	398.2	429.6	435.1	395.8	370.5
France	472.5	427.1	419.0	387.0	396.9	394.9	359.6	361.2	358.9
Japan	464.3	467.8	460.9	460.1	377.0	349.9	339.5	381.7	358.4
Republic of Korea	207.9	232.1	230.4	230.6	241.3	255.4	266.2	270.4	277.4
Czech Republic	224.4	208.2	207.8	186.8	185.6	181.3	174.0	181.1	190.0
Greece	337.7	282.9	248.0	210.6	203.9	199.8	177.5	175.2	173.6
Hungary	148.1	137.6	135.1	122.0	127.4	130.4	122.6	125.6	132.7
Poland	131.0	132.4	132.9	124.4	128.4	131.7	123.3	121.8	129.3
Romania	96.3	86.3	87.1	80.8	89.0	92.1	88.2	93.7	100.9
The Russian Federation	97.3	112.2	137.3	146.1	149.2	129.7	91.8	85.8	100.2
World Media	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Turkey	102.7	112.2	108.5	111.0	116.9	111.4	107.9	106.4	98.4
China	43.6	47.9	53.9	60.0	66.0	70.6	79.2	79.5	82.3
Bulgaria	79.2	71.9	74.8	69.8	71.3	72.2	68.7	73.2	76.7
Moldavia	17.3	17.1	18.9	19.4	20.9	20.6	18.0	18.7	21.4
Burundi	2.4	2.4	2.4	2.4	2.4	2.5	3.0	2.8	2.7

Source: <https://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDP.PCAP.CD&country=>, prelucrare autorilor

The public debt ratio is determined as a ratio between the actual public debt (contracted and drawn debt minus the reimbursements from it up to the moment of the statistical registration) and the GDP, and the level considered excessive differs according to the appreciation of the analysts and / or international institutions (or

regional, in the case of the European Union). Thus, some analysts believe that for the developed countries the excessive level of over-indebtedness would be 90% (Reinhart C. and Rogoff K. (2011)) or even more than 100% (eg. 115% Minéa A. and Parent A. (2012)).

In the Stability and Growth Pact in the EU Treaty, the leverage threshold, established without a statistical basis under the Maastricht Treaty Defined Criteria, is 60%, but most developed Euro zone countries go beyond this threshold.

Interventionist thought patterns originally formulated by J.M. Keynes and continued by neo-Keynesians, claiming that debt contributes to the revival of domestic demand through the financing of new investment programs / projects, the multiplier effect of which increases the value added in the economy. The positive effects of public debt are felt, according to Keynesian theory, in economies that are experiencing a slowdown or even decline in economic development marked by a significant public deficit. Conversely, if the economy is in a full-time employment cycle, or when demand for money on the domestic market leads to an increase in the interest rate, it is estimated that public debt will have a negative impact on macroeconomic development.

The theories and strategies proposed by both national authorities and international institutions, such as the International Monetary Fund (IMF), the World Bank (WB) and the European Union, rely on several factors considered relevant to economic growth, among which the most important are:

- the rate of investment, in direct (positive) correlation with the macroeconomic development rate;
- the population growth rate, which is analyzed according to the economic and social specificity of the country and according to the internal and international situation.

Thus, the negative growth rate of the active population in most developed countries in Europe and North America is considered a negative factor for economic growth. A large number of the active population - the definition of the active person is in accordance with the national law, namely the person in good health, between the minimum and the maximum working age - who has the professional skills appropriate to the current activity is a factor favoring the growth economic development in developing countries, especially in emerging countries (China, India, etc.).

If the population does not have the necessary professional skills and / or the age structure, i.e. the population above the working age, shows the necessity of supporting this category of public funds, the impact on the public finances, respectively the budget deficit and, consequently, the indebtedness is negative. This is the case for many developed European countries, Japan, etc.

2 Theoretical Approach To Public Debt

2.1. Definition of public debt

The terms expressing public debt are numerous and show different structures and compositions, as well as spheres of coverage, depending on the purpose of the analysis for which they are used.

There are two broad categories of public debt: gross public debt and net public debt, and the references that they define are global statistical approaches such as the National Accounts System (SCN) or economic and / or financial institutions which performs macroeconomic analyzes to examine national or regional circumstances and to propose appropriate policies for balancing and economic development. Among the most known such institutions are the IMF and the BM, the European Commission, the Organization for Economic Cooperation and Development (OECD), the national statistical institutes and others.

Gross public debt

Government gross debt in the SCN sense is defined, according to the patrimony account of this system, as the total liabilities of the Public Administration as a whole, without consolidation between the constituent institutions.

Gross public debt in the European Union's sense is defined in the Maastricht Treaty (1992) as a consolidated public debt: debts of a public administration to another public administration are deducted from the liabilities of the former and the assets of the latter (the Maastricht Treaty, Protocol No. 12).

According to the BM methodology, gross government debt is composed of all liabilities of the public administration in the form of debt, these items being considered financial instruments that define third party claims on the public sector. According to the BM, they are considered as public debt instruments: Special Drawing Rights (SDRs), which designate the IMF account currency transactions, cash and deposits in public

institutions, third-party debt securities to the public sector, loans contracted by public institutions, insurance systems, pensions and standardized guarantees, other payment accounts.

Net public debt

Government net debt is determined in Eurostat - the Commission's statistical data portal - by subtracting from gross public debt in the SCN all financial assets of the same general government. The OECD also calculates net public debt by designating this indicator under the heading of "net government financial commitments".

2.2. Sustainability of public finances

Public finances are said to be sustainable when responsible public authorities can finance all of their budgetary expenditure, including their liabilities from the contracted or guaranteed public debt and not yet reimbursed, in a long time horizon, in the absence of political changes. Public policies are not exclusively economic and financial, but also institutional, because the State's authority is exercised through its institutions, which implies the coherence and high quality of the functioning of the public services under their responsibility.

In this respect, with regard to public finances, the issues to be taken into account are the budgetary process and the electoral cycle, both closely linked to the public policies implemented by policy makers. The financing needs of the public sector are multiple, the functional structure of public expenditures being able to reveal the priorities that public authorities grant in the respective budget cycle. The negative balance, meaning the budget deficit resulting from a higher level of spending versus public revenue, can be funded mainly by two methods: tax increases and debt leverage, both of which involve risks that may prove important both at macro level, as well as microeconomic.

At macroeconomic level, an inadequate policy of financing the budget deficit may affect the financial stability of the public sector. This stability is defined according to three main criteria: the liquidity, credibility and solvency of the responsible public authorities:

- the liquidity corresponds to all the short-term means of payment available to the state, which allows it to face immediate financial obligations. Potential liquidity means the ability of the State to pay in the near future, three months to one year;
- credibility is the confidence that public authorities enjoy from economic agents, especially when they are state debtors or in their current activity, as operators carrying out public services as a result of delegated authority management, or as investors who borrow the State - private lending banks, natural or legal persons investing in government securities;
- the solvency shows that the state has a real or implicit inter-temporal repayment capacity, meaning it can actually deal with current and future financial commitments. Solvency refers to both potential liquidity, which can be based on the value of public assets that can be capitalized, and on the state's ability to use the tax to increase public revenues.

The impact of mandatory levies on the stability of public finances is different depending on the reaction of economic agents towards an increase in taxation. In this respect, Arthur Laffer's theory, which illustrates the relationship between tax revenues and the rate of pressure that taxation exerts on the economy, is relevant. In a period of economic growth, economic agents will not consider increasing mandatory levies as a hindrance to their development and will honor their fiscal obligations correctly so that public revenues will increase and the budget deficit will decrease. It is said that this is a situation of fiscal neutrality. But as tax pressures increase, activity becomes discouraged, demand falls, followed by supply, the tax base narrows, and if a certain sustainability threshold is exceeded, revenue collected from tax and tax will decrease, even if the fiscal pressure will continue to increase.

The budget deficit deepens; public authorities no longer have enough liquidity to finance their short-term obligations or are unable to meet their medium- or long-term commitments, with the stability of public finances being destabilized. Given the constraints imposed by the behavior of economic agents over tax increases, to cover the public deficit, the State may resort to contracting (a new) public debt without involving taxation, obviously under the conditions of national law in that field.

Classical theory (Bachelier et Couillault, 2005) states that financing the budget deficit through indebtedness will result in economic agents anticipating a systematic tax increase due to the obligation to repay the contracted debt and to pay the cost of the debt. Instead, policy-makers claim that public debt, as an exogenous source of funding, does not make a direct levy from their income, which will immediately diminish their purchasing power. In this way, demand is not affected, individuals do not decrease their consumption, and

businesses do not give up planned investments, consequently the tax base and hence tax revenues will remain unchanged. In conclusion, the impact of public debt on the financial stability of public finances is more favorable than the application of a tax policy that would increase taxes to increase budget revenues.

3. The Evolution of Sovereign Debts

3.1. Recent macroeconomic conjuncture

Economic cycles are driven by aggregate supply and demand fluctuations. Large supply variations are generally related to sudden changes in commodity prices, such as energy products, while large variations in demand are the result of changes in monetary or fiscal policies that restrict or, on the contrary, stimulate private spending. Also, cyclical changes depend on the level of stocks that companies hold and which have a considerable impact on industrial production growth, as they are sufficient or, on the contrary, they are too small to meet needs.

With regard to the current economic cycle, growth dynamics in developed countries seems sufficiently robust to keep the current expansion cycle on the same path in the near future. There are, however, a number of factors that disturb the observed cyclical development.

Thus, the dollar's oscillations tend to destabilize the global economy and financial markets. US trade policy exerts considerable pressure on their trading partners, especially China, but also Mexico, Canada and South Korea, as well as the European Union. This type of aggressive, protectionist US policy is a destabilizing factor not only for bilateral relations between the US and these countries, but also because of the major role of these countries in the global economy, including globally.

The impact of the fiscal-budgetary interventionist policy of the United States is set to decrease gradually, but the so-called quantitative easing period, including investment spending with it, will also fall, and the steady rise in jobs and of wages should extend the cycle in developed countries. At the same time, the rhythm of the growth of the Chinese economy shows a steady trend of slowdown, as Chinese leaders opt for economic consolidation rather than a strong expansionist policy.

In order to analyze the impact of important public debt on financial stability, the macroeconomic environment and imbalances of the different categories of economic agents, such as households and / or corporations, should be observed. Thus, the US financial crisis of 2007-2008 started with the liquidity of households on the mortgage market. However, in the US, household accounts are much less unbalanced than in 2007, and the risk of a financial crisis is very low, despite a significant budget deficit. In the European Union, current and budget account deficits are within acceptable limits, and for developing countries, the situation varies with each economy.

Recent evolution

One of the main risks to the American continent's economy caused by the US President's actions against Mexico and Canada diminished as a result of the renegotiation agreement for the NAFTA treaty between the three states. At the same time, it is estimated that the US economy will continue to grow, even if the effects of expansionary fiscal policy will gradually decline and inflation will increase slightly, with the Fed increasing its benchmark rates accordingly. The US budget deficit will continue to be high, and its long-term funding may become an unsustainable risk. The two neighboring US economies, Canada and Mexico, should benefit from the strong growth of the US economy.

It is also estimated that European economies, mainly those in the Eurozone, will continue the slightly upward trend due to domestic demand, employment growth and an accommodating monetary policy. Also, the strong growth of the US economy, China's macroeconomic stabilization and emerging economies are estimated to be potential export support factors. In addition, the European Central Bank will gradually increase interest rates as a result of higher inflation rates and, in correlation, the euro will appreciate very little, thus supporting foreign trade. An important risk to the European Union as a whole is the uncertainties introduced by Brexit, as well as the predictable crises of public debt, which are reflected in Italy as well as in other indebted European states. Developing and emerging countries are expected to benefit from rising raw material prices and energy resources so that national public finances mark a stabilizing trend.

3.2. Global public debt in the European Union

3.2.1. Public debt worldwide

The most indebted countries in the world are also the richest, the top three countries with the highest debt being in the United States, China and Japan. Together, they represent more than half of world debt (56%),

much higher than their combined share of world production (38% of world GDP in 2017, expressed in purchasing power parity (PPP)). Low-income countries account for only 1% of world debt, significantly lower than their share of world production (Duceux Alice Jetin (2019)).

The US public debt has risen to over 100% of GDP, but it does not include some unpredicted commitments. It should be noted, however, that US debt financing is not a problem at the current level of interest rates, and their growth is unlikely, as the Fed may continue to act as a lender of last resort. But in an economy to the maximum of its capabilities, such as the US economy, a relaxation of monetary policy could allow inflation to increase. On the other hand, a restrictive tax policy - higher taxes and / or lower public spending - could improve the fiscal position but risk and mitigate economic growth.

In terms of second place in the world economic hierarchy, China, its debt is mostly denominated in the local currency, and the debt of strategic sectors is guaranteed by the central government, and the financial crisis risk is thus rather limited. In addition, China is making sustained efforts to reduce its public debt and, at the same time, to reduce loans contracted outside the banking system. Changes in financial policy and concerns about over-indebtedness have been and will continue to be obstacles to the growth of the Chinese economy. Current trade-offs between the United States and China and other possible shocks may affect the economic recovery policy proposed by the Chinese State to counter the slowdown in GDP growth, but a financial crisis seems unlikely.

In conclusion, for most countries and sectors, the risk of financial instability appears to be lower than before the 2008 crisis. Emerging countries are those whose companies are more vulnerable due to the high level of indebtedness in foreign currency. Chinese and American companies are also very indebted, but since this debt is mainly in local currencies, the risk is lower. For the euro area, the financial stability indicators have improved significantly, but political risks are still present and, as far as commercial litigation is concerned, they are mainly political in nature and the authorities are not supposed to take action to destabilize financially.

In recent years, many low-income countries have had access to new sources of funding, including private sources and external creditors at the Paris Club, which brings together rich states and institutions with significant financial resources. Thus, underdeveloped states have been able to implement large-scale development projects, but their public debt has grown significantly. Only in the last four years, in low-income countries, the share of public debt in GDP has increased from 30% to 50%, which means that a large part of their public revenues is intended to pay interest on government debt, and public debt service will exert significant pressure on national public finances.

A factor with a very significant contribution to stimulating activity is a low and stable rate of increase in consumer prices and public authorities wishing to implement a policy of revival the economy in the current context characterized by a relative slowdown in the pace of development, must take into account the mastery of inflation, including the proper management of the main factors that determine this inflation.

Due to overcoming the effects of the financial crisis, many economies currently operate close to full labor utilization, with increased pay being a predictable factor, which may involve increasing the deficit and increasing the public debt to finance it. The pressure of the public debt spill may affect the financial stability of the state, thus imposing the need to resort to restrictive budgetary and monetary regimes.

3.2.2. Public debt in the European Union

The following table shows the vulnerabilities stemming from national public debt - the EU Member States being sorted according to the debt ratio recorded in 2017, the last year in which government debt information is statistical data for the year 2018 referring to the end of the quarter third.

Thus, following the rate of government debt to national GDP, in descending order, four states with a rate exceeding 100% are reported: Greece, Italy, Portugal and Belgium, but France and Spain are very close, and in what concerns the financial stability criteria of the Maastricht Treaty on public debt - the highest level of public debt accepted being 60% of GDP - 16 Member States do not respect it.

Gross public debt marked a sharp rise after the financial crisis triggered in 2008, but improvement has been seen in recent years due to the economic reforms and debt reduction policies promoted by the most borrowed European countries, especially Greece. However, as the main concern of the euro area financial equilibrium, the public debt of Italy and Portugal remains, but the high level of indebtedness of other developed Eurozone countries such as Belgium, France, Spain, and should be treated with caution, although they do not present the same risks, due to their structure by type of creditor - most of which is an internal public debt, as in the case of the most indebted country, Japan.

An important problem, which is found in many EU Member States, as in many other countries around the world, is the need to develop and implement a pension policy, including the age and retirement age, the calculation of budgetary allocations for the system social insurance public, etc. This approach in public financial policy, together with other economic stimulus measures, while reducing the cost of public actions, should contribute to budgetary balancing and allow public authorities to reduce government debt.

In this regard, the case of Italy is relevant in the European Union because it has so far managed to manage in the short term the pressure generated by the high level of public debt due, first of all, to the low interest rates on the European financial market as a result of very high inflation low, even negative. However, in the medium and long term, the forecasts for interest rates show a slow but sustained growth trend, which will require a public financial policy approach to diminish the budget deficit, even obtaining a primary surplus and consequently a decrease gradual public debt.

Gross government debt (sovereign)

- % din GDP -

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^{T3}
UE28	60.7	73.3	78.8	81.4	83.8	85.7	86.4	84.4	83.3	81.6	80.8
Greece	109.4	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.1	182.2
Italy	102.4	112.5	115.4	116.5	123.4	129.0	131.8	131.6	131.4	131.2	133.0
Portugal	71.7	83.6	96.2	111.4	126.2	129.0	130.6	128.8	129.2	124.8	125.0
Belgium	92.5	99.5	99.7	102.6	104.3	105.5	107.6	106.5	106.1	103.4	105.4
France	68.8	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.2	98.5	99.5
Spain	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.3	99.0	98.1	98.3
Cyprus	45.6	54.3	56.8	66.2	80.1	103.1	108.0	108.0	105.5	96.1	110.9
United Kingdom	49.7	63.7	75.2	80.8	84.1	85.2	87.0	87.9	87.9	87.4	86.3
Austria	68.7	79.9	82.7	82.4	81.9	81.3	84.0	84.8	83.0	78.3	75.6
Croatia	39.0	48.3	57.3	63.8	69.4	80.4	84.0	83.7	80.2	77.5	74.5
Slovenia	21.8	34.6	38.4	46.6	53.8	70.4	80.4	82.6	78.7	74.1	71.0
Hungary	71.6	77.8	80.2	80.5	78.4	77.1	76.6	76.6	75.9	73.3	72.4
Ireland	42.4	61.5	86.0	110.9	119.9	119.7	104.1	76.8	73.4	68.4	68.8
Germany	65.2	72.6	81.0	78.6	79.9	77.4	74.5	70.8	67.9	63.9	61.0
Finland	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6	63.0	61.3	58.8
Netherlands	54.7	56.8	59.3	61.7	66.2	67.7	67.9	64.6	61.9	57.0	52.9
Malta	62.6	67.6	67.5	70.1	67.7	68.4	63.7	58.6	56.3	50.9	45.9
Slovakia	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.2	51.8	50.9	51.5
Poland	46.3	49.4	53.1	54.1	53.7	55.7	50.4	51.3	54.2	50.6	49.4
Sweden	37.7	41.3	38.6	37.8	38.1	40.7	45.5	44.2	42.4	40.8	38.3
Latvia	18.2	35.8	46.8	42.7	41.2	39.0	40.9	36.8	40.3	40.0	37.1
Lithuania	14.6	28.0	36.2	37.2	39.8	38.8	40.5	42.6	39.9	39.4	35.0
Denmark	33.3	40.2	42.6	46.1	44.9	44.0	44.3	39.9	37.9	36.1	35.2
Romania	12.4	22.1	29.7	34.0	36.9	37.6	39.2	37.8	37.3	35.1	33.9
Czechia	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40.0	36.8	34.7	33.9
Bulgaria	13.0	13.7	15.3	15.2	16.7	17.1	27.1	26.2	29.6	25.6	23.1
Luxembourg	14.9	15.7	19.8	18.7	22.0	23.7	22.7	22.2	20.7	23.0	21.7
Estonia	4.5	7.0	6.6	6.1	9.7	10.2	10.5	9.9	9.2	8.7	8.0

<http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

Our country is in the debt-to-GDP ratio among the least indebted countries, but the pace of debt variance compared to the pace of change in macroeconomic development has to be analyzed - at a time when the impact of the economic crisis in the European Union, Romania's public debt has doubled, while national GDP has been downgrading.

Currently, the sustainability of sectors policy funding is being pursued, and in order to diminish the vulnerability of the national economy, the structure of public debt on creditors will change, the share of domestic debt becoming the majority. Thus, the current situation is characterized by an increase in personal income, which makes it possible to stimulate saving, including by attracting investors from the native population to government or local public debt.

4 Conclusions

Impact of public debt

By the obligations to repay borrowed capital and to pay the cost of public debt, it affects the financial balance of the public administration and implicitly the activity of the public sector. If, however, the public debt pressure on national public finances is high, the impact may be significant, especially if the national economy is not strong and the international economic environment is not favorable.

In this situation, there are many developing countries whose public debt, mainly foreign, has become very important in the context of fragile internal economies, and international financial institutions require repayment of public debt and payment of its cost as a priority obligation to continue to provide financial assistance.

In order to finance public debt service, indebted developing countries have no other choice but to adopt an austerity budget policy, with the lowest possible public spending. This means, however, that the lowest available funds are allocated to key areas for national economic and social life: health, education, public investment in road infrastructure, railways, aeronautics, communications, generating jobs, neglecting research and development, etc.

In order to honor the obligations arising from the external public debt, the public authorities of the developing countries must acquire the contract currency in which the debt is expressed - generally an international currency: USD, Euro, British pound, Swiss franc, yen etc. - which is obtained from exports.

Indebted developing countries can obtain the amounts needed to pay for the public debt service through a high volume of exports, which requires an intensive exploitation of national natural resources - on the basis of which they have also obtained credit from external donors. The intensive exploitation of national resources, whether mineral resources, agricultural products, forest riches, etc., leads to the depletion of the deposits, the destruction of the natural environment, the damage to biodiversity, etc. In addition, as operating costs have to be as low as possible, the living and safety conditions of workers and the population are left second.

Relations between public debt in the sense of the SNA and the general government deficit in the sense of the Stability and Growth Pact

Financial coverage of the public deficit can be achieved in a number of ways: public debt, tax increases, asset depreciation / increase of liabilities in the patrimony account of public authorities in the National Accounts System (SCN). Thus, the public deficit can be financed by the repayment of the contracted and drawn public loans, the transfer of some financial assets held by the public administration, the decrease of the liquidities at the disposal of the public institutions, etc., thus not affecting the gross public debt within the SCN but the net public debt will increase.

In the patrimony account of public authorities, acquisitions of non-financial assets are recorded positively and their negative transfer, affecting in the same way the public deficit if the acquisition of financial assets - Primary shares issued by the private or public sector, whether national or foreign - is financed by a public loan to its creditors, the gross public debt will increase without thereby affecting the public deficit. Explanation of the spread between gross government debt in the sense of SNA and the government deficit is based on the net flow of nominal assets (or financial assets) and different accounting methods. Thus, the budget revenues and expenditures underlying the determination of the public deficit are recorded in accrued entitlements rather than cash - actual receipts and payments. If an expense is found to be unpaid, it is recorded in public debt in the sense of the SCN and the public deficit increases, but the gross public debt in the Maastricht sense does not change.

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