The Evolution of Public Debt of Romania in the Context of the Covid-19 Crisis

NICOLETA GEORGETA PANAIT
PhD, Lecturer, Faculty of Economics and Business Administration
„Nicolae Titulescu" University of Bucharest
ROMANIA
nico.panait@gmail.com

COSTIN ALEXANDRU PANAIT
Ph.D,, Faculty of Economics and Business Administration,
University of Craiova
ROMANIA
costin.panait@gmail.com

Abstract: Real GDP growth in 2020 could be negative, following the outbreak of COVID-19, and the adoption of economic measures by all European Union countries are key actions to mitigate these negative repercussions on the economy. In the exceptional circumstances created by the COVID-19 outbreak, companies of all types may face a severe lack of liquidity. Also, insolvent or less solvent companies may face a sudden lack or even unavailability of liquidity. This is especially true for SMEs, which in the short and medium term can seriously affect the economic situation of many healthy businesses and the situation of their employees, with possible consequences even in the long term, endangering their survival. External debt is a solution to supplement the resources to support the economy, even contributing to raising living standards. External loans can also be used to finance the balance of external payments, ensuring economic growth of the country under the conditions of their efficient use in parallel with an increase in exports. Inefficient use of external borrowing can lead to a restriction on access to external market financing.

Keywords: covid 19, public debt, budget deficit, economic growth, external debt

1 Introduction

The pandemic generated by the new coronavirus has hit hard in the world economy but also in the national ones.

The World Trade Organization believes that the impact of the COVID-19 pandemic on the world economy will generate a greater economic crisis than in 2008.

Pressure on governments is growing as people try to find answers to the economic costs of measures to limit the spread of the virus. These questions are compounded by fears about food and health stocks and how well they will be able to cope with these restrictions as they remain in place for a longer period of time.

The governments of the affected states must come up with economic rescue solutions, which include measures to help companies and fired employees. It is necessary to build working groups of public policy experts and representatives to make recommendations on how restrictions can be relaxed and when industries should resume work.

Micro-enterprises and small and medium-sized companies represent over 99% of the total number of enterprises in Romania and in the European Union, generating at the same time two out of three jobs and just over half of the gross added value.

The Romanian government has adopted measures to support SMEs by covering the payment of technical unemployment up to 75% of the average gross salary for people whose activity was not necessary during this period, companies that do not have debts to banks could request deferrals upon payment of instalments provided he holds a certificate issued by the Government confirming a major decrease in activity in March, due to the state of emergency, also the payment of certain taxes may be postponed and some penalties for late payment of taxes have been cancelled.

2 The impact of the COVID crisis 19 on the Romanian economy

Romania's economic growth will be significantly affected by the spread of the new coronavirus in Europe and the slowdown of major EU economies.

Among the sectors where the impact of the new coronavirus will be strongly felt are exports, dependent on states such as Germany and Italy, but also services, including tourism.

In Romania, the situation generated worldwide has spread in the form of a trade deficit of 4.45 billion euros, 732 million euros higher than in the same period in 2019, after imports increased by 1, 3%, and exports decreased by 2.6% (INS source).

In total, imports amounted to 21.5 billion euros and exports to 17 billion euros. The trade deficit in March 2020 was 1.85 billion euros, after imports fell by 1.8% to 7.2 billion euros and exports fell by 11%. 3%, to 5.4 billion euros.

The evolution was determined by the decline of sales to the member countries of the European Union by 17.8% year / year to 3.7 billion euros. On the other hand, non-EU exports increased by 7.3% year / year to 1.7 billion euros. The increase of the deficit was generated by the deepening of the trade balance with goods with the countries of the European Union by 78.6% year / year to 1.7 billion euros. On the other hand, the trade deficit with countries outside the European Union adjusted by 62.1% year-on-year to 0.1 billion euros in March.

For 2020, a GDP advance of only 3% is estimated to be the lowest since 2012, according to INS data. Also, if the economy grows by only 3%, it could pose problems to the state budget, for which the revenue plan was made at an economic growth anticipated by the National Forecast Commission to 4.1%. industrial, imports and exports of goods, retail trade, tourism, etc. led to the revision of the GDP dynamics in the new corona virus scenario by about 6 percentage points, respectively from + 4.1% to -1.9%.

No	**Year**	**GDP Evolution**
1.	2020	4,1 %
2.	2019	4,1 %
3.	2018	4,4 %
4.	2017	7,1 %
5.	2016	4,8 %
6.	2015	3,9 %
7.	2014	3,4 %
8.	2013	3,5 %
9.	2012	2,1 %
10.	2011	2 %
11.	2010	- 3,9 %
12.	2009	- 5,5 %
13.	2008	9,3 %

Source: INS, forecast.

The economic forecast is uncertain during this period, as we must keep in mind that it is directly correlated with the duration and proportions of the COVID-19 outbreak,

Quarantine measures taken to combat the epidemic are likely to lead to large losses in most economic sectors; there may be changes in consumer behaviour after the end of the crisis.

Industrial production, branches with a high share of exports, will be severely affected. The export of goods will be decreasing due on the one hand to the reduction of external demand, but also to the limitation of transport in the red areas. It is estimated a negative impact in 2020 and a reduction of 7.3% compared to 2019.

Imports of goods are affected by both intermediate imports and consumer goods. The effects of the COVID 19 pandemic lead to a decrease in imports of goods at the current year level of 10.9 pp. and compared to 2019 we have a reduction of 6.1%.

Transport services have been estimated to be declining, we are considering road and air transport. The negative impact was estimated at 11.2 pp. compared to the winter estimate and 32.3% for the period March-May 2020.

In the tourism sector there will be a contraction in the activity of travel agencies by decreasing the number of tourists who want to travel abroad, this will have the effect of a decreasing demand for services in hotels and restaurants. It seems to be the sector most affected by the pandemic for May and June, with supposed reductions in turnover of 60% -70%.

Structural changes will be registered in terms of retail trade, it is estimated that there will be a decrease of about 4.9 percentage points annually compared to the last half of 2019.

Full recovery will take several more quarters, some companies will not survive the shock, and others may need more time to reach full capacity and resume the hiring process. Therefore, unemployment is likely to remain high and the full recovery of lost jobs could take more than a year.

3 Estimates regarding the evolution of GDP in Romania in the context of the epidemic

External borrowing has developed widely in the contemporary period, especially in the twentieth century. It uses external borrowing, in particular, from developing countries that have the greatest needs to be met by public finances, but which have the least domestic fiscal resources. At the same time, they call on foreign loans and economically developed countries, but to a lesser extent than before.

Due to the international situation, the European Central Bank will gradually increase the reference interest rates as a result of higher inflation rates than the unit and, in correlation, the euro will appreciate very little, thus supporting foreign trade. An important risk for the European Union as a whole is the uncertainties generated by the pandemic, as well as the foreseeable public debt crises that are looming in Italy, but also in other heavily indebted European countries.

GDP in the third quarter is expected to increase by + 12.8% compared to Q2, followed by a sequential advance of + 0.7% in the last quarter of the year. For 2020, experts estimate a decrease in GDP of -4.7% in 2020, compared to 2019. The recovery is expected to continue in 2021, when an economic advance of 3.9% is expected compared to 2020, based on a statistical effect of favorable basis and considering a possible fiscal consolidation accompanied by a relaxed monetary policy.

Developing and emerging countries are expected to benefit from rising prices for raw materials and energy resources, so that national public finances mark a stabilizing trend.

Taking into account the existing situation, a whole series of measures with a high impact are needed to ensure the liquidity of SMEs during the period when the effects of COVID-19 are manifested. Decisive action with a high impact is needed to ensure the liquidity of SMEs in the future, and measures are needed to protect business and the economic system, to encourage solidarity in the business environment, contractual loyalty and the willingness to adapt business relationships to the challenges posed by this health crisis unprecedented in modern history, being vital the continuation of services of public interest.

In Romania for the period January - February 2020, the total external debt increased by 4,748 million euros. In structure, long-term external debt amounted to 77997 million euros on February 29, 2020 (70.5 percent of total external debt), up 5.9 percent compared to December 31, 2019. Also, long-term external debt short recorded on February 29, 2020 the level of 32,624 million euros (29.5 percent of total external debt). The level is increasing by 1.2 percent compared to December 31, 2019, according to data from the National Bank of Romania.

	T1/2019	**T2/2019**	**T3/2019**	**T4/2019**	**feb. 2020**
Long-term external debt	68 485,7	71 728,7	74 417,0	73 646,0	77997,5
Direct public debt	34 399,1	37 674,5	40 562,8	39 192,1	43850,0
- Multilateral institutions (financial loans)	8 898,7	7 729,3	7 631,5	7 492,4	7678,0
- Bilateral institutions (financial loans)	16,6	15,8	16,1	15,2	15,0
- Bond issues	25 398,2	29 846,3	32 833,9	31 609,6	36082,0
- Private Banks	62,9	61,1	59,6	54,3	54,0
- others	22,7	21,9	21,7	20,7	20,8
- External commitments taken over	-	-	-	-	-

	T1/2019	T2/2019	T3/2019	T4/2019	feb. 2020
from public debt according to Ordinance 64/2007					
Public debt guaranteed	338,8	315,7	305,2	285,1	277,2
- Multilateral institutions (financial loans)	167,5	161,5	150,5	144,2	137,9
- Portfolio investments	-	-	-	-	-
- Others (financial, commercial loans, etc.)	171,3	154,3	154,7	140,9	139,3
Private debt (not publicly guaranteed)	31 816,3	31 869,2	31 671,7	32 203,2	31904,1
- Multilateral institutions (financial loans)	2 328,9	2 314,2	2 293,6	2 266,2	2245,0
- Portfolio investments	116,7	41,4	49,3	511,3	1322,1
- financial lines	-	-	-	-	-
- Others (financial, commercial loans, etc.)	29 370,7	29 513,7	29 328,8	29 425,7	28336,9
Long-term deposits of non-residents	714,0	666,7	648,1	749,4	739,1
IMF loans	-	-	-	-	-
SDR allocations from the IMF	1 217,5	1 202,6	1 229,2	1 216,1	1226,9
Short-term external debt	31 159,8	33 922,6	33 295,6	32 226,8	32623,8

Analyzing the data published for the period January - November 2019, we notice that the total external debt increased by 7.262 billion Euros. In structure, long-term external debt amounted to 72.971 billion Euros at November 30, 2019 (68.1% of total external debt), increasing by 6.9% compared to December 31, 2018. Short-term external debt recorded at November 30, 2019 the level of 34.132 billion Euros (31.9% of total external debt), increasing by 8.2% compared to December 31, 2018.

The direct public debt represented 39.195 billion lei in the first 11 months, increasing compared to the 34.5 billion lei registered in the same period in 2018. According to the NBR, the increase in direct public debt in the first eleven months of 2019 came mainly from the Eurobond issues of the Ministry of Public Finance in nominal value of 5 billion Euros and from the influence of the variation of the prices of securities issued by the public administration in amount of about 2.214 billion Euros, diminished with the repayments made on account of direct public debt in amount of 2.986 billion Euros.

Long-term external debt service was 17.4% in January-November 2019, compared to 22.6% in 2018.

The coverage of imports of goods and services on November 30, 2019 was 4.7 months, compared to 4.9 months on December 31, 2018.

Financing the loan deficit will involve contracting new loans, the pressure exerted by increasing the public debt service - all the more so as real interest rates will rise and the national currency will depreciate due to the deterioration of the country's rating - will contribute to imbalance of public finances.

The government's financing needs in 2020 amount to 86.9 billion lei, due to the estimated level of the budget deficit of 3.6% of GDP (about 40.6 billion lei), as well as the volume of debt to be refinanced in this year in the amount of 46.3 billion lei. The Ministry of Finance will have to attract about 6 billion Euros from external financial markets by issuing Eurobonds, early redemption operations and partial exchange of existing series of Eurobonds, private placements, as well as by withdrawing loans from international financial institutions.

In recent years, many low-income countries have had access to new sources of financing, including private sources and external creditors, so underdeveloped countries have been able to implement large development projects, but at the same time their public debt has increased 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 significant part of their public revenues is used to pay interest on public debt, and the public debt service will put significant pressure on national public finances.

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

Due to the overcoming of the effects of the financial crisis, many economies are currently operating close to full use of labor, with rising wages being a predictable factor, which may involve widening the deficit and increasing public debt to finance it. The pressure of increasing public debt can affect the financial stability of the state, thus imposing the need to resort to restrictive budgetary and monetary regimes.

The economic recovery based on investments is of the utmost importance, it is a source of financing in this direction, the sources of financing, - the World Bank, the European Investment Bank, the European Bank for Reconstruction and Development.

4 Conclusions

The economic costs of the new corona virus will depend heavily on how quickly countries can stop the virus from spreading and limit panic. The final economic cost “will largely depend on how quickly countries manage to limit the spread of the virus and reduce the fear factor. If the spread is not limited in the near future, we could see a further decline in global economic activity, which could translate into a further slowdown in growth in the EC.

Rising public debt and budget deficits have become a crucial issue in many industrialized or emerging countries. In recent decades, many states have accumulated significant 6 public debt stocks, usually followed by increases in the size of the public sector and reckless fiscal and budgetary policies. The need for a coordination of fiscal and budgetary policies in Economic and Monetary Union, the awareness that the accumulation of a large public debt is a threat to future generations, increasing fiscal pressure in a market with globalization trends and the impact that the aging process will have aroused controversy over public finances, both in academia and in the press. Lending resources continuously and being able to maintain them at a constant level over time means having a sustainable public debt, an important objective of any state's fiscal policy. A sustainable public debt is the result of the market and fiscal and budgetary policy decisions.

The International Monetary Fund draws attention to the extremely high degree of uncertainty of global forecasts. In this context and taking into account the fact that the recovery of economies will begin in the second half of this year, the contraction of the global economy is estimated to be 3% in 2020, with a sharper decline in advanced economies (-6.1%), and for the European economy the economic contraction is estimated at 7.5% (Germany -7%, France -7.2%, Italy -9.1%).

References:

[1] Bistriceanu Gh Adochiţei M.N. Negrea E., (2001), Finance of economic agents, Economic Publishing House, Bucharest;

[2] Dăianu, D., (2015) The great impasse in Europe. What can Romania do? Polirom Publishing House Economy and Society Collection;

[3] Roman Constantin, Moșteanul Roxana Narcisa, (2014) Finance of public institutions; Syntheses, applications, ASE Publishing, Bucharest;

[4] Văcărel I. BistriceanuGh, Anghelache G, Bodnar M, Bercea F, Moşteanu T, Georgescu F. (2008), Public Finances, Didactic and Pedagogical Publishing House.

[5] Weber, L. (1997), L’ETAT, acteuréconomique, Editura Economică, Ediţia a III-a, Paris.

[6] Zaman, G, Georgescu, G. (2010), Romania’s External Debt Sustainability Under Crisis Circumstances, Romanian Journal of Economics.

[7] Zaman, G. (2011), Challenges, vulnerabilities and ways of approach in Romania's external debt sustainability, Annals of the University of Oradea Economic Series, Oradea Univerity Press.