EXTRAORDINARY FINANCIAL RESOURCES - TRENDS

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Abstract: *In a market economy, state revenues procured from taxes, as well as from businesses and properties not fully cover spending. Therefore, public authorities turn to loan resources the way public credit. This is achieved in two ways: by direct contracting state loans from individuals or legal entities holding cash on hand; through specialized institutions (banks, savings banks, insurance houses and pensions, insurance and reinsurance), which collects available money market and entrusts the State for a period of time.*
Keywords: *debt, national debt, external debt, repayment, indebtedness*

1. General considerations

Public debt is the total amount of state commitments, including costs generated by it.

The total public debt obligations sums of money the state (government, public institutions financial, administrative units) at a time, resulting from internal and external loans (in domestic and foreign) to individuals and businesses in the internal market in the short term, medium and long term, and the state's obligations to its own treasury, amounts advanced temporarily to cover the budget deficit. Loans can be contracted state (government through the Ministry of Finance) on their own behalf or guaranteed by it.

For 2014, the Romanian government debt to gross domestic product was as follows:

- total public debt - 39.6%
- domestic public debt - 19.0%
- external public debt - 20.6%
- direct foreign public debt - 14.0%
- guaranteed external debt - 6.6%

(source: www.mfinante.ro).

Table. 1. Evolution of total public debt of Romania during 2008-2014 (million lei)

Indicators	2008	2011	2013	2014
The total public debt	69.020,4	193.200,9	242.194,0	**265.391,0**
% GDP	**13,2%**	**34,2%**	**38,0%**	**39,6%**

(source: www.mfinante.ro)

Public debt service (including both capital reimbursements and the cost of public debt) increased significantly in 2009 to 59.4 billion USD level to 14.3 billion USD in 2008, both amid rising public debt and that the budget deficit and public debt refinancing were made mainly by issuing short-term government securities as a result of the worsening domestic and foreign markets with the worsening financial crisis capital.

Public debt is calculated and managed separately for the two forms namely domestic public debt and external debt (Figure No. 1).

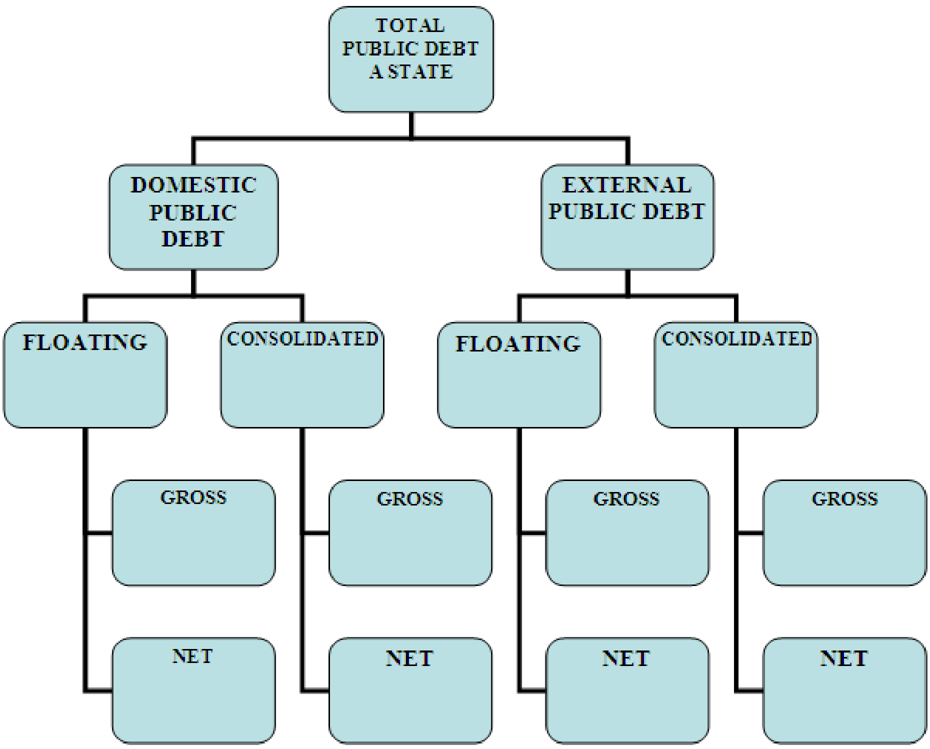

Fig. 1. Forms total government debt

Domestic public debt is an integral part of public debt and represents all direct obligations of the State to domestic creditors, payable in local currency, including private loans in amounts Treasury.

Romania's domestic public debt evolved as stated in the table below:

Table. 2. Evolution of domestic public debt of Romania during 2008-2014 (million lei)

Indicators	**2008**	**2011**	**2013**	**2014**
Domestic public debt	27.808,6	98.147,7	110.155,0	**127.266,9**
% GDP	**5,3%**	**17,4%**	**17,3%**	**19,0%**

(source: www.mfinante.ro)

External public debt, which is part of the public debt from loans to foreign creditors, includes all direct state obligations payable in foreign currency.
External public debt increased during the period 2008 - 2014 as shown in Table. 3.

Table. 3. Evolution of the external public debt of Romania during 2008-2014 (million lei)

Indicators	**2008**	**2011**	**2013**	**2014**
External public debt	**41.211,8**	**95.053,2**	**132.039,0**	**138.124,1**
% GDP	**7,9%**	**16,8%**	**20,7%**	**20,6%**

(source: www.mfinante.ro)

The level of public debt is outstanding is expressed by the following financial categories:

- **Floating debt** (short-term*) includes short-term loans, usually up to one year, to cover gaps caused by the mismatch house while revenue budget expenditure (goals in treasury).*
- **Consolidated debt** *includes all debt on loans of state launched medium and long term or by deferring repayment of short-term loans in medium and long term loans*.

The internal and external borrowing public debt ceiling must be respected.

Public debt ceiling *includes all loans that you can obtain stable and secure in a calendar year*. This ceiling is set annually by law.

Annual financial effort of the State representing payments due in public debt is **debt service**, which is determined separately for the two forms of debt, namely:

- domestic public debt service;
- external public debt service

Domestic public debt service payments owing on credit includes a period of one year, interest earnings and fees and expenses of issuance and placement of securities.

External public debt service payments payable includes all the year from private foreign debt guaranteed by the state, including interest and fees.

2. Domestic public debt

Domestic public debt includes the total amount of loans to the State and other public law by citizens and legal persons in the country.

Domestic public debt is determined by:

- short-term loans contracted by the State National Bank of Romania, to balance the state budget, which will be reimbursed during the year; if you cannot repay, the repayment period is extended, i.e. consolidate and include in debt at the end of the year;
- issuance of treasury bills for the same purpose, reimbursable budgetary resources by the end of the year. If they cannot redeem state issue new documents, which leads to debt consolidation, the state still remains indebted
- placement of documents on medium and long term by public subscription, purchase necessary monetary resources to cover annual budget deficits; These documents can also enhance meaning that increase state debt;
- State guarantees granted to domestic bank loans received by operators or local authorities for specific requirements of economic development which also include domestic public debt;
- Use short-term cash accounts Public Treasury.

To assess the size of domestic public debt using several indicators, among which:

- ***Indebtedness of the state***, which is determined by dividing the amount of domestic debt to GNP. The higher this ratio is, the more indebted country.

- ***Internal public debt per capita***, by comparing the amount of domestic debt in the total population, in which case it is good to be as small indicator.

Domestic public debt is concentrated mostly to banks, commercial, insurance and reinsurance various national and foreign rentiers.

The value of government securities on state loans are reimbursed according to the legal conditions of issue and the date of repayment obligations are extinguished state.

By repaying state loans means repayment of amounts borrowed, the redemption of debt securities from their owners. Typically, the State undertakes to repay term loans only.

Reimbursement may be made:

a) **reimbursement at a single time called maturity,** global repay the loan when the state;
b) **the repayment instalments,** which is used for long-term loans**, the classic method amortization.**

In the field of state loans by damping means repayment of borrowed capital operation in certain factions within a certain timeframe. Depreciation mass gradually reduce public debt and interest on the loan amount still outstanding.

***Depreciation (repayment)* of loans is frequently in the following ways:**

1. ***Determination and payment of annuities.*** Annuity consists of borrowed capital and interest, gains etc. The state is obliged to pay annually. Depreciation of the annuity is used in situations where the state has few lenders that determine the conditions of repayment. This is the least used, it involves many administrative expenses and is less accepted by creditors, who receive their capital and fractionated gradually**.**
2. ***Depreciation by lot*** is used for repayment of loans contracted with a large number of creditors. The law launching loans, the state sets and annual depreciable value of bonds by lot.
3. ***Depreciation of redeeming the stock exchange* securities lent.** This way of extinguishing the loan is used in cases where the law provides that the loan cannot be repaid before maturity or a certain period of time.

The State may use certain methods to not keep previous commitments, such as:

a) ***Bankruptcy itself,*** which is a process by which the state arbitrarily cancel part or all of its debts, no longer recognizes previous debts. For example, the Soviet government repudiated debt contracted by the tsarist regime.

b) ***Conversion,*** representing financial operation that changes the original terms of the loan state (damping, interest rates, earnings, etc.).

c) ***Forced Consolidation*** - this means converting floating debt (Treasury bills) with lower ence to one year in a long-term loan of 10, 20, 30 years - without the consent of holders of consolidated loan holders.

3. External public debt

3.1. The concept and content of external public debt

External public debt includes all loans denominated in freely convertible currency, goods or services contracted by a foreign state and outstanding creditors. This can come from borrowing abroad to stimulate domestic economic development, payment of machines, equipment etc. purchased from imports, with the consequences of natural disasters, implementation of large investments etc. External public debt is recorded today especially in LDCs and developing. The public external debt is higher, the dependence is more pronounced. As a result, in some cases, external public debt is a pretext for interference in internal affairs of the debtor country.

External debt includes, in addition to public external debt contracted state debt contracted abroad by individuals and private legal.

External public debt includes the following important tools:

- currency bonds issued in foreign capital markets;
- loans from foreign governments, foreign government agencies, financial institutions and other international organizations;
- syndicated loans on short, medium and long term;
- direct loans from private investors in the short, medium and long term.

External public debt is **guaranteed** by the State. This is all guarantees issued by the Ministry of Finance on behalf and on behalf of the state, for loans to businesses and local authorities. Guarantees are issued in foreign currency.

The total amount of state guarantees for foreign loans to be granted in one year must be within the **external public debt ceiling.**

3.2. Indicators for assessing the external public debt

External debt indicators highlights indebtedness of the country from abroad and effort economic, social, financial and foreign exchange you should do.

Examples of indicators:

a) **Absolute magnitude of external public debt,** showing indebtedness to foreign country at a time.
b) **The average size of public debt per capita,** which is determined by reporting the amount of external public debt per capita of the country in debt. The higher this indicator, the country is less burdened.
c) **External loans interest rates.** If interest rates are high, in a number of years their value may exceed the amount of the loans.
d) **The ratio of external public debt service and earnings from exports of goods and services.** The lower this ratio is, the situation is easier for the debtor country.

Ceiling foreign loans and foreign debt can be determined using the following indicators:

1. The share of foreign debt in gross national product.

$$\mathbf{PDE = \frac{DPE}{PNB} * 100},$$

in which:

PDE external public debt in gross national product;
DPE = external public debt resulting from borrowing in the medium and long term;
GDP = gross domestic product.

The higher this indicator, the country is indebted to abroad.

2. Relationship between trade deficit and gross national product, which is calculated as:

$$\mathbf{\frac{DBC}{PNB} * 100},$$

in which:

DBC = the trade deficit;
GDP = gross domestic product.

It is desirable that this indicator be below 5%.

3. The ratio of external public debt service and exports of goods and services, which is determined as follows:

$$\frac{\mathbf{SDPE}}{\mathbf{VE}} * \mathbf{100},$$

in which:

SDPE = external public debt service;
VE = annual volume of exports of goods and services.

The indicator is calculated for determining the timely procurement of currency needed for the external public debt service. Every year this indicator should be below 15%. If the ratio is smaller, the situation is easier for the debtor country.

4. ***Foreign exchange reserves of the state,* reflecting the country's ability to cope with various external obligations, in cases where foreign exchange earnings from exports of goods and services would experience a decline. This indicator is calculated as:**

$$\frac{\mathbf{RV}}{\mathbf{DPE}} * \mathbf{100},$$

in which:

RV = foreign exchange reserves;
DPE = external public debt

It is best if foreign reserves to offset more than 25% of a country's external debt contracted during the year.

Internationally it is considered prudent that a state's external public debt must be less than or equal to twice the value of exports of goods and services produced in a year.

3.3. Repayment foreign public

Reimbursement due installments and interest payments, fees and charges related to external public debt set is made of resources provided for this purpose in the state budget, local budgets and the budget of the loan recipient, as appropriate.

Due installments each year in foreign loans, interest, charges and fees are *external public debt* ***service.***

All external debt commitments are recorded in chronological order, the ***external public debt register*** **established** by the Ministry of Finance.

Ministry of Finance with the National Bank of Romania in the balance of payments provide resources needed to repay foreign loans, interest payments, fees and related charges.

National Bank Finance Ministry at regular intervals and analyzes the evolution of country's foreign exchange resources, identify any difficulties that arise in paying the foreign debt and propose appropriate solutions.

Romania recorded in 1980 foreign debt of $ 11 billion as a result of imports of crude oil prices rising continuously very low efficiency and processed products.

In the period 1980 - 1989, Romania's foreign debt, with interest paid, represented, published data, a total of 17 billion US dollars

While Romania was paying 10-15% interest she lent communist countries 2% interest or no interest.

Repayment of foreign debt made by sacrificing the most basic living conditions of the population affected by amplifying restrictions yearly income Romanian citizens, health conditions, and education. The efforts and sacrifices of our people have been exacerbated by the effects of global economic crisis, monetary and financial disturbance frequency, trade and customs barriers.

To accelerate the liquidation of foreign public debt, dictator Nicolae Ceausescu ordered abroad in 1986 delivered a quantity of 80 tons of gold, which was a real betrayal of the country's vital interests. He got a good price for 1040 million dollars, which were used exclusively for the repayment of loans in foreign public debt.

Basically, during the first quarter of 1989 ended full payment of Romania's foreign debt. The intention was that later, the 80 tons of gold to be redeemed.

However, during the events of 1989, Romania had bank accounts, stocks of over 1.8 billion dollars that were spent in a very short time.

It is necessary for the future to achieve the following ***objectives:***

a) external debt service to be within tolerable economic potential of the country.
b) establishment of foreign reserves to help maintain exchange rate stability.
c) maintaining current account deficit to the extent possible the realization of loans with foreign investment, contribute to restructuring and national economic recovery.

There is a risk that Romania will have problems in the balance of payments support. After years of grace which our country has benefited arrived at first maturity loan repayments.

4. Conclusions

Romania's public debt includes debt of public administration, according to national legislation include, in addition to public debt according to the methodology of the European Union (EU), debt guaranteed by the Government, through the Ministry of Public Finance (MPF), and the ATU repaid from own sources guarantee of the beneficiaries and the availability CCGTS loans, while debt according to EU methodology additionally contain economic debt reclassified government sector. The distinction between financial obligations of the central and local authorities is government debt, expressing all internal and external financial obligations of the state, at a time, on loans contracted directly or guaranteed by the Government, through the Ministry of Finance, on behalf of Romania of financial markets. Local Government debt, which highlights all external and external financial obligations local authorities at a time, from loans contracted directly or guaranteed by the financial markets.

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