

## **PUBLIC EXPENDITURES POLITICS ON A NATIONAL LEVEL**

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**ABSTRACT:** *The development level of a society is closely related to the development state of its individuals. Ensuring a high level of welfare for individuals is done through public politics. In this work, the definition of public politics is presented through the synthesis of several authors` points of view. Starting from these visions, we have presented at a national level the public politics of public expenditures and those of public debt respectively. In regard to public debt politics, we have presented the „Public debt management (Management of government public debt and the authorisation and supervision of local public debt)” politic along with its aim and objectives. Towards the final part of the document we have emphasised the objectives of the strategy regarding government public debt management on medium term for 2012-2014 (Strategy).*

**KEY WORDS:** *public politics, government public debt, public guaranteed debt, public service duty, GDP.*

**JEL CLASSIFICATION:** *E60, H50.*

The development level of a society is closely linked to the commitment of its members that every individual can benefit of elementary development and survival instruments. The transgression into practice of these commitments regarding society`s members welfare is possible through the use of public politics. The terms “public politics” and “public politics analysis” have been used more and more often since the 1960s as the American government started adressing the problem of racial conflict and urban renewal.

At the beginning of the 1990s, the “capability of public politics” and “public politics analysis” were key terms in the governing process debate. In Romania the term “public politics” has penetrated specialised research and current language quite late

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(end of '90s decade). Initially the term used was borrowed from the English "policy", but due to the controversy regarding its wide spectrum of definitions, Romania preferred to use the french term of public politics (*politiques publiques*).

*„A public politic is a network of linked decisions regarding the choice of objectives, means and resources granted in order to achieve it in specific situations”* (Bondar, 2007, p.20).

The concept of public politics embodies a series of definitions, starting from the most simplist (Dye, 1992, p.4), to the most instrumentalist (Anderson, 1994, p.5). Starting from Easton`s definition (Easton, 1965), Thomas Dye concludes that only governments can assign with authority values for the entire society and thus "public politics is what governments decid to do or not to do".

Jean- Claude Thoening (Thoening, 1985) considers that public politics gravitate in two parts: the first being represented by parties, parliaments, ministers who debate and establish priorities, grant resources and lead directions to follow while the other part is constituted by administrators who put into practice and implement the politics.

Marius Profiroiu (Profiroiu, 2006, p.19) is convinced that it is the action of multiple persons. Some of them are part of the "government" and others are outside these entities and they represent their majority by paying attention to the things that take form in society (poverty increase, air pollution, higher school abandon rates) and those they identify as problems. A solution for these problems could be found through a different approach to them. Therefore, a public politic represents a government action program in a sector of society or a geographic region: public order, health, road safety, a given city, country or community specifically defined.

Luminița Gabriela Popescu (Popescu, 2005, pp.84-85), mentions that public politics represent the answer which government offers to those needs of society considered as of general interest and utmost importance, as they are being carried out using public money. From this point of view, it is obvious that public politics are characterised by the values associated to the governing coalition or party doctrine.

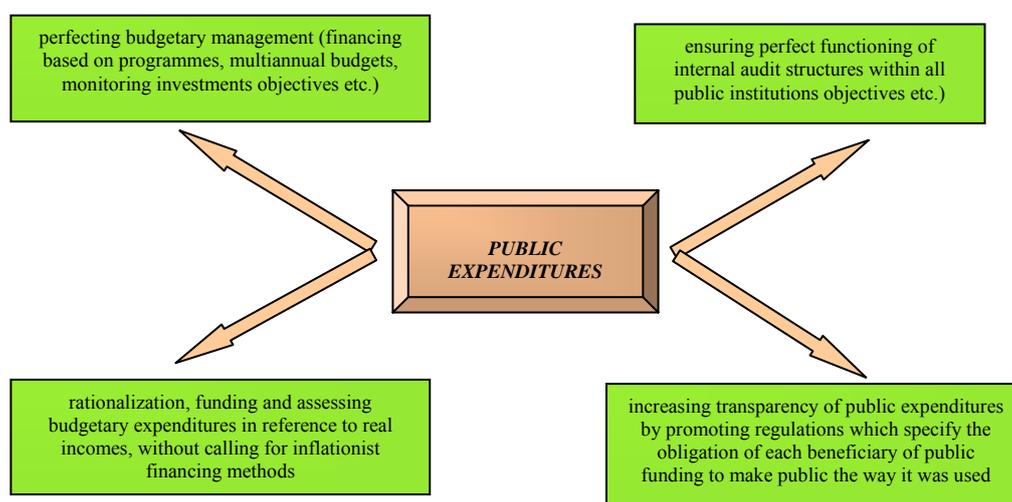
As a conclusion, public politics have as objective to satisfy citizens` preferences, Ca o concluzie politicile publice au ca scop satisfacerea preferințelor cetățenilor, either of governing nature or any other type.

The fiscal policies promoted by the government authorities of any contemporary state are oriented, in general, towards achieving micro and macroeconomic objectives derived from the roles that the state needs to fulfil in the economy. In order to achieve those micro and macroeconomic goals, the government authorities promote different politics to direct activities from individual domains.

In the case of the public expenditures politic (according to the Implementing Commission of the National Economic Growth Strategy), its objective is to increase efficiency of public funds use through:

- perfecting budgetary management (financing based on programmes, multiannual budgets, monitoring investments objectives etc.);
- rationalization, funding and assessing budgetary expenditures in reference to real incomes, without calling for inflationist financing methods;
- ensuring perfect functioning of internal audit structures within all public institutions;

- increasing transparency of public expenditures by promoting regulations which specify the obligation of each beneficiary of public funding to make public the way it was used.

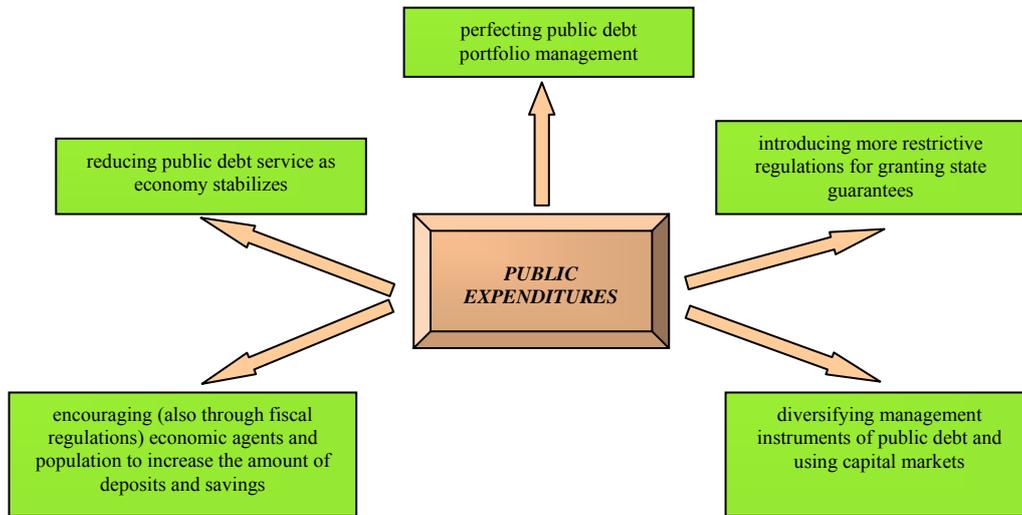


Source: Authors

**Figure 1. Public expenditures objectives**

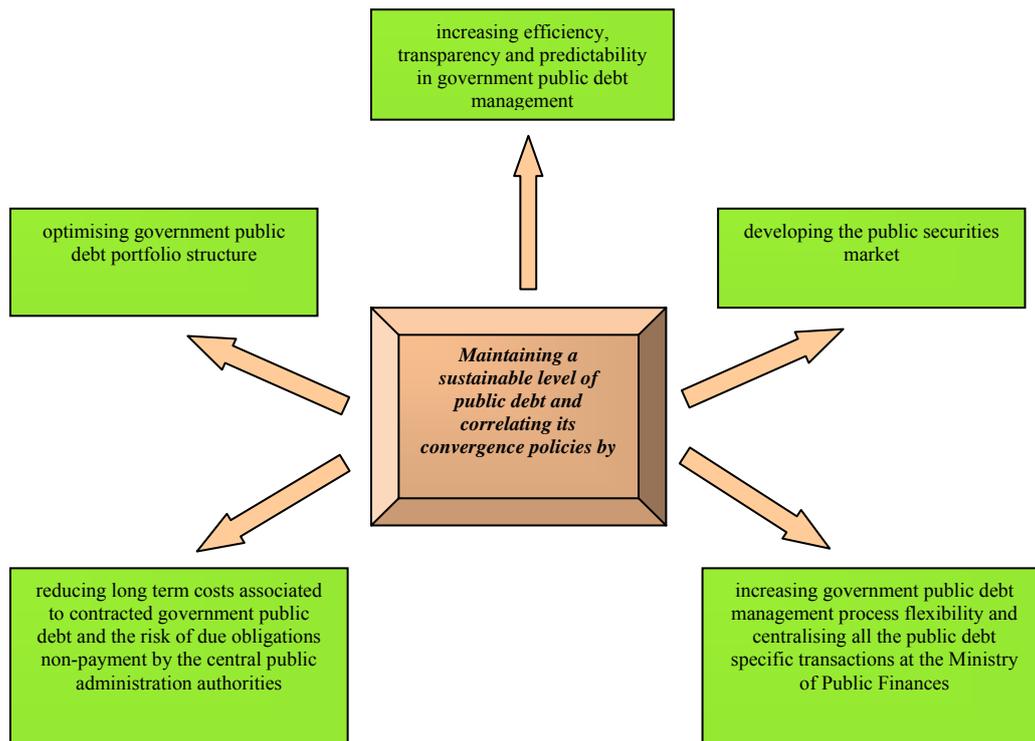
The objective of public debt politics (according to the Implementing Commission of the National Economic Growth Strategy) is to control the level and structure of internal and external public debt in order to ensure macroeconomic balance, stimulate economic growth and properly finance public objectives of greatest importance through: perfecting public debt portfolio management; reducing public debt service as economy stabilizes; introducing more restrictive regulations for granting state guarantees; encouraging (also through fiscal regulations) economic agents and population to increase the amount of deposits and savings; diversifying management instruments of public debt and using capital markets.

According to current legislation (OUG 64/2007), the policy „Public debt management (Management of government public debt and the authorisation and supervision of local public debt)” has the objective to maintain a sustainable level of public debt and to correlate its convergence policies by: increasing efficiency, transparency and predictability in government public debt management; reducing long term costs associated to contracted government public debt and the risk of due obligations non-payment by the central public administration authorities; developing the public securities market; optimising government public debt portfolio structure; increasing government public debt management process flexibility and centralising all the public debt specific transactions at the Ministry of Public Finances.



Source: Authors

Figure 2. Public debt objectives

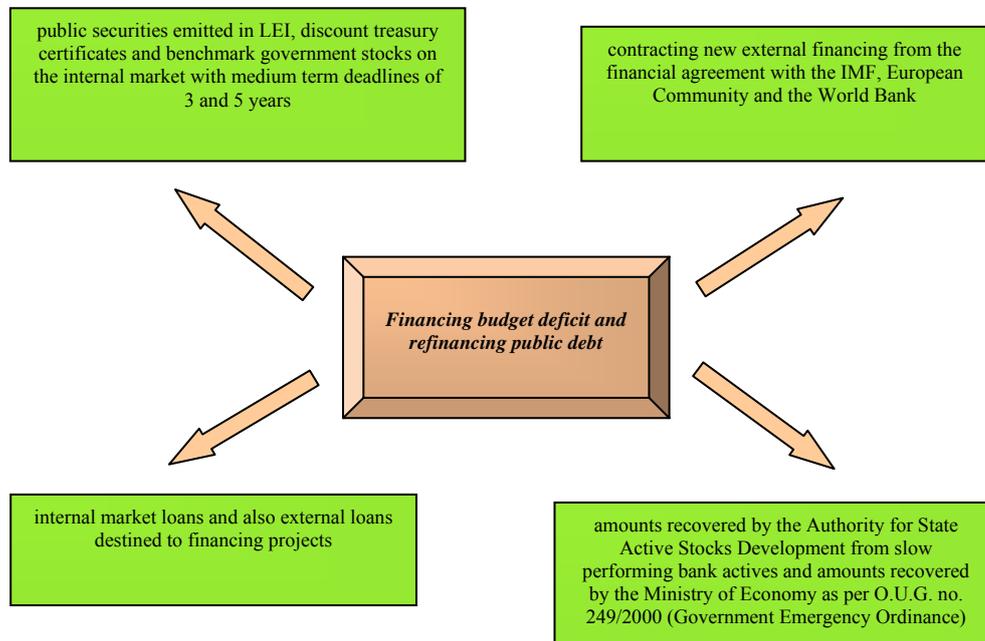


Source: Authors

Figure 3. "Public debt management" policy objectives

Regarding the optimisation of the government public debt portfolio structure, the financing of the budget deficit and refinancing government public debt was carried through mostly from internal sources and from complementary external sources using:

- public securities emitted in LEI, discount treasury certificates and benchmark government stocks on the internal market with medium term deadlines of 3 and 5 years;
- internal market loans and also external loans destined to financing projects;
- contracting new external financing from the financial agreement with the IMF, European Community and the World Bank;
- amounts recovered by the Authority for State Active Stocks Development from slow performing bank actives and amounts recovered by the Ministry of Economy as per O.U.G. no. 249/2000 (Government Emergency Ordinance).



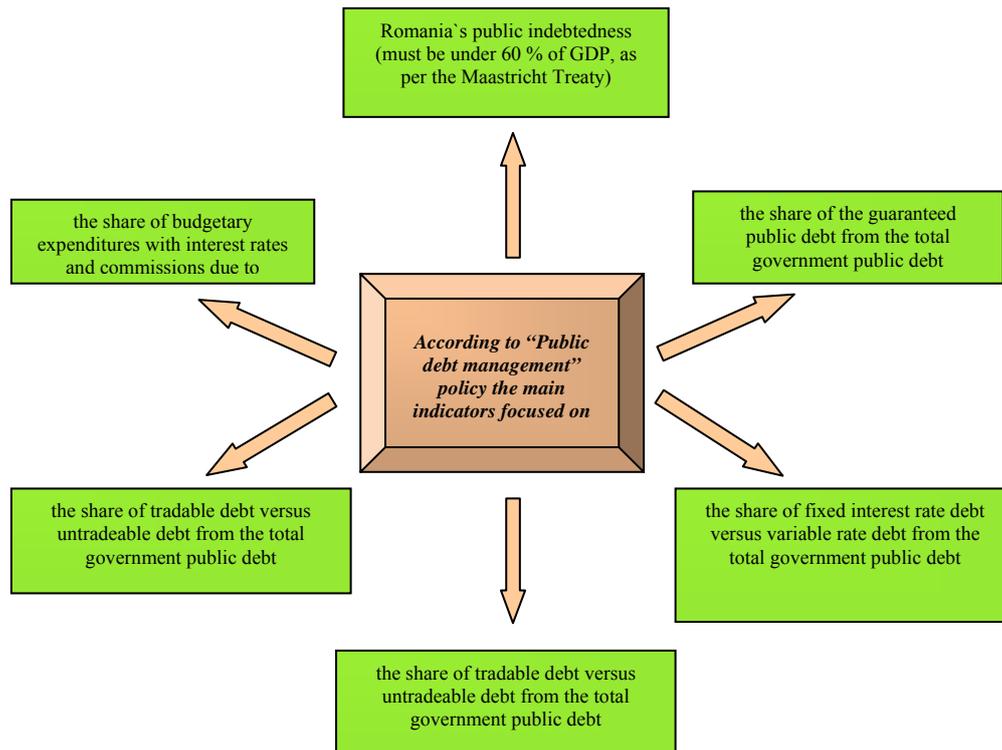
Source: Authors

**Figure 4. Budgetary deficit financing and refinancing public debt sources**

According to “Public debt management” policy the main indicators focused on: Romania’s public indebtedness (must be under 60 % of GDP, as per the Maastricht Treaty); the share of budgetary expenditures with interest rates and commissions due to government public debt; the share of the guaranteed public debt from the total government public debt; the share of debt in local currency versus that in other currencies from the total government public debt; the share of fixed interest rate debt versus variable rate debt from the total government public debt; the share of tradable debt versus untradeable debt from the total government public debt.

Due to modifications on the internal and external financial markets, public debt (OUG 64/2007) on 31.12.2012 was 240,8 billion leis, from which government public

debt amounted to 226,8 billion leis (representing 94,2% of total public debt), while local public debt was equivalent to 14,0 billion leis (representing 5,8 % of total public debt). The increase of public debt was determined mainly by the additional debt contracted to cover financing needs for budgetary deficit and to refinance government public debt. At the end of 2012 Romania's public indebtedness rate reached 41% of GDP, a level clearly inferior to the 60% agreed through the Maastricht Treaty.



Source: Authors

**Figure 5. “Public debt management” policy indicators**

The share of expenses with interest rates and commissions on government public debt from the total state budgetary expenses reached at the end of 2009 the level of 5%, compared to 3.5% which was the level recorded after the first year when the public politics were implemented. In the years 2010 and 2011 the share had a rising trend following that at the end of 2012, it reached 5.1% as there was a spike in the volume of interest rates and commissions applied to reimbursable finances contracted on the internal capital market to finance the budget deficit. The rise of expenditures with interest rates paid from the state budget in 2012 compared to 2011 was due to the debt contracted to cover the budget deficit for the years before, and also to short term government bonds emission, for which the discount needed to be paid on due date. The indicators set in the public policy are enumerated in table 1 (according to data from the evaluation report of the “Public debt management” policy).

**Table 1. “Public debt management” public policy indicators**

Indicators	31.12 2007	31.12 2008	31.12 2009	31.12 2010 <sup>*</sup>	31.12 2011 <sup>*</sup>	31.12 2012 <sup>*</sup>
Public debt /GDP <sup>1</sup>	19,9% of GDP	21,2% of GDP	29,3% of GDP	37,9% of GDP	40,1% of GDP	41% of GDP
Interest rates and commissions due to government public debt / state budget expenditures <sup>2</sup>	3,5%	3,6%	5%	3,5%	4,1%	5,1%
Direct public debt / Government public debt <sup>3</sup>	88,2%	91,3%	92,8%	91,8%	94,7%	94,2%
Guaranteed public debt / government public debt <sup>4</sup>	11,8%	8,7%	7,2%	8,2%	5,3%	5,8%
Local currency debt /government public debt <sup>5</sup>	53,2%	59,6%	47,5%	45,3%	48,8%	43,8%
Foreign currency debt / government public debt <sup>6</sup>	46,8%	40,4%	52,5%	54,7%	51,2%	56,2%
Fixed interest rate debt / government public debt <sup>7</sup>	30,7%	30,8%	45,9%	52%	54,9%	68,1%
Variable interest rate debt / government public debt <sup>8</sup>	69,3%	69,2%	54,1%	48%	45,1%	31,9%
Tradable debt / government public debt <sup>9</sup>	22,8%	25,9%	40,5%	42,3%	53,8%	58,2%
Untradeable debt / government public debt <sup>10</sup>	77,2%	74,1%	59,5%	57,7%	46,2%	41,8%

Source: Public Finances Ministry, Processed by the authors based on data from the Ministry of Public Finances

On the 31.12.2012 the share of guaranteed government public debt from the total government public debt stood at 5.8%, decreasing compared to the levels recorded in 2007, 2008, 2009 and 2010. From 2007 to 2012, by applying the public politics Public Finances Ministry managed to maintain a decreasing trend in guaranteed government public debt, thus reducing the risk of extra fees as warrantor and implicitly extra budgetary expenditures.

Compared to the years before, in 2012 there was registered an increase in the share of foreign currency debt contracted from the total government public debt, when it reached 56.2%. This increase was caused by contracting denominated loans in Euros. The decision to contract state loan in Euros took into consideration the following aspects: - reduced cost of denominated loans in Euros; removal of currency risk from the perspective of adopting a unique currency in 2015.

<sup>1</sup> Romania's public indebtedness degree

<sup>2</sup> the share of budgetary expenditures with interest rates and commissions due to government public debt from the total state budget expenditures

<sup>3</sup> the share of direct public debt from the total government public debt

<sup>4</sup> the share of guaranteed public debt from the from the total government public debt

<sup>5</sup> the share of local currency debt from the total government public debt

<sup>6</sup> the share of foreign currency debt from the total government public debt

<sup>7</sup> the share of fixed interest rate debt from the total government public debt

<sup>8</sup> the share of variable interest rate debt from the total government public debt

<sup>9</sup> the share of tradable debt from the total government public debt

<sup>10</sup> the share of untradeable debt from the total government public debt

The share of variable interest rate debt from the total government public debt has had an increasing trend over the five years, reaching 31.9% at the of 2012. Reducing the share resulted in a higher predictability rate when estimating the service level of government public debt and implicitly budgetary expenses.

At the end of 2012, tradable debt (government bonds) amounted to 58.2% from the total government public debt, of which 44.2% were government bonds emitted on the internal market, rising by 4.4% compared to 2011. The volume increase of government public debt contracted through tradable instruments has an effect on service due to government public debt by creating references regarding the cost of debt to be contracted.

**Table 2. Objectives of the strategy for government public debt management on medium term 2012-2014 (Strategy)**

INDICATORS	YEAR 2012	LIMITS FOR 2014 ACCORDING TO THE STRATEGY
Government public debt / gross domestic product (%) <sup>11</sup>	1,8%	max. 1,6%
Government public debt service / Gross domestic product (%) <sup>12</sup>	10,9%	max. 10,5%
Government public debt denominated in Euros / government public debt in foreign currencies (%) <sup>13</sup>	80%	min. 75%
Government public debt contracted in foreign currencies / Government public debt (%) <sup>14</sup>	56,2%	max. 50%
1 year deadline debt (initial time scale) / Government public debt (%) <sup>15</sup>	12,9%	max. 25%
Average timespan left for the government public debt portfolio (years)	4,4	min. 4,5
Residual maturity for state bonds emitted on internal market (years)	1,7	min. 2
Fixed interest rate debt / Government public debt (%) <sup>16</sup>	68,1%	-
Average timespan until next interest rate modification (years)	3,6	between 3 and 4
Government public debt with modified interest rate every 1 year / Government public debt (%) <sup>17</sup>	29%	max. 40%
Long and medium term emissions / internal market emissions (%) <sup>18</sup>	53%	min. 60%

Source: Public Finance Ministry

<sup>11</sup> the share of government public debt cost (% of GDP).

<sup>12</sup> the share of government public debt service (% of GDP).

<sup>13</sup> the share of government public debt denominated in Euros from the total government public debt contracted in foreign currencies.

<sup>14</sup> the share of government public debt contracted in foreign currencies from the total government public debt (%).

<sup>15</sup> the share of 1 year deadline debt (initial time scale) from the government public debt (%).

<sup>16</sup> the increase in fixed rate debt share from the total government public debt (%).

<sup>17</sup> the share of government public debt with 1 year changing interest rate from the total government public debt (%).

<sup>18</sup> the share of long and mid-term emissions (% of the total internal market emissions).

In July 2012, the Strategy for government public debt management on medium term 2012-2014 (Strategy) was approved (consequence of debates with BNR - conforming to provisions of OUG 64/2007 regarding public debt, with later additions and modifications, but also with the IMF, the European Commission and the World Bank). For the government public debt management, the Ministry of Public Finances kept under careful observation the indicators from table 2 (according to data from the "Public debt management" policy evaluation report).

Presently Romania is finalising the setup of a second economic adjustment program together with the EU and the IMF. Following a request filed by Romanian authorities on February 17, 2011, the European Council and the IMF have negotiated with them a new preventive economic adjustment program. A two year program was then approved by the European Council on May 12, 2010 and on March 25, 2011 by the directive council of the IMF. The financial package agreed for amounts to almost 4.9 billion EUR, including 1.4 billion EUR from the EU and approximately 3.1 DST from the IMF.

The program's objective is to facilitate a continuous orderly adjustment of budgetary deficits and on an external level, to strengthen the government's economic policy credibility. Other objectives would be to adjust the current budget, consolidate the financial market reform, and concentrate more on product market reforms, labour market and EU funds absorption. It has been estimated that consolidating these objectives would increase Romania's growth potential, sustain financial and monetary stability and build trust in the national currency. It would also reduce the probability of negative effects on companies' balance sheets and household budgets. As the program could not be completed in time because of delays on implementing reforms, the authorities have requested a three month time extension for the IMF program.

The economic adjustment program is constantly monitored by the Commission and the IMF every trimester by verifying terms contracted in the agreement Memorandum and the financial and economic policy Memorandum. Taking into consideration the conditions of the program and conforming to the agreement Memorandum, the countries participating in the program agreed to recurring reporting and monitoring and were thus excepted from the mandatory national reform programs transmission (NRP) and stability or convergence programs.

In this context, even though it had been officially excepted from this obligation, Romania presented in April 2013 an up to date NRP and a convergence program. These programs provide detailed information regarding actual progress made from the beginning of 2012 and government future plans. This information is at the base of the evaluation done in the current work orders of the Commission's services. Through the national reform program, Romania emphasizes its commitment to approach the divergences in the following domains: public administration, business environment, economic competitiveness and local development, labour market and education, social inclusion and poverty decrease, research and development, climatic changes and energy sources. The convergence program demonstrates Romania's engagement to improve its budgetary position in view of completing its mid-term objective and ensuring long term public finance sustainability, pursuant to the stability

and growth Pact. The program sent was submitted to a limited verification and it was approved by the government through a memorandum.

## CONCLUSIONS

Due to modifications on the internal and external financial markets, public debt reached the highest level since the last five years at the end of 2012 when it amounted to 240.8 billion lei. This rise in public debt was determined mainly by debt contracted to cover budgetary deficit financing needs and refinancing of the total government public debt.

Romania's public indebtedness reached a level below the 60% agreed for at the Maastricht Treaty. Interest rate expenditures paid from the state budget have risen in 2012 as new debt was contracted in order to cover budgetary deficits for the previous years. Between 2007 and 2012, by applying public politics, the Ministry of Public Finances managed to maintain a descending trend of guaranteed government public debt, thus reducing the risk of warrantor fees and budgetary expenses.

The rise in the share of government public debt contracted in foreign currencies was mainly because of denominated loans in Euros, and the share of variable interest rate debt from the total government public debt was on a slight decline over the course of five years.

In what concerns public politics, Romania accomplished its objective to reduce general public deficit to a level below 3% of the GDP, as per ESA terms in 2012.

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