

Emerging Markets Queries in Finance and Business

Analysis of the public debt sustainability in the Economic and Monetary Union

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Abstract

Sustainability of fiscal and budgetary policies and therefore the sustainability of public debt is an intensely debated issue which has a particular importance in the public decision making. In Europe, the problem of sustainability public debt has become a subject of public interest after the introduction of single currency in the European Union. The growth of indebtedness of the member countries of the Economic and Monetary Union has raised extensive debate on the sustainable level of public debt. Hence, the paper has the purpose to analyze the sustainability of public debt in the member countries of the Economic and Monetary Union.

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1. Introduction

The public debt is one of the most frequent concepts of use in economic debates. For example, the countries are compared and classified according to the public finance sustainability starting off from the public debt. Likewise, the investors monitor carefully the risk of sovereign debt, and the managing offices of public debt

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actively tries to reduce the afferent risks through financial and economic policies build-off especially to influence the future trajectory of public debt. As result, the public debt, as indicator of borrowing activity of the government was beginning to get a higher importance both at national and international level.

In a general acceptance, the public debt is the total sum of money own from the government to the creditors. It is sometimes presented as governmental debt or national debt include the money owned by the government inside the country internal debt or international creditors external debt.

Definition enshrined in international debt from research carried out by international bodies, which are the main business lending problems in providing countries with financial needs, presents gross external debt at a time as "total contractual liabilities used unpaid by residents to non-residents and residents obligation to repay capital rates, with or without interest or interest payment, with or without capital rates Klein, 1994.

The global financial crisis led to a rapid accumulation of public debt in most EU countries and the euro area. This meant, among other things, deterioration of the economic growth and in the automatic stabilizers, but also tax incentives and government support for the banking sector in many countries in the euro area Van Riet, 2010.

Sustainability of public debt means that accumulated public debt must be serviced at any time. This requires that governments must be solvent and liquid.

Medium and long-term solvency is the concept of net present value which means that the government is satisfied and states that the net present value of future primary balances the government to be at least as large as the net present value of the outstanding debt.

Liquidity is a short term concept and refers to the government's ability to maintain access to financial markets with the ability to serve all future short-term obligations.

Financial crisis, economic and sovereign of 2008-2010 has left behind a substantial tax burden for the governments of the euro area. Relations between public debt / GDP rose sharply as a direct consequence of the contraction of economic and counter cycling fiscal policies. Increased level of government borrowing in developing countries is likely to increase the financial costs of government with a possible adverse impact on private financing conditions and on private investment leading to lower growth potential. Moreover, sudden increases in government debt have adversely affected market confidence in government solvency and liquidity in several countries.

Sustainability of public debt can be broken down into short and long term sustainability. Short term sustainability targets that fiscal and budgetary policies must respond instantly to avoid excessive growth of indebtedness. If long term debt sustainability should be a time horizon far enough to identify the impact on state budget and commitments on the loans Câmpeanu, 2007.

In Zee 1987 vision, sustainability is stability as shown in the study on debt sustainability and optimum "level of external debt is one that allows the economy, in the absence of unanticipated exogenous shocks, to strive for balance." Blanchard, 1990, argued that sustainability can be ensured by fiscal and budgetary policies which do not generate rapidly rising indebtedness, increase the tax burden, significantly reducing spending, monetization of budget deficit or debt repudiation.

Regarding the convergence criteria under EU treaties on fiscal convergence criteria and the Stability and Growth Pact can say that public debt is sustainable if the budget deficit does not exceed 3% of GDP and indebtedness not exceeding 60 % of GDP. To meet these limits EU countries must first establish and then implement fiscal and budgetary policy in the medium term 3-5 years to ensure avoidance of excessive deficit.

In Romania, foreign government debt is defined, since 2005, by Law no. 313/2004 public debt as part of government debt which represents all external financial obligations of the state from loans guaranteed by the Government, the Ministry of Finance, on behalf of Romania, the foreign financial markets.

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