

Milea, Camelia

Article

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ROMANIA'S EXTERNAL DEBT: TREND AND CHARACTERISTICS AFTER THE ACCESSION TO THE EUROPEAN UNION¹

Camelia MILEA, PhD*

Abstract

The paper aims to argue the importance of the external debt and of its structure for the management of macroeconomic policies. The survey focused on the period 2006-2017, in order to reveal the effects of Romania's joining the European Union on the trend of the external debt and of its components. During the analysed period, the medium and long-term external debt held the majority within Romania's total external debt. The evolution of the external debt and of its components had a turning point in 2013 when, for the first time in the surveyed period, they started to diminish. The structure by creditors of the medium and long-term external direct public debt shows that the multilateral credits formed the majority of the debt in 2006-2012, while the share of bonds issues increased in 2013-2017. The almost continuous increase of NBR's (National Bank of Romania) reserve assets shows Romania's financial and banking solidity and credibility.

Keywords: external debt structure; external direct public debt, debt problems; creditors

JEL Classification: F21, F32, F34. H63

1. Introduction

The analysis of the external debt and of its components may be useful and necessary both in order to understand the realities from the economy, and especially to draw up proposals for a better allocation of the resources.

¹ The article is based on the chapter "The assessment of the external equilibrium", from the research project "The financial stance of Romania - 2017" elaborated in CFMR "Victor Slăvescu" in 2018, under the coordination of C. Marin, Ph.D

* Scientific Researcher III, "Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy, Bucharest.

The author intends to deepen, from year to year, the analysis of external debt and its structure, trying to argue its importance for the management of macroeconomic policies. The research focused on the period 2006-2017, aiming to reveal the effects of Romania's EU joining on the trend of the external debt and of its components.

The paper analyses the situation of the short, medium and long-term external debt, the structure by creditors of the medium and long-term external direct public debt, as well as the structure of NBR's reserve assets. The article has comments and conclusions meant to help understanding the evolution of the indicators by showing the underlying causes.

2. Indicators concerning the short, medium and long-term external debt

The total external debt increased in 2006-2012, stronger up to 2010, followed by a moderate reduction in 2013-2015 and a not significant increase in 2016 and 2017. Compared to the reference year, 2006, the foreign debt reached 127.9% in 2017.

In 2007, when Romania has joined the European Union, the medium and long-term received foreign loans increased significantly. Also in 2009, the medium and long-term foreign credits had a peak due to the loans received from the International Monetary Fund, the World Bank and the European Union. The evolution of the medium and long-term credits received showed a turning point in 2011. While in 2005-2010 the medium and long-term credits were used to offset the current account deficit, as of 2011, within the context of partial paying back the previous loans, this indicator contributes to the formation of the balance of payments deficit, with decreasing absolute values in 2013-2017.

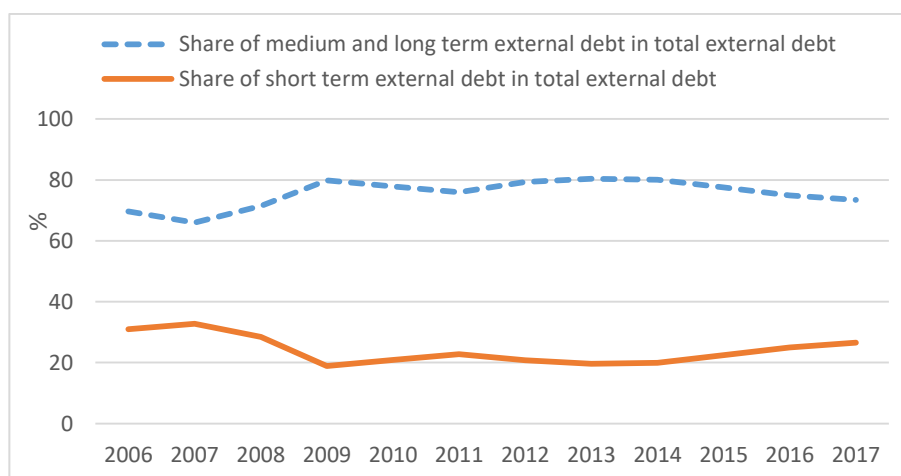
We may say that Romania pays, as of 2011, for the massive loans received the previous years. Thus the increase of the foreign debt generates microeconomic risks (higher exposure at a possible external shock and effects on the Romanian banking system), as well as macroeconomic implications in terms of foreign debt sustainability. The higher medium and long-term foreign debt can trigger problems through the exchange rate channel (the sudden depreciation of the national currency might increase significantly the cost of foreign loans), through the channel of trust (changed sentiment and perception of the investors, leading to the increase of the risk

premium, therefore to the cost of foreign financing), by contagion (by a regional economic, politic or social shock), or even by an internal conjuncture or structural shock of the national economy. We are at present confronted with some of these consequences (unfavourable perception of the investors, high cost of foreign funding).

In terms of external debt structure by maturity, one can notice that the share of the short-term foreign debt decreased in 2008 and 2009, after which it fluctuated around 20% until 2014, only to increase in 2015 and 2016, when it reached 25%. In conclusion, the structure of the foreign debt is rather adequate. A longer maturity supports sustainably the national economy, as the burden of the debt is spread on a longer period of time, which doesn't "overload" stringently the budget decisions of the government and endanger its development projects (Chart 1).

Chart 1

The trend of the short-term and of the medium and long-term foreign debt of Romania



Source: NBR data.

In term of value, the short-term foreign debt increased in 2006-2011, except for 2009. Three years of decrease followed, 2012-2014, and an increase in 2015-2017.

Compared to the reference year, 2006, the short-term foreign debt was 95.7% in 2017.

During the surveyed period, the medium and long-term foreign debt represented the majority of the total external debt of Romania.

Compared to the reference year, 2006, the medium and long-term foreign debt was 140.2% in 2017.

The evolution of the external debt and of its components showed a turning point in 2013. Thus, 2013 is the first year from the surveyed period when the foreign debt and its components started to decrease, decreasing trend which continued in 2014 and 2015 (total foreign debt), in 2014 (short-term foreign debt) and in 2013-2017 (medium and long-term foreign debt).

The external direct public debt increased almost continuously in 2000-2017 (except for 2006 and 2015). The evolution of the medium and long-term foreign direct public debt showed a turning point in 2009, considering that it increased strongly from 2009 to 2013. This evolution is explained by the 20 billion Euro loan taken by Romania from the international financial organisations, received during these years and used for internal financing. The proportion of the foreign direct public debt within the total foreign debt increased as of 2009, until 2017 included.

Compared to 2006, the medium and long-term foreign direct public debt reached 377.6% in 2017.

The publicly guaranteed medium and long-term foreign debt decreased throughout 2006-2017, except for 2010. The same descending trend was noticed for the proportion of the publicly guaranteed medium and long-term foreign debt within the medium and long-term foreign debt, which was 0.6% in 2017. Comparing the 2017 value of the publicly guaranteed medium and long-term foreign debt with the 2006 value, one can notice the same decreasing trend (-88.5%).

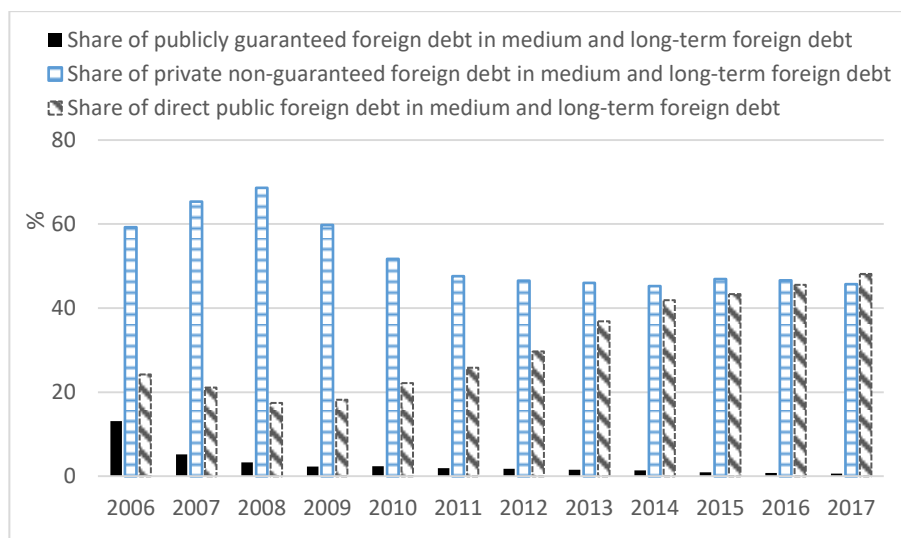
The private non-guaranteed medium and long-term external debt slowed down its increasing trend in 2009, following a decrease in almost every year from 2010 to 2017 (except for 2012, when it barely increased), on the background of the effects of the international economic and financial crisis (liquidity shortage, significant shrinking of the economic activity, higher risk aversion of the creditors). This evolution occurred after a significant increase of the private non-guaranteed foreign debt in the years before the crisis, on the background of the economic boom. A negative situation for the Romanian economy refers to the high level of the lending interest rates, to the not quite adequate behaviour of the local banks in the lending process, to the overvalued real exchange rate of the national currency, which made the private sector to take loans from the foreign

markets, at rather advantageous costs compared to the cost of capitals on the local market.

Compared to 2006, the private non-guaranteed medium and long-term foreign debt was 85.3% in 2017.

From 2005 to 2010, included, the private non-guaranteed medium and long-term foreign debt held the majority within the total medium and long-term foreign debt of our country, which shows the significant increase of the dependence on the foreign financial market under conditions of risk and uncertainty both for the debtors and for the creditors. The decrease of the share of the private non-guaranteed foreign debt as of 2009 was good in terms of external debt sustainability. The analysis shows that, in 2016, the proportion of the total public foreign debt was equal with the proportion of the private non-guaranteed foreign debt within the medium and long-term foreign debt, while in 2017, the public debt held a higher share than the private non-guaranteed foreign debt within the medium and long-term foreign debt (Chart 2).

Chart 2
The evolution of the medium and long-term external debt of Romania, by components



Source: NBR data.

3. Indicators regarding the structure by creditors of the medium and long-term external direct public debt

The multilateral credits represented, in 2006-2012, the bulk of the structure by creditors of the medium and long-term foreign direct public debt, while in 2013-2017, the share of the multilateral institutions within the medium and long-term foreign direct public debt decreased, reaching 31.7% in 2017, in favour of bonds issues. The high proportion of the multilateral institutions within the medium and long-term foreign direct public debt in 2006-2012, showed the interest of the international financial organisations towards the evolution of the Romanian economy, but also the needs of the Romanian economy for external financing during the period of economic boom and, particularly, within the context of the world economic and financial crisis, a strong increase being noticed in 2009-2010.

In terms of the importance of the institutional creditors, the proportion of loans from the European Union (EU) into the medium and long-term foreign direct public debt increased significantly in 2009-2011, due to the credit obtained by Romania from the European Union, and decreased in 2012-2017, when Romania paid back loans to the EU. Thus, the loans from the EU represented 1466.7% in 2017, compared to 2006.

The share of the loans from the European Union was important in 2009-2016, compared to the previous period (Chart 3).

The European International Bank (EIB) had high shares in 2006-2009; thereafter, the proportion of loans from this institution decreased gradually until present, with more significant annual increases in 2008, 2009 and 2011-2013. The loans from EIB started to be paid back in 2014. The loans from EIB represented 78.7% in 2017 compared to 2006.

The importance of loans from the International Bank for Reconstruction and Development (IBRD) decreased until 2010, fluctuating thereafter around 11% (Chart 3). From 2009 to 2017, the funds received from IBRD increased irregularly from one year to another (except in 2016). The loans from IBRD represented 141% in 2017 compared to 2006.

The proportion of the International Monetary Fund (IMF)'s loans increased significantly in 2009-2011, decreasing in 2012-2014, reaching 0 in 2015. The value of loans received from IMF increased strongly in 2010, decreasing thereafter in 2012-2014.

Despite the excessive media coverage of the IMF loans, their share in Romania's medium and long-term foreign direct public debt is lower compared to the loans from IBRD, EIB and EU (Chart 3).

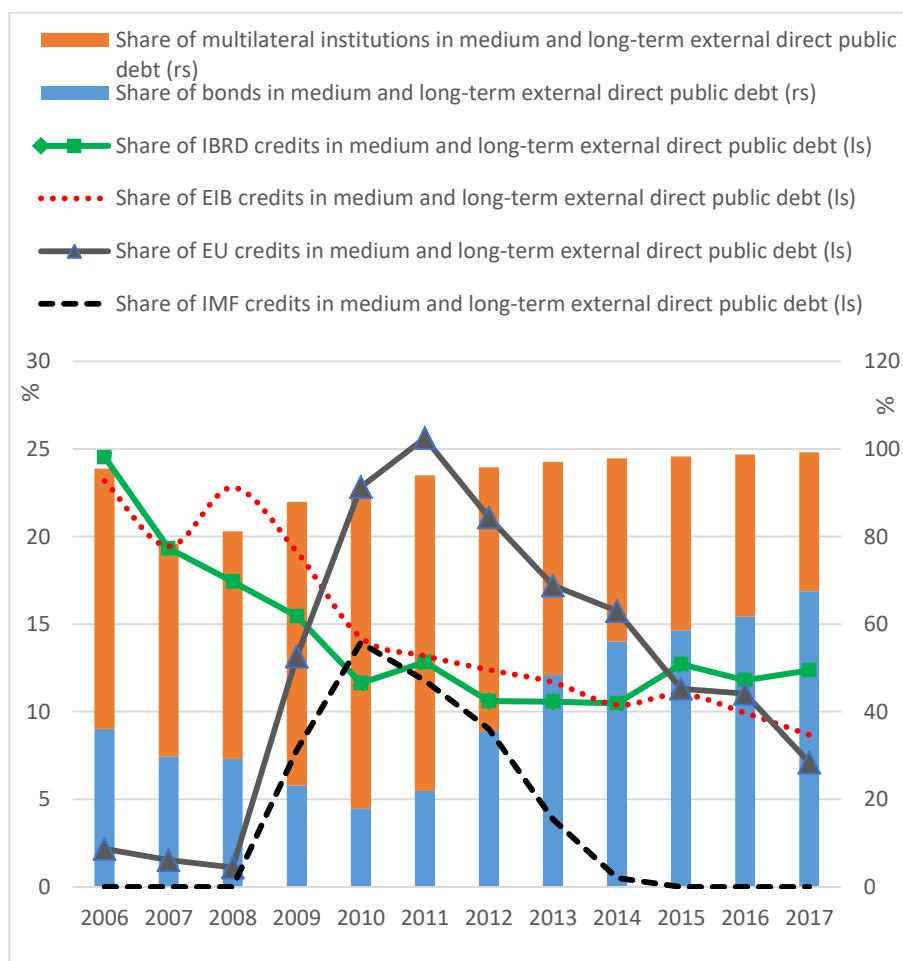
Analysing the structure by creditors of the medium and long-term foreign direct public debt, we may find the reason for its increase on the background of the partial refunding of the IMF loans. Thus, in 2009-2015, Romania took loans from IBRD, EIB (except in 2014), but also issued bonds on foreign markets, particularly as of 2011.

Starting with 2013, the balance of the capital and financial account had a completely different evolution compared to the previous years. Thus, the surplus of the capital and financial account decreased significantly under the conditions in which the positive balance of the capital account increased. This situation is explained for the first-time in the surveyed period, by the deficit of the financial account. This occurred in a year in which Romania has paid back 4.6 billion Euro to the IMF. We may also notice that in the same year, 2013, the currency reserves of the National Bank of Romania increased. Analysing the evolution of the other structural components of the financial account, we may find the explanation for this seemingly paradoxical evolution. Thus, although in 2012 and 2013, Romania has returned important amounts to the IMF, the foreign direct public debt didn't decrease, because Romania has borrowed capitals from the bonds market. This evolution is reflected by the balance of the portfolio investment, which was extremely high in 2011, 2012 and 2013 compared to the previous period.

The bond issues increased significantly in 2011-2014, trend which continued until 2017 included, contributing to the increase of the medium and long-term foreign direct public debt. Therefore, bond issues' share within the total medium and long-term foreign direct public debt increased in 2012, balanced out the proportion of the multilateral institutions in 2013, and became majority as of 2014, situation which continues up to the present (Chart 3).

Chart 3

The evolution of the structure by creditors of the medium and long-term external direct public debt of Romania



Source: NBR data.

It can be noticed that the institutional creditors were replaced by private creditors. Considering that the debt from the multilateral institutions involves lower costs, taking into account the interest rate charged for the countries perceived as having a high risk on the private market of international capitals; longer period of grace; longer total duration, the replacement of creditors is a deeply negative evolution for the Romanian economy in terms of reimbursement

efforts. Instead of returning the foreign debt we contracted, we get more debt and under harsher credit conditions.

Nevertheless, the loans from the official creditors also have disadvantages: limited available volume, while the large scale use of such financing sends a negative message to the foreign investors, since the exceptional financing is intended to cover the current account deficit and to support the efforts of structural adjustment of the economy, this signal signifying efforts of economic reform never ended.

It is thus obvious the importance of a complex and coherent strategy of reimbursement of the foreign debt, in close connection with the reorganisation of the national economy and with the progress of economic reform, as well as the role of an indebtedness strategy, which should establish an optimal ratio between the medium and long-term debt and the short-term debt, between their due dates, so that the burden of the external debt is spread uniformly along the years, thus avoiding peak payments.

4. Indicators regarding the structure of the reserve assets of the National Bank of Romania

The reserve assets of the National Bank of Romania increased almost continuously throughout 2006-2017 (except for 2012, 2015 and 2017). This evolution shows Romania's financial-banking solidity and credibility, which should be further consolidated by adequate public policies, which should make the most of the reserve assets.

There was a period of strong growth of the indicator (2006-2010), followed by less significant fluctuations in 2013-2017 (except 2016).

The value of the reserve assets represented 61.8% in 2017, compared to the reference year 2006 (Chart 4).

The structure of NBR's reserve assets shows that the monetary gold represents a low proportion within the total. Its value increased in 2006-2012. The indicator had a fluctuant evolution in 2013-2017, with ups and downs (more significant in 2013).

Compared to the reference year 2006, the value of the monetary gold represented 122.3% in 2017 (Chart 4)

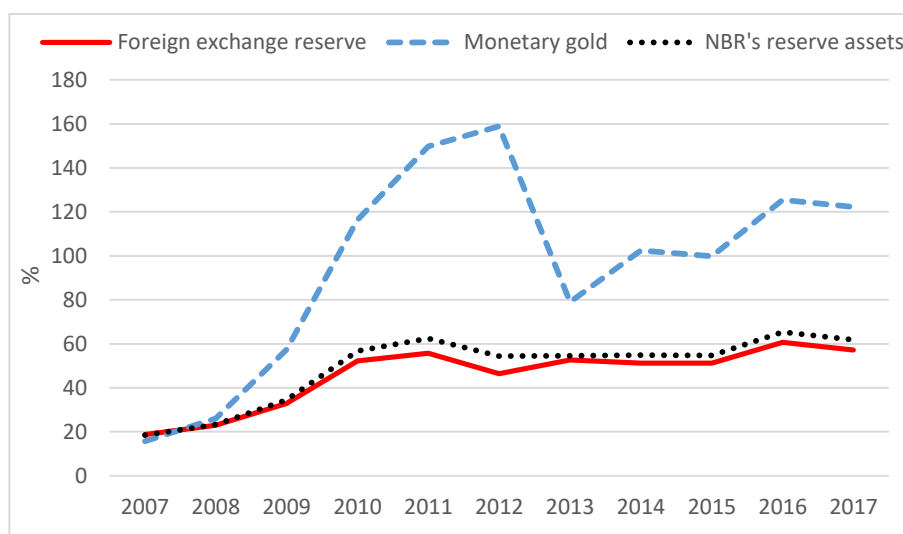
After the almost continuous increase in 2006-2012, the proportion of the monetary gold within the total reserve assets decreased in 2013, ranging around 9.5% in 2014-2017 (Chart 4).

The foreign exchange reserve increased almost constantly in 2006-2017 (except in 2012, 2014 and 2017). The increase slowed as of 2011, while the decrease from 2012 is due to the paying back of a substantial amount of the foreign debt towards the IMF.

Compared to the reference year 2006, the value of the foreign exchange reserve amounted to 57.2% in 2017. The evolution of NBR's reserve assets is determined mainly by the evolution of the foreign exchange reserve (Chart 4).

The proportion of the foreign exchange reserve within NBR's reserve assets was rather constant, usually above 90%, except for 2011 and 2012.

Chart 4
The evolution of NBR's reserve assets and of their components
(growth rate with 2006 as reference value)



Source: NBR data.

The foreign exchange reserve in months of import is large enough to be considered at a comfortable level for overlapping the imports. The foreign exchange reserve in months of import increased between 2006 and 2010, thereafter decreasing as of 2011 to the value of 6.3 in 2016.

5. Conclusions

During the surveyed period, the medium and long-term external debt represented most of the total foreign debt of Romania, which shows a rather adequate structure of Romania's external debt. A longer maturity supports sustainably the national economy, as the burden of the debt is spread on a longer time frame which doesn't "overload" stringently the budgetary decisions of the government and endanger its development projects.

In 2007, when Romania joined the European Union, the medium and long-term received foreign loans increased significantly, trend which continued until 2011. Thus, while in 2005-2010 the medium and long-term credits were used to offset the current account deficit, as of 2011, as part of the previous loans was returned, this indicator contributed to building-up the balance of payments deficit.

We may say that Romania has paid, starting with 2011, for the massive foreign loans taken in the previous years. Thus, the increase of the external debt generates risks at the microeconomic level (particularly on the Romanian banking system), as well as macroeconomic implications in terms of the foreign debt sustainability.

The evolution of the external debt and its components showed a turning point in 2013 when, for the first time in the analysed period, the foreign debt and its components started to decrease, trend which continued in 2014 and 2015 (for the total foreign debt), in 2015 (for the short-term foreign debt) and throughout 2013-2017, for the medium and long-term foreign debt.

A negative situation for the Romanian economy refers to the high level of the lending interest rates in Romania, to the not so adequate behaviour of the local banks in the lending process, to the overrated real exchange rate of the national currency. Therefore, many times the private sector took loans from the foreign markets at better costs than on the domestic market. This increased significantly the dependence on the foreign financial markets, under conditions of risk and uncertainty both for the debtors and for the creditors.

The private non-guaranteed external debt slowed down its increasing trend in 2009 and even decreased in the subsequent years on the background of liquidity shortage, of diminished economic activity and risk aversion of the creditors, caused by the economic-financial crisis and its effects. The decrease of the share of private

non-guaranteed external debt as of 2009 was good for the sustainability of the foreign debt.

The external direct public debt increased almost constantly in 2000-2017, with the strongest increase in 2009-2013, when Romania took a loan of almost 20 billion Euro from the international financial organisations. This loan was intended for the internal financing, as the economic-financial crisis increased the risk aversion of the investors, and the global liquidities became scarce, effects diffused through the financial channel, through the channel of trust and through the effect of contagion.

Thus, the loans from the EU represented 1466.7% in 2017, compared to 2006. The capitals received from the European Union increased after Romania has joined this organisation, within the context of the higher confidence in our country, as new member state of the EU.

The multilateral credits represented, in 2006-2012, the bulk of the medium and long-term foreign direct public debt, while in 2013-2017, the share of the multilateral institutions within the medium and long-term foreign direct public debt decreased, in favour of bonds issues, which became majority. Thus, starting from 2011, the institutional creditors were replaced by private creditors. As the loans from the multilateral institutions enjoy several advantages, the replacement of creditors has been a deeply negative evolution for the Romanian economy in terms of the effort of reimbursement. Instead of returning the foreign debt we already have, we get more debt, under harsher lending conditions.

This shows the need, in Romania, for a complex and coherent strategy of external debt reimbursement, in agreement with the reorganisation of the national economy and with the progress of the economic reform. Romania also needs a strategy of indebtedness, which should consider establishing an optimal ratio between the medium and long-term debt and the short-term debt, between their due dates, so that the burden of the external debt service is spread uniformly in time, with no peak payment moments.

The almost continuous increase of NBR's reserve assets shows the financial-banking solidity and credibility of Romania.

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