MANAGING LOCAL PUBLIC DEBT IN THE COUNTRIES IN TRANSITION: AN ISSUE OF FISCAL CAPACITY OR SOMETHINGS ELSE?
THE ROMANIAN CASE

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Abstract
Our paper proposes an overview on the politics of the Romanian State about public debt politics at national and local level. For Romania, crossing from the central planned economy to the economy based on free market means to take the decisions in accordance with the society needs. Nations are composed of individuals whose democratic options are promoted by the state, through the state political institutions. The principle of separated powers, after the December 1989, is respected. The citizens exert their political and civil legitimacy voting the ruling class: the President of the state and the Parliament. The executive power in our country is exert by the Government which have a double role: realize the internal and external politics and, also lead the public administration. Our Constitutional Law establishes the coordinates for the entire public administration and the general principles of its actions. The local public administration is based on principle of local autonomy, decentralizations and de-concentrations of public services and, in the mean time with the European principle of subsidiary.

The public debt is regulated by the law which establishes the principles rules. Our analyze follow the modalities choose by the government at national and local level to finance the budgetary deficits and to make the investments which are so necessary. We propose some response to the follows questions:

• What are the forms of public government debt and what are the financial instruments to covering them?
• What is the legal framework for public governmental debt?
• Who is responsible to administrate the public governmental debt?
• What is the situation of public governmental debt in Romanian state actually?
• Can local public administration to borrow and, if it can, what are the financial instruments utilize?
• Which is the impact of borrowing for national and local administration?

For answer to these questions we try to make an analyze utilizing dates remaking to the site of Ministry of Public Finance and follow the evolutions of the dates for praise the capacity of state to administrate the public governmental debt in accordance with the limits imposed by the European Union.

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1. Introduction

For Romania, the years of transition towards the market economy meant experiencing the change of leaders in the governmental process, but also of certain financial strategies that did not work out of the way they were intended to. According to the types of financial strategies applied in economy, the more than fifty years of transition can be grouped as follows:

- The 1990-1992 periods was characterized by “the shock therapy” strategy. So, a freedom of prices was applied starting with 1990, though signs of competition offers delayed their appearance. The convertibility of national currency started (November, 11th, 1991), but the liberalization of the currency exchange, doubled by the decrease of production, made the national currency extremely vulnerable, regarding the other national currencies.

- The 1992-1996 periods brought a change in the point of view of the strategy applied by the same political forces that won the 1992 election; thus, the social-democratic government promoted “the gradual therapy”, in order to diminish the effect of the reform on the population, making the social cost of change more bearable. Despite the change of the way of implementation of the financial-political actions, the results did not live up to the expectations; as a result, 1995 was characterized been the year of failure of the Romanian step by step reform, the year of the biggest extern commercial deficit even known by our country.

- The 1996-2000 periods brought not only a change in the political ruling forces (the establishment of a liberal government), but also a renunciations to “the gradual therapy”. Having as a background the returning of “the shock therapy”, the new financial strategy did not succeed in generating the needed economic growth. Besides, 1997 brought the lowest level of existence of the population of all the period of transition.

- The 2000-2004 periods was characterized also by a gradual therapy because it was change the political governmental; the social-democratic party won the elections and made the social cost of transition most bearable, using social policies like modalities.

- The 2004-today periods are characterized by the shock therapy; election in 2004 was won by the liberal and democratic parties who promoted a shock therapy, influencing the national financial policies using a unique quota of 16% and VAT of 19%. These measures increase the level of revenues of peoples and also an economic growth.

Our paper proposes to examine the most important modalities to administrate with efficiency the financial resources at national and local level to realize the investments.

The necessity to increase the public and private investments of local municipalities is a challenge to local governments in Romania under the circumstantion to adhere to the European Union. The lower level of their funds and the impossibility to increase the local tax in the aim to major the budgetary revenues at the local level requires to find some alternative financial sources to sustained the local projects of investments.

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Local governments can borrow in the form of loans or bond issues, in the currency and from the establishment of their choice. Borrowing can be used to find capital expenditure and operating deficits. Local governments are free to invest their available cash flow with the establishment of their choice.

In Romania, like all the countries in transition, local governments can pool resources with other national or foreign local governments. When the transition started, local governments mainly availed of the opportunity to form local government representative associations, to represent them and defend their interests in their dealings with central government.

The investments made by local administrations in Romania were and are much under the demands of European Union. The most part of infrastructure became old and is necessary a great effort to replace and modernize.

Development projects should find the financial resources in proper revenues of local budgets and in transfers and subventions from state budget, but those are falling short.

Therefore, which are the sources that local authorities have access to financing the investments projects? A first source is representing by internal or external financial underpayments, as well those from structural funds like PHARE and SAPARD receives from European Union on the basis of negotiations between Romanian Govern and European Commission. Public-private parteneriate represents another modality to financing the local investments. This means cooperation between local authorities with private sector to realize economic projects for communities’ development. This patneriate has demonstrated an efficiency to sustain far-reaching projects.

To continue the investments and accomplish another ones suppose to look for other source of revenue. Under the circumstances of decentralization, local authorities have access to the local debt instruments:

- municipal certificates;
- borrowing from banks or multilateral organizations.

Legal framework has settlement insufficient the local authorities’ possibilities to sustain financially projects of local development borrowing from different public and private “actors”.

Urgency Order of Govern no. 45 /2003 eliminate those troubles. It was eliminated the restriction of local authorities to open banking account at the commercial banks to accomplish payments and receiving operations, which facilitate to the banks access at the financial situation of local governments and estimated their financial faithfulness.

Using indebtedness, indifferently by the form of those, appears positive effects: increase the welfare of local communities, the implications of private actors in economic development of local communities, creating new places of work. To the local authorities those are resources which, at ones time must be repay. Loans generate extra expenditures for local governments with the interests and commissions.

Thus, an insufficient experience of local authorities in this field generates negative effects like the impossibility to repay loans and, inevitably, coming in payments incapacity with seriously repercussions on national economy.

For local governments from Romania, indebtedness represents a concrete way to realize projects for local development. A good local management at local level correlate with financial politics which sustained local authorities’ efforts plus a sustaining legal framework is the most important stages in increasing welfare of local communities.
2. Broad Institutional Framework: The Governmental System

2.1. The Central Administration in Romania

The state administration in Romania consists of a unitary system with one central organ, the Government, led by the Prime-Minister, who provides a material coordination and an intellectual one. In accordance with the Constitutional Law from 1991, who was changed in 2003 by the Law no. 429/2003, the Governmental role is dihotomical: coordinating the internal and external politic of country and, also, the entire coordination of public administration. The structure of the government in our country is formed by the Ministries, today being fourteen ministries, the public administration having like managerial authority the Ministry of Internal and Administration.

As it is known, the organization of administration can be made according to the state territory. In all the states, the space framework is juridical defined in territorial-administrative circumscriptions. In Romania, although the state territory is non-divisible and unitary (one of the principles of state of law), the territorial-administrative circumscriptions are organized for the purpose of a better satisfying of the interests of local communities. These circumscriptions are called “judete” (counties) and are currently in the number of 41 and the Bucharest city, the capital of Romanian state. The counties consist of “orase” (towns) and “comune” (groups of villages). Currently there are 262 towns and 2686 groups of villages. Some towns can be declared “municipii” (cities) – Romania having 67 cities. At their turn, the “commune” consists of villages-Romania having approximately 13000 villages.

The Constitutional Law from 1991 made important changes regarding the settlement of local authorities. These are horizontally subordinated to the Prefect and vertically subordinated to the Minister. The principles applied in administration, in accordance with the Constitutional Law from 1991, were: local autonomy and the decentralization of the public services. The Law no. 429/2003 who modified the Constitutional Law from 1991, having added another principle which organize and made functional the local administration: the deconcentration of public services principle. The Law of Public Administration no. 215/2001 adds to the previous principles the principles of eligibility of local public administration authorities, of legality and of consulting the citizens regarding solving problems of special interests. Yet, applying these principles cannot reach the characteristic of Romania’s national, unitary and non-divisible state. These principles are in accordance with a European principle, the subsidiary principle promoted by the Maastricht Treaty.

According to the Law of Local Public Administration, local autonomy is understood as the effective right and capacity of the local public administration authorities to solve and administrate legally the public affaires on behalf of and in the interests of the local communities that they represents. This right is exercised by the Local Councils and The Majors, and also by the County Councils, that are authorities of the local public administration elected through universal, equal, direct, secret and freely expressed vote. The local autonomy is only administrative and financial, being exerted based on and within the boundaries of law. The local financial autonomy means like the local authorities have the fiscal and financial instruments to administrate the local financial resources. These instruments are the local budget and the local taxes which formed the incomes at the budget.
The relationship between the local public administration authorities of towns and villages and the county level public administration authorities is based on the principles of autonomy, legality, responsibility, co-operation and solidarity towards solving the problems of the whole county. At its turn, the principle of decentralization of public services stipulates the setting up of public services in villages and town and their elimination at the county or central levels. The deconcentration of the public services principle suppose the possibility to exercise just a administrative guardianship from the center to local level by reducing the responsibilities of center which delegate them at the local level. These mean create the “actors” which must take the responsibilities and responding to the local community interests. Therefore, the local public administration is exerting in villages and towns by the Local Councils and Majors, and at the county level by the County Councils. There is no subordination between local public administration authorities and the County Council, on one side, and between the Local County and the Major, by the other side.

### 2.2. The Local Public Administration in Romania

At the local level, in towns and villages the administration is realized by the Local Council as a deliberative authority, and the Major as an executive authority. These authorities exert the local autonomy in towns and villages. The Local Councils are also present in the towns declared cities. The number of each Local Council’s members is decide through an order issued by the Prefect and according to the population of the respective village or town. Therefore, the number of counselors can vary between 9 (for the villages and towns with up to 1500 inhabitants) and 31 (for the villages, towns or cities of over 400000 inhabitants), while the General Council of the City Bucharest has 55 counselors. The Local Council organizes specialized committees for its main fields of activity, and its mandate is for year long. Among the attribution of the Local Council regarding the exertion of local administration there are:

- the administration of the public and private territory of the village/town;
- the setting up of institutions and economic agents of local interests;
- the setting up of specific regulation for its subordinate institution and economic agents;
- to ensure the protection of public order and of a proper environment for the good functioning of the educational, health and cultural institutions (within the limits of its competence).

The Major is the executive authority of the village/town. In practice, she/he is the essential element for the administration of the village/town she/he was elected by. According to the Law of Public Administration no. 215/2001, the villages, the towns and the cities have each one Major and one Vice-Major. The chief-cities of each county and the Bucharest sectors have each one Major and two Vice-Majors, electing according the law. The city of Bucharest has one General Major and four Vice-Majors, all elected according the law. The Major is the chief of local administration and responds directly to the Council regarding the proper functioning of the local administration. She/he represents the village/town in justice and also in the relationship with physical and juridical persons from all over the country or from abroad.
The county has a double juridical nature, being both territorial-administrative circumscription and also a decentralized human community. Its main tasks are to guide, coordinate and control the activity of the administration. Through co-ordination it achieves the rationalization and simplifying of the activity of local authorities, avoiding parallelism and repeating of attributions by the local public administration authorities. Also, the general interests of the local communities of the county are fulfilled through the control of the administration paperwork’s legality.

The specific authority of the county’s public administration is the County Council. Its most important attributions are to co-ordinate the activity of town councils and village councils; to ensure the functioning of the public services of county interest. The County Council is led by a President who is the chief of the county public administration and is responsible for its proper functioning. The President ensures the putting into practice of the decisions taken by the County Council, exerts the attributions that the county has as a juridical person, names and releases the personnel of the county public administration excepting its secretary.

In Romania, as in the other democratic countries, a representative of the state, of the executive power was named at the level of territorial-administrative units: the Prefect. Until 2004 year, the Prefect was named by the Government having like criterions the political membership at the one level party. Now, the institution of Prefect was declared an apolitical function, those means that the persons who take these functions must be high public servants. In accordance of the Law no. 340/2004 about the institution of Prefect, the attributions of the Prefect is to leads the state services of the local level and control the activity of the Local Councils, the County Councils and the Majors, within the boundaries of law. As agent of the executive power in the county, the Prefect may be considered an element of de-concentration within the public administration system, that co-ordinates a state subsystem. Between the Prefect and the Government there are relationships of authority, hierarchical, determined by the hierarchy structure of the state authority system. In the light of these relationships, the Prefect leads subordinating the territorial Ministry services and ensuring the state’s unity of action all over the county. This way the link between the local interests (of villages, towns, cities and counties) and the national interests are expressed by the law.

2.3. The Local Financial Autonomy

The local autonomy and the existence of local public authorities create premises for distinct organization of local finances. This way, the central finances are relieved of a series of expenses, the number and dimension of monetary flux between the local and central levels is reduced and an environment is created for a proper follow-up on the way the constituted funds are being spent. It is important to study and to continue to analyze how far can financial autonomy reach and what is its impact on the local finances.

The local communities represent human communities that are distinct form of the state and that have, as shown previously, public authorities that are different from those of the state. This is a necessary condition for the financial autonomy, as “administrative autonomy is not possible without a financial
autonomy that provides the material support for functioning. There is also a strong argument according to which the local communities know their own possibilities regarding public financial resources and especially the needs regarding the expenses that need to be cover. After all, the separation of the local finances from central ones and their setting up into a distinct subsystem are determined by economic reasons. In each country, the relationship between the central public finances and the local public finances is different.

The degree of financial centralizations differs according to the degree to which the local authorities are subordinated to the central ones. Anyway, the national interests problems that affect all citizens belong to the central funding, another type of means not being possible; they are funded by central funds: defense, state public order, state administration, external affairs, protection of the environment and of the citizens, art, education and also the macro-social politics of regularity, stability and welfare.

The financial decentralization begins to function beyond the limit from which the sphere of use of public goods and services of national interest begins to tighten, and the comparative cost of decision taking at central level becomes too high. This is about certain utilities such as road building, police, public lighting, village management, local transports, schools etc. At the same time, there are differences from one territorial-administrative unit to another regarding the request for public utilities and the possibilities of providing them. In addition, the local community is open; they have various relationships between themselves. All these imply the local self-funding. In Romania, the functioning of local finance based on financial decentralization benefits of common techniques of public finance.

The effect obtained in the functioning of local finances refers first of all to taking over some state financial attributions, then to the increase of local resources and expenses. This way, in Romania, the local communities have achieved the right to make loans from the capital market; also, the local finances have achieved large competencies in the field of budgetary and juridical control, and the local authorities have an accounting system of their own.

The main part of the local finances is played by the local budgets, through which the summoning of the financial resources necessary for the achievement of the action part of the competence of the local public administration organs. The local budget is the instrument within the local authorities exerts their own local financial autonomy. This includes the county budgets, the municipality budgets, the cities budgets and the commune’s budgets.

To exert the local financial autonomy the Romanian state respects the principles stipulated by the European Charta of Local Administration (1985):

- as part of the national economy politics, the local collectivities have are entitled to their own resources, that they can use freely in practicing their attributions;
- the financial resources of the authorities of the local public administration must be proportional to the competencies stipulated by the constitution or by the law;
- part of the financial resources of the local collectivities must come from local taxes, whose percentage can be decided within the limits of the law;

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• the financial systems that support the resources of the local collectivities must have an enough diversified and evolutionary nature so that they should be able to follow in practice as much is possible the evolution of the expenses in their suborder;

• the support of the local collectivities, weaker from the financial point of view, requires bringing into operation of some procedures of correct financial distributions or of some equivalent measures, meant to adjust the effects of the unequal distribution of the potential financial resources. Such measures must not reduce the freedom of option of the local collectivities in their field of responsibility.


The public governmental debt represents the totality of internal and external financial obligations of the state, resulting from the loans contracted directly or guaranteed by the Government from the financial markets. The Government is authorized to contract internal and external state loans, only through the agency of The Ministry of Public Finances in view of temporarily financing the state budget deficit, financing the deficits from the previous years of the state social insurances budget, refinancing the public governmental debt, financing some projects approved through Government decision. In conclusion, the Government is the state authority that can contract internal and external loans with purposes that take precedence of the country’s economy.

The general framework regarding the financing of public debt and its management is insured by Law no. 313 from 28 June 2004. In accordance with the legal provisions, we must analyze a series of theoretical concepts regarding the economic and juridical content of the public debt. Thus, the public governmental debt comprises:

a. the internal public governmental debt;
b. the external public governmental debt;
c. the internal local public governmental debt;
d. the external local public governmental debt.

The internal public governmental debt represents that part of the public governmental debt that comprises the totality of financial obligations, resulting from the directly contracted loans (without governmental guarantee) or with governmental guarantee; from physical or juridical persons, residing in Romania, in lei or currency, and also the sums used temporarily from the general current account’s reserves of the State Treasury for the temporary financing of budget deficits. The internal governmental public debt constitutes for the state authority an irrevocable and unconditioned obligation of reimbursing the contracted loans, of paying its afferent costs: the interests and commissions. The internal public debt is determined by (according to the provision of art. 5 from Law no. 313/2004):

• the short term loans, contracted by the state in view of balancing the state budget and which is reimbursed during the year;

• the issue of treasury money with the purpose of balancing the state budget, reimbursable from the budget resources until the end of the year;
• placing documents, through public subscription, on long and medium term, with the purpose of obtaining the financial resources necessary for covering the annual budget deficit;
• the guarantees given by the state for the internal bank credits contracted by the economical and administrative-territorial units with the purpose of satisfying some economical development needs;
• the short term use of resources from the public treasury accounts.

The competent authority that administers the internal and external loans is the Ministry of Public Finances. Among the Ministry of Public Finances attributions regarding the state external public debt of the state we can mention:

a. the examination of term and conditions of the external loans permissions from the international financial markets;
b. the issue, the contracting, the administration and reimbursement of external loans and the payment of afferent costs;
c. the analysis of conditions for the refinancing of external public debt and the insurance that the new loans are integrated in the annual external debt ceiling, correlated with the public debt service;
d. the administration, together with National Bank of Romania of the currency reserve of the state in view of insuring the necessary resources for its increase, the use together with National Bank of Romania of the currency reserves for the payment of the public debt service.

The internal and external local public debt is the totality of the financial obligations of the local public administration authorities, coming from loans contracted directly or guaranteed by these ones from individuals and entities. The public debt is engaged by local public administration decision-making authorities is an obligation that must be reimbursed from financial resources of which territorial administrative units avail. The instruments for contracting the local public debt used by local public administration authorities are:

a) municipal certificates;
b) loans from commercial banks or other credit institutions

According to the legal provisions, the local public administration authorities cannot lend funds if the overall annual local public debt made up of due installments, interests and commissions is more than 20% of the amount of the current revenues of the local budget. In Romania, to cover the budgetary deficits, medium and long-term loans are contracted. The direct consequence of credit reimbursement is the increase of the budgetary expenses. Budgetary expenses are supported either by the increase of taxes or by contracting new credits. If the ordinary budgetary revenues do not fully cover the budgetary expenses approved for the next year, the Government must either increase the existing taxes or introduce new taxes, or contract loans. Usually, the second alternative is preferred by authorities. The modality of increasing taxes or introducing new ones is not a solution for authorities, as the standard of living of the population is affected. At the same time, the governing parties are sanctioned by the electing people.

Loans are a simpler modality to procure funds from the perspective of the conditions and of the legal terms for granting them. Irrespective of the modality chosen by the governing authorities, the impact on
the population is negative, because taxes are increased. Loans are an expensive way to procure funds and place a burden on the shoulders of future generations. Some theorists consider that "state loans do not cause a transfer of burdens from one generation to another, because the value judgments should be made at the level of the entire society, not by its members individually". The positive impact of loans is shown in production: the modernization of agriculture, the development of the industry, of the technology, environment protection. In Romania, after December 1989, the increase of the public debt increased gradually from 0.6% in 1990 to about 25.6% in 1997. Because of the low development of the internal capital market in Romania after December 1989, the fund requirement was covered through external loans (at a high rate of about 75%) and internal loans (at a rate of 25%). After 1992 there occurred budgetary deficits that had to be funded and after that, refunded. A large part of the Romanian public debt was made up by contracting loans with a special destination, such as covering for the losses made by the state companies during years 1989-1990 covering nonperforming loans takes over from the state banks, covering the damages producing by calamities, which are reflects in banking not paid loans.

The quantity of money owed by the country that reflects the balance between the public debt balance and Gross Internal Product (GIP) has a special importance for the problem taken into discussion. We must take into account the financial effort that the public debt supposes, materialized in the public debt service. These are the expenses with reimbursing the debt, the capital rate, interests and commissions. The financial effort is expressed with help of several financial indicators: the absolute measure and the average measure per inhabitant of public service debt, the relation between public debt service and GIP, the weight of public service in the total of public expenses.

The increase of internal public debt its realizing with strictly limits imposed by the ceiling of the internal public indebtedness, approved by the Romanian Parliament. Thus, for 2002 years, the internal public debt was of 118067,67 milliards lei, being finance by contracting the state loans in lei and currency directly from internal capital market, also the loans with temporary character from the resources of governmental accounts gathered in general account of state Treasury.

Financing the internal public debt generate by the consolidate budget deficit it was realizing by state loans from internal capital market and represents 86% from the total internal public debt. Most of these loans were contracted for short term (approximately 92% from total internal public debt).

During the year 2003, the internal public debt was of 114901 milliards lei, from which 92,1% being generate by financial deficit. In 2004 years, the internal public debt has of 145627,9 milliards lei. During the year 2005, the limits for the internal public indebtedness was 11000, 0 millions lei (RON). The covering degree of this ceiling was at 31 December 2005 of 87,6%. The internal public debt was of 16350,6 millions lei.
Table no. 1: The evolution of Internal Public Debt since 2002 (milliards lei)

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Public Debt (in total amount)</th>
<th>Directly Internal Public Debt</th>
<th>Internal Public Debt (with governmental guarantee)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Values</td>
<td>%</td>
<td>Values</td>
</tr>
<tr>
<td>2002</td>
<td>118067,7</td>
<td>92%</td>
<td>9633,9</td>
</tr>
<tr>
<td>2003</td>
<td>114901,0</td>
<td>92,1%</td>
<td>7957,7</td>
</tr>
<tr>
<td>2004</td>
<td>145627,4</td>
<td>84,5%</td>
<td>22597,1</td>
</tr>
<tr>
<td>2005</td>
<td>163506,0</td>
<td>85,1%</td>
<td>24339</td>
</tr>
</tbody>
</table>

Source: Dates remaking after the economics index of Ministry of Public Finance

The legal framework of external public debt was defined by Law no. 81/1999 about public debt, as part of public debt of the state which represent the totally obligations of the state from the external capital market, directly contracted or with state guarantee.

The external governmental debt is constituted from totality of financial state obligations, resulting from the loans contracted directly or guaranteed by the state from physical or juridical persons who do not reside in Romania. As follows as negotiation with European Union, through Position Document about 11 Chapter - Monetary and Economic Union, Romania has make a pledge that, until 31 December 2004, it will be modified Law no. 81/1999 about public debt, thus because it is necessary to correlate the provisions with European Union legislation about the interdiction to finance directly the public sector. For making available this agreement, at 29 June 2004 was ratified a new law about public debt.

Increasing, year after year, the external public debt has been made on the strictness base for contracting the external credits and, also in limits that can not exceed the state capacity to assure public debt service, respectively to repay the capital rate, interests and commissions. For this, annually is establish the ceiling for external public indebtedness, which is delivery to be approved by the Romanian Parliament and it amount was establish at 3,5 milliards Euro and the equivalent in USD was agreed from International Monetary Fond like profitableness criteria.

Figure no. 1: External public debt structure at 31 December 2004

Source: Dates remaking on the www.mfinante.ro
From this analyze we can observe that external public debt increase from 7684,3 millions USD during the year 2001 until 13964,8 millions USD at the end of the year 2004, and this because the news credits contracted, also the appreciation of Euro over USD.

During the July 2004, the Managerial Council of International Monetary Fond has approved spread out during two years term, for a new stand-by agreement with Romania. The principal’s aims were:

- maintaining the deficit of current account at the sustainable limits;
- maintaining the currencies reserves at a comfortable level.

Also, from our country which wants to adhere at European Union in 2007 this agreement implies the measures for improvement the government, business climate and finalizing the privatization order.

During the year 2004, it was contracted/guarantee from the state external credits. The destination of those was to eliminate the effects of flood, to building the sports halls, for educational infrastructures, for the project “economy based on knowledge”, for decrease the risk of natural calamities and for the reform of flood sector. The loans with state guarantee was direction on the transportation and communications, power sector, environment protection, health, public order and national security, boundaries security, radio communication, public utilities and environment.

External public debt service for the year 2004 was of 2280,0 millions USD, (44,8/) and for external credits with state guarantee of 1257,5 millions USD (55,21%). From total of service, 1638,3 millions USD represents repayments of capital rate and 641,7 millions USD represents interests and commissions. The previsions for 2005-2008 is that external public debt service will be 2,5-2,7 millions USD.

<table>
<thead>
<tr>
<th>Financial indicators of external public indebtedness</th>
<th>Effectively (%)</th>
<th>Standard (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- the relation between external public debt and GIP</td>
<td>17,3%</td>
<td>50%</td>
</tr>
<tr>
<td>- the relation between external public debt service and GIP</td>
<td>3,2%</td>
<td>-</td>
</tr>
<tr>
<td>- the relation between effectively external public debt and goods and services exports</td>
<td>46,7%</td>
<td>200%</td>
</tr>
<tr>
<td>- the relation between external public debt service and goods and services exports</td>
<td>7,6%</td>
<td>20%</td>
</tr>
<tr>
<td>- the relation between external governmental debt and GIP</td>
<td>14%</td>
<td>-</td>
</tr>
<tr>
<td>- GIP during 2004</td>
<td>2341400 millions USD</td>
<td></td>
</tr>
<tr>
<td>- exports of goods and services</td>
<td>29907,8 millions USD</td>
<td></td>
</tr>
<tr>
<td>- medium currency exchange lei/USD</td>
<td>32637 lei/USD</td>
<td></td>
</tr>
<tr>
<td>- currency exchange at 31 December 2004 lei/USD</td>
<td>29067 lei/USD</td>
<td></td>
</tr>
</tbody>
</table>

Source: Dates remaking on the www.mfinante.ro
In accordance with these financial indicators, Romania is one of the countries with a sustainable public debt. Sustainability of external public debt it is demonstrated by the evolution of relationship between the external public debt and GIP, these means that indebtedness degree was and is much under the level recommended of 50%.

4. **Forms of Local Public Debt**

As Romania accedes to the EU, it is necessary that the local public administration authorities should develop public policies that should leave to a considerable economic increase. Private and public investments should be made on this direction to modernize the infrastructure. The local development projects should be sustained by local budgetary resources as their own revenues, mainly from taxes, fees, income and transfers from the State Budgets. Local administrations have low own revenues and the possibilities to increase the local taxes and fees for increasing their revenues are limited by law. Therefore, local authorities must find alternative financing sources. These would be:

- unredeemable internal and external funds, financing from European structural funds (PHARE, ISPA, SAPARD)
- public and private parteneriate.

These alternatives are hard to implement, this is why local authorities can only contract loans from various creditors which are paid back at a certain deadline and involve a certain interest. The legal framework is the Law no. 189/1998 regarding the public local financing, Law no. 215/2001 regarding the local public administration and Urgency Order of Govern no. 45 /2003 regarding the public local financing. These normative acts ensure the financial autonomy of local collectivities. In conformity with article 57 of the Urgency Order of Govern no. 45 /2003, "in order to achieve public investments of local interest, Local Councils, Municipalities Councils, General Council of Bucharest according to the case, may approve contracting internal and external loans on short, medium and long-term and may guarantee them for economic agencies and public services in suborder". The decision-making authorities at the administrative-territorial units level may contract internal loans without a governmental guarantee but with the prior notice of the Ministry of Public Finances, yet external debts may be contracted directly or guaranteed by the local public administration authorities only with the approval of the board that authorizes such loans, made up of the representatives of the public administration authorities, of the Government and of the Romanian National Bank and approved by the Government. The local public administration authorities may benefit also by subcontracts of the local authorities.
Table no. 3: The relations between local revenues and loan borrows by the local public administrations

<table>
<thead>
<tr>
<th>Years</th>
<th>Total; revenues (milliards lei)</th>
<th>Loans (milliards lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>58,6</td>
<td>-</td>
</tr>
<tr>
<td>1992</td>
<td>199,7</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>712,5</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
<td>1767,2</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>3336,5</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>4998,5</td>
<td>46,9</td>
</tr>
<tr>
<td>1997</td>
<td>10468,5</td>
<td>49,4</td>
</tr>
<tr>
<td>1998</td>
<td>13454,2</td>
<td>72,9</td>
</tr>
<tr>
<td>1999</td>
<td>22243,7</td>
<td>362,6</td>
</tr>
<tr>
<td>2000</td>
<td>33445,0</td>
<td>27,8</td>
</tr>
<tr>
<td>2001</td>
<td>71195,7</td>
<td>217,6</td>
</tr>
<tr>
<td>2002</td>
<td>93227,7</td>
<td>551,3</td>
</tr>
<tr>
<td>2003</td>
<td>130781,0</td>
<td>2392,0</td>
</tr>
</tbody>
</table>

Source: The statistical book of Romania from 2004

From the analysis of the presented data, one may notice an increase in loans, especially starting with 1998. This was mainly because of the administrative reform, from a financial perspective starting from the adoption of the Law 189/1998 regarding the local public.

The authorities of local administration which ask the authorization for contract loans must present to commission the follow:

- technical and economical documentations for the investments objective which financial its assure totally or partially from extern loans;
- the decision of the local authority;
- a prevision budget for the actually financial year and for the next free years which must estimated the level of proper revenues of local budget, the amounts detracted from the income tax, the entries on local budget of internal and external loans, as well as the local expenditures with the service with local debt.

Contracting the external loans from the local authorities with governmental guarantee its realizing on documentation base, which we have mention, also the guarantee letter which suppose:

- the project of commercial contract which will be sign with the winner society of auction; the auction will be organize by the local authority of local community;
- the project of loan accord which must present the entire value of loans, the terms of repayments, the level of interests, also other costs.

The local debt is not an obligation for the Government, being repay exclusively by the local authority through the revenues which having been guarantee respective by the local authorities. The documents
which demonstrate the local debt having a stipulation that the local authority pledge oneself to repay
the debt, also the interests, commissions only by using the incomes of local budget. The local
authorities can not using the credibility and capacity of impose taxes of Government to make the loans
for financing the local investments.
The loans of authorities of local public administration on internal capital market dating since 2001
when the city hall from Predeal and Mangalia having made bond issues amounting of 15 milliards lei,
with an interests approximately of 37 %. Those loans having made by the local authorities with the aim
to modernize the cities infrastructure: rebuilding the roads, modernizing and extension the networks of
waters, gaze and drains, sky and artificial snow installations.
This source of financing became common, today having been utilizing by the majority of local
administrations.
The positive effects of indebtedness using like source of financing the investments the loans can be
synthetically the follow:
• the increase the welfare of citizens making investments;
• public and private parteneriate with an active implication of commercial societies to
administrative-territorial units development;
• the profitable investments which generate new place of work;
• the tourism development financing the cultural objectives;
• a lowest pressure exert from local authorities on Government about the transfers from the state
budget to the local budgets.
The indebtedness presents also the negative effects:
• generate extra-local public expenses with the interests and commissions;
• increasing the indebtedness of local authorities, means in fact the increase the debt of new
generations. Even if the opportunities of public investments in public goods must be done
under the questions, the effective exploitations are not profitable in material field; earning is in
intellectual field (education case) and increase the health care of population.
We consider that the equilibration of local budget through indebtedness implies a greater responsibility
for the authorities of local administration in utilizing with efficiency and rationality the local resources.
The actual legal framework its insufficient develops; it have not the provisions about the insolvability
of local administration. It’s necessary to have the provisions about the administration of one local
administration which is insolvable, as well the relations and its rights in comparison with the creditors
for the obligations payments.

5. Conclusions
For Romania the accession during 2007 to the European Union is very important so, it’s a political and
a moral duty for our political class to make all its necessary to touch this aim. On the financial point of
view the public governmental debt is sustainable, such as we demonstrate in our paper, but, on long
term, if the authorities will not be capable to sustain at the acceptable level the public governmental
debt, the negative effects will be reflects on the next generations. For local administrations it’s a
concrete modality to sustain the development of the territorial-administrative units. Also, it is necessary
to enrich the legal framework at this level because, actually, the authorities are restrained to make loans for local investments.

The indebtedness represents for the local authorities a viable modality to sustain the investments projects, a contra-weight for transfers and subventions received from state budget. Development of legal framework and the implementation of some strategies on long term about the possibilities to financing the investments projects constitute a modality to make the authorities responsible for the financial development of local communities.

References:

Mosteanu, Tatiana (1997), Budget and Public Treasury, E. D. P. R. A


*** Law no. 313/2004 about public governmental debt.

*** Law no. 340/2004 about the institution of Prefect.

*** Urgency Order of Govern no. 45/2003 about local public finance.

*** www.mfinante.ro