Current Risk of Budget Deficit,

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Abstract

To correct the serious imbalances accumulated before the crisis from 2014 to 2010 there were taken a number of tough but necessary reforms that have created today's macroeconomic situation.

The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purposes since the middle of 2015. Accelerating them represents a threat to financial stability or a danger to economic performance.

One of the risks that could materialize because of it is the risk of budget deficit and public debt.

Keywords: risk, public debt, GDP, budget deficit

JEL Classification: H12, H62, H63

Introduction

The Convergence criteria, known as the Maastricht criteria, enable Member States of the European Union to enter the third stage of Economic and Monetary Union (EMU),stage in which they can adopt the euro. Maastricht criteria are considered a necessary precondition but not sufficient for adopting the euro.

Romania meets all five criteria of the Maastricht: inflation, interest on long-term budget deficit, public debt and exchange rate stability.

Romania also with Rep. Czech and Poland fulfills 13 of the 14 criteria contained in the so-called "Dashboard", followed by the European Commission.

Among EU member states, Germany, Netherlands, Austria, Sweden and Finland fulfill fewer criteria than Romania.

To correct the serious imbalances accumulated before the crisis from 2014-2010 there were taken a number of tough but necessary reforms that have resulted in today's macroeconomic situation. If the lessons of the crisis are ignored, forgotten, everything that was achieved with so much effort, sacrifice will be lost, will be canceled. The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purpose since mid-2015.

BNR reports on financial stability contain a full and sever analysis of the risks that could damage the economic macrostability, and financial stability.

Intensifying populist legislative initiatives on the line from the middle of last year until now, represents a risk to financial stability or a danger to economic performance. One of the risks that could materialize because of it is the risk of budget deficit and public debt.

Romania develops into an international context, so any improvement in macroeconomic parameters means a funding more abundant and less expensive and worsening their will cause investors to make investments in other countries.

Indebtedness in the EU

Measurement of the indebtedness of public debt means analyzing the evolution of public debt compared with that of an economy and way of covering the risk of solvency.

The indicator public debt / GDP is the most widely used indicator for measuring the level of debt in relation to the country's economic activity. Romania's indebtedness continues to be lower than indebtedness registered in other European national economies.

Worrying is the tendency to accelerate, thus requiring an analysis of the sustainability of public debt and budget deficits.

Following the selection of the data presented by the national statistics office of the EU, it can make a comparison between Member States, an analysis of our positioning in the European context and analysis of developments occurring on the economic crisis and recovery from crisis.

In EU, upon accession, Romania had one of the lowest levels of public debt (19.8% of GDP in 2007 and 20.9% in 2008). From 2009 to 2011 there was a high budget deficit, which has resulted in doubling of public debt (39.5%). For the period 2014 to 2015 public debt, "stabilized" at a level of 44.3%, which positions it below the European average and acceptable limits of the nominal convergence criteria. In the first two quarters of 2016, the public debt reached 318,471.8 million lei at a level of 42.0%.

In the EU, the average level of public debt, from 2010 to 2015, as submitted by Eurostat, showed an upward trend from 10.038 billion euro to 12.478 billion euro increased by 24.3% respectively. In the same period, the GDP in the EU has seen a similar trend but not so accentuated, the increase was only 14.31%, from 12.794 million euro to 14.625 million euro.

In the analyzed period, the growth of public debt exceeded the growth rate of the economy both nationally and at EU level. The average level of the ratio of government debt to GDP in the EU in 2010-2015, well above the 60% of GDP Maastricht Treaty (increased from 78.36% in to 85.32% in 2015)

It finds that at EU level,17 states of the 28 member states exceeded the benchmark on public debt 60% of GDP set by the Maastricht Treaty, namely Greece, Italy, Portugal, Cyprus, Belgium, Spain, France, UK, Croatia, Austria, Slovenia, Ireland, Hungary, Germany, Holland, Malta, Finland.

In 2012 Germany was close to the 80% threshold, which is why he started a program reducure debt. German model was inspired by Czech public debt to GDP reached 40.32% in 2015.

Poland's economy resembles in structure and size of our economy. Although Poland has taken drastic measures to reduce public debt and has not experienced any economic downturn in the crisis in Europe in 2013 indebtedness reached 55.68% and fell back to 51,14% threshold de- until 2015.

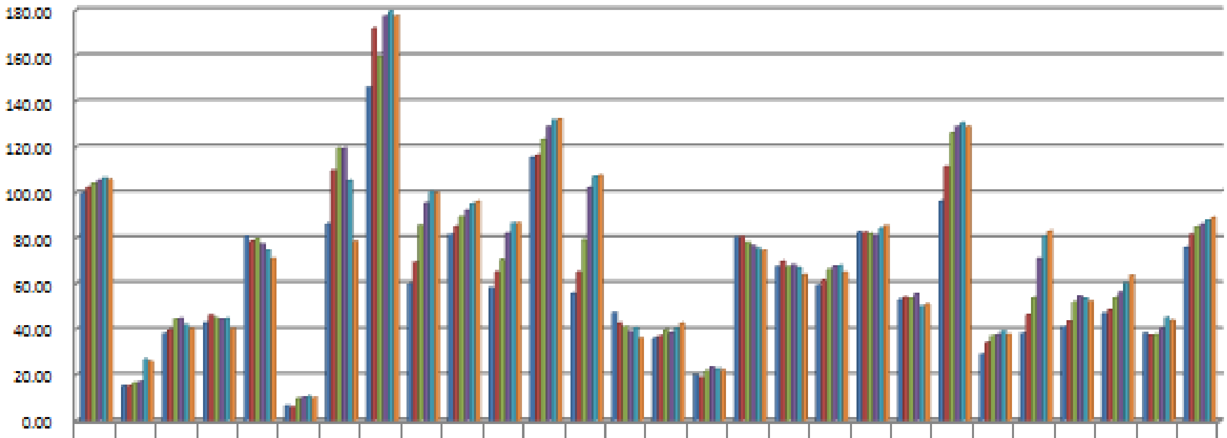
Ireland, in the period that has faced massive financial problems of government debt increased from 23.9% of GDP in 2007 to 120.2% of GDP in 2012. The increase in debt was stopped in 2012 and the 2014 witnessing a trend reversal namely fell to 107.5% of GDP, reaching 78.62% of GDP in 2015.

Spain's public debt in the period 2007-2014 grew by 64 percent of GDP; it is an example of deterioration in the exposure of the public budget and how to reach the threshold of 100% (99.77%) in a very short time.

From 2015 to 2010, the EU countries introduced the next evolution in what concerns the public debt, deficit to GDP and the ratio of government debt to GDP and between deficit and GDP, according to data from Eurostat (annexes 1, 2,3).

Graphical representation of indebtedness of EU countries in the period 2010-2015 is shown below.

Figure 1 Evolution of indebtedness of EU countries in the period 2010 - 2015



	BE	BG	CZ	DK	DE	EE	IE	GR	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	GB
2010	99.	15.	38.	42.	80.	6.5	86.	146	60.	81.	58.	115	55.	47.	36.	19.	80.	67.	59.	82.	53.	96.	29.	38.	41.	47.	38.	75.
2011	102	15.	39.	46.	78.	6.0	109	172	69.	85.	65.	116	65.	42.	37.	18.	80.	69.	61.	82.	54.	111	34.	46.	43.	48.	37.	81.
2012	104	16.	44.	45.	79.	9.7	119	159	85.	89.	70.	123	79.	41.	39.	21.	78.	67.	66.	82.	53.	126	37.	53.	52.	53.	37.	85.
2013	105	17.	44.	44.	77.	10.	119	177	95.	92.	82.	129	102	39.	38.	23.	76.	68.	67.	81.	55.	129	37.	71.	54.	56.	40.	86.
2014	106	26.	42.	44.	74.	10.	105	179	100	95.	86.	131	107	40.	40.	22.	75.	66.	67.	84.	50.	130	39.	80.	53.	60.	45.	88.
2015	105	26.	40.	40.	71.	10.	78.	177	99.	96.	86.	132	107	36.	42.	22.	74.	63.	65.	85.	51.	128	37.	83.	52.	63.	43.	89.

In 2015, indebtedness increased compared to 2014 for 10 EU Member States (Finland, Slovenia, Lithuania, Austria, United Kingdom, France, Poland, Cyprus, Italy, Croatia) and decreased for other EU countries: Greece (-62.29%), Ireland (-26.63%), Latvia (-4.4%), Denmark, Germany, Malta, Netherlands, Czech Republic, Portugal, Romania, Sweden, Slovakia, Hungary, Bulgaria, Belgium, Luxembourg, Estonia and Spain.

At the end of 2015, the largest leveraged (PD/GDP) registered Greece (debt reached a rate of 177.39% of GDP) followed by Italy (132.28%), Portugal (128.99%), Cyprus (107.52%) and Belgium (105.76%).

The least indebted state was Estonia with a debt level of 10.05% of GDP, followed by Luxembourg (22.09%), Bulgaria (26.02%), Latvia (36.33%) and Romania (37.89%).

Measuring indebtedness, the ratio of public debt to gross domestic product, for our country reached 37.89%, calculated according to the methodology ESA 2010, 2015 puts us in fourth place in the EU Member States.

Public deficit in the EU

In the period 2010-2015, the average deficit in the EU, showed a downward trend, from 818.816 million to 351.000 million euro, this means a decrease of 57.13%.

In 2015, in the EU the government deficit (net borrowing of the sector consolidated government as a share of GDP) decreased compared to 2010, while public debt has increased both in relation to GDP and absolute terms from 10.038 mld euro to 12.478 billion euro.

The average level of government deficit to GDP ratio in the EU fell from -6.4% in 2010 to -2.4% in 2015, a level that falls within the 3% of GDP Maastricht Treaty.

However, in 2015, 6 Member States (Greece, Spain, Portugal, UK, France, Croatia) recorded deficits that exceeded the -3.0% of GDP, only 4 Member States (Luxembourg, Germany, Sweden and Estonia) recorded fiscal surpluses, while 18 Member States (Lithuania, Czech Republic, Romania, Austria and Cyprus Latvia, Malta, Hungary, Denmark, Bulgaria, Netherlands, Belgium, Poland, Italy, Slovakia, Slovenia Finland) have deficits not exceeding -3.0% of GDP.

In 2016, the budget deficit threshold of 3% will be exceeded by eight EU member European countries (Italy, Spain, Portugal, Belgium, Cyprus, Finland, Lithuania, Slovakia).

Italy will record a budget deficit (-2.6% in 2015) over the allowed limit in the EU, due to cost recovery settlements affectation string of earthquakes this year and pressure from migrants crisis in the peninsula.

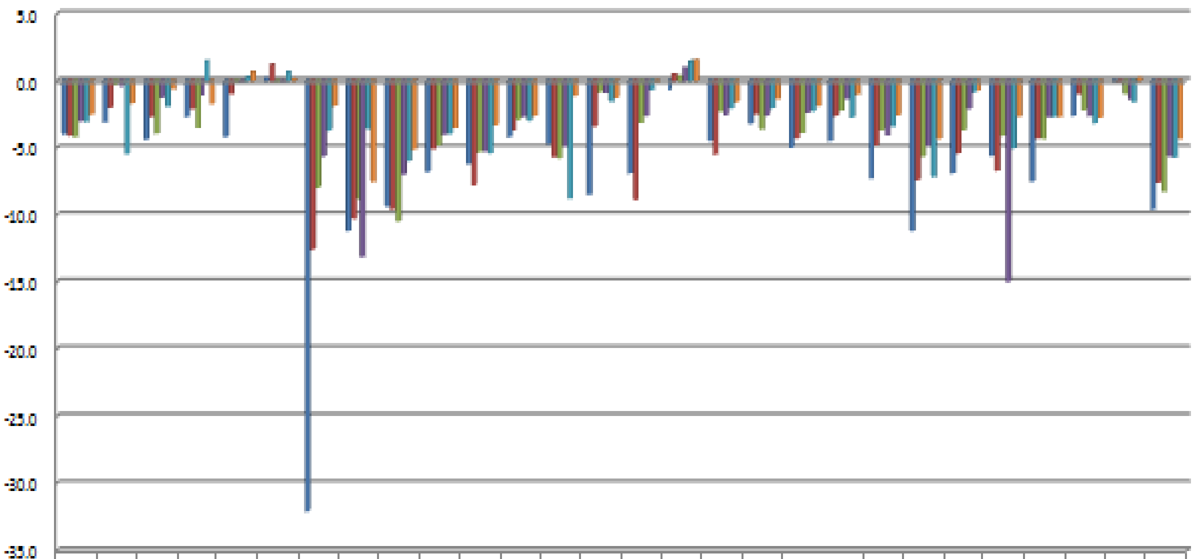
Portugal and Spain will be an increase in the budget deficit (-4.4% and -5.1% in 2015) due to the political climate, of the changes on the political scene that emphasized spending.

The European Commission, the EU's executive forum was flexible in these two states failed to apply rigorous budget deficit rules giving them a respite for balancing budgets.

The relationship between GDP and the budget deficit shows the extent to which economic development is sustainable in terms of resources and debt.

The graphical representation of the relationship between deficit and GDP of the EU countries in the period 2010-2015 is shown in the chart.

Figure 2 The evolution of the relationship between deficit and GDP of the EU countries registered during 2010-2015



	BE	BG	CZ	DK	DE	EE	IE	GR	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	GB
2010	-4.0	-3.1	-4.4	-2.7	-4.2	0.2	-32.	-11.	-9.4	-6.8	-6.2	-4.2	-4.7	-8.5	-6.9	-0.7	-4.5	-3.2	-5.0	-4.5	-7.3	-11.	-6.9	-5.6	-7.5	-2.6	-0.1	-9.6
2011	-4.1	-2	-2.7	-2.1	-1	1.2	-12.	-10.	-9.6	-5.1	-7.8	-3.7	-5.7	-3.4	-8.9	0.5	-5.5	-2.5	-4.3	-2.6	-4.8	-7.4	-5.4	-6.7	-4.3	-1	-0.1	-7.6
2012	-4.2	-0.3	-3.9	-3.5	0.0	-0.3	-8.0	-8.8	-10.	-4.8	-5.3	-2.9	-5.8	-0.8	-3.1	0.3	-2.3	-3.6	-3.9	-2.2	-3.7	-5.7	-3.7	-4.1	-4.3	-2.2	-1.0	-8.3
2013	-3.0	-0.4	-1.2	-1.1	-0.2	-0.2	-5.6	-13.	-7.0	-4.0	-5.3	-2.7	-4.9	-0.9	-2.6	1.0	-2.6	-2.6	-2.4	-1.4	-4.1	-4.8	-2.1	-15.	-2.7	-2.6	-1.4	-5.7
2014	-3.1	-5.5	-1.9	1.5	0.3	0.7	-3.7	-3.6	-6.0	-4.0	-5.4	-3.0	-8.8	-1.6	-0.7	1.5	-2.1	-2.1	-2.3	-2.7	-3.4	-7.2	-0.8	-5.0	-2.7	-3.2	-1.6	-5.7
2015	-2.5	-1.7	-0.6	-1.7	0.7	0.1	-1.9	-7.5	-5.1	-3.5	-3.3	-2.6	-1.1	-1.3	-0.2	1.6	-1.6	-1.4	-1.9	-1.0	-2.6	-4.4	-0.8	-2.7	-2.7	-2.8	0.1	-4.3

In the period under review, the highest deficits reported to GDP was recorded in Greece (2010, 2011, 2013, 2015), Portugal (2010), Spanish (2012), Slovenia (2013) Cyprus

(2014). In 2015, the largest budget surpluses, recorded Luxembourg (1.6%) and Germany (0.7%).

Luxembourg recorded a budget surplus throughout the period analyzed and two other member states Germany and Estonia, only in 2014-2015. Germany had a budget surplus indebtedness above the threshold of 60% of GDP (74.85% and 71.15% of GDP in 2014 and 2015).

In 2015, the deficit ratio exceeded -3.0% of GDP in six EU member states. The largest government deficits (as a percentage of GDP) were recorded in Greece (-7.5%), Spain (-5.1%), Portugal (-4.4%), UK (-4.3 %), France (-3.5%) and Croatia (-3.3%).

During the entire period under review, six EU member states have deficits exceeding -3.0% of GDP. In 2015 the largest government deficits (as a percentage of GDP) were recorded in Greece (-7.5%), Spain (-5.1%), Portugal (-4.4%), UK (- 4.3%), France (-3.5%) and Croatia (-3.3%).

The indicator of public deficit reported to gross domestic product of our country, having a level of 0.8%, calculated according to the methodology ESA 2010 places us in 2015 ranked seventh in the 28 member states.

Conclusions

From a budget deficit of 0.8 percent of GDP in 2015 Romania will reach as a result of changes in the Tax Code from a deficit of 2.8 percent of GDP in 2016.

One of the Maastricht criteria (maximum budget deficit of 3 percent) will be breached in 2017 when it will reach 3.3-3.4 percent of GDP, risking triggering the excessive deficit. procedure. Among EU member states, next year's deficit will exceed the threshold of only Italy, Spain, Portugal, Belgium, Cyprus, Finland, Lithuania, Slovakia.

The European Commission, the EU's executive forum was flexible with Spain and Portugal and did not applied rigorous budget deficit rules giving them a respite for balancing budgets.

The European Commission hasn't effectively penalized so far any EU country, but private investors will provide money expensive state.

The budget deficit of Romania in 2016 will not be allowed to exceed 3 percent of GDP, which is why public investment will be sacrificed to sustainable growth.

Now in Romania, coverage growth is over, so under the circumstances the budget deficit should be close to zero. From this level, a new crisis may increase the budget deficit without exceeding the threshold of 3 percent of GDP.

To preserve the current level of public debt, budget deficit required is around 1.8 percent of GDP. If public debt is currently about 37.89 percent of GDP, any deficit above this level will appropriating public debt ceiling of 60 percent of GDP, considered the alert level for emerging markets. This level of alert is not difficult to achieve:

- From 2008 to 2012 Romania's public debt increased from 13 percent signed up to 37 percent of GDP.
- From 2007 to 2014 Spain's public debt increased by 64 percent rise in GDP.

Intensifying populist legislative initiatives on the line from the middle of last year until now, represents a risk to financial stability or the dangers that threaten economic performance.

Consequently, without necessarily leading to a crisis, one of the risks that could materialize is the risk of budget deficit and public debt. Eliminating these risks, avoiding a new crisis that will require painful adjustments, meansustainable development of Romania.

This paper has been developed within the period of sustainabiliy of the project entitled "**Horizon 2020 - Doctoral and Postdoctoral Studies: Promoting the National**

Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research", contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**

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