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External Debt of Romania

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Abstract

External loans, badly used, don't help the economic development of a country but can have as negative effects the disturbance of the activities in the economy, the reduction of the access to external loans, the flight of the capitals, the diminution of the internal economies and implicitly the economic decrease. Therefore, at the level of each country, solid institutions are needed that can manage the external debt so as to minimize the risk of crises, in order to avoid the increase of external taxation or the need for a rapid increase of the external debt. External debt management has repercussions in economic policy, specifically monetary and budgetary policies and foreign exchange, trade, and decide the volume of external loans that need to be contracted. The aim of the paper is to analyze level and structure of Romania's debt and to reveal those methods of external debt management which bring economic benefits to our country.

Key words: public debt, external debt, debt management
J.E.L. classification: H62, H63, E62

1. Introduction

The sharp increase in external public debt in the medium and long term as a result of the increase in external loans is a factor that negatively influences the external balance, along with the increase in the current account deficit. Mass indebtedness entails an increase in costs, and implicitly in the risks associated with the repayment and sustainability of external debt. Also, the increase of the external debt generates risks at the microeconomic level with effects on the Romanian banking sector and the increase of the exposure to from the perspective of, but also at the macroeconomic level, from the perspective of the sustainability of the external debt. In the last years, there have been some unfavorable connected phenomena such as the increase in external debt, the unfavorable perception of investors, the high cost of external financing, the exchange rate fluctuations, etc. We will follow the evolution of Romania's external debt since the moment of the financial and economic crisis in 2008 and based on the conclusions we will formulate few recommendations.

2. Theoretical background

The financing offer is limited and therefore the beneficiary of loans must choose the best possible combination of financing sources available at a given time, so that they correspond to the financing needs of major projects, but also to the needs of the economy as a whole.

It should also be borne in mind that a debtor country cannot, in general, influence the conditions under which it enters into a debt. They reflect the general characteristics of capital supply and demand and the economic policies of the lending countries.

Between the borrowing rate of a country and the world interest rate, there is a difference that increases in proportion to the worsening of country risk indicators and indebtedness indicators of the country, but also to the value of funds borrowed.

If the country risk approximated by the country rating, given by the rating agencies, is considered to be high (i.e. low country rating), the situation can be reached when the offer of external loans is zero.

Optimizing external financing consists, on the one hand, in obtaining as many loans as possible on concessional terms (this being the cheapest form of financing, but limited by their preferential destination to very poor countries), in the case of public loans, obtained from bi or multilateral sources, and on the other hand, in minimizing the costs of loans obtained under normal conditions (from international bodies, in bilateral relations or on international capital markets), in order to reduce the burden on the economy.

Official loans are usually accompanied by technical assistance, and are granted for longer periods than bank loans, and at fixed and lower interest rates.

Because the terms of a long-term loan are very different, the decision maker has to make some decisions in order to minimize the real cost generated by those funds. The real cost of a loan is a combination of several factors: interest rate, effective interest rate, maturity structure, calculated fees, annual cost, composition of currencies in which the loan is granted, drawdown scheme, grant element, total cost.

In addition to these factors, the decision-maker must take into account other qualitative criteria, such as: withdrawal procedures, planned repayment scheme, nature of the program or project being financed, quality of the loan portfolio after the realization of this loan and its impact on debt service.

If the loan is made to finance a certain investment project, the annual cost will have to be analyzed in correlation with the rate of return of the project, considering as a cost element the debt service related to the loan.

The nominal interest rate is part of the terms of the contract, and represents the annual cost paid for the amount actually drawn, less the amortizations already paid from that loan.

A high interest rate on external loans increases the service of external debt, ensuring its sustainability by obtaining other loan sources (uninspired solution given the effect of increasing the level of indebtedness), debt rescheduling (which may mean postponing the crisis) or increasing export earnings.

In order to determine the most appropriate structure of external debt, designed to reduce the burden on the economy, it is important to make decisions on the ratio between fixed-rate and floating-rate debt instruments. It is generally difficult to obtain medium and long term fixed rate loans.

If the interest rate is fixed, the borrower can determine the cost of the loan based on the drawdown schemes. The ratio between future interest payments and the relative projection of export earnings is a useful indicator, especially for forecasting the possibility of vulnerabilities in the country.

If the interest rate is variable (floating), the uncertainty of the costs and, consequently, of the utility and performance of the loan is manifested.

The most important risk that the interest rate introduces in debt management is the influence that the change of the inflation rate exerts on it, as well as of the exchange rate. An effective method of eliminating this risk is to calculate the costs generated by the loan based on the determination of the present value.

The maturity structure is divided into two distinct periods: the grace period and the repayment (or amortization) period, during which the loan is repaid.

When taking out a new loan, it is important to analyze its impact on the total loan portfolio, taking into account the maturity structure.

Thus, care must be taken that the debt service maturities of the new loan do not overlap with those of the other loans, so that the burden of the payment requirement becomes unbearable. The debt manager will have to plan the debt service payments, taking into account the maturities of each credit, in correlation with net foreign exchange inflows from commercial activities (exports) and financial activities (net capital inflows), as well as with reserves available to the National Bank of Romania.

Commercial loans involve many types of fees: agency fees, management fees, (for the bank that determines the terms of the loan), fees for the legal part, stamp duties, (according to the law or the country where the contract is concluded).

Some of these fees are in the form of a fixed amount, which is paid on the date of the contract, but most are a percentage of the loan amount and can be paid annually.

The total cost of the loan is used when it is more difficult to determine the present value of the loan, and applies only to loans with variable interest rates. The total cost of the loan is the annual average of the costs generated by a loan, including interest and all related fees. (Expressed in basis points compared to a base rate, such as LIBOR).

In general, the lower the total cost of the loan, the more convenient the loan is for the beneficiary. But in order to judge the effectiveness of a loan, several criteria will have to be taken into account, especially when comparing several lending alternatives.

The loan portfolio that forms the effective external debt (withdrawals minus principal repayments) of a state can consist of a wide range of currencies, depending on the sources of financing and the contractual conditions.

The foreign exchange structure of the external debt is one of the important aspects that must be taken into account in the external debt management process considering both the parity of each currency compared to the other convertible currencies and their predictable evolution.

The determination of the foreign exchange composition of the new loans must ensure that the exposure to foreign exchange risk is minimal, and take into account the structure of the country's foreign trade and foreign exchange reserves. Thus, the country should borrow in the currencies in which its exports are paid, and hold international foreign exchange reserves in the currencies needed to regulate imports.

Having a permanent and a capital importance, the subject of debt is treated in numerous studies and articles. Studies like (Gosh *et al*, 2011,). look indebtedness limits in the case of developed economies and debt adjustment to achieve sustainability and a wider fiscal space. As poor countries are often heavily burdened, with a steady increase in debt, (Krugman, 1988,) looks at ways to reduce debt for developing countries. (Reinhart *et al*, 2011,) shows that in the conditions in which the public debts but also the private ones are at higher levels than ever their reduction or restructuring must take into account the negative effects that may occur. For the case of Romania an analysis of the risks and sustainability of medium and long term debts contracted following the economic and financial crisis of 2008 through the analysis of the economic situation of Romania is done by (Zaman, 2010.)

3. Research methodology

To conduct research on the problem of Roamnian external debt, the paper analyzes data using comparative, analytical, descriptive method and the use of a set of information sources, collecting financial data in databases, based on monthly or annual reports, consolidated statistical data provided by the National Bank of Romania and the Eurostat. The study was completed by formulating conclusions related to this financial phenomenon.

4. Findings

4.1. The main characteristics of the Romanian external debt

Because the pandemic triggered by the Sars cov 2 virus is an extremely rare event, which is likely to occur once in one hundred years, we will analyze economic developments in two separate periods. Namely the interval between the years 2008-2019, i.e. the period elapsed between the onset of the economic and financial crisis of 2008 and the crisis triggered by the COVID 19 pandemic and the two years (2020 and 2021) since the onset of the pandemic.

Total external debt increased extremely rapidly in the first years after Romania's accession to the EU, due to the lack of domestic capital and the fact that EU inclusion gave Romania credibility and allowed it to access funds with favourable credit conditions, reaching 76% of GDP (in year 2011), but subsequently, as a result of economic growth, increased exports and declining budget expenditures (wage cuts), the total external debt reached 48% of GDP in 2019.

From 2013 the external debt and its components started to decrease, a trend that continued in 2014 and 2015 (for total external debt), in 2015 (for short-term external debt) and throughout 2013-2018, for external debt medium and long. In 2019, the year before the pandemic began, there are again increases in total external debt, direct public debt and private debt.

Medium and long-term external debt accounted for most of Romania's total external debt, which shows a favourable structure for the sustainable development of the national economy, because debt payment is made over a long period of time, does not unbalance the budget of state and does not jeopardize its development projects.

Until 2011, medium and long-term loans were used to offset the current account deficit, which was paid in 2011 (this contributed to the creation of the balance of payments deficit).

Given the different evolutions of public and private debt following the crisis (private debt has been in a downward trend since 2009 and public debt is on an upward trend) and their weights in long-term external debt have changed if at the beginning public loans had the majority share in the period. In recent years, public loans have the majority share. If we take into account the fact that private loans are made to support imports and public loans to support investment expenditures and salary and pension increases, we can say that the structure of public debt has improved in recent years.

A negative situation for the economy is the high level of credit interest rates in Romania, the result of a combination of factors including the lack of a real competitive environment and the reaction of local banks in the lending process. Therefore, when they had the opportunity, private sector firms borrowed from foreign markets given the lower costs than the domestic market..

Private external debt grew rapidly from 2008 to 2009 but then declined in the following years amid liquidity shortages, economic downturn, creditors' risk aversion caused by the financial crisis and its effects, this having a positive effect on the sustainability of external debt.

Direct external public debt increased almost constantly in 2009-2019, with the strongest increase in 2009-2013, when Romania borrowed almost 20 billion euro from the IMF. This loan was intended for domestic financing, given that the economic and financial crisis has increased investor distrust, with the difficulty and price of loans rising rapidly in the period immediately following the onset of the crisis.

Financial loans from multilateral institutions accounted for most of the medium and long-term external public debt until 2013, and since 2014 the share of funds attracted from multilateral institutions in the long-term external direct public debt has decreased, in favour of bonds, which have become the majority, institutional creditors being replaced by private creditors this having a negative impact on the Romanian economy, given that loans from multilateral institutions have certain advantages, instead of repaying existing external debt, they "roll", In more difficult credit conditions. This shows the need for an external debt repayment strategy. There is also a need for a debt strategy that establishes and uses an optimal ratio between medium and long-term debt and short-term debt, with the burden of external debt service is evenly distributed over time, without burdensome peak payment moments.

In the years 2020 and 2021, as a result of the severe economic disruption imposed by the COVID 19 pandemic, the external debt registered a very high increase due to the decrease of the economic activity in the two months of lockdown, of the amounts necessary to support the necessary medical policies. and economic subsidies for economic agents and certain categories of persons affected by the cessation or diminution of economic activities (especially in the field of tourism), but also of the cultural ones. Thus, in 2020 alone, Romania's external debt increased by over 20 billion euros, and in 2021 by almost 9 billion euros. The increase in 2020 is the largest ever recorded by Romania with a year-on-year increase of 19%. As a percentage of GDP, the total external debt jumped from 47% in 2019 to 57% in 2020, due to both the decrease in GDP but especially the increase in loans contracted by the Romanian state, because in 2021 due to economic recovery, faster growth of GDP than the total external debt this percentage to decrease slightly to 55.9%. The increases in external debt are mainly due to long-term loans contracted in the two years, but also to short-term loans contracted in 2021 in the amount of over 4 billion euros. In the medium and long term, only direct public debt increased significantly, with public guaranteed debt declining and private debt rising slightly compared to the year before the pandemic. Long-term debt service was around € 16 billion lower than in previous years, but short-term debt service grew by two years, with an extreme value of 70 billion euros in 2021. If the downward trend in the economy in the year 2020 would not have been reversed in 2021, registering a rapid economic recovery, a problem could have arisen in the repayment of this record amount. (See Annex Table 1.- Table 2.)

Table 1. The dynamics of Romania's external debt (2008-2021)

Year	2008	2009	2010	2011	2012	2013	2014
GDP	139700	118300	124100	131500	133900	144700	150800
External total debt (mil.euro)	72467	82304	93624	99926	100857	98069	94744
Year-on-year dynamics	25.65%	13.57%	13.75%	6.73%	0.93%	-2.76%	-3.39%
Share in GDP	51.87%	69.57%	75.44%	75.99%	75.32%	67.77%	62.83%
1. Long term external debt (mil. euro)	51874.63	66714.14	74075.03	77131.43	79936.2	78859.7	75829.3
Share in GDP	37.13%	56.39%	59.69%	58.66%	59.70%	54.50%	50.28%
1.1 Direct public debt (mil. euro)	9053.60	12009.1	16184.4	19642.8	23782.0	29069.0	31754.2
Share in GDP	6.48%	10.15%	13.04%	14.94%	17.76%	20.09%	21.06%
1.2. Guaranteed public debt (mil. euro)	1721.00	1517.20	1708.20	1465.80	1423.60	1224.50	1078.30
Share in GDP	1.23%	1.28%	1.38%	1.11%	1.06%	0.85%	0.72%
1.3. Private debt (mil. euro)	35549.40	39187.00	37733.20	36133.30	37182.9	36303.2	34311.6
Share in GDP	25.45%	33.13%	30.41%	27.48%	27.77%	25.09%	22.75%

Year	2015	2016	2017	2018	2019	2020	2021
GDP	159000	170400	187800	204500	223000	218165	240154
External total debt (mil.euro)	92069	92910	97361	99841	105873	125927	134256
Year-on-year dynamics	-2.82%	0.91%	4.79%	2.55%	6.04%	18.94%	6.61%
Share in GDP	57.90%	54.52%	51.84%	48.82%	47.48%	57.72%	55.9%
1. Long term external debt (mil. euro)	71424.5	69644.7	68520.2	68286.4	73646	92826	97043
Share in GDP	44.92%	40.87%	36.49%	33.39%	33.03%	42.55%	40.4%
1.2 Direct public debt (mil. euro)	30940.8	31752.1	33117.5	34498.4	39192	57307	57988
Share in GDP	19.46%	18.63%	17.63%	16.87%	17.57%	26.27%	24.14%
1.2. Guaranteed public debt (mil. euro)	668.90	547.10	432.20	351.40	285.1	219.6	162.7
Share in GDP	0.42%	0.32%	0.23%	0.17%	0.13%	0.10%	0.06%
1.3. Private debt (mil. euro)	33497.8	32453.3	31330.0	30807.5	33209.3	34002.5	34679.5
Share in GDP	21.07%	19.05%	16.68%	15.06%	14.89%	15.59%	14,44%

Source: National Bank of Romania (Author's calculations)

Table 2. Romania's short-term external debt. External debt service (2008-2021)

Year	2008	2009	2010	2011	2012	2013	2014	2015
2. Short-term external debt (mil euro)	20592.4	15589.4	19548.9	22794.7	20921.1	19209.2	18915.0	20644.0
Share in total external debt	28.42%	18.94%	20.88%	22.81%	20.74%	19.59%	19.96%	22.42%
Long term debt service (mil euro)	13056.1	12272.2	14696.4	15138.8	18663.4	26285.7	24103.1	25285.4
Sort term debt service	32519.5	36765.7	29078.9	31093.6	35604.5	33675.1	33915.6	32285.0

Year	2016	2017	2018	2019	2020	2021
2. Short-term external debt (mil euro)	23265.1	28840.5	31554.4	32226.8	33100.8	37213.2
Share in total external debt	25.04%	29.62%	31.60%	30.44%	26.29%	27.71%
Long term debt service (mil euro)	21041.8	19440.2	19131.8	16736.6	16372	15968.4
Sort term debt service	49393.9	41450.9	46688.4	50730.8	55 461,4	70001.8

Source: National Bank of Romania (Author's calculations)

Level of NBR reserve assets showed a well planned strategy to support a reserve currency that can meet the needs of reimbursement and possible occurrence of economic or financial shocks, reserves that increase financial credibility of Romania. It is noted that although Romania has gone through a difficult period after 2008 due to the financial crisis foreign exchange reserves increased continuously from 2008 until 2011 and then to remain around 32 billion euro with small annual variations. Romania's total foreign exchange reserves had several variations from 28 billion euro in 2008 to a maximum of 37.2 billion euro in 2011 so that in the next 4 years Romania has total reserves of about 35.5 billion euro, in the last 4 years they have been around the amount of 37 billion Euro.

In 2020 and 2021, the National Bank of Romania decided to increase foreign exchange reserves (and implicitly international reserves) by 3 and 5 billion euros, respectively, in order to reduce the probability of default, and to maintain the confidence of foreign investors and creditors, and to obtain loans on favorable terms. (See Table 3.)

Table 3. Romania's total internat. reserves and internat. foreign exchange reserves (2008-2021)

Year	2008	2009	2010	2011	2012	2013	2014
Total international reserves (mil euro)	28269.93	30858.57	35950.66	37251.77	35412.98	35434.48	35505.66
Inter. foreign exchange reserves (mil euro)	26133.92	27321.48	31637.96	32737.31	31091.88	32496.99	32199.84

Year	2015	2016	2017	2018	2019	2020	2021
Total international reserves (mil euro)	35485.05	37905.41	37106.67	36800.20	37450	40752.2	45830.7
Inter. foreign exchange reserves (mil euro)	32227.02	34241.60	33494.5	33064.7	32926.7	35830.0	40475.3

Source: National Bank of Romania (Author's calculations)

4.2. International comparisons

For 2019, Romania's government gross external debt as a percentage of GDP was one of the lowest of the EU countries of only 35.3%. Eastern European countries have low degrees of indebtedness compared to Western European ones. Thus the same indicator was for Bulgaria 20.0%, Czech Republic 30.1%, Estonia 8.6%, while PIGS countries have a high degree of external indebtedness Portugal 116.6%, Italy 134.1%, Greece 180.7%, and Spain 98.3%.

In 2020, as a result of declining global economic activity and the growing need of governments to cope with the pandemic, there is an increase in government debt in all EU countries, but in 2021 as a result of the economic recovery the percentage of government debt in GDP will increase. it decreases slightly in most of the EU countries, with all the advance registered Romania still remains in the group of countries with low government debt in relation to GDP. (See Table 4.)

Table 4. General government gross debt (percentage of gross domestic product) - annual data

Country/ Year	2019	2020	2021
Belgium	97.7	112.8	108.2
Bulgaria	20.0	24.7	25.1
Czechia	30.1	37.7	41.9
Denmark	33.6	42.1	36.7
Germany	58.9	68.7	69.3
Estonia	8.6	19.0	18.1
Ireland	57.2	58.4	56.0
Greece	180.7	206.3	193.3
Spain	98.3	120.0	118.4
France	97.4	114.6	112.9
Croatia	71.1	87.3	79.8
Italy	134.1	155.3	150.8
Cyprus	91.1	115.0	103.6
Latvia	36.7	43.3	44.8
Lithuania	35.9	46.6	44.3
Luxembourg	22.3	24.8	24.4
Hungary	65.5	79.6	76.8
Malta	40.7	53.4	57.0
Netherlands	48.5	54.3	52.1
Austria	70.6	83.3	82.8
Poland	45.6	57.1	53.8
Portugal	116.6	135.2	127.4
Romania	35.3	47.2	48.8
Slovenia	65.6	79.8	74.7
Slovakia	48.1	59.7	63.1
Finland	59.6	69.0	65.8
Sweden	34.9	39.6	36.7

Source: Eurostat

Regarding the GDP growth compared to the previous year, in 2019, Romania was in the leading group with a growth of 4.2% together with Ireland 4.9%, Hungary 4.6%, Malta 5.9%, Poland 4.7%, Lithuania 4.6%, high values compared to those of developed countries in the EU: Germany 1.1%, France 1.8%, Italy 0.5%, Austria 1.5%, the Netherlands 2.0%. So we have countries with high

GDP growth and high debt relative to GDP (Ireland, Malta), but also countries with high GDP growth and low debt relative to GDP (Romania, Hungary, Poland), so there is no the link between the growth rate of GDP and the degree of external indebtedness of countries.

In 2020 all EU countries were affected by the pandemic, all (except Ireland) experiencing declining GDP, in 2021 as the virus became less lethal, all EU economies managed to grow, most managed to recover the previous year's loss. Thus, Romania registered a decrease of (only) 3.7% of GDP in 2020, year in which the most affected were the countries with a high contribution of tourism to GDP (Spain, France, Croatia, Italy, Greece, Portugal) and in 2021 Romania managed a growth of 5.9%. (See Table 5.)

Table 5. Real GDP growth rate - volume

Country/ Year	2019	2020	2021
Belgium	2.1	-5.7	6.2
Bulgaria	4.0	-4.4	4.2
Czechia	3.0	-5.8	3.3
Denmark	2.1	-2.1	4.7
Germany	1.1	-4.6	2.9
Estonia	4.1	-3.0	8.3
Ireland	4.9	5.9	13.5
Greece	1.8	-9.0	8.3
Spain	2.1	-10.8	5.1
France	1.8	-7.8	6.8
Croatia	3.5	-8.1	10.2
Italy	0.5	-9.0	6.6
Cyprus	5.3	-5.0	5.5
Latvia	2.5	-3.8	4.5
Lithuania	4.6	-0.1	5.0
Luxembourg	3.3	-1.8	6.9
Hungary	4.6	-4.5	7.1
Malta	5.9	-8.3	10.4
Netherlands	2.0	-3.8	5.0
Austria	1.5	-6.7	4.8
Poland	4.7	-2.2	5.9
Portugal	2.7	-8.4	4.9
Romania	4.2	-3.7	5.9
Slovenia	3.3	-4.2	8.1
Slovakia	2.6	-4.4	3.0
Finland	1.2	-2.3	3.5
Sweden	2.1	-5.7	6.2

Source: Eurostat

In terms of current account deficit (or surplus) Romania in 2019 had a large current account deficit -4.9% - the third in the EU after Ireland -19.9% and Cyprus -5.7, while many other countries current account surpluses were recorded: the Netherlands 9.4%, Denmark 8.8%, Germany 7.6%. in this case we have countries with a high degree of indebtedness that have current account surplus (ex Netherlands, Malta) but also countries with a current account deficit with a high degree of indebtedness (Ireland, Cyprus), we have countries with a low degree of indebtedness and current account surplus (Bulgaria, Croatia, Iceland, Lithuania), but also countries with a low degree of indebtedness and current account deficit (Romania, Czech Republic).

In 2020 and 2021, due to the inability of the economy (industrial and agricultural production) to meet domestic demand, Romania will see an increase in the current account deficit, to 5% in 2020 and 7% in 2021 these being some of the largest values recorded at EU level, in 2021 only Cyprus with a higher deficit (-7.3%). (See Table 6.)

Table 6. Current account balance (percentage of gross domestic product) - annual data

Country/ Year	2019	2020	2021
Belgium	0.2	0.8	-0.4
Bulgaria	1.9	-0.1	-0.4
Czechia	0.3	2.0	-0.8
Denmark	8.8	8.1	8.3
Germany	7.6	7.1	7.4
Estonia	2.5	-0.3	-1.1
Ireland	-19.9	-2.7	13.9
Greece	-1.5	-6.6	-5.9
Spain	2.1	0.8	0.9
France	-0.3	-1.9	-0.6
Croatia	3.0	-0.1	3.1
Italy	3.2	3.7	2.5
Cyprus	-5.7	-10.1	-7.3
Latvia	-0.7	2.9	-2.9
Lithuania	3.5	7.3	1.4
Luxembourg	4.6	4.1	4.8
Hungary	-0.7	-1.0	-3.0
Malta	5.0	-2.9	-6.1
Netherlands	9.4	7.0	9.5
Austria	2.1	1.9	-0.5
Poland	0.5	2.9	-0.6
Portugal	0.4	-1.1	-1.1
Romania	-4.9	-5.0	-7.0
Slovenia	6.0	7.4	3.3
Slovakia	-3.4	0.4	-2.0
Finland	-0.3	0.7	0.7
Sweden	5.5	6.1	5.5

Source: Eurostat

5. Conclusions

In order to increase the accessibility to loans and to obtain good credit conditions, Romania needs a persistent credible image in terms of political, economic and social conditions. This requires a mix of coherent policies to ensure a positive and predictable political and social environment without fractures and sudden changes.

Romania's main economic problems are the inflation rate one of the largest in the EU, the largest budget deficit in the EU, and as we have seen, the current account deficit one of the largest in the EU. With an intelligent use of budgetary resources, investments in those branches that incorporate high added value, investments in transport infrastructure but also the informational one, (and less the increases of social aids, pensions and salaries as at present), which to stimulate economic growth can be supported and therefore implicitly those economic indicators that have an important weight when granting a rating (GDP, GDP per capita, exports, current account surplus, unemployment, etc.). Regarding the reduction of external debt, we can say that as long as there are sustained rates of economic growth and external loans support this growth if the economic growth rate is higher than the effective interest rate it is more natural to follow the decrease of external debt relative to GDP and not the nominal value of the external debt.

To the extent that this desideratum is achieved in terms of investor perception and country rating, the loan portfolio must focus on advantageous loans, terms, grant element, effective interest, etc. Thus, they must be pursued outside a real fixed interest rate as low as possible so that the maturity of the loan is as high as possible so that the repayment effort is as small as possible.

The currency structure of the borrowed amounts must correspond to the currency sources of exports, so 73% of exports go to the EU (euro) and 27% extra EU (usd).

Current trends (increase in long-term loans and decrease in short-term loans, increase in the share of direct public debt in total debt and decrease in the share of publicly guaranteed debt, decrease in the share of loans obtained from bilateral and multilateral institutions and banks decreases over time on the capital market through bond issues increases) are positive and should be continued in the next period. Also, as the external debt increases, it is essential that the total international reserves held by the national bank increase as a necessary security element.

In terms of loans on the domestic market, they can be a quick way to obtain liquidity, but repeated use of this method can result in increased domestic interest rates, companies' access to loans is reduced, the increased cost of capital makes investments decreases, decreases the profitability of companies and thus slows down economic development, so this can be rather a measure to get out of certain difficult economic circumstances.

Because in the year 2022, although the pandemic of Covid-19 seems to be ending, which can give hope for a good global economic development, other threats have appeared instead, namely: the war in Ukraine, the energy crisis, the oil and gas crisis, increased inflation, it is necessary that the policy mix agreed by the governments of our country try to achieve a healthy development of the economy, not based on consumption but on investment. The reduction of budgetary expenditure, especially the salary expenditure of state employees, in particular by making their work more efficient and reducing the number of employees, the orientation of budgetary expenditure towards investments that generate economic growth such as investments in transport infrastructure or IT infrastructure at the level of state institutions. Economic growth resulting from lower wages and some social expenditures could create a so called "virtuous circle", the state budget is balanced, domestic demand is covered by domestic supply, the trade balance is balanced, and the external debt may decrease over time.

6. References

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