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# Consequences of the Budget Deficit in the Current Crisis in Romania. Implications on the Labor Market*

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**Abstract.** *In the current economic activity conditions, in which the need of financial resources is usually higher than the existing funds, the elaborations of budgets at any level is one of the primary issues, particularly as regards the principle of budgetary balance.*

*Approaches regarding sizing budgets deficits, means of financing and particularly sizing public debt get a series of touches of precise nature for different economies. Actual economic, financial, social and administrative conditions put up a series of problems which impose an extremely serious approach of the potential adverse impact by sizing of budget deficits and public debt over the real possibilities of non-inflationary financing.*

*In Romania, in the highly complex framework in which the economic activity takes place, in the attempt to show the place held by the budget deficit, a special role is assigned to determine the share of public financial deficit in the consolidated budget revenue and expenditure.*

*Currently, knowledge and concern for reducing the budget deficit are still of great importance, especially as Romania is facing great difficulties in economic development.*

*Amid deepening structural crisis phenomena, increasing budget deficits financed over a non-inflationary limits comes as an additional factor that contributes to imbalances of the economy. In addition, where*

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*budgetary expenditures are targeted to satisfy, primary, the redistribution function and to state subsidies, because of the lack of a real multiplier coefficient, the state budget deficit worsens.*

*Influences such as introducing economic disturbance in the mechanisms which cause them to increase budget deficits can be summarized and grouped into two broad categories: economic influences and psychological influences.*

*Regarding economic influences, we can say that they act strongly and strictly determined by how meanings used to cover budget deficit. The modalities used are subject to an analysis by direct or indirect influence on the mechanisms that generate economic stability and economic development effort.*

*For example, on the short-term, the budget deficit reduces the national saving, leads to decreased supply of market funds, which increases the interest rates. In this context, the volume of investment decreases, the consumption is reduced, affecting the volume of economic activities and employment.*

*The psychological influences combined with the economic boost caused by budget deficits act directly on financial markets, leading to falling down the values of capital markets and the depreciation of the currencies sometimes sudden for the national currency. Even if the depreciation of the exchange rate is often a method used to equilibrate the commercial balance, an uncontrolled amplification of budgetary deficits can sometimes lead to monetary depreciation. These, over a certain level, can neutralize the benefits obtained in the external plan by strong worsening of the internal imbalances, mainly through the increased inflationary pressures in the economy.*

*So, in current circumstances, when you want to identify and encourage those branches and sub-branches of national economy which can be developed in the global economy, one of the basic decisions regarding the interpretation of economic processes is the adoption of a dynamic and creative concept which considers both requirements to use the fiscal levers in economic development policy and the possibility of modifying the structure of budgetary revenues and expenses.*

**Keywords:** budget deficit; economic and financial crisis; fiscal levels; deficit financing; labor market.

**JEL Codes:** E62, H6, J21.
**REL Codes:** 8K, 13F, 8G.

Approaches regarding the sizing on budget deficits, the means of finance and especially the size of public debt have a series of specificity colors for different economies, especially in the current economic downturn. The globalization allows the liberalization of capital flows, of the investment, trade and labor ones, in the context of the intensified international competition. This makes economic developments in one country to influence and be influenced by economic developments in other countries. Thus, the effects propagated by the current crisis in various economic sectors affects the confidence in the financial system, in the market mechanisms, leading to the installation of uncertainty about the future in the economy. All these may lead to widening the budget deficit, which requires the identification of new opportunities for the income structure and budget expenditure.

The current global economic crisis has important consequences regarding the relevance of the economic theories. This crisis involves giving up the paradigms of modernity obsessed by immediate efficiency, by the immediate financial gain and requires a review of the economic theories and processes (Dinu, 2010, p. 267).

According to the dictionary of economics the budget deficit is a negative balance of the public budget between the received income and the expenditures made by the end of the budget execution (The Staff of the Department of Economics and Economic Policy, 2001, p. 155). The deficit which is based on the difference between the total public expenditure incurred by payments through transfers and the ones for purchase of goods and public services and the amount of tax income is considered the primary deficit.

If to the primary deficit there are added the interest payments on the state loan, noted in the budgeted as public expenditure, there is obtained the total deficit.

## Causes and consequences of the budget deficit

The budget deficit has now become a common phenomenon in many countries, on the background of the public expenses amplification. In Romania, the budget deficit has been lately one of the most difficult problems faced by the economic policy.

In the present circumstances of economic activity, where the financial need is greater than the available funds, the budget elaboration at all levels is one of the primary issues, in particular in keeping the principle of budget balance. In most cases, the budget balance is not achieved automatically through covering the budgetary expenses with the income expenses. In this case we can say that the budget is elaborated with the financing deficit.

When the state budget is related to an economy that ensures full use of labor, we can speak about the cyclically adjusted budget, which represents the surplus or deficit that will exist if the economy ensures the full use of labor meaning that if the national income equals with the potential national income.

The total deficit recorded in one year may be divided into two parts:

- structural deficit, which occurs when the cyclically adjusted budget is in deficit;
- cyclical deficit, which is the total budgetary deficit minus the structural deficit.

The existence of the budget deficit is due to several causes, such as: decreased production of goods and services in the economy, increased spending in order to achieve certain social programs, increasing the invisible sector activity of the economy; the increase of marginal costs of the social production, the of excessive monetary emission and which is not accompanied by economic growth. On the other hand, the budgetary income and expenditure levels are also affected by the business cycle stage. When the economy is contracting, the budget is heading towards the deficit as a result of reducing the amount of the collected income.

Regarding the acceptance or otherwise of the concept that the budget deficit is "harmful" to the economic and social life, there are some controverses over time which have varied significantly.

Basically, over time, economists' views on the effects of the budget deficits on the economic performance of a state were related to two main approaches. On the other hand, it was considered that the deficits resulting from the reduction in marginal rates of the tax have an incentive effect on the labor productivity. On the other hand, the budget deficits have been considered a cause of the economic stagnation and its instability (Romer, 1988, p. 63).

Amid the worsening economic imbalances, the proponents of the state intervention in the economic adjustment mechanisms, in particular by using an increased volume of public spending, have proposed a number of approaches which are mainly a redefinition of the concept of balanced budget and they are trying to propose a number of theories on the role of the budget deficits to stimulate the economic growth processes. Thus, even in theory and in practice, it was proposed the subordination of the financial balance in favor to the general economic equilibrium, considering that the financial balance is just one component of the latter. From this general idea the theory appeared, first formulated by William Beveridge, and called "systematic deficit theory" according to which it can be reached the overall economic balance through the budget deficit.

The theory of systematic deficit is likely to lead to a balanced economic growth, but in practice it is limited, on the one hand, by the borrowing capacity of the state, and, on the other hand, by the efficiency use of the state, on economic principles, of resources. In addition, based on the principle that the private economic decision is better than the administrative decision (for investment), it results that a fiscal policy focused on reducing the level of taxes (with favorable effects in stimulating the consumption and private investment) must be accompanied by the reduction of the volume of expenditure (mainly the function of the redistribution of subsidies) and not by their increase.

The increasingly use of budgetary levers as a means of intervention in the economy, as well as the difficulties in the annual balancing of the state budget have led to the idea that the budget should not be balanced every year, but only on one economic cycle. Because the surpluses from the favorable times are going to cover the deficits in unfavorable times, the proponents of these approaches consider the budget deficits as a means to achieve the economic balance and to revive the development process.

The tax policies proposed by the Chicago school monetarists, primarily by the American professor Milton Friedman, who focused on reducing the tax in parallel with the reduction in public expenditure aiming at the liberation of the private initiative and at the reshaping of the state's role in the economy, were applied successfully in some developed countries in the early 80s or in other countries with less developed economies in the 90s.

If there are some economies in recession, with structural problems and which must confront in parallel some seemingly contradictory aspects, such as the relative shortage of real resources in the economy – the societal mentality focused on the existence of some extensive protection systems – the sizing problem of budget deficits and of public debt is very strongly addressed and falls in a very limited budget range of options.

The sizing of budget deficits and of public debt is part of the overall budget strategy, which in very restrictive economic conditions should meet a basic choice, meaning the one for the economic development, but also to take into account the possibility of inflationary financing of government deficits.

The sustainability of the fiscal and budgetary policies is an issue extensively discussed in the specialized literature and the public decision-making process. The arguments that come to support this claim are numerous. On the one hand, it is considered that ensuring the sustainable development requires, simultaneously, economic, social development and environmental protection, and the fiscal and budgetary policies, due to their redistributive character, influence the sustainable development by the manifested effects on the economic growth or on the investment in human capital

(Gupta, Keen, Clements, Fletcher, Mani, 2002, p. 1). Other economists highlight the importance of the sustainability of the fiscal and budgetary policies in achieving the economic growth and also the importance of the existence of some budgetary constraints which ensure long term sustainability. On the other hand, the international bodies such as the International Monetary Fund (IMF) or The Organization for Economic Cooperation and Development (OECD) have paid attention to these issues, as well to analyzing methods and monitoring of the sustainability of fiscal and budgetary policies or of public debt as the industrialized countries are increasingly confronted with difficulties more and more generated by increasing levels of debt (Horne, 1991, pp. 1-5). However, the problem of unsustainable or excessive indebtedness has not been fully resolved. In most Member States of the European Union the aspects about the sustainability of public finances are already formed by priority public policy. This is because the debt policy is quite costly in terms of the interest expenditure and of the reallocation of public funds between different categories of expenditure. Moreover, in the current context it is required a reform of welfare state since the majority of EU countries are facing the aging population and rising unemployment problem, which requires the development of social programs (Raffelhüschen, 1999, pp. 167-170).

The approaches on the budget deficit sizing, on the means of finance and especially on the size of public debt become specific for different economies. The concrete conditions existent from an economic, financial, social, administrative point of view raise some problems that require a very serious approach of the potential negative impact of a sizing of budget deficits and of public debt over the real possibilities of non-inflationary financing.

In Romania, in the quite complex field in which the economic activity takes place, in an attempt to highlight the place held by the budget deficit, a special role is assigned to the determination of the share of public financial deficit in the expenditure and income of the general consolidated budget.

The general consolidated budget is an instrument of the budgetary and fiscal policy by which are related not only the income and expenditure of the state budget (the central budget and local budgets), but also their connections, especially the budget deficit, with the scanty sold of the current account of the payment balance, with the gap between investment and savings.

Currently, knowing the budget deficit and the concern for its reducing are still of great importance for Romania, especially since our country is facing great difficulties in the economic development. On the other hand, as a member of the European Union, Romania must comply with the condition imposed by the European Community Treaty on limiting the budget deficit to 3% of the Gross Domestic Product (GDP) and the public debt to 60% of GDP by 2010.

### The analysis of some statistical data regarding Romania's budget deficit

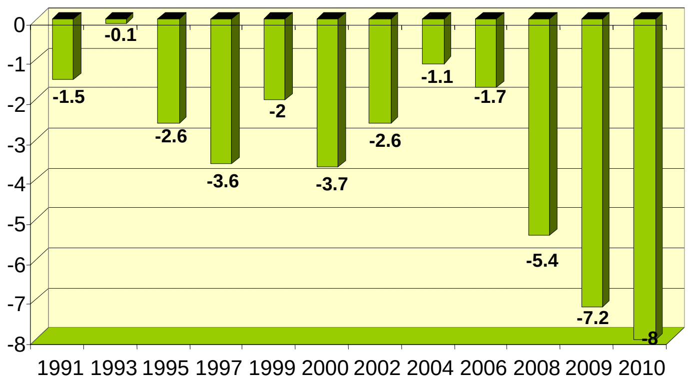
Next, we present some statistical data on the budget deficit development and on its share in GDP in 1991-2010, and also the structure of the general consolidated budget, in 2008-2010. The level and evolution of the consolidated general budget deficit as a share in GDP are presented in the table and chart below:

Table 1

**The evolution of the consolidated general budget (% of GDP), in 1991-2010**

| Year | 1991 | 1993 | 1995 | 1997 | 1999 | 2000 | 2002 | 2004 | 2006 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated general budget deficit | -1.5 | -0.1 | -2.6 | -3.6 | -2 | -3.7 | -2.6 | -1.1 | -1.7 | -5.4 | -7.2 | -8 |

**Source:** BNR reports and data supplied by the Ministry of Public Finance.

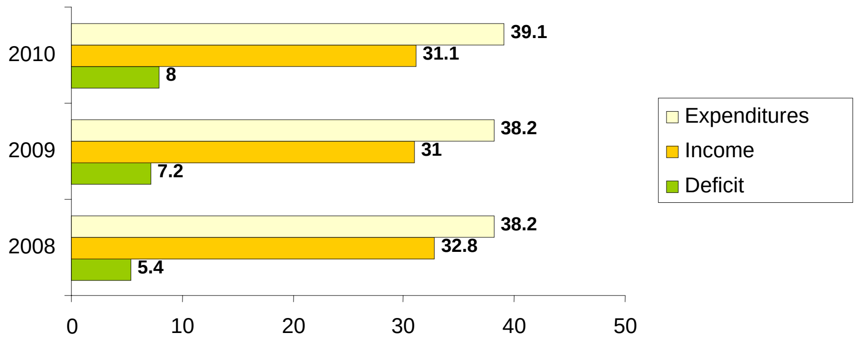



**Source:** Graphic based on the data presented in the Table 1.

**Figure 1.** *The consolidated general budget (% of GDP), in 1991-2010*

According to the chart above, it is shown that the level of the consolidated general deficit fluctuated from -1.5 % GDP, in 1991, to -5.4% GDP, in 2008, reaching -7.2% in 2009. In general, the evolution of the consolidated general budget deficit highlights its appearance on an upward path. In recent years, this increasing trend of the budget deficit has been influenced by the increased capital expenditures necessary for the projects initiated by the government, particularly by the increase of the expenditures on goods and services at the expense of the investment expenditure, due to the capacity reduction of funding by income from direct foreign investment, especially amid the current financial and economic crisis.

Regarding the structure of the consolidated budget in 2008-2010, there is an increase in the share of expenditure amid the cutbacks of the budget income.




**Source:** BNR reports and data provided by the Ministry of Finance.

**Figure 2.** *Consolidated budget structure (% of GDP) in 2008-2010*

The level of the consolidated general deficit of Romania increased significantly in 2008-2010 from 5.4% of GDP in 2008, 7.2% of GDP in 2009 to 8% in 2010. Among the reasons that were behind this, we mention: the economic production decrease, excessive expenses in carrying out some social programs, the black economy increase, the budget income decrease amid the economic crisis, institutional factors (budgetary procedures and laws, bureaucracy), and political instability.

### The budget deficit implications on the labor market

In the specialized literature there are several opinions according to which the budget deficit impact on the economy can be analyzed. On the one hand, there are taken into consideration the short term effects on consumption and long-term effects on national savings and investments, on job creation. On the other hand, there is highlighted the long-term neutrality hypothesis of the budget deficit by financing it on account of the contracted public debt. Thus, the budget deficit is, on the one hand, a result of the reduced economic activity volume, which leads to a lower income for all the people, which means a decrease in the tax base and thus a decrease in the budget income. On the other hand, a high budget deficit may mean reducing the government investment, with impact on the jobs and on the government spending policies in the employment field. By the measures that are intended to finance the budget deficit, such as the increased taxation, reduced budget spending, increasing public debt, we can highlight the impact on the labor market in the short and long term.

Thus, on the short-term, the budget deficit reduces the national saving, leads to decreased supply of market funds, which increases the interest rates. In this context, the volume of investment decreases, the consumption is reduced, affecting the volume of economic activities and employment.

The number of registered unemployment in 2008-2010 shows a decline of the economic activity volume, which has implications on the income and budget expenditures. The number of unemployed has reached at the end of 2009 to 709.4 thousand persons, with 306 thousand more people than at the end of 2008 the unemployment rate being of 7.8%. A higher number of unemployed is, on the one hand, less revenue to the budget, and on the other hand, higher spending with social protection and assistance.

Table 2

**The evolution of the number of employees and unemployed in 2008-2012**

| Year | 2008 | 2009 | 2010 | 2012 |
|---|---|---|---|---|
| Number of employees (thousand of persons) | 5,046.3 | 4,774.3 | 4,665 | 4,735 |
| - Annual percentage change (%) | 3.3 | - 5.4 | - 2.3 | 1 |
| Unemployed at the end of the year (thousand of persons) | 403.4 | 709.4 | 760 | 690 |
| Unemployment rate (%) | 4.4 | 7.8 | 8.5 | 7.6 |

**Source:** The National Institute of Statistics (2008, 2009), The National Commission for Prognosis (2010, 2012).

According to data from the National Institute of Statistics and the National Commission for Prognosis, in the following period there is expected a slightly increase in the number of employees, and therefore a reduction in unemployment rate amid the expectations for the economic recovery.

The long-term effects of the budget deficits are analyzed in terms of how they affect the economic growth and the welfare of the individuals (Ball, Mankiw, 1995, pp. 10-12).

Given that the production is determined by the existing production capacity which, in turn, is influenced by the capital stock, provided that the increase of the budget deficits generates the decrease of the investment, the capital stock will grow at a slower pace. If this situation perpetuates for a longer time, the economic capacity to produce goods and services will decrease substantially. Also, the increasing of financial asset flows to foreign investors, as a result of increased budget deficits, also determines, however, the expatriation of an important part of the national income as interest, profit or rent.

Moreover, when the budget deficits determine the reduction of the capital stock, the marginal productivity of labor declines, because each employee has less work, while the marginal productivity of the capital increases due to its rarity. Therefore, such a situation will lead to lower real wages and will increase the profit rate.

Another channel through which the budget deficits affect the economy on the long-term is taxation. In fact, the problem starts with choosing the best method of financing the deficit. The financing through public debt will generate, in the future, additional taxes which will affect the taxpayers, directly, by reducing the available income, and, indirectly, through loss of utility generated by taxes distorting the economic activity. Also, unless taxes increase it can proceed to the reduction of government spending, but then there will be problems establishing those categories of expenditure that will be "sacrificed".

One of the largest categories of government spending, with direct link to labor market development, is social security contributions (pension expenditure). The social insurance budget records since 2006 annual deficit, in 2009 reaching the highest deficit, about EUR 1.5 billion, The annual pension costs constituting the largest category of government spending, their share in GDP is 8%, with a growing trend in the coming years.

These increases of expenditures with pensions are determined primarily by the aging of the population and by the reduction of the active population. Forecasts show that in 2050, at 100 active citizens, there will be 149 inactive citizens, and the population over 65 years old will exceed 5 million inhabitants, compared to 3 million, as it is currently, the long-term effects being the labor decrease and insufficient economic resources necessary to support the elderly.

The most important issue of the social security about this trend refers to the ratio of people productively employed and the retired persons. The number of employees begins to decline in comparison to the number of retired persons, with serious consequences for the social security.

For Romania, such a social security report, with less than one active person to a retired one, shows that we are in a profound crisis of the social security which does not have the solution in pension reform, even if it may be necessary, but by the redoing the ratio between the employed people and the retired ones by direct and strong stimulation of job growth, particularly in the private business sector, through a series of policies that promote investment, without causing major inflationary phenomena. If we consider that in the near future the increased investment will be organically linked to the Cosmo-technique technologies that create fewer jobs, maybe such an employees/pensioners report will be judged in qualitative terms, by the quality of labor productivity.

One way to overcome the problem of public financing of the pension system and of unemployment benefit programs is supported by the economists Orio Giarini and Mircea Malița, by supporting the voucher system and implementing a private public partnership for managing the labor and education system through punctual investments in knowledge creation, during the entire life (Giarini, Malița, 2005, pp. 144-145).

To improve the employment situation in our country, with significant effects on the budget income, we must correlate the objectives of any employment policy with the ones of the macroeconomic policy, in line with The New European Strategy called "Europe 2020: An European strategy for smart growth, sustainable and favorable for inclusion". This strategy with a new horizon of ten years aims to create more jobs and to ensure better living conditions.

The objective of increasing the employment rate in Romania is influenced, mainly, by: the favorable development of economy, the increasing of education level and by the expanding access to forms of lifelong learning, by ensuring some effective transition into the labor market, especially by implementing the active employment measures, ensuring the access to benefits and social services in a way that does not reduce the attractiveness of working.

### Measures of financing the budget deficit in Romania

The influences that are causing the increase in budget deficits can be summarized and grouped for a better understanding of the phenomenon into two broad categories: economic and psychological influences.

The psychological influences combined with the economic ones act directly on the financial markets, leading to loss of values on the capital markets and to depreciations, sometimes sudden currencies. Although certain exchange rate depreciation is a method often used to equilibrate the trade balance, an uncontrolled amplification of the budget deficits can sometimes lead to currency depreciation. They, over a certain level, neutralize the gains obtained on an external level by strong worsening of the internal imbalances, especially by highlighting the inflationary pressures in the economy.

Regarding the economic influences, we can say that they also act strongly about senses strictly determined by the used ways to cover the budget deficit. The modalities used are subject to an analysis, by the direct or indirect influence that is generated on the economic mechanisms and on the economic stability.

The problem of budget deficit financing, of choosing the best finance option is the subject of much debate among economists. In this regard, in the specialized literature we find the following ways to finance the deficits: tax increase financing, financing by reducing the budget spending, financing by issuing currency and financing by public debt.

This presentation of modalities of financing does not also represent a hierarchy of the "best" alternatives in terms of a cost-benefit analysis. Each of these variants is characterized by the advantages and disadvantages depending on the economic background in which they are used.

Thus, the financing method of the budget deficit by increasing tax translates into increasing the amount of taxes to reduce the budgetary imbalances. Due to influences, in general negative, in the economic activity, in almost all cases an increase in taxation, by the direct effect of defalcation of financial resources from the private economic decision for investment or consumption to the redistributive state consumption leads to a weakening of the development effort, by weakening the ability to invest and reduce the solvable demand of intermediate and ultimate consumers, with an unfavorable effect on the market supply-demand ratio.

The funding of excessive budget deficits by reducing the public expenditure may be an appropriate solution; however, it is effective only in the short term. Practicing a restrictive budgetary policy, at least by reducing the government consumption can have positive results on the public financial balance. Promoting such long-term policies will be followed, surely, by negative consequences that will affect the economic growth. The problem arising when promoting a restrictive budgetary policy refers to the categories of budget expenditure that will be reduced.

In this context, there may be difficulties related, on the one hand, to the social impact of such a policy and, on the other hand, to the discussions that will be held at government level between its ministries, in which each representative will try to protect the interests they represent.

A restrictive budget policy can be implemented in crisis situations, when countries face with excessive public deficits which usually lead to higher inflation, to exchange rate fluctuations and which affect the whole economic system. In such cases, it must be followed the rationalization of public expenditure by reducing the unproductive spending and increasing the spending for investment in infrastructure and in human capital (Lenain, 2000, p. 139).

Amid the deepening of some structural crisis phenomena, the increase of budget deficits over the financeable limits in a non-inflationary manner comes as an additional factor that contributes to significant imbalances in the economy. In addition, where budgetary expenditures are directed towards the satisfaction of, first, the redistribution function of the state and for grants, in the absence of a real multiplier coefficient, the state budget deficit worsens.

Another method used to cover budget deficits, which may have profound negative impact on the correlations in the financial and real economy, is the additional issuance, uncovered, by the national currency. This will only leads to an uncontrolled and unwarranted increase in money supply, immediately aggravating the inflationary phenomena in the economy.

If the public power can not adjust the public expenditure at the income levels or if by making such expenditures it is desired the achievement of better results in employment field, there arises the problem of financing the budget deficit, which can be done either by issuing currency or by state loans.

The process of monetization of the budget deficit is clearly inflationist until the economy is heading towards a new long-term equilibrium, with a high price level. If the government decides to maintain this policy for a longer period it will result in a corresponding increase in money supply, i.e. a continuation of inflation.

The eloquent example regarding the deficit monetization is represented by Mexico, which in the 80s promoted a policy by which the monetary base increased by 80-90% per year, resulting in an inflation increase of 100-130% per year in that period.

Deficit financing by public debt requires resorting to internal or international market loans (Dornbusch, Fischer, 1997, p. 451) to cover the budget deficit.

If we analyze the problem of using loans by the state to finance the budget deficit it can be considered that the primary element that must support the decision consists of the need that the “profit” made on medium and long term by funding the public expenditure to be large enough to cover the debt service. It should also be covered the loss of utility that the market supports by depriving it of the resources used to cover the deficit, and the public policy decision-makers must maintain their credibility after the use of state loan.

By the state loan, the government meets its short-term deficit without any tax increase but, because there must be paid the interest on debt, it may be observed that a large part of the future tax income will be used for service debt and not to finance future public goods and services.

In Romania, the financing of the budget deficit was achieved mostly by contracting state loans, both from the resources of external and internal origin, meaning by internal and external market loans and by the temporary support from the general account of the State Treasury. On the internal market, the resource suppliers to finance the budget deficit are the banking and non-banking sector, and also the population, by subscribing to the state bonds issues, such as

Treasury certificates, state bonds in RON or foreign currency, issued by the Ministry of Public Finance.

The state loans in the external market are represented by: foreign government loans and Treasury bonds with foreign currency interest.

The effective Romanian authorities conduct to budget deficit was contradictory and did not follow strictly the law, either when it was restricted, or when it became lax.

The formation of the unique State Treasury account with the National Bank since July 1993 paved the way for non-inflationary financing of the budget deficit.

However, the financing of the budget deficit by loans from the temporary availability of the General Account of the Treasury, even in the short term, has the advantage of low cost, in the long term has significant disadvantages which consist of increasing liquidity and refinancing risk, with negative impact on the management of public debt, especially when volatility is high.

Unfortunately, while Romania's economy is facing economic depression, it is found in the government decisions making that there have not been taken the necessary steps to apply a policy of boosting investment in order to revive the economic development. Furthermore, we are witnessing a process that is particularly worrying: the aggregate consumption systematically exceeds the aggregate production.

On the other hand, Romania has had a pro-cyclical fiscal policy based on unrealistic estimates of income and on public spending increases which have led to the accumulation of significant macro-economic imbalances manifested by a current account deficit and high inflation rate.

The budget income has been over-estimated, and the expenses realized beyond the available resources were not channeled towards productive activities, being geared mainly towards staff costs and expenditure on goods and services.

If this trend continues, there is an imminent danger for Romania to sink more and more into poverty and under-development, to get further away from civilization. The responsible government should be the first to notice this and take the necessary measures. To ignore the financial policy measures to stimulate the investment process is to disregard the current fundamental requirement of the revival of the economic development.

Regarding the external debt, it is clear that if at the beginning of 1990 it was almost fully repaid ahead of schedule, over time it has grown very rapidly.

Table 3

**External vulnerability indicators in Romania (%)**

| Indicators /Years | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| External Debt (% of GDP) | 33.4 | 33.9 | 35.4 | 39.1 | 42.1 | 47.5 | 49.1 |
| External Debt (% of exports) | 94.7 | 97.5 | 98.4 | 117.8 | 131 | 155.7 | 159.1 |
| External debt service (%of GDP) | 8.8 | 7.2 | 8.2 | 17.1 | 20.3 | 21.5 | 19.9 |
| External debt service (% of exports) | 24.8 | 20.8 | 22.8 | 51.5 | 63 | 70.3 | 64.4 |

Observation: for 2008 - data corresponding to quarter I

**Source:** Data processed from the work Current account deficit 2009, National Bank of Romania Conference.

It can be seen that the foreign debt, as a percentage of GDP, registered a continuous growth throughout the analyzed period. The coverage of the external debt and its service both through exports and international reserves has deteriorated quite rapidly, leading to a continuous deterioration in recent years, of the indicators of vulnerability.

Amid the emergence of some problems in the functioning of economic mechanisms in general, the sizing of the volume of public debt (both internal and external) is essential to determine its influence on the overall economic correlations. Increasing the volume of public debt over a certain threshold determined by the economic affordability for short, medium and long term has an important contribution to the worsening of the economic imbalances, with negative impacts on both the financial economy and the real economy.

It is clear that the failures that occurred and take place in the national economy in the context of its restructuring affected, in turn, the very implementation of the budget. The budget deficit is unquestionably caused by the hardship that many businesses have during the crisis; most of them incurred losses, which were reflected in the dynamics of budget income.

In this context, the efficiency of the fiscal policy implies that, along with increasing state income, the social justice to be ensured.

At present, when Romania is trying to define its role and its place in the world, when it is wanted the identification and encouragement of those branches and sub-branches of the national economy which can be developed in the global economy, it is required the use of some tax boosts in line with EU requirements and taking account of the other macro-economic policies that can be adopted to overcome the current economic situation. Thus it is consecrated the theory that in times of crisis it is desirable to be ensured an increase in budget expenditures which aim at a revival of the economic activity, to help increase employment and reduce unemployment.

The economic growth pattern must be reconsidered, given the experience of the past years, where the growth in our country was based on consumption, which did not allowed to achieve sustainable economic growth and should target investment in sectors with high added value.

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