

Official Daianu: Financial crisis and pandemic push public debt up to 47pct of GDP in end-2020

The financial crisis and the pandemic have led to an increase in the public debt from about 15% of GDP in 2008 up to over 47% of GDP at the end of 2020, with a fiscal consolidation with an average annual deficit correction rate of approx. 1.5% of GDP to stabilize the debt at just over 50% of GDP by 2024, says the president of the Fiscal Council, Daniel Daianu.

"The financial crisis and the pandemic have raised the public debt from about 15% of GDP in 2008 to more than 47% of GDP at the end of 2020 - although we should not forget to mention here the context of the pro-cyclical fiscal policies. Climate change and other extreme events will put increasing pressure on the public budget, in the context of a very limited fiscal space in Romania. The analysis carried out by the Fiscal Council, based on the hypotheses of CNSP and the Official Convergence Strategy, show that a budgetary consolidation with an average annual correction rate of the budget deficit of about 1.5% of GDP would stabilize debt at just over 50% of GDP by 2024. With a correction of 1% of GDP, public debt would stabilize at below 60% of GDP over a longer period of time - in 2026. The analysis takes into account various scenarios that depend on key variables such as the growth rate of the economy, the interest rate at which the public debt service is financed, the step of correcting the deficit," says Daniel Daianu, in the article "Extreme events and economic activity - climate change can profoundly destabilize public budgets," published on the website of the Fiscal Council and on the blog OpiniiBNR.ro.

The president of the Fiscal Council states that regardless of the scenario considered, Romania's public debt is projected to increase during the period 2021-2024, exceeding the level of 50% of GDP even in the case of the most optimistic hypotheses.

The economist argues that for countries with very low budget revenues the situation would be very complicated, especially if it is not possible to rely on other resources.

According to the article, documents of the Fiscal Council, Euromonitor reports prepared at the NBR, other analysis texts, highlight the overwhelming role that European funds must play in transforming the domestic economy, in mitigating the contractionary effect of macroeconomic corrections to be made in the years what come.

He mentions that the approach must be pragmatic and debunked by clichés broken by reality.

According to the president of the Fiscal Council, the energy market is a special one through the product it supplies, and explosive developments, speculative practices, must be combated/discouraged, attenuated. According to the same source, this year's deregulation of energy prices on the domestic market did not anticipate adverse consequences, it was not well prepared. Contrary to popular belief, the energy market is not genuinely competitive, it is segmented, as is the energy market in many EU countries. He underscored, however, that this statement does not mean that the energy market in the EU cannot function better.