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ABSTRACT IMPLICATIONS OF

EXTERNAL DEBT ON

NATIONAL ECONOMY

SCIENTIFIC COORDINATOR

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Introduction

Economic growth is a desideratum of all the economies, as this leads to the rise of income per capita, the rise of the standard of living of the population, the general development of national economy and, finally, to economic progress.

A developing country, which is in a process of transition between the centralized economy and the market economy, can build a solid democracy based on competitive economy and on a modern economic-social infrastructure system only by asking for international funding, which generates external debt.

Being considered as the foundation of the capitalist economies, the credit is widely used at macro economical level. Both the developed and the developing countries turn to internal and external credits because they offer the possibility of spending now and paying in the future, when the investment starts to bring profit.

States turn to external loans when the internal savings are insufficient for financing national consumption and investments. External credits allow the import to exceed export, ensuring the financing of the budget deficit and making the investments get ahead of the savings. Thus, an acceleration of the economic growth takes place, but it is important to remember that that country has to pay back the loans and the due interest.

It is essential for the debiting country to use the external loans in order to develop and modernize the economy and the service infrastructure and not for consumption, because, this way, it is possible to achieve a durable economical growth, including by means of stimulating exports, thus, creating the necessary foreign currency resources necessary to honor rhythmically the external public debt.

Stimulating exports is one of the important strategies when promoting external economic relations, because the income from exports represents one of the main sources that can be used in order to pay back the external debt. This way, the participation of all the states to the world-wide economic circuit is an objective necessity. The complexity of world economy, the high degree of diversity of economic processes, the rise of the interdependence between national economies, the advantages that can be achieved from international specialization are just some of the factors that have lead to the generalization of the international economic trade. Thus, despite their various size or degree of development, states are interested in participating as efficiently as possible to the world-wide economic circuit,

The problem of external debt is now more or less a current one, if we consider the high level that it now has, as well as its effects upon national economies considered individually and also upon the world-wide economy by way of involvement effects.

The motivation of the research

External debt has been and continues to be a current subject, an important reason being the crisis of the sovereign debts in Europe, the economic and financial crisis that has overtook the entire global economic arena.

If a few decades ago the problem of external debt was specific to the developing or poor countries, it has become today a problem for all the economies. Thus, the motivation for choosing this topic for my doctorate studies program is extremely consistent, and it could be summed up as follows:

- The need to acquire information through analysis about this current topic (external debt) which is also a very important one if we consider the extent and implications within the economic life; as each person, even from birth, has to bear the external debt contracted by the previous generations.
- The wish to identify and present the components of external debt and to analyze the influence they have on the economic processes; the analysis of the main indicators of the external debt of our country and comparing them to the optimum levels set at international level based on empirical research.
- The wish to identify how external debt can contribute to the stimulation of economic growth and development, as this is what all the states of the world desire, even if they are developed states or developing ones.
- The opportunity to continue the academic training related to an area I was previously interested in (Economy and International Business), taking into account my earlier training: Faculty of Economic Sciences and Business Administration- specialization: International Economic Relations, and then the Masters in Exterior Commerce. This initial analysis of external debt and economic growth will be followed up by long term studies related to determining the system of relevant indicators that are to be considered by those responsible with managing the external debt of an economy.

Our study is made up of four chapters and then we will make some concluding remarks and will also present some ideas for further research.

The first chapter *Growth, development, progress* follows a short passage in which some introductory elements are presented. In this chapter we have tried to show the main characteristics of the

processes of economic growth, economic development and progress, also showing the connection between them, and the factors that influence the process of economic growth.

The second chapter, *External debt*, is set around the attempt to define external debt and to show its main components. In the first part, we have tried to present and compare the definitions that can be found in specialized literature. We have then presented the main components of internal debt taking Romania as an example, comparing the levels reached during 2004- 2012 to the ones determined by the international financial institutions, when it is the case.

In this chapter we have also tried to show the connection between external debt, the balance of international payments and budget deficit at national level. At the end of this chapter we have compared the internal public debt to the external one.

Chapter three, *Indicators used for evaluating the indebtedness of an economy*, is aimed at presenting the analysis of the level, structure and dynamics of external debt between 2004 and 2012, taking Romania as an example. In this chapter we also analyze the indicators of the service of external debt, and then we have attempted a simulation of the sustainability of external debt and the analysis of the capacity of external indebtedness of an economy.

After showing the main components of external debt, the indicators used for evaluating it, in chapter four, *Costs and benefits of external indebtedness*, we will analyze the relationship between external debt and the sovereign risk, and we will present the consequences and effects of external debt on economy, and end by emphasizing the relationship between external debt and economic growth as it has been shown in the studies and the empirical analyses made in the last 30 years.

In the end we have stated some concluding remarks and ideas that we have considered to be important for our study, as well as ideas for further research which the author wants to attempt in the following period.

Our first aim was to make a detailed presentation of external debt and its implication upon national economy.

Another objective that we have tried to achieve was to present the components of external debt and the indicators used to evaluate it.

On the other hand, we wanted to emphasize the way in which the strategy of external indebtedness can lead to the stimulation or, on the contrary, to the slowing down of the process of economic growth.

The synthesis of the first chapter *Growth, development, progress*

According to the Dictionary of Economics, *economic growth* represents an increase in the volume of goods from one year to another¹. Thus, it is an upward, positive trend of the national economy on the medium and long term, which doesn't exclude the existence of some short-term decreases².

From the point of view of the French economist Fr. Perroux³, economic growth represents the increase in the dimensions of the national economy expressed in the total of goods and services obtained within a certain period of time, including depreciation. In his opinion, only the quantitative long-term growth constitutes economic growth, the one on the short term representing expansion.

Economic growth is a complex process that focuses on the economic system in its entirety and dynamics, illustrating an upward trend of the national economy. Thus, economic growth is defined as the increase of the real output per inhabitant, at the level of an economy within a period of time. It is usually measured in terms of increase in the real GNP and GDP per inhabitant, within that particular period of time.

The complex definition of economic growth engages a series of constituent elements. In our opinion, the following elements stand out in importance:

- emphasizing the growth rate of the GDP indicator per each inhabitant of a country, expressed in real terms;
- the growth of the real output per capita in an economy, during the analyzed period of time;
- the complex process of a long-term evolution, which is manifested by boosting the primordial coordinates of the national economy and by restructuring the society structures;
- the complex process of increasing the amount of GDP and national income per capita, based on the combination and efficient use of production factors;
- the process of boosting the main coordinates of the national economy based on the use and combination of inputs to increase gross domestic product (GDP) and national income per capita;
- the upward long-term trend of the gross domestic product and national income per capita.

¹ Albin M., *Dictionnaire de l'Economie*, Ed. Encyclopaedia Universalis, 2007, pg. 289.

² Ciucur D., Gavrilă I., Popescu C., *Economie*, Ed. Economică, Bucharest, 1999, pg. 392 .

³ Perroux, Francois., *Pour une philosophie du nouveau développement*, Les Presses d'UNESCO, Paris, 1981, pg. 13.

The American economist, Simon Kuznets, a Nobel Prize laureate, defines the economic growth of a country as being « the increase over a period of time in its capacity to provide increasingly diversified goods and services to its population »⁴. This increase in capacity is based on an appropriate technological development and on institutional and structural adjustments.

The coverage of economic development is bigger here, by including itself in addition to the quantitative changes contained in the economic growth, and the quantitative changes in the structure of national economy and people's living standards. Therefore, the relationship between economic development and economic growth is from whole to part, which means that any economic development implies economic growth as well, and not vice versa.

Economic development is a complex economic process, the result of successive and continuous changes, of quantitative accumulations and of positive qualitative and quantitative changes occurred in the entire national economy, thus, economic development recording a higher stage in the economic evolution of a country.⁵

Economic development simultaneously captures quantitative, qualitative and structural aspects of economic development, in conjunction with demographic evolution and the general problem of the human being, as well as the evolution of ecological balance. Economic growth focuses on the quantitative side of economic development, especially on the production of goods and services, while economic development also refers to changes in the economy on the standard of living, the way of life, of thinking and of behaving of people, on the efficiency in the usage of the resources of national economy and on the functional mechanisms of the economic system.

Although the two concepts of economic growth and development are interrelated, growth alone, as a response to a given structure, more and more the same, does not lead to development. Neoclassical theories and growth policies consider that, in order to achieve development, it is absolutely necessary to have economic growth.

The table below shows the main features of economic growth and development.

⁴ Simon Kuznets apud. Michel P. Torado, *Economic Development*, Fifth Edition, Longman, NewYork &London .

⁵ Gheorghe Postelnicu, *Economie politică*, Facultatea de Științe Economice, Cluj-Napoca, 1996, pg. 74

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Table 1. Features of economic development and growth

| | Economic development | Economic growth |
|----------------|---|---|
| Implications | Economic development involves changes in income, savings and investments accompanied by changes in the socio-economic structure of the country (institutional and technological changes). | Economic growth involves an increase in the volume of goods and services in the economy. |
| Factors | Economic development implies increased results per capita, reducing inequality and structural changes, which determine an increase in the living standards of the population. | Economic growth refers to the gradual increase of one of the components of GDP: consumption, government spending, investments, and net exports. |
| Quantification | Qualitative: Human Development Index (HDI), gender related index (GDI), Human Poverty Index (HPI), infant mortality rate, literacy rate, the Gini coefficient, etc. | Quantitative: Real GDP growth measured in input prices. |
| Effects | Determines quantitative and qualitative changes in the economy. | Determines quantitative changes in the economy. |
| Concept | Normative | Coverage lower than |

| | | |
|------------------|---|---|
| <p>Relevance</p> | <p>Economic development is a relevant concept for measuring the progress and quality of life in developing countries.</p> | <p>economic development</p> <p>Economic growth is an important indicator for measuring progress in developing countries. Economic growth is quantified in all economies, given the fact that a necessary condition for economic development is economic growth.</p> |
|------------------|---|---|

Source: The processing of the author following the specialty literature

The process of economic growth is an extremely complex phenomenon that is influenced by numerous and various political, social and cultural factors. The economic analysis of the economic growth process provides only a partial explanation of it, in this regard, Professor Ragnar Nurkse's remarks being eloquent: "economic development depends on human qualities, social attitudes, political conditions and accidents of history, the capital being a necessary but not sufficient condition of progress". The offer of natural resources, scientific research, and technological knowledge have a strong influence on the process of economic growth.

Classical economists have identified as essential factors of economic growth labor capital, and natural resources, plus a certain stock of required knowledge. Other factors with a strong influence are also included, from which investment, technical progress, external trade, technological research and innovation stand out.

Chapter 2 Sinthesis: External debt

One of the major problems the world economy has been dealing with for the past 20-30 years, affecting, in one way or another, the vast majority of countries, is the growth of the external debt. This

reached 2,000 billion dollars in 1998 (four times bigger than that in 1982), over 2,700 billion dollars in 2004, and 56,900 billion dollars in 2009, December 31⁶.

Worldwide, debts create a lot of problems for the developing countries, having dramatic consequences in some of the cases, and even engendering major crises of the external debts. When the developing countries pay the interests and the rates of the concluded loans, they often sacrifice the progress in education or health, the economic growth and the raise of the living standard. Financial resources should run from the developed countries to the developing ones, but this circuit has changed since the debts to pay back the loans concluded in the past are greater and greater. It is thus difficult for the developing countries to reduce poverty and, at the same time, line up within a progressive development trend.

External loans allow the economy to invest and consume over its internal capacity limit. The capital buildup is financed thus with internal resources and other resources brought from the countries that have capital surplus. The external loans can trigger a faster economic growth and enable the financing of a greater volume of investments. They also encourage the call of internal resources, making use of them in a more reserved, cautious, but nonetheless efficient way. If the external loans are used to finance unproductive activities or to counterbalance the excessive capital export, they bring no contribution whatsoever to the economic growth. Moreover, they might even put more pressure on the budgetary operations, respectively, on the payments balance.

The public external debt is an essential factor in the assessment of the public finance state. It can also be defined as a consequence of the following macroeconomic aspects:⁷

- limited production power, compared to the consumption, the investments and the public expenses;
- insufficient internal savings, compared to the investments and the budgetary deficit;
- an increased deficit of the checking accounts balance compared to the net incoming transfer;
- excessive capital movement as direct investments or even capital flight.

The International Relations Dictionary defines the external debt as the amount in currency that a country owes to other countries or international organizations⁸. This debt is incurred mainly as a

⁶ www.cia.gov/library. accesat în noiembrie 2012.

⁷ Gaftoniuc Simona, *Finanțe internaționale*, Editura Economică, București, 2000, pag. 403.

⁸ George Marin, Alexandru Puiu. et all – *Dictionarul de relatii economice internationale*, Editura Enciclopedica, Bucuresti, 1993, pag. 50

consequence of the concluded external loans needed to supply the budgetary deficit, and to make investments, or finance the checking accounts deficit. According to this definition, the external debt represents the public external debt contracted and/or secured by the government on medium and long-term. It is considered thus to be part of the public debt, and therefore, the above definition strictly refers to the external debt in its narrow meaning.

A more comprehensive definition of the external debt is the one given by the World Bank. According to it, the external debt notion encompasses⁹: public loans, i.e. public debtors' liabilities (government, governmental agents, autonomous public institutions), individual debtors' loans secured by the state, individual debtors' loans unsecured by the state, credits provided by the International Monetary Fund, beside the ones distributed with the ordinary drawings, and also extended financing means (buffer stock, counterbalancing financing, extended means of financing, facilities for oil), short-term public and individual debts that are not secured by the state.

Table 2 reflects the governmental external debt by due date in 2004-2012 period, in the Romanian economy.

Table 2. The governmental external debt of Romania between 2004 and 2012:

mill. euro

| Period of time | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Under 1 year (%) | 3.206 | 6.272 | 12.574 | 19.917 | 20.600 | 15.589 | 19.549 | 22.795 | 20.251 |
| Between 1 and 5 years (%) | 5.445 | 8.311 | 11.112 | 12.652 | 16.835 | 18.350 | 21.241 | 18.426 | 20.068 |
| Over 5 years (%) | 12.853 | 16.282 | 17.264 | 26.059 | 34.605 | 47.267 | 51.668 | 57.503 | 58.632 |
| Total public governmental external debt | 21.504 | 30.865 | 40.950 | 58.628 | 72.040 | 81.206 | 92.458 | 98.724 | 98.951 |

⁹ *World Development Report 1993*, World Bank, Oxford University Press, Oxford, New York, 1993 p.316

A capital inflow, regardless of provenience, will practically produce one or more of the following effects¹⁰:

- the increase of foreign investments;
- will increase the potential of obtaining foreign currency for the country, namely the growth of exports or reduction of imports through adequate investments;
- the incorporation in investments which doesn't determine directly the rise of the capacity for obtaining foreign currency (ex. in construction);
- the finance of speculative activities, like the one connected to properties and stocks (including imported stocks);
- the compensation of private capital outflow due to political uncertainties and monetary speculations;
- the increase potential of the government to avoid major transformations of political economy, such as: the reduction of internal run, the liberalization of internal capital markets, in order to encourage internal economies or to reduce budgetary deficits;
- sustaining expenses of the middle class consumption, which tends to have a higher demand for imports;
- creating resources for military expenses;
- providing projects or other businesses with huge profits which, legally or in other ways, are intended for the government's supporters.

In a smaller or bigger extent, in most of the states, we can witness a combination of the mentioned effects. Carefulness is needed when structuring the external debt, whether we are talking about maturity date, currency of the loan or interest rate. A faulty structuring of the external loans could be the most important factor in triggering or deepen an economic crisis.

The chart below presents the structure of the Romanian external public debt according to different creditors, in the period of 2004-2012, with the biggest amount of loans taken from international financial institutions. The increase rate of external debt taken from the international financial institutions is superior to the one from bilateral relations and other creditors.

Table 3. The structure of Romania's external debt on medium and long term, based on the creditors, between 2004 and 2012:

¹⁰ Angelica Băcescu-Cărbunariu, Monica Condruz-Băcescu, *Dependența riscului de țară față de nivelul datoriei externe*, Revista Română de Statistică, Nr.10/ 2012;

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| Years | External debt on medium and long term (mill. EUR) from which: | Multilateral (%) | Bilateral (%) | Portfolio Investments (%) | Private Banks (%) | Other creditors (%) |
|-------|---|------------------|---------------|---------------------------|-------------------|---------------------|
| 2004 | 18.298 | 28,31 | 2,91 | 15,54 | 28,98 | 24,25 |
| 2005 | 24.641 | 23,69 | 2,16 | 11,54 | 21,52 | 41,09 |
| 2006 | 28.376 | 20,00 | 1,71 | 12,25 | 32,44 | 33,60 |
| 2007 | 38.711 | 14,11 | 0,77 | 8,26 | 58,87 | 17,98 |
| 2008 | 51.440 | 12,62 | 0,56 | 5,58 | 64,78 | 16,46 |
| 2009 | 65.616 | 23,84 | 0,39 | 4,38 | 57,45 | 13,95 |
| 2010 | 72.930 | 32,87 | 0,32 | 4,15 | 49,11 | 13,55 |
| 2011 | 75.929 | 37,32 | 0,27 | 5,66 | 43,90 | 12,85 |
| 2012 | 78.717 | 34,00 | 0,06 | 11,60 | 44,07 | 10,27 |

Source: self made calculus with information offered by *National Bank of Romania*¹¹

From the analysis of the external debt structure of Romania, on medium and long term, we can observe its continuous increase in the mentioned period. The loans contracted from private banks had the same ascendant trend till 2008, when it represented 64,78 % from the total debt, after which the trend started to decrease.

On the other hand, the debt contracted on multilateral basis had a descendant trend till 2008, after which it started to increase so as to represent 23% from the total debt in the year of 2012.

The structural analysis of the external debt, on medium and long term, according to the types of creditors, underlines the decreasing volume of debt taken from the multilateral institutions (from 37,32% at the end of the year 2011 to 23, 01% by the end of 2012), due to beginning of reimbursements for the stand-by loan given by the International Monetary Fund in 2009, concomitantly with the increase of the private sources (from 62,40% at the end of the year 2011 to 65,94% by the end of 2012), caused by an extended access on free market for capital.

Without external loans, the investments and expenses of the government are limited only to the private sector economies and taxes collected by the state. External credits enable import to outrun export and, at the same time, financing the budgetary deficit and overtaking the economies by the investments.

¹¹ www.bnro.ro/Publicatii-periodice-204.aspx

The obligations that emanate from the external loans can be efficiently covered only through achieving surplus in the current account, which can be attained through higher national production, accompanied by an extended export. Otherwise, the debiting economy will have to find alternative solutions: contracting new loans that can lead to over-indebtedness, rescheduling matured debts, respectively restructuring the external debt. In the case of over-indebtedness, the amount of debt can reach unacceptable proportions for export and production. Afraid of insolvency, creditors will be reluctant in according new loans and the country risks to enter a liquidity crisis.¹²

The external debt caused by the need of external financial assistance represents a common stage along the way from a low developed economy to a prosperous one. One of the theories that postulate such a point of view is the transmitted growth theory, shaped in the 19th century by J.E. Cairnes and developed later by P.A. Samuelson¹³. The transmitted growth theory states that as a country develops economically, the evolution of internal income, the rate of savings, evolution of capital stocks, commercial balance and rate of profitability for investments changes the volume and the direction of the capital flow towards countries less developed, provided that 2 conditions are fulfilled:

- the capital flow reacts to the differences of levels of the interest rate;
- the differences of levels of the interest rate are the consequence of the inequalities regarding marginal efficiency of the capital (the productivity of an additional capital unit must be higher in countries which have a low quantity of capital).

The evolution of economical relations developed by the economy goes through 5 consecutive stages, characterized by specific elements at the level of the payments balance which are to be presented in the following chart.

Table 4. The characteristics of the economies regarding the balance of payments:

| Type of the economy | Characteristics of the economy | Characteristics of the payments balance |
|----------------------------|---|---|
| Young country, new in debt | -massive import of equipments and the existence of a small number of products that can be | -negative commercial balance; -negative remunerating |

¹² Klein M. Thomas, *External Debt Management*, The World Bank, Washington D.C., 1995, p.11-21

¹³ Alain Zantman, *Le Tiers Monde*, Hatier Paris 2e edition, 1990, pag.355-357

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|---------------------------------------|--|---|
| | <p>exported;</p> <p>-high level of marginal efficiency of the capital;</p> <p>-the economy is inferior to investments – the country is going for debt.</p> | <p>balance of the capital;</p> <p>-positive balance of the capital transfers;</p> <p>-negative internal balance.</p> |
| The country becomes an evolved debtor | <p>-increase of exports and rate of savings;</p> <p>-decrease of investment opportunities;</p> <p>-decrease of debt level;</p> <p>-increase of capital outflow determined by the payments for interests and dividends;</p> | <p>- commercial balance getting closer to a positive level;</p> <p>-negative remunerating balance of capitals;</p> <p>-the balance of capital transfers remains positive;</p> <p>-the internal balance is equilibrated (internal economy may be superior to investments).</p> |
| The country reduces its debt | <p>-increase of commercial surplus;</p> <p>-decrease of the interests that must be paid;</p> <p>-the reimbursements are superior to the new received loans.</p> | <p>-increase of commercial surplus;</p> <p>-the remunerating balance of capital is slightly negative;</p> <p>-negative balance of capital transfers;</p> <p>-positive internal balance (economy covers the investments).</p> |
| Country new in crediting | -the internal economy | -the positive sold of the |

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| | | |
|---------------------------------|--|---|
| | <p>covers progressively the investments;</p> <p>-remunerating the foreign capitals, buying back foreign debt and national capital investments attracted by the level of marginal efficiency of the capitals.</p> | <p>commercial balance decreases;</p> <p>-the remunerating balance of capitals becomes positive;</p> <p>-the balance of capital transfers is negative;</p> <p>-the internal balance is strongly positive.</p> |
| Country is now evolved creditor | <p>-the continuing deterioration of the commercial balance;</p> <p>-low productivity of the capital, of work and overvalued rate exchange .</p> | <p>--negative commercial balance;</p> <p>-the remunerating balance of capitals positive;</p> <p>-the balance of capital transfers is negative;</p> <p>-negative internal balance (a part of internal investments is financed through incomes from capital remunerations paid by other countries).</p> |

Source: self made data with information offered by *Rodica Milena Zaharia, Economie Mondială*, www.biblioteca-digitala-ase.ro, accessed in June 2013

Chapter 3 Synthesis: Indicators used for evaluating the indebtedness of an economy

In order to be able to fully assess the external debt of a country, it is required, such as it is the case for other economic processes, that the costs of the external debt are compared to the advantages resulting from foreign capital, or in other words, comparing the difficulties arisen from paying the external debt to the evolution of the market economy.

The external debt of a country is a legitimate transaction that grants national or foreign economic agents advantages that a closed economy cannot. Although normal and quite efficient in the economic system, the cash flows can lead to debt crisis situations and at the same time they both create and solve the problems.

An analysis between costs-advantages of the external debt requires settling a report between external debt indicators (amount of the debt, debt scheduling, debt service, etc.) on one hand, and some other economic indicators (national income, economic growth, external economic exchanges, etc.) on the other. The success of such an endeavor will indicate the reasonable limits of a country's external debt, its ability to honor, without extreme measures, the external debt service and the extent to which external debt can be increased or decreased considering the state of national and international economy.

There are two types of indicators that can help with analyzing and assessing external debts, either gross or net, and they are divided by their characteristics¹⁴ into:

- Indicators of external debt
- Indicators of indebtedness

These indicators are relevant to the magnitude of the external debt at a specific moment, as it was also shown within the previous chapter. From a general perspective, the debts are not decisive in assessing the state of an economy nor do they have a great value in the threat they represent to the economy.

Here, we will emphasize the analysis of indebtedness indicators that have a greater role in establishing the weak points in the process of external indebtedness and based upon which national and international monetary authorities decide on contracting (granting) new loans.

The external debt referred to GDP results in showing the report between the degree of indebtedness and gross value added during one year. As it increases, the part of GDP destined to pay for the external debt increases as well. Specialists have concluded that there is no critical level valid for all economies, while World Bank considers that this indicator should not go beyond 50%

$$PDE = \frac{DET}{PIB} * 100$$

¹⁴ Paul Cocioac, *Inițiativa în favoarea țărilor sărace puternic îndatorate*, Ed. Presa Universitară Clujeană, Clu-Napoca, 2001, pag.11

This indicator has more of a theoretical value, since the external debt is settled in installments and only one part of GDP, will be allocated, annually, to clear the external debt. To the great majority of countries, this indicator is below the above unity, whereas for the most indebted countries, this has been exceeded in the past 10 years. This is to show that the debt towards the external creditors surpasses the level of the added value reached in a year.

When talking about GDP and external debt, there are some specialists¹⁵ who consider that having a bigger external indebtedness only proves the high level of creditworthiness internally as well as externally and that making efforts to pay it would be a “big mistake”. To exemplify, they use the case of periodical exemptions for the developing and underdeveloped countries that are unable to pay, as well as writing off the external debt of central European countries that have changed their centralized economy to a competitive market one.

In what concerns the Romanian economy, during 2001-2007 this indicator was compliant to the level set by World Bank; once the financial and economic crisis set off, the allocated amount in GDP to pay off the external debt has increased at the same time the external debt did, and the value of the general domestic product has decreased. The table below reflects the evolution of the total external debt compared to GDP (%).

Table 5. Total external debt of Romania compare of GDP (2001-2012)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------|------|------|------|------|------|------|------|------|------|------|------|------|
| PDE (%) | 22,9 | 24,1 | 24,1 | 35,7 | 38,7 | 41,8 | 47,0 | 51,5 | 68,7 | 74,3 | 75,1 | 75,1 |
| | 1 | 9 | 5 | 1 | 3 | 9 | 0 | 4 | 0 | 6 | 7 | 1 |

Source: self made calculus with information offered by de National Bank of Romania and I.N.S.S.E.¹⁶

The rhythmic increasing of the external debt reflects an inefficient combination between primary fiscal deficit and self maintenance of the debt. If the adopted macroeconomic policy will not take into consideration some factors, the external debt can become not maintainable. The factors are: a) a solid macroeconomic management; b) structural policies of increasing which include both trade and infrastructure; c) a stimulating legislative background for private investments and export addressed production; d) a diminution of the corruption and an improving of the corporative governing; e) social

¹⁵ Gheorghe Zaman, *Provocări, Vulnerabilități și modalități de abordare a sustenabilității datoriei externe în România*, 2011, pag. 21

¹⁶ www.bnro.ro/Publicatii-periodice-204.aspx

solidarity through the implication of the entire society at the eradication of poverty through education and special services.¹⁷

The structure of the external debt on medium and long term in different foreign currency:

$$PDEV_i = \frac{DEV_i}{DTML} * 100$$

Where $PDEV_i$ - the ratio of the external debt on medium and long term in foreign currency i

DEV_i - the external debt on medium and long term in currency i

$DTML$ – the external debt on medium and long term

This has a strong impact on the economic capacity of sustaining the payment tasks imposed by external liability, concerning the assumed debts. In fact, there is a frequent situation that of growing the degree of indebtedness influenced by money depreciation ad valorem to the currency of the credit standing.

If the exchange rate undergoes substantial changes with regard to money depreciation as opposed to the cu currency of the credit standing, and the economy does not accomplish an additional income multiplier resulted from the exports, in this situation, some difficulties can appear. These are concerning the economical capacity of paying currently off.

Any country should choose a suitable coin for a loan that is able to protect as much as possible national economy from courses instability. However, it is often difficult to estimate any fluctuation in exchange, or interests. The states bring up a strategy of partial protection of economy by choosing the loan coin according to the commercial exchange structure. That way, the loan should be predominantly expressed in the export coin, while the reserve should be expressed in the import coin.

Table 6. The structure of the medium and long term loans depending on the foreign currency 2004-2012:

| | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|------|
| DTML | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|------|------|------|------|------|------|------|------|------|------|

¹⁷ Lucian Albu, Elena Pelinescu, *Sustenabilitatea datoriei externe*, 2002, pag.12, www.cerpe.ro

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| | | | | | | | | | |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EUR | 61,47 | 64,09 | 70,03 | 72,04 | 69,67 | 62,80 | 66,00 | 68,10 | 66,00 |
| USD | 32,05 | 27,21 | 19,40 | 12,15 | 8,25 | 5,70 | 6,00 | 5,30 | 6,70 |
| Alte valute | 6,49 | 8,70 | 10,57 | 15,81 | 22,08 | 31,50 | 28,00 | 26,60 | 27,30 |

Source: self made calculus with information offered by the National Bank of Romania¹⁸

As it can be seen from the table above, 60% of the medium and long term loans during the analyzed period were made in Euros, followed by the loans made in dollars until 2006. From 2007 the loans contracted in dollars started to diminish as other foreign currencies began to rise (DST, RON etc) which reach 27.3 % of the whole external debt in 2012.

The rate of the service of external debt is considered by a lot of economists as a relevant indicator for the degree of external debt, indicating the costs which economies can sustain when paying back external debt. The rate of the external debt¹⁹ shows the percent from the annual external income that must be budgeted to pay the interest and the installments of the loans. When this indicator shows high levels, for example 24.5% in Africa or 37.8% in Latin America, these economies have to budget an important part of the income resulted from exports in order to pay the external debt.

Although it is accepted the fact that the usefulness of this indicator is relative and its significance is not very clear, the rate of the service of external debt is still the most widely used indicator because of the following advantages:

- Considers the overwhelming importance of exports for the countries with external debt, which are mainly developing countries for which obtaining convertible foreign currency is a very important task;
- It is easy to calculate and easy to understand;
- This indicator shows, on short term, the capacity of the country to honor the service of external debt.

External debt service ratio reflects quite accurately the capacity of debtor country's external payment, being very sensitive to the evolutions of the conjunctural situation. As in the most world's countries external incomings fluctuates depending on the conjunctural situation, while external debt service ratio evolves independently, regardless of the conjunctural situation and only depending on the

¹⁸ www.bnrr.ro/Publicatii-periodice-204.aspx

¹⁹ Dennis Appleyard, Alfred J. Field, JR, *International Economic, Payments, Exchange Rates and Macro Policy*, Richard D. Irwin, INC, 1995, pag. 262

structure of external debt (due date, loan size, the level of interests), external debt ratio increases when external incomings decrease, compared to debt service. In this situation, external debt service ratio indicates the difficulties that a debtor country encounters and which this country has to face them in different conjunctural periods.

External debt service ratio indicator has some limits, arising both from the calculation and from its significance for different countries. Thus, the significance of the external debt must not be considered only according to its size; a critical level for the external debt ratio can be established apart for each economy, taking into consideration the evolution of the external commerce, the reorganization of imports and exports, and the evolution of financial flows of the country.

External Indebting Capacity

An efficient management of the external debt requires the authorities to draw the profile of future commitments/obligations inherent to the external debt, that is to carry out an accurate prevision of export revenue, of the internal income and of the access in the future to financing. At the same time, the authorities shall monitor the potential/possibilities of anticipated payments or debt refinancing with a view to access new loans with favourable terms, to adapt the maturity date of the loans to the estimated incomes. Moreover, the authorities shall take into account possible failures in what concerns export revenues and unforeseeable import costs.

External indebteding capacity expresses a country's possibilities to access (contract) foreign credits, for which the payment of interests and of the related commissions and also the reimbursement at maturity do not create economic-financial difficulties. At one point, external debt capacity is determined both retrospectively and prospectively, taking into account:

- the volume of exports of goods and services made in the previous period to the considered one, forecasting for the current year and making predicts for its future trends;
- the maximum rate between external debt service and the volume of the mentioned exports;
- the volume of the contracted external debt service.

External Debt Sustainability

The studies carried out by the International Monetary Fund, the World Bank, the Paris Club, as well as by most indebted developing states have found that there is an urgent need of new standards for

these late category of states, taking into account mainly the fiscal consequences inherent to the external debt. Therefore, in the first place, the indebted states along with international financial bodies shall establish a mutual scenario based on a set of fundamental principles:²⁰

- Macroeconomic stability; the governmental expenditures, including the external debt service shall not induce an inflationist fiscal policy;
- The internal taxation ratio shall prompt a sustained economic growth; the internal taxation ratio shall be set so as to contribute to the promotion of export; the uncertainties for the investors shall be diminished; the employment shall be encouraged and the taxation system shall be maintained stable;
- The external debt shall be reduced with a view to reach the above mentioned goals, taking into account the needed timeframe for the adjustment of the budgetary and taxation policies, as well as the magnitude of the budgetary assistance from donor states which is needed by the debtor states.

The analysis of the external debt takes into consideration both the indicators of solvability and the indicators of liquidity. The table below shows the indicators of the external indebtedness which are taken into account in the analysis of the external debt sustainability.

Table 7. The indicators of external debt solvency:

| Debt Indicators | Explanation |
|-----------------|---|
| Interest rate | <p style="text-align: center;"><i>Solvency</i></p> <ul style="list-style-type: none"> - the ratio between the interest payable for the contracted loans and the incomes coming from exporting goods and services indicates the level of current income coming from exports, necessary for paying the external debt; - the ratio between the external debt and the exporting of goods and services indicates how much of the income derived from an economy's exporting activity is allocated to the external debt; |
| Debt rate | |

²⁰ Jefferey D. Sachs, *External debt, structural adjustment and economic growth*, IMF, 1990, pag.50

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| | |
|---|---|
| External debt / exports | - the ratio between the external debt and exports |
| External Debt/GDP | <ul style="list-style-type: none"> - is an important solvency indicator, an increase of the ratio pointing out that the country could face problems in the future regarding paying the liabilities for the contracted debt; - the ratio between the external debt and the GDP offers important clues regarding the economy's capability to honor the external debt by transferring resources from the branches that produce for the domestic market to those that produce for the international market; |
| V.N.A./Export | <ul style="list-style-type: none"> - compares the burden of external debt against the capacity to pay back the contracted loans; |
| V.N.A./Fiscal income | <ul style="list-style-type: none"> - because not all income deriving from exporting is made available to the public authorities, this indicator compares the liabilities against the governmental income; |
| Liquidity | |
| Reserves/Import | <ul style="list-style-type: none"> - an important indicator of reserve structuring; |
| Reserves/Short-term debt | <ul style="list-style-type: none"> - this ratio may point to a country's vulnerability toward a liquidity crisis when massive capital is taken out and used for paying a part of the external debt; |
| Paid interest/reserves | <ul style="list-style-type: none"> - the ratio measures the paid interests subject to all loans which have to be covered from reserves; - the ratio illustrates the relative importance of short-term debt (due date is shorter than one year) compared to the amount of cumulated loans; it also shows the degree of vulnerability in the case of a liquidity crisis. |
| Short-term external debt/Cummulated external debt | <ul style="list-style-type: none"> - the ratio illustrates the relative importance of short-term debt (due date is shorter than one year) compared to the amount of cumulated loans; it also shows the degree of vulnerability in the case of a liquidity crisis. |

Source: *External debt and sustainable debt management*, www.unescap.org/pdd/publication.

Table 8. The solvency indicators of Romania's medium and long term external debt during 2006-2012:

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%

| Indicators | 2000 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Maximum limit |
|---|-------|-------|-------|-------|-------|-------|-------|-------|---------------|
| External debt/PIB | 23,9 | 29,2 | 31,0 | 36,8 | 55,5 | 58,6 | 57,8 | 59,8 | 50,0 |
| External debt / exporturi | 72,7 | 109,9 | 131,0 | 152,5 | 225,6 | 195,1 | 168,5 | 174,6 | 150,0 |
| Currency reserves /External Debt | 54,2 | 79,7 | 69,1 | 55,0 | 43,9 | 47,2 | 43,7 | 39,6 | 50,0* |
| External debt services /exports | 16,7 | 19,4 | 20,5 | 38,7 | 42,2 | 39,3 | 33,6 | 39,2 | 30,0 |
| The external debt service/currency reserves | 42,3 | 26,6 | 27,6 | 46,1 | 42,6 | 42,7 | 45,6 | 56,6 | 40,0 |
| Currency reserves/ PIB | 12,90 | 23,13 | 21,45 | 20,25 | 24,37 | 27,69 | 25,28 | 23,69 | 25,0* |

*minimum point

Source: self made calculus with information offered by the National Bank of Romania and National Prognosis Commission data.

As one can see from the above table, at some of the indicators of the external debt solvency, Romania, beginning with 2009, overdrawn the low limit. This reduces its rating as a country and makes the access on the international capital market even harder.

Even though The International Monetary Fund highlights the fiscal policies when it gives recommendations to the countries asking for external loans, some specialists²¹ consider that those policies are not proven efficient. Complementary actions of the structural policies are necessary to

²¹ Guillermo Calvo, Carmen Reinhart, Fearing of Floating, The Quarterly Journal of Economics, MIT Press, vol 112, pag 379-408;

sustain the reduction of the external financial vulnerability, especially in economies that have a great incidence of bank loans in currency.

The Synthesis of Chapter 4. *The costs and benefits of external debt.*

The idea that needs to govern a realistic analysis of the external debt of a country is, like for other economic processes, to report the cost of the external debt to the benefits that result from accessing foreign capital; or, in other words, to report the effort of sustaining an external debt to the positive economic effects of the loan.

The analysis of costs-benefits of an external debt implies establishing some correlations between indicators of external debt (amount of the debt, debt scheduling) on one hand and indicators of macro economy (national income, gross national product, economic growth, external economic exchanges) on the other hand. Starting from this and taking into consideration the national economy and the situation on the international market, we can determine the point in which the positive effects of the loan together with the country's ability to pay or the limits of the credit rating begin to decrease.

In developing countries, internal economies are insufficient to finance a certain level of investments and, hence, the economic growth. We consider that a high level of imports financed by external loans will ensure a fast growth of the GDP, which would otherwise be possible if the internal economies would reach a certain level.

The causes that have led to the increase of the public debt in most of the states are multiple and they involve economic, social and political factors. Amongst the most important causes, there are some worth mentioning like²²: financing armed conflicts, adopting politics that stimulate total demand, financing social politics of the Providential State, increasing the budgetary deficit or the deficits in the structure of the external payments balance as a consequence of inflation or economic recession. The different problems of the global economy, from the oil issues to the exchange rate fluctuation of the most used currencies, have significantly contributed to issues related to the management of the public debt of the countries. At the same time, the states have constantly increased international exchanges of goods and services. This did not reflect in a constant increase of international liquidity²³ and, hence, it reflected in an increase of the external debt.

The increase of the external debt, a burden for developing countries, was determined both by

²² D.I. Trotman- Dickenson, *Economics of the public sector*, Ed. MacMillan, London, 1996, pag.293;

²³ Gheorghe Ciobanu (coord.) *Tranzacții Economice Internaționale*, Cluj-Napoca, 2004, pag. 30

internal and external factors. Among the important internal factors, we can mention: the consumptive use of some international credits, the unproductive investments that did not lead to sending competitive products on the external market in order to restore the international funds and the bad management of the loans.

By combining external indebtedness with a development strategy, we can identify two trends in the process of economic development. Some countries, especially in Asia, have grown rapidly and increased the life standard of their population. These countries, unlike some in Africa and Latin America, have promoted a politics of efficient industrialization together with a management of the external debt, which allowed them to avoid a crisis in external debt.

The case of the states in South America is probably the most relevant for strategies of substitution of imports, which had a great impact on the crisis of external debts. By adopting this strategy on the intermediate and long term, these countries have tried to overcome the vicious circle of under development, caused by the divergent tendencies of the prices on the international market. In these countries, contracting business by protective measures, creating a common market for countries with the same level of development and selectively promoting foreign capital into processing areas of the economy has led to a real success. Hence, by combining protective commercial measures with focus in industry they got to fast industrialization as the only way of putting the national economy on the right tracks of growth and development.

The third trend is represented by countries from East and South-East Asia, which have practiced a politics of promoting the exports and this has led to birth of new industrial states that increased the life standard of their population.

So, the exports represent an important instrument in speeding up the economic growth because in the initial phase of the economic development process, the one of the capital accumulation, the low and instable internal demand does not stimulate the production. Under these circumstances, the mass purchasing power is low and the increase of the income does not reflect in an increased market demand.

In order to be able to generate work for internal of external businesses, the economic agents are almost forced into having to produce for the external markets. In this process they end up learning amount how to sell, how to adapt to competition and gain recognition.

Many developing countries have had the capacity of paying their external debt in the 1980's, without letting this affect their economic development. Amongst the factors that have allowed this

countries to avoid a crisis of their external debt, we can enumerate²⁴:

The rapid spread of exports and a profitable exchange rate. The countries (Japan, China, South Korea) which have adopted a policy that trends towards the other foreign countries, that promote exports and which benefited by a favorable exchange rate (the countries from East Asia, South Korea) had the chance to avoid the the crisis of the foreign debts.

The rapid spread of exports made these countries capable of payment. The raise of the exports from the 60's led the economic growth of South Korea and made this country the 12th strongest economy from the whole worlds. Since the beginning of the 1980's the raise of exports was higher than the raise of the interest rates of the credits and this made these countries capable to reduce foreign debts. Generally, it is considered that the economies which have adopted a strategy that promotes exports have a higher economic raise than those which have adopted a strategy to substitute the imports; they achieve an instant industrialization and a high rate of productivity. This happens due to a strong and positive connection established between the raise of exports and the raise of the results achieved from the exports. It is considered that export is a factor of the economic raise because it provides the transfer of technology and allows the expansion of the outlets, as well as an advanced competition.

A nimble answer to the extern shocks. The countries that took quick measures to balance the foreign shocks, especially the ones that reduced the consumption in the public department, didn't have to turn to excessive foreign loans. On the other hand, those that postponed the balance or that considered these shocks to be only a temporary situation and continued to sustain the consumption at a normal level making foreign loans faced great difficulties in paying back the debt accumulated. Thus, it is considered that foreign shocks must be treated with great care, the public consumption and in the department of the imports to prevent the consequences subsequent to a crisis situation.

Cautious investments and the efficient use of the resources. The countries that used well the foreign loans incurred to modernize the infrastructure, investments in the human resources or to expand the productive bases didn't face a foreign debt crisis. At the same time the rate of investment is strongly linked to the rate of the economic growth, the structure of the investments, and the efficient use of the investments are as well important factors. The public investments ment to budget inefficient and at a loss factories proved to be inefficient, with few exceptions.

²⁴ Ishrat Husain, *External debt and the development process*, Good Debt Management Pays, Document Series No.3, pag.12, www.unitar.org/dfm

The de-centralization and diversifying of production. The human capital investments and the development of the local potential were essential elements. The countries that promoted a politics of de-centralization and diversifying of production registered significant progress, especially when compared to the countries that exerted too tight a control over their economic activities and that adopted a single structure or direction for production and commerce.

Economic growth and development represent, firstly and without a doubt, national objectives which must be attained through the implementation of local solutions. This goal can become attainable if we adopt some economic policies which would encourage savings, but also direct and portfolio investments, investments that may be attracted from local or foreign investors; other methods would be a commercial strategy based less on the substitution of imports and more on the promotion of exports, the creation of a stable macro-economic environment, the implementation of newer, more efficient and less pollutant types of technology, and also an emphasis on the importance of education and human potential in the economic processes.

A close analysis on the relation between the external debt and the economic growth reveals the fact that an exaggerated increase in the debt of an economy has clear negative effects upon that economy and limits the rate of economic growth and development.

Along time, there have been registered multiple approaches of well-known authors²⁵, approaches that offer a rendition of the experience of many countries in the field of economic growth; these approaches reveal the following essential features²⁶:

- Through the import of capital and technology from developed countries, poor countries may register far greater progress than developed countries during the period in which these imports take place.

- Free international commerce represents the sine qua non/prerequisite condition for attaining the objectives of economic growth and development of countries in a state of development. The countries in course of development, which also manifest an interest in and openness for international exchanges and foreign investments, register a far greater degree of development than the countries which are not open to such relations.

²⁵ Barro Robert, and Xavier Sala –I-Martin, *Economic Growth*, New York; McGraw-Hill,; Jeffrey D. Sach, and Andrew Warner, *Economic Reform and the process of Global Integration*, Brookings paper and Economic Activity, 1995, No. 1, pag.1-118; Jeffrey D. Sach, and Andrew Warner, *Sources of Slow Growth in Africa*, Development Discussion Paper, 1996, Cambridge, MA: Harvard Institute for International Development;

²⁶ Jeffrey D. Sachs, *External debt, Structural adjustment and economic growth*, International Monetary and Financial Issues for the 1990s, vol IX, pag.46;

- A low level of return, associated with a low level of public consumption (the type of consumption that is not investment-oriented) lead to a stimulation of the economic growth process, mainly through the promotion of high investment and saving rates in the economy. A high taxation value, associated with a high public consumption, on the other hand, lead to a displacement of the capital within the economy and to lower rates of investment consumption, all of which contribute to a slowing down, or even a decrease of economic growth.

- The stimulation of economic growth can be done through the channeling of governmental money towards essential fields like health, education, and infrastructure, while the expenses related to subventions granted to producers and consumers, as well as other transfers of resources destined for households and economic agents are maintained at a lower level.

- The high external debt of countries in a state of development hinders economic growth, at the same time playing a great part in the limitation of macro-economic stability through the increase of economic deficit.

The issue of excessive debt concerns both lending and borrowing countries, meaning that the effort to surpass crisis situations must be a conjoined one. If the lender asks for a rapid acquittal of the existing debt, the indebted country will register a decrease of economic efficiency, with severe consequences upon economic growth, fact which will also affect the reimbursement of the rates due in the following terms. The pressure for the acquittal of the debt may also lead to social and political instability, which in turn may lead to a decrease in the number of investments, the process of economic growth being again affected. Therefore, the reduction of the foreign debt burden through negotiations may have beneficial effects on the indebted country. This is why we consider it important that the measures started by the International Monetary Fund and the World Bank are continued; these measures concern the reduction of the debt of extremely poor, highly indebted borrowing countries and their re-alignment on a trajectory of economic growth.

Conclusions and future research

In our opinion, it's not necessarily the existence of the debt that raises a problem for an economy, but rather the size of the debt, its relying on currencies, interest rates, etc; if the contracted debts reach very high levels, this will lead to an extremely high cost overall, economically and socially, with the risk of having a crisis of external debt emerge.

It is very important for a country to determine and agree on the optimal level of indebtedness which the economy can handle. This is precisely the reason why the external debt has to be contracted in close agreement with the specific needs of the economy and the loans to be proportional with the economy's ability to reimburse them. In this way, the risk of a liquidity or solvency crisis can be avoided.

Any international financial institution and any lender on the private capital market grants loans to a country only if they have the guarantee that the economy of that country will evolve in such a way that it will be able to return the loan. In this sense, a favourable indicator for foreign lenders are the country's rapport and negotiations with the International Monetary Fund (IMF). In this case, it is not the size of the loan borrowed from IMF that is of primary importance for foreign lenders, but rather the message of trust that is being communicated to the international community, investors and lenders that an agreement was closed with the aim of enhancing the macroeconomy and the business climate in that country.

As we wrote elsewhere in this paper, Romania's external debt registered an uprising trend during the period of time analyzed, going from €21.504 mil. in 2004 to €98.969 mil. in 2012. The most predominant were the loans contracted from private banks, which in 2008 represented 64.78% of the total external debt, long term and short term.

As for the indicators of our country's external indebtedness, they stayed within normal limits until 2005, with slight fluctuations during which the image of the Romanian economy on the international credit markets suffered damages, leading to tighter conditions being set for contracting external loans. On the other hand, as we pointed out in this paper, beginning with 2009, Romania started to send alarming signals regarding some indicators of the external debt solvency, which pulled down the country's rating and limited its access on the international capital markets. Although the IMF, through a series of recommended "recipes" for the countries that resort to external loans, places a special emphasis on the fiscal and monetary politics, they have yet to prove their efficiency. In our opinion, these politics have to be assisted by a series of structural politics actions, which could help reduce the external fiscal vulnerabilities, especially within the economies where loans in freely convertible currencies are common.

The actions of contracting external debt have to be in close agreement with the development strategy promoted by the national economy. There are many international examples showing that the countries that had adopted the import substitution strategy were much more severely hit by the

turbulences in the world economy, having to deal with crises of the external debt, whereas the countries that applied the export promotion strategy succeeded to surpass the same problems and to place their economic development on an upward trend. The most important factors that have contributed to this success are: the fast promotion of exports and a favourable exchange rate, prompt measures taken in cases of external turbulences, careful investments and an efficient use of resources, as well as the decentralization and diversification of production.

More recently, researchers have been increasingly preoccupied with highlighting the existence of a relationship between the external debt and economic growth, which is what all national economies desire. We also subscribe to the opinion that, during the incipient phases of economic development, it is necessary to have a strong influx of foreign capital which would trigger the economic growth faster. The relationship between the external debt and economic growth is a complex one, differing from developed to developing countries; in the latter's case, the relationship between the two is as important as it is negative. In other words, a low level of external debt is associated with a high rate of economic growth. In this case, it is the public external debt that is taken into account, the private external debt having a minor influence.

This paper is meant to be only an introduction in the relationship between the economic growth and external debt. In the future, the author will focus on how this relationship applies in Romania and the Central and Eastern European countries. The aim is to give a shape to this relationship starting from the relevant variables and the empirical studies done on the economies of the developing countries in particular.

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