The Analysis of the Budget Deficit in Romania

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Abstract

The Treaty of Maastricht focuses on two fiscal criteria: budget deficit and public debt. In this paper, it is our intention to deal with the first fiscal criterion, budget deficit, in Romania between 2008-2011 and to analyze the fiscal measures that have been taken to diminish it and reach the target set up in accordance with the agreement concluded between the International Monetary Fund, the World Bank and the European Union.

Key words: budget deficit, fiscal reform, budget revenues, budget expenses

1. Introduction

Budget deficit (balance of the general budget) is an indicator used to monitor fiscal and budget policies and reflects the extent to which convergence criteria are respected. The Treaty of Maastricht stipulates that the budget deficit of a E.U. member should not exceed 3% of GDP. The increase of budget deficit is influenced by a series of factors: the fluctuations of economic activities, unemployment rate (unemployment growth during recession leads to high costs of social services, having as a result the increase of the budget deficit); interest rate, inflation rate, institutional factors (budget procedures, public decisional process), etc.

2. The evolution of the budget deficit between 2002-2010

Figure no. 1 The evolution of the budget deficit between 2002-2011

Source: Ministry of Public Finance

Considering the criteria related to the sustainability of the fiscal position, between 2002-2007, Romania did not exceed the maximum level set up in accordance with the Treaty of Maastricht, being able to maintain the budget deficit under 3% of GDP.

Starting with 2008, Romania has not managed to abide by this convergence criterion. As a result of the fiscal-budgetary measures, some of them with electoral
In the context of an economic crisis, the government being forced to apply measures of fiscal correction. In this context, the budget deficit overexceeded the threshold of 3% of GDP, increasing by 2.5 percentage points unlike 2008. The level of 8% of the budget deficit was in the attention of the European Council, that on the 1st of July 2009 included Romania in the procedure of excessive deficit and recommended that the budget situation should be recovered till 2011, the deadline being actually extended up to 2012.

To refinance the budget deficit in 2009, it was the internal resources that were mainly used:

- issue of treasury bonds in lei, such as benchmark or discount treasury bills on the domestic market with a maturity in the medium term, of 3 and 5 years respectively;
- loans on the domestic market as well as external loans for financing projects;
- contracting some new external finances within the external financial package dealt with International Monetary Fund, the European Community and the World Bank;
- loans got by the authorities of the local public administration;
- amounts recovered by the Authority for State Assets Recovery from the distressed banking assets and amounts recovered by The Ministry of Economy according to G.E.O. no. 249/2000.

Figure no. 2 Government securities by initial maturity issued between 1 January – 31 December 2009

Source: Ministry of Public Finance

In 2010, the budget deficit decreased by 1.8 percentage points, reaching the value of 6.51% of GDP. A large array of measures has been taken to decrease it:

a) diminishing current expenses through:
   - restricting the expenses for the staff by wage freeze;
- blocking the jobs in public sector and going on implementing the policy of replacing one employee of seven who quit the system;
- diminishing the payments for extra working hours and pensions;
- savings regarding the pensions generated by pension freeze;
- a better rationalization of invalid pensions and anticipated pensions in the context of applying more strict regulations;
- diminishing expenses for goods, services and certain transfers;
- savings generated by a better administration of social assistance programmes and consolidation of over 200 social aids, besides the assurances of additional resources to improve the welfare system;
- re-evaluating all type of taxes (on property etc);
- increasing excise duties on tobacco and fuel;
- increasing the taxes on the turnover recorded by drug distributors.

3. Perspectives on budget deficit in Romania
At the end of 2011 the budget deficit was of 4,35% of GDP, a little below the limit set up by IMF, of 4,4%. It is due to several measures that were adopted in 2011: diminishing occupancy in the public sector, maintaining salary expenses under 7,5% of GDP, eliminating subventions for central heating offered by the state budget and modifying regulation regarding the financial support for the population with low revenues.

In 2011, the revenues recorded by the consolidated general budget increased by 2,1 percentage points unlike 2009 and 1,1 percentage points unlike 2008. Comparable to 2010, we remark a positive evolution of the value added tax (+1%), excises (+0,1%) and contributions for social assurances (0,3%). For 2012-2014, as a result of economic growth and fiscal fraud diminishment, an increase of budget revenues is forecast for 2014 with 0,7 percentage points more than in 2011.

Table no. 1 Evolution of budget revenues and budget expenses between 2008-2014 -%-

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit tax</td>
<td>2,5</td>
<td>2,4</td>
<td>2</td>
<td>1,9</td>
<td>1,9</td>
<td>1,89</td>
<td>1,87</td>
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<tr>
<td>Income/ salary tax</td>
<td>3,6</td>
<td>3,7</td>
<td>3,5</td>
<td>3,5</td>
<td>3,35</td>
<td>3,4</td>
<td>3,43</td>
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<tr>
<td>VAT</td>
<td>8</td>
<td>6,8</td>
<td>7,7</td>
<td>8,7</td>
<td>8,6</td>
<td>8,63</td>
<td>8,61</td>
</tr>
<tr>
<td>Excises</td>
<td>2,6</td>
<td>3,1</td>
<td>3,4</td>
<td>3,5</td>
<td>3,69</td>
<td>3,67</td>
<td>3,64</td>
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<tr>
<td>Contributions to social insurances</td>
<td>9,4</td>
<td>9,5</td>
<td>8,9</td>
<td>9,2</td>
<td>8,72</td>
<td>8,69</td>
<td>8,44</td>
</tr>
<tr>
<td>Fiscal revenues</td>
<td>3,2</td>
<td>2,9</td>
<td>3,9</td>
<td>3,3</td>
<td>3,52</td>
<td>3,43</td>
<td>3,41</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td><strong>32</strong></td>
<td><strong>31</strong></td>
<td><strong>33</strong></td>
<td><strong>33,1</strong></td>
<td><strong>33,9</strong></td>
<td><strong>34</strong></td>
<td><strong>33,9</strong></td>
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<tr>
<td>Personnel expenses</td>
<td>8,4</td>
<td>9,2</td>
<td>8,4</td>
<td>7</td>
<td>7,2</td>
<td>7,1</td>
<td>6,8</td>
</tr>
<tr>
<td>Goods and services</td>
<td>6,5</td>
<td>5,7</td>
<td>5,8</td>
<td>5,8</td>
<td>5,3</td>
<td>5,3</td>
<td>5,1</td>
</tr>
<tr>
<td>Interest</td>
<td>0,8</td>
<td>1,2</td>
<td>1,4</td>
<td>1,6</td>
<td>1,7</td>
<td>1,7</td>
<td>1,7</td>
</tr>
<tr>
<td>Subsidies</td>
<td>1,5</td>
<td>1,4</td>
<td>1,3</td>
<td>1,2</td>
<td>0,9</td>
<td>0,8</td>
<td>0,7</td>
</tr>
<tr>
<td>Social assistance</td>
<td>10,4</td>
<td>12,7</td>
<td>13,4</td>
<td>12,4</td>
<td>12,1</td>
<td>11,7</td>
<td>11,3</td>
</tr>
<tr>
<td>Other transfers</td>
<td>3</td>
<td>2,4</td>
<td>3</td>
<td>2,4</td>
<td>2,3</td>
<td>2,4</td>
<td>2,6</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>36,9</strong></td>
<td><strong>38,2</strong></td>
<td><strong>39,5</strong></td>
<td><strong>37,5</strong></td>
<td><strong>36,9</strong></td>
<td><strong>36,5</strong></td>
<td><strong>36,1</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Public Finance; Fiscal-budget strategy 2012-2014
As for the expenses of the consolidated general budget, we remark a negative evolution: they recorded an increase of 0.6 percentage points in 2011 and 2.6 percentage points in 2010 unlike 2008. The measures taken starting with July, the 1st, 2010, which are a diminishment of 25% in salaries within budgetary sector, as well as the restructure of the administrative body at the central and local level, have been mirrored in the significant decrease of personnel expenses. On medium term 2012-2014, these measures compounded with the decrease of subsidies, goods and services expenses and social assistance expenses will lead to a significant diminishment of budgetary expenses by 1.4%, 3.4% in 2014, unlike 2011 and 2010, respectively.

In this context, gradual diminishment of budget deficit was expected on medium term, reaching 3% of GDP in 2012, 2.5% of GDP in 2013 and 2.2% of GDP in 2014.

The gradual diminishment of budget deficit depends on two objectives: the elimination of arrears and the control of public expenses. To achieve the second objective, the following requirements must be met:

a) continuing to adjust and restore the system of public expenses through:
   - decreasing expenses for salaries so that they stand for 7.2% of GDP in 2012, 7.1% of GDP in 2013 and 6.8% of GDP in 2014.
   - excluding any bonus, prizes, holidays tickets or restaurant tickets and rewarding the extra working hours by offering exclusively days-off;
   - reducing the number of employees in the public sector, by maintaining the policy of replacing one of seven employees who quit the system;

b) orienting expenses towards investment projects with a significant role for economic development:
   - between 2012-2014 expenses and investments stand for 7.3% - 7.9% of GDP

c) improvement and hierarchy of capital expenses in accordance with priorities aiming at a significant accession of EU funds through the use of supplementary resources allocated to the first semester investments

d) rapid accession of structural funds, through:
modernization and consolidation of the legislative framework in the field of public investments and other relevant fields for the accession of EU funds

- prioritization of investments to assure sufficient funds for essential projects
- consolidation of the process of project assessment.

Between 2011-2014 budget deficit will be fueled by both domestic and external sources, but respecting the objectives stipulated in Strategy for the administration of the governmental public debt:

- monitor the economic growth to maintain at the sustainable level of the governmental public debt;
- diminishing the costs of a long-term governmental debt under the conditions of a proper level of risks related to the portfolio of the governmental public debt;
- diminishing the risks related to the portfolio of the governmental public debt.

Financing the budgetary deficit of the internal sources will be achieved 50% through the issue of governmental bills on the domestic market, such as the T-bills and the benchmark T-bills with a maturity of 3, 5, 7 or 10 years. Starting with 2012, the budgetary deficit will mainly be financed through the issues on the external capital markets within the Framework Programme for government bonds on medium term amounting to 7 billions euros between 2011-2013.

4. Conclusions

The austerity measures taken between 2009-2011 had a great impact on the diminishment of budget deficit that recorded a decrease from 8,3%, in 2008, to 4,35%, in 2011. To have a budget deficit no higher than 3% of GDP, the government must go on the process of fiscal-budgetary consolidation through the diminishment of expenses and the improvement of fiscal reforms. For this purpose, in the Letter of Recommendation and the Technical Memorandum of Economic and Financial Policies- the third evaluation of the preventive stand-by agreement, the Government assumed the responsibility of implementing responsible and transparent policies and a predictable, stable and lean fiscal system.

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