

# BUDGET GROWTH IN ROMANIA - PRESENT AND PROSPECTS

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**Abstract:** *Public sector can be defined as a set of business and social activities performed under the total or partial control of the government and local communities.*

*The public sector content varies from one country to another but in most countries it includes services from the fields of: education, culture, healthcare, social protection, national defence, public order etc. Practically, the public sector provides a series of basic services which the entire society benefits from as well as services meant to encourage equal chances.*

*The resources to finance such needs, the financing sources and the concrete forms of public expenditures are reflected in the government’s general consolidated budget and managing public financial resources comes from: state budget, social security budget, local budgets, special fund budgets, state treasury budgets, budgets of other autonomous institutions in the context of ensuring a financial balance.*

*The present paper aims at showing an overall picture of state budget growth, the main component of the general consolidated budget.*

**Key words:** *budget, budget indicators, deficit.*

**JEL Classification:** H61, H62

## INTRODUCTION

In the financial system where financial relations are developed, budget relations play a major part occurring during the set-up, distribution and use of budget funds needed in public bodies at national and municipalities’ level – relations that take place in our country, within a unitary system of budgets.

Law 500 of 11 July 2002 on public finances introduces the concept of general consolidated budget<sup>1</sup> and emphasizes its structural components: state budget; state social insurance budget; special funds budgets; state treasury budget; autonomous public institutions’ budgets; budgets of public institutions wholly or partly funded by the state budget, state social insurance budget and special funds budgets, as applicable; budgets of public institutions wholly financed from own revenues; budgets of funds from external loans contracted or guaranteed by the state and whose repayment, interests and other costs are paid from public funds; budget of non-reimbursable external funds.

State budget, the main component of the general consolidated budget is the act by which the level of expenditures is forecast to be incurred in the future, as well as the size of revenues that can be attracted to the state’s disposal.

## FORECASTS ON CHANGES IN BUDGET INDICATORS IN THE STATE BUDGET DURING 2013- 2015

Substantiating budget indicators is performed till the end of a year, for the following year and the following three years in accordance with the provisions of the fiscal-budget strategy prepared by legislative power.

### **State Budget Revenues**

State revenues are all the resources it has at its disposal to be able to materialize its public (social, economic, political etc.) policies. Every year they are synthesized in the state budget in compliance with the budget classification<sup>1</sup>.

The classification of public finances in Romania in place for the year 2013 endorsed by Order no.1954/16 December 2005 with subsequent amendments and additions provides revenues grouping by headings, subheadings and paragraphs in relation to the origin source, namely the type of budget revenues. It is essential to add that more than 90% of such resources result from fiscal revenues.

If structured as per the budget classification for the period during 2012 – 2016, state budget revenues are forecast as follows:

<b>Indicator</b>	<b>2012 anticipated execution 2012 (mil.Lei)</b>	<b>2013 program me (mil.Lei)</b>	<b>2014 forecasts (mil.Lei)</b>	<b>2015 forecasts (mil.Lei)</b>	<b>2016 (mil.Lei)</b>
Total revenues of which:	85988.54	98182.53	106816.5 6	113055.8 3	120005.5 9
I. Current revenues of which:	83356.70	91427.71	97042.93	101263.9 0	107194.0 5
1. Tax revenues of which:	75411.29	83443.76	87788.96	91657.83	97058.69
a. Corporate tax, salaries, revenue and equity gains:	18488.97	20807.63	21974.99	23249.15	24527.02
b. Property taxes and fees	0.35	27.5	80.55	85.12	89.87
c. Goods and services taxes and fees of which:	56194.84	61851.85	64932.03	67478.82	71550.68
- VAT	50500.58	52948.81	55864.00	59135.80	62528.60
- Excises	18910.47	20876.30	22039.20	23229.30	24506.90
d. Foreign trade tax	706.02	741.80	785.50	828.00	873.00
e. Other fiscal taxes and fees	20.09	14.97	15.88	16.73	17.61
2. Security contributions	153.56	175.00	185.30	195.30	206.10
3. Non-fiscal revenues	7791.84	7808.95	9068.67	9410.76	9929.26
II. Equity revenues	306.95	319.40	338.20	356.5	376.10
III. Financial operations	4.68	6.11	6.12	6.13	6.14
IV. Subsidies	1.39				

Table no. 1. Forecasts on Changes in State Budget Revenues (2012- 2016)

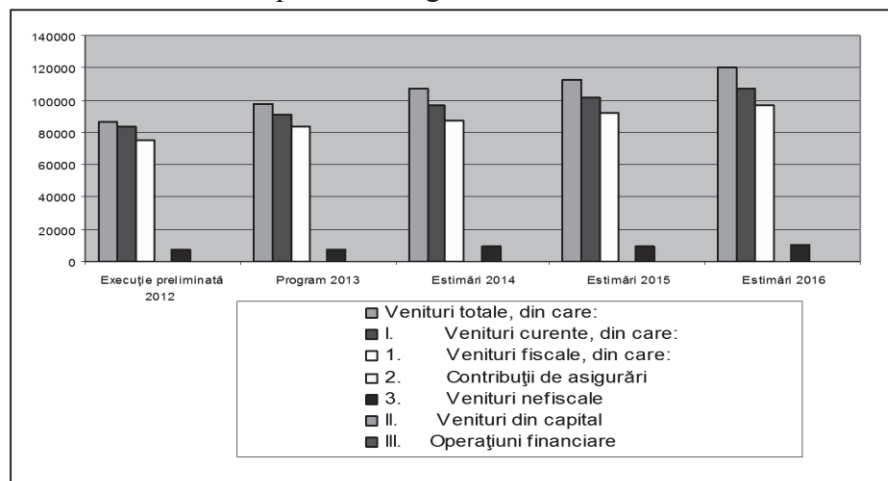
Source: State Budget Law Draft for the year 2013

[http://discutii.mfinante.ro/static/10/Mfp/proiect\\_buget2013/Anexanr1.pdf](http://discutii.mfinante.ro/static/10/Mfp/proiect_buget2013/Anexanr1.pdf)

According to the forecasts made public by the Ministry of Finance, the state budget revenues shall increase on short term by 14 to 8.7%, with the highest level reported in 2013 as compared with the anticipated execution of 2012. Such increases shall particularly reflect itself in growing money collections from taxes and fees, with tax revenues about to be at their highest during the entire period.

<sup>1</sup> *Budget classification* is a work instrument used in all budget process stages ensuring the obligatory order grouping and unitary strictly set criteria of revenues and expenditures included in the state consolidated budget. Budget classification is prepared by the Ministry of Public Finance and endorsed by the order of the public finance minister, and then published in the Official Gazette.

The overall increase pace of budget revenues is as follows:



Graph 1: Graphic Evolution of State Budget Revenues (2012- 2016)

### State Budget Expenditures

Public expenditures are the total expenditures incurred by public authorities, and their financing is provided by public revenues (taxes, fees, contributions) and by the budget deficit. They can be grouped into operational expenditures (current expenditures on personnel entitlements and services expenditures), transfer costs (various public services provided free of charge: social assistance, subsidies etc.) and investment costs envisaging the renewal or growth of public capital (construction, infrastructure).

Since 1991, budget growth in Romania has been performed in accordance with the two criteria stipulated in the UN classification.

1. The UN economic classification of public expenditures includes: *final consumption expenditures*: interest related to public debt; operating subsidies and other current transfers; *gross capital formation* (gross investment and rising material inventories): acquisitions of land and intangible assets, capital transfers.

2. The UN functional classification of public expenditures includes: general public services spending, defence, education, healthcare, social security, housing and village services, recreation, culture and religion, business activities, other purposes.

Regarding the envisaged period, the forecasts on changes in state budget expenditures are as follows:

Table no. 2. Forecasts on Changes in State Budget Expenditures (2012- 2016)

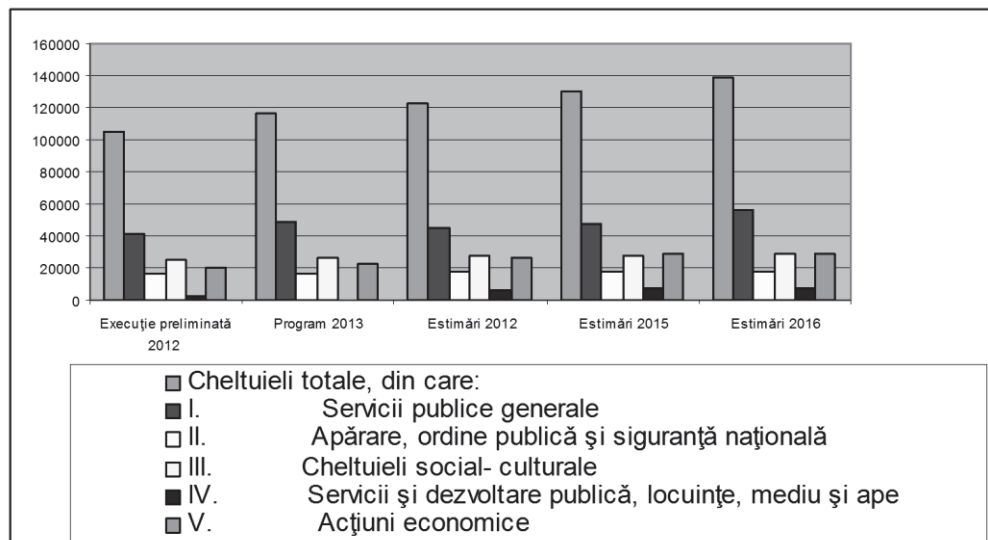
Indicator	2012 anticipated execution 2012 (mil.Lei)	2013 programme (mil.Lei)	2012 forecasts	2015 forecasts	2016 forecasts
Total expenditures of which:	105293.58	116359.34	122347.66	129540.53	138263.76
I. General public services	40998.55	48160.08	45345.41	47502.26	56012.73
II. Defence, public order and national security	16136.97	16848.28	17425.94	17843.90	17935.48
III. Social-cultural expenditures	25505.34	26521.48	27053.46	27791.04	28483.46
IV. Public services and development, housing, environment and waters	2769.58	89.99	6049.77	7069.54	7023.30
V. Business operations	19883.12	21939.49	26473.07	29333.77	28808.78

Source: State Budget Law Draft for the year 2013

[http://discutii.mfinante.ro/static/10/Mfp/proiect\\_buget2013/Anexanr1.pdf](http://discutii.mfinante.ro/static/10/Mfp/proiect_buget2013/Anexanr1.pdf)

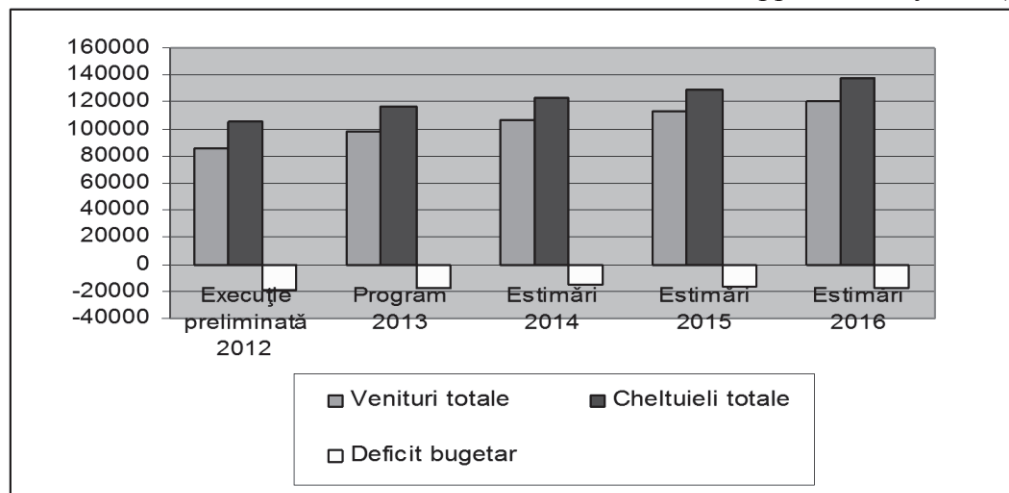
An increase in 2013 state budget expenditures is forecast as compared to 2012 by 10.5% as compared to the one in 2012. Thus, state budget expenditures increase from 105.2 billion Lei in anticipated execution of 2012 to 116.3 billion Lei in 2013. The most significant increases are estimated in general public services (by over 17%), cultural-social expenditure (by about 4%) and expenditures on defence, public order and national security (by 4.4 %).

The growth pace of budget expenditures during the entire forecast period shall be stable:



Graph 2: Graphic Evolution of State Budget Expenditures (2012- 2016)

By a comparative analysis of budget indicators, one can notice that during the period to come, a budget deficit decrease is estimated to occur (from 19.3 million Lei in the year 2012 down to 18.17 million Lei in 2013, a decrease of approximately 5.8%).



Graph 3: Changes in Budget Deficit in the State Budget (2012- 2016)

There are forecasts on maintaining a budget deficit at a level of about 18 million Lei, with its slight decrease in mid analysis period.

## CONCLUSIONS

Budget growth for the year 2013 had, according to the fiscal-budget strategy for 2013-2015 prepared by the Romanian Government, the following landmarks:

➤ The fiscal-budget view intended to support the business environment and the investment, to increase tax base under a competitive tax burden and to boost the reforms in public sector companies;

- Budgetary discipline and reducing waste to attract additional resources including those for social needs;
- Multi-annual budget scheduling for the period 2014-2016 to ensure predictability and stability in the budget fiscal framework;
- Transparency in the use of public money.

Approaching each of these landmarks, the author thinks the Romanians are far from having complied with them. Talking about a fiscal-budget view intended to support the business environment and the investment, one should refer to a set of fiscal-budget steps that can return like a boomerang upon the society. Thus, the impact of a flat-rate tax as of late this year should be studied accordingly not to turn into a discriminatory step. Appropriate solutions should be identified so as not to repeat the situation of the minimum tax applied in 2009 and to avoid the situation where some taxpayers may have to pay a fixed tax over their reported incomes or pay a fixed tax at times when they report no profits.

Neither is the environmental tax regarded as a remedy of the errors in recent years when applying the car tax able to convince taxpayers. On one hand, it is about additional costs borne by the people who buy used cars falling under the environmental tax (costs already combined with hard-to-cope-with fiscality as compared to the incomes of society members), and on the other hand, it is about the implications brought about by the environmental stamp duty upon the Romanian car industry.

The second desideratum, namely budgetary discipline and waste reduction seems quite difficult to achieve given that the number of ministries has increased to 27, budget personnel costs have increased by 14%, management bonuses in central administrative offices and budget of employee bonuses in the state system are increasing significantly.

As regards how the principle of transparency is being followed in state budget substantiation, a step adopted for the first time in Romania should be reminded here: budget and finance committee members have decided by vote that the media presence during 2013 budget debates should be restricted to an hour a day - 30 minutes in the morning and 30 minutes in the afternoon, with all discussions monitored on the website of the Chamber of Deputies. Dan Radu Rușanu, President of the Finance-Budget Commission, has justified his suggestion by the fact that lawmakers are "crammed" in the meeting room and anyway, on the other hand, the debates are fully transmitted on the Chamber of Deputies web site.

These are only some issues that make the author regard the 2013 budget as a budget against economic growth, a stagnation budget.

Indeed, these are hard times; but they should be incentives to the Romanians to find solutions for economic recovery, investment growth and new jobs.

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