

THE FORMATION OF ROMANIA'S BUDGET DEFICIT IN THE CONTEXT OF THE EUROPEAN INTEGRATION

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In this paper we intend to analyze the evolution and factors generating the budget deficit of Romania in the period before the year 2008, putting into light the impact of European integration, both from the perspective of the size of the budget deficit promoted by public authorities in our country, in accordance with the nominal convergence criteria stipulated by the Treaty of Maastricht, as well as of the size and structure of budget revenues and expenditure.

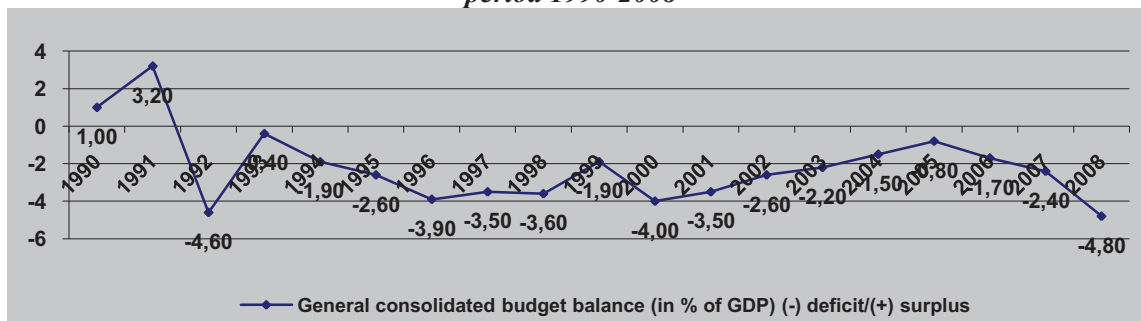
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1. The evolution of the budget deficit of Romania in the context of the transition to the market economy and the European integration

The evolution of the budget balance in Romania, in the period after 1990, was marked by two major phenomena: the transition from the economic centralized system to the market economy and the acquisition of the status of member state of the European Union, phenomena requiring considerable efforts on the financial plan, for supporting the process of reform and establishing some solid bases than ensure the appropriate conditions for the development of a functional economy. Figure 1 presents the evolution of the general consolidated budget balance of Romania, during the period 1990-2008.

Figure 1: The dynamics of the general consolidated budget balance of Romania during the period 1990-2008*



* operational data for 2008

Source: data provided by the Ministry of Public Finance, the National Bank of Romania and the National Institute of Statistics

We can ascertain the fact that, excepting the first two years of the post-December period, the general consolidated budget has permanently registered deficit after 1990. However, what has varied was the extent of the deficit achieved. In the period 1992-2000, the deficit generally registered high values as proportion in the GDP, being of 4.6% in 1992 and 4% in 2000. Afterwards, it was reduced, reaching the minimum level of 0.8 of the GDP in 2005, resuming its

easily ascendant trend after this year, up to 2.4 from the GDP in 2007. In 2008, in the conditions of the reduction of the economic growth rhythm on the background of the financial crisis, the deficit substantially increased, up to 4.8 of the GDP. According to the estimates of the European Commission, this evolution is expected to continue in the immediately following interval, the forecasted budget deficit being of 7.5% of the GDP for the year 2009 and 7.9% for 2010, therefore over the threshold of 3% of the GDP⁴¹.

The consolidated budget balance evolution was especially determined by the trajectory of the state budget deficit, since other components (mainly the local budgets and the social security budget) have most often presented surpluses or deficits reduced as dimensions⁴².

Table 1: The budget deficit of European Union's Member States during the period 1992-2008 (in % of GDP) *

<i>Countries</i>	<i>1992</i>	<i>1994</i>	<i>1996</i>	<i>1998</i>	<i>2000</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Belgium</i>	-8.4	-5.0	-3.9	-0.9	0.0	0.0	-0.1	-0.2	-2.7	0.3	-0.2	-1.2
<i>Czech Republic</i>	-	-	-3.3	-5.0	-3.7	-6.8	-6.6	-3.0	-3.6	-2.6	-0.6	-1.5
<i>Germany</i>	-2.5	-2.3	-3.3	-2.2	1.3	-3.7	-4.0	-3.8	-3.3	-1.5	-0.2	-0.1
<i>Greece</i>	-	-	-	-	-3.7	-4.7	-5.7	-7.4	-5.1	-2.8	-3.6	-5.0
<i>Spain</i>	-	-	-4.8	-3.2	-1.0	-0.5	-0.2	-0.3	1.0	2.0	2.2	-3.8
<i>France</i>	-4.6	-5.5	-4.0	-2.6	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.4
<i>Italy</i>	-8.6	-9.0	-7.0	-2.8	-0.8	-2.9	-3.5	-3.5	-4.3	-3.3	-1.5	-2.7
<i>Lethonia</i>	-0.5	-1.3	-0.4	0.0	-2.8	-2.3	-1.6	-1.0	-0.4	-0.5	0.4	-4.0
<i>Lithuania</i>	-	-	-3.3	-3.1	-3.2	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.2
<i>Austria</i>	-2.0	-4.8	-4.0	-2.4	-1.7	-0.7	-1.4	-4.4	-1.6	-1.6	-0.5	-0.4
<i>Hungary</i>	-	-	-4.7	-8.2	-2.9	-8.9	-7.2	-6.4	-7.8	-9.2	-4.9	-3.4
<i>Poland</i>	-	-	-4.9	-4.3	-3.0	-5.0	-6.3	-5.7	-4.3	-3.9	-1.9	-3.9
<i>Romania</i>	-	-	-3.7	-3.2	-4.4	-2.0	-1.5	-1.2	-1.2	-2.2	-2.5	-5.4
<i>Slovakia</i>	-	-6.1	-9.9	-5.3	-12.3	-8.2	-2.7	-2.3	-2.8	-3.5	-1.9	-2.2
<i>Great Britain</i>	-6.4	-6.8	-4.3	-0.1	3.6	-2.0	-3.3	-3.4	-3.4	-2.7	-2.7	-5.5
<i>Eurozone **</i>	-	-	-4.2	-2.2	0.1	-2.5	-3.1	-2.9	-2.5	-1.2	-0.6	-1.9
<i>EU27</i>	-	-	-	-1.9	0.6	-2.5	-3.1	-2.9	-2.4	-1.4	-0.8	-2.3

* the data concern the general government budget deficit according to the Maastricht criteria. They sometimes substantially differ of those presented by the national authorities due to the differences in methodology;

** 11 members since 2000, 12 members in 2006, 13 in 2007 and 15 in 2008

Source: Eurostat

Although the budget disequilibrium has known important dimensions, still it must be regarded in the context of specific transformations that the Romanian economy was subject to during the post-December period. Comparing the evolution of the consolidated budget deficit of Romania, in the period after 1990, with the one registered in other countries from the Central and Eastern Europe, going through the same transition process to the market economy and, afterwards, preparing for the European integration, we can assess the fact that it was kept under control by the public authorities, registering relatively lower dimensions, in accordance with the inflation diminishing objective. This also allowed maintaining the public debt at a lower level compared to other states of the Central and Eastern Europe.

41 European Commission, Interim Forecast January 2009, p. 38.

42 Other components of the budget system that registered deficit are: the budget of external credits given to the ministries, some budgets of the extra-budget funds, the Budget of the National Company of Highways and National Roads etc.

As we can notice from the data presented in table 1, during almost the entire period analyzed, the consolidated general budget deficit of Romania was much smaller than the deficits registered in the countries found in the same economic and political situation, such as Slovakia, Hungary or Poland. In some of them, the budget deficit approached or even exceeded 10% of the GDP (the case of Slovakia in 2000). Even after the accession of Hungary, Slovakia and Poland to the European Union, the deficits registered in these three states were much higher than the limit stipulated through the Maastricht Treaty, of 3% of the GDP. On the contrary, Romania complied with this nominal convergence criterion after 2002 although, under the conditions of the current financial crisis, this limit will be exceeded.

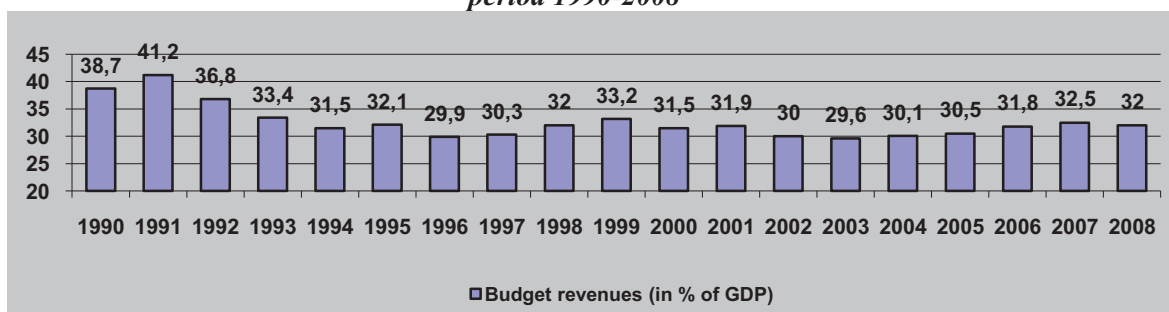
Analyzing the evolution of the budget deficit in other countries of the European Union as well during the period 1992- 2008, we can ascertain that there were many cases when the budget deficits were substantial. Negative budget balances of important dimensions were especially encountered in France, Greece, Germany, Italy and Great Britain, many times leading to the triggering of excessive budget deficits procedures, provided by the Stability and Growth Pact.

Taking into consideration all these aspects, the evolution of the budget deficit of Romania during the period 1990-2008 can be appreciated as being a normal evolution through the events that our country has experimented and through the similar previous cases seen at the international level. Nevertheless, the objective of adopting euro as a national currency imposes the intensification of the efforts to maintain the budget deficit at a low level, including from the perspective of maintaining under control the inflation, as a distinctive criterion of nominal convergence. In this manner, the public debt would be maintained at a sustainable level as well.

2. Forming the budget revenues - factor with impact on the size of the budget deficit

The reduced level of the financial resources attracted at the budget represents the main generating factor of the budget deficit promoted by the public authorities during the period after 1992. We can ascertain, from figure 2, that the budget revenues have generally represented, approximately 30-33% of the GDP, much under the average of developed states and even under the level registered in other states from the category of those in transition to the market economy and involved in the process of European integration, confronting with the same requirements in the financial plan. For example, in 2007 the budget revenues represented 40.4 % of the GDP in Poland, 43.2% in Slovenia, 44.6 in Hungary, 40.8 in Czech Republic, 41.2 % in Bulgaria and only 32.5% in Romania. Under the conditions of the current crisis that our country goes through, the volume of the incomes collected to the budget seems to decrease.

Figure 2: The evolution of the general consolidated budget revenues in Romania, during the period 1990-2008*



* operational data for 2008

Source: data provided by the Ministry of Public Finance, the National Bank of Romania and the National Institute of Statistics

Among the factors that exerted their influence on the volume of resources attracted in the budget, we can mention: the annual repeated and ample decreases of the GDP from the first transition years⁴³; the inadequate tax politics promoted by the competent authorities; the proliferation of tax evasion phenomenon, also because of the multiple exceptions and exemptions given by the state regarding the payment of some taxes and duties; the relative reduced rate of collecting the duties, taxes and contributions, especially at the level of the state enterprises.

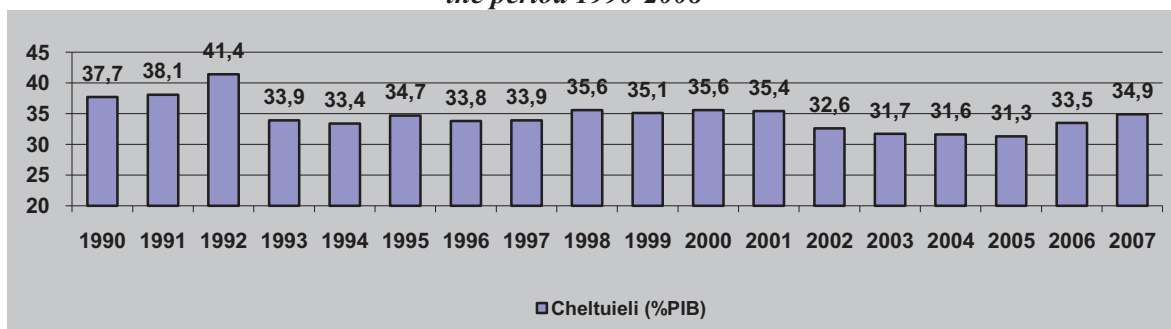
The taking over of the sums from the privatization of state capital companies by the budget, allowed, as other states in transition, to complete the tax incomes and, in such manner, to maintain the budget deficit at a lower level. The sums obtained in such way were substantial, reaching up to 2.3% of the GDP in 1998.

3. Making the budget expenditure – factor with impact on the size of the budget deficit

Although the *budget expenses* were continuously bigger than the ordinary revenues, forcing the public authorities to loan money, we can ascertain (Figure 3) that they were also maintained *at a low level compared with the one registered in other states knowing similar socio-economic conditions*. Excepting the first years of transition, when it approached 40% of the GDP, the level of public expenses was of 30-35%, with a maximum of 36.9% of the GDP in 2008. By comparison, in 2007 the public expenses were of 42.2% in Poland, 43.3% in Slovenia, 50.1% in Hungary, 42.2% in the Czech Republic and 37.8% in Bulgaria.

In the dynamics, we can ascertain that *the rhythm of increase or decrease of public expenses followed closely the one of the available financial resources*, effect of drastically reducing the expenses at the level of incomes, especially under the impact of the pressures exerted in this sense by the International Monetary Fund⁴⁴. This is emphasized especially in 1999 when, under the conditions of reduced credibility on the external plan, the substantial reduction of the budget deficit was imposed, reaching in the end the level of 1.93 % of the GDP.

Figure 3: The evolution of the general consolidated budget expenditure in Romania, during the period 1990-2008*



* operational data for 2008

Source: data provided by the Ministry of Public Finance, the National Bank of Romania and the National Institute of Statistics

43 For example, during the period 1996-1999 the fiscal policy promoted by the public authorities concerned to increase the level and the number of taxes, fees and contributions; as a result, although the budget incomes increased as a percentage in the GDP, on the background of the serious economic recession provoked, they knew a reduction in real size.

44 In order to benefit from the IMF resources, based on the principle of conditionality, the member states must elaborate and implement certain programs referring, among other things, to the budget deficit size. Such programs were implemented by Romania as well. The problem became again one of actuality in the context of the recent stand-by agreement that will be signed with the IMF.

Analyzing in structure the public expenses (Table 2) we can ascertain that the *current expenses* were and are *predominating* (wages, goods and services, interests, subventions and transfers) with percentage over 80% (variable from 79% in 1990 to 90.3% in 2001 and 91.4 % in 2005). The capital expenses, on the contrary, have had much more reduced dimensions (in the analyzed period their maximum value being of 21% of the total of expenses in 1990 and 16.4 in 1994) with a tendency of decreasing until 2000. This indicates the fact that the expenses were limited at the level of available incomes, most often, by adjusting the investment expenses.

Table 2: The economic classification of the general consolidated budget expenses of Romania, during the period 1990-2008 (selected years)*

-in % of total expenses –

Year	Current expenses					Capital expenses	Financial operations
	Wages	Goods and services	Interests	Subventions	Transfers		
1990	18.0	11.8	-	18.6	30.7	21.0	-
1992	17.9	15.1	0.6	31.4	22.6	9.8	2.7
1994	19.4	16.2	3.9	11.5	31.5	16.4	1.0
1996	17.8	17.1	4.7	12.9	30.8	15.4	1.2
1998	14.2	18.4	12.7	4.7	37.4	10.3	2.3
2000	15.5	19.9	13.8	4.6	36.3	8.6	1.3
2001	14.9	20.8	11.5	6.2	36.9	9.4	0.3
2002	15.0	21.2	9.7	6.2	37.9	9.7	0.3
2003	15.8	21.3	5.3	9.3	38.2	9.8	0.3
2004	16.7	20.8	4.1	7.1	41.2	10.0	0.1
2005	17.3	22.3	3.8	7.0	41.1	8.6	0.04
2006	18.6	19.7	2.4	6.6	41.1	11.3	0.04
2007	18.7	18.9	2.0	5.0	44.7	10.6	0.01
2008	22.8	17.6	2.2	4.1	41.2	12.2	0.00

* operational data for 2008

Source: data provided by the Ministry of Public Finance

The expenses with the transfers constantly represented the most significant percentage in the total of public expenses, most often of over 30% and even over 40% beginning with 2004. The general tendency registered was of increasing the relative importance of this category of expenses, in this manner being able to appreciate that they had a major contribution to increasing the public expenses and, as a consequence, to producing the budget deficit.

The transfers serve very different political, economic, scientific and cultural purposes, for accomplishing some international obligations and especially, some social purposes. The growth of the latter, in the form of expenses with the pensions, insurance and welfare etc. (with a percentage of approximately 80% of the total of transfers) was determined by numerous factors, among which: the accelerated increase of the average number of retired people compared with that of the employees and total population, the high rate of unemployment, including on the background of applying some measures of privatizing and restructuring the companies that led to massive personnel layoff, the high rate of poverty that required the intervention of the state in the most different manners in view of supporting the population etc. According the autumn forecast of the European Commission⁴⁵, the increase of public expenses with the pensions, together with reducing the social security contributions and the costs for introducing the second pillar of pension system will have an important contribution to increasing the budget deficit in 2009.

45 European Commission, Economic Forecast Autumn 2008, p. 107.

In the context of European integration, the recent growth of public expenses with the transfers can also be ascribed to ensuring the co-financing of non-reimbursable financial assistance from the European Community, and of the contribution of the community budget as well. Together with the integration in the European Union, our country has to contribute to the community budget, as a member state, in this way being paid in 2007 the sum of 3.9 billion lei (approximately 1% of the GDP). In 2008, Romania's contribution to the EU budget was of 4.2 billion lei, increasing compared to the sum due for 2007, in the period 2009-2011 being maintained around the value of 4 billion lei.

The expenses with subventions and premiums have known important dimensions and have had a significant contribution to the production of budget deficits especially in the first years of transition (31.4 % from the total of public expenses in 1992 and 12.9% in 1996), in the context of the state's direct involvement in maintaining at a reasonable level some prices and tariffs at the basic resources and products and services of strategic importance for the national economy and the standard of living of the population, covering the state companies' losses, supporting the agricultural producers etc. Because of the gradual renunciation to subventions in the context of preparing to access to the European Union, the subventions registered a decreasing percentage in the total of public expenses in the last period, being of only 5% in 2007 and 4.1 % in 2008.

The expenses with the interests and those assimilated to them (with the issuance and placement of government bonds, related to the risk of guarantees given by the state in the limits of the law, the expenses caused by establishing the country risk through specialized agencies) have registered during the transition period the most alert rhythm of increase and have had the most unfavourable impact, on the line of budget expenses, on the budget balance; practically inexistent in 1990, they grew up to 13.8% of the total of public expenses, in 2000. In order to establish a degree of comparison, it is sufficient to mention that, at the level of 2000, they substantially exceeded those destined to priority sectors of economy, such as education, health care, national defence. Among the factors that contributed to increasing this category of expenses, we can mention the increase of public debt and its inadequate structure, the high rates of interests, and the national currency instability. After 2000, on the background of reducing the public debt and improving its management, the expenses with interests were substantially reduced, representing, in 2008, 2.2% of the total of public expenses (0.8 of the GDP). In this manner, we created the manoeuvre space necessary for increasing other categories of expenses, including those regarding the investments in the transport infrastructure and for complying with the environment standards, so necessary from the perspective of alignment to the requirements of the integration into the European Union.

In conclusion, the specific transformations to which our country was subjected, in the context of the transition to the market economy and European integration, finally put fingerprints on the structure and, especially, the size of budget revenues and expenditure, generating budget deficits. However, compared with other countries under similar conditions, the Romanian authorities have shown concern for maintaining their level within acceptable limits, including from the perspective of the nominal convergence criteria laid down by the Treaty of Maastricht, in order to adopt the euro.

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