

ROMANIA'S BUDGETARY DEFICIT IN 2018 AND ITS FORECAST FOR 2019. DIMENSIONS AND FINANCING

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Abstract: *The recent economic crisis has revealed the failure of some cognitive and operational models to relaunch the economic activity. The most representative example is the thesis that price stability is equivalent with financial stability, with the full use of resources. In the current period, we hear more and more of the idea that the budgetary deficit becomes a means of relaunching the economic activity, given the fact that it is not already inflationary. Acting on the demand for public goods and services is possible by using short-term action funds, thus achieving a flexible budgetary policy. Within this, public spending can be resized in relation to the size of these funds. If no changes are made in the regulation of taxes, the tax revenues can be short term adjustment tools. The idea that the budgetary deficit would be a particularly important problem for the economy is partially true, since it must still exist. Through it, the redistribution of income between generations is assured, fiscal relaxation in case of variation of income subject to taxation is assured etc.*

Keywords: *deficit, budget, public administration, economic crisis, financing, investments.*

JEL Classification: *H62.*

1. Introduction

In the current period, the idea that the budgetary deficit becomes a means of relaunching the economic activity is issued more and more, given that it is not already inflationary (Cioponea, 2007). It is possible to act on the demand for public goods and services through the use of short-term action funds, thus creating a flexible budgetary policy, within which public spending can be resized in relation to the size of these funds. If no changes are made in the regulation of taxes, the tax revenues can be short term adjustment tools.

In this sense, a process of crucial importance is the improvement of public expenditure. The desired goals can be achieved more efficiently, sometimes faster and at lower costs, without reducing the quantity or quality of the provided services. It is enough to eliminate the excessive staff from the central and local administration in order to observe a decrease in the supply costs of certain public services (Kolodko, 2015).

Moreover, the Government is considered to be the only economic actor that can maintain the level of demand in the economy, spending more than it earns, that is, registering a budgetary deficit (Chang, 2014).

In turn, the economic crisis of the past years has revealed the failure of some cognitive and operational models. Some authors consider that the most important example is the thesis that price stability is equivalent with financial stability, with the full use of resources (Dăianu, 2015).

The idea that the budgetary deficit would be a particularly important problem of the economy is partially true, since it must exist though. By its means, the redistribution of income between generations, fiscal relaxation in case of the variation of the income subject to taxation etc are ensured.

2. Romania's Budgetary Deficit in 2018

2.1. Economic Situation and Synthetic Budgetary Indicators

For the year 2018, an economic growth of 5.5% was predicted in Romania, being the eighth consecutive year of positive evolutions (after 1.1% in 2011, 0.6% in 2012, 3.5% in 2013, 3.1% in 2014, 3.9% in 2015, 4.8% in 2016 and 5.2% in 2017), which places us among the first countries, from this point of view in the EU28. This increase was due to the contribution of the following factors:

- domestic demand seen as the engine of the economic growth (+ 6.1%), within it being provided close dynamics of the total final consumption (+ 5.8%) and the gross accumulation (+ 6.9%);
- the growth rate of gross fixed capital formation forecast at 7.9%;
- expenditures with the final consumption of the population predicted as having a real annual dynamic of 6.5% (MPF, Raport execuție bugetară 2018).

Economic growth was due to the positive contribution of domestic demand, for both consumption and investment, of 5.7 percent, while population consumption, on the backdrop of higher inflation and a more restrictive monetary policy, slowed its growth in the last 2 years increasing by 5.3%.

The data show that the year 2018 was a good year from the point of view of investments, a significant improvement of the relation consumer-investments-savings for the population being observed. Thus, given the slowdown in the dynamics of consumption that took place under the conditions of a 14.8% increase in net nominal average earning (+9.7% in real terms), it turns out that a significant part of the additional income went towards investments or savings. At the same time, gross accumulation (gross investments plus stock accumulation) accelerated its growth to 9.6% in 2018 (from 4.2% in 2017). Investments in the economy, respectively the gross accumulation, reached in 2018 a value of 200.4 billion lei, compared to only 175 billion lei in 2017, increasing by 14.5%. Within these, the gross fixed capital formation decreased by 3.2% compared to 2017. At the same time, the stock variation registered a positive contribution of 2.9 percent (MPF, Raport execuție bugetară 2018).

In 2018 there was an increase in consumer prices on average by 4.63%, compared to 2017, based on the increase in prices for non-food goods (6.20%), while for food goods prices increased by 3, 75%, and service tariffs with 2.53%.

The increase registered in 2018 was due both to exceeding the statistical effect associated with the fiscal relaxation measures from the beginning of 2017 (reducing the VAT rate and eliminating the overcharge and some non-fiscal taxes), increasing the international quotations on crude oil (+ 33.1% compared to the year 2017), as well as the price increases for the energy group (+10.4% in 2018 compared to the previous year). The nominal depreciation of the national currency, which was 1.84%, also had an important contribution.

For the year 2018, the general public administration deficit was calculated on the basis of the data transmitted by the public institutions and the temporary ones of the state companies classified in the public administration, the resulting deficit (semi-final data) according to the ESA 2010 methodology being 3% of GDP.

Compared to 2017, the deficit calculated according to the ESA 2010 methodology in 2018 increased by 0.3 pp from 2.7% of GDP in 2017 to 3% of GDP in 2018.

The budgetary deficit calculated according to the European methodology was below the reference level of the Stability and Growth Pact, registering a level of 3% of GDP in 2018. The budgetary deficit for 2018 was above the average budgetary deficit for the euro area of 0.5 % of GDP and for EU28 0.6% of GDP.

Romania's structural deficit decreased to 2.7% of GDP in 2018, with a deficit of the general consolidated budget decreasing compared to the one in 2017, respectively 3.0%

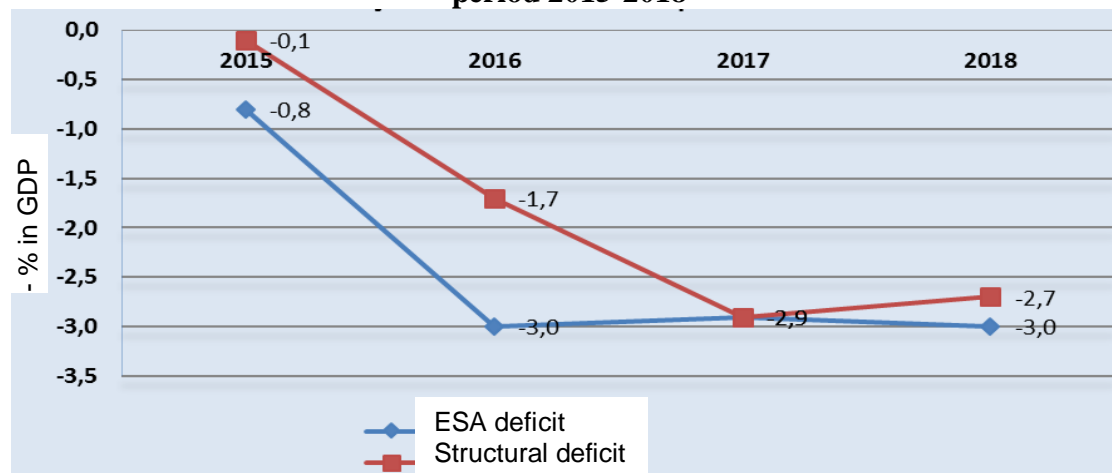
compared to 2.7% of GDP. The gap of GDP with respect to the potential (output-gap) closed in 2018, from a positive value in 2017, which led to a cyclical component of the budgetary deficit of 0% of the GDP (MPF, Raport execuție bugetară 2017).

Figure no. 1. Structural Deficit in Romania

	2015	2016	2017	2018
Structural Deficit	-0.1	-1.7	-2.9	-2.7

Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*,
www.mfinante.gov.ro

Figure no. 2. The ESA deficit and the structural deficit in Romania in the period 2015-2018



Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*,
www.mfinante.gov.ro

In the reports issued by the National Bank of Romania, no severe systemic risks are identified, but three systemic risks are presented as being estimated at a high level: (i) the risk regarding the investors' confidence deterioration in emerging economies, (ii) the risk associated with uncertainties regarding economic evolutions in the European Union, especially those regarding the situation of sovereign debt in the euro area and the process of Brexit and (iii) the risk of non-repayment of the credits contracted by the non-governmental sector. The risk regarding the tightening of the macroeconomic balances is evaluated as having a moderate intensity, and the risk from the real estate market is at a low level (NBR, Raport stabilitate financiară 2018).

2.2. The Analysis of Revenues and Expenditures of the State Budget in 2018

According to the definitive data, the execution of the general consolidated budget, between January 1 and December 31, 2018, ended with a cash deficit of 26.9 billion lei, respectively 2.84% of GDP, under the fixed target, respectively an annual predicted deficit of 28.2 billion lei.

Compared to the previous year, the deficit of the general consolidated budget in 2018, in cash, remained at the same level as in 2017, respectively 2.84%.

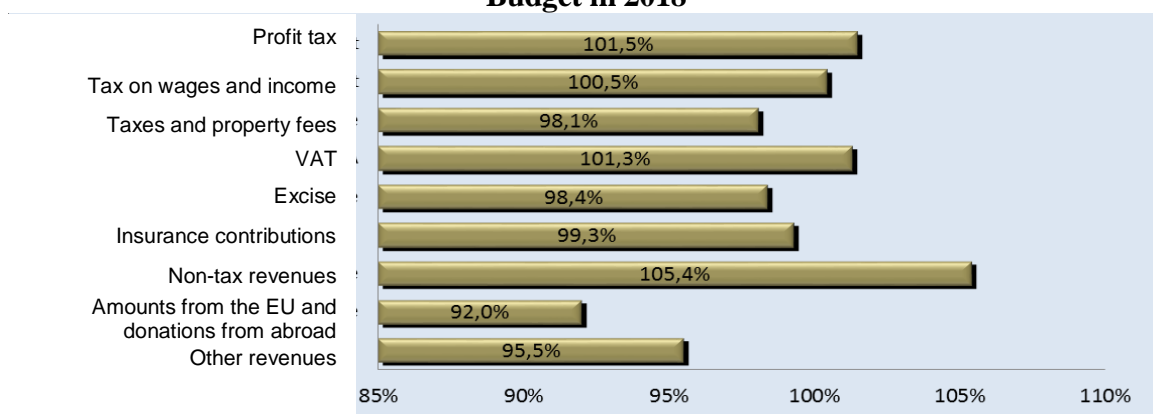
Figure no. 3. Romania's budgetary cash deficit

		2017	2018	Differences 2018 - 2017
Sold bugetar	mil. lei	-24.294,7	-26.850,3	-2.555,6
	% din P.I.B.	-2,84	-2,84	0,0

Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*,
www.mfinante.gov.ro

• **The revenues of the general consolidated budget**, in 2018, added up to 295.3 billion lei, representing 31.3% of GDP and a degree of achievement compared to the annual estimates of 99.5% (MPF, Raport execuție bugetară 2018).

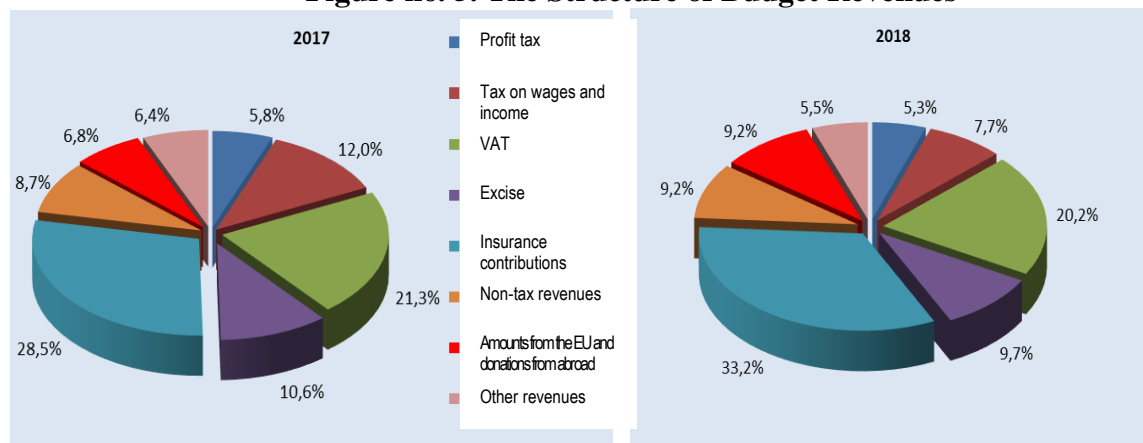
Figure no. 4. The Degree of Accomplishment of the Revenues of the General Consolidated Budget in 2018



Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*,
www.mfinante.gov.ro

The budgetary receipts were influenced both by the economic evolutions and the fiscal policy decisions which were adopted, such as: raising the minimum wage, reducing the income tax rate from 16% to 10%, the transfer of the tax burden of obligations regarding the social obligatory contributions owed by the employer to the employee, in the case of income from wages and assimilated to wages, the implementation of the Framework Law no. 153/2017 regarding the remuneration of the personnel paid from public funds, the increase of the pension point etc.

Figure no. 5. The Structure of Budget Revenues



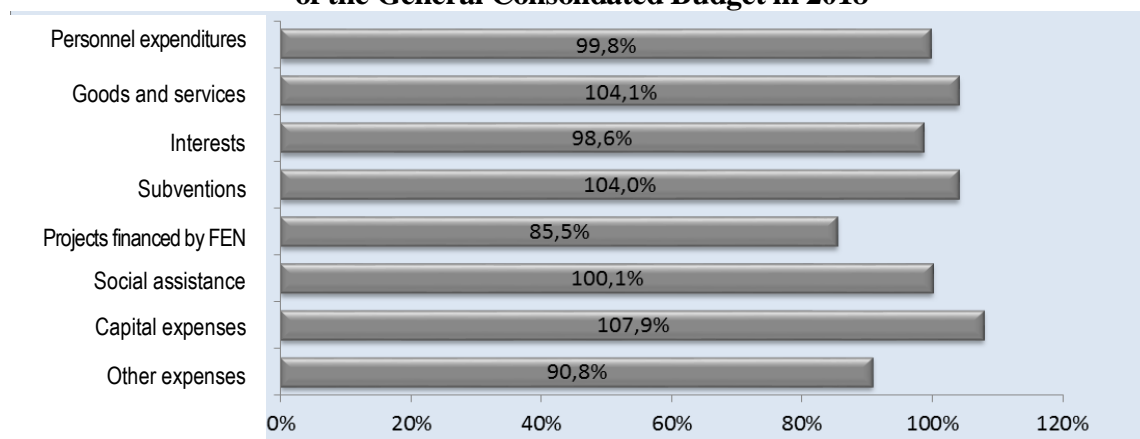
Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*,
www.mfinante.gov.ro

Compared to the previous year, **the revenues of the general consolidated budget**, in 2018, increased by 17.2%, and as a percentage in GDP by 1.9 percentage points, from 29.4% in 2017 to 31.3% in 2018.

The amounts received from the European Union in the account of the payments made (including donations), in 2018, amounted to 27.2 billion lei, 58.2% above the level registered in 2017. Also, as a ratio in GDP, these increased by 0.9 percentage points from 2.0% in 2017 to 2.9% in 2018.

- **The expenditures of the general consolidated budget** added up, in 2018, to 322.1 billion lei, which represents 34.1% of GDP and a degree of achievement compared to the level of 99.1%. (MPF, Raport execuție bugetară 2018).

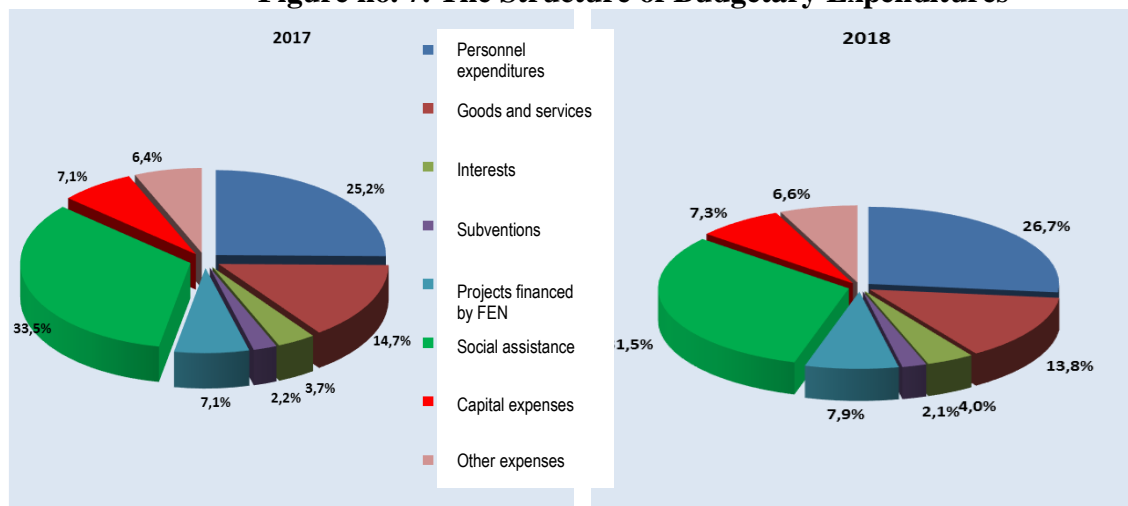
Figure no. 6. The Degree of Accomplishment of the Expenditures of the General Consolidated Budget in 2018



Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*, www.mfinante.gov.ro

From the point of view of the annual program achievement degree, the main categories of budgetary expenses recorded the following evolutions: personnel expenses 99.8%, expenses with goods and services 104.1%, expenses with interests 98.6%, expenses with subsidies 104.0%, social assistance expenses 100.1%, capital expenditures 107.9%.

Figure no. 7. The Structure of Budgetary Expenditures



Source: Ministry of Public Finance, *Raport privind execuția bugetară finală pe anul 2018*, www.mfinante.gov.ro

Compared to the previous year, the expenditures of the general consolidated budget increased by 16.6%, and as a percentage in GDP by 1.9 percentage points from 32.2% as they were in 2017 to 34.1% in 2018.

2.3. Sources of financing of the budgetary deficit in 2018

According to the EU methodology, the government debt was at December 31, 2018, at a level of 35.0% of GDP, down from the level of 35.2% of GDP, as recorded at the end of 2017, below the limit of 40% of GDP established by the Law no. 5/2017 for approving the limits of some indicators specified in the fiscal-budgetary framework for 2018. Of the government debt, as of December 31, 2018, the internal debt represented 18.3% of the GDP, and the external debt was 16.7% of the GDP .

In 2018, the budgetary deficit financing was achieved mainly from internal sources through issuances of government securities launched on the internal market and in addition from external sources. The sources needed to refinance the government debt were provided from the markets on which these debts were issued and from the financial reserve in foreign currency at the disposal of the MFP which at the end of 2018 covered approximately 4 months of the gross financing necessity.

The debt instruments used in 2018 to finance the budgetary deficit and to refinance the public debt were (MPF, Raport execuție bugetară 2018):

- the issuances of government securities denominated in lei on the domestic market, worth 47.8 billion lei, of which: auctions of government securities on the interbank market in a total amount of approximately 45.78 billion lei and government securities for the population totaling 2 billion lei;

- euro-bonds issuances launched on foreign capital markets. In 2018, the MFP attracted from the external markets the amount of EUR 3.75 billion and USD 1.20 billion. Thus, on February 8, 2018, the total amount of EUR 2 billion was drawn through a two-tranche transaction, on June 15, 2018 the first debt repayment transaction of Romania was carried out, by issuing Euro-bonds in dollars with the maturity of 30 years, with a volume of USD 1.2 billion, and on October 11, 2018, the total amount of EUR 1.75 billion was drawn through a two-tranche transaction.

3. Forecasts on the State Budget Deficit in 2019

According to the forecast of autumn 2019, made by the Ministry of Public Finance, this was the seventh consecutive year in which the European economy was marked by growth. The labor markets remained solid and unemployment continued to fall. However, the external environment has become much less favorable, and the uncertainty has reached high levels, which has affected especially the manufacturing industry, which has also experienced structural changes. In the same document, it was expected that the gross domestic product (GDP) of the euro area will increase by 1.1% in 2019, and at EU level by 1.4% in 2019.

The persistent trade tensions between the United States and China and the high levels of political uncertainty, especially in terms of trade, have also led to a reduction in investments, in processing activities and in international trade in 2019 (MPF, Strategia fiscal-bugetară pentru perioada 2020-2022).

In Romania, the budget planning for 2019 was based on fiscal relaxation measures which began in the period 2015-2016 in order to stimulate economic growth (the new fiscal code and the salary increases and rights of a social assistance nature) and which continued through the normative acts adopted in the year 2017 through which measures in the field of remuneration of personnel from the budgetary sector were standardized, along with the

social rights field legislation, the pensions field legislation, with additional impact on personnel expenses, on those with social assistance, which were implemented in 2018, and also the fiscal measures taken during the year 2018, which influenced the macroeconomic framework and budgetary indicators in the following year.

For 2019, a potential growth of 4.7% of GDP was estimated, given the acceleration of gross fixed capital formation (MPF, Strategia fiscal-bugetară pentru perioada 2020-2022). Under these conditions, the projected budgetary revenues for 2019 should have represented 33.51% of GDP, an evolution which was determined by that of the macroeconomic indicators, and by the adopted normative acts as well, so the budgetary expenses would have been at 36.28% from GDP.

For 2019 also, a cash deficit of 4.43% of GDP was estimated, representing a significant departure from the initially set target at 2.76% of GDP. This evolution is mainly due to the commitment of some budgetary expenses based on additional revenues initially estimated that were neither materialized in the receipts, nor compensatory measures were taken, even though there have been warnings by the rating agencies and the international organisms from the first part of the year. The new budgetary deficit target also accommodates the payment of outstanding central and local public administration invoices to the business environment. In the year 2019, the structural deficit in Romania is estimated at 3.71% of GDP (MPF, Strategia fiscal-bugetară pentru perioada 2020-2022).

At the end of January 2020, the Minister of Public Finance released the situation for the year 2019 to the publicity. Thus, the budgetary deficit for 2019 was 48.3 billion lei, i.e. 4.6% of GDP, double compared to that of 2018 and the largest over the last decade. Expenditures increased by 1.7%, from 33.8% of GDP in 2018 to 35.5% of GDP in 2019 (Florentina Nițu, 2020).

How to explain this in figures?

The revenues of the general consolidated budget summed up to 321 billion lei in 2019, increasing with 8.8% compared to 2018, while expenses increased by 14.7 billion lei compared to the target of 2.76% in 2018, as the budgetary execution published by the Ministry of Finance shows. Expressed as a share of GDP, budgetary revenues registered a marginal reduction from 31% of GDP in 2018 to 30.9% of GDP in 2019. Of the total revenues, those from the income tax summed up to 17.72 billion lei, increasing by 13.2% compared to 2018, mainly as a result of the 70% advance of the profits from the corporate tax due by the commercial banks. The VAT receipts were of 65.42 billion lei, 9.7% higher than those recorded in 2018. Their share in GDP remained at 6.3% in 2019. In relation to the initial program, the revenues from this source were reduced by 4.23 billion lei, corresponding to an achievement level of 93.9%. **In other words, „the expenses are guilty! We always spend more than we plan or afford, covering the loan deficit!”**

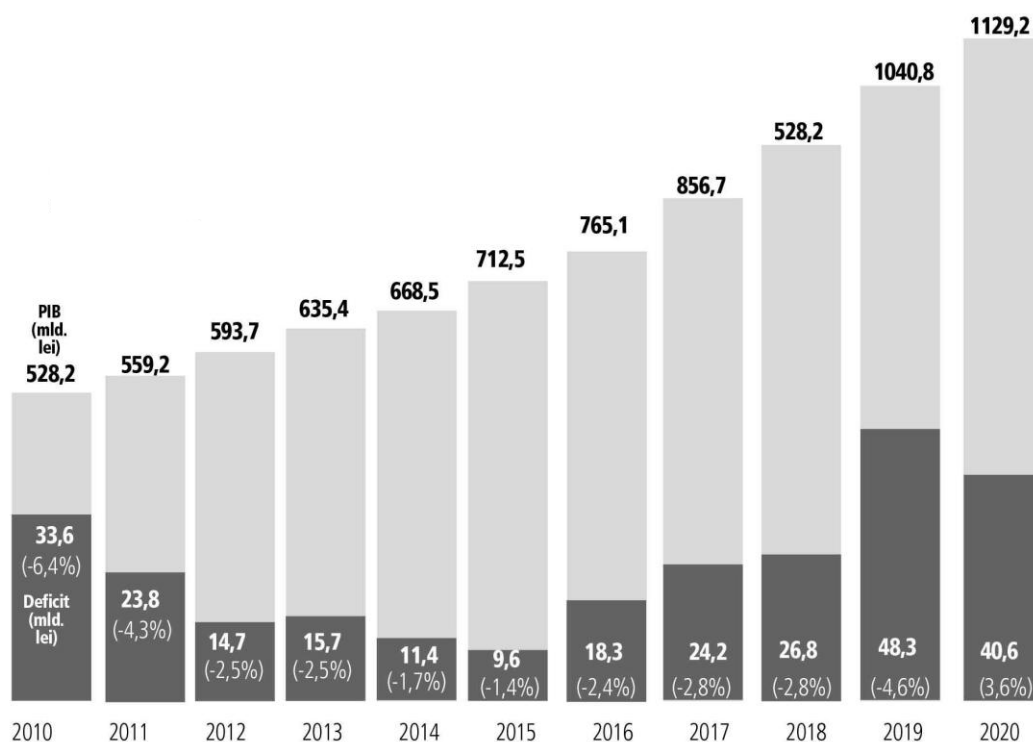
The reduction of expenses was taken into consideration every year, both in 2018 and in 2019. But along with them, a series of legislative measures were previously adopted, which put additional pressure on the budget: We exemplify some of these:

- the continuation of the implementation of the Framework Law no. 153/2017, regarding the remuneration of the staff paid from public funds;
- granting holiday vouchers in the amount of 1,450 lei for one employee;
- the minimum salary of 1,900 lei starting on January 1, 2018 has become 2080 lei starting with January 1, 2019;
- the government had to obtain 15 billion lei after the changes from September 1. 2019 which were applicable for pensions and salaries etc.

At the same time, a series of measures were kept in the budgetary construction. These measures were dealing with the budgetary expenses limitation, starting with: the compensation of the additional work only with adequate free time; the failure to grant aids

or compensatory payments on retirement; the maintenance of certain categories of rights which the military personnel, police officers and civil servants with special status in the prison administration system benefit from (this money is not part of the gross monthly balance / gross salary, as of December 2018); the blocking of the occupation of vacant jobs in the central administration; The authorizing officers of the institutions and public authorities of the central administration had the obligation to reduce the expenses with the goods and the services related to the maintenance and the good functioning of the institution, with certain exceptions, not to buy cars and furniture, etc. Although measures have been taken for the central administration, the evidence of the lack of unitary action at the level of the local administration (which has spent excessively) can be seen, on a too large number of personnel, which as a whole remains inefficient, poorly prepared and reluctant to any change that would get it out of the comfort zone. With known exceptions, which have become examples of good practice in Romania, the case of some urban and rural localities, which do not make the theme of the present study.

Figure no. 8. The Evolution of GDP and of the Budgetary Deficit in 2010-2020



Source: www.zf.ro

If we were to take into account the advice of the specialists for the increase of the revenues and the reduction of the expenses, summing up, the Top 10 of the budgetary efficiency measures would be the following (Mihnea Vasilache, 2010):

1) **Moderate inflation - the friend of Finance.** In Romania, inflation is higher than in the euro area and the EU and in the next years the difference will remain around 2-3%. This fact can be used intelligently to reduce both current expenditures, and especially the future state obligations (especially the social ones).

2) **Objective measurement of investments.** For example: A World Bank report mentioned that Romania spends 40,000 euros / km on average for periodical road maintenance, while the average in some European countries is a maximum of 9,000 euros. The difference is caused by inefficiency and corruption, difficult to determine in exact proportions.

3) **Transparency of the budget project.** The specialists believe that there are not many people in Romania who can decipher the figures presented in the budget project. Although the documents are available on the Ministry of Finance website, deciphering and interpreting them is difficult.

4) **Unitary remuneration of public servants based on performance.**

5) **Delegating and taking responsibility for expenses.** A big problem is that at the end of the year, the expenses are invariably higher than planned. To largely eliminate this discrepancy, a system of spending accountability for the different levels of government is required. Romania already has a system (of authorizing officers) that can be improved.

6) **Tax system simplification.** Five categories of taxes (VAT, excise, profit, income and social) contribute majorly to the state revenues.

7) **Fiscal amnesty.** This would allow significant amounts of money to be repatriated.

8) **Taxation of unjustifiable properties.**

9) **Making social aid more efficient.**

10) **Long-term reduction of CAS.**

4. Conclusions

The main effects of public spending can be assimilated to the „crowding out” effect, which, in this case, refers to the diversion phenomenon of market resources from those sectors that the market shows as profitable to the areas considered „of interest” by the state. Also, a hidden cost of the budgetary deficit and the public debt is represented by their influence on the country rating, an orientative indicator for investors looking for business opportunities.

Taking into account the current conditions, when Romania tries to define its role and place in the world, when it is desired to identify and encourage those branches and sub-branches of the national economy that can be developed within the world economy, it is necessary to use fiscal levers in accordance with the requirements of the European Union and taking into account the other macroeconomic policies that can be adopted to overcome the current economic situation. Thus, there is a theory that is famous and it states that it is preferable, during the crisis period, to ensure an increase of the budgetary expenditures, with the fixed objective to contribute to the revival of the economic activity, the effects being reflected in the increase of employment and in the drop of unemployment.

The model of economic growth must be reanalyzed, considering the experience of the past years in which the economic growth of our country was based on consumption, a situation that did not allow sustainable economic development. For this reason, another orientation based on investments in high value-added sectors is required.

For the first time in many years, Romania had a budget approved on time. On January 6, 2020, the budget for 2020 was enacted, after the Liberal Government took responsibility of it in the Parliament. The budget project for 2020 is built on an economic growth of 4.1%, a budget deficit of 3.59% and an average inflation rate of 3.1%, according to the Report on the macroeconomic situation for 2020 and its projection on 2021-2023 (www.economica.net, 2019).

But for the first time ever, the global economic and social situation, caused by the coronavirus pandemic, is unique! Forecasts are made, calculations are redone, but there are no comparison terms! Even more now that we can clearly see the dependence of the whole world on a single country: China.

What will this look like at the end of 2020, as humanity faces the coronavirus pandemic? It is something that we will find out at some point!

But the lesson learned seems to be that globalization is not the best solution, that the states of the world must rely more on their own forces! And so does Romania, even if it is part of the European Union and it resonates with Europe. The irony is that Romania currently has a liberal government. This has to prove the economic doctrine „Through Our Own Forces!”, promoted by the National Liberal Party through Vintilă I.C. Brătianu in the first half of the 20th century.

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