

AN ASSESSMENT OF THE CHARACTERISTICS OF THE FISCAL POLICY IN RELATION TO THE FLIGHTS OF THE ECONOMIC CYCLE IN ROMANIA, IN THE PERIOD 2007 - 2020

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Abstract: *In the proposed paper we make an assessment of some features of fiscal policy in relation to the evolution of the economic cycle, which aims to capture the discretionary nature of fiscal policy and how it has contributed to stimulating or inhibiting the economy and the type of fiscal policy that has functioned during this period in the Romanian economy, from the perspective of the stabilizing function of the economic cycle. The indicators from which we start in the elaboration of the analysis are the budget deficit and the structural deficit, from which we will extract certain derived indicators. The methodology used to achieve the objective is qualitative in nature and aims to draw links between the stated aspects. The obtained results can be constituted in elements of qualitative evaluation of the fiscal policy from the perspective of its influence on the economic cycle.*

Keywords: *fiscal policy, economic cycle, characteristics.*

JEL Classification: *E6,E62, H62.*

1. Preamble

The analysis of the conduct of fiscal policy and its influence on the economic cycle, through discretionary or non-discretionary measures, is a topic of concern in the economic debate, both nationally and internationally, accentuated in the context of fiscal integration efforts in the European Union and implementation of principles tax discipline at Member State level. In this sense, the fiscal framework and the instruments for its implementation, found in the Maastricht Treaty, the Stability and Growth Pact, the European Semester or the Treaty on Stability, Coordination and Governance have as main purpose the assurance of budgetary discipline and provide the necessary premises for a functioning policy non-discretionary fiscal, with the role of automatic moderation of the fluctuations of the economic cycle.

The budget deficit indicator has a high degree of sensitivity to the fluctuation of the economic cycle, which can manifest itself in two situations. In the first situation, the one due to the fluctuations of the economic cycle, appeared without the implementation of discretionary measures, when the budget revenues and, less, the budget expenditures vary with the level of economic activity, automatically propagating on the budget deficit. The second situation, of the fluctuation of the budget deficit is represented by the effect of the discretionary measures implemented by the fiscal authorities that can induce a variation of it.

In this context, outlined here, theories have developed and interest in the efficiency of fiscal policy has grown, in the search for optimal solutions for the transmission of fiscal impulses in the real economy, especially in the context of financial, economic and social crises, more and more common.

The substratum of the debates is built on the known theories, namely the Keynesian one favorable to the application of discretionary policies that act in the sense of fluctuations of economic activity and that of neoclassical macroeconomists who support the neutrality of fiscal interventions on economic cycles. On the other hand, the current debates show that the dominant problem is the budget deficit, as the main cause of economic imbalance and instability. It consists of the sum of two components: the cyclical deficit, which represents the contribution of automatic fiscal stabilizers, and the structural deficit, which represents the component attributed to the discretionary measures

implemented. Budget revenues and expenditures contain elements that are influenced by the economic cycle, acting in the sense of moderating fluctuations. The structural balance indicates the fiscal position when the factors of production in the economy are used at their "normal" level, respectively when the economy is in equilibrium, between the state of ascent and that of recession. Given that the level of economic activity is at its potential level, ie Gross Domestic Product (GDP) is equal to potential Gross Domestic Product (GDPp) and the output gap is zero, the budget deficit is equal to the structural budget deficit, there is no external effect on the budget.

From this formula of the actual budget deficit, it is possible to determine the size of the automatic stabilizers or that of the structural balance, respectively of the discretionary measures. The more pronounced the effect of automatic stabilizers, the less discretionary action of fiscal policy is needed in response to the effects of the economic cycle. Whereas, if discretionary measures are irreversible, they tend to neutralize the effects of automatic stabilizers and to undermine the credibility of fiscal policy. On the other hand, the asymmetric operation of automatic stabilizers, both in times of recession and in times of economic growth, can lead to a propensity for structural deficit, which can lead to unsustainable increases in public debt and associated costs.

The use of the structural and cyclical deficit in economic policy is important and diverse. Thus, the structural deficit is an indicator for estimating the size of discretionary fiscal policies, which can indicate the type of fiscal policy: expansionist, neutral or restrictive. It is also a tool for monitoring the fulfillment of the Maastricht budget deficit criterion (3% of GDP), and through the Stability and Growth Pact, EU member states have an obligation to meet a medium-term budgetary objective to enable stabilizers automatic to fluctuate (practically discretionary intervention is limited).

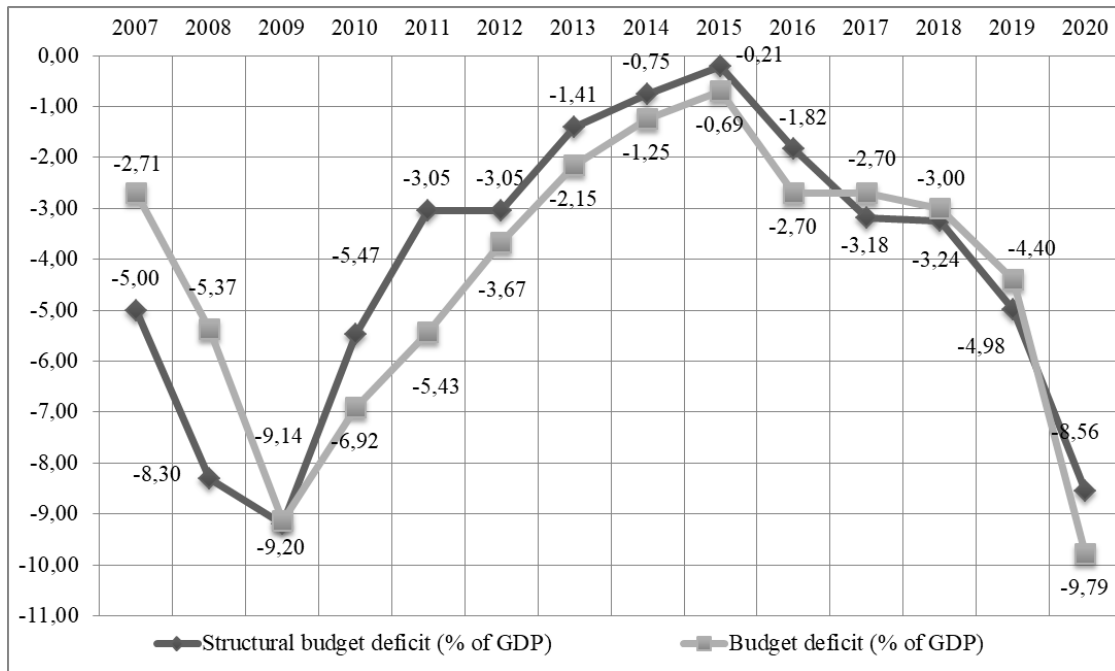
Having these theoretical and methodological landmarks, we further make an assessment of some characteristics of fiscal policy in relation to the evolution of the economic cycle, through which we aim to capture the type of fiscal policy in the Romanian economy, in the period 2007-2020.

2. Characteristics of fiscal policy

The main indicators used to analyze the characteristics of fiscal policy are the budget deficit and the structural deficit. According to the previously mentioned, based on them and some indicators derived from them, we can extract elements useful to achieve the assumed objective.

In a first stage, we present the simultaneous evolution of the budget deficit and of the structural one (fig. No. 1), with the extraction of their significance. The general evolution of the two types of deficits is very oscillating, faithfully reflecting the moments of financial, economic and social crisis, manifested at national level, in the periods 2007 - 2012 and 2018 - 2020 and the attempts to recover them, under the constraints of the European fiscal framework. manifested in the period 2013 - 2017.

The simultaneous analysis reveals that in the periods 2007 - 2009 and 2017 - 2019, the budget deficit was lower than the structural deficit, which is equivalent to the lack of manifestation of automatic stabilizers in these periods. In the period 2010 - 2016 and in 2020, the budget deficit was higher than the structural deficit, a situation that means the manifestation of automatic stabilizers.



Source: data Ministry of Public Finance, Fiscal Council Report 2018 (pp. 40 and 41) and Ameco, author processing, https://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm

Figure 1. The evolution of the budget and structural deficit in Romania, in the period 2007 - 2020

A first feature of fiscal policy in the reference period is that it was predominantly expansionist.

Romania's assumption of the Treaty on Stability, Coordination and Governance in the European Union in 2012, as well as previous commitments towards fiscal consolidation, taken over in national legislation, meant a commitment to comply with a fiscal-budgetary framework based on a series rules, with the main objective of a structural deficit of 1% of GDP. In the period 2012-2016, no ample or irreversible discretionary measures were implemented, a situation that favored the manifestation of automatic stabilizers and the maintenance of the two deficits within the committed limits.

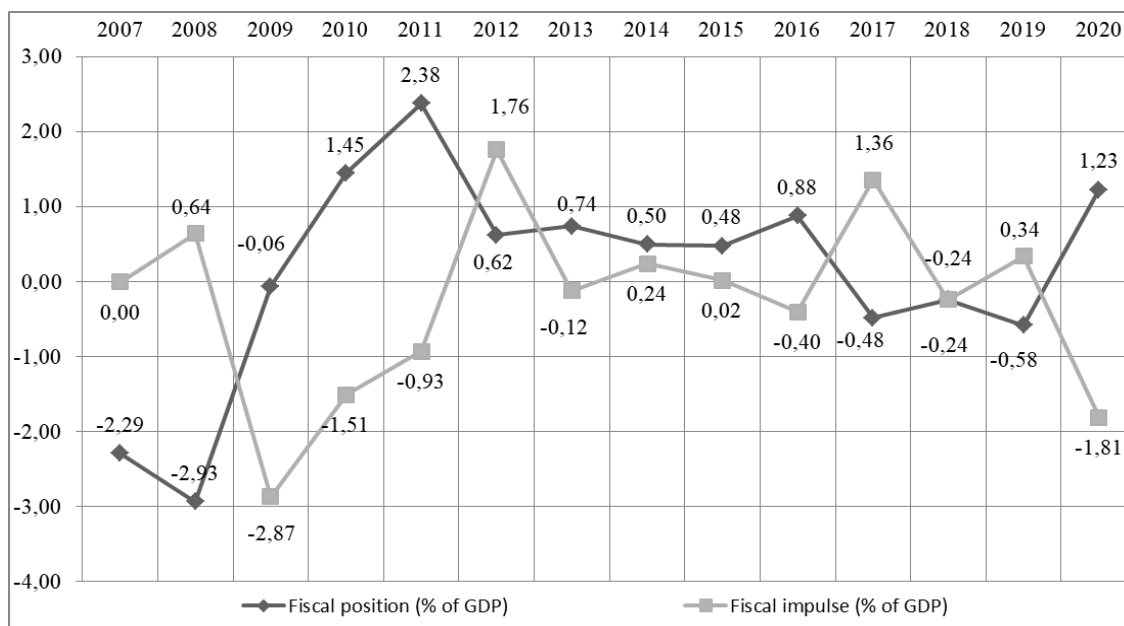
Starting with 2017, a series of discretionary fiscal-budgetary measures have been implemented, to increase budgetary expenditures (public sector salaries and the public pension system), as well as fiscal relaxation (reduction of the personal income tax rate), starting with January 1, 2018, the reduction of the VAT rate from January 1, 2017), which led to the severe deterioration of the two types of deficits, practically annihilating the action of automatic stabilizers.

In 2020, the impact of the normal flows of the economy on the outbreak and manifestation of the COVID-19 pandemic, at national, European and global level, and the implementation of discretionary measures to mitigate the economic and social effects of the pandemic, both nationally and community, have structurally unbalanced the economy and, implicitly, the nature and flows of budget revenues and expenditures.

The indicators of the fiscal position and the fiscal impulse (fig. No. 2), derived from the two types of budget deficit, complete the analysis, in order to observe other characteristics of the fiscal policy. Thus, the fiscal position shows the budget deficit gap, calculated by the difference between the structural deficit and the budget deficit, ie the current positioning of the budget deficit against potential GDP.

The fiscal position indicates the type of fiscal policy that operates in an economy, from the perspective of the stabilizing function of the economic cycle. A positive value of

the fiscal position indicator (% in GDP) indicates a pro-cyclical fiscal policy, while a negative value indicates an anti-cyclical fiscal policy.



Source: data from figure 1. processed by the author.

Figure no. 2. The evolution of the fiscal position and of the fiscal impulse in Romania, in the period 2007 - 2020

Following the evolution of the fiscal position, in the reference period, in relation to those previously mentioned, it is found that in the Romanian economy between 2010-2016 a pro-cyclical fiscal policy operated, and in the periods 2007-2009 and 2017-2019 an anti-cyclical fiscal policy was promoted and implemented. In 2020, the orientation of fiscal policy changed radically compared to the previous year, gaining a positive value of 1.23% of GDP, which means an active pro-cyclical fiscal policy, given the emergence of the COVID-19 pandemic and the need to implement measures fiscal-budgetary, especially the commitment of budgetary expenditures to support the economy.

The fiscal momentum expresses the discretionary character of the fiscal policy and the way in which it contributes to the stimulation or inhibition of the economy, being able to be measured as difference of the structural deficit for two consecutive years (the situation used in this paper) or at two different moments. A positive fiscal impulse reflects an expansionary fiscal policy, while a negative fiscal impulse suggests promoting a restrictive fiscal policy.

Following the evolution of the fiscal impulse in the reference period, in relation to the mentioned ones, it is found that the fiscal policy showed oscillating tendencies of expansion and restrictivity.

In order to highlight the characteristics of the fiscal policy promoted in 2007-2020, based on the values of the indicators fiscal position and fiscal momentum, a tabular presentation of them was made, highlighting the characteristics of fiscal policy and the state of the economic cycle (notations: A = countercyclical policy; E = expansionist policy; P = procyclical policy; R = restrictive policy).

Table no. 1. The characteristics of the fiscal policy in the period 2007 – 2020 (% GDP)

Year	Fiscal position	Fiscal impulse	The characteristics	The position of the economic cycle
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			of fiscal policy	
2007	-2,29	0,00	A + E	Expansion
2008	-2,93	0,64	A + E	
2009	-0,06	-2,87	A + R	Recession
2010	1,45	-1,51	P + R	
2011	2,38	-0,93	P + R	
2012	0,62	1,76	P + E	
2013	0,74	-0,12	P + R	
2014	0,50	0,24	P + E	
2015	0,48	0,02	P + E	
2016	0,88	-0,40	P + R	
2017	-0,48	1,36	A + E	Expansion
2018	-0,24	-0,24	A + R	
2019	-0,58	0,34	A + E	Recession
2020	1,23	-1,81	P + R	

Source: data from figure 2, interpreted by the author based on economic significance.

The formed pairs present a relatively atypical situation from the point of view of economic theory, respectively some of them are opposable to each other (anticyclic + expansionist or procyclic + restrictive), while economic theory leads to convergent pairs, such as anticyclic + restrictive or procyclical + expansionary, in relation to the state of the economic cycle. From this theoretical perspective, the positioning of the fiscal policy in relation to the state of the economic cycle, in Romania, in the analyzed period, requires anticyclical and restrictive characteristics, in the expansion period, and pro-cyclical and expansionist in the recession period, but predominates the fiscal policy characteristics uncorrelated with economic cycle. The synchronization of the fiscal policy characteristics with the position of the economic cycle is achieved in 2012, 2014, 2015 and 2018.

Based on the indicators presented and those derived from them (fiscal position and fiscal momentum), we find that there are certain particular characteristics, namely:

- fiscal consolidation, materialized in the reduction of budget deficits, was achieved in a period of recession, in which most converging pairs of fiscal policy characteristics with the economic cycle meet;
- the period of fiscal consolidation, which provided a wider fiscal space for the authorities, was not continued on the same trajectory, but through the aforementioned measures (reduction of tax rates, increase of current expenditures, limitation of public investments) did not have multiplier effects anticipated fiscal-budgetary.

3. Some conclusions

Starting from aspects of fiscal theory on the modalities of action of the fiscal policy regarding the stabilization of the economic cycle, respectively through discretionary fiscal policies, materialized in the implementation of measures and decisions, and / or through non-discretionary actions, based on the action of self-regulation mechanisms, we aimed at evaluating some characteristics of the fiscal policy implemented at national level, in relation to the economic evolution, from which we drew the following conclusions:

- the implementation of discretionary measures and decisions of a fiscal nature is, at least theoretically, constrained by the existence of a certain fiscal space, given by the institutional level of the structural deficit, more limited or more permissive (between 1% and 0.5% of GDP, in depending on the level of public debt).

In this context, Romania benefited from a more generous fiscal space (1% of GDP), with a debt level below 60% of GDP. The existing fiscal space and the advantage created in the period 2013 - 2015, were not managed prudently, being implemented a series of discretionary measures, with irreversible effects, which destabilized the fiscal policy, emphasizing its procyclical character;

- on the other hand, the action of the automatic stabilization mechanisms was manifested discreetly, only in the period 2012 - 2016, having a reduced contribution to the attenuation of the fluctuations of the economic cycle, situation explained by the lack of endowment of the Romanian fiscal system with such automatic adjustment mechanisms (fiscal regime with progressive tax rates). There is thus a reduced capacity to automatically stabilize the business cycle, and the use of discretionary measures and decisions to mitigate economic fluctuations is necessary, given that there is fiscal space for them.

A general conclusion is that fiscal policy has been predominantly discretionary and pro-cyclical, with little success in fulfilling its role of stabilizing the business cycle and with impulses that have frequently amplified fluctuations and destabilization of the economy.

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