

# The Evolution of Public Expenditures in Romania during 2000 - 2013

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## Abstract

*The importance of public expenditure emerges from the fact that they are one of the ways used to assess the size of the public sector throughout the economy. They are oriented towards the development of various sectors such as agriculture, transport, industry, communication, education, health in order to achieve sustainable growth. This paper aims to analyze the evolution public expenditures in Romania during 2000 - 2013. The analysis involves monitoring the evolution of public expenditures as a share of GDP overall and by category of expenditure and a short comparison with spending levels reached in the European countries.*

**Key words:** public expenditures, dynamics, GDP, share

**J.E.L. classification:** E60, E62

## 1. Introduction

It is indisputable that public expenditures aimed fundamentally social, human and economic development, but most important is to understand that manifests significant influence on economic growth.

One of the most important lessons learned from the wave of empirical research on growth in recent years is that this growth of a country is not determined by just one factor. However, in the literature there is a wide recognition on expenditure as a factor determinant of competitiveness and productivity growth. (Moise-Țiței, 2013, p.318)

The way how structured and sized public spending is not just a transaction that establishes the resources and opportunities necessary for their coverage, but represents an essential element of any economic policy. (Angelescu *et al*, 2001, p.127)

The budget construction depends on economic priorities at micro and macroeconomic level, taking into consideration economic conception and theory that public authority adopts. Regarded as one of the most important indicators of fiscal policy, the share of public spending in GDP expresses the size of the public sector within economy. (Inocențiu, 2014, p.207)

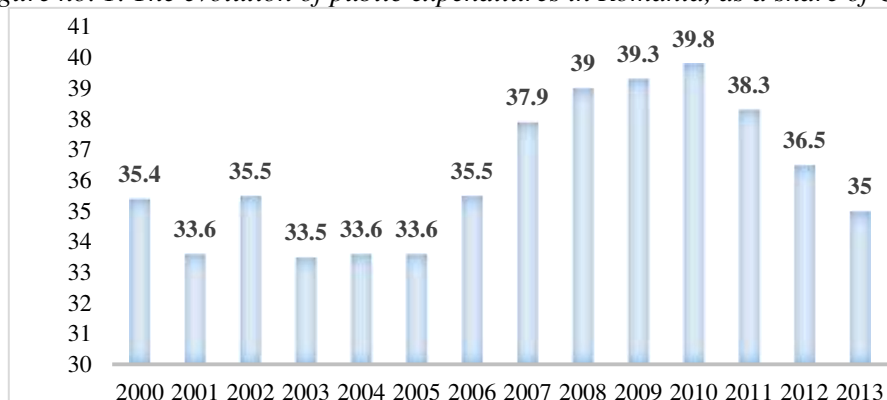
## 2. The evolution of public spending in Romania during 2000 - 2013

Knowledge of the structure of public expenditures is important because it highlights how financial resources are allocated for economic, financial, social or cultural objectives. However, analysis of public expenditure must be carried on total and by component and delineated based on various criteria: economic, operational, administrative, political, financial.

Further, we conducted a quantitative and qualitative analysis of public expenditures. Quantitative analysis traces the evolution of public expenditure level, while qualitative analysis monitors their structure.

In order to obtain a more detailed and clear image on the size of this indicator in figure no. 1. is presented the evolution of public spending as a share of GDP in Romania during 2000-2013.

Figure no. 1. The evolution of public expenditures in Romania, as a share of GDP



Source: realized by the author according to data from Eurostat

Most of researchers support the concept of large public expenditures, because they put money in circulation, helps to increase investment and increase employment. However, high levels of public expenditures can have some obvious economic consequences.

The figure above presents the oscillating evolution of public expenditures in the period considered: during 2005-2010 expenditures have increased continuously, and in 2010 the trend was reversed after all austerity measures implemented in our country.

Much more important is to examine the composition of public spending as orientation highlights the financial resources to economic, financial or social objectives. Therefore, the analysis of public expenditures should be done both ways, as a total and by parts. Next, we will limit ourselves to structure public expenditures according to two criteria, namely economic criteria and functional criteria.

In table no. 1. is presented the structure of public expenditure expressed as a share of GDP, according to economic classification.

Table no. 1. The structure of public expenditures according to economic classification, % of GDP

Year	Current expenditures	Capital expenditures	Total
2000	31,9	3,5	35,4
2001	30,4	3,2	33,6
2002	32,3	3,2	35,5
2003	30,1	3,4	33,5
2004	30,4	3,2	33,6
2005	29,7	3,9	33,6
2006	31,7	3,8	35,5
2007	33,4	4,5	37,9
2008	34,4	4,6	39
2009	35,1	4,2	39,3
2010	35,8	4	39,8
2011	34,2	4,1	38,3
2012	33,3	3,2	36,5
2013	31,8	3,2	35

Source: realized by the author according to data from Eurostat

The table above shows that most of public expenditure are current expenses. Since current spending guarantees supporting public institutions, funding public actions, they constitute a final exhaustion of gross domestic product, and thus, these expenses must be renewed every year. Their evolution is a fluctuant one, the average being 31%.

Capital expenditures, also known as investment expenditures are materialized in procurement of durable goods, material and immaterial production-oriented area such as hospitals, administrative or cultural establishments. Capital expenditures also have varied during period under review. If at the beginning the analysis period their share was about 3.5%, after 2007 their share in total expenditure increased to a maximum of 4.6%.

Functional classification uses branches, sectors and areas of activity as criteria for the allocation of public expenditure. According to specific destination criteria, the major expense categories based on functional classification and their evolution as a share of GDP are shown in the following table.

*Table no. 2. The structure of public expenditures by functional classification, % of GDP*

<b>Year</b>	<b>General public services</b>	<b>Defence</b>	<b>Public order and national security</b>	<b>Education</b>	<b>Health</b>	<b>Social protection</b>	<b>Economic actions</b>
2000	7,9	2,2	2,2	3,2	4,2	10,9	5,6
2001	6,5	1,9	1,6	3,9	4,1	11,1	4,9
2002	5,4	2,2	2	4	4,1	10,1	4,4
2003	4,1	2,5	1,9	3,5	3,5	10	4,9
2004	3,9	2,2	1,8	3,6	2,5	11	5,6
2005	3,3	3	2,1	3,6	2,7	11,1	5,3
2006	3,3	2,3	2,4	4,1	2,7	11	6,9
2007	4,3	1,8	2,4	3,9	3,1	11,2	8,3
2008	4,7	1,5	2,2	4,5	3,2	12,4	7,8
2009	4,2	1,5	2,2	4,2	3,8	14,6	7,7
2010	4,4	1,5	2,4	3,3	3,6	14,9	6,8
2011	4,8	0,9	2,2	4,1	3,4	14,1	6,7
2012	4,9	0,7	2,2	3	3,1	13,6	6,2
2013	4,8	0,9	2,1	2,5	3	13,4	6

*Source: realized by the author according to data from Eurostat*

During the whole period examined, the largest share of expenditures belonged to social protection expenditure, the maximum value (14.9% of GDP) was reached in 2010. The share of social protection expenditure of GDP is the synthetic indicator of accountability of the Romanian state for achieving and balancing welfare. Although holding the largest share of GDP, the level of these expenses was kept at a low level compared with the European Union. Thus, our country is ranked last in the EU area by the percentage of GDP spent on social protection, with only 14.9%, after an exchange of places made with Latvia. In the sphere of social protection expenditure are covered risks such as unemployment, old age, disability, disease or health insurance, housing and social exclusion, and threshold reached by these spending in Romania is almost half the value achieved at EU level (30% of GDP). We believe that low and fluctuating values of these expenditures highlights the continuing need for social protection of the population from public authorities.

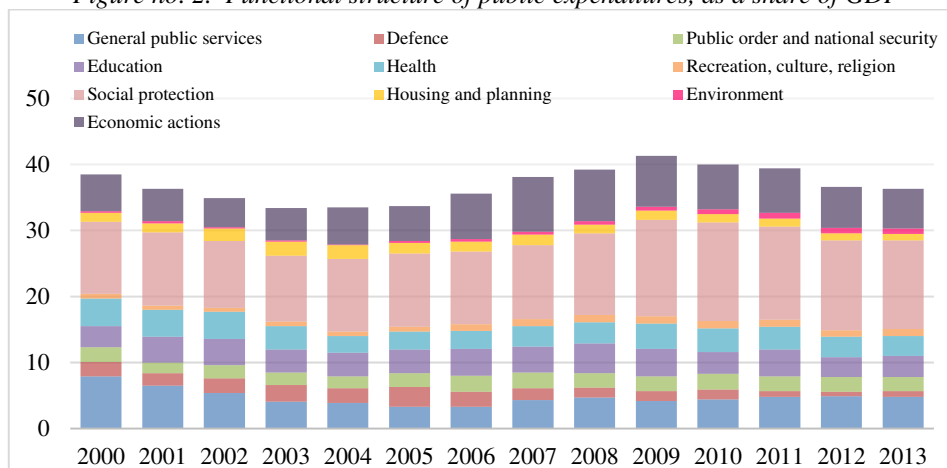
Regarding the trend of economic actions, they fluctuated during the period under review, however, since 2007 until now, these expenses have shown a declining trend. Like other costs, public order and national security expenditures have also fluctuated during the same period, their level settling around 2% of GDP. Maximum value for defense expenditures was 3% of GDP reached in 2005, then continued to decline until 2012, reaching 0.7% of GDP (the minimum threshold for this category of expenditure).

Expenditures on education has varied, but the amounts allocated for the Romanian education did not exceed the limit of 4.5% of GDP in 14 years analyzed. Although it is known that a performing education system presents multiple effects, in Romania their level is still very low.

According to a study by McKinsey & Co. an improved education system influences significantly three key economic dimensions: emphasizing economic development, increasing social cohesion, improving health. The same study informs that optimized PISA scores by 40 percent increases GDP per capita by 0.9% over one generation (30 years). Regarding education expenditures Romania also ranks among the world's laggard, being surpassed by China, Bulgaria and Indonesia, which are examples of countries with the lowest investment in education. Among the countries with the largest investments in education we mention Sweden (7.5% of GDP), Finland 6.8% of GDP or UK with 6.2% of GDP. Also we believe that improving education levels in Romania can lead to better adapt to changes in the labor market. If in 2010 a 80% of the positions in the labor market within the European Union required a medium to high degree

qualification, in 2020 it is expected to rise to 85%, of which 35% will represent only positions high qualification grade. In other words, the positive impact of education expenditure could be interpreted as reducing the risk of poverty, reduce unemployment, rising living standards and life expectancy.

Figure no. 2. Functional structure of public expenditures, as a share of GDP



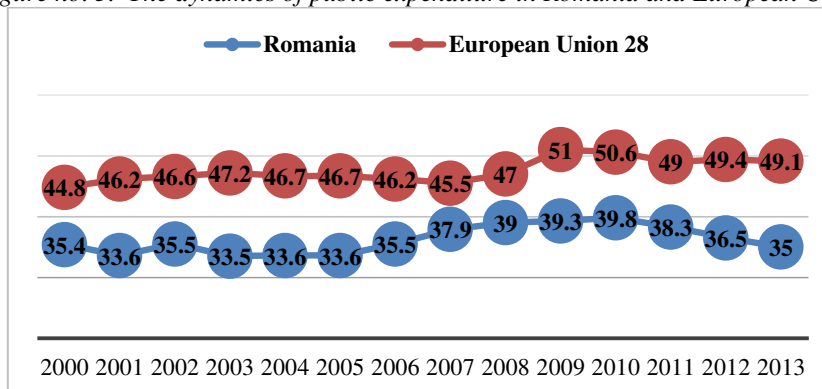
Source: realized by the author according to data from Eurostat

During those 14 years analyzed health spending fluctuated, the lowest values were recorded in 2004 - 2006 when their share in GDP did not exceed 3%. Since 2007, health expenditure had an increasing trend, but have not exceeded the threshold of 3% of GDP. Advanced economies assigns important resources for the health sector, with the assumption of long-term sustainable development. In other words, a better state of health contribute to increasing participation and labor productivity, the health sector is considered one of the key drivers for economic growth. A range of factors influence health, from lifestyle, access to innovative care or resources to health. Within the European Union had manifested a tendency to increase the share of health expenditure in GDP from 6.4% to 9.9% of gross domestic product. Romania is the country with the lowest health expenditure, amounts distributed from the health budget being reduced dramatically between 2009 - 2011. While in 2009 Romania was ranked last, with a level of 5.6% of GDP for health (which means 11% of total public expenditure), public health expenditure in 2011 reached 3.7% of GDP, more below than the European average.

### 3. Romania and European Union regarding public expenditure level

It is interesting to note the evolution of public expenditure in Romania compared to the level achieved in the European Union. The following figure restores dynamics of public expenditure expressed as a share of GDP for Romania and the European Union over the period 2000-2013.

Figure no. 3. The dynamics of public expenditure in Romania and European Union



Source: realized by the author according to data from Eurostat

As we mentioned above, the evolution of Romanian public expenditures was an oscillatory one: during 2003 - 2009 expenditures had an ascending trend and since 2010 the trend was reversed. Within the EU, countries make available to government authorities almost half of gross domestic product. Maximum value of public expenditure at EU level was recorded in 2009, when they represented 51% of GDP, while the minimum was reached at the beginning of the analysis, respectively 44.8% of GDP.

The dynamics of public expenditure in 2009-2010 allowed structuring the countries of the European Union into two groups, thereby strengthening that European countries have been affected by the global financial-economic crisis in different times and different stages.

Countries such as Belgium, Bulgaria, Denmark, Germany, Estonia are countries where public expenditures had dropped, being particularly affected by the economic crisis in 2008-2009, while in countries such as Ireland, Poland, Romania and Cyprus public expenditures increased in 2010 in comparison with the previous year, the financial crisis being felt in 2009-2010.

#### **4. Conclusions and recommendations**

In our country, there have been changes in terms of content and structure of public expenditure. In the period analyzed, 2000 – 2013, there was a general upward trend manifested by the public expenditure from year to year. A dynamic analysis revealed that public expenditures grow very fast in size. (Stanciu, 2011, p. 318)

The financial resources of the state are assigned mainly for payment of goods and services purchased by central and local governments of the state and the institutions under public law and to pay salaries, pensions and other rights for civil servants, for grants for various categories of economic agents.

Year 2008 was first year in which education sector received 4.5% of GDP. Health expenditure sector from Romania registered a low level compared with the European average. One explanation may be that health costs are considered to be unproductive and therefore a low priority in budget allocations.

Following the results of this paper, may be recommended following in order to stimulate economic growth through public sector expenditure: (a) it is vital for the government to ensure that capital expenditure and current expenditure are properly managed in a manner that contribute to increase the production capacity of the nation and faster economic growth; (B) it is important to increase investment in productive sectors, thus contributing to raising living standards, better productivity and therefore economic growth of the country.

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