

Budgetary Deficit and Its Effects on Public Debt

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Abstract

Funding for the various economic or social objectives is performed frequently from borrowed resources. Unfavorable ratio between revenues and expenditures is often the effect of the worsening economic environment and of the adoption of fiscal inadequate measures. The deepening of the budget deficit has been accompanied by the growth in public debt and vice versa, in the context of rising public debt. The paper highlights aspects of the evolution of budget deficit and public debt in Romania, being conducted and a comparison with other European countries. The application of descriptive statistical methods allowed the identification of a link between the budget deficit in times of economic crisis and raising of the taxes or resorting to loans, with reorientation towards the domestic market.

Key words: public deficit, public debt, fiscal policy

J.E.L. classification: H 62, H 63

1. Introduction

The manifestation of economic and financial phenomena and processes is performed at different levels and with different intensities in time and space, but recorded a constant interconditioning, causing often difficulties for the authorities. The need to finance different public utilities, whose growth rate exceeds the resources that can be mobilized from taxes or other sources has become a key issue for authorities. Resorting to loans has become a practice for many countries, the indebtedness represented over 100% of GDP.

Application of measures of fiscal policy - budgetary, inconsistent with reality has determined considerably the increase of the volume of public debt, with adverse effects that may be perceived with large time gaps. Budget deficits gaps have widened and influences on public debt volume were not late to appear. The use of borrowed resources is not a delicate matter as long as they are earmarked for productive and achieve a level of gross domestic product enabling repayment of loans and payment of financing costs. Instead, if there is a use of loans for consumption, the generated effect will be negative. In addition, increasing the volume of public debt will end up reinforcing scarcity, increase the level of taxation, reduced public spending on goods and services and increased expenditure resulting from debt service. Basically, the interdependence between public debt and budget deficit has become a far more constant nowadays, at the level of many countries. Procurement of necessary resource for the state can be achieved on domestic or foreign markets, differentiated process at the level of each state, especially in relation to the degree of development. Thus, the least developed countries focus mainly on foreign markets amid the absence of resources on their markets, while developed countries call priority on domestic resources. As a result, internal and external public debt is the result of joint action of internal and external factors, economic, financial, social and politico-strategic decision adopted by various governments over time. In this paper there are analyzed the aspects regarding the evolution of Romania budget deficit and its implications for public debt volume.

2. Literature review

In general, the economic situation in a given period influence the measures adopted by the

government, who are facing difficulties in providing the necessary resources to finance public needs. In the specialty literature there were identified the government guidelines, in times of economic recession, either to increase taxes or to reduce costs, however, considering that such options have negative effects (Mankiw, 2008, p. 535); (Stiglitz, 2006, p. 128) et all. The debate on the correlation between budget deficit and public debt converge towards a common point: the budget deficit causes an increase in the public debt to be paid in the future. In the case of the cost of financing public debt is greater than the real rate of economic growth, its level becomes unsustainable and impose corrective measures (Tescic and all, 2014, p. 178). In addition, the impact of measures or development of economic environment is visible in the volume and structure of income with a certain gap, which is why it requires the application of a fiscal and budgetary consolidation strategy (Dobrotă, 2016, p. 49), especially since many governments relate to the Stability and Growth Pact, following the budget deficit and public debt within certain limits (Camarero et all, 2013, p. 2).

3. Trends in the evolution of budget deficit in Romania

The largest part of budgetary expenditure is financed mainly due to revenues from duties, taxes and compulsory contributions (over 85%). However, using this instruments exclusively for financial purpose and above all, increase tax rates in times of economic downturn causes negative effects: reduced consumption, saving, investment, restricting the activity of the economic operators and rising the unemployment. An option with better results is widening the tax base or its stimulation (by reducing tax rates, subsidies or tax incentives). The evolution of the budget deficit and components determined in the range 2006-2015 are shown in Table 1.

Table 1 The dynamics of income, expenditure and the budget deficit consolidated in Romania during 2006-2015

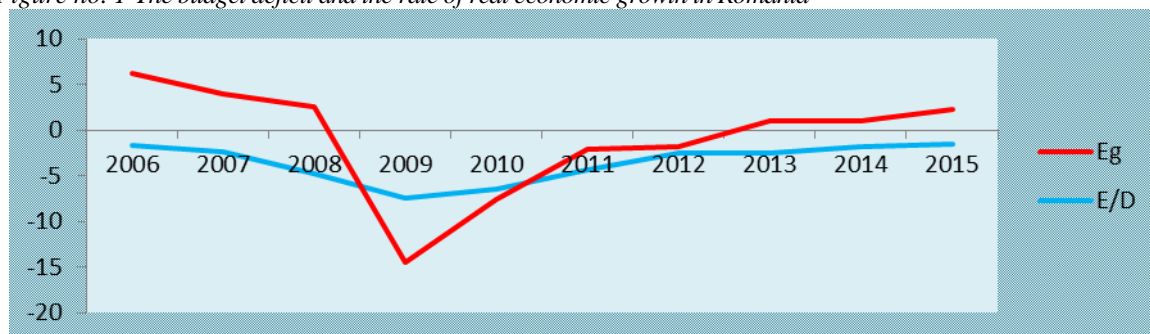
Anii	Public expenditures Mill. lei	% Public expenditures in GDP	Public incomes Mill lei	% public incomes in GDP	Excedent /deficit Mill. lei	Excedent /deficit %GDP	Economic growth
2006	112626,3	33,5	106975,3	31,8	-5651,0	-1,68	7,9
2007	136556,54	34,9	127108,2	32,5	-9448,4	-2,4	6,3
2008	189121,7	36,9	164466,8	32	-24654,9	-4,8	7,3
2009	193679,3	39,4	157243,9	32,0	-36435,5	-7,4	-7,1
2010	201903,6	39,5	168598,5	33,0	-33305,2	-6,51	-1,1
2011	205818,5	37,0	181919,9	32,7	-23898,6	-4,29	2,2
2012	207922,1	35,5	193148,2	33,0	-14773,9	-2,52	0,7
2013	216168,3	33,8	200374,3	31,3	-15794	-2,47	3,5
2014	226326,8	33,6	213833,6	31,7	-12493,2	-1,85	2,9
2015	243915,5	34,6	233554,3	33,1	-10361,3	-1,47	3,7

Source: www. mfinante.ro, Bulletin of the Ministry of Public Finance

The budget deficit has fluctuated from one time to another, 2009 and 2010 are characterized by the highest values in the context of the manifestation of economic and financial crisis. Basically, budgetary developments were folded on modifications supported by economic growth rates. This assertion is supported by the trend of deficit reduction between 2013 - 2015, characterized by higher economic growth rate. Unfortunately, this was supported by consumption, boosted by fiscal loosening.

A suggestive comparison between the rate of real economic growth and budget deficit can be achieved through a graphic representation (figure 1):

Figure no. 1 The budget deficit and the rate of real economic growth in Romania

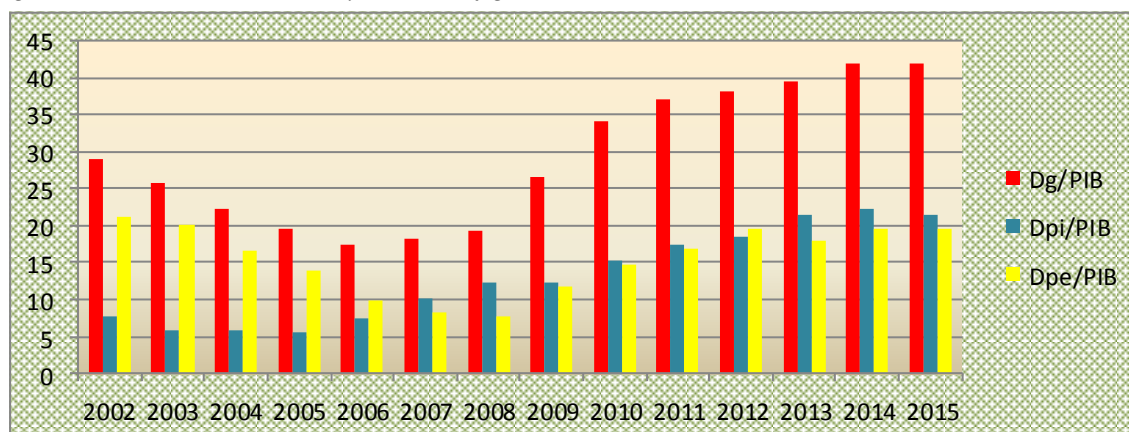


Source: own processing based on data from table 1

It is noted that the budget deficit has deepened in the years that occurred in unfavorable period from economic point of view. The dependence of budget revenues by the economic situation demonstrates the type of fiscal policies applied by various governments, the procyclicality of that being obvious.

It must highlight the evolution of public debt to GDP, which recorded a significant increase after 2008 (from 19.5% in 2008, it reached 38.6% in 2012 and 42% in 2014). Figure 2 is a clear tendency for increase of public debt after 2008, pointing out, however, that in recent years the state has tried to ensure the refinancing of debt on resources mobilized domestically.

Figure no 2 The trend recorded by the ratio of government debt in GDP

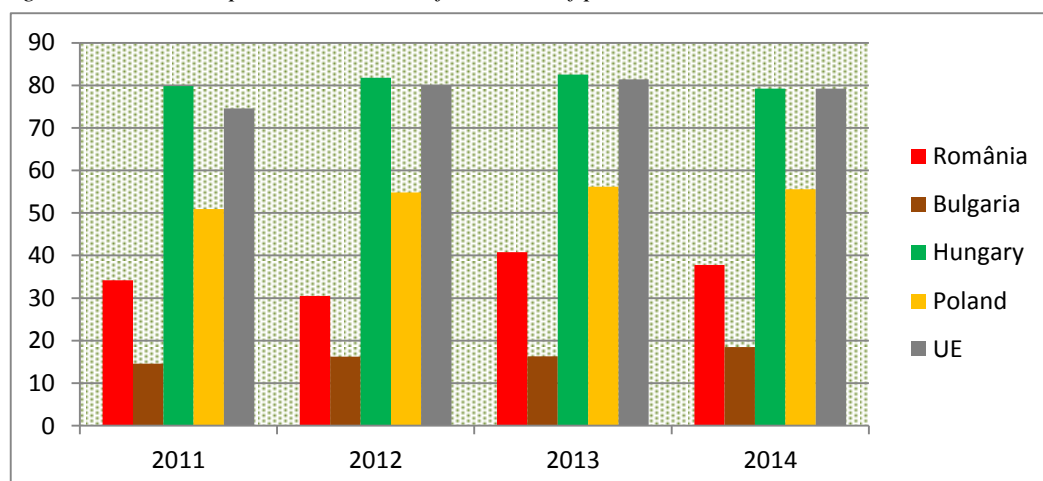


Source: own processing based on data from www.mfinante.ro

International macroeconomic developments were also reflected in Romania, the need for resources needed by the state is growing, in the context that domestic economic environment has been affected by imbalances internationally. As a result, in 2014, there was an increase in public debt by 17.6 billion, mainly due to the need to cover the budget deficit and government debt refinancing. Incidentally, the latter prevails in all public external debt (94.2%) compared to the local public debt (5.8%).

The share of government debt to GDP at the end of 2014 was approximately 42.1%. This percentage is lower compared with the ceiling set by the Maastricht Treaty (60%) and prompted Romania's position on the 4th level of EU countries with the lowest level of debt (the top positions were occupied by Estonia with 10.1%, Bulgaria with 18.5% and Luxembourg with 20.8%). Graphically, Romania's situation in comparison with countries in Central and Eastern Europe is as follows (figure no 3):

Figure no. 3 The comparative situation of the share of public debt to GDP



Source: own processing based on data from www.ec.eurostat.eu

However, a comparison between Romania and other underdeveloped countries allow evidence of undesirable situations: our country recorded faster growth of public debt compared with major economies in Central and Eastern Europe such as Poland, Hungary, Czech Republic and Bulgaria. The increase in public debt can be attributed to the financial crisis, the sharp increase in budget deficits. Financial crisis were felt at the level of budgetary expenditure and revenue at. Thus, budget spending increases general welfare (unemployment increased significantly in many countries) or the assumption of liabilities of banks. Budget revenues have decreased significantly, due to the economic downturn but also the adoption of fiscal measures or inadequate budget.

4. Conclusions

The analysis of presented issues can conclude that Romania fits into the pattern of least developed countries, which is using fiscal policy mainly for setting up financial resources in a large amount, often the measures taken in this respect generating negative effects in the economic plan. Reducing the budget deficit remains one of the main objectives of the authorities, especially through the influence they exert on public debt. It should not be pushed to the extreme, because achieving economic and social objectives are conditioned by the level of resources. Accordingly, applying a mix of economic, social, fiscal and budgetary which subsumes the objective of sustainable growth should remain the main concern of government.

5. References

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