The Implications of not Correlating the Actual Fiscal Policy

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Abstract

In the context of Romania's total external brutto debt exponentially increasing, the gross domestic product has also significantly increased within the European Union mainly due to the consumption increase at the same time with the drastic decrease of the investments, we are starting to wonder if in the next interval it would be possible to maintain a comfortable macroeconomic stability in order to be able to stimulate the direct foreign investments and to put a halt to the exodus of the qualified labour force.

Key words: GDP, external debt, economic growth, consumption
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1. Introduction

In the actual international context, as tensions tend to increase, the fight for the broadening of the areas of influence is becoming fiercer, there are major climate changes which require corresponding measures, and the resources are becoming more and more limited, while all the developed countries are searching ways of making them more efficient and optimal, Romania is facing a lack of a clear economic position, of concrete measures that would lead to a sustainable economic growth and, at the same time, with the authorities' incapacity to stop the exodus of the qualified labour force abroad. Although the statistics have made our country one of the best ranked countries in Europe in what the economic growth is concerned, the living standard is still a low one, and the economic growth is a consequence mainly of the consumption growth and not of the production growth due to the increase of the investments.

Our main aim in this paper is that of establishing a few correlations between the fiscal policy enacted in this last interval and its influence on the real economy in the context in which Romania's total brutto debt has exponentially increased in the past 10 years, and the absorption of the European funds is still low. In addition to this, there is also the excessive bureaucracy, the economic and legislative instability, the absence of a partnership mentality of the state with the business environment, which makes the Romanian production market less attractive to the foreign investors (including the Romanian diaspora).

2. Theoretical background

The economic activity has in each country an own mechanism, called economic mechanism. These are a set of methods regarding the economic governance, of aims determining the governance and of organizational structures (institutional, superstructural, legal), with the help of which the governance takes place. The main function of this mechanism is that of governance and regulation in what the economic processes are concerned, that are only conditioned by the interest relationships. A significant role when it comes to this function's accomplishing is played by the competitive market, which helps controlling the interest relationship by adding the economic agents when the request and the offer are layed down, or put into practice together with the economic balance. Considering the context, an important role is played also by the state in two cases: as an economic agent through nothing more than another economic agent would mean (rights, responsibilities and commitments), but also as a public authority, which creates and executes the legislation and can have an influence on the unfolding of the economic mechanism through its mere economic force, but also through the economic-financial arms it could reach, such as: the fiscal one, the customs related one, the one concerning the public expenditure.

The government budget is one of the major components of the financial system considering the high percentage - 25-30% it has in the gross domestic product, but also taking into account the role it plays concerning the performance of some financial arms (fiscal, customs related, the public expenditure), but also the macroeconomic prediction and planning, performed by using instruments such as:

- economic development programs, which last 5 or more than 5 years,
- synthesis financial balance sheets, which last between 3 and 5 years and aim at the financial resources and their usage, the public consumption, the external transfers etc.,
- the budget of the national economy reaching more than 2 years and aiming at the society's financial resources and at stimulating the effects of some economic-financial measures.

The government budget is a fundamental category of finance, connected to the existence of the state and of the market mechanism. Formally speaking, the government budget is a list containing the state's incomes and expenditure over a certain period of time, usually, 1 year. Legally speaking, the government budget is a law enclosing and authorizing the state's incomes and expenditure over a year. This part of the program referring to a short term regulation comes often with the part regarding the financial program over a short term, as a consequence of taking into account also the public expenditure regarding the investments, which span over at least 2-3 years.

The government budget plays a complex role including various components: the financial and economic one, the allocative one, the redistributable one and the regulating one.

The financial role refers to the development and use of the financial resources that the state needs to wield its responsibilities. In this respect, the financial role can be associated with the allocative and the redistributable components.

The economic role refers to influencing the economic and social development and to stimulating or stoping the economic processes and phenomena. In what the economic role is concerned there is a clear component regarding the regulation of the national economy that can be noticed. The government budget plays a significant role in the mechanism that concerns the self-adjustment of the system of the national economy, a mechanism in which, together with the budget arms, one can also find the monetary ones and the ones concerning the labour market, the capital market, the goods and services market, but also the foreign exchange market.

The allocative role refers to the financing of the public services, resulting from the responsibilities that the state takes. This role implies the distribution of the resources of each budget year to destinations resulting from the pursuance of the state's responsibilities as a superstructural institution, but, at least partially, as an economic agent.

The redistributable role bears in mind the use of certain parts from the gross domestic product put into motion through contributions and taxes and distributed with the help of the expenditure the state has.

The regulation role refers to the implementation of the state's economic policy, to be more specific, to the support or promotion of certain actions through the mere budget purposes or, on the contrary, to the rejection of such activities. This role takes place both through the budget's incomes or expenditure, and through its amount.

The external debt is the amount expressed in currency that a country owes to other countries and/ or to other international financial institutions at a certain point in time based on the credit that the state (the government) and the private enterprises have received, with the state's bail, but also credits that have been received by companies or private persons, an amount which is due to be payed in more than one year (the private, external debt, that has no public bail). The government's external debt is a part of the external debt, by enclosing less, but having the highest percentage in the total amount of the external debt.

The external debt embodies:

a. the brutto external debt in a wide sense, which means a state's responsibilities towards the other countries; this includes the amounts that the state, the administrative territorial units and other entities of public law, economic agents for whose debt the state acts as a bail, owe to international institutions, governments, banks and other foreign public institutions, to private banks, companies and to other creditors. These debts come from all sorts of loans, acquisitions of goods, performing works and provision of services and agreeing to be paid later on, direct capital investments, assuming other responsibilities due to certain contracts or various regulations. Considering the very broad field of the indicator, the actual value is lowered.

b. The brutto external brutto debt in a narrow sense is actually the brutto external debt in a wide sense, except for :
   - short term loans (less than 1 year);
   - the direct investments (with no deadlines for reimbursement or liquidation) ;

The external debt as seen by the World Bank and the institutions which are part of its system, includes the following elements :

- amounts that the state owes to some public and private creditors in foreign currency, services, with a reimbursement deadline of more than one year;
- amounts that private persons owe for whom the public authorities serve as a bail.

It does not include the following elements:

- what private persons owe to entities abroad and is not guaranteed by the public authority;
- the debt ensued from the transactions with the IMF;
- the debt that can be payed by using the borrower's currency;
- amounts owed to creditors living abroad, which have deadlines.

The net external debt („consolidated") is the difference between the public assets belonging to a foreign country's residents (liabilities) and the assets owed by the residents of the country under discussion (claims). Considering this, the net external debt (the consolidated debt) refers only to the cash debt-claims or the ones that are easy to get compared to other countries. It does not include the other debt-claims which are not easy to put into motion, an exception being also the following:

- The assets of the country's residents abroad refer to :

· available currencies;
· loans;
· direct investments ;
· certificates;
· other claims;
· other goods.

- The assets of the foreign residents living in the country under discussion refer to :

· the loans received from public institutions (government, government agencies) ;
· bank credits, financial institutions and other creditors;
· certificates, available currencies;
· capital investments;
· other goods belonging to foreign persons.

The financial credits are not so often and they are granted by international financial institutions in convertible currency. The structure of the debts that the poor, developing, transitioning countries have point out a high percentage of this kind of credits.

The gross domestic product (GDP) is a macroeconomic indicator reflecting the market value of all of the goods and services which are meant for the end-use consumption, products from all the economic sectors in-country over one year.

The GDP represents the expenditure concerning the consumption of the private households and private non-profit organizations, the brutto expenditure regarding investments, the state's expenditure, the investments having the purpose of deposition as well as the export earnings out of which we exclude the imports expenditure.

GDP = consumption + investments + exports − imports

The economists (starting with Keynes) have divided the concept of consumption into two parts: the private consumption and the public sector's expenditure. In the macroeconomic theory, there are two advantages of splitting the total consumption this way:

- The private consumption is the main concern of the well-being's economy. The private investments and the economy's commercial subdivisions are ultimately directed (in the main current of the economic patterns) towards the long term increase of the private consumption.
- Because it does not come along with the endogenous private consumption, the consumption of the public sector can be regarded as being exogenous, therefore different levels of the public consumption can be seen as being part of the meaningful area of the macroeconomics.

Thus, the GDP can be expressed the following way:

GDP = privat consumption + the state's consumption + investments + (exports − imports)

The GDP's main components:

- The private consumption – it is usually the GDP's biggest component referring to the households' expenditure in what the economy is concerned. This expenditure can be splitted into: sustainable goods, perishable goods and services. For example: food, rent, jewelry.
- The state's expenditure – or the consumption of the public sector, is the amount of the government's expenditure concerning finite goods and services. It includes the salaries of the employees who are active in the public sector, purchasing munition etc.
- The investments – refer to the investments made in factories, equipment, inventory and does not include echanging already existing assets. For instance: building a mine, purchasing software, cars and equipment. The households' expenditure for new housing estates are part of the investments.
- The exports – are a country's brutto exports, including goods and services destined to foreign consumption.
- The imports – are the brutto imports. The import means selling a country's products to another country.

3. Results

Starting with 2017 there is a series of fiscal measures that have been adopted, some of them being good for the business environment, others have confused the businessmen and the companies. Any tax or contribution reduction can only be good for the business environment because the company registers a financial surplus and, based on our experience, this surplus is directed towards the investments. At the same time, the measure of tax and contribution reduction is meant to pull out to the daylight also the subterranean economy, which means extra incomes in absolute values in what the government budget is concerned, even though a decrease of the implementation quotes has been spotted. Under these circumstances we start asking ourselves if the government budget can sustain these measures, how much will the country's public debt increase in the near future and whether these measures will prove to be sustainable in time or not.

In 2017 the National Institute for Statistics has stated that there has been registered an increase of the GDP expressed in relative values of approximately 6.9%. The European Commission has conducted its own researches and forecasting, estimating that in 2018 Romania will face an increase of the GDP of approximately 4,5% (a slightly better assessment compared to the forecasting in November 2017 - 4,4%), but it apprises that this growth is due to the increase of each person's consumption. „The main trigger for the increase was the individual consumption, supported by tax elimination and salary growths both in the public, as well as in the private sector. As a consequence, the net commercial exchanges have acted as a burden in what the increase of the real GDP is concerned, although the export has registered a relatively strong increase." At the same time, the European Commission has ascertained that in 2016 the investments have dropped significantly, while in 2017 they have slightly increased, but „Their growth rhythm is still at a low level , as a consequence of the abrupt decrease of the public investments for the second year in a row".

In what 2018 and 2019 are concerned, the European Commission was expecting a deceleration of the economic growth rhythm due to the fact that "The increase of the individual consumption is expected to become a little more moderate, once the inflation will be more significant in what the real incomes at the population's disposal are concerned, and the salary growths will be slowed down. Nonetheless, the individual consumption is estimated to be the main propulsion tool for the economic growth.

The price increases in Romania will therefore continue to happen, after in 2017 the inflation had registered a positive value, although it has been kept still by the VAT being reduced from 20% to 19%. For the year 2018, the European Commission is estimating an inflation of 4,1%, and for 2019 3%. The inflation is supposed to register a higher increase as a consequence of the pression wielded by the consumption and of the effects of tax reduction from January 2017 being gradually reduced. Reintroducing the excise duties will cause the inflation to grow even more this year." At the same time, the European Commission bears in mind that the National Bank has started to tighten up its monetary policy as the inflation has reentered its target interval (2,5% +/- 1 percentage point). In January 2018, the National Bank of Romania has increased the rate of interest of the monetary policy with 0,25 percentage points, up to 2%, the first increase, since 2018 up until the present time – another observation made by the officials at the European Commission.

Table no. 1 Incomes government budget/ Personnel expenditure

Year	Incomes government budget-thousands of lei	Personnel expenditure-thousands of lei
2007	48.984.579	7.312.332
2008	67.004.655	13.482.064
2009	75.689.755	15.525.804
2010	66.654.311	16.899.800
2011	80.802.121	15.309.517
2012	92.692.044	17.061.960
2013	96.279.084	19.802.619
2014	99.449.832	21.351.083
2015	111.526.503	21.256.134
2016	105.033.837	22.644.635
2017	117.046.581	21.494.827

Source: Ministry of Finance

Table no. 2 GDP Growth Rhythm

Year	– Millions of lei	GDP-billions of Euro
2007	418.200,2	123,7
2008	538.049,8	139,7
2009	526.345,3	118,3
2010	529.623,5	124,1
2011	562.062,4	131,5
2012	595.367,3	133,9
2013	637.456,0	144,7
2014	668.143,6	150,8
2015	712.658,5	159
2016	762.341,8	169
2017	858.332,8	180,6

Source: Eurostat

By analyzing the interval 2007-2017, it is obvious that in what the incomes of the government budget is concerned, by relating to the absolute values, there has been a growth rhythm of approximately 138,94%, whereas regarding the personnel expenditure a highly superior growth rhythm of approximately 193,95% was registered. It is obvious that during the analyzed interval the growth rhythm of the personnel expenditure was superior to the rhythm of the incomes of the government budget, although there has been no improvement or it has not become more efficient in what the personnel working for the state is concerned, and the primary areas such as education and health care have kept the same level of sub-financing. Moreover, there have been also significant unbalances within the private sector considering the decrease of the public investments and the employees from the private sector not being satisfied with their salaries.

During these more than 10 years, since Romania has been accepted in the European Union, the country has faced a significant growth rhythm in what the GDP is concerned of about 45,99% (from 123,7 billion euro in 2007 to about 180,6 billion euro in 2017). If, on the contrary, we consider the GDP per capita expressed in the Purchasing Power Parity Standard (PPP/ PPS), there could be noticed that in 2016 Bulgaria, Romania and Croatia have registered the lowest values – about half of them compared to the average of the other member states. At the same time, Romania has the highest growth rhythms all over the European Union, but when expressed in absolute values the growth is significantly lower than the growth registered by the other states, because there is something different when facing an increase of about 4,6% when it comes to a GDP per capita in an amount of 8600 euro, than having an economic growth of 1,9% when it comes to a GDP per capita in an amount of 38,100 euro, which is Germany's case.

Concurrently with this substantial economic growth, there is also an increase of the total brutto external debt from 44,499 billion euro in 2007 to 94,4 billion euro in 2017 (the highest level in history being reached in 2013, when the amount was of 101,1 billion euro). It is more than obvious that this economic growth is mainly due to the consumption and less to the production.

4. Conclusions

Taking into account that the total brutto public debt has increased, but also the wantage in the commercial balance, the wantage in the government budget combined with the exodus of the labour force and the absence of the investments, which have led to the existence of wantages in what the budgets of the state social insurances and health insurances are concerned, there has been an attempt of operating some changes regarding the fiscal policy by tax and contribution reduction in order to encourage the investments. Apart from these tax and contribution reductions there was also an attempt of increasing the retirement pensions and salaries in order to prevent the qualified labour force from leaving certain areas and to encourage the consumption.

It is obvious that, under these circumstances, the incomes of the government budget will face a decrease in the following period, and will start growing again only if the investments increase (either by attracting new investors, or by increasing the volume of activity of the already existing ones), and this is something that can be done by offering the foreign investors the guarantee of a constant legislation and fiscal policy and of the debirocratization of the access to the European funds, but also of the development of some policies meant to support the inland companies and especially the small and medium-sized enterprizes/ SMEs (an easier access to the financing sources). In Romania, the SMEs are 90% of all the companies and they have only 42% of the GDP, compared to 58% in the other European states.

If in the following interval there will be no measures taken in order to encourage the public and private investments and to speed-up the process of attracting the European funds both for the private, and for the public sector (especially in what the development of the infrastructure is concerned – the prerequisite for the subsequent economic growth), the already adopted fiscal measures will lead to nothing else but the inflation increase, the growth of the public debt and of the wantage of the paymante balance with major negative consequences in the following years.

5. References

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