

Considerations Regarding the Public Budget in Romania

Alin Teodor Huseraş

Nicolae Balteş

„Lucian Blaga” University of Sibiu, Romania

huseras.alin@gmail.com

nicolae.baltes@ulbsibiu.ro

Abstract

The paper presents the etymology, the legal and economic significance, and the structure of the Romanian budgetary system. At the same time, the evolution of the main indicators from 2006-2018 is presented. It is presented, how the budget flows are generated and used, but also the results obtained in the budget years from the aforementioned period.

The paper presents the evolution of macroeconomic indicators, which reflect the level, dynamics and structure of budgetary expenditures and revenues.

Mostly the objectives of the paper consist of monitoring the evolution of the general consolidated budget and analysing the way of framing the deficit within the maximum limits allowed during the reference period of the study.

Key words: public budget, state budget, public administration, indicators, decision

J.E.L. classification: H60, H61, H70, H72

1. Introduction

The historical-evolutionary description of the Romanian budgetary system is difficult to achieve, in the conditions in which the factors that generated the appearance of this type of system did not have a linear and simultaneous evolutionary action, there being differences from one period to another, from one state to another, from an economic system to another. The emergence and development of budget systems has been part of the process of public finance evolution and has been in close connection with the process of human development.

The evolution of social relations and their merging into an organized framework, of state type, it came under the impact of several factors of different nature, among which an important role certainly played by the citizens' awareness of the existence of common needs, which could not be adequately managed and provided individually. Even if some social needs, satisfied by the state through public services, they could be offered by markets or by citizens, the degree of coordination required to perform these services on a large scale, often escaping when acted individually, except for the existence of a state authority.

Defending the territory, establishing, imposing and respecting the law as well as public order, property rights, ensuring human rights, ensuring the freedom to exchange and justice, has always been based on the state. Thus, the state represents the empowered institution, which possesses the coercive capacity to enforce the law and order, the prevention of theft, fraud or abuse, as well as the ability to validate all the rights of citizens, acting as a key provider of essential public services.

The exercise of the actions of collection / mobilization and redistribution / use of public resources, having as an object the common needs of the population, synthetically reproduces the economic meaning of the concept of public budget. The public budget can be described as all financial relations to satisfy the collective needs of society.

This system of processes and financial relations, illustrates the social content of the public budget, reflecting the social links created between the state, on the one hand and society as taxpayers or beneficiaries, on the other.

2. Theoretical background

In everyday life, the use of the term budget is often encountered, as a single term or as an expression: personal budget, family budget, budget of an institution, state budget, budgetary mechanism, etc. Etymologically, this term comes from the Latin language, where it was used under the expression "*bulgo*", having the meaning of a leather bag or bag full of money. Over time, several states have borrowed this term and adapted it to their vocabulary, then using it economically. As an economic specialty term, the budget is used for the first time in official documents, at the beginning of the 13th century in England. The concept was also taken over by the French (*bougette*), who defined it as "*The act by which they are provided and authorized the expenses and revenues of the state for a fixed period*".

In the Romanian space the first forms of records written on the state resources, appear after the transformation of Dacia into the Roman province. The new Roman administration instituted written records of revenue and expenditure, in the form of parchments called "*aerarium publicum*", as well as throughout the empire.

In 14th century Transylvania, during the reign of King Carol Robert de Anjou (1308) the state resources were highlighted in the form of documents bearing the name "*Lists of Papal Tenths*" or "*Revenue and Expenditure Codes*." The Habsburg Empire, introduced in Transylvania, starting with 1699 laws and edicts reflecting the public money resources called "*patents*", which were maintained during the Austro-Hungarian Empire.

In the Romanian Country, a form of budgetary records, it bore the name "*State's vestry*" and dates from the reign of Matei Basarab (1635). A document that reflected a similar record also existed during the reign of Constantin Brîncoveanu (1694-1704) being entitled "*Condit of income and expenses*".

In Moldova, the incipient forms of budgetary records were "*Treasure banks*" or "*treasury reports*" documents that were a true account of public revenues and expenditures. This realization belonged to the ruler Nicolae Mavrocordat (1712)".

In Muntenia (1831) and Moldova (1832), the terms "*biudje*" and "*bugea*" represented the first constitutional provisions of a budgetary nature. These terms were stipulated in chapter III of the *Organic Regulations*, which dealt mainly with the public finances of the principalities. Also, based on the Organic Regulations, the separation of powers in the state and the new territorial administrative organization of the two Romanian states was established.

The political-military evolution generated by the Union of Principalities, it has been accompanied by increasingly complex economic changes and financial relationships. Thus, in 1860, the "Finance Regulation" was promulgated under the unitary leadership of Al. Ioan Cuza. Regulations that provided that the public revenues and expenditures to be made each year, had to be authorized by the finance laws, thus forming the general budget.

In the circumstance of the Union since 1918, the state had to adapt to the new realities and needs of the time and record them through reforms, provisions and changes, in the Constitution. As news, the Constitution of Greater Romania introduced the universal vote, recorded the land reform and expropriation in case of public utility. As regards the references in the budgetary field, the constitutions subsequent to that of 1866, both the Constitution of 1923 and the Constitution of 1938 accurately rendered the text of the Constitution of 1866 in regarding the provisions regarding the budget.

Establishing the communist government and changing the governing regime, made it necessary to adopt a new constitution, a fact achieved in 1948. By the adopted Constitution, at art. 39 it was foreseen that "*voting the state budget; fixing of taxes and their mode of collection and the conclusion of the budgetary exercises*" were the responsibility of the Grand National Assembly of the Romanian People's Republic.

Law no. 3/1949, issued on the basis of the prerogatives of the aforementioned constitution, is the first law dedicated in its entirety to Law no. 3/1949, issued on the basis of the prerogatives of the aforementioned constitution, is the first law dedicated in its entirety to the state budget. This law specified how the budget was drawn up and executed, and did not, in the last, specify the conclusion of the execution of the general budget of Romania. The General budget according to art. 1 of Law no. 1/1951 was made up of the budget of the State Administration (republican budget)

and the budgets administered by the local bodies.

The two laws of the public finances of the communist period (Law no.3 / 1949 and Law no 9/1972) they provided for the fact that the state budget was drawn up for each budget year and includes the centralized state revenues and their distribution in accordance with the objectives of the single national plan.

3. Research methodology

The research uses the bibliographic study method, the synthesis method, the observation method and the graphical method in order to present the evolution of the relevant indicators regarding the national public budget of Romania, between 2006-2018.

4. Findings

4.1. Legislative benchmarks on the national public budget

The transition from the centralized economy to the market economy, and the regulations that emerged after 1990, have brought major changes both in terms of the concept of budget and in the form of its organization. The term "state budget" of the communist system, was replaced by the constitutional provisions regarding economy and public finances, with the terminology of national public budget, and its structure is presented in figure no. 1.

Figure no. 1 Scheme of the national public budget of Romania in 1991



Source: authors own processing

Although the law of public finances kept for a while the notion of national public budget, in 1996 by Law no. 72/1996 was introduced the notion of unitary system of budgets, having the structure presented in figure no. 2.

Figure no. 2 Scheme of the unitary system of budgets of Romania in 1996

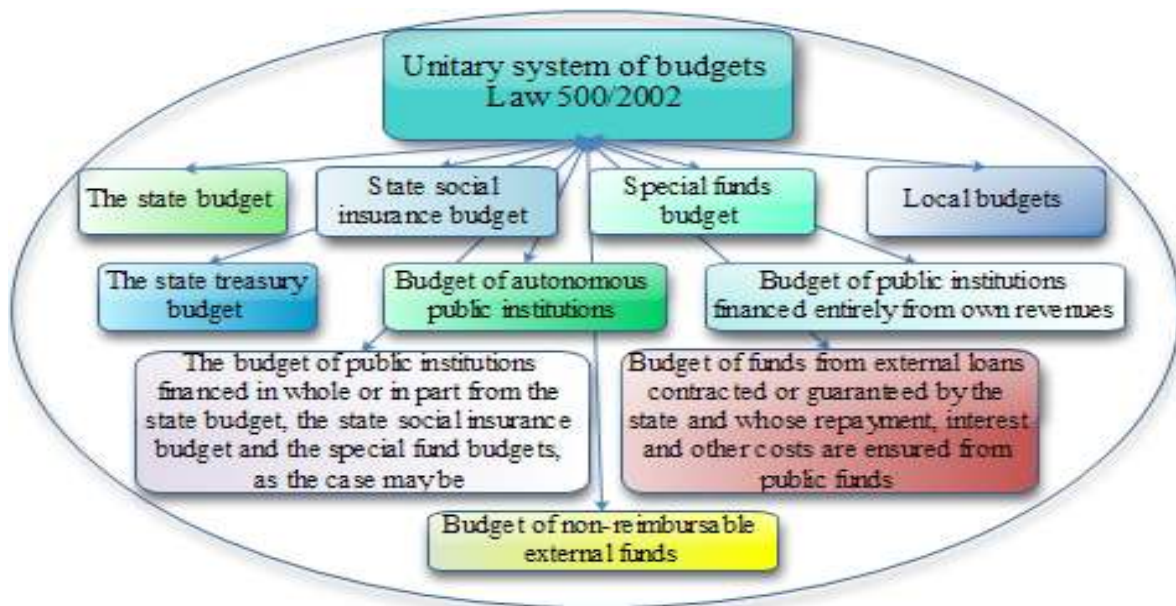


Source: authors own processing

The elaboration of Law 500/2002 on public finances, was an important moment in the evolution of the Romanian budget system. Following the principles of efficient management, through this law new provisions are introduced regarding the elaboration, approval, execution and reporting of the budget execution, the whole budget process being rethought, which would be oriented towards objectives, results and performance.

Currently, Law 500/2002 on public finances, updated with subsequent amendments and completions, redefines the concept of "unitary budget system", which comprises 9 distinct budgets, which reflect all national public funds (figure no. 3).

Figure no. 3 Scheme of the national public budget of Romania



Source: authors own processing

The national budget, reflected in an integrated manner, in the unitary system of budgets, through all its components, constitutes an instrument by which all budgetary transactions are planned and transposed into practice, in a balanced and unitary process. Public expenditure management realizes an essential relation between the incomes and the expenses, using the money as the most suitable way to reflect the preferences / needs / expectations of the population. The national budget is also a policy tool, for the efficient and effective implementation of economic and social priorities, especially for countries with limited resources.

The state budget is the main component of the Romanian budgetary system, being considered a first-rate component, due to the fact that the most important actions, considered of national social interest, are financed from it. It includes in its specific content, the financial resources mobilized and made available to the state for financing and ensuring general public services, ensuring the defence of national territory, public order and national security, justice, foreign relations, economic macro stability, social welfare, cultural financing, social spending, of public health and development services as well as financing of economic actions, all of these are considered strategic needs and are consequently managed by the central authorities.

The budget of the state social insurance, viewed from an economic point of view, is an important component of the national public budget, which represents by its specific content a financial plan through which are reflected, constituted, distributed and used, financial funds for the protection of the pensioners, employees and their family members. Social insurances have had an upward trend over time, in close correlation with the evolution of society.

Due to the growth of society and implicitly of social needs for protection, the state social insurance budget has registered increasing flows of funds, which necessitated its positioning as a stand-alone component.

What characterizes the social insurance system vis-à-vis other categories of social security services, is the fact that the principle of contributivity is based on it, according to which the insured's right is recognized only on the basis of the contributions made.

The law of public finances and the law of local public finances empower, define and regulate the **local budget**, similar to the meanings granted to the state budget, conferring on it the status of a legal act, which forms as a normative administrative act adopted by the local deliberative authorities, at the proposal of the local executive authority, by which the local revenues and expenses are foreseen, authorized and executed, for a period of one year.

The concept of local autonomy, certifies that the local authorities are responsible for managing all categories of specific interests and public needs, of local level. Based on the principle of local autonomy, it is the high degree of knowledge of the needs of the local community, known by the local authorities compared to the central authorities. As a consequence, the attribution of differentiated powers to the central authorities, compared to the local ones, as well as the delimitation on this basis of the local budgets as complementary components to the state budget, is based on the rationalization of the efficiency of the financial relations. Also in order to make financial relationships more efficient, it can be said that the local authorities know much better their financial (fiscal) potential, as well as the necessary funds to be spent to meet local needs, than central authorities could.

Depending on the hierarchy of needs in the state, needs such as local public order, roads, public lighting, local transport, sanitation, schools, are up to the local authorities.

Special funds budget. Outside the state budget and as an exception to the classic principle of budgetary unity, the incomes and expenses of the special funds that are constituted and have destinations specified by special laws are approved annually. These distinct budgets are aimed at managing specific and specific needs, and their contribution in solving these needs is to clearly delineate and size the sources of income, the necessary expenses, the period of service, the competent authorities with the implicit responsibilities, thus increasing efficiency can be ensured.

4.2. Evolutions regarding the general consolidated budget of Romania, period 2006-2018

According to the final data, published by the Ministry of Public Finance in the annual reports on budget execution, at the end of the year, cumulated on all budgets and integrated into the execution of the consolidated general budget, in table no. 1, presented the evolution of the revenues, expenses and the result of the budget year, for the period 2006-2018.

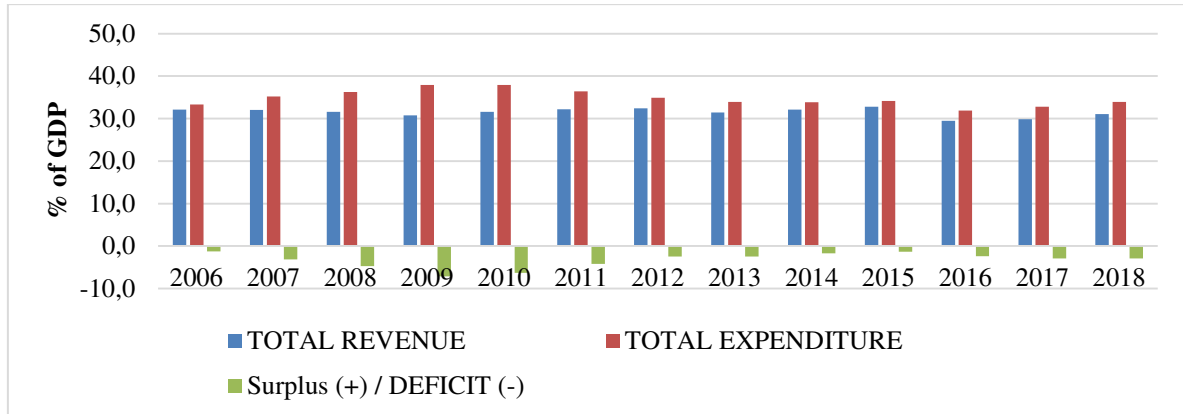
Table no. 1 Implementation of the consolidated general budget for the period 2006-2018

BUDGETARY IMPLEMENTATION OF THE CONSOLIDATED GENERAL BUDGET IN THE PERIOD 2006-2018, -mld lei-						
Years	TOTAL REVENUE		TOTAL EXPENDITURE		DEFICIT(-)	
	Sum	% of GDP	Sum	% of GDP	Sum	% of GDP
2006	111,39	32,1	115,75	33,4	-4,36	-1,3
2007	134,17	32,1	147,14	35,2	-12,97	-3,1
2008	165,55	31,6	190,34	36,3	-24,79	-4,7
2009	157,24	30,8	193,68	37,9	-36,44	-7,1
2010	168,67	31,6	202,28	37,9	-33,61	-6,3
2011	181,92	32,2	205,82	36,4	-23,90	-4,2
2012	193,15	32,4	207,92	34,9	-14,77	-2,5
2013	200,37	31,4	216,17	33,9	-15,79	-2,5
2014	214,31	32,1	225,81	33,8	-11,49	-1,7
2015	233,80	32,8	243,43	34,1	-9,63	-1,4
2016	223,72	29,5	242,02	31,9	-18,29	-2,41
2017	251,82	29,9	276,08	32,8	-24,26	-2,88
2018	295,12	31,1	322,45	34,0	-27,34	-2,88

Source: own processing based on the budget execution reports published by the MFP

During the whole period of 2006-2018, the volume of revenues of the consolidated budget of the Romanian state is lower than that of the expenditures. The budget execution, ending annually with a deficit, a deficit that was also increasing from year to year. Expressed as a percentage of GDP, the evolution of revenues, expenses and budgetary result is presented in chart no. 1.

Chart no.1 Evolution of the total revenues and expenditures of the BGC expressed as% in GDP between 2006-2018



Source: authors' own processing based on data published by INSSE-Romania

The revenues of the consolidated general budget for the period 2006-2018, expressed as a percentage of GDP, ranged from 32.1% from 2006 to 31.1% in 2018. The maximum level was reached in 2015 with 32.8 % of GDP, and the minimum level was reached in 2016 with 29.5% of GDP.

The expenditures of the consolidated general budget for the period 2006-2018, expressed as a percentage of GDP, ranged from 33.4% starting in 2006 to 34% in 2018. The maximum level was reached in the year 2009 and 2010 with 37,9% of GDP, and the lowest level of public spending was reached in 2016 with a percentage of 31.9%.

The balance of the general budget consolidated for the same period, expressed as a percentage in GDP, was between -1.3% compared to GDP in 2006 and -2.88 in 2018, with a minimum of -7.1% of GDP in 2009.

Basically, in the reference period, in terms of the balance (result) the BGC we can only talk about an evolution of the general consolidated budget deficit. The balance of result of the consolidated general budget decreased, in nominal terms, from year to year with maximum values recorded in the crisis years, between -8.6 billion lei in 2007 (compared to 2006), -11.8 billion lei in 2008, respectively -11.6 billion lei in 2019.

Between 2010-2012 it registered decreasing improvements, recording decreases of budget deficit with net values of 2.8 billion lei for 2010, 9.7 billion lei for 2011 and 9.1 billion lei for 2012. The budget deficit for 2013 increased compared to 2012 with -1.0 billion lei. The year 2014 and 2015 recorded decreases of the BGC deficit with the values of 4.3 billion lei and 1.9 billion lei. The next 3-year period shows increases in the deficit, of -8.7 billion lei in 2016, -6 billion lei in 2017 and -3.1 billion lei in 2018.

The nominal balance of the consolidated general budget of each year was influenced by the nominal balances of all the component budgets as well as the incomes, the expenses incurred, the social and fiscal-budgetary policy. In the table no. 2 can be observed, the changes in dynamics, expressed in percentage points, of the total revenues and expenditures of the consolidated general budget, from year to year in the reference period.

Table no. 2 Dynamics of BGC revenue and expenditure in p.p. between 2006-2018

Revenue and expenditure dynamics compared to the previous year 2006-2018 -p.p.-			
Year	TOTAL REVENUE	TOTAL EXPENDITURE	Surplus (+) / Deficit (-)
	p.p. of GDP	p.p. of GDP	p.p. of GDP
2006	+	-	+/-
2007	0,0	-1,8	-1,8
2008	-0,5	-1,1	-1,6
2009	-0,8	-1,6	-2,4
2010	0,8	0,0	0,8
2011	0,6	1,5	2,1
2012	0,2	1,5	1,7
2013	-1,0	1,0	0,0
2014	0,7	0,1	0,8
2015	0,7	-0,3	0,4
2016	-3,3	2,2	-1,1
2017	0,4	-0,9	-0,5
2018	1,2	-1,2	0,0

Source: Authors' own processing based on budget execution reports published by MFP

5. Conclusions

In this paper we presented the way of functioning of the Romanian financial system. The role of the consolidated general budget and its component budgets was highlighted, as well as an analysis based on indicators of the consolidated general budget, in accordance with the budget execution carried out at the end of the years from the reporting period 2006-2018.

As a proper conclusion, it is very important that in the process of budget preparation, public authorities set realistic goals, based on objective and achievable indicators. This would no longer lead to the failure to realize the estimated revenues, to exceed the level of the established expenses and especially to the end of the budget deficit exercise.

The main challenge for medium and long term public authorities, represents the further implementation of structural reforms, consolidation of public finances, and financial stability, in order to achieve the objective of budgetary sustainability, and maintaining a controlled deficit of the national public budget, thus avoiding the risks related to internal and external shocks, as well as dependence on external financial assistance.

Due to the fact that the budgets present important guidelines for the actions undertaken by the Government, and by all public institutions, this sector of public finances will always be open for future research, the elaboration of new theoretical analyses and case studies through which the budgetary activity will perform and will be improve permanently.

6. References

- Bistriceanu, Ghe., 2001. *Lexicon of finance-banks-insurance*. Bucharest: Economic Publishing House.
- Condor, I., 2000. *Romanian Financial Law*. Bucharest: Monitorul Oficial RA Publishing House.
- Filip, Ghe., 2002. *Public Finances*. Iasi: Junimea Publishing House.
- Georgescu, M., 2011. *Administration of public finances and budget*. Craiova: Pro University Publishing House.
- Lazar, D., Inceu, A., 1997. *Approaches to the notion of state budget*. Bucharest: Oscar Print Publishing House.
- Oprea, F., 2011. *Public budgeting systems. Theory and practice*. Bucharest: Economic Publishing House.
- Moşteanu, T., 1997. *Budget and public treasury*. Bucharest: Didactic and Pedagogical Publishing House.
- Talpaş, I., 1996. *Finance of Romania*. Timisoare: Sedona Publishing House.
- Tulai, C., 2003. *Public Finances and Taxation*. Cluj Napoca: House of Science Book.
- Văcărel, I. (coordin.), 2004. *Public Finances*. Bucharest: Didactic and Pedagogical Publishing RA.
- THE CONSTITUTION of Romania from 1866, published in M.Of. no. 142/1 June. 1866 source http://www.cdep.ro/pls/legis/legis_pck.htp_act_text?id=37755 accessed 10.05.2019;
- Art. 114, Title IV chap. VI of the CONSTITUTION of Romania of 1923, M.Of. no. Mar 282/29 1923

- Art. 83, Title IV chap. VII of the CONSTITUTION of Romania of 1938, published in M.Of. no. 48/27 Feb 1938;
- CONSTITUTION of the Romanian People's Republic of 1948, published in M.Of. no. 87 bis / 13 apr. 1948;
- Art. 43 of the CONSTITUTION of the Socialist Republic of Romania since 1965;
- paragraph (1), art.1 of the Constitution of Romania, of November 21, 1991;
- Art. 24- The Law of Finance no. 9/1972 *, the Great National Assembly - MAN, in force from 01.01.1973 - 31.12.1990, applicable form from 01.01.1973 - 12.06.1979, being republished (r1) by LAW Nr. 2 of 06.06.1979 published in the Official Bulletin no. 59 of July 13, 1979;
- Art.137, Title IV of the Constitution of Romania, of November 21, 1991;
- Art. 1- Law 10/1991 on public finances;
- paragraph (4), art. 1, chap. I of Law 72/1996 on public finances;
- paragraph 2 art 1. cap.1 Law no. 500 of July 11, 2002 (* act *) * on public finances;
- <http://www.mfinante.ro/pagina.html?pagina=buletin&categoriebunuri=executie-bugetara.rapoarte-trimestriale.rapoarte-semestriale.rapoarte-anuale.arieratele-bugetului-general-consolidat&tab=4>