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Romania's Budget Deficit Between 2017-2018

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Abstract

Under the current conditions, due to important changes in all the economic fields of the state, the lack of financial means creates many difficulties in its normal functioning.

The budget deficit has become a characteristic phenomenon of the contemporary world. A chronic budget deficit of large proportions can cause the rate of inflation, currency crisis, difficulties in paying off foreign debts and other unwanted phenomena that negatively influence the process of macroeconomic stabilization and economic progress, respectively.

The purpose of the paper is the generalization and analysis of the theories regarding the budget deficit, the establishment of the modes of occurrence of this phenomenon, the ways of financing the budget deficit, the evolution and the effects of the Romanian budget deficit that influence the economic situation in the country.

Key words: buget, sistemul bugetar, deficit bugetar, situatie economica
J.E.L. classification: H6, H60, H61, H62, H69

1. Introduction

The main function on which an economic mechanism is based is that of regulating and leading the economic processes, and each country carries out its economic activity according to it. In carrying out this function an important role belongs to the competitive market. Based on this and through the participation of the economic agents in the formulation of the demand and the offer, the interest ratio and the economic balance are regulated. In this situation, the state participates as an economic agent, but also as a public authority, with the help of its function to create and exercise the legislative framework. Economic processes are influenced by the state through economic-financial levers, namely customs, public spending or fiscal leverage. Other influencing factors would be the cost, interest, price, profit, etc., generated by the market. By establishing the values in monetary form, this financial mechanism reflects the economic mechanism.

Legally, the state budget is a law, a normative act with a predictive and obligatory character, which authorizes and provides for the state's revenues and expenses, for a period of one year. The state budget reflects the financial, economic and social policy options of the state, regarding a duration of one year.

A basic principle of establishing the state budget is the budgetary balance, but this is not achieved automatically, most of the times, by covering with budgetary revenues, the budgetary expenses. In such situations, it is understood that the budget is given a form of financing deficit, which takes the name of budget deficit (Auerbach, A.J.; Gokhale, J.; Kotlikoff, L.J., 1994).

A deviation from the budget balance is the budget deficit that is considered by the classical doctrine as a danger that leads to bankruptcy of the state. The public budget being used by the state as an instrument of its financial policy, at present, it is projected under a deficit.

The budget deficit is the difference between public expenditures, which are higher, and public fiscal, non-fiscal and ordinary revenues, which are smaller. The budget deficit represents the authorization of expenses higher than the income from taxes and other obligatory levies, being titled as a structural component of the budget. At the same time, we can say that the budget deficit is identified as a discovery of the expenses that will be financed by the loan application (Bistriceanu G.,Văcărel I., Anghelache G.C., 2004).

2. Literature review

The classical school of finance considered that the deficits had a negative impact on the economy and regarded the budget deficit as a double danger: the danger of "bankruptcy" for the state (in which the state becomes insolvent and can no longer meet its obligations) and the maintenance of inflation - because the state commits itself to large unproductive expenses, puts into circulation additional money without the goods and services appearing on the market, resulting in inflation. The conservative concept therefore considers that reducing fiscal deficits is vital. When governments are dealing with a budget deficit, given the fact that they spend more than they produce - the national level of savings decreases, with an immediate effect on the level of investments, which, in turn, will negatively influence economic growth (Bistriceanu G., 2001).

In the meantime, the optics on these issues have changed, and in the conception of the modern school it is wrong to look only at the effects of the budget deficit, this being just a piece of a broader, more comprehensive picture of how the government chooses to raise and spend. funds. Mankiw (2008, p. 536) considers that the singular concern about the budget deficit is dangerous because it distracts attention from various other policies that redistribute income between generations.

An explanation of the effects cannot be made without identifying the link between deficit and public debt. The budget deficit is a variable of flows, while the public debt represents a variable of stocks (Liebermann and Hall, 2010, p. 736). Whenever at the end of the year the state faces a budget deficit, it requires funding for financing, thus affecting the level of public debt. The classical school saw as main negative effects of the deficit the low level of investments and the high level of interest rates, which subsequently has been transposed by the specialized literature into the so-called eviction effect (Cornescu V., Crețoiu G., Bucur I., 2001).

The neoclassical model of the effects of public debt argues that when governments start a project, whether it is funded by taxes or loans, resources are taken from the private sector. The main idea would be that when using tax financing, most of the resources are deployed to the detriment of consumption (Cioponea M.C., 2007). At the moment it borrows, it competes for funds with individuals or companies that want that money for their own investment projects (Rosen, 1998, p. 433).

However, in the contemporary period, some authors are of the opinion that the effect of crowding out is rarely so strong as to cancel out the entire expansionary effect of public spending, a net economic stimulus remaining (Baumol and Blinder, 2009, p. 695).

Another view that attempts to weigh the effects of deficits on interest rates is Rosen's (1998, pp. 431-432), who believes that because of the multitude of variables that can most likely affect interest rate levels, things are a bit more complicated. and they cannot be explained only by modifying one of them.

3. Research methodology

In Romania, six different methods are used to measure the public deficit, according to which a certain type of budget deficit is distinguished. Therefore, the paper uses as a research method the comparative analysis of the budget deficit in Romania.

Thus, the following types of deficit / surplus are identified:

- the deficit / surplus of the consolidated general budget;
- conventional deficit / surplus;
- structural deficit / surplus;
- operational deficit / surplus;
- primary deficit / surplus;

The deficit / surplus of the consolidated general budget, shows the existing imbalance on the part of the budgets component of the budgetary system, aggregated and consolidated, to form a whole. The deficit / surplus of the consolidated general budget is the most used in the analyzes regarding the imbalance between the resources gathered and the needs of the public sector. This deficit is calculated by the difference between the revenues and expenses of the consolidated general budget.

The necessary financing of the public sector is the conventional deficit / surplus, which is calculated as the difference between the receipts and the actual payments. In the method of measuring this type of deficit / surplus of the consolidated general budget, the revenues do not include the internal and external loans, and at the level of the expenditures the repayments of the public debt of that year are not taken into account, but we find the interests that are part of the public debt.

The primary deficit / surplus is defined as the difference between current income and budgetary expenses not intended to pay interest on public debt. If the primary deficit is positive, it means that we have a primary surplus and this shows us that the state contributes to the reduction of public debt and aggregate demand.

The operational deficit / surplus includes the primary deficit and the real interest paid on the domestic public debt account.

The structural deficit / surplus is highlighted and is recorded when, in the long term, the impossibility of the budgetary revenues to finance the budgetary expenses appears. The structural deficit has the tendency to become chronic, represents an imbalance of all the constituent elements of the financial structure of the state and is an error of adjustment.

If the state tries to correct the imbalance by increasing the tax quotas then the yield obtained is lower than anticipated, and the taxable matter diminishes under the effect of a high taxation. If the state takes measures to alleviate the fiscal pressure to reconcile the psychological reactions of the taxpayers, the result is not satisfactory. The structural deficit, in reality, is not the result of a chronic insufficiency of the budgetary revenues but it generates much deeper and deeper effects.

4. The causes of the appearance of the budget deficit

Auerbach, Gokhale and Kotlikoff (1994) considered that the budget deficit is an indicator with limited utility regarding the assessment of fiscal and budgetary policies. If these policies are dynamic they cannot be analyzed on the basis of short-term indicators, and any size of the budget deficit cannot show the burden induced by public policies on future generations.

The appearance of the budget deficit has now become a common phenomenon and is the opposite of the budget surplus caused by: the decrease of social production; excess monetary issues; increasing the expenses for the implementation of the approved social programs; increasing marginal costs in social production; growth of the dark economy sector.

Among the factors listed above, the decrease of social production and the growth of the dark economy sector are of particular importance.

The following structural factors determining the deficit are considered:

- political factors, which include political institutions, political instability, governmental fragmentation;
- social polarization as an inequality in ethnic incomes and divisions;
- institutional factors such as budgetary procedures and laws, bureaucratic efficiency and democracy.

In the context of economic cycles, the link between the unemployment rate and the size of the budget deficit is analyzed. The increase of the budget deficit occurs when the employment rate is reduced during the periods of economic recession, thus determining the increase of the budgetary expenditures for the social sector, the unemployment benefits (Moraru D., Nedelescu M., Stănescu C., Preda O., 2007).

If we analyze the relationship between the budget deficit and the interest rate, studies show that financing the budget deficit decides to increase long-term interest rates and thus reduce the return on equity markets.

One can also analyze the impact that the exchange rate can have, with the potential influence exerted by the interest rate and inflation on the deficit size. Devereux (1995) informs us that the budget deficit determines the appreciation of the real exchange rate, in small economies, the pessimistic forecasts regarding the size of the deficit lead to a depreciation of the real exchange rate.

In many developed or developing countries, due to the faster growth of public spending than public revenue, public budgets are being drawn up and are increasingly ending with budget deficits.

One way of intervention of the governmental management, for regulating the economic activity is the acceptance of a share determined by expenditures that exceed the public revenues, that is to say, the acceptance of a controlled deficit.

The causes can be caused by their own economy or by the international conjuncture, at the level and fluctuations of the gross domestic product, which is one of the internal causes that lead to the appearance or increase of the budget deficit, by slowing the rate of increase of the public revenues.

a) in the low developed countries, due to the low tax base, the small contribution from taxes and taxes, even if a high degree of taxation is adopted, determines the low level of budgetary revenues. In the countries in transition, it is determined by the drastic increase of the inflation rate, given that it is known that the budgetary incomes have a growth rate lower than the one of the budgetary expenditures, expressed in current prices. In contrast, with strong economic agents, with a high share of the employed population and with a population with high incomes and assets, in which the financial discipline is respected, in a developed economy the public revenues that feed the national budget will be collected in a high amount and at the stipulated deadlines, which creates the premises for covering the public expenses;

b) the degree of redistribution of the gross domestic product may lead to imbalances between public expenditure and income, as the components regarding unemployment aid and social assistance increase. On the one hand, the low degree of employment, intrigues additional efforts made to public authorities for social protection, and on the other hand, implies low budgetary receipts from income tax, social security contributions. Continuous decrease of the product gross domestic product, which takes place in the countries in transition, is determined by profound, structural transformations.

c) the continuous increase of the expenses with the repayment of the public debt (usually, a large part of this being generated precisely by the budget deficits of the previous years);

d) the increase of the budgetary expenses is determined by assuming by the Government the payment of the social costs involved by the transition process;

e) increasing public spending on arming is often one of the reasons that led to the exceeding of public revenues from public spending;

f) the influence transmitted by the international conjunctural phenomena through the exchange rate and the interest rate. Thus, in the 1970s - 1980s, several countries (developed and developing) faced severe budget deficits as a result of the oil crisis and increased arms prices.

The states have overcome the situation differently, depending on the degree of economic development, in some situations, the negative influences being transmitted from rich countries to poor countries.

5. Analysis of state budget revenues in the period 2017-2018

The constitution of the budgetary revenues is made taking into account the taxes, taxes, contributions and the rest of the payments taken from the natural and / or legal persons. Thus, the revenues mentioned in the state budget include the capital income, the current income (fiscal and non-fiscal income) and the receipts from the repayment of the loans granted.

According to the budget law and the Fiscal Code, in the category of budget revenues, we find the tax revenues that include direct taxes and indirect taxes, such as the tax on wages and income, the tax on profit, taxes and property taxes, other direct taxes, the contributions for the supplementary pension. and for persons with disabilities, value added tax, customs duties, excise duties and other indirect taxes.

According to the same regulations in force, in the category of budgetary revenues we also find non-fiscal revenues that include the revenues from sales of goods and services and the revenues from property.

The budget revenues were estimated at a level of 37,040 million lei (4.4% of GDP) in 2017, anticipating that they will register a small decrease in 2018, and will then increase in the period 2019-2020. In 2018, there is a reduction in tax expenditures related to income tax and an increase in social contributions. This is due to amendments brought by OUG no.79 / 2017 on the change of the Law no.227 / 2015 regarding the Fiscal Code, mainly from the reduction of income tax and employees' social contributions move.

The share in the gross domestic product of the main taxes, by categories, evolved as follows:

1. PROFIT TAX eg: R&D expenses - 50% additional deduction of the eligible expenses for these activities, sponsorship and / or patronage expenses, as well as private scholarships, tax exemption for the profit invested in the production and / or the acquisition of technological equipment - work installations, machines and machines.

2. INCOME TAX eg: war veterans, for allowances for maternal risk, maternity, child rearing, income tax exemption which means benefits in money and / or in kind received by the disabled, persons persecuted for political reasons and the elimination of the taxable income of the social health insurance contributions and the non-taxable ceiling of 2000 lei in the case of the pension income, personal deductions for the dependent persons.

3. VAT reduced rates of 9% and 5% VAT, especially the extension of the application of the reduced rate of 9% VAT for the delivery for restaurant and catering services, food, except alcoholic beverages, and for the supply of drinking water and water. water for irrigation in agriculture.

4. TAXES AND LOCAL TAXES Exemptions from the payment of the tax on the buildings owned by the public or private property of the state or of the administrative-territorial units, exemptions from the payment of the tax on the building in the case of the Romanian natural and / or legal persons who thermally rehabilitate or modernize the buildings residential property they own.

5. SOCIAL CONTRIBUTIONS gift vouchers and nursery vouchers, meal vouchers, gift vouchers and nursery vouchers, holiday vouchers, granted according to the law, death aids, cancellation of the employer CAS payment for pillar II for military, police and military personnel special status.

Compared with 2017, in 2018 the total revenues of the consolidated budget increased by 17.2% and the expenses by 16.8%.

VAT receipts were 11.3% higher in 2018 than in 2017, up to 59.6 billion lei. Compared to the initial budget provisions, they were 1.7 billion lei lower. Also, the excise revenues increased by 7.2% compared to 2017. But also they were lower by 1.7 billion lei compared to the program.

6. Analysis of state budget expenditures for the period 2017-2018

The constitution of the budgetary expenditures is made taking into account all the exits, that is, all the allowances for education, the allowances for the army, for the culture, for the social assistance, for the health, the unemployment benefits, the pensions, for public order that derive from the possibilities that the budget has. , according to income, capital and receipts from repayment of loans granted.

In the category of budgetary expenses related to the national sectors, respectively public authorities, national defense, public order and national security, education, health, culture, religion and actions regarding sports and youth activity, agriculture and forestry, transport and communications, social assistance, allocations, pensions, aid and allowances, services and public development and housing, environment and water, industry, scientific research and other economic actions, according to the law of the state budget, we meet: current expenses; capital expenditures; given loans; loan repayments, interest payments, loan commissions.

The share of total budget expenditures in GDP is on a downward trend in the medium term to allow the adjustment of the budget deficit.

In 2018, expenditure on goods and services was maintained at a quasi-stable nominal level compared to 2017, being influenced in this way by the restrictions applied to the main authorizing officers for 2018. The trajectory of this category of expenditure is a downward one in the medium term reported. GDP.

In 2018, the personnel expenses increase both in nominal value and as a share in GDP based on the application of the Framework Law on the remuneration of paid staff from public funds.

The expenses with the social assistance increase constantly in nominal value on the fund of the social allowance for pensioners (640 lei as of July 1, 2018) and of the increase of the pension point (1100 lei as of July 1, 2018). At the end of the programming period, this branch of expenditure will register a reduction in weight in GDP, thus facilitating the effort to adjust the budget deficit.

7. Budget deficit - forecasts for 2019-2020

In the medium term, growth is expected to remain generally stable. Real GDP is expected to remain below 4% in 2019 and 2020. The main driver of economic activity will continue to be private consumption, although slower wage growth and tightening lending conditions may hinder development. it.

The contribution of the external sector to economic growth will remain negative, according to estimates, but will improve as export growth will remain largely stable, while import growth will decline as a consequence of reduced consumption. Estimates show that investments will grow slightly more than in 2018.

The fiscal planning for the years 2019 -2020 had as source, the fiscal measures started in the period 2015-2016 in order to stimulate the economic growth (the new fiscal code and the salary increases and of some rights of the nature of the social assistance) and the normative acts from 2017, by which measures were legalized in the legislation in the field of social rights, in the field of pensions, the field of remuneration of the personnel from the budgetary sector, which had an additional impact on the personnel expenses, implemented in 2018, but also the fiscal fiscal measures taken on during 2018, which will influence the macroeconomic framework and budgetary indicators for the period 2019-2020.

By categories, the share in the gross domestic product of the main taxes will evolve as follows:

- Income from income tax will increase in nominal terms, with a share of total revenues in 2020 of 18%, with 0.8% percentage points increase compared to 2019.
- Income tax and wages will be maintained at 25.87% of total income in 2019 and 2020, and in the medium term the evolution will be determined by the moderate increase in gross earnings in line with productivity.
- Income from value added tax will increase by 2.36% percentage points in 2020
- The level of revenues from excise duties will change compared to 2019, in 2020 reaching 32.37% of total revenues, as a result of the increase of excise duties for certain excise products according to the schedule established in this regard (cigarettes, some energy products and electricity).

In 2020, all the components of the state budget revenues will have an upward trend compared to 2019. The most significant change will be that of non-fiscal revenues, which will increase by 0.4% compared to the previous year.

The estimation of the evolution of the main categories of taxes and duties for the period 2019 - 2020 is based on the projection of the macroeconomic indicators and the maintenance of the main rates of taxation at the same level, according to the legislation in force.

The approximate budgetary expenses for the year 2019 amount to MDL 368.8 billion, increasing by MDL 46.3 billion compared to the previous year 2018, in 2020 they reach approximately MDL 438.0 billion, namely 34.72% of GDP, registering a downward trend in GDP on the reference line due to the will to reduce the budget deficit. Social assistance expenditures recorded the largest increase as a share of GDP on the reference horizon, due to the measures adopted on the pension point line. The goods and services appear with a decrease in weight in GDP in 2020 compared to 2019, respectively 0.27 percentage points, concomitant with the expenses with the public debt that register a decrease during the period 2019-2020. Investment expenses reach 48.7 billion lei in 2022.

8. Conclusions

In recent years, Romania has made considerable progress in reducing macroeconomic imbalances, which together with the monetary policies and structural reforms implemented or in the process of implementation, have contributed to maintaining macroeconomic and financial stability.

Internal macroeconomic evolutions have been the basis for further implementation of economic policy measures.

Conditions in the labor market have been improved. The labor market has continued to improve. As a result of robust economic growth, the unemployment rate will continue to decline in the period 2018-2020, and the employment rate will increase, at a moderate pace.

Fiscal-budgetary policy measures have been adopted with effects on the social protection insurances for the categories of population with minimum incomes and on stimulating the business environment. In 2017, additional measures have been introduced that highlight, as a whole, the fiscal relaxation started in previous years, with the desire to stimulate economic growth.

As part of the obstacles facing EU Member States, which must focus their efforts on promoting stability-oriented macroeconomic policies and reforms that promote economic growth, Romania has set the following budgetary construction goals for 2019-2021:

- ✓ Continuing, consolidating, stimulating and maintaining an intelligent and inclusive economic growth, in order to provide the premises for the consolidation of a proactive, strong state and a balanced society, in order to increase the confidence of investments in the Romanian economy;
- ✓ Granting significant amounts of money to support public investments by prioritizing significant public investments to improve the quality of life, to ensure infrastructures and
- ✓ Making a pre-assessed fiscal policy to streamline internal processes, to help the business environment and to stimulate investments in the sectors with increased added value, to simplify the taxation and to create the premise of a sustainable economic growth;
- ✓ Measures adopted by the Government aimed at stimulating consumption by adopting wage and social measures for social protection and social security for the elderly, pensioners and vulnerable categories.
- ✓ Development and diversification of public debt management tools;
- ✓ Improving, applying and strengthening budgetary governance, increasing budgetary transparency and making public spending more efficient.

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