

The evolution of public expenditure in Romania during the global economic crisis

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Abstract: *The study aims to analyze the dynamics of public expenditure produced within the European Union, especially in Romania, and Member States' budgetary choices, given the challenges faced during 2008 - 2013 due to the installation of austerity caused by the global economic crisis. It is also mentioned the steps taken by our country in order to optimize public spending and the strategies adopted to overcome difficult moments and economic recovery. The article deals mainly with structural evolution of public expenditure in terms of economic classification.*

Keywords: **budgetary policy, public expenditure, economic classification, budgetary strategy**

JEL Classification: E32, G14

1. Introduction

Global economic development in the last years has been a challenge for every state in the adoption of budgetary policy measures to correct market failures. Governments through budgetary policies occur on economic growth, ensuring the goals of stimulating economic activities, social protection, raising living standards and reducing poverty. Changes in the last decade were reflected in the continuous improvement of the essence and role of budgetary policy. In the context of Romania, one of the main concerns is the budget and tax policies to adapt to the new EU requirements.

Budgetary policy represents the concrete expression of the vision of government authorities on the sources and means of establishing specific public revenue, to the allocation of existing public funds to destinations and, if necessary, to supplement the resources collected through taxation by resorting to public borrowing, with the main objective to contribute with other public policies to fulfill the general role of the state in economic and social life (Enache, EC, 2009: 5-6).

The concept of budgetary policy is a topic of great interest to researchers in the field and not only, Romanian and foreign literature providing many opinions about its definition.

Paul Leroy Brault (1877) stated that the first step in preparing a budget policy is a listing "of provision of income to realize and of costs to be incurred". Jeze Gaston (1910) pointed out that to draw a budgetary policy primarily means "to list, evaluate and compare periodically, in advance and for a future time period, expenditures to make and revenues to receive" (Condor I., 1994: 241).

2. European context

The main instrument of budgetary policy is the public expenditure. Public expenditures are used to finance various activities to develop industries, subsidies, provision of social services, the purchase of various goods and services necessary for public institutions. How are sized and structured public spending is not only transaction

that establishes the necessary resources and opportunities for their coverage, but it is a crucial element of any economic policy.

The budgetary construction is dependent on economic priorities at micro and macroeconomic level, on the conception and economic theory that a public authority put into practice.

Considered to be one of the most important indicators of budgetary policy, the share of public spending in GDP expresses the size of the public sector in the economy. Table 1 presents its the evolution on EU-27 in 2003-2012 period.

Table 1

The share of public spending in GDP (%) in EU-27

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU-27	47,2	46,7	46,7	46,2	45,5	47	51	50,6	49,1	49,3
Belgia	51	49,2	51,9	48,5	48,2	49,8	53,7	52,6	53,5	55
Bulgaria	39,1	38,6	37,3	34,4	39,2	38,4	41,4	37,4	35,6	35,7
Cehia	50	43,3	43	42	41	41,1	44,7	43,7	43,2	44,5
Danemarca	55,1	54,6	52,8	51,6	50,8	51,5	58,1	57,7	57,7	59,4
Germania	48,5	47,1	46,9	45,3	43,5	44,1	48,3	47,9	45,2	44,7
Estonia	34,8	34	33,6	33,6	34	39,7	44,7	40,5	37,5	39,5
Irlanda	33,2	33,7	33,9	34,5	36,7	42,8	48,1	65,5	47,1	42,6
Grecia	44,7	45,5	44,6	45,4	47,5	50,6	54	51,4	52	53,7
Spania	38,4	38,9	38,4	38,4	39,2	41,4	46,2	46,3	45,7	47,7
Franta	53,4	53,3	53,6	53	52,6	53,3	56,8	56,6	55,9	56,6
Italia	48,1	47,5	47,9	48,5	47,6	48,6	51,9	50,4	49,8	50,6
Cipru	44,6	42,4	43,1	42,6	41,3	42,1	46,2	46,2	46,3	45,8
Letonia	34,9	35,9	35,8	38,3	36	39,1	43,7	43,4	38,4	36,5
Lituania	33,8	34	34	34,2	35,3	37,9	44,9	42,3	38,7	36,1
Luxemb	41,8	42,6	41,5	38,6	36,3	39,1	45,2	43,5	42,6	44,3
Ungaria	49,7	49,1	50,1	52,2	50,7	49,2	51,4	50	50	48,7
Malta	45,6	43,6	43,6	43,2	41,8	43,2	42,5	41,2	41,3	43,1
Olanda	47,1	46,1	44,8	45,5	45,3	46,2	51,4	51,3	49,9	50,4
Austria	51,3	53,8	50	49,1	48,6	49,3	52,6	52,8	50,8	51,7
Polonia	44,7	42,6	43,4	43,9	42,2	43,2	44,6	45,4	43,4	42,2
Portugalia	44,7	45,4	46,6	45,2	44,4	44,8	49,8	51,5	49,3	47,4
Romania	33,5	33,6	33,6	35,5	38,2	39,3	41,1	40,1	39,4	36,7
Slovenia	46,2	45,6	45,1	44,3	42,3	44,1	48,7	49,4	49,9	48,1
Slovacia	40,1	37,7	38	36,5	34,2	34,9	41,6	40	38,4	37,8
Finlanda	50,3	50,2	50,3	49,2	47,4	49,2	56,1	55,8	55,1	56,7
Suedia	55,7	54,2	53,9	52,7	51	51,7	54,9	52,3	51,5	52
Uk	41,8	42,7	43,4	43,6	43,3	47,1	50,8	49,9	48	48,1
Skewness	-0,29617	-0,10053	0,187 79	-0,14511	0,0135 5	-0,01632	0,16372	0,469747	-0,13635	-0,02687

Source: processing by Eurostat data

As shown in the table at the EU level, there are major differences between the analyzed indicator values, with decreasing trends for most of the year 2003 to 2007, followed by a rapid increase between 2008 and 2009, as of 2010 it have again a downward trend. The greatest share of public spending in GDP was 65.5% in Ireland in 2010, and the lowest value (33.2%) is found also in Ireland in 2003.

Skewness values recorded for the indicator used to analyze the distribution of data sets to indicate the deviation of the empirical distribution with respect to a symmetrical distribution around its average are negative during 2003-2008 and 2011-2012, indicating that the distribution is skewed towards right, with more extreme values to the left, that most European countries it ranks below the average for the indicator analyzed. For the years 2009 and 2010 the situation is reversed, Skewness registering positive values, indicating that most EU countries recorded a share of public spending in GDP are above the average.

In Chart 1 presents the evolution of the share of public expenditure in GDP in Romania compared to the evolution of this indicator in the EU-27 average for the period 2003-2012.

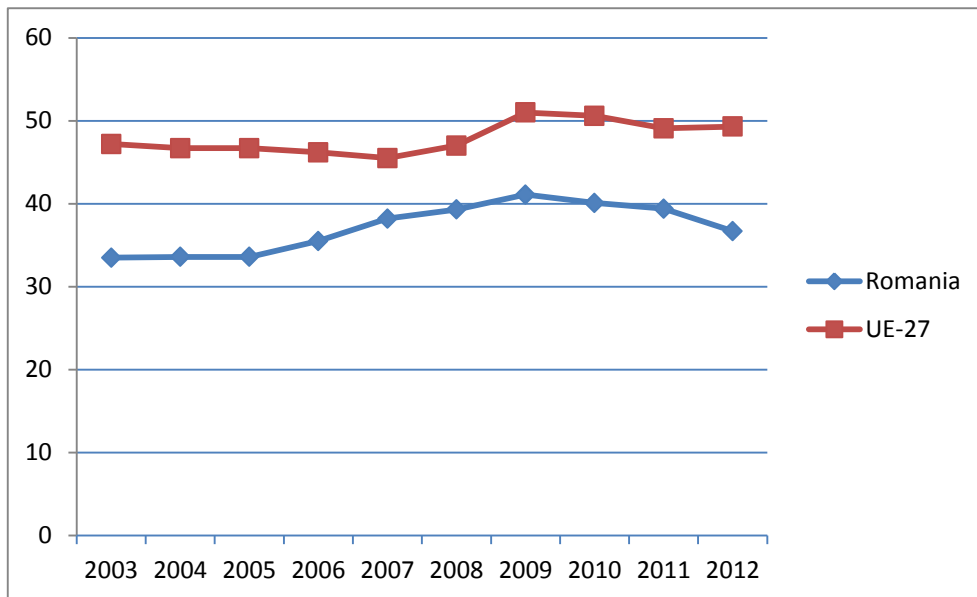


Chart 1. Share of public expenditure in GDP (%) in Romania and EU-27

Source: processing by Eurostat data

Looking at the graphical representation can be seen that the EU average value of the share of public spending in GDP decreases continuously between 2003-2007, followed by a rampant growth in 2008 and 2009 caused by the global economic crisis installation. Since 2010 there is a slight decrease in the share of public spending in GDP. It consisted of statistical analysis that, on average, European countries mobilized to the government authorities for almost half of GDP. In the EU-27, the highest value of the indicator was recorded in 2005 (51%) and the lowest was recorded in 2007 (45.5%).

Regarding our country, there is an upward trend in public expenditure in GDP since 2003 (33.5%) by 2009 including reaching 41.1%, followed by a decrease in 2010, so they amounted, in 2013, 216.2 billion lei, representing 34.4% of GDP. From the graph one can easily see that our country is below the EU-27 over the period. The average value of the indicator for Romania between 2003-2013 is 36.85%, which indicates the tendency of governments to use public purposes year about a third of gross international product. However, the analysis of statistical data supply Eurostat found that 2009 was a peak year analyzed indicator and its evolution we present in the following chart.

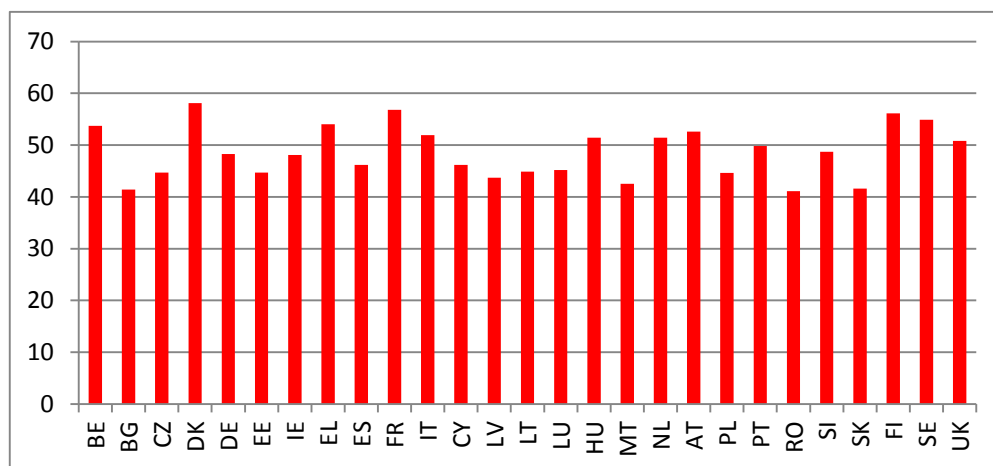


Chart 2. Share of public expenditure in GDP in 2009 (%)

Source: processing by Eurostat data

From the graph it is noted that in 2009, the share of public expenditure in GDP has exceeded the EU-27 (51%) in ten Member States, the highest value was recorded in Denmark (58.1), while the remaining seventeen states were below the EU-27, the lowest level of the indicator was recorded in Romania (41.1%), thus there is an important difference between the extremes of 17 percentage points.

3. Public expenditures in Romania

Compared to the same period last year consolidated budget expenditure registered a nominal increase of 4%, but the percentage of GDP it declined by 1 percentage point, from 35.4% in 2012 to 34.4% in 2013.

The share of total public spending in GDP over the medium term stabilizes the value of 35.5% reflecting a reduction in the fiscal consolidation compared to abrupt adjustments applied in previous years.

The structure of public expenditure in Romania, according to economic classification used by the specialized agencies of the UN, in the period 2008-2013 is presented in Table 2.

Table 2

The economic structure of public expenditure in Romania in 2008-2013

	2008		2009		2010		2011		2012		2013	
	mil.lei	% din total	mil.lei	% din total	mil.lei	% din total	mil.lei	% din total	mil.lei	% din total	mil.lei	% din total
TOTAL EXPENDITURE	189.121,7	100,0	193.679,3	100,0	202.282,0	100,0	205.818,5	100,0	207.922,1	100,0	216.168,3	100,0
Current expenditures	166.371,3	88,0	174.232,8	90,0	183.270,0	90,6	183.630,9	89,2	189.274,3	91,0	199.117,3	92,1
Personal expenditures	43.344,5	22,9	46.837,6	24,2	42.837,0	21,2	38.422,7	18,7	40.798,8	19,6	46.241,0	21,4
Goods and services	33.225,5	17,6	28.325,9	14,6	29.568,0	14,6	31.767,4	15,4	34.443,9	16,6	38.538,6	17,8
Interests	3.893,3	2,1	6.060,6	3,1	7.274,0	3,6	8.882,4	4,3	10.710,8	5,2	10.755,5	5,0
Subsidies	7.835,6	4,1	7.215,4	3,7	6.736,0	3,3	6.406,6	3,1	6.121,7	2,9	5.154,3	2,4
Transfers - Total	78.071,8	41,3	83.695,8	43,2	95.060,0	47,0	96.040,7	46,7	95.585,0	46,0	97.517,5	45,1
Transfers between units of public administration	3.112,0	1,6	398,2	0,2	504,0	0,2	501,9	0,2	1.357,9	0,7	1.012,5	0,5
Other Transfers	15.441,2	8,2	14.085,0	7,3	15.697,0	7,8	13.632,1	6,6	10.993,1	5,3	10.692,9	4,9

Projects financed from external funds			2.676,0	1,4	7.313,0	3,6	10.787,5	5,2	13.217,9	6,4	14.210,3	6,6
Social assistance	53.592,4	28,3	63.957,6	33,0	68.613,0	33,9	68.007,5	33,0	67.048,5	32,2	68.388,5	31,6
Other expenditures	5.926,2	3,1	2.579,0	1,3	2.933,0	1,4	3.111,8	1,5	2.967,5	1,4	3.213,3	1,5
Expenditure related to reimbursable financing programs			2.097,5	1,1	1.797,0	0,9	2.111,2	1,0	1.614,0	0,8	910,6	0,4
Capital expenditure	23.203,4	12,3	21.940,3	11,3	19.440,0	9,6	22.678,7	11,0	19.304,9	9,3	17.975,1	8,3
Financial operations	9,6	0,0	8,5	0,0	219,0	0,1						
Payments made in previous years and recovered in the current year	-462,7	-0,2	-678,5	-0,4	-647,0	-0,3	-491,1	-0,2	-657,1	-0,3	-924,1	-0,4
Eximbank			-1.823,8	-0,9								

Source: processing by Eurostat data

From the table it can be seen an upward trend in current expenditure in total expenditure, ranging from 88% in 2008 to 92.1% in 2013, while capital expenditures showed a downward trend from 12.3% in 2008 to 8.3% in 2013.

In 2013 there were reductions in budget expenditures from the previous year when 15.8% spending subsidies and if the related reimbursable financing programs with 43.6%.

In chart 3 we find represented the evolution of personal expenses on the consolidated budget of Romania for the period 2008-2013. It can be seen their sinuous evolution, so that if in 2009 the maximum value records 46,837.6 million lei, in 2011 they had a downward trend reaching the minimum value recorded in the period under analysis of 38,422.7 million lei and will then have an upward trend in 2013 and reach almost the maximum value recorded in 2009.

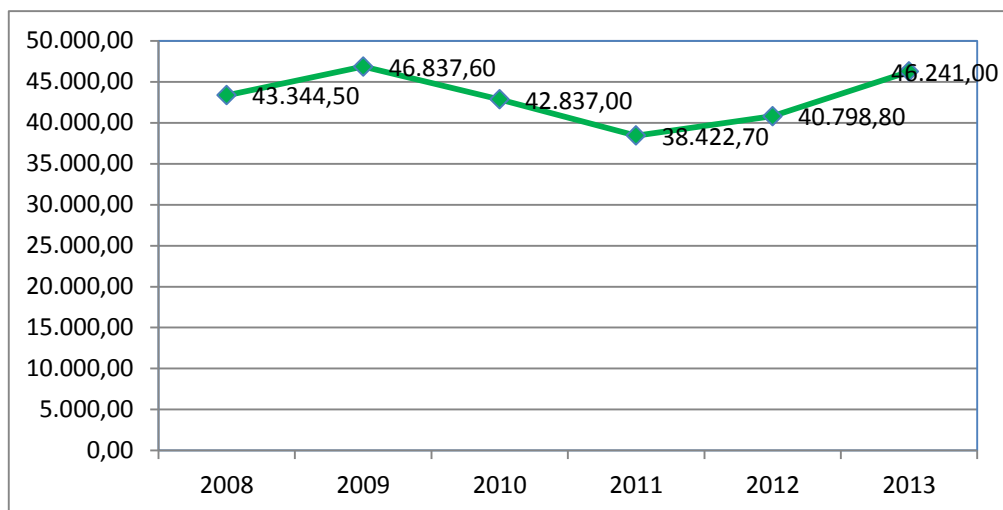


Chart 3. The evolution of staff costs in 2008-2013 (mil. lei)

Source: processing by Eurostat data

In 2010, personnel costs represent 21.2% of total expenditure compared to 27% as was projected in the original budget. Due to the measures taken by the Government since July 1, 2010, primarily to reduce by 25% the salaries of all employees in the sector along with restructuring the administrative system at central and local level and continuing the availability of surplus staff, although in the first half of the year personnel costs were over provisions, reaching 52.3% of the annual program,

these measures succeeded in maintaining their initial fixed ceiling. In 2011, personnel expenses of the general government decreased by 10.3% and 5.3% compared to those provided for in the annual budget law, due to the continuation of the measures adopted in 2010.

In 2012, these expenses increased by 6.2% compared to the same period of last year, following the reunification of salaries in the public sector by 8% from July and granting labor rights following judgments. In 2012 were maintained restrictions on employment in the public sector and the provision of certain gains on state personnel. Personnel expenses of the general government in 2013 increased by 13.3% compared to your access period last year, reflecting the impact of reunification measures in the public sector wage and salary rights granted following judgments. In 2013 were maintained restrictions on the granting of certain staff increases budget.

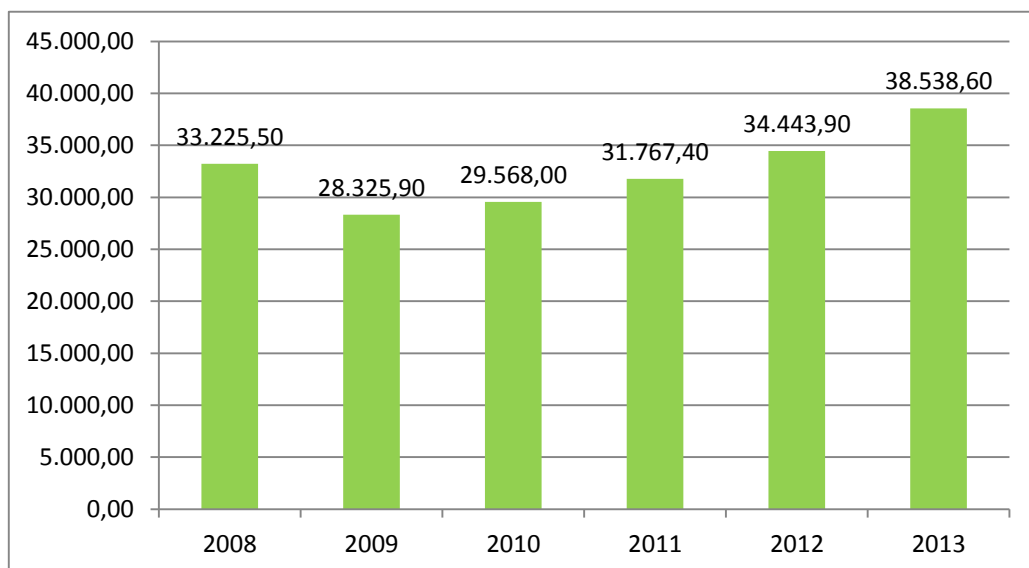


Chart 4. The evolution of expenditure on goods and services in 2008-2013

Source: processing by Eurostat data

Expenditure on goods and services increased by 4.0% in 2010 compared to 2009 primarily due to higher spending budget of the National Health Insurance to pay arrears. Local government spending on goods and services increased over the same period of last year is due to taking over the funding activities of Agricultural Chambers, from March 2010, and as a result of decentralization by taking their health units in July 2010 by the local government authorities.

Expenditure on goods and services registered a nominal increase of 11.9% over the previous year and as a share of GDP increased by 0,2pp. Increased expenditure on goods and services was driven by the implementation of Law no. 72/2013 which transposed into Romanian legislation Directive. 7/2011 on combating late payments in commercial as well as payment of arrears by local governments and hospitals.

Interest expenses increased by 20.0% in 2010 compared to 2009 justified the increase in budget deficits accumulated from previous years to cover their loans and employment. In 2013, interest expenses rose by 0.4% over the previous year, decreasing by 0.1 pp to GDP compared with 2012.

In 2010, the costs of EU-funded programs have increased by 173.3% over the same period of last year, representing 1.4% of GDP.

Social assistance expenditure in nominal terms increased by 2% compared to the previous year, but as a share of GDP fell by 0.5 percentage points, from 11.4% in 2012 to 10.9% in 2013. In 2013 increased the amount of social rights such as:

- an increase of 8.5% from 1 July 2013 of social aid under Law No. 416/2001 on guaranteed minimum income;
- increasing allocations for family support granted under Law no. 277/2010 on family support allowance by 30%;
- increasing the value of the pension point 4%.

Although the increase of these rights requires an increased fiscal effort succeeded, however, that the focus of social assistance measures to the most vulnerable people and efforts to identify families and persons in precarious situations real, that social assistance costs to decrease as a proportion of GDP compared with 2012.

Investment expenditure including capital expenditure and development programs financed from internal and external sources have been in late 2010 amounted to 33.8 billion lei, or 6.6% of GDP, which is the estimated level.

Investment expenditures, including capital expenditures, and the related development programs financed from internal and external sources were in 2013, 31.6 billion or 5.1% of GDP.

4. Conclusions

The period 2008-2013 was a difficult one for all member States of the European Union, and especially for developing countries as in the case of Romania. Spending public money was done at the option of each state budget. For the period 2014-2016, the Romanian Fiscal Strategy aimed at the following aspects:

- ensuring a sustainable level of spending on public sector wages and pensions
- orientation of public investment resources available to drive in the fields of infrastructure, agriculture and rural development, energy and advanced technology;
- accelerating the pace of spending EU funds to reach an absorption rate between 50% -80% by 31 December 2015;
- rethinking public procurement based on the criteria of opportunity, priority, efficiency;
- implementing the multiannual budgetary programming projects and programs that will bring significant savings to the budget and increase the predictability and efficiency of public expenditure;
- introducing performance contracts in all public institutions and state-owned companies (ministries, government agencies, local authorities and state companies).

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