

The fiscal policy - an anchor in achieving macroeconomic stability in Romania during the economic crisis

**Cosmin Dricu Ph. D Student
University of Craiova
Faculty of Economics and Business
Administration
Craiova, Romania**

Abstract: The current economic crisis that has spread in all national economies as a real domino effect, occurred because of economic interdependence is not just a single sector or at most in a national economy, but the entire world economy. In the new economic context and macroeconomic turbulence dominated by all national and international markets, the world's countries recorded a significant economic downturn in a fragile environment, it is necessary to formulate the following question: "What are the most appropriate policies to be applied?". This is a relevant question noting that current conditions are the result of policies pursued in the past both nationally and internationally. In Romania, one of the targets made during the current fiscal policy objective is reconciliation of nominal convergence criteria in a sustainable budget, with required mitigation measures and the global financial crisis on the Romanian economy. Fiscal policy in Romania can be an anchor in achieving macroeconomic stability will reduce the budget deficit, slowing from aging and stress can guarantee long-term healthy growth.

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The consequences of economic and financial crisis have attracted attention both at European and national level the need to improve the quality of public finances, given that public finances are a vector designed to ensure economic recovery and renewed growth.

The importance of fiscal and budgetary policies promoted and undertaken by countries in the world are the result of sustained efforts on identifying the most appropriate tools to deal with the economic downturn in a fragile fiscal.

A critical analysis of the budget process in Romania revealed that economic and fiscal policy implemented in recent years has led to large domestic and external imbalances were required to be corrected in the future.

Thus, foreign direct investment and capital inflows helped to finance consumption and investment spending, which led to annual current account deficits of over 10% of GDP. Pro-cyclical fiscal policy has exacerbated macroeconomic imbalances, increasing the budget deficit to 1% of GDP in 2005 to

over 5%¹ in 2008, fiscal imbalances in recent years is caused by excessive government spending.

Government spending doubled in nominal terms between 2005 and 2008, increasing from 32% to 37% of GDP.

Staff costs and pension costs are a major part of expenditure. Wage bill doubled in nominal terms in 2005-2008, representing 9.1% of GDP in 2008. The average wage in the public sector in Romania was 80% higher than GDP per capita, from this point of view Romania is exceeded only by a few countries, like Greece. Because pensions are linked to wages, pensions costs have also doubled, reaching 6.6% of GDP in 2008.

Numerous budget adjustments during the year have helped increase and reallocation of expenses. In 2007-2008, implementation of the budget exceeded the original budget each year. In 2007-2008, there were five budget adjustments each year, which increased and reallocated costs. Other transfers (including EU-funded projects) and capital expenditures fared better than low budget, but grants and staff costs have increased substantially.

Overestimation of revenues was an encouraging factor for recurrent expenditure increases during budget revisions and even in the initial budget.

Total revenues in 2008 represented 32% of GDP² (164.5 billion lei, the equivalent of 44.7 mld.euro) compared with the programmed budget revenues amounted to 191 billion lei (51.9 billion), 37.2% of GDP respectively.

Income in 2008 was lower by 5.2% of GDP compared to the programmed, the equivalent of 7.2 billion euros³.

To cover the budget deficit, our country has borrowed the foreign market by signing a stand - by the International Monetary Fund and other international financial institutions and domestic, by issuing Treasury bills, bonds or Eurobonds. Thus, at the end of February 2010, Romania's public debt stood at 155.027 billion lei, representing approximately 29% of GDP. Of the total public debt was mostly contracted through: state loans (39.77% of GDP), Treasury (18.05% GDP), bonds (17.19% of GDP), Eurobonds (6 , 11% of GDP), financial leasing (0.06% GDP) and difference (18.81% GDP) was contracted in Treasury⁴.

Slippage occurred and pensions policy, where the correlation of actual developments in the public pension system's annual average wage, has created a structural budget deficit (long term) of almost 2% of GDP, and this without taking into account the expected evolution of negative demographic indicators.

Pro-cyclicality of fiscal and revenue - the budget deficit widened from about 1% of GDP in 2005 to 4.9% of GDP in 2008 and incomes policy has fueled a substantial increase in public sector wages, they came to be located above the private sector wages. Moreover, due to both the individual wage growth and the

¹http://www.gov.ro/capitolul-1-contextul-macroeconomic-intern-si-international__11a103769.html

² Include self-financing institutions, according to EU methodology. Without these institutions, revenues in 2008 are 30.9% of GDP

³<http://www.zf.ro/zf-24/opinie-de-andreea-vass-explicatii-cu-privire-la-procedura-de-deficit-excesiv-impotriva-romaniei-4295634>

⁴<http://www.301.ro/blog/legea-responsabilitatii-fiscal-bugetare-un-pas-catre-asigurarea-stabilitatii-macroeconomice>

increasing number of public sector employees, public sector wage bill share in GDP increased from about 6% in 2004 to 9% in late 2008 (which means that expenditure grew faster than GDP), generating a deficit of more than 3% of GDP.

Sustainable achievement of lower budget deficits, putting on a healthy path of public finances requires significant changes to the budget process and reform of revenue and expenditure policies.

Sustainability of fiscal and budgetary policies is a highly debated issue in literature and in the public decision-making process. Arguments that come to support this claim are numerous.

It is considered that ensuring sustainable development requires simultaneously economic, social and environmental and fiscal policies and budget, due to their redistributive effects manifest influence sustainable development through economic growth or investment in human capital⁵.

Fiscal and budgetary policies which were proposed by the Chicago School and, in particular, by Professor Milton Friedman relied on reducing taxes while reducing public spending aimed at fostering entrepreneurship and resizing role in the economy, have been successfully applied in some developed countries in early 80s or other countries with less developed economies in the 90s.

Romania's fiscal policy should be based⁶ on the principle of transparency, accountability, the principle of efficiency and ensure the stability of the country's fiscal position. At the same time, fiscal policy must ensure social equity, social efficiency that maximize use of budgetary resources.

Commitment to adopt the euro in 2015 is maintained and is an important anchor in budgetary and structural reforms necessary to increase the flexibility of the Romanian economy.

An essential component of the medium-term strategy in this direction is the adoption of fiscal and budgetary responsibility law. This law makes several important news regarding increasing the quality of public finances and the development of general government, namely⁷:

- Prohibit the promotion by the government, with more than 6 months before the expiry of the mandate of legislation that may lead to increased personnel expenses and pensions in the public sector;

- Can not be approved in a budget year, more than two budget adjustments, and they can be promoted not only in the second half of each year, in which they operate;

- Government is obliged to publish at least two months before parliamentary elections, a report on the economic and budgetary;

- Tax Board is established - an independent authority, composed of five members with expertise in macroeconomic policies that will support the work of

⁵ Gupta, S., Keen, M., Clements, D., Fletcher, K., de Mello, L., Mani, M., „Fiscal Dimensions of Sustainable Development”, *Pamphlet Series*, No. 54, 2002, Fiscal Affairs Department, International Monetary Fund

⁶ Moisă, Altăr (coordinator) - Public finance: introduction of a fiscal framework in the medium term budget Bucharest, 2009

⁷<http://www.301.ro/blog/legea-responsabilitatii-fiscal-bugetare-un-pas-catre-asigurarea-stabilitatii-macroeconomice>

Government and Parliament in the process of developing and carrying out tax and budgetary policies;

- Presidents of the public may request the parties or the Council Tax Premier, 2 months before general elections, calculating the financial impact of proposed policies and publicly announced;

- Fiscal and budget strategy will be developed over a period of three years, to enable the Government to ensure the sustainability of fiscal policy and long-term budget, and this can be achieved only by building a multi-annual budget. Thus, until 30 May each year, the proposal of the Ministry of Finance, the Government will approve the fiscal-budgetary strategy which will include the macroeconomic framework underlying the fiscal-budgetary policy, the fiscal-budgetary and fiscal policy budget estimates budget, medium term expenditure framework and a statement of responsibility, which he will present to the Parliament.

Such notice, held a premiere in finance - Romania's budget revolutionary post, namely that for the first time a democratically elected government drew up the first strategy in the medium term fiscal 2011-2013 budget which clearly outlines direction being taken by Romania to promote a coherent fiscal policy and articulated, but the beginning, with small gaps and hesitations.

Developing such an integrated document in a medium-term vision will allow a prudent fiscal policy, strengthen fiscal discipline and a new approach to the allocation of resources for ministries, will provide the revenue and expenditure forecasts based on sectoral policies and strategies⁸.

Although important steps have been taken out of the recession proved to be slow, because the fiscal space to boost the economy is small.

Correction growth model from a model based on a model based on consumption to investment, exports and attracting European funds is a process that takes time. Budgetary correction requires painful measures, austere fiscal measures to be applied yet because it ensures financial stability by maintaining domestic and international agreements deficit financing, difficult legislative projects and treating the root causes of the structural deficit. Correction deficit is difficult recession.

A sensible fiscal policy, can bring rigor prudent in spending public money, efficiency and productivity. Correction results in a budget adjustment program spending, because Romania does not have room for maneuver for fiscal relaxation, which is exhausted by pro-cyclical policies in previous years.

Correction of budgetary and fiscal measures taken recently by changing the Tax Code are necessary and inevitable as the financing of a larger fiscal deficit leads to the rapid growth of public debt, interest rates and financial costs of the budget.

Need to adjust the volume and composition of government spending will put pressure indirectly on short-term financial system. Fiscal consolidation is a mandatory but intolerance under international financial markets to significant levels of budget deficits and rapid growth of public debt stock. Economic program developed for the timeframe 2011-2013 is a program that provides

⁸ <http://www.mfinante.ro/strategbug.html?pagina=domenii>

austere measures, but necessary adjustment is centered on sustainable public expenditure and the fiscal measures that are considering broadening the tax base and to prevent the country's debt level access to funding sources would be very difficult.

Without this ambitious program of reform is estimated that the fiscal deficit had reached 9% of GDP at the end of 2010, about 3 percentage points of GDP higher than programmed.

A leading objective of budgetary and fiscal policy in Romania is to reduce the structural deficit while creating fiscal space for public investment spending and ensuring long-term sustainability of public finances in the light of the inevitable aging process.

After a difficult year 2010 budget and fiscal adjustment, the Romanian economy has stabilized and is expected to gradually recovers in 2011. Recent data show a positive growth in the last quarter of 2010 and gross domestic product shrank less in 2010 than previously expected (-1.3 percent from -1.9 official projections percent), due to sustained growth exports and industrial production.

Putting on a solid fiscal framework budget, reducing arrears in the economy, and promote further reforms pay same line in the budget, reforming the public pension system, the implementation of concrete measures to combat tax evasion and undeclared work, establishing a new fiscal behavior - budget, made on grounds of efficiency and effectiveness, are pillars of the construction budget for 2011 that provides an adequate degree of predictability of fiscal policy promoted by Romania.

Thus, the construction budget for the year 2011 took into account the rules set out the concept of European economic governance whose package was launched by the European Commission which aims to achieve further tax coordination to prevent, detect and correct macroeconomic imbalances and lack or decrease the competitiveness of the EU.

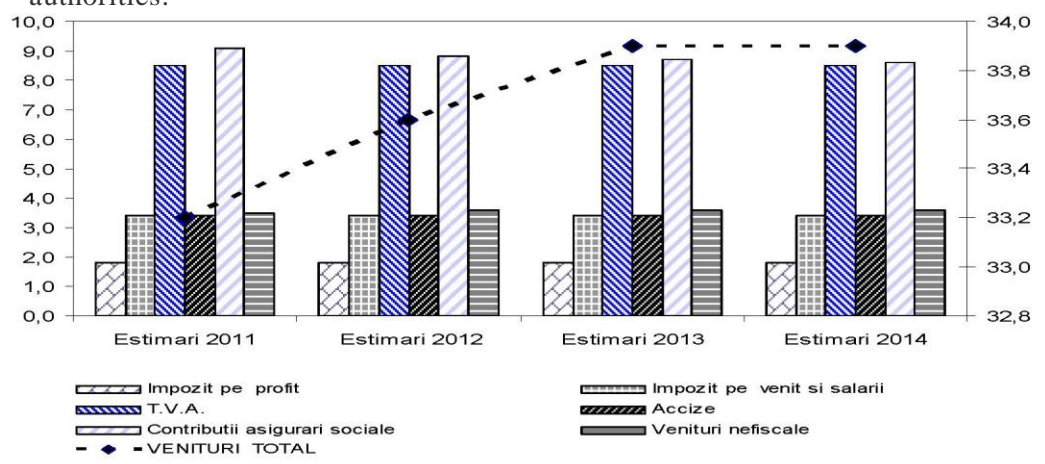
Tax reforms have been developed for the next period so as to prevent new tensions in tire public expenditure, improve budgetary and construction process to ensure efficient collection of revenues. This means, basically, putting public policy performance based funding and allocation activities on grounds of efficiency.

The main challenge remains the budgetary and fiscal policy, reducing the structural deficit. Single pay law enforcement personnel in the public sector, the law on the unitary system of public pensions, the budget fiscal responsibility law, including fiscal and budgetary strategy in the medium term, were important steps in implementing reforms in these areas of public interest.

Measures already taken on the line will ensure fiscal consolidation, in 2011, achieving a positive growth rate of 1.5%, which in 2012 is estimated to reach a level of 4.0%. However, the recovery will be influenced by several factors including: the need for further fiscal adjustment, reducing capital inflows compared to pre-crisis period, further maintaining a high rate of unemployment, effects of the crisis propagated from other Member States.

Budget revenues for 2011 were estimated at a level of 33.2% of GDP. In this area, it will attach particular importance to preventing and combating tax evasion phenomena and undeclared work, increasing collection and effective

implementation of action plans to that end undertaken by the Romanian authorities.



Source: Ministry of Finance

Figure no.1 Evolution revenues as a share of GDP (%)

Public expenditure, for 2011, the main challenge is to continue spending adjustments and efficiency as a source of sustainable and healthy growth over the medium term.

Therefore, it will be given a restrictive policy which needs to agree the adjustment process with limited resources available. In this respect, the priorities to be funded are set carefully so that the effect on the resumption of sustainable economic growth base to be achieved. The main actions will be channeled, as a priority by the following objectives: gradual reduction of budget deficit to sustainable levels and correlated with the growth deficit set by the Maastricht Treaty, namely 4.9% of GDP for 2011, 3.0% for 2012 and 2.6% in 2013 (in terms ESA) adequate funding of the budget deficit and improve the confidence in the national economy, strengthening budgetary income levels by promoting measures to broaden the base tax and tax collection more efficient⁹.

Table no.1 Comparison of budget deficit

	-% Of GDP -			
	2009	2010	2011	2012
1. Convergence program in February 2010	8,0	6,3	4,4	3,0
2. Convergence Programme in April 2011	8,5	6,4	4,9	3,0
3. Differences (1-2)	-0,5	-0,1	-0,5	0,0

Source: Ministry of Finance, Convergence Programme 2011-2014

⁹ Government of Romania National Reform Programme (2011 - 2013), Bucharest, April 2011

It also has to correlate with productivity and ensuring the adjustment measures: elimination of the holiday and of the 13th month, an average wage increase higher for those with low wages and lower for those with higher wages, while further reduction of public sector jobs, the extension measures reduce spending on goods and services and certain categories of investments (purchase of cars, furniture, office supplies); finalize cost standards and personal norms the central government measures to protect vulnerable spot.

In conclusion, the importance of fiscal-budgetary adjustment efforts undertaken by the authorities in recent years have reversed the unsustainable economic development outlined precursors during international economic and financial crisis started and anchored Romania on a path consistent with the objectives assumed in the medium term, creating point starting a sustainable and healthy economic growth.

It is mandatory, however, to avoid deviation from a strict fiscal policy and prudent that could lead to a worsening risk perception toward Romania, especially in the current context of sovereign debt crisis.

Continuing efforts of fiscal consolidation and structural reforms of the sphere is needed not only in terms of the commitments assumed by Romania in Europe and in the agreements with the IMF / EC / World Bank, but also in terms of ensuring sustainable public finances in the medium and long, so that fiscal policy can manage budget risks and unforeseen circumstances without having to make significant adjustments to expenditure and revenue, with destabilizing effects of economic and social.

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