

IMPACT OF CYCLICAL EVOLUTION ON BUDGET BALANCE- ROMANIA'S CASE

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Abstract: : History has provided sufficient evidence that economic activity does not grow linearly and economic cycles can be easily distinguished, in which periods of growth are followed by periods of recession, stagnation, rising unemployment and widening budget deficits. Cyclical evolution impact on macroeconomic equilibrium requires us to move to a multi-annual approach to budget balance and think about adjustments for the fiscal policy mix over the economic cycle, i.e. to pursue higher deficits in periods of recession as a result of tax incentives and some public investment expenditures absolutely necessary to resume growth and the deficits and public debt accumulated will be reduced in further periods.

JEL classification: G32, G39

Key words: macroeconomic balance, stability, economic growth, budget deficit, public debt

1. INTRODUCTION

Both nature and society are constantly under contradictory forces whose tendency is to achieve the balance/ equilibrium, as "essential moment of stability of dynamical systems."⁴³ Macroeconomic balance can characterize the state toward which the market system as a whole evolves, meaning the goods and services market, labor market, monetary market, trade with foreign countries⁴⁴, under the action of economic agents as producers - sellers and buyers – consumers, each pursuing specific goals.

⁴³ Mic dictionar filozofic, Editura Politica, Bucuresti, 1973, pag. 161

⁴⁴ Avram C.D.- Economie generala, Editura Universitaria, Craiova 2012, pag. 228

2. METHODOLOGY

To capture the impact of the cyclical evolution on macroeconomic balance, we have used as investigative tool the "pentagonal of macro-stabilization", used in the last decade of the last century to chart the space described by five indicators that characterize macroeconomic stability, namely the economic growth, employment, budget balance, net exports and changes in purchasing power of the monetary unit.

3. ANALYSIS OF MACROECONOMIC BALANCE DURING THE PERIOD 2008-2011

To capture the impact of cyclical developments on the macroeconomic balance in our country, we intend to analyze the Romanian economy during the period 2008 - 2011, taking into account the following indicators:

- the rate of economic growth / recession;
- unemployment rate;
- share of government deficit to GDP;
- share of current account deficit to GDP;
- inflation rate.

The investigated period, 2008 - 2011, is covering the last year characterized by economic growth (2008), recession years (2009-2010) and the year in which growth was resumed (2011) according to data in Table no. 1:

Table no. 1: Evolution of main economic indicators in Romania in the period 2008 - 2011

	2008	2009	2010	2011
The rate of economic growth / decrease	7.3	-6.6	-1.1	2.2
Unemployment rate	6.1	7.2	7.6	7.7
Share of budget deficit to GDP	-5.7	-9	-6.8	-5.5
The share of current account deficit to GDP	-13	-6	-5.7	-5.3
Inflation rate	7.85	5.59	6.09	5.79

Source: Eurostat

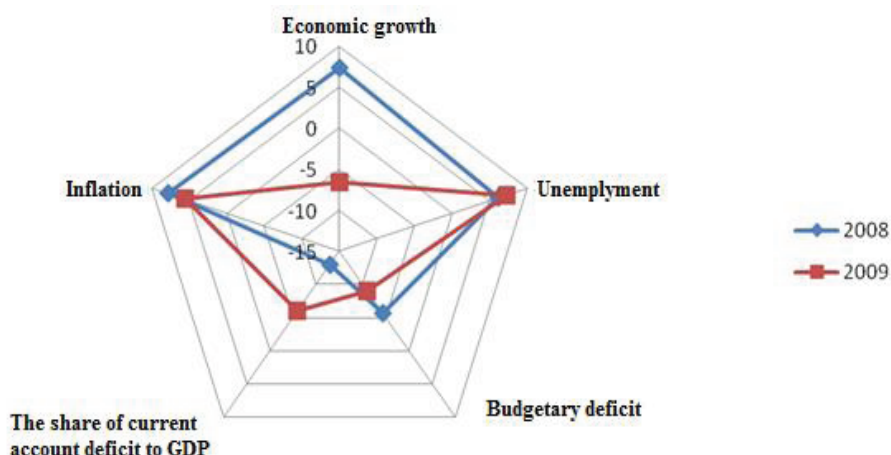
For a graphical presentation of the evolution of all macroeconomic indicators analyzed, we realized the pentagonal of macro-stabilization (Bergman, Rammi, 2000) for 2008-2009 and 2010-2011, according to Figures no.1 and no. 2.

Figure no. 1 emphasizes the moment when Romanian economy passed from a growth of 7.3% per year, to a restriction of economic activity, which led to an increase in the budget deficit from 5.7% of GDP to 9% of GDP and an increase of the unemployment rate by 1.1 percentage points. Time of crisis has positively influenced the current account deficit, meaning a halving of it, falling from 13% to 6%, while the decline in exports was exceeded by lower imports, as shown in Table no. 2.

Table no.2: Situation of current account deficit during 2008 – 2009

	2008	2009	2009/2008
Total Exports (mil. euro)	42,532.30	36,169.60	-14.9%
Total Imports (mil. euro)	60,757.00	43,309.70	-28.7%
Total Current account deficit (mil.euro)	-18,224.70	-7,140.10	-60.82%

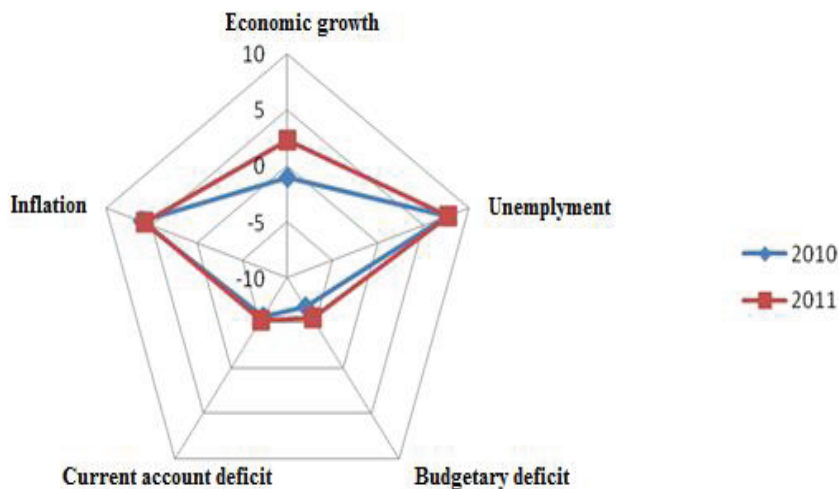
Source: Processing data from Eurostat



Source: Processing data from Eurostat

Figure no.1 Pentagonal of Macro-stabilization for 2008 - 2009

Another positive factor is the decrease of the inflation rate from 7.85% in 2008 to 5.59%, in 2009, fact confirming the opinions according to which a high inflation at the beginning of recession can help to avoid entry into the liquidity trap (L. Croitoru , 2011).



Source: Processing data from Eurostat

Figure no. 2: Pentagonal of Macro-stabilization for 2010 -2011

Figure no. 2 shows an improvement in macroeconomic situation in 2011 compared to 2010, due to lower budget deficit and current account deficit (from 6.8% to 5.5%), as well as an economic growth (2.2% in 2011, compared to -1.1% in 2010).

Table no.3: Situation of current account deficit during 2010 – 2011

	2010	2011	2011/2010 (%)
Total Exports (mil. euro)	44,038.70	52,575.50	19.38
Total Imports (mil. euro)	51,162.40	59,578.40	16.44
Total Current account deficit (mil.euro)	-7,123.70	-7,002.90	-1.69

Source: Processing data from Eurostat

As shown in Table no. 3, Romania's current account deficit decreased in 2011 by 1.69% compared to 2010, by frontloading of exports' growth rate (19.38%) compared to the growth rate of imports (16.44%).

A balanced budget corresponds to a balanced national economy, said the classics in economics, the budget balance being considered the "golden rule" of public finance management. Keynesian theory considered balanced budget to be an obsolete doctrine, turning it into an instrument of fiscal policy which promotes a series of public investments that have the effect of increasing the employment of labor and avoid economic stagnation.

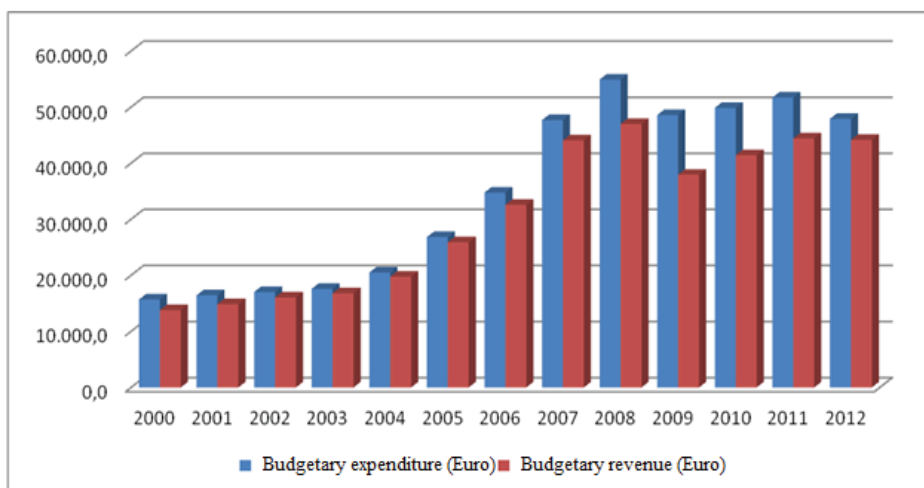
It is obvious that during recessions are recorded lower receipts from taxes to the state budget and on this basis the budget deficit can increase. Therefore, the economic theory considers the budgetary balance throughout the economic cycle and not just from one year to another. The surpluses in the years of prosperity can compensate for deficits in periods of sharp decline in economic activity. The theory of "cyclical budgets", which states that budget deficits are acceptable during recessions provided achieving budget surplus during periods of expansion, is inspired by the idea of a balanced budget over the economic cycle performed.

According to Table no. 4 and Figure no.3, it can be noticed that even in times of economic growth the budget deficit was above the 3% of GDP, considered acceptable by the Maastricht Treaty, which led to a continuous increase in the share of public debt to GDP. Perhaps the level of public debt in GDP set by the Maastricht Treaty (60% of GDP) is not likely to worry us, but the increase of the size of the public debt from 2008 until late 2012, which led to a tripling of public debt over few years, must concern us especially because it is not reflected in an increased tax incentives or public investment with growth recovery effects.

Table no. 4: Evolution of economic growth, budget deficit and public debt in Romania during 2005 – 2012

Year/Indicator	2005	2006	2007	2008	2009	2010	2011	2012
Economic Growth Rate (%)	4,1	7,9	6,0	7,1	-7,3	0	2,4	3,7*
Share of budget deficit to GDP (%)	1,2	2,2	2,5	5,7	9,0	6,8	5,5	3,0
Share of government debt to GDP (%)	20,4	18,5	16,5	13,6	23,0	28,3	32,3	33,8

Source: Eurostat



Source: Own processing after INS and Eurostat data

Figure no.3: Evolution of revenues and expenditures in Romania during 2000-2012

4. CONCLUSIONS

We consider that our country requires a multi-annual approach to budget balance, assuming lower surpluses or deficits in the years of prosperity and large deficits during recession phases to counteract the harmful effects and speed economic recovery by stimulating consumption. The idea of multiannual budgets was acknowledge with the publication by the Romanian Government, through the Ministry of Public Finances, of the *Fiscal-Budgetary Strategy for the years 2014-2016*, for which the Tax Council formulated its opinion from the first half of 2013, is an important step toward convergence with the European fiscal zone where the rule of multiannual budgets has decisively contributed to fiscal consolidation. It is expected that by respecting the provisions of the Fiscal-Budgetary Responsibility Law no. 69/2010, the Fiscal Council will fulfill its duties in relation to:

- Analysis and elaboration of opinions and recommendations on the official macroeconomic forecasts;
- Analysis and elaboration of opinions and recommendations on the fiscal-budgetary strategy and evaluation of its compliance with the principles and tax rules provided by law.

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