

**THE MODERNIZATION OF THE BUDGET PROCESS OF ROMANIA:
GAPS AND THE NEED OF THE EFFICIENT
MANAGEMENT OF THE BUDGET**

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Romania's budgetary policy has as one of its objectives to maintain a particular level of aggregate demand in the economy through public expenditures and tax rates. The increase of the Romanian government debt in the latest period was driven mainly by engaging the debt to finance the budget deficit, refinancing of the public debt, enhancing the financial reserve in currency etc. For an economy that seeks to be in a permanent rise, it becomes appropriate a well-founded budget policy that will take into account the concrete circumstances of the economic and social life, needs of the present and the imperatives of the future. It may prove beneficial to progress, but if they are not mattered or disregarded it can brake the growth, can lead to social tensions and involution.

Key words: *budget, public expenditures, efficient management, budgetary policy.*

Politica bugetar a României are drept unul din obiectivele sale men inerea unui nivel anume al cererii agregate în economie prin intermediul cheltuielilor publice i ratelor de impozitare. Cre terea de datorie guvernamental a României, din ultima perioad , a fost determinat în principal de angajarea datoriei pentru finan area deficitului bugetar, refinan area datoriei publice, consolidarea rezervei financiare în valut etc. Or, pentru o economie care se dore te a fi într-o permanent ascenden , devine oportun o politic bugetar bine fundamentat , care va ine seama de condi iile concrete ale vie ii economice i sociale, de exigen ele prezentului i de imperativele viitorului. Aceasta se poate dovedi benefic pentru progres, dar dac nu le sesizeaz sau nu ine seama de ele, ea poate frâna dezvoltarea, poate duce la involu ie i la tensiuni sociale.

Cuvinte cheie: *buget, cheltuieli publice, gestionare eficient , politic bugetar .*

JEL Classification: H50, H5, H20, G39.

Introduction. Through budgetary policy, the Government is trying to influence the aggregate demand in the economy through government spending and tax rates. This policy is more flexible because the Government does not need to maintain the "budgetary balance"-he may have a budget surplus, spending less than it receives from taxes, or they may be faced with a budget deficit, spending more than the amount derived from taxes. In the last case, the budget deficit, the extra expense can be financed either by loan or through the issuance of currency. However, there must not be omitted the fact that an extremely high budget deficit is dangerous-especially if the financing of the deficit mostly by increasing the offer of money that has a clearly inflationary trend.

Basic content. In accordance with the strategy for managing the public Government's debt for the period 2013-2015, budget deficit financing will be achieved in a balanced proportion from internal sources and from external sources, mainly by issuing Government securities on the domestic and international

capital markets and the Government's debt refinancing will ensure from the market on which it was originally issued [1].

Gross government's debt according to EU methodology accounted for 37.9% of GDP by the end of 2012, hovering below the 60% ceiling set by the Treaty on European Union. If it is envisaged the financial reserve located at the disposal of the State Treasury, the government's net debt in late 2012 was 35.3%. The increase in government's debt was mainly determined by the hiring of debt to finance the budget deficit, refinancing the public debt and consolidation of the financial reserve at the disposal of the State Treasury, both on the domestic market, through issuing state securities and on the foreign market, through securities, and drawdown from loans intended for the funding of projects.

At the level of the Member Countries of the European Union, at the end of the second quarter of 2013, Romania was the fourth through EU Member States with lowest level of indebtedness after Estonia (9.8%), Bulgaria (18.0%) and Luxembourg (23.1%). As well, at the end of the second quarter of 2013, EU Member States with the highest level of indebtedness were: Greece (169.1%), Italy (133.3%), Portugal (131.3%) and Ireland (125.7%) [2].

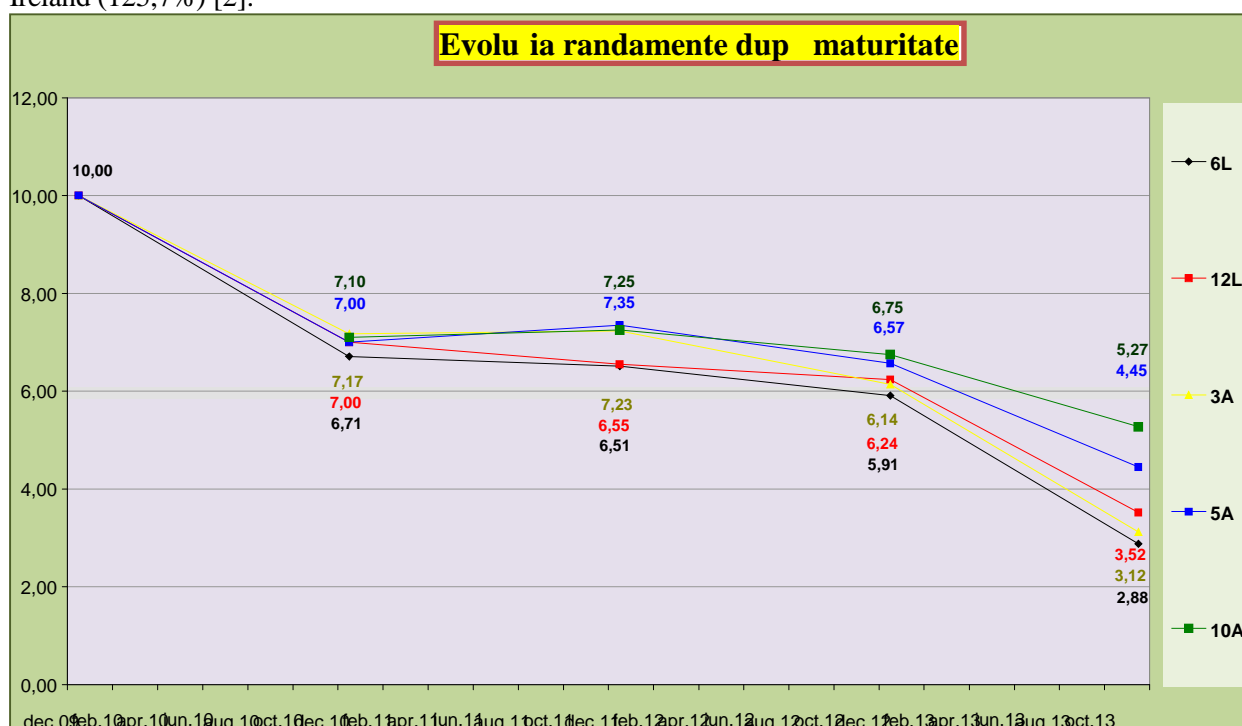


Fig. 1. Comparison of Romania with UE (% Government's debt in GDP)

Note: Eurostat calculates the share of debt in GDP taking into account GDP achieved during the last 4 quarters.

Source: Eurostat newsrelease euroindicators October 23, 2013 (published data as a result of related data of the second quarter of 2013).

In this context, for the finance from the domestic market MPF will act to extend the issue of State securities, broadening and diversifying the investor base as well as for strengthening and extending the yield curve of State securities, so the State securities to represent a reference for the financing in lei of internal capital market. Moreover, the development of the internal market for government securities is a strategic objective of the MPF on long term, considering that a liquid and developed internal market of Government securities helps to mitigate external shocks to the economy and provide financing solutions from the domestic market when financing from external markets becomes difficult and costly. It is worth noting also the diversification of the investment base of State securities issued on the domestic market, the share of non-residents in total securities increasing to a level of 24% at the end of September.

As regards external financing, this will ensure mainly by issuing Eurobonds on foreign markets, MPF acting to maintain a yield curve for the issues denominated in Euro, in particular for those existing on the market for 5 and 10 years, and to strengthen the position held on international capital markets. Securities issues on external markets denominated in DOLLARS or in other currencies will have an occasional character, considering the advantages offered by these markets. Loans from international financial institutions represent another source of foreign financing, very advantageous in terms of costs and of the

repayment term, apart from the benefit of technical assistance offered by these institutions on the structural reforms the Government has undertaken or projects supported by these financing.

Rule defined by articles 6 d) of fiscal responsibility Law, no. 69/2010 according to which "for each of the three years covered by the budget fiscal strategy, the annual rate of growth in the overall expenditure of the consolidated budget will be kept at below the annual rate of nominal growth of the gross domestic product forecasted for the budgetary year concerned until the preliminary balance of the consolidated budget recorded surplus in the year before the year for which the budget was drafted" is respected considering the fact that share in GDP of these is reduced from 35.1% in 2014 at 34,6% of GDP in the year 2016 [3].

In 2014 the budgetary costs have a share in the GDP of 35.1%, the share that begins to decline starting in 2015, reaching 34,6% of GDP in the year 2016. Consolidated budgetary position 2014-2016 reflects a share of budgetary revenues of 32.9-33.1% of GDP compared to the corresponding period 2011-2013 of 32,6-32.9% of GDP, in the light of developments in economic activity.

It is distinguished the efforts on the line of strengthening, whereas the targets of deficit and cash basis of ESA 95 for the period 2014-2016 is between 2,2-1,4% of GDP due to the actions supported by the collection of taxes and fees and limit of spending, but also by the need to achieve some structural deficits smaller than the actual ones. The year 2016 has been added to the reference horizon, but the cash deficit target and ESA is 1.4% [4].

Risks: Non realization of income at the presented level may determine, during the period 2014-2016, changes in the allocation of expenditures in order to meet the deficit target.

At the level of the member countries of the European Union, Romania at the end of 2012 was on the fourth place among EU countries with the lowest level of indebtedness after Estonia (10.1%), Bulgaria (18.5%) and Luxembourg (20.8%), and accordingly we estimate that the level of debt on the medium term will continue to be among the lowest of the EU Member States.

Analysis of the influence of the decrease of economic growth below the expectations on the level of the Government debt. For the analysis of the influence of a reduction in growth rate on the stock of government debt, were used two scenarios:

- the basic scenario, based on the forecasts presented in the macroeconomic on medium term, and
- the second scenario (alternative scenario) was built on the basis of the hypothesis of a lower economic growth with 1% from the basic scenario.

In the basic scenario the share of the gross government debt to GDP will increase by 0.2% of GDP at the end of the year 2016 compared to debt level estimated for the end of 2013 (from 38,4% in 2013 to 38.6% in the year 2016) and in the alternative scenario the share of the gross government debt to GDP rise by 0.5% (from 38.4% in 2013 to 38.9% in the year 2016).

Analysis of the influence of the national currency depreciation in relation to the EURO on the level of interest payments from the State budget. For this analysis were used:

- the basic scenario, based on macroeconomic forecasts presented in the medium term, and
- alternative scenario, based on the hypothesis of the depreciation by 5% of the national currency in relation to the EURO in the medium term.

If in the basic scenario the share of interest payments in the GDP paid from the State budget will fall from 1.67%, estimated level for the year 2014, to 1.56% in the year 2016, in the alternative scenario the share of interest payments in the GDP will decrease to 1.59% by the year 2016.

Analysis of the influence of interest rate increase with 1% on the interest payments from the State budget.

For this analysis, was also used the basic scenario and an alternative scenario based on the hypothesis of an increase in interest rates to government securities and to variable (EURIBOR and LIBOR) with 1% relative to the base scenario. In the basic scenario, the share of interest payments in GDP paid from the State budget will fall from 1.67%, estimated level for 2013 to 1.56% in the year 2016, while in the alternative scenario the share of interest payments in GDP paid from the State budget will increase up to 1.73% in the year 2016.

During the period covered by the strategy, the financing of the budget deficit will be relatively balanced in both internal and external sources with the framing in objectives set out in the strategy of management of the Government's public debt over the medium term, namely:

- ensuring the government's financing needs and payment obligations against the background of minimizing the costs on medium and long term;
- limiting the financial risks associated with government debt portfolio;
- the development of the internal market for government securities.

The strategy of funding from internal sources of budget deficit and public governmental debt

refinancing during the analysed period will be carried out, mainly by State securities issues from the domestic market, namely Treasury certificates and benchmark bonds denominated in lei and in foreign currency with the date on the medium and long term on the basis of existing opportunities and requirements on the market. In this regard, the Ministry of public finance will launch issues of Treasury certificates with term up to 1 year and State bonds of benchmark type in lei with a term of up to 15 years and even bigger according to the demand of investors, and debt securities denominated in Euros with a term of 3 and 4 years.

Regarding the external sources of financing, they will be provided primarily by issuing Eurobonds on the external capital markets within Programme „Medium Term Notes”, and in addition will contract loans from official creditors (international financial institutions, and Government agencies) and other creditors. The program of medium-term issues became the main instrument through which was insured the access to external financing for medium and long term, both in euros and in dollars, it will be developed further in view of the Government’s intention to increase its value. Accessing international capital markets in dollars or other foreign currencies will be realized when financial conditions will prove to be attractive in comparison with the instruments denominated in euros [5].

Taking advantage of the opportunity which appeared on the external capital market in mid-February 2013, the Ministry of Public Finance has launched an issue of Eurobonds in USD.

Sources needed for the Government public debt refinancing will ensure from the markets where were issued these debts and from financial reserve in foreign currency available to the Ministry of Public Finance. To improve the management of public debt and to avoid the seasonal pressures for ensuring the sources of financing of the budget deficit and Government public debt refinancing, starting in 2010, the Ministry of Public Finance has set up a financial reserve (buffer) in currency in the amount equivalent to cover the needs for financing the budget deficit and for public debt refinancing for about 4 months.

Conclusion. The process of fiscal consolidation and achieve the objective on medium-term regarding the structural deficit (1.0% from GDP) corresponding to the Treaty regarding stability, coordination and governance in the context of EU, signed by Romania in March 2012, will determine a decreasing trend of needs for financing the budget deficit in terms of cash.

In view of the decreasing stock of State guarantees issued in the past for loans contracted by companies and the very low level of payments made by the MPF as a Guarantor in the account of the guarantees issued under Government’s programs, the estimates for payments that will be made from the State budget in the account of these guarantees are at a level of about 0.1% from GDP in the period 2014-2016. The assumptions of this scenario are considering also the tote guarantees issued within governmental program "Prima casa", the programme of support for those projects’ beneficiaries in in priority domains for the Romanian economy, financed from the structural instruments of the European Union allocated to Romania, the programme for the thermal rehabilitation of assemblies of housing, the program Kogalniceanu in support of SME-s and the Government programme concerning the measures for the architectural and environmental requirements improvement of housing assemblies.

Considering the evolution of the economic growth potential for the period 2014-2016 is expected that the Romanian economy will resume the growth more sustained, being possible an increase of the gross domestic product with 2.6% per year.

Therefore, a well-founded budgetary policy that takes into account the conditions of economic and social life, the requirements of the present and future needs, it may prove beneficial for progress; Instead, if not to take into account them it can stop the development and can lead to social tensions and to the involution.

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