

The Execution of the Consolidated General Budget during the Economic Crisis and Ways to improve it

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Abstract: In our approach, we have as purpose solving some issues related to public budgets, providing resources for the fulfilment of the specific tasks of the authorities and identifying possible solutions for improving the budgetary process both on the revenue and on the expenditure side, finding methods to make possible the execution of the budget in such a way as to improve the economic and social life of administrative units - entailing, on the one hand, the revenue collection based on which administrations ensure the provision of public services to the citizen and, on the other hand, the expenses necessary to ensure a climate in which the economy will prosper. In order to accomplish the proposed goal we have analyzed the stage of the implementation of the revenues and expenses in the theoretical and practical terms, through a case study on the execution of the expenditures at the Iasi County Council, as a result of a documentation activity covering the period 2005-2012. The result of our effort was to identify ways to improve the execution of budget revenues and expenditures and also allowed us to develop some conclusions on the implementation of revenues and expenditures, as well as some proposals for improving this last stage - the implementation of revenues and expenditures.

Keywords: public budgets; budgetary process; revenue; expenditure

JEL Classification: H72

1. Budgetary Process and its Implementation in Romania

Public budgets are a set of measures and activities that develop according to successive stages. According to the law, the public budget can be interpreted as a document, act, or enrolled, and will include provisions on revenue and expenditure in the budget year, which has been approved. Also through the public budgets it is possible to foresee the economic resources of the state, or of the local authorities, but also the concrete way in which they are used. However, "in the modern economy, the budget is no longer a simple document in which the probable income and

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expenditure is recorded for a period of twelve months, but is a financial plan at a macroeconomic level.” (Văcărel, et al., 2007, p. 517)

“Public budgets” is a broad term and is used to foresee some expenditures or income earned over a certain period of time (year, semester, trimester) for revenue and expenditure that has been approved for administrative-territorial units (districts, city and counties), the budget of some institutions of the national economy (autonomous administrations, companies etc.) or of a family (family budget). As a language of specialty, but also current it is used the formula of “revenue and expenditure budget”, this notion - “budget” implies both revenue and expenditure. (Ștefura, 2012, p. 14)

The budget process is characterized by several stages that follow a legal framework that provides methods and techniques for the projection of indicators - outcomes and expenditures.

The budget process presents a series of features specific to a process:

- **decision-making**, because through the budget, limited budget resources are allocated in relation to the social needs of public goods and services;
- **democratic**, as within the development of the budgetary process there are manifested the attributes of the rule of law and the possibility of imposing the economic and social interests of the different groups of citizens holding the majority of the decision-making policy;
- **political**, because the option for a certain policy (economic, financial and monetary) is decided by the majority forces in parliament;
- **with cyclic continuity**, as the stages of the budgetary process are established by specific laws, specifying the concrete deadlines for completion and finalization;
- **wide public impact**, with implications at all levels (macro and micro-economic), economically and socially and it contributes to the balance between the collective needs and the means by which it is covered.

We find that the budget process has some features such as:

- is a decision-making process, because its content consists in allocating limited budget resources in relation to the needs of community goods and services;
- is a democratic process, because in the course of the process the attributes of the rule of law are manifested, as well as the possibility of achieving the economic and social interests of the different groups of citizens holding the political majority;
- is a predominantly political process, as the option of a certain type of economic, social and financial policy that is reflected in the budget content is an act of political decision of the majority forces in the local and county councils;

- is a cyclical process that takes place in a well-defined temporal order;
- is a complex process with thousands of citizens, public institutions, political organizations and trade unions.

2. Methods and Techniques used in the Execution of Public Budget Expenditures

Execution of state budget expenditures - is the activity of achieving the expenditures provided for the project budget. The annual budget shall establish and approve budgetary appropriations for the expenditure of each budget year. *The budget credit is the amount approved by budget, representing the maximum limit until which ordinances and payments can be made during the budget year for commitments contracted during the budget year and / or previous years for multiannual actions.* Thus, the approved amounts, the expenditure section, from the state budget cannot be exceeded because they would exceed the limits imposed by the annual law of the budget. At the same time, for the multi-annual actions, budget credits and commitment appropriations are distinctly budgeted. Budgetary appropriations related to multi-annual actions represent the upper spending limit. The commitment credit is the maximum limit of expenditure that may be committed during the budget year within the limits approved by the annual budget law.

Execution of budget expenditures is based on the following principles:

- non-reimbursable credits;
- authorized for credits for the entire budget year;
- approved annual budget appropriations cannot be increased by omitting the sources of funding;
- the budget credits to an approved chief credit officer cannot be transferred and used to finance the execution of the budget of another main authorizing officer;
- if credits were approved for a chapter, they cannot be used to fund another chapter;
- the budget appropriations may be subtracted from the budget classification subdivisions, starting with the third quarter of the budget year, within the limit of 10% of the provisions of the budgetary chapter at the level of the main authorizing officer, which should, however, be supplemented with the at least one month before spending the costs;
- no budget appropriations may be made from chapters that have been increased from the budget reserve and intervention funds available to the Government;

- the state of budget appropriations is transmitted to the Ministry of Finance on a monthly basis by the main budget spending directors, within 5 days from the end of the month;
- the maintenance of some budget credits is reviewed monthly by the main loan managers who can make proposals for their cancellation if it is found that they are unnecessary.
- the budgetary credits canceled to the main credit managers, financed from the state budget, increase the budgetary reserve fund at the Government's disposal provided for in the state budget.
- approved budget appropriations that have not been used by the end of the budget year are canceled.

The budgetary expenditures can be made by: cash, transfer from the initiative of the public institutions.

3. Dynamics of the Execution of the Consolidated General Budget

At the level of the consolidated general budget, a number of indicators can be highlighted as such. In their evolution, especially in 2008-2010¹, respectively the first three years of the current economic crisis. The budget deficit is the most visible and most publicized budget indicator, expressing the difference between total expenditure and total revenue recorded in the general consolidated budget. As a member state of the European Union, Romania has committed itself to limiting the budget deficit to 3%² of gross domestic product by 2012. Paradoxically, however, after a relatively cautious fiscal policy led to a reduction in the deficit at reasonable rates between 2004 and 2007, Romania's acceptance into the European Union coincided with a sharp rise in the values of this indicator. However, it is worth noting the very large difference between the Romanian and the European variants of the same indicator. Basically, the gap between the domestic accounting standards valid until 2011 and those used at the level of the "old" European Union reaches in the present case 1% of GDP, given that each percentage point represents an amount of at least 5 billion lei.

¹ In our approach, we mainly used the figures from the Ministry of Public Finance bulletin regarding the budget execution for 2007-2011.

² *Strategia fiscal-bugetară pe perioada 2011-2013/The fiscal-budgetary strategy for 2011-2013*, http://discutii.mfinante.ro/static/10/Mfp/strategbug/STRATEGIA_FB_27sept.pdf, p.12.

Table 1. Revenues of the general consolidated budget for the period 2007-2010

- thousands lei -

	2007	2008	2009	2010
Total income	127.108	164.467	156.625	168.598
Current Income	123.298	158.976	151.086	158.475
Tax revenue	76.366	94.044	88.324	93.060
Profit tax, salaries, income and capital gains	26.319	32.921 ¹	31.830	28.926
Profit tax	10.558	13.046	11.833	10.115
Tax on wages and income	14.375	18.366	18.551	17.957
Other taxes on income, profit and capital gains	1.386	13.069 ²	1.386	854
Taxes and property taxes	2.945	3.362	3.378	3.801
Taxes and taxes on goods and services	46.061	56.363	52.072	59.359
VAT	31.243	40.875	34.322	39.246
Excise Duties	12.512	13.599	15.579	17.379
Other taxes and duties on goods and services	243	86	56	107
Taxes on the use of goods or on the conduct of business	2.064	1.802	2.115	2.627
Tax on foreign trade and international transactions	856	962	656	574
Other Taxes and Taxes	185	437	389	400
Insurance contributions	38.843	48.420	47.872	45.697
Non-fiscal income	8.090	16.512	14.890	19.717
Revenue from capital	905	915	547	683
Donations	2.870	2.817	2.959	4.054
Receipts from repayment of loans			15	14
Funds currently pending		1,759		
EU amounts on account of payments made			2.099	5.394
Amounts credited to the single account, to the state budget			-82	-22

Explanations of budget deficit developments are multiple. One can rely on the effects of the economic crisis that broke out in the US in 2007 and reached the European continent a year later. Such an explanation, however, is only a conjuncture. During 2008, the Government did not take any measures to prevent or counteract the

¹ Cumulative for physical and legal entities.

recession that would require the consumption of budgetary resources. At the same time, Bulgaria recorded a budget surplus on the same background of sustained economic growth as Romania, the first effects of the economic crisis to be felt only in the last quarter of 2008. The increase of the budget deficit in Romania is directly correlated with the evolution of budget expenditures and revenues in 2007-2008. However, within one year, from 2007 to 2008, total revenue to the general government budget decreased by 0.5% of GDP. At the same time, however, spending has risen from 34.9% of GDP to 36.8%. In absolute terms, growth is even more evident. From a total level of expenditures in the consolidated general budget of 136.56 billion lei in 2007, it reached only one year at a staggering number of 189.1 billion lei. In the same period, staff spending rose from 6.5% of GDP to 8.43% of GDP, and examples could continue.

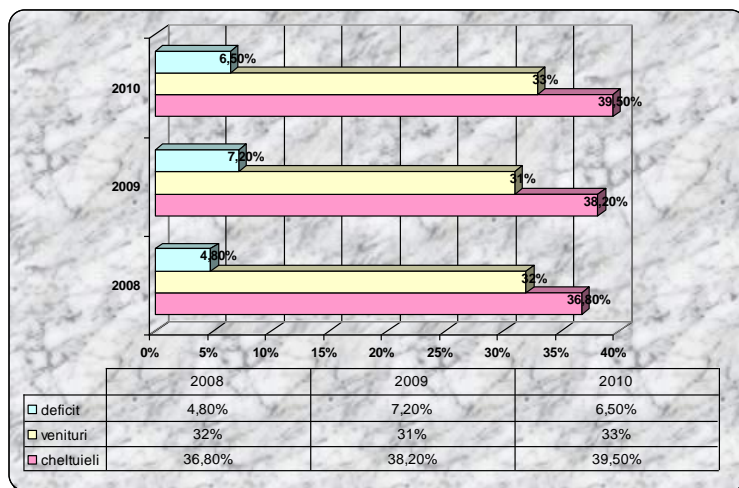
The consequences of the economic crisis on the budget deficit can be discussed from 2009 onwards. The upward trend in the value of this indicator may be considered to have been mainly influenced by the sharp fall in budget revenue, which could not be offset by a corresponding reduction in expenditure. Thus, total revenues fell from 164.47 billion lei in 2008 to 156.6 billion lei in December 2009. At the same time, expenditures increased from 189.12 billion lei to 193 billion lei, from 36.8% to 38.2% of GDP. The two targets set in the IMF Memorandum for 2009 in this respect have successively failed. Thus, the cumulated revenues projected in the consolidated general budget, excluding EU funds, should have amounted to 166.7 billion lei. But without EU funds, budget revenues amounted to only 154.5 billion lei, 7.3% lower than foreseen. At the same time, the primary expenditures of the general consolidated budget, i.e. the interest-free expenses, should be of maximum 182.7 billion lei. But they reached 187 billion lei, 2.35% higher than the expected level.

In fact, the government proved unable to master the economic situation in 2009, which in our opinion led to the unnecessary accentuation of the harsh austerity measures taken in 2010, a visible situation including at the level of the budgetary indicators. In fact, Romania has the lowest GDP share of budgetary revenues across the European Union, accounting for only 32.96% of GDP, compared with 44% as the EU average¹.

As a whole feature in the analyzed period, the structure of the consolidated general government shows an increase in the share of expenditures in GDP, amid a modest general evolution of budget revenues. In fact, this trend is expected to continue, at least in terms of budget revenues. Thus, even if the fiscal-fiscal strategy on the 2011-2013 period foresees a deficit of only 2.5% of GDP, it is expected to be realized not on account of the increase in budget revenues, but almost exclusively on the decrease of expenditures and the measures of the staff from the budget system, and even

¹ Consiliul Fiscal, *Raport anual – evoluții și perspective macroeconomice și bugetare*/Fiscal Council, *Annual Report - Macroeconomic and Budgetary Developments and perspectives*, March 2011, p. 30.

privatization of state-owned companies, thus unburdening the state of the huge spending.



Deficit= deficit	Venituri= income	Cheltuieli= expenditures
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Chart 1. The ratio of budget deficit, expenditure and revenue (2008-2010)

Among the reasons underlying this development we could mention the decline in economic output, the rise in spending with social programs or the rise in the share of the underground economy as a result of overcharges.

In this respect, it should be mentioned that the government fiscal consolidation program was based on a significant increase in the VAT rate, with tax collection efficiency remaining low¹. But the efficiency of this policy was quasi-null. Over the period considered, despite the 19% to 24% increase in the VAT rate, there was no significant increase in the proportion of VAT in the budget revenue. On the contrary. If in 2007 VAT accounted for 8% of GDP, in 2008-2010 the proceeds of this tax were constantly below that level. In 2010, after 6 months of application of the new tax rate, the proportion of VAT receipts was just 7.67% of GDP.

¹ At the level of 2009, the rate of VAT and social security taxing is among the lowest in Eastern European countries, 58% in the case of VAT, compared to Estonia (90%), Bulgaria (71%) or Slovenia (74%) and 64% in the case of social contributions. In fact, under the same tax rates, Romania only collected 6.79% of GDP in VAT in 2009, compared to 9.1% of GDP in Estonia or 8.9% of GDP in Bulgaria. In addition, in 2008, Bulgaria collected 92% of the total VAT payment, while Romania collected only 67%.

Table 2. Proportion of some synthetic indicators in GDP

Indicator	% GDP		
	2008	2009	2010
Tax	2,83	2,35	1,98
Tax on wages and income	3,57	3,67	3,51
VAT	7,95	6,79	7,67
Excise Duties	2,65	3,08	3,40
Tax revenue	18,30	17,47	18,19

From the budgetary execution for the years 2008-2010, one can notice, with the intensification of the economic crisis, a slight decrease of the share of the fiscal revenues in GDP. At the level of individual indicators, the decrease is more visible, as can be easily seen from the table above. In the case of corporate tax, the decrease is dramatic, the decrease of 0.85% in three years corresponding to a 30% drop from the initial level. In gross values, Romania's economic evolution is even more evident. If in 2008, the state received from corporate income tax 14.53 billion lei, the receipts collapsed to 11.9 billion lei in 2009, reaching 10.12 billion lei in 2010. Also, the income from social contributions have fallen steadily in the analyzed interval. If in 2008 they were at 48.4 billion lei, or 9.42% of GDP, in 2009 they decreased to 47.9 billion lei and in 2010, 45.7 billion lei, respectively 8, 93% of GDP.

By comparison, in the Czech Republic, the corresponding percentage was 15.4% of GDP in 2009, at close rates. In Estonia, the share of social security contributions to GDP was 13.1% in 2009 and 11.3% in Poland, with much lower contribution rates than in Romania. This evolution reflects the poor economic situation and the poor conditions on the labor market. Even the VAT receipts did not show a favorable evolution either as a proportion of GDP (*vide supra*) and not even as actual amounts (*vide supra* Table 5).

It can be noticed that the only indicator that has registered a constant growth, regardless of the economic situation, is excise duty. In three years, the share of excise receipts in GDP increased by 28%. Evolution is otherwise explicable if we take into account the evolution of the exchange rate during the analyzed period, the consumption of cigarettes, gasoline, diesel oil or coffee being relatively constant. Considering the 2008 level of the excise proceeds and the leu / euro exchange rate as equal to 1, the comparison of the two indicators is presented in accordance with the chart below:

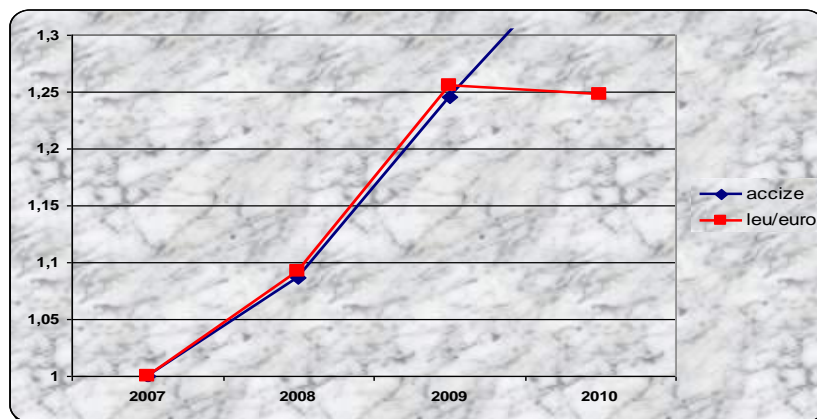


Chart 2. Comparative Evolution of Income from Excise and Exchange Rate

It can be noticed that in 2007-2009, excise and excise proceeds have evolved in the same way and practically in the same proportion. Excise receipts increased by 15% compared to 2008, while the leu declined by 16%¹ over the same period. Excise receipts continued to grow in 2010, particularly on tobacco products, which the excise duty rate has increased. The level of the leu / euro exchange rate has, however, remained at a relatively constant level. In fact, the state has fully exploited the nearly inelastic nature of tobacco or alcohol demand at the end of the period, with annual excise receipts being 39% higher than its beginning.

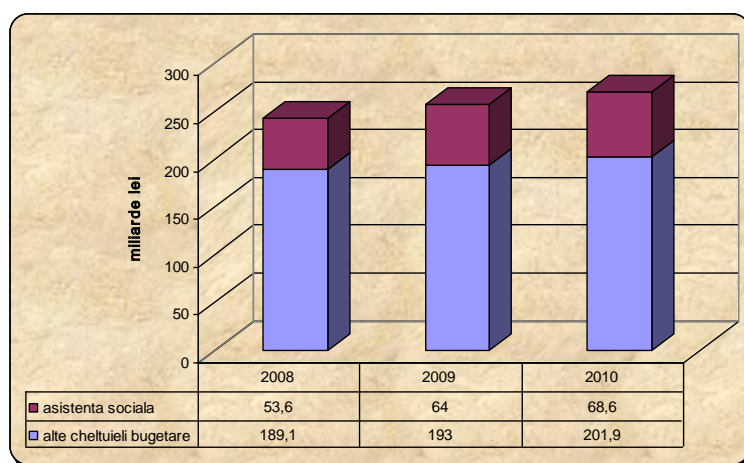
Overall, in 2010, consolidated general government revenues increased by 7% compared to the previous year from 156.6 billion lei to 168.6 billion lei, mainly due to higher than expected revenues from direct taxes. Thus, the revenues from taxes on goods and services increased in 2010 by almost 7.3 billion lei and 14%, respectively. Other factors that generated the increase in absolute value of the budgetary revenues were the VAT revenues, increasing by 14% compared to 2009 and excise duties, up to 11%. In addition, revenues from European funds increased significantly, from 2.1 billion lei in 2009 to 5.4 billion lei in 2010.

On the other hand, the increase in budget expenditures could not be stopped, as they experienced a steady upward trend towards the lower limit of the considered range. From 189.1 billion lei in 2008, budget expenditures increased to 193 billion lei in 2009 and to 201.9 billion lei in 2010. Overall, spending over the three years increased by 6%. This, especially on the background of the significant increase in social assistance expenditure. From a level of 53.6 billion lei in 2008, they reached 68.6

¹ One euro appreciated on average 3,373 lei in 2007, 3,683 lei in 2008, 4,237 lei in 2009 and 4,210 lei in 2010. (<http://www.bnr.ro/school-3544.aspx>).

billion lei in 2010, up 27%. In 2009, these expenditures reached 12.65% of GDP and in 2010 13.41% despite government commitments to reduce them.

If this evolution can find its explanation in the economic conditions that have imposed the increase in expenditures of the nature of those assimilated to unemployment or professional reintegration¹, the ascending evolution of goods and services expenditures is more difficult to explain. They increased by one billion lei in 2010 compared to 2009, from 28.8 billion lei to 29.8 billion lei. Growth is all the more significant as the level of 2010 spending on goods and services was 4 billion lei, or 15% higher than in 2007, when the crisis was thousands of kilometers away.



Asistenta sociala = Social assistance
 Alte cheltuieli bugetare = Other budgetary expenditure

Chart 3. Evolution of Social Assistance Expenditure in Total Budget Expenditures

An interesting development was also seen in the chapter - spending on staff in the budgetary system. From 2007 to 2009, they have steadily grown. In three years, the increase was 82%, a true reflection of employment and wage indexation made with no meaning in the state system. Only in 2010, under the pressure of the IMF, which led to massive layoffs and cuts, this indicator started to experience a still modest, reverse trend. In spite of the famous 25% wage cuts, the abolition of most bonuses, and the blockage of employment in the budget system, staff spending dropped by only 8% compared to 2009. The significant staff cuts in companies with majority state, government’s work in 2012.

¹ For example, the unemployment insurance budget rose from 1.36 billion lei in 2008 to 2.72 billion lei in 2009 and 3.82 billion lei in 2010.

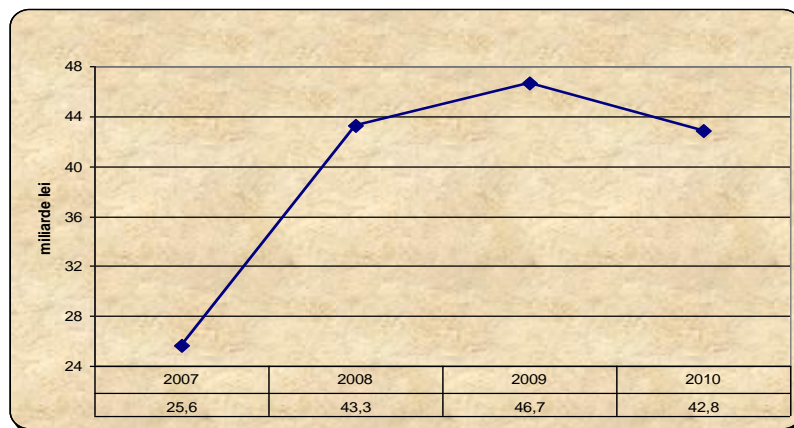


Chart 4. Evolution of staff costs

In the same line, attempts to reduce unnecessary spending may also include the evolution of government subsidies. Since 2007, their level in GDP has declined steadily, probably because of the limitations imposed by Romania's accession to the European Union, as well as the general policy of decentralization of economic decisions. Thus, if in 2007 the subsidies amounted to 1.8% of GDP, in 2010 they reached only 1.32% of GDP. Subsidies will continue to fall to 0.8% of GDP in 2013, which underlines the diminishing state intervention in the economy, focusing on market regulation mechanisms and better regulation and oversight by the state.

4. Conclusions

The public budget is the main instrument of the public administration authorities for selecting funding priorities in relation to the economic and social development strategies of the administrations. From practice, we have found that for many times the distribution of funds from the state budget is based on political criteria. That is why we consider that it would be desirable to not involve politics in the financial allocation process. Fundamenting priorities and options on social, cultural, economic, public services which are to be financed from the local budget, as well as the necessary measures for the collection of incomes, are made during the elaboration and adoption of the local budget. The public budgets establish a relationship between public revenues and social needs, aiming at avoiding inequality in the distribution of tax burdens on the members of local communities, while meeting their social needs, establishing a balance between the collective needs and the means covered. We have argued that a well-structured local budget must provide the local public administration authorities with a stronger overview of the ratio between the value of the material and non-material assets needed by local communities and the amount of effort to be made in order to achieve them.

The place and the particular role that public finances have in the economy of a country has been confirmed over time by economic realities, as they are the basis and catalyst for the autonomy and development of local communities. Local budgets, local government finances and other financial resources mobilized and used by local public administration authorities are included in the local public finances. The main part of local public finances is represented by the local budget, which represents the document that provides for and approved each year the revenues and expenditures of the administrative-territorial units. Local budgets are compiled by territorial administrative units under autonomous conditions and represent tools for planning and managing their financial activity.

The conducted research reveals that the significance of the state budget has expanded as the administration has been increasingly put in the position to increase resources, improve efficiency and managerial responsibility. Decision makers and citizens need accurate and relevant information on local government, current activity, project and spending strategies. To address all these issues, local public authorities need to understand the specific needs of the community and the role that fiscal decisions have in serving it.

The payment stimulation for taxes to be higher than 5% (perhaps 20%) so the citizen would be motivated to pay the tax burden much faster.

A general tendency in relation to local budgets as well as any budget in general is that the potential revenues to be mobilized are becoming less numerous in relation to the needs to be satisfied and the actions to be accomplished, and they are in a continuous ascension.

Local governance involves introducing changes in local budget spending management, through rules and principles that target fund allocation, and improve the ability of executive authorities to manage local finances.

Budgetary autonomy implies the right of the local public administration to dispose of money, to use it and to administer it in order to carry out the tasks provided by the law, to draft the budget and to monitor its execution. Despite the progress made in recent years, there is no real local autonomy. Local budgets are heavily dependent on the resources they receive from the central level, the proportion of which exceeds 50% in most cases. Very few communities are those who manage to achieve sufficient incomes. Solving these financial weaknesses would solve by regionalization. So poorer areas would be financially supported within the region.

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