Analysis of Budget and Fiscal Policy and its Implications in Terms of Integration into the European Union

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Abstract: Our paper's aim is to review the main fiscal and budgetary measures taken by the Romanian government in the pre EU era and its effects. Many of them were imposed by the European aquis, but other was just proper for the economic national and international context.

Keywords: fiscal; budget; policy; integration; tax

JEL Classification: H72; H61; E63

1. Introduction

Fiscal policy in the period 2002-2007 had as main objective the integration of Romania into the European Union, and actions would be undertaken to achieve the objective have been included in the first variant of the pre-accession economic program in 2001. Ministry of Public Finance Strategy developed in 2001 for the period 2002-2006 which included the priority objectives for Romania's accession to the EU including in the fiscal budget. From this perspective, financial policy, including fiscal policy had directed that "contribute to stimulating savings and investment and to meet the rigors of macroeconomic stability." (Văcărel, 2004, p. 123) Government priorities include control of the consolidated budget deficit, fiscal and quasi-fiscal deficit reduction, increased revenue collected to the budget, harmonization of tax legislation with EU norms, increasing the effectiveness of tax administration, transparency in public spending.

The fiscal policy objectives outlined in the Convergence Program from 1 January 2007, specified that the government's fiscal policy is designed to support the objectives of convergence, the budget deficit at a prudent level by stimulating improved collection rates, by increasing efficiency and accountability in public spending of resources and promoting measures to broaden the tax base in order to enhance public revenues in a sustainable manner. Medium-term efforts of the

Government and headed by "creating conditions conducive for maintaining long-term sustainability of public finances, including the costs of launching the second pillar pension, which means primarily adjusting to the consequences of public budgets aging population."

In general, discretionary public spending are made possible when a country has the "fiscal space (space tax), in other words, the difference between peak current public expenditure and government expenditure which can be done without harm to the fiscal and budgetary solvency, in other words, without affecting current and future ability to pay its debts[1]. Indicators that can appreciate the "fiscal space" are represented by public debt to GDP, external debt to GDP ratio, budget deficit as a percentage of GDP. Fiscal space can be created without creating new debts by improving efficiency of public spending, increase revenue and mobilized additional financial aid (grants). Maintaining fiscal budget solvents is one of budget and fiscal policy issues. Another relates to macroeconomic stability. Capacity increases public spending while maintaining macroeconomic stability was supposed to "macroeconomic space" (macroeconomic space)[2]. High rates of inflation limit the ability of fiscal and budgetary expansion.

In addition to changes in the overall budget, had been changed and its components, revenue and public expenditure, which have been redesigned according to international classifications and specific classifications of the European Union and International Monetary Fund.

2. Analysis of Budgetary Resources Procurement Policy and its Implications in Terms of Integration into the European Union

Fiscal resources to purchase the policy had an important role in the launching of accession, accession and EU integration, therefore, negotiations with the Union in the chapter on taxation was opened in October 2001 and provisionally closed in June 2003 and then reopened and provisionally closed in November 2004. The main objective of the EC Treaty establishing the common market with characteristics similar to a domestic market requires that the Member States in the field of indirect taxes (mainly on VAT and excise) and direct taxes (with particular reference to corporate tax and taxes capital).

Procurement policy measures on fiscal resources, seen as part of budget and fiscal policy, which were considered during this period had implications for the idea of reforming the tax system in fiscal easing the situation in Romania, to encourage cell production, saving , especially consumption and private investment. The table below presents the situation of saving and investment from the private sector:

[1] 2009 World Development Indicators, p. 199.
[2] Idem.

Table 1 Balance saving (S) and investment (I) on in Romania, 2003-2007 (% of GDP)

Indicator	2003	2004	2005	2006	2007
Private Savings	14.9	13.7	11.9	13.5	14.4
Private Investment	18.5	21.0	20.0	23.3	26.0

Source: Romania: Selected Issues, IMF Country Report No. 08/210, July 2008, 2008 International Monetary Fund, p. 6

Thus, the above table, we see an improvement in private investment as a percentage of GDP, due to fiscal policy decisions (particularly the reduction of taxation, but also the efficiency of administering the tax system in terms of taxes simplify them) that have generated increasing disposable income of private agents, who finances the investment objectives oriented, with strong social and economic effects. In this sense, the measure allowed the introduction of a flat increase in the volume of private investment from 20% in 2005 to 26% of GDP in 2007. 2005 was the year after that and allowed a recovery of private savings, which until then had seen a downward trend, as a percentage of gross domestic product.

Table 2. Evolution of public revenues from the consolidated budget in Romania, 2002-2008

(mil lei)

Explanations	2002	2003	2004	2005	2006	2007	2008
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Taxes	93.1	94.0	94.3	94.1	90.5	90.6	86.6
Indirect taxes	37.8	40.8	40.3	42.8	36.9	36.2	34.3
Direct taxes (including contributions)	55.3	53.2	53.9	51.3	48.7	51.3	51.5
Social security contributions	36.1	32.8	31.7	32.5	30.8	30.6	29.4
Other current revenue	6.6	5.6	5.0	5.1	6.8	6.4	10.0
Capital Revenue	0.2	0.3	0.5	0.5	0.9	0.7	0.6

Source: Romania: Selected Issues and Statistical Appendix, IMF Country Report No. 06/169, May 2006, p. 88, Romanian Statistical Yearbook data processing, 2007 (for 2006-2008) and general government budget execution in 2006, 2007, 2008, source: Ministry of Public Finance

Romania's total revenues during 2002-2008 originated in a ratio greater than 50% of taxes (without taking into account social security contributions) and over 90% of taxes and contributions. Collection of a social nature also has an important place among categories of sources of public revenue, representing over 30% of the total revenue accruing to the Exchequer. Capital revenues are less significant for fiscal policy, which is nearly a percentage of total revenue raised from the public budget. Evolution of current income, other than tax is positive, reaching 10% of total budgetary resources.

A breakdown of tax revenue in Romania is required and is shown in the table below:

Table 3. Evolution of tax revenue in Romania, 2002-2007

% total

Explanations	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Receipts from taxes, fees and contributions	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
I. Receipts from taxes	**61.0**	**64.8**	**65.2**	**64.0**	**64.6**	**64.5**
Taxes on production and imports	**40.8**	**43.6**	**42.3**	**45.3**	**43.7**	**41.8**
A. Taxes on production	38.6	41.4	40.6	43.5	41.7	39.0
1. VAT	24.9	25.6	24.1	28.3	27.2	26.9
2. Import duties	2.3	2.5	3.7	3.3	3.2	0.3
3.Accize	9.2	12.3	11.7	10.8	10.0	10.1
B. Other charges, of which	2.2	2.1	1.7	1.7	2.0	2.8
a. Taxes on land and buildings	1.0	1.1	1.0	1.0	1.1	1.3
b. Taxes on international transactions	0.2	0.2	0.2	0.2	0.2	<0.1
c. Taxes on pollution	<0.1	<0.1	<0.1	<0.1	<0.1	0.7
Taxes on income, wealth	**20.2**	**21.3**	**22.9**	**18.7**	**20.9**	**22.7**
Taxes on income, of which:	18.8	20.2	21.9	17.7	19.9	21.6
Income Tax individuals	9.4	10.0	10.2	8.0	9.8	11.0
Tax on income / profit businesses – Corporate tax	9.2	10.0	11.4	9.5	9.7	10.4
Other current taxes	1.4	1.1	1.0	0.9	1.0	1.1
II. Proceeds from social contributions	**39.0**	**35.2**	**34.8**	**36.0**	**35.4**	**35.5**
Actual social contributions (state social insurance contribution, contribution to	37.7	33.8	33.2	33.9	33.5	33.3

the Fund for payment of the unemployment, the Fund contribution for single health insurance)						
Social contributions-Employer	22.7	22.0	21.3	22.4	21.6	21.0
Social Contributions - Employee	14.7	10.9	10.7	10.5	11.7	11.3
Imputed social contributions (pensions for military)	1.3	1.4	1.6	2.1	1.9	2.3

Source: Adapted from Eurostat statistics, http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/main_tables

The table above shows the detail of tax revenues accruing to the general consolidated budget in 2002-2007. In this respect, it becomes a social tax reduction, both the employer, from 37% in 2002 to 33% in 2007 which allowed for boosting employment and supporting the production and the employee, from 14.7% in 2002 to 11.3 % in 2007, which has had positive effects on the propensity to work of employees. In addition, there is a reduction of income earned by employees and entrepreneurs representing about 4 percent boost private savings for investments and to support the growing national economy is in full swing, even if the receipts from taxes on income and Profits increased as a final step, but in 2005 there is a significant reduction as a result of bringing the flat tax system that resulted in a collapse of revenues collected initially, followed, as economic theory supports an expansion of earned income.

As regards direct taxes, Romania did not meet in terms of integration, imposing conditions to mergers, divisions and assets transfer and exchange of securities between companies belonging to Member States.

From 1 July 2002 new legislation came into force on the profit tax[1] has brought progress on the harmonization of national legislation with the acquis communautaire, which was intended to simplify existing legislative support at the time, is a series eliminating normative acts related accumulated over time in repeated changes and additions. This regulation brought the new accelerated depreciation, increased the tax rate of profit generated by export activity to 12.5%, all with respect to export activity, the tax rate was applied the income generated by export activity has increased from 25% in 2004 and was virtually under the same regime that was governed by the profit generated by activities undertaken in the country. These changes have increased the tax efficiency of this type of tax and its neutrality.

Fiscal policy at the time of introduction of the flat tax of 16% of the profits made by traders bet on an easing of the tax burden. Thus, we created an environment attractive to Romanian and foreign investors have been paved to reduce the shadow

[1] Income Tax Law no. 414 of June 26, 2002, published in Official Monitor no. 456 of June 27, 2002.

economy, whose layers are pretty consistent, and the issue of collection of public financial resources to meet the needs of the public who provided it was considered resolved, both within the statutory reinstatement of taxable economic activities by and through measures to broaden the tax base, an action that has restricted visibility and reap revenue without throwing the government on various charges inhibit economic year itself. Also regulations were not consistent EU legislation had reconsidered, forgoing some of them are full, more are being redesigned to be folded so that the acquis communautaire became legal support us in 2007 before the end had to be incorporated in our legislation nr.2003/96/EC Directive restructuring the Community framework for taxation of energy products and electricity, nr.86/560/EEC Directive on the harmonization of Member States relating to turnover taxes, nr.90/434/EEC Directive on the common tax regime applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States (as consolidated with Directive 19/2005), Directive nr.90/435/EEC the common tax regime applicable to parent companies and subsidiaries of different Member States (as consolidated with Directive 2,003,123) nr.2002/94/EC Directive laying down detailed rules for implementing certain provisions of Directive 76/308/EEC Council on mutual assistance for the recovery of claims on certain levies, duties, taxes and other measures, etc. Another aspect of procurement policy to fiscal resources is the taxation of individuals, in this case, the system adopted by the government had measures in the forefront of broadening the tax base by including the income tax more types of income and incentives to generate positive activities, such as those relating to the deductible expenses that have been extended for housing rehabilitation activities or to pay their insurance premiums or contribute to a private insurance health.

Regarding personal income, for example Peter was true following the 2004 scale of assessment for monthly income from wages and pensions:

Table 4. Imposing scale monthly wage and pension income, 2004

Monthly taxable income (ROL)		Monthly Income tax (ROL)	
		Fixed amount	Marginal rate
until	2.400.000	-	18%
2.400.001 –	5.800.000	432.000	23%
5.800.001 –	9.300.000	1.214.000	28%
5.800.001 –	9.300.000	2.194.000	34%
over	13.000.000	3.452.000	40%

Source: Ministry of Public Order, nr.1848 of 22 December 2003 setting monthly tax scale of salaries and pensions for the fiscal year 2004, published in Official Gazette No. 4 of 6 January 2004

The scale of tax was amended in late 2004, replacing the 5 allowances into remote composed of three levels, namely: 14, 26 and 38, which would have effect in 2005. This measure aimed at reducing the tax on disposable income and positive effects on consumption and saving process of individuals. But it took time to have effect as a result of changes in fiscal and budgetary plan next year.

Table 5. Evolution of tax revenue on salaries and income from the consolidated budget in 2002-2008

% Of total general government budget resources

Explanations	2002	2003	2004	2005	2006	2007	2008
Wage and income tax	9.3	9.4	10.1	7.8	9.1	11.3	11.2

Source: Romania: Selected Issues and Statistical Appendix, IMF Country Report No. 06/169, May 2006, p. 88, Romanian Statistical Yearbook data processing, 2007 (for 2006-2008) and general government budget execution in 2006, 2007, 2008, source: Ministry of Public Finance

From the table above would impact the product so far to change income tax rates and wages at the end of the year 2004 so that in 2005 the volume of resources collected on this pathway was reduced by almost two percentage points in total resources general government.

Then, in 2005 we opted to management to simplify tax, flat tax was introduced that brought a clarity and transparency in fiscal operations of our country. This flat is a first step by the government at that time sustain growth, resulting in additional revenue to the budget of its existence, and not least, changes in taxpayer behaviour, changes that we have presented explaining the evolution of saving table and private sector investment. In this regard, since January 1, 2006, under legislation adopted for income earned by non-resident individuals, the rate of 16%, excluding income from gambling, for which the tax rate remains 20%, thereby unifying the tax rates applied to non-residents increased from 10% and 15% to 16%, except for gaming where the share remains constant. In this way nr.2003/48/EC transposed Directive on taxation of savings income in the form of interest payments.

3. Conclusion

Reduce income taxes on individuals and businesses helping to stimulate investment and consumption support. Flat tax has been applied in Europe for the first time in Estonia (1991), followed by Latvia (1994), Lithuania (1994), Russia (2001), Serbia (2003), Ukraine (2003), Slovakia (2004) Georgia (2004) and Romania (2005). Some analysts are not great supporters of the tax reduction as a factor for economic recovery, however, is quite clearly that tax cuts issue for individuals and companies, funds can be spent on consumer goods, new investments can be made or new jobs and may even attract foreign investment, while the host country tax rates is less than the mother country.

The introduction of flat tax was intended to spur investment and create new jobs, and on the other hand to reduce workers in the underground economy (estimated that the measure has so far about the situation. 150,000 workers) and reducing the burden of tax administration act.

"The main purpose of the budget and fiscal reform in this period was to simplify the tax system, increase predictability and improve incentives for work and business. [1]

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[1] Convergence Program, 2006-2009, Romanian Government, January 2007.