

EXECUTION OF BUDGET INDICATORS IN ROMANIA'S PUBLIC BUDGET; IMPROVEMENT METHODS

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Abstract:

In Romania, the aspects concerning the budget process are laid down in Law 500/2002 regarding public finance. According to this law, budget inputs and outputs as well as the specific regulations of a fiscal year are provided and authorized for a budget year by an annual budget law. As to the budgets making up the general consolidated budget, it should be mentioned that only two of them act as laws; they are the law of public budget and the law of public social insurance budget (and implicitly their amending laws).

The present paper envisages the analysis of how effective the execution methods of budget indicators is in the public budget which from the perspective of revenues and expenses means the most important component of the general consolidated budget.

Key words: budget execution, revenues, expenses, deficit

JEL classification: H61, H62

1. Aspects regarding the execution of budget revenues and expenses

The public budget's revenues and expenses are classified according to the provisions of public finance approved by Order no.1954/16.12.2005 with subsequent amendments and completions. The budget classification is an operation instrument used during all the stages of the budget process which ensures the grouping in a certain order and by certain criteria of the revenues and expenses found in the budgets of the general consolidated budget.

Thus, budget revenues are grouped by their origins as follows:

1. Current revenues which in turn are grouped into tax revenues, non-tax revenues and insurance contributions;
2. Capital-related revenues ;
3. Financial operations ;
4. Subsidies.

The execution of budget revenues developed by the tax body of the Ministry of Public Finance involves several sub-stages spread out in time, namely¹ :

a. Settlement of budget revenues as a tax-specific operation (taxes are the main budget inputs) means on one hand the identification and evaluation of the taxable matter, and on the other hand stating the latter's dimension in compliance with the provisions of the fiscal legislation.

b. Liquidation of budget revenues refers to setting the amount of tax for a taxable matter according to the quotas and other legal provisions;

c. Issuance of collections (receipts) refers to the entry of the budget revenue amount in a document used for the authorization of a tax body in order to charge a certain level in the budget account;

d. Collection of budget revenues is the actual receipt of taxes, fees and other budget revenues.

¹ Țenovici Cristina Otilia – "Accountancy of Public Institutions", Independența Economică Publisher, 2007, p.25

Budget expenses are divided into the following categories²:

1. Functional classification that groups budget expenses into six classes related to the destinations of public funds: general public services; defence, public order, national security; socio-cultural services; public services and growth, housing; economic operations; reserves, surplus/deficit.
2. Economic classification that groups expenses into current expenses (personnel expenses; goods and services; interests; subsidies; reserve funds; transfers among public administration institutions; other transfers; projects financed with post-accession non-refundable foreign funds; social assistance; other costs; expenses associated with refundable financing programmes), capital-related expenses (non-financial assets; financial assets; national development funds) and financial operations (loans, loan repayments; payments made during previous years and collected during the current year; reserves, surplus/deficit);
3. Departmental classification – comprising funds allocation per public authorities, ministries, other bodies, central public administration, counties and the city of Bucharest.

The execution of budget expenses means the following stages: commitment, liquidation, instructions, and payments.³

The operations related to **commitment, liquidation and payment instruction** are the responsibility of loan managers and take place against the endorsements of specialized departments within the respective public institution.

Expense payments are ensured by the heads of the financial-accounting departments up to the amount of available funds. The payments up to the amount of approved budget loans are only made against supporting documents prepared in accordance with legal provisions and only after they have been liquidated and instructed.

2. Case study about the execution of Romania's public budget

In order to achieve a comprehensive analysis of the execution level of budget indicators in the public budget during 2011, the author of the present paper has considered the original budget provisions approved by Law no.286/2010 and actual accomplishments (the way they have been shown in the budget execution).

The execution of the public budget in synthetically indicators is as follows:

Table no.1
- million Lei-

Indicators	Budget provisions approved by Law no.286/2010	Accomplishments	% as compared to original provisions
Revenues	80,802.1	79,371.2	98.23
Expenses	108,481.9	106,088.7	97.79
Deficit	27,679.8	26,717.5	96.52
% deficit of GDP*	5.05	4.87	

Source: Made by the author according to the data taken from Law 286/2010 regarding the 2011 public budget, Annex 1 - Synthesis of 2011 Public Budget and General Consolidated Budget during 1 January 2011- 31 December 2011.

* *The Gross Domestic Product considered herein for the year 2011 is 547,829 million Lei.*

² Classification of public finance in force for the year 2012, approved by Order no.1954/16.12.2005 further amended and supplemented.

³ Law 500/2002- Law of Public Finance, Article 52

By examining the public budget execution on the 31st of December 2011, the following has been found: the collections amounting to 79,371.2 million Lei are by 1,430.9 million Lei (1.77 %) lower than initial budget provisions; the payments amounting to 106,088.7 million Lei are by 2,393.2 million Lei (2.21%) lower than initial budget provisions; the budget deficit of 26,717.5 million Lei is by 962.3 million Lei lower than the forecasted one.

In order to have an overall view of the progress of budget indicators in the public budget, the author has monitored the budget execution since 2006 up to the present:

Table no.2
- million Lei-

Years	Revenues	Expenses	Deficit
2006	40,698.1	51,235.6	-10,537.5
2007	48,984.6	64,373.6	-15,389.0
2008	61,030.2	80,889.9	-19,859.7
2009	54,678.3	89,851.7	-35,173.3
2010	68,050.7	102,627.73	-34,577.0
2011	79,371.2	106,088.7	-26,717.5
2012*	63,822.1	73,768.4	-9,946.3

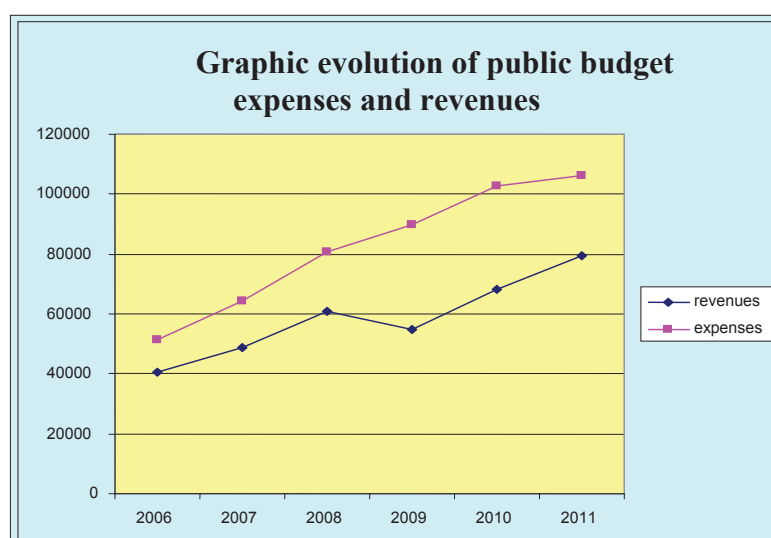
Source: <http://discutii.mfinante.ro/static/10/Mfp/buget/executii>

* The data about the year 2012 confine to the period 1 January- 31 September

The revenues raised by the public budget during 2006 - 2011 had an upward trend except the year 2009 when unlike the previous year they dropped by 10.4%. The “deviation” was caused by the way the financial crisis was felt at the respective moment. Actually, after the first quarter of 2009, Romania officially entered the recession after having faced negative economic growth for two consecutive quarters (the fourth quarter of 2008 and the first quarter of 2009) and this status also impacted the progress of budget indicators.

The public budget expenses rose continuously during the period examined by amounts ranging from about 3.5 billion Lei (between 2010 and 2011) and 16.5 billion Lei (between 2007 and 2008).

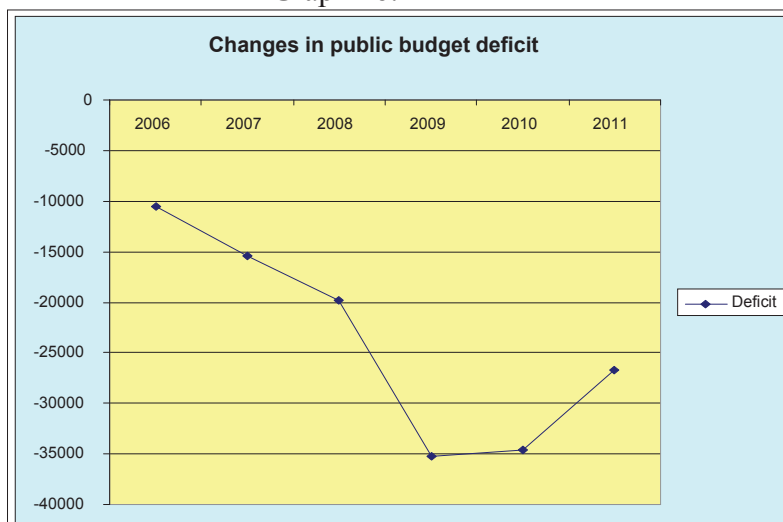
Graph no.1



Source: Made by the author

The comparative analysis of revenues and expenses provides information on the changes in the budget deficit during the period examined.

Graph no. 2



Source: Made by the author

The deficit in the public budget became more serious during the period examined. It should be stated that whereas the budget deficit during 2006 - 2008 rose from 10.4 billion Lei to 19.8 billion Lei, in the years 2009 and 2010 it rose sharply to 35.17 and 34.57 billion Lei, respectively. The rise was generated by the growth rate of public expenses which at the time significantly exceeded the revenues' growth rate. An improvement in the public balance of the public budget was felt in 2011 as it decreased by almost 23% as compared to the value it had the previous year. This trend seems to persist in 2012, too, as the deficit of the first three quarters is almost 10 billion Lei.

3. Conclusions

In compliance with the information shown above, the budget execution of 2011 reflects the fact that it met the budget targets set for the period. The public budget revenues were 98.23% achieved whereas the expenses were made at a rate of 97.79 %, which led to a deficit of 26.71 billion Lei, lower than the 27.67 billion Lei limit set as the target for the period.

Although the structure of budget indicators has slightly changed after the two budget amendments that occurred throughout 2011, the rate of revenue collection and the rate of budget expenses respectively confined within the initial provisions.

It is believed that special attention should be given to handling the budget deficit. As shown above, it means a constant element of Romania's budget construction and the issue of handling it should catch the attention of decision makers and theoreticians alike.

There are several ways to handle the budget deficit and they can be structured as financing methods by specific means (loan contracting, fiscal growth, currency issuance) and reduction methods (by increasing the level of the deliberate compliance with tax payments and by efficiently managing public funds). The matter can be approached from the perspective of a taxpayer and the author is one, therefore the most efficient method is thought to be the more productive use of public funds, the reduction of current consumption expenses and the increase in capital spending.

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6. *** - <http://discutii.mfinante.ro/static/10/Mfp/buget/executii>