

CONSIDERATIONS ON THE IMPACT OF THE BUDGET DEFICIT ON THE ECONOMY OF ROMANIA

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Abstract:

The specialized literature as well as the economic practice show that the budget deficit has become a characteristic phenomenon of the contemporary world. In Romania, as in other states, this topic is one of the most difficult issues facing economic policy. Debate on how to address deficits has become a major economic and political issue, both in Romania and in other countries. The present study aims to analyze the budget deficit in Romania as well as the implications of the budget deficit in the economy. During the analyzed period, our country implemented large fiscal consolidation measures, aimed at reducing the ESA budget deficit as well as the structural one, which led to the improvement of the public finances situation.

Key words: budget deficit, budget deficit financing; labor market

JEL classification: E62, H6, J21.

1. INTRODUCTION

The budget deficit has become a common phenomenon in many countries, due to the public spending growth (Apetri et.al., 2014). The issue of budget deficit has been a topic of great interest since the 1980s. As some economists believe, the public financial fluctuation represents the effect of the excessive demand for public financial resources, compared to the funds that can be collected at the national budget (Moșteanu, 2008).

In the current economic context, where the needs of financial resources are greater than the available resources, the elaboration of budgets is one of the primary problems, especially regarding maintaining the budget balance (Molanesu, 2010).

Among the causes of budget disparities can be identified: high levels of legal tax evasion, high levels of inequality in income and wealth, coercions, demographic fluctuations and government inefficiency (Wynnona, 2016). There have been defined several approaches with regard to the level and implications of budget deficit in the economy.

In the neoclassical approach, the high budget deficit determines the increase of interest rates, as a result of the increase of the requests of loan funds, which discourages the private investments, causing a growth of the higher inflation and finally a slowdown of the economic growth rate (Wynnon, 2016). According to the Keynesian approach, the budget deficit has greater implications for domestic production, leading to increased aggregate demand and investment. Finally, the central Riccarian argument contends that the deficit only delays current taxes to an upcoming period. This approach suggests that the budget deficit does not affect global demand in an economy.

Theoretically, governments can finance their expenses either by introducing new taxes or taxes, or by resorting to new loans, which will eventually have to be paid all in the future for increased taxes. Thus, a choice must be made between taxes and loans (Fareeha, Ihtsham, 2017).

2. ANALYSIS OF STATISTICAL DATA ON BUDGET DEFICIT

2.1. Methodology and data

At present, most states are interested in knowing the level of the budget deficit and its continuous reduction. Romania is particularly concerned with reducing the deficits registered in recent years as it faces great difficulties in the evolution of the economy. In order to analyze the budget deficit, we used a series of statistical methods of collecting and a graphical representing of the data on both the nominal level of the budget deficit and the values resulting from the deficit reporting to GDP available on the website of the European Institute of Statistics. In interpreting the information, we took into consideration the criterion provided by the Maastricht Treaty.

2.2. The results of the analysis

The Romanian analysis was based on the execution data on budgetary aggregates, respectively on budget revenues and budget expenditures. Thus, using the data from the General Consolidated Budget of Romania for the 2011-2017 period, we have developed several tables where we can observe the evolution of the mentioned aggregates. In order to calculate the budget deficit indicators as a percentage in GDP, we also used data on GDP evolution in 2011-2017 period, data collected and centralized from the National Institute of Statistics website. Table no. 1 shows the evolution of GDP and of the two budgetary variables related to the time horizon analyzed.

Table no. 1 The evolution of GDP, total revenues and expenditures in the 2011-2017 period - millions Ron

Indicator/Year	2011	2012	2013	2014	2015	2016	2017
GDP	578.552	585.200	625.617	674.300	704.542	758.500	816.500
Total Expenditures	205.819	207.922,1	215.816,9	226.326,8	243,915.5	242.016,3	276.080,4
Total budgetary revenues	181.920	237.512,5	200.045,7	213.833,6	215,401.1	223.721,9	251.819,7

Source: elaborated by the author based on the data on the website, www.mfinante.ro, www.insse.ro

The analysis of data revealed that Romania registered in 2011 the smallest volume of public revenues with the smallest value quantum. On the other hand, in 2017 there has been recorded the highest income from the analyzed period.

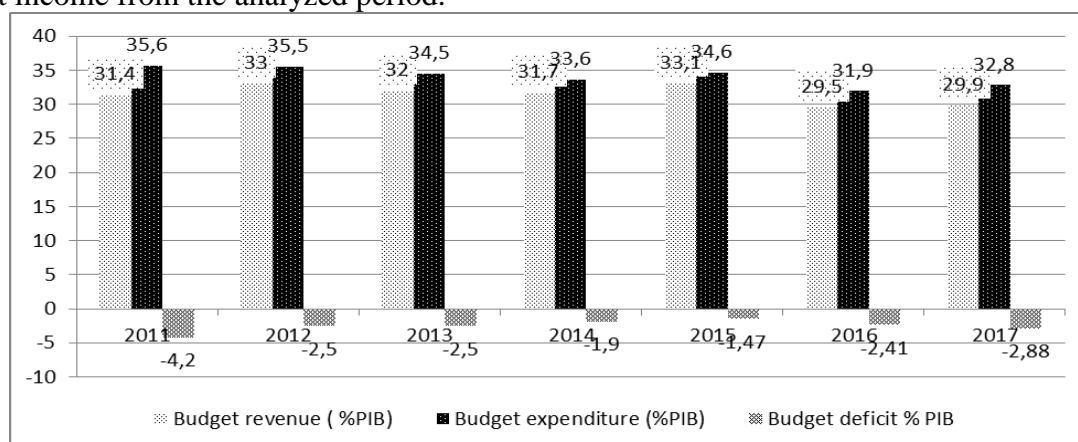


Chart no.1. Evolution of the main budgetary indicators in Romania as a percentage of GDP in the 2011-2017 period

Source: elaborated by the author

Chart no. 1 presents the results of the calculations based on the data mentioned in Table no. 1 on revenue, government expenditure and deficit as a percentage of GDP over the 2011-2017 period.

As you can see in Chart no.1, which presents the evolution of the main budgetary indicators, the highest level of the budget deficit at the level of Romania was registered in 2011, which registered a 4.2% of GDP. Over the next two years, these deficit-reducing trends remain still, due to the fact that expenditures have decreased less in comparison to revenues.

The smallest deficit in the analyzed period was recorded in 2015, respectively 1.47% of GDP. In 2016 and 2017, this trend is changing, revenues are declining to a greater extent than expenses, reaching a budget imbalance of -2.88% of GDP by the end of 2017. This development was driven by the tax relaxation that began in 2015.

According to Romania's fiscal-budgetary strategy on the 2018-2020 period, the budget deficit policy continues to directly support economic growth, within the margin allowed by the Stability and Growth Pact, respectively a European System of Accounts (ESA) budget deficit of 3% of GDP. The budget balance reported to GDP is expected to return to an improving path starting with an adjustment in 2019 and reaching a 1.82% of GDP in 2020.

Between 2011 and 2015, our country implemented large-scale fiscal consolidation measures aimed at reducing both European System of Accounts (ESA) and structural budget deficit, which led to an improvement in the state of public finances. The adjustment made after the economic and financial crisis was mainly on the expenditure section, with structural reforms being promoted especially in the area of the salaries of the public employees, of the public pension system and budgetary programming. Beginning with 2012, the deficit as a percentage of GDP has met the provisions of the Fiscal Treaty (SFB, 2018-2020).

3. EFFECTS OF BUDGET DEFICIT IN ECONOMY

In the literature there are several currents of opinion according to which one can study the impact of the budget deficit on the economy. In a first approach, the focus will be on the short-term effects of the budget deficit on consumption and long-term effects of the budget deficit on the national economy, investment and employment.

In other studies, the hypothesis of long-term deficit neutrality regarding its financing is supported, based on borrowing, respectively on the increase of public debt.

If in the short term, one of the main effects of the deficit is the eviction effect, in the medium and long term, the considerable, long-lasting and with a very low level of sustainability public debt can ultimately lead to major constraints on available internal funds and foreign loans. Thus, a public debt that grows too fast in a certain time, faster than nominal GDP, will constrain an opportunity cost in the future. This cost will involve either a permanently increased tax burden in the future, or a period of inflation, or eventually a period when the state will reduce its expenditures (Hall, R., 2010).

In the specialized literature it is found that the budget deficit can be generated by the diminution of the volume of the economic activity, which determines a reduction of the incomes of the natural and legal persons, and implicitly a reduction of the tax base and a diminution of the budgetary income. At the same time, the existence of a large budget deficit determines the decrease of the government investments, with effects on the jobs as well as on the expenses with the protection and social assistance.

All the methods used to finance the budget deficit, have a major impact on labor market short and long term developments.

Analyzing the short-term implications, it is found that the budget deficit determines the decrease of the national economy, which is manifested by a decrease in the supply on the market, by an increase in interest rates. Thus, the volume of investments is reduced and implicitly the consumption decreases, with implications on economic activities and employment.

Table no.2. Number of employed and unemployed people from Romania in 2011-2017

Indicator/ An	2011	2012	2013	2014	2015	2016	2017
Average number of employees (thousand of people)	6153	6230	6271	5850	6062	6201	6390
Unemployed at the end of the year (thousands of people)	461	494,7	512,3	478,3	436,2	418,2	351,1
Unemployment rate (%)	5.1	5,59	5,65	5,29	4,9	4,77	4,02

Source: www.insse.ro

From table 2 it can be observed that the number of unemployed in Romania varied during the analyzed period, registering a value of 351 thousand in 2017. Also in this year the highest number of employees was registered (6,390 thousand) The year 2013 is noticeable by an increase in the number of unemployed, this aspect pointing to a decrease of the economic activity, with implications both on the budgetary income (decreasing), as well as the budgetary expenditure (which increased).

3. CONCLUSIONS

The deficits that our country faced with had significant impact on the population, but also on the economy of the country. The financing process of these fluctuations was achieved through loans contracted from international bodies, as well as through establishment of austerity measures by the Romanian Government in order to reduce the budget expenditures, especially to those for investments.

The herein analysis reveals that during the recession, budget deficits tend to increase as tax revenues diminish, emphasizing the need for state to intervene through government spending in order to be able to implement social programs. In Romania this has been noticed in increasing number of unemployed people and implicitly decreasing number of employees that led to many riots and social disputes.

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