



## PUBLIC EXPENDITURE IN ROMANIA UNDER ECONOMIC CRISIS

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**Abstract** *This article analyses the public expenditure in Romania, particularly the national priorities and the necessity of paying attention on the public finance resources for a better stimulation of the economic activities.*

**Key words:**

*Public expenditure, fiscal reform, general government expenditure on health, general government expenditure on education*

**JEL Codes:**

H50, H51, H52

### 1. Introduction

The effects of the economic crisis were felt in Romania, starting with the first quarter of 2008, although there was an unsustainable growth. In conditions of limited resources, Romania was required to establish priority areas for their allocation in order to obtain maximum effect. The measures taken have had a strong impact on the economic environment, but were necessary given the increased budget deficit. In this context the reform program was established, together with the IMF, World Bank and European Union, which targeted restructuring costs in the public sector and social sector, in terms of average income in the budget of 31% of GDP and state budget expenditures of 40% of GDP. The program to reduce state budget expenditure took into account staff salaries budget (representing 9.4% of GDP, which means 28 % of the budget) and social expenditure, which includes pensions ( 12% of GDP, represent over 35% of the budget) which together amounted to 63 % of the budget [1]. The objectives were to stabilize the economy and growth through a rational and prudent budgetary policy based on increased investment, exports and capacity to absorb EU funds .

### 2. Public Expenditure Structure in Romania

As a result of the economic crisis, public expenditure increased to 38.2% of GDP, in 2009 and 39.5% of GDP in 2010, with an achievement grade of 100%. Even if most state members recorded an increase of GDP (we ignore the fact that GDP is an indicator of growth and welfare especially, increasingly controversial [2]), for Romania, 2010 distinguished through economic contraction. The budgetary politics aimed at diminishing

the budgetary deficit and applying certain measures related to the system of pensions and wage schedule in budgetary sector. In order to assure a predictable budgetary politics, Law of fiscal responsibility was adopted for fiscal-budgetary caution on medium-term. In order to maintain public expenses under the already set threshold , there were taken measures to mainly diminish the expenditure for human resources. At the end of the first quarter, the expenditure on human resources reached 52,3% of the annual programme. In such a context, the government decided on diminishing salaries from budgetary sector by 25%, restructuring the administrative apparatus at the central level, but also in territories, and cutting off, starting with the 1<sup>st</sup> of July 2010 [3]. At the end of 2010, the number of employees from the budgetary sector was 1.27 million unlike 1.4 million in 2008. After these measures, the budget deficit was 6.5% of GDP, according to IMF methodology [4]. The structure of the budgetary expenditure suffered some adjustments and an increase of the interest expenditure by 0.2 and social assistance expenditure by 0.7 were recorded.

After a two year economic contraction, in 2011, GDP went up by 2.5% thanks to industry [5]. Starting with 2011, the public expenditure started to go downward. Thus, they represented 35,6% of GDP, achieving the expected level of 99,6% of GDP. Over-increases were recorded for goods and services (4,2% of GDP) and the capital expenses (2,1% of GDP). Staff expenditure (-4,6% of GDP) suffered significant decrease compared to the forecast values of expenditure. There were increases such as expenses with goods and services (by 7.4% of GDP compared to the preceding year),

interest expenses (by 22.1% of GDP compared to the preceding year), expenditure with the non-reimbursable grants (by 47.5% of GDP compared to the preceding year) [6]. In September 2010, a new pension law was adopted through which people had to get retired later than before and the pension indexation was done considering the inflation rate, starting with 2030. The effects are cast on the decrease of the social assistance expenditure by 1, compared to 2010.

2012 has faced a slowdown of the GDP dynamics (0.7%) and the diminishment of the budgetary deficit by 2.9 points (according to ESA 95) unlike 2011 [7]. Public expenditure increased by 1% compared to 2011, reaching 35,4 of GDP, with a forecast yield of 97,8%. This was mainly determined by the increase of the weight of staff expenditure by 0,9%, as a result of increasing the salaries in the budgetary sector by 8% and conferring some wage rights according to a court decision. But, there were maintained the restrictions referring to the employment rate in the budgetary system and the ones regarding the benefits reward. To the public expenditure interests, there also contributed an increase of 0.9% as a consequence of the deficits accumulated years before and loan contracting to cover them. The expenditure with foreign non-reimbursable grants increased by 1.2% [8].

In 2013 the budgetary deficit was 2.3% of GDP, with 0,7% lower than the precedent one while the structural deficit got reduced from 2,5% of GDP in 2012 to 1,8% of GDP in 2013. This was due, on the one hand to the financial agreements with IMF and EU, and , on the other hand, the rules set up in the Treat regarding Stability, Coordination and Governance within Monetary and Economic Union, the budgetary objective being set up for 2015.

For 2013, through the budgetary policies, there were set up more objectives: support for the economic activity for which 13,4 billion lei has been allocated (under the circumstances of budgetary salary increases by 15%, pensions by 4%, minimum wage by 15% and minimum income, by 8%), fiscal consolidation by diminishing the budgetary deficit, central apparatus's expenditure, payment of arrears (2,6 billion lei) in health care system, transport infrastructure and local administration, encouraging investments both through the increase of the expenses on co-financing European projects (2,2 billion lei, representing an increase of 12.7 compared to 2012) and the support of the investments that could have been finalized by 2014; prioritizing public investments; assuring transparency regarding the use of public financial resources and efficient management of the public debt that at the end of the year reached 38.4% of GDP [9].

In 2013 the government used loans both on the domestic market and the foreign one, at low interests,

which led to a significant diminishment of the expenditure regarding the interests related to the governmental public debt. In such a context, the expenditure of the general consolidated budget stood for 34.4% of GDP, having an yield degree of 96%. As for the economic structure of the public expenditure, we remark the following issues: staff expenditure increased by 13% compared to the previous year due to the wage reinstatement in the budgetary field and the reward of some benefits as a result of some court decisions; expenditure on goods and services have increased by 0,2% as a result of the measures concerning the delay in payment and the payment of commercial arrears by local governments and hospitals; the interest charges have increased by 71 % compared to the previous year; expenditure on social assistance have increased by 2% also compared with the previous year, the increase in the amount determined as social allowance due to the increase in aid of 8.5 %, with effect from the 1st July, the increase in family allowances to support 30% and the pension increase by 4 %; increasing expenditure for investments, which represented 5.1% of GDP.

In 2014, the budget policy had as objective "a prudent management of the public expenditure and a significant improvement of the public debt management." [10]. To meet this objective, a series of measures were made, exclusively for population with low incomes. The first step was to increase the minimum wage from 800lei/month to 850 lei/month starting with the 1<sup>st</sup> of January 2014 and 900lei, starting with 1<sup>st</sup> July 2014. With regard of pensions, an indexation of 3,75% was included. An ultimate measure aimed at decreasing employer's social quota by 5%. In order to support the economic environment, a range of measures were foreseen. Public investments were encouraged and the capacity of EU funds absorption to reestablish an increase of cofinancing of 0.5%. Also the public investments at the local level were stimulated and an increase of 26% was recorded, compared to 2013. The business environment was encouraged by helping IMMs and agricultural producers. With respect to the structure we remark an increase in staff expenditure by 9 % as compared to 2013 due to the increase of minimum gross wages in the economy, increase of pays for certain categories of employers or the payments of financial obligations given by court decision.

An increase related to the costs of the subsidies is also noticeable, as a result of subsidies for agricultural producers, public passenger railway, subsidies for the carriage of passengers by train. A reduction in capacity has been registered at the level of expenditure with interest as determined by the decrease in yields of the bids of benchmark bonds issue.

Table 1. Government expenditure by economic structure in Romania

Indicators	2008	2009	2010	2011	2012	2013	2014
Total general government expenditure	36.9	38.2	39.5	37.5	35.5	34.5	33.6
Current expenditure	32.4	34.1	35.8	33.4	32.3	31.8	31.2
Staff expenditure	8.4	9.2	8.4	7.0	7.0	7.4	7.5
Goods and services	6.5	5.7	5.800	5.8	5.9	6.2	5.9
Interest	0.8	1.2	1.4	1.6	1.8	1.7	1.5
Subsidies	1.5	1.4	1.3	1.2	1.0	0.8	0.9
Total transfers	15.2	16.1	18.5	17.4	16.3	15.6	15.3
Transfers between branches of Public Administration	0.6	0.1	0.1	0.1	0.2	0.2	0.2
Other transfers	3	2.4	3.0	2.4	1.9	1.7	1.8
Foreign non-reimbursable grants	*	0.5	1.4	2.0	2.3	2.2	2.2
Social protection	10.4	12.7	13.4	12.4	11.5	10.9	10.6
Other expenditure	1.2	0.5	0.4	0.6	0.5	0.5	0.6
Expenditures on reimbursable grants	*	0.4	*	*	0.3	0.1	0.1
Capital expenditure	4.5	4.6	3.8	4.2	3.3	2.9	2.5
Financial operations	*	0.0	0.0	0.0	0.0	0.0	0.0
Loan	0	0.0	0.0	0.0	0.0	0.0	0.0
Loan reimbursement	0	0.0	0.0	0.0	0.0	0.0	0.0
Payments in preceding years currently recovered	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1

Source: The Consolidated General Budget 2008-2014, Ministry of Public Finance

### 3. General government expenditure by function – Romania vs. EU

Regarding general government expenditure by function, a significant weight is given by the expenditure for social protection. Between 2003-2010, these recorded a higher increase. In 2003, they were 9.3% of GDP. In 2010, they reached 14.6% of GDP, overpassing the EU28 average of 19.4% of GDP. Only 9 states had a smaller level of expenditures with social assistance, such as: Cyprus – 10.7%, Slovakia – 12.9%, Czech

Republic – 13%, Bulgaria – 13.2%, Malta – 13.7%, Latvia – 13.8%, Estonia – 14.2%, Lithuania – 14.2% and Croatia – 14.6%. At the other pole, there are Sweden – 21.9%, Finland – 22.8%, France -23.6% and Denmark – 25.1%. Starting with 2011, the expenditures with social assistance have been decreasing, being of 12.8% in 2011 ( EU28 average – 19.1%), 12.3% in 2012 (media EU28 – 19.4%) and 11.5% in 2013 ( EU28 average–19.6%).

Table 2 General government expenditure by function in Romania

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total general government	33.2	33.4	33.4	35.3	38.3	38.9	40.6	39.6	39.2	36.4	35.2
General public services	4.1	3.9	3.7	3.4	4.5	4.8	4.3	4.5	4.8	4.9	4.9
Defence	2.5	2.2	2.7	2.3	1.8	1.5	1.5	1.4	0.8	0.7	0.8
Public order and safety	1.8	1.8	2	2.4	2.4	2.2	2.1	2.4	2.2	2.2	2.2
Economic affairs	5	5.8	5.7	7.2	8.6	8	7.9	7	7.1	6.5	6.2
Environment protection	0.2	0.1	0.3	0.4	0.4	0.5	0.6	0.8	0.9	0.8	0.7
Housing and community amenities	2.5	2.5	1.3	1.4	1.5	1.3	1.4	1.3	1.2	1.1	1.2
Health	3.4	2.5	2.6	2.7	3.1	3.2	3.8	3.3	4.1	3.8	4
Recreation, culture and religion	0.7	0.6	0.8	1	1.1	1.1	1.1	1	1.1	1	0.9
Education	3.5	3.6	3.6	4.1	4	4.5	4.1	3.3	4.1	3	2.8
Social protection	9.3	10.4	10.7	10.4	10.8	11.9	14	14.6	12.8	12.3	11.5

Source: Eurostat

Expenditure on general government services were 4.9% of GDP, 28 EU average being 6.8% of GDP, the lowest levels being recorded by Estonia – 4% of GDP, Bulgaria – 4.2% of GDP, Czech Republic and Latvia - 4.7% of GDP.

Although Romania has been confronting with serious issues in the field of health care, public expenditures on this sector has a small weight of GDP, representing only 3-4%. The average for EU28 was 6.8% of GDP, in 2008, reaching 7.2% of GDP in 2013. During the period 2008-2013 total expenditure on health increased

by 1.4 pp of GDP in Finland and Netherlands, 0.8 pp of GDP in Belgium, Denmark, Croatia, Romania and Slovenia, 0.7 pp of GDP in Czech Republic and France, 0.6 pp of GDP in Germany, 0.5 pp of GDP in Slovakia, 0.4 pp of GDP in Sweden, United Kingdom, Malta, Cyprus, 0.3 pp of GDP in Austria and Hungary, 0.2 pp of GDP in Italy, 0.1 pp of GDP in Bulgaria. In contrast, decreases were observed in Ireland and Poland (-0.4 pp of GDP), Greece (-1.3 pp of GDP), Latvia (-0.7 pp of GDP), Portugal (-0.5 pp of GDP).

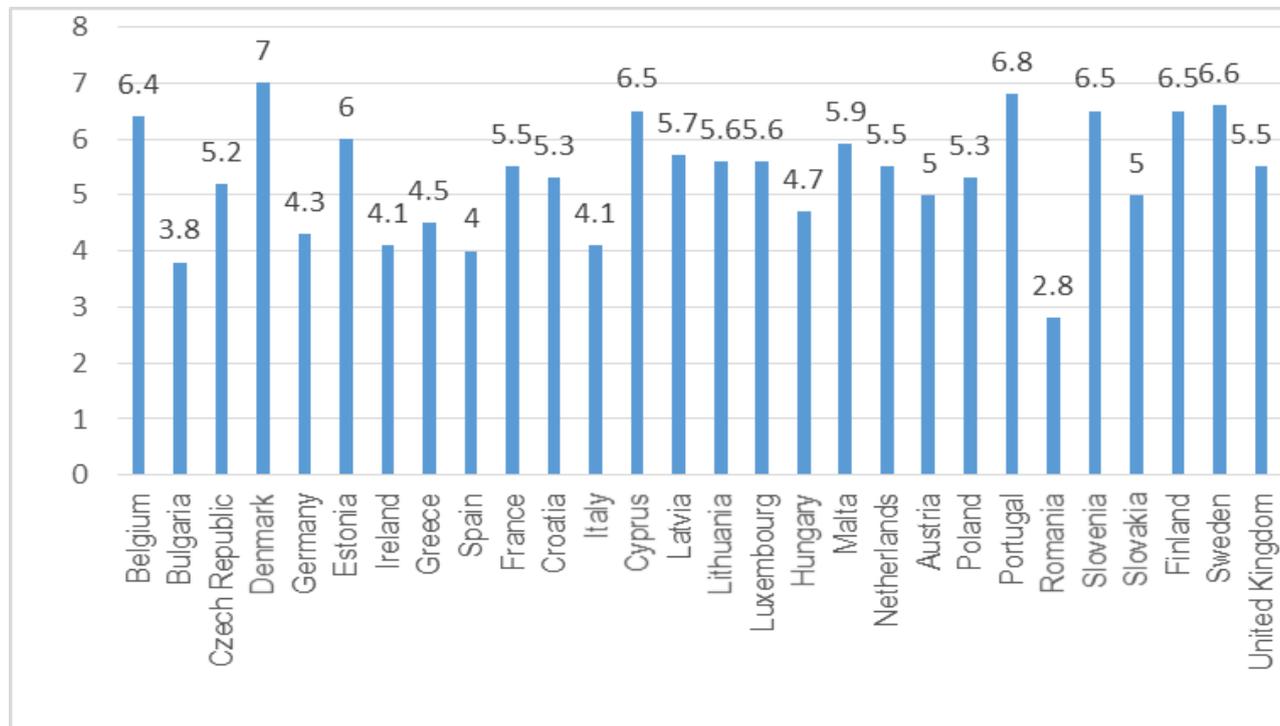
Table. 3 General government expenditure on health in EU 28

<b>Government expenditure on health</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
European Union	6.8	7.4	7.3	7.1	7.2	7.2
Belgium	7.1	7.7	7.6	7.7	7.9	7.9
Bulgaria	4.5	4.1	4.6	4.3	4.5	4.6
Czech Republic	6.6	7.4	7.5	7.4	7.4	7.3
Denmark	7.9	8.9	8.6	8.5	8.8	8.7
Germany	6.4	7.1	7	6.8	6.8	7
Estonia	5.1	5.5	5.3	5	5.1	5.1
Ireland	7.5	8.2	7.9	7.2	7	7.1
Greece	6.4	6.8	6.8	6.4	5.7	5.1
Spain	6	6.8	6.6	6.4	6.1	6.0(p)
France	7.4	7.9	7.9	7.9	8	8.1
Croatia	5.8	6.4	6.1	6.3	6.6	6.6
Italy	7	7.5	7.4	7.1	7.2	7.2
Cyprus	2.7	3	3	3.1	3	3.1
Latvia	4.3	4.6	4.2	4.1	3.9	3.6
Lithuania	5.6	6.7	7	6.6	5.9	5.6
Luxembourg	4.7	5.4	5.1	4.8	5	5.3
Hungary	4.9	5.2	5.1	5.2	5.2	5.2
Malta	5.3	5.1	5.3	5.4	5.5	5.7
Netherlands	6.9	7.8	7.8	7.9	8.4	8.3
Austria	7.6	8	8	7.9	7.9	7.9
Poland	5	5	5	4.7	4.7	4.6
Portugal	7.2	7.9	7.3	6.8	6.5	6.7
Romania	3.2	3.8	3.3	4.1	3.8	4
Slovenia	6.1	6.8	6.8	6.9	6.9	6.9
Slovakia	7	7.8	7.6	7.2	7.4	7.5
Finland	7	7.9	7.9	7.8	8.2	8.4
Sweden	6.6	7.1	6.8	6.8	6.9	7
United Kingdom	7.2	8	7.8	7.6	7.5	7.6

Source: Eurostat

In Romania, general government expenditure on education is situated under the limit of EU28 average. If in 2008, it was 4.5% of GDP, in 2013, was only 2.8% of GDP, which was the lowest level of EU28. Under EU level, there are also Bulgaria – 3.8% of GDP and Spain – 4% of GDP, Ireland and Italy – 4.1 % of GDP,

Germany – 4.3% of GDP, Greece – 4.5 % of GDP and Hungary – 4.7% of GDP. An upper of general government expenditure on education is recorded in Denmark- 7% of GDP, Portugal -6.8% of GDP, Sweden – 6.6% of GDP and Finland – 6.5% of GDP.



Source: Eurostat

Figure 1 Government expenditure on education in EU28, 2013

#### 4. Conclusions

As a consequence of the fiscal measures taken in 2010, which aimed at adjusting the major inequalities regarding the public finances, Romania managed in a relatively short time, 2009-2013, to decrease the budgetary deficit ESA95 from 9% of GDP in 2009 to 2.3% of GDP in 2013. This was due to some politics meant to reduce the budgetary expenditures, mainly the ones related to the human resources (-2.8% pp of GDP), gross fix capital (-1.5 pp of GDP) and social assistance (-1.4 pp of GDP) [11]. Reducing budgetary expenditure should not have an impact on GDP, in conditions which would be supported by growth in industry, services and agriculture [12]. As for the budgetary expenditures, we remark a considerable balance between salaries and social assistance. Between 2008-2009, expenditures related to salaries and pensions overcame 27 EU average. The ones for education and health-care are under 28EU average.

For 2015, public expenditures are forecast to be 35,1% of GDP, expecting a deficit of 1,4%. A salary increase should be desirable both in education and health. In the field of education, a salary increase was actually considered, in two phases: the 1st of March and the 1st of September, 5% per phase. As for health-care, a salary increase by 100 lei starting with the 1st of January. In setting up the fiscal policies, the increase of pension by 5% as well as the the social allowances from which benefit retired or disabled people, as well as the ones with low revenues [13].

For the following period, a decrease of budgetary expenditures to 33,8% in 2016, 33,6% in 2017 and 33,3% in 2018 is foreseen. Considering the same public income, ESA budgetary deficit ESA will be of 1,2% in 2016, 1% in 2017 and 0,8% in 2018. These will be possible for applying a measure package, such as: increasing the capacity of absorbing european funds, making investments more efficient for the economic growth, assuring a stable economic environment, increasing the degree of predictability and efficacy of public expenditures.

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