

# CASE STUDY ON BUDGETARY DEVELOPMENTS IN ROMANIA BEFORE THE ECONOMIC CRISIS

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## **Abstract:**

*Fiscal policy, along with monetary policy, are the tools that the state can use to achieve macroeconomic stabilization. Under the terms of accession to the eurozone, fiscal policy remains the only instrument by which the state can intervene in the economy, while monetary policy is becoming common with that of other Member States. It is therefore necessary to introduce measures aimed at the stability of public finances.*

*There has been an increase in the volume of arrears of state firms, but also of private ones, an unsustainable increase of public expenditures in the period 2006-2008, the authorities took this decision relying on the increase of public revenue in the future. No steps have been taken to improve the system of tax collection and payment of taxes, and fiscal relaxation measures only temporarily increased the tax base.*

*Romania is ranked last place in terms of the degree of taxation.*

*Once the crisis began, at the European level there has emerged a weak capacity to finance the current budget deficits and public debt, which has increased the degree of risk of economies with unsustainable public finances (including Romania), leading to higher interest rates related to refinance debt.*

*The Romanian State was forced to resort to the IMF and European Comision to reduce financial instability installed. Romania had to implement a series of measures aimed at fiscal consolidation, reducing the budget deficit, thus regaining trust of international creditors.*

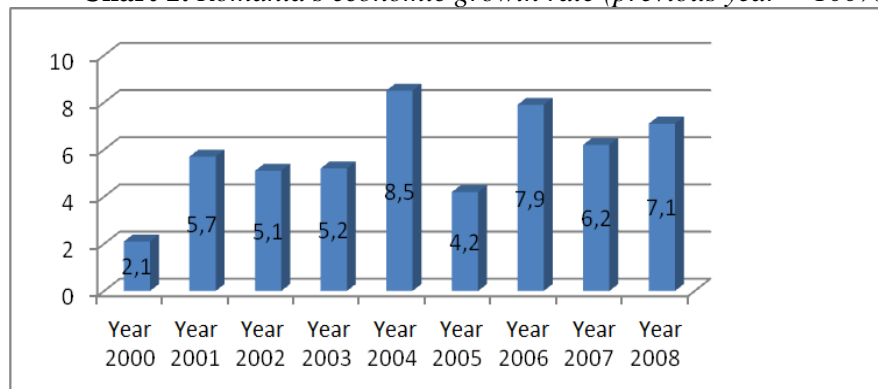
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**Coduri JEL codes:** H61, B26, R11, E62

## **1. Analysis of budget revenues and expenditures**

The 2000-2008 period corresponds to a boom for Romania. Our country has registered positive growth rates throughout the period, from 2.1% in 2000 to 7.1% in 2008 (Chart 1). The growth is considered to be the fundamental engine lifting living standards.

**Chart 1: Romania's economic growth rate (previous year = 100%)**



**Source:** Ministry of Public Finances

Structure of consolidated budget revenues over the period 2000-2008 is presented in Table 1. These revenues have recorded 204.803.647 million lei in 2000 and 295.638.000 million in 2001, accounting for about 30% of GDP (31.2% of GDP for the year 2000 and 30.1% of GDP for 2001). During the period 2002-2004, the largest value of the total revenue generated was 643.183 billion lei, representing 31.1 per cent of GDP, the value recorded in 2004. In 2005, total revenues have had a share in the GDP of 31.4 percent, while during the period 2006-2008 share the largest share was 32.3% of GDP (value recorded in both 2006 and 2007).

Current revenues have followed a downward trend during the period 2000-2005, ranging from 30.1% of GDP to 29.1% of GDP. Compared to 2005, in 2006 they increased by 0.9 percentage points, and the highest share they recorded was 29.4% of GDP in 2007, their value being 138,012.7 million lei. Tax revenues have fallen, as share in GDP from 29.2% in 2000 to 27.9% in 2008.

Revenue from corporate tax declined in 2001 with 0.62 percentage points compared to 2000. Since 2002, they have begun to grow from 2.23% of GDP to 2.53% in 2008. Income taxes increased by 0.54 percentage points in 2008 compared to 2000, while payroll taxes have had reduced shares of GDP throughout the period under review, the lowest being 2.4% in 2005.

With regard to indirect taxes, they also had the smallest share in GDP in 2001 (8.26% of GDP), while the largest share was in 2006 (11.25%). VAT registered in the year 2006 the largest share in GDP, namely 8.05%

(27,763 million new lei). Excise duty followed an upward trend between 2000 and 2004, rising from 2.32 percent of the GDP, to 3.23%, then it dropped for the following period, in the year 2008 being 0.83 percentage points lower compared with the year 2004. Customs duties have been reduced, as share in GDP, from 1.08 to 0.65 in the period 2000-2004. In 2005 and 2006, they recorded values of 0,70% of GDP respectively 0.75 percent of GDP, and were reduced in 2007 to 0.20%, and in 2008 at 0.18% of GDP.

Social security contributions fell from 10.8 percent of GDP in 2000 to the 9.1% of GDP (2004). In 2006, compared to 2004, the share of social contributions in GDP increased by 0.5 percentage points, and in 2005, as well as in 2007 and 2008, they had a share of 9.5% of GDP.

Income from capital had a very low share in GDP, the highest value was recorded in 2004, namely 0.29% of GDP (217 billion dollars). Revenue from the repayment of loans recorded the highest value, as the share in GDP, in 2001 (0.10%) while non-fiscal revenues had the greatest share in 2007 (3.4 percent).

**Table 1: The structure of budgetary revenues in 2000-2008 (% of GDP)**

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total revenues</b>	31.2	30.1	29.6	30	31.1	31.4	32.3	32.3	32.2
<b>1.Current revenues</b>	30.1	29.1	28.7	29.01	28.9	29.1	29.2	29.4	28.1
<b>1.1. Fiscal revenues</b>	29.2	28	27.6	27.9	27.0	27.3	28.1	27.8	27.9
1.1.1.Direct taxes	17.9	16.9	16.4	15.7	15.0	14.6	15.1	15.8	15.9
Corporate income tax	2.52	1.90	1.99	2.23	2.63	2.26	2.29	2.55	2.53
Payroll tax	3.4	3.2	2.8	2.8	2.9	2.4	2.8	3.5	3.6
Income tax	3.03	3.14	2.72	2.69	2.88	2.31	2.82	3.35	3.57
Social security contributions	10.8	10.7	10.7	9.6	9.1	9.5	9.6	9.5	9.5
1.1.2.Indirect taxes	10.3	8.26	8.35	9.63	9.43	9.07	11.25	10.8	10.69
VAT	6.27	4.43	4.79	4.88	4.57	4.52	8.05	7.56	7.94
Excise duties	2.32	2.33	2.14	3.05	3.23	3.15	2.88	2.71	2.40
Customs duties	1.08	0.77	0.61	0.65	0.65	0.70	0.75	0.20	0.18
<b>1.2. Non-fiscal revenues</b>	1.9	2.1	1.9	1.9	3.3	3.2	3.3	3.4	3.1
<b>2.Capital</b>	0.08	0.04	0.05	0.087	0.29	0.15	0.20	0.17	0.15

<b>revenues</b>			3						
<b>3.Repayment of loans</b>	0.02	0.10	0.015	0.0048	0.002	0.002	0.0008	0.001	0.0012

**Source:** Own calculations based on data provided by the Ministry of Finance and INS [6,7]

The structure of the consolidated general budget expenditure for the years 2000-2008 is presented in Table 2. Budgetary expenditures have increased in nominal terms from 234.057.960 million in 2000 to 338.225.591 million in 2001, their share in GDP was 35.2% 33.4%, respectively. During the period 2002-2004, they have followed an upward trend, rising to 32.1% of GDP to 32.4%. In 2005, the budgetary costs have had a share of 32% in GDP and, since 2006, their share in GDP started to grow, the amounts recorded 33.6% (2006), 35.4% (2007) and 37% of GDP (2008).

Staff expenses have had a downward trend over the period 2000-2003, reducing from 5.5% of GDP to%. Compared to 2003, in 2004 they increased by 2.3 percentage points as share in GDP, and continued to grow, the share recorded in 2008 was 8.9% of GDP.

As regards capital expenditure, they have recorded the highest value in 2008 (5% of GDP) and interest expenses have followed a downward trend throughout the whole period under review, thus reducing from 4.9% of GDP (2000) to 0.7% of GDP (2008).

The subsidies have had low weights in GDP, about 2% of GDP between 2000 and 2008, while transfers have recorded the smallest share in GDP in 2003 (11.8% of GDP), and the largest share in 2008 (14.5% of GDP).

Socio-cultural costs have been the largest share in GDP, these rising from 12.55% in 2000 to 16.75% in 2008. A large share also had defence expenditures, public order and national security, the highest being in 2006 (3.80% of GDP), as well as expenses for economic action (minimum value as share in GDP was recorded in 2002, 3.28% and maximum value in 2006, 5.33%)

Expenditure for general public services fell from 1.55% of GDP in 2000 to 1.48% in 2002. In 2003, they accounted for 1.60% of GDP (31.562 billion lei), and in 2004 1.57% of GDP (38.685 billion). In the period 2005-2008, expenditure on general public services have followed an upward trend, ranging from 1.67% to 3.99% of GDP.

As regards expenditure on public services and development, housing, environment and waters, they have recorded values below 2%, the

maximum being 1.88% of GDP (2001). Compared to 2000, their share in GDP has been reduced by 0.47 percentage points in 2008.

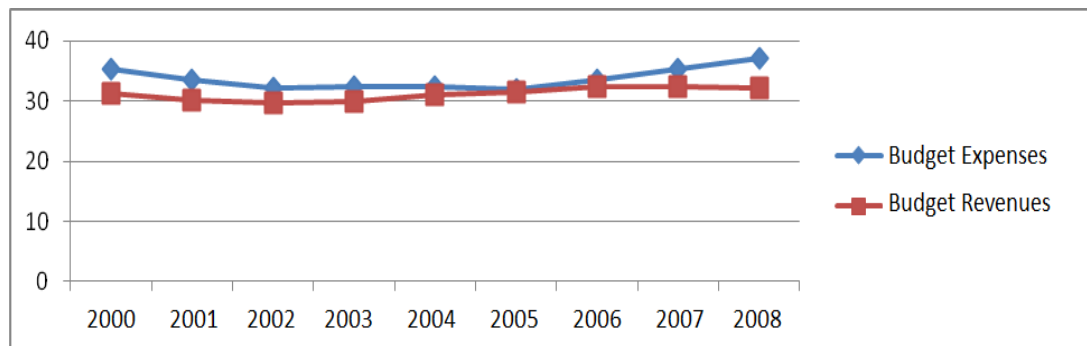
**Table 2: The structure of budgetary expenditures in 2000-2008 (% of GDP)**

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total expenses</b>	<b>35.2</b>	<b>33.4</b>	<b>32.1</b>	<b>32.3</b>	<b>32.4</b>	<b>32.0</b>	<b>33.6</b>	<b>35.4</b>	<b>37.0</b>
<b>Staff expenses</b>	5.5	5.0	4.8	4.8	7.1	7.4	8.0	8.1	8.9
<b>Capital expenses</b>	3.1	3.1	3.2	3.5	3.5	3.0	4.3	4.7	5.0
<b>Interest expenses</b>	4.9	3.8	3.0	2.1	1.3	1.2	0.8	0.7	0.7
<b>Subsidies</b>	2.2	1.6	1.6	2.3	2.2	2.2	2.2	1.7	1.5
<b>Transfers</b>	12.2	12.7	12.4	11.8	12.4	11.9	12.2	14.1	14.5
<b>General public services</b>	1.55	1.53	1.48	1.60	1.57	1.67	2.58	3.72	3.99
<b>Defence, public order and national security</b>	3.48	3.21	3.24	3.15	3.10	3.21	3.80	3.54	3.31
<b>Socio-cultural expenses</b>	12.55	13.72	14.76	12.97	13.33	13.75	14.45	15.74	16.75
<b>Public services and development, housing, environment and waters</b>	1.83	1.88	1.80	2.87	1.69	1.61	1.42	1.34	1.36
<b>Economic action</b>	3.53	3.31	3.28	3.98	4.58	4.30	5.33	5.15	5.03

**Source:** Own calculations based on data provided by the Ministry of Finance and INS [6,7]

Throughout the period under review budget expenditures were higher than budget revenues. Their evolution as a share of GDP is shown in the chart below.

**Chart 2: The evolution of revenues and expenditures in 2000-2008 (as a share of GDP)**



**Source:** Own calculations based on data provided by the Ministry of Finance and INS [6,7]

## 2. Analysis of the budget deficit and public debt

Preparation of the State budget has as basic principle the budgetary balance, but the latter, most of the times, is not done automatically; by covering budgetary expenses with budgetary revenues, the calculation of a budget deficit is performed.

The primary deficit is the difference between the amount of tax revenues and the amount of public expenditure incurred with the transfers and payments for purchase of goods and services to the public. When to this kind of deficit are added interest payments on the government loan, mentioned in the budget in the form of public expenditure, the total deficit is obtained.

The total deficit includes: structural deficit, which occurs when the cyclically adjusted budget deficit, cyclical deficit, and that deficit is defined as the total minus the structural deficit.

The existence of the budgetary deficit is due to several causes, such as decreased production of goods and services in the economy, increased spending in order to achieve certain social programs; increased activity of the invisible sector of economy; increasing marginal social costs of production; currency issuance in excess, which may not be accompanied by economic growth. On the other hand, the budgetary revenue and expenditure levels are affected by business cycle stage. When the economy contracts, the budget deficit is heading towards, as a result of the reduction in the amount of revenue collected. [2]

In the literature there are different opinions regarding the effects of the budget deficit on the economic and social life, with some economists arguing that deficits resulting from the reduction in marginal rates of tax boosts farm productivity, while others considered that budget deficits are a cause of the stagnation and instability on its economy.

Trying to reach the general economic balance, with budget deficit, is limited, on the one hand by the ability of the State loan, and, on the other hand, the efficiency of the use of the State, economic principles, such resources raised from the market. In addition, the principle that private economic decision is more effective than administrative decision (for investment), it follows that a tax policy that focuses on reducing taxes and fees (with favorable effects in stimulating private consumption and investment) must be matched by a reduction in the volume of expenditure (mainly affecting the function of redistribution of subsidies), and their growth. [2]

Romania, as a member of the European Union, must reduce the budget deficit to 3 percent of GDP and public debt to 60 percent of GDP.

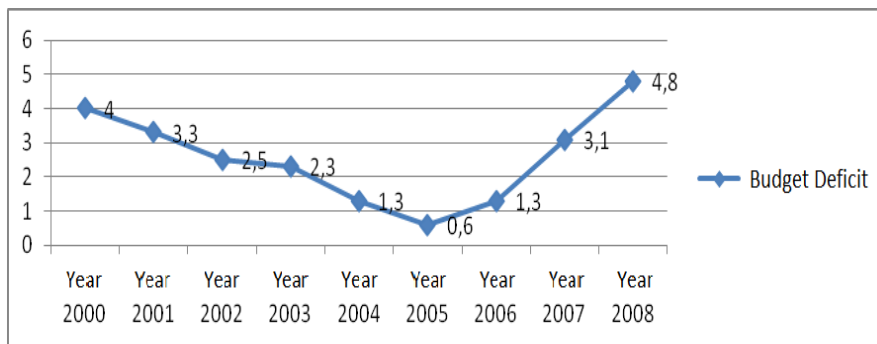
In the literature there are different opinions regarding the effects of the budget deficit on the economic and social life, with some economists arguing that deficits resulting from the reduction in marginal rates of tax boosts labour productivity, while others consider that budget deficits are a cause of the stagnation and instability of the economy.

Trying to reach the general economic balance, with budget deficit, is limited, on the one hand by the lending capacity of the state, and, on the other hand, the efficiency of the usage by the State, based on economic principles, of the resources raised as such. In addition, the principle that private economic decision is more effective than administrative decision (for investment), it follows that a tax policy that focuses on reducing taxes and fees (with favorable effects in stimulating private consumption and investment) must be matched by a reduction in the volume of expenditure (mainly affecting the function of redistribution of subsidies), and not their growth. [2]

Romania, as a member of the European Union, must reduce the budget deficit to 3 percent of GDP and public debt to 60 percent of GDP.

The evolution of the budget deficit in the period 2000-2008 is illustrated in Figure 3. The lowest value was recorded in 2005, 0.8% of GDP, a year in which taxation was switched to single quota. According to the data presented in the graph below, the budget deficit has followed a downward trend during the period 2000-2005. In 2005, it entered the upward trajectory because of the increase in budget expenditure.

### ***Chart 3: The budget deficit in 2000-2008***



**Source:** Own calculations based on data provided by the Ministry of Finance and INS

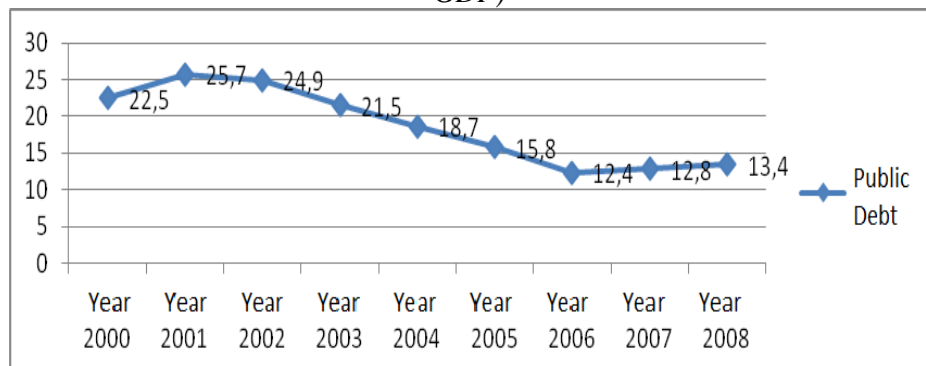
Public debt accounts for all internal and external financial obligations of the State, at any given time, from direct loans or guaranteed by the government, through the Ministry of Public Finance, or by local public administration authorities from various lenders, natural or legal persons resident or non-resident in Romania. [3]

Public debt of a country is defined by the World Bank as *the sum of domestic and foreign obligations of public debtors* (Government and its agencies, administrative-territorial units and their agencies, autonomous public agencies such as state-owned enterprises and their subsidiaries in which the State has a major stake; non-government public bodies obligations include loans that can be guaranteed by the Government or unsecured by it) and *internal and external obligations of the private sector*, whose guarantee of repayment at maturity is guaranteed by a public entity.

Chart 4 summarizes the structure of government debt. It can be seen that Romania fulfils successfully one of the criteria laid down in the Maastricht Treaty, namely the one concerning the public debt, values recorded hovering well below the 60% of GDP. Public debt recorded the highest value, share in GDP, in 2001 (25.7%) and decreased to 12.4% in 2006, and in 2008 it went up to 13.4% of GDP.



**Chart 4:** *Evolution of public debt between 2000-2008 (% of GDP)*



**Source:** Ministry of Public Finance

### 3. Analysis of the Romanian economy in 2009-2013

With the outbreak of the financial crisis and the decline of foreign demand, the model of economic growth [1] from 2005 to 2008 based on lending to non-productive investment and consumption proved to be unsustainable. The private sector has been contracted since 2009, causes being adverse external conditions being transmitted internally, as well as the vulnerabilities induced by the process of overheating of the economy in 2007 and 2008. So, in 2009, Romania recorded a fall in economic more than 7 percentage points. In 2010, there has been a decrease of 1.3%, while in 2011, thanks to the very good agricultural year, there has been a growth of 2.5%. The year 2012 has brought an economic growth of 0.6 percent, while in the year 2013 it was 3.5%. Economic recovery is slow and is based on increasing exports and industry, respectively, in the agriculture with favorable natural conditions. However, domestic production is still 1.6 percent below the level of 2008, despite the economic growth rate of 3.5% recorded in the year 2013.

#### 3.1. Analysis of general government revenue and expenditure

Structure of consolidated budget revenues for the period 2009-2013 is presented in table 3. They have the following values: 140,599.8 million lei (2009), 168,598.5 million lei (2010), 181,566.9 million lei (2011), 193,148.2 million (2012) and 205,964 million (2013), the largest share in GDP being recorded in 2011 (33.1 percent). Current revenues recorded their lowest share in GDP in 2009 (28.45%); compared to this year, in 2013, they have increased with 2.39 percentage points.

Tax revenues have registered the largest share in GDP in 2012 (28.1 percent), while non-tax had the biggest share in 2010 (3.9 percent).

Revenues from the tax on wages were reduced in 2010 compared with 2009 with 0.3 percentage points, following a restructuring of employment. It grew since year 2012, once with increasing the average number of employees. Property taxes and charges have increased in 2010, compared to 2009, with 0.1 percentage points, registering a share in GDP of 0.7%, share that was maintained for the rest of the analyzed period.

Value added tax registered the largest share in GDP in 2011 (8.7%). For the period 2009-2011, this followed an upward trend, having increased from 6.8% to 8.7% of GDP, the reason being the increase of the VAT rate from 19% to 24% in 2010. In 2013 it decreased by 0.2 percentage points compared to the previous year. [5]

The revenue from excise duties have been 0.7 percentage points higher in 2011 than in 2009, due to the increase of excise duties (for example: from cigarettes increased from 57 euros per 1,000 cigarettes in 2009 to 74 euro/1,000 cigarettes in 2010; the excise duty for unleaded petrol has risen from 436 euros a tonne to 452 euros per tonne and the excise duty on diesel fuels, increased from 336 euros per tonne in 2009 to 347 euros per tonne in 2010).

Social security contributions have increased in nominal terms over the period under review, with the following values: 33,481.3 million lei (2009), 45,697.2 million lei (2010), 350,637 million lei (2011), 51,658.3 million (2012) and 54,325 million (2013). The results obtained in 2013 were due to growing back budgetary staff salaries, increasing pension points and an increase in the minimum wage. Social security contributions had the smallest share in GDP in 2010 (8.7%).

Income from capital had a very small share of GDP, the maximum being 0.1%, which is registered in 2010-2012, while the amounts received from the EU for payments and pre-financing peaked in 2013 (2.09% of GDP), which represented 13,073 million lei.

**Table 3:** Structure of budget revenues between 2009-2013 (% of GDP)

<b>YEARS</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total revenues</b>	<b>30.23</b>	<b>31.34</b>	<b>33.1</b>	<b>32.9</b>	<b>33.04</b>
1. Current revenues	28.45	29.75	31.7	31.4	30.84
1.1. Tax revenues	27.1	26.4	27.8	28.1	27.2
1.1.1. Direct taxes	15.9	14.3	14.5	14.4	14.3
<i>Profit tax</i>	2.1	2	1.9	1.9	1.7
<i>Income tax</i>	3.7	3.5	3.5	3.6	3.7

<i>Wage tax</i>	3.7	3.4	3.4	3.6	3.6
<i>Social security contributions</i>	9.6	8.7	9.1	8.8	8.7
<i>Property taxes</i>	0.6	0.7	0.7	0.7	0.7
1.1.2. Indirect taxes	1.2	2.2	3.3	3.8	2.9
<i>VAT</i>	6.8	7.7	8.7	8.6	8.4
<i>Excise duties</i>	2.8	3.4	3.5	3.5	3.4
<i>Customs duties</i>	0.1	0.1	0.1	0.1	0.09
1.2. Non-tax revenues	3.1	3.9	3.3	3.1	2.8
2. Capital revenues	0.08	0.1	0.1	0.1	0.09

**Source:** Own calculations based on data provided by the Ministry of Finance and INS [6,7]

With regard to budgetary expenditure in the period 2009-2013, their structure is illustrated in table 4. The nominal values of these were recorded: 172,317 million (2009) 201,903.63 million lei (2010), 205,403.6 million lei (2011), 207,922.1 million (2012) and 221.864 million (2013). As share in GDP they had a downward trend, reducing from 34.5% to 38.6%.

Personnel expenses have decreased in 2011 compared to 2010 from 42,806 to 38,496.3, with a share in GDP of 7%. Even though in 2012 state employees' salaries have increased, which resulted in an increase in nominal terms of personnel expenses (40,798.8 million lei), their share in GDP was still 7%, and in 2013 it has been increased by 0.4 percentage points due to the salary of the civil servants that has been grown back at the level of the year 2010.

Expenditure on goods and services followed an upward trend throughout the period under review, having increased from 4.6% of GDP in 2009 to 6.3 percent of GDP in 2013, while interest expenses rose as share in GDP by 0.2 percentage points during the period 2009-2012; in 2013, they were reduced by 0.1 percentage points.

Subsidies have followed a downward trend, minimum value registered representing 0.8% of GDP (5.211 million lei), a value that was obtained in the year 2013. Expenditure on social assistance increased by 0.3 percentage points in 2010 compared to 2009, to be reduced by 0.6 percentage points in 2011 and 1.4 percentage points in 2012.

Investment expenditure recorded the maximum value in the year 2013, the share of GDP 7.2% (36,183 million lei), these supporting economic growth. Health spending recorded the lowest rate in the GDP in

2009 (3.64%) while costs for transport registered the minimum share in 2013 (3.18%).

Expenses for education and research have followed a downward trend during the period 2009-2013, 2013 with a share of 3.31% in the GDP (20.664 million lei). Spending on agriculture and rural development have a low share in the GDP, less than 2%, the maximum being observed in 2010 (1.52%)

As regards expenditure on public order and national security, it has increased in nominal terms during the period 2011-2013, recording the following values: 12,498 million lei (2011), 13,856 million (2012) and 14,479 million lei (2013). In 2010, compared to 2009, increased by the share in GDP with 0.03 percentage points.

Expenditure for the defence and protection of the environment were less than 1% proportion in GDP. Defence spending have registered the following denominations: 4,075 million (2009), 3,882 million lei (2010), 4,258 billion lei (2011), 4,161 million (2012) and 5,292 million (2013), the lowest share in GDP being obtained in the year 2012 (0.72 percent). Expenditure on environmental protection had the largest share in GDP in 2011 (0.93%) which represented 5,192 million lei.

Expenses for central and local public administration have followed a downward trend during the period 2009-2012, reducing from 1.94 percent to 1.40% of GDP. In 2013, they increased compared with the previous year, with 0.18 percentage points, the value recorded being equal to 9.890 million lei.

Expenses for housing, public services and development fell from one year to another, from 1.49% of GDP to 1.07%; the lower nominal value thereof was 6.686 billion lei (2013).

**Table 4: Analysis of budgetary expenditures in 2009-2013 (% of GDP)**

<b>YEARS</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total expenditures</b>	<b>38.6</b>	<b>38.6</b>	<b>37.0</b>	<b>35.4</b>	<b>34.5</b>
Staff expenditures	9.3	8.4	7	7	7.4
Goods and services	4.6	5.8	5.8	5.9	6.3
Interest rates	1.2	1.4	1.6	1.8	1.7
Subsidies	1.4	1.3	1.2	1	0.8
Social assistance	12.8	13.1	12.2	11.4	11.04
Other transfers	2.91	2.69	2.64	2.53	2.44
Investments	7.1	6.5	7	5.9	7.2

Health	3.64	3.71	3.68	3.79	4.43
Transportation	3.54	3.75	3.83	3.44	3.18
Education and research	4.41	3.84	3.50	3.31	3.31
Agriculture and rural development	1.37	1.52	1.29	1.11	0.95
Public order and national security	2.41	2.44	2.24	2.36	2.32
Central and local public administration	1.94	1.79	1.57	1.40	1.58
Housing, services and public development	1.49	1.38	1.32	1.10	1.07
Defence	0.81	0.74	0.76	0.72	0.84
Environment protection	0.56	0.65	0.93	0.76	0.68
Other budgetary fields (public debt, general services)	4.69	4.89	4.95	4.95	5.34

**Source:** Own calculations based on data provided by the Ministry of Finance and INS [6,7]

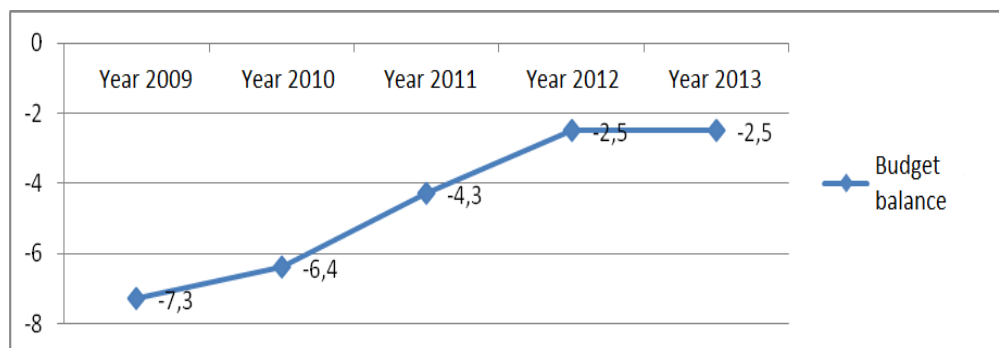
### 3.2. Budget deficit

With the entry into recession, Romania recorded a budget deficit in 2009 accounting for twice the amount recorded in 2008 (increased from 3.65 percent of GDP to 7.3 percent of GDP). By the year 2012, the Romanian State had managed to reduce the budget deficit to 3 percent of GDP, fulfilling one of the conditions the Treaty of Maastricht. The evolution of the budget deficit is illustrated in Figure 5.

To finance the budget deficit in July 2009, it is the first instalment in the amount of 1.5 billion euro loan from the European Commission, on September 23, 2009, it is the second tranche of the loan from the IMF worth 1.7 billion SDRS, on October 21, 2009, it is the first World Bank loan worth 300 million euros; on February 23, 2010 were held the third and the fourth tranche of the IMF loan as a percentage equal to the Ministry of public finance and the National Bank.

Reducing budget deficits also occurred by reducing the total expense budget by 1.6 percentage points in 2012 compared with 2011, lower expenditure on social assistance with 2.06 percentage points in 2013 from 2010 and increasing budgetary revenues total 2.81 percentage points, the VAT revenue as a result of an increase in the VAT rate from 19% to 24% in 2010.

**Chart 5:** *Evolution of budget deficit between 2009-2013 (% of GDP)*



Source: Ministry of Public Finance

#### 4. Conclusions

Once with the crisis, at European level appeared a weak capacity to finance the current budget deficits and public debt, which has increased the degree of risk of economies with unsustainable public finances (including Romania), leading to higher interest rates related to refinance debt. So, the Romanian State was forced to resort to IMF and European Comision to reduce financial instability installed. Romania had to implement a series of measures aimed at fiscal consolidation, reducing the budget deficit, regainint trust of international creditors.

The program adopted by the Government has led to a rather reduced capacity for relaunching the economy, the main adjustment measures are:

- increase in VAT from 19% to 24%, which increased receipts from 6.8% of GDP in 2009 to 8.7 percent of GDP in 2011.
- increase in excise duty in several rounds, their proportion in the GDP increasing 0.4 percentage points;
- increase social contributions (since 2009) by 4 percentage points, which led to the decline of revenues by 1% of GDP relative to 2008;
- lowering of wages in the public sector by 25 percent and reduce the number of public sector employees by 10%, which have produced savings of 2.4% of GDP in 2012 from 2009;
- taxation of pensions above the average, and limiting access to the various forms of social assistance, social expenditure falling by 1.5% of GDP in the period 2009-2012;
- capping material expenses;
- limiting capital expenses in the context of access to European funds

As a result of agreements with the IMF to reduce the country risk premium, government loans became cheaper and have improved the possibilities for refinancing debt.

Due to the success of fiscal consolidation process resulted in reducing budget deficits, gross financing needs for Romania following a

downward trend, which means that it has reduced its dependence on domestic and foreign financial markets.

Romania must continue the process of fiscal consolidation, reduce tax evasion and illegal work, to restructure non-performing companies and to increase labor productivity.

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