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Analysis of the Evolution of the Budget Deficit in Romania between 2017 and 2021

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ABSTRACT

The budget deficit is an important part of the state budget, being a tool for influencing the development of the economy and the social sphere. With its help, based on the budgetary mechanism, the state redistributes the national income, modifies the structure of social production, and achieves social transformations. The purpose of this article is to study the causes, the consequences, and the ways of financing the budget deficit from a theoretical point of view, as well as to analyze the evolution of the budget deficit in Romania based on statistical data from the period 2017-2021.

1. Introduction

The budget deficit - the excess of budget expenditures compared to its revenues is a financial phenomenon that all states of the world have inevitably faced in certain periods of their history. This is because it is almost impossible to imagine a state in which all financial and economic levers that stimulate the flow of funds to the budget work flawlessly, and government expenditures do not exceed revenues. Thus, the issue of the budget deficit has been for several years one of the most serious problems faced by most countries, including Romania.

In these conditions, the purpose of this research consists in studying the essence of the budget deficit, determining the factors that generate its occurrence, identifying the financing mechanism and analyzing the evolution of the budget deficit in Romania during 2017-2021.

During the pandemic period, the budget deficit of the states increased considerably, the COVID-19 pandemic having considerable effects in all the states that faced this health crisis.

2. The budget deficit - definition, causes and financing methods

The state budget emerged simultaneously with the formation of the states, but with the arrival of the bourgeoisie, the budget took the form of a document that is approved legislatively. Etymologically, the word budget is of Latin origin and comes from the word "budge" which translates as money bag or purse. In England, such a document was used for the first time in the 13th century, and at the beginning of the 19th century the term budget began to be used on the European territory as well (Ceusel, 2019).

In specialized literature, the budget deficit is described as the situation in which budget expenditures exceed revenues. In the situation where the revenues exceed the expenditures, we can talk about a budget surplus (Secrieru, 2004, p. 328). The size of the budget deficit can be determined both in absolute terms in the national currency, as well as a percentage of GDP, national income, expenditures, and budget revenues. Worldwide, a budget deficit limit of 3% of GDP has been set.

Undoubtedly, the budget deficit falls into the category of negative economic phenomena such as unemployment, inflation, crises, which, however, are integral elements of the economic system. But, without them, the country's economy loses its ability to move in the direction of progress. It should be noted that the budget deficit does not always mean an extraordinary or perhaps even catastrophic event, including by the fact that the quality and the factors that cause the deficit are different (Bistriceanu, 2001, p. 31). The deficit can be caused by the need to make large public investments in the development of the economy. In this case, the deficit is not a consequence of a crisis, but on the contrary, it reflects the state's intention to regulate the economic situation. Similarly, a budget without a deficit does not necessarily mean a healthy economy. It is necessary to study in more depth what processes take place within the financial system to objectively assess the country's economic situation.

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In order to better understand the concept of budget deficit, it is necessary to make a classification thereof. From a temporary point of view, there is chronic, long-term budget deficit, and temporary budget deficit that can be caused by unpredictable events. The short-term imbalance is when expenditures prevail over income during a year and reflects the evolution of the country's macroeconomic situation compared to the situation in which the budget was drawn up. This can also arise due to the lack of experience regarding economic forecasts.

For example, a decrease in budget revenues may arise as a result of a decrease in export prices, a decrease in the volume of production below the prescribed level, changes in the structure of demand for manufactured products and a decrease in its competitiveness. Long-term budget deficit is when the growing gap between revenues and expenditures persists over a period of several years and is due to more persistent reasons. The main reasons for its existence are a long cycle of economic crisis, long wars, and excessive expenses for military purposes in peacetime, emergencies, expensive programs stretched over decades without recovery periods. One of the main goals of the state is to prevent the transformation of a short-term deficit into a chronic one, by taking prompt decisions regarding the timely elimination of the premises, causes and consequences of the deficit, and by financing it from efficient sources.

As regards the factors that generate the emergence of the budget deficit, it can be said that for different countries and different periods of development, the causes of its emergence are diverse. Broadly speaking, the main causes of the budget deficit can fall into 3 main groups:

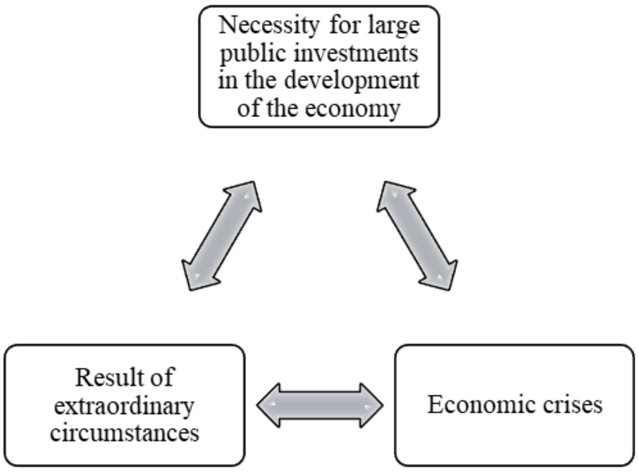

Figure 1. The main causes of the budget deficit
Source: Shulyak P.N. (2007), Belotelova N.P., Finanțe, Moscow, p. 126

1. The necessity of making large public investments in the development of the economy. In this case, the deficit is not the result of crisis processes in the state, but on the contrary, the state's intention to restore the economic situation and the urge to ensure the triggering of progressive changes in the society. Keynes argued the potential faster growth of government expenditure compared to income in a given period of societal development to encourage economic growth and ensure full employment.

2. A budget deficit can also occur following extraordinary events such as: wars, natural disasters, cataclysms, when the state does not own sufficient monetary reserves to cover the consequences and must turn to external sources.

3. A more critical and worrying form of the deficit is when it is considered as a reflection of the crisis in the country's economy, its collapse, the inability of the government to control the economic situation in the country. In this case, it is not enough only to adopt urgent and effective measures for the recovery of the economy, but also to make proper political decisions.

Here, the fact of the existence of phenomena such as the decrease in production and the growth of sector in the shadow of the economy can also be emphasized. Due to the presence of these phenomena, the tax base is reduced, as taxes are one of the main sources of state income. If there is a decrease in production, the profit received decreases, therefore the revenues to the budget also decrease. In the case of illegal activity of the companies, they generally stop paying taxes. In this case, not only urgent and effective economic measures are required, but also proper political decisions. Another important factor that generates deficit is decline, stagnation and periods of depression in production. In years when GDP and national income decrease, tax revenues also decrease automatically. At the same time, expenditures tend to remain at the same level. As a result, the gap between expenditures and income emerges or increases.

The increase in the deficit can also be associated with an unjustified increase in expenditures that do not take into account financial possibilities or their inefficiency, in particular, large expenditures for the production of armaments intended for the defense of territorial integrity, for the maintenance of management personnel, subsidies for unprofitable industries.

All these causes can be summarized as follows:

1. Decrease in the volume of economic activity;
2. Exaggerated increase in government spending on carrying out social programmes;
3. Increase in public expenditures related to the development of infrastructure and priority sectors of the economy;
4. Unconditional issuance of money;
5. Limited financial capacity of the state;
6. Corruption and fiscal policy;

Among the specific causes of the development of a country's economy are (Ershov et al., 2010, p. 33):

- The existence of unprofitable state enterprises that receive subsidies;
- The presence of an ineffective taxation mechanism;
- Budgetary expenditures that do not correspond to the existing financial capacities of the state;
- Improper and ineffective use of budget funds;
- Corruption, theft, records that have not become the object of an effective financial control of the state.

In general, a large budget deficit is not desired because it can lead to the phenomenon known in specialized literature as the "eviction effect" (Hoantă, 2000, p. 238).

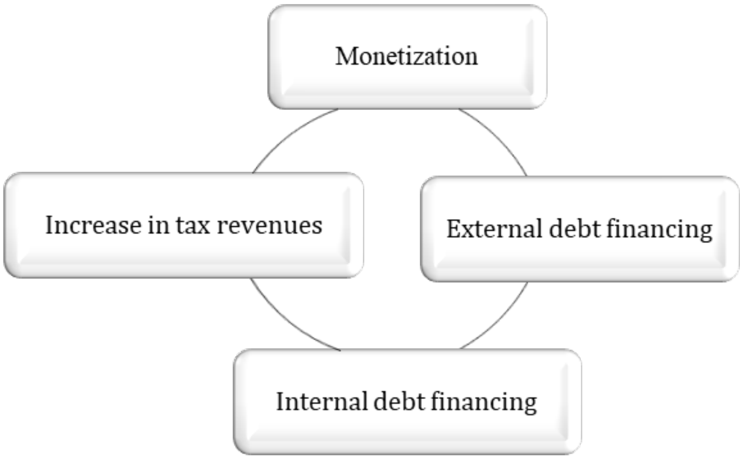

Figure 2. Budget deficit financing methods

Source: Radu V. (1998), Între echilibru și recesiune, Economic Publishing House, Bucharest, p. 327

3. The evolution of the budget deficit in Romania between 2017 and 2021

The national public budget, like any other type of budget, includes the set of revenues that form it and the set of expenditures for which it is used. In order to understand trends in the budget deficit, we have to analyze the changes that occur in government revenues and expenditures. The following table shows the evolution of revenues and expenditures of the national public budget of Romania from 2017 to 2021, as well as the size of the budget deficit recorded during this period.

Table 1 Evolution of the National Public Budget 2017-2021, million lei

Indicators	2017	2018	2019	2020	2021	2020/2019		2021/2020	
						Σ	%	Σ	%
Income	251867	295265	321075	322657	364907	1581,5	100,5	42251	113,1
Expenditure	276161	322115	369629	424455	444907	54826	114,8	20452	104,8
Deficit	-24295	-26850	-48554	-101799	-80000	53244	209,7	-21798	78,6

Source: https://mfinante.gov.ro/domenii/bugetul-de-stat/istoric-deficit-bugetar

If we analyze the *evolution of revenues*, according to table 1 we can see that during the analyzed period, they had a constant growth trend. Thus, in 2017, the absolute value of the income was 251,867 million lei, and then increased in 2019 up to 321,075 million lei. Between 2019 and 2020, revenues registered an increase of only 0.5% or 1581.5 million lei, this slower increase was due to the tightening of sanitary measures related to the spread of the Covid-19 virus.

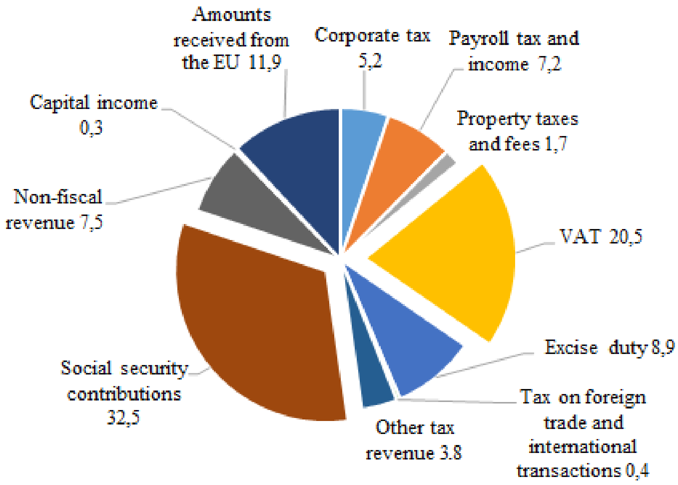

Figure 3. Budget revenue structure in 2021, % of total revenue
Source: https://mfinante.gov.ro/domenii/bugetul-de-stat-/startegia-fiscal-bugetara

As it can be seen in figure 3, in 2021 the largest share in total revenues is recorded by contributions and social insurance 32.5%, followed by VAT 20.5%, amounts received from the EU 11.9% of total revenues and excise duty 8.9%. Taxes on wages and income have a 7.2% share and income tax only 5.2%.

Table 2. The evolution of the budget deficit in Romania between 2012 and 2022 (percentage of GDP)

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
-3,8	-2,3	-1,2	-0,5	-2,5	-2,5	-2,8	-4,3	-9,2	-7,1

Source:https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1/default/table?lang=en

Table 2 shows the evolution of the budget deficit in Romania between 2012 and 2021. If in 2012 the budget deficit was 3.8% of GDP, in the following period it decreased to the level of 0.5% of GDP in 2015. But in the period 2016-2020, the level of the budget deficit deepened continuously, following an upward trend from 2.5% of GDP in 2016, up to the record value of 9.2% of GDP in 2020. It should be taken into account that this value is three times higher than the level allowed by EU. In 2021, even if a reduction thereof was achieved, the level still remains high at 7.1% of GDP.

4. Conclusions

The budget deficit is an important part of the state budget, as it is a tool for influencing the development of the economy and the social sphere. With its help, based on the budgetary mechanism, the state redistributes the national income, modifies the structure of social production and achieves social transformations.

This macroeconomic indicator in itself is not a catastrophic phenomenon, its growth can lead to serious negative consequences not only of an economic nature, but also of a purely political nature. It is known that people's trust in the budget system, in the country's budget structure, determines trust in the government, trust in the ongoing reforms. This trust is impossible in the conditions of an unbalanced budget - the main financial document of the country.

In Romania, there is a clear preponderance of budget expenditures over revenues, which indicates that each budget year ends with a budget deficit.

Among the causes that led to the emergence of the budget deficit can be listed: the low level of tax collection, the quasi-fiscal deficit in the state enterprises sector, especially the losses recorded by non-performing state enterprises, the unsustainable structure of public expenditures and the low efficiency of public money.

Following Romania's accession to the EU, one of the conditions assumed by it was the development of a sustainable fiscal policy, which implies compliance with the criterion according to which the budget deficit must not exceed the nominal value of 3% of GDP. Between 2013 and 2018, Romania fulfilled this criterion, but in the following period the budget deficit increased, reaching alarming levels, amid the Covid 19 pandemic.

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