

DEVELOPMENTS AND FISCAL PERSPECTIVES MANIFESTED AT THE NATIONAL LEVEL

Ionel LEONIDA¹⁴

Cosmin-Octavian CEPOI¹⁵

Abstract

The paper presents synthetically the fiscal evolution at the national level in the period 2019Q1-2023Q2, based on some indicators of fiscal revenues, budget expenditures and derivatives from them, from which to extract benchmarks regarding the fiscal status of the reference period, to present possible prospects for reconfiguration fiscal-budgetary, taking into account the trends manifested at the international and European level. In the analyzed interval, the fiscal policy had to adapt in order to quickly respond to the atypical economic conditions of the health crisis period, undergoing changes compared to the pre-existing situation, more significant being the increase in the budget deficit and the public debt, being the most affected indicators in the periods of crisis (see also post-economic and financial crisis effects from 2008 - 2010). Externally, the pandemic episode signaled the need to accelerate ongoing fiscal reforms, but, above all, the fact that this moment can be favorable for substantial changes in fiscal-budgetary policies to adjust the fiscal vulnerabilities highlighted by the state of crisis, as well as of increasing the homogeneity of fiscal-budgetary systems, chosen within the EU.

Keywords: *fiscal policy, fiscal stance, fiscal perspectives*

JEL Classification: *E62, H21, O23*

Introduction

The post-crisis periods represent favorable moments for deeper evaluations of the general, European context, but also of macroeconomic adjustment policies, with main responsibilities in ensuring macroeconomic stability at country and regional level. Relatively similar evaluations appeared both after the financial and economic crisis of 2008-2010, as well as during the period and post-crisis of the health, social and economy generated by the COVID_19 pandemic, bring certain criticisms regarding the impasse of unification through the relatively poor quality of common policies, but also of globalization through the emergence of de-globalization, aspects that favor and encourage analysts and researchers to make arguments and support the fact that the post-crisis moment can be one of paradigm shift in terms of the mentioned processes (globalization, European integration), in the sense of emphasizing approaching the consolidation of macro-stabilization policies at the national level and continuing the consolidation process towards the regions, unions or global level.

The manifestation of the pandemic crisis and its negative effects on the health of the population, on the economic and social environment, required considerable financial efforts of the governments supported, for the most part, through the fiscal-budgetary policies of each country, financial efforts

¹⁴ PhD, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy, Bucharest, Romania. E-mail: leonidaionel@yahoo.com .ORCID: 0009-0000-1999-0145.

¹⁵ PhD, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy, Bucharest, Romania. E-mail: cepoi.cosmin.ccfm@gmail.com .ORCID: 0000-0002-5529-4339.

that were transferred to the size of the public debt and have turned into future costs that the fiscal-budgetary policy must manage and cover by identifying new tax bases and/or expanding the existing ones, by adjusting some tax rates or resetting the tax regimes taxation, through a possible review of government spending strategies (size, structure) or through a mix of such measures.

In support of the (re)design and adjustment of many national fiscal-budget systems come a series of institutional reforms such as the Base Erosion and Profit Shifting (BEPS) plan of the Organization for Economic Co-operation and Development (OECD) and the fiscal plans of the European Union (EU27) stemming from the experiences of fiscal-budgetary policies in periods of crisis, but also from the need to limit fiscal practices of manipulating tax bases that affect fiscal revenues, resource allocation, capital concentration and, last but not least, the perpetuation and development of havens fiscal.

These institutional reforms must also be supported by internal efforts regarding the orientation of fiscal policies both in relation to these objectives, but also to internal ones, which are the responsibility of fiscal policies.

Our approach in this paper is in this direction, of the general analysis of the fiscal policy in Romania in a regional context, with the possibility of identifying some aspects that can be the object of formulating proposals for revision/improvement. The analysis aims to present the evolution and synthetic analysis of the main fiscal-budgetary indicators: revenues, expenses, deficit and public debt, the identification of fiscal perspectives at the national level, by comparison with the average of the EU 27 and the Euro Zone (EU19) and with countries in the region such as : Bulgaria (BG), Czech Republic (CH), Poland (PL) and Hungary (HU), by reporting fiscal indicators to Gross Domestic Product (GDP), in the period 2019Q1 – 2023Q1.

General evolution of total revenues

The general evolution of total incomes at the level of the analyzed groups/countries is relatively stationary during the analyzed period - with disproportionate weights between countries. Romania collects the least total revenues in relation to GDP among all the countries in the region included in the analysis, according to the representation in figure no. 1.

In their structure, revenues from indirect taxation and social contributions are predominant, a situation that also manifests itself in the countries of the region. Important factors influencing the size of revenues are the relatively divergent tax rates in the region (Romania and Bulgaria have relatively close rates), the size of the tax bases, as well as the capacity and efficiency of the tax administration. Regarding tax administration, under the conditions of relatively similar quotas, Bulgaria permanently collects higher revenues than Romania between 3-6 pp, and in relation to the average collection at the European level, Romania collects less revenues, with approx. 15 – 20pp.

A certain seasonality can be distinguished in the evolution of revenues in Romania, with the registration of higher weights in the first two quarters of each analyzed year. A possible explanation may be the deadline for submitting financial statements/statements from the previous year and paying related taxes during the first two quarters of the following year.

Compared to the situation in the region, the statistical data reveal that Romania's economy operated and operates with an increasingly lax fiscal regime, with budget revenues at the lower limit, as a share of GDP. The tax rates and the results of the collection of the taxes/contributions owed are also involved here.

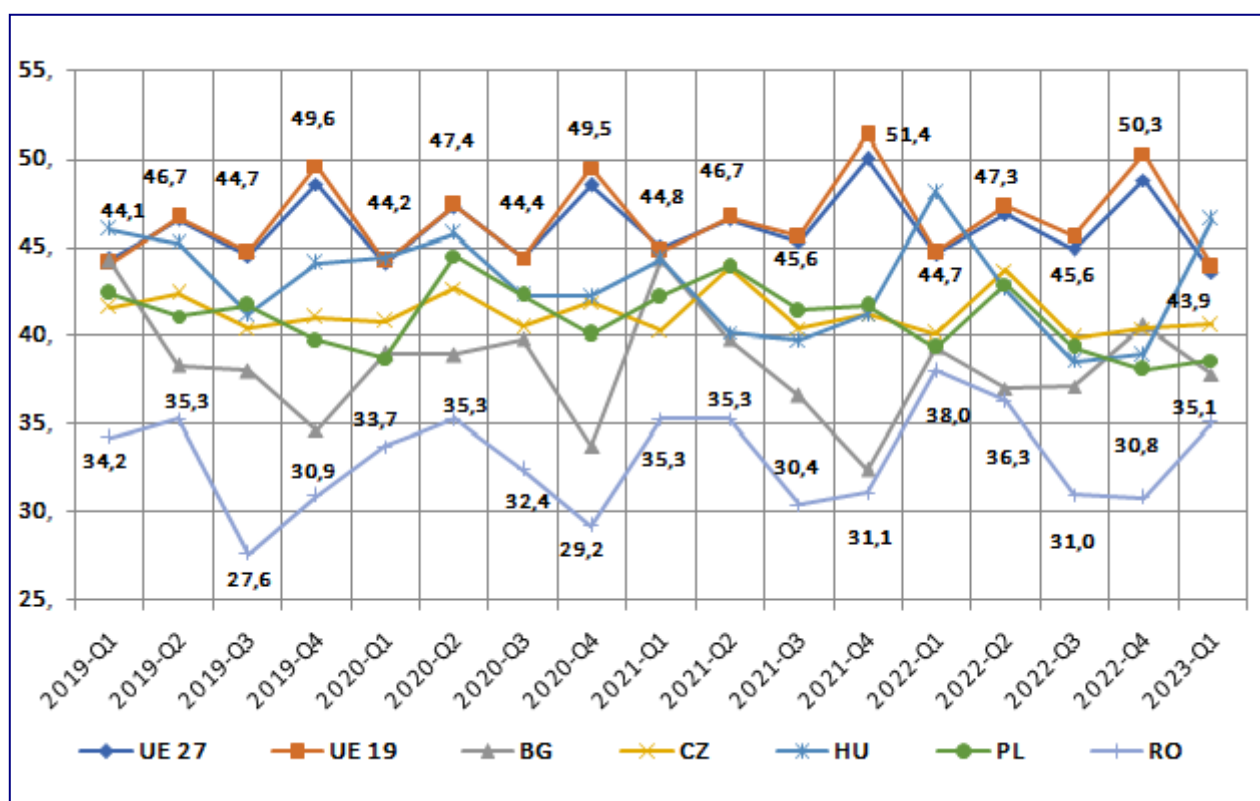


Figure no. 1. Evolution of the share of total revenues in GDP in the EU27, EU19 (average) and in the countries of the region (Romania, Bulgaria, Poland, the Czech Republic and Hungary), during the period 2019Q1 – 2023Q1

Source: Graphic representation made by authors based on data available at

https://ec.europa.eu/eurostat/databrowser/view/gov_10q_ggnfa_custom_10065412/default/table?!ang=en

The evolution and trajectory of the total income indicator in Romania, as a share of GDP, are largely similar to the trend recorded at the European level, suggesting weak mechanisms at the European level, but also at the national level, to counteract the incidence of economic shocks produced outside the EU area or even inside it.

A regional tax competition harmful to tax revenues is manifested, especially with Bulgaria, which, unlike Romania, although it has relatively similar rates of taxation/charging, collects higher total revenues, and the receipts from VAT (20% share Bulgaria, and 19% Romania), exceed the EU average, an aspect that signals a certain inefficiency in the administration process in Romania.

The general evolution of total expenses

The share of total government expenditure - at the level of the EU27, EU19 groups and at the regional level is disproportionate, being a significant difference over the entire analyzed period of approx. 5-6 pp, at the beginning of the period, with increasing tendencies towards its end.

From the evolution presented in figure 2, a general trend of increasing government spending in the analyzed groups and countries can be observed, slightly cyclical, with significant increases in the

period 2020-2021, a situation that corresponds to the crisis and post-crisis period, in which, as a rule, government spending increases.

At the level of the region, Hungary and the Czech Republic register higher shares of total government expenditure compared to Bulgaria and Romania, with approx. 3-5 pp, while Poland is distinguished by small variations in the share of government spending in the analyzed interval.

In Romania, the evolution of total government spending is largely synchronized with the evolutions recorded at the level of the analyzed country groups, with broad cyclical evolutions during the crisis period and with a period of relative recovery after it. The share of total government expenditures recorded in Romania is lower than the situations recorded in most of the analyzed countries and groups, a situation correlated with the lowest level of total revenues.

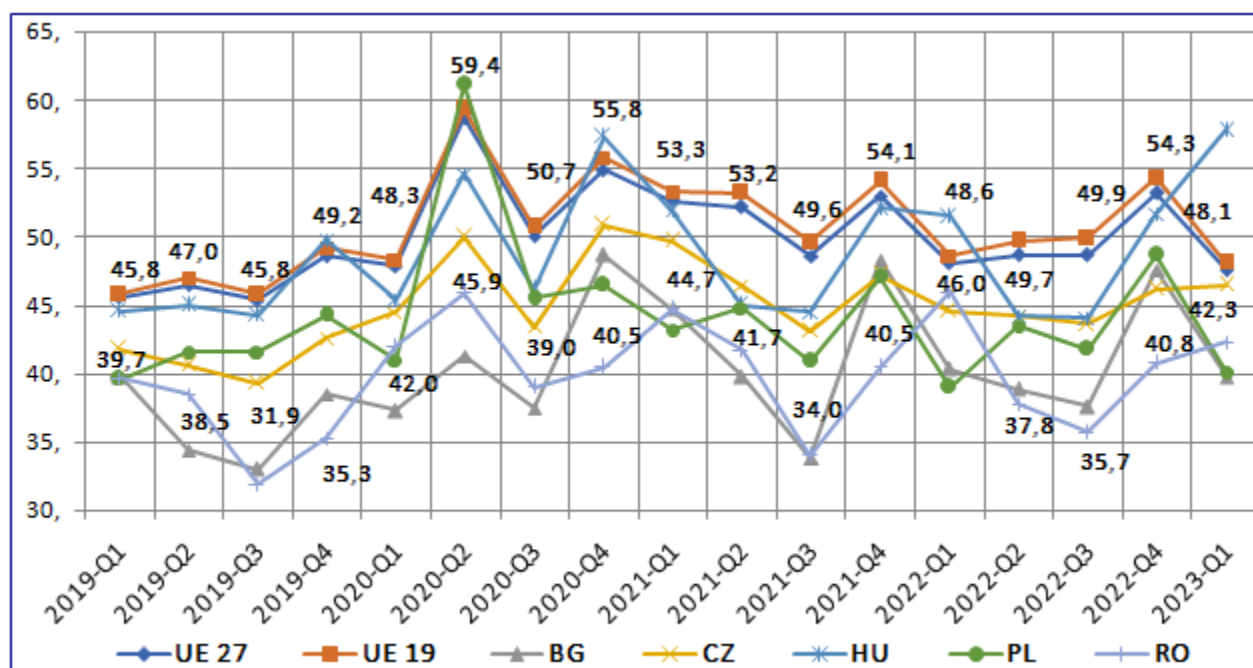


Figure no. 2. Evolution of the share of government expenditure in GDP, in the EU27, EU19 (average) and in the countries of the region (Romania, Bulgaria, Poland, the Czech Republic and Hungary), during the period 2019Q1 – 2023Q1

Source: Graphic representation made by authors based on data available at

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A summary analysis of the functional structure of expenses indicates that Romania allocates higher expenses to the countries in the region and even to some of the EU27 in the administrative, social and economic fields (investments, granting of subsidies and facilities). Also, tendencies to increase spending on defense and public order are recorded and anticipated, in general in the countries of the region, more intense in the countries on the eastern border of the North Atlantic Treaty Organization (NATO), such as Romania and Poland, as following the military conflict in Eastern Europe and the increase in expenses required by the status of NATO member countries.

Romania has lower allocations than countries in the region and the EU in areas such as education and health (human capital).

The analysis of the structure and size of expenses by reference to GDP in Romania, in relation to the situations of the countries in the region, but also in a certain wider European context, reflects a

budgetary system oriented towards non-productive expenses, of an administrative and social nature, adjusted seasonally according to short-term objectives or expressly requested by the European authorities, with little emphasis on education, citizens' health and investments, expenses that produce multiplier effects in the economy.

The general evolution of the budget deficit

After a period of relative consolidation of the budget deficit until 2019, its evolution acquires accentuated growth tendencies against the background of the health crisis that began in 2020, at the level of all analyzed groups and countries.

However, a consolidation trend is noticeable in most of the analyzed groups and countries, which started in the 1st quarter of 2023, against the background of the effects of some fiscal-budgetary measures implemented by most of the countries for the recovery of public finances, severely affected by the pandemic crisis.

The trend is that of the general level, but with significant asymmetries between countries at the level of the recorded values, standing out for instability in the variation of the budget deficit in Bulgaria, Poland and Hungary, with variations of over 10pp.

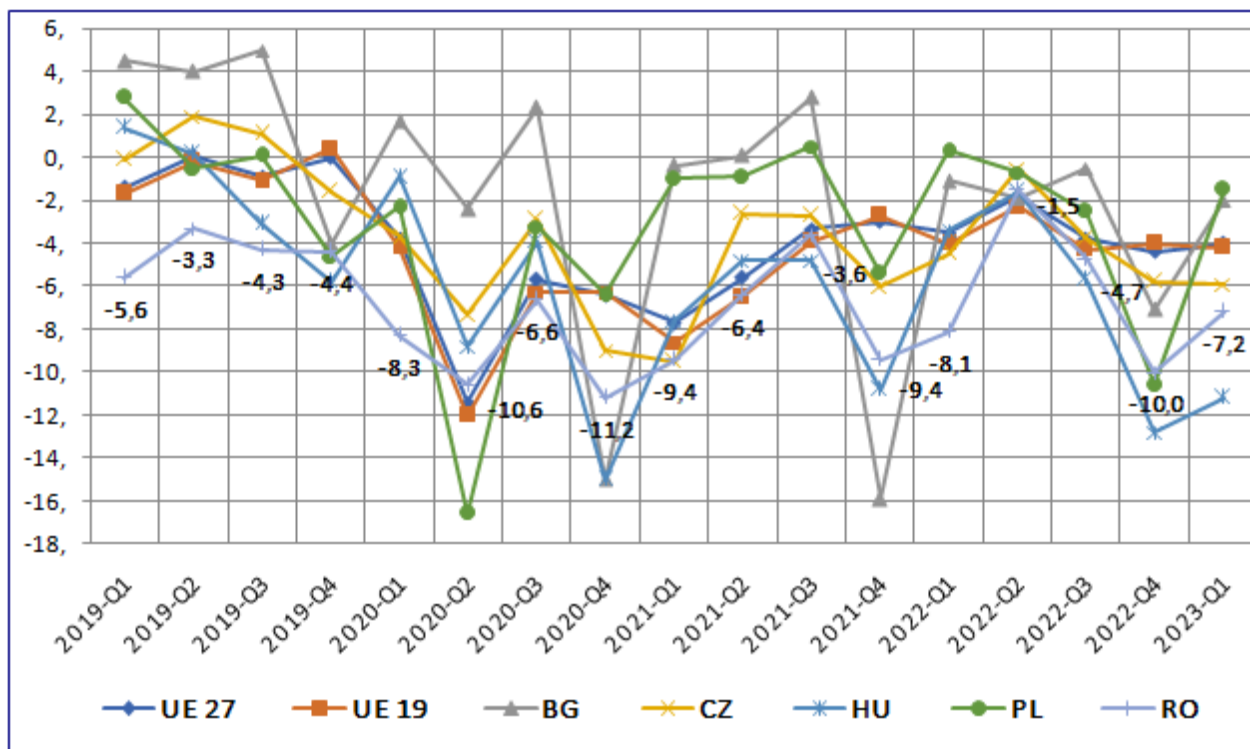


Figure no. 3. Evolution of the share of the budget deficit in GDP, in the EU27, EU19 (average) and in the countries of the region (Romania, Bulgaria, Poland, the Czech Republic and Hungary), during the period 2019Q1 – 2023Q1

Source: Graphic representation made by authors based on data available at https://ec.europa.eu/eurostat/databrowser/view/gov_10q_gqnfa_custom_10065402/default/table?lang=en

The situation in Romania reflects a discretionary tendency of the fiscal-budgetary policy, against the background of the implementation of fiscal relaxation measures and simultaneous increase in

expenses, which amplified the size of the deficit during the health crisis. Also, the excessive volatility of the deficit in the analyzed period reflects a high sensitivity of fiscal policy to economic dynamics.

At a general level, there is a reduced efficiency of the European fiscal framework in terms of fiscal discipline and consolidation among member countries.

The evolution of public debt

The general evolution of the public debt, presented in figure no. 4, is relatively fluctuating during the analyzed period, with growth trends in the period 2020Q2 – 2021Q4 and recovery, starting in 2022.

At the regional level, after the period of growth, most countries show a debt reduction trend, with the exception of Romania and the Czech Republic, which are still on upward trends.

The increase in public debt recorded by Romania, in the analyzed interval, is over 26 pp in 2023Q1, compared to 2019Q1.

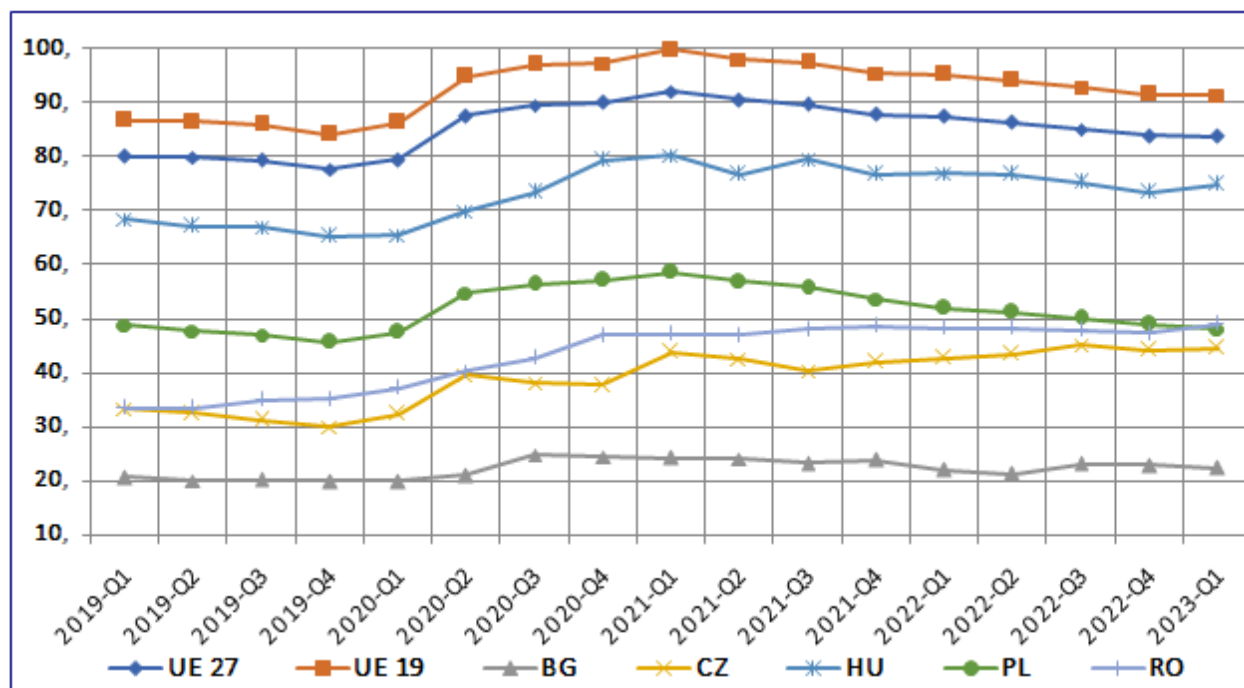


Figure no. 4. Evolution of the share of public debt in GDP, in the EU27, EU19 (average) and in the countries of the region (Romania, Bulgaria, Poland, the Czech Republic and Hungary), during the period 2019Q1 – 2023Q1

Source: Graphic representation made by authors based on data available at

https://ec.europa.eu/eurostat/databrowser/view/gov_10q_ggdebt/default/table?lang=en&category=gov.gov_gfs10.gov_10q

The general insufficiency of financial resources and the need for additional expenses to overcome the health crisis (economic and social) created pressure on the deficit and, implicitly, on the public debt. Also, during this period of crisis, the cost of borrowing increased significantly.

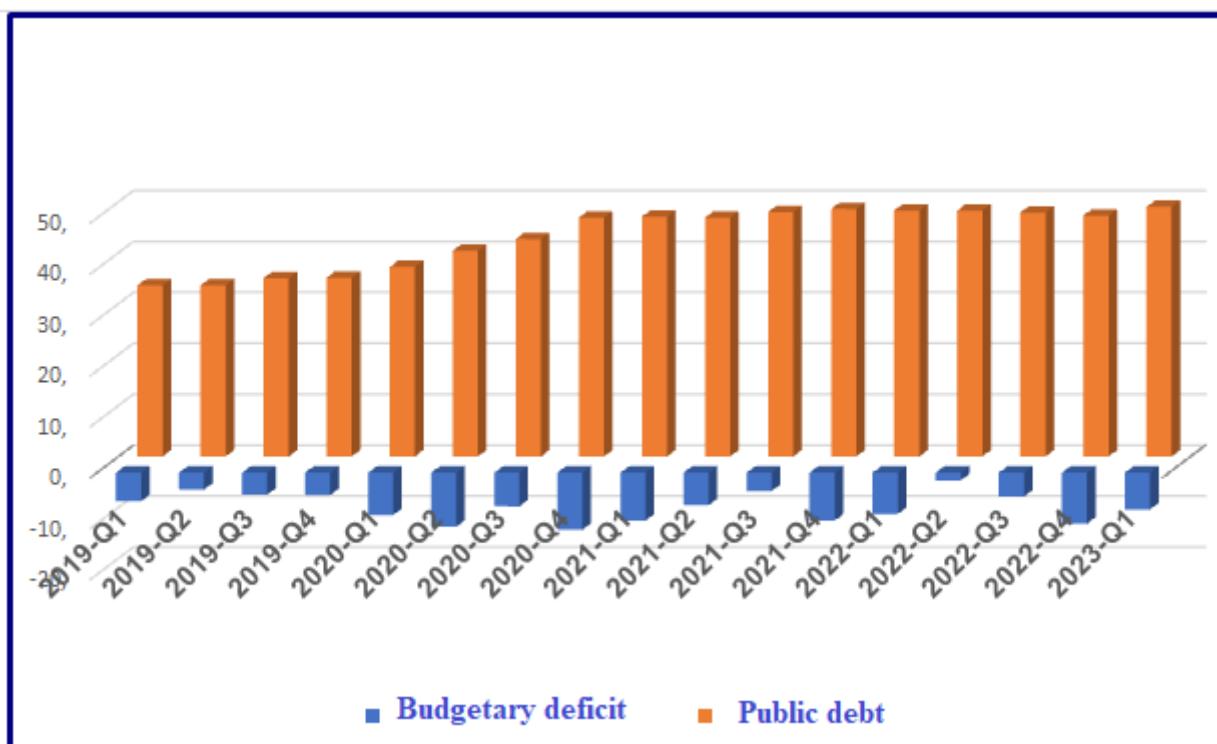


Figure no. 5. The link (synchronized) between the evolution of the budget deficit and the public debt, related to GDP, in Romania, in the period 2019Q1 – 2023Q1

Source: Graphic representation made by the authors based on the data in Figures 3 and 4.

The perpetuation and especially the increase of the budget deficit induces pressure on indebtedness, a situation faithfully reflected in figure no. 5, where the graphic evolution of the two indicators illustrates the direct link between the increase in the budget deficit and the increase in the public debt, as well as the one between the moderation / reduction of the budget deficit and the moderation of the increase in the public debt.

Conclusions and perspectives

The revenue dimension reflects a tax system that generates lower revenue by up to approx. 10 pp compared to the countries in the region and up to 20 pp compared to the EU27/EU19 average.

The size and structure of expenses reflect a budgetary system oriented towards non-productive expenses, of an administrative nature, and less towards productive expenses, to support human capital.

The persistence and size of the budget deficit generates pressure on indebtedness, and the provisions and constraints of the European fiscal framework failed to induce a certain fiscal-budgetary discipline and maintain the consolidation process started in 2013.

The implementation of some measures of a fiscal-budgetary nature was often carried out ad hoc, without substantiation and analysis, without taking into account the opinions of the institution with the role of monitoring the fiscal-budgetary process, regarding their budgetary impact.

There is an increased sensitivity of the tax bases to wide economic fluctuations, of the nature of crises, accentuated by the lack of automatic stabilization mechanisms in the structure of the fiscal system.

The general fiscal-budgetary perspective must aim for a closer balance between revenues and expenses.

On the income side, there are possibilities that can be the subject of some scenarios, namely:

- revision of some tax rates, especially in the area of incomes, but also of properties and assets;
- the possibility of implementing a tax regime with progressive rates;
- increase in administrative capacity and performance, which translates into an increase in the level of revenue collection.

On the expenditure side, there are possibilities that can be the subject of some scenarios, respectively:

- a possible review of the budget expenditure structure, by restricting or even eliminating some fiscal facilities;
- orientation of expenses towards areas with potential for fiscal multiplication;
- the possibility of gradually reducing the state's administrative expenses.

These possible adjustments on the two components can lead to the reduction of the budget deficit and, as a consequence, to the moderation of the growth rate of the public debt.

Also, a concern already under the attention of the authorities, which aims to consolidate some tax bases, especially in the sphere of income of legal entities, can be accelerated, especially in the context of the BEPS plan, which comes to support these efforts, through internal measures that will facilitate the subsequent easy implementation of the measures initiated by the OECD, to which Romania has joined.

We note that there are a number of possibilities for strengthening public finances at the national level, in which, in our opinion, a simultaneous and medium and long-term approach on multiple plans (simultaneous adjustments in terms of revenues, expenditures and fiscal administration), can prove more effective, the main argument being that they can be discrete adjustments, without inducing strong shocks on some components of public finances, and their cumulative effects can materialize in positive results, and consequently, in tempering the budget deficit and public debt.

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