

INCOME COLLECTION – BIG PROBLEM OF ROMANIA’S BUDGET

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Abstract: *The construction and maintenance of the public solid and sustainable finance, preventing the excessive deficits, stimulating the economic growth without accentuating austerity implies the application of some adequate measures of reduction of the fiscal evasion. Increase of the degree of collection of the income of the consolidated budget at the corresponding level, comparable with the average level of the European Union, should be the major objective of the governmental policies in our country. The fact that Romania is ranked as penultimate in the classification of the European Union member states, from the point of view of the weight of the budget income in GDP, determined us to approach this issue in the contents of this work.*

Key words: *consolidated budget, income, expenses, budgetary deficit, collection degree, fiscal evasion, austerity.*

INTRODUCTION

The consolidated budget constitutes the basic element through which the central and local administration manages the money resources of the state, influencing the economy's development level, the level of population's education, the country's capacity of defense, the health and living level of the population. This instrument may be used creatively or on the contrary, may generate serious slide slipping with negative consequences for the entire society. The political, but especially the political will and competence of the macroeconomic management become determining factors of the consolidation of rule of law.

For too many times, not finding the best solutions for solving out the economic and social problems of the country, the decisional factors take measures for increasing the taxes and charges, enlarging the tax payers' mass, reduction of the pensions and wages, accentuating the austerity and prejudicing consumption. The tendency of balancing the budget, by massive cutting – off of expenses, especially wage related cut-offs, causes serious social disturbances with particularly serious consequences. The social reactions from the last years in many countries from Europe (Greece, Spain, Italy, etc.) have determined a change of the attitude of the political factors recognizing that the austerity measures did not have the aimed effect. Particular problems, with serious social effects, are significantly manifesting in the countries with a low level of collection of budgetary income, where also the level of fiscal evasion and implicitly of the corruption is bigger. We appreciate that Romania is in this situation, being required adequate measures of correction, of increasing of the weight of the budgetary income in relation with GDP, by reducing the fiscal evasion.

MATERIAL AND METHOD

The used methods were analysis, synthesis, method of comparison, deduction and induction. The data used were overtaken from the statistics of the European Commission (Eurostat) and national statistics, and from various national and international publications, on the basis of which we made own calculations and interpretations.

RESULTS AND DISCUSSIONS

The budget construction implies both the consolidation of income and the appropriate management of the resources through a prioritized projection of expenses in order to increase their efficiency. The entire process should bear the imprint of a real transparency that might constitute a premise of the increase of competence both in the planning phase and in the budgetary execution phase. The practice of budget projections on the last years proves the ignorance of these principles. The fiscal council, a non-governmental body, draws attention that the fiscal strategy of the previous exercise (2012) “*did not have a complete procedural track and was not approved in Parliament*”, which contravenes the provisions of the Law on fiscal and budgetary responsibility no. 69/2010.

The current problems of the general budget are the very low income due to accentuated fiscal evasion, especially in the field of social insurances.

Analyzing the evolution of the weight of budgetary income in GDP we ascertain that, compared to 35.3% achieved in 2007, this indicator decreases to 32.3% in 2011, and to 33.0% in 2012, and the budget projection for 2013 targets an increase by 0.6 p.p, compared to the performance in the previous year, establishing a level of income collection of 33.6 % GDP. This increase proposed in the content of non-modifying the current system of taxes and charges is based precisely on the impact of the measures of fighting against fiscal evasion, particularly on the segment of indirect taxes (VAT and excises) undertaken by the current government. The fiscal council considers to be “*risky the inclusion ex-ante of the impact of the measures of fighting against fiscal evasion, recommending the inclusion ex-post, after that the efforts of improving the collection will materialize*”. We believe that undertaking the responsibility for the entire process of active combating of the fiscal evasion, is absolutely necessary and the level of increase, on this basis, of the income would be much bigger. It is one of the mandatory measures that might generate the budgetary balance aimed without accentuating austerity and without favoring the fiscal evasion.

Analyzing the position of Romania in respect of the weight of the income of the budget in GDP by comparison to the other European Union member states, especially as signatory of the Treaty on the stability, cooperation and governance within the economic and monetary union, we ascertain that we are ranked as the penultimate being outrun at this indicator, only by Lithuania. (Table 1)

At the level of the European Union, the budgetary income in relation with GDP are maintained relatively constant during the entire period analyzed (44.7% in 2007, equal to the achieved level in 2011), with slight diminutions in 2009 (44.2 %) and in 2011 (44.1 %).

In Romania, the budgetary income in relation to GDP decreased from 35.3 % in 2007 to 32.1 % in 2009, 32.3 % in 2011, coming back to 33.0% in 2012.

The difference between the weight of the budgetary income in relation to GDP from Romania and the average of this indicator at EU level in 2011, is of 12,4 percentage points.

Table 1

**Weight of the general budget income in GDP, in the EU member states
(the classification of the countries depending on the level of this indicator in 2011)**

Nr. Crt.	Member states	2007	2008	2009	2010	2011
1	E.U. – 27	44.7	44.7	44.2	44.1	44.7
2	E.U. - euro area	45.4	45.1	44.9	44.8	45.4
3	Denmark	55.6	54.8	55.2	55.2	56.0
4	Finland	52.7	53.6	53.4	53.0	53.9
5	Hungary	45.6	45.5	46.9	45.4	53.9

6	Sweden	54.5	53.9	54.0	52.3	51.4
7	France	49.9	49.9	49.2	49.5	50.8
8	Belgium	48.1	48.7	48.1	48.6	49.4
9	Austria	47.6	48.3	48.5	48.1	48.0
10	Italy	46.0	45.9	46.5	46.0	46.1
11	The Netherlands	45.4	46.7	45.8	46.1	45.4
12	Portugal	41.1	41.1	39.6	41.4	45.0
13	Germany	43.7	44.0	45.1	43.6	44.5
14	Slovenia	42.4	42.4	43.1	44.5	44.3
15	Greece	40.7	40.7	38.3	40.6	42.3
16	Luxembourg	39.9	42.3	43.9	42.0	41.6
17	United Kingdom	40.9	42.6	39.9	40.2	40.7
18	Czech Republic	40.3	38.9	38.9	39.0	39.8
19	Cyprus	44.8	43.1	40.1	40.9	39.8
20	Malta	39.5	38.6	39.4	38.9	39.6
21	Estonia	36.4	36.7	43.5	40.8	39.4
22	Poland	40.3	39.5	37.2	37.6	38.5
23	Spain	41.1	37.0	35.1	36.6	35.7
24	Latvia	35.6	34.9	34.0	35.3	35.0
25	Ireland	36.9	35.7	34.7	35.2	34.9
26	Bulgaria	40.4	40.1	37.1	34.3	33.6
27	Slovakia	32.4	32.8	33.5	32.3	33.2
28	Romania	35.3	33.6	32.1	33.3	32.3
29	Lithuania	33.6	34.0	34.3	33.6	31.9

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do>

We can appreciate that the percentage of non-constitution of the budgetary resources of 12.4% applied to GDP of Romania from 2011 (131,327 mil. Euro according to EUROSTAT), would generate supplementary budgetary income of Euro 16,284 mil. Euro. This is the dimension of the fiscal evasion from Romania, possibly to remove if there would be the required political will. It is the sole alternative to the austerity measures affecting for many years the social and economic situation from Romania.

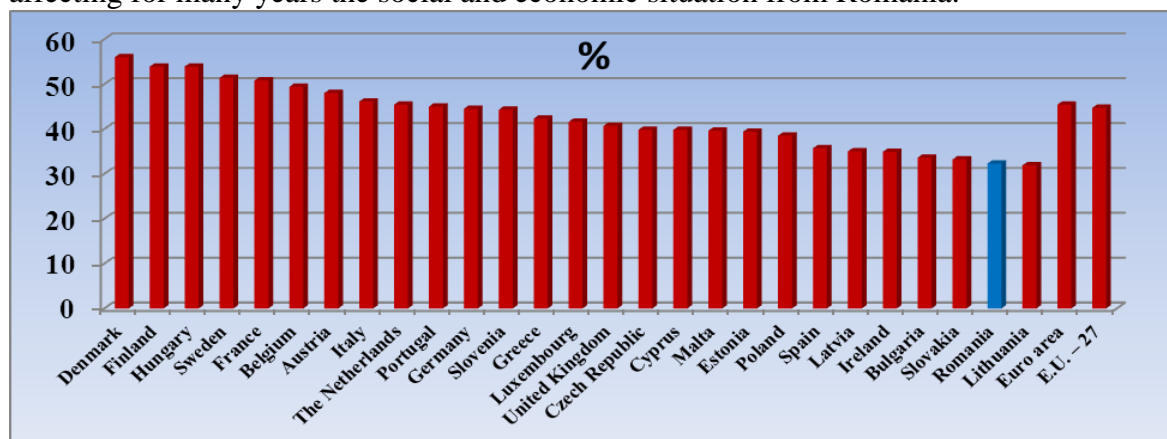


Fig. 1 Weight of the income of the general budget in GDP, in 2011

After 1989 the practice of budgetary planning and execution from our country is based on principles proving every year inadequate with the harmonious development of the country.

Analyzing the dynamics of the main budgetary indicators, on which interventions were made during the period between 2008 and 2012, we ascertain precisely the neglecting of the actions meant to increase substantially the income through their equitable collection, including from the economic entities in which the major shareholder is the state (table 2).

According to the data provided by the Ministry of Finance (Ziarul financiar of 23 April 2013) among the largest 10 debtors to the general consolidated budget at the end of 2012, 7 are state owned companies. The outstanding amount of the 10 companies was of 14.5 billion lei (about 3.3 billion Euro) which represents 2.82% of GDP. If all these due amounts would be fully cashed in, the degree of collection of the income would rise to the level of 35.82%. It is interesting that the faulty way of collecting the income of the general consolidated budget is maintained also in its projection for 2013 in which it is envisaged an increase of the degree of collection of income only to the level of 33.2%, by 0.6 percentage points over the level of the previous year.

The accentuated austerity measure applied starting from the middle of 2010 (table 2), consisting in the sudden increase of VAT from 19 % to 24 %, a bounce without precedence in the practice of the European countries, contributed to the increase of the nominal budgetary income by 123.6% at the end of 2012 compared to the year 2008. The consequence of applying this measure over the real economy is negative, proved by the inappropriate evolution of the tax on profit, a barometer of the economic performances, that at the end of the year 2012 represented only 89.8% of the level of the year 2008. An accentuated increase may be identified also in case of the excises that rose by 237.2%.

On the pillar of budgetary expenses, actions were taken directly over the staff expenses, a simple measure, but especially injuring with negative direct effects over consumption and over the living level of the population. The staff expenses reduced from 45,609 million lei in 2008 to 40,799 million lei in 2012 (89.5%) particularly as a result of reducing the wages from the middle of the year 2010 by 25 %.

Table 2

Evolution of the main budgetary indicators between 2008 and 2012 (mil. Lei)

Indicator	2008	2009	2010	2011	2012	% 2012/2008
VAT	40.874	34.322	39.246	47.917	50.516	123,6
Excise	13.643	13.581	17.312	19.105	20.260	237,2
Staff related expenses	45.609	46.838	42.837	38.496	40.788	89,5
Tax on profit	13.059	10.641	10.115	10.309	10.855	89,8
GDP-mil.lei	514,700	501,139	523,693	556,708	585,200	113,7
Budgetary deficit	-5,7	-9,0	-6,8	-5,5	-2,52	-

Source: Ministry of finance; statistic directory.

In the annual report on 2011 the fiscal council specifies that “*The nominal reduction of the budgetary staff related expenses (decrease by 4.34 billion RON compared with the previous year, respectively 10,13%) had the most important contribution to the fiscal consolidation undertaken. Expressed as a percentage in GDP, the level of the staff-related expenses recorded an adjustment of 1.54 percentage points to a level of 6.65%, which explain two thirds from the reduction of the budgetary deficit*”.

In the context that both the VAT increase and the excises increase has direct consequences over the population expenses, the diminishing of the staff related expenses influenced additionally the negative effect over the level of living. Additionally, the

mentioned actions (VAT increase, increasing of the excises, diminishing of the wage) were performed in a high inflationist background (annual rate of inflation in the analyzed period being almost 6%, with oscillations from 6.3% in 2008 to 4.74% in 2009, 8.2% in 2010, 3.14% in 2011 and 4.95% in 2012) which accentuated the mentioned negative effect.

The data presented by the Fiscal council in the Annual Report, elaborated and published in 2012, show that at the end of 2011 worked in economy 6,647 million persons, and the employers reported a number of 4.297 million employees, resulting that 2.349 million persons worked under the counter, more than a third of the total number of employees. Correspondingly, the weight of the employees working under the counter increased from 22.5% in 2008 to 35.3% in 2011.

The fiscal evasion only in case of the contributions to the social insurance fund VAT and tax on income was of 10.3% from GDP in 2010 (table 3).

Table 3

Evolution of the fiscal evasion from the work under the counter VAT and informal sector (population)

Indicators	2008	2009	2010
Fiscal evasion from working under the counter	23,675	29,125	30,842
- tax on income	5,623	6,743	7,140
- contributions to social insurances	18,052	22,383	23,702
Fiscal evasion with VAT	19,548	19,266	18,766
Fiscal evasion in the informal sector (population)	4,480	3,340	4,076
Total fiscal evasion	47,703	51,732	53,684

Source: Fiscal council: Annual Report on 2011- Evolutions and macroeconomic and budgetary perspectives

It may be ascertained that only in the segment of work under the counter, VAT and informal sector, in three years the fiscal evasion rose by 12.5% whilst the degree of collecting the income to the general consolidated budget related to GDP decreased from 33.6% in 2008 to 33.3 in 2010. It is another confirmation of the fact that the state institutions that have the task of collecting the budgetary income does not act for the purpose of diminishing the fiscal evasion choosing the option of balancing the budget exclusively on the pillar of expenses, particularly of the wage related expenses.

CONCLUSIONS

Undertaking responsibility of active combating the fiscal evasion by the competent state bodies, aiming to increase the income to the general consolidate budget, is absolutely necessary, being able to contribute to the consolidation of the budgetary balance.

The real dimension of the fiscal evasion from Romania is around 16 billion euro, representing more than 12% of GDP. The measures identified in the work contents emphasize the possibility of reducing the fiscal evasion by reducing the work under the counter as well as by restructuring and binding the companies, in which the state is major shareholder, to pay the budgetary obligations.

The budget balancing tendency, by massive cutting off of expenses particularly wage related expenses, causes very serious disorders. The social reactions from the last years in many countries from Europe (Greece, Spain, Italy, etc.) have determined a change of the attitude of the political decisional factors, being recognized the fact that the austerity measures did not have the aimed effect.

Particular problems with serious social effects are encountered significantly in the countries with a low degree of collection of budgetary income, where the level of fiscal evasion and implicitly of corruption is higher.

Although the Fiscal council, a non-governmental body, approached in the annual reports drawn out the dimension of the fiscal evasion and the need of reconsidering the budget construction and execution methods, the reaction of the competent institutions was not felt until the present nor even in the projection of the budget for 2013.

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