# STATE BUDGET AND FISCAL POLICY INSTRUMENTS TO ACHIEVE ITS

**Haralambie George Alin**
***Universitatea Petrol-Gaze Ploieşti, Faculty Economic Science***

*This paper presents the tools for carrying out the fiscal budget in Romania. An effective fiscal policy involves increasing budget revenues and reduce their costs of collection. Public expenditure, taxes and debt are tools of fiscal policy to achieve economic stability budget. They are also presented the interdependencies between fiscal policy and budget.*

*Key words: budget, collecting, fiscal policy, fiscal efficiency, public revenues;*

## Introduction

Every state, regardless of size or level of economic development interfere in the economy by the agencyof fiscal policy for securing his financial resources in order to fulfil his functions but also to impel the development of economic sectors and also to dishearten the fiscal fraud.

The mains (principals) instruments witch the state can use to intervine in the economy are in the majority of the countries untaxes and taxes, which the state collect through various ways from the tax payers.

In Romania, as in the majority of the countries, the role of taxes manifest on the financial plan, they are the main means of raising public financial resources, that are necessary for financing public expenditures needed for collectives requirements.

Fiscal policy is a very important component of the financial policy, which is responsible for the collecting of public financial resources like untaxes and taxes. One definition in this direction was that of Condor Ioan who consider that" fiscal policy include (involve, contain) the total (ensemble) principles regarding the establishing and collecting the untaxes, taxes and other public revenues, which characterize the state option concerning and taxes"374. Gheorghe Manolescu claims, also, that" fiscal policy is constituted within the framework of public authority activity of establishing and utilizing the resources needed for public consumption and for the supply of public goods and services"375. Through fiscal policy is established the volume and source of public revenues, the methods of take over who will be utilized, the objectives to be follow and also the possibilitys that can be used to achive all these goals.

From these definitions result that fiscal policy represent a mechanism of taking over a part of the revenues earn by the economic agents, households and enterprises, for raising of funds who are necessary for public expenditures.The bundle between taxes and public expenditures was pointed by Paul A Samuelson, who see fiscal policy like" a process consisting in manipulating taxes and public expenditures"376 saying also that these is influencing the general distribution of national product between consumption and investments.

## The objectives of fiscal policy

The budgetary policy influence macroeconomic objectives-production fluctuation, of prices and that of unemployment, fact that require to tackle this policy in connection with the fiscal policy, because both of them are elaborated at the same time by the public authorities. The fiscal policy of a state is reflected yearly by his budget. Within the framework of fiscal policy the priority is the establishment on one hand of the total volume of expenditures, on the other hand of the way

---

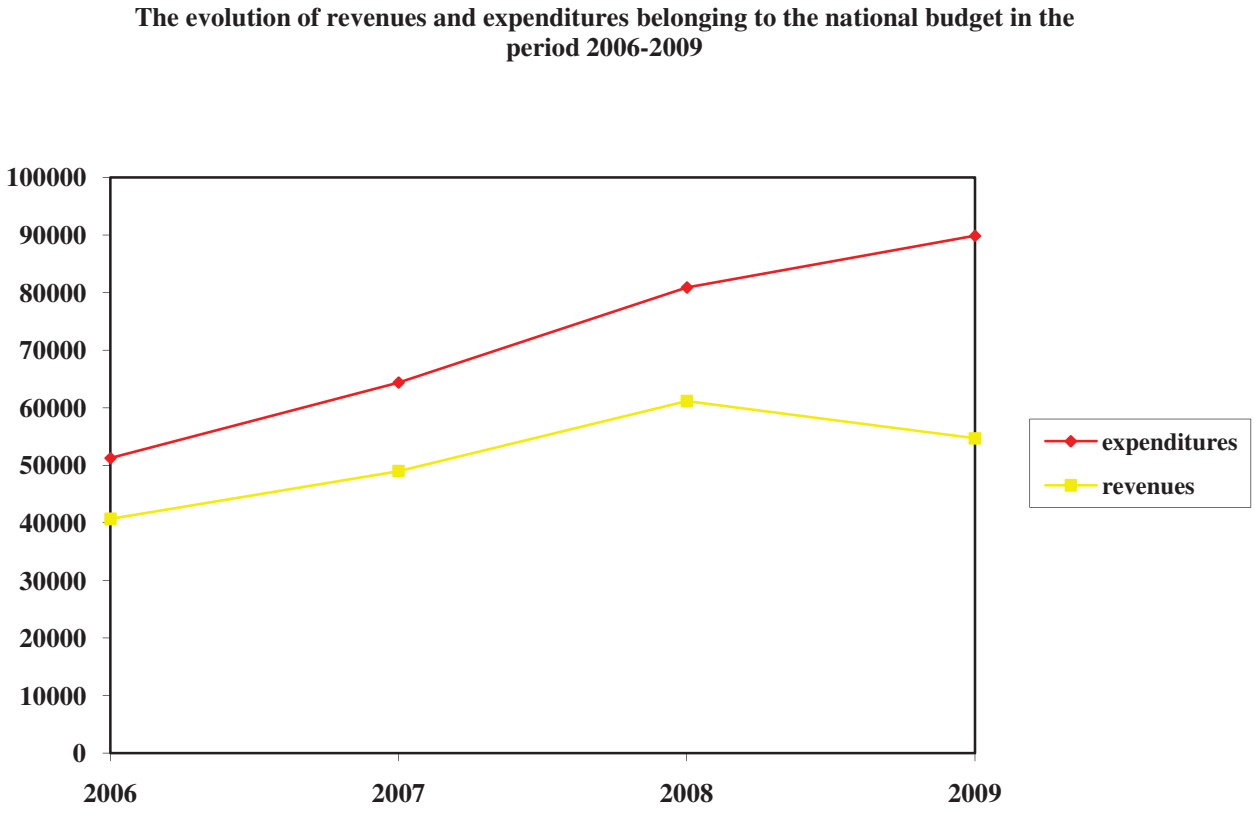
[374] Condor, I., Fiscal law, published by Lumina Lex Bucarest, 2002, pg. 71.
[375] Manolescu Gh., Economic policy. Drafts, instruments, experiments, published by Economic, Bucarest, 1997, pg. 265.
[376] Samuelson, P.A., Political economy, published by Teora, Bucarest, 2001, pg. 364.

in which they can be financed those expenditures: from fiscal sources or by contracting some loans, each of these ones generating different economic effects.
The rationality of the fiscal policy decisions require to respect the following principles of taxation: currency, equity, honesty, efficiency and the convenience of taxation.
It comes out that ascertained the increasing of public expenditures included in the over-all budget from year to year, the accomplishement of state functions requires the adoption of a unitary fiscal-budgetary policy, who suppose that public revenues and expenditures can be approach in a unitary manner.
The fiscal policy is strongly connected with the ability of public authorities to use taxation and public expenditures to influence the national economy.
The fiscal system, with all his implications and functionalitys, can not function without the existence of the fiscal machine-the engine who put in motion the fiscal mechanism. He must answer some morals and ethics demands in order to make the fiscal burden fair and not overwhelming, therefore more reasonable.
In keeping with special literature a reasonable fiscal system must fulfil some functions like: rally public revenues, stimulating economic function, social and control function, stimulate saving and investments in the private sector.
On the social plan the fiscal policy is utilized for reduction of inequalities between revenues of taxpayers, the taxation for taxpayers with big revenues being heavyer. Simultaneously the unfortunate taxpayers are protected through the agency of tax exemption. These ones are granted in order personalize taxation, by realizing a connection between revenues and taxes.
The objectives of the fiscal policy are:regulate market position and relaunch of the economy, restructure economic sector and economic growth, improvement of productive sector. In order to achive these goals, the state must reduce the fiscal burden simultaneously with a increase in public expenditures in a period economic crisis, while in a period of economic boom he must rise tax rates and also cut down expenses made from national budget.
The main problem of Romania fiscal policy in the area of revenues is finding a balance between the necessity of increasing revenues by raising rates as a principal source for covering expenditures, who are directioned towards to diminish poverty, and also the necessity of supporting business environment, who represent the principal factor for economic growth.
In this sense growing up revenues more rapidly than inflation rate and also the adjusting the fiscal burden at a level which is favourable for the development of business environment and investment capital will be an opportunity.
The method of analysis of the fiscal policy in Romania was based on the dates provided by Ministry of Public Finances.

**The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009**

The revenues belonging to national budget increased between 2006-2008. In 2009 due to the economic crisis who affected Romania they drop significantly. By analysing the informations in the chart bellow we can observe that the public expenditure grew more rapidly than the revenues due to the poorly management of the public funds. One explication for the growth of revenues in the period 2006-2008 is the better gathering of fiscal revenues.

Figure 1. The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009




The dates from bellow presents the execution of the state budget during the period 2006-2009.

Table 1.Revenues execution of the state budget

lei million

| INDICATORS | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| REVENUES-TOTAL | 40698,1 | 48984,6 | 61151,0 | 54678,4 |
| 1.Fiscal revenues | 37900,1 | 44916,7 | 55133,6 | 48152,9 |
| Tax on income, profit and capital earnings of which: | 14122 | 14615,9 | 18563,2 | 15539,7 |
| Tax on profit | 7905,4 | 10528,8 | 13039,9 | 10617,1 |
| Taxes and duties on goods and services of which: | 23777,7 | 29332,8 | 35368,1 | 31789,8 |

| | | | | |
|---|---|---|---|---|
| Value added tax | 13224 | 31243,2 | 40873,6 | 34322,4 |
| Excise duties | 9943,1 | 11207,8 | 12382,5 | 14272,1 |
| Taxes on foreign trade and international transactions | 2596,2 | 855,7 | 962,3 | 655,5 |
| 2.Insurance contributions | 331 | 408,4 | 454,2 | 414,7 |
| 3.Non-fiscal revenues | 2281,8 | 3113,5 | 3737,2 | 6352,3 |

Table 2.Expenditures execution of the state budget

| INDICATORS | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| EXPENDITURES | 51235,6 | 64373,5 | 80887,8 | 89851,7 |
| Current expenditures | 43118,7 | 58089,9 | 73131,3 | 84580,1 |
| I. Staff expenditures | 10174 | 13184,3 | 15834,4 | 15286,3 |
| II. Goods and services | 4322,7 | 3776,2 | 4605,3 | 4318,3 |
| III. Interests | 2120,2 | 2249,0 | 2942,0 | 5103,3 |
| IV. Subsidies | 5670,9 | 4997,8 | 5809,1 | 4966,3 |
| V. Reserve funds | | - | - | |
| VI. Transfers among general guverment units | 5961,2 | 10997,4 | 13429,7 | 17873,8 |
| VII. Other transfers | 3892 | 9212,3 | 12825,1 | 13261,6 |
| VIII. Social assistance | 10050,3 | 11932,2 | 16085,1 | 18082,6 |
| IX. Other expenditures | 927,4 | 1740,7 | 1600,6 | -344,1 |
| Capital expenditures | 5865,2 | 4164,9 | 5642,9 | 3171,0 |
| X. Non-financial | 5365,2 | 3825,1 | 5642,9 | 3066,0 |

| | | | | |
|---|---|---|---|---|
| assets | | | | |
| XI. Financial assets. | 500 | - | - | 105,0 |
| Financial operations | 2251,6 | 2118,6 | 2113,6 | 2502,9 |
| XII. Loans | 3,9 | 3,7 | 4,7 | 4,7 |
| XIII. Credit refunds | 2247,7 | 2114,9 | 2108,8 | 2498,2 |

Source of the dates; Ministry of Public Finances. lei million

From the analysis of the dates from above we can observe that the fiscal revenues are holding a weight of over 90%, especially those who are proceeding from taxes and duties on goods and services (approximately 59% from the total revenues).Those who are proceeding from tax on income, profit and capital earnings represent approximately 30% from the total revenues, fact that shows the interest of the public authorities to let at the disposal of the private individuals and economic agents a bigger part from their revenues, in order to stimulate saving and investments in the private sector. This objective was attained by the introduction in the year 2005 of 16% unique quota taxation, thing that had led to a decrease of public revenues from tax on income, profit and capital earnings. But the introduction of profit minimum tax in the year 2009 was a mistake because a lot of economic agents closed down their business, fact that had repercussions on revenues attracted on the national budget from profit tax because they drop with 20%. Also we can see that the revenues from value added tax had diminished significantly because the people had to restrain their consumption of goods in this period of economic recession. The revenues from excise duties are significantly bigger from year to year because the exchange rate for euro/ron and the specific excise tax increased. The estimated revenues for 2010 are 66.654,3 million lei, much bigger than those of the year 2009 but the expeditures are 101.678,4 million lei- with a budgetary deficit of 35.024,1 millions lei.
Upon close examination of the current expenditures we can observe that they grew every year. These ones are non-productive representing a definitive consumption of GDP. By opposite, capital expenditures (those ones who made for the development and modernization of public sector) diminished in this period of time. They are materialized in investments in the sphere of material or non-material production.

**Measures taken by the state in order to reduce budget deficit**
The state must take urgent actions in order to reduce current expenditures and also to increase capital expenditures who will generate further revenues, as a part of programme of reducing budget deficit. Some steps were made in this direction but there are a lots of thing to be made in the next years (for example a growth of the productive rate in the public sector).
The main objective for the fiscal policy during this period of time was maintaining budgetary deficit at a lower level by bettering gathering public revenues. There are still a lots of steps to be made in order to eradicate tax avoidance. First of all the fiscal authorities must render more frequent controls in order to uncover those persons who elude from payment their taxes to the budget. Another problem of fiscal policy is the frequent changes of fiscal legislation in force who made the taxpayer reluctant in opening a business.

The consequence of taxation pressure over the consumption, over production factors-labor and capital, represent an important element with a view to improving the tax system. By comparison with the others state from European Union,tax burden in Romania is much smaller. The fiscal rate IN Romania althoughit is smaller By comparison with the others state from European Union, cannot be appreciated without taking into consideration the level of GDP per person, who is smaller than that of others EU countries.

By observing the way in which the budgetary fiscal revenues evolved in the analysed period, both from the point of view of structures and weight of these, we can say that the fiscal policy promoted until the present day did not brought the stability needed for the development of a lasting and harmonious economic environment and none a real growth in the national budget revenues.

The state was forced to establish new taxes in order to cover the difference between growth of public expenses and that of public revenues who was smaller, by increasing tax burden.

Beginning with the year 2009, the budgetary policy is pursuing the correction of external and internal unbalances who has been let to amplify in the economy. This is a part of the macroeconomic program adopted in april 2009 as a response to the aid flow granted to Romania by the European Union, International Monetary Fund and others. In accordance with this program we forecast a budget deficit of 7% of GDP due to economic downturn. By reducing the country's budget deficit for 2010, and adopting a much more prudent fiscal policy, Romania would signal to the International Monetary Fund and foreign investors that the country was adjusting to the downturn in the external environment.

**Conclusions**

The state budget for the year 2010 is not realistic in the current condition of economic slowdown. The perspectives on the romanian economy on the short term are negative. Simultaneously the tightening of global credit lines will undoubtedly led to a decrease of the foreign capital invested in Romania, fact who will have repercusion over financing its current account deficit - which significantly adds to the risk of a depreciation of RON/EUR.

As to budgetary policy, government had one tough choices to make between raising budgetary revenues through tax increases or slashing expenditure (current expenditure) from national budget by mass dismissals from the public sector and by reducing public expenses with goods and services, finaly the executive authority chose the second one who is very unpopular amoung the people. The preferred action from a macroeconomic standpoint is to cut non-productivity orientated spending.On the short time the adopted measure lead to unemployment, decrease of revenues as a result of some cancellations of pays rise who where given until decembre 2009.

In general, it does not seem particularly prudent to raise taxes in a period of slowing economic growth.

As a conclusion we can say that fiscal policy must be conceived like a combination between the stimulative elements and those restrictions in order to achive macroeconomic stability, materialized in the acomplishment of a lasting economic growth, in circumstance of deflation, of maintaining current account deficit in reasonable boundary who can be financed and that of consolidation foreign exchange reserves.

**Bibliography**

1.Condor, I., 2002, Fiscal law, Bucarest, Lumina Lex Press;

2. Manolescu Gh, 1997, Economic policy. Drafts, instruments, experiments, Bucarest, Economic Press ;

3. Moşteanu, T., 2008, Fiscality-Taxes and untaxes, Bucarest, University Press;

4. Musgrave, R.A., 1969, Fiscal systems, Yale University Press;

5.Samuelson, P.A., 2001, Political economy, Bucarest, Teora Press ;

6.Tatoiu, A., 2004 The perspectives of taxes policy in the European Union, Braşov, Transilvania University Press;