THE BUDGETARY DEFICIT – BETWEEN THE PERMISSIVE SIDE AND THE ACTUAL ECONOMICAL REALITY

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Abstract

A budget deficit is a common economic phenomenon, generally taking place on governmental levels, and occurs when the spending of a Government exceeds that of its financial savings. In fact, budget deficit normally happens when the Government does not plan its expenses, after taking into account its entire savings. At the level of the European Union, the budgetary deficit of the member states was established through the Maastricht treaty: budget deficit level that must be lower than 3% of GDP. According with the restriction regarding the budgetary deficit, there was elaborated an excessive budgetary deficit procedure, annexed to the treaty.

The agreement convened by Romania with the FMI and the European Commission states complying with four conditions, mentioned in the paper. At the European Union level the diversity manifests also regarding the financial result recorded by every member state; from a total of 27 member states ,only 9 member states fulfill the criteria regarding the budgetary deficit, and those are: Belgium, Czech Republic, Germany, Estonia, Italy, Slovenia, Slovakia, Austria, and Portugal, the others confronts themselves either with EDP or with the situation of budgetary excess.

Keywords: budgetary deficit, excessive deficit procedure, FMI agreement, fiscal measures

JEL Classification: H 62, H 68, F 36

Introduction

The budgetary deficit represents a negative situation with which the public budget can face itself with. Although the budgetary deficit was not accepted by the classic finance theory, nowadays the possibility of elaborating the state budget with deficit and accepted practice and often met at the level of most states, accentuated also by the effects of the worldwide economical crisis, the condition that actually represents the object of study of this paperwork. A budget deficit is a common economic phenomenon, generally taking place on governmental levels. Budget

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Deficit occurs when the spending of a Government exceeds that of its financial savings. In fact, budget deficit normally happens when the Government does not plan its expenses, after taking into account its entire savings. Budget deficit means net borrowing as defined in the European System of Integrated Economic Accounts.

1. The budgetary deficit and the excessive budgetary deficit procedure

What does actually mean the budget deficit? The budget deficit is the consequence of the fact that the incomes made at the level of a public budget are inferior to the expenses made. At the level of the European Union, the budgetary deficit of the member states was established through the Maastricht treaty, this treaty was concluded in February 1992 and it stipulates five criteria of convergence that a European Union member state must fulfill in order to adopt the unique currency. Thus, these criteria make reference to[39]:

a) **Inflation** – in order to be eligible to become a member country of the monetary union, the inflation must not exceed by more than 1.5% the average of the three EU members with the greatest price stability.

b) **Long-term interest rates** must not exceed by more than 2% the average in three EU members with the greatest price stability.

c) **The exchange rate** between the applicant country's national currency and the euro must not fluctuate by more than +/-15%

d) **The fourth convergence criteria** is of budgetary nature and it makes reference to the budget deficit level that must be lower than 3% of GDP. This 3% level of the budgetary deficit was established starting from the Germany's system that worked following the principle that the budgetary deficits are allowed only if they comply with the public investment expenses, because these actually represent a future economical growth source, in this way being able for the contracted loans to be financed. Germany also thought that the public investments rise up to approximately 3% of GDP.

e) The last but not least criteria states that **Government debt** must be lower than 60% of GDP.

According with the restriction regarding the budgetary deficit, there was elaborated an excessive budgetary deficit procedure, regulated by the article 104c from the setting up treaty of the European Union and in the protocol regarding the appliable procedure for the excessive deficits, annexed to the treaty. This procedure consists in scrolling a set of stages, as it follows[40]:

1. When an European Union member state does not comply to the two requirements above mentioned, or one of them, the European Commission elaborates a report in which it analyzes if the value of the public deficit is superior to the value of the public investment expenses, taking in account all the other relevant

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[39] Economia integrării europene – Baldwin Richard, Wyplosz Charles, pg. 371 - 372

[40] The institution Treaty of the European Union, article 104c

factors, including the economical and budgetary position on a medium term of the state in question.

2. The Economical and Financial Committee approves the Commission's report.

3. The Commission, if it considers that there is an excessive public deficit, or the risk of it happening, the commission send a notice to the Council.

4. The Council, based on the recommendations of the Commission and on possible observations of the state in question, adopts a decision through majority regarding the existence of an excessive deficit.

5. If the Council finds an excessive public deficit, it forwards recommendations to the member state in order for it to end the existing situation in maximum 6 months; these recommendations are not made public.

6. If they find that no action wad made for straightening out the situation, followed by favorable results, the Council can make public the recommendations.

7. When a member state persists in not following the recommendations of the Council, the Council can decide to unemploy the member state in order to take measures of reducing the deficit, in a deadline. It can also ask for the state in question to present some reports following a precise calendar, in order to examine the efforts that were made for adjusting the deficit situation.

8. The Council will abolish some or all of its decisions if it thinks that the excessive deficit was corrected.

9. If it is not intervened in the margins stipulated by the establishment and growth Pact, if the state in question is not a part of the zero zone, the Council can decide to partially or fully suspend the commitments of the Cohesion Fund for the state in question, starting from the first of January of the next year following the suspension decision, if the state member has not taken effective measures in accordance with the recommendations made by the Council[41].

The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.[42] The member states report to the Commission their planned and effective public deficits and the levels of the public debt; this is made twice a year, first before 1 April of the current year (n year) and second before First of October of the n year.

2. The budgetary result of the European Union member countries between two poles apart

While the American people learn what a trillion is, the USA budgetary deficit exceeds 1.000 billion dollars after the first 9 months of the fiscal year 2009[43], numerous states from the European Union have as we speak deficits over 3% of GDP. As a result of the sharp global financial and economic crisis EU public

[41] See the Note regarding the excessive deficit procedure for Romania, from 5.05.2009, elaborated by the Department for European Affairs

[42] http://europa.eu/eur-lex/en/treaties/selected/livre335.html

[43] http://www.zf.ro/zf-24/americanii-invata-ce-este-trilionul-deficitul-bugetar-al-sua-a-depasit-1-000-miliarde-de-dolari-dupa-primele-noua-luni-ale-anului-fiscal-2009-4638676/

finances are under stress. The crisis brought about a decline in tax revenues and a rise in expenditure (e.g. in unemployment benefits). The existence of special circumstances which entailed a collapse of exports, a sharp tightening of mortgage loans and corporate loans, which also contributes to quickly rising unemployment rates, determinates the European authorities to initiate the EDP.

In the euro area the government deficit to GDP ratio increased from 0.6% in 2007 to 1.9% in 2008, and in the EU27 it increased from 0.8% to 2.3%. In the euro area the government debt to GDP ratio increased from 66.0% at the end of 2007 to 69.3% at the end of 2008, and in the EU27 from 58.7% to 61.5%.[44]

There are nine EU countries for which the Commission makes budgetary correction recommendations in 2009. Four are already in EDP: France, Greece, Ireland and Spain that joined Hungary and the United Kingdom which were the only two countries under heightened budgetary surveillance before the crisis intensified.[45] Alongside Latvia, recommendations on another four - Malta, Lithuania, Poland and Romania were considered by the EU finance ministers on 7 July 2009, together with new recommendations under article 104.7 addressed to Hungary.

Table 1: Government deficit / surplus % of GDP in EU Member States

Member State	Government deficit (-) / surplus (+) % of GDP			Government debt % of GDP		
	2006	2007	2008	2006	2007	2008
Belgium	0.3	-0.2	-1.2	87.9	84.0	89.6
Bulgaria	3.0	0.1	1.5	22.7	18.2	14.1
Czech Republic	-2.6	-0.6	-1.5	29.6	28.9	29.8
Denmark	5.2	4.5	3.6	31.3	26.8	33.3
Germany	-1.5	-0.2	-0.1	67.6	65.1	65.9
Estonia	2.9	2.7	-3.0	4.3	3.5	4.8
Ireland	3.0	0.2	-7.1	24.9	25.0	43.2
Greece	-2.8	-3.6	-5.0	95.9	94.8	97.6
Spain	2.0	2.2	-3.8	39.6	36.2	39.5
France	-2.3	-2.7	-3.4	63.7	63.8	68.0
Italy	-3.3	-1.5	-2.7	106.5	103.5	105.8
Cyprus	-1.2	3.4	0.9	64.6	59.4	49.1
Latvia	-0.5	-0.4	-4.0	10.7	9.0	19.5
Lithuania	-0.4	-1.0	-3.2	18.0	17.0	15.6
Luxembourg	1.4	3.6	2.6	6.7	6.9	14.7
Hungary	-9.2	-4.9	-3.4	65.6	65.8	73.0
Malta	-2.6	-2.2	-4.7	63.7	62.1	64.1
Netherlands	0.6	0.3	1.0	47.4	45.6	58.2

[44] Eurostat. Newsrelease. Euroindicators, Eurostat Press Office, No. 56 / 22 April 2009, http://ec.europa.eu/eurostat

[45] Europe Press Release IP/09/1069, Brussels, 2 July 2009, pg 2

Austria	-1.6	-0.5	-0.4	62.0	59.4	62.5
Poland	-3.9	-1.9	-3.9	47.7	44.9	47.1
Portugal	-3.9	-2.6	-2.6	64.7	63.5	66.4
Romania	**-2.2**	**-2.5**	**-5.4**	**12.4**	**12.7**	**13.6**
Slovenia	-1.3	0.5	-0.9	26.7	23.4	22.8
Slovakia	-3.5	-1.9	-2.2	30.4	29.4	27.6
Finland	4.0	5.2	4.2	39.2	35.1	33.4
Sweden	2.5	3.8	2.5	45.9	40.5	38.0
United Kingdom°	-2.7	-2.7	-5.5	43.4	44.2	52.0
	-3.1	*-2.7*	*-2.8*	*41.9*	*42.7*	*43.2*

° Data refer to calendar years. Data referring to the financial year (1 April to 31 March), are shown in italics.

For the United Kingdom, the relevant data for implementation of the excessive deficit procedure are financial year data.

Source: Eurostat Newsrelease No. 56/ 22 April 2009, Eurostat Press Office, pg. 4-7

2.1 The first pole: countries that have an excessive budgetary deficit

Romania - The global economic downturn has resulted in a sharp drop of private capital flows to Romania, leading to a significant deceleration of activity since the fourth quarter of 2008. According to data notified by the authorities in April 2009 and validated by Eurostat, the general government deficit reached 5.4% of GDP in 2008, thus exceeding the 3% of GDP reference value, while the general government debt stood at 13.6% of GDP in 2008.[46]

The general budgetary consolidated rose up in Romania, after the first four months at 9,4 billion lei, respectively 1,78% of GDP, from the 1,5% of GDP that was recorded at the end of March 2009.[47] Reentering in the margins prefigured by the Stability and Growth Pact represents one of the main objectives of the financing agreement between Romania and FMI and CE. Within this context, the main budgetary political elements on a short term – in the 2009 year – and on a medium term – 2010 and 2011 endorses[48]: reducing the budgetary deficit by 1,1% of GDP up to 4,6% for the general budgetary deficit stabilized next to a scenario based on 5,7% that took into consideration the economical decline from 2009; reducing the primary budgetary expenses, exclusively the interests, with approximately 0,85% of GDP, in comparison with the 2009 year's budget and increasing the additional incomes with 0,25%; The follow-up of the fiscal consolidation and reducing the deficit so that in 2010 the budget's deficit to be about 3,7% of GDP and in 2011 under the threshold

[46] Romania -Report from the Commission prepared in accordance with Article 104(3) of the Treaty SEC(2009) 647, Brussels, 2009, pg. 3

[47] http://www.zf.ro/zf-24/deficitul-bugetar-a-urcat-la-1-78-din-pib-dupa-patru-luni-4294626/ mai 2009

[48] Nota privind Procedura de deficit bugetar excesiv in cazul Romaniei data de Departamentul de Afaceri Europene a Guvernului, 05.05.2009

of 3% of GDP just as the Stability and Growth Pact states. The government engaged before the International Monetary Fund, within the financing agreement in total value of 20 billion euros (from which 13 billion euros from the FMI), to situate itself in certain budgetary deficit targets in each trimester, so that, at the end of December the budgetary deficit will not exceed 24.36 billion lei (which represents 4.58% of GDP, that was estimated at 531.3 billion lei for 2009). For the end of the II trimester it was established a target of 14.51 billion lei (2.73% of GDP), and for the third trimester 18.61 billion lei (3, 5% of GDP)[49]. In the first of July, the ministry of finances stated that according to the first evaluations the budgetary deficit has reached, after the first six months of this year, 2.7% of GDP, slightly under the quarterly target that was convened with the FMI.

From 2009 onwards, fiscal policy aims to correct the significant external and internal imbalances that have been allowed to develop in the economy.

The Commission recommended that Romania corrects the excessive deficit by 2011 in view of the large imbalances and the economic and financial situation and an average annual fiscal effort of at least 1½% of GDP starting with 2010.[50] It should implement the fiscal measures as planned in the February 2009 budget and the April 2009 amended budget, especially in the area of public sector wages and pension reform; take further corrective action if needed to achieve the 2009 deficit target in order to ensure compliance with the commitments undertaken under the programme supported by EC balance of payments assistance.

Poland According to data notified by the Polish authorities in April 2009, the general government deficit reached 3.9% of GDP in 2008.[51] This was significantly more than the expected 2008 outturn of 2.7% presented in the December convergence programme. Poland's general government deficit over the past five years averaged 4.3% of GDP, at the same time as GDP growth on average exceeded 5%.[52] The Polish authorities announced that the general government deficit may significantly exceed the 4.6% of GDP planned for the current year in the Spring 2009 EDP notification. The Polish authorities should put an end to the excessive deficit situation by 2012 at the latest. This implies an average annual fiscal effort of about 1¼ -1½ percentage points of GDP starting in 2010.[53]

Lithuania had a general government deficit of 3.2% of GDP in 2008.[54] The deterioration of the fiscal position in 2008 was mainly due to expansionary fiscal policy and, to a lesser extent, lower-than-budgeted tax revenue, reflecting the

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[49] http://www.realitatea.net/geoana-spune-ca-deficitul-bugetar-ar-putea-depasi-in-acest-an-nivelul-convenit-cu-fmi_555242.html 4 iulie 2009

[50] Europe Press Release IP/09/990, Brussels, 24 June 2009, pg 8

[51] Poland- Report from the Commission prepared in accordance with Article 104(3) of the Treaty SEC(2009) 650, Brussels, 2009, pg. 5

[52] Europe Press Release IP/09/752, Brussels, 13 May 2009, pg. 2

[53] Europe Press Release IP/09/990, Brussels, 24 June 2009, pg 7

[54] Lithuania - Report from the Commission prepared in accordance with Article 104(3) of the Treaty SEC(2009) 649/2, Brussels, 13.5.2009, pg. 3; Europe Press Release IP/09/1069, Brussels, 2 July 2009, pg 6;

slowdown of the economy in the second half of the year. Although the deficit was close to the 3% Treaty reference value, the excess was not considered as being due to exceptional circumstances nor considered to be temporary. In view of the very weak economic situation in Lithuania and the size of the deficit, 2011 is the deadline year and it implies an average annual fiscal effort of at least 1½% of GDP over the period 2009-2011.

Malta On 18 February 2009, the Commission adopted a report based on a planned deficit of 3.3% of GDP in 2008 and gross debt of 63.8% of GDP, according to data notified by the authorities in September 2008.[55] The report highlighted that the excess of the deficit over the 3% reference value was small and no further steps under the excessive deficit procedure have been taken at that time. However, according to data notified by the authorities in March 2009, the general government deficit in Malta was revised upward to 4.7% of GDP in 2008, while general government gross debt stood at 64.1% of GDP. The Commission adopted on 13 May 2009 a report for trigger the first step in the excessive deficit procedure. The Commission recommends to the Council that Malta puts an end to the excessive deficit situation by 2010 in a credible and sustainable manner by rigorously implementing the budgetary measures planned for 2009 while avoiding any further deterioration in public finances.

France has been hit by the global economic crisis, including the collapse of world trade since the fourth quarter of 2008. The budget deficit is expected to have reached 3.4% of GDP in 2008 and the targets for 2009 and 2010 have been revised up to 5.6% and 5.2%, respectively, according to French estimates in March 2009.[56]The government has adopted a series of measures that are timely, targeted and temporary, and which, together with the free play of particularly strong automatic stabilizers, explain this budgetary evolution. An excessive deficit exists in France and it must be corrected by 2012.

Greece After reaching 3.5% of GDP in 2007, the general government deficit of Greece is estimated at 3.7% of GDP in 2008, thereby exceeding the 3% reference value in both years. The deficit is expected to remain above 3% in 2009 and to exceed 4% in 2010 on a no-policy-change basis.[57] The country should implement additional permanent measures in 2010 in order to bring the headline deficit clearly below the 3% of GDP with a view to recovering competitiveness losses and addressing the existing external imbalances. Greece is invited to strengthen substantially the fiscal consolidation path already in 2009, especially if economic conditions turn out better than expected in the programme, through well-specified permanent measures curbing current expenditure, including a prudent public sector wage policy, thereby contributing to necessary reduction in the debt-to-GDP ratio.

[55] Malta - Report from the Commission prepared in accordance with Article 104(3) of the Treaty, SEC(2009) 651 final, Brussels, 13.5.2009 , pg. 3; Eurostat Newsrelease, IP/09/274, pg 6 18 February 2009

[56] Europe Press Release, IP/09/458, Brussels, 24 March 2009

[57] Europe Press Release IP/09/458, Brussels, 24 March 2009

Ireland After more than a decade of strong economic growth, Ireland is now going through a severe recession.[58] The downturn was caused by the financial crisis, the sharp correction in the housing market and the recession in Ireland's main trading partners, the US and the UK. While general government debt in Ireland stood at 40.6% of GDP in 2008, government deficit is set to have reached 6.3% of GDP. According to the Commission's January forecasts, the deficit is expected to widen further to 11% in 2009 and to 13% of GDP in 2010 on a no-policy-change basis.[59] Ireland is invited to limit the widening of the deficit in 2009 and specify and rigorously implement a substantial broad-based fiscal consolidation program for 2010 and beyond. Ireland must bring the deficit below the 3% of GDP reference value by 2013.

Spain In 2008, for the first time in several years, Spain is estimated by the Commission to have recorded a budget deficit estimated at 3.4% of GDP. Public debt, which had been reduced to 36.2% of GDP in 2007, increased to 40.3% of GDP in 2008 and is expected to grow above 50% of GDP in 2010.[60] In this context, a careful assessment of the budgetary impact of discretionary measures will be crucial to ensure the improvement of the medium-term budgetary position, as well as of the long-term sustainability of public finances. The Spanish authorities must bring the general government deficit below 3% of GDP by 2012. They are also invited to ensure that consolidation towards the medium-term objective of a balanced budget is sustained after the excessive deficit has been corrected.

Hungary An excessive deficit procedure was opened in July 2004 right after EU accession that recommended the country to bring the deficit below 3% of GDP by 2008. The recommendation was repeated in March 2005 and again in October 2006 in view of the inadequate action taken by Hungary. In October 2006, the Council also extended the deadline for the correction of the excessive deficit to 2009. Since mid-2006 Hungary has made marked progress to correct its fiscal imbalances. The nominal deficit targets were overachieved by large margins as the deficit was reduced from over 9% of GDP in 2006 to 3.4% in 2008. However, the impact of the current financial crisis has heavily affected the Hungarian economy. Against this background, the Commission recommends to the Council to ask the Hungarian Government to correct the excessive deficit by 2011, which seems to be appropriate in view of the exceptional situation characterized by the depth and length of the current recession and the fragility of the financial sector.

The United Kingdom is under the excessive deficit procedure since July 2008, when the Council recommended to bring the general government deficit below 3% of GDP by 2009/10. But since then the budgetary situation has worsened substantially on account of the sharper-than-expected economic slowdown and the deficit-increasing discretionary measures adopted by the UK. According to the 2008

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58 Europe Press Release IP/09/274, Brussels, 18 February 2009

59 Europe Press Release IP/09/458, Brussels, 24 March 2009

60 Europe Press Release, IP/09/458, Brussels, 24 March 2009

update of the UK's convergence programme, the deficit in 2009/10 is projected to reach 8.2% of GDP, with the discretionary loosening accounting for around one-third of the increase over the previous year. The UK authorities have not taken effective action to end the excessive deficit situation by 2009/2010; hence a new deadline was setting for the 2013/14 financial year to correct the deficit below 3%.

Latvia The Council, in the context of the excessive deficit procedure, set a deadline of 2012 for Latvia to reduce its budget deficit below 3% of GDP. The deadline is consistent with Latvia's ongoing process of economic and budgetary adjustment and its medium-term euro adoption aim, which is the anchor of its strategy.[61] Latvia's very high current account deficits accumulated in recent years and the high indebtedness of the domestic sector in foreign currency made it particularly vulnerable when the global economic and financial crisis intensified last autumn.

2.2 The second pole: countries with budgetary excess

Cyprus has adopted a significant stimulus package for 2009 in line with the European Recovery Plan that is expected to result, in the programme, in a budget deficit of nearly 1% in 2009 as opposed to an estimated surplus of roughly the same amount last year.

Bulgaria budgetary strategy aims at maintaining a budgetary position reflected in the high targeted general government surpluses of 3% of GDP. GDP growth has been high in Bulgaria at over 6% per year since 2003, accompanied by a widening external deficit and high inflation.[62] Bulgaria's fiscal policy is geared towards maintaining investor confidence and preserving macro-economic stability. The government's focus on structural measures to strengthen the economy's resilience also represents a timely and adequate response to the current economic outlook.

Denmark - after a period of strong economic activity and sizeable budgetary surpluses, Denmark's economic slowdown in 2008 was rapid and pronounced, as the cyclical downturn has been exacerbated by the global economic and financial crisis.

Finland - after GDP growth above potential in 2006 and 2007 (4.9% and 4.2% respectively), the Finnish economy decelerated rapidly in 2008 and is expected to be negative in 2009.[63]

The Netherlands - economic activity is expected to decrease sharply in 2009, as the Netherlands is set to be severely hit by the sharp fall in world trade and the financial crisis. The country aims at achieving and maintaining stable budgetary surplus between 2008 and 2011.

Sweden - large surpluses in good times have created space to allow fiscal policy to play an active role in the current downturn, not only by boosting demand in the short term but also by strengthening the economy's long-term growth potential.

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[61] Europe Press Release IP/09/1069, Brussels, 2 July 2009, pg 1
[62] Europe Press Release IP/09/273, Brussels, 18 February 2009, pg 2
[63] http://ec.europa.eu/economy_finance/thematic_articles/article13960_en.htm

Luxembourg - the government surplus declined from 3.6% of GDP in 2007 to 2.6% in 2008. This surplus it may be into a deficit in 2009, due not only to the impact of the crisis on government revenues and on unemployment outlays but also to the tax cuts decided in the 2009 budget before the aggravation of the crisis and implemented since the beginning of this year. The deficit could reach 1½% of GDP this year and widen to about 2¾% of GDP in 2010, as a result of the delayed effects of the recession on tax revenues and social transfers.[64]

3. The implications of the agreement between FMI and Romania over the actual and perspective economical situation

The agreement convened by Romania with the FMI and The European Commission states complying with four conditions, respectively adjusting incomes and budgetary expenses and elaborating laws regarding unique remuneration, the fiscal responsibility and the reform of the pension system. Romania convened over a stand-by agreement of a period of 2 years with the FMI for 12, 95 billion euros, the total package of external financing, from the Fund, the European Union, BM and BERD that was going to reach up to 19,95 billion euros.

According to the agreement concluded between Romania and the FMI, the budgetary remuneration will not grow in 2009. Also, the government took the job of compensating some increasements with personnel reduction in force, reducing the employees' number, through replacing a single workplace of 7 workplaces that become vacant. The Bucharest Executive also stated that he will adopt until the 30th of October 2009 the law of unique remuneration in the budgetary section. This will mean a stage that will imply at most 3 years for the step by step implementation of the new stipulations. The intent letter and the stand-by agreement with the FMI says: "The introduction of bonuses that are not of money nature is forbidden. The money bonuses will be consolidated, eliminating a great part of these or introducing them in the basis remunerations", this letter was signed by the ministry of public finances, and the BNR governor, and was transmitted to the general director of the FMI.

The Romanian authorities commit themselves to unify and simplify the calculation grid for remuneration, as well as the bonuses system that are applied in the public sector, and for each employee the total of the ne-remunerated incomes will have legal cover-up. On the other hand, until the 31st of December the legislation regarding pensions is going to be revised. According to the agreement, the age of retirement will be increased, especially in the wimin sector, and the pensions will be indexed with the inflation and will limit the possibilities of discretionary increasing them.

Furthermore, the obligation of paying the retirements contributions will slowly broaden for the public employees categories that are currently excluded.

Until 30th November 2009, the government must present to the Parliament the legislation regarding the fiscal responsibility and will prepare an implementation plan

[64] http://ec.europa.eu/economy_finance/pdf/2009/springforecasts/lu_en.pdf

of it. The new law will set up, in coordinates with the FMI and the Worldwide Bank, procedures for improving the multi-annual budgeting, limits for budgetary revision during one year, rules respecting expenses, the public debt and the primary deficit and will establish a frame for issuing and managing warranties and other unplanned debts. If there will exist difficulties regarding the budgetary incomes, the Romanian authorities will be obliged to consult themselves with the FMI. If there are differences between the real budgetary deficit and the one stipulated by the Fund of over 200 million lei, the ministry of finances will be forced to consult itself with the Fund's management. Actually, this means that the prices must not increase much, and the state is not allowed to imprint money. Also until 30 December, Romania must modify laws regarding banks and insolvability, this means that the Romanian National Bank will have a higher implication in initiating insolvency and liquidity procedures, and the special administrator will have increased power regarding insolvency. The special administrator's authority will be extended in order for him to be able to promptly implement a large restructural measurements series, including buying and taking over, selling assets, transfer of deposits and reducing the capital for covering losses, according to the technical understandment memorandum signed by the Romanian authorities with the FMI. Moreover, initiating insolvency procedures according to company laws will need the prior approval of the BNR. The legislation will be modified to ensure that the deposits in the limit of the guaranteed sum will have a special priority rang in case of insolvency, and the Bank Deposit Guarantee Fund will be able to subrogate these rights. Also, future regulations will strengthen administrator's attributions with the power of all decision unities from the bank, including the general gathering of the shareholders. The law will establish that certain provisions prefigured in the general law of insolvency will be eliminated if they don't meet prompt implementation of restructural measurements, like immediately transfer of a substantial active part and reducing the capital for covering losses. In addition, the law will offer protection to the special administrator for the activity that he was signed in.

The budgetary deficit negotiated with the FMI is settled for this year at 24, 36 billion lei, the technical memorandum indicating quarterly targets. The fund also established limits for the budget payment that have not been defrayed in a period of over 90 days. According to the FMI statistics, at the end of the last year there were floaters engagements from the budget that exceeded the date of payment settled in total value of 300 million lei.

By the end of the year, the authorities must reduce bad debts like this with 150 million lei, and as the year 2010 goes by they will be eliminated. Also, the Government will not accumulate in the period of the program bad debts for external debts. The annual inflation rate from each quarter is a performance criteria in the agreement with the FMI, and exceeding with two percentage points the central level established will require taking measures, like the obligation to continue the program, according to the technical memorandum. The indicative target for 2009 was fixed at

4, 5% +/- one percentage point, according to the technical memorandum of agreement signed by the Romanian authorities with the FMI[65].

The FMI considers that it is possible that mother banks will not maintain financing lines in Romania, despite signing the undertaken engagements, taking into consideration the dimension of the regional financial crisis and the operations of each institution. "The support from the commercial banks that work in Romania is crucial for avoiding serious difficulties in the financial sector and to ensure an adequate financing of the balance of payments. With almost 90% of the banks system owned by foreign banks, involving mother banks and local authorities must play an important role in the efforts of stabilizing Romania", according to the agreement with the Fund. On the other side, the net international reserves of the BNR could decrease this year with maximum 9 billion euros, unlike 25, 53 billion euros calculated for the end of 2008, according to the stand-by agreement. Furthermore, the brute external liabilities are represented by all the residents and non-residents debts and by the credits from the Fund that are rolling now. The Fund agrees with a possible reduction of the net international reserves of as much as 7,6 billion euros by the half of the year. For September the limit is of 8, 72 billion euros, and for the end of the year it was set at 9 billion euros. FMI established that the net international reserves can be reduced with only 500 millions euros in 2010.

According to the technical memorandum that the government has signed with the FMI at 1st of April 2009, the Fund has imposed roofs for the budgetary deficit, inflation, governmental warranties and streamlines for the state companies. The deficit and the inflation must be reported quarterly, but a series of dates, such as public debt, state warranties and spending the European Union's funds, must be reported monthly, by the ministry of finances to the FMI. According to the agreement with the FMI the budgetary deficit will be monitor quarterly, on the basis of the cash balance of the general consolidated budget. The authorities will confront with the FMI over some corrective measurements in case there are difficulties regarding budgetary incomes and financing. In this way, the quarterly performance criteria present themselves as it follows: the end of June: 14,508 billion lei; the end of September: 18, 612 billion lei; the end of December: 24, 363 billion lei.

If the difference between the budgetary deficit and the roofs imposed by the FMI exceeds the sum of 200 million lei, in each of the quarters, and only those that will be settled for the year 2010 in the set of the second revising of documents, the ministry of public finances will consult with the staff of the FMI. According to the inflation monitoring covenant, included in the technical memorandum, BNR must consult with the FMI staff if the inflation rate increases over the quarterly margins mentioned below:

- June 2009: between 4, 4 and 7, 4%
- September: between 3, 7% and 6, 7%
- December: between 2, 5% and 5, 5%

65 The technical memorandum between Romania and the FMI from 1st April 2009

Criteria of performance that limit governmental warranties granted to the private non-financial sector and to the public companies, also, quarterly; and the roof settled was of 6 billion lei for each trimester of 2009.

And for the governmental expenses, except those related to the European Union funds, there were settled quarterly ceiling: the governmental expenses (cumulative values) must be of maximum 87.505 billion lei, at the end of September: 132,3 billion lei and at the end of December of maximum: 182,7 billion lei.

The FMI imposed conditions regarding the monitorization of state companies: the ministry of finances and the work ministry and other resort institutions must offer information that certify that a monitoring system of the public companies will be functional until the first revision of the agreement. On the period of the program, information will be provided that certify that actions like – reducing remuneration or dismissals of companies' management – were adopted, if the reorganization target of these entities are not met.

The government must report monthly the dates regarding European financing (advance payments and reimbursements), expenses and subventions covered by European funds or eligible for payment, in the approved projects for financing by mutual agreement with the European Union.

The monthly preliminary situation of the state budget must, also, be reported by 25^{th} of the following month. Similar, the dates concerning governmental warranties and public debt will also be reported monthly. Other information must be reported quarterly.

Hereinafter are presented the commitments of the government stipulated in the intent letter addressed to the FMI:

- BNR will continue to improve the legislative sector and will consult with the FMI staff before introducing any new or revised regulation for banks.
- Romania also commits to rise the accountancy standards to the international practices, as they are reflected in the International Accountancy Report Standards (IFRS). This will reduce coercion in regulation for the transnational banks and for corporations.
- The National Bank is definite to bring inflation gradually to the official target of 3.5% +/- 1%. In this program, the evolution to this target will be monitor through the consulting stipulation over inflation.
- The losses from the BNR stock that exceed 2 billion euros in a period of 30 days, during the program, need consulting with the FMI staff.
- The procedures for guaranteeing deposits will be modified in order to simplify and accelerate the payments. Through the modified legislation it will be ensured the payment of the warranty in a period of 20 days, in lineup with the European Directive that involves guarantee tactics.
- The first revision of the program will take place on 15 September 2009 and the second on 15 December 2009.

Commitments regarding legislation are:

- Adopting unique remuneration law of the budgetary people: 20 October 2009.
- Adopting amendments to the bank law in order to strengthen the ability of BNR to ask the shareholders of the banks to increase capitalization and limit the profit distribution: 30 June 2009.
- Adopting amendments concerning the deposit warranty legislation: 30 August 2009.
- Presenting fiscal responsibility legislation and the implementation plan, in the Parliament: 30 November 2009.

4. The excessive budgetary deficit situation in Romania and the recommendations of the Ministry Council to reduce it

The Ministry of Finances Council from the European Union has opened the excessive deficit procedure regarding Romania on the basis of a report of the European Commission. Romania has the year 2011 as a deadline in order to correct the deficit, or it will be sanctioned.

The excessive deficit procedures aim to bring the deficit, through precise recommendations, under the figure of 3% from GDP foreseen in the European Stability Pact. In 2008, Romania has overcome this figure with 2 percentage points.

If this stipulation is not respected it can end up even to financial sanctions against the states in question. If Romania doesn't take measures of correcting the deficit on a period between 6 months and 2 years, she could be financially sanctioned.

The document adopted by the ECOFIN is based on a project edited by the European Commission in June and will recommend Romania[66]:

- to make up budget-frame on medium term, an independent fiscal council;
- to introduce limits concerning budgetary revisions over the year;
- to reorganize the remuneration system in the budgetary section;
- Improving the way taxes are collected through the administration reform and widening the tax base.
- adopting fiscal measurements foreseen in the modifications for the 2009 budget, adopted in April, "especially in the public sector and in the pension reform system";
- Accelerating the pension's system reform, especially regarding indexing and retirement age, in order to reduce substantial growth of costs that involve old persons and to "reduce risks concerning the sustainability of the public finances".

The European Committee stated that the last year budgetary deficit, of 5, 4% of GDP, was caused mainly by the expenses spent with the budgetary remuneration, and the global economical crisis participated in a small percentage to the deficit.

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[66] Miniştrii de finanţe din UE aplică marţi procedura de deficit excesiv împotriva României, Adevărul, July 2009

According to the convergence program, Romania commits to reduce the deficit to 5.1% of GDP in 2009, to 4, 1% of GDP in 2010 and fewer than 3% in 2011. Not respecting these commitments could lead to postponing the adherence of Romania to euro, foreseen in 2014.

5. Conclusion

At the European Union level the diversity manifests also regarding the financial result recorded by every member state. Therefore, from a total of 27 member states, 9 member states fulfill the criteria regarding the budgetary deficit, and those are: Belgium, Czech Republic, Germany, Estonia, Italy, Slovenia, Slovakia, Austria, and Portugal. The negative impact recorded by every member state resides over the public budgetary incomes and expenses recorded by every member state of the European Union, leading to the growth of the budgetary deficits of them and to a faster setting of the excessive budgetary deficit procedure.

In the euro area the government deficit to GDP ratio increased from 0.6% in 2007 to 1.9% in 2008, and in the EU27 it increased from 0.8% to 2.3%. In the euro area the government debt to GDP ratio increased from 66.0% at the end of 2007 to 69.3% at the end of 2008, and in the EU27 from 58.7% to 61.5%.

In the case of Romania, the Commission recommended that Romania corrects the excessive deficit by 2011 in view of the large imbalances and the economic and financial situation and an average annual fiscal effort of at least 1½% of GDP starting with 2010. It should implement the fiscal measures as planned in the February 2009 budget and the April 2009 amended budget, especially in the area of public sector wages and pension reform; take further corrective action if needed to achieve the 2009 deficit target in order to ensure compliance with the commitments undertaken under the programme supported by EC balance of payments assistance. The agreement convened by Romania with the FMI and The European Commission states complying with four conditions, respectively adjusting incomes and budgetary expenses and elaborating laws regarding unique remuneration, the fiscal responsibility and the reform of the pension system.

Under the conditions in which the worldwide economical crisis affects more and more all the countries, it can be appreciated that recording a budgetary excess or a budgetary deficit by a country doesn't represent a normal situation. Furthermore, a compensated situation at national level can be considered also when it records a budgetary deficit in the limit of 3% of GDP on the count of some national level investments expenses, that exceed the collected incomes, and not on the count of the current budgetary expenses.

The European Union is a giant mechanism that could not work under normal parameters withought all the participants respecting certain rules, leaving from this appears the seamless monitorization and the permanent biannual reports from the member states that are send to the European Commission. Thus to prevent some difficult situations that can affect all the members of this mechanism, each member state reports not only dates regarding the actual deficit achieved in the past years or estimated for the current year and the following years, but also updated dates or figures that explain the apparition of their public deficit.

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