

ROMANIA'S BUDGET DEFICIT IN 2022 - FUNDING SOURCES AND PERSPECTIVES

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***Abstract:** Romania's economy experienced several shocks in 2022, such as the outbreak of the Russian-Ukrainian conflict, successive price increases for energy goods and some raw materials, but also the continuation of the alteration of global supply chains. All these events had an unwanted influence on prices, which explains the differences between the estimates and the achievements related to the year 2022. On the other hand, the measures intended to support the economy, together with the gradual relaxation of restrictions, in certain periods, had the effect of improving the sentiment of investors and consumers. But, in order to be able to maintain easy and cheaper access to the external financing market, it is crucial for Romania to engage in reforms that will improve the predictability of the fiscal framework, improve the revenue collection capacity and adjust budget expenditures in correlation with the evolution of budget revenue. Improving the governance of public investments, focusing mainly on strategic areas, as well as the greater use of European funds represent elements that can direct our country's economy to a new growth model, while reducing the pressure on budgetary resources.*

***Keywords:** deficit, budget, public administration, economic crisis, financing, investments.*

***JEL Classification:** H62.*

1. Introduction

In 2022, the level of systemic risks to the financial stability of Romania remained significant, analogous to the dynamics on the international level, given that the prospects for economic activity continued to be marked by uncertainty, fueled by the multitude of effects associated with the post-pandemic period, but also the outbreak of the military conflict in Ukraine, the increase in the prices of electricity and raw materials etc.

These very complicated periods show, more than the previous ones, the need for a change in the structure of economies, with an emphasis on activities to protect the environment, to implement and support technological innovations in the digital field, to increase the degree of inclusion and to reduce inequality. Also, these crises have presupposed and continue to presuppose important efforts to ensure the sustainability of accumulated debts, especially at the level of the public sector, but also of the private sector.

In the current period, the idea that the budget deficit becomes a means of relaunching economic activity, as long as it is not inflationary, is issued more and more often (Cioponea, 2007). It is possible to act on the demand for public goods and services by using conjunctural action funds, thus achieving a flexible budget policy, within which public expenditures can be resized in relation to the size of these funds. In the event that no changes are made in tax regulation, tax revenues can be instruments of cyclical regulation.

In this sense, a process of crucial importance is the efficiency of public spending. The desired objectives can be achieved more efficiently, sometimes faster and with lower costs, without reducing the quantity or quality of services provided (Kolodko, 2015). Moreover, it is considered that the Government is the only economic actor that can maintain the level of demand in the economy, spending more than it earns, that is, registering a budget deficit (Chang, 2014).

2. Romania's budget deficit in 2022

2.1. The economic situation and synthetic budgetary indicators

For 2022, an economic growth of 4.6% was forecast in Romania, which took into account the contribution of the following factors:

- domestic demand seen as the engine of economic growth (+5.2%);
- the growth rate of gross fixed capital formation forecast at 8%;
- the final consumption expenditure of the population forecast as having a real annual growth of 5.5% (MFP, Budget Execution Report 2022).

The National Institute of Statistics calculated, for the year 2022, a real dynamics of the gross domestic product of 4.7%, representing an increase of 6.7 percentage points over the level recorded in 2019, considered a normal reference year, which shows that the economy not only returned to the level before the health crisis, but managed to perform in a rather difficult year, dominated by the influence of several crises (energy, inflationary, supply chains).

In 2022, Romania's economy managed to cope with the shocks, registering a nominal value of the gross domestic product of 1,409.8 billion lei, with an additional difference of 92.5 billion lei compared to the estimate for the budget. This was mostly due to a level of the net deflator higher (by 7.6 percentage points) than the estimated one, resulting from significant increases in the prices of industrial production, the cost of construction and consumer goods.

By elements of use, the advance of the economy in the year 2022 was due to the increase registered by domestic demand (5.2%). The exceptional results in the construction sector in the second half of the year were properly reflected in the dynamics of gross investments (+8.0% compared to 2021), contributing 1.9 percentage points to economic growth. This advance was due to the allocation of both European and public funds for the financing, in particular, of infrastructure works. The effect was materialized in a significant improvement of the investment rate (about 25%), ensuring the prerequisites for the transition from a consumption-based economy to an investment-based one.

As for private consumption, it had a robust dynamic (+5.5%), registering an important contribution to economic growth (+3.4 percentage points). As a result of the internal economic situation (increase in the prices of energy products and consumer goods) which required the taking of measures to support the vulnerable population, but also of the external crisis caused by the conflict on the country's border (granting support to Ukrainian refugee citizens), government consumption increased by 4.3%, contributing with 0.8 percentage points to economic growth (MFP, Budget Execution Report 2022).

In 2022, inflation followed an upward trajectory, in the context of the general increase in the prices of energy products and raw materials and the uncertainties caused by the war that broke out at the national borders. The effects of these superimposed crises materialized in pressure on prices and in the erosion of the purchasing power of the population, so that, in December, an annual inflation rate of 16.4% was recorded, being the highest increase in the last 20 years old.

The cause of the inflationary pressures came mainly from the energy component, including fuels, the price increases that occurred being subsequently taken over in the production costs. The annual rate recorded for energy product prices was 39.7% (December 2022/December 2021). Additional pressures were also manifested on the part of food goods, under the impact of the increase in production costs, especially with energy and agri-food raw materials, to which was added the growing dynamics of imported goods. In the last month of

2022, an annual inflation of 22.1% was recorded, with the food group exceeding the total consumer price index by 5.7 percentage points.

As an annual average, inflation was on a high rate of values, the annual rate being 13.8%. There were above-average increases in food (15.7%) and non-food (14.7%) prices, while service tariffs increased at a slower pace, by just 7.8%.

Compared to 2021, the deficit calculated according to the ESA 2010 methodology in 2022 was reduced by 0.9 percentage points from 7.1% of GDP in 2021 to 6.2% of GDP in 2022.

The structural balance of the general consolidated budget of Romania stood in 2022 at -5.6% of potential GDP, continuing the improvement trend from the maximum of -7.5% of potential GDP as recorded in the context of the COVID-19 pandemic. In 2022, the cyclical component of the consolidated general budget deficit was -0.6% of potential GDP, corresponding to a negative output-gap value of -1.8% of potential GDP. (MFP, Budget Execution Report 2022).

Figure no. 1

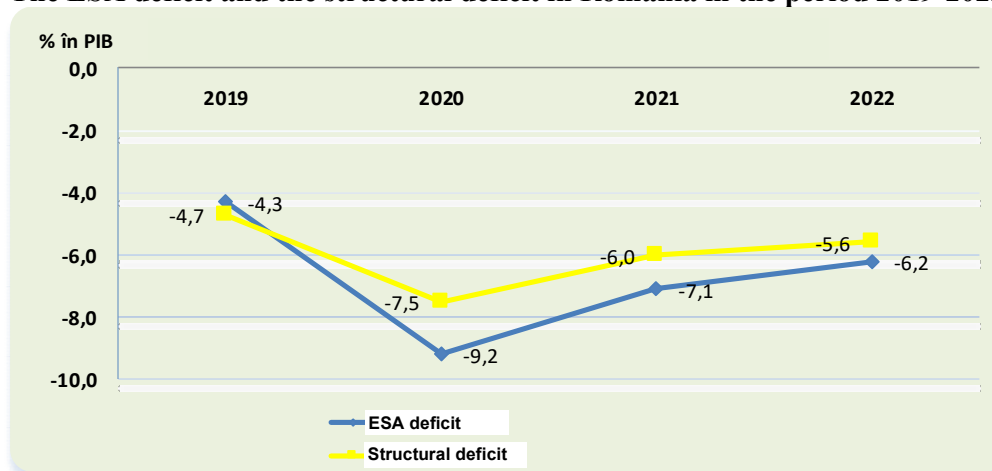
The structural deficit in Romania

	2019	2020	2021	2022
The structural deficit	-4,7	-7,5	-6,0	-5,6

Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

Figure no. 2

The ESA deficit and the structural deficit in Romania in the period 2019-2022











Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

The National Bank identified in the Financial Stability Report of December 2023 that, compared to the previous half-yearly report, the risks to financial stability recorded mixed developments. On the one hand, there was an improvement in investors perception after the period of turbulence that affected the US and Swiss banking sectors, in a context characterized by expectations of easing inflationary pressures. On the other hand, the economic situation and the geopolitical framework, marked by an increase in uncertainty regarding economic growth, the potential intensification of the war between Russia and Ukraine or the escalation of the conflict between Israel and Hamas are putting the financial system to the test.

Of the four systemic risks, two were assessed at a severe level, and among them the risk generated by external developments was expected to gain increased relevance in the coming period, which is what happened. Domestically, the tension in macroeconomic balances was assessed at a severe but relatively constant level, including as an effect of regional and international geopolitical developments, as well as from the perspective of the future conduct of fiscal and revenue policy. Two other systemic risks were identified, respectively: the delay of the structural reforms undertaken by the authorities and, implicitly, of the absorption of European funds, especially through the National Recovery and Resilience Plan (PNRR), a risk assessed at a high level, without changes in the following period and the risk of non-payment of loans contracted by the non-governmental sector, quantified at a moderate level, but increasing (BNR, Financial stability report, December 2023).

Figure no. 3

Map of risks to financial stability in Romania

	Global uncertainty amid the energy crisis, the war in Ukraine and the Middle East conflict
	Tensions surrounding domestic macroeconomic equilibria, <i>inter alia</i> as a result of regional and international geopolitical developments, as well as the future fiscal and income policy stance, amid the carrying on of the budget consolidation
	Delay in implementing reforms and absorbing EU funds, especially via the National Recovery and Resilience Plan (NRRP)
	Default risk for loans to the private sector
	severe systemic risk
	high systemic risk
	moderate systemic risk
	low systemic risk

Note: The colour shows risk intensity. Arrows indicate the outlook for risk in the period ahead.

Source: National Bank of Romania, *Financial stability report*, December 2023, <https://www.bnr.ro>

2.2. Analysis of state budget revenues and expenditures in 2022

According to the final data, the execution of the general consolidated budget, between January 1 and December 31, 2022, ended with a cash deficit of 80.77 billion lei, respectively 5.73% of GDP. Compared to the previous year, the consolidated general budget deficit in 2022, on a cash basis, was reduced by one percentage point from 6.73% of GDP in 2021 to 5.73% of GDP in 2022.

Figure no. 4

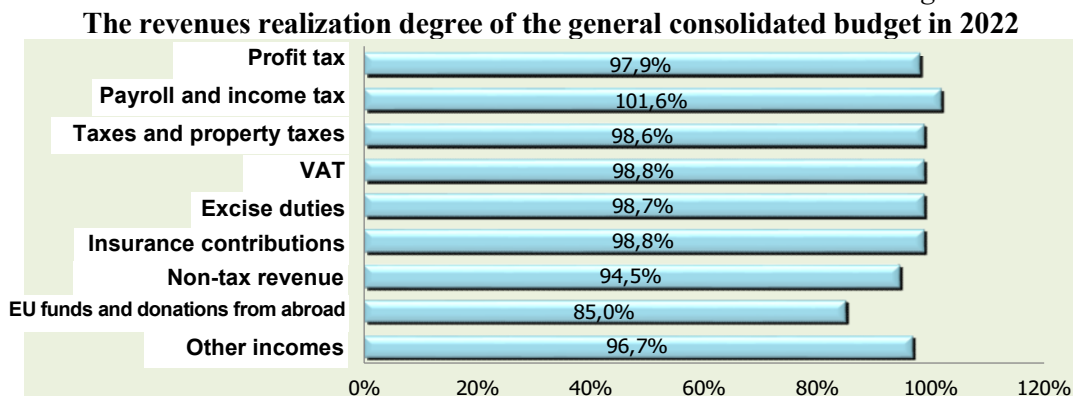
Romania's cash budgetary deficit				
		2021	2022	2022/2021 differences
Budget balance	mil. lei	-79.909,2	-80.765,8	-856,6
	% of PIB	-6,73	-5,73	1,00

Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

• **Revenues of the general consolidated budget, in 2022**, totaled 460.20 billion lei, representing 32.6% of GDP and a degree of achievement compared to the annual estimates of 96.7%.

Collections from tax revenues were below the level scheduled to be achieved in 2022, the degree of achievement being 98.6%, being influenced by the evolution of taxes and charges on goods and services.

Figure no. 5



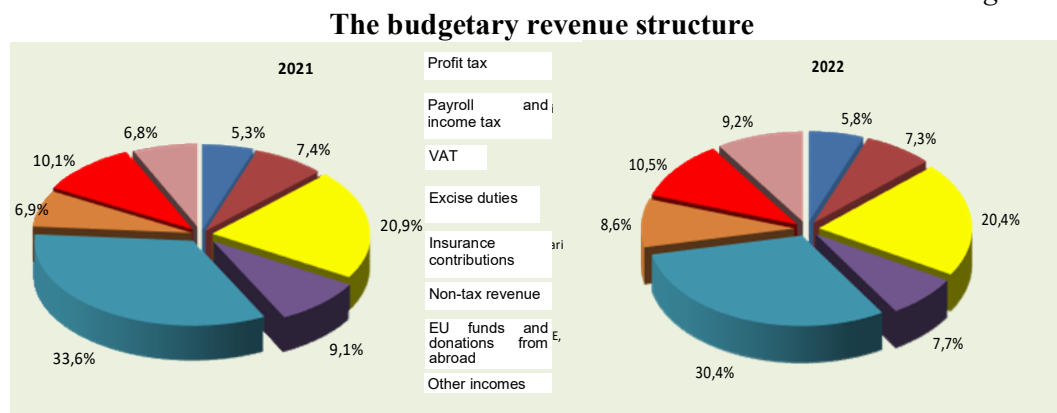
Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

Collections from insurance contributions were lower than the collection schedule, the degree of achievement being 98.8%. The non-fulfillment of the program was determined by the receipts lower than the annual program in the case of income from insurance contributions collected to the state budget (97.8%), to the state social insurance budget (98.8%), to the unemployment insurance budget (97.5%) as well as those from the budget of the single national health social insurance fund (99%).

Collections from non-tax revenues were lower than the annual program, the degree of achievement being 94.5%.

Receipts from the amounts received from the EU and other donors (including the non-refundable financial assistance related to PNRR) in the account of the payments made were below the annual program, the degree of achievement recorded being 85.0%.

Figure no. 6



Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

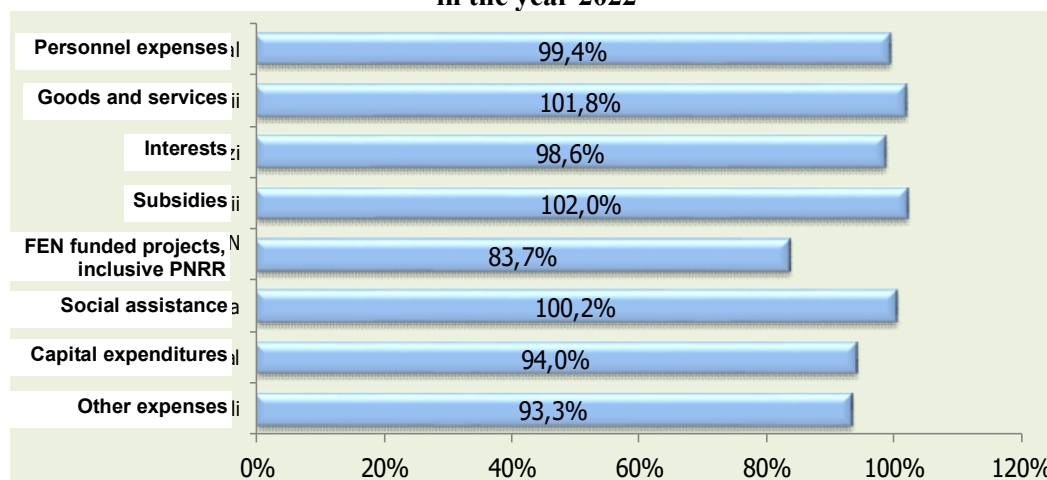
Compared to the previous year, the revenues of the general consolidated budget, in 2022, increased by 21.2% (+80.49 billion lei), and as a percentage of GDP by 0.6 percentage points from 32% in 2021 to 32.6% in 2022.

The amounts received from the European Union on account of the payments made (including donations and amounts related to PNRR), in 2022, were worth 48.44 billion lei, 26.0% above the level recorded in 2021.

- The expenses of the consolidated general budget totaled, in 2022, 540.97 billion lei, which represents 38.4% of GDP and a degree of achievement compared to the planned level of 97.4%. Compared to the previous year, the expenses of the general consolidated budget increased by 17.7%, and as a percentage of GDP they decreased by 0.3 percentage points from 38.7%, as they were in 2021, to 38.4% in 2022.

Figure no. 7

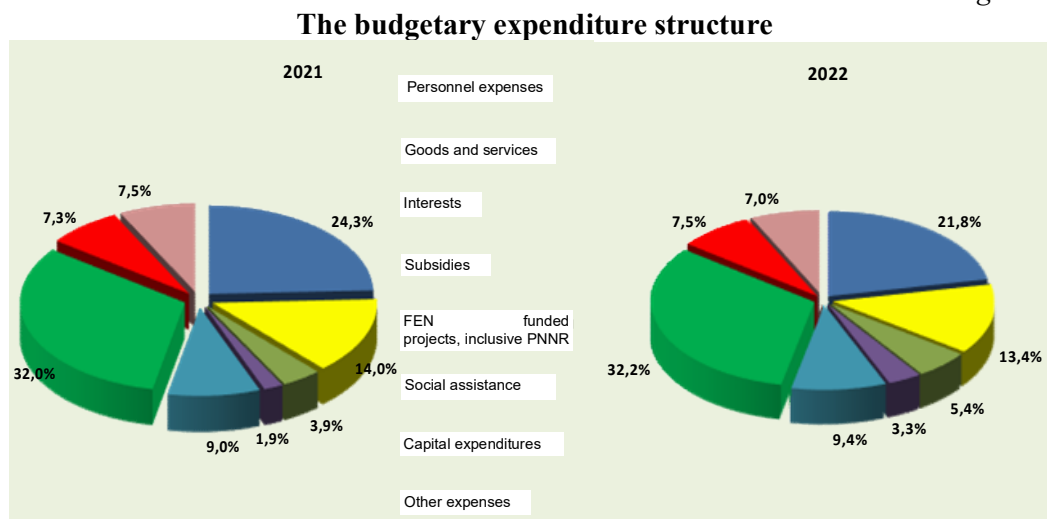
The degree of realization of the general consolidated budget expenditures in the year 2022



Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

From the point of view of the degree of achievement of the annual program, the main categories of budget expenses registered the following developments: personnel expenses 99.4%, expenses with goods and services 102.1%, expenses with interests 98.6%, expenses with subsidies 102.0%, expenditure on projects financed by non-refundable external funds 83.7%, expenditure on social assistance 100.2%, capital expenditure 94.0%.

Figure no. 8



Source: Ministry of Public Finance, *Report on the final budget execution for 2022*, www.mfinante.gov.ro

Compared to the previous year, the expenses of the general consolidated budget increased by 17.7%, and as a percentage of GDP they decreased by 0.3 percentage points, from 38.7%, as they were in 2021, to 38.4% in 2022.

2.3. Sources of financing the budget deficit in 2022

At the end of 2022, the government debt, according to the EU methodology, represented 47.3% of GDP, down compared to the level of 48.6% of GDP, recorded at the end of 2021, within the annual ceiling of 49.8% from the GDP established by Law no. 312/2021 for the approval of the ceilings of certain indicators specified in the fiscal-budgetary framework for the year 2022.

On December 31, 2022, of the total government public debt, domestic debt represented 23.8% of GDP, and external debt 23.5% of GDP.

According to the data published by EUROSTAT, at the end of 2022 Romania was in 18th place among the EU member states in terms of debt level, the average government debt for the euro area (EA 19) being 91.6% of GDP, and that for the EU27 of 84.0% of GDP (MFP, Budget Execution Report 2022).

The financing of the budget deficit in 2022 was achieved from internal and external sources. The sources needed to refinance the governmental public debt were secured from the markets where these debts were initially issued, as well as from the financial reserve in foreign currency at the disposal of the Ministry of Finance.

To cover the gross financing requirement of approx. 150 billion lei (10.7% of GDP) determined by the level of the general consolidated budget deficit of 5.7% of GDP, but also to consolidate the foreign currency reserve at the disposal of the State Treasury, financing the budget deficit and the refinancing of the government public debt was provided from the following sources:

a) the domestic market - government bonds and loans on the domestic market in a total amount of approx. 90 billion lei equivalent, including state bonds denominated in EUR in the amount of 1 billion EUR and state securities intended for the population in the amount of approximately 18 billion lei. The policy of the Ministry of Finance sought to extend the remaining average maturity of government bonds, with most of the issues being issued in the

medium and long maturities segment. In 2022, broadcasts intended for the population continued through the two programs TEZAUR and FIDELIS.

b) the external market - issues of Eurobonds and withdrawals within the framework of loans from international financial institutions (EIB, IBRD, CE, etc.). Operations on the foreign market also included withdrawals in a total amount of approx. 4 billion EUR related to loans contracted from international financial institutions (EIB, IBRD, etc.) as well as loans from the European Union (EU) within the financing instruments established at EU level starting in 2020.

3. Forecasts regarding the state budget deficit in 2023

The recorded developments of the macroeconomic and budgetary indicators, fiscal, budgetary and monetary policy measures, combined with the regulatory and prudential measures taken by the authorities for the financial sector, mitigated the impact of the health crisis, generated by the COVID-19 pandemic, which imposed the largest lockdown, unprecedented in modern history, with severe and particular implications on almost all economic and social levels. The measures undertaken managed to ensure the recovery of the economy, which recorded, in 2021, a significant growth, as well as maintaining a sustainable growth, with an average annual rate of 4.2% over the entire 2023-2025 horizon, higher compared to estimated to be registered at the level of the EU and the Euro Zone of 3.3% and 3.2% respectively (in 2022), the Romanian economy proving a resilience beyond expectations to shocks on supply, achieving a robust economic growth in the current year.

It is worth noting the paradigm shift in the evolution of the economy for the period 2023-2025, so that gross fixed capital formation will represent the main factor of economic growth, with an annual rate of 7.9%, the scenario taking into account the impact of the absorption of both the funds allocated through the PNRR, as well as those from the multiannual financial framework and maximum efficiency in their use in the priority areas of the economy.

The basic coordinate of the formulation of the fiscal policy is the continuation of the gradual consolidation in the field, which will allow reaching the deficit target provided by the European regulations until the end of the forecast horizon, namely the year 2024, a trend that will continue beyond the year 2024, achieved under the conditions of a balance between the need for fiscal adjustment and the need to support economic recovery, the health system, infrastructure, climate change, digitization, the green transition which remain a priority in the current difficult circumstances.

In this context, of the great challenges facing humanity, of the common effort for a strong and healthy Europe, Romania has established as objectives of the budget construction for the year 2023 and the horizon 2024-2025 (MFP, Fiscal-budgetary Strategy for the period 2023-2025):

- continuing the measures for a robust economic recovery, maintaining and supporting a new sustainable, fair and intrusive development framework that ensures an economically efficient transition, socially bearable and focused on competitiveness, innovation and decarbonisation that leads to the elimination of vulnerabilities in the economy and ensure a decent standard of living;
- the continuation of the gradual realization of fiscal consolidation through measures that allow reaching the deficit target provided by European regulations until the end of 2024 and the following years, contributing, in this way, to the decrease of inflation, interest rates, the trade and current account deficit of the balance of payments, as well as the stability of the exchange rate of the leu;

- the reform, prioritization and multi-year programming of public investments in an efficient, professional and transparent manner with a multiplier effect and direct contribution to gross fixed capital formation, by increasing the contribution of European funds related to the 2021-2027 financial framework and those related to the Recovery Mechanism and Resilience, which finances the reforms and investments established through the National Recovery and Resilience Program, the largest financial package from the European resources allocated to Romania;
- the consolidation of a predictable fiscal policy firmly committed to reducing the budget deficit, to support and adapt the business environment to the challenges raised by the series of crises facing society, the simplification of taxation and the streamlining of internal processes, in order to create the premise of economic growth healthy and sustainable;
- development and diversification of public debt management tools to maintain public debt at a sustainable level;
- consistent measures for the creation and consolidation of healthy public finances, through the qualitative efficiency of public spending, with a focus on:
 - the financing of some active economic measures to support the most vulnerable groups, reforms in the field of work, pensions, supporting SMEs whose supply chain was strongly affected by the Russian aggression against Ukraine;
 - strengthening program budgeting based on result indicators at all levels of the central and local public administration to allow full transparency of public spending, improving the clarity and coherence of the budgeting process, prioritizing sectoral policies and ensuring real competition between the projects proposed for financing and performance support;
 - strengthening corporate governance at state-owned companies in order to improve their performance, by using the best practices at the European level.

4. Conclusions

The main effects of public spending can be assimilated to the crowding out effect, which, in this case, refers to the phenomenon of the diversion of market resources from those sectors that the market shows as profitable to the areas considered of interest by the state. Also, a hidden cost of the budget deficit and public debt is represented by their influence on the country rating, an indicative indicator for investors looking for business opportunities.

Taking into account the current conditions, when Romania tries to define its role and its place in the world, when it is desired to identify and encourage those branches and sub-branches of the national economy that can be developed within the world economy, the use of appropriate fiscal levers is required with the requirements of the European Union and taking into account the other macroeconomic policies that can be adopted to overcome the current economic situation. Thus, the theory is established according to which, during the crisis, it is preferable to ensure an increase in budget expenditures, with the fixed objective of contributing to the relaunch of economic activity, the effects being reflected in the increase in employment and in the reduction of unemployment.

The model of economic growth must be reanalyzed, considering the experience of the past years in which economic growth in our country was based on consumption, a situation that did not allow sustainable economic development. For this reason, is required a different orientation based on investments in sectors with high added value.

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