THE EFFECTS OF THE ECONOMICAL CRISIS ON THE STATE'S BUDGET AND BUDGETS OF REVENUES AND EXPENDITURES OF ECONOMICAL

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Abstract

The budget represents a document which states the annually approved incomes, revenues and expenses, expenditures or, only the expenses depending on the self-financing form of the economical enterprise. The consolidated budget of the state is elaborated starting from the budget which encompasses all the economical transactions which take place in the national economy; however it only includes the resources and the expenses of the public structures.

Keys words: the consolidated budget of the state, economical crises, the key performance indicators, mandate, and budget deficit

Clasificare JEL: E62, H6, J21

1. Introduction

The economical conditions have worsened starting with the end of 2008, as a result of the global economical crises. These events have been exacerbated due to the existing disequilibrium in the Romanian economy, leading to a fast deterioration of Romania’s perspectives. As reply to all these, the Government and the National Bank of Romania (NBR), have developed a comprehensive strategy due to firmly anchor the macro-economical politics and decrease the economical tension on the financial market. Thus, the economical decline has prompted the request from the Romanian part to ask for a loan to the International Monetary Fund in March 2009.

The legal budgetary coordination and correlation measurements in what regards the financial discipline during the economical crises at the level of the economical institutions.

The economical operators must present in a timeline of 10 days the budget of revenues and expenditures to the central or local administration bodies, depending of the jurisdiction of which they fall under, in order to obtain its approval.

The failure to comply with the deadlines established for the submission of the above budget, may lead to the decrease in remuneration of the economical entity’s manager, under the terms of art. 4 paragraphs (1) of UG Ordinance no.: 79/2008 in regards to the financial-economical measures at the level of the economical operators, approved with modifications and add-ins through Law no.: 203/2009, or it either constitutes reason for ending the mandate, under the terms stipulated in the art. above.

If the economical entities do not succeed in maintaining a high level of revenues which are components of the state’s Consolidated budget, we find ourselves in a situation where we need to apply for the external funds as to sustain the expenses which follow to appear as a result of the attempt to sustain the local budgets, the welfare assurance budget etc.

Therefore, the most important supporter of the international economies (though not the best decision) is at present the International Monetary Fund.
1.2. About IMF

At the international conference from Bretton Woods, from 22.06.1944, conference on the international restructuration of the monetary and financial relations, over 40 countries participated at the signing of a treaty which stipulated the procedures and rules which would govern the global economy. This treaty has lead to the establishing of the BIRD and of the International Monetary Fund, institutions known as the twins of Bretton Woods, a system which stipulated a stable foreign exchange rate, having as referential standard gold, the dollar being the only currency convertible into gold.

The international monetary fund is an global organisation which encompasses 186 countries, and has as main aim the promotion of a sure global economy, an international worldwide cooperation and the stability of the foreign exchange rate and systematic exchanges.

The IMF’s functions are those of monitoring the economical actions and the financial politics of the member countries, moreover at a global level, it offers technical assistance and also it credits the economies of the countries which suffer a disequilibrium in their cash flow. The requirements of the treaty with IMF and the European Comity, approved through OUG 99/2009 with the Romanian Government

The Government has officially signed in May 2009 a letter of intent negotiated and accepted by IMF with regards to the loan agreement for our country, and on the 6th of May 2009 the IMF board and ECOFIN from the European Comity approved the final form of this treaty and finally this agreement was approved through the OUG no.99/2009.

In what concerns the content of the letter and the conditions, all have been established by the three international organisms together with the Romanian government, a few elements from its content being its total value (FMI +C.E = 19.950 euro billiards).

Another requirement of this treaty refers to the manner in which the loans would be used.

Which are the objectives endorsed by the treaty between the three international, financial enterprises?

The program promoted by the Fund is meant to amortize the effects of the severe diminution of the capital entries, while also trying to solve the external and fiscal disequilibrium of the Romanian State, as to help consolidate the financial sector. Thus, we would want to analytically present some of the objectives of the program:

- The reduction of the fiscal disequilibrium as to bring back the deficit to values below 3% of GDP until 2001;
- Maintaining an adequate capitalization of the banks and liquidities on the internal financial markets
- Bringing and maintaining the inflation in the interior of the interval aimed by NBR;
- The assurance of a sufficient external finance and an increase in the degree of trust.

To sum up we can admit the following about the treaty :

The loan agreement has a preventive character and has as aim the control of the negative aspects of the economical crises as to diminish the risk of unemployment, the insurance of the wages and retirements but also another very important element, namely the re-launching of the national economy.

The agreement also stipulates structural and quantitative indicators of performance which need to be respected.

Notions of constitution and regulation of an expenditure and revenues budget for the economical enterprises during the economical crises.

The autonomous companies, the societies and national companies, commercial societies to which the state or the territorial administrative unites are either minor or major shareholder to them or to their branches.
2. In what concerns the wage expenditures for the year 2012

The economical entities which have recorded losses during the preceding year, or which receive subsidies or transfers from the state’s budget and local budget for the activity of mining cannot exceed the wages expenditures of the incomes budget of the preceding year.

The economical enterprises which have reported an increase in profit, will offer increases in wages in comparison to the preceding year, enclosed in the level approved by the budget of revenues and expenditures according to the stipulations of OUG no.78/2008, regarding some economical-financial measures at the level of some economic operators, authorized with amendments through Law no 203/2009, however not more than the medium index of growth of prices forecasted for 2012.

The establishing of the necessary number of employees

In 2012, the economical operators which haven’t registered a profit in the last year cannot increase the maximum number of employees provided by the budget of revenues and expenditures approved for 2011.

In some cases which are very well argued and mainly in conditions where the company extends, the Government can authorize the increase in number of employees and the costs with the incomes, of some economical entities.

Therefore, the conditions regarding the costs with the salaries and the maximum number of employees will be taken into consideration in the moment of approval also, according to the budgetary Law of national institutions of research and development for the year 2012.

<table>
<thead>
<tr>
<th>The price consumption indexes</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC/DEC previous year</td>
<td>7.96</td>
<td>3.8</td>
<td>3.5</td>
<td>2.8</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Annual average</td>
<td>6.09</td>
<td>5.9</td>
<td>3.4</td>
<td>2.9</td>
<td>2.8</td>
<td>2.5</td>
</tr>
</tbody>
</table>

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The fundamentation of wage type expenses, set by the revenues and expenditures budget of economic operators will be done based on the monthly gross average salary increase index, which cannot be higher of 60% of the work productivity increase index. This is calculated in comparable value units or in physical units. In some cases the monthly gross average salary will be determined by the base income, weightings as well as bonuses awarded in compliance with the Law (art.7OUG 79/2008..conf bvc 2012).

The average income’s correlation with work productivity

The work productivity index calculated in physical units will be evaluated for the basic activity if that represents more than 50% of the total activities.

Reglementations regarding the mandate contract

In appliance to Law no 31/1990 the mandate contract must stipulate:
- The number of persons who have mandate contracts
- The total annual value of the remunerations stated in the contract, namely the total value afferent to the general director but also the total value of the mandate contracts of the other directors, accordingly to Law no.31/1990.
The macro-economical context 2012-2014

In November 2011, the National Comity for Prognosis (Comisia Nationala de Prognoza) has elaborated the autumn forecast for the main economical parameters, for 2012-2014, of which the following are listed:

- The internal gross domestic product evolution in relation to the different branched activities
- The internal gross domestic product evolution in relation to expenses
- Industrial production
- The rate of construction
- Commercial scales
- Exterior commerce
- Labour force
- The evolution of prices and currency exchange rate

Tabelul 2: The evolution of the gross domestic product (GDP) in relation to expenses in 2010-2015

<table>
<thead>
<tr>
<th>The gross domestic internal product on components Usage/year modif%</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>-1.3</td>
<td>1.5</td>
<td>1.8 – 2.3</td>
<td>3.5</td>
<td>4.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Internal demand</td>
<td>-1.0</td>
<td>1.5</td>
<td>2.3</td>
<td>3.5</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>The final Consumption of the population</td>
<td>-1.6</td>
<td>1.2</td>
<td>1.9</td>
<td>2.7</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>The final consumption of communities</td>
<td>-4.1</td>
<td>-1.7</td>
<td>1.4</td>
<td>1.7</td>
<td>2.5</td>
<td>3</td>
</tr>
<tr>
<td>The establishment of the gross fixed capital</td>
<td>2.7</td>
<td>4.2</td>
<td>3.98</td>
<td>6.16</td>
<td>7.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Export of goods and services</td>
<td>13.1</td>
<td>8</td>
<td>7.8</td>
<td>8.5</td>
<td>9.6</td>
<td>8.4</td>
</tr>
<tr>
<td>The import of goods and services</td>
<td>11.6</td>
<td>7.1</td>
<td>7.7</td>
<td>87.9</td>
<td>9.6</td>
<td>8.5</td>
</tr>
</tbody>
</table>

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Tabelul 3: The evolution of the currency exchange rate

<table>
<thead>
<tr>
<th>Indicators/year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate, annual average</td>
<td>4.2099</td>
<td>4.24</td>
<td>4.26</td>
<td>4.22</td>
<td>4.20</td>
<td>4.17</td>
</tr>
<tr>
<td>Nominal</td>
<td>0.65</td>
<td>-0.65</td>
<td>-0.53</td>
<td>0.95</td>
<td>0.48</td>
<td>0.72</td>
</tr>
</tbody>
</table>

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appreciation or depreciation of leu/euro

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real appreciation or depreciation of leu/euro</td>
<td>6.78</td>
<td>5.21</td>
<td>2.85</td>
<td>3.87</td>
<td>3.29</td>
<td>3.24</td>
</tr>
<tr>
<td>Exchange rate (leu/euro) annual average</td>
<td>3.1779</td>
<td>3.0365</td>
<td>3.0307</td>
<td>3.10</td>
<td>3.09</td>
<td>3.07</td>
</tr>
</tbody>
</table>

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Tabelul 4: The evolution of prices

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price growth towards the end of the year</td>
<td>7.96</td>
<td>3.8</td>
<td>3.5</td>
<td>2.8</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Annual average</td>
<td>6.09</td>
<td>5.9</td>
<td>3.4</td>
<td>2.9</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td>The increase of the production prices, towards the end of the year</td>
<td>9.57</td>
<td>6.3</td>
<td>4</td>
<td>3.5</td>
<td>3.2</td>
<td>3</td>
</tr>
<tr>
<td>Annual average</td>
<td>6.33</td>
<td>8.8</td>
<td>5.2</td>
<td>4.0</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>The construction cost increase-annual average</td>
<td>2.78</td>
<td>8</td>
<td>5.5</td>
<td>3</td>
<td>2</td>
<td>1.72</td>
</tr>
<tr>
<td>The increase of prices on the main agricultural products – annual average</td>
<td>8.85</td>
<td>17.3</td>
<td>4</td>
<td>3</td>
<td>2.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

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The methodology for the elaboration of the revenues and expenditures budget

After the expenditures and revenues budget has been approved we can go the following steps:

- Different proposals are made in the General Assembly of the Shareholders as to approve the criteria and objectives of performance, the annexes to the mandate contract which are encompassed in the above budget
- Afterwards the manner in which the execution of the approved budget is followed:
- compliance with the principles of the corporatist government
We have tried to depict the main factors and economical indicators, but also the legal norms which need to be taken into account when the budgetary justification of the economical organisms, economical entities is needed, especially when these enterprises are characterized by a participation of the state as well. Moreover, we have portrayed the guidelines of elaborating the consolidated budget of the state.

3. Final Remarks

“In the present conditions of economic activity, the need for financial resources is greater than the existing funds; the drafting of budgets at all levels is one of the main issues, in particular as regards the compliance with the principle of budget neutrality.

Approaches on the size of budget deficits, funding, and in particular to the size of the public debt is a series of shades of specificity in the case of the various economies. The concrete conditions which exist from an economical, financial, social and administrative point of view raise a series of problems which imply a serious approach to the potentially unfavourable impact of an increase of the budgetary deficits and of the public debt over the real possibilities of non-inflationary funding.

In Romania, in the particularly complex case in which the economic activity is carried out in an attempt to highlight the place owned by the budget deficit, a particular role is assigned to determination of the ratio of public financial deficit in expenditure and income on the general consolidated budget.

Currently, the acknowledgement of the budgetary deficit and the concern for its continuous reduction is of great significance, especially as far as Romania is facing great difficulties in the developmental of the economy.

Amid of a growing structural crisis, the rise of budgetary deficits above financeable limits in a non inflationary manner is another factor which contributes to the greater imbalances in the economy. In addition, where the budgetary expenditures are directed to firstly satisfy the redistribution function of the State and to subsidies; in the absence of a real multiplier coefficient, the state of budgetary deficits worsens.

The influences capable of introducing disruptive factors in the functioning of the economical mechanisms, which are produced by the budgetary deficits can be synthesized in two main groups: influences of an economical nature and of an psychological one.

On the influences of an economical nature, we can admit that these act powerfully and are in ways strictly determined by the approaches used to cover the budgetary deficits. The methods used are subject to an analysis, either by the direct or indirect influence which they generate over the economical mechanisms, of the economical stability and of the economical development effort.

For example, on a short term, the budgetary deficit may diminish the national savings, leading to a decrease in the supply of goods on the market, which determines the increase of the interest rates.

In this context, the volume of investments decreases, the consumption is reduced, affecting the volume of economical activities and employment.

The psychological influences along with the economical induced ones, by the amplification of the budgetary deficits directly action on the financial markets, bringing about the demise of values on the capital markets and the depreciation, sometimes abrupt, of national currencies.

Although a certain depreciation of exchange rates is often a method used to equilibrate the commercial balance, an uncontrolled depreciation of the budgetary deficits may lead to currency depreciations. However, over a certain level this depreciation can neutralize the advantages gain on an external plan by an aggravation of the internal disequilibrium, especially through the accentuated pressure of the inflation on the economy.

Hence, in the present moment, when it is desired to identify and encourage the branches and sub-branches of the national economy which can be developed in the framework of the global economy, one of the main decisions in what concerns the understanding of the economical processes is to adopt a dynamic and creative concept which would take into consideration the requirements to use fiscal means in the development politic of economy and also the possibility of modifying the structure of revenues and expenditures budget1

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