

FEATURES OF THE PUBLIC SPENDING BY FUNCTION IN CEE COUNTRIES - TRENDS AND SHIFTS DURING THE CRISIS PERIOD

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Abstract

In this paper we analyzed the development of the public expenses by functions in the last decade in some selected Central and Eastern European (CEE) countries: Hungary, Poland, Czech Republic, Bulgaria and Romania. Based on this statistical analysis we can emphasize the main features of the budgetary policy in these countries during the crisis. We can underline the best measures of the budgetary policy adopted in these countries to fight the crisis effects. These countries haven't adopted euro yet. After adopting euro, these countries won't have an autonomous monetary policy and should base solely on their fiscal and budgetary policy when they will have to face some economic external shocks, just like they did during the current crisis. The fiscal and budgetary policy is facing political pressures in all countries.

Key words: public spending, economic growth, Central and Eastern European countries.

JEL Classification: E01, E62, H50, H51, H52, H53, H54, H55, H62.

1. Introduction

Public spending is important for all the countries. They can determine the quality of life and the people welfare, but also the economic development. In the crisis period, their structure displayed major shifts, and their level increased greatly in all the countries around the world. This represents a great financial burden for the public budgets and determined an increasing public deficits and public debts especially for emerging markets. A statistical analysis can help us underline the main features of the budgetary policy in the last decade for some selected CEE countries and can be used for elaborating some suggestions for the future budgetary policy of these countries in the context of achieving the convergence criteria of the eurozone and for adapting to the requirements of the European Treaty on Stability, Cooperation and Governance.

Section 2 presents some findings of the economic literature on this specific issue. Section 3 presents the developments in the EU and CEE region (selected CEE countries) in the public spending area during 2000-2013. Section 4 concludes the paper.

2. Literature review

In the emerging markets, the public spending represents now less than 30% of GDP. The average growth rate in the developing countries is currently around 5.5%. Among those countries, the Asian countries spend less of their public funds, around 25%, and they have a growth rate even higher, 6-7%. Chile had public spending of 23-24% of GDP and grew up economically by 5%. In Romania, the public spending increased up to 39% of GDP during the crisis and now they represent around 34-35% of GDP, but the growth rates are below the average on the emerging markets.

So, the economies with a small public sector grow faster. The developed economies allowed the free choice and the capital to accumulate. The states that focused on over-taxes and birocratic regulations or that adopted socialism remained under-developed. The countries that grew rapidly and in a sustainable way supported both the public and private investments in an efficient way.

Many studies underlined a positive relation between public investments and economic growth. Some authors showed that a decline in productivity of public services explains general decline in growth [3] and others identified the positive spillover effects of public capital for many regions of Spain [1]. Toshiki (2009) showed that public investments enhance economic growth [30]-[34].

Barro (1990, 1991) points that some public expenditure has a productive character that stimulates growth while others increase social welfare (productive public expenditure are considered: public expenditure on education, health, economic affairs, environment; the unproductive expenditure are considered: public expenditure on social protection, on general public services, public debt, defense, public order, fuel, energy) [4]-[5].

Sanz and Velázquez (2002) underlined there has been a process of convergence in the structure of government expenditure by functions in the OECD countries, but there are some great differences among the states [29].

Governments should focus on delivering good projects and improving the delivery of public services. Public investment must be focused on building capacity in key areas, such as infrastructure, education, and energy efficiency, and spent strategically in order to generate jobs for those hardest hit by the recession. There may be increased scope for public-private partnerships (mainly for projects in the energy or transport sectors, but also for projects in the health, education or pensions systems). In an environment where private investment continues to be depressed, government expenditure will remain the only contributor to GDP growth in many countries [6].

In the crisis context, the social spending is increasingly a priority for countries [15]-[17]. The most important part is how well countries spend available funds and implements public programs (not only how much funds are spent).

Countries have made efforts to maintain expenditure for health, education, and investment. During the crisis, the need for fiscal consolidation put renewed pressure on public expenditure in many countries. But the countries have become more sophisticated at crisis management over time (expanding safety nets, protecting social sector spending through loans) [6].

Aristovnik (2011) shows in his study that there is a wide variety in terms of efficiency in education and health in the new EU member states and that overall efficiency level is low in these countries. The efficiency of public spending in education is highest in Romania among the new EU countries, but the efficiency of the public money in the health sector is very low in the region [2].

Reeves et al. (2014) showed in their study elaborated for 27 EU countries using 1995-2011 data that public spending on health care is dependent on IMF agreements, tax revenues cuts and is not correlated with economic conditions or with political issues. Major cuts in health care sector were observed for IMF borrowers [28].

3. Developments of the public expenditure by functions during 2000-2013 in the European countries. Special focus on selected CEE countries

The government spending relative to GDP progressively decreased in the EU-27 between 2003 and 2007, followed by a rise in 2008 and a more emphatic increase in 2009 (Appendix). First in the CEE region comes Hungary, followed by Poland and the Czech Republic. The last ones are Bulgaria and Romania, with low numbers. Their numbers are lower than the EU-27 average; only Hungary displayed higher numbers above the EU-27 average.

In the crisis context, the public expenses on social protection increased in the CEE region. The public expenses on education, economic affairs and general public services decreased in the CEE analyzed countries. Only Czech Republic with large public deficits maintained its public education expenses. The most significant drop was in Romania and Bulgaria.

In the social protection area, among the analyzed CEE countries, the country with the highest score is Hungary, followed by Poland and Bulgaria. After them we find the Czech Republic and Romania placed the last in this rank. After 2007-2008, the public expenditure on social protection started to increase in Bulgaria and Romania and they closed the gap with the Czech Republic. Only in 2013, the public spending on social protection decreased in Poland and Hungary that had high numbers and that type of public spending converged in all the CEE analyzed countries. They always had values lower than the EU average. Only Poland compared with the EU numbers at the beginning of the 2000s. From 2009 to 2012, the social protection expenditure as a ratio of GDP increased in all EU countries, except for Hungary.

This trend in the public spending on social protection is explained by the old dependency ratio and the ratio of people with risk of poverty in the CEE analyzed countries (Tables 1 and 2). The highest old-dependency ratio is in Bulgaria and Hungary, while the lowest ratio is in Poland. People with highest risk of poverty are in Bulgaria, Romania and Hungary and the lowest ratio in this area is in Czech Republic. The people with risk of poverty ratio decreased in Poland in Poland and Romania after the crisis erupted, but increased in Bulgaria and Hungary. The old-dependency ratio increased in all CEE analyzed countries, but in Romania remained quite stable after the launch of the crisis in 2008 in this region.

Table no.1 **Old-age dependency ratio (%) (number of population over 65 and the working persons ratio)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	23.8	24	24.9	24.9	24.9	24.8	24.9	25.5	25.8	26.1	26.5	27	27.8	28.5
Czech Republic	19.8	19.7	19.7	19.7	19.7	19.8	20	20.3	20.6	21.1	21.7	22.3	23.4	24.6

Hungary	22	22.2	22.3	22.4	22.6	22.7	22.9	23.2	23.5	23.8	24.2	24.4	24.6	25.1
Poland	17.8	18	18.2	18.4	18.6	18.7	18.9	19	18.9	18.9	19	18.9	19.4	20.1
Romania	19.3	19.6	20.4	21.1	21.4	21.8	22.1	22.2	22.9	23.1	23.4	23.4	23.7	23.9

Source: EUROSTAT database.

Table no.2 People with risk of poverty of social exclusion (% of total population)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	58	61	60	59.6	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48
Czech Republic	18.5	18.1	19.2	19.6	18	15.8	15.3	14	14.4	15.3	15.4	14.6
Hungary	32	33	32.8	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4	33.5
Poland	48	46.9	46	45.3	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8
Romania	49	47.8	46.5	45.8	46	45.9	44.2	43.1	41.4	40.3	41.7	40.4

Source: EUROSTAT database.

In Bulgaria and Hungary, public spending on health care decreased significantly after 2007. It rose during 2009-2010, but it was still under the 2005 level in these two countries. The highest increase of the public spending on economic affairs was in Czech Republic during 2009-2010.

It is followed by Hungary and Poland. Romania and Bulgaria rank the last, Bulgaria having a low score, half of the EU-27 average. Bulgaria invested more public money on health before the crisis, during 2004-2006, but then its spending decreased. Hungary also invested more money on health. Romania decreased its spending during 2010-2011 and it displays the lowest numbers in this region. All the values almost converged in 2013 (Appendix).

Hungary and Poland spent more on education than the EU-27 average most of the time. After the crisis erupted, Hungary invested less on education. The Czech Republic invested constantly in the education sector. Bulgaria and Romania displayed low numbers in the entire period.

Hungary spent on public services more than the EU-27 average for the entire period, Bulgaria doubled its share in this area during 2007-2009, but after 2012 this share decreased. Romania decreased its allocation for general public services after 2002.

All selected CEE countries have higher numbers on economic affairs against the EU-27 average after 2005. Now, Hungary, the Czech Republic and Bulgaria, have the highest score in the CEE region. Poland and Romania display lower values.

During the crisis years, the government expenditure manifested different trends compared to the revenue. They increased significantly in 2009 compared to 2008, in a large number of countries, both at the EU-27 and EU-17 level, decreasing slightly in 2010. The lowest weights of the overall government expenditure in GDP were recorded in Bulgaria and Romania [11].

Between 2009 and 2010, the growth of the government expenditure divided the countries in EU-27 into two groups, thus confirming that the impact of the financial crisis affected the European countries in different periods. The countries in which the government expenditure decreased were the most, these being particularly affected by the crisis in 2008-2009 (Bulgaria, Czech Republic, Estonia), whilst those whose government expenditure increased in 2010 compared to 2009 were fewer, these being particularly affected by the crisis in 2009-2010 (Poland, Romania) [32].

The differences in pattern between the government expenditure in the EU-17 and EU-27 areas attenuated - basically, since 2008, they overlapped perfectly; they slightly differentiated again from 2010, when the countries in EU-17 had higher expenditure than those in the EU-27. The government investments in the CEE countries that had not yet adopted the euro were above the EU-27 average over the last decade. Though, in recent years in the Czech Republic they have fallen compared to the period until 2010, and in Hungary they increased, in both countries they were above the EU-27 average [32] (Table no.3). The prospects for government investment during the post-crisis period are less favorable. Fiscal consolidation is projected to further reduce investment spending growth rates after 2012-2013. The drop is likely to be particularly severe in low income countries. In 2010, the budget revenue and expenditure tended to stabilize as percentage of GDP [32].

Table no. 3. Governmental fix investments in EU and selected CEE countries (% of GDP)

Country	2005	2008	2009	2010	2011	2012	2013
EU-27	2,5	2,6	2,8	2,5	3,2	3	2,9
Bulgaria	3,4	5,6	4,9	4,8	3,5	3,5	4,1
Czech Republic	4,3	4,6	5,1	4,4	4,1	3,9	3,4
Germany	1,4	1,6	1,7	1,6	2,3	2,3	2,2
Hungary	4,7	2,9	3,1	3,4	3,4	3,7	4,4

Poland	3,4	4,6	5,2	5,6	5,9	4,7	4,1
Romania	3,9	6,6	5,9	5,8	5,5	4,8	4,6

Source: Stanciu, Mariana. (2012). *Guvernare și bugete publice europene în perioada de criză. Calitatea vieții. XXIII. no. 3., p. 202 and, EUROSTAT Database.*

From 2010 to 2011, in terms of GDP, general government total expenditure decreased for all functions except general public services, which increased largely due to increases in interest payable. Larger relative year-on-year decreases than for 'health' and 'social protection' were observed for all other functions. The largest decrease was recorded for 'economic affairs', which is explained by an absolute decrease in capital transfers to banks and a decrease in gross capital formation (mainly investments) [12]. Romania allocated high levels of public expenditure to economic affairs, but this was also observed prior to the crisis (subsidies given to public or private transportation companies). Government expenditure on health and social protection decreased in terms of GDP in Bulgaria and Poland until 2011.

In 2012, EU-27 general government expenditure amounted to 49.4 % of GDP. More than half was devoted to the functions 'social protection' and 'health', followed by general public services, education and economic affairs [13]. In the CEE region, only Hungary display a high share of public expenditure of GDP, similar to the EU-27 numbers, while Romania and Bulgaria are among the countries with the lowest share in the EU. Expenditure related to 'general public services' was low in Bulgaria due to the low public debt service against other EU countries. Hungary has the highest numbers in the CEE analyzed region. As regards government expenditure on economic affairs at the level of the reporting countries, there is considerable variation over time as the amounts recorded may be influenced by operations such as public companies reclassifications or capital injections into banks recorded as capital transfers (Appendix).

Bulgaria: In Bulgaria, government employment was lower than in Hungary and the Czech Republic, and only slightly higher than the CEE average at the beginning of 2000s'. However, employment in education and health in Bulgaria was among the highest in the region. The size of defense and security employment was large in comparison to other CEEs. Bulgaria adopted some important restructuring employment measures in the health sector lately. In the education sector, the decline in employment was modest, despite of a large decline in the school-age population [35] (see Table 4). This trend for school-age population can be noticed for all analyzed CEE countries, except for Romania where we can underline a slow increase in 2013. Spending on public investment needs to increase to the level of other advanced EU accession countries, such as Hungary or the Czech Republic. In 2000, Bulgarian public capital expenditures were similar to the other CEE countries, but the gap widened. Environmental and infrastructure investment along with general public services have absorbed most of the Bulgarian public capital expenditure.

Table no. 4 Share of the population under 18 years old of total population (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	22.8	22.3	21.7	21.3	20.9	20.5	20.2	19.6	19.3	19	18.7	18.4	18.3	18.2
Czech Republic	23.4	22.9	22.5	22.1	21.7	21.3	21	20.7	20.4	20.2	20.1	20	19.8	19.7
Hungary	23.6	23.1	22.8	22.5	22.2	21.9	21.6	21.4	21.2	21	20.8	20.5	20.4	20.2
Poland	28.5	27.8	27.1	26.3	25.4	24.5	23.7	23.1	22.6	22.2	21.8	21.5	21.1	20.8
Romania	26	25.4	25.1	24.4	24.1	23.7	23.1	22.5	21.9	21.5	21.1	20.8	20.6	21.1

Source: EUROSTAT database.

At the beginning of 2000s', Bulgaria's public expenditure level and its functional structure were broadly in line with other CEE countries. The main issue would appear to be defense and security expenditures, with high scores and these must be reduced. Like the other CEE countries, social sector expenditures dominated public spending (the pensions have the highest share of the total social protection expenditure). The private pensions system improved. The projections of the long-term unemployment rate show its increase and the unemployment benefits are higher in Bulgaria against other CEE countries. In the social protection area, despite a series of reforms in the pension system and social assistance programs to achieve fiscal sustainability, the social security system in Bulgaria stays unsustainable. Social spending has been financed by some of the highest social contribution rates in the region [35].

Bulgaria has to optimize the structures in the health and education sectors, the social assistance programs in order to decrease the state aid. The expenses for education are lower than in other CEE countries, still higher than in Romania. In the education sector Bulgaria has to reallocate expenditures from surplus capacity in teaching staff and under-used facilities in rural areas towards other quality inputs. The state aid for the public universities should also be diminished. In health care, Bulgaria's public spending is similar to the other CEE countries, such as Poland and Romania. In this sector, there is also a surplus of medical staff.

Starting with 2009, the number of employees in the public sector decreased as a measure adopted for fighting the crisis. Anyway, the structure of the Bulgarian public administration was "thinner" than the Romanian one. During

2009-2010, the social protection faced the largest increase, because of a high unemployment rate. In the same time, a larger public support was granted to co-finance the environment programs, transport and education programs. In Bulgaria and Romania, the public spending on education was the lowest in the EU during 2011-2012. The public spending on health didn't display major shifts.

Czech Republic: The main burden of the Czech public budget is the pension system and health care system. The Czech Republic spends some 8% of GDP on pensions, above the EU average. The current retirement income provision is dominated by a universal and compulsory public benefit scheme, with only a minor role played by private provision. The Czech population is ageing fast, which will represent a burden for the public finances (Table 5). The ageing process is valid for all CEE countries during the last decade. Bulgaria and Hungary display the highest share of people over 65 years of total population, while in Poland this share is the lowest in this region. The public pension scheme proved to be adequate and is efficient in terms of preventing old age poverty. While employment rates in the Czech Republic are generally lower than the EU average and lower than the CEE analyzed countries numbers (the Czech Republic and Romania display the lowest numbers for the unemployment rate around 7%, while in Bulgaria this numbers reach 13%), they had been even lower for older workers. The mandatory public pension system was completed with the private pension system. This needs some extra public revenues support [24].

Table no. 5. **Share of old-age population (65 years old and over) of total population (%)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	16.9	17	17.1	17.1	17.2	17.6	17.8	18	18.2	18.5	18.8	19.2
Czech Republic	13.9	13.9	14	14.1	14.2	14.5	14.6	14.9	15.3	15.6	16.2	16.8
Hungary	15.3	15.4	15.5	15.6	15.8	15.9	16.2	16.4	16.6	16.7	16.9	17.2
Poland	12.6	12.8	13	13.1	13.3	13.4	13.5	13.5	13.5	13.5	13.8	14.2
Romania	13.9	14.5	14.8	15.1	15.3	15.4	15.8	15.9	16.1	16.1	16.3	16.3

Source: EUROSTAT database.

The Czech Republic, as most other EU countries, is facing spending pressures in the healthcare sector, even though the health expenditure is still relatively low comparative with other EU advanced countries (due to low salaries in this sector), but has been rising over the past decade. In the CEE region, the Czech public spending on health is the highest. In the long term, ageing is expected to increase health spending (Table 5). The Czech health care system is characterized by a mandatory universal coverage. Some measures were adopted in 2012: improving drugs price setting and re-imbursement, initiating the private co-payments, explicit rules for mergers of the insurers in the health care system, improving the legislative framework. Still, these measures are insufficient to limit future health spending growth [24]. In the Czech Republic, the population can choose both the insurer and the provider of health care, but there is no competition on the premiums and only limited competition among the providers, so the costs weren't reduced.

Beginning in 2010, the Czech government has started a consolidation process aimed at balancing the budget by 2016 by raising VAT and excise taxes and cutting operation expenditures. The effect of government redistributive policies on income inequality is considerably higher in the Czech Republic than the OECD average. The Czech inequality of income distribution is the lowest in the CEE region. The highest ratio in this area can be seen in Romania and Bulgaria (Table 6). A more educated and employed population can also reduce the government obligations for benefits and social assistance, so the Czech Republic provides a strong incentive to expand higher education [25].

Table no.6 **Inequality of income distribution – Income quintile share ratio (%)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	3.7	3.8	3.8	3.6	4	3.7	5.1	7	6.5	5.9	5.9	6.5	6.1	6.6
Czech Republic	3.5	3.4	3.4	3.4	3.5	3.7	3.5	3.5	3.4	3.5	3.5	3.5	3.5	3.4
Hungary	3.3	3.1	3	3.3	3.5	4	5.5	3.7	3.6	3.5	3.4	3.9	4	4.2
Poland	4.7	4.7	5	5	5.5	6.6	5.6	5.3	5.1	5	5	5	4.9	4.9
Romania	4.5	4.6	4.7	4.6	4.8	4.9	5.3	7.8	7	6.7	6	6.2	6.3	6.6

Source: EUROSTAT database.

Compared with other OECD countries, the Czech Republic spends a larger proportion of resources on health and economic affairs programs (mostly expenditures on transport, such as infrastructure expenditures on roads) and a smaller proportion on education, general public services and social protection programs [25]. In the CEE region, the Czech Republic spends more public funds on health sector and on economic affairs (although in the economic affairs area, Hungary displays higher numbers) than other CEE countries. For social protection and education it spends the

lowest public funds, but in the general public services area, it spends more public money than Romania and Bulgaria (Appendix).

Poland: In Poland, public expenditure policy produced a positive effect during the first decade of transition. The increasing share of public spending allocated to social issues explain the slow pace of growth of the ‘poverty zone’ and income disparities in Poland, compared to other transition economies. Poland displays a constant decrease of people with risk of poverty ratio in the last decade and the inequality of income distribution has also decreased since 2005 (Table 2 and Table 6). Czech Republic ranked better in the CEE region at the beginning of transition period. Poland came close to the Czech Republic at the beginning of 2000’s, but Hungary still had a large gap and this gap widened after the crisis erupted. Poland started the transition with one of the most inequitable patterns of income distribution in CEE region. In 2013, Poland displayed a lower inequality of income distribution ratio than Bulgaria and Romania (Table 6). Poland increased its public spending on education, health care, justice and public administration, but decreased the public spending on R&D. The new developments in the field of higher education have no doubt contributed to a considerable increase of the stock of human capital in Poland, just like the funds allocated to the health care sector (although this didn’t solve its structural problems). However, most indicators of the health status of Polish population improved during the 1990s. One of the most negative effects of the political interests (the postponement of the reform the labor code) determined an increase of unemployment at the end of 1990s [27].

A major breakthrough occurred after 2004, when considerable funds for innovation were released from EU structural funds in Poland. During the crisis period, Poland increased their public spending on education, while in some CEE countries there were some major cuts: Czech Republic, Romania and Hungary [14].

Hungary: The impact of the current crisis could be seen in the increasing number of people in the poverty “zone” (Table 2). According to available data, in the OECD area three out of four people reported income difficulties in Hungary and Greece in 2012-2013. Hungary has the third lowest ranking of OECD countries in this area, performing only slightly better than Turkey [26].

Hungary was grouped with the countries that also experienced a large decline in household incomes: Estonia, Greece, Ireland and Spain. Countries that adequately responded to the crisis include the Slovak Republic and the Czech Republic. Hungary and Greece responded to the crisis by cutting real social spending [22].

Hungary abolished unemployment assistance, tightened access to social assistance, and reduced the duration of unemployment insurance providing income support to working-age people. Reducing Hungary’s national debt to 60% of GDP will require further cuts to government spending [26].

Public social spending in percent of GDP increased in all OECD countries with the exception of Hungary where it decreased the most after 2009 and in Czech Republic, while in Poland it increased until 2012, just like in Romania did. Hungary was the third worst performer on the Eurobarometer Index on satisfaction rankings (for health care services, for pensions, income support or other social services) [26]-[22]. Hungary changed private pension scheme into the public pension one, but Hungary’s old-age support ratio is expected to diminish in the future. This ratio is higher than in the other CEE countries. Only Bulgaria displays higher numbers in this field (Table 1). The same trend and rank can be noticed for the share of old-age population (65 years old or over) of total population of these two countries (Table 5).

Between 2009 and 2012 spending on public education as a percentage of GDP decreased in many countries, with sharp cuts in Hungary and Romania and this will be damaging in the long-run, because it affects the quality of the human capital.

Romania: With regard to Romania, during the crisis years it underwent willy-nilly a new kind of micro-transition, from an economy based on consumption growth from massively borrowed resources (2007-2009) to an economy based, on the one hand, on the austerity (rise in the unemployment, decrease in the incomes of the population), and on the other hand, on the increase in the exportable sectors (2010-2012). This took place against the background of crisis exacerbation in the Western European countries (Romania’s main economic partners) when the export of Romanian products became a real problem. Thus, at least in the short term, Romania stayed afloat, avoiding the socioeconomic slippages such as those in Greece or Portugal (which had developed through the accumulation of deficits over two or three decades and not 2-3 years as Romania) [32]. Nevertheless, one has to bear in mind that, unlike Poland, for example, Romania was deeply affected by the crisis both economically and socially. This aspect is felt acutely, including within the business environment, in fact, the one the overall saving is depending on. According to a ranking carried out by the World Bank, compared to 2011, in 2012 Romania dropped seven positions with regard to the facilities designed to launch businesses internally. In this field, Doing Business 2012 [37] certifies that our country was ranked 72nd, whilst previously it occupied the 65th, out of 183 states analysed, almost all the neighbouring countries topped Romania (Slovakia – on the 48th position, Hungary – 51st position, Bulgaria – 59th position, Poland – 62nd position, Czech Republic - 64th position).

Payments for salaries in the governmental sectors and pensions have consumed all Government resources, in detriment of investments, although the stand-by arrangement contracted by the Romanian government with financial international institutions requested to allocate more public funds on infrastructure projects. But, in the crisis context,

when most of the Romanian people fought against poverty, the easiest way was to cut the public money for investments, and mainly for infrastructure. If we also state about the political tensions during this period, the picture is “complete”. The changes in public expenditures (increases of social assistance spending, decreases of goods and services) helped those who have been hurt by the economic crisis. Major cuts were in the public spending on education and, in some years, also on health sector. There are necessary reductions of unproductive expenditures (staff costs) and increases of intellectual and economic investments in strategic areas. Public capital expenditure is a key driver of growth, contributing to poverty alleviation, improving living standards and business productivity [30].

For the near future, the main objectives of the budgetary policy in Romania are [21]:

- continuation with the fiscal consolidation to reduce the budgetary deficit;
- stimulation of the economic growth by: increasing the public investments, in particular increasing co-financing for the absorption of the European funds, increasing the financing of investment programmes at the local authority level, directing the wage increases in the budgetary sector towards health and education graduates who should remain in the system, stimulating the business environment by state guarantee schemes and state aids, especially through the new guarantee scheme for SMEs; supporting agricultural producers through subsidies. Romania is estimating an increase in public investments in GDP from approximately 6% in 2013-2014 to 6.6% in 2017 (and the increase in the weight of public investments from post-accession non-refundable external funds, a better absorption of non-refundable external funds and a settlement for the issues related to public acquisitions);
- supporting priority areas: infrastructure, education, research, agriculture and rural development;
- prioritization of the public investments;
- ensuring social protection for the population categories with low incomes by: indexation of pensions, raising the minimum wage, raising the guaranteed minimum wage;
- development and diversification of the public debt management tools;
- modernization of the local public administration.

A great burden on the Romanian budgetary policy is represented by the aging population and therefore the burden of the pensions. It is aimed at increasing the retirement age for women and staff of the national defence and public order. It is aimed at increasing participation on the labour market of the elderly and young people through adequate programmes targeted at the labour market (training or employment incentive programmes for these categories of people). Wages must be better correlated with the labour productivity. Since 2014 the wage burden on the public budget has maintained a downward trend, reflecting the application of prudent personnel policies for the public sector. Also, the social assistance expenditure is recording a downward trend. Subsidies were reduced in the period 2013-2014. The reforms in health, energy and transport were continued and more public money was allocated on these directions in 2013-2014, as well as for environmental protection, whilst for education and research the expenditure remained relatively constant. Unfortunately, the great infrastructure projects co-financed or not from external non-refundable funds are facing large implementation delays.

In the field of social assistance, one aimed at establishing an efficient, balanced and flexible system of social benefits correlated with active measures designed to prevent and combat risks or situations that may lead to social exclusion; developing the legal framework in order to achieve a national, sustainable system of effective and qualitative social services tailored to the needs of different categories of people in difficulty; development of the institutional capacity in order to ensure systematic monitoring, evaluation, analysis and forecasting for the social assistance and social inclusion indicators.

4. Conclusions

In Bulgaria, all the functional public expenses increased during the crisis, except the spending for economic affairs. Bulgarian private sector is weak and is supporting a large tax burden so that claims for a smaller state sector. There should be cuts for public expenditure in social benefits, defense, and security. Reforms in education are also very important [36].

In Czech Republic, the development of the public spending is similar: all the functional public expenses increased until 2012, except spending on economic affairs, than they decreased in 2013. The Czech budget deficit deteriorated sharply during the crisis period as revenues fell and stimulus measures were implemented. But Czech Republic implemented very tough austerity measures to keep its public deficits under control. The Czech Republic is the only country that spends on health more than the EU-27 average (7,8% against 7,5% in 2012)

Poland performed well during the crisis and it spent a lot of public funds. Its public spending in the education sector paid off both in the economic growth but also in the economic welfare areas. Its problems are represented by the health care sector. Poland is the only CEE country that performed well during the crisis period. The major shifts of the public spending can be noticed in the social protection area. The public expenses on social protection increased a little until 2012, but decreased sharply in 2013.

Relatively to the Czech Republic and other new EU member states, Hungarian taxes are very high, but tax evasion is high too. Hungary needs cuts in spending and tax rates. Fiscal adjustment is necessary and it can be achieved through reductions in the government wage and pensions. Hungary was the only country in the CEE region that displayed large drop in the social assistance and education areas during the crisis. The poverty ratio increased and cuts in the education area will have very negative effects in the long-run [26]. Poland and Hungary are the only CEE countries that spend on education similar to the EU-27 average.

In Romania, the public spending on social protection, public administration and economic affairs drop in 2013, after they have increased until 2012. No major shifts were observed in the public spending on the education or health care areas.

The Romanian increasing birth rate after 2000 was also based on some public measures adopted in the public allocation for children area. Without social assistance and especially without pensions, the poverty rate will sharply increase in Romania. But our public pensions system is bankrupt, and the demography registers very unfavourable evolutions. Romania has a dependence high rate of pensioners on the active population, and it will increase by approximately 3-fold by 2060, as estimated by the European Commission [8]. It is almost similar the case of Poland, Hungary and Bulgaria that will double the rates which are higher than Romania's and Poland's at present. Only the Czech Republic registers better values, compared with EU-27. Although, currently it has a comparable rate, it will double the rate. Poland and Czech Republic rank among the first positions in the EU region, but for Poland, the forecast shows that in 2060, this ratio will drop to the level of the Romania's [8]. For political reasons, in Romania the public pension system wasn't dropped.

The Romanian authorities should rethink social assistance vs. social inclusion and social security. They should develop a system to monitor and evaluate (using adequate indicators) the implementation of the legislation regarding the social allocations. That will lead to some viable measures to achieve the targets settled by the Europe Strategy 2020 [33].

In addition, Romania's budgetary revenues are below the level of the other countries, even below those of Bulgaria. Among the countries analysed, Hungary only registers high income, above the average of EU-27, but the fiscal income is lower than the EU-27 average. The Czech Republic and Poland come next, with budgetary incomes below the EU-27 average, however their levels are close to it. Tax evasion in Romania in 2010 was estimated at 10.3% by INS (the National Statistics Institute). Romania occupies the last position in terms of revenue collection to the public budget [9]. The underground economy in GDP in Romania recorded about 30% of GDP in 2012, double compared to that of the Czech Republic of about 16.4%, the Czech Republic being below the average of EU-27 of approximately 19%. Only Bulgaria surpassed Romania in this respect (32.3%). Next there were Poland (25%) and Hungary (22.8%), with values above the EU-27 average [31]. Most budgetary expenditures in Romania are for the wages in the state sector and for social assistance (pensions and social aids). Until 2009, they held the largest weight of the budgetary revenues collected (almost 75%). Subsequently, in 2011, the weight fell (58%) below the EU-27 average, below Poland and Bulgaria (62-63%). The Czech Republic has a value of 53-54%, and Hungary spends the least in this area, respectively 47-48% [9]. The ageing process of the population will determine an increase of the public spending in all European countries (except for Latvia), but this increase will be the largest in Romania and in Czech Republic. Hungary will display an increase similar to the EU-27 average (4%), while in Bulgaria this increase will be half of the EU-27 average (2%). Poland will display a very slow increase, the lowest one in the CEE region [7].

It is compulsory to develop a medium and long term strategy to rebalance financially the social security system, particularly by broadening the taxation base. Hungary only had more state employees than Romania, a few over 80 for 1,000 inhabitants, whilst in Romania they were slightly over 60, according to the International Labour Organization in 2008. With regard to the ratio between the number of state employees and employees in the economy, Poland only (through the employees within the state owned companies) is ranked before Romania, above the EU27 average in 2011 [7].

Mihaiu and Opreana (2013) showed that public spending on investments had positive effects on the level of economic development in Romania only in the first decade of transition, but after 2000, this effect is not significant [20]. The weight of public expenditure with investments in GDP was the highest in 2011-2012, almost double against the EU-27 average and that number is comparable to the one in Poland and the Czech Republic, but their efficiency is the lowest in the region (the quality of the infrastructure). Bulgaria and Hungary hold lower weights of public expenditure on investments in GDP, but above the EU27 average (Table no. 3 according to the Eurostat Database). Although Hungary displays the lowest weight of public expenditure on investments in GDP, the quality of its infrastructure is the highest in the CEE region just like the Czech one. Poland and Bulgaria come next and Romania ranks on the last position regarding the quality of its infrastructure [8]. Romania invests the least in education and defence. It invests the most in social protection and economic affairs (Appendix).

Therefore, Romania has to focus on increasing the efficiency of spending the public funds. It has to increase the structural and cohesion funds absorption rate in order to develop economically. Until 2012, Romania had an absorption rate of 16.5% according to the European Commission, the lowest value in the region. Bulgaria recorded a rate of 23.6%, the Czech Republic - 26.1%, Hungary - 35.3% and Poland -37.2% [8].

In 2015, the correction of the Romanian public budget has emphasized once again that the Romanian Government uses the public spending for political reasons. The public money for investments (mainly for infrastructure) has diminished again, while the money for social protection and for public employees' wages increased. The VAT decreased again, making the balance of the public budget difficult to achieve. These changes come in the 2016 elections context. Romania had in 2014 one of the lowest public deficit in the EU area (-1,8%), but these new changes of tax and public spending will make the public finances largely unsustainable and the public deficit will widen.

The EU new member states are undergoing a stage of economic adaptation to the requirements imposed by the European Treaty on Stability, Cooperation and Governance. The implications of undertaking the TSCG may differ in magnitude from country to country, but fundamentally, they require a more rigorous control over the spending tendencies of the budgetary resources for populist purposes (especially in election years), or relaxation of consumption, without proportional economic performance, at least in the short and medium term. This may also mean imposing certain austerity measures in the short or medium term, or even incurring penalties from EU for the countries that do not fall within the total annual budget deficit of 3% of GDP [32].

5. References

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APPENDIX

	BULGARIA													
Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenditure for social protection	15	13.3	14.4	13.5	11.3	11.1	12.2	13.1	11.2	13.6	14.3	12.9	12.9	14
Health public expenditure	3.3	2.5	4.5	5.1	6.6	6.7	4.2	3.1	4.5	4.4	4.2	4.6	4.6	4.3
Education public expenditure	4.4	3.8	3.9	4.4	4.2	4.1	3.9	3.9	4.4	4.6	4.1	3.8	3.5	3.7
General public services expenditure	9	8.9	7.1	4.3	5.5	6.1	4.7	7.6	5	7.4	3.6	3.8	3.7	2.4
Economic affairs public expenditure	3.5	4.2	3.7	5.5	5	4.8	4.6	5	5.7	4	5	4.2	5.2	5.9
	CZECH REPUBLIC													
Expenditure for social protection	13.4	13.3	14.7	14.6	14.1	12.8	12.7	12.9	12.9	14	13.9	13.6	13.8	12.8
Health public expenditure	5.7	6	6.2	6.4	7.3	7.2	7.2	7.1	7.2	8	6.4	7.8	7.8	5.9
Education public expenditure	4.1	4.4	5.2	5.2	4.8	4.8	4.9	4.7	3.9	4.4	4.3	4.5	4.8	3.7
General public services expenditure	3.7	4	4.4	4.9	4.7	5.2	4.3	4.2	4.2	4.8	4.5	4.6	5	4.5
Economic affairs public expenditure	7.3	9.4	8.9	8	7.5	6.9	7.1	6.9	7.2	7.6	6.8	6	5.6	6.0
	HUNGARY													
Expenditure for social protection	19.3	14.5	15.4	15.9	16	17	17.6	17.3	17.7	18.3	17.2	17.1	17.1	14
Health public expenditure	5.9	4.9	5.5	5.7	5.5	5.6	5.6	4.9	4.9	5	5	5.1	5.2	5
Education public expenditure	4.5	5.3	5.8	6.2	5.8	5.9	5.8	5.3	5.1	5.1	4.9	4.7	4.8	4
General public services expenditure	9.9	10.6	9.8	9.2	9.8	9.6	9.7	9.6	9.4	10.3	9.2	8.8	9	8.3
Economic affairs public expenditure		5.7	7.6	5.9	5.7	5.8	6.4	6.5	5.7	5.5	5.8	7.2	6.2	6.5
	POLAND													
Expenditure for social protection	19.5	20.8	18.3	18.8	17.6	17	16.9	15.7	15.6	16.5	17.1	15.9	16.1	13
Health public expenditure	5.5	5.8	4.4	4.3	4.2	4.4	4.6	4.6	5.1	5.1	5.2	4.7	4.6	4
Education public expenditure	4.9	5.4	6.1	6.1	5.7	6.1	6	5.7	5.1	5.1	5.2	5	5.5	4.8

General public services expenditure		6	6	6.3	6.3	6.3	6	5.6	5.4	5.8	5.9	5.8	5.9	5.5
Economic affairs public expenditure		3.4	3.5	3.4	3.4	3.8	4.4	4.5	4.9	5.3	5.7	5.6	4.7	5
	ROMANIA													
Expenditure for social protection	13.2	13.2	10.4	9.3	9.6	9.8	9.7	9.9	11.8	14.2	13.8	14.1	13.6	11.5
Health public expenditure	3.5	3.6	4.9	3.5	3.7	3.7	3.7	4.3	3.8	4.4	5	3.4	3.1	4.4
Education public expenditure	2.9	3.3	4	3.5	3.7	3.6	4.1	4.2	4.25	4.3	3.5	3.1	3	3
General public services expenditure	7.9	6.5	5.4	4.1	3.9	3.3	3.3	4.3	4.7	4.2	4.4	4.8	4.9	3.4
Economic affairs public expenditure	2.4	2.6	4	5	5.3	5.3	6.9	6.8	6.8	6.8	7	6.6	6.2	4.6

Source: EUROSTAT Database.