

PARTICULARITIES OF THE NATIONAL BUDGET DEFICIT IN 2023

Ph.D. Associate Professor, Cristian MOROZAN

"Constantin Brancoveanu" University of Pitesti,
Faculty of Management-Marketing in the Economic Affairs Braila, Romania
E-mail: cgmro@yahoo.com

Ph.D. Professor, Elena ENACHE

"Constantin Brancoveanu" University of Pitesti,
Faculty of Management-Marketing in the Economic Affairs Braila, Romania

Ph.D. Associate Professor, Sorin ENACHE

"Danubius" University of Galati,
Faculty of Economic Sciences and Business Administration, Romania

Abstract: Romania is going through a difficult economic phase due to the war on the border, the high budget deficit whose financing is carried out at high costs, but also due to the movements on the energy market, which have complicated the stability aspects. In particular, our country's budget deficit is ahead of that of the EU and the Eurozone, but its excess is observed even at the level of the Union, as well as the Eurozone, throughout the reference period, compared to the value provided for by the Maastricht Treaty. The imbalances that Romania faces represent a major vulnerability that can be reduced through efforts on several fronts: budgetary consolidation (reduction of the budget deficit), a better allocation of resources in the economy to support the production of goods with high added value, etc. An important role should be played by European funds, having both a direct impact, by increasing the sources of financing external deficits, and an indirect one, by implementing targeted investment and structural adjustment programs, with favorable effects on economic activity and, implicitly, in the sense of mitigating the amount of fiscal deficits.

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

JEL Classification: H62.

1. Introduction

The European and global economic context continued to be complicated in 2023 as a result of the prolongation of the Russian-Ukrainian conflict and implicitly of the disruptive factors generated by it, leading to the maintenance of a climate of uncertainty. Prices, although they showed a downward trend, remained at a still high level, and external demand decreased against the backdrop of the restriction of economic activity in partner countries.

These very complicated periods show, more than previous ones, the need for a change in the structure of economies, with an emphasis on environmental protection activities, the implementation and support of technological innovations in the digital field, increasing the degree of inclusion and reducing inequality. These crises also entailed and continue to entail important efforts to ensure the sustainability of accumulated debts, especially at the public, but also private sector level.

In the current period, the idea that the budget deficit becomes a means of relaunching economic activity, given that it is no longer inflationary in nature (Cioponea, 2007), can be acted upon in the demand for public goods and services by using conjunctural action funds, thus achieving a flexible budget policy, within which public spending can be resized in relation to the size of these funds. If no changes are made to tax regulations, tax revenues can constitute instruments of conjunctural adjustment.

In this sense, a crucially important process is the efficiency of public spending. The desired objectives can be achieved more efficiently, sometimes faster and at 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, by registering a budget deficit (Chang, 2014).

2. Romania's budgetary deficit in 2023

2.1. Economic situation and synthetic budgetary indicators

For 2023, Romania is forecasting an economic growth of 2.8%, which took into account the contribution of the following factors:

- domestic demand seen as the engine of economic growth (3.3%);
- the growth rate of gross fixed capital formation forecast at 6.2%;
- final consumption expenditure of the population forecasted to have a real annual growth rate of 2.7% (MFP, Budget Execution Report 2023).

The statistical data published by the INS revealed, in 2023, a real growth rate of gross domestic product of 2.1%, representing an increase of 8.3 percentage points above the level recorded in 2019, considered a normal reference year. Although there is a trend of slowing economic growth, it should be noted that in 2023, Romania outperformed the economic growth in the EU and the euro area (0.4%), ranking 6th in a top of member states, ahead of countries such as Germany, Italy and France. Compared to the budget scenario, the achievements reveal a more pronounced decrease in industrial activity. As foreseen in the forecast, the economic context continued to be unfavorable, which prevented the slight recovery process of this sector from taking place. At the same time, it is worth noting the spectacular evolution of construction with a dynamics significantly higher than the forecasted level.

In 2023, the Romanian economy recorded a nominal value of gross domestic product of 1,605.6 billion lei, higher than estimated due to a higher level of the deflator compared to the estimated one, in the conditions of higher-than-forecast achievements for the CPI (annual average) and construction costs.

In terms of use, the significant contribution to economic growth of gross investments (+3.6 percentage points) and final consumption (+2.8 percentage points) is noteworthy. The positive evolution of the two components of domestic demand was not fully reflected in the GDP dynamics, however, the negative contribution of the change in inventories (-4.3 percentage points) considerably reducing the real economic growth rate.

Regarding private consumption, although the purchasing power of the population improved, given that real disposable incomes increased, consumers preferred to allocate a smaller percentage of their financial resources for the purchase of goods and services, also moving towards saving, thus, it had a modest dynamics (2.8%), contributing 1.8 percentage points to economic growth. On the other hand, government consumption (which includes individual consumption and collective consumption of the public administration) increased by 6.0%, contributing 1 percentage point to the real GDP growth rate.

Inflation followed a downward trajectory during 2023, amid the slowdown in energy and raw material prices, as well as the improvement of distribution chains. The adjustment of global demand and supply led to a decrease in consumer price dynamics, which was also reflected in the national economy, where annual inflation fell to 6.6% in December.

As an annual average, inflation in 2023 was 10.4%, with the downward trend manifesting itself in the food (14.9%) and non-food (7.1%) sectors. In the food component, the downward trend was more pronounced, due to the reduction in international raw material prices and the temporary capping of trade markups, which led to a deceleration in prices for

both processed and unprocessed food products. In the services sector, a slight increase was recorded, with an average of 11.3%, due to the pressures of high labor costs.

Compared to 2022, the deficit calculated according to the ESA 2010 methodology in 2023 increased by 0.3 percentage points from 6.3% of GDP in 2022 to 6.6% of GDP in 2023.

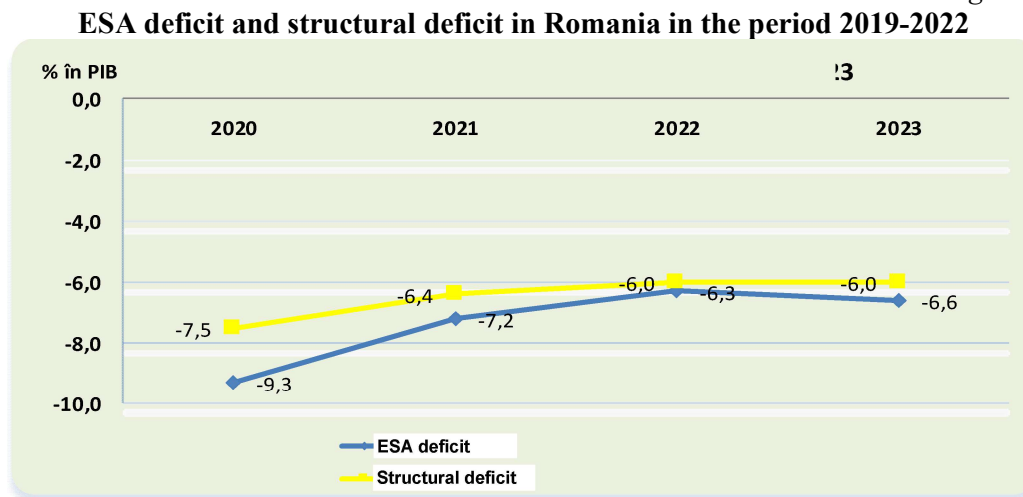
The structural balance of the general government (ESA methodology) stood at -6.0% of potential GDP in 2023, similar to the previous year. The result corresponds to a cyclical component of -0.6% and a negative output gap of -1.9% of potential GDP. (MFP, Budget Execution Report 2023).

Figure no. 1

Structural deficit in Romania				
	2020	2021	2022	2023
Structural deficit	-7,5	-6,4	-6,0	-6,0

Source: Ministry of Public Finance, *Report on the final budget execution for 2023*,
www.mfinante.gov.ro

Figure no. 2



Source: Ministry of Public Finance, *Report on the final budget execution for 2023*,
www.mfinante.gov.ro

Risks to global financial stability have developed mixedly since the previous year's Report. Most economies, as well as the financial system as a whole, have remained resilient throughout the disinflationary process, and investor sentiment has been supportive, contributing to the easing of financial conditions in global capital markets. However, the external economic and geopolitical context continues to be marked by uncertainties on multiple fronts.

Although expectations for global economic growth have improved slightly, they are heterogeneous internationally and remain modest by historical standards. The pace of global economic growth is projected to remain at the 2023 level in 2024 and 2025, at 3.2 percent, according to the IMF.

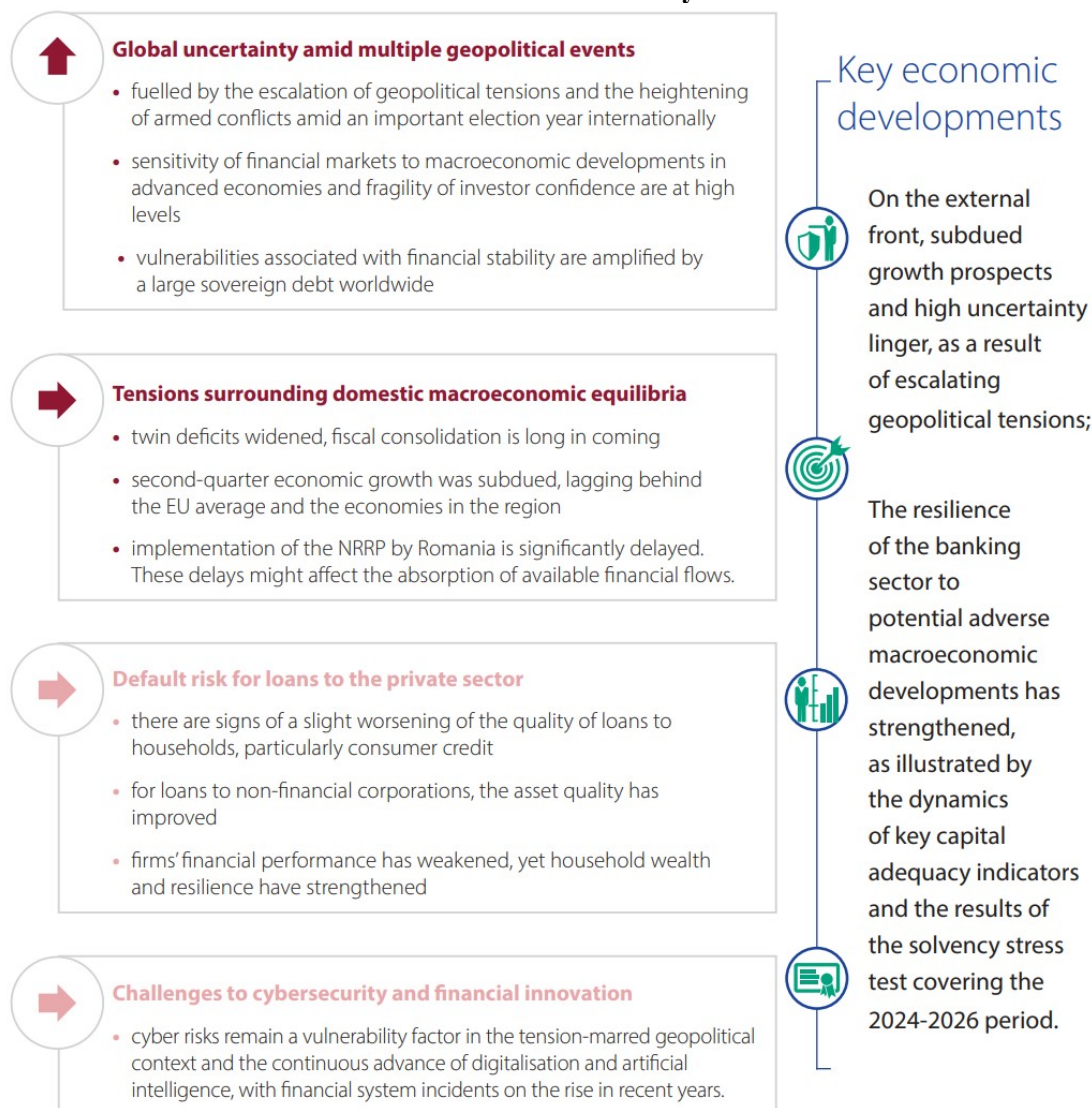
At the same time, there is a risk of sharp corrections in financial asset prices in the event that these optimistic prospects do not materialize, which may be tested by developments, both on the macroeconomic and geopolitical fronts, including as a result of the

intensification of the conflict in the Middle East and the continuation of the war in Ukraine. Potential new inflationary shocks on the supply side may generate volatility in international financial markets, as well as a sudden tightening of financial conditions.

Vulnerabilities to the global financial system may be amplified by high levels of indebtedness, both in the public and private sectors, in the context of an important international election year, which may exacerbate risks related to fiscal policy. Against the backdrop of unprecedented support measures, government debt has increased significantly during the pandemic and remains at high levels, with budget deficits increasing the public debt burden in many economies.

Figure no. 3

The main risks to financial stability in Romania



■ severe systemic risk, ■ high systemic risk, ■ moderate systemic risk, ■ low systemic risk

Notes: The colour of arrows shows risk intensity. Their direction indicates the outlook for risk in the period ahead.

Source: NBR, *Financial stability report, December 2024 - overview*, <https://www.bnr.ro>

2.2. Analysis of the state budget revenues and expenditures in 2023

According to the final data, the execution of the general consolidated budget, during the period January 1 - December 31, 2023, ended with a cash deficit of 90.06 billion lei, respectively 5.61% of GDP.

Compared to the previous year, the deficit of the general consolidated budget in 2023, on a cash basis, decreased by 0.15 percentage points from 5.76% of GDP in 2022 to 5.61% of GDP in 2023.

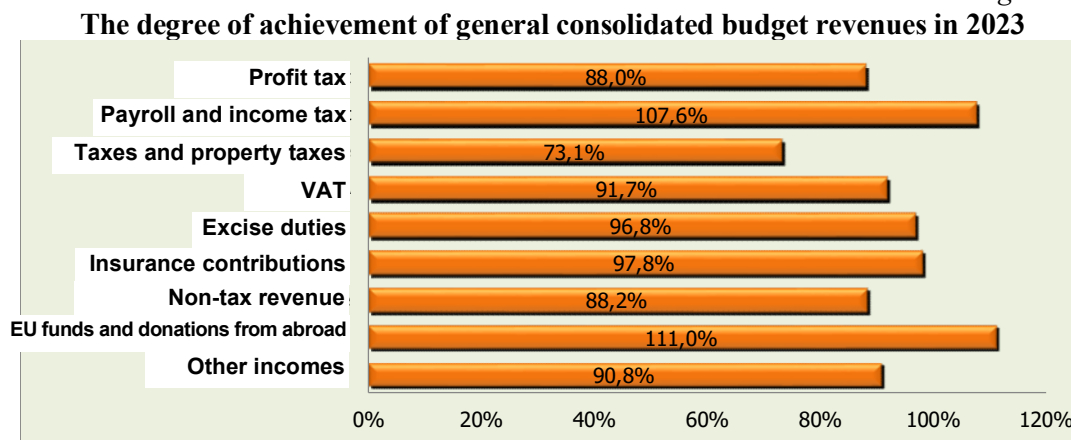
Figure no. 4

Romania's cash budgetary deficit				
		2022	2023	2023/2022 differences
Budget balance	mil. lei	-80.765,8	-90.060,7	-9.294,9
	% din P.I.B.	-5,76	-5,61	0,15

Source: Ministry of Public Finance, *Report on the final budget execution for 2023*, www.mfinante.gov.ro

• **The revenues of the general consolidated budget, in 2023**, totaled 520.60 billion lei, representing 32.4% of GDP and a degree of achievement compared to annual estimates of 96.2%.

Figure no. 5



Source: Ministry of Public Finance, *Report on the final budget execution for 2023*, www.mfinante.gov.ro

Tax revenue collections were below the level scheduled for 2023, with a level of achievement of 93.3%, influenced by the evolution of taxes and duties on goods and services and property taxes and duties.

Insurance contribution collections were below the collection program, with a level of achievement of 97.8%. The program's failure to achieve was determined by the lower annual program collections for insurance contribution revenues collected from the state social insurance budget (97.9%), the unemployment insurance budget (87.6%) and those from the budget of the National Single Health Insurance Fund (97.3%).

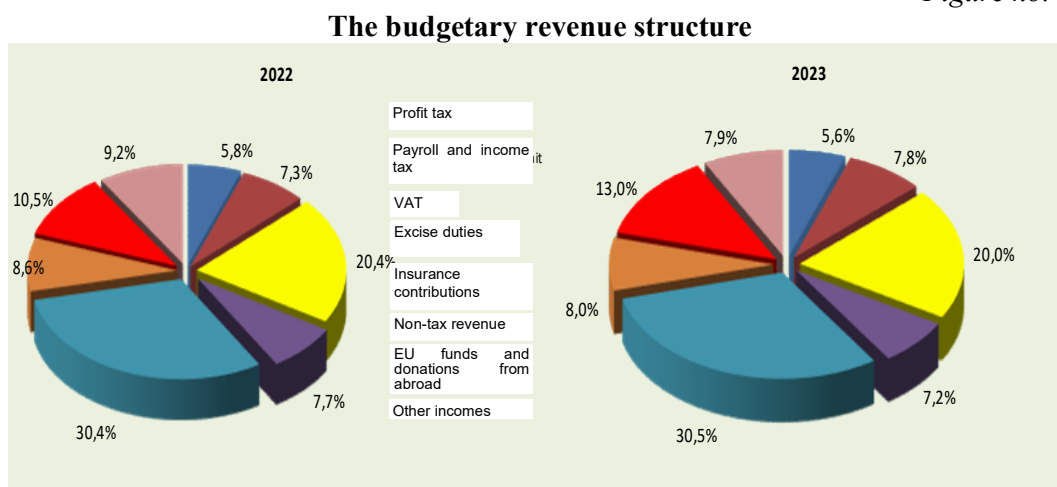
Non-tax revenue collections were below the annual program, with a level of achievement of 88.2%;

The receipts from the amounts received from the EU and other donors (including the non-refundable financial assistance related to the PNRR) on account of payments made were above the programmed level, the recorded degree of achievement being 111.0%.

Compared to the previous year, the revenues of the general consolidated budget, in 2023, increased by 13.1% (+60.39 billion lei) and as a percentage of GDP decreased by 0.4 percentage points from 32.8% in 2022 to 32.4% in 2023.

The amounts received from the European Union on account of payments made (including donations and amounts related to the PNRR), in 2023, amounted to 67.65 billion lei, 39.7% above the level recorded in 2022.

Figure no. 6

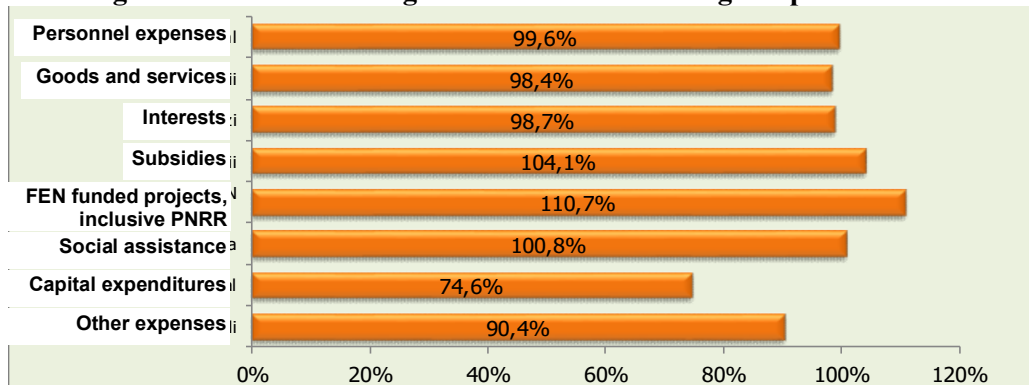


Source: Ministry of Public Finance, *Report on the final budget execution for 2023*,
www.mfinante.gov.ro

- The general consolidated budget expenditures totaled 610.66 billion lei in 2023, which represents 38.0% of GDP and a degree of achievement compared to the planned level of 98.3%. Compared to the previous year, the general consolidated budget expenditures increased by 12.9%, and as a percentage of GDP they decreased by 0.6 percentage points from 38.6% in 2022 to 38.0% in 2023.

Figura nr. 7

The degree of achievement of general consolidated budget expenditures in 2023



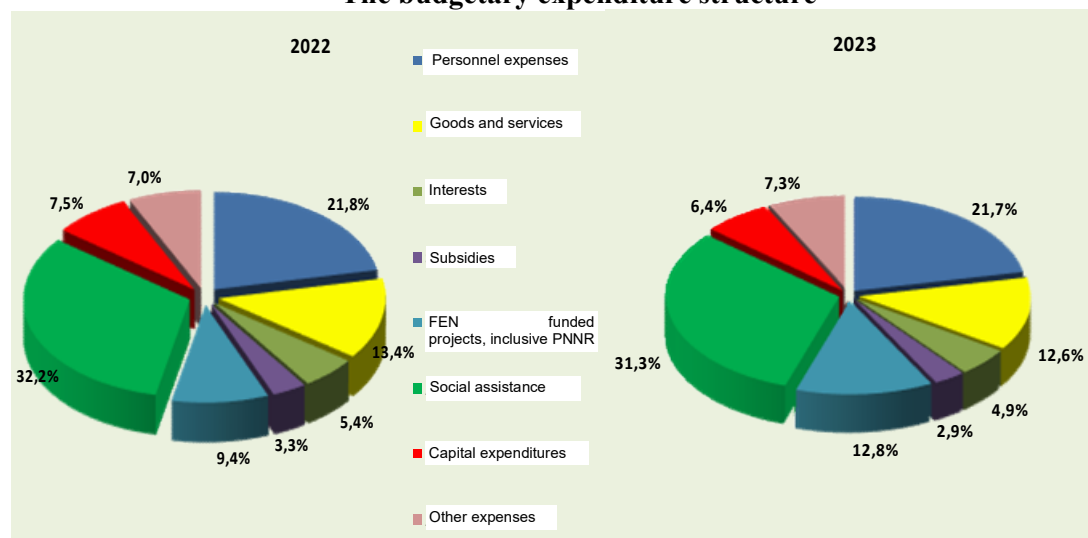
Source: Ministry of Public Finance, *Report on the final budget execution for 2023*,
www.mfinante.gov.ro

In terms of the degree of achievement of the annual program, the main categories of budget expenditures recorded the following developments: personnel expenditures 99.6%, expenditures on goods and services 98.4%, interest expenditures 98.7%, expenditures on subsidies 104.1%, expenditures on projects financed from non-reimbursable external funds 110.7%, expenditures on social assistance 100.8%, capital expenditures 74.6%.

Compared to 2022, the economic structure of expenditures shows an increase in the share of total expenditures of expenditures on projects financed from non-reimbursable external funds including PNRR by 3.4 percentage points and of those in the other expenditures category by 0.3 percentage points and decreases in the share of all other expenditure titles.

Figure no. 8

The budgetary expenditure structure



Source: Ministry of Public Finance, *Report on the final budget execution for 2023*,
www.mfinante.gov.ro

2.3. Sources of financing the budgetary deficit in 2023

At the end of 2023, as a result of the debt contracting to cover the financing needs of the general consolidated budget deficit, to refinance the maturing public debt, as well as to maintain and consolidate the foreign exchange reserve at the disposal of the State Treasury, the share of gross government debt, according to the EU methodology, stood at 48.8% of GDP, falling within the annual ceiling of 49.8% of GDP established by Law no. 360/2022 for the approval of the ceilings of certain indicators specified in the fiscal-budgetary framework for 2023, being below the ceiling of 60% of GDP established by the Maastricht Treaty.

According to data published by EUROSTAT on April 22, 2024, at the end of 2023 Romania ranked 17th among EU member states in terms of debt level, with the average government debt for the euro area (EA 20) being 88.6% of GDP, and that for the EU27 being 81.7% of GDP.

During 2023, the Ministry of Finance maintained a predictable and flexible issuance policy adapted to the requirements of the investment environment and in the context of the developments of the geopolitical conflict between Russia and Ukraine.

The financing of the budget deficit in 2023 was achieved from internal and external sources. The external sources necessary for the refinancing of the government public debt were secured from the markets on which these debts were initially issued, as well as from the foreign exchange financial reserve at the disposal of the Ministry of Finance.

a) In 2023, government bonds and loans were issued on the domestic market in a total amount of 140.7 billion lei equivalent, including government bonds intended for the population in the amount of 21.5 billion lei equivalent. The Ministry of Finance's policy aimed at extending the remaining average maturity of government bonds, most of the bonds being issued in the medium and long maturity segment. Issues intended for the population continued through the Tezaur and Fidelis programs. Through the Tezaur program, monthly issues were made, with maturities of 1, 2 and 3 years, with an attracted volume of 12.1 billion lei. Through the Fidelis program, four issues were launched, through a syndicate of banks. The issues were denominated both in lei (1 and 3 year maturities) and in EUR (1 and 5 year maturities), with an attracted volume of 9.4 billion lei equivalent.

b) Regarding foreign markets, the aim was to ensure a constant presence on them, under advantageous cost conditions for Romania, as well as diversify the investor base. Foreign financing was secured through Eurobond issues, withdrawals both within the framework of loans contracted from international financial institutions (EIB, IBRD) and within the loan component related to the PNRR. Within the MTN (Medium Term Notes) program, 3 issues and 12 private placements were launched, attracting the amount of EUR 10.6 billion equivalent. Financing on the foreign market also included withdrawals of approx. EUR 1.27 billion within the framework of loans contracted from international financial institutions (EIB, IBRD, CEB, etc.), as well as the amounts made available within the loan component for the implementation of the National Recovery and Resilience Plan (PNRR), in the amount of EUR 893 million.

3. The state budgetary deficit trends in 2024

The developments recorded to date in macroeconomic and budgetary indicators were determined by fiscal, budgetary and monetary policy measures combined with regulatory and prudential measures taken by the authorities for the financial sector, which limited the impact of the health crisis, generated by the COVID19 pandemic, which imposed the largest

lockdown, unprecedented in modern history, with severe and very specific implications on almost all economic and social levels. The measures taken have succeeded in ensuring the recovery of the economy, as well as maintaining sustainable growth with an average annual rate of 4.1% over the entire 2024-2026 horizon, higher compared to that estimated to be recorded at the EU and Eurozone levels, growth which according to the EU autumn forecast was estimated at 1.3% in 2024 and 1.2% respectively, and in 2025, given that inflation and the slowdown caused by the tightening of monetary policy will diminish, a strengthening of economic growth is expected, which will reach 1.7% for the EU and 1.6% for the eurozone.

The fiscal policy established at the level of the relevant ministry is based on the continuation of gradual fiscal consolidation, carried out under conditions of a balance between the need for fiscal adjustment and the need to support economic recovery, the health system, infrastructure, climate change, digitalization, green transition which remain priorities in the current difficult circumstances.

The pace of consolidation takes into account the fact that important reforms are needed from the PNRR such as the new pension law as well as the implementation of investment projects from grants and loans from the PNRR that must be completed by the end of 2026, which requires significant budgetary amounts. Romania is facing an exceptional opportunity, as it benefits from allocations from the PNRR.

In November 2023, the European Commission positively assessed the revised PNRR, its new value being 28,511.58 million euros, of which: 13,566.06 million euros for the non-reimbursable financial assistance component and 14,942.15 million euros for the loan component, respectively, the plan comprising 66 reforms and 111 investments. Romania's amended plan places a strong emphasis on the green transition, allocating 44.1% (up from 41% in the initial plan) of the available funds for measures supporting climate objectives.

This European financial package can lead to the mitigation of the contractionary impact of the macroeconomic correction, to the implementation of structural reforms, resulting in an increase in the robustness of the Romanian economy, attracting European resources being a sine-qua-non condition of a sustainable fiscal-budgetary and economic policy.

In such a context, of the great challenges facing humanity, of the common effort for a strong and healthy Europe, Romania has established as objectives of the budgetary construction for the year 2024 and the horizon 2025-2026 (MFP, Fiscal-Budgetary Strategy for the period 2024-2026):

- continuing measures for economic recovery, accelerating economic growth, maintaining and supporting a new framework for sustainable, fair and inclusive development that ensures an economically efficient, socially sustainable transition focused on competitiveness, innovation and decarbonization that leads to the elimination of vulnerabilities in the economy and ensures a decent standard of living;
- continuing the gradual achievement of fiscal consolidation, thus contributing to the decrease in inflation, interest rates, the trade and current account deficit of the balance of payments, as well as to the stability of the leu exchange rate, taking into account the fragility of the internal and external environment, the budgetary effort that must be allocated to the new law on the pension system and the implementation of the reforms in the PNRR that must be completed by 2026;
- reform, prioritization and multiannual 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 and Resilience Mechanism that finances the reforms and investments established through the National Recovery and Resilience Program, the largest stimulus package from European resources allocated to Romania;

- consolidation of a predictable fiscal policy committed to reducing the budget deficit, to support and adapt the business environment to the challenges raised by the series of crises that society is facing, simplifying taxation and improving legislation according to tax evasion phenomena, in order to create the premise of healthy and sustainable economic growth;

- development and diversification of public debt management instruments to maintain public debt at a sustainable level;

- measures to create and consolidate public finances, through qualitative efficiency of public spending, improving budget programming with a focus on:

- financing active economic measures to support the most vulnerable groups, reforms in the field of labor, pensions, support for SMEs whose supply chain was strongly affected by the war against Ukraine;

- improving budget programming by strengthening program budgeting based on result indicators for a credible and responsible budget construction, which allows for full transparency of public spending, improving the clarity and coherence of the budgeting process, prioritizing sectoral policies and ensuring real competition between projects proposed for funding and supporting performance;

- allocation directed towards well-defined priorities and more responsibility in the use of public funds, achieved by implementing measures to streamline public spending, by using best practices at European level and to avoid wasting public funds.

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 diverting market resources from those sectors that the market shows as profitable to 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, a guiding indicator for investors looking for business opportunities. Considering the current conditions, when Romania is trying to define its role and 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, it is necessary to use fiscal levers in accordance 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 period, it is preferable to ensure an increase in budget spending, with the objective of contributing to the relaunch of economic activity, the effects being reflected in the increase in employment and the reduction of unemployment.

The budget deficit can be reduced in three ways:

- by reducing the number of personnel in the budget sector;
- by temporarily reducing salaries, as was done in 2010;
- by financing the deficit, that is, through inflation, printing money, as Greece did, being on the verge of bankruptcy.

Unfortunately, Romania also had economic growth at the level of 2024, but at the same time, it also recorded an increase in public debt, with loans being used, largely, to cover expenses such as salaries and pensions, a deficit approach.

The economic growth model must be reanalyzed, given the experience of 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, a different orientation based on investments in sectors with high added value is required.

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