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## BUDGET AND BUDGETARY PROCESS IN ROMANIA

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**Abstract:** *The unitary system of budgets was an important moment in the evolution of public finances, creating the framework for more effective management and control over allocated funds, public finances becoming those interactive tools used to match the requirements of economic and social environment, also being a catalyst for development. Romanian economy hasn't matured yet, we are to achieve satisfactory participation in Gross Domestic Product (GDP) which, concerning the budget, should be translated into a higher need for contribution, or should be seen, as well, as a factor of progress and a step towards European integration.*

*We appreciate the important role of the International Monetary Fund (IMF) Agreement that requires specific behavior in implementing the budget and monitoring the Executive to fulfill the commitments. Also, the EU proposal to consider the national budgets of the governments of other countries in order to monitor the budget deficits would be for this stage also necessary and beneficial. We are now experiencing the reconsidering of the budget process and budget system at European level with the required EU enlargement, which aims to rethinking the perception role that public finances must play inside contemporary society.*

**Keywords:** *budget, public finance, legality of public funds*

**Jel Classification:** *H61, E60*

### 1. INTRODUCTION

Literature defines the budget process as "all actions and measures undertaken by the competent state institutions for realizing financial policy applied by the government"<sup>1</sup>. These activities are for the state as the main force of development by exercising their functions between the levers and instruments occupying an important place in the legislative and public budget.

The legislative framework governs the conduct of state entities in society and the budget helps resources to be mobilized in public expenses. Both the legislative and budget were constantly imposed by dynamic internal and external factors and by the changes taking place in society. As the main instrument of the state, budget has changed in line with public finances; without the changes, though, there would have been imbalances inside the society itself.

Concerning the public finances after the 1990, changes were imminent due to the new conditions appeared inside the Romanian society, being carried out both at the conceptual level and functions of public finance and starting in 1991; the transformations continued, being regulated in 1996 and 2002 by endorsing the Law of Public Finances, without considering the process to be complete.

Law no. 10 of 1991 established a direct link between public finance and state budget, a law that was to provide expertise in developing and executing the budget, setting the collection of the

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<sup>1</sup> Vacarel, I. and colective, Public finance, Didactic and Pedagogic Publishing House, Bucharest, 1999, p. 607.

state revenues, the use of public funds and control of their management. These changes defined the early beginning of the budget democracy in Romania.

At one point the changes became so inadequate, blocking progress towards a world that was fully experiencing the process of globalization so that they have imposed new changes which were established by a new public finance law, Law no. 72/1996. This law has refined the means of managing public funds, has improved tracking and control system of fund management, which has led to a unified system consisting of budgets: state budget, state social insurance budget, local budgets, special funds budget, state treasury budget, budgets of autonomous public institutions.

## **2. THE CONCEPT OF BUDGET IN RELATION WITH PUBLIC FINANCE**

The unitary system of budgets was an important moment in the evolution of public finances, creating the framework for more effective management and control over allocated funds, public finances becoming those interactive tools used to match the requirements of economic and social environment, also being a catalyst for development.

Romanian economy hasn't matured yet, we are to achieve satisfactory participation in Gross Domestic Product, (GDP) which, concerning the budget, should be translated into a higher need for contribution, or should be seen, as well, as a factor of progress and a step towards european integration.

An important part of public finance reform was the development of the Law 500/2002, which established significant changes, being at that time a step towards our country's accession to the European Union. This law approved issues deepening democratization of public finances through the introduction of modern tools that track and control: the general consolidated budget. This tool has created a legal framework for eliminating highlighting of the revenue repeatedly being transferred towards authorized officers, thus using the aggregation procedure for all public funds that compose the budget system.

Another important provision of this Act is to redefine the respective responsibilities of public institutions and independence of action under the law.

Provisions on the budget and budget process, contained in the Public Finance Law no. 500/2002 represent a step towards liberalization and democratization of public finances, which also are a requirement of the need for progress.

Analyzing the concept of budget in relation with public finance, as a tool used for showing the ability to mobilize state resources and public expenses, we take notice of a threefold approach regarding this concept in the literature: legal, economic and financial.

*a. The legal approach* of the budget is built on the following features:

- Approval is made through the law, by the Parliament which gives it a compulsory character during the period of approval;
- It is an official document, in which income and expenses are included in the approved annual budget law. So, the income and expenses are authorized for a period of one year.

*b. Economic approach* is the linkage between budget and the evolution of GDP, the latter determining the level of revenue and expenditure included in the budget, requiring compliance with macroeconomic correlations between GDP and budget. At the same time, the budget expresses economic relations that begin once with the distribution of GDP in order to fulfill state functions.

*c. Financial approach* is explained by that function of an economic and financial instrument, by indicators showing the financial balance of public finances, separating income and expenses, under the Ministry of Public Finance's (MPF) mandatory regulations. The reality involved in the three budget approaches raises a number of comments from theorists / academics about the order of importance and yet the three approaches explain their apparent complementarity, excluding the possibility of any individual treatment or hierarchy.

In addition to its role as document that records the dispositions and financial accounting, budget is particularly important for maintaining financial stability, when it comes to macroeconomic monetary and foreign currency balance, by using funds in those strategic areas of the economy, thereby facilitating economic growth and recovery from stress/ crisis conditions.

Integration into the EU and especially the recent crisis in our country require a different philosophy from the authorities dealing with the budget process and the national budget system. Current trends manifested in the world are particularly oriented to give greater attention to the state office, as the administrator of public funds, with attention focused on supporting investments. At this stage Poland, Hungary, the Czech Republic have managed to overcome a state of crisis by using bold investment policy.

Crisis history has shown that without efforts focused on significant investments to generate capital gains and rapid retraining, the crisis moments are likely to worsen. For example, Japan emerged from the crisis in the years 1929-1933 through major investments, although at that time had a weak economy.

To track the progress made on the public finances in the budget process we use data for 2008 and 2009 budget which represent two periods of interest for analysis. The objective of our analysis is to study the degree of revenue collection approved by the annual budget law, the degree to incur expenditure, differences in the performance index of the two indicators, analysis of revenue and expenditure structure.

After the implementation of macroeconomic indicators presented in the consolidated budget during 2008 and 2009, that are found both in the preparation phase and implementation phase, there was no taking into account of the principle of determining realistic budget revenues, the consequences being translated into the increase in public debt, that was to cover the registered budget deficit. Inside the structure there is a reduction of capital expenditure in 2009 compared to 2008, up to 13.3%, which is not favorable for economic recovery. Tax revenues, wages, income and capital gains were reduced by 3.4%.

The financial amounts Romania received from the EU were of great help, speaking in terms of financial contribution for 2009; those amounts have, in a certain way, raised the level of economic and social activity. Expenditure on social assistance have reached alarming levels in 2009 - 12.7% of the GDP, the growth being registered only up to 18.10%, compared to 2008.

Indicators achieved in 2009 led the Executive, the main factor in achieving the budget process, to review economic and financial policy for 2010, so that the budget be prepared as a combination of economic doctrine and concepts of every field's specialists.

We appreciate the important role of the International Monetary Fund (IMF) Agreement that requires specific behavior in implementing the budget and monitoring the Executive to fulfill the commitments. Also, the EU proposal to consider the national budgets of the governments of other countries in order to monitor the budget deficits, would be for this stage also necessary and beneficial. We are now experiencing the reconsidering of the budget process and budget system at European level with the required EU enlargement, which aims to rethinking the perception role that public finances must play inside contemporary society.

Changes occurred mainly in the legislative field, but also regarding the changing attitude in using the public funds and their management. In our country, once with the third stage of the reform of public finances made by Law 500/2002, the state has reformed until now less visible aspects of the budget process such as: commitment, validation, authorization of public expenditure, which led to the separation of the authorized officer's duties from the attributions of the ones responsible for paying and increasing accountability of decision makers of society.

The link between public finances and the budget was one of interdependence. Along the history of finance area, budget and budget process were defined by the role they had in society and by the degree of complexity of state tasks at that particular stage. Since establishing the functions of mobilization, allocation and utilization of money key resources, budget has been an

economic category occurred at a certain stage of development of human society, whose role has been demonstrated within time.

Such a document was drawn up for the first time in England in 1215 and it expressed the figure forecast, at the time, of structure elements representing a program or established and defined tasks in time and space. After absolutist monarchies used for a long time budgets of the states, this right of theirs was restricted by the introduction of control and revenue and expenditure records, expressing today's complex relationships and contemporary democratic economic policy.

## CONCLUSIONS

Today's budget concept defines all money relations that are put into practice by public finance in every country, as an act of will in which issues like source of income and destined expenses assessed in a realistic amount, for the public needs and intangible economic sphere of society, are well established and considered as needs to be determined and legally authorized by decision makers. Budget evaluates financial targets, projects and programs that will achieve the financial year.

To summarize, the above budget can be defined as:

- systematic prediction of priority objectives inside both economic and social areas;
- financial plan that describes in specific terms the means and sources to achieve agreed objectives;
- balance between uses and resources that can be mobilized by the state in a given period based on a general framework which lays down rules, principles, procedures;
- plan estimating, forecasting and managing income and expenses for achieving legal objectives under government authority, through the institution's will and responsibility.

The main objective of the budget process is thus the budget for the realization of which the following steps are to be taken:

1. drafting a budget;
2. budget approval;
3. budget execution;
4. conclusion of budget execution;
5. control of budget execution;
6. approval of budget execution.

Each stage has its role in building a realistic budget to meet the economic doctrine of the government and budgetary principles that are the foundation of reality, legality and effectiveness of using public funds.

The crisis has yet imposed its beneficial economic cooperation between doctrine and technocracy.

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