

METHODS OF FINANCING AND IMPLICATIONS OF THE BUDGET DEFICIT

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The budget policy has a important place among all macroeconomics policy's state. Alwayys, the growth of public expenditures, the consumption, the investments, the improvement of the national economy are conditional upon in a large measure for the budget's state.

The budgetary policy is materialized in budget of state, that is a principal means which forming the publics incomes and to perform the public expenditures. In conclusion, the budgetary policy is the same with policy's expenditure and policy's incomes.

The budgetary expenditures are current governamental expenditures for assets and services, state debts, public power functioning expenditures, expenditures made for eduction and culture, science, health, social protection etc. They also include the capital investements that are leading to the increase of the public patrimony, including the debt's interests. The governamental expenditures must be financed. The budgetary incomes include cashing in from profit and income taxes, patrimony taxes, house income taxes, wealth, consume taxes, VAT and also non-fiscal resources.

The state budget has a central place in the ansembly of the ways that the public power uses in order to act on the economy. State can adopt a positive budgetary politics that implies theoretical fundaments, measures and actions through whom the cashings and the public expenditures are orientated towards the economical growth, making a high occupation level, decreasing the inflation and other factors that are causing lack of balance.

The incomes that are made from taxes are not equal with the budgetary expenditures in most of the years, but on a long term they present the same trend like the total budgetary expenditures.

The public sector budget deficit is the difference between bigger expenditures and smaller budgetary cashings. The need of the public sector of loaning (which includes the central government, local authorities and institutions that belong to the public property), can be diminshed by stock sales like the ones caused by the privatisation of public companies.

In most of the years a budget deficit exists, but there can be years with budgetary excedents. The deficit is determined by the governements fiscal politics but also by the economy's status.

Always, the budgetary expences must be financed. These budgetary expences are financed by taxes; collected incomes and a part of them are postponed. The running cost postpone bond's is the payment of interest's loan. (The debts is a tax liabilities postpone and the interest payment for this money owed is the cost postpone's of debts).

The deficits influence the economical life through their effects that, on a short term, can be either of stabilisation, either of destabilisation of the economy. Another method that allows the deficits to be able to influence the economy refers to the possibility that they affect in a bad way the incomes and the wellbeing on a long term. They can

generate, depending on the method of financing, inflation.

Through themselves, the deficits aren't enough to determine the apparition of the inflation. The concern that the persistent deficits may lead to inflation is connected to the presumption that a persistent deficit will determine the Central Bank to increase the monetary offer, which is the necessary condition for a sustained inflation. The monetary emission, as an alternative to cover the budget deficit, was used in our country until the end of the year 1993, when, once with the establishment of the State's Treasury, the automatic funding of the budget deficit was forbidden. The deficit doesn't generate inflation when it's financed through governmental loans on the capital markets from the private sector. If it's financed through the sale of state titles by the public banks, the bank create the money to finance the deficit by giving to the government new deposits in exchange of the state titles. A too fast increasment through this method will generate inflation.

A second method of covering the budget deficit is covering it with direct funding, without a real coverage in assets or services. It's the case when the coverage is often made by loans either internal or external, which generates though a series of additional costs connected with the instalments pay and the interests. Also, the external loans will generate, outside the specified expenses another cost caused by the currency's depreciation. Using the first two methods to cover the budget deficit demands in the same time finding some ways of cutting the monetary mass in circulation in order not to generate inflation effects. The higher the budget deficit will be the more restrictive the monetary policy must be. We're reaching this way a vicious circle, because an restrictive monetary policy will determine implicitly an increasement of the budget deficit by raising the financial services (public debt) and by cutting the fiscal resources caused by activity ceasing. Financing the budget deficit by external loans increases the national debt.

The implications of the national debt on the economical growth are different. The national debt can affect negatively the economical growth on a long term, if the borrowed resources are spent on consume or if they are invested in the public sector, less productive than the private sector. Many economists believe that the use of resources in the public sector is less efficient than in the private sector. This assumption is one of the main reasons the cause the expansion of privatisation.

In an open economy, with flexible exchange rates, the deficits increase the external loans. The payment of the loans and of their interests will be difficult if the efficiency of the public investments made with those loans won't be assuring a higher profit than the interest paid for loans.

The future generations will have to repay the debts and pay for loans that the current generations made. If the present generations would make some savings in order to compensate the deficit, the future generations won't inherit debts and wouldn't be subjected to additional fiscal pressures.

The high fiscality stimulates the underground economy and determines the reduction of the economical agents own financings. The underground economy exists in all the countries, including the developed ones. In the U.S. for example, the underground economy represents about 10-20% out of the National Brute Product because in the conditions of a high taxing many are trying to avoid legally their taxing obligations and to this are added other illegal aspects too (funding defalcation, evasions, not registering incomes)

The short term budget deficit has a stabilisation role and they contribute to the increasement of the aggregated demand, by playing an important role in the elimination of the cyclic fluctuations out of the economy. On a long term, causing external loans, they can have negative effects, determining the reduction of the average citizen's future standards. Romania will reach in 2008 a peak of public governmental external debt

service, when it will have to return external debts of 2.36 billions euro because of this component. The service of the state's public debt represents instalments payback for loans falling dues, interests payments, commissions and other due costs to the announced engagements. In 2006 the public external debt service was 1.68 billions euro. Between 2007-2011 the public external debt governmental service will maintain itself at levels between 1.6 and 2.3 billions euro. This way, in 2007, the public external governmental debt service will be 1.87 billion euro, in 2008 – 2.36 billion euro, in 2009 – 1.6 billion euro, in 2010 – 2.18 billion euro and in 2011 – 1.36 billion euro.

From the point of view of the loaning strategy, prudence is recommended in contracting the public external debt on terms below five years in order to avoid the accumulation of falling dues in this period.

The public external debt and public guaranteed has recorded at 31 December 2006 a level of 10.69 billions euro, which represented 38.6% out of the long and middle term external debt (compared to 45.8% at 31 December 2005). At the same date, the long and middle term external debt had reached a level of 27.718 billion euro.

At 31 December 2006, the public governmental external debt was 10.28 billion euro, decreasing with 662.5 millions euro from the end of the year 2005. The public governmental debt controlled directly by the state had represented 62.5% out of the total public external debt, and the public governmental external debt guaranteed by the state, 37.5%; 47.3% out of the debt represented the debt contracted with official creditors (including The International Money Fund). The private creditors, the commercial banks and the debentures emissions represented 52.7 % out of the total.

Based on the composing currency, the greatest share has the euro – 60.7%- followed by the dolar – 29.6%. In 2006, the public external debt represented 10.4% out of the P.I.B. and the public external debt service – 1.8% out of the P.I.B. The levels of Romania's external loans are way below the maximum level admitted by the European Union, which are 60% out of the P.I.B.

It's well known that the budgetary execution from on time or another can be balanced when the expenditures are equal with the foreseen incomes, excedentary when the incomes from that period of time are bigger than the expenditures or deficitary when the expenditures overcome the cashed incomes.

A balanced anual budget is hard to obtain and it's not oportune. It's difficult to obtain, maybe even impossible, because most of the budgetary expenditures oscilate along with the national income, if we have precise taxing rates. It's inoportune because correlating the budgetary expenditures with anual budgetary incomes would force the expenditures to act in the same way as the incomes, which increase in times of boom and decrease in time of crysis. This way, the budgetary expenditures could become a major destabilisation force. This expenditures often act like a stabilising element for the economy when it isn't very sensitive to the cyclic variations of the income. A balanced anual budget would accentuate the oscilations of the national income who comes along with the changes of the autochtonous expenditures fluxes, like investments and exports.

In the period of time between the two world wars was formulated the theory of cyclic budgets according to whom the budget deficit was accepted during the periods of economic reccesion, but an budgetary excedent was established during the expansion times; this way, during an economic cycle, the deficits and the anual excedents were supposed to equilibrate themselves.

A well balanced budget along the economical cycle would be easier to accomplish. It wouldn't turn the governmental expenditures in to an destabilising force, but it would make some problems. It might just happen that a government would spend in excess compared with it's incomes during an year and then lose the ellections next year,

making the following govern to spend less than it's current incomes. This sort of method of equilibrating the budget over a certain number of years could be legally imposed through a relementation made by the parliament, but the next parliaments could modify the rules.

A bigger problem is that there have always been argues about the current state of the economic cycle. The balancing of the budget along an economical cycle could be made only on the basis of a certain previsions about the future economical conditions. The prognosys of the economical activity level implies certain incertitudes and there will always be disagreements between the economists about the stage of the economical cycle in which the economy and the direction where it's heading it's included. The difficulties that are caused by these incertitudes imply that the politicians will have a role in the economic prognosis. Those who are in favor of the governamental expenditures increasement will tend to say that the current year is an unusual bad one, and the deficits from that year can be compensate by the excedents of the future years, better years. On the other side, some will say that the current year is an unusually good one, good for accumulating excedents for the following difficult times.

Although a ballanced budget along an economical cycle combines the stabilistion demand on a short term with the preoccupation for ballancing the national economy on a long term, in practice it might not be possible to define exactly the economical cycles, which makes the equilibration objective unoperational.

After the second world war the kynesist conception had imposed itself, saying that the re-establishment or maintaning of the ensemble economical balance, throwing out of balance the state budget. This must serve to the fight against the economical recession, increasing, through a relaunching of the consume and/or the investments, the global request in economy; the other way around, the budgetary excedent, through a restriction of the global request in economy, must combat the over-occupation and the inflation engendering.

Starting from the keynesist conception, an opinion that the budgetary deficits represent tools of promoting proseprity. In this vision, a budget of acceptable size has an relaunching effect on the economic activity, because it generates a supplimentary buying power which, at her turn, starts an extra consume, leading to the increase of the developping rythm.

In Romania's case, looking at things retrospectively, in the years before the transition some importants excedents were obtained, but not on the basis of the existence of an economical prosperity period but in the conditions of stabilisation of the deficits and diminution of the consume assets that reached the population. If those funds would have been used for productive investements in economy it would have stimulated the productive activity, including the economy's sales fluxes. Unfortunately, the beginning of the transition had been characterised through an expansionist fiscal and budgetary policy, by spending all the budgetary excedents obtained in the past years, in order to sustain firms that weren't performant and the population by giving back the "social parts" and by increasing the real salary.

This politics, combined with the liberalisation of the the commerce and the begging of the prices liberalisations, have cancelled the currency deposits by reducing the exports and increasing the imports and determined an inflation of great proportions. In the same time the delays were accentuated, in the conditions of the avoidance of the crediting restrictions by the economical agents, and the companies losses were covered with budgetary resources.

In the year 1993 the I.C.M. was replaced with the V.A.T. and it went to the transparent financing of the budget deficit. In the following years the positive effects of this

measure weren't used for restructuring the real sector. An economic increase took place in the terms of increasing the deficit of the external payment balance, amplification of the financial blockage and the diminution of the valutory stocks.

In the years 1994-1995 the restrictive financial politics supposed the increase in price of fiscality, the economical relaunching being done with the credit financing. More to come, the fiscal pressure encouraged the perpetuation of the fiscal evasion phenomenons and the apparition of the cvasi-fiscal deficits.

Some theoreticians consider that the cvasi-budgetary deficit is a way of budgetary relaunching, which should have led to the lowering of the waging pressures and the unemployment, in the terms of combining it with an restrictive monetary politics. Also, the cvasi-budgetary deficit determines an enhanced increasement of currency needed for the relaunching, which demands high interests rates. The bigger the budget deficit is the more restrictive the monetary politics must be.

The restrictive monetary politics determined an accentuation of the budgetary deficits in our country through the growth of the public debt and the financial resources reduction.

The budget deficits stimulates an increased demand for currency needed for the covering of and when the currency is created there must be found solutions that won't strengthen the inflationists pressures and stimulate the economical relaunching. In the economical theory it's estimated that, on a precise assembled economisation, the high budget deficits will also come with either an external commercial deficit, either an increasement of the internal investition.

In the years of transition of our country, the budget deficits didn't stimulate in an absolute mode the economical growth.

According to a report made by the World's Bank analysts, the average annual growth of Romania was negative during 1990-2000, 0.6%, and positive, 5.8%, during 2000-2005. At a global level, in the two analysed periods of time, the progress was one of 2.9% respectively 2.8%. The agricol sector of Romania and the industry recorded in the first 10 years after 1990 negative rythms of 1.9% respectively 1.2%, in order to reverse the tendence after the year 2000 and obtain progresses of 8.8% respectively 5.6%. The services had a constant growth after 1990 though, until the year 2000, when the medium progress was one of 0.9%, in order to increase to 5.5% in the next five years.

Between the years 1990 and 2005, Romania recorded decreases of the GDP. share of agriculture (from 24% to 10%), industry (from 50% to 35%) and production (from 34% to 24%). The income share went from 26% to 55%. When we speak about production we include the alimentary sector, the chemical sector, the textile industry and also the cars and transport equipaments. Compared with the global situation, the agriculture, industry and production shares in Romania's GDP still remain high, the situation being the other way around when we speak about services. This way, at a global level, the agriculture will have in 2005 a share of 4%, the industry 28% and the services 69%.

Based on the value of the current account deficit, in the year 2005, at a global level, Romania occupied the 12th place, in the first 15 places also being Hungaria and Poland, according to the same World's Bank report. The current account deficit of Romania was one of 8.5% billion dollars, the equivalent of 8.6% out of the GDP, accordind to the International Financial Institution research, which analyses a series of developement indicators. Hungaria had in 2005 a current account deficit of 8.1 billion dollars (7.4% out of the GDP) and occupied the 13th position in the Bank's charts. The first position belonged to the United States with a deficit of 791.5 billion dollars, the equivalent of 6.4% out of the GDP. The United States were followed by Spain (83.1 billion dollars), Great Britain (49.5 billion dollars) and Australia (43.2 billion dollars). In the top also entered France, Italy,

Turkey, Greece, Portugal, New Zealand, South Africa and Ireland. The National Prognosis Comitee anticipates for this year a current account deficit of 10.5% out of the GDP, estimated to reach 8.4% in 2013.

When it comes to commercial balance, the most important component of the current account, for 2007 it's estimated a deficit (the difference between F.O.B. exports and C.I.F. imports) of 18.45 billion euros. The imports are going to grow this year with 19.5% and the exports with 17%. The World's Bank realised a chart based on the states current account excedent. The first place was taken by Japan (165.8 billion dollars), followed by China (160.8 billion dollars) and Germany (116 billion dollars). For the year 2005, compared with the year 1990, Romania's exports grew in the analysed period over five times, from 6.4 billion dollars to 32.7 billion dollars. The imports advanced from 9.9 billion dollars to 42.8 billion dollars.

The improvement of the commercial balance must be determined by a greater dynamic of the exports and not by restricting the imports. In the case of restricted imports it's possible that a diminution of the private investments is registered. Also, it must be held onto account that the national currency depreciation must not determine a great improvement of the commercial balance.

For our country to eliminate the obvious economical gap between it and the "older" members of the European Union, it must make average annual rythms of 6-7% for 20-30 years (in the hypothesis of an average annual instalment of the economical growth on the whole, E.U. 25 demands not to overcome 2-3%).

The GDP per inhabitant, by that fact that it sums the result of the value added from all the activity sectors, including the balances of the relations with the foreigners, reported at the number of the population is frequently used in the international comparisons.

In what concerns Romania, the 8200 dollars/inhabitant level of GDP by the parity of the buying power in 2005 represents below one third of the E.U. average, which is 26900 dollars. The development gaps shown by this indicator remain significant, also compared with the most advanced members of the E.U. (1/8 compared to Luxemburg, 1/5 compared to Ireland, 1/4 compared to Austria, Denmark and Holland, 1/3.5 compared to France and Germany etc.), but also compared with some states form the Central and Eastern Europe (1/1.25 compared to Slovenia and the Czech republic, 1/2 compared to Hungaria, 1/1.5 compared to Poland and the Baltic countries).

The reduction of Romania's gaps from this point of view and also as regional differences depends decisively by the acceleration of the economical growth speed, accompaniated by an equilibration of the economical growth factors, also in the territorial profile, mainly by increasing the brute contribution to the capital sustained by the internal savings and the E.U. transfers.

In conclusion, the financing of the budget deficit is a seriously delicate problem, who requires an increased attention from the politicians, because of the effects that it has on the real economy and the population. The budget deficits must be for our country too a way of impulsioneing the economical activity, which cannot be made through increasing the fiscality. A viable solution is to redirect the financial funds of the state to the productive sector, because this way the budget deficits sustain the economical activity.

The budget deficits have favourable effects if they aren't persistent and if they are included in reasonable limits which are based on the reasonable level of the governamental debt. Because the debts represent postponed fiscal obligations, when the dynamics of the debts is bigger than the dynamics of the GDP., the contribuables capacity of financing the higher and higher interests can be surpassed. In this situation, it's loaning other sums of money is stopped and there must be taken measures for the expenditures

reduction and the increasement of the taxes.

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