

## **THE ANALYSE OF THE CONSOLIDATED BUDGET EXPENDITURES AND MEDIUM-TERM OUTLOOK**

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**ABSTRACT:** *The research method used in this paper is to analyze the statistically costs incurred by the state budget in the 2010-2014 timeframe, and analysis of the main areas funded from the consolidated budget. The way in which the revenues constituted on the state budget are spent is of particular importance as short-term reduction in consumption can have positive impact on financial balance public, but long term this policy is followed, certainly the negative consequences that will affect increasing economic. The issue has raised many debates budget expenditure over time given the complexity of the issues involved.*

**KEY WORDS:** budget spending, public spending, budgetary expenditure structure

**JEL CLASSIFICATIONS:** H60, H61.

### **1. INTRODUCTION**

The purpose of budgetary policy is to support the process of nominal and real convergence but in parallel with long-term sustainability of public finances. In this regard, fiscal policy is complemented by structural reforms supported by budgetary programs - in education, health, research and development and retirement system boosting potential gross product growth intentions.

In the early 80s, most industrialized countries have faced many difficulties due to higher general government sector, public deficits and thus the accumulation of high public debt stock. The main driver of these developments identified in the literature was considered to be of social value increased public spending due to the development of the welfare state. The scientific community reacted to these records trying to explain the exact causes of sector growth governmental to consider which affects the budget deficits and public debt may induce low Economies whether these effects will occur in the short or will affect generations next. The transition from a centralized economic

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system to a market economy and joining the European Union made in less than 30 years is an example that deserves the attention of international economists.

One of the main challenges in the medium and long term is the need to eliminate disparities which have been identified textual sectors of Infrastructure, education, health and research - maintaining parallel budgetary stance characterized by cautious levels of the budgetary deficit.

Although the level of government spending will increase in the medium term, it must drastically improving the efficiency of the spending of public funds, particularly by establishing clearly formulated priorities, especially for investment projects by the horizontal coordination of economic policies, improving medium-term budget programming and by increasing transparency of the process.

In view of possible pressures on the budget in the coming years, income policies and structurally reform will have to play a greater role in supporting fiscal consolidation and reduce inflation. A consistent reform of public spending will be necessary to improve their priorities and redirect them to other areas to strengthen the country's human capital, substructure and administrative capacity.

The reform health and pension systems are crucial to counteract the spending pressures of an aging population and improve the sustainability of public finances.

Establishing budget deficit has taken into account a number of constraints deriving from Romania as a EU Member State: control of public expenditure to correlate with inflation targeting strategy; ensuring Romania's contribution to the EU budget; providing pre and post received co-funding from the European Union; the criteria required for the implementation of the Lisbon strategy; counteract the consequences of capital account liberalization.

## **2. THE LINK BETWEEN PUBLIC SPENDING AND THE STATE BUDGET EXPENDITURE**

Public spending on economic and financial relations expressed in cash, which occurs between the state, on the one hand, and natural or legal persons, on the other hand, in the division and use of state financial resources, to carry out its functions. In turn, budget expenditure is public expenditure is covered by the resources provided in the state budget, local budgets, state social insurance budget and the budgets of autonomous public institutions.

In terms of content economic, public spending may represent a final consumer of the gross domestic product (current expenditures) or advancement of gross domestic product (capital expenditure). Therefore, both government spending and budget expenditures promote the growth of labour productivity, GDP, the efficient expenditure of public funds in health, education, culture, policy and public administration.

### Public expenditure

- expenses incurred from funds set up in the central government budget (state budget, social insurance budget, the budgets of autonomous public institutions);
- expenditures made from funds established at the level of local government budgets;
- costs covered from trust funds;
- covered expenses consist exclusively of public financial resources outside the budget provided for in the budgets of autonomous public institutions;
- expenditures in the state treasury budget;
- expenditure financed from sources other than the budget (in foreign loans from external funds).

### Budgetary expenditure

- expenditures of any financial resources in the state budget;
- expenditures of any financial resources in the social security budget;
- costs incurred in any financial resources to local government budgets;
- expenditures of any financial resources in the autonomous public institutions.

A correlation between public spending and expenditure justifies the significant importance of making them and their implications and the implications they have on the macroeconomic regulation.

Periodically, it is necessary to carry out tests on the way of making spending, to highlight the efficiency of allocated resources to finance a specific purpose (education, health etc.) and measures to be taken to the state budget to help regulate macroeconomic.

The structure of budgetary expenditures highlights the factors ensuring their growth and how they can be controlled and sources used to coat spending, and identify various forms of financial aid granted by the State.

In practice, budgetary classification undergoes change from year to year, depending on budget policy, the most significant being the running costs (personnel, goods and services, interest subsidies), capital expenditures, loans and loan repayments.

Public social expenditure have a role in the structure of spending, this category includes expenditures for education, health and social security.

In developed countries, education expenses, referred to as human capital investment, sometimes occupy more than 20 percent (e.g. Netherlands, Japan, Belgium etc.). Funding for these expenditures is ensured either from state budget funds or from the administrative-territorial units, depending on centralized or decentralized system subordination of education and educational institutions.

The costs of education and training, along with those for health care are considered investment in human capital, in so far as contribute to additional revenues, compared to those that can be obtained without such preparation. Additional revenues appear effectiveness of expenditures made to propel a person into working life,

especially as only 10%, maximum 20% of income derived by a graduate should be considered as investment effectiveness of schooling.

Public expenditure on health differs in nature from education spending, according to the age of the beneficiaries and mobile pursued by healthcare.

The many problems of education and health facing Romania may be evident by the human development index (HDI), which has lately registered an improvement but slow. The role of education and culture in the economic development of member states increasingly more.

In recent years compared to military spending, expenditures for healthcare have been 6-7 times lower values. Also for interest payments on public debt charges were recorded by about 50% higher than spending on hospitals and health actions.

Public expenditures are those for social security pension provision and financial aid, referrals to rest and treatment, healthcare, medicine, medical supplies and social assistance paid to pensioners and members of their family.

These expenses include the benefits of state social insurance, social assistance and other forms of social protection, as money transfers in various forms: pensions, sickness benefits, welfare benefits for the disabled, unemployment benefits, child allowances, support allowances and the like. In addition to these transfers shall also include indirect transfers that take the form of services: inpatient in homes and hospitals, spas, discounts or free transport, provision of prostheses etc.

Military spending significant role in the structure of spending, especially since the data statistics show that, worldwide, the size of military spending equals total public expenditure on education is carried out across the globe or to double public expenditure global health. World military expenditure amounts to a third of the average volume of investment in fixed capital around the world (Batina, 2001).

The added costs of central and local government spending (the local and county councils, municipalities, prefectures).

In developed countries the share of government employees in employment exceeds 15%. This percentage includes not only salaries of state officials, but also the material and technical means must be provided.

Also, expenditures have a significant role to economic activities especially since in recent years their share in total public budget expenditures were reduced.

The trend of relative decline in public spending coordinates economic actions is part of history, being the natural consequence of the shift from centralized economy based on state ownership of the means of production, decentralized economy based on private property. The majority state-owned companies are not publicly funded, but by purchasing additional resources they need capital market borrowing through credit mechanism.

From tables 1-2 observe that the timeframe 2010-2014 staff costs increased by approximately 4 percentage points, is actually the most significant increase was recorded. Changes in the structure of expenditure were recorded in interest rates (increase by 0.39 percentage points), goods and services (0.85%). For grants, transfers, expenses related grant programs, capital expenditures and financial transactions were recorded reductions in variable percentage of expenditure to another.

**Table 1. The structure of state budget expenditures, 2010-2014**

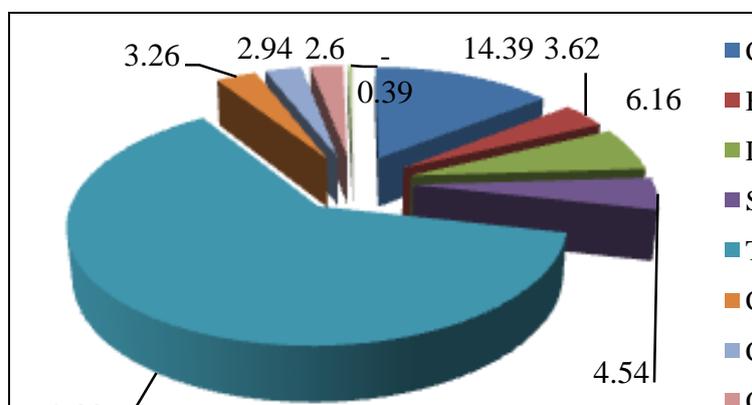
State budget expenses	2010	2011	2012	2013	2014
Staff costs	14764.5	15682.2	17141.5	19890.1	21239.7
Goods and services	3718.4	4244.3	4429.5	4405.5	5169.6
Interest	6319.1	7736.5	9221.1	9208.1	8724.3
Subsidies	4663.2	4290.7	3996.2	3290.4	4015.3
Transfers	64535.2	63413.3	62196.2	66487.9	69953.7
Expenses related grant programs	3347.7	4506.3	3165.5	2409.2	1567.7
Capital expenditures	3012.4	3830	2108.4	2466	2850.1
Financial operations	2670.2	2634.2	2739.3	2662.4	2733.7
Payments made in previous years and recovered during current year	-403.1	-248.9	-428	-671.6	-638.2
Total expenditure	102627.73	106088.7	104569.8	110128	115615.9

Source: [www.mfinance.ro](http://www.mfinance.ro)

**Table 2. The structure of state budget expenditures, 2010-2014**

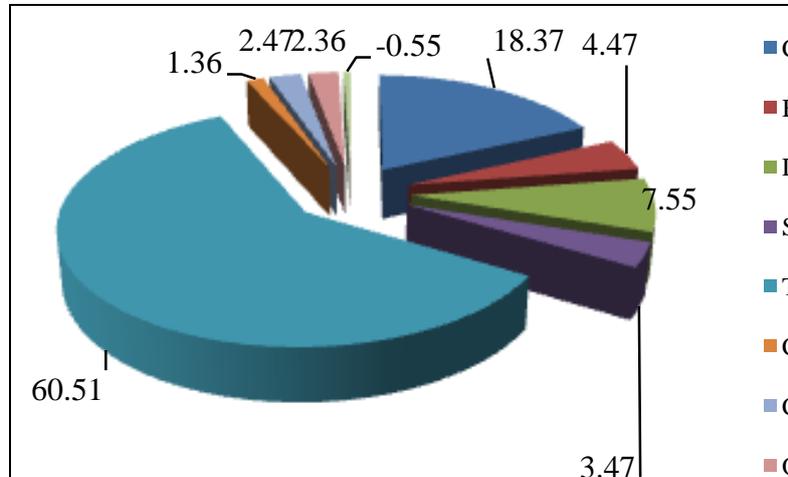
State budget expenses	2010	2011	2012	2013	2014
Staff costs	14.39	14.78	16.39	18.06	18.37
Goods and services	3.62	4.00	4.24	4.00	4.47
Interest	6.16	7.29	8.82	8.36	7.55
Subsidies	4.54	4.04	3.82	2.99	3.47
Transfers	62.88	59.77	59.48	60.37	60.51
Expenses related grant programs	3.26	4.25	3.03	2.19	1.36
Capital expenditures	2.94	3.61	2.02	2.24	2.47
Financial operations	2.60	2.48	2.62	2.42	2.36
Payments made in previous years and recovered during current year	-0.39	-0.23	-0.41	-0.61	-0.55
Total expenditure	100.00	100.00	100.00	100.00	100.00

Source: [www.mfinance.ro](http://www.mfinance.ro)



**Figure 1. Structure of state budget expenditures in 2010 (%)**

The graphical representation of the structure of state budget expenditures for both 2010 and for 2014 is in Figures 1 and 2.

**Figure 2. Structure of state budget expenditures in 2014 (%)**

If we look at the consolidated budget of expense types and their evolution interval 2012-2014 (table 3 and 4), we note that the trend was increasing, even if this increase was not significant.

**Table 3. The main areas funded from the general consolidated budget**

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Years / Types of expenses	2012	2013	2014
Authorities and external actions	15.279	15.852	17.894,8
Transactions on public debt and loans	10.757,3	10.666,9	10.152,7
Protection	4.159,7	4.968,4	5.694,3
Public Order and National Security	13.855,9	14.270,4	15.480,6
Education	17.777,4	18.920,8	20.643,4
Health	22.183,8	27.427,2	26.660,9
Culture, recreation and religion	6.259,6	5.804,6	6.349,5
Insurance and social assistance	71.282,2	72.399,4	74.957,6
Housing, services and public development	6.477,2	7.310,8	7.982,4
Environmental Protection	4.504,4	3.839,1	4.757,9
Fuel and Energy	1.816,8	1.713	1.597,7
Agriculture, forestry, fishing and hunting	6.540,9	5.436,6	6.194,6
Transport	20.183,9	21.596,2	20.874
Other areas of the budget (other general services, communications, etc.)	6.844	5.962,9	6.567,7
<b>Total expenses</b>	<b>207.922,1</b>	<b>216.168,3</b>	<b>225.808,1</b>

Source: [www.mfinance.ro](http://www.mfinance.ro)

**Table 4. The main areas funded from the general consolidated budget**

(as a share of GDP)%

<b>Years</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Types of expenses</b>			
Authorities and external actions	2,6	2,5	2,7
Transactions on public debt and loans	1,8	1,7	1,5
Protection	0,7	0,8	0,9
Public Order and National Security	2,4	2,3	2,3
Education	3	3	3,1
Health	3,8	4,4	4
Culture, recreation and religion	1,1	0,9	1
Insurance and social assistance	12,1	11,5	11,2
Housing, services and public development	1,1	1,2	1,2
Environmental Protection	0,8	0,6	0,7
Fuel and Energy	0,3	0,3	0,2
Agriculture, forestry, fishing and hunting	1,1	0,9	0,9
Transport	3,4	3,4	3,1
Other areas of the budget (other general services, communications, etc.)	1,2	0,9	1
<b>Total expenses</b>	<b>35,4</b>	<b>34,4</b>	<b>33,9</b>

Source: [www.mfinance.ro](http://www.mfinance.ro)

### 3. CONCLUSION

The importance lies in the analysis of budget expenditures of the state budget policy. Streamlining the budgetary process through increased collection in order to support economic development requires adequate public policies to increase consumption and resume economic activities (Moşteanu et al., 2008).

This strategy to reduce the deficit on account of a restrictive budgetary policy has proven to be effective in the short term, having in the fact that certain categories of expenditure significant influence on economic growth in the long term. In such cases, the recommendations of international financial organizations on the expenditure to be adjusted relate to expenditure considered unproductive, but nevertheless it is difficult to prioritize public spending and established a clear order of their importance because of socially each of the categories of expenditure compete in one way or another, to achieve social welfare. Practice has shown that social and cultural expenditures (education, health, etc) positively affects economic growth but also, and spending to current actions of the state government (law enforcement, routine strategy in foreign policy, the support given industry or agriculture, support peacetime armed forces), those tasks imperative need today, but who do not enjoy a clear recognition of their size slots are absolutely needed to maintain democracy, to protect property rights, because the economy market to function (Galbraith, 1997).

Strengthening budget revenue base remains crucial for economic development and providing the necessary resources to fulfil the commitments Romania assumed as a member of the European Union. Although fundamental taxes will remain unchanged, however the resources to increase budget revenues as a share of GDP will be

diversified, taking into account: increasing revenues from concessions and rents; better collection of value added tax; conversion of agriculture to a market economy; reduce the gray economy; expanding labour market due to increasing taxpayers.

Romania's accession to the European Union has amplified the need to streamline the system of income and expenditure, and for that government policies were based on the following objectives: ongoing disinflation; limiting the increase in current account deficit; finance infrastructure projects in the areas of transport and environment, as well as investment projects in education and health; ensure payment of Romania's contribution to the EU budget.

However, allocation efficiency is ensured on the basis of budgetary policies in the sector, which focuses on funding policy with the policies of the European Union (infrastructure, research and development, environment and rural development), the continuation and strengthening of human capital policies (education, health), social accompaniment policies (welfare, pension, health insurance) or other policies (defence, culture, religion, communications, etc.).

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