FEATURES OF FISCAL AND BUDGETARY POLICY FROM THE PERSPECTIVE OF COMPETITIVENESS

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Abstract:

In the content of the indicators of competitiveness (of the business environment, of the resources, of the innovation process) we are identify the nation's financial and budgetary policy has a very important role in achieving company competitiveness. In this case, we present the main characteristics of the Romanian fiscal and budgetary policy for the year 2006, and the perspectives for 2007-2009 period. The main concerns of the budgetary and fiscal policy must emphasize the impact it has on competitiveness growth and on the ensuring of a climate based on ethics and efficiency.

Keywords: indicators of competitiveness; budgetary and fiscal policy; budgetary resources; tax harmonization; transparency of public expenditure

JEL Classification: E62, H61, O23

Approaching competitiveness-related aspects, both at a microeconomic and at macroeconomic level, presupposes the analysis of competences. These are determined by resources and capabilities, which can constitute a single source of competitive advantage. Of course, not all resources and capabilities are important strategic elements, and the selection process involves the analysis of consumers and competitors. Capabilities become performing components when they are valuable, rare, and difficult to imitate and substitute. By the process of resource conversion and technological resources identification, the conditions are created for the developing of an entity’s capabilities of action.

The question is often asked whether the quantification of competitiveness can be realized and what the essential elements of this quantification are. In this respect, the British specialists have identified the following indicators of competitiveness (http://www.minind.ro):

- indicators of the business environment (macroeconomic stability; openness towards foreign trade and investment, prices, unemployment, diversity of
employment opportunities, in company relations, regulation of the labor market, institutional and political environment, quality of life)

- **indicators of resources** (adult education, average and high qualifications, life long learning, training of executives, investments in the company, government investments, venture capital, parallel markets, main capital markets, connections to digital markets, electronic commerce, know-how in information technology, presentation of research in specialized academic publications, government expenses for research and development, company expenses for research and development)

- **indicators of the innovation process** (company expenses for innovation, including research and development; nation performance in the area of patents; the percentage of innovating firms; the percentage of new or enhanced products; university degrees; the creation of companies in universities, information sources for innovation, publication of research in partnerships between universities and the industry; internationalization of research and development, technological alliances between companies, rate of company set up and closure; speed of company growth; attitude towards risk-taking).

Taking into consideration the content of these indicators, it can be stated that a very important role in achieving company competitiveness is held by a nation’s financial and budgetary policy. For this reason we are going to analyze several aspects related to Romania’s budgetary and fiscal perspectives.

Romania has accepted the community acquis regarding Chapter 29 “Budgetary and fiscal stipulations” in force at 31 December 2000 (Romanian - CONF - RO 57/01).

The harmonization of the national legislation with the community acquis and the development of the institutional infrastructure necessary for its implementation, are the main objectives aimed at by Romania, so that at the date of the EU accession, the budgetary procedures used in the European Union can be applied in our country, too.

The stipulations in the Constitution, the Law regarding public finance, the law regarding local public finance, the annual budgetary laws and other specific documents drawn up by the Ministry of Public Finance are a solid basis for budgetary construction, which should have in view the following:

⇒ perfecting the management of public expenditure, by expanding the budget based on programs;
⇒ simplifying the budgetary procedure;
⇒ increasing the transparency of budgetary procedures;
⇒ following some well defined rules and principles for the drawing up and presentation of the public budget projects, that should offer interdependencies between the methods of public resource formation and use, according to the economic and social phenomena and processes;
⇒ fundamenting the expenses on criteria of efficiency, the analyses performed being directed towards the cost/benefit ratio;
⇒ drawing up the budget project according to the long-term orientations and targets of the budgetary policy;
ensuring an optimum system for the monitoring of public acquisitions;
⇒ establishing some well-defined and scientifically based procedures for the financing of investment projects;
⇒ restructuring and perfecting budgetary accounting.

According to Law 379 from 15 December 2005 regarding the state budget for 2006 (publish in Official Gazette of Romania 1151/19.12.2005), the forecasts regarding the volume of incomes, their structuring on chapters, the volume of expenses, their structure according to destination and chief accountants have respected the new functional classification of budgetary incomes and expenses, which has come into force starting with 1 January 2006.

Within the budgetary incomes forecast for the year 2006, the highest percentage in held by current revenues, that is 99,86%, and within these tax revenues (94%). As for expenditures, a percentage of current expenditures of 87.50% is forecast for the year 2006.

**The main characteristics of the Romanian fiscal and budgetary policy for the year 2006:**

⇒ **The fiscal policy** - the continuation of the legislative harmonization with the EU; transparency and simplification of the tax system; the reform of the fiscal and customs administration; reducing the rate of contribution to social security in order to eliminate the disadvantage of fiscal competitiveness.

⇒ **The budgetary policy** - the reform of the public finance management; prioritizing public policies and consolidating the framework of long-term expenditure; improving the efficiency of budgetary allocations to sectors determined by the necessity of accession; ensuring the national co-financing for the projects financed from pre-accession funds.

These characteristics are aimed at designing a budgetary deficit target financed in un-inflationist conditions, correlated with the country’s economic and social objectives.

The estimations made for tax revenues were based on: increasing revenues from income and salary tax as a result of an increase in the average gross salary and in the number of salary-earners; a high percentage in the GDP should be held by social security contributions; increasing revenues from the value added tax as a result of an increase in the economic activity and in the collection rate; reducing the percentage of excises in the gross domestic product as a result of an appreciation of the currency and a lower estimation of tax growth; reducing revenues from corporate tax as a result of fiscal relaxation measures.

The structural changes in the general consolidated budget expenditures are based on: the slight downward trend in expenses with budget subsidies, which reveals the gradual withdrawal of the state from the economy; the maintenance of the same percentage of personnel expenses in the gross domestic product, with the inclusion of fringe benefits, reclassified from material expenses; reducing the percentage in the GDP of goods, services and interests, for the consolidation of the maneuver limits, in order to finalize expenditure priorities; increasing the percentage of capital
expenditures in the GDP, by directing public funds in order to support economic growth.

Reaching the objectives of the fiscal and budgetary policy presupposes the identification of the budget-financed actions in 2006, which will be aimed at (The report of economic situation for year 2006 and the projection of this, for 2007-2009 period, edited by The Ministry of Public Finance, pp. 72-82):

⇒ the area of law - the existence of an independent and functional judiciary system; the transparency and improving of the justice act; free access to justice; protection of child rights; consolidation of the business environment; consolidation of the institutional and legislative framework in the field of international law cooperation; the reform of the prison system; preventing and fighting corruption in the law system.

⇒ in the field of defense - optimizing the country’s defense capabilities; participating in the European Policy of Security and Defense; meeting the commitments made within the North Atlantic Alliance; promoting stability in the Balkans, the Black Sea and Caucasian area; fighting terrorism.

⇒ in the field of public order and national security - implementing the Integrated System for National Security; extending the special telecommunications networks; anti-terrorist physical and unmediated protection of Romanian and foreign officials; inter-operational communication with the intelligence and security structures from the NATO and EU countries; the control and management of borders; reaching the objectives and commitments made through the chapter of “justice and internal affairs”.

⇒ in the field of education - providing textbooks and school stationary in order to prevent school abandon and to offer equal opportunities regarding the access to education; helping the education activities by facilitating students transportation in the rural areas; food programs for children in kindergarten and primary school; school furniture and IT equipments; reconstructing the education system in the rural area by building school campuses; programs of school rehabilitation in the rural area.

⇒ in the field of health - national health programs for improving the indicators of infantile mortality, maternal mortality and for improving the birth rate; rehabilitating the medical services addressed to the mother and the child; the minimal package of free medical services for insured or uninsured persons; the application of the system of private health security.

⇒ in field of social security and welfare - aid for heating during winter; increasing family income; reducing violence in the family; protecting maternity, increasing the birth rate, reducing child abandon; granting a financial aid at the constitution of the family; recalculating, indexing and increasing pensions; introducing the compulsory pension funds and the optional private schemes; stimulating employment; financing programs for the socio-professional protection of disabled persons; financing programs for the support of child protection systems.

⇒ in the field of environment protection and water administration - ensuring the necessary funds for environment investments; using the pre-accession funds and accelerating their absorption; developing the Authority for the Management of Structural and Cohesion Environment Funds; improving air quality; controlling industrial...
pollution; introducing ecological labels; managing the water resources; improving and developing the infrastructure of centralized sewers in urban areas; the national program of waste management.

⇒ in the field of fundamental research and development research - creating a national system for research and development to support the Romanian society; increasing investments in research; meeting the commitments made through the position document for the chapter “Science and research”; observing the recent orientations in the EU policy.

⇒ in the field of agriculture, forestry, fish breeding and hunting - stimulating the transformation of rural households into family farms; the efficient allocation of budgetary resources to support agricultural producers; the institutional reform and ensuring the specific framework for the application of the community agricultural policy; the durable management of forests and the expansion of forest surfaces.

⇒ in the industrial field - eliminating the administrative and bureaucratic barriers; improving the juridical and regulation framework by the adoption of the community aquis, in the field of manufactured goods; modernizing and developing the economic agents with a high competitiveness potential; the nuclear program; developing the energetic system of conventional sources; ensuring the solid fuel for thermo-electric power stations; efficiently increasing the production of electric and thermic power; mine closure and attenuating the social impact; the support of mineral resources other than solid fuels.

⇒ in the field of transport, constructions and tourism - rehabilitating, modernizing and developing the infrastructure and transportation; improving travellers’ comfort and safety; building houses for young people; rehabilitating and developing the public utility infrastructure and the housing fund; paving and asphaltalting village roads; promoting the Romanian tourism offer; developing and modernizing the infrastructure and the tourism products.

The budget draft for the year 2006 reveals the fact that a relatively high percentage (about 67%) of total expenses in the state budget was allocated based on programs. The economic growth, the durable development, the maintenance of an optimal ratio between the budget revenues and expenditures and the dimension of the Gross Domestic Product, the deflation process are the concerns of the fiscal and budgetary policies for the 2007-2009 period.

Public finance must be concerned in the future with ensuring the budgetary resources necessary for the financing of expenses related to modernizing the infrastructure and the European integration. Concerns for obtaining higher revenues must not refer to increasing the tax burden but to enlarging the base rate so that the tax payers legal bodies can benefit for the resources necessary to develop their business. The estimations of the main macroeconomic indicators for the 2007-2009 periods are the following (The report of economic situation for year 2006 and the projection of this, for 2007-2009 period, edited by The Ministry of Public Finance, pp. 101-120:}
Table 1. The evolution of the main macroeconomic indicators in the 2007-2009 period (percentage changes as compared to last year)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>6.3</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Industrial production</td>
<td>5.5</td>
<td>5.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Agricultural production</td>
<td>2.9</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Goods exports</td>
<td>14.3</td>
<td>13.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Goods imports</td>
<td>13.5</td>
<td>12.6</td>
<td>11.2</td>
</tr>
<tr>
<td>Inflation rate (dec/dec previous year)</td>
<td>4.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Recorded unemployment rate</td>
<td>5.8</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Domestic demand, out of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual household consumption</td>
<td>6.7</td>
<td>7.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Collective, public administration</td>
<td>5.3</td>
<td>5.7</td>
<td>4.7</td>
</tr>
<tr>
<td>consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross formation of fixed capital</td>
<td>3.0</td>
<td>4.2</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>12.5</td>
<td>12.7</td>
<td>12.0</td>
</tr>
</tbody>
</table>

The estimations in the table above are based on the following:

- The increase in the GDP will trigger (by about 6.3 %) a reduction in the discrepancies between the living standard in Romania and that in the EU.
- The growth in the industrial manufacturing output will determine an increase in the industrial output by about 5.43%.
- The productive potential of farming land, the changes in the agriculture policy towards the development of a modern and competitive agriculture will trigger an increase in agricultural production by about 3.1%.
- Essential changes can be noticed with regard to imports (an average of 12.4 % increase) and exports (an average of 13.5 % increase), taking into account the improving trend in the performance indicators of the national economy.
- The reduction in the inflation rate will be made gradually, reaching 3% in 2009, which will mean a comparable level with that in the EU countries.
- The economic growth will trigger an increase in the employed population by about 0.2% per year, which will lead to a reduction in the unemployment rate.
- The gross formation of fixed capital will increase by more than 42% as compared to 2006, the average growth being of 12.4% per year.

In the 2007-2009 period, the fiscal policy will continue the tax harmonization with the community requirements and the implementation of the fiscal administration reform.

In this respect, the main concerns will be with:

⇒ simplifying the system of tax calculation and payment for corporate tax;
⇒ deductions from the taxable income in order to stimulate investment in human capital and in the medical infrastructure;
⇒ eliminating the income tax for micro-enterprises from the tax system;
⇒ tax exemptions for incomes from interests made in Romania by individuals residing in the EU member states;
⇒ reimbursing the value added tax for individuals liable to tax but not living in the country;
⇒ introducing a new taxation system for real estate properties that should better reflect their market value;
⇒ the total transposition in the national legislation of the community aquis in the field of value added tax;
⇒ continuing the tax harmonization of excises with the stipulations in the community directives;
⇒ adopting the common customs tariff and customs code;
⇒ developing institutional capacity;
⇒ simplifying the tax liabilities payment procedures;
⇒ perfecting human resource management in the tax field;
⇒ promoting techniques and methods to lead to an increased efficiency in tax collection;
⇒ working out and implementing some risk analysis procedures regarding the register of intra-community and information exchange operators;
⇒ perfecting the tax control in order to prevent and fight smuggling, money laundering and tax evasion.

The coordinates of the budgetary policy in the 2007-2009 period will be mainly concerned with:

- economic growth;
- deflation;
- the convergence process of the Romanian economy with the European economies;
- increased transparency of public expenditure;
- increased capacity to absorb community funds.

Financing some actions from the state budget will be made with a view to the objectives set in the negotiation chapters and the fields of major importance from the perspective of the state consolidation.

The estimations regarding the indicators of the consolidated general budget are the following:

Table 2. The projection of the general consolidated budget in the 2005-2009 period (% of the GDP)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2005 program</th>
<th>2006 proposals</th>
<th>2007 estimations</th>
<th>2008 estimations</th>
<th>2009 estimations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>31,0</td>
<td>31,3</td>
<td>30,3</td>
<td>30,2</td>
<td>29,4</td>
</tr>
<tr>
<td>Expenditures</td>
<td>32,0</td>
<td>31,8</td>
<td>31,3</td>
<td>31,7</td>
<td>30,9</td>
</tr>
<tr>
<td>Deficit</td>
<td>-1,0</td>
<td>-0,5</td>
<td>-1,0</td>
<td>-1,5</td>
<td>-1,5</td>
</tr>
</tbody>
</table>
As it can be seen from the table and graph above, the tendency will be to maintain the budgetary deficit at a percentage from the GDP that should ensure economic growth and development. The financing of the budgetary deficit will be made mainly from domestic resources, and in the case of external financing, this will be aimed at launching new issues on the foreign market in order to benefit from the favorable conditions on the foreign capital markets.

The EU standards in the field of environment protection, transport infrastructure, economic and social cohesion, rural development, will determine the involvement of the Romanian budgetary policy in order to meet these standards, by ensuring co-financing for the community funds.

The EU membership will force Romania to participate in the financing of the union budget, within the framework of its own resources, which will lead to a better management of public financial resources. The estimated sums to be paid by Romania are of about 1,343 million euros (for 2007), 1,525 million euros (for 2008) and 1,563 million euros (for 2009).

In order to reach these objectives, the fiscal and budgetary policy will have to see that the public budget will no longer be a mere document to be worked out and approved within certain deadlines, but that it will be used as an instrument of economic and social policy on the one hand, and as a system of financial flows, on the other.

The main concerns of the budgetary and fiscal policy emphasize the impact it has on competitiveness growth and on the ensuring of a climate based on ethics and efficiency.