

## THE BUDGET SUPPORT OF THE WAGES IN THE PUBLIC SECTOR

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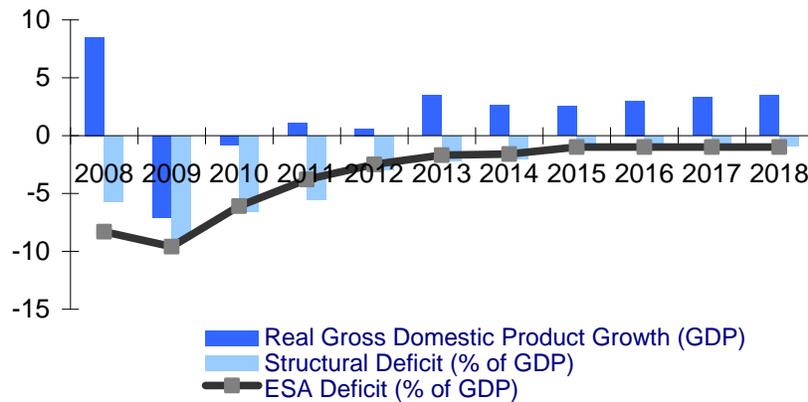
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***Abstract:** This paper starts from the observation that the share of staff costs included in the consolidated general budget increased considerably in the past two years. The explanation was the reunification of budget salaries and the payment of overdue obligations established by court decisions. Here we insist on several issues concerning the relationship between public policy of wages and policies / strategies of public finances in the context of current economic parameters (years 2014 and 2015), taking into account the latest acts making changes in minimum wage, increases of pension and social security etc. An important part of our approach is meant to reveal changes occurring in the structure of budgetary expenditures as a result of wage policy and social safety nets in Romania.*

***Keywords:** salaries, financial crisis, public budget, wage policy/ strategy, laws/ rules, social measures.*

### 1. INTRODUCTION

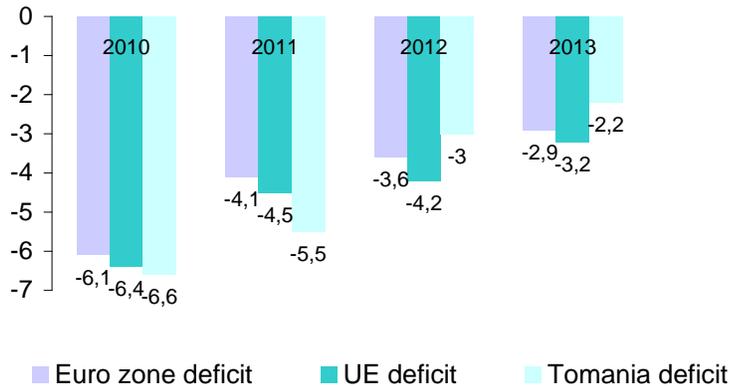
The link between policy of wages in the public sector and wage policies/ strategies of public finances is a subject of debate in many papers in the economy field. Obviously, the salary and remuneration presents interest to be analyzed from multiple points of view - management, accounting, audit, labor law etc. (Piketty, 2014; Chișu, 2002; Bârcă, 2005; Bostan, 2010; Bostan & Radu, 2003; Tofan & Petrișor, 2012; Tinică *et al.*, 2010), but we here dwell on this theme only in relation to public budget resources/ expenditure. What is recognized widely is that without economic resources available to the state, mobilized overwhelmingly through taxes, public sector remains in obvious suffering (Florișteanu, 2014; Morariu, 2015a, 2015b; Mățăuan, 2014; Bostan, 1999; Oprea & Petrișor, 2011). After passing the peak of the financial crisis (caused by inadequate policies, which led to the deterioration of macroeconomic balances, making in 2009 for the economic growth to be of -7.1% compared to + 8.5% of the previous year), it can be said that the Romanian economy entered into a significant phase of recovery - more pronounced starting from 2012 (Fig. 1).



**Fig.1. The evolution of economic growth and budget deficits in the 2008-2014 periods**  
 [Source: GR/MFP, 2014]

The grounds of sound public finances, given in the macroeconomic situation report for 2015 (...), developed by MFP are given by the existence of a greater confidence of investor, fiscal discipline and reduction of waste, being recorded progress on the line of achieving the right balance between fiscal consolidation and sustainable economic recovery, ensuring credibility and predictability of economic policy and financing the budget deficit at a reasonable cost.

The analysis of achieving the objectives of fiscal policy in the period 2013-2014, reflects (Romanian Government, Ministry of Finance, Report on the macroeconomic situation in 2015 and its projection for the years 2016 to 2018) that the budget deficit calculated according to the European methodology decreased from 5.5% in 2011, to 3% of GDP in 2012 and 2.2% of GDP in 2013, Romania getting out from the excessive deficit procedure of the European Union. For comparison, it is shown in Fig. 2 the development of budget deficits (ESA) in 2012 and 2013 in Romania and in the states from the euro area the EU.



**Fig.2. ESA budget deficits in Romania, the EU and the euro area countries (2012-2013)**

[Source: Eurostat, *Notificarea fiscala din luna octombrie, 2014*]

In this context, referring to measures of fiscal policy with influence in terms of ensuring social protection for people with low incomes and in stimulating the business community, we show that there were established: raising the minimum wage from 800 lei/ month to 850 lei/ month from 1 January 2014 and 900 lei/ month from 1 July 2014, indexation of pensions with 3.75%, and increase of guaranteed minimum income by 4.5%. At the same time, there were introduced: the application of the unitary pay law in sense of increase of wage for categories of employed young people with lower incomes, taxation of construction other than buildings and exemption from taxation of reinvested profit in technological equipment, and reducing the share of SSC of the employer (social security contribution) by five percent.

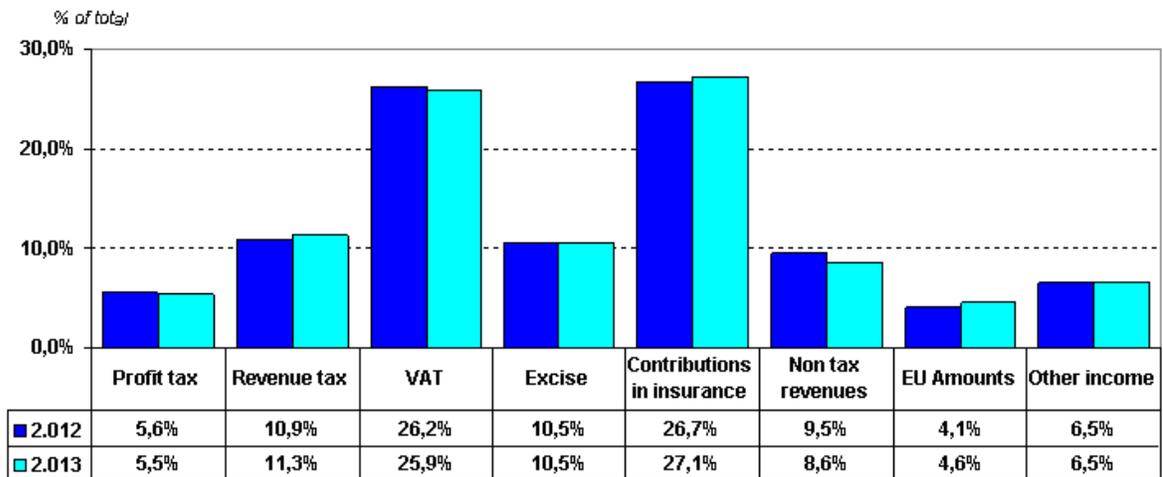
## 2. FISCAL POLICY ORIENTATION TOWARDS SOCIAL PROTECTION

In acknowledging the importance of stimulating consumption while ensuring social protection for certain vulnerable population (Varjan, 2014; Stanciu, 2007; Burciu *et al.*, 2008; Hlaciuc & Morariu *et al.*, 2012; Bercu & Petrișor, 2011), the need for state intervention in this is required without delay. That is why in this direction has recently acted by (GR / MFP, 2014) raising the minimum wage (from January 1, 2015: 975 lei and July 1, 2015: 1 050 lei), indexation of all pensions by 5% and increase of social benefits for the retired from 350 to 400 lei. Obviously, other measures are circumscribed to the same area: growth with 16% in allowances for individuals with disabilities, increasing allocation for families with income per family member below 530 lei, with 42 lei per child, increasing the placement allowances to 600 lei, increasing food allowance for adults with disabilities and elderly people in social care centers from 8 to 16 lei per day, staggered repayment of debt recovered from pensioners and people in child raising leave. In particular, there should be highlighted wage increases for health and social care staff

with 100 lei in January 2015 as teacher salaries increase by 5% from 1 March 2015 and by a further 5% from 1 September 2015.

### 3. CHANGES IN THE STRUCTURE OF BUDGETARY EXPENDITURES AS A RESULT OF WAGE POLICY AND SOCIAL SAFETY NETS IN ROMANIA

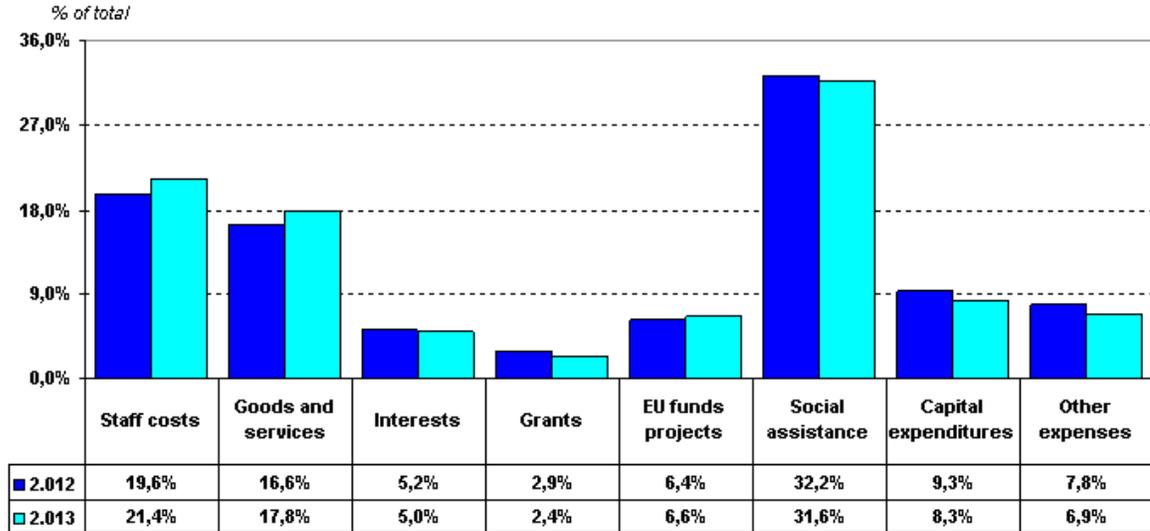
Decrease of the maximum budget deficit after the crisis year (2008) has involved significant social costs due to adjustments that have focused mainly on the expenditure side of the budget; Structural reforms were aimed particularly in staff salary, budget public pension system and budgetary programming. After an evolution of approx. 5 years (2008-2012), affected by the global crisis recalled, the structure of the consolidated budget revenue of the Romanian state (totaled 200.4 billion lei, representing 31.9% share of GDP and an achievement of 97.5% compared to annual estimates) (GR/MFP, 2014) is as follows (Fig. 3).



**Fig.3 The structure of consolidated budget revenues (2012 and 2013)**

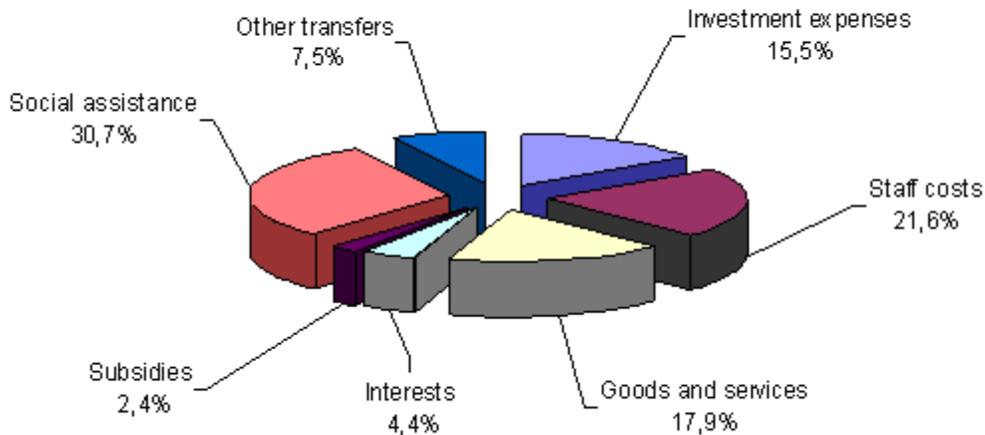
[Source: GR/MFP, 2014]

Consolidated general government expenditures totaled 216.2 billion lei in 2013. Compared to the previous year, the consolidated budget expenditures registered a nominal growth of 4% while their share in GDP declined by 1 percent. The economic structure of expenditures has recorded an increase of the share of personnel expenses by 1.8 pp. Reunification of budget salaries and payment obligations established legally determined that the personnel expenditure of the general consolidated budget in 2013 should grow by 13.3% compared to the previous year. In Fig. 4 we render the structure of the consolidated budget expenditures.



**Fig.4. The structure of the consolidated budget expenditures (2012 and 2013)**  
 [Source: GR/MFP, 2014]

As shown in Fig.5, not even at the end of the financial year 2014, things do not differ much regarding the share of expenditures in the structure of consolidated budget.



**Fig.5 The structure of the consolidated budget expenditures (2014)**  
 [Source: GR/MFP, 2014]

Expenditure on social assistance have increased compared to 2012 by 2%, which is explained by the increase of 8.5% from 1 July 2013 of the social aid (Law no. 416, 2001), to ensure a guaranteed minimum income, growth of family support allowance (Law no. 277, 2010) with 30% and the value of the pension point - by 4%.

Referring to the tendencies which occurred in the following year (2014) we highlight that personnel expenses increased (+ 4.0% - due to the increase of gross minimum wage to 850 lei from 1 January 2014 and to 900 lei 1 July 2014 and the payment of entitlements established by court decisions), social assistance (+ 3.6%), expenditure on subsidies (+ 6.9%).

Expenditure on social assistance recorded an increase of 3.6% compared to the same period last year, influenced by increasing the guaranteed minimum income and the increase of the pension point value.

#### 4. CONCLUSIONS

As we revealed in the paper, the share of personnel expenses included in the consolidated general budget increased considerably in the past two years. The explanation was the reunification of budget salaries and the payment of overdue obligations established by court decisions.

What should be imposed in the immediate future is ensuring a sustainable level of spending on wages and pensions in the public sector, without neglecting targeting available resources to public investment of training in infrastructure, agriculture and rural development, energy and technology etc. In strict matters of personal spending, the Romanian government aims that the wage bill to fall in 2015 to 48.4 billion lei (6.8% of GDP), imparting a downtrend, being better correlated with productivity growth.

Application of the law on the unitary remuneration of personnel paid from public funds (the Framework Law no.284, 2010), and granting salary increases within wage bill agreed with international financial institutions, make the process of phased aligning of basic salaries of personnel paid from public funds to the levels provided by the legal framework already adopted to continue.

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