

THE EVOLUTION OF THE IMPACT OF THE CONSEQUENCES OF THE CRISES ON THE BUDGETARY-FISCAL INDICATORS AT NATIONAL LEVEL

EVOLUTIA IMPACTULUI CONSECINTELOR CRIZELOR ASUPRA INDICATORILOR BUGETARI-FISCALI LA NIVEL NAȚIONAL

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REZUMAT. *Este cert faptul că orice țară este apreciată după nivelul său de dezvoltare economică. Destrămarea Uniunii Republicilor Sovietice Socialiste (URSS) a creat un șoc global pentru țările membre, care au întâmpinat dificultăți în schimbarea structurii economice interne. Odată cu obținerea independenței în 1991, Republica Moldova (RM) a parcurs un drum lung de formare a propriei politici bugetar-fiscale și a strategiilor de planificare și gestionare a propriului buget. Actualitatea articolului este determinată de necesitatea evaluării Republicii Moldova, ca stat independent, în perioada de tranziție către o economie de piață. Impactul crizelor economice, sociale și politice au condus la implementarea noilor reforme (privatizarea, liberalizarea financiară și democratizarea) inițiate de către noul guvern. Scopul cercetării este de a analiza evoluția impactului crizelor asupra indicatorilor bugetari-fiscali la nivel național. Criteriul de evaluare a economiei este bazat pe unul din principalii indicatori macroeconomici (PIB), care la rândul său este într-o interdependență cu indicatorii bugetari-fiscali. Drept reper în evaluarea Bugetului Național Public (BPN) au servit cele mai importante evenimente ce au marcat economia Republicii Moldova de la obținerea Independenței. Bugetul public reprezintă cea mai importantă parte componentă a sistemului financiar și este influențat de principalele venituri și cheltuieli ale statului exprimate prin deficit sau excedent. În pofida șocurilor externe și interne, începând de la criza economică generală din 1991, conflictul regional cu Transnistria (războiul civil) din 1992, criza financiară din Rusia, criza economiă-financiară globală din 2008-2009, seceta din 2012, criza bancară din 2014, criza pandemică (Covid-19) din 2020 și a crizei energetice din 2021, țara și-a menținut stabilitatea macroeconomică, marcând o îmbunătățire constantă a economiei.*

Cuvinte cheie: *evoluție economică, indicatori bugetari-fiscali, buget, indicatori fiscali, impactul crizelor, finanțe publice, venituri publice, cheltuieli publice, datorie publică.*

JEL CLASSIFICATION: E62, P34, O11

INTRODUCTION

One of the most important functions of the state is to regulate the economic structure of the society. The main instrument of the state through which economic and social regulations are implemented is the financial system, in which the state budget occupies the central place. The state budget is an annual financial plan, which reflects the expenditures planned to be made and the anticipated revenues to be obtained by the central public administrations. According to Jack Rabin, “a budget links tasks to be performed to the amount of resources necessary to accomplish those tasks. Budget limit spending to the amount of income, ensuring balance and preventing overspending” [8, P. 10].

According to Article 26 of **Law no. 181 of 25 July 2014 on public finance and fiscal responsibility**, the national public budget of the Republic of Moldova includes the state

budget, the state social insurance budget, the compulsory health insurance funds, the local budgets [5]. Budget deficits constitute a barometer of the macroeconomic situation, the index of which is under constant control. Finally, the budget deficit is the result of: – excessive government spending; – limited financial capacity of the state to mobilize the necessary revenues; – economic recessions [6].

The most common situation in international economic practice represents the budget deficit, which is the exceeding of budget expenditures over budget revenues. In this context, one of the key problems of the market economy in general and of the developing economy in particular is finding the best ways to finance budget deficits, given that public debt is a burden and deficit financing has a number of implications for interest rates and growth.

Looking retrospectively at the evolution of the impact of the consequences of the crises on the budgetary-fiscal indicators at the national level in the Republic of Moldova, the study has the following objectives: to highlight the crises that have affected the Moldovan economy and to analyze the impact of these crises on the budgetary-fiscal indicators in the period 1991-2021.

ECONOMIC OUTLOOK

The main period of establishment of the national budgetary system in the transition to a market economy can be considered the first years of independence 1991-2001. During this period, were recorded the deepest economic recession in the Republic of Moldova and the evident deterioration of the fiscal balance. Thus, in the context of the deep *economic crisis* in the early years of Moldova's independence, the main objectives of the budgetary policies pursued by the public authorities were to ensure the financial resources necessary for the functioning of the basic social and economic sectors of the state: education and health systems, social protection, law enforcement, national defence and other public needs. In order to cover the budget deficit, the Republic of Moldova has borrowed from international financial institutions, which has increased the level of state debt. The negative effects on production were aggravated by the droughts of 1992 and 1994 and the military conflict in Transnistria in 1992. The introduction of a stable national currency - the Moldovan Leu (MDL) on 29 November 1993, which replaced the Russian Ruble, further helped Moldova to move away from its dependence on Moscow, which was a testament, internationally and locally, to the nation's positive efforts to achieve economic development and ultimately to successfully pursue autonomy.

The next notable period which was marked by several economic and social events for the Republic of Moldova is the period during 2001-2011. *The financial global crisis* affected economy of the Republic of Moldova. Therefore, the main priority of economic policies, including of the budgetary policy, became the stabilization and consolidation of this growth, by ensuring public finance equilibrium, i.e. a sustainable budget. Also, at the beginning of 2000s the public authorities initiated a comprehensive reform of public finance management. During this stage Moldovan economy registered a gradual recovery with a cumulative growth of 63% over 2000-2008, mainly due to migrant remittances.

The period between 2011-2021 was also marked by several economic, social and pandemic crises for the Republic of Moldova. A famous billion-dollar theft of 2014 in three Moldovan banks were converted into state debt in August 2016 and resulted in a severe *economic and financial crisis*. By converting state guarantees into public debt, bonds worth 13.6 billion lei were issued for 25 years with an effective interest rate of 5%, so the debt will be paid off by sometime in 2041.

The global pandemic crisis (Covid-19) which has had a severe impact in all areas and the *energy crisis* also led to rising prices and inflation at the end of 2021. All these challenges have had a great impact on the quality of public finance, and as a result, on the measures and actions undertaken by the authorities regarding public finance management.

RECENT ECONOMIC DEVELOPMENT

In assessing the economy, the main public finance indicators are directly correlated with macroeconomic developments. GDP has declined on average by about 10% per year since 1991, leading to a cumulative decline of about 60% by 2000. The physical volume index of GDP has lowered at 98,8% compared to 68,8% in 1994 (see Figure 1). The implementation of reforms, such as issuing the MDL as the national currency in 1993 that halted hyperinflation, followed by mass privatisation and price liberalisation, revived the economy. Thus, the first signs of economic recovery were registered in 1997. The declines in 1998 and 1999 was caused by the financial crisis in Russia, which caused a drop in exports and a collapse in domestic demand. GDP fell by 10% and the physical volume index of GDP fell by 8.1%. In 2000, Moldova's economy was on an upward trajectory, due to stabilisation of the situation in Eastern European markets, especially in Russia, and rising domestic demand.

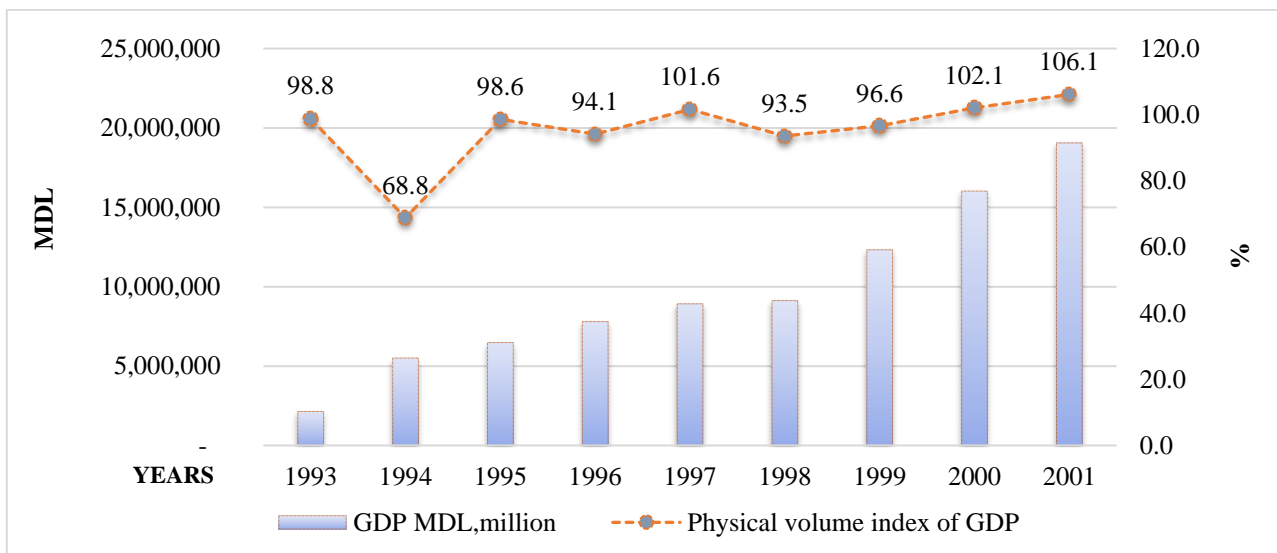


Figure 1. The dynamics of GDP during 1993-2001

Source: Elaborated by the author based on data of NBS

In 1993, the Government adopted a comprehensive financial stabilisation programme backed by an agreement with the International Monetary Fund. Moldova's overall fiscal position deteriorated severely between 1996 and 1998. The fiscal deficit was very high: 752.8 million lei in 1996 and 666.7 million lei in 1997, mainly due to non-payment of expenditure obligations which led to an increase in the stock of arrears on pensions and wages (see Figure 2). As a result, in 1996, the authorities adopted a 3-year programme resources under the International Monetary Fund (IMF) Extended Fund Facility to accelerate and deepen structural reforms and strengthen the stabilisation effort. It should be noted that in 1998 deficit financing returned more to the domestic source. As a result of the implementation by the Moldovan authorities of strict fiscal policies and external financing, in 1999 and 2001 Moldova achieved fiscal adjustment for the first time since 1991, largely through a

considerable rationalization of public expenditure: the general government budget deficit has gradually decreased since 1999 from 395 mill. MDL to about 1 mill. MDL in 2001 (see Figure 2).

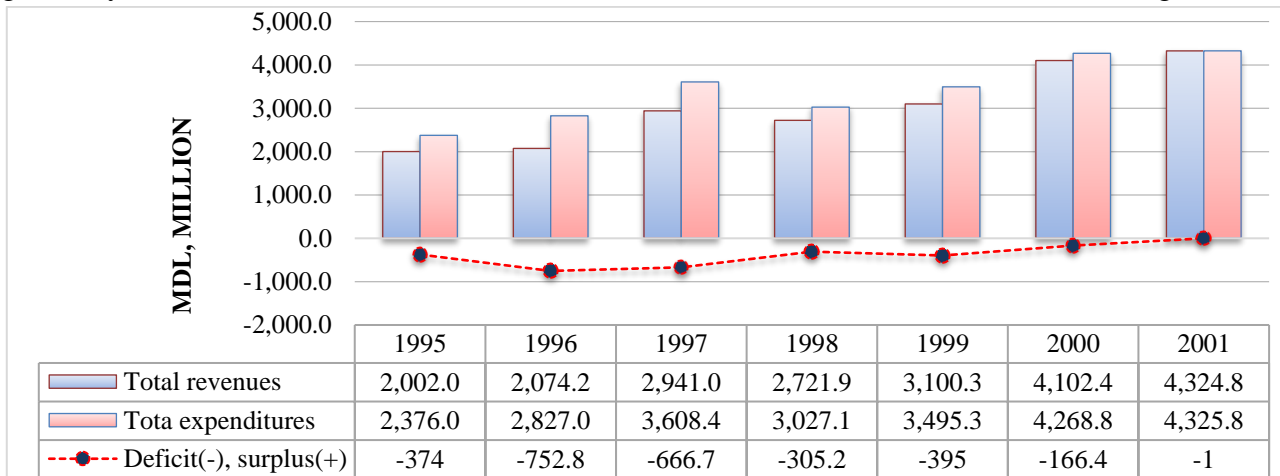


Figure 2. The evolution of the financial-budget indicators during 1995-2001

Source: Elaborated by the author based on data of NBS

Between 2001 and 2008, economic growth was driven by the increase in aggregate demand, which in turn was based on the significant increase in remittances from Moldovan workers abroad. These remittance flows supported household incomes and consumption expenditure and contributed to a substantial reduction in the poverty level during this period. GDP has registered a gradual increase from 2002 to 2007 and the physical volume index of GDP fluctuated between the years 2002 and 2008, with the decrease of 4.8% in 2007 (see Figure 3). The impact of the financial crisis at national level on Moldova's economy was felt in 2009, when the level of real GDP fell by 6%. The economy recovered in 2011, with the physical volume index of GDP growing by 12,8% (see Figure 3).

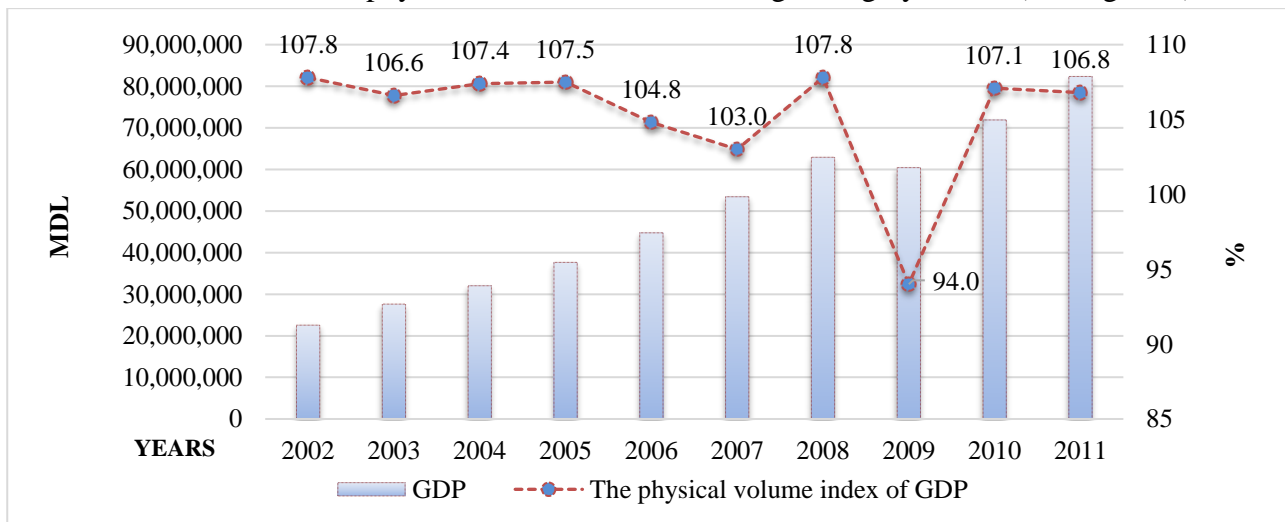


Figure 3. The dynamics of GDP during 2002-2011

Source: Elaborated by the author based on data of NBS

Budgetary and fiscal reserves did not cope with macroeconomic imbalances. The economic growth recovery of the last two years is based on rising domestic demand (fuelled by remittances, credit expansion and capital inflows) as well as rising export volumes (reflecting increased external demand for Moldova's export industries and improved access to CIS and EU markets).

In 2006-2008, Moldova's economy experienced robust economic growth, but the global economic crisis led to a sudden rebalancing of the economy, putting considerable pressure on society. Poverty levels and unemployment rates have increased significantly. The budget deficit increased by 3836.6 mill. MDL (see Figure 4).

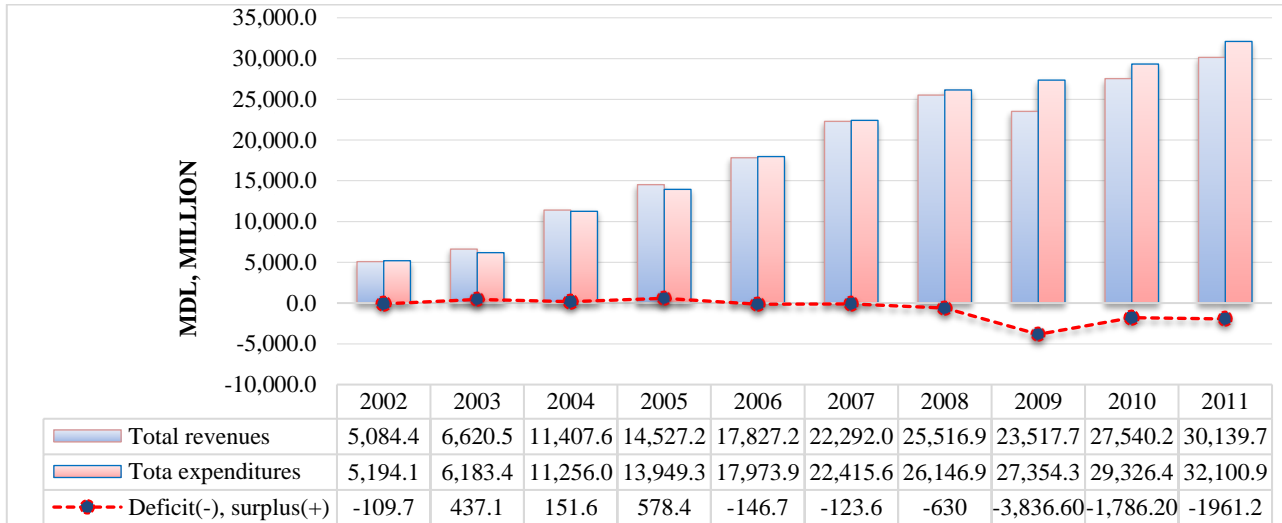


Figure 4. The evolution of the financial-budget indicators during 2002-2011

Source: Elaborated by the author based on data of NBS

It should be recalled that in 2012-2014, about 13.3 billion MDL were transferred out of the Savings Bank (BEM), Social Bank and Unibank in Moldova. At that time the amount represented somewhere close to 15% of the Gross Domestic Product (GDP) of the Republic of Moldova. In the meantime, the state has recovered less than 10% of the total amount of one billion stolen from Moldova through the sale of assets and properties of the banks involved in the "robbery of the century".

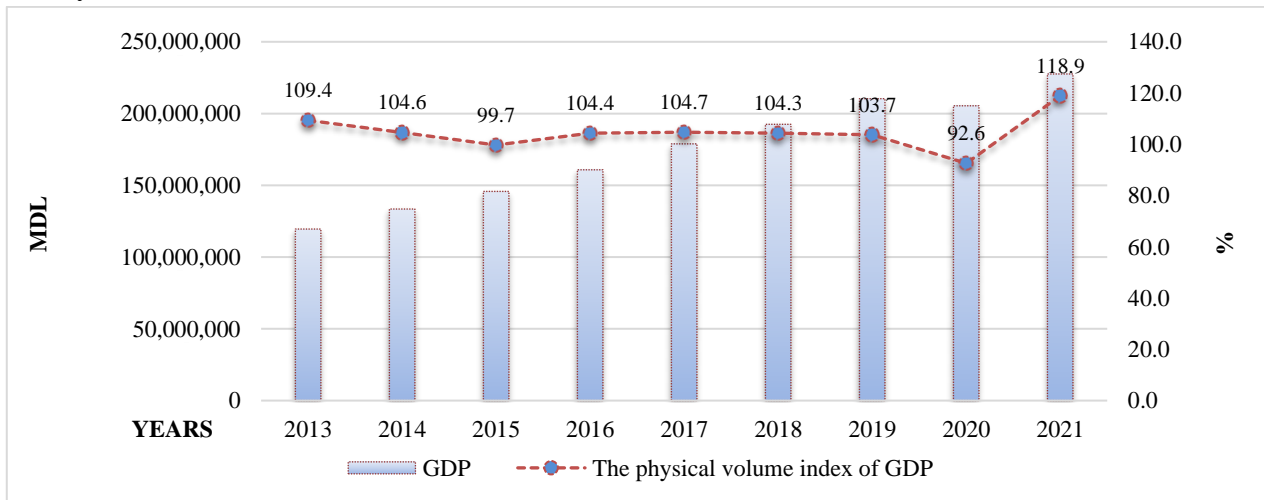


Figure 5 The dynamics of GDP during 2012-2021

Source: Elaborated by the author based on data of NBS

After the recession in 2012, the economy of the Republic of Moldova returned to an upward trend and recorded a slower growth compared to the previous year, with the GDP physical volume index of 104.6% compared to 109.4% in 2013 (see Figure 5). The instability related to the regional crisis had a negative impact on the external sector, being more evident in the second half of 2014. The economic decline in 2015 was caused by a reduction in value added in the agricultural sector as

a result of drought, a deterioration in the regional economic climate, as well as a decline in domestic demand from the population and in terms of shrinking investment caused by economic uncertainty and domestic politics. Year-on-year growth was over 4% in each of the four years to 2016, remaining constant with a slight decrease of 1.4% towards 2019. The year 2020 was gripped by the Covid-19 pandemic crisis, with the physical volume index of GDP recorded its biggest drop since Independence 92,6% (see Figure 5).

The fallout from the banking crisis in 2014 had a drastic effect on revenues, but the budget deficit was contained.

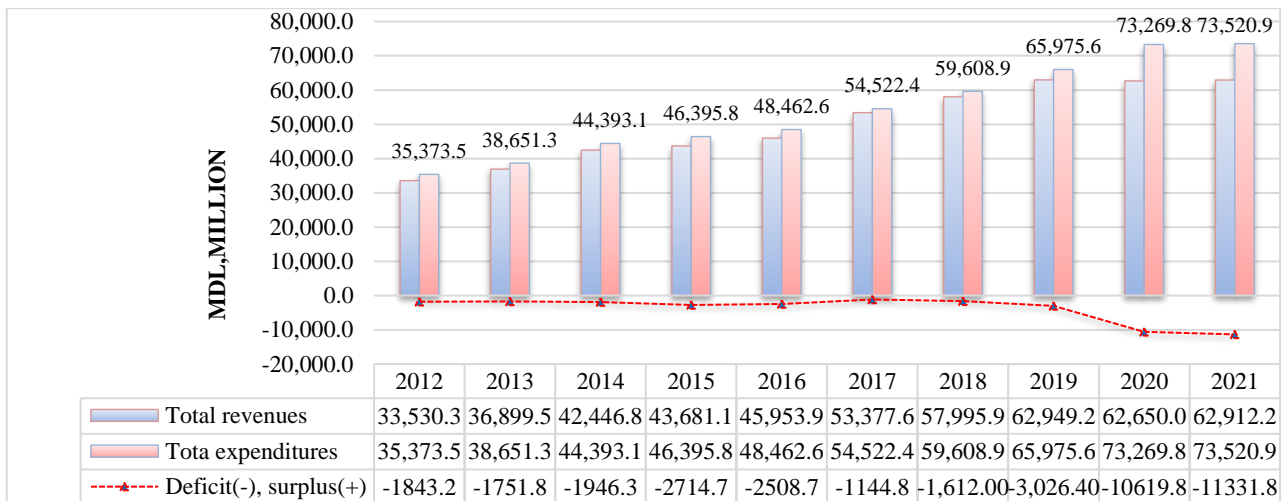


Figure 6. The evolution of the financial-budget indicators during 2012-2021

Source: Elaborated by the author based on data of NBS

The global pandemic crisis Covid-19 in 2020 has affected all areas. The government has included a number of new programmes to support the health sector with immediate and longer-term impact. Spending programmes are also foreseen to mitigate the negative impact of the pandemic on businesses and the population. The measures envisaged will be financed by loans from international financial organizations and bilateral loans from the governments of other countries. These include creditors such as the International Monetary Fund (IMF), the World Bank, the Council of Europe Development Bank and the European Union (EU).

The quarantine and social distancing measures have significantly reduced the activity of companies, with several sectors already experiencing a drastic drop in sales and revenues due to the impossibility of carrying out normal business. Thus, the budget deficit is 10619,8 mill. MDL (see Figure 5). On top of this, public finances are under strain - on the one hand they are affected by reduced tax receipts, on the other by increased spending to support the health sector. The energy crisis at the end of 2021 unbalanced the country's economy with a budget deficit of 11331.8 MDL lei (see Figure 6), due to the increase in the price of natural gas imported from Russia, which led to increased spending. Thus, the year 2021 ended with an inflation rate of 13.9%.

CONCLUSION

The impact of crises on budgetary-fiscal indicators is closely linked to the evolution of macroeconomic indicators, which are also influenced by crises, whether economic, financial, political, energy, etc. During the years 1991 - 2022, the economy of the Republic of Moldova has a growth dynamic. Thus, the national state budget planning strategies set out rules for management in

times of crisis in order to keep public revenue, public expenditure and the budget deficit within the figures set by legislation.

The consequences of these events had a severe impact on fiscal-budgetary indicators and led to a slowdown in economic development. However, the study shows an upward trend in macroeconomic indicators, which are closely interrelated.

In the period 1991-2020, the budgetary policies applied and the main public finance indicators were directly correlated with the macroeconomic development of the national economy and the main priorities of the country's general economic policy.

The pandemic crisis of 2020 had an impact not only on the health system but also on the national economy. Domestic and external consumption has declined, investment has been substantially reduced. Thus, Moldova remains a developing country influenced by the amalgam of crises it has faced, inexperience of governance and corruption, despite the effort made to integrate and adapt to the international economy.

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