

DEVELOPMENT TRENDS OF PUBLIC FINANCES IN MOLDOVA

Scientific Researcher PhD Ion MOROZNIUC

National Institute for Economic Research,
Academy of Sciences of Moldova, Republic of Moldova
Email: i.morozniuc@mail.ru

Scientific Researcher Tatiana IA I IN

National Institute for Economic Research,
Academy of Sciences of Moldova, Republic of Moldova

Abstract: *This publication reflects the results of a study on the evolution of public finances in Moldova. Difficulties in the economy usually translate on the general government account that no longer able to serve as an effective and efficient instrument for supporting the vulnerable, since the vulnerability is directly proportional to economic stagnation. Along the way, the evolution of public finances has not been accompanied by a genuine promotion of structural reforms, which would have encouraged the sustainable development of the national economy.*

Keywords: *public finance, economic growth, national strategy, management, evolution, public revenues, balance, public expenditure, budget deficit, the World Bank (WB), International Monetary Fund (IMF) gross domestic product (GDP), public national budget (BPN).*

JEL Classification: *G0, G3, G30, G31.*

1. Introduction

The central body that develops and promotes the unique training and public finance management, the application of financial levers consistent with the requirements of market economy, the Ministry of Finance (MoF) that a State participating in the conclusion of bilateral and multilateral agreements to promoting and protecting investments, avoiding double taxation and combating tax evasion.

Since independence, Moldova continues achievement of the reforms in public financial management, assisted by several development partners and international financial institutions. Reform efforts were anchored in the action plans for the implementation of national development strategies. One of the most significant recent developments in public finance management reform was drafting the law on public finances and budgetary-fiscal. Adoption and implementation of this law marks a milestone in public finance management reforms and will help to modernize and strengthen the national system of public finance management.

Public finance management reform can not be regarded in a static, which means that the activities and priorities must be seen in the context of changing circumstances and new ideas. Public finance management presents an important tool for providing fiscal policies and achieving the final goal of sustained growth and development; It covers a wide and diverse range of thematic areas that interact in different ways and at different levels. Public finance management is an integral part of economic management.

The foremost factor in the development of public finances bears to public national budget (BPN), which represents all revenues and expenditures of the state budget, the budgets of administrative-territorial units, budget of state social insurance and funds of medical assistance insurance, and those laws are main year financial documents. The public national budget is a tool for forecasting both short-term, due to the sizing of revenue and expenditure for a period of one year, as well as medium-term budgeting by-program, especially for investment expenditure. BPN incomes are taxes, other income, specified by law.

2. The analyse of public national budget

In 2015 public finances were affected by economic stagnation and political crisis. Procrastination process of forming a new government made the approval BPN be carried out with great delay was not until April 2015, and that by taking responsibility of the government. However, failure to resolve the crisis in the banking sector resulted in the freezing of external financing from the World Bank and the European Commission.

The causes of economic deterioration came from worsening economic situation in the CIS countries (Russia, Ukraine) and slow growth in EU economy and the crisis in the banking sector. These shocks have resulted over time through depreciation of the leu, lower exports, imports and remittances, and tightening monetary policy, which in turn have influenced negatively on revenue BPN, which are provided at only 97.4%.

However, the Government's efforts during 2015 were directed to strengthening public finances and to execution of national public budget under extremely complicated conditions, due to financial and economic instability in the world, especially in the euro zone. In these circumstances the accumulated in budget public money must be allocated under a prudent saving, so that economic recovery in the 2010-2015 years should have continuity in the coming years.

The current revenues derived from BPN 2015 made up 41.59 billion. lei, of which approximately 63.0% (-61.9% in 2014) return revenue managed by the state budget (BS), 22.3% (2014 - 21.8%) - revenues administered by the social insurance budget State (BASS), 7.8% (9.9% in 2014) - revenue budgets administered by administrative-territorial units (ATU budget) and 6.9% (2014 - 6.4%) - revenues administered by the national company on medical Insurance (CNAM).

Compared to 2014 their revenues have grown at three of the four components of BPN (BS - 10.5% BASS - 10.8%, and HIC - 17.6%), except BUAT that yoy own collections decreased by 14.6% (4 territorial-administrative units were involved in experiencing of financial autonomy). Level execution component NPB revenues in 2015, is characterized by the data in Table no. 1.

Table no. 1. Volume and revenue structure of BPN upon components, billion MDL

	provide d 2015	executed		Deviation (+, -)		%		Structur e execute 2015,%
		2015	2014	to predict. 2015	to execute. 2014	to predict. 2015	to execute. 2014	
BPN overall revenue (total / current), of which:	44,81 42,01	43,66 41,59	42,45 38,32	-1,15 -0,42	1,21 3,27	97,4 99,0	102,9 108,5	----- 100,0
State budget (total / current)	29,37 26,85	28,04 26,22	27,72 23,73	-1,33 -0,63	0,32 2,49	95,5 97,7	101,2 110,5	----- 63,0
They state social insurance budget (total / current)	13,62 9,19	13,43 9,28	12,03 8,37	-0,19 0,09	1,40 0,91	98,6 101,0	111,6 110,8	----- 22,3
Budgets of administrative territorial units (total / current)	11,53 3,135	11,04 3,23	11,09 3,783	-0,49 0,1	-0,05 -0,55	95,8 103,0	99,6 85,4	----- 7,8
National healthcare company budget (total / current)	5,16 2,84	5,06 2,87	4,64 2,44	-0,1 0,03	0,43 0,43	98,0 100,9	109,2 117,6	----- 6,9

Source: developed by the author according to the Ministry of Finance

Therefore, current revenues gained from BPN 2015, were provided at 99.0% compared to the set, but exceeding the level achieved in 2014 by 8.5% or 3.27 billion. lei.

The total income of the national public budget, tax revenues were 38.11 billion lei and non-tax revenues - 2.11 billion lei, or increasing respectively by 6.9% and 56.0% compared to the previous year's achievements.

The current revenue structure of BPN share of tax revenues recorded 87.3% of total revenues, an increase compared to 2014 by 3.4 pp. The share of non-tax revenues in total current revenue constituted 4.8%, increasing by 1.6 pp over the previous year, while the share of other income has evolved down 5.0% (Table no. 2).

Table no. 2. Evolution of the revenue accumulations in BPN and their structure, billion MDL

	2005	2009	2010	2011	2012	2013	2014	2015	2015/ 2014%
Revenue, global	14,53	23,24	27,54	30,16	33,53	36,91	42,46	43.66	102,9
Share,%	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	-
income tax	12,06	19,52	22,55	25,60	28,86	32,19	35,64	38,11	106,9
Share,%	83,0	84,0	81,8	84,9	86,1	92,4	83,9	87,3	-
Non-tax receipts	0,76	0,84	1,42	1,18	1,34	1,35	1,35	2,11	156,0
Share,%	5,3	3,6	5,2	3,9	4,0	3,9	3,2	4,8	-
Other incomes	1,70	2,88	3,58	3,38	3,33	3,37	5,47	3,44	62,9
Share,%	11,7	12,4	13,0	11,2	9,9	3,7	12,9	7,9	-

Source: NBS and developed according to the Ministry of Finance

Analyzing the BPN while the income share of GDP, there is a trend of relative stability in its average annual growth, registering 38.3% in 2010, 36.6% - in 2011, 38.0% - in 2012 36.7% - in 2013 38.3% 36.5% -in 2014 and 2015, so the annual average weighted studied period 2010 to 2016 constituted 37.4%.

In the post-crisis years, the average annual increase in the budget breakdowns, was more modest than before the crisis. Thus, in 2006-2008 the average annual revenue growth was 19.6%, then the comparative post-crisis years (2010-2015), the average annual increase in the indicator recorded only 9.6%. This means that the negative effects of the crisis on public finances have not yet been exhausted fully, even with a downward trend, especially in the last year of analysis.

Expenditure side of the public national budget is determined by budgetary expenditure required by law to meet society's needs, including: socio-cultural and scientific research expenses, maintenance of state apparatus, military expenditures, payment of state debt, providing grants, economic development of the national economy etc. During 2015, the public national budget expenditures were made in a total of 46.39 billion. 49.95 billion lei from those approved. lei or with 3.46 bln. lei in annual provisions. Thus, the execution of BPN party spending was 92.9% of the volume set out for the reference year. However, compared to 2014, expenditures increased by 1.99 billion BPN. lei, or 4.5%.

It should be noted that as of BPN and from all four of its components, as demonstrated by the study, were not fully secured financing envisaged, thus forming budgetary savings. Thus, from the state budget, expenditures were lower than those provided 2.96 billion. lei from the budgets of administrative-territorial units - 1.26 billion. lei, while the other two components of BPN economies made up 0.19 billion. and 0.11

billion lei. Volume of public expenditure from BPN, per total and per components is characterized in Table no. 3.

Table no. 3. Public spending in BPN and types of budgets, billion MDL

	provided		executed		Deviations. + -		Level execution, %	
	2014	2015	2014	2015	2014	2015	2014	2015
The public national budget	47,23	49,95	44,40	46,39	-2,83	-3,56	94,0	92,9
State budget	31,03	33,06	29,35	30,10	-1,68	-2,96	94,6	91,0
The budgets of administrative-territorial units	12,23	12,78	11,35	11,52	-0,88	-1,26	92,8	90,1
State social insurance budget	12,27	13,62	12,03	13,43	-0,24	-0,19	98,0	98,6
National healthcare company budget	4,91	5,26	4,68	5,15	-0,23	-0,11	95,4	98,0

Source: elaborated according to the Ministry of Finance

In 2015 the major part of expenditure of BPN (69.3%) were directed for realization of social and cultural programs. For the national economy were directed about 14.6%, defense, public order and national security - about 7.5% for general state services - about 4.7%. Informative: The share of those indicators effectuate the total public expenditure in 2014 was 66.3%, 17.5%, 7.3% and 4.9%). The statistics in Table no. 4 main indicators characterizing the execution of BPN spending compared with its performance in the previous years.

However, over the years, the evolution of public spending was stable, marking an increase throughout the period. Mostly this was possible due to considerable influx of foreign aid for Moldova, which allowed budgetary stabilization over time and thus avoid a disastrous macroeconomic scenario.

Table no. 4. Evolution expenditure side execution of BPN and structure, billion MDL

	2005	2009	2010	2011	2012	2013	2014	2015	2015/ 2014, %
Expenses, total	13,95	27,34	29,33	32,12	35,36	38,67	44,39	46,39	104,5
share, %	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	-----
of which: - Economy	1,96	3,28	3,32	3,83	5,16	6,13	7,76	6,79	83,0
share, %	14,1	12,0	11,3	11,9	14,6	16,0	17,5	14,6	-----
-Cultural social action	8,83	19,16	21,17	23,31	24,97	26,36	29,44	32,15	109,2
share, %	63,3	70,1	72,2	72,6	70,06	68,2	66,3	69,3	-----
-National defence, justice, public order, civil protection	1,05	2,07	1,88	2,21	2,30	2,77	3,22	3,46	107,5
share, %	7,5	7,6	6,4	6,9	6,5	7,2	7,3	7,5	-----
- General state services	0,92	1,41	1,36	1,46	1,75	2,08	2,15	2,19	101,5
share, %	6,6	5,2	4,7	4,5	4,9	5,4	4,9	4,7	-----
- Foreign economic activity	0,25	0,20	0,21	0,23	0,34	0,27	0,30	0,34	110,7

share, %	1,8	0,7	0,7	0,7	1,0	0,7	0,7	0,7	-----
- State debt servicing	0,47	0,83	0,55	0,66	0,67	0,49	0,59	1,04	176,3
share, %	3,4	3,0	1,9	2,1	1,9	1,3	1,3	2,2	-----
- other expenses	0,46	0,38	0,84	0,42	0,17	0,57	0,51	0,42	82,4
share, %	2,5	1,4	2,8	1,3	0,5	1,5	2,1	0,9	-----

Source: NBS and developed according to the Ministry of Finance

Based on the study the time evolution of BPN expenditure ratio to GDP, there is a trend of relative stability in 2010 and accounted for 40.8%, 39.0% -in 2011, 40.1% -in 2012 38.5% -in 2013 39.7% 39.0% -in 2014 and 2015, thus vary between 38.5% and 40.1%, with an annual average of 39.5% during 2010-2015.

Therefore, the national public budget execution in 2015 resulted in a budget deficit exceeding expenditures over revenues expressed by 2.73 bln Lei, increasing compared with the previous year by 40.0%.

An important source of financing the budget deficit in 2015 was lost in grants and foreign loans, not obtained about 2 billion lei. And some of the resources to cover, from the issuance of state securities (SS) were not fully used. The end result of increasing gap between demand and supply of VMS and increased interest rates on these instruments from 7-12% to 24-26% by the end of the year, the Ministry of Finance was placed in an extremely difficult situation in attracting sources for financing the budget deficit.

Duration political crisis has created major risks and approving BPN for 2016 in terms of parameters and reasonable, being extended parameters for revenues and expenditures of the budget of the previous year with a result uncertain development of operational plans and investment based on the proposals of policy change fiscal and budgetary and macroeconomic forecasts.

After the years 2013-2014, Moldova had the remarkable growth in the European region (9.4% and 4.6%) in 2015 is expected modest growth of just 0.5%. For the beginning of 2016 the Government operates with a provisional budget, under an inflation of over 13.5%. Thus, on the one hand Parliament will use to adjust spending to cover depreciation of the leu, which is inadmissible under the terms of a provisional budget. On the other hand, state employees will be the first to suffer in such conditions.

For 2016, the Ministry of Finance has estimated a budget deficit of about 7.3 billion or more than 5.6% of GDP deficit requiring reliable sources of coverage - something impossible in current economic conditions. In this situation and in the absence of an agreement with the IMF, the only alternative to cover the budget deficit remains the domestic market, so the government will have to borrow from banks with an interest rate of over 26%, the highest level in 15 years .

This would further complicate the already precarious public finances in the field of the supposedly without external sources, can be unpredictable consequences for society.

Thus it can be concluded that balancing public finances and their effectiveness is only possible through continued reforms in the public sector, and first of all in terms of managing public funds, combating informal sector, reform of social security and pensions, and qualitative development of the state securities market.

Improved relations with the IMF and the signing of a memorandum would provide an important opportunity to increase official reserve assets, stabilize public finances and unlocking funds from other development partners, would help modernize infrastructure and increased demand for labor. But for this to improved overall image of Moldova internationally and the banking system in particular, which were affected in the process.

In conclusion. The fiscal year 2015 has proven to be extremely difficult to extend major risks for public finances in 2016. They hold more political factor and less than the economic one. The main risks were complicated during the year when budget execution

was affected by internal economic shocks (the banking system) and external (economic crisis in Russia and Ukraine). So even approving a viable budget for 2016, it will be difficult to execute without an agreement with the IMF.

For the macro, an obvious challenge is the transformation of the public debt securities issued by the Government for defrauded banks will inevitably result in weight gain state debt to GDP volume as well as annual servicing of this debt.

A precondition for minimizing risk in the formation of public finances in 2016 should be negotiating an agreement with the IMF, which would not only resume foreign aid, but also stimulate a set of reforms that you forward this institution, including speeding up reforms related The fiscal system.

One of the first measures of the new government as the publication and approval of BPN and fiscal policy, the development of domestic sources of budget revenues, which can be obtained through quantitative and qualitative widening the tax base. Another important factor would decrease the tax gap, which reaches almost 8% of GDP. This would entail stimulating the business environment and opening new businesses with jobs.

References

1. Ministry of Finance of the Republic of Moldova, 2015. *Raport privind executarea bugetului public național pentru anii 2010-2015*. [Online]. Available at: <http://mf.gov.md/reports/>.
2. Morozniuc, I., 2011. Evoluția Bugetului Public Național până la criză și după. *Analele INCE*. Chișinău.
3. Morozniuc, I., 2015. Formarea finanțelor publice în Republica Moldova. *Analele INCE*, ediția a V-a. Chișinău.
4. Morozniuc, I., 2014. Stabilizarea finanțelor publice –factor important pentru dezvoltarea economiei naționale. *Analele INCE*. Chișinău.
5. National Bureau of Statistics of the Republic of Moldova, 2014. *Anuarul statistic al Republicii Moldova*.