

THE IMPORTANCE OF THE TIME FACTOR IN DEVELOPING THE STATE BUDGET

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Abstract: The aim of this article is to analyze the correlation between the state budget deficit and the actual preparation time used for developing the state budget in a selected number of EU Member States. These countries reflect a variety of administrative cultures, increasing the grasp of the research. Based on the principles of consensual economics, the focus is to identify one of the causes of budget performance by analyzing the time needed to ensure optimum dispersion of information on the draft budget to all the stakeholders, fostering debate and increasing transparency.

Keywords: budget, calendar, administration, deficit, ESA 2010

1. INTRODUCTION

With this article we aim to develop a compared analysis of the budget planning process in a selected number of EU Member States. While Romania has a system of main, secondary and tertiary actors, other EU Member States are structured differently and this may offer interesting insights into one of the factors of budget performance: preparation time. This research has been developed after conducting a review of the mainstream literature included in some of the leading journals indexed by Thomson-Reuters in the Social Science Citation Index (SSCI). For instance, in the SSCI-indexed [International Tax and Public Finance Journal](#), Luechinger and Schaltegger (2013) have presented an interesting view of fiscal rules, budget deficits and budget projections. The political influence on budgets is also part of our analysis and is just the same in line with the major international research agenda. For instance, extending the comparison, Li et al. (2013) have presented evidence regarding politics and economics in their article published in the SSCI-indexed *European Finance Journal*. One of the key findings of Esteller-Moré & Otero (2012) in their Fiscal Transparency analysis, published in Taylor & Francis' *Public Management Review*, which showcases the importance of transparency, one of the key arguments used in this article as well. These lines of research point towards the importance of an efficient planning system for the development of the state budget and its impact on the state deficit.

2. COMPARATIVE ANALYSIS OF BUDGETING SYSTEMS FOR A NUMBER OF EU MEMBER STATES

The goal of developing this chapter was to analyze the state budget resources in terms of data used for planning of revenues. We conducted this research to see if EU countries use in the preparation of the state budget and especially budget revenues, duties declared and paid by the taxpayer in the previous financial year or informative reports containing data regarding future obligations.

In order to facilitate the compared analysis, we have selected the following EU Member States: Bulgaria, the Czech Republic, Germany, Finland, Poland, and Spain. The aim was to achieve as much of a spread as possible in terms of variety of administrative cultures.

The criteria that formed the basis for selecting the countries in order to analyze the stages of development of the state budget was deficit / budget surplus recorded in fiscal year 2012. According to EUROSTAT, the EU Member States that recorded the lowest budget deficit in 2012 was Estonia (-0.2% of GDP), Sweden (-0.2% of GDP), Luxembourg (-0.6% of GDP) and Bulgaria (-0.8 % of GDP). The countries with the highest budget deficit were Spain (-10.6% of GDP) and Greece (9% of GDP).

A comparative analysis of the state organization provides various examples for the analyzed countries, including regional forms of territorial administration (Germany). The budget process is relatively similar for all states analyzed: it starts by defining the set of macroeconomic indicators. It differs only the onset timing of the budgetary procedure.

Taking Germany as the reference point, for which the budgetary procedure begins two years before the current year, we can observe that the other Member States begin this procedure in late winter / early spring prior to the year of reference. In Finland, according to the Ministry of Finance, the drafting of budget proposal starts in January. In the Czech Republic, annual budget preparation begins in late June (t-1), when the Ministry of Finance notifies the ministries the spending limits.

As a general rule, the Ministry of Finance of the analyzed countries collects from the institutions during spring (t-1) the budget proposals for the year t, then submits them to the Government. (For example, in Finland, the ministries formulate a draft budget for the entire administration based on plans submitted by agencies and submits them the Ministry of Finance in May. The Czech Ministry of Finance compiles the draft budget in August (t-1)).

A round of technical and political talks takes place within the government, which, after having reached an agreement, submits in autumn the draft budget to the Parliament. The Parliament members examine and approve the budget and in case of republics headed by a president, the budget is sent to the President for promulgation. After promulgation, the budget, taking the form of a law, is published in the official journal, taking effect usually in December of year t-1.

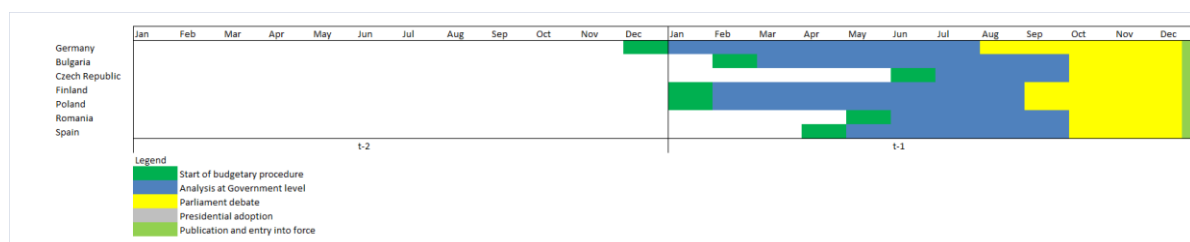
We find interesting the way the budget is drafted by states having a federal or regional organization. In this case, the regions are autonomous; therefore, the Ministry of Finance acts

as an integrator, not only as a coordinator. By adding another budget level, the complexity of budgeting increases, so that Germany, for example, starts the procedure in December of year $t-2$.

In Romania, according to the Law nr 500/2002, the calendar of the budget development process includes an initial deadline (1st of May) until when the Ministry of Finance has propose to the Government the objectives of the fiscal and budget policy for next year, together with expense caps for each major institution. The Government has 15 days to approve these objectives and the expense caps, after which it informs the Parliament of its main policy directions. Based on a circular letter from the Ministry of Finance (MoF), the public institutions with primary budget responsibility send MoF by August 1st their budget proposals for the following year and budget projections for the coming 3 years. The Parliament as well, with its two chambers (Chamber of Deputies and Senate) sends its budget to the Government, in order to be included in the state budget. Based on these proposals, MoF sends the Government the draft budget law by 30 September. The Government, in a maximum of 15 days after receiving the draft from MoF, sends it to the Parliament for adoption. The Parliament discusses the Budget Law in a plenary session, votes it and then the President promulgates it. The Budget Law enters into force the moment it goes to the Official Journal of Romania.

As a general rule, the budget process follows the same deadlines, allowing the start of the budget year on time without having to resort to backup solutions.

Figure 1. Comparative analysis of budgetary procedures

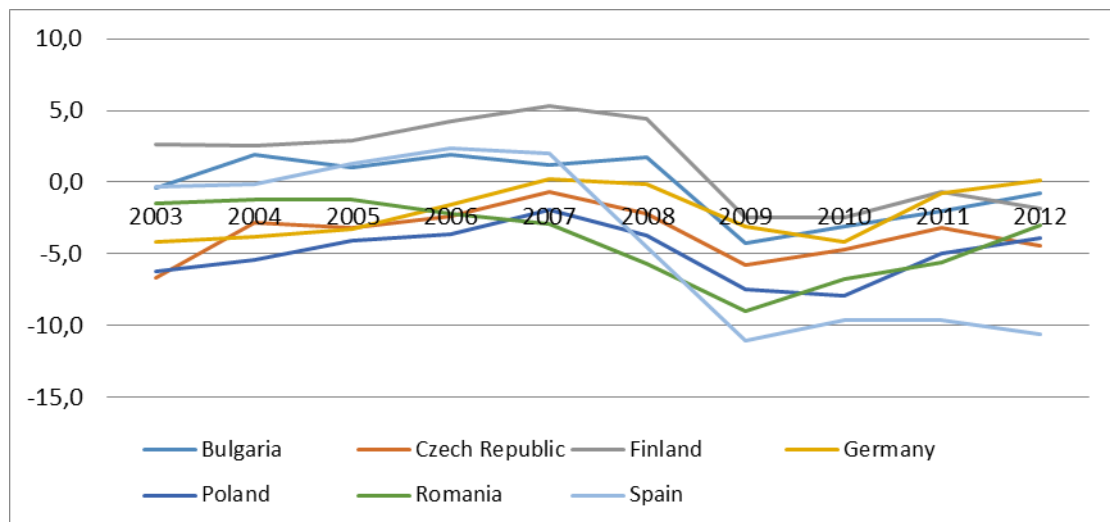


(Source: developed by the authors based on data from the Finance Ministries of the respective EU MS)

Why do some EU member states succeed in maintaining their budget balance better than others? To answer this question, we must look at the evolution on the long term. We observe a correlation between budget stability and the amount of time taken to develop the budget. This benefit is obvious in the case of Germany, which starts its budgeting process in the year $t-2$. Having more time to plan better, this also allows for more time to implement and to monitor the budget better.

In the chart below, compiled on EUROSTAT figures, we compare the evolution of budget deficit for a selection of European countries in the last 10 years.

Figure 2. Budget deficit, 2003-2012



(Source: EUROSTAT, 2013)

Beyond the preparation time and budget deficit correlation, we find another correlation at European level between the surplus / deficit of the Member States selected for analysis: after a relatively broad gap between revenues and expenditures in 2005-2007, the difference increased: all analyzed EU Member States recorded a budget deficit in 2009. Afterwards, during 2010-2012, a stabilization period followed. The country having the closest budgetary results to the average of analyzed countries was Germany, which is the only country that recorded a budget surplus in 2012.

3. CONCLUSIONS

We observe the direct correlation between the time taken to develop the budget and the budget performance (i.e. inverse relation between preparation time and budget deficit). For instance, analyzing budgeting timing, one can notice that Germany's budgetary procedure begins two years before the current year. For the countries with shorter planning periods, including Romania, the onset of the budgetary procedure with one year earlier would ensure longer available time, offering both versatility and ability to provide a greater margin for the consultation of the main stakeholders.

Another conclusion is determined by the political influence. This has the potential to distort both budget planning and implementation and monitoring of national budget. To maintain fairness, however, politics can get valuable input from the academic domain.

To sum up, we find indications of the budgetary performance in several key areas. Among them, we mention the need to respect international ESA standards, the elaboration of national budgets should be based on a participatory, consultative and consensual approach. The budget execution should be characterized by a combination of robustness of a correct forecast and flexibility required for the adaptation to the challenges of the economic situation, often characterized, especially in recent, years by turbulence.

ANNEX I. Eurostat database regarding the budget deficit, 2003-2012

Government deficit/surplus, debt and associated data [gov_dd_edpt1]

Last update 04.12.13

Extracted on 09.12.13

Source of data Eurostat

Short Description Short Description is not available

UNIT Percentage of GDP

SECTOR General government

INDIC_NA Procedure) Net lending (+)/Net borrowing (-) under the EDP (Excessive D

GEO/TIME	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Norway	7,3	11,1	15,1	18,5	17,5	18,8	10,5	11,0	13,3	13,6
Germany	-4,2	-3,8	-3,3	-1,6	0,2	-0,1	-3,1	-4,2	-0,8	0,1
Estonia	1,7	1,6	1,6	2,5	2,4	-2,9	-2,0	0,2	1,1	-0,2
Sweden	-1,0	0,6	2,2	2,3	3,6	2,2	-0,7	0,3	0,2	-0,2
Luxembourg	0,5	-1,1	0,0	1,4	3,7	3,2	-0,7	-0,8	0,1	-0,6
Bulgaria	-0,4	1,9	1,0	1,9	1,2	1,7	-4,3	-3,1	-2,0	-0,8
Latvia	-1,6	-1,0	-0,4	-0,5	-0,4	-4,2	-9,8	-8,1	-3,6	-1,3
Finland	2,6	2,5	2,9	4,2	5,3	4,4	-2,5	-2,5	-0,7	-1,8
Hungary	-7,3	-6,5	-7,9	-9,4	-5,1	-3,7	-4,6	-4,3	4,3	-2,0
Austria	-1,5	-4,4	-1,7	-1,5	-0,9	-0,9	-4,1	-4,5	-2,5	-2,5
Italy	-3,6	-3,5	-4,4	-3,4	-1,6	-2,7	-5,5	-4,5	-3,8	-3,0
Romania	-1,5	-1,2	-1,2	-2,2	-2,9	-5,7	-9,0	-6,8	-5,6	-3,0
Lithuania	-1,3	-1,5	-0,5	-0,4	-1,0	-3,3	-9,4	-7,2	-5,5	-3,2
Malta	-9,0	-4,6	-2,9	-2,7	-2,3	-4,6	-3,7	-3,5	-2,8	-3,3
Euro area (17 countries)	-3,1	-2,9	-2,5	-1,3	-0,7	-2,1	-6,4	-6,2	-4,2	-3,7
Euro area (16 countries)	-3,1	-2,9	-2,5	-1,4	-0,7	-2,1	-6,4	-6,2	-4,2	-3,7
Slovenia	-2,7	-2,3	-1,5	-1,4	0,0	-1,9	-6,3	-5,9	-6,3	-3,8
Iceland	:	:	4,9	6,3	5,4	-	-	10,1	-5,6	-3,8
European Union (28 countries)	:	:	:	:	:	:	-6,9	-6,5	-4,4	-3,9
European Union (27 countries)	-3,2	-2,9	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-3,9

European Union (25 countries)	-3,2	-2,9	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-3,9
Poland	-6,2	-5,4	-4,1	-3,6	-1,9	-3,7	-7,5	-7,9	-5,0	-3,9
Belgium	-0,1	-0,1	-2,5	0,4	-0,1	-1,0	-5,6	-3,7	-3,7	-4,0
Denmark	0,1	2,1	5,2	5,2	4,8	3,2	-2,7	-2,5	-1,8	-4,1
Netherlands	-3,1	-1,7	-0,3	0,5	0,2	0,5	-5,6	-5,1	-4,3	-4,1
Czech Republic	-6,7	-2,8	-3,2	-2,4	-0,7	-2,2	-5,8	-4,7	-3,2	-4,4
Slovakia	-2,8	-2,4	-2,8	-3,2	-1,8	-2,1	-8,0	-7,7	-5,1	-4,5
France	-4,1	-3,6	-2,9	-2,3	-2,7	-3,3	-7,5	-7,1	-5,3	-4,8
Croatia	:	:	:	:	:	:	-5,3	-6,4	-7,8	-5,0
United Kingdom	-3,5	-3,5	-3,4	-2,8	-2,8	-5,0	11,4	10,1	-7,7	-6,1
Cyprus	-6,6	-4,1	-2,4	-1,2	3,5	0,9	-6,1	-5,3	-6,3	-6,4
Portugal	-3,7	-4,0	-6,5	-4,6	-3,1	-3,6	10,2	-9,8	-4,3	-6,4
Ireland	0,4	1,4	1,6	2,9	0,2	-7,4	13,7	30,6	13,1	-8,2
Greece	-5,6	-7,5	-5,2	-5,7	-6,5	-9,8	15,7	10,7	-9,5	-9,0
Spain	-0,3	-0,1	1,3	2,4	2,0	-4,5	11,1	-9,6	-9,6	10,6
FYROM	:	:	:	:	:	:	:	:	:	:
Turkey	-9,0	-4,4	-1,2	0,8	-1,5	-2,8	-7,0	-2,6	:	:

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