THE FISCAL FRAMEWORK IN ROMANIA – THE EFFICIENCY OF FISCAL RULES

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Abstract

The response of the fiscal policy makers to the fiscal crisis in Romania from 2009-2010 was the initiation of a comprehensive program of fiscal consolidation in mid-2010 alongside with a fundamental modification of the institutional framework within operates the fiscal policy, namely switching to a precisely defined rules-based fiscal framework compared to the previously existing broad discretion. The effectiveness of a fiscal rule is given by the constraint it imposes on the behavior policy makers. This research examines the effectiveness of the fiscal rules introduced by Romania in 2010 through the Fiscal Responsibility Law by assessing the ex-ante and ex-post compliance with the rules and concludes that this was rather reduced, the fiscal rules failing to exert strong constraints on the behavior of policy makers. In this context, it is necessary a reform of the existing fiscal rules, especially in the context of implementing in the national legislation since 2014 of the rules stipulated in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

Keywords: fiscal policy, fiscal governance, fiscal rules

JEL Classification: E62, H11, H62

1. Introduction

The conduct of fiscal policy in Romania during 2005-2008 was strongly expansionary acting towards stimulating the economy, even when it has performed well above potential. The headline budgetary deficits recorded in 2005-2008 of 1.2% of GDP, 2.2% of GDP, 2.9% of GDP and 5.7% of GDP respectively corresponding to structural deficits of 2.3% of GDP, 3.5% of GDP, 2.9% of GDP and 8% of GDP respectively showed, beyond a pro-cyclical nature, a lack of discipline

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of the fiscal policy. This was fully revealed later, after the onset of the economic and financial crisis in the third quarter of 2008, the budgetary deficit in the next year reaching a particularly high level of around 9% of GDP while the trajectory of the public debt has become one characterized by a steep advance, increasing by 17 pp of GDP in 2010 compared to 2008. The magnitude of the fiscal imbalances accumulated triggered a broad process of fiscal consolidation in 2010, and with it was initiated a comprehensive reform of the institutional fiscal framework.

If before 2010, the fiscal policy was guided only by the 3% headline deficit ceiling stated in the Maastricht Treaty, as the period from the EU accession in 2007 and the moment when the economic and financial crisis emerged was not enough for the successful implementation of the corrective arm of the Stability and Growth Pact, the new fiscal framework based on the Fiscal Responsibility Law no. 69/2010 imposed the formulation of the fiscal policy coordinates in a setting characterized by more stringent rules compared to the large discretion from the past.

Even if *de jure*, fiscal policy seems to be set in a framework characterized by strict rules, is it of interest to assess in practice how the decision makers complied with these rules, both *ex-ante*, i.e. when formulating the draft budget or the budget amendments and *ex-post*, i.e. based on the budgetary execution. The motivation of this research consists in assessing how operational is the rule-based fiscal framework in Romania and if it managed to successfully eliminate the discretion of fiscal policy, characteristic to the period before the crisis.

This research aims to evaluate the effectiveness of the fiscal rules introduced in Romania in 2010, namely the extent to which they were able to constrain the behavior of fiscal policy makers. The contribution of the paper to the existing literature consists in a comprehensive assessment of the compliance with the national fiscal rules introduced by the Fiscal Responsibility Law in 2010 which is further used to formulate conclusions about the efficiency of fiscal rules in Romania as the latter is largely given by the degree of constraint that they impose on the policy makers. The paper is structured as follows: the next section makes an overview of the debate from the literature regarding rules versus discretion in fiscal policy, followed by the presentation of the fiscal framework characteristics in Romania, the assessment of the effectiveness of fiscal rules and the conclusions and implications for economic policy makers.

2. Rules versus discretion in fiscal policy

Achieving the objectives of macro stabilization and ensuring debt sustainability by public finances can be achieved in a framework based on rules or one based on discretion. If in the second case, the advantage is represented by flexibility and possibility to respond timely to shocks manifested in an economy, a policy based on rules has the advantage of reducing the problem of time inconsistency, respectively the temptation to abandon a preannounced policy subsequent to the formation of the economic agents' expectations. Also, a frequently encountered argument in the literature in the favor of rules is the fact that fiscal policy is a too strong instrument for being left in the hands of policy makers and it is preferable the existence of a constraint for their behavior.

One of the arguments for fiscal activism is the ability to react to the position in the economic cycle, which may not occur in the case of an option to rules. Fatas and Mihov (2006) investigate using data from 48 states in the USA the effect of adopting quantitative restrictions at the fiscal policy level on the macroeconomic volatility. The authors show that stricter budgetary rules leads to a lower volatility of the fiscal policies, respectively less discretion and diminishes the fiscal policy response to output shocks, by reducing the modifications of the budgetary expenditures coordinates. These two effects have opposite effects on GDP volatility, but the authors show that the first effect, which acts to a lower output volatility prevails, which essentially is another argument in favor of rules.

Moreover, discretion generally failed to generate a countercyclical conduct of the fiscal policy, especially for developing countries. For example, Frankel et al. (2012) identifies pro-cyclical behavior or in the worst case an acyclic behavior of fiscal policy in developed countries and generally pro-cyclical in developing countries. However, in the case of the latter, during the 2000s, a third managed to escape from the trap of pro-cyclicality and the authors demonstrated that this development is closely linked to the quality of the institutions that appears as the key element. In support of this idea come the results of Adam and Iacob (2014) who, studying the impact of fiscal rules on fiscal consolidation in the post-crisis period came to conclusion that efficient fiscal institutions, in the form of Fiscal Councils, can foster significantly the efficiency of the fiscal rules in enforcing budgetary discipline if they manage to generate sufficient reputational costs for the Government in case of non-compliance.

Alesina et. al (2008) investigating the causes that lead to this suboptimal policy mainly reach to an explanation regarding the agent problem from a political perspective. Thus, the pro-cyclical characteristic is favored by the voters behavior who want to reduce politicians rents. Thus, voters notice when the economy improves and demand more public goods or lower taxes which induce a pro-cyclical feature for fiscal policy. Also, for explaining this problem it cannot be ignored the specific pro-cyclicality of the financial markets, the supply of credit being much more abundant in periods of expansion and rarer in periods of recession. Governments respond to this situation by restricting the deficit in difficult times, as many developing countries have in these periods a limited access to loans or this is possible only at very high interest rates. On the other side, in the upward phase of the economic cycle, the loans are more affordable and governments choose to increase government spending in these periods. However, according to the above mentioned authors, the political argument prevails given that countries could for instance accumulate reserves through borrowing in advance in periods of expansion. Increasing the propensity of the Government to spend in the presence of additional income is also shown by Talvi and Vegh (2005) and an explanation of this is represented by the fact that when there are more available resources, the fight for them is intensifying and leads to budget deficits.

Bergman and Hutchinson (2014) analyze the extent to which fiscal rules may help to reduce the pro-cyclicality of fiscal policy, namely the manner in which government spending reacts to changes in GDP, through a panel analysis which includes 81 developed countries or emerging countries during 1985-2012. The authors also build composite indicators of fiscal rules based on which they analyze the extent to which the introduction of rules causes a reduction in the pro-cyclicality of fiscal policy. The results show that the fiscal rules are effective in reducing the pro-cyclicality, but only after a certain threshold in terms of the quality and efficiency of governance is reached. Thus, only government efficiency is not sufficient to reduce the pro-cyclicality of fiscal policy, but in combination with fiscal rules, there can be obtained spectacular results regarding the reduction of the pro-cyclicality and, above a certain threshold, it can be generated even a countercyclical fiscal policy. The authors also show for the countries with low efficiency of governance, that a solution to mitigate the pro-cyclicality of fiscal policy is the adoption of supranational rules.

Given the option for fiscal rules the question that arises is about their effectiveness. Bernanke (2010) identifies four factors that decisively contribute to achieving a high level of efficiency for fiscal rules: transparency, orientation to ambitious targets, the possibility to exercise a direct control by policy makers, understanding and support of the general public of the chosen rules.

Bianchi and Menegatti (2007) summarize the arguments mentioned in the literature that advocate for rules to the detriment of discretion regarding fiscal policy. Thus, there may be mentioned the distortions and financing costs generated by budgetary deficits, the crowding out of investment which implies that the financing needs of the state as a result of increasing budgetary deficit leads to higher interest rates throughout the economy and to lower private investment, the Ricardian equivalence that postulates the inefficiency of the fiscal policy to stimulate the production due to the reaction of private agents who respond to the fiscal stimulus through savings in anticipation of some higher future taxes, the existence of a propensity to deficits of governments for purely political reasons, the ensuring of the public finances sustainability to prevent negative consequences in the short and long-term of fiscal crisis. Also, in the monetary union such as the euro area, the stabilization of the share of public debt to GDP is more important to prevent the contagion effect on other countries and also not to create additional difficulties regarding monetary policy decisions. To investigate the technical advantages and disadvantages of rules versus discretion regarding fiscal policy, the authors apply a Kydland-Prescott framework for considering the time inconsistency problem. So, it is considered the tradeoff between production and stabilization of debt starting from the latter dynamics equations considering also the existence of risk premium linked to the probability of bankruptcy for a country. The model has shown that choosing a discretionary policy creates a tendency towards deficits, a problem exacerbated by the reaction of financial markets that increase risk premiums in anticipation of higher deficits.

Barbone et. al (2010) studied the case of emerging economies, namely Poland, Russia, Turkey regarding the relationship between fiscal performance and reform of the fiscal framework using data from the years 2000 and concluded that not all reforms have produced the expected results, particularly fiscal rules which proved ineffective for being operational during a crisis due to their inflexibility, but other institutional reforms have helped to improve fiscal governance and public finance position.

Bova et al (2014) examine the relationship between fiscal rules and pro-cyclical fiscal policies in emerging and developing economies. The authors note that in most cases, in these countries, fiscal policies were pro-cyclical with a negative effect on welfare and economic growth, but this behavior has been less pronounced in the last 10 years, a period that coincided with the adoption of fiscal rules, suggesting a possible link between them. However, from a theoretical perspective this link is ambiguous given the fact that by the enforcement of strict fiscal policy, the rules could prevent the reaction to the position in the economic cycle, but on the other hand, could prevent a significant increase of expenditure in periods of expansion and contraction during recessions. The authors conclude that the introduction of rules did not protect the emerging economies from pro-cyclicality, but the introduction of a new generation of rules with clearly defined escape clauses and more provisions which can strengthen the application of rules have the potential to reduce the pro-cyclicality of fiscal policy.

There are not in the literature any attempts so far, to my knowledge, to assess the efficiency of the fiscal rules introduced by Romania in 2010 through the Fiscal Responsibility Law or a structured analysis assessing the compliance with the fiscal rules for the entire period after their introduction. This analysis can help formulate conclusions about the degree of discretion regarding fiscal policy existent in Romania, the commitment of policy makes towards rules and about the current design of the rule-based fiscal framework.

3. The characteristics of the fiscal framework in Romania

The fiscal framework in Romania is, *de jure*, one based on rules, so there are in this regard specific national rules together with the fiscal rules imposed at European level. Chronologically speaking, in 2010 was adopted the Fiscal Responsibility Law no. 69/2010 which established a set of principles and rules for strengthening fiscal discipline. By definition, a rule is a provision exercising constraints on policy-makers in formulating the fiscal policy decisions, and in the present research will be considered only the so-called numerical rules, namely those referring to precisely quantifiable targets.

Thus, the rules that have guided the fiscal policy after 2010 had mainly focused on setting ceilings on the budget balance and primary balance, for total expenditures and also personnel expenses for two years. The fiscal policy before 2010 was oriented primarily on the short term, with no medium-term projection of the budgetary aggregates and the Fiscal Responsibility Law introduced the concept of medium term budgetary framework, which was to materialize in the so-called fiscal strategy. This should be promoted in the first 7 months of the year and would provide a complete projection of the budgetary aggregates (revenue, expenditure, deficit) for the next 3 years (with a starting point in the year after its adoption) and was also accompanied by the so-called Ceilings Law for some indicators specified in the fiscal framework which contained the above mentioned expenditure ceilings. It must be said from the start that the Fiscal Responsibility Law no. 69/2010 did not contain clear sanctions for violations of its provisions, the sanctions in case of non-compliance for the decision makers being more reputational. Regarding the ceilings law which represented the central element that would give a medium-term perspective to the fiscal policy, it was essential that this bill to be adopted before the budget law for next year so as to exert constraints when formulating the draft budget which would lead to predictability and fiscal discipline. The adoption of this law together with the budget law would mean identical projections in both laws, the ceilings law failing in this case to exert real constraints on policy makers in setting the fiscal policy coordinates.

As regards the actual formulation of the expenditure limits, there are two types of ceilings, expressed in nominal terms or as a percentage of GDP. The latter operates for the next 2 calendar years, beginning with the next budgetary year and recognizes the difficulty of multi-annual projections in nominal terms, mainly because of the volatility in the main macroeconomic variables, namely GDP and inflation, while the role of the nominal ceilings is to exercise strong constraints when formulating the next year budget. It also have to be noted a ceiling for the primary balance, i.e. the budgetary balance net of interest expenses and this is to prevent any savings that are made on the interest expenses as a result for example of more favorable financing conditions to be spent for other purposes. Also, there is a ceiling on total expenditure in nominal terms applicable to the next budgetary year to prevent slippages on the expenditure side. It is to also to be noted that the rule on total spending refers to total expenditure less the amounts received from the EU so that, if better than anticipated absorption of European funds occurs the law permits to engage into additional spending without violating the rules, given the fact that the projects funded European funds are inextricably linked to the revenues received from the EU.

Beyond the provisions stated in the Fiscal Responsibility Law no. 69/2010, the fiscal policy in Romania, given the status of EU member of the country, falls under the Stability and Growth Pact, whose corrective component imposes a headline deficit of less than 3% while the preventive law establishes a budgetary balance target, respectively the so-called medium-term objective, expressed in structural terms. The aim is to achieve a budgetary balance, adjusted for the cyclical position of the economy capable of ensuring the stabilization of public debt and covering part of the additional costs of an aging population. The medium term objective for Romania, arising from the provisions of the Stability and Growth Pact was established as a deficit of 1.25% of GDP in structural terms.

In 2012, in response to the sovereign debt crisis in the Eurozone, 25 EU member states signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Romania being among the signatory states, which sets the establishment of new fiscal rules in Europe. Thus, it was imposed the obligation of a maximum structural deficit of 0.5% of GDP which could go up to 1% of GDP for countries, as was the case in Romania, with a low public debt. This rule was introduced with an automatic correction mechanism designed to quickly initiate measures in case of slippages, together with a theoretically more efficient system of sanctions. However, most countries received a broad enough term to which they could apply the provisions of this new Treaty. Romania introduced into national law by the end of 2013 the structural deficit rule and the conditions governing the automatic correction mechanism, so that these can affect the ceilings law for the 2015 fiscal year. The Fiscal Responsibility Law now refers to a budgetary target equal with the medium-term objective but there is no any defined threshold, thereby allowing the target to be updated on the European Commission's decision. Given the provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and the Stability and Growth Pact, the medium-term objective for Romania was established as a structural deficit of 1% of GDP.

4. The assessment of the efficiency of fiscal rules in Romania

Given the actual implementation of these new rules since 2015, this paper will analyze the effectiveness of fiscal rules, in terms of *ex-post* and *ex-ante* compliance and will refer only to the rules imposed by national law in 2010 in order to investigate the extent to which they exerted constraints at the level of the fiscal policy makers during 2011 -2015. Also, given the fact that the ceilings expressed as a percentage of GDP that should be mandatory for the next two years were basically updated every year during the new iteration of the ceilings law, an analysis of the actual compliance with them is relevant only for the following year in which they were established. Next it will be analyzed how the expenditure ceilings set by the annual laws were respected during 2011-2015.

The Law no. 275/2010 imposed expenditure ceilings for the **2011** budget year as follows: for the general government balance - 23,953.4 million lei (4.4% of GDP), the total expenditure net of financial assistance from the EU 194.419 million lei (35.71% of GDP) and staff costs 40 574 million lei (7.45% of GDP). The budgetary execution for 2011 confirms the compliance with the ceilings for the budgetary deficit and for personal expenses, but for the total expenditure it was exceeded by about 4.11 billion lei, which represents a significant difference compared to the proposed target. The latter is explained both by the implementation, during the budgetary rectifications, of swap compensation schemes designed to clear some arrears to the budget with symmetrical impact on revenues and expenditures of about 2.5 billion lei, and also by some additional discretionary spending of about 1.6 billion lei.

These compensation schemes were intended basically to erase debts of state owned companies and did not involve an influence over the budgetary balance given their impact both on revenue and on expenditure, but clearly show a lack of financial discipline of state owned companies. Even if when assessing the fiscal rules, they could be considered as a valid exception, there is also the argument that such a scheme could be implemented without the violation of the fiscal rules, for example by considering these schemes since the draft budget. Furthermore, such behavior is to some extent generator of moral hazard, while creating incentives for companies with low financial discipline not to pursue structural reforms in order to improve their financial performance knowing that they can accumulate debt which at one point in time will be forgiven by the state.

Beyond the effect of these schemes, there was an extra expense to those laid down in the draft budget of about 1.6 billion lei that, although they were financed by the additional revenues from tax receipts and social security contributions, reflected a material breach of this rule. Basically, the essence of this rule is to prevent additional spending of the eventual extra revenue over the initial program, these amounts being required to be used for reducing the budgetary deficit and the public debt. This rule together with a prudent budget revenue projection in the draft budget would be likely to contribute to fiscal discipline and restrain the government's attempt to spend in excess. In conclusion, the first year when the ceiling law was operational, there were significant overruns of the spending limits, even if the budget deficit target has been reached.

For **2012**, the ceilings have been established by Law no. 291/2011 as follows: for the general government balance -17,675.2 million lei (-3% of GDP), the total expenditure net of financial assistance from the EU 203,084.2 million lei (34.48% of GDP) and for personal expenses 42500 million lei (7.2% of GDP). Even if the final execution recorded compliance with the expenditure ceilings and the one related to the budgetary balance, it should be noted that during the year, with the occasion of the budget revisions, the government increased the amount planned to be spent, violating ex-ante the rules stipulated in the ceilings law.

The final execution has not recorded overruns mainly due to the under execution of projects funded by external grants, which are included in general within investment expenditure. Basically, the ceilings law limits has not imposed firm constraints in the way in which the policy makers formulate the fiscal policy coordinates in the very first 2 years from its introduction.

For **2013**, the ceilings established by Law 4/2013 were at the following levels: -13,394 million lei (-2.1% of GDP) for the general government balance, 210,828.9 million lei (33.82%) of GDP for total expenses net of the financial assistance from the EU and other donors, 46,154 million lei (7.4% of GDP) for personnel expenses. The budgetary execution for the year 2013 did not confirm the compliance with the rules for all the indicators considered. Thus, although the total expenditure ceiling was observed (level of expenditures net of the financial assistance from the EU and other donors of 206,704.8 million lei), in the conditions of a significant failure in terms of budget revenues compared to the initial program, which was compensated only in part by reducing spending, the budgetary deficit target was missed by 2,377.3 million lei (recording a level of 2.51% of GDP), its failure representing a first since the introduction of the Fiscal Responsibility Law no. 69/2010. Also, personal spending ceiling was exceeded in nominal terms by about 144 million lei, but the overrun as a percentage of GDP was not observed (7.37% against a 7.4% limit considered) but this was due only to a better than expected nominal GDP.

It is worth noting that although both real growth and nominal GDP stood at a higher level compared to the projections, the budgetary revenues have underperformed massively, even to the initial program; this can be explained by a combination of the additional growth coming from economic sectors like agriculture which are weakly taxed and on the demand side mainly from exports and also a reduction in the collection efficiency. This proves once again the importance of the caution imposed by the ceilings law, given that it cannot be ruled out that revenue, despite a conservative estimate based on the projected dynamics for the relevant macroeconomic bases and the known elasticities, to stand at a level lower than in the draft budget. In conclusion, neither in this third year during which the law was operational, it did not exert serious constraints on the fiscal policy makers.

In **2014** the ceilings were established by Law no. 355/2014 at the following levels: for the general government balance -14,710 million lei (2.2% of GDP), for the total expenses net of financial assistance from the EU 21,662.2 million lei (or 32.4% of GDP), for personnel expenditure 48,006.1 (or 7, 3% of GDP).

The final execution showed a non-compliance with the staff costs limits, the negative gap versus the limit being 2,241 million lei or 0.24% of GDP. It is true that this excess was only due to the decision to pay in advance part of the installments for the years 2016 and 2017 related to salary rights for certain state employees established by court decisions. Basically, the overruns were not caused by fundamental factors such as the actual increase in public sector wages and could pass as a justified exception. However, compliance with the ceilings law could have been met through better budgetary programming, namely by anticipating more precisely the amounts to be paid in a year, given the fiscal space available.

Beyond the apparent compliance with the limits imposed by ceilings law for the budgetary execution for 2014, it should be noted that during that year were operated three budget amendments that anticipated breach of the limits set by law both for staff costs and for the total expenditure. The compliance with the limits occurred only as a result of the massive failure of investment spending, particularly those funded by external grants and not as a result of an improved budgetary discipline.

Table 1
The compliance with the fiscal rules in Romania in the 2011-2014 period

Fiscal Rules			The general consolidated budget balance and personnel expenditure rule		The primary balance rule	The total expenditure rule	
			mn. lei	%GDP	mn. lei	mn. lei	%GDP
2011	GCB	Ceiling (Law 275/2010)	-23,953.40	-4.40	-14,452.90	194,419.00	35.71
		Execution	-23,836.70	-4.12	-15,016.20	198,529.00	34.31
			Yes	Yes	No	No	Yes
	Personnel Expenditure	Ceiling (Law 275/2010)	40,574.00	7.45			
		Execution	38,496.00	6.65			
			Yes	Yes			
2012	GCB	Ceiling (Law 291/2011)	-17,675.20	-3.00	-7,564.80	203,084.20	34.48
		Execution	-14,774.10	-2.51	-4,063.00	199,500.50	33.96
			Yes	Yes	Yes	Yes	Yes
	Personnel Expenditure	Ceiling (Law 291/2011)	42,500.00	7.20			
		Execution	40,798.80	6.94			
			Yes	Yes			
2013	GCB	Ceiling (Law 4/2013)	-13,394.00	-2.10	-2,011.00	210,828.90	33.82
		Execution	-15,771.30	-2.51	-5,015.10	206,704.80	32.88
			No	No	No	Yes	Yes
	Personnel Expenditure	Ceiling (Law 4/2013)	46,154.00	7.40			
		Execution	46,298.60	7.37			
			No	Yes			
2014	GCB	Ceiling (Law 355/2013)	-14,710.00	-2.20	-3,486.50	216,662.20	32.40
		Execution	-12,493.20	-1.87	-2,294.00	215,137.90	30.52
			Yes	Yes	Yes	Yes	Yes
	Personnel Expenditure	Ceiling (Law 355/2013)	48,006.10	7.30			
		Execution	50,246.90	7.54			
			No	No			

Source: Ministry of Public Finance, own calculations

5. Conclusions and implications for policy makers

Concluding, the national rules introduced by the Fiscal Responsibility Law no. 69/2010 exerted a weak constraint on the decision makers in formulating the fiscal policy coordinates. Given that the efficiency of a fiscal rule is given largely by its ability to limit the discretion of policy makers, it can be concluded that the efficiency of the newly introduced fiscal rules in Romania was minimal. The expenditure ceilings related to the second budgetary year covered by them expressed as a percentage of GDP have been ineffective by construction since they can be reviewed annually. As regards the expenditure ceilings for the next budgetary year, both in nominal terms and as a percentage of GDP, they had a low efficiency, as they were often violated and only in a single year (2012) from the period 2011-2014 the ex-post compliance was observed. Moreover, even in that particular year, although the budgetary execution marked the compliance with the ceilings established by law, on the occasions of the budget amendments decided during that year, a breach of the rules of envisaged and only some particular circumstances lead to expenditures lower than the initial ceilings. The way the fiscal rules were circumvented was represented by the recourse to derogation from the provisions of the Fiscal Responsibility Law no. 69/2010, a situation that was favored by the lower legislative level of this law, respectively an ordinary law. Clearly, the ceilings law exerts particularly weak constraints over the behavior of policy makers and it has failed to fulfill its role of preventing the discretionary behavior and anchoring the expectations of economic agents. However, the rules stipulated by the ceilings law can be divided into two categories: relatively stronger rules, such as the rule related to the budget deficit that was broken only once, namely in 2013, and even then there are some specific circumstances determined by the need of support from own funds the expenditure programs from EU funds given that reimbursements from the EU were temporarily suspended, that really guides the coordinates of the fiscal policy and weak rules, such as expenditure ceilings – on total amount or only related to staff expenses - compliance with which has not been a priority. Moreover, if the deficit target is respected, the other expenditure rules could be easily met through better budgetary programming, by example setting the personnel policy for the next year at the time of the draft budget elaboration. Also, enhancing the efficiency of the fiscal rules could be attained by a more operational set of relevant sanctions for breaching the rules or changing the status of the Fiscal Responsibility Law in order to strengthen its juridical power, for example into an organic law.

In this context, it is imperative to reform the existing fiscal rules in Romania, especially in terms of the consequences of non-compliance with them and the possibly escape clauses in order to preserve the credibility of a rules-based fiscal framework.

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