

Romanian local governments through the financial crisis

Reforms and constraints

2008-2011

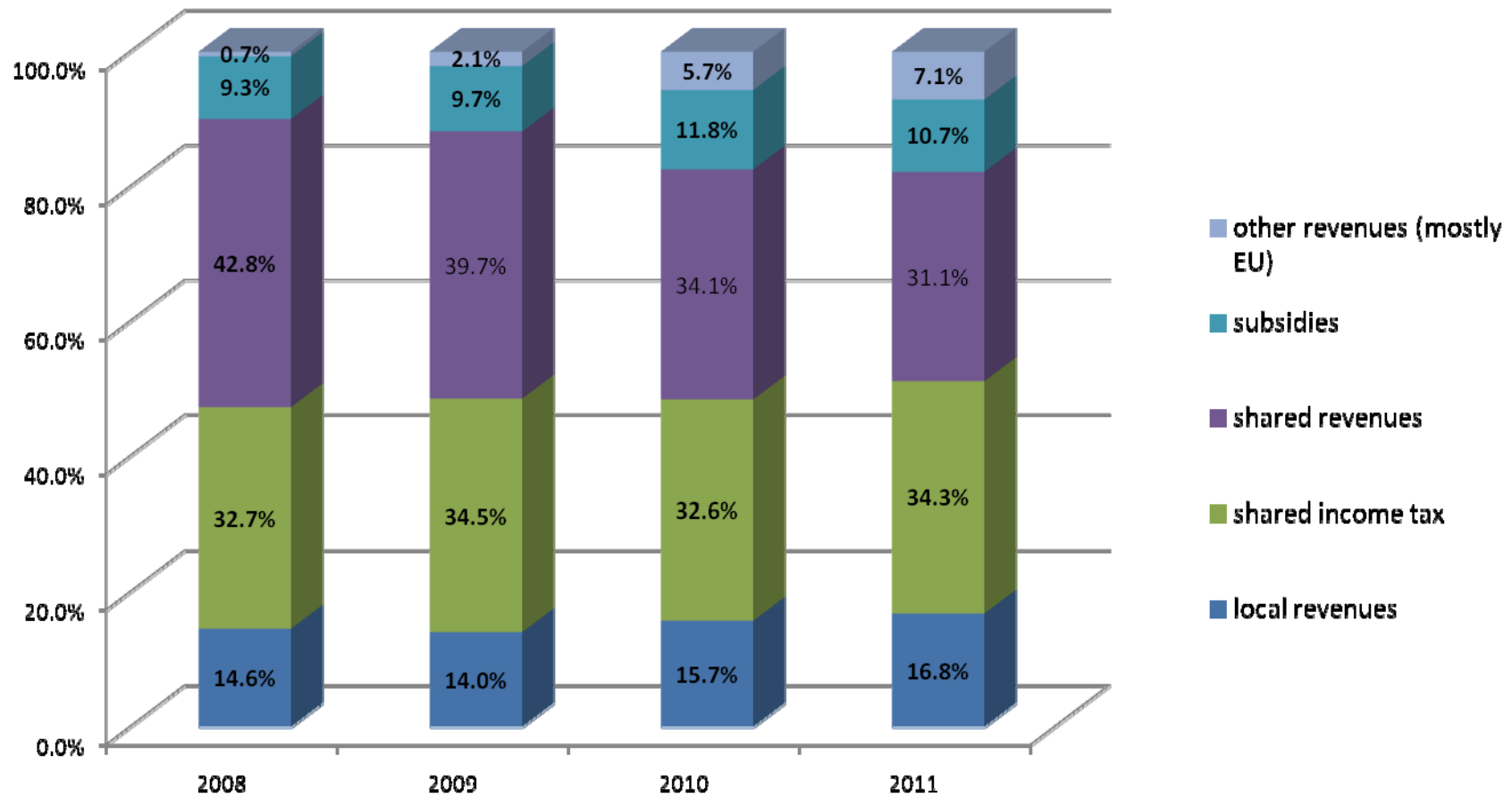
Macroeconomic framework 2008-2011

	2008	2009	2010	2011	2012	2013	2014
real economic growth	7,3%	-7,1%	-1,3%	1,5%	4,0% (2%)	4,5%	4,7%
change in total public revenues	23,4%	-5,0%	7,3%	6,5%	10,9%	9,5%	9,3%
change in total public expenditure	29,4%	1,8%	4,4%	0,8%	6,7%	7,8%	7,2%
budget deficit	-4,8%	-7,3	-6,5%	-4,4%	-3% (-1.5%)	-2,5%	-1,8

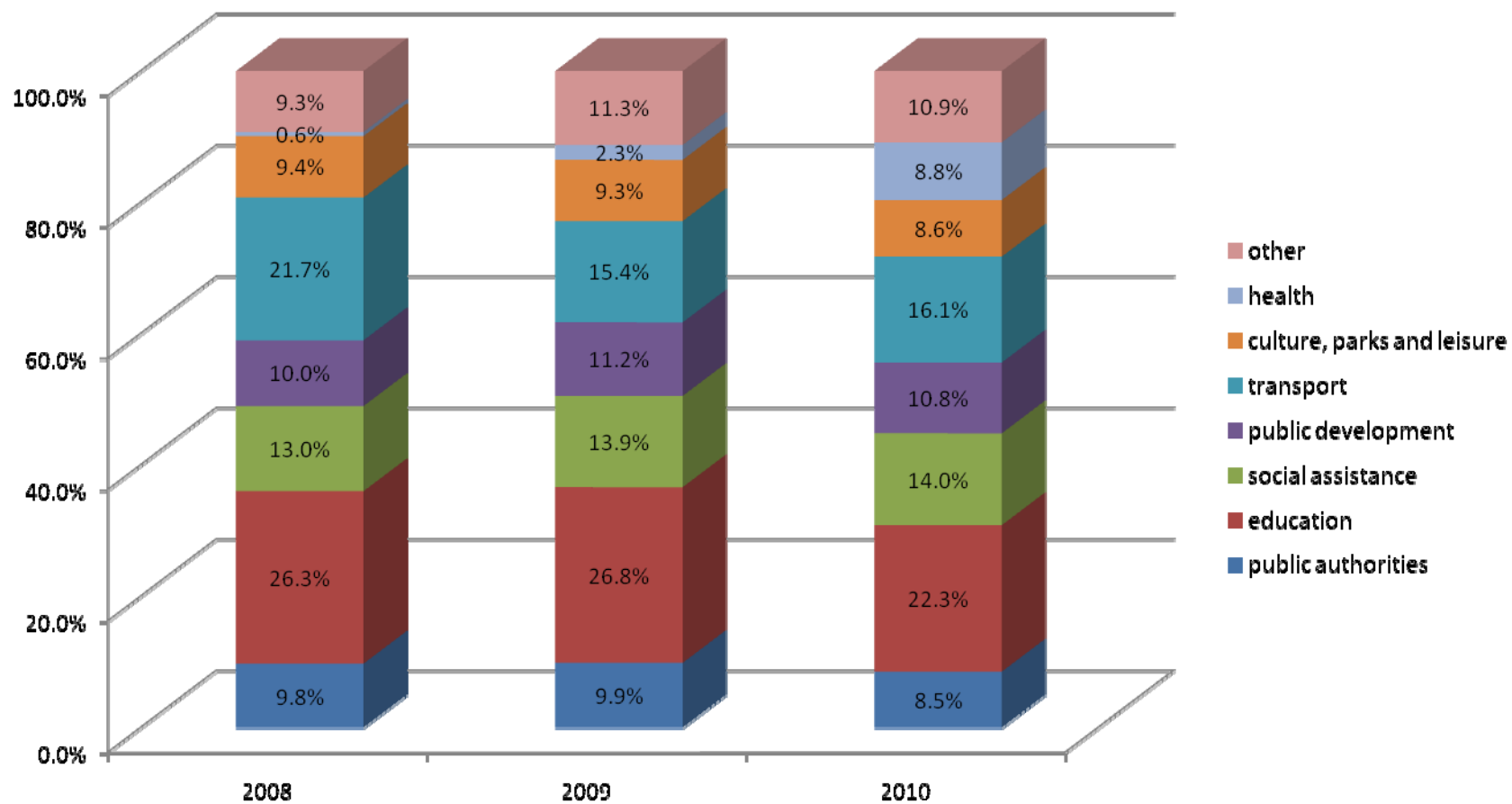
Outlook on Romanian local governments

- Total population: 21 mil.; area: 237.500 sq km
- Two tiers of local governments:
 - 1 – cities (103), towns (217) and communes (2861)
 - 2 – counties (41)
- Local government consolidated revenues, as % of GDP: 9% (2011)
- General government consolidated revenues, as % of GDP: 33.2% (2011)

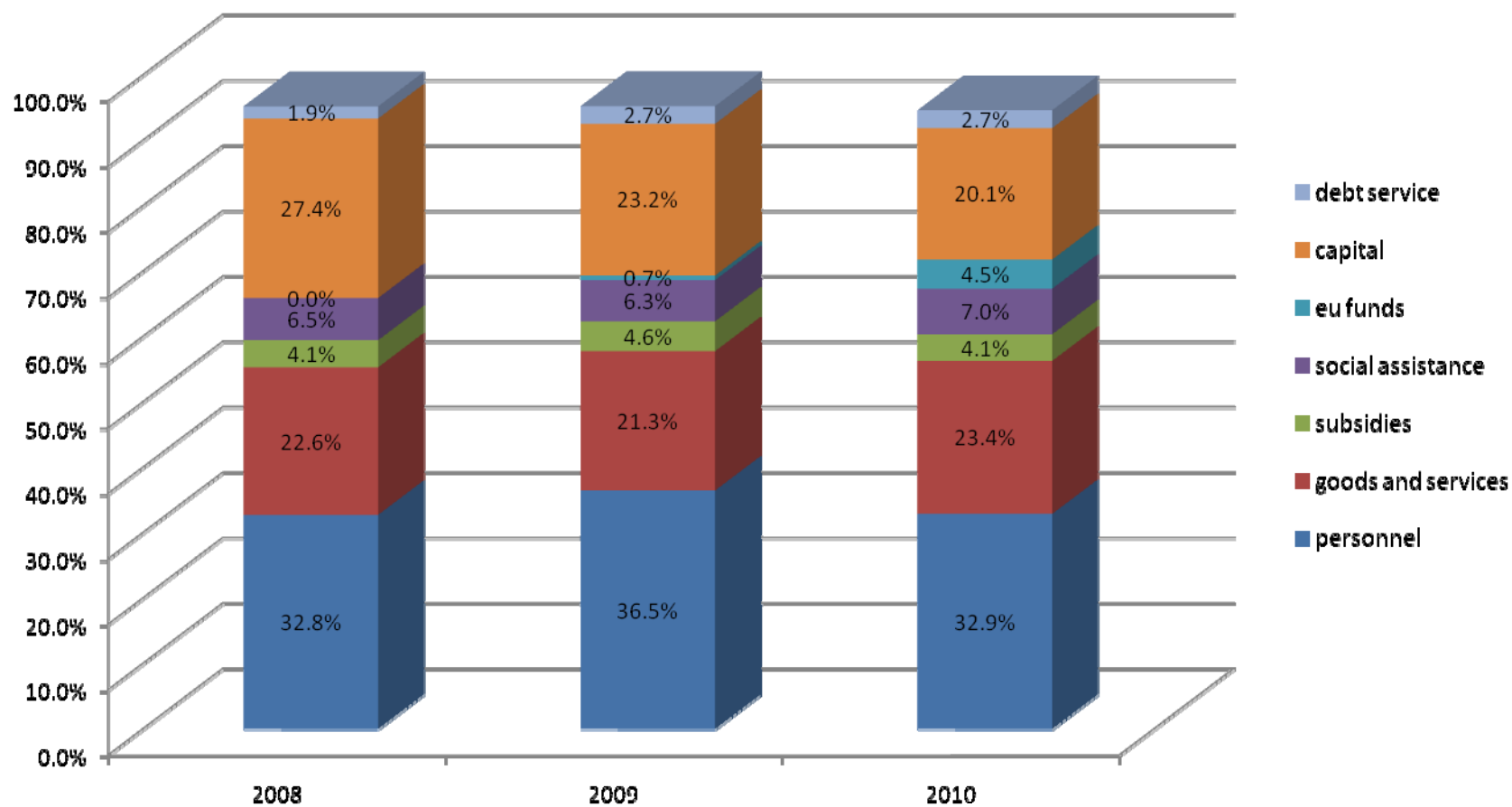
Revenue structure of local governments



Expenditure structure of Romanian local governments by function



Expenditure structure of Romanian local governments by type



Romanian local governments at the beginning of the financial crisis

- In 2008 local government revenues had increased by almost 20% as compared to 2007
- Overdue payments had also spiked to over 2 bn lei (500 mil euro), in a procyclical trend
- 2006-2008 trends reflected a loose fiscal policy both in central and local finances which could not be sustained anymore;

New rules on local budgets (I)

- Shared taxes have been cut (from 82% to 77% of income tax)
- State budget transfers have been cut
- New restrictions to local public debt (national ceilings for contracting and disbursement)
- New staff recruitment severely limited
- Staffing norms to local governments. As a result the number of local government employees has decreased.
- Nominal personnel expenditure threshold for every local government
- Public sector wages have been cut by 25% in 2010

New rules on local budgets (II)

- Local budgets are divided in two main parts: recurrent and development sections.
- New definition of final year local government budget deficit (to take into account the net cash position and unpaid bills). No deficit is allowed at year end. The definition applies to all local government institutions' budgets.
- Each new yearly budget has to put cash aside to pay last year's overdue bills. No new budget commitments can be carried put unless overdues are cleared.
- Any new investments cannot be approved unless the total cost is provided in the multi-year budget forecasts.
- Overstating of local revenues has been made impossible.

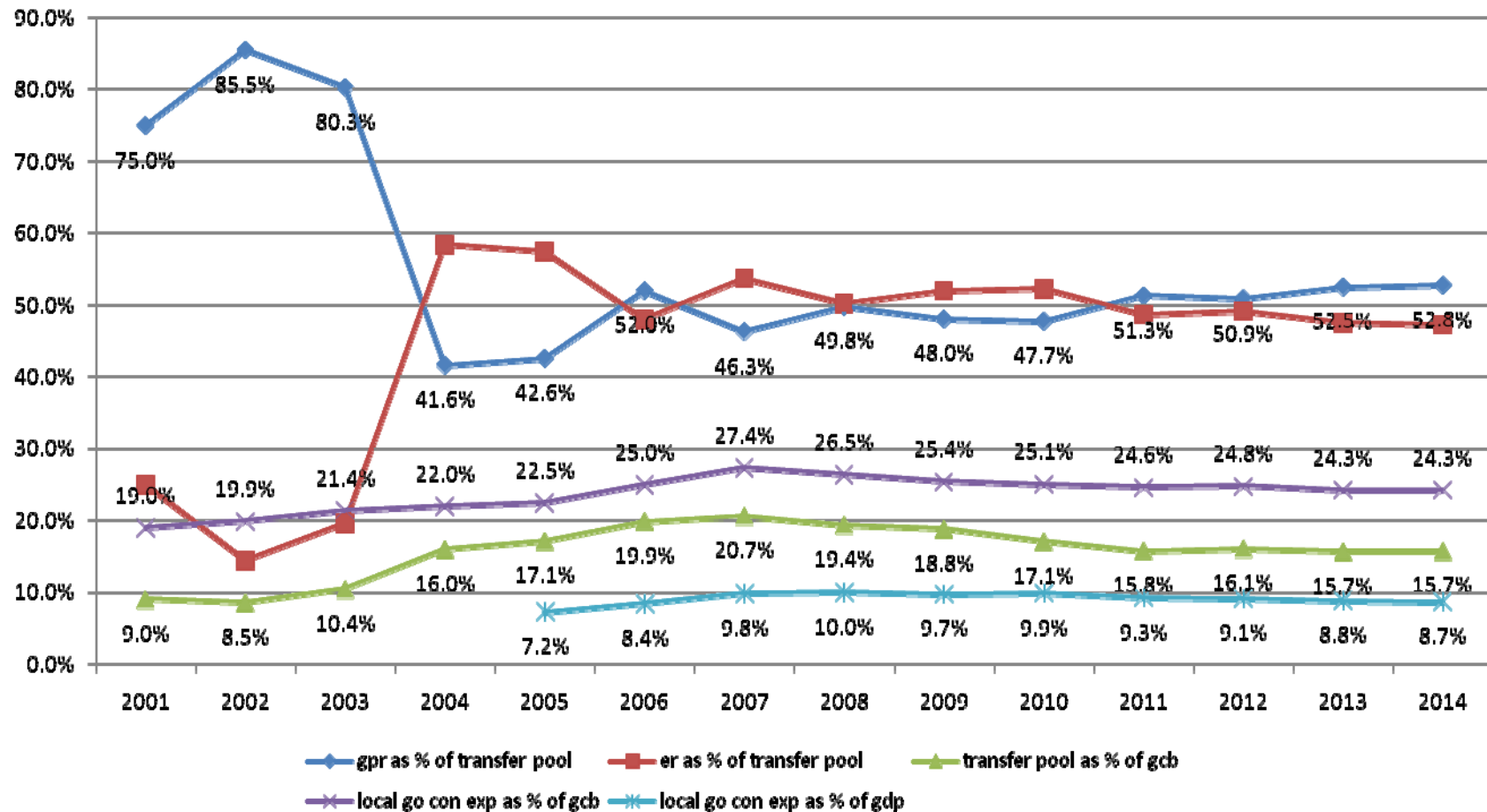
New rules on local budgets (III)

- Local governments are required to make quarterly budget revisions to make sure the deficit will stay on track by year end
- State budget investment projects must be carried out within multi-year contracts between ministries and local governments. The contracts will foresee the yearly capital subsidies for each project until completion
- Specific provisions to allow local governments' association in delivery of specific functions (audit, accounting, control etc.)

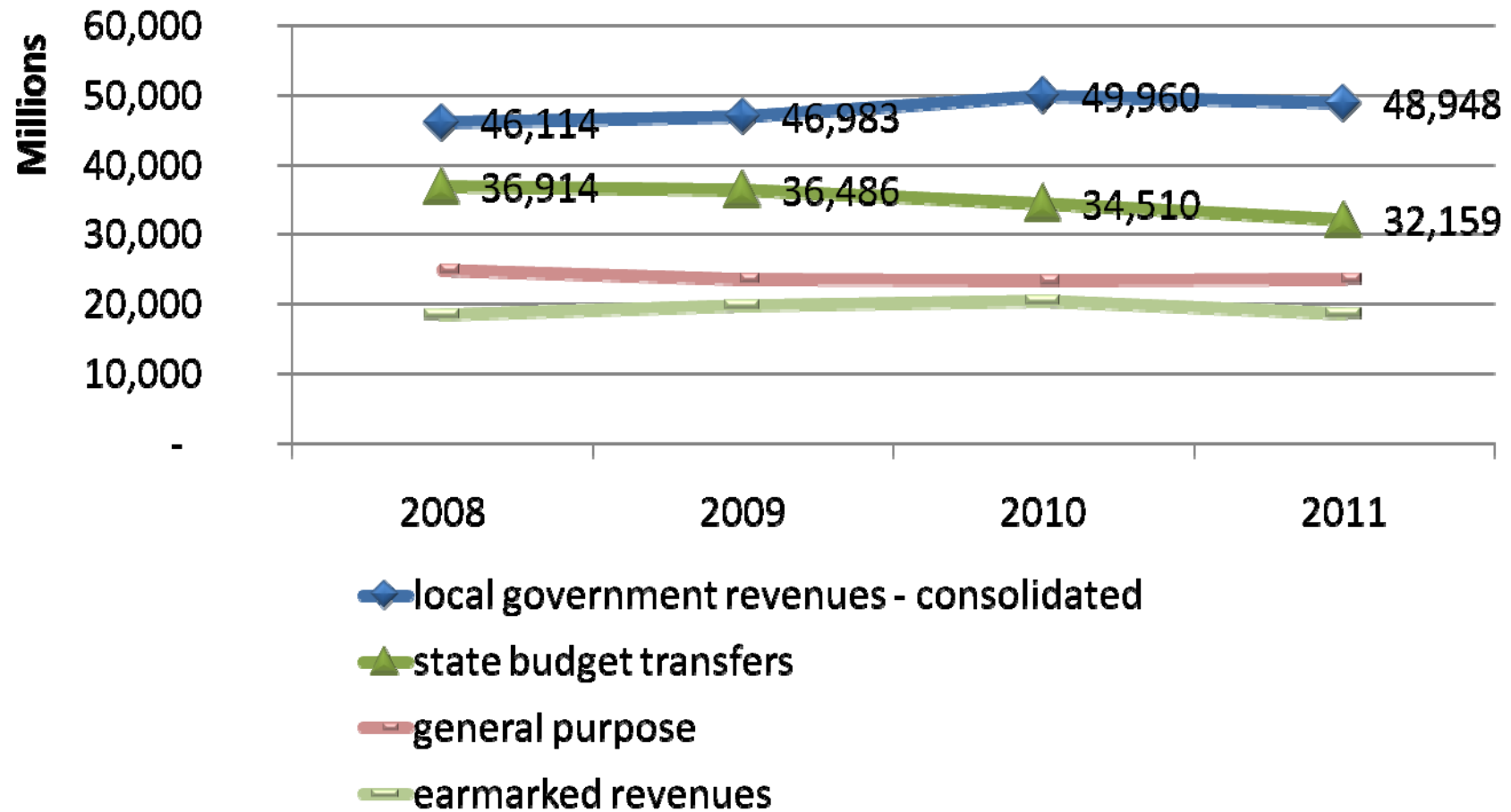
Developments in public service decentralization

- The vast majority of public hospitals (370) have been transferred to local governments (mostly to county councils) and now account as local public institutions and are included into local government budgets
- Capitation financing is being implemented in pre-university education and social assistance
- Local governments got more power over school management

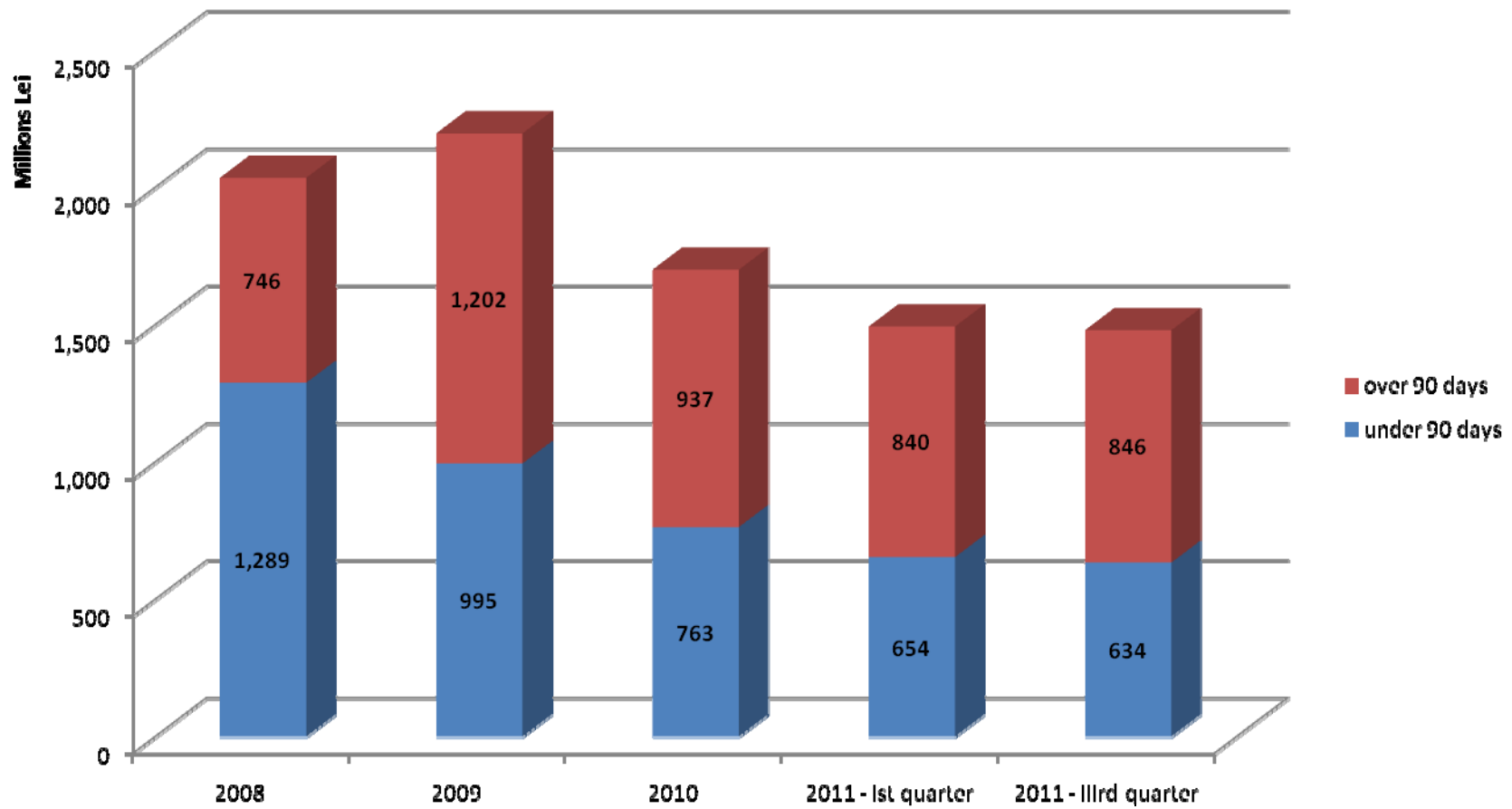
2001-2014 trends of main revenue and expenditure indicators



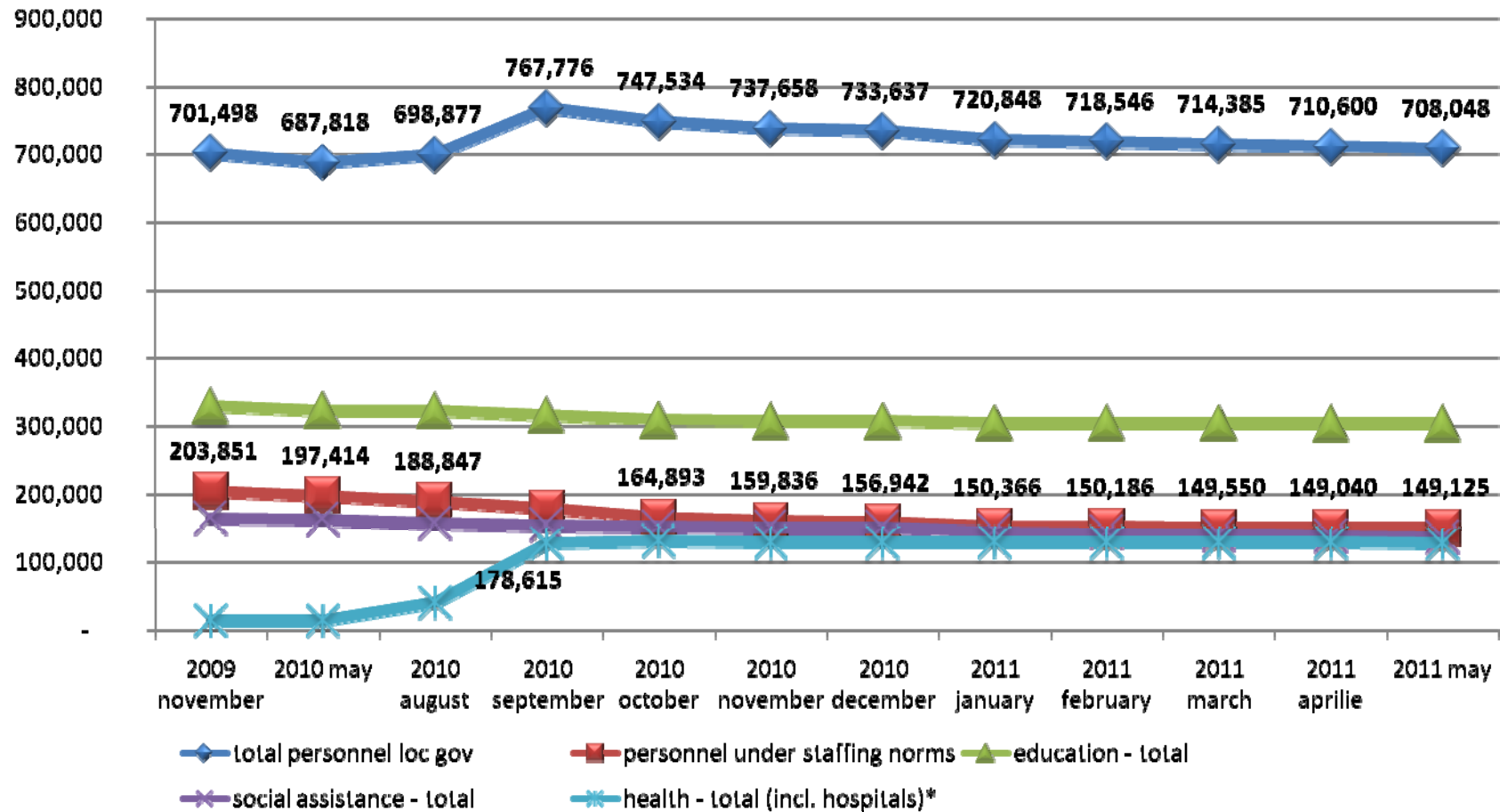
2008-2011 local governments revenues trends (nominal)



Evolution of overdue payments



Total number of local government employees 2009-2011



Conclusions?

- The crisis is not over. Some measures will stay on in the coming years too, so budget trends will likely continue.
- Enforce the law and improve monitoring and transparency.
- Local governments' quarterly financial statements and budget indicators should be provided to MAI, MoF headquarters and maybe to media.
- Ministries should step up the work of designing contracts for projects in local infrastructure.
- Central government should allocate funds from the reserve fund to local governments with less than 1 mil lei in arrears.