

PARTICULAR OVERVIEW OF THE RELATION BETWEEN THE CONVERGENCE PROGRAM ON 2012-2014 AND SALARIES' INCREASE FROM THE PERSPECTIVE OF CURRENT ECONOMIC EVOLUTION

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Abstract: Throughout the year 2010, the European Council has decided to strength the coordination of reform and fiscal budgetary politics in the member states. For that purpose it has been overdraw The Convergence Program that contains intentions of the national governments regarding the implementation of politics regarding national budgets. In this paperwork the authors have overtaken a critical analysis of Romanian nominal and real economic, fiscal and financial targets, trying to reveal based on short insertion in classical theory, proper ways of fundamenting a consolidated and sustainable national budget in crisis time.

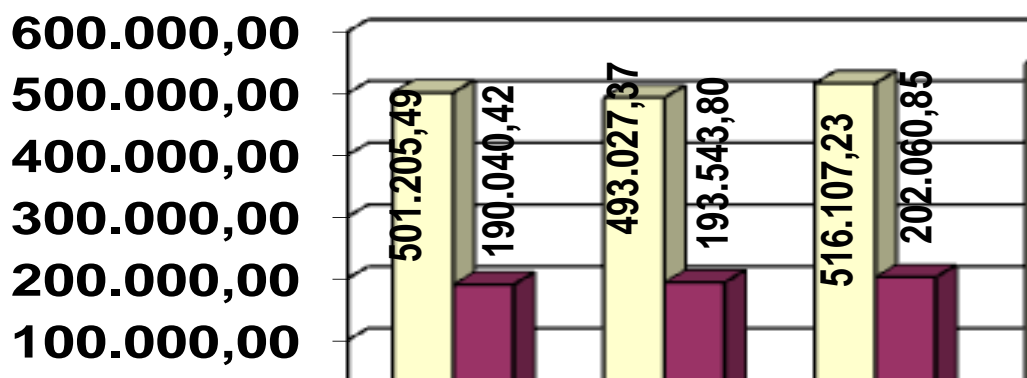
Throughout the year 2010, the European Council has decided to strength the coordination of reform and fiscal budgetary politics in the member states. For that purpose it has been determined a document called The Convergence Program that contains intentions of the national governments regarding the implementation of politics regarding national budgets. It is not in our intention to detail its philosophy, therefore the present study will be focused on presenting its main components for the 2012-2014 period, trying finally to draw correlative remarks related to these items. Thus, the main pillars of the Convergence Program proposed in this respect by the Romanian Government as targets are:

- maintaining the policy of replacing an employee out of seven that are leaving the system and complete recovery of the salary cut applied in 2010, personnel expenses reported to the GDP being planned to have a slight increase reported to 2010 fiscal year, but in perspective its resuming the lowering tendency;
- reintegration of salaries of the budgetary lines, through an increase with 16% of current basis salaries of this personnel category;
- is it targeting a budget deficit of 2,3% of the GDP and by the cash methodology a budget deficit of 1,9% of the GDP - it is a noticeable fact that this is a level below the target set at Maastricht, which is up to 3% and a step towards a structural deficit of at most 0,7% of the GDP in the next year;
- public debt on the year 2012 will represent up to 33,9% of the GDP and in the period of 2012-2015 the expectations are below 33,5%;

- economic growth will represent in 2012 up to 1,7% of the GDP, respectively with 0,4% under the estimations that based the budget on 2012; a better absorption of European funds will compensate the risk of economic deceleration;
- internal demand will be the main engine of the economic growth;
- the target for inflation rate has been set up to 3,5%;
- the tax evasion decrease based on the increase of the voluntarily compliance reporting degree on declaring incomes from 87,27% in 2011, up to 92% in 2016 and based on the increase of the level of voluntarily compliance at payment, from 77,9% in 2011, up to 85% in 2016. Thus, is estimated an increase of the collected income rate as share of GDP, assumed by the National Fiscal Administration Agency, from 28,75% in 2011 up to more than 30,5% in 2016.

These would be the targets assumed by Romania through Convergence Program, briefly commented as above. But the problem that arises is whether such growth is sustainable or not on medium and long term, in economic, financial and fiscal terms. Therefore, the Law no. 291/2011, published in the Official Gazette no. 900/19 December 2011 has established based on the provisions of the Fiscal Responsibility Law no. 69/2010, the mandatory limits for personnel expenses in general consolidated budget expressed, as a share of the GDP up to 7.2% in 2012, and further up to 7,1% in 2013.

During the period between 2008 and 2011 the nominal GDP had the following evolution:



Source: National Institute for Statistics Data processed by authors (INSSE)

The evolution of gross salaries and personnel net numbers in period of 2008-2011 is depicted in table below.

Table nr.1: *Evolution of personnel expenses in 2008-2011*

Year	Personnel expenses		
	Millions Lei	%GDP	% of total
2008	45.609,7	9,1	24,00
2009	46.837,6	9,5	24,2
2010	42.836,9	8,3	21,2
2011	38.496, 3	7,0	18,7

Source: *National Institute for Statistics Data processed by authors (INSSE)*

What this table points out?

✓ A growth of 0,2% as share of the GDP in accordance with the mentioned law provisions and with the achievement of the target economic growth as 1,7% of GDP means an increase of 1,77 million lei, that consist in an 4,6% increase of salary expenses.

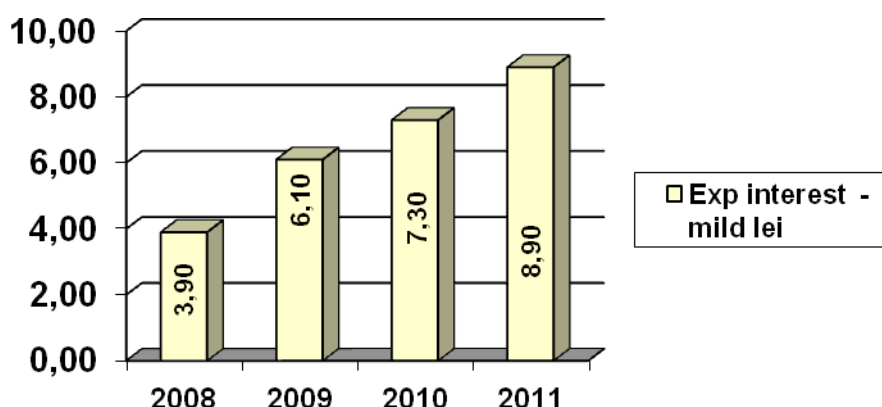
✓ In these market conditions the equilibrium main requirement is to maintain income collection rank at a level of at least similar to the one recorded in 2011, what means about 160.797,669 mil lei.

✓ Data estimated by finances specialists show a potential growth as about 4 billion lei of collected revenue and a correlative increase in expenses of about 1 billion lei, that creates the prerequisites for salary increase

with another 3 billion lei in the situation that money would be assigned solely to this purpose – but obviously judging above present market conditions there are will be other destinations for them.

✓ An extra pressure will be added by the obligation to apply the new way of calculating the health contributions imposed by the Decision of the National Constitutional Court on the normative act elaborated by the government, that has been countered in justice.

✓ Another pressure on the budget projected figures will be imposed by expenses with interest related to the public duty service. Thus, between 2008 and 2011 expenses with interest related to the public duty service had the following evolution.



Source: *National Institute for Statistics Data processed by authors (INSSE)*

We find out that this debt growth in the mentioned period has been up to 128,2%. According to this evolution is quite important to search for the

contribution of different economic triggers that contribute on GDP growth, as is has been described in the table below.

Table nr.2 *Evolution of economic increase motors in 2008-2011*

Year	2008	2009	2010	2011	2012-estimat
GDP	7,3	-6,6	-1,6	2,5	1,7
Final intake	7,2	-6	-1,1	0,3	1,4
-population	6,7	-6,8	-0,2	0,5	1,2
-public administration	0,5	0,7	-0,9	-0,2	0,2
Net export	-1,0	7,00	0,00	-0,8	-1,9

Source: *National Institute for Statistics Data processed by authors (INSSE)*

Studying the data from the above table we can underpin the next conclusions:

✓ The contribution of final intake on the two components has decreased from 7,3% of GDP in 2008 to 2,5% in 2011; in 2012 is estimated to be at the level as about 1,4% of GDP; this growth of intake comparing with

2011 is realized due to salary increase that will encourage aggregate demand.

✓ The danger consists in the decrease of net contribution of the net export that is expected to record negative values, from a maximum in 2009 of 7% to a minimum of -1,9% estimated in 2012.

CONCLUSIONS

✓ An effort of gross salary incomes increase with 16% shall be considered as sustainable only with the condition of increasing the deficit assumed through the Convergence Plan pillars;

✓ The salary growth may also be obtained through changing the inflation target to an ascending value or based on RON depreciation as currency; this policy however cannot be followed by an exports growth that still remain behind the imports disturbing the trade balance; therefore this policy should be considered a wrong attitude that has not been assumed in the agreements with the financial international organizations anyway;

✓ If in 2012 a temporary effort to increase salaries can be considerable as affordable, the 2013

comes under the question mark whether this effort can be further sustained after the elections passing;

✓ Thus, under the conditions that the decrease of the budget deficit will be further made, from 3% in this year (in which we engage the commitment to exit the excessive deficit procedure) below to 2,5% in 2013 and 2,2% in 2014, according to the Governmental Strategy approved and communicated to the international institutions;

✓ Considering the level of money lending, the future budgetary policies take into account the desiderate of paying a large amounts of money for international contracted debts, in order to realize financial security throughout the crisis period.

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