



EXPLAINING BUDGET DEVIATION

A BUDGET CREDIBILITY SNAPSHOT

April 2019

The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership's Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found [here](#).

ROMANIA: PUBLIC INVESTMENT

Romania is one of the European countries most affected by the lack of public investment. According to the Fiscal Council, the quality of Romania's infrastructure is one of the poorest in the region, particularly in key areas, such as road, rail, and energy infrastructure. In the 2017-2018 Global Competitiveness Report's index for quality of infrastructure, Romania ranked 103rd (out of 137 countries) in terms of the overall quality of infrastructure, while neighboring countries like Estonia and Hungary ranked 22nd and 48th, respectively.

BUDGET CREDIBILITY CHALLENGE

In response to this problem, the government has tried to prioritize capital investment, particularly in infrastructure. However, the government's plans have not been realized, demonstrated by the consistent deviations between the budget allocation and actual expenditure. Between FY 2014-2018, the execution rate of public investment ranged between 62 and 91 percent. In Romania, public investment is financed by the national government and European Union (EU). According to official data, the deviations in public investment tend to be driven by the under-execution of European Union (EU) funds, but this issue applies to national funds as well. For example, in 2014, 44 percent of allocated EU funds were spent and 94 percent of allocated national funds were spent; whereas in 2017, 88 percent of both EU and national funds allocated were spent.

BUDGET ALLOCATION, ACTUAL EXPENDITURE, AND PERCENT DEVIATION FOR PUBLIC INVESTMENT, BY SOURCE OF FUNDS (IN MILLION LEI)

| Year | EU | | | National | | | Total | | |
|------|--------|--------|-----------|----------|--------|-----------|--------|--------|-----------|
| | Budget | Actual | Deviation | Budget | Actual | Deviation | Budget | Actual | Deviation |
| 2018 | 33,144 | 25,526 | -23% | 20,978 | 23,861 | 14% | 54,122 | 49,387 | -9% |
| 2017 | 25,101 | 19,607 | -22% | 25,228 | 19,557 | -22% | 50,329 | 39,164 | -22% |
| 2016 | 17,050 | 10,372 | -39% | 19,183 | 19,015 | -1% | 36,233 | 29,387 | -19% |
| 2015 | 30,531 | 24,566 | -20% | 18,607 | 18,263 | -2% | 49,138 | 42,829 | -13% |
| 2014 | 33,149 | 14,672 | -56% | 18,289 | 17,140 | -6% | 51,438 | 31,812 | -38% |

Source: Ministry of Finance in Romania

WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

To a limited extent. The following documents were analyzed for explanations:

- The annual report on the budget execution
- The Fiscal Strategy 2018-2020
- The annual report sent to the Parliament for approving the budget execution
- The Fiscal Council Annual Report

Of these, only the annual reports by the Fiscal Council, Romania's Independent Fiscal Institution, contained reasons. These reports consistently raise the problem with absorbing EU funds. It also lists reasons for why public investment projects are not completed, such as procurement challenges, inefficient public administration, and poor coordination with stakeholders.

DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

Yes. Interviews were conducted with officials from the Ministry of Finance, Ministry of Culture, Parliament, Fiscal Council, European Commission, and City of Bucharest.

The officials stated that the implementation process is frustrated by the low capacity of municipalities to utilize funds, delays associated with settling complaints against award procedures, and by changes to procurement legislation. Over the past decade, public procurement legislation has been amended over 30 times.

WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

While the Fiscal Council consistently acknowledges the credibility issue with public investment, the reasons provided lack sufficient detail to adequately understand why the budget is under-spent. The reports do not specify why the ability to receive and spend EU funds is consistently overestimated over time, and it's unclear how the reasons for why projects are not completed relate to budget under-execution. They also do not clarify why the execution rate for EU funds has varied between 2014 and 2018, nor why it was far below budget for national expenditure in 2017 (and above in 2018).

Similar issues arise with the reasons provided via interviews. Regarding the capacity of municipalities, official data shows that local public investment spending does suffer from significant deviations, but the same applies to national public investment spending, meaning municipalities are not solely at fault. On the procurement legislation changes, it's not explicitly stated how these changes created delays or why so many changes have been made in the first place. The issue with claims settlement doesn't explain why some contested projects are more likely to be implemented than others. Plus, between 2016 and 2017, the execution rate of public investment fell by 3 percent, even though claims settlements increased by 48 percent.