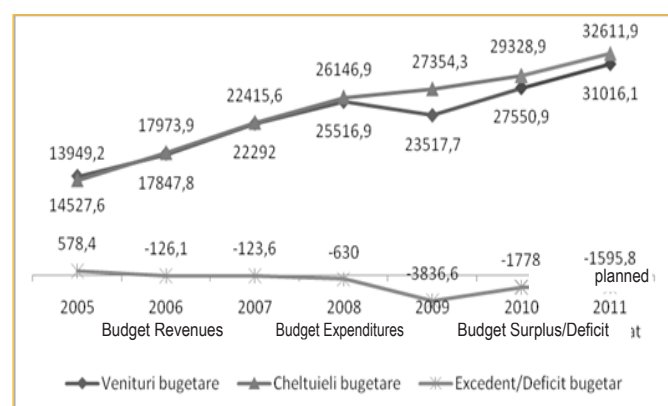


BUDGETARY ADJUSTMENTS ARE IMPERATIVE FOR ECONOMIC TRANSFORMATION

The draft budget law for 2011 reflects the positive trends in the economy of Republic of Moldova. In 2011, it is anticipated that the national economy will slow down its growth rate, but will continue to move in an ascending pattern and therefore, budgetary parameters shall be higher than in 2010. It is planned to collect 31 billion MDL in revenues, which is 3.46 billion MDL more than in 2010, expenditures are estimated at 32.6 billion MDL, exceeding expenditures from 2010 with 3.3 billion MDL, and the budget deficit is estimated to reach approximately 1.6 billion MDL, decreasing with 182.2 million MDL as compared to the previous year¹.

Figure 1. The Evolution of the National Public Budget for 2005-2011, million MDL



Source: Based on data from <http://minfin.md/ro/raport-info/budget/national/an/EvolutiaBPN/>

SUMMARY

Realizarea modului de realizare a cheltuielilor bugetare este o componentă importantă în cadrul reformării economiei naționale, orientate spre sporirea competitivității Republicii Moldova. Până în prezent, Republica Moldova are reușite modeste la capitolul gestionarea eficientă a banilor publici. Caracteristic pentru economia națională este orientarea banilor publici spre finanțarea unui amplu sector public cu o eficiență redusă și a cheltuielilor, ce nu au un impact semnificativ asupra dezvoltării. O asemenea abordare poate fi catalogată drept o constrângere pentru creșterea economică. În acest context, realizarea unor ajustări bugetare, orientate spre reducerea și prioritizarea cheltuielilor bugetare, inclusiv pe reducerea unor cheltuieli sunt o soluție adecvată. În elaborarea bugetului public pentru anul 2011 s-a utilizat și această abordare. În același timp, realizarea unor ajustări bugetare însoțite de o promovare lentă a reformelor structurale, va avea efecte minore asupra dezvoltării economice.

At present, Republic of Moldova needs serious transformations aiming at increasing the efficiency of the national economy. In this context, it is necessary to adopt a two-fold approach:

- redefine the way public funds are used – the focus should be on prioritizing better budget expenditures, including decreasing financing for some compartments with reduced efficiency. One of the effects of this approach is

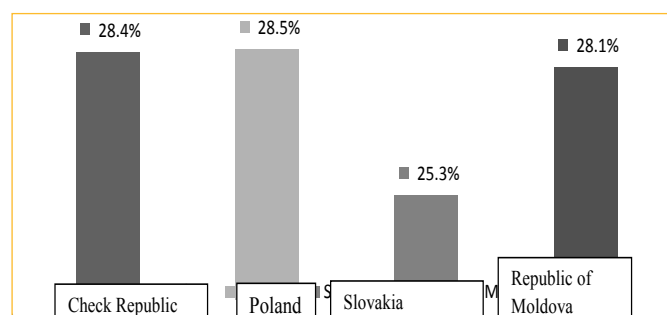
¹ Ministry of Finance, Information Note to the State Budget Draft Law for 2011, Chisinau, 2011, p. 16, 19, 24. Available at: <http://www.mf.gov.md/ro/actnorm/budget/projectact/>

the decrease of the share of public expenditures in GDP – a trend specific for the evolution of the Moldovan public budget in the past years. In 2011 it is planned that the share of public expenditures in GDP would be 39.7%, which is less than in the previous year, when this indicator was 40.8%²;

- implementing structural reforms – a component that should receive increased attention. However, Republic of Moldova has modest achievements at this chapter.

Structurally, the largest part of public resources will be used for the social sector – about 70.8% of total expenditures of the national public budget. Historically, the share of social expenditures is decreasing. In 2009, the share of social expenditures in GDP was 31.8%, in 2010, this indicator amounted to 29.8%, and in 2011 it is expected that it would reach 28.1%³. However, as share of GDP, social expenditures from Republic of Moldova are comparable to values registered in other Central and Eastern European countries.

Figure 2. Comparison of Social Expenditures as Share of GDP, %



Source: developed by the author based on data from http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE11

² Ibidem, p.20

³ Ministry of Finance, Information Note to the Stat Budget Draft Law for 2011, Chisinau, 2011, p. 21

The current draft budget shows the intention of the Government to shift public spending priorities. Such an approach is required by the existing opportunities to streamline expenditures, especially, social spending.

It should be mentioned that Republic of Moldova has poor experience in managing public funds – an obvious example is the use of nominative compensations as support for socially vulnerable population. This mechanism was inefficient, a large portion of these resources were not received by the socially vulnerable population. This situation determined the reform of the social aid mechanism with the purpose of improving its targeting.

At the same time, on the medium term, shifting public spending towards economic objectives, in particular, towards public investments, could establish prerequisites for enhancing the quality of economic growth, which would contribute to increasing income of population and reducing poverty.

The highest share of social spending from the national public budget pertains to expenditures for social insurance and assistance. In turn, the largest portion of these expenditures is covered from the State Social Insurance Budget (SSIB). SSIB can be described by 2 important features:

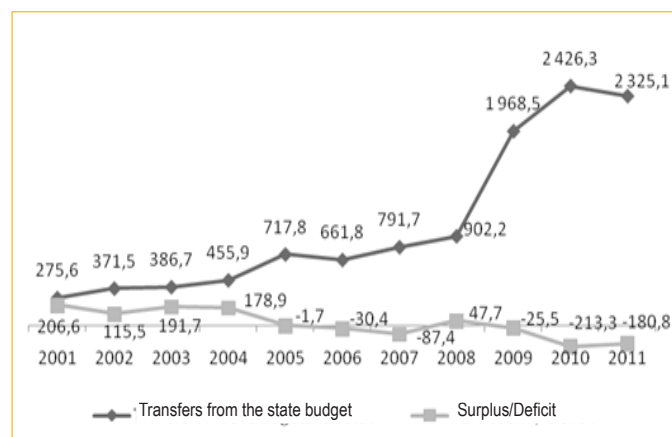
- ✓ pensions account for the highest share of expenditures – 67.8% of total expenditures planned for 2011⁴;
- ✓ the direct revenues of SSIB received mainly from social insurance contributions do not cover expenditures.

Certain transfers from the state budget are made in order to cover social insurance ex-

⁴ Estimated by the author based on data from the State Social Insurance Budget Draft Law for 2011, Annex 1. Available on http://mmps.gov.md/md/proiecte_acte/

penditures. Even though in 2011 transfers shall be lower and the deficit shall decrease as compared to 2010, the situation remains precarious.

Figure 3. Transfers from the State Budget and the Surplus/Deficit of the State Social Insurance Budget, million MDL



Source: developed by the author based on data from <http://minfin.md/ro/raportinfo/budget/national/an/EvolutiaBPN/>

Provided that the financial tension on SSIB is increasing, it becomes appropriate to reform the pension system. On the medium term, Republic of Moldova is able to maintain the current social insurance system, but in order to avoid long-term risks a reform of the pension system is required. The first step that needs to be taken is to revise the opportunity to increase the retirement age. On the other hand, private pension funds should be strengthened, but some progress could occur to this end due to the development of the capital market (a sector that depends directly on the economic development of the country).

Passing the Budget Law so late should not create risks for indexing pensions. Article 13 of Law no.156-XIV from October 1, 1998 on State Social Insurance Pensions stipulates that on the first of April of each year pensions have to be indexed. From a norma-

tive point of view, the Law on State Social Insurance Pensions should be executed, but the Decision of the Government on Indexing Pensions can be produced taking into consideration budgetary parameters of the previous year (in case of no Budget Law, it is executed on the basis on the Budget Law for the previous year).

On the other hand, there are no risks related to insufficient financing for the indexation of pensions. The data for 2010 show a good execution of budget receipts; thus, it was provided that the revenues of the public budget shall be 24.97 billion MDL, but effectively there were 27.5 billion MDL.

Regardless of the increase of expenditures for education from 6.57 billion MDL in 2010 to 6.97 billion MDL in 2011, their share in GDP shall decrease. This reflects the intention of the Government to better target public money to the education system, which has severe disfunctions. At present, the education system is characterized by the following⁵:

- a small number of students in a large number of schools, school facilities that are not used and high operational costs. For demographic reasons, the number of students decreased considerably – in 2009-2010, there were 437623 students as compared to 654067 in 2000-2001, which represents a decrease of 33%⁶. The decrease of the number of schools was relatively insignificant – only 4%: 1587 schools in 2009-2010

⁵ This data represents estimations of the author and include information on primary, general and vocational secondary education institutions.

⁶ According to the National Bureau of Statistics, Education in Republic of Moldova 2009-2010, Chisinau, 2010, p. 24. Available on: <http://www.statistica.md/pageview.php?l=ro&idc=350&nod=1&>

as compared to 1653 schools in 2000-2001⁷. One of the explanations could be that three forth of schools (servicing around 60 percent of students) are located in rural areas where consolidating schools is more problematic due to the poor transportation infrastructure and long distances⁸.

- the decrease of the number of students is higher as compared to the decrease of the number of teaching staff and non-teaching staff, which are remunerated insufficiently. The drop in the number of students was not associated with cutting down the number of teaching and non-teaching staff – the number of teachers decreased from 44710 in 2000-2001 to 39232 in 2009-2010⁹. Schools with a small number of students face difficulties in complying with teaching norms based on the number of students in a class and as a result, classes are artificially created by dividing the existing classes¹⁰. Hence, the size of classes and the ratio between students and teachers is low as compared to the European average.

Under this context for education, adjustments on public expenditures shall be made and at the same time, the network of education institutions shall be optimized by adapting the number of schools to the number of students in each locality taking into account demographic estimations.

Another social element refers to remuneration of budgetary staff. A large number of people are employed by the public sector and the ratio between the total number of employees and budgetary employees is 3.3 to 1¹¹. This situation creates an additional burden for the budget – expenditures for the payroll of these people are very high (in 2011, personnel expenditures could reach around 7.8 billion MDL). Similarly, a large number of employees and limited resources do not allow major increases of salaries and do not foster efficiency. The low efficiency of the public sector as well as its large size are constraints for economic development. In this situation, it is pertinent to develop a new remuneration system for the public sector based on the efficiency and performance of employees. Such a remuneration system could be implemented gradually and the opportunity of receiving an adequate salary shall attract competent specialists.

Tabel 1. Aspecte privind comparative dimensiunile claselor și raportul dintre elevi și profesori

	European Union	Republic of Moldova
Average size of classes in primary education	20.3 students	16.6 students
Average size of classes in secondary education	22.5 students	18.4 students
Students/teachers ratio	18 students to one teacher	11.2 students to one teacher

Source: taken from Policy Notes, p. 60

⁷ Ibidem

⁸ Policy Notes, 2009, p.57. Available on: <http://www.gov.md/doc.php?l=ro&id=2769&idc=447>

⁹ According to the National Bureau of Statistics, Education in Republic of Moldova 2009-2010, Chisinau,, 2010, p. 24

¹⁰ Policy Notes, 2009, p. 56

¹¹ Developed by the author based on data received from the National Bureau of Statistics, The Labor Market of Republic of Moldova 2010, Chisinau, 2010, p. 31, p. 40.

At the same time, this reform could generate certain social costs linked to the availability of public workers. However, it is necessary to mention that if the reform is implemented appropriately, less productive employees are to be dismissed and thus, the efficiency of the public sector shall increase – which on long-term could contribute significantly to ensuring qualitative growth and hence the costs of the reform shall be covered.

CONCLUSIONS

Republic of Moldova succeeds to maintain a relatively good situation of public funds. The progress of the budget deficit is relevant to this end, except for 2009, it did not exceed the threshold of 3% of GDP and in certain years we had budget surpluses.

However, the need to finance a huge public sector as well as financing expenditures with low efficiency make it imperative to redefine the way public funds are used. In this context, budget adjustments targeting the decrease and prioritization of budgetary expenditures, especially, social expenditures, are an adequate solution. Financial support for social expenditures corre-

lated with rationality and efficiency criteria shall contribute to enhancing competitiveness of the national economy.

At the same time, in order to consolidate public funds it is necessary to reform other areas as well.

1. The pension system produces a major risk for public funds. Postponing some adjustments to the pension system could generate constraints both for public financing and for the social sector. To improve the operation of the pension system it is necessary to look at the option of increasing the retirement age;
2. Reform the public sector. An important aspect of this reform should be developing a new remuneration system for the public sector based on the efficiency and productivity of employees;
3. Conducting budget adjustments associated with a slow promotion of structural reforms shall have a minor impact on economic development. The priority of reform should be focused on genuine promotion of some structural changes, which would increase the competitiveness of the national economy.



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