

The management of macro-financial information in the context of monetary and budgetary policies

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Abstract: Management of financial policies is a public issue and important to public policies in general and for the financial field in particular. Managing information which compose the sets of financial policies and the information generated by the application in reality of financial policies is an important component of management in the financial sector. The design of specific procedures on sub-domains of the financial sector is influenced by the level of optimization of strategic decisions in the financial field. The combination of direct control measures, regulations, from top to bottom with indirect measures influencing financial environment and the behaviour of those targeted in their quality of taxpayers or consumers is necessary but insufficient to ensure the operation of financial mechanisms. To ensure proper functionality of the budgetary and monetary mechanisms such decisional measures require a scientific substantiation in the context of interdependence of our economy and society to the European Community.

Key words: information, financial policy, monetary policy, budgetary execution, budget fund, financial crisis

JEL Classification:E5, E6, H6

1. Defining the scope of study

The financial field is an important component of modern societies, even for the simple fact that the existence and functionality of mechanisms underlying it are necessary for the state operation as a sovereign person of public law with well defined and delineated functions in the society.

In terms of our approach, that of managing information as purpose or rule imposed by the official public policy, the financial field should be viewed from two points of view, namely from the theoretical, abstract point of view, of the economic content of the multitude of financial transactions which take place in the society and secondly from the point of view of the mechanisms, procedures specific to the field in a given organizational setting, bounded by jurisdictional regulations in the field.

The theoretical, abstract part of the financial phenomenon is manifested by disclosure of the essence of finances as social-economic monetary relations in the form of financial flows, a diverse multitude of financial flows. The orientation of financial flows toward the well-defined goal by the proposed objective or by the official policy in the field constitutes the purpose of our study in the context of managing the financial information derived either from specific studies or as is required by legislation.

The other part of the financial sector, the pragmatic, procedural one, delineates the organizational framework in which the financial flows take place and manifests itself through specific procedures, budgetary, fiscal, credit, currency procedures, etc., procedures which are established by legal laws on sub-domains that are put into operation with the help of specific financial instruments,

monetary, fiscal, budgetary instruments, credit instruments, etc. Their use in a given context is also the subject of this study.

The good orientation of financial flows and the operation level of financial procedures can be studied through the management of the information disseminated or received through the chain as object or thought within the managerial mode. Efficiency of the outcome will be quantified by means of the degree of achievement of the goal, by budgetary execution, by lending, by collection of taxes and overall by the level of situation and stability of the financial phenomenon.

The combination of the two components, abstract and procedural within a financial policy, especially from the limitation of our study to a part of it, the fiscal and monetary policy represents a criterion, a condition for the successful conclusion of public policies. This means that the financial system and the financial mechanism that includes industry-specific procedures must combine properly in an optimum financial policy.

2. The ability of the financial system to respond to stimulating or restrictive information

The multitude and diversity of financial flows requires grouping them according to certain criteria. Research literature gives us among others the cybernetics, systemic vision on the finances structures and particularly on the budgetary relations, namely, they are systemically grouped in a multitude of financial funds and lots of relationships between them, namely financial flows. The financial system as an ensemble of funds and relations between them runs in the society

at a time according to the official financial policy.

The number of funds, their importance and the crowd of flows that can carry between them are also in accordance to the official policy in the field. We know that our financial system has held at the top of budgetary pyramid, the central budget fund along with the social insurance budget, the budget for social health insurance, the unemployment budget, funds that form the state budget. Also within the various ministries the so-called special funds fed by contributions for special purposes are administered.

The intermediate level consists of the budgets of administrative-territorial units under the name of local budgets, and at the bottom of the hierarchical pyramid are the funds of public institutions and of the undertakings with public capital.

Such a three hierarchical level structure is established by legal laws specific to the European model domain of the national unitary states. The organization of financial flows especially budgetary and monetary is also achieved through a multitude of laws specific to each sub-domain. The type of financial flows and ways of carrying them out mirror financial policy concept mirrors. An example of the understanding and organization of financial flows and circulation of information in the system is the form of organization of the central budget as "state budget." This name under the form of a phrase reflects in fact a budgetary management namely, central funds, the state budget, social security budget, health social insurance budget and the budget for unemployment fund, which are managed as a single and large budget fund, both in terms of execution which is performed by the public treasury,

and in terms of compensation of the results of implementation of these funds.

This "joint" administration of these funds raises at least two issues of design and use of information. At European level, social budgets are managed autonomously with known results in terms of respecting the ownership of members of social pension, health and unemployment insurance on members' contributions. We also tried in our country such a reform in 1999-2002, after which they returned to the concept of the state budget, a concept which ensures to the executive a greater leeway in terms of managing the results of implementation of these funds. Another cause is the inadequate official distribution of the tax burden between income taxation and social security contributions, including those for health and unemployment.

Such use of conceptual information, and of budgetary execution envisages an overall treatment of the funds raised by fiscal and social levying, without taking into account the type of resource, namely the proceeds of the tax are public money, while those from social contributions are "semi-public money", they are contributions of the social, health, unemployment security members and they expect a fruition of these amounts and hope that the principle of solidarity between generations to work in the future, at least in the coming decades.

The budgetary execution of centralized funds that make up the centralized budget of the state in 2015 until the third quarter is described as a whole in the presentation notes of the executive and the structure of budgetary execution of this year in the first three trimesters, which we present in Annex no.1(www.mfinance.ro, 2014-2015).

Analyzing the budget execution for this period, it follows that the nine months of 2015

ended with a surplus of 6.1 billion lei, namely 0.87% of GDP, compared to the surplus of 0.4

billion lei respectively 0.06% of GDP, registered on the same date in 2014.

Table no1. The two parts of the budget on 30/09/2015

Indicator	Value - billion RON	GDP	+/-/%/2014	+ / - / % / GDP/2014
I. Consolidated general budget revenues	169,1	24	8,8	0,7
II. Consolidated general budget expenditures	162,9	23,12	5,1	-0,2

Source: Bulletin MPF, Budgetary execution information 2014-2015

I. The consolidated general budget revenues, amounting to 169.1 billion lei, representing 24% of GDP, were 8.8% higher in nominal terms compared to the same period last year, while as its share in GDP by 0, 7 percentage points.

The main revenue recorded increases over the same period last year, namely receipts from: income tax (+ 13.6%), VAT (+ 12.5%), non-tax revenues (+ 12.8%), tax profit (10.9%) and excises (+ 8.2%).

The social security budget revenues coming from social security contributions fell only by 1.4% from the previous year, being influenced perhaps by the 5% reduction of employers' contributions, and by the growth for 2015 by 0.5% of the contribution rate to the pension second pillar.

II. The consolidated general budget expenditures, amounting to 162.9 billion lei, increased in nominal terms by 5.1% compared to the same period of the previous year, but decreased by 0.2% as share in GDP.

A positive fact is that the reduction was recorded for interest costs (-8.1%) due to the seasonality of payments and decrease of the

average interest rates in case of government securities.

Local administrations recorded a growth in taxes and fees by 2.9% as compared to last year, taxes on use of goods by 5.5% and non-tax revenues by 1.7%.

Another positive aspect is the increase by 41.7% as compared to the same period last year, of the expenses incurred for projects funded by external grants.

Investment expenditures, including capital expenditures and those related to development programs financed from internal and external sources, were of 19.0 billion lei, namely 2.7% of GDP in nominal terms by 15.4% higher than the same period last year.

3. Functionality of the Procedural Mechanisms in the Fiscal and Monetary Field

Finance is a comprehensive field that covers several subordinated fields, such as the budgetary with specific financial policies, the monetary with its subordinated policies, the social insurance, the property and civil liability insurance, the financial market, as represented by the stock exchange market,

and the international finance, as classified in this study.

In our view, this scientific approach will take into consideration the budgetary and the monetary field, given their importance and the interconnections between the budgetary and the monetary policies.

The financial procedures are established by specific legal regulations, the fiscal procedures, the procedures on the allocation of public funds, the budgetary deficit funding procedures, the monetary issuance procedures, the procedures regarding the public credit, the credit procedures etc. are worked out by the lawmakers, who actually uphold the Government's official financial policy.

The financial policy designs and builds the financial mechanisms which, in their turn, put into practice the relevant official policies.

The budgetary field requires a budgetary policy consisting in the fiscal policy, the policy on the allocation of public funds and the budgetary deficit funding policies.

The monetary field covers the official policy on the roll-over interest rate or the discount or the rediscount official fee policy, as called in standard terms. Secondly, it covers the minimum compulsory reserve policy and the open market policy usually related to government bonds. These subordinated policies are put into practice according to the relevant subordinated procedural mechanisms.

Returning to the interrelated conditions between the financial policies and their mechanisms, a rhetorical question arises, namely which of them is prevailing? Somehow, the question has a pejorative answer, as mentioned above, that the procedural mechanisms are the result of the financial policy which in its turn is put into practice through the financial mechanisms.

The functionality of the procedural mechanisms, according to their subordinated fields, varies with the design and the extrinsic environment influencing them. The mechanisms are built through specific legal regulations, according to the Government's doctrinal views.

As the procedures are enforced through legal regulations, the regulations will stand up more or less time, according to how realistic they are and to their level of acceptance of the objective economic laws.

A wrong design will result in nonfunctionality of the financial field too. Such nonfunctionality involves financial blockage in various forms, which might turn into chronic financial or economic crises or even further into economic and social paradoxes. To obey the objective economic laws means to obey nature and Divinity, to obey good people's "good faith" or the reasonable doctrinal ideas or those acknowledged by the economic truth.

The influence from the extrinsic environment is the influence from the real economy, production and movement of commodities, such influence being non-linear in time because of the cyclical trends in economy and because of the economic and social crisis facts or other causes such as wars, social movements etc.

The financial policy design provides the mechanism with the necessary regulators and self-regulation tools for situations of financial deviation or blockage occurred on sectoral or on macroeconomic level. Such regulators are called public budgets by the specific literature, their purpose being to adjust the need of resources in the public sector, the credit forms intended to adjust the short-term and the medium-term funding needs, both in the

private and in the public area, and the third regulator, the financial market or, more restrictively, the stock exchange market, which is intended to adjust the medium-term and the long-term funding need.

Under the said regulators, the financial policy is based on specific tools for each subordinated field, such as taxes, budgetary allocations, subsidies, which are used as financial levers able to direct the user's behaviour, either as tax-payer or consumer.

In the credit and the monetary field, the sectoral policy is based on such tools as the interest rate type, the specific credit terms, the public bond issuance terms, the exchange rate and other similar.

The analysis of the use of such tools and the measurements on the effects of their use are covered by various analysis or optimization patterns known in the specific literature. Some considerations and restrictions may be stated again with regard to the mixed use of the budgetary and fiscal policies.

4. The Budgetary and Monetary Policy Mix

The budgetary and the monetary tools mentioned in the previous section are handled by the official financial policy, in relation to the endeavours for macroeconomic stability under various circumstances.

As a rule, the specific literature deals with this starting from the trends in the global demand, on macroeconomic level. Public income and expenditure are known to influence the global demand. The taxation level influences both the public consumption and the productive consumption.

Public expenditure also influences global demand directly through the liquidity

injected for public procurement and indirectly through the size of the people's income resulting from public funds.

Such budgetary flows are actually money transfers from and to the private sector entailing changes in the circulating money supply, therefore it is unavoidable that the monetary policy will react. This is how the prerequisites occur for the budgetary and the monetary policies to connect to each other. The most visible link between the policies of the two sectors is generated by the funding of the budgetary deficits through monetary channels.

The option to finance the budgetary deficit by monetary issuance in order to invigorate the actual demand through liquidity injected into the real economy is followed by the risk of inflation pressure. Such risk may be controlled by monitoring the monetary issuance so that it might not overrule the beneficial effects of the increasing public expenditure.

The other option is to finance the budgetary deficit through domestic or foreign public loans. If the option is for domestic loans, they generate increased pressure on the credit market, which leads to increasing interest rate with immediate implications on the private sector, as it will receive less credit and the investments in the private sector will diminish.

If the budgetary deficit is to be funded through foreign loans, then the increasing reserves of the central bank and/or the amount of the monetary symbols in use will result in an inflation pressure that will require such budgetary measures as cutting taxation in order to generate increasing global demand, increasing production and economy in general, so that such growth might be able to cover at

least the cost of the foreign indebtedness.

The experience of this type of social-economic organization has shown that the effects of expansive or of restrictive budgetary policies generate reconsiderations of the monetary policy and vice versa. The reactions may be analysed also considering the time factor, as the emergency measures usually result in long-term effects.

Restrictive budgetary policies have immediate effects on global demand and are followed as a rule by a setback of the credit demand, generating thus a new situation that requires measures from the issuing bank, regarding the minimum compulsory reserves, the credit terms and particularly the interest rate.

An assessment of the effects of the budgetary changes should take into consideration the resulting multiple reactions on the global demand.

The budgetary multiplier is an indicator that shows the marginal change occurred in the gross domestic product (G.D.P.-Y) as a result of the change occurred in the public expenditure (G) and in the public proceeds collected through taxation (T).

The effects from the public expenditure variations $K_G = \frac{dY}{dG}$, and the influences from the fiscal proceeds variations $K_T = \frac{dY}{dT}$.

In the budgetary policy, the mix and the factorial analysis of such variations is necessary in order to determine the short, medium and long-term effects on economy and on the monetary policy, which is expected to react to such variations.

The designed measures of budgetary and monetary policy are intended to ensure a balance between demand and supply.

The specific literature describes such pattern measures, as a rule for a closed economy, inclusive with the public sector, in which case a balance is sought between the global demand and the global supply, as the aggregate is called.

When the budgetary income arises as a result of increasing taxation, under normal conditions the public expenditure will increase too, therefore the global demand will be affected by such increase. Such influence may be measured using the budgetary expenditure multiplier,

where K_G is the budgetary expenditure multiplier.

However, if the taxation income is decreasing, then the budgetary expenditure and the aggregate demand decrease too. The tax multiplier, which is the reverse of the budgetary expenditure multiplier, will decline owing to increasing taxation, and the gross domestic product will shrink. The monetary policy will react to such changes using the variation of the minimum compulsory reserves of the issuance bank, handling the loans to government through the monetary issuance and not least the changing roll-over reference interest rates (the rediscount fee).

Conclusions

If the financial legislation input information complies with the spirit of the objective economic laws, then the assumption of functional procedures may come true.

In addition to the financial procedure design level, the other variable required by the functionality of the procedural mechanisms - identification and monitoring of the influences from the real economy - is a

function of the financial policies in the subordinated sectors, whose (short-term) tactical and operating measures are supposed to deal with circumstantial issues arising in the short term, using also the financial mechanism regulators.

Under such circumstances, a mix of budgetary and monetary policies requires

understanding the causes of the phenomenon and the expected result, without setting individual contradictory monetary and budgetary goals, so as to achieve a policy that is beneficial in the financial field, which is of great importance.

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Annex no.1

Table no 2. Execution of the general consolidated budget - Revenues

EXECUTION OF THE GENERAL CONSOLIDATED BUDGET								
	For 1.01.-30.09. 2014			For 1.01.-30.09.2015			Differences 2015 compared to 2014	
	mill. RON	% of the GDP	% of the total	mill. RON	% of the GDP	% of the total	mill. RON	(%)
GDP	666.637,3			704.500,0				
TOTAL REVENUES	155.439,0	23,3	100,0	169.087,9	24,0	100,0	13.648,9	8,8%
Current Revenues	149.126,7	22,4	95,9	160.379,6	22,8	94,8	11.253,0	7,5%
Tax Revenue	93.267,3	14,0	60,0	103.462,1	14,7	61,2	10.194,8	10,9%
Tax on profit, salaries, income and capital gains	27.488,7	4,1	17,7	30.925,5	4,4	18,3	3.436,7	12,5%
Profit Tax	9.104,8	1,4	5,9	10.092,7	1,4	6,0	987,9	10,9%
Salary and income tax	17.312,2	2,6	11,1	19.668,0	2,8	11,6	2.355,8	13,6%
Other taxes on income, profit and capital gains	1.071,8	0,2	0,7	1.164,8	0,2	0,7	93,0	8,7%
Property taxes and other charges	5.416,4	0,8	3,5	5.029,1	0,7	3,0	-387,3	-7,2%
Taxes and other charges on goods and services	59.575,6	8,9	38,3	66.590,3	9,5	39,4	7.014,6	11,8%
VAT	37.977,1	5,7	24,4	42.733,0	6,1	25,3	4.755,9	12,5%
Excise	17.614,4	2,6	11,3	19.063,2	2,7	11,3	1.448,8	8,2%
Other taxes and charges on goods and services	1.889,1	0,3	1,2	2.260,5	0,3	1,3	371,5	19,7%
Use tax on goods, authorization of the use of the goods or tax on the performance of activities	2.095,1	0,3	1,3	2.533,6	0,4	1,5	438,5	20,9%
Tax on foreign trade and international transactions (customs duty)	476,5	0,1	0,3	574,5	0,1	0,3	98,0	20,6%
Other taxes and tax charges	310,0	0,0	0,2	342,7	0,0	0,2	32,7	10,5%
National insurance	42.763,0	6,4	27,5	42.149,9	6,0	24,9	-613,1	-1,4%
Non-Tax Revenues	13.096,3	2,0	8,4	14.767,6	2,1	8,7	1.671,3	12,8%
Capital Revenues	680,2	0,1	0,4	744,1	0,1	0,4	63,8	9,4%
Donations	63,5	0,0	0,0	4,7	0,0	0,0	-58,8	-92,6%
Amounts received from the EU as payments and pre-financing	5.515,6	0,8	3,5	7.616,2	1,1	4,5	2.100,6	38,1%
Amounts to the sole account (State budget)	52,9	0,0	0,0	-54,3	0,0	0,0	-107,2	-202,6%

Other amounts received from the EU for the operational programmes financed under the convergence objective				-18,7	0,0	0,0	-18,7	
Amounts received from the EU/other donors as payments and pre-financing, afferent to the 2014-2020 financial framework				416,3	0,1	0,2	416,3	

Source: Bulletin MPF, Budgetary execution information 2014-2015

Table no 3. Execution of the general consolidated budget – Expenditure

EXECUTION OF THE GENERAL CONSOLIDATED BUDGET								
	For 1.01.-30.09. 2014			For 1.01.-30.09.2015			Differences 2015 compared to 2014	
	mill. RON	% of the GDP	% of the total	mill. RON	% of the GDP	% of the total	mill. RON	(%)
GDP	666.637,3			704.500,0				
TOTAL EXPENDITURE	155.019,9	23,3	100,0	162.940,4	23,1	100,0	7.920,5	5,1%
Curent Expenditure	147.557,4	22,1	95,2	156.153,5	22,2	95,8	8.596,1	5,8%
Staffing expenditure	35.717,8	5,4	23,0	37.869,4	5,4	23,2	2.151,6	6,0%
Goods and services	26.295,3	3,9	17,0	27.029,1	3,8	16,6	733,8	2,8%
Interest	8.678,6	1,3	5,6	7.977,5	1,1	4,9	-701,1	-8,1%
Subsidies	4.266,0	0,6	2,8	4.079,4	0,6	2,5	-186,7	-4,4%
Transfers - Total	72.248,6	10,8	46,6	78.939,8	11,2	48,4	6.691,2	9,3%
Transfers between the units of the public administrations	775,2	0,1	0,5	747,4	0,1	0,5	-27,8	-3,6%
Other Transfers	8.519,8	1,3	5,5	7.746,1	1,1	4,8	-773,7	-9,1%
Projects financed from external non-reimbursable funds	7.648,6	1,1	4,9	10.837,4	1,5	6,7	3.188,8	41,7%
Social services	52.908,9	7,9	34,1	56.274,1	8,0	34,5	3.365,2	6,4%
Projects financed from external non-reimbursable funds afferent to the								
2014-2020 financial framework				492,9	0,1	0,3	492,9	
Other expenditures	2.396,0	0,4	1,5	2.841,9	0,4	1,7	445,9	18,6%
Expenditures afferent to the programmes with reimbursable financing	351,1	0,1	0,2	258,4	0,0	0,2	-92,7	-26,4%

Capital expenditure	8.088,0	1,2	5,2	7.605,5	1,1	4,7	-482,5	-6,0%
Financial operations								
Payments performed in the previous years and re-covered in the current year	-625,4	-0,1	-0,4	-818,6	-0,1	-0,5	-193,2	30,9%

Source: Bulletin MPF, Budgetary execution information 2014-2015

Table no 2. Execution of the general consolidated budget – Surplus(+)/Deficit(-)

EXECUTION OF THE GENERAL CONSOLIDATED BUDGET								
	For 1.01.-30.09. 2014			For 1.01.-30.09.2015			Differences 2015 compared to 2014	
	mill. RON	% of the GDP	% of the total	mill. RON	% of the GDP	% of the total	mill. RON	(%)
GDP	666.637,3			704.500,0				
TOTAL REVENUES	155.439,0	23,3	100,0	169.087,9	24,0	100,0	13.648,9	8,8%
TOTAL EXPENDITURE	155.019,9	23,3	100,0	162.940,4	23,1	100,0	7.920,5	5,1%
SURPLUS(+) / DEFICIT(-)	419,1	0,06		6.147,5	0,87			

Source: Bulletin MPF, Budgetary execution information 2014-2015