

Analysis of local budgets revenues in the Republic of Moldova: level, structure and dynamics for 2008-2014 years

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Abstract

This paper consist largely of analysis of the local budgets revenues of the Republic of Moldova for the period of 2008-2014. The analysis can not offer many information in dynamics due to the few number of years, but we tried to make an analyze of the situation.

Informational support of the work are the laws and regulations of the country; data provided by the Ministry of Finance, National Bureau of Statistics and the literature.

The purpose of this paper is to approach each category of income and part of it, the time evolution of local budget revenues over several consecutive years of budget income distribution in the directions of the Republic of Moldova, and analysis of each component of the local budget.

In this paper, we have analyzed in dynamics structure in total revenues of local budgets, in national public budget, in state budget and in GDP. The main components analyzed were: tax and non-tax revenues, revenues without grants and transfers, grants and transfers from the state budget. Also we have attracted special attention to direct and indirect taxes, as well as their components.

The necessity of this study is to present a clear and concise form of the administrative-territorial units' budget feature, conceptual notions, policies which are reflected on local revenues in Moldova.

This paper aims possibility of revising the budget system structure, improve financial relations within it and its evolution, but it does not reflect fully all matters related to the budget system.

Keywords: local budgets revenues, budget income distribution, budget system structure

1. Theoretical aspects regarding local budgets revenues

Local budget process is the set of actions and measures taken by local authorities in order to define financial policy imposed by governmental authority.¹

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The budget process is the process that starts with budget preparation and ending with the approval of the report on the execution of the budget year.

The budget is a document by which are set out and approved, every year, revenues and expenditures or, where appropriate, only expenditures, according to the system of financing of the budgetary institution.²

Public budgeting processes in Moldova reflect the openness of democracy, balancing the various interests and priorities in the community. Budget role is manifested in economic, social and financial activities and is expressed in the following way: from financial point of view it assures distribution of financial resources of the state in order to perform its functions and objectives; from economic point of view state budget includes different instruments and techniques of intervention into economic and social activity through which state carries out economic stimulation policy and social protection policy.

Due to the fact that the budget is a long term process, through several consecutive steps, which include:

- Elaboration of the budget and local budget approval;
- Implementation of the local budget;
- Complete implementation of the local budget;
- Control of local budget execution;
- Approval of the local budget execution.

Achieving a high yield of taxes requires fulfilling the following conditions: tax to be universal, that is to be paid by all those who receive income from the same source, has the same kind of wealth or class of goods; suggests no possibilities to evading the taxation part of the taxable matter.

Although the structure of public revenues may vary in space or time, there are certain criteria to classify them generally available. Considering the main features of revenues, they can be grouped according to the following criteria:

- the regularity of perception;
- the economic content of income;
- the origin of income;
- nature of the income;
- the place where the income is considered.

The elasticity of taxes is a requirement that involves the ability to continuously and easily adapt the size of the tax, ie if there is an increase in expenses as referred budgeting, tax may be increased accordingly.

Administrative-Territorial Unit's Budgets - budgets of villages (communes), cities (municipalities), districts, autonomous territorial unit with special legal status and budget of Chisinau Municipality.

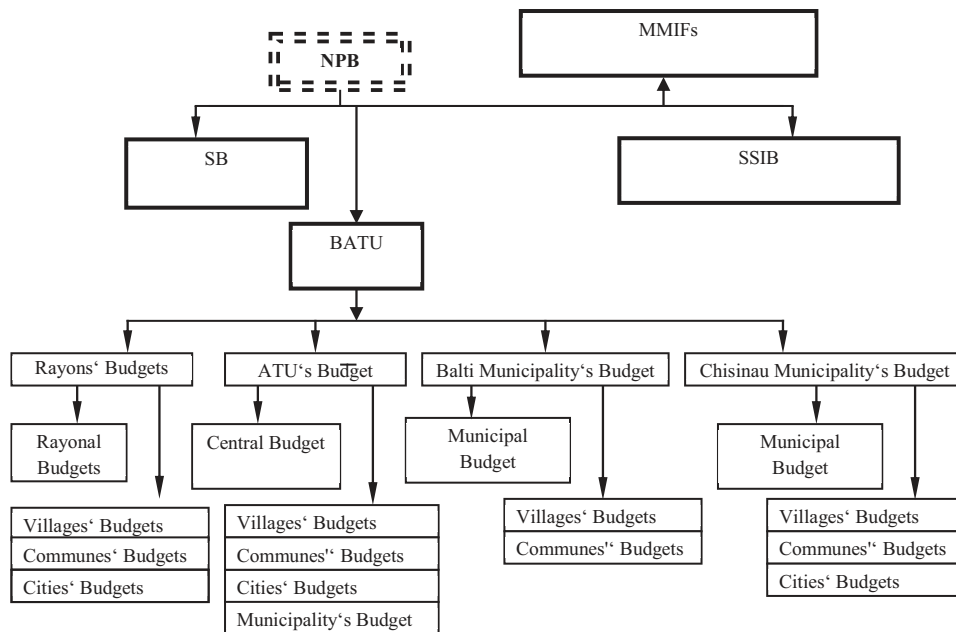
¹ TIRON Adriana. *Contabilitatea în Administrația Publică Locală*, Editura Dacia, Cluj-Napoca: 2001, pag. 23

² Law on budgetary system and budgeting process: no. 847-XIII of 24.05.1996. Official Monitor of the Republic of Moldova. 1997, no. 19-20/197.

Administrative-Territorial Unit's Budgets are classified into the following levels:

- First level, representing the budgets of villages (communes), cities (municipalities, except Chisinau);
- Second level, representing the district budgets, the central budget of the autonomous territorial unit with special legal status, Balti municipal budget and Chisinau municipal budget.³

Figure 1.1. Organizational chart of National Public Budget



Source: Macroeconomic Fiscal and Budgetary Strategies

2. Analysis of local budgets revenues: level, structure and dynamics for the period 2008-2014

For the analysis of income in Moldova we will start from the overall situation of revenue in 2008-2014 and then we will analyse the structure of local budget revenues, components, their dynamics, the causes of that evolution.

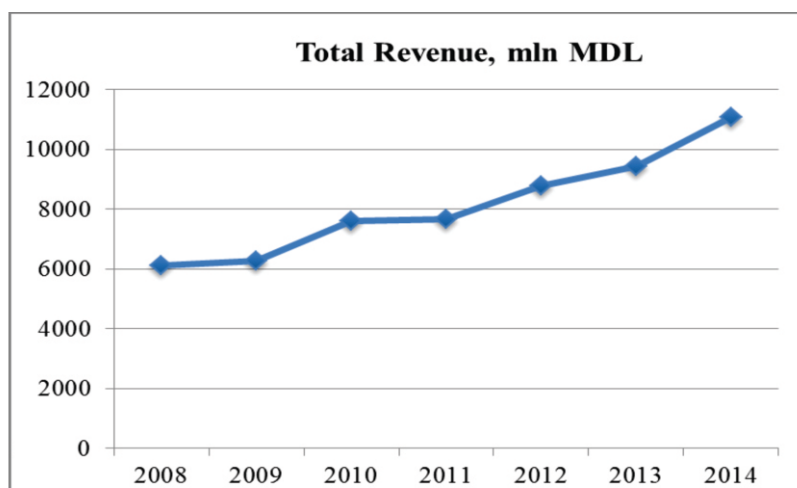
Evolution of the total revenues of the local budget is shown in Table 1, and the graphical representation in Figure 2.1.

³Law on Local Public Finance: no. 397-XV of 16.10.2003. Official Monitor of the Republic of Moldova. 2003, no. 248-253/996

Table 1. Nominal value of total revenues of local budgets and their share in GDP

Indicators	2008	2009	2010	2011	2012	2013	2014
Total Revenue, mln MDL	6128,9	6286,1	7614,3	7660,9	8780,9	9445,8	11086,9
Share in GDP, %	9,74	10,47	10,60	9,33	10,00	9,46	

Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

Figure 2.1. The nominal values of local budgetary revenues for period 2008-2014

Source: elaborated by author based on data from table 1

The nominal values of local budgetary revenues have an increasing trend from year to year, from 6129 mln. lei in 2008 to 11087 million in 2014. Revenue growth is largely determined by inflation and deducted from the VAT rates to finance staff costs of education and agriculture.

Next, we will present in figure 2.2 the share of total revenues of local budgets in Gross Domestic Product for the period of 2008-2013 because of insufficient data of 2014.

Figure 2.2. The share of total local budgetary revenues in Gross Domestic Product (%)



Source: elaborated by author based on data from table 1

Even if the absolute amount of revenues is increasing in dynamics, the share in GDP has an unclear situation because of fluctuations from 2010. The highest share of total revenues is visible in 2010 with 10.60 % in GDP, and the lowest share was in the next year with 1.3 percentage points less than in 2010.

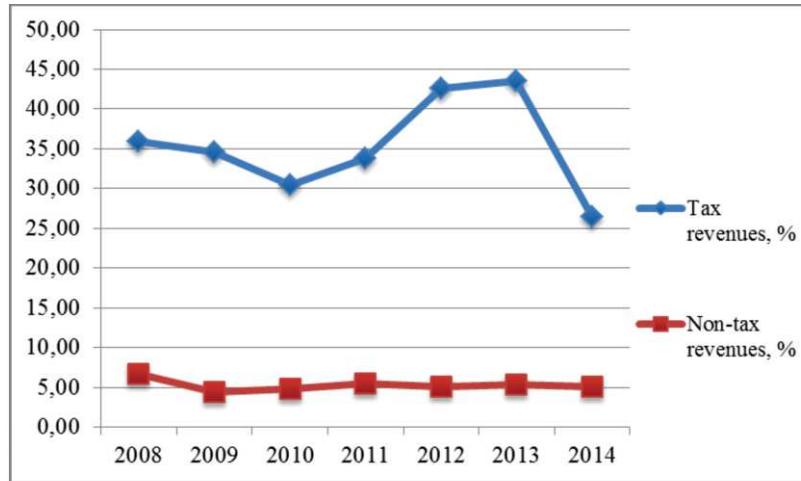
Table 2. Structural analysis of budget revenues and their share in total income of the local budget of the Republic of Moldova for 2008-2014 years, (%)

Indicators	2008	2009	2010	2011	2012	2013	2014
Revenues without grants and transfers	46,90	42,48	38,07	42,13	50,39	51,67	34,12
Tax revenues	35,90	34,64	30,51	33,78	42,56	43,54	26,38
Non-tax revenues	6,72	4,42	4,85	5,48	5,11	5,31	5,09
Grants	0,00	0,00	0,59	1,11	0,89	1,33	1,78
Special revenue funds	0,14	0,16	0,11	0,13	0,12	0,13	0,15
Special means	4,14	3,26	2,60	2,74	2,59	2,69	2,51
Transfers from State Budget	50,93	55,68	57,99	54,25	46,10	43,70	59,82

Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

From the table above is observed that share of special means is decreasing, comparing 2008 to 2014 almost 1.65 percentage points; the share of special revenue funds maintains the position for the analysed period reaching the highest quota of 0.15% in 2014, and share of grants, with a very low quota, is increasing slowly in dynamics, with the highest rate also in 2014 of 1.8 %.

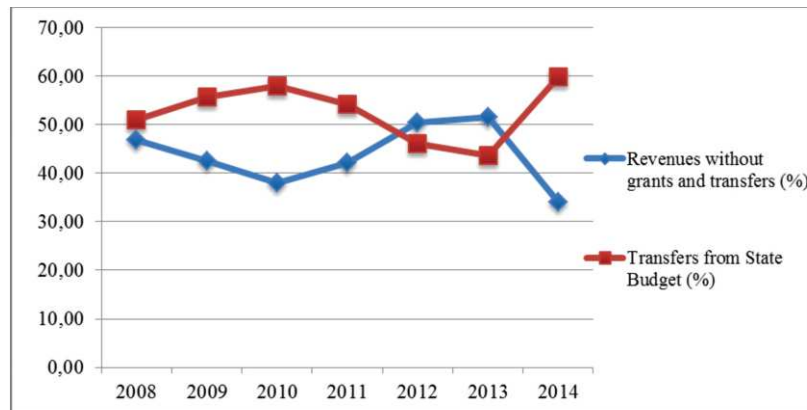
Figure 2.3. The share of tax revenues and non-tax revenues in local budgets revenues



Source: elaborated by author based on data from table 2

According to figure 2.3. we can see that as for tax revenues the curve is fluctuating during 2008 to 2014 with the lowest share of 26.4% in 2014 and the highest quota in 2013 of 43.5%, almost 2 times higher than in 2014. As for non-tax revenues, the curve maintains the position and has very slow fluctuations, we can say that is practically constant.

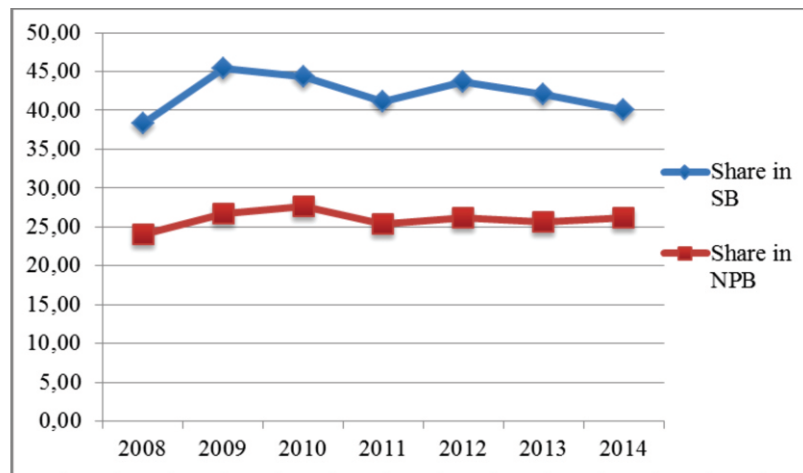
Figure 2.4. The share of revenues without grants and transfers and share of transfers from state budget of the Republic of Moldova (%)



Source: elaborated by author based on data from table 2

From the figure above, is observed that curve of share of revenues without grants and transfers and curve of share of transfers from state budget are opposite, where one increases the other decreases and vice-versa. If we refer to share of revenues without grants and transfers, the highest level was in 2013 with 51.67% from the total revenues of local budgets by 17.55 percentage points more than in 2014. As for share of transfers from the state budgets, the highest percent was in 2014 of 59.82%, with 16.1 percentage points more than in 2013, so as we mentioned above the shares are opposite.

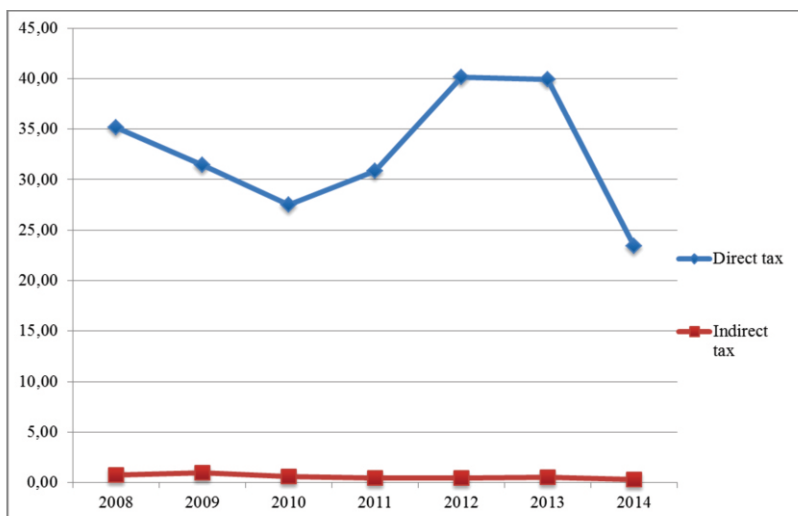
Figure 2.5. The share of total revenues of local budgets in State Budget and in National Public Budget for the period 2008-2014, in percentage



Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

According to figure 2.5. we can see that as share in the revenues of state budget, revenues of local budgets are fluctuating between the limits of 40-45%, with the lowest level in 2008 of 38.4% and the highest rate the next year, in 2009 with 45.4% with 7 percentage points more than in 2008. As for national public budget, the share of local budgets revenues fluctuate between the limits of 24-27%, with the lowest level in 2008 of 24.02% and the highest in 2010 of 27.65%, with 3.65 percentage points more than in 2008.

Figure 2.6. The share of direct taxes and indirect taxes in total local budgets revenues for the period 2008-2014, in percentage



Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

In the figure 2.6. is observed a decreasing tendency of the direct taxes, as well as indirect taxes. From the year 2008 to 2010 for direct taxes there were a decrease from 35.16% to 27.5%, then increasing till 40.15% and again decreasing till 23.4% in 2014. As for indirect taxes, the curve has not such big fluctuations as direct taxes.

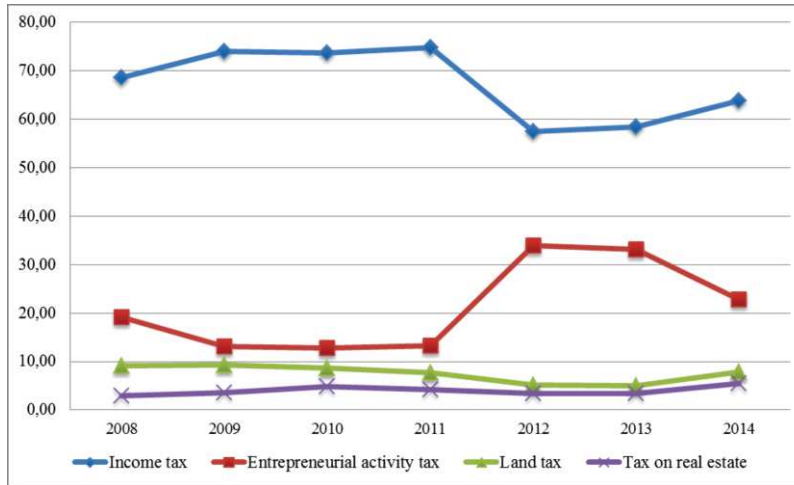
Table 3. The share of the main categories of taxes in the total direct taxes of local budgets revenues, for 2008-2014 period, percentage

Indicators	2008	2009	2010	2011	2012	2013	2014
Income tax	68,61	74,06	73,75	74,87	57,52	58,49	63,92
Entrepreneurial activity tax	19,23	13,15	12,82	13,25	33,95	33,19	22,88
Land tax	9,18	9,26	8,63	7,67	5,09	4,92	7,79
Tax on real estate	2,98	3,53	4,80	4,21	3,43	3,41	5,41

Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

Next, in figure 2.7. we wil analyze the quota of each component in the direct taxes.

Figure 2.7. Dynamics of the main categories of direct taxes of local budgets for the period 2008-2014 period



Source: elaborated by author based on data from table 3

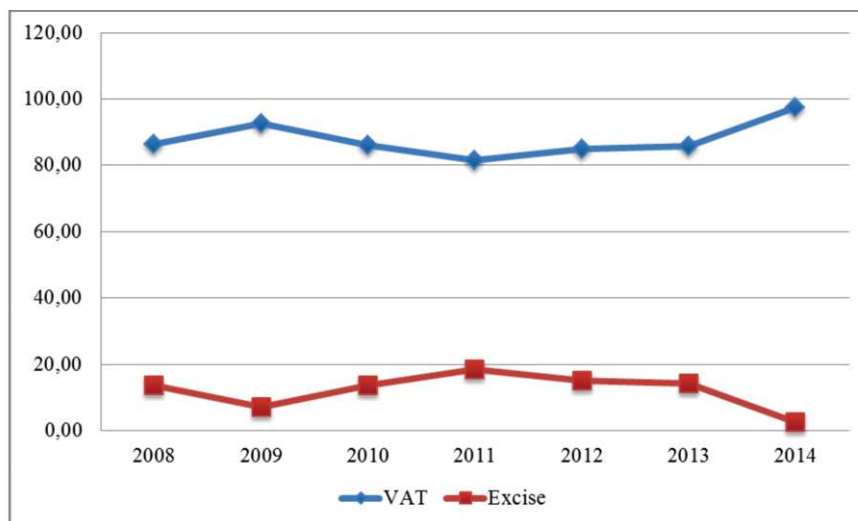
In figure above we can that where income tax increase, entrepreneurial activity tax decrease and vice-versa, are indirectly proportional. The highest rate for income tax was reached in 2011 with a quota of 74.9% in amount of direct taxes and the lowest rate was the next year, in 2012, with 17.35 percentage points less than in 2011. And for entrepreneurial activity tax the highest rate was of 33.95% in 2012 and the lowest of 13.15% in 2009. If we look at land tax and tax on real estate, their curves are decreasing in dynamics slowly, and towards 2014 with an increasing trend.

Table 4. The share of the main categories of taxes in the total indirect taxes of local budgets revenues, for 2008-2014 period, percentage

Indicators	2008	2009	2010	2011	2012	2013	2014
VAT	86,34	92,74	86,18	81,43	84,83	85,77	97,37
Excise	13,66	7,26	13,82	18,57	15,17	14,23	2,63

Source: elaborated by author based on data from www.mf.gov.md/reports [visited 03.02.2015]

Figure 2.8. Dynamics of the main categories of indirect taxes of local budgets for the period 2008-2014 period



Source: elaborated by author based on data from table 3

According to figure 2.8. we can not say many things because there only two elements, and they are opposite, with the highest rate for VAT of 97.4% in 2014 and the lowest in 2011 of 81.4% with 16 percentage points less than in 2014. As for the excises, the highest rate was in 2011 of 18.6% and the lowest in 2014 of 2.6% with the same difference of 16 percentage points as for VAT.

3. Conclusions:

From the analysis above we can state that as nominal value, revenues are increasing in dynamics, growth which is more based on the increase of taxes. Even if taxes, fees and other revenues are increasing, in the share of Gross Domestic Product this change is not so visible.

Almost all the components of the local budgets revenues are fluctuating for the period of 2008-2014 and we can not say that there is an increase or decrease in dynamics, due to the fact that are taken into consideration only 7 years.

Even if the state still provides important resources, they have the highest proportion of special purpose, which does not allow local communities to have freedom of fund management. In this case increase the income tax rate is a solution of a more broad autonomy to enable local authorities to spend according to their own needs.

Although local budgets revenues provides a slight increase, is expected essential growth of industrial production, agricultural production and investment in

long-term tangible assets.

Regarding the too much weight of foreign grants, if there will be an increase in total revenue, donors will focus on much poorer countries, and we must prepare rational for this perspective.

If talking about direct and indirect taxes, we can state that there is an decrease in direct taxes as well as in indirect taxes as nominal values, the decrease is influenced by the decrease in income tax and entrepreneurial activity tax, and a semnificative decrease in excises for 2014 and in VAT.

There are certain practices that bring more damage than expected improvements. For example, fines and penalties plan, which are always included in the budget in recent years and that, in fact, is a primitive measure of risk coverage of the budget. Everyone claims, especially businessmen, that these measures create more damage than expected effects of the budget as it increases shade work and business affairs does not develop to the extent that they may do so.

Although were drafted necessary laws for budgetary system operation of local autonomy principle, however we can not talk about the existence of real local autonomy as revenues of local budgets are unable to cover expenditures.

The budget has an important role in public life, representing fundamental strategy planning and supervision of financial and economic activity of the state.

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