SOLUTIONS FOR INCREASING PUBLIC BUDGET REVENUE IN BULGARIA, CROATIA, CZECH REPUBLIC, POLAND AND ROMANIA

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Abstract
The research paper is a comparative analysis of the budget revenue in Bulgaria, Croatia, Czech Republic, Poland and Romania, taking into account the main features in light of the contribution of indirect and direct taxes and social contributions to the achievement of public revenues. Theme presents a topic of great interest, both theoretically and practically, given possible solution to increase public budget revenue in these countries, most of them being new member stated of European Union and who wants to catch up all the lost period within socialism time. As a common conclusion it can be seen that all countries need to improve their judicial system and combating crime and tax evasion. It is necessary to increase the independence of the judiciary, reducing bribery, reducing undeclared work and the establishment of independent anti-corruption institutions. Also the analyzed countries must improve public expenditure system, reducing bureaucracy and pay attention on profitable investments in order to increase budget revenues and encourage employment and unemployed university graduates, this is possible also by improving the mechanism of attraction and use of EU funds for investment within public and private sector.

Key words: *public budget revenue, public expenditure, public debt, unemployment rate, GDP, economic measures.*

JEL Classification: *A13, E60, E62, G01, H20, H62, H63, P50*

I. INTRODUCTION

Public revenues are the primary source of coverage of public expenditure conducted by the State to fulfil its functions and ensure a balanced and lasting increases in Economics. Over time, each state has tried to develop an optimal finance/fiscal system, taking account of the socio-economic, political, geographical, historical, etc.. The paper work took into analyze five states: Bulgaria, Croatia, Czech Republic, Poland and Romania. These states are included in Catching-up European Model, specific for those states which are trying to increase their economic and social development in order to be aligned to European Union level. The research has found that all this state determine their own financial and fiscal system, as long as they respect the basic rules of the European Union but face almost the same obstacles. This research used data base from European Commission, national countries strategies and experience from other research papers works. In this regard this paper comes to bring some possible solutions in order increase budget revenue and maintain in the same time the budget balance, keep European treaty's criteria in line and ensure a sustainable economic development.

II. RESEARCH MODELS

In year 2015, public finances in the European Union remain difficult. In 2014, European Union countries have low deficits. For the five countries considered in the analysis, we can see how they have evolved differently. While Bulgaria, Czech Republic, Poland and Romania seem to recover and achieve sustainable growth, Croatia, strongly affected by the economic crisis and freshly integrated into the EU, efforts to overcome the recession. All these countries are part of European Tax Models[4] - Catching-up rank, which gather new member states of European Union (Mosteanu Narcisa Roxana & Mitroi Mihaela, 2015).

This paper presents the main economic and financial indicators within the period 2011 - 2015 for each country and it will formulate possible solutions taken into consideration to increase budget revenues. For all indicators we used data based from Eurostat (Retrieved from http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00021&plugin=1,

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Table no.1: Achievements and forecasts of budget revenues and budget expenditures, during the period 2013 – 2016 (share of GDP)

	Budget revenue				Budget expenditure			
	2013	2014	2015	2016	2013	2014	2015	2016
Average EU	**45.4**	**45.2**	**45.0**	**44.8**	**48.6**	**48.1**	**47.6**	**47.0**
Bulgaria	37.1	37.1	37.4	37.2	38.3	40.1	40.4	40.1
Croatia	41.8	43.3	43.4	43.3	47.0	48.3	48.9	48.9
Czech Rep.	40.7	40.2	40.1	39.7	42.0	41.5	42.1	41.2
Poland	38.2	37.7	38.1	37.8	42.2	41.2	41.0	40.5
Romania	32.9	33.0	32.7	32.4	35.2	34.8	34.2	33.9

Source: Eurostat and Countries Report

Table no.2: Achievements and forecasts of budget deficit and gross public debt, during the period 2013 – 2016 (share of GDP)

	Budget deficit				Gross public debt			
	2013	2014	2015	2016	2013	2014	2015	2016
Average EU	**- 3.2**	**- 3.0**	**- 2.6**	**- 2.2**	**87.1**	**88.4**	**88.3**	**87.6**
Bulgaria	- 1.2	- 3.0	- 3.0	- 2.9	18.3	27.0	27.8	30.3
Croatia	- 5.2	- 5.0	- 5.5	- 5.6	75.7	81.4	84.9	88.7
Czech Rep.	- 1.3	- 1.3	- 2.0	- 1.5	45.7	44.1	44.4	45.0
Poland	- 4.0	- 3.5	- 2.9	- 2.7	55.7	48.6	49.9	49.8
Romania	- 2.3	- 1.8	- 1.5	- 1.5	38.0	38.7	39.1	39.3

Source: idem as source of table no.1

Analyzing the data presented by analyzed countries we can say that the present we facing an era of low growth. Starting with January 2013, Fiscal stability pact is in force in European Union (Retrieved from http://en.wikipedia.org/wiki/European_Fiscal_Compact#cite_note-EC_ready-4) and its stipulates that the budget is balanced when the budget deficit is within 3% of GDP (in 2013, the EU-28 was 3.2%, in 2014 was 3.0%, in 2015 is forecast to be 2.6% and in 2016 to be 2.2%). From this point of view, in period analyzed, almost all countries within the Catching-up rank are very good (exception made Croatia which still has its budget deficit around 5% among entire analyzed period, including forecast).

Table no.3: Achievements and forecasts for economic growth and reduce unemployment, during the period 2013 - 2016

	Evolution of GDP (%)				Unemployment (%)			
	2013	2014	2015	2016	2013	2014	2015	2016
Average EU	**0.1**	**1.3**	**1.7**	**2.1**	**10.8**	**10.2**	**9.8**	**9.3**
Bulgaria	1.1	1.4	0.8	1.1	13.0	11.7	10.9	10.4
Croatia	- 0.9	- 0.5	0.2	1.0	17.3	17.3	16.8	16.4
Czech Rep.	- 0.7	2.3	2.5	2.6	7.0	6.1	6.0	5.9
Poland	1.7	3.3	3.2	3.4	10.3	9.1	8.8	8.3
Romania	3.4	3.0	2.7	2.9	7.1	7.0	6.9	6.8

Source: idem as source of table no.1

During last three years we can see that all the countries tried to increase their revenue and in the same time to reduce those expenditure which does not create economic value. In this respect European Commission puts in place an Investment Plan which wants to unlock public and private investments in the real economy of all European Member States (Retrieved from http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm). This Plan comes to remove financial and regulatory barriers to invest and to reduce unemployment rate (from table no.3 it can be seen that Bulgaria and Croatia still have big problem in this area).

III. RESEARCH RESULTS

Bulgaria

The global economic crisis has posed a serious problem for the Bulgarian economy and was reflected in the deterioration of macroeconomic indicators. In line with other EU countries, Bulgaria has a fiscal policy of austerity. Bulgaria managed to get the desired effect relatively quickly. A good budget performance it was shown in the budget revenues. Deficit (around 3% of GDP throughout the period analyzed) and a public debt (less than 30% of GDP) - that are among the lowest in the EU. These achievements earned the trust of international institutions. But, the uncertain fiscal sustainability and austerity policy led to the impoverishment of the population, a high unemployment rate, the limited consumption and operational difficulties faced by entrepreneurs. These problems have lead to a stagnation of budget revenues.

Solutions to improve the economic and budget revenues can be:

- Improving the judicial system and combating crime and tax evasion. An important but difficult thing. Among the five countries surveyed, Bulgaria is ranked last in terms of combating economic crime and tax evasion. It is necessary to increase the independence of the judiciary, reducing bribery, reducing undeclared work and the establishment of independent anti-corruption institutions. Immediate effect: increasing budget revenues of unreported income.
- Improving labor market policies, fostering the development of small businesses and increase the number of employees in the private sector to the detriment of the public sector. Immediate effect: increasing budget revenues as a result of increasing employment and reducing the cost of the staff in the public sector by stimulating labor migration by the private sector.
- Improving the mechanism for collecting taxes by reducing compliance costs, improvement and development of collection services and databases administrations, introduction of facilities for citizens and businesses. Immediate effect: increase revenues by increasing the collection.
- Tax-related measures: increasing tax rates on some energy products; increase excise tax on natural gas; and generally keeping tax rates; measures to improve the collection of VAT and excise duties.
- Improving the education system, training and implementation of active labor market policies. Immediate and long-term effect: reducing unemployment, increasing revenue from personal income tax, increased revenue from contributions, increased consumption, increased revenue from indirect taxes from consumption and reducing social costs.
- Tax incentives for innovation and investment to increase the competitiveness of the economy. Effect: increase jobs, increase consumption, increase budget revenues from direct taxes and indirect, reduce social spending.

Croatia

Since the beginning of the crisis so far, Croatia is stuck in a recession. Economic growth is achieved in small steps registering negative values in 2013 (-0.9% of GDP) and 2014 (-0.5% of GDP). For years 2015 and 2016 the economic growth is forecast to be till 1% of GDP. Croatia's economy has deteriorated due to poor fiscal discipline, rising interest rates, the blockage of the credit system, debts of state companies and public sector due to oversize, low levels of investment and high unemployment, around 17%. Exports and foreign investment are still weak reflecting the deep structural weaknesses. To overcome the recession and restore growth measures required significant part of budget revenues and health care, social security, education, pensions, wages and public services.

Solutions to improve the economic and budget revenues can be:

- Alignment with EU standards of fiscal discipline.
- Easing the tax burden throughout the economic flow from producer to consumer and reducing inequities taxation across the country. Particular attention should be given to poor fiscal discipline and the black economy such as improving and developing the efficiency of the settlement and collection of taxes and customs supervision. Effect: removing tax burden and economic competitiveness development.
- Taxation on projecting the following measures: increasing excise duties on luxury goods; introduction of a VAT rate of 5% to goods and services hitherto untaxed; reducing the share of health insurance; taxation of property from state oil companies and dividends Croatian central bank; changes in social security payment system; introduction of tax records; and tax incentives for taxing the profits.
- Attracting European funds and increase investment spending. Effect: increased investment, employment, consumption, profit, direct and indirect tax revenue, reduce unemployment and social assistance expenditure.
- Staff restructuring and reducing public sector compensation of employees in the public sector and guidance to the private sector workforce.

Czech Republic

The Czech economy returned to growth in 2014 (2.3%), after years of contraction (-0.7 % in 2013). For the next years the economic growth forecast is around 2.5%. The rebound has been driven by domestic demand factors, including fixed capital investment, household consumption, and a build-up of inventories. Investment activity grew strongly in 2014, as the domestic environment improved, foreign industrial orders picked up and the government increased its efforts to make use of expiring EU funds. However all this lead to increased jobs and thus reduce unemployment. Of the five countries analyzed Czech Republic has the lowest unemployment rate.

Solutions to improve the economic and budget revenues can be:

- Alignment with EU standards of fiscal discipline.
- Improve the efficiency of tax and customs duty collection; prevent the abuse and circumvention of tax rules (introducing measures aimed at the effective control of revenues reported from retail sales of goods and services, and improving communications between tax authorities), reduce the cost of tax administration to the honest taxpayer and set measures under tax and criminal law. Immediate effect: increasing budget revenues of unreported income.
- Staff restructuring and reducing public sector compensation of employees in the public sector and guidance to the private sector workforce.

Poland

Poland has gone through global financial and economic crisis without slipping into recession. Poland was the only EU country that recorded economic growth in 2009, when GDP grew by 1.6% continuing with accelerated growth at 3.3% in 2014 and predicting sustained growth of about 3% in 2015 and 2016. This performance was due to domestic consumption and private sector balance, a healthy banking sector and fiscal policy and monetary counter-cyclical. Poland has helped increase its domestic market and benefited from the opening it is in international trade. But economic growth reduction Poland's trading partners as a result of the euro zone crisis which has increased uncertainty and affected household consumption decisions of investors. The main cause of stagnation in economic growth was due to the tendency to reduce consumption. This led to a reduction in salaries and households reduced their savings increasing precautionary cash balances. In the same time, businesses have had problems with sales, inventory and running gross fixed capital formation. Economic growth has contributed to stagnation and freezing public sector payments and increasing tax rates. However they were able to manage macroeconomic policies carefully. Policy mix was combined with the use of automatic fiscal stabilizers reaching a path of fiscal consolidation. This helped to boost growth.

Solutions to improve the economic and budget revenues can be:

- Tax incentives, such as freezing limit personal income tax; changes to pension reform; increase dividends to state companies; maintaining the VAT rate; VAT refund the purchase of machinery and fuel. Effect: increase budget revenues in the long term.
- Removing obstacles to entrepreneurs through cost reductions to new entrepreneurs or business closures, such as bankruptcy and cumbersome registration procedures. Immediate effect: eliminate bottlenecks, facilitating recovery of new investments, generating new jobs, increased consumption, and increase revenue from taxes.
- Continuing the process of privatization and reduction of state ownership in competitive sectors of the economy. Effect: reducing unproductive public spending and increase budget revenues from the private sector.
- Improving public procurement practices to ensure fair competition between state and private sector, and to focus more on creating added value contracts (budgetary revenue source).
- Strengthening the competitive environment and competition regulators.

Romania

The Romanian economy grew by 3.4% in 2013 and in 2014 registered a growth of 3.0%, mainly driven by domestic demand and investment. For the next period Romania forecast to record growth from 2.3% of GDP in 2013 to 1.8% of GDP in 2014, to 1.5% in 2015 and 2016. One of the main objectives of economic development is the continuing the process of fiscal consolidation measures to stimulate growth and create new jobs, increase revenue at a rate faster than the increase in costs, creating a more efficient and equitable tax system, and better management of budget revenues

Solutions to improve the economic and budget revenues can be:

- Reorientation of fiscal discipline to stimulate economic environment, investment and entrepreneurship: create a creating a stable tax legislation and without redundancy; tax incentives for income tax; revision of the tax base for property taxes; further improvement of legislation to meet the criteria for harmonization with EU legislation, by transposition into national law of the Directives adopted at European level in the field of VAT - VAT rate gradually reducing the extent of improving budget revenues. Effect: increase budget revenues.

- Tax incentives to stimulate reducing unemployment and stopping undeclared work: reduced rates of social security contributions from employers and reduce the period for unemployment allowance. Effect: increase in collection of direct and indirect taxes earned from new employees, increased consumption, reducing social costs.
- Reducing the cost of debt repayment, to restore investor confidence.
- Selecting and promoting investments with real impact on regional development, and by default increased contributions funded from taxpayers founded by budgetary revenue. Effect: increase budget revenues generated by the investment, reducing unemployment, increase in collection of direct and indirect taxes.
- Improving taxation legislation to combat tax evasion and corruption. Effect: increase in budgetary revenues from income recovered from tax evasion.
- Gradual reduction to total elimination of arrears recorded in central and local government. Effect: clearing jams.
- A new approach to financing investment by limiting funding from the state budget and orientation towards those projects funded primarily from European programs, repayable funds. Increase budget revenues from grants, investment, from newly created value, reducing unemployment, increased consumption, increased direct and indirect tax revenue generated by them.

IV. CONCLUSIONS

Following assumed country reports, country strategies and national development programs and the conditions agreed through Fiscal Stability Pact, in the near future budget revenues are expected to increase and to reduce the budget deficit, keep the budget balanced, in particular by reducing tax evasion, stimulating domestic demand, monetary relaxation, improving labor market, the education system and the health system and attracting funds from the European Union to stimulate investments.

As a common conclusion it can be seen that all countries need to improve their judicial system and combating crime and tax evasion. It is necessary to increase the independence of the judiciary, reducing bribery, reducing undeclared work and the establishment of independent anti-corruption institutions. Also the analyzed countries must improve public expenditure system, reducing bureaucracy and pay attention on profitable investments in order to increase budget revenues and encourage employment and unemployed university graduates, this is possible also by improving the mechanism of attraction and use of EU funds for investment within public and private sector.

In order to have a sustainable economic and social growth the European countries analyzed shall ensure compliance with the Maastricht Treaty and Fiscal Stability Pact criteria especially the maintenance of the government deficit below 3% of the gross domestic product, the management of the liquidity of state resources, reducing the fiscal fraud, improve the rules on the implementation of funds from the European Union budget entailing the introduction of a stronger role for providers, and ensure a lower unemployment rate along with a high level of welfare.

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