New Trends and Issues Proceedings on Humanities and Social Sciences

Issue 4 (2017) 219-228

ISSN 2421-8030
www.prosoc.eu

Selected paper of 5th World Conference on Business, Economics and Management (BEM-2016) , 12 – 14 May 2016, Istanbul Limak Limra Hotel & Resort, Convention Center Kemer, Antalya-Turkey

Political resistance to fiscal stability institutions: The case of Romania

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Suggested Citation:

Simandan, R. (2017). Political resistance to fiscal stability institutions: the case of Romania. *New Trends and Issues Proceedings on Humanities and Social Sciences.* [Online]. 04, pp 219-228. Available from: www.prosoc.eu

Selection and peer review under responsibility of Prof. Dr. Çetin Bektaş, Gaziosmanpasa University, Turkey.

Abstract

The aim of this paper is to analyze the revealed resistance to fiscal stability institutions recently showed by Romanian politicians. Establishing the context, the design of the present-day institutional environment for fiscal stability is investigated, with special attention being paid to its legal protection against political pressure. Typical opinions recently expressed by key political actors on certain issues related to fiscal stability are analyzed and categorized into a number of main arguments. To this end, insights from the political discourse analysis field are employed as tools for decoding the political meaning of written and spoken text. The public debates around the 2015-2016 tax cut program are presented as a case study for the investigation of political resistance to settled fiscal stability institutions.

Keywords: fiscal stability; fiscal governance; political discourse analysis; Romania;

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1. Introduction

Stability is good. Unpredictable changes are never good news in any sphere of human interaction and an unstable economy is typically regarded as something to avoid at all costs. In economics, the ideal of stability has been considered a goal worth following. And especially a market economy, with its continuous changes in conditions and a tendency toward "endemic instability" had to be in some way remedied, even by means of forceful governmental intervention. Built on such a strong consensus, there is no surprise that interventionist governmental policies have been the norm in the last sixty years or so.

In Romania, the notion of stability has been increasingly discussed in recent years in relation to certain public policy issues. Fiscal, as well as macroeconomic, financial, legal and political stability has been analyzed and debated in political discourses, academic and popular disputes. In the context of the global and European crises, the self-congratulatory phrase "oasis of stability" applied to the Romanian economic environment has been very popular among politicians and business analysts. Negotiations in the context of the accession to the EU have shaped the public discourse of Romanian politicians. New topics were introduced on the public agenda, such as state officials' corruption, the condition of the infrastructure and fiscal stability.

In this study, we analyze the opinions expressed by politicians related to fiscal stability issues in recent years. To this end, some insights from the political discourse analysis body of literature are employed. Political discourse has traditionally been seen as a form of political action, both in political science and in politics (van Dijk, 1997). Dialog and written text are basic forms of interaction in social and political spheres. Susceptible of having social and political consequences, politicians' spoken interaction, both in formal (e.g., discourses in parliament) and informal (e.g., hallway declarations for the media) contexts count as political discourse and may be analyzed using instruments provided by this discipline. Studying the lexicon, syntax, and rhetoric of political text and talk in their contextual dimensions, political discourse analysis sheds light on the relations between politics, media, and public opinion. The political discourse analysis theoreticians show that a family of spoken and written argumentation, rhetoric, and persuasion techniques that are more value-laden than commonly accepted often determines policy outcome. Scholars and casual observers of public policy issues must therefore pay more attention to the discursive features of a debate in order to understand its possible outcome in specific contexts.

We shall concentrate on spoken declarations made by high-ranking politicians against fiscal stability rules, as recorded and published by the media. Declarations in informal settings are common practice in Romania among politicians and the media report them with a great deal of interest. Rather than being informative to the public, they mainly serve a political goal. The tone is usually polemical and the names of political opponents come readily to the surface. Nevertheless, they are a fine source for insights into the discursive dimensions of public policy formulation and implementation, as policy ideas often enter into effect well before they can be theoretically validated.

Scholars from the political discourse analysis tradition use the concept of storyline as a basic linguistic tool for understanding reality. As Hajer (1995) defines it, a storyline "is a generative sort of narrative that allows actors to draw upon various discursive categories to give meaning to specific physical or social phenomena." Interpreting the information on complex social phenomena requires mechanisms that serve as convenient mental shortcuts. Storylines provide individuals with such a mechanism and play a key part in positioning vis-a-vis political issues.

2. Romania's fiscal stability institutions: playing by the EU rules

The European experience with fiscal rules is a long and unsettled one. Rules breed stability; playing by the rules makes the fiscal game predictable. Fiscal rules have been attractive to academic economists for their hypothetical quality to offset the politicians' bias towards spending and debt. A clear set of fiscal rules were deemed sufficient for the introduction of fiscal discipline. In practice, however, any rigid rule-based framework designed to constrain the discretionary behavior of politician in fiscal policy will prove difficult to enforce. Therefore, alongside fiscal rules, an efficient enforcing mechanism must be incorporated into the broader institutional framework of fiscal policy.

The founding fathers of the European Monetary Union (EMU) were well aware that reckless government spending and debt are a major threat to the common currency. In 1993, the Maastricht Treaty set up fiscal rules for the member states of the EU to be put in practice through institutional mechanisms such as the Excessive Deficit Procedure, which was later reinforced by the Stability and Growth Pact. However, the effectiveness of the SGP as a pillar of the European institutional arrangement for fiscal stability has been modest. After a good start, by 1991 government debt relative to the GDP averaged almost 60% in twelve euro area countries, approaching or exceeding 100% in three of them (Schuknecht, Moutot, Rother & Stark, 2011). The SGP failed its first major test in 2003, as Germany and France agreed to block the strict application of sanctions contained in its EDP. Because of the poor enforcement of the provisions of the SGP and the ensuing fiscal mismanagement across the Eurozone, the member states were ill prepared for the challenges of the sovereign debt crisis that erupted in 2007.

Against this distressed background, a new European Fiscal Compact (officially known as the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) was signed in March 2012 by 25 EU member states, as the United Kingdom and the Czech Republic decided to opt out of its provisions, and entered into force at the end of the same year. The two main set of provisions of this treaty refer to the annual structural balance of the general government (that must comply with a country specific medium-term objective, with a structural deficit lower than 0.5 % of GDP) and to the introduction of a correction mechanism that would trigger automatically in case of an excessive deficit (European Central Bank, 2012). In addition, the essential elements of the balanced budget rule must become legally binding at national level, preferably by way of a constitutional amendment.

Although not a member of the Eurozone, Romania declared its willingness to be bound by all the provisions of the treaty and ratified it in 2012. However, at the time of the adoption of this treaty, Romania had already enshrined into law the balanced budget rule (as a consequence of the Fiscal Responsibility Law, see below), making at least some provisions of the treaty redundant.

The Romanian institutional framework for fiscal stability gained more coherence in 2010. Thoroughly discussed and finally agreed with the IMF, the Fiscal Responsibility Law was approved in March 2010 with the main aim to improve fiscal stability. Its key elements were the introduction of a three-year medium-term budget framework, the establishment of nominal government expenditure ceilings (its growth being limited to nominal GDP growth), the enactment of supplementary budgets limitations (to two per year with the first budget revision submitted no earlier than July of each year), and the introduction of half-yearly and annual reports on economic and budget outlook.

A direct result of the Fiscal Responsibility Law has been the establishment of the first autonomous monitoring and advising authority in the sphere of public finances: the Fiscal Council. The need for independence from the political system has been a consensus in the literature on fiscal councils (Calmfors and Wren-Lewis, 2011). The main function of any fiscal council is to offset the well-documented political bias in favor of fiscal deficits and public debt. The underlying assumption that spurred the establishment of fiscal councils has been that the source of this bias is a distorted political system (*idem*.), i.e., a political system that rewards politicians for spending and does not penalize them for creating deficits and debt. Consequently, an independent watchdog organization with both ex ante and ex post fiscal policy analysis competence has been put forward as a possible solution.

According to the Fiscal Responsibility Law, the Fiscal Council is an independent body that aims to assist the Government and the Legislative in conducting the fiscal policy in a responsible and transparent manner. It monitors fiscal performance and conformity with the legal fiscal rules, advises the Government and the Parliament by issuing opinions and recommendations, evaluates (both ex ante and ex post) the impact of concrete fiscal policy measures. Related to its personnel, the Fiscal Council is comprised of five members with formal training and expertise in fiscal and macroeconomic issues nominated by five different prominent organizations: the Romanian Academy of Sciences, the National Bank of Romania, the Bucharest University of Economics, the Romanian Banking Institute and the Romanian Banking Association. The members are appointed by the Parliament for a nine-year period and can only be dismissed (by the Parliament) in extraordinary circumstances (i.e., as a result of a member's incompatibility state or criminal condemnation) and may not be reelected at the end of their mandate. A list of incompatibility cases apply: members of the Fiscal Council may not hold positions in the Government, Romanian or European Parliament, may not become high-ranking officials in a political party, may not be civil servants, etc. The members of the Fiscal Council are remunerated for their activity; the level of their remuneration is legally stipulated. The budget independence is insured by the provision that the Fiscal Council establishes an autonomous annual budget. In addition, it sets its own internal rules and regulations and organizational chart.

According to its legal statute, the Fiscal Council is required to issue an opinion on the annual draft budget law (whereas the Government is required to send all the necessary documents and formally ask for Fiscal Council's opinion). The Fiscal Council general standpoint on the draft budget law for the 2011 – 2016 timeframe along with the main reason for a "negative" or "rather negative" opinion are shown in Table 1.

Table 1. Opinions on the State Budget Law Issued by the Fiscal Council

Year	2011	2012	2013	2014	2015	2016
Opinion on the State Budget Law	rather positive	rather positive	positive	rather positive	rather negative	negative
Main reason for a negative or rather negative opinion	N/A	N/A	N/A	N/A	overestimation of projected fiscal revenues	breaking of fiscal rules

Source: author's compilation from data available at http://www.consiliulfiscal.ro/. A negative rating has been awarded for those cases in which the Fiscal Council expressed its concerns in such clear-cut wording as "significant vulnerability", "an extreme risk of deterioration" or "imminent budget slippage". A positive rating has been awarded for those cases in which the Fiscal Council expressed its support using unequivocal terms such as "realistic scenario", "consistent projections" or "a prudent approach".

Having said that, the official statute of the Fiscal Council may be assessed as being a generous one in providing a solid base for political independence. However, there are also some design drawbacks in this respect. As Calmfors and Wren-Lewis (2011, p.16) show, accountability fosters political independence of fiscal councils. An accountable fiscal council may be in a better position in case of conflicts with the government. Apart from the publication of annual reports, there is no accountability mechanism put in place for the Romanian Fiscal Council. Moreover, the quality of the Fiscal Council's work has not been independently evaluated to date. In addition, the Fiscal Council has not made public any participation to international networks of fiscal councils.

It can be appreciated that the Fiscal Council has been rather successful in raising public awareness about fiscal stability issues. Opinions and commentaries issued by the Fiscal Council on fiscal strategy, annual budget draft law and revisions are increasingly cited and debated in the media; the IMF has regularly cited Fiscal Council's data and opinions in its Country Reports on Romania.

3. Romania's discourses on fiscal stability: challenging the rules

Until recently, discretionary fiscal policy has been the norm in Romanian public finances. Imposing constraining rules on the fiscal behavior of the government entered public discourse only because of Romania's EU accession negotiations started in 2000 and its full membership gained in 2007. In the EU, fiscal discipline has been viewed as a key ingredient of the institutional environment of a viable common currency.

Debates over fiscal matters bring together highly motivated parties like politicians, economists and lobbyists as well as casual observers of fiscal policy. The arguments are based on a variety of issues, such as the public interest, the macroeconomic environment, and the status of Romania as a developing country. Romania's position as a member of the EU and the resulting requirement to respect agreed common rules rarely come up for discussion. However, given the outlook of the current political system – that commonly rewards politicians for spending and does not penalize them for creating deficits and debt – political resistance to fiscal stability is to be expected. The views of politicians will influence or even dominate the public debate on fiscal issues. Three storylines can be identified in the recent political discourse against fiscal stability institutions. We analyze the main features of these storylines below.

The budget deficit in not important if the government is spending on public investment

This argument gained some prominence in the post-socialist years. Government "spending" has been portrayed as being radically different from government "investment". Spending is commonly held as "bad", whereas investment is "good"; refraining from spending is a quality, as is investing today for a safer tomorrow. In a clear reference to the principles of good management of a household's finances, government spending is regarded as unavoidable, but government investment (especially on infrastructure) is seen as undoubtedly productive. With the poor quality of the infrastructure inherited from the communist era, governmental expenditures on public works are usually seen as a blessing. However, although public sector capital spending has been significantly greater than that of other EU member states, the infrastructure is perceived as being of low quality (IMF, 2015). Consequently, improving the condition of the infrastructure has been seen as a major function of the government. In fact, advancing the quality of roads and rail network to resemble those in the Western Europe has been one of the major drives of post-socialist Europeanization of Romania. Therefore, this family of arguments may also be entitled "infrastructure at all costs".

Publicly defending and encouraging ever-growing infrastructure projects have been a common feature among Romanian politicians. However, the incentives to see those projects competed are usually lacking. One consequence of this bias towards public spending has been that the principles of fiscal stability were presented as unnecessary obstacles. In the sphere of political discourse, the notion that fiscal discipline is worth abandoning if the quality of infrastructure increased as a result of larger public expenditures became a commonplace argument, one regularly hailed by popular media.

Romanian politicians habitually challenge the established EU rules on deficit and debt in public statements, suggesting that a consequence of these rules is the impracticality of high public spending on infrastructure. A high-ranking government official suggested in 2015, "If the European Commission and the IMF agreed to a [budget] deficit [for Romania] higher than 3%, they could say to us 'OK, but only if you spend on infrastructure'" (Dobre, 2015). In January 2015, the finance ministry unsuccessfully asked for the EC's permission to increase the fiscal deficit over the agreed target, in order to be able to invest in transport infrastructure (Bratu, 2015). Prime Minister Emil Boc said in 2009 that a budget deficit due to high infrastructure expenditures is not necessary a bad thing, declaring his intention to recommend his fellow ministers an increase in deficit over the target. "Money spent on infrastructure is not money down the drain, like it is on large-screen TVs and fancy furniture", he stated during a visit to the construction site of a large transport infrastructure in Transylvania (Breazu, 2009).

Limitations on public expenditures do not allow us to grow

A related storyline is the one maintaining that in the current phase of Romania's development, the government must run large budget deficits in order to provide funds for growth efforts. Imposing limitations on deficits would only hinder the long-term development.

Limiting the discretionary power of politicians to set the fiscal agenda was met with distrust. Debates about a possible loss of national sovereignty because of EU membership were common in the first years of membership. Moreover, the source of this limitation was identified as coming from outside the country. "They" impose this rule on us; it is not "our" rule; it is "their" rule. Therefore, another heading for this family of arguments may be "the foreigners do not allow us to grow". This provided the perfect opportunity for politicians to defend "the national interest" over "the European interest". A reason for this state of affairs is readily provided: it would perfectly serve the interests of the Western European countries if Romania did not grow and limiting government expenditure is allegedly a key element in this plan.

The finance minister Eugen Teodorovici rhetorically asked in an interview in July 2015: "Why should we be champions of austerity when others spend and thus develop?" (Anghel, 2015). The provisions of the Fiscal Compact to which Romania adhered imposed a limit on the fiscal deficit, but this well-known political reality did not prevent the minister from asking: "Where does this 1.2 % of GDP come from? Why should we take this 1.2 % as a given fact?" The "us versus them" logic was not missing from the official's statement: "If I were to choose between national interest and European interest, I would choose the national interest without breathing […] Romania is not seeking to create problems for the European Commission, but we have to follow our own path". The outline of a possible new, radical strategy surfaced: "I am a pro-business minister, but we must have a bolder approach".

This episode happened shortly after the Prime Minister Victor Ponta, speaking in the context of a 0.06% of GDP budget surplus for the first nine months of 2014, had told the ministers of his cabinet: "We have a budget surplus for the first time in our history – and I hope to be the last time in the following years […] In order to grow, we need to spend more, so please use all the resources that you have at your disposal…" (Wall-street.ro, 2014). The state of the debate on these issues was summarized in a newspaper analysis with the following heading: "The budget surplus is burying the economy" (Cireasa, 2014).

Reducing the government expenditures will lead to a recession

In the economic literature, this is a classical argument against a balanced budget originating in a basic Keynesian analysis. J.M. Keynes saw the inadequate overall demand in the economy as the main generator of recessions and high unemployment. If private businesses and individuals do not spend enough, the government should increase its output in order to keep the aggregate demand at high levels. The resulting fiscal deficit is not a matter of concern, since it will be outweighed by increased revenues in the coming expansion.

Applying this attractive Keynesian reasoning to a real economy has lead to a persistent bias in favor of large government expenditures and fiscal deficits. In practice, this line of argumentation has been largely used against many planned government expenditures cuts and the ensuing decrease of the fiscal deficit. "Now it is not a good moment" or "the Europeans tried this and it did not work" have been common catch phrases presented to a largely uninformed public.

"Romania will not exit the recession if the IMF does not accept an increase of the budget deficit", warned the Transportation Minister in 2010, challenging the authority of this distant, cold-hearted organization (Ziare.com, 2010). "Cutting public expenditures now would invite in the recession", Professor Daniel Daianu – a former finance minister (Daianu, 2013) argued in an analysis in 2013. The detrimental effects of deficits and debt on the economy, especially over the long term are lacking from the political discourse.

In the Romanian context, it is difficult to identify a group of scholars or politicians that manifested unequivocally in favor of fiscal stability. Classical-liberal oriented economic analysts tend to argue that the fiscal stability is not a proper goal to follow in case of tax cuts and public expenditures reductions. Long-term benefits of these programs outweigh short-term instability. The prevailing Keynesian economists as commentators or governmental advisors make the case for increasing public spending and see the EU-sourced legal limitations on deficits and debts as unnecessary nuisance. However, to a uniformed observer of Romanian reality, it would seem that abiding by the EU rules has been the norm in Romanian politics in last twenty years. Tom Gallagher (2013) gives a thorough account of the methods that the Romanian political elite exercised to mimic reforms and the internalization of the EU rules in order to become a trusted dialog partner in the access negotiation process. The Romanian shabby political class met with the EU's lack of strength and consistency to result in a failed chance for modernization. The same can be argued about embracing strict fiscal rules. A reluctant political class agreed to adopt the EU fiscal rules in exchange for the promises of membership. However, poor enforcement and public contestation soon followed.

4. The 2015 - 2016 tax cut program

The case of the 2015 - 2016 tax cut program is emblematic for the low level of political interest in changing the course of the fiscal policy based on the opinions formulated by civil society organizations. It also reveals the strong political opposition to even the most basic institutions of fiscal stability.

In February 2015, the social-democrat government led by Prime Minister Victor Ponta announced its plan to drastically cut taxes as part of a newly redrafted Tax Code (Chirileasa, 2015). Its main provisions were: the cut of the Value Added Tax (VAT) from 24% to 20% for all goods and services (except for some food products that would benefit from a reduced VAT of 9%) from 2016, with a further cut to 18% from 2018, the elimination of the 16 % tax on dividends paid by Romanian companies, social security tax cuts, both for employees (from 10.5% to 7.5%) and employers (from 15.8% to 13.5%), the cutback of the flat tax on individual revenues and company profits from 16% to 14%, reduction in excise duties on major energy products (petrol, diesel). Social contribution rates were also set to be cut by 3 pp in the case of the employee (to 7.5%) and by 2.3 pp in the case of the employer (to 13.5%) in 2018.

According to the Fiscal Responsibility Law, any draft legislation that would lead to a decline in budget revenues must "be accompanied by proposals for measures to compensate the financial impact by increasing other budget revenues" (art. 13). As a consequence, the government estimated the net first round budget effects of the proposed measures at -16.4 billion lei in 2016, -16.8 billion lei in 2017, -28.7 billion lei 2018 and -37 billion lei in 2019, while the sources of compensation were predicted to be the second-round effects (resulting from the additional economic growth) and the supplementary revenues expected through reforming the National Agency for Fiscal Administration (NAFA) (Council, 2015).

The proposed changes in fiscal policy prompted a negative reaction from the Fiscal Council (2015). Anticipating "an extreme risk of a permanent and major deterioration of Romania's public finances" and "major deviations from the medium-term budget objectives", the Fiscal Council explicitly opposed the government proposals. The wording of the opinion issued by the Fiscal Council was unequivocal, as the measures were considered as being "in flagrant contradiction with the principles and rules established by the Fiscal Responsibility Law and with the fiscal governance treaties at the European level" (*ibid*.).

Officials from the central bank – the National Bank of Romania (NBR) – publically expressed their distress as well, although the central bank has no official competences related to fiscal policy. Speaking at a conference in July 2015, the governor of the NBR advised against what he called "a major fiscal policy change" due to tax cuts reckoning that "the economic growth without stability is not sustainable". In addition, he stated, "it is our obsession that someone from the outside does not allow us to grow" – in a straightforward reference to the "foreigners do not allow us to grow" storyline (Hotnews, 2015). Later that year, the press secretary of the NBR would give reason for the involvement of the central bank in a fiscal dispute, saying, "We are not explicitly commenting on the way that public money is spent, as this is not our mandate. It is the mission of the Parliament and Government to decide on public expenditures […] We are only concerned with the fiscal deficits that result in public debt as it is our assignment to manage the public debt" (Realitatea.net, 2015).

The IMF also warned Romania of higher budget deficit and public debt because of the tax cuts program. In a press release following its visit to Romania on October 13-21 2015, the IMF representatives clearly expressed their concern about the stability of Romania's fiscal outlook: "After several years of fiscal consolidation, the fiscal deficit is set to rise significantly on the back of sizable tax cuts and wage increases" (IMF, 2015). According to the IMF's projections, if the proposed plan had been adopted, the fiscal deficit would have amounted to near 3% of the GDP in 2016 and would have likely passed this level in 2017.

What was the political reaction to this wave of criticism? The Prime Minister Victor Ponta engaged in direct public confrontation with whoever expressed disagreement with his fiscal views. The Fiscal Council was a prime target, the Prime Minister declaring, "The Fiscal Council has always issued negative opinions against us, although they have upheld the economic policy of the former government. They have a different worldview [than ours]. […] They issued negative opinions even when we cut VAT for bread and bakery products and when we cut social security contributions" (Mediafax, 2015). Finally, after much debate and political controversies, a reviewed version of the Fiscal Code was adopted in September 2015, with most measures taking effect starting January 1, 2016.

5. Conclusion

Fiscal stability institutions have been put in place as Romania began its gradual convergence to EU legislation and institutions. The adoption of the Fiscal Stability Law and the establishment of the Fiscal Council have been key elements for creating an institutional environment suitable to encourage fiscal responsibility and stability. Politicians reluctantly adapted to the new set of rules. However, in public discourses officials showed a stark lack of appreciation for the most basic rules for fiscal stability, habitually disregarding advice from civil society organizations. The main storylines publically invoked are built around the "us versus them" mindset and the "infrastructure at all costs" attitude. The debates around the 2015 - 2016 tax cut program show a lack of concern for the most basic rules for fiscal stability. Effectively enforcing the mandatory legal provisions of the fiscal framework is essential in a political environment where politicians doubt the underlying principles of fiscal stability.

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