

Bucharest Romania

In Bucharest, over the past 15 years they have been building a new subway line and extended 2 existing lines

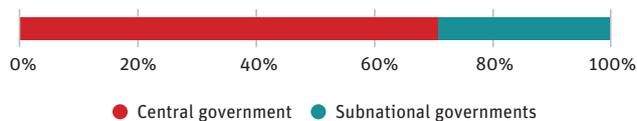
● CITY:
2,1 mil. inhabitants

● METROPOLITAN AREA
N/A

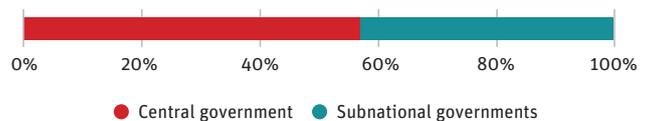
GDP: N/A

How local public finance systems work in Romania

PUBLIC REVENUE



CAPITAL EXPENDITURE



Romania has a **two-tier system of subnational governments** (SNG); it is comprised of 42 regions (judete) at the regional level and 103 municipalities, 217 cities and 2,861 towns. According to the constitution, no hierarchy is established between the levels of subnational government.

Governmental ordinance no. 15/1992 and law no. 27/1994 established a concept for local taxes and a system for financing SNG. **The new law on local public finance (2006)** further defines the system of state transfers – especially compensation transfers, the system for sharing taxes, and the framework for municipal debt. This law thus **increases control of local governments over their own revenue and enables them to administer their own taxes.**

SNG investment in 2016 amounted to 1.8% of GDP and 50% of the total public investment (EU 28 1.4% and 50.9%). Investment makes up a significant portion of Romanian SNG activity, amounting to 20% of their expenditures (EU 28 9%). In recent years, however, investment has declined. Investment goes mainly into the transportation infrastructure and roads (47% of SNG investment in 2016), or into housing and civic amenities (18%). In terms of the share of investment expenditures, Romania is an EU leader, but because of poor management, frequently changing priorities and generally insufficient preparation, the **high public investment costs are not reflected in the actual state of the Romanian infrastructure.**

SNG finances are strongly dependent on transfers from the central government, which account for 84% of their revenue; their own income from taxes and fees

is relatively limited. Compared to regions, towns and municipalities have greater fiscal autonomy. SNG tax revenue represents Only 10% of their total revenue (EU28 41%). After introducing SNA 2008 methodology (in 2014), shared tax revenue (personal income tax, VAT) was shifted from the tax category to the transfer category.

SNG tax revenues amounted to 0.9% of the GDP and 5% of the total tax revenue for 2016 (EU 28 6.4% and 24%). Both municipalities and regions collect taxes.

The property tax (on buildings and land) is the most significant local tax that accounts for 37% of the SNG tax revenue and 3.8% of their total revenue. Taxes are based on the location, type and value of the property. **Reference tax rates are given by law, but local governments can adjust the rates by up to 50%. Yet, property tax amounts to only 0.4% of the GDP (OECD 1.1%).** Other SNG taxes include a transportation tax (8% of SNG tax revenue) and other less significant taxes such as a tax on stamps, a transaction tax, and a tax on the issue of certificates and licenses.

The system of state transfers in Romania consists of a system of equalisation grants (within and across regions) and a system of conditional, earmarked grants. These systems have several goals: vertical and horizontal equalisation – compensating for the lower income capacity of poorer SNGs, financing the obligations delegated by the state and contributing to local investment.

Capital transfers in 2016 accounted for 11% of all transfers and subsidies with current transfers making up the remaining 89%. The two transfer systems (vertical and horizontal) are based primarily on shared personal income tax.

The vertical system works based on sharing personal income tax; 42% of this revenue is redistributed to municipalities and 11% to regions. An exception is Bucharest, where the share is higher. **The vertical compensation system accounts for 21% of SNG revenue.** The system is supplemented with block transfers for sectors, earmarked primarily for expenditures on education and social care; **these transfers also make up 21% of the total SNG revenue.**

A small portion of corporate income tax is also shared with regional governments. Horizontal equalisation takes place at the regional level and consists of 18.5% of the personal income tax collected in the given region. In addition to this, there are also horizontal compensation transfers financed from the state budget (primarily from VAT), distributed among regions (27%) and municipalities (73%) according to a formula.

The government determines the amount of annual equalisation mechanisms within the budget process and by controlling the personal income tax rate. Following measures in 2017 reducing the income tax rate from 16 to 10% (without clear measures to compensate local budgets), a more marked increase in disparity between rich and poor regions is expected.

Since 2010, Romanian SNGs have also received earmarked transfers from state ministries to fund obligations (education, social care, etc.), earmarked transfers for local infrastructure investment and EU transfers. **Earmarked transfers and grants make up a sizable share of the total transfers and grants received.**

Other sources of SNG revenue include local fees (fees for construction or transportation fees). Following the decentralization of the hospital system in 2010, hospital fees paid by the national health insurance company and Ministry of Health became a major source of revenue for SNGs; this is revenue earmarked for expenditures associated with health care. **Fees thus account for just 4.5% of SNG revenue** (EU28 12%). Income from assets (the lease of buildings and land) accounts for 1.6% of SNG revenue (EU28 1.2%).

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

New sections of subway

New sections of subway network in Bucharest are roughly 14 km in length, with 16 stations, two depots and a Park & Ride terminal

1) Line 4 was extended by 2.1 km by adding two stations (Parc Bazilescu-Străulești), a depot and a Park & Ride terminal to accommodate traffic from the northwest heading into Bucharest. The section was built between 2013 and 2017 with total investment costs EUR 170 million.

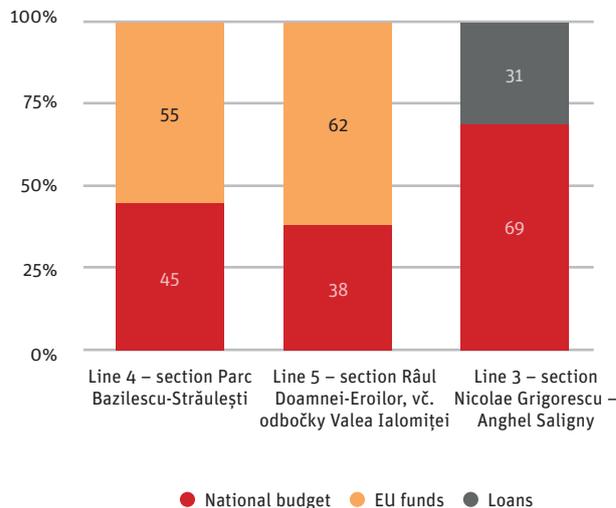
2) Construction of new line 5 stretching for 6.9 km with 10 stations and a depot. The new line serves the large housing estates in West Bucharest with 300,000 residents. This should relieve the overcrowded trolley buses and trams in this part of the city.

Total investment costs were EUR 728 million. The construction of this line was begun in 2011 and is expected to open by 2020.

3) Extension of line 3 by 4.8 km with 4 stations to the east of the city (Nicolae Grigorescu-Anghel Saligny). Total investment costs for this section were RON 243 million. Construction on this line was renewed in 2004 and the section was opened in 2008.



New sections of the subway network in Bucharest



Source: Own questionnaire survey, Urbanrail.net, Wikipedia