Fiscal Council's Opinion on the Draft Budget Revision for 2019 and on the Mid-Year Report regarding the Economic and Budgetary Situation

Summary

- The Fiscal Council recommends increasing transparency in the process of communicating budgetary constructions by publishing and adopting as a benchmark the general consolidated budget and not only parts of it.
- The forecast of the macroeconomic framework related to the first budget revision is based on a plausible advance of the nominal GDP resulting from a lower real economic growth and a potential higher deflator. Also, the assumptions concerning the labor market are optimistic, especially with regard to the growth rate of the number of employees.
- Beginning with its initial construction, the general consolidated budget stipulated a large deviation from the structural balance fiscal rule and, moreover, there was the risk of exceeding even the 3% of GDP reference level - given the proximity of the initial target to this ceiling.
- The Fiscal Council considers that the potential positive budgetary impact of the measures aimed at increasing collection efficiency, as well as of the fiscal amnesty cannot be taken into account *ex ante* in the projection of budgetary revenues, considering the principle of prudence set out by the Fiscal Responsibility Law.
- The Fiscal Council has significant reservations about the proposed level of budgetary revenues - especially in the case of VAT and social security contributions - identifying a cumulative negative income gap ranging from 5.8 to 6.8 billion lei.
- In what concerns budgetary expenditures, the Fiscal Council has reservations about the proposed levels for social assistance expenditures and for those related to the purchase of goods and services, identifying an underestimation of around 3.5 - 4.5 billion lei. A lower absorption of European funds, detrimental from the perspective of economic development, could reduce the budget deficit by 2.5 - 3.5 billion lei.
- Therefore, the Fiscal Council appreciates that there are significant risks of exceeding the assumed deficit target and even the 3% of GDP reference level. Provided that no credible additional compensatory measures are adopted, the probable interval in which the budget deficit will be situated at the end of 2019 is between 3.4% and 3.7% of GDP.
- The fiscal-budgetary policy entails significant risks generated domestically by the severe tension in the budgetary construction. This is determined by the very low level of fiscal revenues and the high degree of rigidity on the expenditures' side, due to excessively ambitious commitments relative to the available resources. The external context, dominated by economic slowdown and by the effects of the trade/currency war between large economies, should also be taken into account. In this context, it is worth noting that the Romanian economy is characterized by twin deficits that are relatively high and singular in the region.
- The Fiscal Council appreciates that serious budgetary consolidation measures are needed, considering both the current deficit and its medium-term perspective, by increasing revenues and/or rationalizing and streamlining costs. A substantial increase in budgetary revenues appears to be a *sine-qua-non* condition of the consolidation process.

Fiscal Council's Opinion on the Draft Budget Revision for 2019 and on the Mid-Year Report regarding the Economic and Budgetary Situation

Foreword

On August 6, 2019, the Fiscal Council (FC) received from the Ministry of Public Finance (MPF), by letter no. 464543/1.08.2019, the draft of the budget revision for 2019, the explanatory note and the draft of the Government Ordinance regarding the state budget revision, the explanatory note and the draft of the Government Ordinance regarding the social security budget revision, as well as the mid-year report regarding the economic and budgetary situation requesting, under art. 53 para. (2) of the Fiscal Responsibility Law (no. 69/2010 republished, hereafter referred to as FRL), the Fiscal Council's opinion.

In order to carry out its mission and obligations under the FRL, the Fiscal Council considers that an essential premise of fulfilling its mandate is the establishment of working procedures with MPF that will set a clear timetable for the transmission of documents that require the opinion of the FC. Such a timetable will ensure that there is adequate time for the analysis of the submitted documents, as well as a response period from MPF. **This would allow the opinion of the Fiscal Council to be examined by the MPF and other interested institutions before the Government approves the revision (or the draft budget) - which would contribute to a better analytical filter for the construction and execution of public budgets.**

Taking into account the experience of other EU Member States (Ireland, Portugal, Italy, Greece, Bulgaria, Latvia, Estonia, etc.), these working procedures could be formalized through a Memorandum of Understanding that would enhance the role of FC and, implicitly, would contribute to the improvement of the process of elaborating and conducting fiscal-budgetary policies in Romania, as well as to the optimization of the decision-making process. Moreover, the complexity of the documents that accompany the annual budget laws often requires the FC to request additional information and explanations, under art. 54 of the FRL, this being another argument for ensuring adequate time frame for the analysis.

General considerations

The first consideration, concerning <u>transparency and institutional accountability in the public dialogue</u>, refers to the publicly available documents that accompany the budget revision. Although the Law no. 500/2002 regarding the public finances, at art. 5 stipulates that only the state budget and social security budget revisions must be formalized through laws, the relevant indicator for the position of public finances is represented by the general consolidated budget (GCB). Also, the budgetary targets from the perspective of evaluating macroeconomic equilibriums and fiscal rules (both national and European) are related to the GCB. In line with the principle of transparency set out in the FRL, the Fiscal Council considers that MPF should publish the GCB data while also highlighting the differences relative to the initial budget and providing explanations that motivate these differences.

The second consideration refers to the economic growth scenario that underpins the budgetary construction, the draft revision maintaining the initial forecast of 5.5% for the real economic growth, but increasing the estimate for the nominal level of GDP to 1031 billion lei from 1022.5 billion lei, exclusively due to the upward revision of the GDP deflator - from 2.1% to 3.5%. This change is taking place in the context of a robust economic growth during the first quarter of 2019, respectively 5%, and of a GDP deflator that is well above the initial expectations. However, maintaining the hypothesis of a 5.5% real economic growth in 2019 appears, in the opinion of the Fiscal Council, excessively optimistic. FC is not alone in estimating that a 4% advance of the economy is plausible this year; numerous internal and external analysis centers place the probable growth in 2019 around this value. However, the projected dynamics of deflators in 2019 compared to the previous year (for GDP and private consumption) is probably still underestimated - even in the context of the recent upward revision. Thus, there is a significant probability that the nominal GDP level (relevant from the perspective of tax revenues except for excise duties) will be reached even in the case of a lower real economic growth.

The third observation refers to the assumptions about the labor market, in particular the one regarding the dynamics of the number of employees in the economy which has a major impact on the forecast of budget revenues - mainly social security contributions and personal income tax - given their high sensitivity to labor market projections. On one hand, the growth rate of the gross average earnings during the first 6 months of the year was a robust one, creating the premises for the materialization of the 14.7% advance that was considered when elaborating the initial budget. On the other hand, in terms of the projected dynamics of the average number of employees, the monthly NIS data for the first 5 months of 2019 indicates an increase of only 1.3% compared to the initial projection of 3.4%. Moreover, there is a tendency to slow down the growth rate - in line with the high degree of tension in the labor market. This context creates the premises for the above mentioned deviations to lead to significantly lower budget revenues than those considered in the initial budget.

The draft budget for 2019 envisaged a deficit target of 2.76% of GDP according to the cash methodology and of 2.8% according to ESA 2010, which corresponds to a structural deficit of 2.97% of potential GDP. **After reaching the medium-term objective (MTO) during 2013-2015, a large deterioration of the structural budget balance began in 2016 as a result of the fiscal relaxation introduced by the new Fiscal Code coupled with significant spending increases, especially for salaries and pensions**. The targets proposed by the draft budget for 2019, as well as by the 2019-2021 Fiscal Strategy reflect the lack of any structural adjustment during the 2019-2020 periods, the deviation from the medium-term objective continuing to be very high at around 2 pp of GDP.

It should be noted that a GCB deficit of about 3% of GDP favors the recording of a high current account deficit. In 2019 the latter will probably be over 5% of GDP, this level being singular in the region while its financing structure has also deteriorated during the last two years. This appreciation must take into account the unfavorable developments at the international level: the trade and currency war, the slowdown of the global economy, the great uncertainties in the European economy, etc. A **macroeconomic correction through budgetary consolidation is absolutely necessary given the internal and external context, as well as the need to keep external deficits under control. When**

evaluating the macroeconomic situation, the objective of entering the Eurozone in the first half of the next decade should also be taken into account; this objective demands a low budget deficit and harmless external deficits.

The necessary macroeconomic correction should also be evaluated by taking into account that Romania is subject to a significant deviation procedure from the MTO, the EC recommending an annual adjustment of 1% of GDP in 2019 and 0.75% of GDP in 2020. Thus, Romania deviates substantially from the existing EU fiscal rules (transposed in the FRL) and the automatic mechanism for correcting these deviations, stipulated by national and European legislation, is not functional.

The Fiscal Council appreciates that the general consolidated budget is characterized by a *severe tension* generated on one hand, by the low level of fiscal revenues compared to the other EU countries (see *Figure 1* in *Annex IV*) **and, on the other hand, by the increasing rigidity of the structure of budgetary expenditures, the share of expenses with salaries and pensions exceeding 75% of fiscal revenues** (see *Figure 2* in *Annex IV*). Both elements have the potential to significantly reduce the space for maneuver in the process of budgetary consolidation, which is also complicated by the impact of the new pension law.

Similar to the draft budget, the project of the first budget revision envisages a significant increase in revenues based on measures aimed at increasing collection efficiency, formalized through NAFA's commitment to collect revenues from VAT and excise duties at the levels programmed for the second semester and to obtain additional revenues by intensifying the efforts to improve collection and reduce tax evasion, with a positive impact evaluated at 3.6 billion lei. The Fiscal Council has reservations regarding the materialization of such an evolution: beyond the objection concerning the lack of prudence manifested by including *ex ante* the impact (difficult or impossible to evaluate) of measures aimed to improve collection in the revenue projection, the experience of the first semester of 2019, when the additional budgeted revenues from improving the collection of VAT did not materialize at the expected level, should lead to caution in formulating such projections. There is potential for obtaining additional revenues from improved collection - EC assessments place Romania on the first place in terms of the gap between the theoretical VAT obligation and what is actually collected (36% compared to the 12.3% EU average in 2016), but the existence of this potential does not mean that it is reasonable or prudent to assume *ex ante* that it will be realized.

The Fiscal Council agrees with the *ex post* inclusion of the additional revenues from improving collection in the budgetary construction, but only after their amount can be evaluated with a high degree of confidence and there are sufficient indications of a tendency to reduce tax evasion - which would be equivalent to these revenues being permanent. Moreover, collection improvement usually takes place in the context of deep reforms of the tax administration that require legislative changes, as well as significant financial, human and time resources (the boxes in the annexes describe the successful experiences in this respect of Poland and Bulgaria). **The Fiscal Council considers that it is absolutely necessary to resume the computerization of NAFA which, together with other measures aimed at encouraging and strengthening compliance and financial discipline, could lead to a significant increase (2 - 3% of GDP) of tax revenues in several years. This would offer a decisive**

support for consolidating the public budget and for creating the macroeconomic premises for entering the ERM2 and, subsequently, joining the euro area.

The draft revision is accompanied by Ordinance no. 6/2019 from 8.08.2019 regarding the establishment of facilities that grant, mainly, an amnesty for some budgetary obligations - principal and accessories - conditional on the full payment of the fiscal obligations for the current year. The measure aims to reschedule the outstanding tax obligations at December 31, 2018 for a number of years - the minimum eligibility limit, represented by the sum of historical obligations (accumulated until the end of last year), being 1 million lei. In addition to rescheduling, other facilities for debt settlement are instituted, such as: (i) conversion into shares, (ii) transfer of real estate properties in lieu of payment, (iii) cancellation of some of the budgetary obligations (up to a maximum of 50% of the principal). The budgetary impact of this measure is evaluated by the MPF at +1.89 billion lei.

In formulating an opinion regarding the evaluation of this impact, we can start from the fact that regulations in this area have been adopted in the past - for example, GEO no. 44 from 14.10.2015 together with the MPF Order no. 378 from 17.03.2016. However, their provisions were less extensive, compared to the present one, from several points of view: (i) the impact, (ii) the methods of debt settlement, (iii) the provision of facilities was applicable only to accessory payments (not to the principal). In contrast, the previous regulations were more permissive from the perspective of eligibility.

Taking these considerations into account, we can highlight some problematic aspects of this measure: (i) considering that the eligibility conditions of previous regulations were more permissive and the re-accumulation of outstanding debt, this type of legislation does not solve the underlying problem, but offers only a partial and temporary solution, (ii) the amnesty tries to solve the problem of the receipts from the current year (mainly for VAT, corporate income tax, social security contributions) by canceling, through the facilities granted, large portions of the accumulated debt, (iii) a part of the current year revenues - those occurring between the submission of the restructuring request and the communication of the amnesty decision - are transferred to future years, by rescheduling the payments, so that the positive impact of the measure, in the current year, is questionable, (iv) the positive (direct) impact of the measure in the current year and, in particular, that of the second round appears to be overvalued[1], especially since the eligibility conditions are more restrictive compared to the previous amnesty - which had a lower calculated impact, (v) the measure is affected, considering the choice of economic agents for participation, by the problem of moral hazard, amplified by the fact that only those who have accumulated a considerable volume of outstanding debt in the past (more than 1 million lei) are eligible under the current scheme. This provision actually rewards taxpayers with a bad paying record, giving them an unfair competitive advantage over other companies, thus, encouraging inappropriate economic behavior. In addition, the regularity of offering such facilities raises the problem of optimizing tax obligations over a longer period of time, making non-payment one

[1] Considering that the first round effects are evaluated at 0.93 billion lei and the second round effects at 0.96 billion lei; it is not plausible for the multiplier to record values that are larger than 1 - unless the participants are mostly state-owned companies.

of the possible choices to make - and from this perspective, the hypothesis of additional revenues is, along with the other arguments, problematic. In view of the above observations and taking into account the principle of prudent fiscal policy management, as stated by the FRL, **the Fiscal Council considers that a possible positive budgetary impact of the amnesty cannot be taken into account *ex ante* in the projection of budgetary revenues.**

Compliance with fiscal rules

By adopting the FRL, a set of fiscal rules concerning the compliance of the budgetary balance and expenditures with regard to the ceilings defined by the Fiscal Strategy was established. The purpose of the fiscal rules is to ensure the predictability of the budget parameters, by promoting the transparency, stability and coherence of the fiscal-budgetary framework, and to facilitate real-time alignment with the structural balance benchmarks. The analysis of the draft budget revision from the perspective of the fiscal rules instituted by the FRL, led to the following conclusions:

- the increase by 0.2 billion lei of the budget deficit and of the primary budget deficit compared to the initial program (taking into account that there were no revisions at the level of interest expenses) implies non-compliance with the rule established by art. 12 letter b) of the FRL, the nominal ceilings for the budget deficit and the primary budget deficit, established by GEO no. 14/2019, being exceeded *ex ante* by about 0.2 billion lei;
- given the 8.5 billion lei increase of the nominal GDP forecast for 2019, the level of the budget deficit expressed as a percentage of GDP remains at 2.76%, in line with the ceiling established for this parameter by GEO no. 14/2019. As a result, the rule regarding the GCB balance, expressed as a percentage of GDP, established by art. 12 letter a) of the FRL, is respected;
- the estimated level of GCB personnel expenditures (102 billion lei, respectively 9.9% of GDP) represents a decrease of almost 0.2 billion lei relative to the initial program. As a consequence, considering the upward revision of nominal GDP compared to the estimate used in the initial budgetary construction, it is noted that personnel expenditures remain within the ceiling defined by GEO no. 14/2019, respecting the fiscal rules established by FRL at art. 12 letter a) (for the level expressed as a percentage in GDP) and letter c) (for the nominal level), respectively at art. 17 para. 2 which prohibits the increase of personnel expenditures during budget revisions;
- the estimated level of GCB total expenditures, excluding financial assistance from the EU and other donors (338.5 billion lei), exceeds the corresponding ceiling defined by GEO no. 14/2019 by 1.3 billion lei, which represents a lack of compliance with the fiscal rule established by the FRL at art. 12 letter c). Given that the increase of GCB total expenditures occurs in the context of supplementing the amounts destined for the payment of Romania's contribution to the EU budget (by about 2.2 billion lei), the revision and subsequent overrunning of the ceiling set by GEO no. 14/2019 appear as justified from the perspective of art. 24 of the FRL which allows the increase of the GCB total expenditures (excluding financial assistance from the EU and other

donors), during budget revisions, only if it is realized for the service of the public debt or for the payment of Romania's contribution to the EU budget.

The draft Government Ordinance regarding the state budget revision for 2019 provides the corresponding derogations from the aforementioned fiscal rules and redefines the ceilings stipulated by the GEO no. 14/2019 according to the levels proposed by the budget revision for the budgetary aggregates. Following the analysis made, the Fiscal Council reports the partial violation of the fiscal rules stated by the FRL, particularly, the one regarding the nominal GCB deficit, except for the value expressed as percentage of GDP, which occurs in the context of an upward revision of the nominal GDP estimated for 2019. Over the last years, the lack of constraint of the fiscal rule was noted, reflected predominantly by the systematic use of derogations on the occasion on budgetary revisions and, in the context of its opinions and reports, the Fiscal Council has repeatedly warned about the unfavorable consequences of disregarding the totality of the fiscal rules.

The updated coordinates of the budgetary revenues and expenditures

The budget revision draft supplements the estimated total revenues of GCB by 2.4 billion lei, while the total budget expenditures are supplemented by 2.6 billion lei, the deficit target being thus increased by 0.2 billion lei. Expressed as a percentage of GDP, the forecasted level of the budget deficit is maintained at 2.76% given the upward revision of nominal GDP. The upward revision operated at the level of total revenues is determined mainly by the increases in non-tax revenues, profit tax and in the revenues from European funds based on the *ex post* settlement of projects realized from internal public resources, and is partially offset by reducing the estimated receipts from social security contributions and the reimbursements - higher than the initial forecasts - related to the car registration taxes.

The main revisions on the revenue side of the budget are as follows:

- Tax revenues: + 1.3 billion lei, out of which:
    - *Profit tax*: + 1.6 billion lei. The upward revision of the programmed level is partially justified by the execution in the first 6 months, which shows an increase of 11.3% of the receipts, higher than the 9.9% forecasted for the whole year in the draft budget, the revised FC estimates indicating as possible higher revenues by about 0.8 billion lei. However, the level proposed by the MPF in the revised budget proposal corresponds to an advance of about 20%, probably on the basis of the positive impact of the fiscal amnesty and measures that will be taken by NAFA in order to increase the collection rate. Regarding the *ex-ante* inclusion of a positive impact of these measures, the Fiscal Council has already expressed its reservations above and, therefore, considers that this budgetary aggregate is overestimated by about 0.8 billion lei;
    - *Property taxes*: + 0.14 billion lei. The revision is explained by the inclusion of the amounts coming from the tax on the banking assets related to its application in the first semester when the execution amounted to about 0.35 billion lei;

- *Excise duty*: + 0.48 billion lei. The increase of the initial estimate considers the impact of the introduction of soft drinks with a high content of sugars in the scope of excisable products (a positive impact of 0.32 billion lei for 4 months of application), as well as of the increase of the total excise duty for cigarettes in advance from January 1, 2020 (a positive impact of 0.16 billion lei for 4 months of implementation). Corroborating the current budget execution with the new proposed measures, the Fiscal Council appreciates the projected level of excise revenue as reasonable;
- *Other taxes and taxes on goods and services*: + 0.57 billion lei. The upward revision is based mainly on the additional revenue related to "the tax on the additional income obtained as a result of the deregulation of prices in the natural gas sector";
- *Taxes on using goods, authorizing the use of goods or on carrying activities:* - 1.8 billion lei. The downward revision is explained by the reimbursement of the car tax in the amount of 2.8 billion lei, higher than planned in the initial budget (1 billion lei), this category being recorded in the budget execution for this chapter as negative revenues.

- *Social contributions*: - 2.2 billion lei. The downward revision is motivated by the under execution of the first 6 months' plan by 2.3 billion lei, which is not extrapolated at the level of the whole year. The Fiscal Council, considering, on the one hand, the monthly cash flow extrapolated throughout the year and, on the other hand, the different estimates regarding the projected developments of the labor market described above, identifies an additional revenue gap compared to the MPF estimates in the revised budget of about 2 billion lei. The MPF relies on obtaining additional revenues of about 1.1 billion lei from the fiscal amnesty, but from the FC perspective, these fall under the same reservations as expressed above.

- *Non-tax revenues*: + 2 billion lei. The upward revision is backed by the revenues collected over the program in the first semester, amounting to 1.1 billion lei and the extrapolation of this over-performance for the whole year. Over the last years, non-tax revenues have significantly increased as a result of the high rate of distribution of dividends from the profit of the previous year by the state-owned companies, as well as the majority shareholder's withdrawal of the profits accumulated in previous years in the form of super-dividends. Beyond the negative impact generated by this measure on the investment potential for the state-owned companies, these developments cannot be of a permanent nature and could thus reduce the budgetary receipts in the following years. Moreover, according to the European methodology ESA 2010, the receipts from the profits registered in another financial year than the previous one are not considered budgetary revenues; they are only a source of financing, thus not affecting the budget balance.

- *Amounts received by the EU in the account of the payments made and pre-financing related to the financial framework 2014-2020*: - 0.7 billion lei. The downward revision appears to be of minor magnitude considering the execution at 6 months, which shows an absorption rate of about 22% compared to the target for the whole year and under the circumstances that the first semester program was carried out only about 62% (- 4.6 billion lei under the program). The underperformance is even higher at the level of the structural and cohesion funds, where the half-yearly execution amounted to 2.8 billion lei, compared with an initial estimate for the whole year of 16.2 billion lei (18% of the annual program, see *Table 6* of *Annex VII*). Although the possibility of achieving the planned annual level of structural and cohesion fund inputs cannot be excluded at this time, the Fiscal Council considers it unlikely to happen.

- *Other amounts received from the EU for operational programs financed under the convergence objective:* + 1.9 billion lei. These amounts correspond to the authorities' intention to settle *ex-post* the projects with non-EU funding on EU funds. Specifically, according to the explanations transmitted by the MPF, these are amounts spent from the state budget in the period 2014-2019 from the National Program for Local Development through the Ministry of Regional Development and Public Administration, which are analyzed by the Managing Authority that manages the Operational Program Large Infrastructure 2014-2020 to be requested to the EC for reimbursement. Fiscal Council considers that the materialization of this proposal in the current year has significant risks, considering both the uncertainty related to the eligibility of these projects from the perspective of granting the European funding and the short time remaining until the end of the year to clarify this instance with the EC representatives. In contrast to the typical revenues from European funds, which have a counterpart on the spending side and are therefore neutral in terms of the budget deficit according to the cash standards, the aforementioned amounts directly contribute to reducing the deficit. It should be noted that the registration of these revenues in the budget execution in ESA 2010 is made according to the year in which the project, for which EU funding was requested, was completed.

Compared to the initial budget, the draft revision maintains unchanged the estimates of revenue from *VAT* receipts, despite the half-year program's achievement of only 91.5% (- 2.8 billion lei). It should be noted that the forecasted level in the initial budget incorporated a substantial revenue increase backed on improving the collection rate, the Fiscal Council considering in its opinion from that moment that they are overestimated by about 5 billion lei. Maintaining the initial estimate of VAT revenues is substantiated by the cumulative effect of the fiscal amnesty and NAFA's commitment to increase the collection rate in the second part of the current year, as well as a more favorable projected evolution of the relevant macroeconomic base, respectively the final consumption net of self-consumption and farm market. In relation to the first two factors, the Fiscal Council has already expressed its reservations above, especially given that the non-materialization of the improvement of the collection rate in the first semester should invite to prudence, as the recovery of the unrealized revenues being unlikely to be done entirely in the remaining time until the end of the year. Thus, considering the updated projection on the growth rate for the relevant macroeconomic base of about 9.3% compared to the initial level of 7.9% and the day-to-day execution, the Fiscal Council considers that the VAT revenues are overestimated by about 3 - 4 billion lei. Moreover, the VAT receipts growth rate in the first half-year was 10.7%, while VAT reimbursements of only 4.5%, and as a future proximity for these two values appears as naturally from the perspective of the slow modification of the economic structures, that would generate the widening of the gap in VAT revenues.

The upward revision of budget expenditures is mainly generated by the significant increase in capital spending and to a lesser extent to social assistance, partially offset by the reduction of the expenses related to the projects financed from European funds.

By expenditure categories, the revisions of the initial estimates are as follows:

- *Personnel expenses*: - 0.16 billion lei. Extrapolating the monthly flows of expenses from the first 6 months of the year to the level of the whole year would require a need for additional allocations, but the personnel expenses in the last months have been influenced to a certain extent by non-recurrent elements (examples: holiday vouchers, compensation according to Law no 85/2016). On the occasion of the budget rectification, the Government intends to restrict employment in the public sector according to the rule of 1 new employee at 3 exits from the system. In this context, Fiscal Council considers that it is possible staying within the wage envelope, but the risk of some overruns persists.

- *Goods and services*: - 0.26 billion lei. The downward revision appears, in the opinion of the Fiscal Council, as surprising given the exceeding of the half-year program by about 0.44 billion lei. Thus, the growth rate over the first 6 months (13.4%) significantly outpaced the initial projected growth rate for the whole year (8.8%). In addition, historical developments have often exceeded the amounts budgeted for this category of expenditures, being higher in the second part of the year. In this context, the Fiscal Council considers that the risk of exceeding the target by the end of the year is not negligible, and the size of the deviation may probably be of about 1 - 2 billion lei.

- *Subsidies*: - 0.39 billion lei.

- *Social assistance*: + 1 billion lei. The upward revision validates the previous warning of the Fiscal Council regarding the under-budgeting of this category of expenses, but the needs are still not covered for the whole year even though, compared to initial budget, the abandoning of the "Go to school" program is likely to justify savings of about 0.44 billion lei. Considering the up-to-date execution as well as the projected increase of the pension point from September 1st, the Fiscal Council identifies the need for additional allocations of about 2.5 billion lei. This amount could be reduced by 1.2 billion lei in the context of the reversal by the end of this year of the advance payment for the pensions distributed by the Romanian Post.

- The above comments related to the revenues from *European funds for the financial year 2014-2020* - regarding the relatively minor modification of this budgetary aggregate compared to the massive sub-execution in the first semester – relates to their correspondent in the expenditure aggregate, which includes, financing from European funds, co-financing and ineligible expenditure. A lower absorption of the European funds, undesirable from the perspective of economic development, will reduce the budget deficit. A possible non-execution of the revenues from European funds of 7 to 8 billion lei would generate, *ceteris paribus*, a smaller headline deficit by 2.5 to 3.5 billion lei.

- *Capital expenditures*: + 4.2 billion lei. The significant upward revision is mainly located in the administrative-territorial units' budget, 1.5 billion lei representing the supplementation of the National Local Development Program (NLDP).

Total public investment expenditures, from internal and external sources, are increased by about 1.93 billion lei. However, in the last three years, the budget execution revealed significantly lower values compared to the draft budget proposals, respectively by 1.1 pp of GDP in 2016, 1.5 pp of GDP in 2017 and 0.5 pp of GDP in 2018 (see *Figure 3* in *Annex V*). Moreover, according to the European methodology ESA 2010, used for international comparisons, the public investments in Romania amounted at about 2.6% of GDP in 2018, lower than the European average of 2.9% (see *Figure 4* in *Annex V*). In addition, the countries that are characterized by a level of investment spending below or close to the European average are generally developed countries, whose infrastructure needs are lower compared to emerging countries. In the case of the new member states, the average of the investment expenditures in 2018 was about 4.1% of GDP, by 1.5 pp more than in Romania. Currently, the investment spending in Romania according to the European methodology is at the minimum of the last 10 years and it is difficult to imagine a further reduction given the existing infrastructure deficit.

Another element that may significantly complicate the budgetary construction in the medium term is the impact of Law no. 127/2019 on the public pension system. Though the majority of its provisions enter into force on September 1, 2021, by that moment, other significant increases of the pension point are expected, from 1100 lei at present-day to 1875 lei starting with 1 September 2021. *Annex VI* contains a detailed presentation of the budgetary impact of this law for the period 2019-2022, including the total impact on the social assistance aggregate and, separately, on the state budget and the state social security budget (SSSB). The additional expenses come from the pension point increases (2019 - September 1, 2021), the modification of the calculation formula and the new established entitlements (starting from September 1st, 2021). Thus, social assistance expenditures are projected to increase from 10.7% of GDP in 2019 to 11.4% of GDP in 2020, 13.4% of GDP in 2021 and 14.4% of GDP in 2022. It is difficult to imagine how such an evolution can be consistent with the improvement of the structural balance towards the medium-term objective or even with maintaining the headline deficit at a level below the 3% threshold stipulated by the corrective arm of the Stability and Growth Pact.

Conclusions

The draft budget amendment records an upward revision of both total GCB revenues (+ 2.4 billion lei), and expenditures (+ 2.6 billion lei). The Fiscal Council has reservations regarding the proposed level of budgetary revenues – mainly VAT and social contributions – identifying a cumulative revenue gap of about 5.8 - 6.8 billion lei compared to the updated estimates. In addition, a possible non-inclusion in the list of eligible projects financed from European funds of those proposed for retrospective settlement for NLDP would increase the potential revenue gap to 7.7 - 8.7 billion lei.

Regarding total expenditures, the Fiscal Council has reservations about the proposed levels for social assistance and goods and services spending. For the first category of expenses, additional allocations amounting to 2.5 billion lei would be required, but they could be reduced by about 1.2 billion lei, under the conditions of reversing the decision to pay pensions before the 15th of the month. For the second category of expenditures, the budget execution at the end of the first semester indicates additional expenses of about 1 - 2 billion lei against the allocation – a tight control of goods and services spending (unobservable so far) could still ensure remaining in the proposed expenditure envelope. However, the up-to-date execution of investment funds financed from European funds shows a high probability of significant non-realization of the estimated levels in the draft revised budget. An eventual undesirable deviation from the target of about 7 - 8 billion lei for European funds revenues, possible and relatively likely, considering both the current and the historical developments, would lead, *ceteris paribus*, to a reduction by 2.5 - 3.5 billion lei of the budget deficit.

In conclusion, the Fiscal Council considers, based on the above elements, that there are significant risks of exceeding the deficit target and even of the 3% of GDP reference level for the budget deficit. In the absence of credible additional compensatory measures, the probable interval in which the budget deficit will be placed at the end of 2019 according to the national methodology is between 3.4% - 3.7% of GDP.

The Fiscal Council appreciates that serious budgetary consolidation measures are needed, considering both the current deficit and the medium-term perspective, by increasing revenues and/or rationalizing and streamlining expenditures. A substantial increase in budget revenues appears to be a *sine-qua-non* condition of the consolidation process.

In a broader context, from the perspective of the risks related to the fiscal-budgetary policy, the Fiscal Council notes the following: (i) the severe tension in the budgetary construction given by the low level of fiscal revenues and the high degree of rigidity of the expenses which significantly limits the space for maneuver of the decision makers in the eventuality of shocks; (ii) the economic slowdown in the global economy and the intensification of foreign trade conflicts; (iii) the relatively high and singular level in the region of the current account deficit would impose more attention in the conduct of fiscal-budgetary policy and reducing the budget deficit would lead to a smaller external imbalance. These circumstances highlight the rapid approach of a turning point, as well as the inevitability of a large budgetary correction.

The opinions and the recommendations above mentioned by the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Art. 56, para (2) letter d) of the Law no. 69/2010 republished, after being approved by the Council members, through vote, on 8th August, 2019.

8th August, 2019

Chairman of the Fiscal Council,

Professor Daniel DĂIANU

Box 1: Revenue administration reform – the experience of Bulgaria and Romania during the tax administration modernization project in collaboration with the World Bank (WB)

Bulgaria implemented a first revenue administration reform in the period 2003-2008, with the help of the WB, with a financing of 63 million dollars. The reform aimed at maximizing tax compliance, increasing the collection effectiveness and efficiency, creating a professional group of employees, reducing corruption, increasing equity, reducing fiscal burden and supporting economic growth. The reform of the legislation was a priority and benefited from the direct support of the government, being achieved with the help of international experts. The analytical capacity of the revenue agency was increased, including by questionnaires addressed to taxpayers, with a positive impact on voluntary tax compliance, on effectiveness and efficiency of collection. The increase of the operational capacity was materialized by the realization of a computer base at national level accessible online, by the unification of the services offered by the agency, by the simplification of the forms, etc. An integrated revenue management system with a modern IT infrastructure has been developed, the success of its implementation being due to the use of external know-how and a professional contractor. The revenue administrative reform project (RARP) has been successfully completed, the delays in payment compliance have reduced considerably, and the tax revenue have increased as a percentage of GDP, while at the same time, the tax burden was diminished (lowering the legal rates of personal income tax, corporate income tax and social contributions). Following the completion of RARP, the Bulgarian authorities continued their efforts to improve collection with a new program to reduce the gray economy and the taxpayer compliance costs carried out in the period 2015-2017. Thus, in 2016, Bulgaria achieved the largest reduction of the VAT gap, as a percentage of theoretical revenues, in the EU (- 8 pp, from over 21% in 2015 to 14%).

In Romania, the revenue administration reform process was initiated in 2013, also in collaboration with the WB, an important pillar being the revenue administration modernization project (RAMP), similar to the one in Bulgaria, with a financing of 70 million euro. The main objectives of the program (initial deadline for 2019, subsequently extended to 2021[2]) were: increasing the efficiency and effectiveness of collection, improving tax compliance, reducing tax burden, the main purpose being to redesign and increase the capacity of the IT system, in order to manage a centralized database for all taxpayers in Romania. During November 2013-2017, the WB analyzes concerning the implementation stage and the results of this program indicated the deterioration of the qualifications for the progress regarding the achievement of the objectives (at "unsatisfactory" in 2017), the general risk rating (at "substantial" in the years 2015-2017), the pace of implementation of the project slowing significantly at the first stage of the acquisition of the budget revenue management system, completed with great delays in October 2017. Subsequently, at the initiative of the Romanian authorities[3], the RAMP was abandoned, out of the total funds made available by the IBRD being drawn up to February 6, 2018, 17.3 million euro (that will be returned), used for training courses, development of voluntary compliance strategies, internal controls and improvement of anti-fraud measures. Thus, the RAMP was not completed, the positive effects registered in the activity of NAFA during the project being minor in relation to the initial objective - the implementation of an IT system that centralizes the financial data from the whole country. Instead, the National Center for Financial Information was created, as a structure of the MPF and, also at the proposal of the MPF in November 2018, the amendment of the GEO no. 74/2013 was approved by the Senate, by which reform measures already implemented will be canceled[4].

The Eurostat data for 2018 indicates for Romania budget revenues of 32% of GDP (the lowest level of EU budget revenues after Ireland), and for Bulgaria 36.8% of GDP.

[2] The duration of the contract was extended at the request of the Romanian authorities (GD no. 1017/29.12.2016).

[3] After, in April 2018, the Romanian Minister of Finance requested a new restructuring of the project, in November 2018 he submitted on behalf of NAFA the request for renunciation of the RAMP project. The WB was informed unilaterally that the end date of the program was set by the Romanian government on March 31, 2019.

[4] The return to the old structure by counties, although a precondition of the agreement with the WB was the restructuring in regional centers. The National Customs Authority was restored to the subordination of the MPF, from that of NAFA.

Box 2: The VAT gap – Poland's best practice experience

The VAT gap is defined as the difference between the expected VAT revenues to be collected[5] and the amount actually collected, being generated by: improper application of the legislation, bankruptcy and insolvency, statistical errors, late payments, avoiding VAT payment without violating legislation, gray economy and fraudulent VAT refunds in intra-Community transactions.

At EU level, the European Commission (EC) publishes annually a study to estimate the VAT gap[6], **Romania being the first placed, with the highest VAT gap from 2012 to 2016** (last year analyzed). The EC study analyzes its evolution, the impact of both external factors (economic and political decisions, the production structure of the economy and unemployment), as well as those under the direct control of the tax administration (its size and structure, IT costs - which have a determining role). Moreover, the experience of the last years of many Member States has shown that **increasing investments in IT for digitization in revenue administrations, automation of data and services and the realization of a centralized system leads to the reduction of the VAT gap**. EC calculations indicate for Romania a VAT gap (relative to theoretical revenues) in 2012 and 2013 of 39%, in 2014 of 40%, in 2015 of 34% and **in 2016 of 36% (compared to the EU average of 12.3 %)**. Moreover, the *Study on the implementation of Digital Governance in Romania* (PwC, September 2018), shows that from the perspective of the efficiency of electronic governance, Romania is the last placed in the EU, the main cause being the weak integration of the IT systems in the public administration.

At the opposite pole is noted **Poland** which, through the reforms initiated and the tightening of the legislation on the collection of VAT has managed to reduce from 27% in 2012-2013 VAT gap to 24% in 2014 - 2015 and 21% in 2016, the estimates for 2017[7] being 14%, respectively 7.2% for 2018. The reform of the Polish revenue administration (KAS) was initiated in 2015 within the *Strategy for Responsible Development*, the initial plan aimed at reducing the VAT gap by 15% per year, in 2015 - 2018 being exceeded.

The reform had 3 pillars: the modernization of the legislation, the efficiency of the revenue administration and the intensification of the cooperation with the business environment. The measures taken by the Polish authorities include:
- the complex reform of KAS, which was equipped with innovative IT-based analytical tools and cooperation with IT and banking sectors for detecting tax frauds[8], digitizing reports and introducing automated analysis tools to distinguish between real and fictitious operations;
- close cooperation between KAS, police, border police, internal security agency for combating tax fraud;
- online verification of contractors by companies through the Efficiency Register (on the KAS website);
- strictly limit the scope of reverse taxation and the period of application;
- the extension of the confiscation of goods whose provenance cannot be attested;
- applying differentiated interests (4%, 8% and 12%) to VAT payment delays and penalties between 30% (from the value of under-reporting of payment obligations / over-assessment of reimbursement requests) and 100% (false invoices)
- combating fraud of the carousel type through package of measures in the fuel, electronics, steel sector;
- tightening of legislation in criminal matters: drastic increase in penalties for issuing and using false invoices (penalties between 5 years and up to 25 years in prison - for VAT frauds exceeding 10 million zlotys).

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[5] Based on the data from the national accounts, the theoretical revenues to be collected from VAT (VTTL) for each Member State are determined based on a common methodology.

[6] The last study was published in September 2018 with data at the level of 2016, https://ec.europa.eu/taxation_customs/sites/taxation/files/2018_vat_gap_report_en.pdf.

[7] *Reducing the VAT gap: lessons from Poland*, Polish Economic Institute, http://pie.net.pl/wpcontent/uploads/2019/02/Raport-LUKA-VAT-EN.pdf.

[8] In 2017, were detected approximately 83% of irregularities, and the controls performed were reduced by 20% compared to 2015.

Annex I – Fiscal policy measures

Table 1: Fiscal policy measures	Budgetary impact (million lei)	Category of revenue
Total	**6,274**	
Fiscal amnesty (first round effects)	333.1	VAT
	178.4	Corporate income tax
	418.5	Social security contributions
Fiscal amnesty (additional effects estimated by NCSP)	310	VAT
	650	Social security contributions
Increase the level of total excise duty for cigarettes	159.4	Excise duty
The introduction of soft drinks with a high sugar content in the products subject to non-harmonized excise duties	320	Excise duty
Tax on bank assets	352.9	Property tax
	-56.5	Corporate income tax
Modification of the tax regime applicable to gift vouchers granted in connection with a dependent activity (income from salaries and assimilated to salaries), in certain situations and including them in the calculation of compulsory social contributions	22.2	Social security contributions
Maintaining the NAFA commitment to collect VAT revenues and excise duties at the level programmed for the second semester, but also renewing the NAFA commitment to collect additional revenues by intensifying the actions to improve collection and reduce tax evasion	1,899.9	VAT
	1,036.0	Corporate income tax
	650	Taxes on using goods, authorizing the use of goods or on carrying activities
	0.1	Tax on foreign trade and international transactions

Source: Ministry of Public Finance

Annex II

Table 2: Budget execution semester I 2019 vs. the half-year program	The half-year program 2019 with swap (million lei)	Budget execution semester I 2019 with swap (million lei)	Program swap semester I 2019 (million lei)	The half year program 2019 without swap (million lei)	Budget execution semester I 2019 without swap (million lei)	Sem. 1 2019/ Sem. 1 2018 without swap (%)	Differences from the half-year program 2019 without swap (million lei)	The achievement degree of the half-year program without swap (%)	Differences from the half-year program 2019 with swap (million lei)	The achievement degree of the half-year program with swap (%)
	1	2	3	4=1-3	5	6	7=5-4	8=5/4	9=2-1	10=2/1
TOTAL REVENUE	**157,663.9**	**148,622.3**	**342.1**	**157,321.7**	**148,280.2**	12.6%	**-9,041.6**	**94.3%**	**-9,041.6**	**94.3%**
Current revenue	145,144.5	140,646.8	342.1	144,802.4	140,304.7	12.4%	-4,497.8	96.9%	-4,497.8	96.9%
Tax revenue	75,743.8	72,484.4	119.2	75,624.5	72,365.2	6.7%	-3,259.3	95.7%	-3,259.3	95.7%
Taxes on profit, wages, income and capital gains	21,516.5	20,929.6	46.7	21,469.8	20,882.9	3.0%	-586.9	97.3%	-586.9	97.3%
Corporate income tax	8,305.0	8,132.9	1.2	8,303.7	8,131.6	11.4%	-172.1	97.9%	-172.1	97.9%
Personal income tax	11,598.5	11,067.3	45.5	11,553.1	11,021.9	-5.2%	-531.2	95.4%	-531.2	95.4%
Other taxes on income, profit and capital gains	1,613.1	1,729.5	0.0	1,613.1	1,729.5	28.5%	116.4	107.2%	116.4	107.2%
Property tax	4,205.7	4,066.0	0.0	4,205.7	4,066.0	7.2%	-139.7	96.7%	-139.7	96.7%
Taxes on goods and services	49,050.9	46,477.0	62.6	48,988.3	46,414.4	8.2%	-2,573.9	94.7%	-2,573.9	94.8%
VAT	32,954.0	30,144.6	47.9	32,906.1	30,096.7	12.6%	-2,809.4	91.5%	-2,809.4	91.5%
Excises	14,488.5	14,114.2	14.7	14,473.8	14,099.4	7.4%	-374.4	97.4%	-374.4	97.4%
Other taxes on goods and services	2,295.2	2,312.1	0.0	2,295.2	2,312.1	26.0%	17.0	100.7%	17.0	100.7%
Taxes on using goods, authorizing the use of goods or on carrying activities	-686.8	-93.9	0.0	-686.8	-93.9	-107.8%	592.9	13.7%	592.9	13.7%
Tax on foreign trade and international transactions (customs duty)	563.8	588.8	0.0	563.8	588.8	15.4%	25.0	104.4%	25.0	104.4%
Other tax revenue	406.8	423.0	9.9	396.9	413.1	12.1%	16.2	104.1%	16.2	104.0%
Social security contributions	57,152.2	54,816.2	222.9	56,929.3	54,593.3	17.1%	-2,336.0	95.9%	-2,336.0	95.9%
Nontax revenue	12,248.6	13,346.2	0.0	12,248.6	13,346.2	28.1%	1,097.5	109.0%	1,097.5	109.0%
Capital revenues	463.6	376.6	0.0	463.6	376.6	59.6%	-87.0	81.2%	-87.0	81.2%
Grants	7.5	2.9	0.0	7.5	2.9	8.7%	-4.6	38.9%	-4.6	38.9%
Amounts received from the EU in the account of payments made and	44.1	83.0	0.0	44.1	83.0	116.2%	38.9	188.3%	38.9	188.3%

pre-financing										
Other amounts received from the EU for operational Programs funded under the convergence objective	14.5	105.3	0.0	0.0	105.3	1196.7%	105.3	-	90.8	-
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	11,989.7	7,410.3	0.0	11,989.7	7,410.3	90.2%	-4,579.4	61.8%	-4,579.4	61.8%
TOTAL EXPENDITURE	**178,297.5**	**168,582.7**	**342.1**	**177,955.4**	**168,240.6**	**138.6%**	**-9,714.8**	**94.5%**	**-9,714.8**	**94.6%**
Current expenditure	168,308.7	161,278.9	0.0	168,308.7	161,278.9	140.4%	-7,029.8	95.8%	-7,029.8	95.8%
Personnel	51,541.7	50,999.7	0.0	51,541.7	50,999.7	167.5%	-542.0	98.9%	-542.0	98.9%
Goods and services	21,415.7	21,858.6	0.0	21,415.7	21,858.6	148.3%	442.9	102.1%	442.9	102.1%
Interest	8,801.2	8,080.8	0.0	8,801.2	8,080.8	197.7%	-720.4	91.8%	-720.4	91.8%
Subsidies	4,183.5	3,844.3	0.0	4,183.5	3,844.3	80.8%	-339.2	91.9%	-339.2	91.9%
Total Transfers	82,094.0	76,351.9	342.1	81,751.9	76,009.8	125.6%	-5,742.1	93.0%	-5,742.1	93.0%
Transfers for public entities	1,033.0	609.0	342.1	690.9	266.9	-38.9%	-424.1	38.6%	-424.1	58.9%
Other transfers	8,316.4	8,064.3	0.0	8,316.4	8,064.3	156.8%	-252.1	97.0%	-252.1	97.0%
Projects funded by external post accession grants	224.6	174.0	0.0	224.6	174.0	50.1%	-50.5	77.5%	-50.5	77.5%
Social assistance	56,334.3	55,969.5	0.0	56,334.3	55,969.5	129.8%	-364.8	99.4%	-364.8	99.4%
Projects funded by external post accession grants 2014-2020	12,840.9	8,447.5	0.0	12,840.9	8,447.5	89.8%	-4,393.4	65.8%	-4,393.4	65.8%
Other expenditure	3,344.8	3,087.6	0.0	3,344.8	3,087.6	102.9%	-257.2	92.3%	-257.2	92.3%
Reserve funds	272.3	0.0	0.0	272.3	0.0	#DIV/0!	-272.3	0.0%	-272.3	0.0%
Expenditure funded from reimbursable funds	0.3	143.6	0.0	0.3	143.6	267.5%	143.3	47864.1%	143.3	47864.1%
Capital expenditures	9,988.8	7,877.0	0.0	9,988.8	7,877.0	92.5%	-2,111.8	78.9%	-2,111.8	78.9%
Payments made in previous years and recovered in the current year	0.0	-573.2	0.0	0.0	-573.2	66.6%	-573.2	-	-573.2	-
EXCEDENT (+) / DEFICIT (-)	**-20,633.6**	**-19,960.4**	**0.0**	**-20,633.6**	**-19,960.4**	347.7%	**673.2**	**96.7%**	**673.2**	**96.7%**

Source: Ministry of Public Finance, Fiscal Council's calculations

Annex III

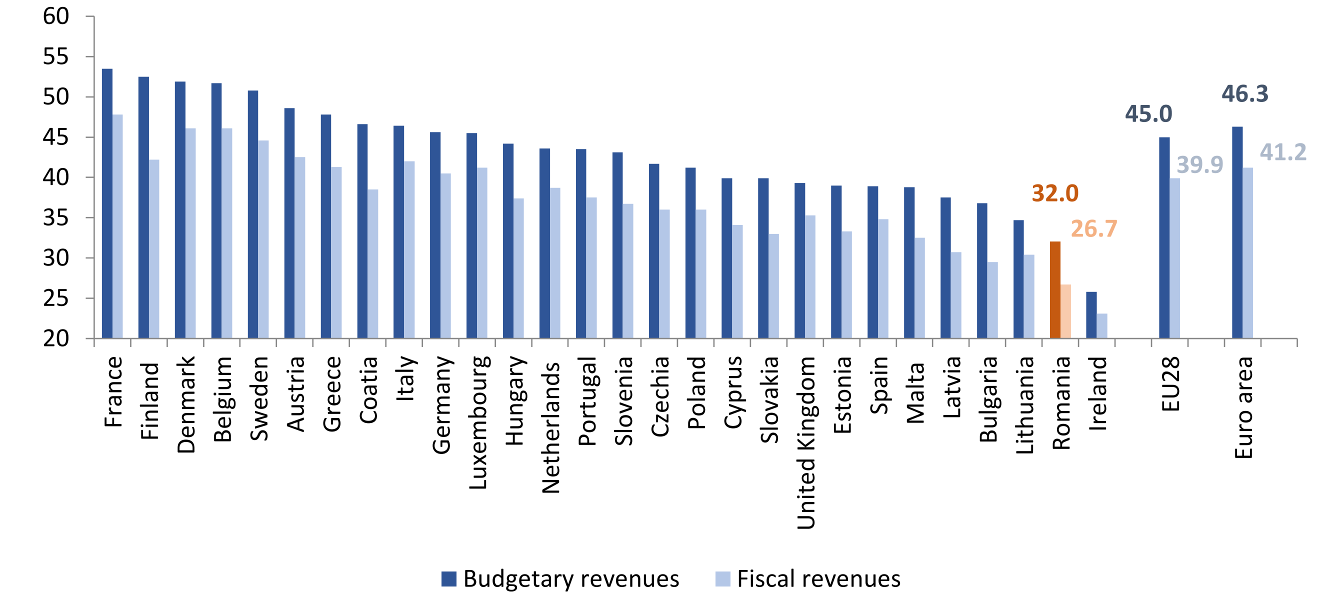
Table 3: Budget revision vs. Initial budget	Initial Budget 2019 (million lei)	Swap program 2019 (million lei)	Initial Budget 2019 (million lei) Without Swap	First Budget Revision (R1) 2019 (million lei)	Swap program R1 (million lei)	First Budget Revision 2019 (million lei) Without Swap	R1 - Initial Budget 2019 (million lei) With Swap	R1 - Initial Budget 2019 (million lei) Without Swap	Budget Execution Semester I 2019/ Budget Execution Semester I 2018 With Swap	R1 2019/ Budget Execution 2018 With Swap
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9	10
TOTAL REVENUE	**342,675.1**	**850.0**	**341,825.1**	**345,026.3**	**850.0**	**344,176.3**	**2,351.2**	**2,351.2**	**12.6%**	**16.9%**
Current revenue	307,985.9	850.0	307,135.9	309,079.3	850.0	308,229.3	1,093.4	1,093.4	12.4%	15.4%
Tax revenue	162,447.9	436.0	162,011.9	163,746.7	436.0	163,310.7	1,298.8	1,298.8	6.7%	14.9%
Taxes on profit, wages, income and capital gains	44,257.2	280.0	43,977.2	46,082.1	280.0	45,802.1	1,824.9	1,824.9	3.0%	11.0%
Corporate income tax	17,192.9	130.0	17,062.9	18,800.8	130.0	18,670.8	1,607.9	1,607.9	11.3%	20.1%
Personal income tax	23,663.0	150.0	23,513.0	23,663.0	150.0	23,513.0	0.0	0.0	-5.2%	4.3%
Other taxes on income, profit and capital gains	3,401.4	0.0	3,401.4	3,618.3	0.0	3,618.3	217.0	217.0	28.5%	14.0%
Property tax	6,087.1	0.0	6,087.1	6,225.2	0.0	6,225.2	138.1	138.1	7.2%	13.8%
Taxes on goods and services	110,190.9	148.0	110,042.9	109,446.1	148.0	109,298.1	-744.8	-744.8	8.2%	16.7%
VAT	69,648.0	148.0	69,500.0	69,648.0	148.0	69,500.0	0.0	0.0	12.6%	16.8%
Excises	31,071.0	0.0	31,071.0	31,552.7	0.0	31,552.7	481.7	481.7	7.5%	10.6%
Other taxes on goods and services	4,534.3	0.0	4,534.3	5,101.2	0.0	5,101.2	567.0	567.0	26.0%	29.3%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	4,937.6	0.0	4,937.6	3,144.2	0.0	3,144.2	-1,793.4	-1,793.4	-107.8%	84.6%
Taxes on foreign trade and international transactions (customs duty)	1,144.7	0.0	1,144.7	1,212.0	0.0	1,212.0	67.3	67.3	15.4%	15.4%
Other tax revenue	768.0	8.0	760.0	781.2	8.0	773.2	13.3	13.3	9.2%	9.4%
Social security contributions	117,246.1	414.0	116,832.1	115,050.3	414.0	114,636.3	-2,195.7	-2,195.7	17.1%	17.3%

Nontax revenue	28,291.9	0.0	28,291.9	30,282.3	0.0	30,282.3	1,990.3	1,990.3	28.1%	11.7%
Capital revenue	972.9	0.0	972.9	972.9	0.0	972.9	0.0	0.0	59.6%	14.5%
Grants	8.8	0.0	8.8	8.8	0.0	8.8	0.0	0.0	8.7%	-13.9%
Amounts received from the EU for payments made and pre-financing	95.5	0.0	95.5	73.4	0.0	73.4	-22.1	-22.1	116.2%	-70.3%
Other amounts received from the EU for operational Programs funded under the convergence objective	108.7	0.0	108.7	2,045.5	0.0	2,045.5	1,936.8	1,936.8	1196.7%	-47.1%
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	33,503.4	0.0	33,503.4	32,846.5	0.0	32,846.5	-656.8	-656.8	75.6%	42.9%
TOTAL EXPENDITURE	**370,923.8**	**850.0**	**369,223.8**	**373,481.9**	**850.0**	**371,781.9**	**2,558.2**	**2,558.2**	**138.0%**	**15.8%**
Current expenditure	345,803.3	850.0	344,103.3	344,168.0	850.0	342,468.0	-1,635.3	-1,635.3	140.4%	14.6%
Personnel	102,117.8	0.0	102,117.8	101,956.0	0.0	101,956.0	-161.8	-161.8	167.5%	18.4%
Goods and services	48,590.2	0.0	48,590.2	48,325.6	0.0	48,325.6	-264.6	-264.6	148.3%	8.2%
Interest	13,410.1	0.0	13,410.1	13,410.1	0.0	13,410.1	0.0	0.0	197.7%	3.6%
Subsidies	7,667.3	0.0	7,667.3	7,280.9	0.0	7,280.9	-386.4	-386.4	57.0%	9.2%
Total Transfers	173,211.2	0.0	171,511.2	171,941.1	0.0	170,241.1	-1,270.1	-1,270.1	124.5%	15.0%
Transfers for public entities	2,378.4	850.0	1,528.4	2,298.4	850.0	1,448.4	-80.0	-80.0	39.5%	49.5%
Other transfers	16,673.4	850.0	15,823.4	15,847.5	850.0	14,997.5	-825.8	-825.8	156.8%	12.3%
Projects funded by external post accession grants	359.4	0.0	359.4	284.5	0.0	284.5	-74.9	-74.9	50.1%	-50.7%
Social assistance	109,585.8	0.0	109,585.8	110,590.5	0.0	110,590.5	1,004.7	1,004.7	129.8%	9.1%
Projects funded by external post accession grants 2014-2020	38,058.7	0.0	38,058.7	36,779.8	0.0	36,779.8	-1,278.9	-1,278.9	89.8%	47.4%
Other expenditure	6,155.4	0.0	6,155.4	6,140.3	0.0	6,140.3	-15.1	-15.1	102.9%	-12.7%
Reserve funds	100.0	0.0	100.0	577.5	0.0	577.5	477.5	477.5	#DIV/0!	#DIV/0!
Expenditure funded from reimbursable funds	706.8	0.0	706.8	676.9	0.0	676.9	-29.9	-29.9	267.5%	74.5%
Capital expenditures	25,120.5	0.0	25,120.5	29,313.9	0.0	29,313.9	4,193.4	4,193.4	92.5%	22.9%
EXCEDENT (+) / DEFICIT (-)	**-28,248.7**	**0.0**	**-27,398.7**	**-28,455.6**	**0.0**	**-27,605.6**	**-206.9**	**-206.9**	**347.7%**	**4.1%**

Source: Ministry of Public Finance, Fiscal Council's calculations

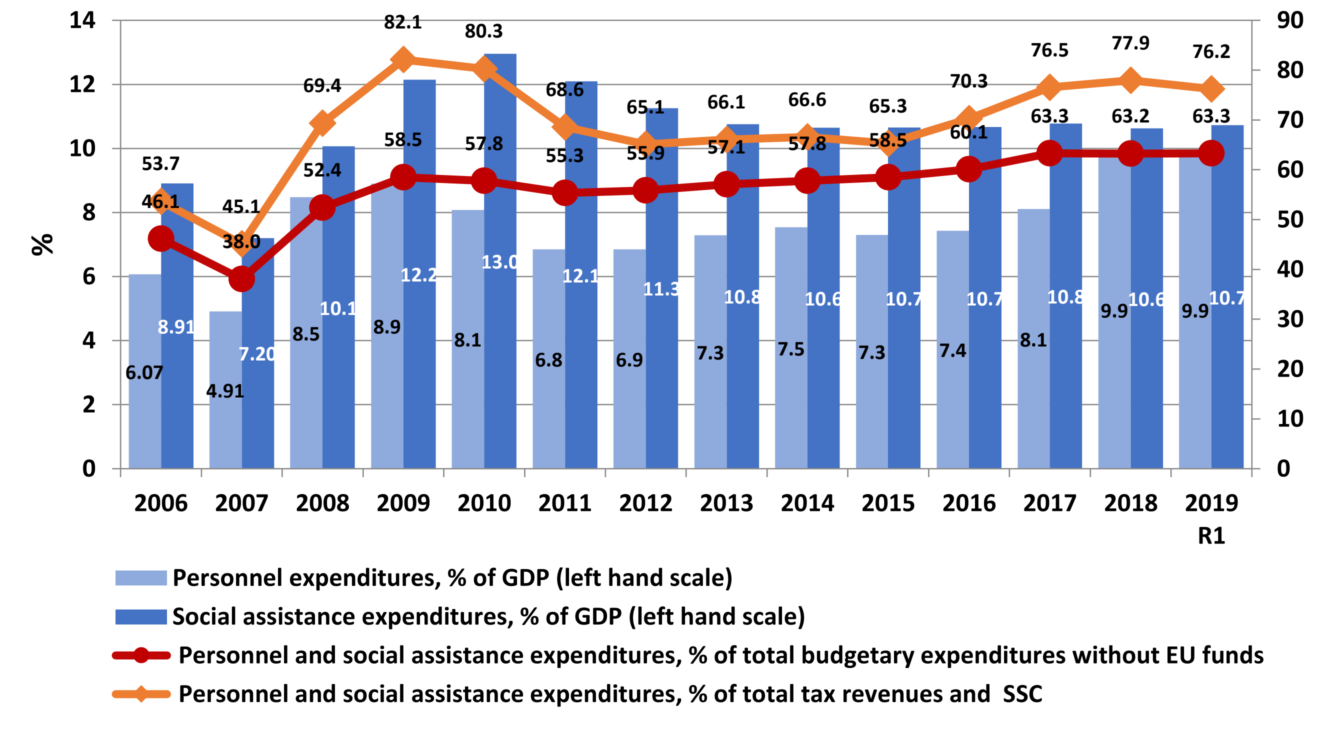
Annex IV

Figure 1: Budgetary revenues and fiscal revenues in 2018 (% of GDP, ESA 2010)



Source: Eurostat, tax revenues include social contributions.

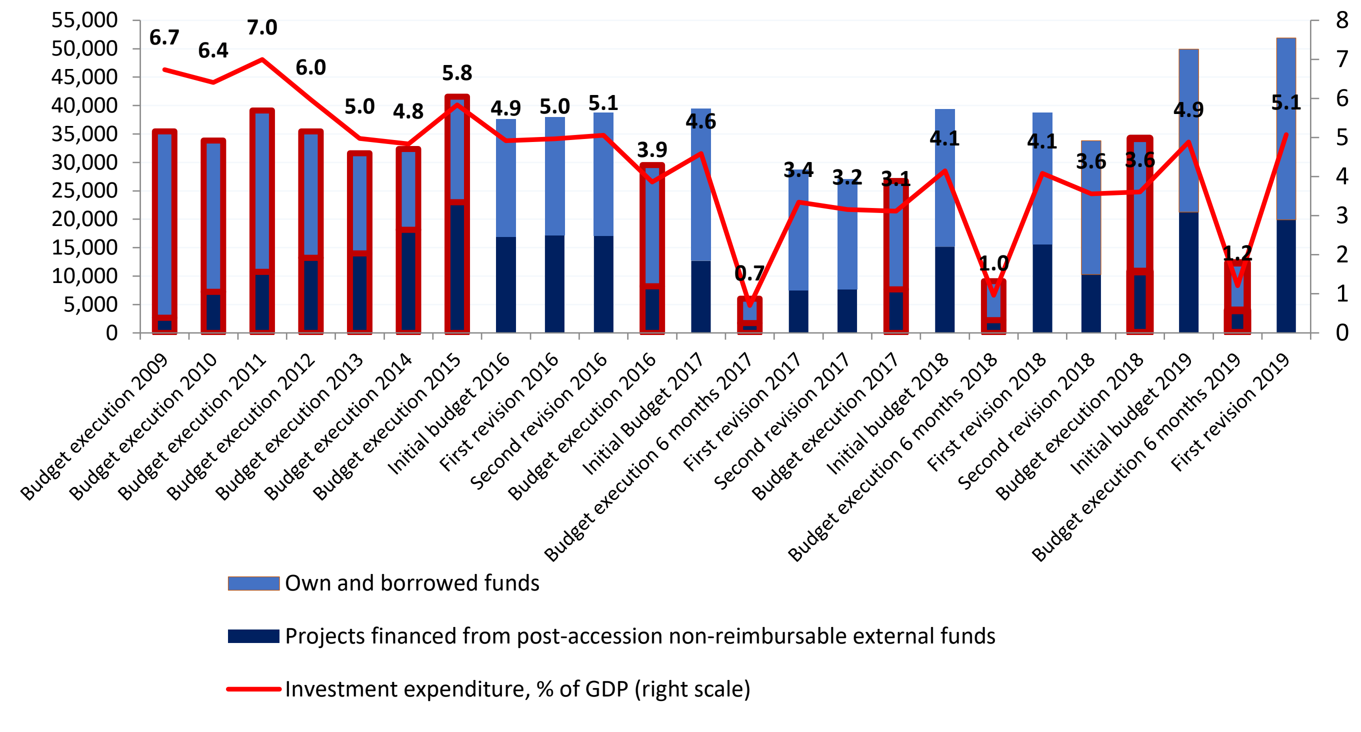
Figure 2: The evolution of the personnel and social assistance expenditures in the period 2006-2019



Source: Ministry of Public Finance, Fiscal Council's calculations

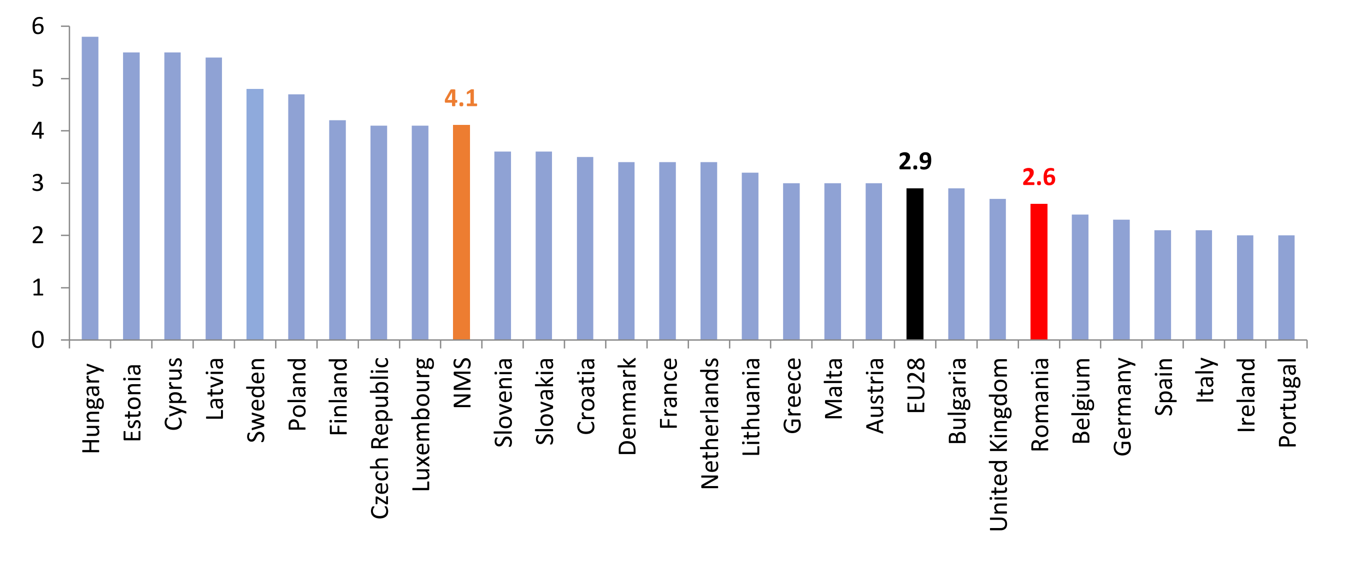
Annex V

Figure 3: Evolution of the public investment expenditure in the period 2009-2019 (planned vs. execution, million lei)



Source: Ministry of Public Finance

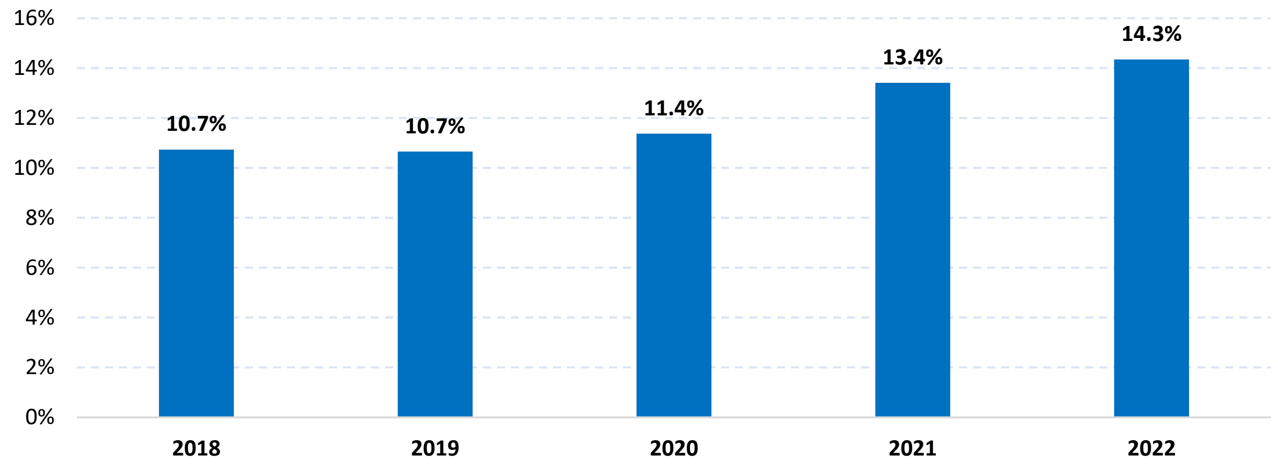
Figure 4: Public investment expenditure in Romania compared with the EU28 and the new Member States in 2018 (% of GDP)



Source: Eurostat

Annex VI

Figure 5: The evolution of the social assistance expenditure of the general consolidated budget considering the impact of the provisions of the pension law (% of GDP*, cash standards)



Source: MPF, NCSP, Fiscal Council's calculations

* Nominal GDP level according to NCSP projections from Spring Forecast 2019 (see *Table 5*).

Table 4: The budgetary impact of the provisions of the pension law on the social assistance expenditure of the state budget and the state social security budget (billion lei, cash standards)

	2019	2020	2021	2022
The impact of the increase of the social allowance and of the newly established rights on the social assistance expenditure of the SB	1.47	1.82	6.82	13.77
The impact of the increase of the pension point on the SSSB's social assistance expenditure	6.75	23.64	46.15	55.82
The impact of changing the pension calculation formula on the SSSB's social assistance expenditure	-	-	5.29	11.93
Total budgetary impact	**8.22**	**25.46**	**58.26**	**81.52**

Source: Ministry of Public Finance, Fiscal Council's calculations

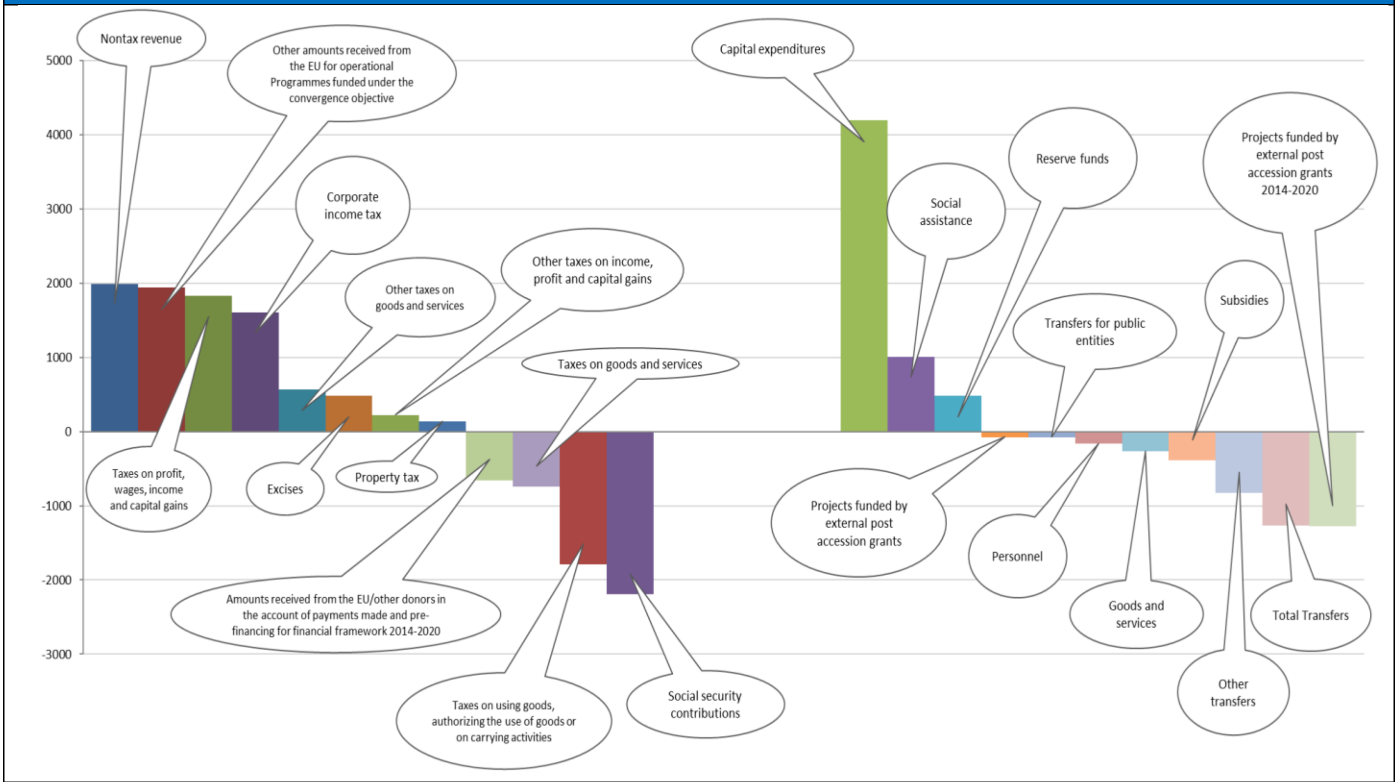
Table 5: The forecast of nominal GDP for the period 2019-2022

	2018	2019	2020	2021	2022
Nominal GDP (billion lei)	944.2	1,031.0	1,110.2	1,188.5	1,272.0
Real increase (%)		5.5	5.7	5.0	5.0

Source: NCSP – Spring Forecast 2019

Annex VII

Figure 6: The main changes in expenditures and revenues after the budget revision (without the impact of swap schemes, million lei)



Source: Ministry of Public Finance, Fiscal Council's calculations

Table 6: EU FUNDS	**Initial budget 2019 (million lei)**		**Budget execution semester I 2019 (million lei)**		**Influences (revision) (million lei)**	**First budget revision 2019 (million lei)**	
	with agriculture and amounts according to art. 10 letter a) of GEO no.40/2015	**without agriculture and amounts according to art. 10 letter a) of GEO no.40/2015**	**with agriculture and amounts according to art. 10 letter a) of GEO no.40/2015**	**without agriculture and amounts according to art. 10 letter a) of GEO no.40/2015**		**with agriculture and amounts according to art. 10 letter a) of GEO no.40/2015**	**without agriculture and amounts according to art. 10 letter a) of GEO no.40/2015**
Revenue							
Post-accession funds	33,503.4	16,238.5	7,410.3	2,781.8	-656.9	32,846.5	15,581.6
Expenditure							
EU expenditure + national co-financing + non-eligible expenditure	43,592.9	26,328.0	9,453.5	4,825.0	-1,838.1	41,754.8	24,489.9

Source: Ministry of Public Finance