Fiscal Council of Romania

Fiscal Council's Opinion on the draft Budget Revision for 2020

Summary

- The budget revision occurs in the context of the Government's announcement concerning the extraordinary circumstances caused by the SARS-CoV-2 virus pandemic. The Fiscal Council validates the manifestation of these extraordinary circumstances and considers that the current situation calls for a budget revision that, on one hand, supports the fight against the pandemic and, on the other hand, mitigates its economic and social impact.
- The magnitude of the pandemic shock, which led to the partial closure of economies, is accompanied by very high uncertainties; the prevailing risk is that there will be a more severe deterioration of the economic activity in comparison to initial anticipations. The economic crisis has an acute social dimension caused mainly by job losses.
- The impact of falling external demand, financing difficulties and disruptions in production chains will significantly affect the Romanian economy due to its internal and external imbalances. The accumulation of large budgetary and external deficits in previous years, corroborated with the low level of fiscal revenues, created a very limited fiscal space which severely constraints the maneuvering margin for economic policymakers.
- Based on the available data, the Fiscal Council considers that the macroeconomic scenario that was formulated by the Government, which is built on a decline of 1.9% in real GDP, is very optimistic.
- Starting from the NIS analyzes on the economic impact of the pandemic, from the historical reference of the previous economic crisis that began in 2008 and from other available data, the Fiscal Council considers that it is prudent and necessary to consider two additional macroeconomic scenarios for the current year: one based on a contraction of real GDP between 4% and 6%, and a scenario that predicts a more severe contraction of the GDP, of approximately 8%-9%.
- Based on the macroeconomic framework formulated by the Government, the Fiscal Council evaluates the budget deficit of the current year at about 7.3%-7.45% of GDP, while the Government estimate stands at 6.7% of GDP. Considering the previously mentioned additional scenarios, the budget deficit is likely to be found between 8.1%-8.9% of GDP, considering a real GDP contraction of about 4%-6%, reaching 9.9%-10.4% of GDP in the case of a more severe contraction of economic activity, of 8%-9% in real terms.
- High budget deficits exert great pressure on the possibility of financing given that access to resources from external markets is becoming increasingly problematic - especially for emerging economies. According to the estimates of the Fiscal Council, Romania's financing needs increase

from about 8.6% of GDP in 2019, to levels between 11% and 14.3% of GDP, depending on the scenarios considered for 2020, respectively between 119.5 billion lei and 144.3 billion lei[1].

- Although fiscal rules have been temporarily suspended in the EU, covering such financing needs poses great challenges for Romania, resulting from the limited debt absorption capacity of the internal market, uncertainties about the availability of financing on foreign markets, the cost of financing, the low level and possible deterioration of the sovereign rating, etc.
- The Fiscal Council considers that programs aimed at supporting the economy that involve a budgetary effort are conditioned by the existence of financing sources and must not jeopardize the return to the sustainability of public finances in the medium term.
- It should be emphasized that access to resources (for the smooth financing of the budget deficit and for rolling over the public debt) is crucial for the possibilities of taking fiscal-budgetary actions. In this context, the timely communication of fiscal policy plans indicating, in particular for the markets, a sustainable medium-term trajectory of the public finance position is essential for overcoming this very difficult period.
- In the opinion of the Fiscal Council, it is necessary to allow the action of the automatic stabilizers and of the fiscal-budgetary measures designed to mitigate the severe impact of the economic contraction, while announcing as soon as possible a credible fiscal-budgetary consolidation plan starting with 2021. The budget consolidation in the forthcoming years requires an increase in budget revenues from the domestic economy.
- The Fiscal Council warns again that maintaining the current timetable for the application of the pension law would make it almost impossible to reduce the budget deficit in 2021 compared to the current year's level, which is dangerously high. Returning to a sustainable trajectory of the public finance position, especially in view of the economic consequences of the pandemic, calls for an immediate public commitment to reconsider the timetable for the application of the new pension law.
- The very large magnitude of Romania's financing needs requires the consideration of all possibilities for obtaining financial resources.
- All assessments concerning the future must take into account the extraordinary positive impact that an antidote, especially a vaccine, will generate. The action of a vaccine will end the epidemiological cycle by radically changing, in a positive sense, the psychology of people, market sentiment and the confidence in the markets and in the economy. The vaccine factor, with the extraordinary rupture it will cause, should not make us underestimate the remanence of adverse effects, sequelae, structural changes that will influence future dynamics. Post-pandemic economies will not be similar in many respects to pre-pandemic ones.

[1] The equivalent of 24.7 billion euro and 30 billion euro, considering an exchange rate of 4.8414 lei/euro.

Fiscal Council's Opinion on the Draft Budget Revision for 2020

On April 15th, 2020, the Fiscal Council (FC) received from the Ministry of Public Finance (MPF), by letter no. 473178/15.04.2020, the draft of the budget revision for 2020, 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, 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.

Immediately after it was sent to the FC, the draft budget revision was approved in a Government meeting[2] that also took place on April 15, 2020. Subsequently, on April 17, 2020, the two Government Emergency Ordinances (GEO), no. 50 and 51 - related to the revision of the state budget and of the social security budget – appeared in the Official Journal of Romania no. 322 and 323, respectively.

The 2020 revision made through GEOs no. 50 (for the state budget) and no. 51 (for the social security budget) is based on the provisions of Decree no. 195/2020, extended subsequently by Decree no. 240/2020 - which establishes and then prolongs the state of emergency on the Romanian territory. Moreover, Decree no. 240/2020, through art. 94, establishes the need to carry out an emergency budget revision. Derogation from the objectives of the FRL (stated in art. 4-7 and in art. 14) is allowed, according to art. 8, only under the "conditions of extraordinary circumstances, provided that this deviation does not jeopardize fiscal sustainability in the medium-term".

The budget revision is based on the derogation established by GEO no. 29/2020 (art. IX para. (1)) from the provisions of the FRL (art. 23 para. (1) and (2)) - which state (i) that budget revisions can be made only after taking into account the conclusions of the mid-year report on the economic and budgetary situation, as well as the Fiscal Council's opinion about it, and establish (ii) that it is not possible to issue a revision in the first 6 months of the year (while also limiting the number of revisions to a maximum of 2 per year). At the same time, GEO no. 50 (art. 23) also derogates from the provisions of the FRL (art. 18 para. (3)) regarding the quarterly limits for personnel expenses and allows the modification of these limits without complying with the conditions set by art. 18 para. (4) and (5). Moreover, GEO no. 50 (through art. 22-25) derogates from the budgetary ceilings established by FRL at art. 12 para. (1) letters a) -d), art. 17 para. (2), art. 24 and art. 26 para. (4) and (5).

In the explanatory note related to the budget revision, the Government publicly announces the manifestation of extraordinary circumstances represented by the current COVID-19 pandemic, thus, invoking the provisions of art. 8 of the FRL. Based on the same article, the Fiscal Council must also formulate an opinion on this aspect reported by the Government. To this end, the Fiscal Council carries out, in this opinion, an analysis of the budget revision, as well as a broader analysis of the economic and fiscal-budgetary situation.

[2] According to the press release related to the Government meeting from April 15th, 2020.

General considerations on the economic situation and on the first 2020 budget revision

This budget revision occurs under extraordinary circumstances determined by the pandemic caused by the SARS-CoV-2 virus. The Fiscal Council considers that the global and national situation generated by COVID-19 calls for a budget revision that, on one hand, supports the fight against the pandemic and, on the other hand, mitigates its economic and social impact. A common element of all recent economic analyzes[3] and decisions is the difficulty of assessing the extraordinary magnitude of the pandemic shock and, consequently, *an unprecedented level of uncertainty*. The uncertainty is generated by the dynamics of the pandemic and of the measures meant to fight it (imposing the partial closure of the economies), as well as by the very abrupt and uncertain evolutions of the national economies and, implicitly, of the global one. Another common element refers to the prevalence of a downside risk related to the deterioration of economic activity in comparison to the probability of recording a better evolution than initial anticipations. This is because the downward momentum is exacerbated by a lack of confidence in consumption and investment appetite, amid large and growing uncertainties.

The pandemic shock is unparalleled in contemporary history and poses a huge challenge to governments and medical systems in order to save lives. This requires an exemplary mobilization of resources with a very large impact on economic policies and public budgets. The current crisis is multiple, its components interfering among themselves: a health component caused by the pandemic, a social one and an economic crisis that manifests itself both on the demand and supply side and also exhibits trust issues (related to consumers and companies). We can identify at least four main mechanisms for transmitting the effects of the economic crisis: (i) the imposition of measures related to the exceptional situation leads to an internal shock on aggregate demand, (ii) but also to a shock on aggregate supply, (iii) a transmission of the negative dynamics/shocks of trade, and of the world economy in general, to national economies, and (iv) in some countries there could be an increase in shocks due to the biunivocal relationship between the real economy and the financial sector. These channels that propagate this economic crisis (and their interdependence) complicate the analysis and the decision-making process.

For emerging economies, which use the currencies of other countries in domestic and foreign transactions (and, therefore, whose central banks do not issue reserve currency) the impact of the financial channel can be much more severe, the increased risk aversion on the markets amplifying the external financing problems for these economies. In addition, the impossibility to fully finance the policies induced by the current crisis on the internal market, as well as being positioned as a recipient of external shocks increases the country risk of these economies, making it higher than that of the countries issuing reserve currency.

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[3] For example, the analysis conducted by The Organization for Economic Co-operation and Development (OECD) "Coronavirus: the world economy at risk" (March 2, 2020), the ones conducted by the International Monetary Fund (IMF) in the "World Economic Outlook" (April 2020) and in the "Fiscal Monitor" (April 2020), the ones conducted by The Institute of International Finance, by various rating agencies and by other national and international financial institutions.

Taking into account that Romania has very large internal and external imbalances, the fall of external demand, financing difficulties and interruptions in production chains will considerably affect the Romanian economy. Consumer and business expectations are a key factor in economic dynamics and, in the context of *social distancing* measures, they are likely to exacerbate the fall in economic activity, complicating the return to its previous level. Although there are very high uncertainties, current estimates and analyzes (conducted by ECB, IMF, OECD and other relevant international institutions) show that each month of partial closure of the economy leads to an average loss of at least two percent of the gross domestic product (GDP) – also depending on other structural parameters of the respective economy (the share of affected sectors, degree of integration in value chains, etc.).

It is important to note that this general shock - caused by the pandemic - produces asymmetric effects depending on the socio-economic particularities of each country. Romania's position in the European context is unfavorable, for several reasons:

(i) the accumulation of high structural deficits during the economic boom led to a lack of fiscal-budgetary space which is needed in the recession phase of the economic cycle, especially if we face very strong adverse shocks - such as this pandemic. Thus, the 2019 deficit exceeded significantly the 3% limit, reaching a level of 4.3% of GDP according to the European methodology (4.64% of GDP in cash terms), which led to the initiation of the excessive deficit procedure by the European Commission[4] (EC).

Despite the fact that fiscal rules have been suspended[5] at European level to allow both for the automatic stabilizers to operate and for taking measures to combat the economic effects of the pandemic, the European Commission sent a letter to the Ministry of Public Finance[6] on April 6, 2020, confirming the launch of the Excessive Deficit Procedure (EDP) by virtue of the fact that the breaches of European fiscal rules - transposed by the FRL at national level - precede the pandemic and, therefore, are not caused by it. The deadline for Romania to take effective measures, in accordance with art. 3 para. (4a) of Regulation (EC) no. 1467/97, and to report in detail on the planned consolidation strategy for achieving the targets is September 15, 2020. However, the assessment of the effective actions taken in response to the EC Recommendation will account for the economic and fiscal impact of the COVID-19 pandemic, as well as for the implications of activating the Stability and Growth Pact (SGP) derogation clause.

The previous large budget deficits, highlighted also by Romania's singular position within the corrective arm of the SGP, make the adoption of measures to overcome the current

[4] Through the decision adopted by The Council on April 3, 2020.

[5] By the approval of EU Finance Ministries ("Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact", COM(2020) 123 final) on March 20, 2020.

[6] https://ec.europa.eu/info/sites/info/files/economy-finance/letter_accompanying_the_launching_of_the_edp_for_romania_signed_evp_dombrovskis-cssr_gentiloni.pdf.pdf

crisis situation particularly complicated due to the sensitivity of internal and external investors to further increase deficits. The lack of fiscal-budgetary space and the very complicated financing lead to a vicious circle that can postpone the moment of economic recovery.

(ii) public debt appears small – relative to the European context – being 35.2% of GDP at the end of 2019 (ESA2010 methodology) and amid the extension of the average maturity of public debt and the improvement of its structure – in terms of a lower exposure to currency risk, an increase in the share of long-term debt and a decrease in the share of debt with variable interest rates. However, the current level of debt is very sensitive to the differential between the default government debt yield (cost of financing), on the one hand, and the growth rate of nominal GDP, on the other. The impact of severe economic shocks, which also contract nominal GDP (and consequently lead to a rapid increase in the deficit through the operation of automatic stabilizers or economic measures adopted), in the context of an average interest rate on public debt still high can lead, similar to the developments of previous crisis, to an accelerated growth of public debt, in absolute and relative terms. It can be mentioned in this respect almost doubling the public debt in one year – from 12.3% in 2008 to 21.8% of GDP in 2009.

It should be mentioned, in this regard, also that the EC's[7] latest report on the sustainability of public debt for 2019, places the risk of Romania's public debt at a "high" level (except for the short-term one) – worsening from a "medium" level in the report for 2018. At the same time, the Report shows that in the absence of corrective measures, Romania's public debt would reach 62.3% of GDP in 2025, and about 91.2% of GDP in 2030; these figures refer to the situation before the outbreak of the pandemic and incorporate the increase in pensions according to the current timetable.

(iii) the current account deficit of balance of payments is another element of vulnerability, which is mainly generated by the reflection of the substantial public sector deficit. Thus, recent data[8] show that Romania is singular also in this regard, both in the region and among larger EU countries, with a current account deficit of 5.3% of GDP in 2019 (BPM6 methodology) and having both past and projected significant deficit values (above the 4% of GDP threshold from the EU Macroeconomic Imbalance Procedure).

This situation is mirrored by an unfavorable sovereign rating[9] - having one of the lowest quotations in

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[7] https://ec.europa.eu/info/publications/debt-sustainability-monitor-2019_en.

[8] AMECO database, European Commission.

[9] Thus, the S&P agency updated Romania's rating maintaining it at "BBB-" (the last level of the "recommended for investment" category), but changing the perspective to "negative" (10 Dec 2019), Fitch agency re- affirmed the rating to "BBB-", also changing the perspective to "negative" (April 17, 2020), and the rating agency Moody's maintained the rating to Baa3 (equivalent to the last level of the category "recommended for investments") also changing the perspective from "negative" to "stable" (April 24, 2020). It can also be noted that, in the evaluation of all rating agencies, the issue of the current fiscal-budgetary slippage (which mainly determines

the EU and at the minimum value corresponding to the category “investment grade” - this in turn influencing Romania's financing costs. This risk perception regarding Romania, determined by internal and external imbalances, add more vulnerabilities at a critical time, as capital outflows from emerging markets- quite substantial lately - can lead, if resumed to the same magnitude, to sudden stops for the private external financing. The existence of the fiscal space and access to finance are two *sine qua non* conditions for each country to implement a set of economic policies that can help the economy faster return to a path of a sustainable economic growth.

When assessing the macroeconomic framework assumed by the Government in the budget revision, the FC starts from the fact that higher frequency data, for the part of 2020 affected by the pandemic, are not available. However, on the NIS website there are three studies (grouped under the name - COVID-19 economic impact) regarding the economic effect of the current exceptional situation: (i) one targeting the economic environment in general - focusing on certain economic branches / sectors, (ii) an *ad-hoc* survey on the evolution of the activity and the number of employees in March - April 2020 and (iii) an *ad-hoc* survey on the opinions of managers regarding the volume of exports and imports of goods in March 2020.

A first remark regarding the macroeconomic scenario assumed by the Government is that the GDP dynamics of -1.9%, seems to be decoupled from the labor market development - whose indicators are overestimated. Hence, the GDP reduction in 2020, located mainly in industry, construction and services produces very small effects on the average number of employees (-1.3%, or -1.6% according to the AMIGO methodology), the unemployment rate (increase by 0.4 pp, or 0.5 pp according to the AMIGO methodology), total employment (-1.4%), while wages are projected to continue to increase by 5.9% or 6.0% (gross/net) in 2020 - thus recording a real increase of 2.8%.

The Fiscal Council reiterates, similar to previous opinions, the observation that the projections related to the labor market have a significant fiscal-budgetary impact, the sensitivity of the deficit projection to these input data being relatively high.

Overestimating the wage bill dynamics of the whole economy (number of employees and wages) is likely to lead to an overestimation of budget revenues, and a lower projected unemployment rate diminishes the forecast of unemployment benefits, with a similar effect of underestimating the budget deficit.

The Fiscal Council notes the deflator projection of 4.1% in 2020 (correlated with a consumer price index (CPI) dynamics of 3.1% - on average), determines a positive dynamic of nominal GDP, respectively, 2.1%. This is conflicting to both the latest CPI data showing a rapid decline in its dynamics in March this year- the advance of consumer prices being only 2.7% - and to forecasts that take into account the usual macroeconomic relations.

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that of the current account of the balance of payments) occupied a central place and, above all, the issue the increase of permanent expenses - especially those related to social insurance.

Given the possible magnitude of the shock on the real GDP, it is expected that the reduction in inflation and, implicitly, in the deflator will be larger. An additional argument concerns the impact of the fuel prices, marked by a sharp downward trend in world oil prices[10]. In conclusion, the FC considers that the projected macroeconomic dynamics are optimistic in relation to what would result from the assessment of current circumstances and available data - this being a source of significant downside risk to the budget deficit planned for this year.

Macroeconomic scenarios

When setting up the analysis regarding the macroeconomic scenario assumed by the Government, the FC starts from the first study of the National Institute of Statistics (NIS) which *is representative at the level of economic sectors and at the total economy* (with a response rate of 71.3%). Accordingly, this study analyzes the sectors: manufacturing, construction, retail and services.

Their share in GDP (for 2019) is about 65% (considering the manufacturing industry is about 80% of the industrial sector in Romania[11]). The NIS study reveals a contraction in turnover in March and April, by 32% and 40%, year on year. Assuming that cost structures are difficult to change (in the sense of reducing costs), due to the rigidity for both prices for intermediate consumption and contracts settled on the labor market, we considered that this change is fully transmitted to the gross value added of companies in these sectors.

Considering the historical trend and the NCSP projection for these sectors for 2020, we can calculate the contribution of the activity decline in each of the above sectors on the annual GDP dynamics, starting from the data for March and April (April dynamics will be extrapolated for the first half of the month - assuming, implicitly, the hypothesis that after the relaxation of social distancing measures, the economic activity returns to the normal before the pandemic).

These calculations lead to an average decline (in terms of annual economic advance) of about 2.6-2.7 pp for each month considered[12]. Thus, for the interval assumed/ with available information up to now, the total impact is -7 pp; starting from a 4.1% increase of GDP for 2020 (projected before this revision – the NCSP winter forecast 2020) corrected with the direct anticipated impact of the pandemic according to the NIS survey, will result an annual GDP dynamics estimate of about -3% for 2020.

Considering the assessments from the previous FC opinion regarding the economy dynamics for 2020 - considered as overestimated by about 0.5 pp in the initial draft budget – implies a corrected estimate of -3.5%, also taking into account the NIS data. This level is considered by the FC as a minimum threshold for the real GDP contraction in this year, based on the assessment based on the official data of the National Institute of Statistics.

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[10] At certain points in time West Texas Intermediate oil prices even recording negative quotes (for example, on 20 April a historical minimum was recorded, of about minus 40 $ per barrel).

[11] EUROSTAT NACE A*64 data, with a breakdown of GDP by formation into 64 (sub-) sectors.

[12] Being about 2.5 pp in March and 2.9 pp in April 2020.

There are many arguments whose assertion, individually or together, can lead to a larger contraction in GDP relative to the minimum threshold determined above:

(i) for the second half of May this year, the return of the economy to the pace before this unprecedented situation is very unlikely;

(ii) a very rapid recovery of the economy in the third and fourth quarters is also highly unlikely, and could affect the economy over a longer period of time[13];

(iii) other sectors of the economy (representing 35% of GDP) will also suffer from the pandemic;

(iv) the impact (assessed by the NIS) of the contraction in international trade (responses positioned around a decline of "up to 25%" and "25-50%") could amplify the expected effects and could make the restart of economic activity more difficult, particularly as Romania is integrated and dependent on the international value-added chains, the pick-up of the economy decoupled from that of the main trading partners being practically impossible;

(v) the NIS study, which is the basis of the FC estimates, is carried out between March, 17-19, the subsequent developments not being likely to bring improvements, on the contrary;

(vi) agriculture, which usually has a significant contribution to GDP in the first, second and fourth quarters, could have a weaker dynamic[14];

(vii) the fall in turnover could be translated into gross value added due to the increase in intermediate consumption costs caused by the current extraordinary situation;

(viii) the assessment of the effects of contraction in the economic sectors is made in isolation, the functional interrelationships (which are usually analyzed, for example, using the input-output matrices) not being taken into account;

(ix) the implications of the financing channel are not considered, and could be a major source of downside risks to the GDP dynamics - as capital outflows from emerging economies reached around 100 billion dollars[15] in Q1 2020 - almost double than the peak of the previous crisis of 2008-2009 - and, moreover, most of the capital outflows took place in other emerging economies than China. Moreover, global economic circumstances could lead to new waves of capital withdrawals from emerging economies, which would complicate, to the point of making it impossible, the recourse to finance the current account deficits of the balance of payments by emerging countries.

Another risk factor for Romania is represented by the rating placed in the immediate vicinity of the category “not recommended for investments” (see *Figure 4*) – and the impact of adverse developments can be significant on financing the domestic economy.

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[13] For example, a sluggish/ slower start will reduce the annual GDP dynamics by 0.5-1 pp, subject to the hypothesis that in the second half of May, after the alleged relaxation of the exceptional state, the developments recorded in April will continue.

[14] For at least 3 reasons - the basic effect of last year, a less good agricultural year given the current weather conditions, as well as the impact of the pandemic on supply chains and on sector financing.

[15] According to the “Capital Flows Report: Sudden Stop in Emerging Markets” of April 9, 2020, available on the website of IIF (International Institute of Finance) - https://www.iif.com/Publications/ID/3841/Capital-Flows-Report-Sudden-Stop-in-Emerging-Markets.

Another element for substantiation of an alternative macroeconomic scenario is to compare the current situation with that of the major economic crisis that began in 2008, noting that the magnitude of the current shock could be even higher compared to that one. Therefore, the real GDP dynamic in 2009 and 2010 (- 5.6% and respectively, - 3.9%) is, also, a reference base for the development of this year. Moreover, the previous crisis - rooted in the financial sector – hence being more homogeneous relative to the source and the transmission mechanism, seems to have been easier to combat using economic policies. The current crisis, with its many facets, requires both more extensive economic measures in terms of instruments and in the size of the needed funding resources.

Taking into consideration the above assessments, historical references, as well as the described risk factors, some with a high probability of achievement, the FC deems necessary to consider a macroeconomic scenario with a contraction of the real GDP in the range of 4-6% for this year. Such a scenario is also supported by the projections of international institutions[16]. The projections of other research institutions take into account baseline scenarios close to the values of the GDP dynamics mentioned above, respectively, a contraction of 4-6%. At the same time, the data used for the internal economy - from NIS - can be corroborated with those that appear in research studies and questionnaires collected by various organizations.

Given the current exceptional uncertainty, the FC considers that, in addition to the scenario assumed by the Government in the current budget revision (-1.9% of real GDP) and the one proposed above (between -4 and -6% of real GDP in 2020), it is appropriate considering a scenario with an even more severe contraction in the real GDP for this year – of about 8-9%.

In conclusion, FC appreciates that the projection assumed by the Government for the current budget revision is excessively optimistic in relation to the factual situation. Therefore, two other scenarios are to be considered, with, according to the FC, each of them having a relevant plausibility: a scenario with a contraction of GDP between 4 and 6% and another with a contraction between 8 and 9%.

All future assessments must take into account the extraordinary positive impact that an antidote, especially a vaccine, will generate. The action of a vaccine will end the epidemiological cycle by radically changing, in a positive sense, the psychology of people, the sentiment and confidence in the markets and in the economy. The vaccine factor, will cause an extraordinary rupture, but should not make us underestimating the remanence of adverse effects, sequelae, structural changes that will affect future dynamics. Post-pandemic economies will not be similar in many respects to ante-pandemic ones.

[16] For example, the International Monetary Fund estimate a GDP contraction of 5% for Romania in 2020, in the last World Economic Outlook, the April edition.

Updated coordinates of budget revenues and expenditures in the draft budget revision

The analysis of the updated coordinates of the budget revenues and expenditures is based on the projection of the macroeconomic framework assumed by the Government. Compared to the parameters approved in the initial budget for 2020, the first budget revision decreases the GCB total revenues by 19.05 billion lei, while the total budget expenditures are increased by 12.9 billion lei, thus rising the budget deficit by 31.95 billion lei. Expressed as a percentage of GDP, the projected level of the budget deficit is 6.7%, by 3.1 pp higher than in the initial budget.

The downward revision of the revenue projection takes place at the level of almost all categories of budget revenues from the domestic economy. This is largely determined by the more unfavorable macroeconomic framework compared to the initial budget. A favorable impact on budget revenues is generated by the additional amounts received from the EU to counteract the negative effects associated with the COVID-19 pandemic.

By revenue categories, the amendments to the previous estimates are as follows:

- *Fiscal revenues*: - 13.1 billion lei, of which:
    - *Corporate income tax*: - 2.3 billion lei. The draft budget revision also modifies the system of declaring and paying the profit tax as follows: voluntarily, taxpayers can choose to pay the quarterly profit tax in advance, receiving for this a bonus between 5% and 10% of the amount of the payment obligation. Receipts according to the cash methodology for 2020 are favorably influenced by the use of this facility, and those according to ESA 2010 are reduced by the bonus paid. In this context, the estimate for the year 2020 of the draft revision also includes some receipts that were normally made in the first quarter of 2021. Even under these circumstances, the MPF estimate is subject to major uncertainties, the receipts from this tax having the potential to decrease massively in the context of a larger economic decline. In other words, the usual sensitivity of this category of budget revenues to the change in nominal GDP has the potential to be significantly different now, in a negative sense from the perspective of budget revenues, in a year of a sudden economic decline. *Annex II* illustrates the dynamics of budget revenues and the relevant macroeconomic bases associated in 2009 versus their projection for the current year. In the draft revision, profit tax revenues are expected to fall by about 3% under a nominal GDP advance of 2.1%, compared to a projected growth rate in the initial budget of 9.9% corresponding to a nominal GDP of 8.5%. The balance of risks tilts towards lower corporate tax revenues, even given the materialization of the macroeconomic framework estimated by NCSP at this time. However, in the opinion of the FC, given the difficulties associated with the revenue projection related to this budget aggregate, the uncertainties being much higher now compared to other circumstances, the current revenue estimate can be reconsidered and reassessed based on the relevant factors.
    - *Personal income tax*: - 1.55 billion lei. The revision takes place in the context of modifying the forecast for the average number of employees in the economy from +

1.9% to -1.3% and respectively, the average gross wage from + 9.8% to +5.9%. However, even starting from these assumptions and the budget execution for 2019, the FC appreciates the estimate for this budget aggregate as optimistic, a more cautious forecast indicating a revenue gap of about 0.6 billion lei. Moreover, a possible prudent attitude of the economic agents regarding the distribution of dividends will determine a deepening of this gap.

- *Other taxes on income, profit and capital gains*: - 0.27 billion lei. The revision is attributable to the negative change in the macroeconomic framework.
- *VAT*: - 5.6 billion lei. The reduction in the VAT estimate is in line with the updated macroeconomic framework, respectively the decrease of the final household consumption expenditure, excluding self-consumption and farm market in nominal terms from + 9.5% to +2.7%, as well as reduction of excise duties on energy products operated in 2020;
- *Excise duties*: - 2.69 billion lei. The reduction is more significant compared to what would have been justified by the revision of the macroeconomic framework - the decrease in real terms from 5.1% to -1%. However, it should be mentioned that the projection for the initial budget construction did not take into account the reduction of excise duties on energy products operated in 2020. Considering all relevant elements, the FC evaluations indicate that excise revenues are probably overestimated by at least 1.3 billion. lei. In addition, a negative deviation of fuel consumption from the dynamics of the macroeconomic base considered for the projection of this budget aggregate, respectively the consumption of the population in real terms, being very likely in the current context, will extend the revenue gap.

- *Social security contributions* - 8.4 billion lei. Similar to the personal income tax receipts, social contributions have as a relevant macroeconomic basis the wage bill in the economy, determined by the average number of employees and the average gross wages. Considering the revision of their projections described above, as well as the revenues from social contributions, the FC considers the forecast related to this budgetary aggregate as optimistic, a more prudent approach indicating a revenue gap of about 1.1 billion lei.

- *Non-fiscal revenues*: - 1.44 billion lei. The downward revision of the macroeconomic framework also has an impact on this budgetary aggregate, for example by reducing the dividends distributed by the state-owned companies as a result of reducing their profitability.

- *Other amounts received from the EU for operational programs financed under the convergence objective*: + 3.92 billion lei. These are additional amounts received from the EU to come across the COVID-19 pandemic. These additional resources will partially finance some of the measures taken on the expenditure side.

Summarizing, on the budget revenues side, even considering the actual macroeconomic framework projected by the NCSP, the revenues are probably overestimated by at least 0.3% of GDP.

The upward revision at the level of total expenditures is overwhelmingly generated by the amounts allocated to the fight against the COVID-19 pandemic. The increases occur mainly, at the level of social assistance expenditures as a result of the measures adopted regarding technical unemployment, as well as at the level of reserve funds, the additional amounts following to cover the necessary resources related to the fight against the pandemic where needed.

By expenditure categories, the previous estimates are as follows:

- *Personnel expenditures:* +0.6 billion lei. The additional amounts are destined for the payment of medical staff from who is in the first line in the fight against the COVID-19 pandemic. The bonuses granted to these employees are financed by European funds.
- *Reserves Funds:* +3 billion lei. The increase is generated by the amounts needed to fight the effects of the pandemic. The sums will then be distributed on budgetary categories according to actual needs. The most susceptible category for allocations from reserve fund for this purpose is represented by “goods and services”. It remains to be seen if the supplementation of reserves funds will be sufficient to cover additional expenses related to the fight with the pandemic effects.
- *Goods and services:* +0.5 billion lei. Under the new conditions, the new target is placed at a level of 51.5 billion lei, respectively by almost 2.5% below the nominal level from 2019. In the first 2 months of 2020, this expenditures category has already registered a growth pace of about 14% compared to the same period from the previous year, without any impact from the side of additional needs related to this aggregate generated by the fight against the COVID-19 pandemic. In this context, most likely, this budgetary aggregate was under-estimated by around 0.2-0.4% of GDP even before the outbreak of the epidemic.
- *Other expenditures:* +1.4 billion lei. The plus of expenditures concerning this category is found at the unemployment fund. According to the clarifications received from the MPF, the supplementation is explained by the amounts meant for parents staying at home with their children, as stated by the provisions of the Law no. 19/2020.
- *Social assistance:* +6.8 billion lei. The upward revision has as sources:
    - +1.8 billion lei representing additional amounts related to the state budget – according to the explanations received from the MPF, the extra expenditures are attributable to the support for liberal professions and for other categories which do not fall under the technical unemployment according to the GEO no. 32/2020;
    - +4 billion lei representing extra amounts to unemployment fund for the payment of technical unemployment;
    - +1 billion lei at the level of the Unique National Health Fund for increasing the funds necessary for the payment of sick leaves.

Therefore, the additional amounts allocated through the budget revision draft on the account of technical unemployment are 4 billion lei, these amounts having the potential to be insufficient for 2 months of application of the measure. Moreover, the amounts destined for standard unemployment are not increased, although, most likely, at the end of the technical unemployment measure, a relevant number of employees will go into standard unemployment. In this context, the FC appreciates an extra resource requirement for the unemployment fund of at least 0.1-0.15% of GDP. This estimate is affected by relevant uncertainties, the final value depending on the duration of granting the facility, the number of beneficiaries and the percent of those who will go from technical unemployment to standard unemployment.

- *Capital expenditures*: +1 billion lei. The upward revision is explained by augmenting the amounts for National Program for Local Development (NPLD) by 1 billion lei.

Total public investment expenditures, from internal and external sources, increase in planning by 1 billion lei, having as source the augmentation related to NPLD from above. The FC appreciates the Government's intention not to reduce the investment expenditures, even in the conditions of significant worsening the revenues collected at the level of the general consolidated budget. The materialization of investment expenditures at the projected level in the budget can provide a stimulus to the economic activity in an extremely difficult period.

Summarizing, on the budget expenditures side, these are probably underestimated by at least 0.3-0.45% of GDP.

Under these conditions, the likely budgetary deficit, admitting the macroeconomic framework assumed by the Government is in the range 7.3-7.45% of GDP. The risks to this estimate are tilted on the negative side, respectively in the sense of registering a higher budgetary deficit.

Sensitivity analysis of the budget balance to the change in the macroeconomic framework

The above analysis on the updated coordinates of budget revenues and expenditures in the draft budget revision had as an input the macroeconomic framework assumed by the Government. Earlier, problematic issues associated with the proposed levels for the budgetary aggregates that go beyond the projection of the macroeconomic framework have been identified. On top of that, the FC considers that the projection of macroeconomic indicators assumed by the budget revision is very optimistic.

A more appropriate scenario is described by a decrease in real GDP of between 4 and 6%, while a risk scenario, not negligible, would suggest a decrease in real GDP of between 8 and 9%. In this context, a sensitivity analysis of the budget deficit estimated by the FC was performed, based on the Government's macroeconomic framework, according to the two scenarios considered.

According to FC's estimates, given the historical developments, in the conditions of a more unfavorable dynamics of nominal GDP, for each percentage point of decreasing its growth rate, budget revenues will probably be lower by about 3.5 billion lei. Thus, in the conditions of a decrease of the real GDP comprised between 4% and 6%, the budget revenues will be reduced by at least 7 - 14 billion lei compared to those forecasted in the revision draft. In this case, the above estimate of the likely level of the budget deficit becomes 8.1% - 8.9% of GDP. It should be noted that the additional decrease in real GDP compared to the scenario assumed by the Government, between 2.1 and 4.1% in this case, was assumed to correspond to a decrease between 2.1 and 4.1% of nominal GDP compared to its current estimate of 1,082.1 billion lei.

Alternatively, in the conditions of a decrease of real GDP between 8% and 9%, the budget revenues will be lower by at least 21-24.5 billion lei compared to those forecasted in the draft revision. In this case, the above estimate of the likely level of the budget deficit becomes 9.9% - 10.4% of GDP.

In addition, in conditions of profound economic downturn, budget revenues may fall more than would be justified given their estimated sensitivity based on data from a normal business cycle. Thus, the risk balance related to the FC’s estimates on the budget deficit according to the two scenarios is tilted on the negative side, respectively in the sense of a higher budget deficit. Moreover, all the above estimates do not include a possible increase in child allowances, a measure postponed until 1 August 2020.

The issue of increasing permanent expenditures on social assistance

The FC notes the maintenance, in the current budget projection of "social assistance" aggregate, of the impact of applying for 4 months the 40% increase in the pension point from September 1st, 2020. In this regard, the FC has issued numerous warnings in its previous opinions concerning, inter alia: the incompatibility of such an increase with the desideratum to ensure fiscal/budgetary discipline, respectively the decrease of the budget deficit below 3% of GDP and then to the level described by the medium-term objective; significant deterioration of the public finance position, especially in the medium-term; the destabilizing effect on the domestic economy; etc. In the current context, the previous warnings of the FC acquire much more severe valences, overlapping a much deteriorated economic and fiscal-budgetary situation. In fact, the rating agencies, even before the COVID-19 pandemic, mentioned the aspect of increasing the pension point as a key one for their assessments. According to the FC's estimates, the application of the provisions of the pension law would lead for 2021 to an increase in the share of GDP of the "social assistance" aggregate by more than 2 pp. In view of all this, the FC once again points out that such a measure would make it almost impossible to reduce the budget deficit in 2021 compared to this year’s level, which is already more than dangerous due to its size.

Returning to a sustainable trajectory of the public finance position, especially in view of the economic consequences of the pandemic, calls for an immediate public commitment to reconsider the timetable for the application of the new pension law. In this context, the timely communication of fiscal policy plans indicating, in particular for the markets, a sustainable medium-term trajectory of the public finance position is essential for overcoming this extraordinarily difficult period.

The issue of financing the budget deficit and refinancing the public debt

Beyond the impact on the sharp rise in the share of public debt in GDP generated by the high levels of the budget deficit in conditions of deep recession, budgetary imbalances put a great deal of pressure on the financing needs in the context in which the availability from financial markets becomes more and more uncertain.

According to the FC's analysis, in the conditions of the budget deficit estimates presented above, Romania's financing needs increase from about 8.6% of GDP in 2019, to levels between 11% and 14.3% depending on the scenarios considered in 2020, respectively between 119.5 billion lei (24.7 billion euros) and 144.3 billion lei (30 billion euros[17]). In the structure of the financing needs, the variation compared to the level proposed by the budget revision is given exclusively by the deepening of the budget deficit from 72.5 billion lei to 83.4 billion lei (corresponding to a 5% GDP decline), respectively, to 97,4 billion lei (corresponding to a GDP decline of 9%). *Figure 3* from annexes shows the evolution of the financing needs in the period 2008-2020.

Such levels of financing needs involve great challenges for Romania, which derive from the limited debt absorption capacity of the internal market, uncertainties regarding the availability of financing on foreign markets, the cost of financing, the possible deterioration of Romania's sovereign rating, etc. It should be emphasized that the ability to finance the budget deficit smoothly and to refinance the maturing public debt is a very "tough" constraint on fiscal policy. This issue has the potential to become even more problematic in the face of increasing risk aversion of investors and/or deterioration of Romania's sovereign rating.

The very large magnitude of Romania's financing needs requires the consideration of all possibilities of access to financial, public and private resources.

Compliance with fiscal rules

In the context of the exceptional situation generated by the SARS-CoV-2 coronavirus pandemic, the prohibition to promote budget revisions in the first semester of the year (established by art. 23, paragraphs 1 and 2 of the FRL) is derogated by GEO no. 29/2020 on some economic and fiscal-budgetary measures requiring emergency budget revision in order to ensure the necessary financial resources to reduce the negative effects on the economy caused by measures taken to limit coronavirus infection among the population. At the same time, considering the significant worsening of the forecast of macroeconomic indicators that were the basis of the budget law, according to art. 23, para. 3 of the FRL, a budget revision can be promoted in the first semester of the year.

Thus, the pronounced deterioration of the macroeconomic framework led to the negative revision of the GCB revenues by about 19.1 billion lei, while the financing of measures to prevent unemployment,

[17] Calculated at an exchange rate of 4.8414 lei/euro.

those to protect the business environment, and those to ensure development corresponding to the activity of the main authorizing officers in accordance with their attributions and responsibilities led to the increase of the GCB expenses by 12.9 billion lei. Consequently, the draft revision supplements the ceilings of most of the indicators specified in the fiscal-budgetary framework for 2020 (established by Law no. 238/2019) as follows:

- the nominal ceiling of GCB primary deficit is increased by 31.8 billion lei to the level of 58.5 billion lei;
- the nominal ceiling of GCB deficit is increased by 31.9 billion lei to the level of 72.5 billion lei;
- the ceiling of GCB deficit, expressed as a percentage of GDP, is increased by 3.1 pp up to 6.7%;
- the ceiling of GCB personnel expenditure, expressed as a percentage of GDP, is increased by 0.4 pp up to 10.1%;
- the nominal ceiling of GCB total expenditures, excluding financial assistance from the EU and other donors, is increased by 8.8 billion lei up to the level of 380.4 billion lei;
- the ceiling of public debt, expressed as a percentage of GDP, was increased by 1 pp up to the level of 41%;
- by contrast, the nominal ceiling of the BGC personnel expenses is slightly reduced by 17.5 million lei up to the level of 109.7 billion lei.

Considering the above, the draft ordinance of the Government regarding the revision of the state budget for 2020 stipulates the necessary derogations from the fiscal rules established by the FRL and redefines the ceilings established by the Law no. 238/2019 in accordance with the levels of the budgetary aggregates in the revision proposal.

Conclusions

The current draft budget revision was elaborated, in the conditions of the announcement by the Government of extraordinary circumstances that allow, according to art. 8 of the FRL, the temporary deviation from the requirements of the fiscal rules established by the FRL. The FC validates, according to the requirements of the above-mentioned article, the manifestation of extraordinary circumstances, stating that, after their termination, there is a legal obligation to adopt fiscal-budgetary policy measures leading to an improvement of the structural balance of the general consolidated budget at least equal to the requirements of the Stability and Growth Pact.

The magnitude of the pandemic shock, which led to the partial lockdown of the economies, is accompanied by very high uncertainties; the prevailing risk is that there will be a more severe deterioration of the economic activity in comparison to initial anticipations. The economic crisis has an acute social dimension caused mainly by job losses.

The Fiscal Council considers that the macroeconomic scenario assumed by the Government, which is built on a decrease of the real GDP by 1.9%, is very optimistic. Thus, starting from the NIS studies on the economic impact of the pandemic, from the historical reference of the previous economic crisis that began in 2008, based on its own quantitative and qualitative assessments as well as other data and forecasts, the Fiscal Council appreciates that it is prudent and necessary to consider two more macroeconomic scenarios for the current year: one based on a contraction of real GDP that is between 4% and 6%, and a scenario that predicts a more severe contraction of the GDP, of approximately 8% - 9%.

The draft budget revision records a downward amendment of the total estimated revenues of GCB, respectively by 19.05 billion lei, while the total budget expenditures are increased by 12.9 billion lei. Thus, the forecasted budget deficit is increased by 31.95 billion lei and 3.1 pp of GDP, respectively, compared to the target for the initial budget construction.

The negative revision of the revenue projection takes place at the level of almost all categories of budget revenues from the domestic economy, being largely attributable to the deterioration of the macroeconomic framework. A favorable impact on budget revenues is generated by the additional amounts received from the EU to counteract the negative effects associated with the COVID-19 pandemic. The upward revision in total expenditure is generated by the amounts allocated to the fight against the effects on public health and economic activity generated by the COVID-19 pandemic. Thus, the main increases are located at the level of social assistance expenditures and at the level of reserve funds.

The FC estimates that the likely budget deficit, admitting the macroeconomic framework assumed by the Government, is in the range of 7.3-7.45% of GDP, as a result of an overestimation of revenues by about 0.3% of GDP and an underestimation of expenditures by 0.3-0.45% of GDP.

Two scenarios for the macroeconomic framework, which the FC considers plausible, one with an economic decline between 4 and 6% and another between 8 and 9%, lead to budget deficits for 2020 of 8.1% - 8.9% and respectively of 9.9% - 10.4% of GDP. The balance of risks related to these estimates inclines, in the FC's opinion, on the negative side, respectively the registration of a higher level of the budget deficit.

High budget deficits put great pressure on the possibility of financing given that access to resources from external markets is becoming increasingly problematic - especially for emerging economies. According to the estimates of the Fiscal Council, Romania's financing needs increase from about 8.6% of GDP in 2019, to levels between 11% and 14.3% of GDP, depending on the scenarios considered for 2020, respectively between 119.5 billion lei (24.7 billion euros) and 144.3 billion lei (30 billion euros).

Although fiscal rules have been temporarily suspended in the EU, covering such financing needs poses great challenges for Romania, resulting from the limited debt absorption capacity of the internal market, uncertainties about the availability of financing on foreign markets, the cost of financing, the low level and possible deterioration of the sovereign rating, etc.

The Fiscal Council considers that programs aimed at supporting the economy that involve a budgetary effort must be conditioned by the existence of financing sources and they must not jeopardize the return to the sustainability of public finances in the medium term.

The early public communication, of the fiscal-budgetary policy plans for the return to a sustainable trajectory of the fiscal-budgetary policy in Romania in the medium-term is essential for going through this very difficult period.

It is important to emphasize the advantage of prudence and moderation in fiscal policy, which could have provided a much higher fiscal/budgetary space in times of very severe crisis such as now. The margin of maneuver is much limited by the very low level of fiscal revenues, the second lowest in the EU, thus Romania not having a capacity to react similar to that of countries that mobilize a significant part of GDP to the public budget. The budgetary consolidation in the coming years requires the increase of the own budgetary revenues coming from the internal economy.

The FC once again points out that maintaining the current timetable for the application of the pension law would make it almost impossible to reduce the budget deficit in 2021 compared to the current year level, which is already dangerously high. The return to fiscal-budgetary sustainability requires a reconsideration of the pension law enforcement calendar.

The very large magnitude of Romania's financing needs requires the consideration of all possibilities for access to financial resources.

All assessments regarding the future must take into account the extraordinary positive impact that an antidote, especially a vaccine, will generate. The action of a vaccine will end the epidemiological cycle by radically changing, in a positive sense, the psychology of people, the feeling and confidence in the markets and in the economy. The vaccine factor, with the extraordinary rupture it will cause, should not make us underestimate the remanence of adverse effects, sequelae, structural changes that will influence future dynamics. Post-pandemic economies will not be similar in many respects to pre-pandemic ones.

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 24th April, 2020.

24th April 2020

Chairman of the Fiscal Council
Professor Daniel DĂIANU

ANNEX I - Budget revision vs. Initial budget	Initial budget 2020	Swap program 2020	Initial Budget 2020 Without swap	First Budget Revision (R1) 2020	Swap program R1	First Budget Revision 2020 Without swap	R1 - Initial Budget 2020 With swap	R1 - Initial Budget 2020 Without swap	R1 2020/Budget Execution 2019 With swap
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9
TOTAL REVENUE	**360,148.5**	**850.0**	**359,298.5**	**341,096.0**	**850.0**	**340,246.0**	**-19,052.5**	**-19,052.5**	**6.2%**
Current revenue	**329,820.7**	**850.0**	**328,970.7**	**306,899.5**	**850.0**	**306,049.5**	**-22,921.2**	**-22,921.2**	4.1%
Tax revenue	**177,017.6**	**850.0**	**176,167.6**	**163,906.3**	**850.0**	**163,056.3**	**-13,111.3**	**-13,111.3**	4.8%
Taxes on profit, wages, income and capital gains	**49,883.7**	**0.0**	**49,883.7**	**45,784.1**	**0.0**	**45,784.1**	**-4,099.6**	**-4,099.6**	2.5%
Corporate income tax	19,471.8	0.0	19,471.8	17,191.9	0.0	17,191.9	-2,279.9	-2,279.9	-3.0%
Personal income tax	26,315.2	0.0	26,315.2	24,765.4	0.0	24,765.4	-1,549.8	-1,549.8	6.7%
Other taxes on income, profit and capital gains	4,096.7	0.0	4,096.7	3,826.7	0.0	3,826.7	-269.9	-269.9	2.6%
Property tax	**7,105.7**	**0.0**	**7,105.7**	**6,512.9**	**0.0**	**6,512.9**	**-592.8**	**-592.8**	5.2%
Taxes on goods and services	**117,974.8**	**850.0**	**117,124.8**	**109,693.5**	**850.0**	**108,843.5**	**-8,281.2**	**-8,281.2**	5.9%
VAT	72,720.5	850.0	71,870.5	67,122.4	850.0	66,272.4	-5,598.1	-5,598.1	2.6%
Excises	33,658.1	0.0	33,658.1	30,969.2	0.0	30,969.2	-2,688.9	-2,688.9	-1.6%
Other taxes on goods and services	4,903.1	0.0	4,903.1	4,714.2	0.0	4,714.2	-188.9	-188.9	-10.0%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	6,693.1	0.0	6,693.1	6,887.7	0.0	6,887.7	194.6	194.6	381.9%
Taxes on foreign trade and international transactions (customs duty)	**1,253.9**	**0.0**	**1,253.9**	**1,125.9**	**0.0**	**1,125.9**	**-128.1**	**-128.1**	-2.9%
Other tax revenue	**799.5**	**0.0**	**799.5**	**790.0**	**0.0**	**790.0**	**-9.5**	**-9.5**	-2.7%
Social security contributions	**124,026.8**	**0.0**	**124,026.8**	**115,664.5**	**0.0**	**115,664.5**	**-8,362.3**	**-8,362.3**	3.8%
Nontax revenue	**28,776.3**	**0.0**	**28,776.3**	**27,328.7**	**0.0**	**27,328.7**	**-1,447.6**	**-1,447.6**	0.9%
Capital revenue	**1,000.8**	**0.0**	**1,000.8**	**995.6**	**0.0**	**995.6**	**-5.1**	**-5.1**	14.8%
Grants	**8.5**	**0.0**	**8.5**	**8.5**	**0.0**	**8.5**	**0.0**	**0.0**	-47.0%
Amounts received from the EU for payments made and prefinancing	**7.7**	**0.0**	**7.7**	**7.7**	**0.0**	**7.7**	**0.0**	**0.0**	-95.8%
Other amounts received from the EU for	**0.0**	**0.0**	**0.0**	**3,920.4**	**0.0**	**3,920.4**	**3,920.4**	**3,920.4**	1177.8%

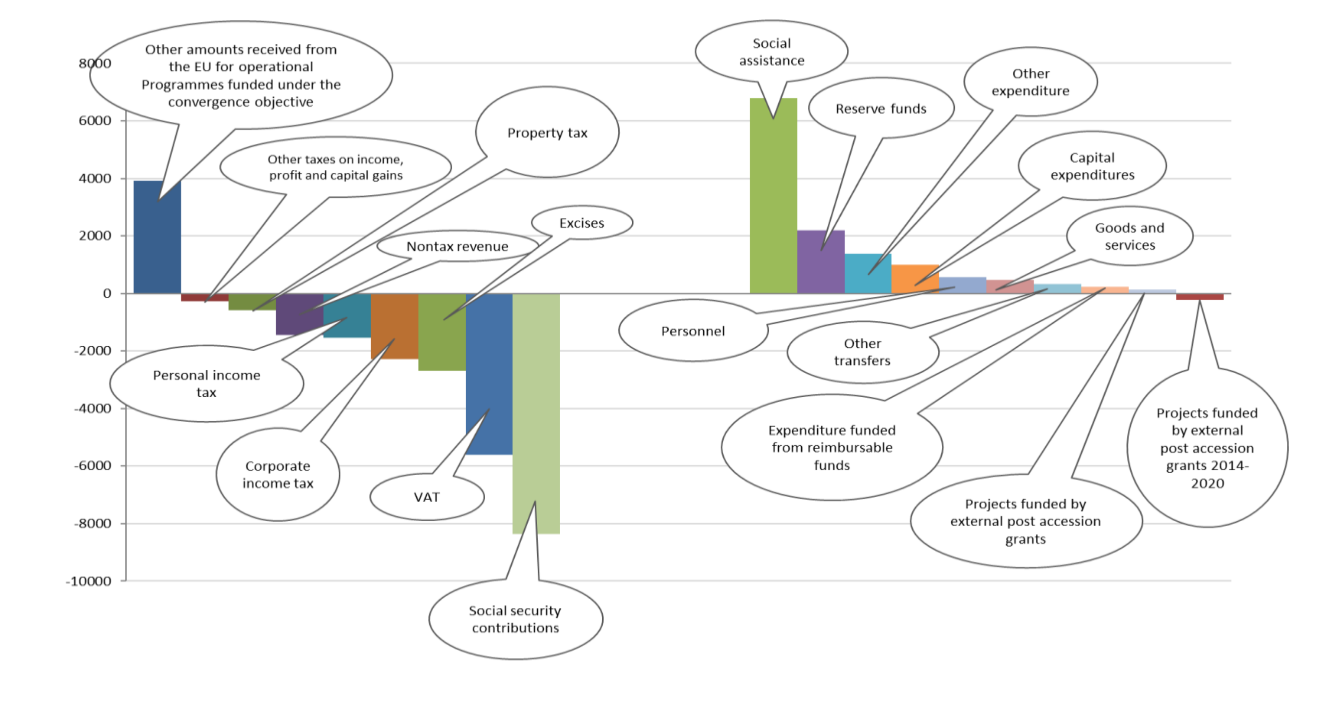
operational Programmes funded under the convergence objective									
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**29,310.9**	**0.0**	**29,310.9**	**29,264.2**	**0.0**	**29,264.2**	**-46.7**	**-46.7**	17.9%
TOTAL EXPENDITURE	**400,694.5**	**850.0**	**399,844.5**	**413,596.7**	**850.0**	**412,746.7**	**12,902.2**	**12,902.2**	**12.0%**
Current expenditure	**373,441.7**	**850.0**	**372,591.7**	**385,346.9**	**850.0**	**384,496.9**	**11,905.2**	**11,905.2**	12.3%
Personnel	**109,160.4**	**0.0**	**109,160.4**	**109,736.9**	**0.0**	**109,736.9**	**576.5**	**576.5**	7.2%
Goods and services	**51,046.4**	**0.0**	**51,046.4**	**51,516.6**	**0.0**	**51,516.6**	**470.2**	**470.2**	-2.4%
Interest	**13,950.6**	**0.0**	**13,950.6**	**13,998.8**	**0.0**	**13,998.8**	**48.2**	**48.2**	15.2%
Subsidies	**7,398.8**	**0.0**	**7,398.8**	**7,431.2**	**0.0**	**7,431.2**	**32.4**	**32.4**	4.5%
Total Transfers	**190,364.5**	**850.0**	**189,514.5**	**198,703.5**	**850.0**	**197,853.5**	**8,339.1**	**8,339.1**	18.1%
Transfers for public entities	2,169.7	850.0	1,319.7	2,100.8	850.0	1,250.8	-68.8	-68.8	53.8%
Other transfers	17,090.5	0.0	17,090.5	17,417.3	0.0	17,417.3	326.8	326.8	5.6%
Projects funded by external post accession grants	199.3	0.0	199.3	341.0	0.0	341.0	141.7	141.7	-18.5%
Social assistance	131,220.5	0.0	131,220.5	138,005.8	0.0	138,005.8	6,785.3	6,785.3	20.3%
Projects funded by external post accession grants 2014-2020	32,958.6	0.0	32,958.6	32,735.7	0.0	32,735.7	-222.8	-222.8	18.7%
Other expenditure	6,725.9	0.0	6,725.9	8,102.8	0.0	8,102.8	1,376.9	1,376.9	6.3%
Reserve funds	**951.2**	**0.0**	**951.2**	**3,153.1**	**0.0**	**3,153.1**	**2,201.9**	**2,201.9**	#DIV/0!
Expenditure funded from reimbursable funds	**569.8**	**0.0**	**569.8**	**806.8**	**0.0**	**806.8**	**237.0**	**237.0**	86.9%
Capital expenditures	**27,252.8**	**0.0**	**27,252.8**	**28,249.8**	**0.0**	**28,249.8**	**997.0**	**997.0**	-6.1%
EXCEDENT(+) / DEFICIT(-)	**-40,546.0**	**0.0**	**-40,546.0**	**-72,500.7**	**0.0**	**-72,500.7**	**-31,954.7**	**-31,954.7**	**50.1%**

Source: MPF, FC's calculation

ANNEX II: Dynamics of the budgetary revenue categories and the relevant macroeconomic bases associated with them in 2009/2008 vs. their projections in 2020/2019					
Revenue category	**Relevant macroeconomic base**	**Change of revenue 2009/2008**	**Change of macroeconomic base 2009/2008**	**Change of revenue 2020/2019**	**Change of macroeconomic base 2020/2019**
Total revenue (excluding the amounts received from the EU)		**-6.20%**		**4.09%**	
Corporate income tax	Nominal GDP	-18.52%	-1.70%	-2.98%	2.1%
Personal income tax	Number of employees	0.28%	-5.40%	6.74%	-1.30%
	Gross average wage		4.80%		5.90%
Other taxes on income, profit and capital gains	Nominal GDP	-0.26%	-1.70%	2.61%	2.1%
VAT	Households' final consumption without self-consumption and farmer market	-16.03%	-9.01%	2.60%	2.70%
Excise duties	Households' final consumption without self-consumption and farmer market in real terms	14.18%	-12.47%	-1.57%	-0.94%
Other taxes on goods and services	Households' final consumption without self-consumption and farmer market	-35.48%	-9.01%	-10.01%	2.70%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	Real GDP	-19.68%	-5.51%	381.87%	-2.00%
Taxes on foreign trade and international transactions (customs duty)	Import of goods and services	-31.88%	-32.00%	-2.94%	-5.6%
Other tax revenue	Nominal GDP	-10.06%	-1.70%	-2.69%	2.1%
Social security contributions	Number of employees	-2.34%	-5.40%	3.76%	-1.30%
	Gross average wage		4.80%		5.90%
Capital revenue	Average rate of inflation projected for 2020	-49.04%	5.59%	14.79%	3.1%

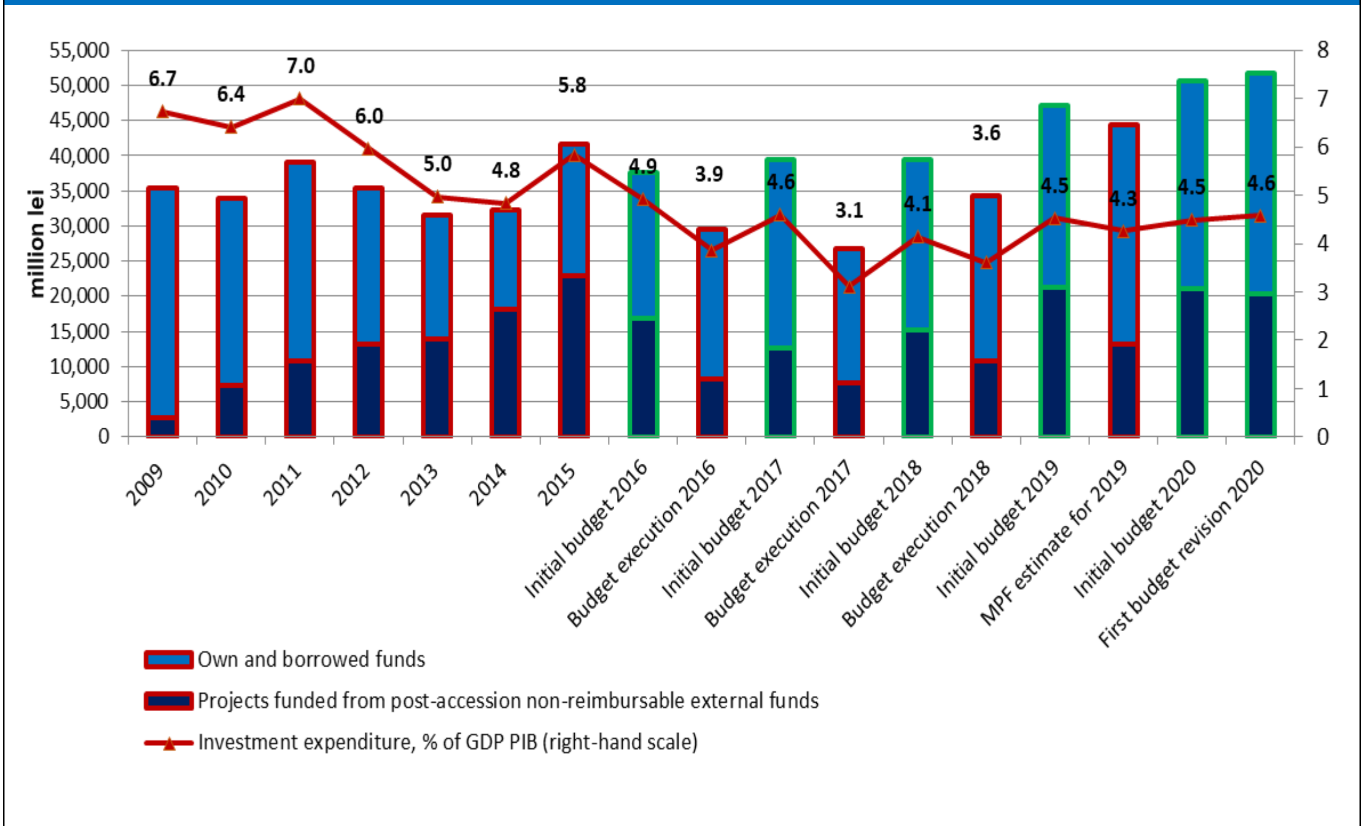
Source: MPF, NCSP

Figure 1: The main changes in expenditures and revenues after the budget revision (without the impact of swap schemes, million lei)



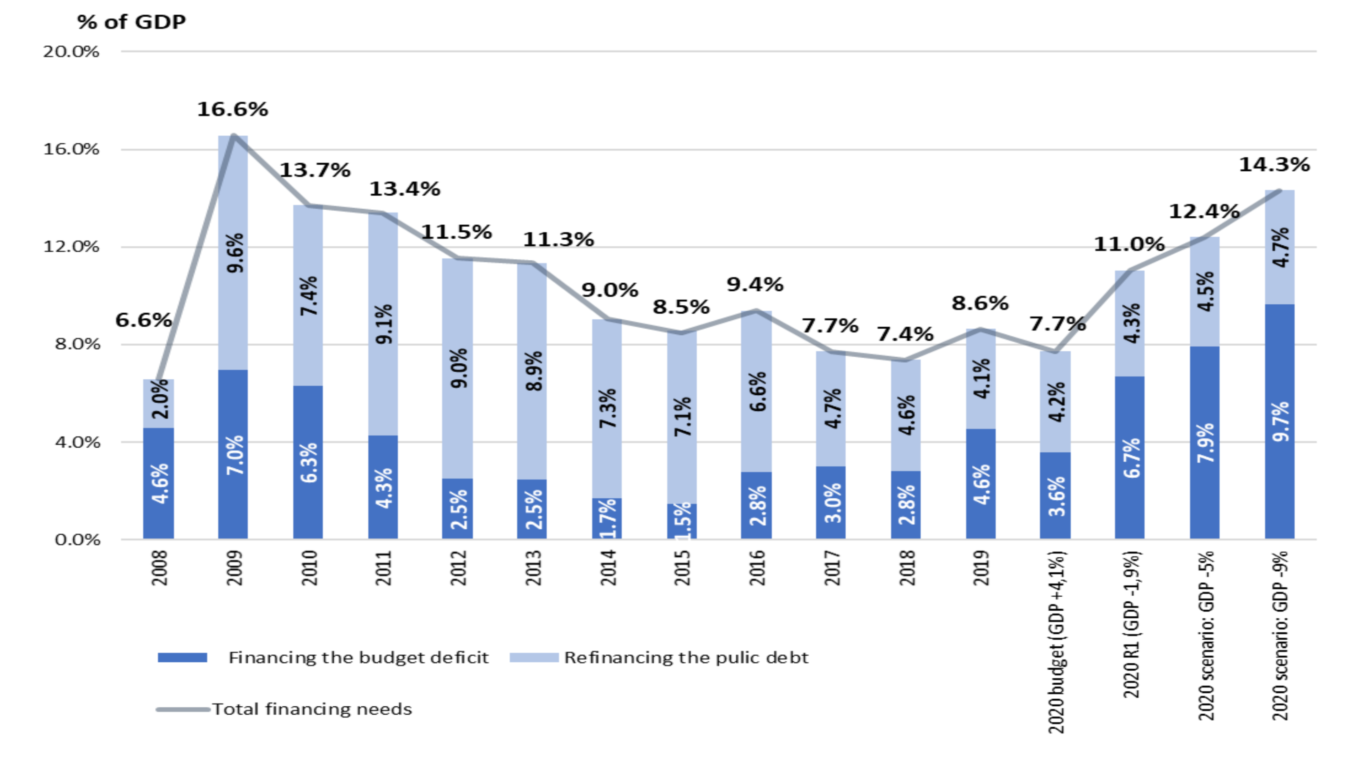
Source: MPF, FC's calculation

Figure 2: The evolution of the public investment expenditures in the period 2009-2020 (planned vs. execution, million lei)



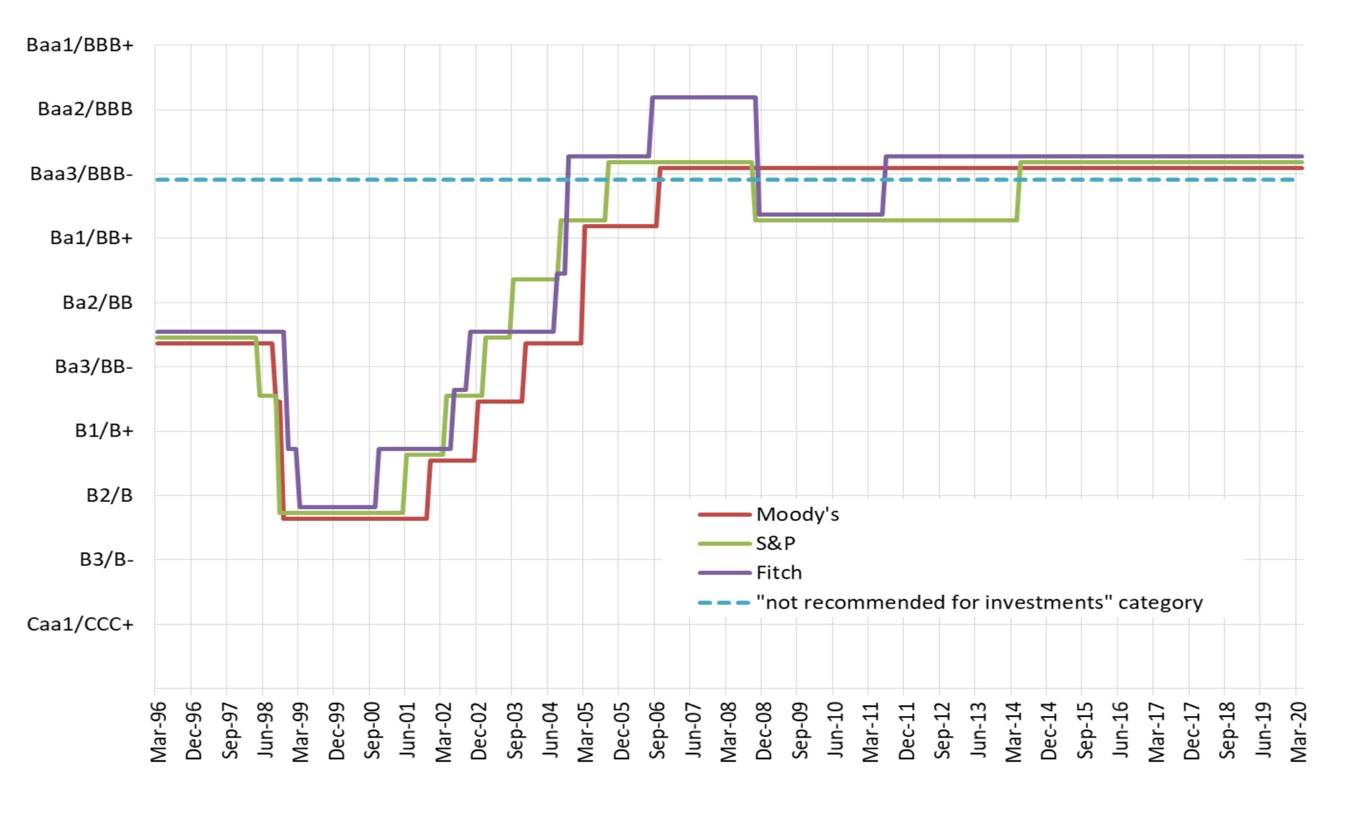
Source: MPF, FC's calculation

Figure 3: The evolution of gross financing needs in the period 2008-2020 (% of GDP)



Source: MPF, FC's calculation

Figure 4: The evolution of sovereign rating in the period January 2008-April 2020



Source: Fitch, Moody's, S&P, FC's calculation