

Fiscal Council's Opinion on the updated version of Draft Budget Revision for 2018

On September 3rd 2018, the Ministry of Public Finance (MPF) sent to the Fiscal Council, by letter no. 465366/3.09.2018, a new version of the draft general consolidated budget (GCB) revision for 2018, together with an updated version of the explanatory note and the draft Government Ordinance requesting, under article 53 paragraph (2) of the Fiscal Responsibility Law (no. 69/2010 republished, hereafter referred to as FRL) the Fiscal Council's opinion.

Proposed changes to GCB revenues and expenditures compared to the initial version of the Draft Budget Revision notified to the Fiscal Council (August 6th, 2018)

The updated version of the draft budget revision supplements the estimated total revenues of GCB by 2.8 billion lei, out of which 0.6 billion lei come from a new chain compensation scheme for clearing arrears with symmetric impact on revenues and expenditures (so called swaps). Considering revenue categories are increased the VAT revenue (by 2.1 billion lei, this amount fully including the impact of the above mentioned compensation scheme) and the excise duties revenue (by 0.9 billion lei). As a result of the operated changes, the above mentioned aggregates return exactly to the level from the approved initial budget, despite the lack of objectives elements justifying such an evolution. An increase of lesser magnitude is operated to the level of non-tax revenues (+0.26 billion lei). Finally, the revenues from the tax on the use of goods, the authorization of goods or on the carrying out of activities are decreased by 0.5 billion lei, in the context of the increase of the estimated auto-tax refunds (registered as negative revenues).

The total expenditures of GCB are supplemented by an equivalent amount (2.8 billion lei), the increases being located at the level of goods and services expenses (0.6 billion lei), other transfers (0.14 billion lei), Government's contingency reserve fund (1 billion lei) and capital expenditure (1.06 billion lei, including here the total symmetric impact on expenditures of the above mentioned swap compensation scheme).

The budget deficit remains unchanged compared to the initial version of draft budget revision. From the perspective of fiscal rules, the draft budget revision updated coordinates imply the increase of the overrun's size of the GCB total expenditure ceiling (excluding the financial assistance from the EU and other donors), defined by the Law no. 269/2017 by 2.8 billion lei, up to the level of 10.1 billion lei.

In its Opinion on the first version of the draft budget revision, considering the six months budget execution, the Fiscal Council noted that the downward revisions operated at that time at the level of VAT and excise duties revenues appeared to be undersized, with total revenues likely to be lower by about 2 billion lei than the draft revision estimates (in particular by 1-1.5 billion lei in the case of VAT and 0.5-1 billion in the case of excise duties).

The budgetary execution from July, available in the meantime, does not contain elements likely to cause the revision of the assessment from that time. These being said, the Fiscal Council considers as lacking foundation the increases proposed by the updated version of the draft budget revision at the level of VAT revenues (excluding the part which corresponds to the chain compensation scheme valued at 0.6 billion lei, 1.5 billion lei respectively) and excise duties revenues (0.9 billion lei). Therefore, the Fiscal Council increases by the above mentioned amounts its initial valuation on the likely revenue gap at the level of VAT and excise duties aggregates for the end of the year, considering that these are overestimated cumulatively by an amount ranging from 4 billion lei to 5 billion lei.

Also, regarding budgetary expenditures, the Fiscal Council considered, in the context of the Opinion regarding the initial proposal of GCB revision, that the size of goods and services expenses was probably under-budgeted by about 0.9 billion lei, and the size of social assistance expenses by about 1.3 billion lei (given that the decision to pay pensions before the 15th of the month is maintained). The new revision proposal increases the expenditures on goods and services by 0.6 billion lei, however does not address the question of the likely insufficient size of the allocation corresponding to social assistance expenditures.

In conclusion, the Fiscal Council assesses upward the risks to the deficit target assumed in the draft budget revision, outlining, *ceteris paribus* (considering the preservation of the current fiscal framework), the prospect of exceeding it by about 6 billion lei (compared to the prospect of exceeding the deficit target in amount of about 4.2 billion lei evaluated in the context of the first version of draft revision).

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 5th September 2018.

5th September 2018

Chairman of the Fiscal Council,

IONUȚ DUMITRU

ANNEX I	Initial Budget 2018	Swap program 2018	Initial budget 2018	First budget revision September (R1 sept) 2018	Swap program R1 September	First budget revision September (R1 sept) 2018	First budget revision august (R1 Aug) 2018	Swap program R1 august	First budget revision august (R1 Aug) 2018	R1 September 2018 - Initial budget 2018	R1 September 2018- Initial budget 2018	R1 Sept - R1 Aug	R1 Sept - R1 Aug
			Without swap			Without swap			Without swap	With swap	Without swap	With swap	Without swap
	1	2	3=1-2	4	5	6=4-5	7	8	9=7-8	10=6-1	11=6-3	12=4-7	13=6-9
TOTAL REVENUE	287,527.5	1,020.0	286,507.5	296,753.6	1,620.0	295,133.6	293,924.4	1,020.0	292,904.4	9,226.1	8,626.1	2,829.1	2,229.1
Current revenue	257,274.0	1,020.0	256,254.0	267,226.3	1,620.0	265,606.3	264,397.2	1,020.0	263,377.2	9,952.3	9,352.3	2,829.1	2,229.1
Tax revenue	145,135.9	521.6	144,614.3	145,663.7	1,121.6	144,542.1	143,053.1	521.6	142,531.5	527.8	-72.2	2,610.5	2,010.5
Taxes on profit, wages, income and capital gains	38,598.9	298.0	38,300.9	40,907.1	298.0	40,609.1	40,838.8	298.0	40,540.8	2,308.2	2,308.2	68.3	68.3
Corporate income tax	15,020.3	148.0	14,872.3	15,012.8	148.0	14,864.8	15,012.8	148.0	14,864.8	-7.5	-7.5	0.0	0.0
Personal income tax	20,803.4	150.0	20,653.4	22,575.8	150.0	22,425.8	22,575.8	150.0	22,425.8	1,772.5	1,772.5	0.0	0.0
Other taxes on income, profit and capital gains	2,775.2		2,775.2	3,318.4		3,318.4	3,250.1		3,250.1	543.2	543.2	68.3	68.3
Property tax	5,824.4		5,824.4	5,728.0		5,728.0	5,728.0		5,728.0	-96.4	-96.4	0.0	0.0
Taxes on goods and services	98,666.8	184.0	98,482.8	97,219.6	784.0	96,435.6	94,677.3	184.0	94,493.3	-1,447.2	-2,047.2	2,542.3	1,942.3
VAT	61,308.2	184.0	61,124.2	61,308.2	784.0	60,524.2	59,184.0	184.0	59,000.0	0.0	-600.0	2,124.2	1,524.2
Excises	30,218.5		30,218.5	30,218.5		30,218.5	29,323.4		29,323.4	0.0	0.0	895.1	895.1
Other taxes on goods and services	3,814.8		3,814.8	3,896.2		3,896.2	3,896.2		3,896.2	81.4	81.4	0.0	0.0
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	3,325.3		3,325.3	1,796.7		1,796.7	2,273.8		2,273.8	-1,528.5	-1,528.5	-477.0	-477.0
Taxes on foreign trade and international transactions (customs duty)	1,042.0		1,042.0	995.9		995.9	995.9		995.9	-46.1	-46.1	0.0	0.0
Other tax revenue	1,003.8	39.6	964.2	813.1	39.6	773.5	813.1	39.6	773.5	-190.7	-190.7	0.0	0.0
Social security contributions	91,811.8	498.4	91,313.4	98,042.1	498.4	97,543.7	98,083.5	498.4	97,585.1	6,230.3	6,230.3	-41.4	-41.4

Nontax revenue	20,326.3		20,326.3	23,520.5		23,520.5	23,260.5		23,260.5	3,194.2	3,194.2	260.0	260.0
Capital revenue	1,843.6		1,843.6	885.2		885.2	885.2		885.2	-958.4	-958.4	0.0	0.0
Grants	8.5		8.5	8.5		8.5	8.5		8.5	0.0	0.0	0.0	0.0
Amounts received from the EU for payments made and prefinancing	28,401.4		28,401.4	28,633.5		28,633.5	28,633.5		28,633.5	232.2	232.2	0.0	0.0
TOTAL EXPENDITURE	314,487.1	1,020.0	313,467.1	324,820.1	1,620.0	323,200.1	321,990.9	1,020.0	320,970.9	10,332.9	9,732.9	2,829.2	2,229.2
Current expenditure	293,509.0	850.0	292,659.0	304,540.3	850.0	303,690.3	302,775.1	850.0	301,925.1	11,031.4	11,031.4	1,765.2	1,765.2
Personnel	81,117.5		81,117.5	86,239.8		86,239.8	86,236.8		86,236.8	5,122.2	5,122.2	3.0	3.0
Goods and services	39,615.0		39,615.0	41,115.2		41,115.2	40,510.8		40,510.8	1,500.2	1,500.2	604.4	604.4
Interest	12,096.8		12,096.8	12,094.2		12,094.2	12,094.2		12,094.2	-2.6	-2.6	0.0	0.0
Subsidies	7,210.3		7,210.3	6,719.0		6,719.0	6,719.0		6,719.0	-491.2	-491.2	0.0	0.0
Total transfers	152,868.5	850.0	152,018.5	156,561.7	850.0	155,711.7	156,412.4	850.0	155,562.4	3,693.2	3,693.2	149.3	149.3
Transfers between public administration entities	2,132.8	850.0	1,282.8	2,035.2	850.0	1,185.2	2,035.2	850.0	1,185.2	-97.6	-97.6	0.0	0.0
Other transfers	13,098.5		13,098.5	14,220.1		14,220.1	14,081.0		14,081.0	1,121.6	1,121.6	139.1	139.1
Projects funded by external post-accession grants	317.2		317.2	518.5		518.5	518.5		518.5	201.3	201.3	0.0	0.0
Social assistance	98,620.4		98,620.4	100,397.5		100,397.5	100,395.6		100,395.6	1,777.1	1,777.1	1.9	1.9
Projects funded by external post-accession grants 2014-2020	32,826.9		32,826.9	32,969.6		32,969.6	32,969.6		32,969.6	142.7	142.7	0.0	0.0
Other expenditure	5,872.6		5,872.6	6,420.7		6,420.7	6,412.4		6,412.4	548.1	548.1	8.3	8.3
Reserve funds	315.7		315.7	1,337.6		1,337.6	329.1		329.1	1,021.9	1,021.9	1,008.6	1,008.6
Expenditure funded from reimbursable funds	285.1		285.1	472.8		472.8	472.8		472.8	187.7	187.7	0.0	0.0
Capital expenditure	20,978.2	170.0	20,808.2	20,279.7	770.0	19,509.7	19,215.8	170.0	19,045.8	-698.4	-1,298.4	1,063.9	463.9
EXCEDENT(+)/DEFICIT(-)	-26,959.6		-26,959.6	-28,066.5		-28,066.5	-28,066.5		-28,066.5	-1,106.9	-1,106.9	0.0	0.0

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