Fiscal Council of Romania

Fiscal Council's Opinion on the State Budget Law for 2023, the Social Security Budget Law for 2023 and the 2023-2025 Fiscal-Budgetary Strategy

Summary

- The 2023 budget and the 2023-2025 Fiscal-Budgetary Strategy are built in an extremely complicated and complex international context, unprecedented after the Second World War, which is also marked by the invasion of Ukraine.
- The international context is defined by the economic and security consequences of the war in Ukraine, the energy crisis generated by the very large increase in the relative price of energy (an increase exacerbated by the War), persistent high inflation, the tightening of financial conditions in the markets, a food crisis, fragmentation of the global economic system and regionalization of supply chains and, not least, worsening effects of climate change.
- *Security*, understood in technological, military and economic terms (as the provision of essential goods for citizens' lives), takes precedence in public policy.
- EU economies are increasingly exhibiting "war-like" features and there are rises in defense spending in many states.
- "Surprise" inflation helped budget executions in Europe and the restraint of public debt, as a share of GDP, in 2022. This effect on the budget balance is limited, and a fiscal-budgetary projection in the medium and long term must take into account negative consequences of the possible persistence of high inflation.
- In order for inflation to reach close to the targets in the following years, an appropriate policy mix is necessary: a monetary policy that controls inflationary expectations, prudent budgetary policies, industrial policy measures to support production.
- It is not easy to formulate a policy mix that brings inflation down firmly, because the states have great pressures on their budgets. If budget deficits are not kept under control, monetary policies are bound to be even tighter, making credit more expensive. Moreover, external financial markets react to large deficits, to the proliferation of signs that debt is not sustainable and speculative attacks take place.

- Romania has been in the excessive deficit procedure for several years and has committed to reach a budget deficit of around 3% of GDP in 2024. It is a very difficult mission given the pressures on the budget and the severe deterioration of the international environment.
- Current and future challenges strain public budgets especially in countries with low tax revenues. Romania, with tax revenues (including social security contributions) of around 27% of GDP, is at the bottom of the European hierarchy. The FC reiterates the need for the own revenues of the public budget to increase.
- The very ambitious intention to bring the budget deficit (cash and ESA) to 4.4% of GDP in 2023 and below 3% of GDP in 2024 (according to the Fiscal-Budgetary Strategy) is to be welcomed. And also welcomed is the desire to bring investments to over 7% of GDP in 2023 considering the available European resources.
- The FC appreciates the nominal GDP projection of the NCSP as realistic over the considered time horizon – with a compensation between the possibly higher values of anticipated real growth and those related to GDP deflators. Regarding the labor market, while 2023 offers a realistic perspective, the last two years of the Fiscal Budgetary-Strategy (2024 and 2025) could be marked, in the FC's opinion, by an overestimation of the dynamics – especially in terms of the number of employees.
- Achieving a budget deficit of 4.4% in 2023 must overcome important difficulties in the construction of the public budget, identified by the FC both on the revenue and the expenditure side.
- The budget construction for 2023 envisages a cash budget deficit target of 4.4% of GDP, representing a decrease of 1.34 pp compared to the level projected by the MF for 2022 (5.74% of GDP). The corresponding level of the ESA 2010 budget deficit target for 2023 is also 4.4% of GDP and, compared to the level estimated by the MF for the previous year (6.2% of GDP), it represents a reduction of 1.8 pp of GDP.
- The projected reduction of the cash deficit in 2023 takes place by increasing budget revenues by 0.9 pp of GDP, combined with a decrease in budget expenditures by 0.44 pp of GDP.
- The main factors that influence the programmed dynamics of budget revenues in nominal terms in 2023 are represented by the macroeconomic framework projected for next year, the adopted fiscal policy measures, the amounts estimated to be obtained from the improvement of collection efficiency/reduction of tax evasion, the NRRP projects.
- In what concerns the *ex-ante* inclusion in the budget projection of additional amounts resulting from the desired improvement of collection efficiency, the FC has reservations to consider them at this time, by virtue of the principle of prudence.

- The FC assesses as probable the realization of lower revenues, compared to the targets set in the draft budget, by about 11.3 billion lei, representing about 0.73% of GDP. This derives from the level of collection (lower by 8.7 billion lei compared to the projection) and from the overestimation of some tax revenues by 2.6 billion lei.
- The planned reduction of budget expenditures, expressed as a share of GDP, is the result of the reduction in nominal terms of subsidies, accompanied by moderate growth rates in nominal terms and substantially lower than the projected dynamics of nominal GDP for social assistance, goods and services, personnel and interest expenditures. This reduction is partially counterbalanced by the substantial increase of expenditures related to projects financed from European funds, especially those from the NRRP, and of capital expenditures.
- The FC considers as probable an additional need for budget allocations of around 5 billion lei for goods and services expenditures, of at least 2 billion lei for social assistance expenditures, respectively of at least 2 billion lei for interest expenditures. Cumulatively, the FC estimates an under-budgeting of expenditures by at least 0.58% of GDP.
- The FC appreciates that the 2023 budget construction is compatible with a cash deficit of around 5.7% of GDP.
- Future budget revisions will have to identify adjustment measures in order to reach the budget deficit target for 2023.
- An additional constraint on the public budget is generated by public investment expenditures that do not rely on non-reimbursable funding, especially the capital expenditures component, due to the significant increase in defense expenditures, and the loan component of the NRRP. Mitigating this constraint can be done through revenue increases and/or resource reallocations. The problem, however, is the very limited fiscal space.
- The budget consolidation process is vital for Romania for reasons related to stabilizing the level of public debt, reducing internal and external vulnerabilities, stabilizing the national currency and defending macroeconomic balances, as well as improving the country's rating.
- In the European public debate has emerged the idea of not including additional investment and defense expenditures in the budget deficit. At least in the short and medium term, the economic impact of deficits cannot be offset by presumed benefits in the more distant future. Any additional spending, if financed by debt, cannot but be reflected in public debt and deficit.
- According to the fiscal-budgetary framework projected for the medium term, the budget consolidation during the 2024-2026 period is expected to be achieved mainly on account of budget expenditures, but the FC considers that the realism of this

approach is questionable. In the absence of credible policies that support the achievement of medium-term fiscal-budgetary consolidation also by increasing fiscal revenues, the balance of risks is tilted in the direction of recording higher deficits than those anticipated for the coming years.

- Fiscal consolidation, even if it hampers future economic growth, a contractionary effect that can be countered by a massive absorption of European funds, is a pressing necessity; postponing its realization through measures with an effect on the structural deficit, only relying on the continuation of the favorable cyclical evolution of the economy and on the effect (positive from the fiscal point of view) of inflation, do not represent viable options in the opinion of the FC.
- Fiscal-budgetary consolidation is essential for joining the euro zone.
- The very difficult overall context means that, for Romania, European funds (MFF and NRRP) gain an extraordinary importance: together with internal and external resources, from the budget (used to fund capital expenditures), European money can drive investments to over 7% annually – as seen in the 2023-2025 Fiscal-Budgetary Strategy. European money also helps Romania's external balance, an extra protection against currency pressures, speculative attacks.
- EU membership brings undeniable advantages from the perspective of funding sources (European money) and even financial creditworthiness, but it cannot be a panacea or a full guarantee.

Fiscal Council's Opinion on the State Budget Law for 2023, the Social Security Budget Law for 2023 and the 2023-2025 Fiscal-Budgetary Strategy

On November 30, the Ministry of Finance (MF) sent to the Fiscal Council (FC), through the addresses 467618/29.11.2022 and 467619/29.11.2022, *the draft of the General Consolidated Budget for 2023*, *the Explanatory note and the draft Law for the approval of the ceilings for some indicators specified in the 2023 fiscal-budgetary framework*, *the 2023-2025 Fiscal-Budgetary Strategy*, *the Report on the macroeconomic situation for 2023 and its projection for the 2024-2026 period*, *the draft Law on the state budget for 2023*, *the Explanatory note and the draft Law on the social security budget for 2023* requesting, based on art. 53, para. (2) of the Fiscal Responsibility Law no. 69/2010 (FRL) republished, the FC's opinion on them.

According to art. 53, para. (4) of the FRL, the Government and the Parliament have the obligation to analyze the opinions and recommendations of the FC when elaborating the fiscal-budgetary strategy, the annual budget laws, as well as other measures determined by the application of the FRL and, respectively, at their appropriation/approval.

1. International context

The 2023 budget and the 2023-2025 Fiscal-Budgetary Strategy are built in an extremely complicated and complex international context, unprecedented after the Second World War, which is also marked by the invasion of Ukraine in February 2022.

The international context is defined by the economic and security consequences of the war in Ukraine, the energy crisis generated by the very large increase in the relative price of energy (an increase exacerbated by the War), persistent high inflation arising from the energy crisis and the disruption of supply chains, the tightening of financial conditions in the markets, a food crisis, which is felt more acutely in poor countries, fragmentation of the global economic system and regionalization of supply chains and, not least, worsening effects of climate change.

Security, understood in technological, military and economic terms (as the provision of essential goods for citizens' lives), takes precedence in public policy.

EU economies are increasingly exhibiting "war-like" features with deeply strained public budgets and changes in the composition of spending, more resources being allocated to defense and other emergencies.

NATO's eastern flank is strengthening militarily, which calls for new resources for this purpose. In Poland, there are plans to increase defense spending to 5% of GDP in a few years, and in the Baltic countries these expenditures are estimated at around 2.5% of GDP in 2022 (NATO data cited by Bloomberg TV, December 2 of this year) – while the EU average is below

1.5% of GDP; in the EU, only Greece has a level of defense spending above 3.5% of GDP, which is related to the old dispute with Turkey. Germany also announced an increase in military spending (currently 1.2-1.3% of GDP). In Romania, the state budget for 2023 brings these expenditures to 2.3% of GDP. For Romania, the budget consolidation (budget deficit reduction) must take into account the increase in defense spending as a permanent cost of the public budget.

States become more active in the economy, resort to industrial policies focused on vectors of military/technological power and competitiveness. NGEU can be seen for the EU as an industrial policy framework. In the US, along with other measures, "The inflation reduction act" is a package of industrial policies aiming at green transition and competitiveness.

The public budgets of EU member states have allocated resources to mitigate the impact of the energy crisis and the war in Ukraine – as happened in the Pandemic. Government intervention is different, however, depending on economic power and budgetary resources.

De-globalization, the entry into the forefront of geopolitical and security considerations, is equivalent to a fragmentation of the global economic world, with more poles of power and gravity – because the global economy will evolve not as a simple derivative of the rivalry between the US, as a liberal system, and China, as an autocratic political system.

The very complicated and tense context is reflected by persistent high inflation, economic slowdown and the specter of recession for some economies, rapidly rising cost of credit, nervous financial markets, an insufficiently regulated non-banking financial system that amplifies systemic risks etc. The Bank for International Settlements recently warned about the risks induced by “hidden leverage", which results from operations with derivatives of many non-banking entities. The episode from October this year, in London, regarding pension funds, is eloquent.

In the euro area, headline inflation overpassed 10% in October 2022, while in the US it was over 8%. The ECB and other central banks have raised policy rates considerably, even if they are still negative in real terms. Central banks consider that shocks are prevalent on the supply side and that inflationary expectations seem to be persistent. Financial markets expect the Fed to raise the key rate to 5% in 2023; the ECB has also raised key rates significantly, but it does so while also taking into account the very different degree of indebtedness of member states. The Fed and the ECB initiated QT (quantitative tightening, as the reverse process to QE, quantitative easing), absorption of the monetary base from the financial system which, however, can accentuate liquidity crises (sudden stops) on certain markets. That's probably why the ECB announced a new "transmission protection instrument".

Inflation in new EU member states (which entered after 2004) is substantially higher than in developed countries; these countries import inflation having generally small economies (the case of the Baltic countries, with levels between 20-27%) and are heavily dependent on external energy supplies. Central banks in Central and Eastern European countries, which are not part of the euro zone, preemptively raised monetary policy rates in a rapid pace in an attempt to keep inflationary expectations under control and mitigate shocks induced from the capital markets.

In the EU, the reform of fiscal rules is being considered, to take into account new challenges and the lessons of the sovereign debt crisis – when it was acted pro-cyclically and spillover effects were neglected[1]. Steps forward have been taken, an attempt is being made to adapt these rules to national circumstances, to simplify and, at the same time, strengthen the ways in which budget executions comply with fiscal prudence and debt sustainability norms; however, no consensus has yet been reached regarding a common "fiscal capacity" (idea supported by the European Fiscal Board and the IMF, by various analysis centers), even if embryos for this stabilization instrument exist in the financing of national recovery and resilience plans through common bond issues.

"Surprise" inflation helped budget executions in Europe and the restraint of public debt, as a share of GDP, in 2022 and this is likely to continue in 2023. However, there has been a significant deterioration in the terms of trade in most EU countries due to the greatly increased cost of energy and other imported goods.

In order for inflation to reach close to the targets in the following years, an appropriate policy mix is necessary: a monetary policy that controls inflationary expectations, prudent budget policies (that do not dangerously fuel aggregate demand), industrial policy measures to support production.

However, It is not easy to formulate a policy mix that brings inflation down firmly, because the states have great pressures on their budgets due to multiple crises; there is public debt and private debt that have increased greatly since the financial crisis. With the tightening of monetary policies, financing conditions become more onerous, especially for economies that have a higher total debt (public and private) and operate a trade-off between inflation control and financial stability. Because controlling inflationary expectations calls for tight monetary policies, if budget deficits are not kept under control, monetary policies are bound to be even tighter, making credit more expensive – this representing a significantly suboptimal policy mix. Moreover, external financial markets react to large deficits, to the proliferation of signs that debt is not sustainable, even if 2022 came with a " surprise inflation" that was a godsend for some budgets.

[1] They refer to undesirable effects, from the sovereign debt crisis era, that measures adopted in one country (analyses of these effects have investigated particularly the euro zone) have on other countries due to deep financial integration and a mix of policies.

Romania has been in the excessive deficit procedure for several years and has committed to reach a budget deficit of around 3% of GDP in 2024. It is a very difficult mission given the pressures on the budget and the severe deterioration of the international environment.

Current and future challenges strain public budgets especially in countries with low tax revenues. Romania, with tax revenues (including social security contributions) around 27% of GDP, is at the bottom of the EU hierarchy, far below its neighbors from Central and Eastern Europe – where the average is 34-35% of GDP, while the EU average is around 41% of GDP.

The FC reiterates the need for the own revenues of the public budget to increase. Only with European (EU) resources it is difficult to face strong adverse shocks. It is also necessary for public budget revenues to be used as properly as possible, investments to be appropriately prioritized and followed in execution in order to increase the efficiency of the use of public funds. The care for public money must be all the greater, the more unfavorable the times.

Higher revenues would allow a better financing of areas that have been insufficiently funded for many years relative to European standards and citizens' needs.

The very ambitious intention to bring the budget deficit (cash and ESA) to 4.4% of GDP in 2023 and below 3% of GDP in 2024 (according to the Fiscal-Budgetary Strategy), which would allow Romania to exit the Excessive Deficit Procedure (EDP), is to be welcomed. And also welcomed is the desire to bring investments to over 7% of GDP in 2023, considering the available European resources.

However, achieving a budget deficit below 4.5% in 2023 must overcome important difficulties in the construction of the public budget, identified by the FC both on the revenue and the expenditure side.

The adjustment effort relative to 2022 (with a deficit target of 5.74% of GDP, set at the second revision) is to be judged considering the increase in defense spending by 0.5% of GDP – to 2.28% of GDP in 2023, as stipulated in the state budget, compared to 1.66% in 2022. It is to be noted that in 2023 capital expenditures should be about 0.5% higher than in 2022 – 3.5% of GDP compared to 3% of GDP, which presumably refers to additional resources allocated to defense. This effort calls for targeted support of vulnerable citizens and distressed companies in these very difficult times, a high absorption of European funds, a judicious use of public money.

The very difficult overall context mentioned above means that, for Romania, European funds (MFF and NRRP) gain an extraordinary importance: together with internal and external resources, from the budget (used to fund capital expenditures), European money can drive investments to over 7% annually – as seen in the 2023-2025 Fiscal-Budgetary Strategy. European money also helps Romania's external balance, an extra protection against currency pressures, speculative attacks.

As mentioned in other documents of the FC, European funds are the only large-scale countercyclical piston; cumulatively, they reach several percentages of the annual GDP – in 2023 they would reach around 18 billion euros, including resources from the previous MFF. But it is not easy to achieve the desired high absorption of European resources due to institutional weaknesses.

The NRRP can help the Romanian economy to become more robust, more competitive, to be inserted more advantageously in regional production chains.

It must be emphasized that uncertainties and volatility are very high in the global space and that all assessments, forecasts can be easily refuted by further developments.

2. Budgetary consolidation, the excessive deficit procedure and compliance with the fiscal rules stipulated by the FRL

Although the special circumstances of the outbreak of the COVID-19 pandemic and its severe impact determined, in March 2020, the activation of the general derogatory clause of the SGP by the European Commission[2], through which the fiscal rules of the European budgetary framework were temporarily suspended in 2020 and 2021, the suspension being later extended until the end of 2023, starting from April 2020, Romania is under the Excessive Deficit Procedure (EDP), due to recording a budget deficit of 4.4% of GDP in 2019 (prior to the outbreak of the pandemic), significantly above the threshold of 3% set by the SGP.

In June 2021, the EU Council adopted a recommendation addressed to Romania regarding the correction of the excessive deficit situation by 2024 at the latest, under the conditions of fiscal consolidation through comprehensive reforms to ensure the success of the medium-term fiscal-budgetary strategy. The Council's recommendation established a trajectory of gradual adjustment for the budget deficit in ESA 2010 standards comprising the following targets, expressed as a percentage of GDP: 8% in 2021, 6.2% in 2022, 4.4% in 2023 and 2.9% in 2024.

Based on the report submitted in October 2021 by the Romanian authorities, regarding the measures taken in response to the aforementioned Council recommendation, in its November 2021 evaluation, the EC assessed that the budget deficit for 2021 was expected to fall within the specified target[3]. Indeed, the 2021 budget execution ended with a deficit of 7.12% of GDP in ESA terms, respectively 6.76% of GDP in cash terms.

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[2] European Commission (2020). *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, Brussels, 20.03.2020.

[3] European Commission (2021). *Assessment of action taken by Romania in response to the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania*, COM(2021) 915 final, Brussels, 24.11.2021.

The programmatic documents of the MF and the draft budget for 2022 envisaged the continuation of the fiscal consolidation process in line with the calendar and targets recommended by the EC, anticipating an ESA deficit target of 6.2% of GDP. Among the three EC country recommendations on the National Reform Program and the Convergence Program of Romania published in May 2022[4], the first refers explicitly to the continuation of fiscal policies and budgetary consolidation in the following years, according to the recommendation of the EU Council from June 2021, to correct the excessive deficit situation in compliance with the calendar and the assumed targets, while mentioning the impact of the increase in energy and raw material prices, as well as the war in Ukraine on the macroeconomic framework and the budget projections for 2022, and assessing as realistic the expectations regarding the achievement of the budget deficit target, under the conditions of a strong increase in nominal GDP. The report draws attention, however, to the fact that the fiscal consolidation process is expected to be carried out, mainly, on the expenditure side, and in the absence of measures or if recording results below expectations for the undertaken reforms, including those supported by the NRRP (for example the digitalization of NAFA) for the purpose of increasing fiscal revenues, Romania is exposed to the risk of not meeting the budget deficit target for 2023, established, according to the 2023-2025 Fiscal-Budgetary Strategy, at the level of 4.4% of GDP, in ESA terms. In the FC's view, this risk is amplified by the current economic circumstances in Europe. Considering that Romania is under the EDP, a possible exceeding of the ESA deficit target of 4.4% of GDP for 2023 would be equivalent to non-complying with the targets agreed with the EC within the trajectory of reducing the budget deficit to levels below the threshold of 3% (4.4% in 2023 and 2.9% in 2024).

The importance of increasing tax revenues in the context of respecting the commitments assumed in the calendar for budget consolidation and the return of the deficit below the 3% threshold in 2024, respectively Romania's exit from the EDP, is also highlighted by the IMF's recommendations following the consultation with the Romanian authorities regarding Art. IV (macroeconomic framework) contained in the report published in September 2022[5]. Thus, considering the limited flexibility of action regarding expenditures, in order to restore the fiscal space, it is recommended to reform income and property taxation, reduce tax incentives, broaden the tax base, strengthen the tax administration etc. – part of which can be found in OG 16/2022 – so that the tax system could become more efficient and fairer. In this context, it is emphasized that in supporting these reforms, the NRRP funds represent an important opportunity, but also a significant challenge for their absorption. Regarding the rethinking of the tax regime, the FC has consistently advocated for it (see also the analysis

[4] European Commission (2022). *Recommendation on the 2022 National Reform Programme of Romania and delivering a Council opinion on the 2022 Convergence Programme of Romania*, COM (2022) 624 final, Brussels, 23.5.2022.

[5] International Monetary Fund (2022). *Romania. 2022 Article IV Consultation - Staff Report and Statement by the Executive Director for Romania*, IMF Country Report no. 22/310, Press release, September.

Budget Consolidation and Higher Fiscal Revenues - A Vital Need for Romania's Stability and Economic Security, May 2022).

Other rules that can (could) be the subject of the FC's assessment regarding the 2023 budget project and the 2023-2025 Fiscal-Budgetary Strategy refer to the compliance of the budget proposal with the ceilings provided in the Law for the approval of the ceilings of some indicators specified in the 2023 fiscal-budgetary framework. However, given that the 2023-2025 Fiscal-Budgetary Strategy and the Law for the approval of the ceilings of some indicators specified in the 2023 fiscal-budgetary framework were drawn up and sent to the FC for analysis simultaneously with the draft budget for 2023, the verification of compliance with the established ceilings becomes a purely formal procedure, the budget project being consistent with them. It should be emphasized that this practice has been perpetuated during the previous years, the fiscal-budgetary strategy being published simultaneously with the draft budget and not in July-August, according to the provisions of the FRL. Under these conditions, monitoring the *ex-ante* compliance with the fiscal rules regarding the ceilings becomes irrelevant, eroding the role that the fiscal-budgetary strategy should have in guiding the medium-term fiscal-budgetary policy. Moreover, in the context of the EDP, which projects a trajectory of budget deficit reduction stretching over several years, the elaboration and observance of the medium-term fiscal-budgetary strategy is of particular importance.

Fiscal consolidation and sovereign rating

In the evaluation of the sovereign rating carried out by the main profile agencies, the budgetary consolidation process is of great importance.

In October 2022, the main rating agencies confirmed the qualifications previously granted to Romania: Standard & Poor's at "BBB-" with a stable outlook[6]; Moody's at "Baa3" with a stable outlook[7]; FitchRatings at 'BBB-', with negative outlook[8].

The maintenance of Romania's sovereign rating in the investment grade category is based on several anchors: the country's membership in the EU, European funds from the 2021-2027 MFF and NRRP, the development of the excessive deficit procedure and its effect on budgetary discipline, the positive expectations regarding compliance with the fiscal consolidation calendar and the implementation of some credible reforms in the field of the pension system and public administration.

However, the evaluations of the rating agencies draw attention to the existence of some risks and vulnerabilities of the Romanian economy, including those induced by the war in Ukraine

[6] Standard and Poor's (2022). *Romania 'BBB-/A-3' Ratings Affirmed; Outlook Stable*, Press Release, October 14.

[7] Moody's Investor Service (2022). *Government of Romania - Baa3 stable*. Regular update, Press Release, October 18.

[8] FitchRatings (2022). *Fitch Affirms Romania at 'BBB-'; Outlook Negative*, Press Release, October 7.

and the European energy crisis on economic and fiscal performances, as well as the increasingly difficult conditions of external financing, aggravated by the persistence of macroeconomic imbalances, including the increasing level of the trade deficit, which shows a competitiveness problem, to which is added the uncertainty regarding the implementation of policies to address the structural deficit in the medium term, despite the progress this year.

From the perspective of the evaluation by these agencies of the factors that can lead to an improvement in the ratings given to Romania, respectively to a deterioration of them, it is relevant that most of them have in mind, directly or indirectly, the progress of the fiscal/budgetary consolidation process.

Thus, in the upgrade sense, a fiscal consolidation based on widening the tax base and increasing the level of collection, corresponding to the fiscal reform approved by GO 16/2022, which aims to reduce tax facilities and loopholes, on the reform of pensions and payroll in the public sector, according to commitments from the NRRP, which lead to increasing the degree of solidity and predictability of the fiscal framework. It is also appreciated that an economic growth based on investments, including through the contribution of European funds, especially those from the MFF 2021-2027 and NRRP, contributes significantly to reaching the budget deficit targets provided in the fiscal adjustment calendar. On the external side, arguments such as reducing the current account deficit and increasing resilience to restrictive financing conditions and geopolitical and energy risks would be considered.

On the downgrade sense acts the possible failure to achieve a sustained reduction of budget imbalances with an impact on fiscal consolidation, the decrease in confidence in the impact of the government's fiscal strategy on the reduction of the budget deficit and the stabilization of public debt in the medium term, the increase in external financing costs and the reduction of non-debt-generating financial flows, the unsuccessful efforts to achieve a higher degree of absorption of European funds, the excessive decrease in international reserves. To these can be added an adverse macroeconomic shock, potentially caused by the European energy crisis, which would affect medium-term economic growth prospects in EU countries.

3. The macroeconomic framework underlying the 2023 Budget Law and the 2023-2025 FBS

The Fiscal Council evaluates the plausibility of the provisions of the current Budget Law, related to year 2023, and of the Fiscal Budgetary Strategy for the period 2023-2025 starting from the internal and external macroeconomic framework that underlies them. The considerations formulated take into account, among others, the "2021-2025 medium-term forecast" published by the National Commission for Strategy and Prognosis (NCSP) – in October 2022 – and the Note that accompanies it.

The new macroeconomic coordinates take into account, on the one hand, the pattern of real economic growth from 2022[9], which places a significant part of it in the first half of the year; the second quarter data also brings clarifications and corrections regarding the contributions to the growth rate. On the other hand, the signal data related to the third quarter, published on November 15, this year, significantly changes historical GDP data – only the seasonally adjusted data series – which, implicitly, also changes the economic growth for the current year and, implicitly, for the entire horizon of forecasting[10].

The NCSP's revision of the real growth forecast for 2022, from 3.5% in the first rectification of this year, to 4.6% in the macroeconomic projection of the second rectification, brings an extra touch of realism to the projection and makes it compatible with the latest published statistical data.

For 2023, real growth (GDP) is projected at 2.8%, decelerating compared to the previous year, as a result of factors such as: (i) the strong base effect from 2022, (ii) the erosion of domestic absorption under the effect of high inflation (real pensions and wages have been showing negative growth rates for several months already), (iii) the increasingly restrictive monetary conditions, both domestically and internationally – which aim to combat high inflation, well above the assumed targets, (iv) the slowdown in external demand (for example, in the EC's autumn forecast economic growth for 2023, in Germany, is anticipated to be negative, of -0.6%, for France, Italy and Spain is in the 0-1% range and for the region – Bulgaria, Greece, Hungary, the Czech Republic, Poland – it is also in the 0-1% range with effects (through the "pull" exerted) on domestic production, (v) the slowdown, already outlined at the level of indicators with higher frequency, of economic intern dynamics (especially in industry, agriculture, energy), (vi) the population's use of the savings from the pandemic period (especially in foreign currency), (vii) the developments on the raw materials and energy markets – which record still high prices for these, also marked by the appreciation of the dollar against the main currencies, (viii) changes in the fluency of supply and production chains – which are complicated by high raw material prices and affected by geopolitical tensions, and (ix) the impossibility of continuing the government support measures at the same level in the next years, both under the impact of deficit adjustment requirements and under the pressure of more expensive, more risk-selective and less available financing. All these factors shows that the slowdown in the economic growth rate for 2023, in the NCSP projection, has grounds – and, moreover, it can be corroborated with that of recent projections of international

[9] Revealed by data published by the National Institute of Statistics (INS) related to the first two quarters of this year – see the INS Communiqué on gross domestic product (provisional 2) for the second quarter of October 12, 2022.

[10] The data for the first semester indicated, in the absence of a contraction (unrevealed by other data – such as those with a higher frequency) in the third and/or fourth quarter, and, at the same time, in the absence of a revision of the historical data, the possibility of a real economic growth slightly lower than 7%. The revision of historical data, carried out in the "signal" estimates related to the third quarter, brings (in the sense of a high probability) the pace of economic growth to a level lower than the 5% threshold, as is the last estimate of the NCSP.

institutions (e.g.: EC autumn forecast). Regarding the structure of economic growth – which is as important in terms of fiscal impact as its level – we can observe the continuation of current trends, which place the center of gravity of economic growth in the area of private consumption and gross fixed capital formation. And this element brings, in the FC's opinion, an additional level of realism to the projection made by NCSP.

For the last two years that underpin the FBS 2023-2025, NCSP anticipates the return of economic growth to its potential level (probably in the vicinity of a positive dynamic of 4%) anticipating developments, in 2024 and 2025, in terms of real GDP, of +4.8% and +5.0% respectively. Regarding the structure of economic growth in the years 2024-2025, the NCSP projection shows the emphasis on the reduction in private consumption and the increase in the role of gross fixed capital formation; at the same time, by sector, there is an increasing contribution of "Construction" and "Services" and a reduction in the share of "Agriculture" – elements that have a high level of plausibility.

Regarding the levels projected for real economic growth, over the entire projection horizon, the cumulative effect can be considered to be sensibly close to the upper edge of a likely range of evolution, if we consider the factors previously exposed. For these reasons, the FC appreciates that the real GDP forecast for the period 2023-2025 is marked by a slight optimism, being dependent on a high degree of absorption of European funds and the non-materialization of a severe recession in the world economy – especially in the economy of the European Union. We can also note that these slightly higher increases in each year reinforce each other, accumulating, towards the end of the projection, these systematic positive differences, which thus lead to a higher GDP level – contributing to higher budget revenues, but also to a denominator effect on the GDP shares of fiscal indicators (deficit, debt, etc.) – both, therefore, with favorable effects on fiscal-budgetary aggregates.

FC appreciates, as it did in the opinion on the second budget rectification this year, that the projected growth rate of the GDP deflator, of 13% in 2022, revised upwards from 12.2% in the previous macroeconomic projection of the NCSP, is prudent, and it can be, in plausible scenarios, even higher. It should be noted that the CPI inflation rate, published by NIS for October 2022, was 15.3%[11] (year-on-year), and the industrial production price inflation rate for October 2022 was 41.1% (year-on-year). This characteristic of the GDP deflator forecast is also found at the level of 2023, the anticipated level of +8.2% for its variation appearing to be very cautious. And for the years at the end of the projection horizon (2024 and 2025) the NCSP sees deflator values of +5.3% and +3.2%, respectively, and they are very likely in the minimum area of an interval of plausible projection (also demonstrated by the comparison with recent projections of some domestic and international institutions). All these factors

[11] Almost half of this (15.3%) being determined by the evolution of exogenous prices (7.4 pp) and, of these, by the evolution of energy prices, which has a consistent contribution (4.2 pp – almost a third of the total CPI inflation rate). Directly and indirectly, energy prices affect the dynamics of all other prices.

leads to the opposite conclusion previously formulated regarding real GDP, in this case, possible negative systematic errors aggregating to lead, finally, *caeteris paribus*, to a lower level of nominal GDP. However, given the size of these systematic deviations (positive for real GDP and negative for its deflator), we can consider that both at the level of each year and on the entire interval, these possible systematic deviations compensate, which leads to the conclusion of a projection of Nominal GDP – FC appreciates – with a high level of plausibility, given all the economic information available at the moment. Thus nominal GDP is anticipated to increase by 11.2% in 2023 (after a forecast increase of 18.2% in 2022) and by 10.4% and 8.4% in 2024 and 2025, respectively – high values that contribute on both channels described previously (that of additional tax revenues and that of the denominator effect) to the reduction of fiscal/budgetary imbalances expressed as weights in GDP.

CPI inflation rate (year-on-year, end-of-period) forecast in 2022 at 15.2% (upward revision from 12.2% in the previous NCSP projection), as well as an average inflation of 13.5% (in upward revision from 12.6% previously) is prudent – from the perspective of fiscal bases – the last Inflation Report (from November this year) of the NBR indicating forecasts of 16.3% for CPI inflation in December 2022[12]. FC appreciates that, regarding the starting point of the multi-annual projection for inflation, represented by the year 2022, it is possible to materialize an inflation at the end of year 2022 higher than the projected one. This already has effects on the budget construction – average inflation in T-2 being the relevant one for pension indexation in 2024 (along with ½ of real wage growth at the same point in time). Another effect is on projected inflation in 2023, a higher level in 2022 acting, through the base effect, in a negative direction for 2023. The end-of-period inflation level and the average one in 2023, anticipated by the NCSP at the values of 8% and, respectively, 9.6%, appear with risks of evolution to higher values, higher inflation values may be recorded, including this year, especially under the impact of the dynamics of energy and food product prices (which are beginning to have drive effects on production chains). For the period 2024-2025, the end-of-period and average inflation rates, which underpin the dynamics of fiscal aggregates in the FBS, are projected by NCSP to be at 3.7% and 5.7% in 2024 and at 2.9% and 3.2% in 2025.

The dynamics of the national economy and its structure (with an emphasis on internal absorption) is also illustrated by the size of the rapidly growing external imbalances – the trade balance deficit, according to the latest data of the NIS, from September 2022, showing a widening of it, in euros, accumulated over the first 9 months of the year compared to the same period last year, with 8.3 billion euros, equivalent to a rate of +49.6%. Similarly, the balance of payments data, published by the NBR on November 14 this year, show an increase in the current account deficit for the first 9 cumulative months of the year compared to the same period last year, by 7.5 billion euros, equivalent to an increase of 59.7% (the main

[12] In all price projections, the details of the legislation on the compensation and capping of gas and electricity prices have a significant impact – also implicit in the NCSP forecast and that of the NBR.

determinants being the deficit in trade of goods, as well as the deficit related to primary incomes).

It should be noted, however, that the widening of external deficits is significantly caused by the deterioration of the terms of trade, as observed in many EU countries, determined, in turn, by the increase in the prices of fuels and essential raw materials on main international markets. This evolution is to be judged given that the financing of this deficit is done to an increasingly smaller extent through non-debt generating flows (these being considered to be the balance of the capital account as well as, from the financial account, only "equity shares"), for the cumulative first 9 months of this year, their share being only 40.6% in the total current account deficit (8.2 billion euros out of 20.2 billion euros), compared to 56.2% in the similar period from 2021 (7.1 billion euros out of 12.6 billion euros). For the period 2023-2025, according to the Government's official forecast, the current account balance is anticipated to be on a downward trajectory, but at still high levels – of 8.5% in 2023 and 7.9% and 7.3% in 2024 and 2025 – all values above the 4% threshold of the EC Macroeconomic Imbalances Procedure. These forecast levels take into account a 2022 deficit projected at 8.8% of GDP for the current account of the balance of payments.

It can also be noted that this external deficit, so far, is determined, almost entirely, by the public sector deficit and in the projection, the public sector deficit begins to contribute less than 50% of the external deficit only from year 2024. However, this adjustment also sheds light on the transition of the private sector to the position of a savings-investment deficit, which raises the issue of its financing (along with the public deficit) from autonomous sources – in a deteriorating domestic and international macroeconomic and financial environment.

On the labor market[13], according to the NCSP forecast, there will be an increase in the average number of employees, in 2022 – which is the starting point of the projection related to the budget for 2023 and FBS 2023-2025 –, by 1.6% (from 1.4 % in the forecast underlying the first rectification) and an increase in average gross salary earnings of 10.6% (compared to 10.4% previously). The unemployment rate remains close to the values previously forecast, being 5.4% – the BIM unemployment rate (identical to the previous NCSP projection round) and 2.9% – the unemployment rate registered at the end of the year[14] (from 2.5% in previous forecast). These new coordinates, slightly more favorable overall from the point of view of fiscal macroeconomic bases, indicate, similar to the assessments in previous opinions, a plausible projection of the aggregates of the labor market. For year 2023, the average number of employees is expected to increase by 1.5% and the average gross salary by 10.9%, combined with an unemployment rate of 5.3% (BIM) or 2.7% (officially registered unemployment). This places the dynamics of the labor market, especially with regard to the

[13] Important through the macroeconomic bases related to payroll tax, social contributions, some expenditure elements, such as unemployment benefits and social transfers, all with a significant impact on the value of the deficit.

[14] According to ANOFM data.

number of employees, at a slightly more optimistic level than in the case of a very conservative projection (which, as previously presented, could take into account a slightly lower speed of real economic growth), having, however, a high level of plausibility – FC considers.

In 2024 and 2025, the increase in the number of employees accelerates, in the view of the NCSP, to +2.5% and +2.6%, and the dynamics of the average gross salary gain is 10.2% and 7.9%, respectively. In the case of these data, FC appreciates that they are placed in the (immediately) upper area of a plausibility interval of future developments, which makes their forecast aggregated at the level of the salary envelope in the economy and cumulatively at the level of the two years (deviations accumulating and potentiating their effect) to indicate risks of overestimation of these macroeconomic bases for tax revenues in terms of level and weight – thus adding as risk elements to the 2024 and 2025 fiscal projection. Regarding the 2024 and 2025 unemployment rate, in the BIM methodology they are 4.8% and 4.5%, and in the national methodology 2.6% and 2.4%.

Corroboration of recent economic information and data with the dynamics of the relevant macroeconomic variables projected by NCSP (real GDP, GDP deflator, inflation, labor market coordinates) leads to the conclusion of a plausible trajectory of these aggregates for year 2023, with a trade-off between the projection of the growth rate of real GDP and the GDP deflator. But for 2024 and 2025, if at the level of nominal GDP – as a result of the previously described compensation between the growth speed of real GDP, possibly higher, and that of the deflator, possibly lower – we can consider the projection as plausible, at the level of the coordinates in the labor market, this could, in the FC's opinion, benefit from an increase in the degree of prudence, materialized in slower increases in the wage envelope in the economy. This would also make the projection of fiscal revenues (especially payroll tax and health insurance contribution), FC believes, to be more appropriate with a conservative, cautious forecast of future developments – from the last two years of projection.

The current economic circumstances also highlight some problems/risks for the draft budget for 2023 and the FBS 2023-2025:

- The high level of inflation, as "surprise inflation" and, therefore, also of nominal GDP, has an effect equivalent to an adjustment of the fiscal position of the public sector, determining lower budgetary indicators as a share of GDP – both as a result of higher revenues, as a consequence of higher tax bases for the main taxes and duties, as well as as a result of a denominator effect. However, this effect – which is quasi-identical to an adjustment of the structural deficit – is limited to a more distant horizon, high inflation also having an effect in the opposite direction to the one mentioned. This resides in the effect on purchasing power associated with domestic absorption, the reduction of which will mark future economic dynamics and, therefore, future fiscal deficits, in the sense of widening them, also as a result of a less generous cyclical component. At the same time, high inflation will determine, in the foreseeable future

– the pension indexation rules, for example, taking as a reference inflation and ½ of the dynamics of the real salary recorded by the official statistics two years before the current year – the increase of budget expenditures. These aspects underline that the positive effect of current high inflation on the budget balance is limited, and a medium and long-term fiscal-budgetary projection must take into account negative effects of the possible persistence of high inflation. The mentioned adverse effects emphasize the importance of an adjustment of the internal fiscal imbalance based on reform measures, especially at the level of fiscal revenues, since public expenditures in Romania and, implicitly, the level of public goods (very low in quantity and quality according to internal and international statistics) cannot accommodate adjustments repeatedly. In addition, there are possible additional expenses arising from current and future challenges.

- Failure to implement a multi-annual fiscal/budgetary consolidation plan, which also takes into account the flagrant flaws of the existing fiscal regime (regressiveness/defective allocation by taxpayer categories, reduced collection, etc. – aspects constantly emphasized by the FC) involves risks at the level of future sustainability of public finances. Unfortunately, there are quite a few voices in Romanian society unwilling to accept this reality and who ignore the public interest.
- The need for adjustment is also highlighted by the magnitude and dynamics of the external imbalance – the main determinant of which is found in the deficit of the public sector – which is likely to cause problems in its financing, all the more so as the domestic and international macroeconomic and financial perspectives deteriorates significantly. The increase in interest rates demanded by the international markets as well as the domestic one – against the background of high inflation and restrictive monetary policies – accompanied by the reduction of the volumes of available financing and the increase in risk aversion also accentuate the need for adjustment and the risks of not achieving it. Possible deviations from the previously analyzed scenarios, a reduced speed of the fiscal correction, can lead to less favorable dynamics from a macroeconomic point of view and even to a precarious balancing area of the economy. Such a situation would impinge on the stability pursued through fiscal consolidation[15] and the rest of the economic policies, even culminating in non-linear evolutions of the economic-financial indicators. The forecasted economic evolution depends on securing financing, which, in turn, is conditional on maintaining the fiscal adjustment commitments agreed with the European Commission, which involve a calendar of reforms (including fiscal/collection) but also a substantial volume of financing, in particularly favorable conditions, both through the multiannual European budget framework and through the NRRP. Achieving the targets conditions access to international capital markets[16], also emphasizing the issue of public debt sustainability

[15] This area of precarious balance would be equivalent to a fragile balance, as such a state is found in the specialized literature.
[16] Essential for financing and refinancing the deficit and debt.

in the broader context of ensuring the refinancing of Romania's total external debt (public and private).

- A possible slower dynamics of the world and/or the European economy, possible big turbulences on the financial markets, accentuate the risk of fiscal/budget developments that are less favorable than those forecast. FC notes that Romania has extremely little fiscal space to accommodate them – even from the point of view of public debt, our country being close to the sustainable public debt limit for a country with the characteristics of the Romanian economy. At the same time, an (even) higher financing need – as a result of these unfavorable developments – will be difficult to cover in an increasingly restrictive international financial environment.
- EU membership brings undeniable advantages from the perspective of funding sources (European money) and even financial creditworthiness, but it cannot be a universal panacea. That is why fiscal consolidation, even if it encumbers future economic growth – a contractionary effect that can be counteracted by the massive absorption of European funds – is a pressing necessity; postponing its realization through measures with an effect on the structural deficit, only relying on the continuation of the favorable cyclical evolution of the economy and on the effect of inflation (positive from a fiscal point of view) not representing, in the opinion of the FC, viable macroeconomic options.

4. The fiscal-budgetary framework – context

The starting point of the budget projection for the year 2023 is represented by the level of budget revenues and expenses for the year 2022 considered in the second budget rectification of the current year.

It should be noted that, during 2022, the projections of the revenue and expenditure aggregates experienced the highest upward changes during the year in the history of budget constructions evaluated by the Fiscal Council. This, due to a very high inflation, which far exceeded the hypothesis from the construction of the budget. Thus, at the second rectification, budget revenues were forecast at a level of about 33 billion lei (+7.5%) higher than the draft budget, while budget expenditures were expected to be higher by 36.2 billion lei (+7%) compared to the draft budget. The projected budget deficit, although higher in absolute terms by about 3.2 billion lei, marginally decreases as a percentage of GDP to 5.74% from the initial 5.84%, against the background of the increase in the nominal GDP forecast from 1,317.3 billion lei in the draft budget to 1,396.2 billion lei in the second budget rectification.

In essence, the large-scale revision of budget revenues operated during 2022 has two main sources: the upward revision of nominal GDP dynamics due to higher inflation (+6%, respectively 78.9 billion lei); the additional receipts from the overtaxing of electricity and natural gas producers (+12.8 billion lei, thus explaining about 2.9 pp of the 7% dynamics of budget revenues compared to those considered when drafting the budget).

This very large increase in income from 2022 was, however, exceeded by the addition of budget expenses of 36.2 billion lei, mainly coming from additional allocations for: social assistance (+12.1 billion lei), interest (+8.9 billion lei), other transfers (+5.2 billion lei), expenditure on goods and services (+4.6 billion lei), personnel expenditure (+3 billion lei), capital expenditure (+2.9 billion lei), subsidies (+2.7 billion lei), while relevant reductions in expenses took place in the case of projects financed from the amounts representing the non-refundable financial assistance related to NRRP (-7 billion lei).

In the opinion regarding the second budget rectification for the year 2022, on the side of budget revenues, the FC assessed as likely the materialization of lower budget revenues, in relation to the assumed targets of about 3 billion lei (at the VAT level 1 billion lei, at the level of social security contributions 1 billion lei, at the level of corporate income tax 0.5 billion lei, at the level of excise duties 0.5 billion lei). On the budget expenditure side, FC identifies an additional expenditure requirement in relation to the budgeted sums of around 2.5 billion lei (at the level of expenditure on goods and services 1.5 billion lei, at the level of expenditure on social assistance 1 billion lei). These probable revenue shortfalls and budget expenditure overruns will translate into 2023, affecting the budget construction. For the year 2022, however, falling within the proposed target for the cash budget deficit of 5.74% of GDP is possible given the significant under-execution of total investment expenditures (capital expenditures and European projects) in the first 10 months of the year, which makes it improbable to reach the proposed targets for these expenses, but which has a favorable impact on the budget balance.

Objectives and targets of the fiscal-budgetary policy in the period 2023-2026

The budget construction for 2023 envisages a budget deficit target of 4.4% of GDP, according to the cash methodology, representing a decrease of 1.34 pp of GDP compared to the level projected by the Ministry of Finance for 2022 (5.74% of GDP). The corresponding level of the budget deficit target for 2023, according to the ESA 2010 methodology, is also 4.4% of GDP and, compared to the level estimated by the Ministry of Finance for the previous year (6.2% of GDP), represents a reduction of 1.8 pp of GDP. This evolution is compatible, according to the MF, with a reduction of the structural deficit by 2.03 pp of potential GDP, from 5.88% to 3.85%.

The reduction of the cash deficit in 2023, by 1.34 pp compared to the previous year, is projected to take place by increasing budget revenues by 0.9% of GDP, combined with the decrease of budget expenditures by 0.44% of GDP. In the structure of budget revenues, more significant increases occur at the level of tax revenues (+0.21 pp of GDP), social security contributions (+0.31 pp of GDP) and amounts drawn from the EU (+0.52 pp of GDP), while non-tax revenues are projected to decrease by 0.11 pp of GDP. Within fiscal revenues, significant increases are estimated at the level of receipts from VAT (+0.5 pp of GDP), from corporate income tax (+0.18 pp of GDP) and from taxes and property taxes (+0.14 pp of GDP), partially counterbalanced by the reduction of other income categories, with more significant reductions being projected at the level of other taxes and duties on goods and services (-0.45 pp of GDP). In the structure of budget expenditures, more important reductions are projected to take place at the level of social assistance expenditures (-0.7 pp of GDP), subsidies (-0.37 pp of GDP), goods and services (-0.28 pp of GDP), personnel (-0.26 pp of GDP) and interests (-0.19 pp of GDP), while significant increases are estimated for projects financed from EU funds (+1.09 pp of GDP), respectively for capital expenditures (+0.52 pp of GDP). In essence, beyond an anticipated acceleration of revenues and expenses related to EU funds (especially those related to NRRP), the budget envisages – considering values expressed as a percentage of GDP –, on the revenue side, a slight increase in tax revenues (including social security contributions) simultaneously with a reduction, on the expenditure side, especially at the level of social assistance, goods and services and personnel expenses.

The fiscal-budgetary framework related to the period 2024-2026 aims to place and maintain the budget deficit, both according to the cash and the European methodology, at a level lower than the 3% threshold (established by the corrective arm of the Stability and Growth Pact) during the entire period. More precisely, the deficit according to the national methodology is expected to be reduced by 1.45 pp of GDP in 2024 and by another 0.05 pp of GDP in 2025 to a level of 2.9% of GDP, which is expected to also be maintained in 2026. The projected values for the deficit calculated according to the ESA 2010 methodology are identical to those related to the cash deficit. Regarding the structural deficit, according to the Ministry of Finance, it is expected to decrease by 1.08 pp of potential GDP in 2024, then increase by 0.25 pp of potential GDP in 2025 and by another 0.05 pp of potential GDP in 2026, up to the level of 3.07% of potential GDP, which denotes a deviation from the medium-term objective – represented by a structural deficit of 1% of potential GDP – of 2.07 pp.

Assessment of the 2023 budget construction

The budget construction for 2023 envisages the reduction of the budget deficit according to the national methodology to 4.4% of GDP, respectively by 1.34 pp of GDP compared to the projected level for 2022. This reduction takes place in budget planning by increasing budget revenues by 0.9 pp of GDP, simultaneously with the reduction of budget expenditures by 0.44 pp of GDP.

I. Budget revenues

Budget revenues according to the cash methodology are expected to increase in 2023 compared to 2022 in nominal terms by approximately 14.1% or by 66.6 billion lei, their share in GDP being anticipated to increase by 0.9 pp. Changes the most important categories of budget revenues as a share in GDP are anticipated at the level of: amounts related to non-refundable financial assistance allocated for NRRP (+0.53 pp), VAT (+0.5 pp), social security contributions (+0.3 pp), corporate income tax (+0.18 pp), property taxes (+0.14 pp), other taxes on goods and services (-0.45 pp), non-tax revenues (-0.11 pp), other taxes on income, profit and capital gains (-0.09 pp).

The main factors that influence the dynamics forecasted by the Ministry of Finance for budget revenues in nominal terms in 2023 are represented by the macroeconomic framework projected for the next year, the fiscal policy measures adopted, the sum of the amounts taken into account, having as source the improvement of collection efficiency/reduction of tax evasion, the start projects financed by NRRP.

Regarding the dynamics of the macroeconomic indicators taken into account when substantiating the budget revenues, as shown above, the FC considers it prudent.

The fiscal policy measures adopted that affect the trajectory of budget revenues mainly refer to the amendments made to the Fiscal Code in July of this year (increasing the tax rate on dividends, from 5% to 8%; reducing the ceiling of income obtained in the previous year by micro-enterprises, from 1,000,000 euros to 500,000 euros; establishing the condition that micro-enterprises have at least one employee; reducing the ceiling up to which tax facilities are granted in the field of construction, the agricultural sector and the food industry, from 30,000 lei per month to 10,000 lei per month; revision of the system of granting personal deductions for taxpayers who earn income from wages; modification of the taxation of gambling; modification of the taxable base for SSC for employees with a part-time employment contract; modification of the tax rates applicable to the value of the transaction for the transfer of ownership of buildings and land, as well as the elimination of the non-taxable ceiling of 450,000 lei; the exclusion, starting from January 1, 2023, from the scope of the reduced quota facility VAT uses of 9%, of non-alcoholic beverages containing added sugar or other sweeteners or flavored; the application, starting from January 1, 2023, of the reduced VAT rate of 9%, both for the delivery of food intended for human and animal consumption, as well as for restaurant and catering services and for hotel accommodation activities; the establishment of a new calendar regarding the level of excise duties on products subject to the harmonized excise duty regime). It should be noted that an overwhelming majority of these measures act in the direction of reducing exceptions and optimization loopholes in the tax regime, an approach in favor of which the FC has advocated on several occasions, taking into account both fiscal equity and the need to increase tax revenues.

According to the Ministry of Finance, the budgetary impact for the year 2023 of the above fiscal policy measures is about 9.7 billion lei (0.62% of GDP), an estimate to which the FC has no objections. It is important to mention that among the amendments to the Fiscal Code adopted by OG in July this year it was also included the establishment of a new way of calculating the taxable value for residential/non-residential buildings and the introduction of additional rules regarding the determination of the tax on buildings, a measure expected to generate additional budget receipts of over 3 billion lei. At the moment, available information points to a postponement of this measure beyond the 2023 horizon.

According to the information sent to the FC by the MF, when substantiating the budget revenues for the year 2023, amounts in the amount of 8.7 billion lei were taken into account, coming from the increase in collection efficiency/reduction of tax evasion. In the structure of budget revenues, the 8.7 billion lei are distributed as follows: VAT (+5.2 billion lei), social security contributions (+2.5 billion lei), excises (+1 billion lei).

In relation to the *ex-ante* consideration of additional amounts based on increasing collection efficiency/reducing tax evasion, the FC has shown on numerous occasions that such an approach is not prudent. The principle of fiscal responsibility established by art. 4 of the FRL requires the Government to "manage the fiscal-budgetary policy prudently", and an *ex-ante* quantification of the possible additional revenues generated by the institutional reform of NAFA is not possible - there is no performance history that can substantiate such calculations. There is no doubt that there is the potential to obtain additional income from better collection - moreover, the Fiscal Council emphasized this perspective in its analyses, but the existence of this potential does not mean that it is reasonable or prudent to assume *ex-ante* its materialization, especially in a significant amount and in the short term.

Improving collection usually takes place in the context of deep tax administration reforms that require legislative changes, as well as significant financial, human and time resources. Taking into account these aspects, the FC will not take into account the amounts due to the increase in collection efficiency in its assessment from this point on.

An argument for prudence is also given by the experience of 2022, which included in the projection of budget revenues amounts having as a source the increase in collection efficiency. The largest part of them (7.2 billion lei out of a total of 10.65 billion lei) was found in VAT, these amounts increasing the projection of additional VAT receipts compared to what would have been justified by the evolution of the relevant macroeconomic base (the final consumption of households, excluding self-consumption and the peasant market). Considering the up-to-date execution for the year 2022, most likely the dynamics of VAT receipts for current year will be at a level very close to that of the consumption dynamics of households, which is likely to indicate a lack of improvement in the level of collection. Although the amounts collected in 2022 from VAT will probably be higher than those in the initial budget by about 4 billion lei, this evolution is attributable to a currently estimated nominal increase of 21.3% in the final consumption of households compared to the forecast of 11% from the moment of drafting the budget.

Beyond the reservations expressed above on the amounts coming from the increase in collection efficiency (8.7 billion lei representing 0.56% of GDP), the FC's assessment of revenue projections leads to a lower amount of budget receipts by about 2.6 billion lei or 0.17% of GDP, having as source the forecast revenues from taxes and property taxes. Thus, property tax receipts are expected to increase by approximately 3 billion lei in 2023 based on a new method of calculation, but from the information available at this time, such a decision has not been adopted for 2023. Having in view of this, the FC considers as plausible an increase in the receipts from taxes and property taxes by 5.1% (the inflation rate related to the year 2021 used in the indexing mechanism), resulting in an increase of about 0.4 billion lei compared to the 3 billion lei taken into account in the draft budget.

Regarding the forecasted evolution of budget revenues for the year 2023, it is also worth noting the decrease in the weight in GDP by 0.45 pp of the category of other taxes and taxes on goods and services (decrease in nominal terms compared to the year 2022 by about 5.25 billion lei), mainly as a result of the fact that starting from October this year, the amounts from the over taxation of actors on the electricity market are accounted for outside the GCB - in the Energy Transition Fund. FC appreciates that such a fund is part of an extended interpretation of the GCB. At the same time, FC appreciates the placement outside the budget of the amounts from the over taxation of actors on the electricity market as surprising and pleads for transparency both in terms of the amounts collected in this fund and the destinations of these funds.

In conclusion, based on a prudent approach, the Fiscal Council considers as probable the manifestation of lower revenues by about 11.3 billion lei, representing about 0.73% of GDP, compared to the targets assumed in the draft budget.

II. Budget expenditures

Budgetary expenses according to the national methodology, eliminating the impact of swap type compensation schemes, are projected to increase in 2023 compared to 2022 in nominal terms by about 9.94% (representing +54.9 billion lei), their share in GDP being expected to decrease by 0.44 pp. In planning, the main sources of adjustment are represented by social assistance expenses (-0.7 pp of GDP), subsidies (-0.37 pp), goods and services (-0.28 pp of GDP), personnel (-0.26 pp of GDP), interest (-0.19 pp of GDP), other transfers (-0.13 pp of GDP), other expenses (-0.1 pp of GDP), in the opposite direction acting projects financed from EU funds (+1.09 pp of GDP, cumulated on all categories of budgetary expenses related to the relationship with the EU) and capital expenditures (+0.52 pp of GDP, under the conditions of the increase defense spending).

In essence, the planned reduction of budget expenditures, expressed as a share of GDP, is the result of the reduction in nominal terms of subsidies (by about 4 billion lei in the context of the transition to a regulated market for electricity which eliminates the amounts paid from the budget for compensation) and growth rates in nominal terms that are moderate and substantially lower than the projected dynamics of nominal GDP for social assistance, goods and services, personnel and interest expenses. This reduction is partially counterbalanced by the substantial increase in expenditure on projects financed from European funds (especially those related to NRRP, representing +1 pp of GDP) and capital expenditure.

Personnel expenses are planned to increase by approximately 7.77%, representing +9.2 billion lei, compared to 2021, in the context of the increase in personnel salaries paid from public funds by 10% compared to the level granted for December 2022, without to exceed the nominal value for the year 2022 established according to the annexes to the Law no. 153/2017, with subsequent amendments and additions. Thus, for many categories of budgetary personnel, the increases will be below 10%. FC has no objections regarding the inclusion of personnel expenses in the envelope projected for the year 2023.

Expenditure on goods and services is planned to increase by 4.95% or 3.5 billion lei, a dynamic lower than both the projected nominal GDP of 11.17% and the anticipated average inflation for 2023 of 9.6%. Such programming entails risks, given that in previous years this budgetary aggregate proved particularly difficult to control. For example, in 2022 the initial budget provided for higher allocations by 5.8% or 3.65 billion lei compared to the previous year, the level provided for this category being established in the second budget revision in 2022 at a higher level with 4.6 billion compared to that in the initial budget, representing an increase of 7.1 billion lei or 11.1% compared to the amounts spent in 2021. The evolution of the pandemic and the acceleration of inflation beyond expectations are partial explanations for this situation. In addition, in the opinion regarding the second budgetary revision FC notes that the ceiling established by the second revision is insufficient, assessing as likely an additional need of around 1.5 billion lei given the execution for the first 10 months - which recorded an increase in these expenses of about 16.8% compared to the same period of the previous year. A prudent approach, in the absence of any information regarding a relevant reduction in the quantities of goods and services purchased by the state, calls for an increase in these expenses at least by the average inflation forecast for 2023. Thus, starting from a higher estimate of the necessary of expenses for goods and services for the current year, as well as considering the forecasted average inflation for the year 2023, the FC evaluates the level proposed in the budget construction for the next year as insufficient, estimating that an additional need of about 5 billion lei is likely. In the medium term, a reduction in the share of this expenditure category in GDP would be possible, in the context of deep reforms of the public procurement system and progress towards increasing the efficiency of this expenditure category.

Interest expenses are planned to increase in 2023 by around 1%, while the estimated dynamics for 2022 compared to the previous year is estimated at around 60%. Under these conditions, the share of interest expenses in GDP is planned to decrease in 2023 by about 0.19 pp of GDP. The substantial increase in this category of expenses from 2022 is the result of three main factors: the increase in the stock of public debt, the increase in interest rates at which new loans are contracted, respectively the resumption of older issues of government securities by offering a discount compared to the nominal value (so that the yield of these issues reflects the new interest rates applied in the market). According to the cash methodology, the value of this discount is recorded in full at the time of issuance, having a more pronounced impact on interest expenses, while the European ESA 2010 methodology will record a smaller increase in these expenses, the value of the discount being distributed in stages over the entire period of the loan. This last factor probably contributed the most to the 2022 evolution of interest expenses. Even if it is reasonable at this point in time to assume that the issuance of new securities in 2023 will not be made with a greater discount compared to 2022, the increase in the stock of public debt - as a result of the high budget deficits - would demand higher interest expenses raised. At this moment, the FC estimates an additional resource requirement of at least 2 billion lei for this category of expenses, in the absence of a decrease in the yields at which the state borrows. The future evolution of these expenditures is shrouded in much uncertainty and volatility.

As for social assistance expenses, they are planned to increase in 2023 compared to 2022 by around 4.9% or 8.5 billion lei, which is equivalent to a reduction of their weight in GDP by 0.7 pp – thus constituting an important source of fiscal consolidation. This evolution takes place in the context of the increase of the pension point in 2023 by 12.5% (which determines the increase of the expenses of the state social insurance budget by 12.1 billion lei), the reduction of one-off support measures financed from the budget of the state (in the amount of 5.6 billion lei in 2023 compared to about 8.7 billion lei in 2022, social assistance expenses financed from the state budget being expected to decrease in 2023 by about 1.7 billion lei), the reduction of the amounts planned to be paid for medical leaves by 2.2 billion lei in the context of the current situation of the COVID-19 pandemic. FC appreciates the targeted level for this budgetary aggregate taking into account several aspects: social assistance expenses financed from the state budget net of the impact of one-off support measures only increase by 2.7%, a level lower than the inflation rate of 5.1% used to increase many categories of expenses (child allowances; military pensions; and so on); the state social insurance budget does not take into account the fact that those who retire in 2023 have slightly higher pensions compared to existing retirees; the 37.3% reduction in medical leave expenses compared to the previous year appears ambitious. Taking into account the above, the FC estimates as likely an additional need for resources for the year 2023 at the level of social assistance expenses of at least 2 billion lei.

Total public investment expenditures, from internal and external sources, are scheduled to increase in 2023 compared to the level estimated by the MF for 2022 by 24.9 billion lei (+28.6%, being projected to reach 7.2% of GDP, which represents +1 pp compared to the previous year), this increase being supported mainly by the budgeting of the amounts for projects with financing from the amounts representing the non-refundable financial assistance and related loan NRRP (almost +16 billion lei), at which is added the significant increase in capital expenditure (+13.5 billion lei, against the background of the significant increase in defense expenditure) and a small increase in the expenditure related to programs with reimbursable financing (almost +0.4 billion lei). On the other hand, there are reductions in other transfers of the nature of investments (-2.6 billion lei) and in projects financed from non-refundable external funds after accession (-2.4 billion lei).

It is worth noting the ambitious target assumed for investment spending (7.2% of GDP according to the draft budget), this representing the maximum since 2009 to date, as well as the fact that investments are projected to remain at a high level in the medium term, anticipating reaching a level of 7.7% of GDP in 2026. Also, the intention to finance an important part of public investment expenses from external funds (considering the very low level of tax revenues in Romania) is also to be appreciated), the amounts related to projects with financing from non-refundable external funds after accession, together with those related to the NRRP, representing approximately 54% in 2023, 44% in 2024, 50% in 2025, respectively 53% in 2026 of the total investment expenses.

On the other hand, given the complicated domestic and international context, as well as the need to continue the fiscal consolidation process, planned investment spending at significantly higher levels creates major challenges. In addition to the use of external funds, they will also entail an increased volume of financing from budgetary resources, a visible aspect in the significant increase in capital expenditures projected for the year 2023, putting pressure on the budget deficit. An additional impact on the deficit is also exerted by the amounts related to the loan component of the NRRP, to the extent that it is not possible to accommodate them by restricting other categories of expenses and/or by increasing budget revenues. The compensation of these pressures can be done through increases in income and/or reallocation of resources. A very big constraint, however, is the very limited current fiscal space.

For the year 2023, the uncertainties regarding the budgetary impact of the measures adopted on the energy market have significantly decreased in the context of the transition to a regulated market for electricity, while the amounts to be paid from the budget to the natural gas account should be covered by overtaxing producers. However, there are still uncertainties regarding the budgetary impact of the compensation schemes applicable in 2022 both from the perspective of the cash budget deficits for the years 2022 and 2023 (for the payments that still remain to be made), and from the perspective of the budget deficit for the year 2022 according to the European ESA methodology 2010. In the absence of sufficient information to resolve these issues, the FC will not consider at this point in the analysis a budgetary impact of the schemes different from what is found in the current budget constructions for the years 2022 and 2023.

It should be noted that the structure of budget expenditures also includes some non-recurring (one-off) in the amount of 6.8 billion lei, representing 0.4% of GDP.

In conclusion, on the budget expenditure side, the FC identifies an additional need for allocations at the level of expenditure on goods and services, social assistance and interest, in a total amount of at least 9 billion lei, representing 0.58% of GDP.

Considering the above, based on a prudent approach to budget revenues and expenses, the FC assesses the budget construction for the year 2022 as compatible with a cash deficit of around 5.7% of GDP (equivalent to the same level according to the European ESA2010 methodology). Under these conditions, the FC sees major risks regarding the continuity of the budget consolidation process, according to the current budget construction.

Higher investments are justified considering the situation of the Romanian economy and the available European resources. At the same time, greater resources allocated to defense are justified given the geopolitical situation and the war in Ukraine. But the current fiscal space is very limited and therefore efforts are needed to increase the own revenues of the public budget.

Although the draft budget aims at a cash deficit of 4.4% of GDP, the FC appreciates that there are insufficient budget adjustment measures leading to the achievement of this target. The FC appreciates that it is not prudent to include *ex-ante* in the revenue projections additional amounts based on increasing collection efficiency/reducing tax evasion and therefore cannot consider them at this time. Added to this situation are lower incomes from taxes and property taxes (in the conditions of waiving the change in the calculation method) and a need for additional allocations at the level of expenditure on goods and services, interest and those with social assistance identified by the FC.

As the FC has repeatedly advocated, the budget consolidation process is vital for Romania for several reasons: for reasons of stabilizing the level of public debt (taking into account the fact that the primary deficit is the main factor for bringing it to a sustainable trajectory), reducing external vulnerabilities (by keeping under control the external deficit, which is at a relatively high and unique level in the region), stability of the national currency (preserving the room for action of the monetary policy) and defense of macroeconomic balances.

In judging the macroeconomic situation, the assumed objective of joining the euro zone also comes into play, this objective claiming a small budget deficit, as well as harmless external deficits. At the same time, the need for consolidation must also be considered in correlation with Romania's financial standing, the firm commitment towards a credible fiscal-budgetary consolidation plan being the essential premise for maintaining the country's rating and the confidence of investors on international markets. Last but not least, correcting the budget deficit is a legal obligation from the perspective of European and national fiscal rules, as it is necessary to comply with the targets for the gradual reduction of the deficit established within the EDP.

A matter of principle regarding the defense budget and spending

There is an idea in the European public debate not to add additional defense spending to the budget deficit. Some European officials have a similar logic in mind with reference to public investments that facilitate the energy transition and competitiveness. There is sense in such an idea, but, at least in the short and medium term, the economic impact of deficits cannot be counterbalanced by presumed benefits in the more distant future. Any additional spending, if financed by debt, cannot but be reflected in public debt and deficit.

If some additional expenses would be temporary (as happened in the Pandemic and is happening in the energy crisis now) temporary exemptions from fiscal rules can be accepted as was done in the EU. Once this spending ends, the impact on the deficit and debt would prove temporary. But if new expenditures become permanent, as is the case with defense and assuming other conditions unchanged, the impact on the budget lasts. And not including it in the deficit becomes a simple artifice. It must be repeated, however, that an increase in spending through debt can bring economic benefits in a non-immediate perspective. Only if additional defense spending were co-financed from a European fund aimed at strengthening the defense capacity of the EU's eastern flank, the impact on the deficit would be small.

5. Medium term fiscal perspectives – budget construction beyond the 2023 horizon

The fiscal-budgetary framework related to the period 2024-2026 provides for the reduction of the budget deficit, according to the national methodology, by 1.5 pp of GDP, from a target of 4.4% of GDP in 2023, to a projected level of 2.9% of GDP in 2026. It should be noted that the budget deficit is expected to remain below the 3% threshold (set by the corrective arm of the Stability and Growth Pact) starting in 2024, in accordance with the recommendation of the EU Council of June 2021, issued within the EDP.

The adjustment of the deficit is expected to be made exclusively on account of budget expenditures (-3.5 pp of GDP) their evolution being partially counterbalanced by the reduction of budget revenues (-2 pp of GDP). The decrease in revenues is mainly determined by the downward evolution of the amounts received from the EU (-1.9 pp of GDP, against the background of the conclusion of the MFF 2014-2020 and the traditionally slower start of the next MFF) and non-tax revenues (-0.2 pp of GDP), social security contributions being projected to maintain their share in GDP, and tax revenues increasing by only 0.1 pp of GDP. On the expenditure side, the adjustment is made mainly at the level of personnel expenses (1.1 pp of GDP) and of projects financed from EU funds (-0.8 pp of GDP, in the context of the conclusion of the MFF 2014-2020 and the slow beginning of the next MFF, the effect being partially offset by the impact of the loan component of the NRRP). In addition to these, smaller decreases in other transfers (by 0.6 pp), in goods and services expenditures (by 0.4 pp) and in social assistance expenditures (by 0.3 pp) are projected. Given that almost all aggregates of expenses listed above increase in nominal terms (with the exception of other transfers, whose estimated level for 2026 is about 2.6 billion lei lower than the one budgeted for 2023), the reduction of their share in GDP takes place against the background of a faster increase in nominal GDP, estimated at 28.7% for the period 2024-2026 (corresponding to an average annual growth rate of about 9.6%).

For personnel costs, the projected levels for the period 2024-2026 assume a nominal growth below or similar to the average annual inflation rates projected for the same period: 5.5% growth compared to an average inflation of 5.7% in 2024, an increase of 3% against an average inflation of 3.2% in 2025, respectively an increase of 2.9% (similar to average inflation) in 2026. Such an evolution could be possible by freezing wages in the budgetary sector or by a combination of personnel reductions and a moderate wage increase, but from a historical perspective and taking into account social considerations, staffing costs within the projected levels are unlikely.

On the other hand, the proposed adjustment to the level of expenditure on goods and services would lead to a level of 4.4% of GDP in 2026. This would represent an absolute minimum of the period 2008-2026, located well below the average expenditure on goods and services of around 5.5% of GDP for the period 2008-2021, respectively below the level projected at the second revision in 2022 of 5.1% of GDP (a level considered insufficient by the FC in its Opinion). Such an evolution seems all the more improbable, considering that the average annual growth rate of expenditure on goods and services in recent years (2018-2021) was about 12.1% in nominal terms (and the execution on the first 10 months of 2022 indicate an advance of 16.8% compared to the same period last year), while for the period 2024-2026 a considerable deceleration of this aggregate is projected: nominal growth of 6.2% in 2024, of 4 .6% in 2025, respectively 5.4% in 2026. FC has reservations about the possibility of fitting the expenditure on goods and services in the medium-term projected levels, even in the conditions of a deep reform of the public procurement system.

The inclusion of social assistance expenses in the levels provided for the period 2024-2026 is also problematic, given that the average annual rate of their growth in recent years (2018-2021) was around 12.4% in nominal terms, and the execution for the first 10 months of 2022 indicates an advance of 17.9% compared to the same period last year. In this context, the significant deceleration projected for the period 2024-2026 (nominal growth of 8.5% in 2024, 9% in 2025, respectively 6.2% in 2026) is unlikely to materialize.

Taking into account the arguments mentioned above, as well as the history of budget revisions from previous years, which recorded the repeated addition of budget expenditures (especially those with goods and services, social assistance and personnel), the FC appreciates that the adjustment of the budget deficit in the long term mainly through spending restrictions is unlikely.

The FC emphasized in its opinions and analyzes that macroeconomic adjustment and fiscal consolidation need a significant increase in fiscal revenues, which are at an inadmissibly low level in relation to Romania's needs and compared to EU benchmarks. In this sense, it is necessary to remove exemptions and loopholes from the current legislation, as well as increase the efficiency of collection by discouraging tax optimization and reducing evasion.

Even if, as it has shown on numerous occasions, the FC considers it imprudent to include in the fiscal projection the revenues resulting from the improvement of collection efficiency before their actual materialization, a deep reform of the tax administration that would lead to an increase in revenues from this source is strict.

In conclusion, the FC appreciates that, in the absence of sufficiently concrete and credible policies to support the achievement of medium-term fiscal-budgetary consolidation, the balance of risks is inclined in the direction of recording higher deficits than those foreseen by the fiscal-budgetary framework for the period 2024 -2026.

Conclusions

- The 2023 budget and the 2023-2025 Fiscal-Budgetary Strategy are built in an extremely complicated and complex international context, unprecedented after the Second World War, which is also marked by the invasion of Ukraine.
- The international context is defined by the economic and security consequences of the war in Ukraine, the energy crisis generated by the very large increase in the relative price of energy (an increase exacerbated by the War), persistent high inflation, the tightening of financial conditions in the markets, a food crisis, fragmentation of the global economic system and regionalization of supply chains and, not least, worsening effects of climate change.
- *Security*, understood in technological, military and economic terms (as the provision of essential goods for citizens' lives), takes precedence in public policy.
- EU economies are increasingly exhibiting "war-like" features and there are rises in defense spending in many states.
- "Surprise" inflation helped budget executions in Europe and the restraint of public debt, as a share of GDP, in 2022. This effect on the budget balance is limited, and a fiscal-budgetary projection in the medium and long term must take into account negative consequences of the possible persistence of high inflation.
- In order for inflation to reach close to the targets in the following years, an appropriate policy mix is necessary: a monetary policy that controls inflationary expectations, prudent budget policies, industrial policy measures to support production.
- It is not easy to formulate a policy mix that brings inflation down firmly, because the states have great pressures on their budgets. If budget deficits are not kept under control, monetary policies are bound to be even tighter, making credit more expensive. Moreover, external financial markets react to large deficits, to the proliferation of signs that debt is not sustainable and speculative attacks take place.
- Romania has been in the excessive deficit procedure for several years and has committed to reach a budget deficit of around 3% of GDP in 2024. It is a very difficult mission given the pressures on the budget and the severe deterioration of the international environment.

- Current and future challenges strain public budgets especially in countries with low tax revenues. Romania, with tax revenues (including social security contributions) around 27% of GDP, is at the bottom of the European hierarchy. The FC reiterates the need for the own revenues of the public budget to increase.
- The very ambitious intention to bring the budget deficit (cash and ESA) to 4.4% of GDP in 2023 and below 3% of GDP in 2024 (according to the Fiscal-Budgetary Strategy) is to be welcomed. And also welcomed is the desire to bring investments to over 7% of GDP in 2023 considering the available European resources.
- The FC appreciates the nominal GDP projection of the NCSP as realistic over the considered time horizon – with a compensation between the possibly higher values of anticipated real growth and those related to GDP deflators. Regarding the labor market, while 2023 offers a realistic perspective, the last two years of the Fiscal Budgetary-Strategy (2024 and 2025) could be marked, in the FC's opinion, by an overestimation of the dynamics – especially in terms of the number of employees.
- Achieving a budget deficit of 4.4% in 2023 must overcome important difficulties in the construction of the public budget, identified by the FC both on the revenue and the expenditure side.
- The budget construction for 2023 envisages a cash budget deficit target of 4.4% of GDP, representing a decrease of 1.34 pp compared to the level projected by the MF for 2022 (5.74% of GDP). The corresponding level of the ESA 2010 budget deficit target for 2023 is also 4.4% of GDP and, compared to the level estimated by the MF for the previous year (6.2% of GDP), it represents a reduction of 1.8 pp of GDP.
- The projected reduction of the cash deficit in 2023 takes place by increasing budget revenues by 0.9 pp of GDP, combined with a decrease in budget expenditures by 0.44 pp of GDP.
- The main factors that influence the programmed dynamics of budget revenues in nominal terms in 2023 are represented by the macroeconomic framework projected for next year, the adopted fiscal policy measures, the amounts estimated to be obtained from the improvement of collection efficiency/reduction of tax evasion, the NRRP projects.
- In what concerns the *ex-ante* inclusion in the budget projection of additional amounts resulting from the desired improvement of collection efficiency, the FC has reservations to consider them at this time, by virtue of the principle of prudence.
- The FC assesses as probable the realization of lower revenues, compared to the targets set in the draft budget, by about 11.3 billion lei, representing about 0.73% of GDP. This derives from the level of collection (lower by 8.7 billion lei compared to the projection) and from the overestimation of some tax revenues by 2.6 billion lei.

- The planned reduction of budget expenditures, expressed as a share of GDP, is the result of the reduction in nominal terms of subsidies, accompanied by moderate growth rates in nominal terms and substantially lower than the projected dynamics of nominal GDP for social assistance, goods and services, personnel and interest expenditures. This reduction is partially counterbalanced by the substantial increase of expenditures related to projects financed from European funds, especially those from the NRRP, and of capital expenditures.
- The FC considers as probable an additional need for budget allocations of around 5 billion lei for goods and services expenditures, of at least 2 billion lei for social assistance expenditures, respectively of at least 2 billion lei for interest expenditures. Cumulatively, the FC estimates an under-budgeting of expenditures by at least 0.58% of GDP.
- The FC appreciates that the 2023 budget construction is compatible with a cash deficit of around 5.7% of GDP.
- Future budget revisions will have to identify adjustment measures in order to reach the budget deficit target for 2023.
- An additional constraint on the public budget is generated by public investment expenditures that do not rely on non-reimbursable funding, especially the capital expenditures component, due to the significant increase in defense expenditures, and the loan component of the NRRP. Mitigating this constraint can be done through revenue increases and/or resource reallocations. The problem, however, is the very limited fiscal space.
- The budget consolidation process is vital for Romania for reasons related to stabilizing the level of public debt, reducing internal and external vulnerabilities, stabilizing the national currency and defending macroeconomic balances, as well as improving the country's rating.
- In the European public debate emerged the idea of not including additional investment and defense expenditures in the budget deficit. At least in the short and medium term, the economic impact of deficits cannot be offset by presumed benefits in the more distant future. Any additional spending, if financed by debt, cannot but be reflected in public debt and deficit.
- According to the fiscal-budgetary framework projected for the medium term, the budget consolidation during the 2024-2026 period is expected to be achieved mainly on account of budget expenditures, but the FC considers that the realism of this approach is questionable. In the absence of credible policies that support the achievement of medium-term fiscal-budgetary consolidation also by increasing fiscal revenues, the balance of risks is tilted in the direction of recording higher deficits than those anticipated for the coming years.

- Fiscal consolidation, even if it hampers future economic growth, a contractionary effect that can be countered by a massive absorption of European funds, is a pressing necessity; postponing its realization through measures with an effect on the structural deficit, only relying on the continuation of the favorable cyclical evolution of the economy and on the effect (positive from the fiscal point of view) of inflation, do not represent viable options in the opinion of the FC.
- Fiscal-budgetary consolidation is essential for joining the euro zone.
- The very difficult overall context means that, for Romania, European funds (MFF and NRRP) gain an extraordinary importance: together with internal and external resources, from the budget (used to fund capital expenditures), European money can drive investments to over 7% annually – as seen in the 2023-2025 Fiscal-Budgetary Strategy. European money also helps Romania's external balance, an extra protection against currency pressures, speculative attacks.
- EU membership brings undeniable advantages from the perspective of funding sources (European money) and even financial creditworthiness, but it cannot be a panacea or a full guarantee.

The opinions and recommendations formulated above by the Fiscal Council were approved by the Chairman of the Fiscal Council, according to the provisions of art. 56, para (2), letter d) of Law no. 69/2010 republished, after being agreed by Council members, through vote, in the meeting of December 8, 2022.

December 8, 2022 | Chairman of the Fiscal Council

Professor DANIEL DĂIANU

Annex I	Execution 2022	Swap execution 2022	Execution 2022 (without swap)	Initial budget 2023	Swap program 2023	Initial budget 2023 (without swap)	Initial budget 2023 - Execution 2022	Initial budget 2023 - Execution 2022 (without swap)	Initial budget 2023 - Execution 2022 (%)	Initial budget 2023 - Execution 2022 (without swap) (%)	Initial budget 2023 (without swap) (% of GDP)	Execution 2022 (without swap) (% of GDP)	Initial budget 2023 - Execution 2022 (without swap) (% of GDP)
	1	2	3 = 1-2	4	5	6 = 4-5	7 = 4 - 1	8 = 6-3	9 = 7/1	10 = 8/3	11	12	13 = 11-12
TOTAL REVENUE	**473.003,20**	**960,70**	**472.042,50**	**539.631,38**	**850,00**	**538.781,38**	**66.628,18**	**66.738,88**	**14,09%**	**14,14%**	**34,71%**	**33,81%**	**0,90%**
Current revenue	414.575,18	960,70	413.614,48	466.952,97	850,00	466.102,97	52.377,79	52.488,49	12,63%	12,69%	30,03%	29,62%	0,41%
Tax revenue	230.008,58	381,40	229.627,18	258.796,29	292,00	258.504,29	28.787,71	28.877,11	12,52%	12,58%	16,66%	16,45%	0,21%
Taxes on profit, wages, income and capital gains	65.142,88	139,80	65.003,08	74.594,43	208,00	74.386,43	9.451,55	9.383,35	14,51%	14,44%	4,79%	4,66%	0,14%
Corporate income tax	27.228,38	16,60	27.211,78	33.105,84		33.105,84	5.877,46	5.894,06	21,59%	21,66%	2,13%	1,95%	0,18%
Personal income tax	33.168,15	123,20	33.044,95	37.569,30	208,00	37.361,30	4.401,15	4.316,35	13,27%	13,06%	2,41%	2,37%	0,04%
Other taxes on income, profit and capital gains	4.746,35		4.746,35	3.919,29		3.919,29	-827,06	-827,06	-17,43%	-17,43%	0,25%	0,34%	-0,09%
Property tax	6.920,70		6.920,70	9.907,50		9.907,50	2.986,80	2.986,80	43,16%	43,16%	0,64%	0,50%	0,14%
Taxes on goods and services	154.449,34	191,80	154.257,54	170.511,62	84,00	170.427,62	16.062,28	16.170,08	10,40%	10,48%	10,98%	11,05%	-0,07%
VAT	95.232,58	154,20	95.078,38	113.595,61	84,00	113.511,61	18.363,03	18.433,23	19,28%	19,39%	7,31%	6,81%	0,50%
Excises	35.775,32	37,60	35.737,72	38.510,35		38.510,35	2.735,02	2.772,62	7,64%	7,76%	2,48%	2,56%	-0,08%
Other taxes on goods and services	16.155,25		16.155,25	10.902,66		10.902,66	-5.252,60	-5.252,60	-32,51%	-32,51%	0,70%	1,16%	-0,45%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	7.286,19		7.286,19	7.503,01		7.503,01	216,83	216,83	2,98%	2,98%	0,48%	0,52%	-0,04%
Taxes on foreign trade and international transactions (customs duty)	2.125,12		2.125,12	2.362,42		2.362,42	237,29	237,29	11,17%	11,17%	0,15%	0,15%	0,00%
Other tax revenue	1.370,54	49,80	1.320,74	1.420,32		1.420,32	49,78	99,58	3,63%	7,54%	0,09%	0,09%	0,00%
Social security contributions	141.660,16	579,30	141.080,86	162.193,80	558,00	161.635,80	20.533,64	20.554,94	14,49%	14,57%	10,41%	10,10%	0,31%
Nontax revenue	42.906,44		42.906,44	45.962,88		45.962,88	3.056,45	3.056,45	7,12%	7,12%	2,96%	3,07%	-0,11%
Capital revenue	1.456,65		1.456,65	1.379,13		1.379,13	-77,52	-77,52	-5,32%	-5,32%	0,09%	0,10%	-0,02%
Grants	37,43		37,43	11,16		11,16	-26,27	-26,27	-70,19%	-70,19%	0,00%	0,00%	0,00%
Amounts received from the EU on account of payments made 2021-2027	5.014,24		5.014,24	4.718,64		4.718,64	-295,61	-295,61	-5,90%	-5,90%	0,30%	0,36%	-0,06%
Amounts collected in the single account, at the state budget			0,00			0,00	0,00	0,00			0,00%	0,00%	0,00%

Other funds from the EU	702,63		702,63			0,00	-702,63	-702,63	-100,00%	-100,00%	0,00%	0,05%	-0,05%
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	48.088,12		48.088,12	54.926,67		54.926,67	6.838,55	6.838,55	14,22%	14,22%	3,54%	3,44%	0,09%
Amounts related to the non-reimbursable financial assistance allocated to NRRP	3.128,95		3.128,95	11.642,81		11.642,81	8.513,86	8.513,86	272,10%	272,10%	0,75%	0,22%	0,53%
TOTAL EXPENDITURE	**553.157,20**	**960,80**	**552.196,40**	**607.923,76**	**850,00**	**607.073,76**	**54.766,56**	**54.877,36**	**9,90%**	**9,94%**	**39,11%**	**39,55%**	**-0,44%**
Current expenditure	511.517,75	887,20	510.630,55	553.712,50	850,00	552.862,50	42.194,75	42.231,95	8,25%	8,27%	35,62%	36,57%	-0,95%
Personnel	118.416,17		118.416,17	127.618,34		127.618,34	9.202,16	9.202,16	7,77%	7,77%	8,22%	8,48%	-0,26%
Goods and services	71.163,93	37,20	71.126,73	74.689,89		74.689,89	3.525,96	3.563,16	4,95%	5,01%	4,81%	5,09%	-0,28%
Interest	28.802,09		28.802,09	29.084,46		29.084,46	282,37	282,37	0,98%	0,98%	1,87%	2,06%	-0,19%
Subsidies	15.327,26		15.327,26	11.323,03		11.323,03	-4.004,24	-4.004,24	-26,12%	-26,12%	0,73%	1,10%	-0,37%
Total Transfers	276.142,76	850,00	275.292,76	309.060,74	850,00	308.210,74	32.917,97	32.917,97	11,92%	11,96%	19,86%	19,72%	0,14%
Transfers for public entities	2.630,91	850,00	1.780,91	2.512,46	850,00	1.662,46	-118,45	-118,45	-4,50%	-6,65%	0,11%	0,13%	-0,02%
Other transfers	29.475,24		29.475,24	30711,377		30711,377	1.236,14	1.236,14	4,19%	4,19%	1,98%	2,11%	-0,13%
Projects funded by external post accession grants	5.186,59		5.186,59	6.591,12		6.591,12	1.404,52	1.404,52	27,08%	27,08%	0,42%	0,37%	0,05%
Social assistance	172.539,74		172.539,74	181.005,90		181.005,90	8.466,16	8.466,16	4,91%	4,91%	11,66%	12,36%	-0,70%
Projects funded by external post accession grants 2014-2020	52.442,41		52.442,41	58.927,08		58.927,08	6.484,67	6.484,67	12,37%	12,37%	3,80%	3,76%	0,04%
Other expenditure	9.848,64		9.848,64	9.343,00		9.343,00	-505,64	-505,64	-5,13%	-5,13%	0,60%	0,71%	-0,10%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	3.295,37		3.295,37	14.278,82		14.278,82	10.983,44	10.983,44	333,30%	333,30%	0,92%	0,24%	0,68%
Projects financed from the amounts related to the loan component of NRRP	723,86		723,86	5.690,99		5.690,99	4.967,13	4.967,13	686,20%	686,20%	0,37%	0,05%	0,31%
Reserve funds	1.094,01		1.094,01	1.000,00		1.000,00	-94,01	-94,01	-8,59%	-8,59%	0,06%	0,08%	-0,01%
Expenditure funded from reimbursable funds	571,51		571,51	936,05		936,05	364,53	364,53	63,78%	63,78%	0,06%	0,04%	0,02%
Capital expenditures	41.639,46	73,60	41.565,86	54.211,27		54.211,27	12.571,81	12.645,41	30,19%	30,42%	3,49%	2,98%	0,52%
Payments made in previous years and recovered in the current year			0,00			0,00	0,00	0,00			0,00%	0,00%	0,00%
EXCEDENT (+) / DEFICIT (-)	**-80.154,00**		**-80.154,00**	**-68.292,38**	**0,00**	**-68.292,38**	**11.861,62**	**11.861,62**	**-14,80%**	**-14,80%**	**-4,40%**	**-5,74%**	**1,34%**

Source: MF, FC's calculations

Annex II	FS projection 2023 (mil. lei)	FS projection 2024 (mil. lei)	FS projection 2024 -FS projection 2023 (mil. lei)	FS projection 2024 - FS projection 2023 (%)	FS projection 2023 (% of GDP)	FS projection 2024 (% of GDP)	FS projection 2024 - FS projection 2023 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**539.631,4**	**567.992,4**	**28.361,0**	**5,3%**	**34,8%**	**33,1%**	**-1,62%**
Current revenue	**466.953,0**	**511.453,8**	**44.500,8**	**9,5%**	**30,1%**	**29,8%**	**-0,24%**
Tax revenue	**258.796,3**	**285.970,5**	**27.174,2**	**10,5%**	**16,7%**	**16,7%**	**0,01%**
Taxes on profit, wages, income and capital gains	**74.594,4**	**84.085,8**	**9.491,4**	**12,7%**	**4,8%**	**4,9%**	**0,10%**
Corporate income tax	33.105,8	36.858,6	3.752,8	11,3%	2,1%	2,2%	0,02%
Personal income tax	37.569,3	42.900,6	5.331,3	14,2%	2,4%	2,5%	0,08%
Other taxes on income, profit and capital gains	3.919,3	4.326,6	407,3	10,4%	0,3%	0,3%	0,00%
Property tax	**9.907,5**	**10.939,0**	**1.031,5**	**10,4%**	**0,6%**	**0,6%**	**0,00%**
Taxes on goods and services	**170.511,6**	**186.822,2**	**16.310,6**	**9,6%**	**11,0%**	**10,9%**	**-0,08%**
VAT	113.595,6	124.462,6	10.866,9	9,6%	7,3%	7,3%	-0,06%
Excises	38.510,3	42.847,8	4.337,4	11,3%	2,5%	2,5%	0,02%
Other taxes on goods and services	10.902,7	11.433,8	531,2	4,9%	0,7%	0,7%	-0,04%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	7.503,0	8.078,1	575,1	7,7%	0,5%	0,5%	-0,01%
Taxes on foreign trade and international transactions (customs duty)	**2.362,4**	**2.608,4**	**246,0**	**10,4%**	**0,2%**	**0,2%**	**0,00%**
Other tax revenue	**1.420,3**	**1.515,1**	**94,8**	**6,7%**	**0,1%**	**0,1%**	**0,00%**
Social security contributions	**162.193,8**	**176.639,9**	**14.446,1**	**8,9%**	**10,4%**	**10,3%**	**-0,14%**
Nontax revenue	**45.962,9**	**48.843,4**	**2.880,5**	**6,3%**	**3,0%**	**2,9%**	**-0,11%**
Capital revenue	**1.379,1**	**1.454,4**	**75,3**	**5,5%**	**0,1%**	**0,1%**	**0,00%**
Grants	**11,2**	**3,9**	**-7,2**	**-64,8%**	**0,0%**	**0,0%**	**0,00%**
Amounts received from the EU on account of payments made 2021-2027	**4.718,6**	**35.968,1**	**31.249,5**	**662,3%**	**0,3%**	**2,1%**	**1,79%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Amounts collected in the single account, at the state budget	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Other funds from the EU	**0,0**	**238,0**	**238,0**	**0,0%**	**0,0%**	**0,0%**	**0,01%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**54.926,7**	**2.014,9**	**-52.911,7**	**-96,3%**	**3,5%**	**0,1%**	**-3,42%**

Amounts related to the non-reimbursable financial assistance allocated to NRRP	**11.642,8**	**16.859,3**	**5.216,5**	**44,8%**	**0,8%**	**1,0%**	**0,23%**
TOTAL EXPENDITURE	**607.923,8**	**618.546,5**	**10.622,8**	**1,7%**	**39,2%**	**36,1%**	**-3,07%**
Current expenditure	**553.712,5**	**557.756,6**	**4.044,1**	**0,7%**	**35,7%**	**32,5%**	**-3,13%**
Personnel	127.618,3	134.677,4	7.059,1	5,5%	8,2%	7,9%	-0,36%
Goods and services	74.689,9	79.345,3	4.655,4	6,2%	4,8%	4,6%	-0,18%
Interest	29.084,5	30.140,9	1.056,4	3,6%	1,9%	1,8%	-0,12%
Subsidies	11.323,0	11.752,9	429,9	3,8%	0,7%	0,7%	-0,04%
Total Transfers	**309.060,7**	**297.402,9**	**-11.657,8**	**-3,8%**	**19,9%**	**17,4%**	**-2,56%**
Transfers for public entities	2.512,5	2.698,4	186,0	7,4%	0,2%	0,2%	0,00%
Other transfers	30.711,4	25.750,9	-4.960,4	-16,2%	2,0%	1,5%	-0,48%
Projects funded by external post accession grants	6.591,1	30.851,4	24.260,2	368,1%	0,4%	1,8%	1,38%
Social assistance	181.005,9	196.442,1	15.436,2	8,5%	11,7%	11,5%	-0,20%
Projects funded by external post accession grants 2014-2020	58.927,1	2.244,6	-56.682,5	-96,2%	3,8%	0,1%	-3,67%
Other expenditure	9.343,0	10.309,2	966,2	10,3%	0,6%	0,6%	0,00%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	14.278,8	20.888,8	6.610,0	46,3%	0,9%	1,2%	0,30%
Projects financed from the amounts related to the loan component of NRRP	5.691,0	8.217,5	2.526,5	44,4%	0,4%	0,5%	0,11%
Reserve funds	**1.000,0**	**2.500,0**	**1.500,0**	**150,0%**	**0,1%**	**0,1%**	**0,08%**
Expenditure funded from reimbursable funds	**936,0**	**1.937,3**	**1.001,2**	**107,0%**	**0,1%**	**0,1%**	**0,05%**
Capital expenditures	**54.211,3**	**60.789,9**	**6.578,6**	**12,1%**	**3,5%**	**3,5%**	**0,05%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Payments made in previous years and recovered in the current year	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
EXCEDENT(+) / DEFICIT(-)	**-68.292,4**	**-50.554,2**	**17.738,2**	**-26,0%**	**-4,4%**	**-3,0%**	**1,45%**

Source: MF, FC's calculations

Annex III	FS projection 2024 (mil. lei)	FS projection 2025 (mil. lei)	FS projection 2025 -FS projection 2024 (mil. lei)	FS projection 2025 - FS projection 2024 (%)	FS projection 2024 (% of GDP)	FS projection 2025 (% of GDP)	FS projection 2025 -FS projection 2024 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**567.992,4**	**614.826,1**	**46.833,7**	**8,2%**	**33,1%**	**33,1%**	**-0,06%**
Current revenue	**511.453,8**	**557.440,6**	**45.986,8**	**9,0%**	**29,8%**	**30,0%**	**0,15%**
Tax revenue	**285.970,5**	**311.693,5**	**25.723,0**	**9,0%**	**16,7%**	**16,8%**	**0,09%**
Taxes on profit, wages, income and capital gains	**84.085,8**	**92.369,4**	**8.283,6**	**9,9%**	**4,9%**	**5,0%**	**0,06%**
Corporate income tax	36.858,6	39.961,3	3.102,7	8,4%	2,2%	2,2%	0,00%
Personal income tax	42.900,6	47.717,2	4.816,6	11,2%	2,5%	2,6%	0,06%
Other taxes on income, profit and capital gains	4.326,6	4.690,9	364,4	8,4%	0,3%	0,3%	0,00%
Property tax	**10.939,0**	**11.861,4**	**922,4**	**8,4%**	**0,6%**	**0,6%**	**0,00%**
Taxes on goods and services	**186.822,2**	**203.047,2**	**16.225,0**	**8,7%**	**10,9%**	**10,9%**	**0,03%**
VAT	124.462,6	134.957,3	10.494,7	8,4%	7,3%	7,3%	0,00%
Excises	42.847,8	47.355,7	4.507,9	10,5%	2,5%	2,5%	0,05%
Other taxes on goods and services	11.433,8	11.948,7	514,8	4,5%	0,7%	0,6%	-0,02%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	8.078,1	8.785,6	707,5	8,8%	0,5%	0,5%	0,00%
Taxes on foreign trade and international transactions (customs duty)	**2.608,4**	**2.828,3**	**219,9**	**8,4%**	**0,2%**	**0,2%**	**0,00%**
Other tax revenue	**1.515,1**	**1.587,1**	**72,0**	**4,8%**	**0,1%**	**0,1%**	**0,00%**
Social security contributions	**176.639,9**	**193.257,1**	**16.617,2**	**9,4%**	**10,3%**	**10,4%**	**0,09%**
Nontax revenue	**48.843,4**	**52.490,0**	**3.646,6**	**7,5%**	**2,9%**	**2,8%**	**-0,03%**
Capital revenue	**1.454,4**	**1.481,3**	**26,9**	**1,8%**	**0,1%**	**0,1%**	**-0,01%**
Grants	**3,9**	**2,8**	**-1,1**	**-27,8%**	**0,0%**	**0,0%**	**0,00%**
Amounts received from the EU on account of payments made 2021-2027	**35.968,1**	**37.681,7**	**1.713,6**	**4,8%**	**2,1%**	**2,0%**	**-0,07%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Amounts collected in the single account, at the state budget	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Other funds from the EU	**238,0**	**255,0**	**17,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**2.014,9**	**59,2**	**-1.955,8**	**-97,1%**	**0,1%**	**0,0%**	**-0,11%**

Amounts related to the non-reimbursable financial assistance allocated to NRRP	**16.859,3**	**17.905,6**	**1.046,3**	**6,2%**	**1,0%**	**1,0%**	**-0,02%**
TOTAL EXPENDITURE	**618.546,5**	**668.713,9**	**50.167,4**	**8,1%**	**36,1%**	**36,0%**	**-0,11%**
Current expenditure	**557.756,6**	**598.552,7**	**40.796,0**	**7,3%**	**32,5%**	**32,2%**	**-0,34%**
Personnel	134.677,4	138.680,9	4.003,5	3,0%	7,9%	7,5%	-0,40%
Goods and services	79.345,3	83.015,7	3.670,4	4,6%	4,6%	4,5%	-0,16%
Interest	30.140,9	32.046,3	1.905,5	6,3%	1,8%	1,7%	-0,03%
Subsidies	11.752,9	11.865,5	112,6	1,0%	0,7%	0,6%	-0,05%
Total Transfers	**297.402,9**	**331.249,9**	**33.847,0**	**11,4%**	**17,4%**	**17,8%**	**0,47%**
Transfers for public entities	2.698,4	2.776,1	77,7	2,9%	0,2%	0,1%	-0,01%
Other transfers	25.750,9	28.029,9	2.278,9	8,8%	1,5%	1,5%	0,01%
Projects funded by external post accession grants	30.851,4	30.809,9	-41,5	-0,1%	1,8%	1,7%	-0,14%
Social assistance	196.442,1	214.082,4	17.640,3	9,0%	11,5%	11,5%	0,06%
Projects funded by external post accession grants 2014-2020	2.244,6	301,0	-1.943,6	-86,6%	0,1%	0,0%	-0,11%
Other expenditure	10.309,2	10.626,9	317,7	3,1%	0,6%	0,6%	-0,03%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	20.888,8	22.654,3	1.765,5	8,5%	1,2%	1,2%	0,00%
Projects financed from the amounts related to the loan component of NRRP	8.217,5	21.969,6	13.752,1	167,4%	0,5%	1,2%	0,70%
Reserve funds	**2.500,0**	**500,0**	**-2.000,0**	**-80,0%**	**0,1%**	**0,0%**	**-0,12%**
Expenditure funded from reimbursable funds	**1.937,3**	**1.194,3**	**-743,0**	**-38,4%**	**0,1%**	**0,1%**	**-0,05%**
Capital expenditures	**60.789,9**	**70.161,2**	**9.371,3**	**15,4%**	**3,5%**	**3,8%**	**0,23%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Payments made in previous years and recovered in the current year	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
EXCEDENT(+) / DEFICIT(-)	**-50.554,2**	**-53.887,8**	**-3.333,7**	**6,6%**	**-3,0%**	**-2,9%**	**0,05%**

Source: MF, FC's calculations

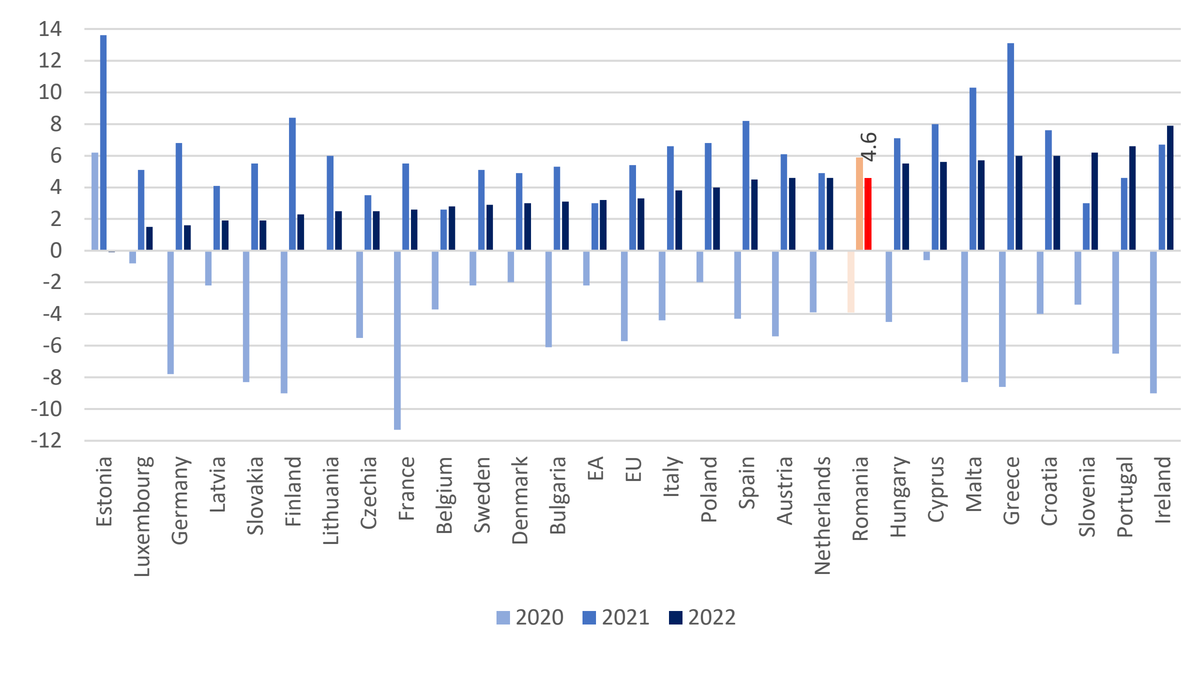
Annex IV	FS projection 2025 (mil. lei)	FS projection 2026 (mil. lei)	FS projection 2026 -FS projection 2025 (mil. lei)	FS projection 2026 - FS projection 2025 (%)	FS projection 2025 (% of GDP)	FS projection 2026 (% of GDP)	FS projection 2026 - FS projection 2025 (% of GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
TOTAL REVENUE	**614.826,1**	**655.119,5**	**40.293,4**	**6,6%**	**33,1%**	**32,8%**	**-0,30%**
Current revenue	**557.440,6**	**599.347,8**	**41.907,2**	**7,5%**	**30,0%**	**30,0%**	**-0,01%**
Tax revenue	**311.693,5**	**335.396,6**	**23.703,1**	**7,6%**	**16,8%**	**16,8%**	**0,01%**
Taxes on profit, wages, income and capital gains	**92.369,4**	**100.393,1**	**8.023,7**	**8,7%**	**5,0%**	**5,0%**	**0,05%**
Corporate income tax	39.961,3	42.969,6	3.008,3	7,5%	2,2%	2,2%	0,00%
Personal income tax	47.717,2	52.379,2	4.662,0	9,8%	2,6%	2,6%	0,05%
Other taxes on income, profit and capital gains	4.690,9	5.044,3	353,4	7,5%	0,3%	0,3%	0,00%
Property tax	**11.861,4**	**12.755,7**	**894,3**	**7,5%**	**0,6%**	**0,6%**	**0,00%**
Taxes on goods and services	**203.047,2**	**217.547,6**	**14.500,4**	**7,1%**	**10,9%**	**10,9%**	**-0,04%**
VAT	134.957,3	145.132,5	10.175,2	7,5%	7,3%	7,3%	0,00%
Excises	47.355,7	50.926,1	3.570,4	7,5%	2,5%	2,5%	0,00%
Other taxes on goods and services	11.948,7	12.108,0	159,3	1,3%	0,6%	0,6%	-0,04%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	8.785,6	9.381,0	595,5	6,8%	0,5%	0,5%	0,00%
Taxes on foreign trade and international transactions (customs duty)	**2.828,3**	**3.041,6**	**213,2**	**7,5%**	**0,2%**	**0,2%**	**0,00%**
Other tax revenue	**1.587,1**	**1.658,7**	**71,5**	**4,5%**	**0,1%**	**0,1%**	**0,00%**
Social security contributions	**193.257,1**	**207.944,0**	**14.686,9**	**7,6%**	**10,4%**	**10,4%**	**0,01%**
Nontax revenue	**52.490,0**	**56.007,1**	**3.517,2**	**6,7%**	**2,8%**	**2,8%**	**-0,02%**
Capital revenue	**1.481,3**	**1.524,6**	**43,3**	**2,9%**	**0,1%**	**0,1%**	**0,00%**
Grants	**2,8**	**2,8**	**0,0**	**0,5%**	**0,0%**	**0,0%**	**0,00%**
Amounts received from the EU on account of payments made 2021-2027	**37.681,7**	**37.083,3**	**-598,3**	**-1,6%**	**2,0%**	**1,9%**	**-0,17%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Amounts collected in the single account, at the state budget	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Other funds from the EU	**255,0**	**297,0**	**42,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**59,2**	**2,6**	**-56,6**	**-95,6%**	**0,0%**	**0,0%**	**0,00%**

Amounts related to the non-reimbursable financial assistance allocated to NRRP	**17.905,6**	**16.861,4**	**-1.044,2**	**-5,8%**	**1,0%**	**0,8%**	**-0,12%**
TOTAL EXPENDITURE	**668.713,9**	**713.070,2**	**44.356,3**	**6,6%**	**36,0%**	**35,7%**	**-0,30%**
Current expenditure	**598.552,7**	**640.024,6**	**41.471,9**	**6,9%**	**32,2%**	**32,0%**	**-0,18%**
Personnel	138.680,9	142.651,0	3.970,1	2,9%	7,5%	7,1%	-0,32%
Goods and services	83.015,7	87.461,7	4.446,0	5,4%	4,5%	4,4%	-0,09%
Interest	32.046,3	33.708,2	1.661,9	5,2%	1,7%	1,7%	-0,04%
Subsidies	11.865,5	12.274,8	409,3	3,4%	0,6%	0,6%	-0,02%
Total Transfers	**331.249,9**	**362.707,6**	**31.457,6**	**9,5%**	**17,8%**	**18,2%**	**0,32%**
Transfers for public entities	2.776,1	2.855,2	79,1	2,8%	0,1%	0,1%	-0,01%
Other transfers	28.029,9	28.100,0	70,1	0,3%	1,5%	1,4%	-0,10%
Projects funded by external post accession grants	30.809,9	31.199,5	389,6	1,3%	1,7%	1,6%	-0,10%
Social assistance	214.082,4	227.258,4	13.176,0	6,2%	11,5%	11,4%	-0,15%
Projects funded by external post accession grants 2014-2020	301,0	203,6	-97,4	-32,3%	0,0%	0,0%	-0,01%
Other expenditure	10.626,9	10.399,7	-227,2	-2,1%	0,6%	0,5%	-0,05%
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	22.654,3	20.963,2	-1.691,1	-7,5%	1,2%	1,0%	-0,17%
Projects financed from the amounts related to the loan component of NRRP	21.969,6	41.728,0	19.758,5	89,9%	1,2%	2,1%	0,91%
Reserve funds	**500,0**	**500,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Expenditure funded from reimbursable funds	**1.194,3**	**721,3**	**-473,0**	**-39,6%**	**0,1%**	**0,0%**	**-0,03%**
Capital expenditures	**70.161,2**	**73.045,7**	**2.884,4**	**4,1%**	**3,8%**	**3,7%**	**-0,12%**
Financial operations	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
Payments made in previous years and recovered in the current year	**0,0**	**0,0**	**0,0**	**0,0%**	**0,0%**	**0,0%**	**0,00%**
EXCEDENT(+) / DEFICIT(-)	**-53.887,8**	**-57.950,7**	**-4.062,9**	**7,5%**	**-2,9%**	**-2,9%**	**0,00%**

Source: MF, FC's calculations

Annex V

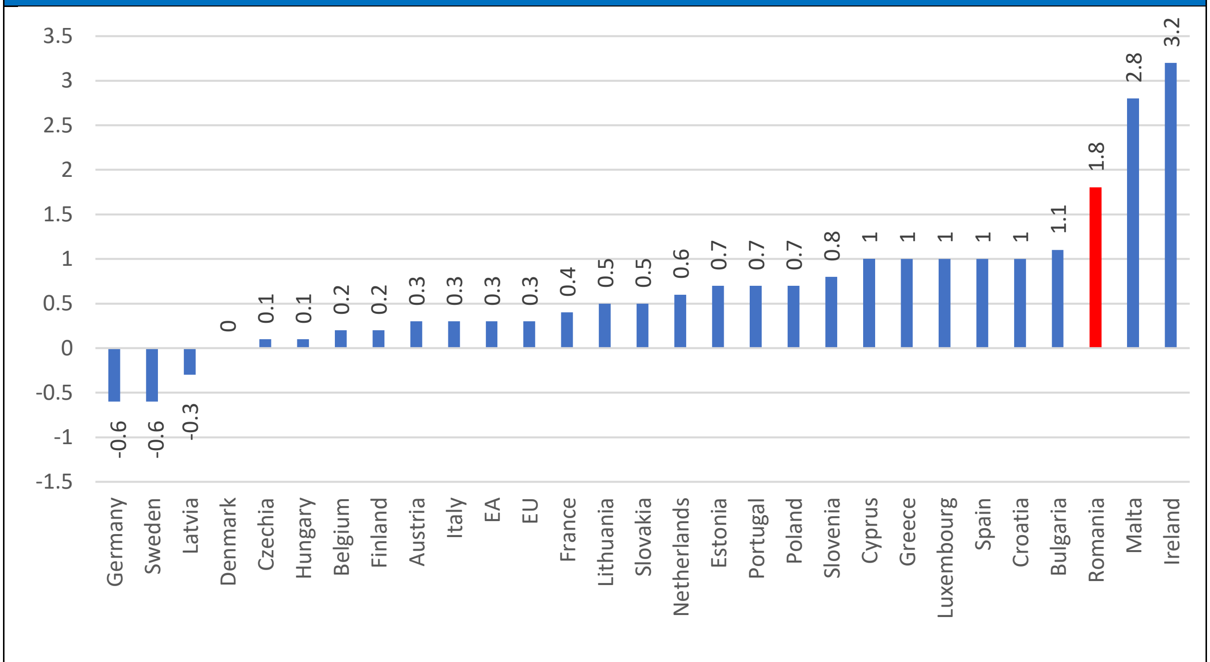
Figure 1: Real GDP dynamics of EU Member States during 2020-2022 (%)



Source: EC, NSFC

Note: In the case of Romania, the real GDP dynamics reflect the most recent estimates of the NSFC.

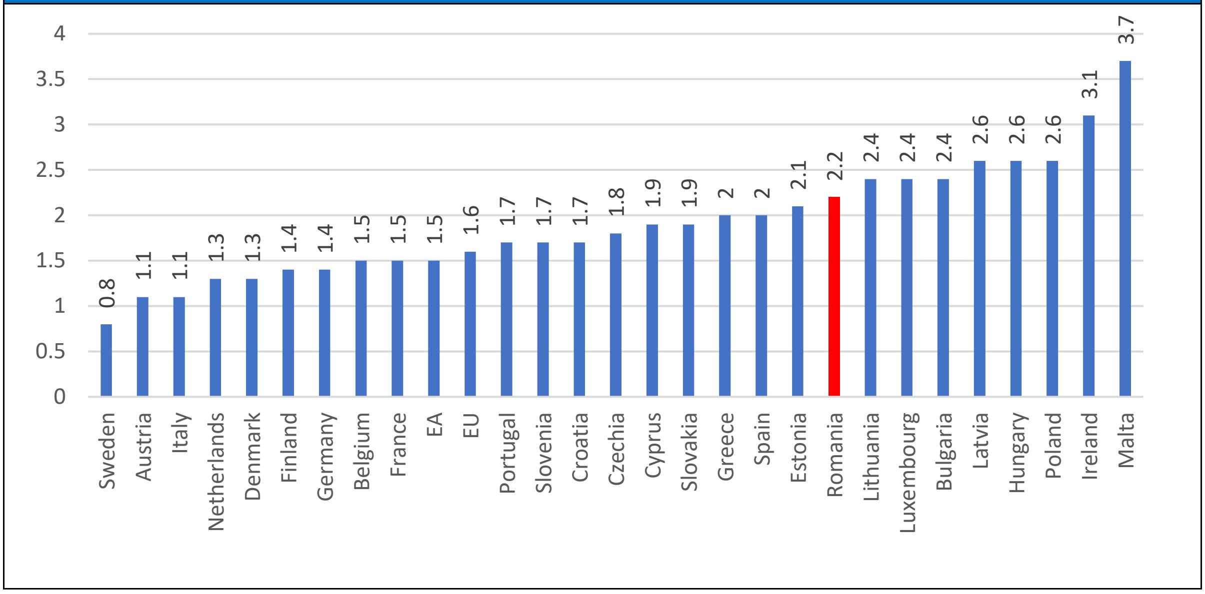
Figure 2: Estimated real GDP dynamics of EU Member States in 2023 (%)



Source: EC

Note: In the case of Romania, NSFC foresees an increase of 2.8%.

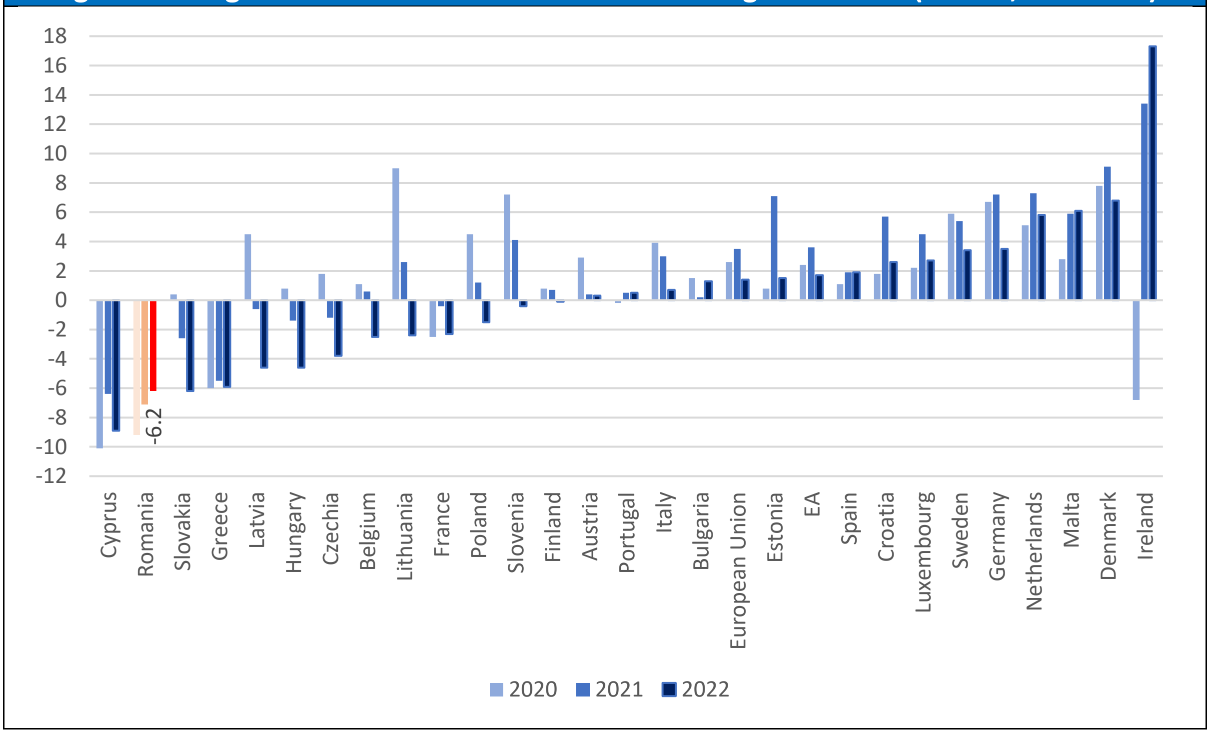
Figure 3: Estimated real GDP dynamics of EU Member States in 2024 (%)



Source: EC

Note: In the case of Romania, NSFC foresees an increase of 4.8%.

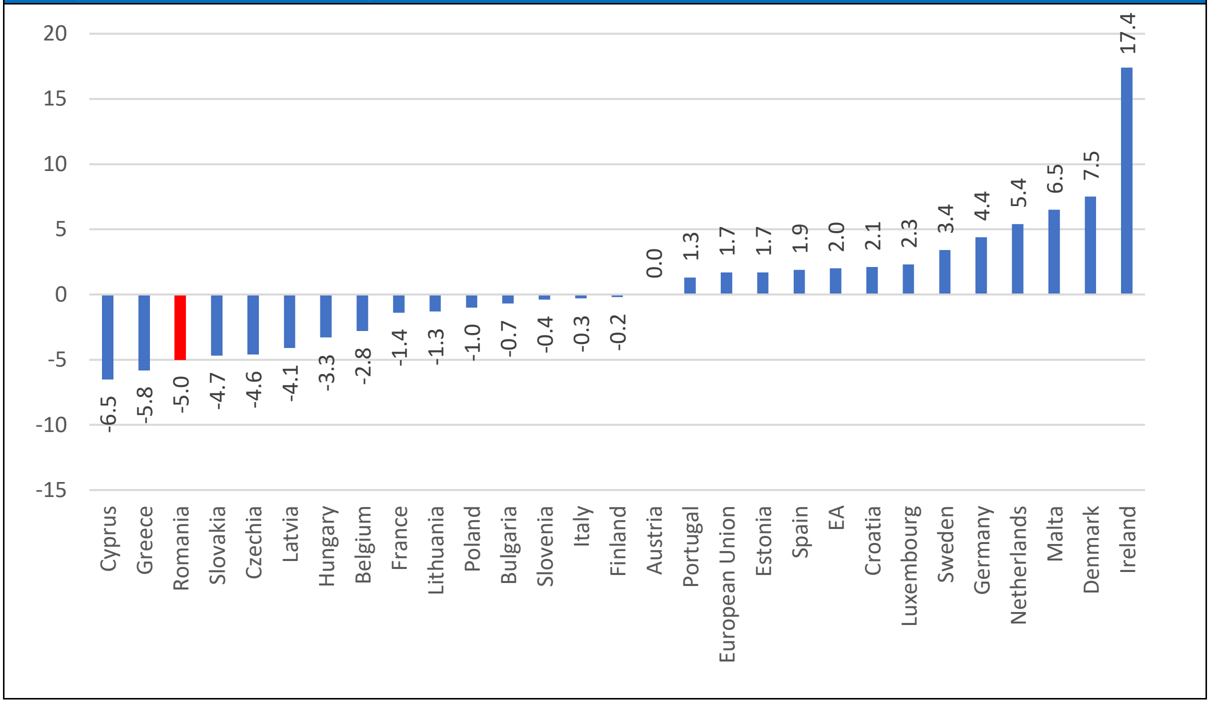
Figure 4: Budget balance of EU Member states during 2020-2022 (% GDP, ESA 2010)



Source: AMECO, MF

Note: In the case of Romania, the level of the budget balance is that estimated by the MF.

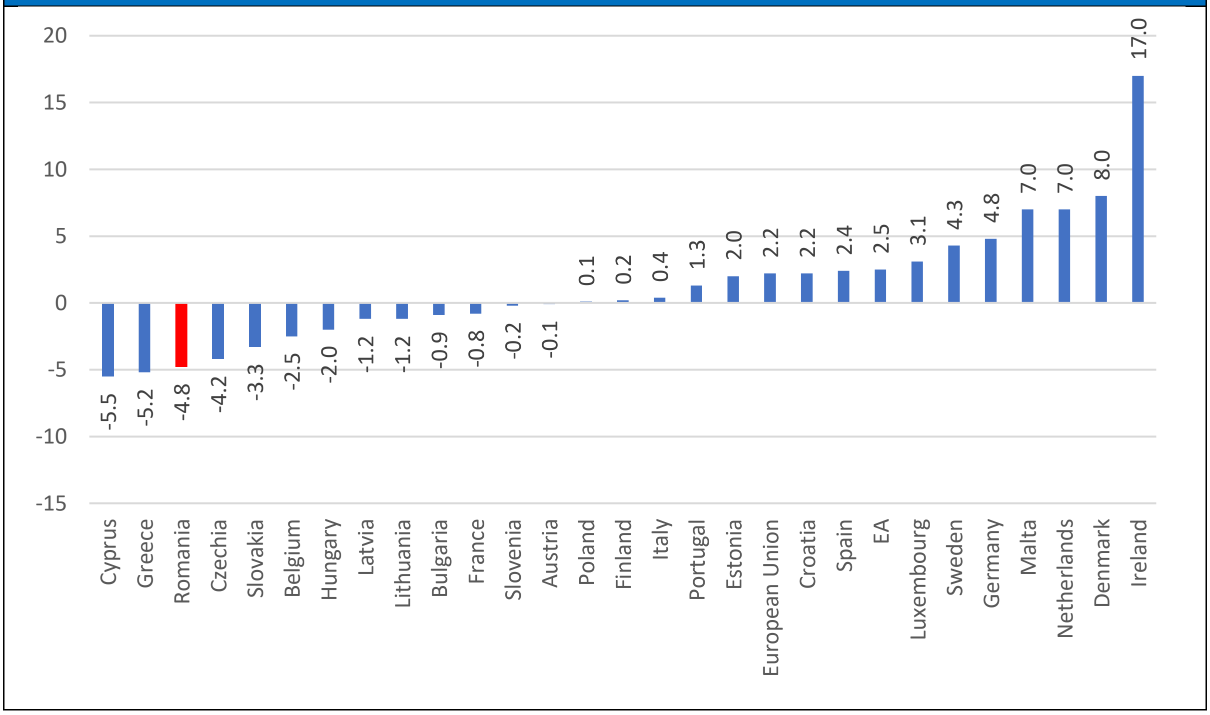
Figure 5: Estimated budget balance of EU Member states in 2023 (% GDP, ESA 2010)



Source: AMECO, MF

Note: In the case of Romania, the level of the budget balance forecast by MF is -4.4%.

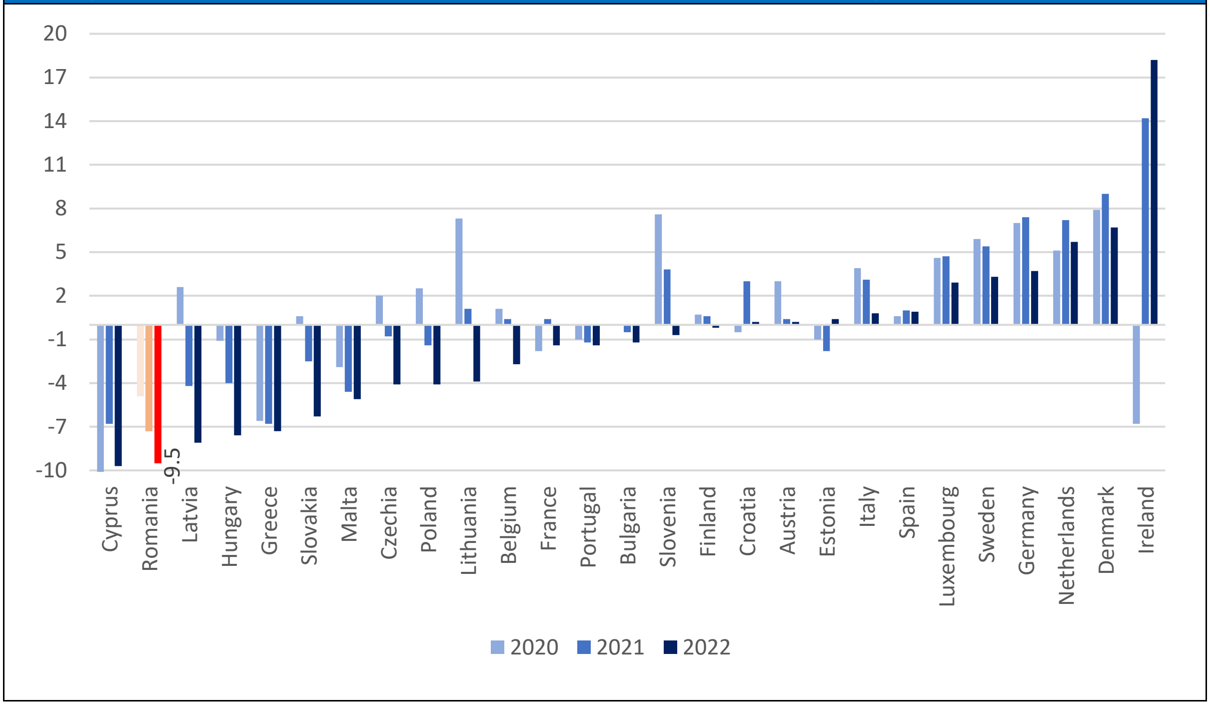
Figure 6: Estimated budget balance of EU Member states in 2024 (% GDP, ESA 2010)



Source: AMECO, MF

Note: In the case of Romania, the level of the budget balance forecast by MF is -3.0%.

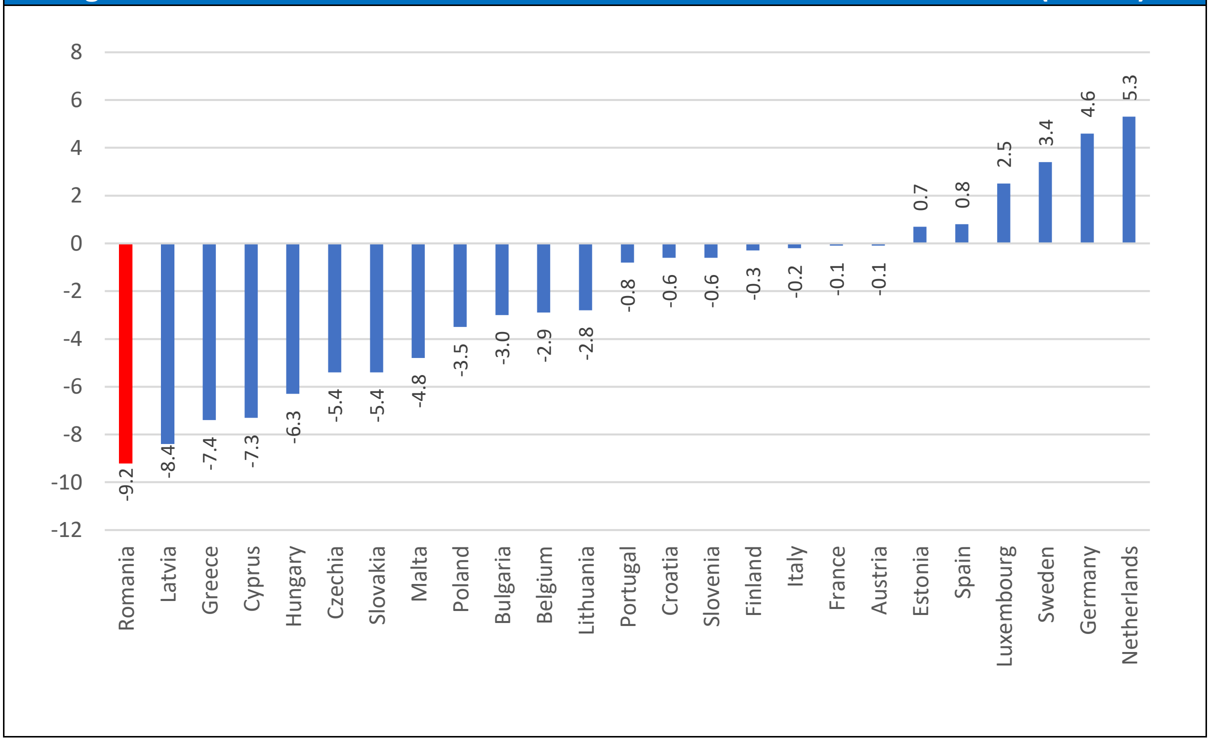
Figure 7: Current account balance in EU member states during 2020-2022 (% GDP)



Source: AMECO

Note: In the case of Romania, the NSFC forecast for the current account balance is -8.8%.

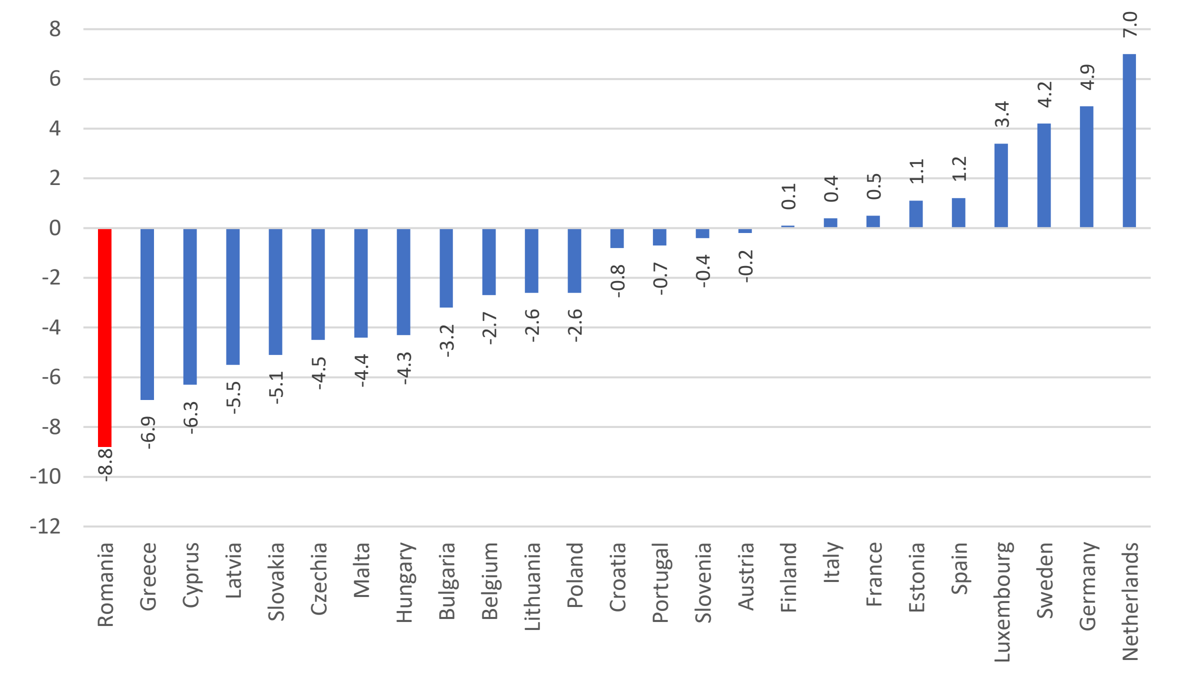
Figure 8: Estimated current account balance in EU member states in 2023 (% GDP)



Source: AMECO

Note: In the case of Romania, the NSFC forecast for the current account balance is -8.5%.

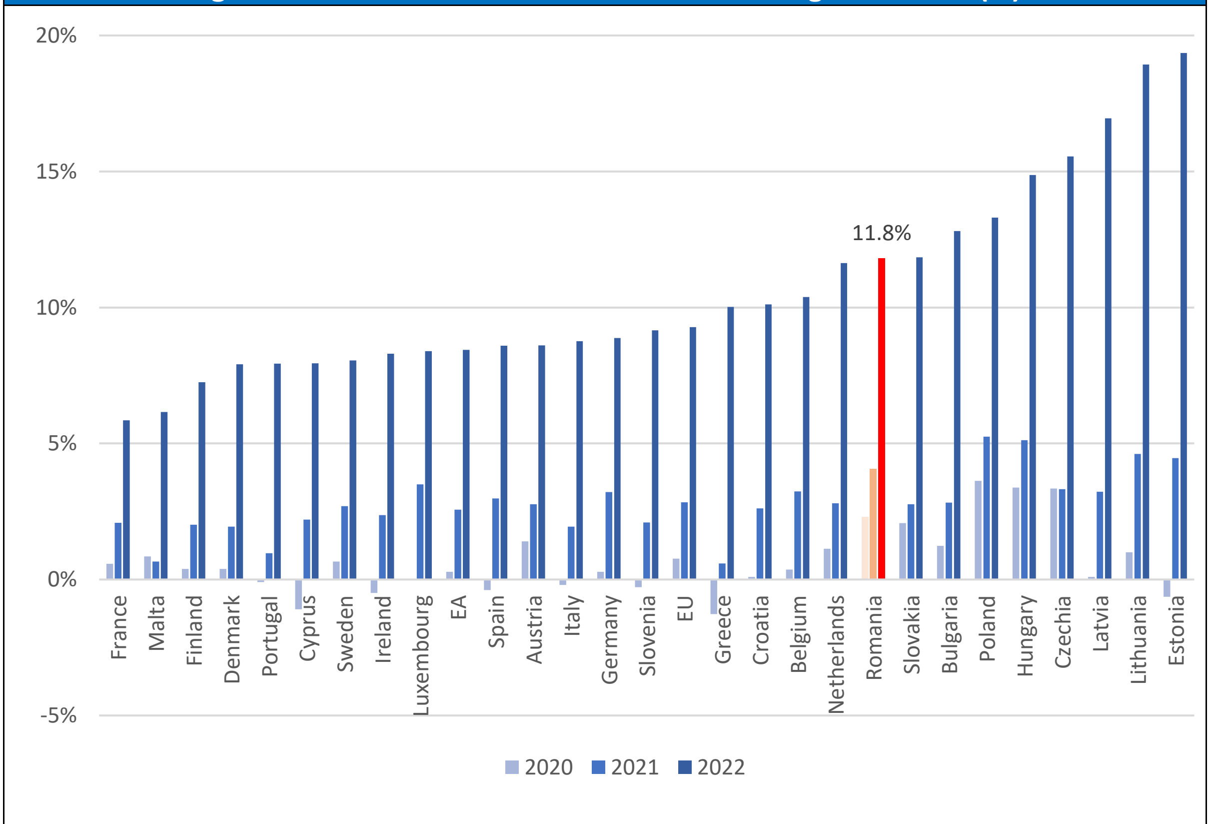
Figure 9: Estimated current account balance in EU member states in 2024 (% GDP)



Source: AMECO

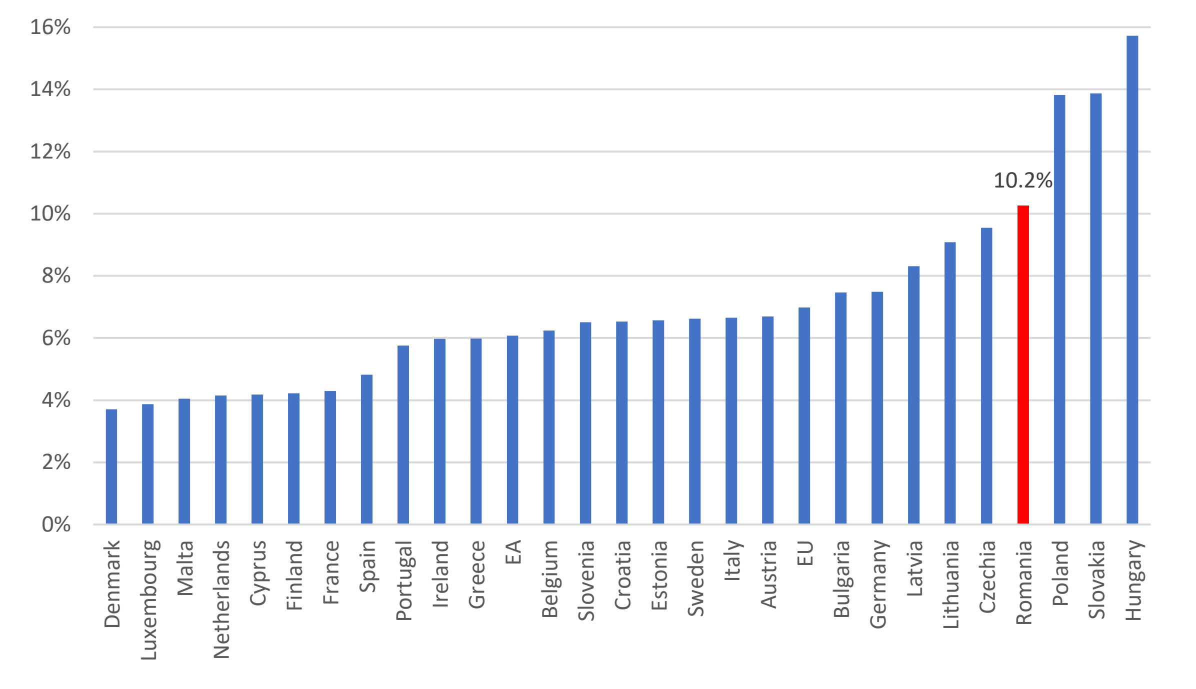
Note: In the case of Romania, the NSFC forecast for the current account balance is -7.9%.

Figure 10: HICP evolution in EU countries during 2020-2022 (%)



Source: AMECO

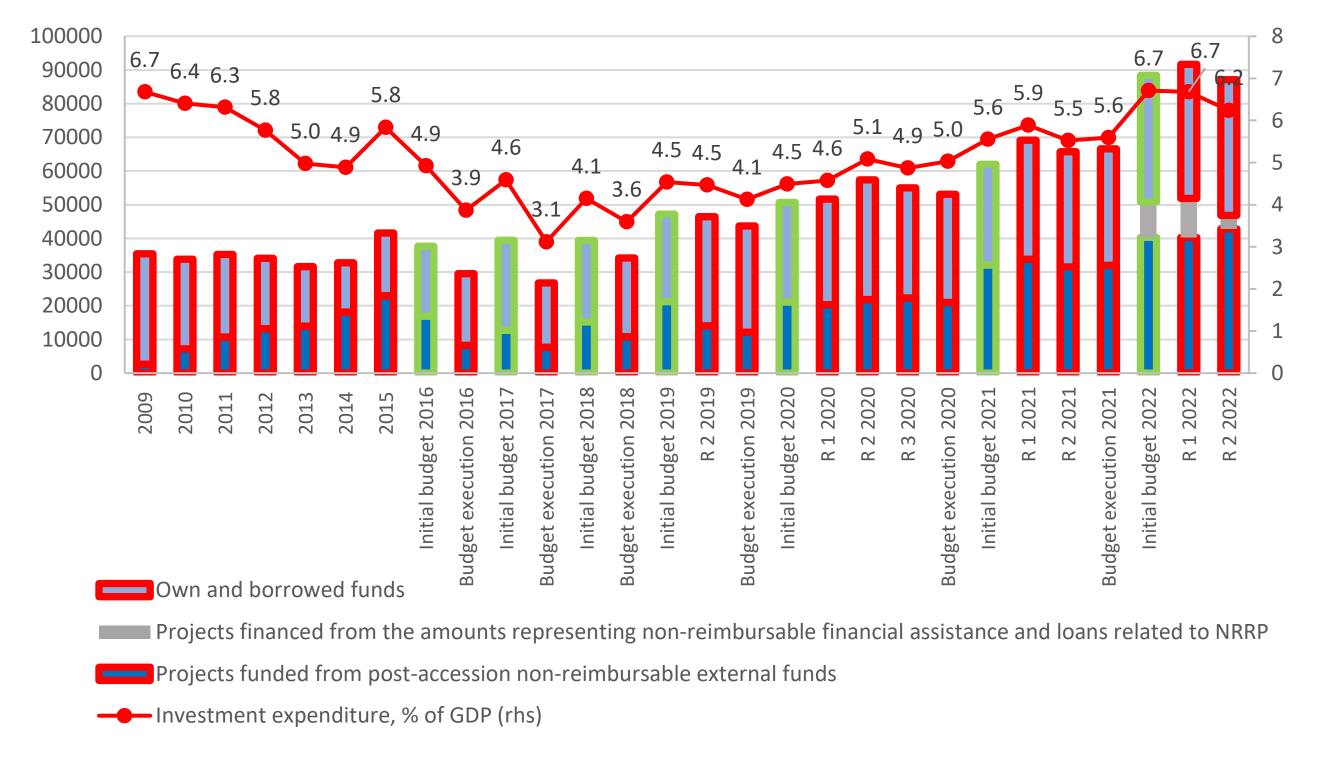
Figure 11: HICP evolution in EU countries in 2023 (%)



Source: AMECO

Annex VI

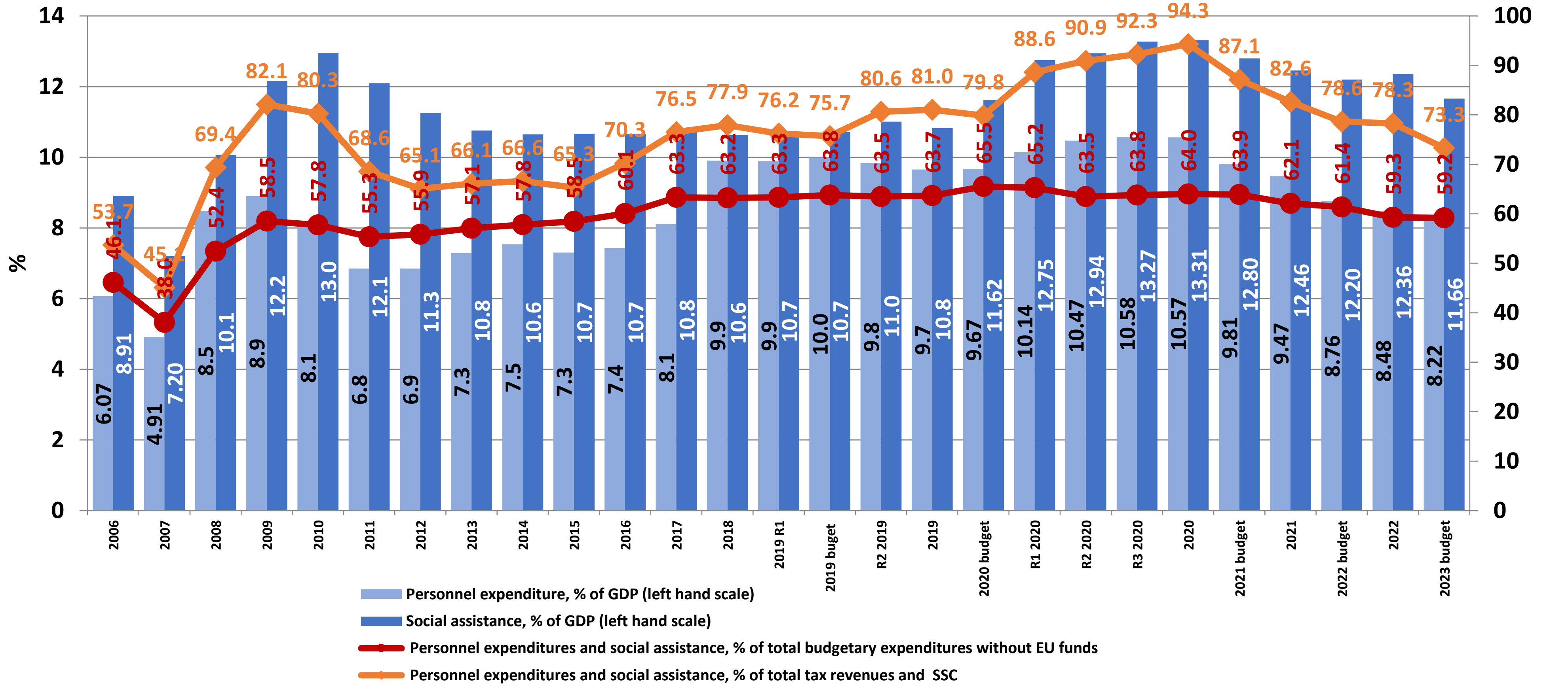
Figure 12: The evolution of public investment expenditures between 2009-2023 – planned level vs. realized (mil. lei)



Source: MF, FC's calculations

Annex VII

Figure 13: Evolution of personnel and social assistance expenditures during 2006-2023 (million lei)

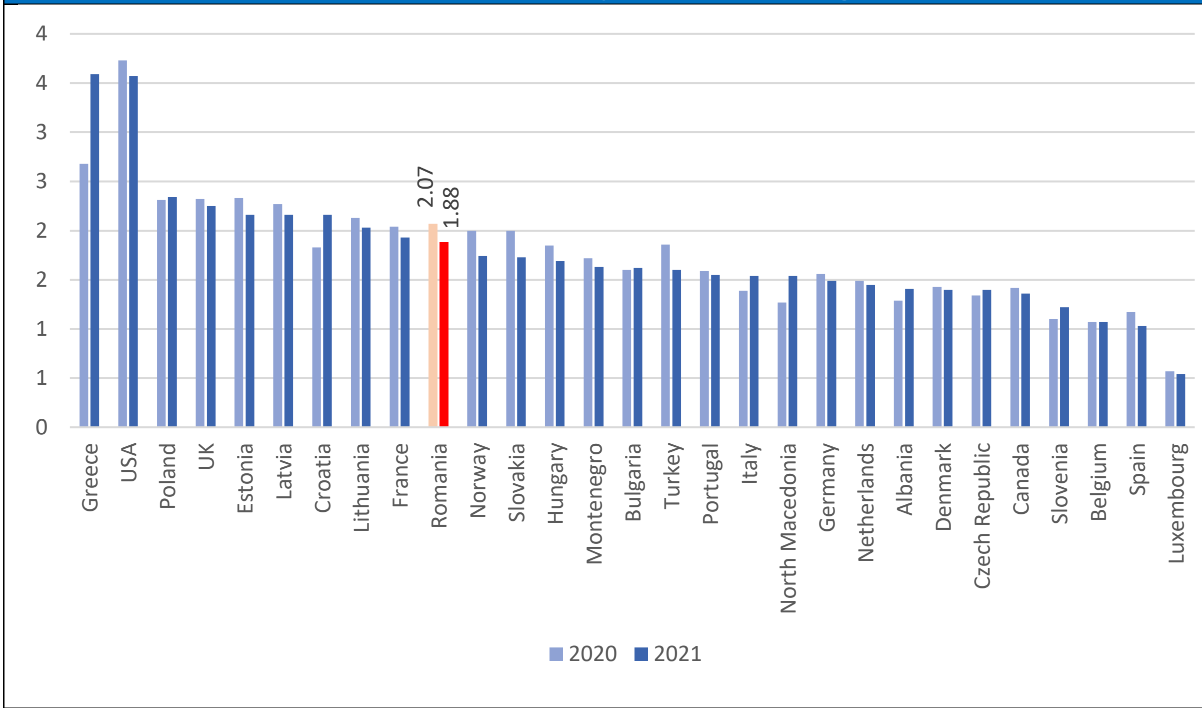


Source: MF, FC's calculations

Note: Starting with the execution of 2022, the calculation of expenses with European funds also includes expenses for projects financed from amounts representing the non-refundable financial assistance related to the NRRP, expenses for projects financed from the amounts related to the loan component of the NRRP and projects financed from external non-refundable funds post-accession 2021-2027.

Annex VIII

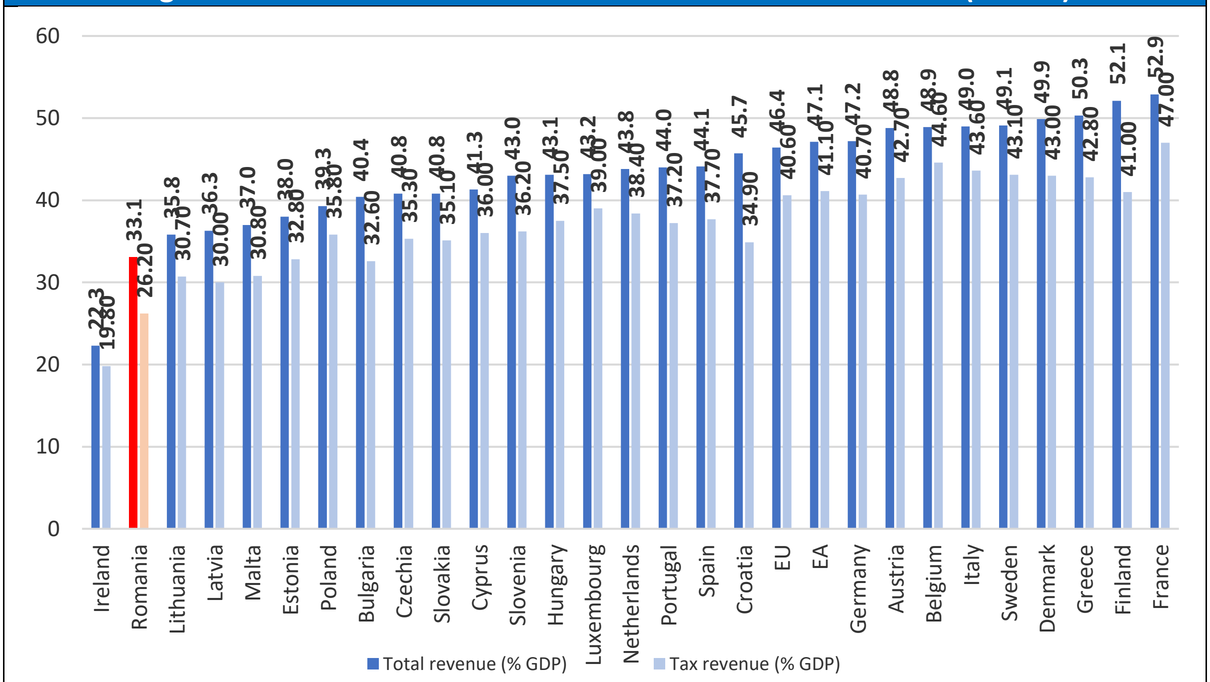
Figure 14: Defense expenditure in NATO member countries in 2020 and 2021 (% GDP, calculated based on 2015 prices and exchange rates)



Source: NATO, Secretary General's Annual Reports 2020 and 2021

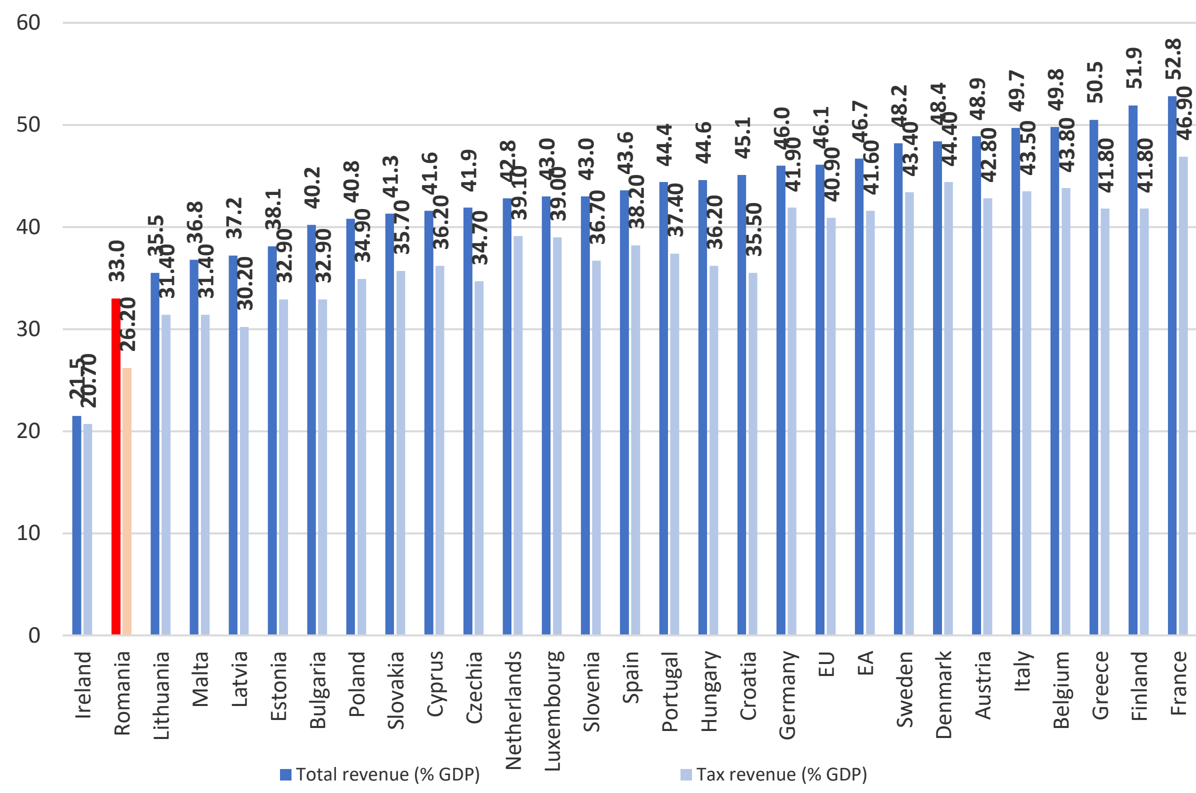
Annex IX

Figure 15: Total and tax revenue in EU Member States in 2022 (% GDP)



Source: AMECO

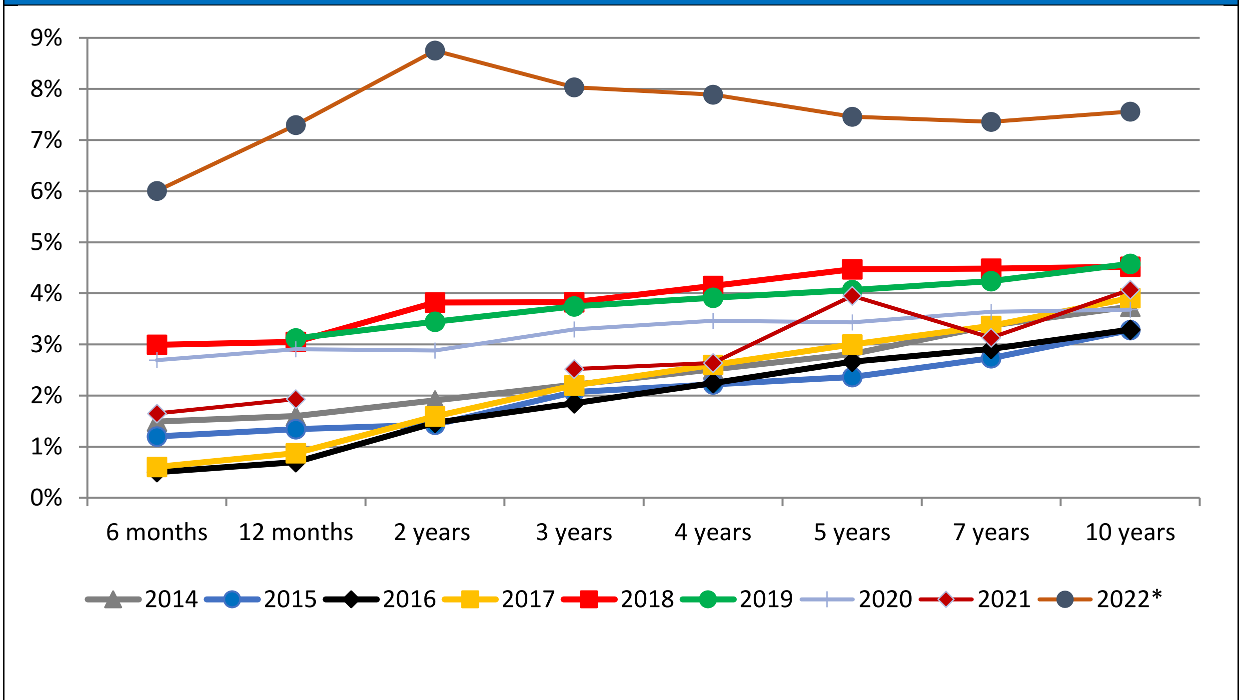
Figure 16: Estimates of total and tax revenue in EU Member States in 2023 (% GDP)



Source: AMECO

Annex X

Figure 17: The yield curve for government securities issued in domestic currency between 2014-2022*



Source: NBR

Note: Data for 2022 were extracted from NBR website on 05.12.2022.