

Fiscal Council's Opinion on the Draft Budget Revision for 2016 and the Half-Year Report Regarding the Economic and Budgetary Situation

On July 29th 2016, the Fiscal Council received from the Ministry of Finance by letter no. 9665/28.07.2016, the draft of the budget revision for 2016, the explanatory note and the draft Government Ordinance project regarding the draft of the budget revision for 2016, as well as the explanatory note and the Government Ordinance project regarding the draft of the revised social security budget for 2016, requesting the Fiscal Council's opinion under article 53, paragraph (2) of the Law no. 69/2010 republished. In addition, the Fiscal Council also received the Half-Year Report regarding the Economic and Budgetary Situation of which conclusions, alongside the Fiscal Council's opinion on it, should be taken into account in the construction of the budget revision proposal in accordance with article 23, paragraph (1) of the Fiscal Responsibility Law (FRL) republished.

1. Compliance with the fiscal rules

Compared to the original approved budget, the draft budget revision maintains the nominal budget balance of -20,905.4 million lei, thus respecting the budget deficit ceiling defined by the Law no. 338/2015 (the law for approving ceilings for certain indicators specified in the budgetary framework) and ensuring the observance of the fiscal rule established by article 12 letter b) of FRL. Since the projection of interest expenses is revised upward by 319.1 million lei, the general consolidate budget (GCB) primary deficit is programmed to fall by the same amount (from 9836.5 million to 9517.3 million lei), which is below the ceiling set by Law no. 338/2015.

If the budget deficit remains unchanged compared to the initial level, both revenues and expenditures are scheduled to significantly increase, implying deviations from the rules established by LRFB as follows:

- The programmed level in the budget revision of the personnel expenditures (58,703 million lei, i.e. 7.8% of GDP) exceeds the corresponding ceiling defined by the Law no. 338/2015 both in terms of nominal level (by 1,368.1 million lei), as well as percentage of GDP (by 0.1 pp, despite an upward revision of the nominal GDP by 10.431 million lei compared to the estimation used in the initial budgetary construction). The absence of compliance with the fiscal rules occurs at the level of art.

12 letter a) (for the level expressed as percentage of GDP) and letter c) (for nominal level) of FRL and in terms of the rule established by art. 17 paragraph 2, which prohibits increasing the personnel expenses during the budgetary revisions.

- The programmed level of the GCB expenditures, excluding the financial assistance from the EU and other donors (242,220.1 million lei), exceeds the corresponding ceiling defined by the Law no. 338/2015 by 3,344.6 million lei, the absence of the conformity occurring at the level of the rule established by art. 12 letter c) of the FRL, as well as at the rule established by art. 24 which prohibits the increase of the GCB expenditures, net of financial assistance from the EU and other donors during the budget revisions, unless it is due to the supplementing of the interest expenses or those related to Romania's contribution to the EU budget. Given that the total expenditure increase is also due to the supplementary allocation in interest expenses (by 319.1 million lei), the exceeding of the ceiling ruled by Law no. 338/2015 appears as partially justified from the perspective of the fiscal rules (within that amount).

The draft Government Ordinance project regarding the draft of the budget revision for 2016 provides the corresponding derogations from the aforementioned fiscal rules and redefines the limits of the ceilings stipulated in the Law 338/2015 according to the levels proposed by the budget revision for the budgetary aggregates. In the opinion issued earlier on the first budget revision for 2015, the Fiscal Council ascertained, given the experience of systematic recourse to derogations from FRL, the *de facto* existence of two classes of fiscal rules, one of "strong" rules (those relating to budget balance) – which usually operates successfully, respectively one of "weak" rules (those concerning mandatory ceilings for all other elements relevant from the perspective of the law – primary balance, personnel expenditures, total expenditures excluding the financial assistance from the EU and other donors, strengthened by the interdiction of increasing total expenditure and personnel expenditures during budget revisions) for which the lack of *ex ante* compliance represents the rule rather than the exception, the derogation interfering in almost all budget revisions occurred after the entry into force of FRL in April 2010 (however, the below under program execution of the expenditures made sometimes the fiscal rules to be respected *ex post*). The Fiscal Council considers that the developments after the issuance of the aforementioned opinion (opinion issued during the first budget revision for 2015) only serve to validate that statement and maintain its recommendations made at that time, inviting the Government to reflect on them.

2. The updated coordinates of the budgetary revenues and expenditures

The draft budget revision massively supplements, in an equal amount, revenues and expenditures (+3,757 million lei, or 0.5% of GDP). At the level of budget revenues, the sources of the operated revisions are as follows:

- Tax revenues: +2,892.5 million lei, of which:
 - Corporate income tax: +1,052.7 million lei. The proposed revision for the corporate income tax receipts appears to be justified by the over performance recorded at the end of the first quarter in relation with the initial half-year program - the achievement degree, according to the Half-Year Report on Economic and Budgetary Situation, was 107.5% (+534.5 million lei). The illustrated figure appears to be consistent with the performance at the end of the first quarter and the upward revision of the projected dynamic of the nominal GDP for 2016 (to 6.2%), given the high sensitivity of this revenue category to the relevant macroeconomic base.
 - Personal income tax: +896 million lei. Updating the programmed level for the whole year appears to be justified in relation with the over performance compared to the initial program at the end of the first semester - the achievement degree, according to the Half-Year Report on Economic and Budgetary Situation, was 103.3% (+428.7 million lei in nominal terms), given that the actual wage dynamics appears to be higher compared to the estimates that underpinned the initial budgetary construction. Moreover, this phenomenon is reflected in the projections of the National Commission for Economic Forecasting (NCEF), that estimates a gross wage growth of 8.9% in the spring projection, compared to the prior projection of 7.2%.

In addition, the impact of tax reduction on dividends (from 16% to 5%) on the budgetary revenues was strongly offset by the tripling (according to quarterly Report realized by the Ministry of Public Finance) of the dividends' distributions from the profit recorded in the previous years - however, it is assumed that the increase is a temporary phenomenon, which from the budgetary perspective is translated into a simple postponement of the unfavorable impact of tax rate's reduction on budgetary revenues in the

coming years. Furthermore, encouraging the system for taxing dividends (to the detriment of capitalization and reinvestment of profits) can lead to de-capitalization of the companies, with the possible consequence of reduction of the potential for investment and of the profitability in the long term, as far as shareholders' behavior tends to be dominated by short-term considerations. This effect could be even more damaging as the corporate sector is already undercapitalized, the share of total equity in the total financing of companies in Romania being small compared to other European countries¹.

Moreover, the compensation payments made in accordance with the Law no. 85/2016 have a positive temporary correspondent on the revenue side, which in case of the personal income tax amounts to about 110 million. In conclusion, the Fiscal Council considers that the estimated receipts for this chapter of revenue are prudent, an even higher level being possible as far as the current trend of growth of earnings that seems to suggest higher increases than those from the updated projection of NCEF, is maintained.

- Other taxes on income, profit and capital gains: +470 million lei. Increasing the planned level for the full year appears justified by the exceeding in six months' execution of the planned level of about 38% of the related program (+220 million lei).
- VAT: +406,3 million lei. The revision takes into account the exceeding of the program for receipts at the level of the first six months (+406 million lei, corresponding to an achievement degree of 101.6%). The lack of its extrapolation is justified by the fact that the exceeding of the program appears to be localized at the level of the first month of the year, whose revenues continue to reflect, on the one hand, the level of the standard rate of 24%, and on the other hand, possibly related VAT execution of public investment from 2015, concentrated largely in the last month of the previous year. The reservations raised by the Fiscal Council on the receipts planned for this revenue category in the context of the opinion on the initial budgetary construction are invalidated, in roughly equal proportions of the higher than expected revenues in January, of a private consumption dynamic higher to the estimates (otherwise reflected in the upward revisions of dynamics designed by the NCEF for purchases of goods and services of the population), and by the upper level of VAT

¹ See Florian Neagu, Dragu Florin Adrian Costeiu, *"After 20 years: structural changes in the Romanian economy in the first post-revolutionary decades"*, Working Papers NBR no. 42/2016.

receipts for the year 2015 compared to the forecasts available when drawing up the draft budget for 2016 (and which were the starting point for the projection).

- Excise duties: +180 million lei. The proposed upward revision appears as prudent, given that the execution at 6 months exceeded the program with 256 million lei, corresponding to an achievement degree of 102%.
- Tax on foreign trade and international transactions (customs duty): +178.9 million lei. The proposed upward revision appears as prudent, given that the execution at 6 months exceeded the program with 106.8 million lei, corresponding to an achievement degree of 129.5%.
- Social security contributions: -982 million lei. The execution at the end of the first semester was significantly below program, the revenues being less by about 1,090 million lei (corresponding to an achievement degree of 96.4%). This evolution is worrying considering the fact that it appears localized at the level of pensions contributions (which justifies a broader downward revision of the Social Insurance Budget's annual revenue with 1,597 million lei) and disengaged from the dynamics of other revenue categories with the same tax base such as health insurance contributions, unemployment contributions and the personal income tax, considering also that the developments in wages appear more favorable than the assumptions used when drafting the initial budget, these elements indicating the existence of a significant collection problem. Given that the minimum wage increase, the public sector wage increases from August and the compensation payments arising from the provisions of Law no. 85/2016 will generate flows of social contributions in the second half of the year, the Fiscal Council considers, however, that the updated target for social contributions receipts is achievable. The Fiscal Council recommends the investigation of the causes which led to a negative effect on revenue from pension contributions, these being lower than would have been justified by the discretionary

measures adopted² and the adoption of necessary corrective actions, especially given that the deficit in the pension system has already reached an unsustainable level.

- Non-tax revenues: +1,484.2 million lei. Compared to the half-year program, the execution at the end of June 2016 reveals an underperformance, considering the achievement degree of 91% (-831.6 million lei). In the second part of the year are foreseen exceptional receipts of about 847 million lei corresponding to the reclassification of certain amounts arising from the previous year's budgetary execution. In the view of the Fiscal Council, it is difficult to reconcile the underperformance occurred at the level of the half-year execution with the upward revision of the program for the entire year, even taking into account the above mentioned temporary revenues; consequently, the Fiscal Council considers that there is a risk that the effective non-tax revenues at the end of the year to be below the updated program.
- Amounts received from the EU in the account of payments made and pre-financing (related to the financial year 2007-2013): +407.1 million lei. The half-year execution reveals an achievement degree of 76.1%, the revenues being less by about 150 million lei. However, the amounts recorded in the execution relating to this chapter of revenue (477 million lei) appear as significantly higher than the initial program for the entire year 2016 (337 million lei), which makes the figure put forward in the draft budget revision to appear as feasible.

The sources of the upward revisions for the budgetary spending amounting to 3,756.8 million lei are the following:

- Personnel expenses: +1,367.9 million lei. The upward revision appears as a combined effect of the compensatory amounts arising from the Law no. 85/2016 (about 1 billion lei), the wage increases expected to occur in August 2016 (about 873 million lei) and the savings revealed by the budgetary execution at the end of the first semester, considering that the payments represented 48.5% of the initial amount allocated for the full year.
- Goods and services: +388.8 million lei. This increase appears to be quite surprising given the substantial underperformance for this spending category at the end of the first semester, as the

²Increasing from 2016 the contribution rate related to the private pension funds by 0.1 percentage points and removing the employers' requirement of payment of state social insurance contribution for personnel of the army, police and civil servants with special status.

achievement degree is only 40% of the initial level for this year and the pace of growth of spending on goods and services at the end of June in nominal terms was 1.5%, given that the initial budgetary allocation involves a nominal rate of spending growth of 5.6% compared with the execution of 2015.

- Social assistance: +1,375.9 million lei. The proposed revision is due in a proportion of one third to the legislative measures subsequent to the 2016 budget approval (Law no. 66/2016 on the increase and changing the system of setting the monthly child allowance and incentive insert, + 305 million lei, namely Law no. 342/2015 - approved on December 22, 2015 – referring to the excluding the state allowance from the family income for determine the social aid, + 140 million lei) but also to the trends revealed by the first semester's execution, given that spending at the end of June indicated achieving more than half of the initial allocation for the whole year, predicting additional expenditure of about 900 million lei). The MPF provides only a partial explanation of the higher spending revealed by the half-year execution, respectively the upward revision of the estimated impact on the increase of the state allowance for children decided last year (+294 million lei).
- Interest spending: +319.1 million lei.
- Investment spending: +355 million lei. An increased allocation is recorded for the investment projects financed by external funds (+279 million lei), other transfers of the nature of investment (+150 million lei) and for the projects financed by reimbursable funds (+46 million lei), the capital expenditures registering a downward revision of 120 million lei.

In conclusion, in the opinion of the Fiscal Council, the significant upward revisions made at the level of the budgetary revenues appear to be substantiated given the actual execution, as result of an effective economic growth not necessarily superior to the initial estimates, but with a composition more favorable to the budgetary revenues (a higher dynamic for consumption – which is a reference for indirect taxes). The Fiscal Council validates in principle the government's revenue estimates, but considers that there is a risk of proceeds inferior to the program for non-tax revenue and the social contributions, but at the aggregate level the effect is probably offset by the conservative estimates for the revenue from excise duties, custom duties and taxes on income and wages.

In the meantime, the Fiscal Council is extremely skeptical that the proposed level for the revenues from the post-accession funds for the financial year 2014-2020 is achievable, given that at the end of the first semester the corresponding revenues (680.1 million lei) accounted for only 5,1% of the amount envisaged for the entire year (12.8 billion lei).

In the context of the execution for the first six months which revealed a weak absorption of the European funds and investment expenditure under the program, although to a lesser extent than in the previous year, the decision to increase their amount appears as surprising, especially given that past experience indicates it is unlikely that even with an acceleration of the European funds inflows in the second half of the year to be sufficient to attain the programmed levels. Moreover, the underachievement of the revenues from EU funds will not lead to an increase in the budget deficit, under the hypothesis of automatic adjustments of the corresponding spending.

The Fiscal Council also considers that the revised budget has the potential to generate a greater gap between the ESA 2010 deficit (on accrual basis, and relevant in terms of the European treaties) and the deficit according to the national methodology (on cash basis).

The non-tax revenues for 2016 according to the national methodology includes extraordinary revenues amounting to 847 million lei for sums resulting from the reclassification of the amounts from the previous years, while the methodology ESA 2010 will require most likely reviewing the executions from the previous years rather than include the respective amounts in the current year's revenues. Moreover, it is expected that according to the ESA 2010 methodology, as happened in the past, the entire impact of the Law no. 85/2016 that generates compensatory payments for teachers staggered over five years to be fully recorded in the current year - an indicative estimate suggests an amount of about 3 billion lei compared to only 1 billion lei according to the cash execution.

Together, these two items sum up for 2.85 billion lei (0.37% of GDP), which would add to the already estimated gap of about 0.2% of GDP between ESA 2010 and cash deficits (whose source largely consist in that, for the year 2016, the measures included in the Fiscal Code affects only 11 months or three quarters in terms of the cash execution for some budgetary aggregates, while ESA 2010 execution will imply a full annual impact).

Under these circumstances it is possible that a deficit of 2.76% of GDP in cash standards cannot provide a sufficient margin against breaching the 3% level of GDP in ESA 2010 standards which, in conjunction with the current assessments of the European Commission that indicates a budget deficit above 3% in 2017, could lead to the entry in the excessive deficit procedure in the next year.

On the other hand, having more expenditure aggregates, especially investment spending, significantly below the program according to the first half year execution suggests a probable under-execution of them, which could lead to a budget deficit according to national methodology lower than the current target, and though capable of ensuring the avoidance of exceeding the threshold of 3% of GDP for the budget deficit according to ESA 2010, even taking into account the above mentioned items. In conclusion, the Fiscal Council considers that attaining the fiscal deficit target for the current year in the context of maintaining the actual parameters of fiscal policy is possible, and the balance of risks appears to be in equilibrium.

However, the Fiscal Council reiterates the assessment expressed when approving the budget for 2016, namely that budget deficits close to 3% of GDP in 2016 and over 3% of GDP estimated for 2017 (in a scenario of no policy change), under the circumstances of an economic growth higher than the potential, are contraindicated, as fiscal policy will be pro-cyclical, pressing the accelerator in the expansion phase of the economic cycle, while risking to be forced to implement structural adjustment measures in a future phase of recession.

The above opinions and recommendations of the Fiscal Council were approved by the Chairman of the Fiscal Council, according to article 56, paragraph (2), letter d) of Law no. 69/2010, republished, after being approved by the Council members through vote, on 9st of August, 2016.

9st of August 2016

Chairman of the Fiscal Council

IONUȚ DUMITRU

ANNEX 1: Fiscal policy measures – Expenditure		- thousand lei
	Budgetary impact - 2016	Expenditure item
Fiscal policy measures:	2,796,190.0	
The increase in the allowance granted to the severely visual disabled adult by increasing with 25% the net wage for the debutant social assistant with average studies from the social assistance units in the public sector, other than those with beds, and the increase in the no. of persons classified within various types of disabilities (Order 707/538/2014), Law no. 293/2015	150,000	Social assistance
The increase in the personnel wages for the public authorities remunerated similar to the parliamentary services, Law no. 293/2015	19,149	Personnel expenditure
The increase in the child benefits (reviewed impact), Law no. 125/2015	293,626	Social assistance
The increase in the no. of social aid beneficiaries by excluding the state allowance from household income when determining the social aid, Law no. 342/22 December 2015	140,020	Social assistance
The increase and the change in the manner of establishing the monthly child care allowance and the incentive insertion, Law no. 66/2016 (effective from July 1, 2016)	304,695	Social assistance
The teaching personnel which did not obtain court decisions for the payment of wage differences for the period October 2008 - May 13, 2011 benefit of these rights since 2016, Law no. 85/2016	1,015,700	Personnel expenditure
The increase in wages for the medical personnel and the teaching personnel, GEO no. 20/2016 (according to the GEO's explanatory note)	873,000	Personnel expenditure

Source: Ministry of Public Finance

ANNEX II – budget execution semester I 2016 vs. the half-year program	The half-year program 2016 with swap (mil. lei)	Budget execution semester I 2016 with swap (mil. lei)	Program swap semester I 2016	The half-year program 2016 without swap (mil. lei)	Budget execution semester I 2016 without swap (mil. lei)	Sem. 1 2016/ Sem. 1 2015 without swap	Differences from the half-year program 2016 without swap (mil. lei)	The achievement degree of the half-year program without swap (%)	Differences from the half-year program 2016 with swap (mil. lei)	The achievement degree of the half-year program with swap (%)
	1	2	3	4=1-3	5	6	7=5-4	8=5/4	9=2-1	10=2/1
TOTAL REVENUE	113,097.5	108,390.5	1,070	112,027.5	108,082.4	-2.1%	-3,945.1	96.5%	-4,707.1	95.8%
Current revenue	107,221.0	106,647.6	1,070	106,151.0	106,339.6	0.7%	188.6	100.2%	-573.4	99.5%
Tax revenue	67,395.3	68,743.8	1,070	66,325.3	68,435.7	-0.6%	2,110.5	103.2%	1,348.5	102.0%
Taxes on profit, wages, income and capital gains	20,650.3	21,833.1		20,650.3	21,775.2	5.7%	1,124.9	105.4%	1,182.8	105.7%
Corporate income tax	7,160.9	7,695.4		7,160.9	7,661.3	12.0%	500.4	107.0%	534.5	107.5%
Personal income tax	12,910.7	13,339.4		12,910.7	13,315.6	2.5%	404.9	103.1%	428.7	103.3%
Other taxes on income, profit and capital gains	578.7	798.3		578.7	798.3	9.6%	219.6	138.0%	219.6	138.0%
Property tax	3,806.0	3,776.8		3,806.0	3,776.8	6.3%	-29.2	99.2%	-29.2	99.2%
Taxes on goods and services	42,357.0	42,203.7	1,070	41,287.0	42,108.6	-4.9%	821.6	102.0%	-153.3	99.6%
VAT	26,007.6	26,414.1	1,070	24,937.6	26,319.0	-9.6%	1,381.4	105.5%	406.5	101.6%
Excises	12,671.9	12,928.4		12,671.9	12,928.4	7.7%	256.5	102.0%	256.5	102.0%
Other taxes on goods and services	1,994.6	1,039.1		1,994.6	1,039.1	-34.7%	-955.4	52.1%	-955.4	52.1%
Taxes on using goods, authorizing the use of goods or on carrying activities	1,682.9	1,822.1		1,682.9	1,822.1	15.5%	139.1	108.3%	139.1	108.3%
Tax on foreign trade and international transactions	362.5	469.3		362.5	469.3	32.8%	106.8	129.5%	106.8	129.5%
Other tax revenue	219.5	460.9		219.5	452.7	89.8%	233.3	206.3%	241.4	210.0%
Social security contributions	30,554.9	29,464.7		30,554.9	29,317.8	6.3%	-1,237.1	96.0%	-1,090.3	96.4%
Nontax revenue	9,270.7	8,439.2		9,270.7	8,439.2	-6.6%	-831.6	91.0%	-831.6	91.0%
Capital revenues	449.5	347.0		449.5	347.0	-22.6%	-102.5	77.2%	-102.5	77.2%
Grants	10.4	0.0		10.4	0.0	-100.0%	-10.4	0.0%	-10.4	0.0%
Amounts received from the EU in the account of payments made and prefinancing	627.1	477.1		627.1	477.1	-88.1%	-150.0	76.1%	-150.0	76.1%
Amounts collected in the single account	0.0	162.0		0.0	162.0	-265.4%	162.0		162.0	

ANNEX II – budget execution semester I 2016 vs. the half-year program	The half-year program 2016 with swap (mil. lei)	Budget execution semester I 2016 with swap (mil. lei)	Program swap semester I 2016	The half-year program 2016 without swap (mil. lei)	Budget execution semester I 2016 without swap (mil. lei)	Sem. 1 2016/ Sem. 1 2015 without swap	Differences from the half-year program 2016 without swap (mil. lei)	The achievement degree of the half-year program without swap (%)	Differences from the half-year program 2016 with swap (mil. lei)	The achievement degree of the half-year program with swap (%)
	1	2	3	4=1-3	5	6	7=5-4	8=5/4	9=2-1	10=2/1
Other amounts received from the EU for operational Programmes funded under the convergence objective	0.0	76.7		0.0	76.7	1752.3%	76.7		76.7	
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	4,789.6	680.1		4,789.6	680.1	67.6%	-4,109.5	14.2%	-4,109.5	14.2%
TOTAL EXPENDITURE	129,901.4	112,245.3	1,070.0	128,831.4	111,937.3	5.4%	-16,894.1	86.9%	-17,656.1	86.4%
Current expenditure	121,586.7	107,211.8	1,070	120,516.7	106,903.7	3.8%	-13,613.0	88.7%	-14,375.0	88.2%
Personnel	29,596.9	27,815.9		29,596.9	27,815.9	10.7%	-1,780.9	94.0%	-1,780.9	94.0%
Goods and services	21,076.8	17,390.6		21,076.8	17,390.6	1.5%	-3,686.1	82.5%	-3,686.1	82.5%
Interest	7,005.5	6,318.1		7,005.5	6,318.1	9.5%	-687.4	90.2%	-687.4	90.2%
Subsidies	3,827.3	2,671.0		3,827.3	2,671.0	-16.6%	-1,156.3	69.8%	-1,156.3	69.8%
Total Transfers	59,809.8	52,879.4	1,070	58,739.8	52,571.4	1.8%	-6,168.4	89.5%	-6,930.4	88.4%
Transfers for public entities	727.6	473.8	1,070	-342.4	165.8	-14.2%	508.2	-48.4%	-253.8	65.1%
Other transfers	6,165.3	4,724.4		6,165.3	4,724.4	-22.0%	-1,440.8	76.6%	-1,440.8	76.6%
Projects funded by external post-accession grants	6,500.2	4,806.0		6,500.2	4,806.0	-17.0%	-1,694.2	73.9%	-1,694.2	73.9%
Social assistance	40,276.1	40,155.6		40,276.1	40,155.6	8.0%	-120.5	99.7%	-120.5	99.7%
Projects funded by external post-accession grants 2014-2020	4,305.4	949.3		4,305.4	949.3	97.6%	-3,356.2	22.0%	-3,356.2	22.0%
Other expenditure	1,835.2	1,770.2		1,835.2	1,770.2	-8.7%	-64.9	96.5%	-64.9	96.5%
Reserve funds	0.0	0.0		0.0	0.0		0.0	0.0%	0.0	
Expenditure funded from reimbursable funds	270.4	136.7		270.4	136.7	-16.6%	-133.8	50.5%	-133.8	50.5%
Capital expenditure	8,314.7	5,033.5		8,314.7	5,033.5	31.4%	-3,281.1	60.5%	-3,281.1	60.5%
Payments made in previous years and recovered in the current year	0.0	0.0		0.0	0.0	-100.0%	0.0		0.0	
EXCEDENT(+)/ DEFICIT(-)	-16,803.9	-3,854.9		-16,803.9	-3,854.9	-191.9%	12,949.0	22.9%	12,949.0	22.9%

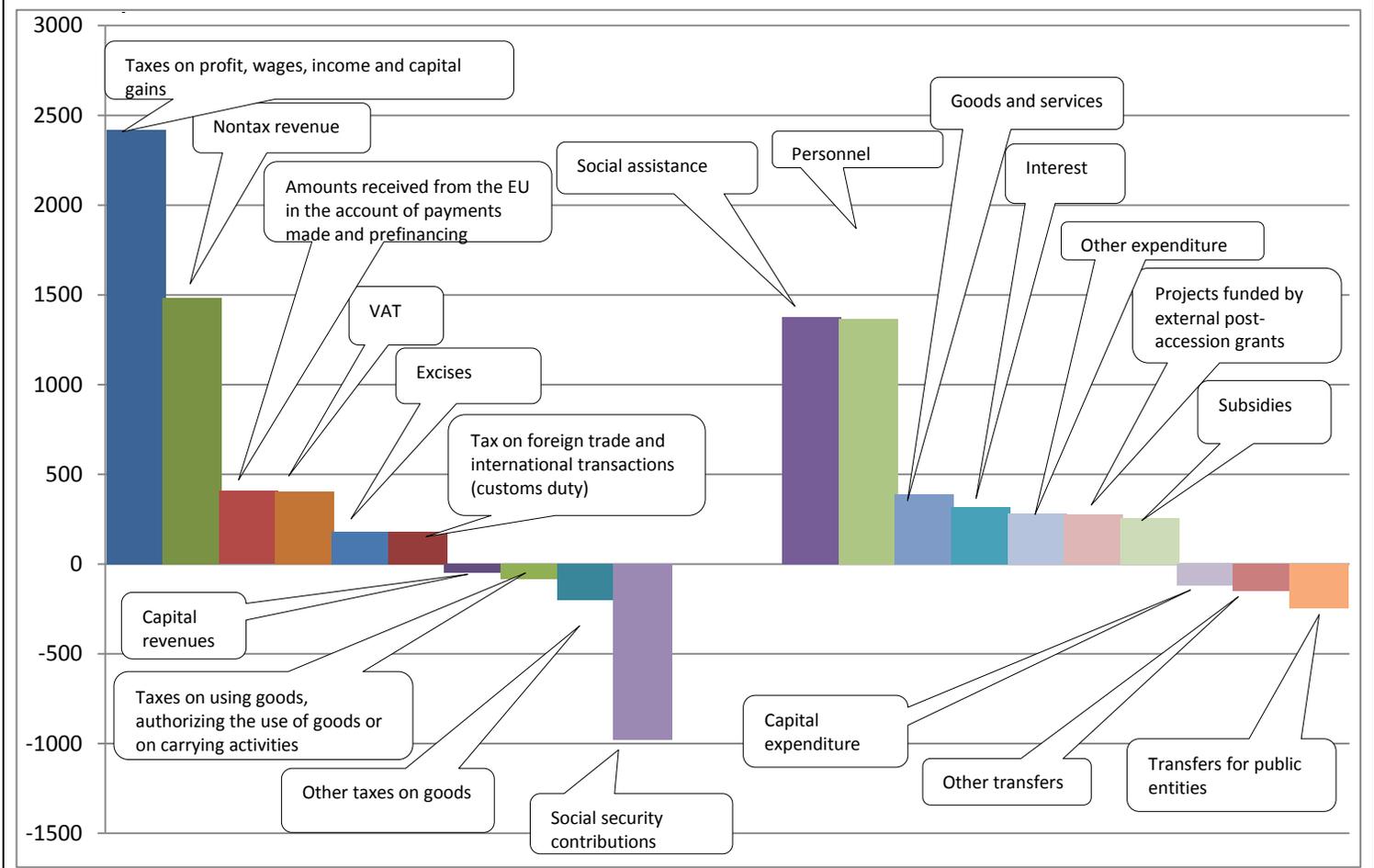
Source: Ministry of Public Finance, Fiscal Council's calculations

ANNEX III	Initial budget 2016	Swap program 2016	Initial budget 2016	First budget revision (R1) 2016	Additional swap	First budget revision 2016	R1 - Initial budget 2016	R1 - Initial budget 2015	Budget execution semester I 2016/ Budget execution semester I 2015	R1 2016/ Budget execution 2015
			without swap			without swap	with swap	without swap	with swap	without swap
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9	10
TOTAL REVENUE	231,125.5	1,070.0	230,055.5	234,882.4	1,070.0	233,812.4	3,757.0	3,757.0	-2.01%	100.58%
Current revenue	217,018.2	1,070.0	215,948.2	220,412.9	1,070.0	219,342.9	3,394.7	3,394.7	0.75%	102.35%
Tax revenue	136,123.0	1,070.0	135,053.0	139,015.5	1,070.0	137,945.5	2,892.5	2,892.5	-0.53%	100.14%
Taxes on profit, wages, income and capital gains	41,759.6		41,759.6	44,179.3		44,179.3	2,419.6	2,419.6	5.94%	105.25%
Corporate income tax	14,384.9		14,384.9	15,437.5		15,437.5	1,052.7	1,052.7	12.48%	111.90%
Personal income tax	26,206.9		26,206.9	27,103.8		27,103.8	896.9	896.9	2.30%	102.07%
Other taxes on income, profit and capital gains	1,167.8		1,167.8	1,637.9		1,637.9	470.0	470.0	9.63%	100.70%
Property tax	5,980.1		5,980.1	5,982.7		5,982.7	2.6	2.6	6.26%	104.26%
Taxes on goods and services	87,137.6	1,070.0	86,067.6	87,438.2	1,070.0	86,368.2	300.5	300.5	-4.85%	96.99%
VAT	52,342.3	1,070.0	51,272.3	52,748.6	1,070.0	51,678.6	406.3	406.3	-9.48%	90.70%
Excises	27,382.3		27,382.3	27,562.3		27,562.3	180.0	180.0	7.71%	105.94%
Other taxes on goods and services	3,958.6		3,958.6	3,757.1		3,757.1	-201.5	-201.5	-34.70%	139.06%
Taxes on using goods, authorizing the use of goods or on carrying activities	3,454.5		3,454.5	3,370.2		3,370.2	-84.3	-84.3	15.47%	100.42%
Tax on foreign trade and international transactions (customs duty)	836.7		836.7	1,015.6		1,015.6	178.9	178.9	32.76%	124.46%
Other tax revenue	409.0		409.0	399.9		399.9	-9.1	-9.1	93.17%	90.99%
Social security contributions	61,748.8		61,748.8	60,766.8		60,766.8	-982.0	-982.0	6.34%	105.98%
Nontax revenue	19,146.4		19,146.4	20,630.6		20,630.6	1,484.2	1,484.2	-6.56%	108.85%
Capital revenues	951.7		951.7	901.8		901.8	-50.0	-50.0	-22.62%	98.21%
Grants	20.6		20.6	22.5		22.5	1.9	1.9	-100.00%	359.24%
Amounts received from the EU in the account of payments made and prefinancing	13,135.0		13,135.0	13,545.3		13,545.3	410.3	410.3	26.27%	77.86%

ANNEX III	Initial budget 2016	Swap program 2016	Initial budget 2016 without swap	First budget revision (R1) 2016	Additional swap	First budget revision 2016 without swap	R1 - Initial budget 2016 with swap	R1 - Initial budget 2015 without swap	Budget execution semester I 2016/ Budget execution semester I 2015 with swap	R1 2016/ Budget execution 2015 without swap
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9	10
TOTAL EXPENDITURE	252,031.0	1,070.0	250,961.0	255,787.8	1,070.0	254,717.8	3,756.8	3,756.8	5.48%	104.90%
Current expenditure	232,848.4	1,070.0	231,778.4	236,725.5	1,070.0	235,655.5	3,877.1	3,877.1	3.81%	104.21%
Personnel	57,335.0		57,335.0	58,703.0		58,703.0	1,367.9	1,367.9	10.72%	112.83%
Goods and services	43,111.4		43,111.4	43,500.2		43,500.2	388.8	388.8	1.54%	106.60%
Interest	11,069.0		11,069.0	11,388.1		11,388.1	319.1	319.1	9.53%	118.98%
Subsidies	6,464.3		6,464.3	6,721.3		6,721.3	257.0	257.0	-16.59%	107.12%
Total Transfers	114,235.8	1,070.0	113,165.8	115,631.8	1,070.0	114,561.8	1,396.0	1,396.0	1.90%	97.92%
Transfers for public entities	1,966.8	1,070.0	896.8	1,720.8	1,070.0	650.8	-246.0	-246.0	5.10%	53.05%
Other transfers	12,311.1		12,311.1	12,163.2		12,163.2	-147.9	-147.9	-22.01%	107.90%
Projects funded by external post-accession grants	4,600.7		4,600.7	6,864.9		6,864.9	2,264.2	2,264.2	-16.98%	28.52%
Social assistance	79,373.4		79,373.4	80,749.4		80,749.4	1,375.9	1,375.9	8.01%	106.33%
Projects funded by external post-accession grants 2014-2020	12,449.2		12,449.2	10,464.0		10,464.0	-1,985.2	-1,985.2	97.57%	2110.76%
Other expenditure	3,534.5		3,534.5	3,669.5		3,669.5	135.0	135.0	-8.72%	92.01%
Reserve funds	100.0		100.0	202.5		202.5	102.5	102.5		
Expenditure funded from reimbursable funds	532.8		532.8	578.5		578.5	45.8	45.8	-16.61%	126.91%
Capital expenditure	19,182.6		19,182.6	19,062.4		19,062.4	-120.3	-120.3	31.40%	107.57%
Payments made in previous years and recovered in the current year	-20,905.5		-20,905.5	-20,905.5		-20,905.5	0.0	0.0	-191.86%	201.88%
EXCEDENT(+) / DEFICIT(-)	231,125.5	1,070.0	230,055.5	234,882.4	1,070.0	233,812.4	3,757.0	3,757.0	-2.01%	100.58%

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

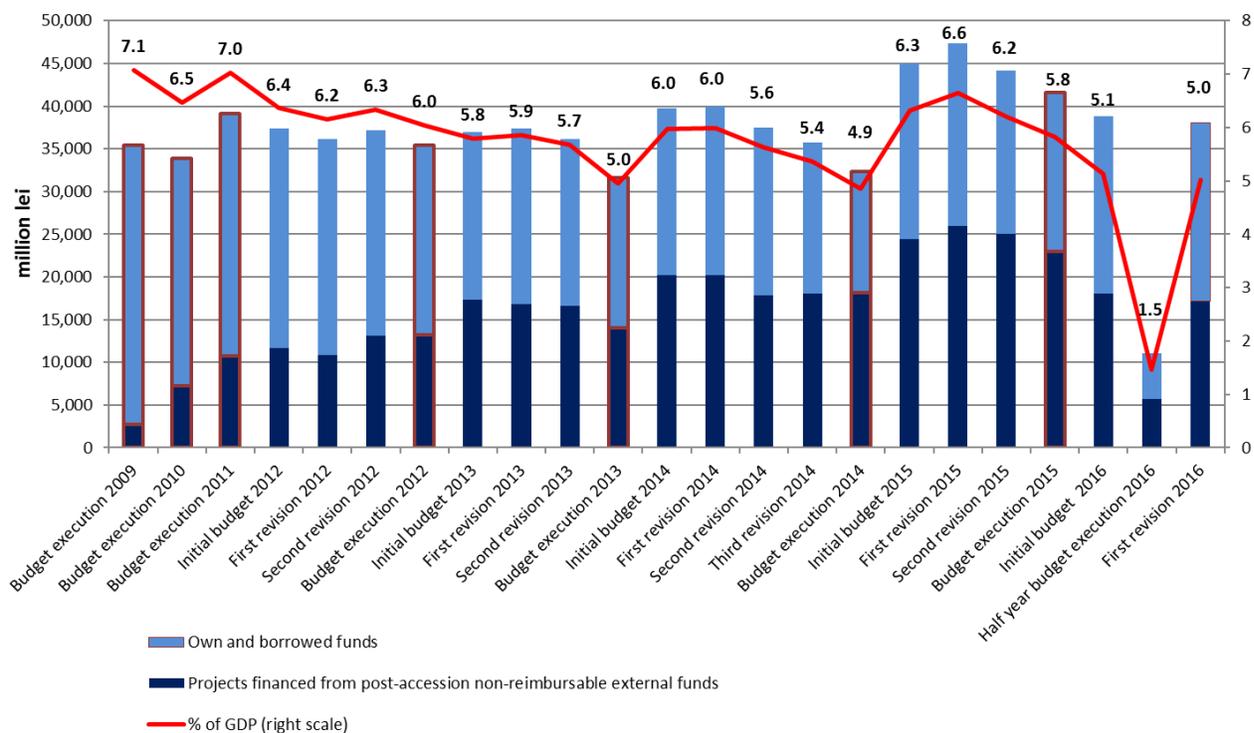
**Figure 1: The main changes in expenditures and revenues after the budget revision
(without the impact of swap schemes), million lei**



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

Figure 2: Evolution of the investment expenditure in the period 2009-2016

- planned vs. execution, million lei



Source: Ministry of Public Finance