Fiscal Council's opinion on the Half-Year Report regarding the economic and budgetary situation and Fiscal Council's Opinion on the Draft Budget Revision for 2012

On August 9th 2012, the Ministry of Finance sent to the Fiscal Council by letter no. 18874/09.08.2012 the *Half-Year Report on economic and budgetary situation* and *the draft of revised consolidated budget for 2012*, requesting the Fiscal Council's opinion under article 40, paragraph (2) of Law no. 69/2010.

I. Fiscal Council's opinion on the Half-Year Report on economic and budgetary situation

Under article 40, paragraph (2) of the Fiscal Responsibility Law, the Fiscal Council has the legal requirement to *"assess the budgetary performance of the Government against the fiscal targets and policies specified in the fiscal strategy and the compliance of such policies with the principles and rules specified in this law, through analyzing and issuing opinions and recommendations on the half-yearly report regarding the economic and budget situation".*

Under Article 29 of the Fiscal Responsibility Law, by the end of July of each year, the Ministry of Finance should publish on its website a half-year report on the economic and budgetary situation.

In addition, under Article 30 of Law no. 69/2010, the Half-year Report on the economic and budgetary situation must include, without being limited to, the following:

(a) A review of the macroeconomic framework and the latest data on macroeconomic indicators identifying significant trends and changes since the annual budget law was finalized.
(b) An assessment of the impact on the fiscal targets of any changes in the macroeconomic framework and presentation of necessary measures to be taken to correct such impacts.
(c) Data on the consolidated general budget revenues, detailed for each category of revenue, indicating the initial forecast, revenues collected in the first six months and an updated forecast for the entire year.

(d) Data on the consolidated general budget expenditures, detailed by economic and functional classification for each constituent budget of the consolidated general budget, indicating the approved expenditure, the expenditures incurred in the first six months and an updated forecast for the entire year.
(e) Data on the state budget expenditure, detailed in economic classification for each central government institution, indicating the approved expenditure, the expenditures incurred in the first six months and an updated forecast for the entire year.
(f) Data on the budgetary balance for both the consolidated general budget (total and primary) and for each budget of the consolidated general budget, indicating the approved program, the result achieved in the first six months and an updated forecast for the entire year.
(g) Data on the absorption of European funds, indicating the approved program, the results achieved in the first six months and an updated forecast for the entire year.
(h) Data on outstanding expenditure payments for the end of Q1 and forecast for half-year, including arrears and floating debt, for each constituent budget in the consolidated general budget.
(i) Data on government debt and financing of the budget deficit.
(j) Explanation for any failure to collect the forecasted revenues, indicating the measures taken and those planned to improve the collection.

Thus, given its mandate in accordance with Law no. 69/2010, **the Fiscal Council issues the following opinions and recommendations:**

The Half-Year Report on the economic and budgetary situation conducts an analysis of the latest data on macroeconomic indicators, but does not identify the trends and significant changes compared to the projections included in the state budget and social security budget laws as required by the law no. 69/2010. In addition, the impact of macroeconomic forecasts' revision for the current year and the medium term over the budgetary targets is not quantified and no details regarding the measures to be adopted are mentioned, as required by law no. 69/2010, under Article 30 letter b). In the Fiscal Council's opinion, an assessment of the macroeconomic framework revision's impact over the budget would have been necessary considering that the economic growth forecast for 2012 was revised from 1.8-2.3% to 1.2%, a figure that can be considered rather optimistic[1]. Romania's economic recovery remains vulnerable to deteriorations in the European economic performance and worsening risk perceptions on international markets, which, combined with continued local political tensions may lead to reduced trade and capital flows, with adverse effects on the economic activity in Romania and thus, over the consolidated budget balance.

[1] The latest poll conducted by Reuters (published on 2 august 2012) among analysts revealed a median of 0.8% for growth for 2012

Regarding ***arrears***, after 2011 when the related targets were achieved, with a downward trend characterizing outstanding payments, the targets for March and June 2012[2] were again missed, both for the local authorities and the state and social security budgets. Arrears monitored by the IMF (overdue more than 90 days) increased by approximately RON 205 million from March to June 2012, driven almost entirely by the local budgets, going back to December 2008 levels after a modest improvement in 2011. Moreover, if we consider all arrears, not just those over 90 days, their current level is even higher in end-2008. Most of the arrears are located on the local budgets, following a significant increase in May-June 2012 (local elections period). Local budgets arrears' problem appears as a recurring structural problem and it mainly reflects a lack of financial discipline and the lax enforcement of the local public finance law (Law 273/2006, with its subsequent amendments).

In this context, the Fiscal Council welcomes the recent decision of the Ministry of Finance to increase in the budget rectification the transfers from value added tax to local budgets in order to help balance their 2012 budget, in the amount of RON 512,986 million, of which RON 500 million are allocated for clearing arrears of the local authorities***. In addition, the Fiscal Council recommends an analysis to identify the causes for arrears' accumulation at the level of local authorities and the implementation of a set of measures, including amending the Law on Local Public Finance and the strict application of its provisions, to strengthen financial discipline and to prevent the accumulation of arrears in the future*.**

In addition, although arrears over 90 days for social security budget (excluding hospitals) seem to be eliminated[3], overdue payments between 0-90 days seem to remain high.

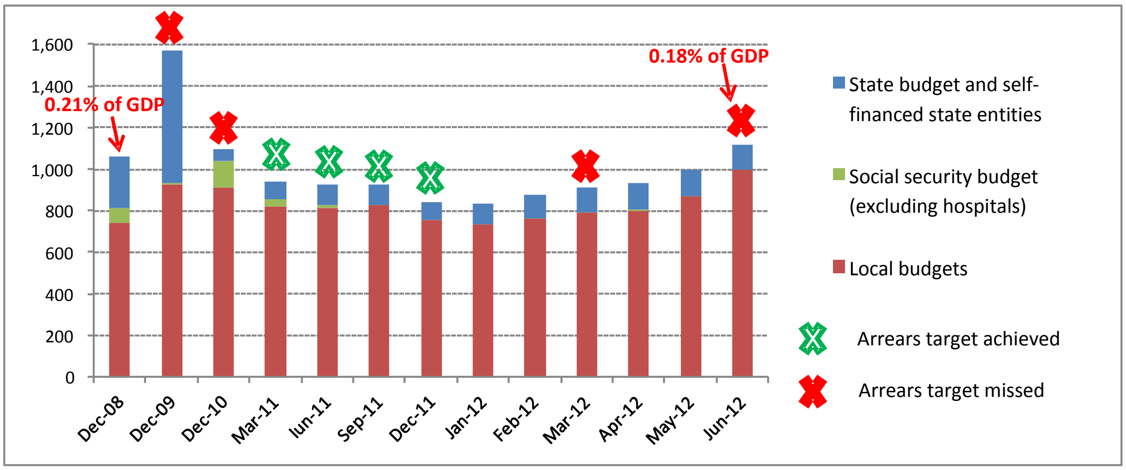
Regarding the arrears of state owned companies, the Fiscal Council considers that some efforts have been made towards their reduction, as the stock of arrears decreased, mainly through swap schemes which led to the clearing of state companies' overdue payments. However, ***the Fiscal Council believes that much more progress is needed towards improving the financial management of state companies and recommends urgent implementation of the Government Emergency Ordinance No 109 of 30 November 2011 on the corporate governance of public companies.***

[2] Overdue payments 0-360 days without hospital arrears increased by RON 633 million in June 2012 compared to March 2012 and by RON 979 million compared to December 2011, mainly due to the growth registered at the local authorities' level (by RON 533.2 million compared to December 2011).

[3] Mainly due to the use of revenues from clawback tax collected in early 2012, in the amount of RON 716 million for payment of invoices issued and outstanding for more than 90 days.

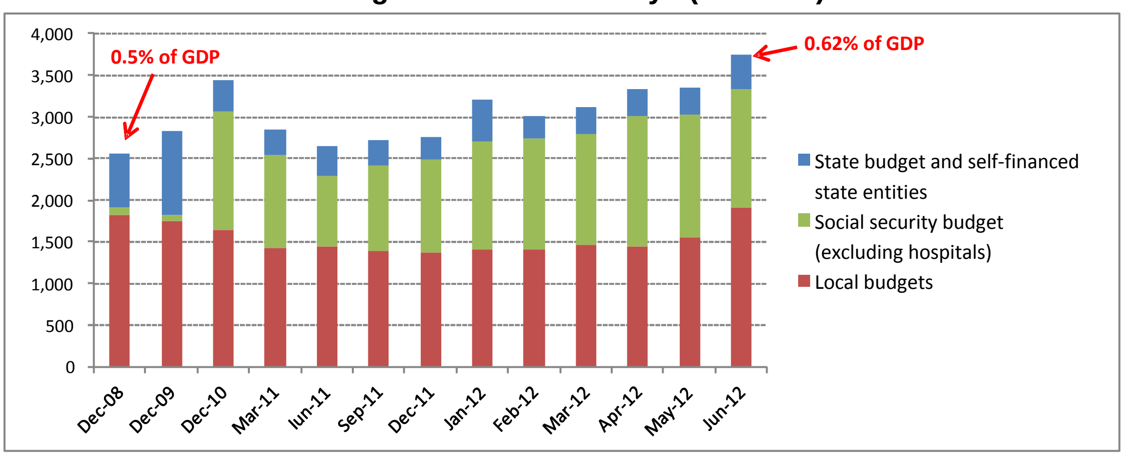
In the Fiscal Council's opinion, decisive action to prevent the accumulation of arrears by public authorities are even more necessary as from March 2013 in EU Member States will be implemented the EU Directive no. 7/2011 on combating late payment in commercial contracts[4]. In addition, the Government should identify financial resources necessary for payment of existing arrears that exceed the deadlines established by this Directive.

Figure 1 – The evolution of budget arrears 90-360 days (mn RON)



Source: *The Ministry of Finance*

Figure 2 – The evolution of budget arrears 0-360 days (mn RON)



Source: *The Ministry of Finance*

The ***budget execution*** shows higher than expected tax revenues and social security contributions, a slight underperformance of non-tax revenues and significantly lower outcomes

[4] It is stated that "contracts between companies should include limited payment terms of less than 60 days, as a general rule." In addition, "it should provide specific rules regarding commercial transactions for the supply of goods or services from enterprises to public authorities, rules to determine in particular payment terms that would not normally exceed 30 calendar days, unless the contract expressly provides otherwise, which must be objectively justified by the nature or features of the contract, but not exceeding, in any case, 60 days".

in the case of capital revenues and donations, but especially in the case of amounts received from the EU, reflecting ***an important failure in the absorption of EU funds***. Regarding tax revenues, on the one hand there is ***a very good collection of personal income tax*** - this result cannot be explained only by the above expectations evolution of the average wage and the number of employees, but also through materialized efforts to fight tax evasion and increase voluntary compliance. Also, it can be observed a somewhat better than expected revenue collection from VAT and social contributions. On the other hand, ***the negative trend in the excises*** shows that, although there have been increases in the quotas and the exchange rate was favorable, revenues performed much worse than expected, likely reflecting the overly optimistic assessment them in the budget draft[5], and an increase in tax evasion.

On the ***expenditure*** side, compared to the targets for the first semester, total expenditure amounted 94.8% of the planned expenditure, with a higher rate recorded in personnel expenses, subsidies and interest payments. ***A significantly lower than expected ratio can be observed in capital expenditures and other investments expenses, reflecting an inability to absorb EU funds for planned investments, but also a tool to reach the budget deficit target agreed with the IMF for the first semester.***

In the Fiscal Council's opinion, the half-year report on the economic and budgetary situation does not provide enough information to explain the lower level of revenues compared to initial projections for the first six months of 2012 and does not detail the measures already taken and those planned for improving tax collection in the second semester.

In the Fiscal Council's opinion***, the 6 months budget deficit target agreed with the IMF (7 billion lei, cash methodology) was reached (6.8 billion lei actual budget deficit to 6 months) with the significant contribution of better than expected tax revenues (especially income and payroll taxes) and also non-tax revenues (including dividends received from some state owned companies in June, as non-tax revenues in June were over 60% higher than the monthly average of the first five months), but also following a strict control of costs (especially current ones, but also capital and other investments expenditure) and partly due to the accumulation of arrears, especially in local budgets[6].*** In the Fiscal Council's opinion, ***reaching the budget deficit target*** of 2.2% of GDP on cash methodology and below 3% of GDP according to ESA95 methodology in December 2012 ***requires a very tight expenditure control in the second half of 2012, especially at the level of local authorities (also taking into account the budgetary risks***

[5] In the opinion on the budget draft, the Fiscal Council warned that excises revenue projection for 2012 is too optimistic, as the estimation for excise revenues adjusted for announced discretionary measures (increased excise duties on diesel and cigarettes) indicated a faster increase of revenues than the dynamic of the corresponding macroeconomic base (proxy: final consumption expenditure of households, excluding self-consumption).

[6] Arrears of local authorities (0-360 days) increased in June compared to April 2012 with RON 461.7 million, with an advance of RON 363.9 million recorded in June.

related to general elections scheduled for end-2012) and efforts to improve tax collection, especially in the case of excises. Meanwhile, in the opinion of the Fiscal Council, given the prolonged suspension of EU funds disbursements for several important operational programs and the level of expenditures related to projects funded by external grants in the first 6 months (RON 6374 mn), which is much higher than the actual revenues received from the European Union during the same period (RON 3072 mn)[7], it is required a substantial slowdown in this expenditure item's growth in the second half of the year to avoid jeopardizing the budget deficit target; an acceleration is possible only to the extent that actual reimbursements from the EU are resumed quickly.

The half-year report on the economic and budgetary situation presents data on the EU funds' absorption, respectively the approved program and the results achieved in the first 6 months, but it does not include an updated forecast for the entire year. From the available data, the ***very weak absorption of structural and cohesion funds is clear, Romania being on the last place from this respect in the EU.*** In addition, reimbursements from the EU for some important operational programs are interrupted as a result of irregularities discovered during audit. In this context, ***the Fiscal Council considers a high priority the prudent continuation of payments from budgetary resources to beneficiaries for the most important projects while taking all the necessary measures to resume payments from the European Union as soon as possible.***

The evolution of financial flows between Romania and the European Union as of 30.06.2012

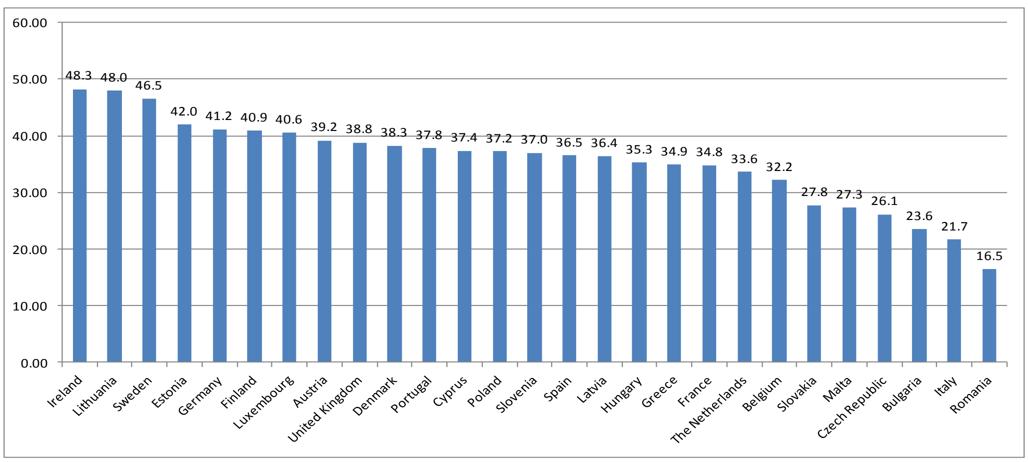
No.	Name	Initial program 2012 mil euro	Actual 30.06.2012 mn. Euros	Actual 30.06.2012 %
0	A	1	2	3
1	**I. AMOUNTS RECEIVED FROM THE EU BUDGET** (A+B)	**5.961,13**	**2.323,86**	**38,98**
2	***A. Pre-accession funds***	**62,10**	**25,42**	**40,93**
3	***B. Post-accession funds**, of which:*	**5.899,03**	**2.298,44**	**38,96**
4	***i)*** Advances	70,66	4,99	7,06
5	***ii)* R**eimbursements (including FEGA)	5.828,37	2.293,45	39,35
6	**B1. Structural and cohesion funds,** of which:	**3.783,94**	**713,37**	**18,85**
7	a) Advances	0,00	0,00	0,00
8	b) Reimbursements	3.783,94	713,37	18,85

[7] In the 2012 budget, revenues from EU funds were projected to a level of RON 12532 million, while expenditures were set to RON 11641 million; in the revised budget, revenue estimates were adjusted to RON 10673 million, while total related expenditures were set to RON 10868,8 million.

9	**B2. Funds for rural development and fishing,** of which:	**1.469,94**	**664,85**	**45,23**
10	a) Advances/Pre-financing	0,00	0,00	0,00
11	b) Reimbursements	1.469,94	664,85	45,23
12	**B3. The European Agricultural Guarantee Fund (EAGF)**	**559,09**	**910,71**	**162,89**
13	**B4.Other (post-accession), of which:**	**86,06**	**9,51**	**11,05**
14	a) Advances	70,66	4,99	7,06
15	b) Reimbursements	15,40	4,52	29,35
16	**II. AMOUNTS PAID TO EU** (C+D)	**1.428,68**	**824,85**	**57,74**
17	**C. Romania's contribution to the EU budget**	**1.404,30**	**806,57**	**57,44**
18	**D. Other contributions**	**24,38**	**18,28**	**74,98**
19	**III. The balance flows = I - II**	**4.532,45**	**1.499,01**	**33,07**

Source: *The Ministry of Finance*

Figure 3 - Current status of the structural and cohesion funds absorption in EU countries



Source: The European Commission, DG Regio. Data includes the advances received.

Regarding ***the financing of the budget deficit and refinancing of the public debt***, the half-year report on the economic and budgetary situation shows how the budget deficit and the public debt were refinanced in the first semester. The Fiscal Council considers the strategy adopted by the Ministry of Finance in the first semester of 2012 to be adequate, as it managed ***to build a comfortable liquidity buffer and to slightly improve the public debt maturity profile***. In retrospect, this strategy seems more favorable if we consider the deterioration registered by local and international financial markets in the recent weeks.

II. Fiscal Council's Opinion on the Draft Budget Revision for 2012

The Ministry of Finance sent by letter no. 18874/09.08.2012 *the draft revised budget for 2012* to the Fiscal Council, requesting it's opinion under article 40, paragraph (2) of Law no. 69/2010. Under this article of law, the Fiscal Council has the task to „analyze and issue opinions and recommendations on the annual budget laws preceding Government's approval and the submission to Parliament, on the supplementary budgets and other legislative initiatives that may have an impact on the budgetary targets, as well as assessing their compliance with the principles and rules specified in this Law".

The draft budget amendment increases the general consolidated budget revenue by RON 0,62 billion and the total expenditure by RON 3,069 billion compared to the initial budget, while modifying the budget deficit from 1.9 percent to 2.25 percent of GDP; the new targets are in line with Law no. 291/2011 regarding the approval of ceilings for indicators specified in the fiscal and budgetary strategy.

The projected increase in revenues is due to a better performance of personal income tax recorded in the first semester, with an upward revision of this revenue item by RON 1.96 billion and of the revenues from other general taxes on goods and services following the implementation of the clawback tax (RON 907 million) but it is also due to extra income from VAT (RON 2.37 billion), mostly generated by the implementation of a swap scheme with the purpose of clearing budgetary arrears. According to this scheme, 2.26 billion will be transferred from the state budget to local budgets and to certain state owned companies so that eventually these transfers will lead to the extinction of outstanding obligations to the budget, while the effect on the budget deficit is neutral. ***Excluding the impact of the compensation schemes, revenues are projected to decrease*** by 1.64 billion lei as a result of the unfavorable impact a downward revision of non-tax revenues (-1.39 billion lei), excise revenues (-0.8 billion), income from capital (-0.58 billion lei) and a significant reduction of the amounts from EU funds (-1.86 billion lei).

The increase of total expenditure by RON 3.07 billion reflects, on the one hand, the impact of the swap scheme mentioned above (2.26 billion lei, with impact on the expenditure items "other transfers" - 712 million, "transfers between government units" - 850 million, "capital expenditure" - 450 million, "goods and services" - 250 million), and on the other hand, an increase of total expenditure with 807 million lei. This latter increase is mainly located in ***the personnel expenses*** (1.15 billion) to enable a new stage of recovery in the public sector wage cuts implemented in 2010, ***spending on goods and services*** (1.037 billion lei, financed from clawback tax revenues) motivated by the payment of arrears in the health sector, ***interest expenses*** due to higher financing costs and depreciation of the leu (RON 1 billion) and ***additional allocation to the reserve fund*** (332 million). ***Spending cuts are expected primarily in the category "Projects funded by post-accession external grants"*** (-772 million), while capital spending and "other transfers", net of the impact of compensation schemes, are reduced by 196 and 1156 million respectively.

Given its mandate in accordance with Law 69/2010, the **Fiscal Council takes note and issues the following opinions and recommendations regarding the draft budget revision**:

I.1 Compliance with the rules from the Fiscal Responsibility Law (FRL)

1. The draft budget revision meets the requirements of article 15, paragraph (2) of the fiscal responsibility law no. 69/2010, according to which only two budgetary revisions can be performed during one year and the revisions cannot be promoted within the first semester.

2. The draft amendment **does not comply with the rule stipulated in article 9, paragraph (2) of Law no. 69/2010** according to which all personal expenses of the general government cannot be increased at the budget revisions.

3. The draft amended budget **does not comply with the rule stipulated in article 16 of Law no. 69/2010** according to which general government expenditures, excluding financial assistance from the European Union and other donors, may be supplemented during the year only for interest spending and Romania's contribution to the EU budget.

I.2 Budgetary revenues and expenditures

The downward revision of ***revenues***, excluding the impact of swap compensation schemes, is motivated by the reduced economic growth forecast for 2012 from 1.8 - 2.3% to 1.2% and the ***overly optimistic initial estimates regarding certain categories of revenues***. Thus, the Fiscal Council noted in its opinion on the draft budget for 2012 that ***revenues from excise*** are exposed to risks, as the initial forecast indicated a faster advance compared to the dynamic of the relevant macroeconomic base. The Council also noted the lack of transparency regarding the prognosis for non-tax and capital revenues, as downward revision of these categories is not sufficiently explained, given that their development can generate significant risks to the achievement of budgetary and fiscal targets. In this context, ***the Fiscal Council reiterates its recommendations on transparency improvement regarding the disclosure of forecast methods used for estimating revenues trajectories by detailing - for each component of revenue - the relevant macroeconomic base and the impact of legislative measures affecting them. A***

positive element is the better than expected development of revenues from personal income tax in the first six months of 2011 which could indicate an increase in collection efficiency, generating an upward revision of the end-year forecast for this item of revenues.

The absorption of EU funds remains very weak and the targets for end-year were revised downward. However, in the Fiscal Council's opinion, in the context of certain operational programs disbursements interruption, ***there are major risks in terms of achieving the new revised targets, with possible consequences on the budget deficit,*** as spending for projects financed by the EU continued from own resources, awaiting a refund from the European Union. The Fiscal Council recommends caution in the use of domestic resources for projects mainly financed from European funds, given the uncertainty of the moment when repayment from the European Union will occur.

The increase in expenditure, excluding the impact of compensation schemes, is determined both by discretionary measures and by external factors. Thus, the recent decision to increase wages implies higher ***personnel costs*** with RON 1.15 billion, violating the fiscal responsibility law. In order to promote a predictable fiscal framework based on clear rules and targets, ***the Fiscal Council recommends that any changes in the wage policy should be included in the initial budget.*** The budget draft was based from the beginning on an unclear deficit target, maintaining the possibility of increase during the year, which is in contradiction with the principles of transparency and stability stated in the fiscal responsibility law. Moreover, the Fiscal Council noted in its opinion on the draft budget for 2012 that wage increases in the public sector would involve violation of Law no. 69/2010 if this measure is not included in the initial budget.

Increased ***spending on goods and services*** is partly explained by the need to reduce arrears in the health sector, as the source of this additional allocation is represented by the clawback tax revenue, which was not included in the initial budget.

Investment expenditure including capital expenditure from domestic sources, projects funded from post-accession external grants, expenditure from reimbursable financing programs and other transfers for investments ***are revised downward by RON 2.07 billion, excluding the impact of compensation schemes (the reduction is RON 1289 million if we consider the raw data, which includes the impact of swaps).*** Also, compared to the 2012 approved budget, ***the reserve fund is increased by RON 332 million,*** without specifying the destination of this additional allocation. Considering the best international practices in the field, the ***Fiscal Council recommends explicit identification of expenditures that may be incurred from the reserve fund and more transparency, including regular reporting to the Parliament of the fund utilization.***

The Council also recommends capping to a percentage of total expenditures the amounts that can be distributed from the reserve fund.

In conclusion, the draft revised budget for 2012 is based on a higher budget deficit target due to the combined effect of two factors: low collection for certain categories of revenue, such as those from excises, non-tax revenues, EU funds and increased total expenditures due to higher wages in the public sector, higher interest paid on public debt, increased spending on goods and services to pay for the recurrent arrears in the health sector. To partially offset the increase in total expenditures, total investment expenditure financed from both domestic and foreign sources (mainly EU funds) was revised downward. However, the Fiscal Council considers that more transparency in programming the investments' budget based on a proper analysis of the existing projects' portfolio and rationalizing it by prioritizing the projects, altogether with multi-annual allocation can lead to higher efficiency, despite somewhat lower allocations of funds, given the high efficiency reserves.

The Council also considers that the absorption of EU funds must become an effective priority of the Government, but given the very low results to date, decisive measures are necessary and urgent in order to improve the absorption capacity. The Fiscal Council considers that this goal is all the more necessary, especially in the current tensed European context which generates constraints in financing the investment needs of the economy. European funds' absorption becomes essential to offset the negative effects caused by the European sovereign debt crisis on capital flows. In this respect, the Fiscal Council reiterates its recommendation for setting quarterly targets for an effective absorption of EU funds, detailed on line credit officers, targets which should be monitored closely while allowing rapid correction of any deficiencies.

The above opinions and recommendations of the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Art. 43, paragraph (2), letter d) of FRL, based on the vote of the Fiscal Council members in the meeting on August 21, 2012.

August 21, 2012 **Chairman of the Fiscal Council**

IONUT DUMITRU

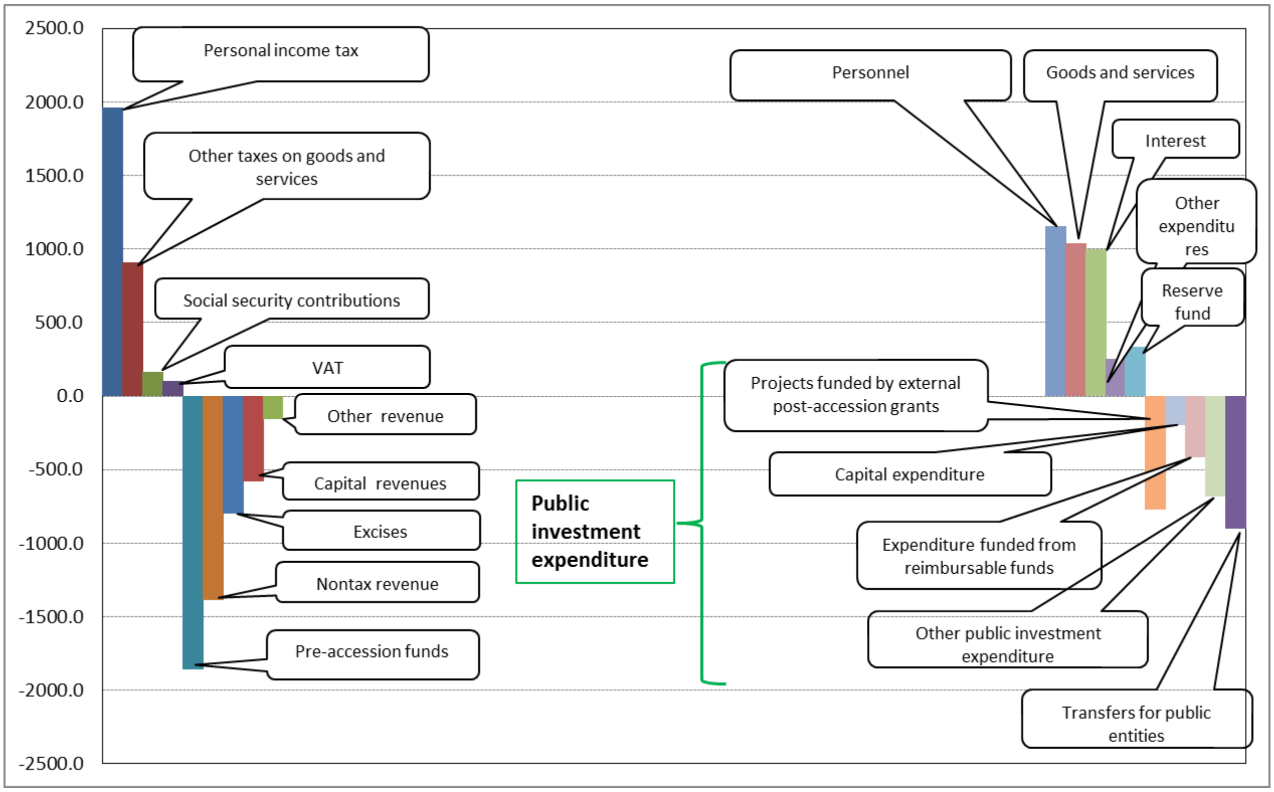
	Budget execution semester I 2011	Budget execution 2011 without swaps	Initial budget semester I 2012	Budget execution semester I 2012	Revised budget 2012 without swaps	Budget execution semester I 2012/Initial budget semester I 2012	Budget execution semester I 2012/CGB semester I 2011	Revised budget 2012/Budget execution 2011 (without swaps)
	1	2	3	4	5	6=4/3*100	7=4/1*100	8=5/2*100
TOTAL REVENUE	85,389	179,053	96,908	92,991	193,709	**96.0**	**108.9**	**108.2**
Current revenue	81,887	171,027	88,992	89,725	181,047	**100.8**	**109.6**	**105.9**
Tax revenue	49,270	102,899	54,313	54,950	112,306	**101.2**	**111.5**	**109.1**
Taxes on profit, wages, income and capital gains	14,581	30,099	15,591	16,570	33,520	**106.3**	**113.6**	**111.4**
Profit	5,314	10,302	5,777	5,724	10,986	**99.1**	**107.7**	**106.6**
Personal income tax	8,993	19,076	9,461	10,385	21,631	**109.8**	**115.5**	**113.4**
Other taxes on income, profit and capital gains	274	721	352	460	904	**130.8**	**168.3**	**125.3**
Property tax	2,397	3,976	2,525	2,499	4,159	**99.0**	**104.3**	**104.6**
Taxes on goods and servicies	31,797	67,778	35,694	35,359	73,487	**99.1**	**111.2**	**108.4**
VAT	21,605	46,208	23,477	23,666	49,758	**100.8**	**109.5**	**107.7**
Excises	8,972	19,033	10,100	9,563	20,382	**94.7**	**106.6**	**107.1**
Other taxes on goods and services	28	303	776	882	1,032	**113.6**	**3,195.2**	**341.2**
Taxes on using goods, authorizing the use of goods or on carrying activities	1,192	2,234	1,341	1,248	2,315	**93.1**	**104.7**	**103.6**
Tax on foreign trade and international transactions	296	674	305	330	750	**108.1**	**111.5**	**111.3**
Other tax revenue	199	372	198	192	390	**97.0**	**96.6**	**104.9**
Social security contributions	24,218	49,911	25,187	25,517	51,111	**101.3**	**105.4**	**102.4**
Nontax revenue	8,399	18,217	9,492	9,259	17,631	**97.5**	**110.2**	**96.8**
Capital revenues	358	766	756	293	908	**38.7**	**81.6**	**118.5**
Grants	340	766	751	89	1,081	**11.8**	**26.0**	**141.2**
Pre-accession funds	2,335	6,109	6,409	3,072	10,673	**47.9**	**131.6**	**174.7**
TOTAL EXPENDITURE	96,585	202,903	105,262	99,780	207,369	**94.8**	**103.3**	**102.2**
Current expenditure	88,948	180,573	95,680	92,249	188,333	**96.4**	**103.7**	**104.3**
Personnel	19,325	38,496	19,512	19,557	40,958	**100.2**	**101.2**	**106.4**
Goods and services	14,506	31,642	16,039	15,541	32,782	**96.9**	**107.1**	**103.6**
Interest	4,672	8,883	6,298	6,278	11,218	**99.7**	**134.4**	**126.3**
Subsidies	3,105	5,583	2,827	3,052	5,449	**107.9**	**98.3**	**97.6**
Total Transfers	46,487	93,861	49,366	47,117	93,547	**95.4**	**101.4**	**99.7**
Transfers for public entities	256	312	658	417	681	**63.3**	**163.0**	**218.4**
Other transfers	5,901	11,922	6,953	5,529	11,589	**79.5**	**93.7**	**97.2**
Projects funded by external post-accession grants	4,392	10,753	6,685	6,374	10,869	**95.3**	**145.1**	**101.1**
Social assistance	34,102	67,771	33,906	33,525	67,787	**98.9**	**98.3**	**100.0**
Other expenditure	1,836	3,103	1,164	1,272	2,621	**109.3**	**69.3**	**84.5**
Expenditure funded from reimbursable funds	852	2,108	1,380	704	2,008	**51.0**	**82.7**	**95.3**
Capital expenditure	7,938	22,818	9,582	7,877	20,848	**82.2**	**99.2**	**91.4**
Overall Balance	(11,197)	(23,837)	(8,354)	(6,789)	(13,660)	**81.3**	**60.6**	**57.3**

Source: *The Ministry of Finance*

	Budget execution 2011	Initial budget 2012	Estimation 2012						
GDP, mn RON	547,829	579,586	607,300						
	Nominal					Percentage of GDP			
	Initial budget	Revised budget	Swap schemes	Revised budget without swap schemes	Revised budget without swap schemes - Initial budget	Initial budget	Revised budget	Revised budget without swap schemes	Revised budget without swap schemes - Initial budget
	1	2	3	4=2-3	5=4-1	6	7	8	9=8-6
TOTAL REVENUE	195,351	195,971	2,262	193,709	(1,642)	33.7%	32.3%	31.9%	-1.8%
Current revenue	180,361	183,310	2,262	181,047	686	31.1%	30.2%	29.8%	-1.3%
Tax revenue	110,399	114,568	2,262	112,306	1,907	19.0%	18.9%	18.5%	-0.6%
Corporate income tax	11,747	11,876		11,876	129	2.0%	2.0%	2.0%	-0.1%
Profit	11,076	10,986		10,986	(90)	1.9%	1.8%	1.8%	-0.1%
Capital gains and other taxes	672	890		890	219	0.1%	0.1%	0.1%	0.0%
Personal income tax	19,971	21,644		21,644	1,674	3.4%	3.6%	3.6%	0.1%
Wages, dividends, capital gains, re	19,673	21,631		21,631	1,958	3.4%	3.6%	3.6%	0.2%
Other (local) taxes	298	14		14	(284)	0.1%	0.0%	0.0%	0.0%
Property tax	4,204	4,159		4,159	(45)	0.7%	0.7%	0.7%	0.0%
Taxes on goods and servicies	73,405	75,749	2,262	73,487	81	12.7%	12.5%	12.1%	-0.6%
VAT	49,652	52,020	2,262	49,758	106	8.6%	8.6%	8.2%	-0.4%
Excises	21,180	20,382		20,382	(797)	3.7%	3.4%	3.4%	-0.3%
Other taxes on goods and services	125	1,032		1,032	907	0.0%	0.2%	0.2%	0.1%
Taxes on using goods, authorizing the use of goods or on carrying activities	2,449	2,315		2,315	(134)	0.4%	0.4%	0.4%	0.0%
Tax on foreign trade and international transactions	686	750		750	64	0.1%	0.1%	0.1%	0.0%
Other tax revenue	387	390		390	4	0.1%	0.1%	0.1%	0.0%
Social security contributions	50,945	51,111		51,111	166	8.8%	8.4%	8.4%	-0.4%
Nontax revenue	19,017	17,631		17,631	(1,386)	3.3%	2.9%	2.9%	-0.4%
Capital revenues	1,486	908		908	(579)	0.3%	0.1%	0.1%	-0.1%
Grants	972	1,081		1,081	109	0.2%	0.2%	0.2%	0.0%
Pre-accession funds	12,532	10,673		10,673	(1,859)	2.2%	1.8%	1.8%	-0.4%
TOTAL EXPENDITURE	206,561	209,631	2,262	207,369	808	35.6%	34.5%	34.1%	-1.5%
Current expenditure	185,421	188,333		188,333	2,912	32.0%	31.0%	31.0%	-1.0%
Personnel	39,803	40,958		40,958	1,156	6.9%	6.7%	6.7%	-0.1%
Goods and services	31,744	33,032	250	32,782	1,037	5.5%	5.4%	5.4%	-0.1%
Interest	10,218	11,218		11,218	1,000	1.8%	1.8%	1.8%	0.1%
Subsidies	5,265	5,449		5,449	185	0.9%	0.9%	0.9%	0.0%
Total Transfers	95,833	95,109	1,562	93,547	(2,286)	16.5%	15.7%	15.4%	-1.1%
Transfers for public entities	1,579	1,531	850	681	(898)	0.3%	0.3%	0.1%	-0.2%
Other transfers	12,745	12,301	712	11,589	(1,156)	2.2%	2.0%	1.9%	-0.3%
Projects funded by external post-accession grants	11,641	10,869		10,869	(772)	2.0%	1.8%	1.8%	-0.2%
Social assistance	67,577	67,787		67,787	210	11.7%	11.2%	11.2%	-0.5%
Other expenditure	2,291	2,621		2,621	330	0.4%	0.4%	0.4%	0.0%
Reserve fund	227	559		559	332	0.0%	0.1%	0.1%	0.1%
Expenditure funded from reimbursable funds	2,424	2,008		2,008	(416)	0.4%	0.3%	0.3%	-0.1%
Capital expenditure	21,044	21,298	450	20,848	(196)	3.6%	3.5%	3.4%	-0.2%
Public investment expenditure	**37,334**	**36,426**	**1,162**	**35,264**	**(2,070)**	**6.4%**	**6.0%**	**5.8%**	**-0.6%**
Overall Balance	**(11,210)**	**(13,660)**		**(13,660)**	**(2,450)**	**-1.9%**	**-2.2%**	**-2.2%**	**-0.3%**

Source: *The Ministry of Finance*

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



Source: *The Ministry of Finance*