

## **Fiscal Council's Opinion on the Second Supplementary Budget for 2012**

The Ministry of Finance sent by letter no. 353666/18.10.2012 the second supplementary budget draft for 2012 to the Fiscal Council, requesting its 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”.

Compared with the parameters approved in the first budget amendment, the current draft amendment forecasts an increase in general government revenue and expenditure of 1.95 billion, thereby maintaining the budget deficit target unchanged at 13.60 billion, or 2.25% of GDP (estimated at 607.3 billion lei). Of these differences, 450 million lei are explained by the influence of a new swap scheme implemented with the purpose of clearing outstanding obligations to the budget (with the same impact on revenues and expenditures).

The Fiscal Council's opinion on the first budget amendment stressed the violation of the rule regarding budget revisions stipulated by article 9 paragraph 2 and article 16 of the Fiscal Responsibility Law no. 69/2010 (FRL); however, it should be noted that the Fiscal Responsibility Law provides in article 23 letter c) as an escape clause for the fiscal framework revision the change of government. Despite the fact that the deficit target remains unchanged, the current budget revision operates a further increase compared to the first budget amendment of total general government expenditure, excluding financial assistance from the European Union and other donors (of 1.95 billion), which involves a new derogation from the article 16 of FRL. In this context, the Fiscal Council expresses its concern about the persistent appeal to the institution of derogation from the rules stated by the FRL, as these actions adversely affect their credibility.

### **Budgetary revenues**

Excluding the impact of the compensation scheme, the upward revision of revenues amounts 1.5 billion and it is due to the first installment (0.91 billion) from renting frequency bands to mobile operators, whom add a net positive impact to the other categories of income of 0.59 billion. This latter amount reflects additional resources from non-tax revenues (+0.9 billion, mainly from the upward revision by 0.69 billion lei of estimated payments from the NBR profit), the clawback tax (0.36 billion lei) and excise duties (0.21 billion lei), which offset reductions in VAT receipts estimates (-0.69 billion lei), income and payroll taxes (-0.39 billion lei) and other incomes (-0.1 billion). Revenue estimates for post-accession EU funds remain unchanged compared to the first budget amendment. Compared with the initial budget, after adjusting it with the impact of compensation schemes for clearing budgetary arrears, total revenues are

higher by 1.42 billion lei.

The Fiscal Council finds the budget revenue projections as generally realistic, considering their developments in light of the macroeconomic parameters and available data on the budget execution, while the influence of deteriorating growth prospects for the current year (the impact of which is reflected in the downward revision of receipts estimates from VAT and income tax) is more than offset by the impact of an exceptional income provided by the rental of frequency bands and non-tax revenues. However, the Fiscal Council expresses its reservations about the estimated level of the category "Amounts received from the EU" that appears as significantly overvalued, since the good performance in terms of structural and cohesion funds absorption registered in the first half of this year compared to the same period in 2011 is unlikely to be repeated in the second half of 2012, in the context of the European Commission's decision to block disbursements for several operational programs.

### **Budgetary expenditures**

Adjusted with the impact of the swap compensation schemes (0.45 billion lei, of which 0.25 billion on goods and services and 0.2 billion on capital expenditures), total expenditures are higher compared to the first budget amendment by 1.5 billion. The increase is mainly due to the significant upward revision of expenditures related to programs financed from post-accession EU funds (2.27 billion lei) and to the supplementary outlays on goods and services (0.4 billion lei) justified primarily by the use of additional revenue from the clawback tax for financing the public health care system; these increases are partially offset by reduced spending on capital expenditures by 0.83 billion lei and on other transfers by 0.25 billion.

The planned level of total investment expenditures, which include capital expenditure from own sources, expenditure funded from external post-accession grants, expenditure funded from reimbursable funds and other transfers related to investment outlays, is revised upward by the second budget adjustment, in the proximity of the value from the initial budget (adjusting with the impact of successive swap compensation schemes for clearing budgetary arrears, the level is still lower by 723.5 million lei), after the first amendment operated a reduction of 1.29 billion lei (1.74 billion if the figures are adjusted with the impact of swap compensation schemes), while the estimated level of spending from the post-accession funds was revised downward in the first supplementary budget by 1.86 billion lei. The current level of investment expenditures implies that the allocation of own funds (total investment expenditures minus amounts received from the EU) is significantly higher than in the initial budget. Given the recent evolution of structural and cohesion funds' absorption, in the Fiscal Council's opinion it is essential to strictly use own funds for investment projects within the approved budget, namely avoiding the use of additional resources from own funds in order to compensate for the underperformance of post-accession EU funds' absorption, and thereby jeopardizing the budget deficit target for this year.

Regarding arrears, after reducing the outstanding budgetary obligations in 2011 to a level below the target agreed with the IMF for the first time since the beginning of the crisis, in 2012,

the arrears of the general consolidated budget increased again (especially in March and June 2012), reaching a new high in August, mainly due to a significant increase in arrears of the local authorities (see table in Annex 2). However, compared to the evolution in March and June 2012 (local elections), characterized by a strong advance of general government outstanding obligations, in the July-August period they seem to have stabilized; also, the authorities recently adopted a series of measures (particularly the Emergency Ordinance no. 47/01.09.2012) which should help reduce the stock of arrears beginning with the September-October period. In this context, the Fiscal Council welcomes the Ministry of Finance's decision to increase the funds deducted from the value added tax in the second budget revision to balance local budgets for 2012 in the amount of 874.4 million, of which 450 million are allocated for payment of local budgets arrears. These amounts are added to the 500 million lei allocated for the same purpose in the first budget amendment. The problem of local budgets arrears appears as a recurring one, reflecting a lack of financial discipline and a lack of local public finance law enforcement (Law no. 273/2006 with subsequent amendments). In this context and considering the risks for achieving the deficit target according to ESA95 methodology for both this year and next year, the Fiscal Council stresses the need for a strict enforcement of the law on local public finances no. 273/2006 with its subsequent amendments.

The above opinions and recommendations of the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Article 43, paragraph (2), letter d) of FRL, based on the vote of the Fiscal Council members in the meeting on October 22, 2012.

**October 22, 2012**

**President of the Fiscal Council**

**IONUT DUMITRU**

## Annex 1

	2012	2012	2012	2012	2012	2012	2012	2012	Revised	Revised	Revised	
	Initial	Swap	Initial	2012 Budget	Updated	2012 Budget	2012 Budget	2012 Budget	budget I -	budget II -	budget II -	
	budget	schemes	budget	after the	swap	after the first	after the	after the	Initial	Initial	Revised	
		excluding	after the	schemes	rectification	excluding	second	second	budget	budget	budget I	
		schemes	first	effect	effect	schemes	rectification	rectification	Initial	Initial	Revised	
		effect	rectification			effect	effect	effect	budget	budget	budget I	
									Levels adjusted for the impact of			
									swaps			
	1	2	3=1-2	4	5	6=4-5	7	8	9=7-8	10=6-3	11=9-3	12=9-6
<b>TOTAL REVENUE</b>	195351	1562.2	193788.8	195970.9	2262.2	193708.7	197921.4	2712.2	195209.2	-80.1	1420.4	1500.5
Current revenue	180361.3	1562.2	178799.1	183309.6	2262.2	181047.4	185120.1	2712.2	182407.9	2248.3	3608.8	1360.5
Tax revenue	110399	1562.2	108836.8	114568.1	2262.2	112305.9	115530.2	2712.2	112818.0	3469.1	3981.2	512.1
Corporate income tax	11747.4		11747.4	11876		11876.0	11966.0		11966.0	128.6	218.6	90.0
Profit	11075.9		11075.9	10986		10986.0	10986.0		10986.0	-89.9	-89.9	0.0
Capital gains and other taxes	671.5		671.5	890		890.0	980.0		980.0	218.5	308.5	90.0
Personal income tax	19970.6		19970.6	21644.3		21644.3	21281.3		21281.3	1673.7	1310.7	-363.0
Wages, dividends, capital gains, rent	19672.9		19672.9	21630.7		21630.7	21267.7		21267.7	1957.8	1594.8	-363.0
Other (local) taxes	297.7		297.7	13.6		13.6	13.6		13.6	-284.1	-284.1	0.0
Property tax	4203.5		4203.5	4159		4159.0	4159.0		4159.0	-44.5	-44.5	0.0
Taxes on goods and services	73405.3	1562.2	71843.1	75748.7	2262.2	73486.5	76983.8	2712.2	74271.6	1643.4	2428.5	785.1
VAT	49652	1562.2	48089.8	52020	2262.2	49757.8	51780.4	2712.2	49068.2	1668.0	978.4	-689.6
Excises	21179.5		21179.5	20382		20382.0	20592.5		20592.5	-797.5	-587.0	210.5
Other taxes on goods and services	124.7		124.7	1032.04		1032.0	1388.0		1388.0	907.3	1263.3	356.0
Taxes on using goods, authorizing the use of goods or on carrying activities	2449.1		2449.1	2314.66		2314.7	3222.9		3222.9	-134.4	773.8	908.2
Tax on foreign trade and international transactions	685.7		685.7	750		750.0	750.0		750.0	64.3	64.3	0.0
Other tax revenue	386.5		386.5	390.05		390.1	390.1		390.1	3.6	3.6	0.0
Social security contributions	50945.3		50945.3	51111		51111.0	51048.7		51048.7	165.7	103.4	-62.3
Nontax revenue	19017		19017	17630.56		17630.6	18541.2		18541.2	-1386.4	-475.8	910.6
Capital revenues	1486		1486	907.5		907.5	807.5		807.5	-578.5	-678.5	-100.0
Grants	971.7		971.7	1080.8		1080.8	1082.3		1082.3	109.1	110.6	1.5
Amounts received from the EU	12532		12532	10673.0		10673.0	10911.5		10911.5	-1859.0	-1620.5	238.5
<b>TOTAL EXPENDITURE</b>	206560.95	1562.2	204998.75	209630.9	2262.2	207368.7	211581.4	2712.2	208869.2	2369.9	3870.4	1500.5
Current expenditure	185420.75		185420.75	188332.803		188332.8	190912.1		190912.1	2912.1	5491.3	2579.3
Personnel	39802.7		39802.7	40958.3		40958.3	41048.5		41048.5	1155.6	1245.8	90.2
Goods and services	31744.16		31744.16	33031.56	250	32781.6	33677.3	500.0	33177.3	1037.4	1433.1	395.7
Interest	10218.2		10218.2	11217.79		11217.8	11194.8		11194.8	999.6	976.6	-23.0
Subsidies	5264.7		5264.7	5449.3		5449.3	5594.2		5594.2	184.6	329.5	144.9
Total Transfers	95832.7	1562.2	94270.5	95109.253	1,562.2	93547.1	97304.5	1562.2	95742.3	-723.4	1471.8	2195.2
Transfers for public entities	1579	850	729	1531.05	850	681.0	1651.3	850.0	801.3	-48.0	72.3	120.3
Other transfers	12744.8	712.2	12032.6	12301.2	712.2	11589.0	12054.3	712.2	11342.1	-443.6	-690.5	-246.9
Projects funded by external post-accession grants	11641		11641	10868.8		10868.8	13142.6		13142.6	-772.2	1501.6	2273.8
Social assistance	67576.9		67576.9	67787.25		67787.3	67788.2		67788.2	210.4	211.3	0.9
Other expenditure	2291.2		2291.2	2620.953		2621.0	2668.1		2668.1	329.8	376.9	47.1
Reserve fund	226.9		226.9	558.8		558.8	149.7		149.7	331.9	-77.2	-409.1
Expenditure funded from reimbursable funds	2424		2424	2007.8		2007.8	1943.1		1943.1	-416.2	-480.9	-64.7
Capital expenditure	21043.9		21043.9	21297.9	450.0	20847.9	20669.3	650.0	20019.3	-196.0	-1024.6	-828.6
<b>Overall Balance</b>	-11209.95		-11209.95	-13660.0		-13660.0	-13660.0		-13660.0	-2450.0	-2450.0	0.0

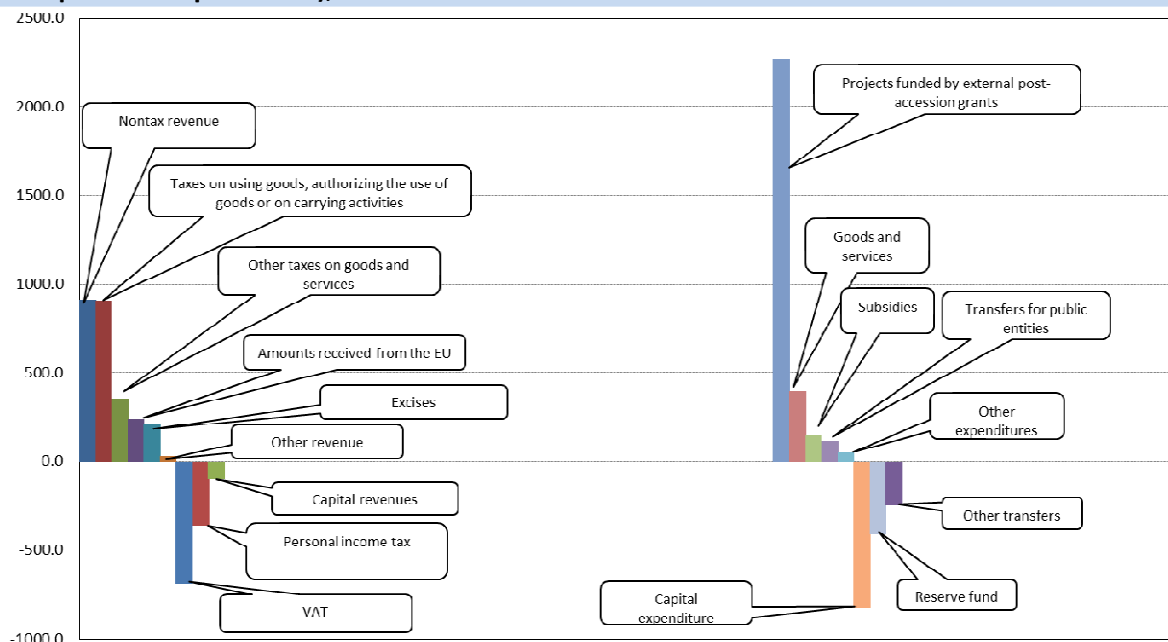
Source: The Ministry of Finance

Annex 2

	The evolution of the general consolidated budget arrears between December 2008 - August 2012											
	Dec-08	Dec-09	Dec-10	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
<b>TOTAL</b>	<b>2559.9</b>	<b>2842.4</b>	<b>3688.9</b>	<b>2902.9</b>	<b>3319.5</b>	<b>3113.1</b>	<b>3605.5</b>	<b>3455.9</b>	<b>3493.9</b>	<b>4425.7</b>	<b>4500.7</b>	<b>4519.9</b>
under 30 days	...	583.2	1332.9	1028.4	1159.3	1051.1	1208.9	1219.8	1129.4	1304.6	1206.4	1164.1
over 30 days	1502.0	680.6	1229.3	1034.9	1328.6	1185.0	1421.8	1299.8	1367.3	1782.6	1878.1	1668.4
over 90 days	193.8	466.6	378.8	191.9	211.6	240.4	296.2	243.6	277.7	291.9	305.1	488.2
over 120 days	315.0	666.0	406.1	326.9	293.4	306.8	328.6	352.0	364.2	630.7	677.7	729.9
over 360 days	549.1	446.0	341.7	320.8	326.7	329.9	349.9	340.8	355.3	415.9	433.4	469.2
<b>State budget</b>	<b>650.4</b>	<b>999.2</b>	<b>390.4</b>	<b>284.2</b>	<b>507.4</b>	<b>268.3</b>	<b>668.1</b>	<b>322.6</b>	<b>337.4</b>	<b>695.4</b>	<b>533.9</b>	<b>403.0</b>
under 30 days	...	155.7	254.2	78.4	137.9	52.5	148.7	105.4	109.0	156.9	75.7	72.7
over 30 days	405.0	204.7	78.9	119.9	274.2	104.4	382.5	86.5	102.9	391.6	311.3	185.4
over 90 days	57.7	152.2	21.6	19.2	24.0	36.1	55.2	39.0	37.4	32.8	34.8	36.0
over 120 days	109.0	335.9	24.1	46.0	49.5	53.9	56.9	66.5	64.2	88.7	84.3	82.6
over 360 days	78.6	150.7	11.7	20.7	21.8	21.5	24.8	25.2	23.8	25.5	27.9	26.3
<b>Local authorities</b>	<b>1818.1</b>	<b>1758.1</b>	<b>1650.7</b>	<b>1379.5</b>	<b>1407.6</b>	<b>1405.2</b>	<b>1521.8</b>	<b>1451.1</b>	<b>1548.8</b>	<b>2130.8</b>	<b>2189.4</b>	<b>2375.2</b>
under 30 days	...	384.4	339.3	277.9	270.1	251.9	313.9	278.4	301.5	430.3	349.1	317.8
over 30 days	1077.5	448.0	401.4	348.8	406.8	394.0	388.0	371.7	379.2	527.7	578.7	604.7
over 90 days	129.0	304.9	247.4	172.6	182.6	198.7	223.1	200.6	237.4	240.3	263.4	375.6
over 120 days	200.7	326.0	342.2	280.7	243.7	252.8	271.7	285.3	299.9	542.1	593.2	634.9
over 360 days	411.0	294.8	320.4	299.6	304.4	307.8	325.1	315.0	330.8	390.5	404.9	442.3
<b>Social security budget</b>	<b>91.3</b>	<b>85.1</b>	<b>1647.8</b>	<b>1239.1</b>	<b>1404.6</b>	<b>1439.6</b>	<b>1415.6</b>	<b>1682.2</b>	<b>1607.7</b>	<b>1599.5</b>	<b>1777.5</b>	<b>1741.6</b>
under 30 days	...	43.1	739.4	672.1	751.3	746.7	746.2	836.0	718.9	717.4	781.6	773.7
over 30 days	19.5	27.9	749.0	566.3	647.6	686.6	651.3	841.5	885.2	863.3	988.1	878.3
over 90 days	7.1	9.5	109.9	0.0	4.9	5.6	18.0	3.9	2.9	18.8	6.9	76.6
over 120 days	5.2	4.1	39.9	0.2	0.2	0.2	0.0	0.2	0.1	0.0	0.2	12.5
over 360 days	59.5	0.5	9.6	0.5	0.5	0.6	0.0	0.6	0.6	0.0	0.7	0.6

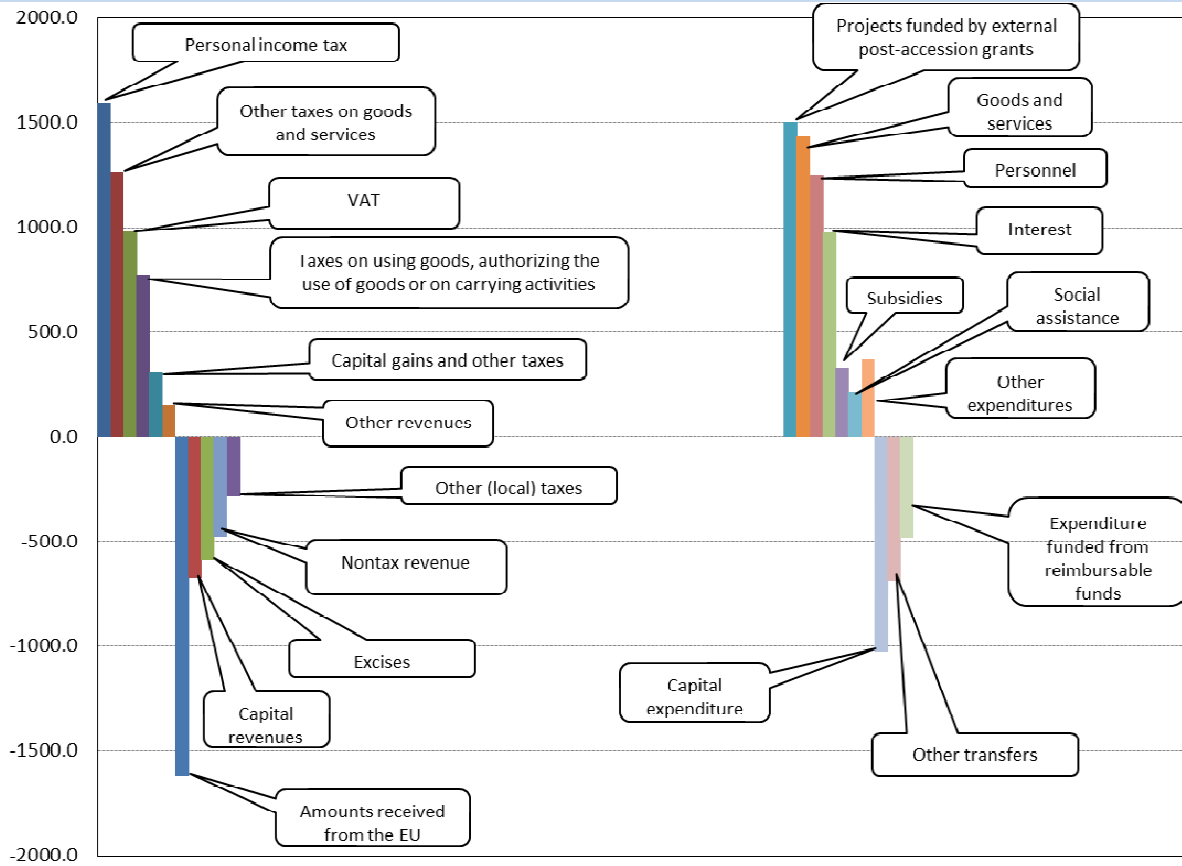
Source: The Ministry of Finance

**Figure 1: The main changes in expenditures and revenues compared to first budget revision (without the impact of swap schemes), mn lei**



Source: The Ministry of Finance

**Figure 2: The main changes in expenditures and revenues compared to initial budget (without the impact of swap schemes), mn lei**



Source: The Ministry of Finance