Fiscal Council of Romania

Opinion of the Fiscal Council on the Law on the state budget for 2022, the Law on the social security budget for 2022 and the Fiscal-budgetary strategy for the period 2022-2024

Summary

- The end of 2021 is marked by several large-scale shocks: a new pandemic wave with the rapidly spreading Omicron variant; the energy price shock, which is reminiscent of the oil shock of the 1970s that caused stagflation; the impact of climate change and, last but not least, the inflationary surge that is surprisingly large.
- However, the temporary nature of the inflationary surge is put into question by its persistence and the possibility that wage-price and price-price spirals may proliferate.
- Accommodative monetary policies (with strongly negative real interest rates) support funding deficits and debt refinancing, but markets clearly discriminate, depending on the sustainability of public finances, the credibility of central banks (especially where no reserve currency is issued), the situation of external balances etc.
- Emerging non-euro area economies from the EU have an advantage (over other emerging economies) because they belong to the EU bloc and can enter into financial support arrangements if needed. At the same time, the Multiannual Financial Framework (MFF) and the National Recovery and Resilience Plans (NRRP) provide a safety net, facilitate reforms, and, in the case of Romania, can greatly help budgetary consolidation.
- Economies are still under siege and operate as a *sui generis* war regime, which requires mobilization of resources, allocation towards priorities, solidarity, responsibility.
- Romania has a very complicated fiscal problem. Tax revenues (including social security contributions) are among the lowest in the EU, at around 27% of GDP, compared to an EU average of around 40%. Therefore, social spending (salaries, pensions and other social benefits), which in the European context do not seem excessive, are overwhelming relative to domestic tax revenues – in recent years these expenditures have accounted for over 80% of tax revenues (81% in 2019, 94.3% in 2020 and 83.6% in 2021).
- The fiscal issue is also illustrated by the size of the structural deficit, which before the pandemic was about 5% of GDP, and in 2020, according to EC estimates, reached over 7% of GDP.

- External deficits have also become a major structural problem for Romania.
- A much better collection of tax revenues is needed. The multitude of exemptions and loopholes greatly reduces the state's tax revenues.
- In terms of VAT revenues, we could earn around 2% of GDP if we would reach the EU average for collection. It is also possible to collect more from other taxes and duties – from business taxes, by discouraging tax optimizations, from taxing categories of personal income that are currently not declared.
- It is strange the thesis according to which Romania cannot collect more than 27-28% of GDP and that, because of this, the budgetary consolidation can be done only on the expenditure side. It is not possible to support the consolidation only on the expenditure side and, at the same time, blame the very inefficient collection, given the deplorable VAT situation.
- Conceptual blockage and hypocrisy must be overcome. Public health and education are chronically and significantly underfunded; defense and security spending may necessarily increase (not only because there are very high risks of military conflict on the borders), the impact of climate change requires the ability of the state to intervene at critical times. Relying solely on resources from the NRRP and MFF would mean short-sightedness in economic policy, especially as there are basic needs that cannot be covered by European funds.
- Analyzes of the FC, other analyzes (including those of the EC), show that it is not possible for this consolidation to be achieved simultaneously with the provision of a critical mass of essential public goods, only by restricting public spending.
- The FC does not underestimate the economic, social and political difficulty of some measures for increasing tax revenues, which have a significant distributional impact.
- Therefore, 2022 is a very severe test in terms of budgetary consolidation.
- The insufficient step of fiscal-budgetary consolidation in 2021 makes the window of opportunity for it to be narrowed, the realization of future revenues with a growth rate similar to that of 2021 being unlikely.
- Slower-than-optimal consolidation poses risks for the non-problematic financing of the external imbalance, as well as to financing conditions. Achieving adjustment in a climate of contractionary policies is much more difficult.
- The use of EU funds, which will replace as much as possible the use of own budgetary resources, is essential for a favorable course of the Romanian economy over the medium and long term.
- The NRRP, together with the resources available through the MFF, can be a vital tool for facilitating the necessary fiscal adjustment (fiscal consolidation) by supporting a higher level of economic activity than the one induced by a negative fiscal impulse and a tightening monetary policy – to avoid entering an area of precarious balancing or even economic instability.

- The budgetary construction for 2022 envisages a deficit target of 5.84% according to the *cash* methodology, representing a decrease of 1.29 pp of GDP compared to the level projected for 2021 (7.13% of GDP). The corresponding budget deficit target for 2022 according to ESA 2010 is 6.24% of GDP and, relative to the MF estimate for the current year, the reduction is of 1.79 pp of GDP.
- According to the *cash* methodology, the reduction of the deficit is projected in the budget planning for 2022 by means of increasing the budget revenues by 0.83 pp of GDP while reducing budget expenditures by 0.46 pp of GDP.
- The main source of the increase in the share of tax revenues in GDP is represented by the inclusion in the revenue projection of the amount of 10.65 billion lei coming from the increase of collection efficiency/reduction of tax evasion.
- Regarding the inclusion in the budget projection of additional amounts coming from the desired improvement of collection efficiency, the FC has reservations in considering them at this time, by virtue of the prudence principle.
- Beyond the reservations expressed above on the amounts coming from the increase of collection efficiency, the FC's evaluation on the revenue projection included in the draft budget led to a lower amount of budget revenues by about 1.5 billion lei.
- Based on a prudent approach, the Fiscal Council considers it probable that there will be a revenue gap compared to the targets assumed in the draft budget of about 12.15 billion lei, representing about 0.92% of GDP.
- On the expenditure side, the planned reduction of their share in GDP takes place by freezing the majority of public sector wages and by growth rates in nominal terms which are moderate and lower than the nominal GDP dynamics for spending on goods and services, social assistance and other transfers.
- The FC estimates as likely an additional budget allocation of 1.9 billion lei for social assistance expenditures and at least 2 billion lei for interest expenditures. Taken together, the FC estimates an under-budgeting of expenditures of at least 0.3% of GDP.
- It is worth noting the ambitious target for investment expenditures, which in the draft budget amounts to 6.7% of GDP, the highest from 2009 to date (in 2021 they were about 5.5% of GDP), and the share that the amounts from NRRP have in total investment expenditures, approximately 12% in 2022.
- Based on a prudent approach to budget revenues and expenditures, the FC estimates that the budget construction for 2022 is compatible with a cash deficit of around 7% of GDP (equivalent to 7.5% of GDP according to European methodology). This situation raises questions about the budget consolidation, according to the initial budget construction. Although the draft budget targets a cash deficit of 5.84% of GDP, the FC considers that there are not enough credible budget adjustment measures to achieve this target.

- In the fiscal-budgetary strategy for the period 2022-2024, the consolidation in the last two years is overwhelmingly projected on the side of budget expenditures. The FC puts into question the realism of this approach.

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On December 17 and December 19, 2021, the Ministry of Finance (MF) sent to the Fiscal Council (FC), through the addresses 467929/16.12.2021 and 467964/18.12.2021, *the draft of the General consolidated budget for the period 2022-2025, the Report on the macroeconomic situation for 2022 and its projection for the period 2023-2025, the Fiscal-budgetary strategy for the period 2022-2024, the draft Law on the state budget for 2022, the Explanatory memorandum and the draft Law on the social security budget for 2022, the Explanatory memorandum and the draft Law for the approval of the ceilings for some indicators specified in the 2020 fiscal-budgetary framework* 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, their appropriation/approval.

1. General context

The end of the current year is marked by several large-scale shocks: a new pandemic wave with the rapidly spreading Omicron variant; the shock of energy prices, which is reminiscent of the crude oil shock from a few decades ago that caused stagflation[1] (comparisons are already being made in this regard); the impact of climate change and, last but not least, the inflationary surge that is surprisingly large.

Intense vaccination in Europe has helped the economic recovery after the 2020 lockdown, but a new pandemic wave is slowing economic growth this winter. The anticipated GDP growth for 2022, although it remains robust, is pulled down by new revised figures (according to NCSP[2] data, the anticipated economic growth for 2022 is 4.6%, and according to the latest EC report[3] it is 5.1 %).

[1] Economic stagnation amid high inflation, a combination that is counterintuitive to reasonings that strictly link inflation to excess demand.
[2] https://cnp.ro/wp-content/uploads/2021/11/Prognoza_de-toamna_2021-.pdf.
[3] https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2021-economic-forecast_en.

The shock of energy prices has led to major disruptions and distributional effects in economies. This shock can be interpreted in terms of major changes in relative prices amid climate change, in order to reduce carbon emissions in the coming years. Until renewable resources prevail in the energy balance of Europe, of the world, the energy shock will have large-scale structural and distributional effects in the functioning of economies, of society.

Supply chain disruptions have also affected economic activity, causing interruptions in the supply of raw materials and basic industrial products (for example, semiconductors). There are also geopolitical considerations in this state of affairs, the desire to regionalize some chains, as is the case of the EU, which aims for more autonomy in ensuring industrial products essential for economic and technological security. However, supply chains have operated in the global space and a slight reduction in bottlenecks can be noticed, which is to be welcomed for the recovery of economies in 2022.

Inflation has become a major problem in almost all economies due to the causes mentioned above (strong economic recovery, supply chain disruptions, inherent frictions between supply and demand). If not many years ago there was a fear of very low inflation, even deflation, now the inflationary surge is stirring. It is true that the shock came mainly on the supply side, as a cost-push, but the size of the jump was surprising. However, the temporary nature of the inflationary surge is put into question by its persistence and the possibility that wage-price and price-price spirals may proliferate. There is already a different response between the Fed (US Central Bank) and the BoE (Bank of England), on the one hand, and the ECB (European Central Bank), on the other hand, although they all note in official documents that they expect inflation to fall in the second half of 2022, but at the same time remarking that the risks are rising. It is conceivable that the ECB is slower in response also due to concerns about the intensity of the fifth pandemic wave in Europe and the economic heterogeneity of the euro area.

Budget deficits are declining in the EU in 2021, but government debt stands at heightened levels in the pandemic, following large increases caused by the context of the financial crisis. Monetary policies that are still accommodative (with very negative real interest rates) help funding deficits and debt refinancing, but markets clearly discriminate, depending on the sustainability of public finances, the credibility of central banks (especially where no reserve currency is issued), the situation of external balances etc. However, high inflation leads to a tightening of monetary policy (even if real rates remain strongly negative), which will affect the cost of financing in international markets. Some voices even dare to talk about a path towards the "normalization" of monetary policies.

Emerging non-euro area economies from the EU have an advantage (over other emerging economies) because they belong to the EU bloc and can enter into financial support arrangements if needed. At the same time, the Multiannual Financial Framework (MFF) and the National Recovery and Resilience Plans (NRRP) provide a safety net, facilitate reforms, and, in the case of Romania, can greatly help budgetary consolidation.

The bunch of shocks mentioned above emphasizes the need for buffers/reserves in order to increase robustness/resilience. At EU level, this can be exemplified by the need for fuel stocks, given that the energy shock revealed that there is no coherent, unified policy. At the level of EU Member States, public budgets need to be more robust, while permanent expenditures for the provision of basic public goods (including education and health) are likely to increase, also for combating the impact of climate change.

At the same time, the defensive capacity needs to improve, given the increasingly tense geopolitical environment, unconventional dangers that often materialize (such as, for example, cyber-attacks).

Romania is under the excessive deficit procedure (EDP), although the rule was suspended in 2021 and also for 2022. By 2024, the macroeconomic adjustment should be made so that the ESA deficit reaches about 3% of GDP. This is greatly hampered by the magnitude of the structural deficit (which was about 5% of GDP in 2019), very low tax revenues (the lowest in the EU), chronic underfunding of some key areas: education, public health (which do not represent expenses, but investments in human capital). This situation affects the medium and long-term competitiveness of the economy.

External deficits have become a structural problem in Romania; the trade deficit has been in the double-digits for many years, and the financing of the current account deficit (which is likely to exceed 6.5% of GDP in 2021) with instruments that do not generate public debt has fallen in recent years - probably below 60% in 2021.

Great uncertainties continue to dominate the European (global) economy, making it difficult to formulate economic policies and forecasts. All the more so, these policies should be responsible, realistic, and take into account multiple risks.

Economies are still under siege and operate as a *sui generis* war regime, which requires mobilization of resources, allocation towards priorities, solidarity, responsibility.

2. The fiscal issue and the budgetary consolidation

Romania has a very complicated fiscal problem which is not recent. For many years tax revenues (including social security contributions) have been among the lowest in the EU, at around 27% of

GDP, compared to an EU average of around 40%. Consequently, social expenditures (salaries, pensions and other social benefits), which in the European context do not seem excessive (as a share relative to the EU), are overwhelming relative to domestic tax revenues – in recent years these expenditures have accounted for over 80% of tax revenues (81% in 2019 and 94.3% in 2020). Not least, the fiscal issue is also illustrated by the size of the structural deficit, which before the pandemic was about 5% of GDP, and in 2020, according to EC estimates, reached over 7% of GDP[4]. The large structural deficit shows that the state cannot provide basic public goods when fiscal-budgetary revenues are very low compared to the European standards and that the country is constantly taking on new debt which generates risks for the public finances.

What can be done in order to balance the public budget, apart from a drastic cut in spending, which can have undesirable effects? An answer that is frequently encountered in the public debate and which is economically sensible refers to a better collection. Here, two components of the collection problem intervene: a. the efficiency of the collection; b. the architecture of the tax regime, which in Romania excels in exceptions and various loopholes.

In fact, there is no single tax rate in Romania, including in terms of income taxation. In addition, the multitude of exemptions and loopholes greatly reduces the state's tax revenues. There was also a substantial reduction in VAT after June 2015, which increased the structural deficit of the public budget. What to do in this situation?

- The revenue shortfall caused by inefficiency must be reduced as much as possible. In terms of VAT, this gap is around 35% compared to an EU average of around 10%. In other words, we could earn around 2% of GDP in tax revenues if we reached the EU average through better VAT collection;
- It is also possible to collect more from other taxes and duties - from business taxes, by discouraging tax optimizations, from taxing categories of personal income that are currently not declared. That is why it is rightly advocated for the declaration of all income and assets, for transparency, as is the case in other EU countries. The dissatisfaction with the untimely way of announcing the reduction of the business tax threshold to the equivalent of 500,000 euros in turnover is understandable, but it must be borne in mind that this is a profit tax; in other words, if there is no profit, it is not taxed. However, such a tax change must be announced in advance;
- Reducing the tax threshold for micro-enterprises is in fact part of a logic of rethinking the tax regime that is as fair as possible by eliminating exceptions and loopholes;
- We must use all European experience and expertise to discourage tax optimizations by large and small companies, foreign and domestic (including the use of transfer pricing);

[4] https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic forecasts/autumn-2021-economic-forecast_en.

- Changes in the tax regime should favor the honest business environment, which by developing businesses and contributing to the public budget supports the Romanian economy.

It is strange the thesis according to which in Romania cannot collect more than 27-28% of GDP and that, because of this, the budgetary consolidation can be done only on the expenditure side. But it is ignored that this consolidation means about 5% of GDP between 2021-2024. It is not possible to support the consolidation only on the part of expenses and, at the same time, blame the very inefficient collection, given the deplorable situation at VAT.

We need to get out of the conceptual blockage and hypocrisy. Public health and education are chronically much underfunded; there are other unmet basic needs, defense and security spending may necessarily increase (not only because there are very high dangers of military conflict on the borders), the impact of climate change requires the ability of the state to intervene at critical times, which will increase most likely. Relying solely on National Recovery and Resilience Plan (NRRP) and Multiannual Financial Framework (MFF) resources would mean short-sightedness in economic policy, especially as there are basic needs that cannot be covered by European funds.

And what matters a lot is that the consolidation of the budget, the fiscal correction, has to be done. Analyzes of the FC, other analysis documents (including EC) show that it is not possible for this consolidation to be achieved, at the same time as providing a critical mass of essential public goods, only by restricting public spending. In fact, government documents (including the one sent to Brussels in October 2021) speak of an increase in tax revenues by 2.5% of GDP by 2026. However, it is a low level, if we take into account acute needs. More than the targets, what matters is the concrete measures that will allow the corrective steps announced by the current fiscal-budgetary strategy: cash deficit 5.8% of GDP (6.2% of GDP in terms of ESA 2010) in 2022, 4.4% (4.4% ESA) of GDP in 2023, 2.9% (2.9% ESA) of GDP in 2024.

This is a framework for understanding the tax issue in Romania and is the reason why the discourse that questions the validity of efforts to increase tax revenues does not make sense. Respectable (including EC) analysis documents show that measures are needed to increase tax revenues – by broadening the tax base and increasing the efficiency of collection.

The FC does not underestimate the economic, social and political difficulty of some measures to increase tax revenues, which have a significant distributional impact. This probably results in the reluctance of the Executive (whatever it is) to specify more clearly what the range of possible measures is. In the society are aggregated groups and categories of interests, which prefer the *status quo*, without judging the situation as a whole and the need to have a degree of stability in general. But there comes a moment of truth when hesitation is no longer possible.

Therefore, 2022 is a very severe test year in terms of budget consolidation. Relying only on the inflation tax in achieving fiscal consolidation is unrealistic; it can only be a paper exercise, but it cannot be applied in real life.

It would, of course, be included in an honest discussion on taxation how compatible the principle of equal opportunities is with the current tax regime, which alone is not fair – at least in terms of the exemptions and loopholes it includes. The market economy, the European model, also means a tax regime that has in its construction the principle stated above. The better the economy works, the more equitable a tax regime is in its construction, the less the need for income redistribution diminishes as a means of alleviating social and political tensions, of preventing the rise of extremist currents.

The FC analysis shows that the projections for the year 2022 and for the following years make it unlikely that the fiscal consolidation will be achieved in the absence of a mix that will control the expenditures and, at the same time, substantially increase the fiscal-budgetary revenues.

Budget consolidation and the excessive deficit procedure

As of April 2020, Romania is under the Excessive Deficit Procedure (EDP) as a result of a budget deficit of 4.4% of GDP in 2019, significantly above the 3% threshold set by the Stability and Growth Pact (SGP). The special circumstances of the outbreak of the COVID-19 pandemic and its severe impact led to the activation of the general derogation clause of the SGP by the EC, by which the fiscal rules of the European budgetary framework were temporarily suspended in 2020 and 2021, an EC communication of June 2021 extending the application of this clause to 2022.

In November 2020, the EC updated its position on the fiscal situation in Romania, stating that it could not take any decision at that time on other measures within the EDP, given the exceptional uncertainty created by the COVID-19 pandemic, following that the budgetary situation of Romania to be re-evaluated in the spring of 2021.

Based on data on the 2020 budget execution, the 2021 budget and the medium-term fiscal-budgetary strategy, the 2021-2024 Convergence Program and the EC economic forecasts for the spring of 2021, in June 2021 the EU Council adopted a recommendation to Romania on the end of the excessive deficit situation by 2024 at the latest. The Council recommendation envisages a gradual adjustment of the budget deficit in the ESA 2010 standards with 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. At the same time, the Council recommended the establishment and implementation of additional measures needed to correct the excessive deficit by 2024, as well as the use of any exceptional budget execution gains to reduce the deficit.

Based on the report submitted in October 2021 by the Romanian authorities on the measures taken in response to the above-mentioned Council recommendation, in its assessment of November 2021 the EC considered that the budget deficit for 2021 is expected to meet the target, but without following the recommendation on the structural adjustment step. Also, the EC recommendation that any temporary revenues be used to reduce the budget deficit in 2021 could not be complied with, as in the current year's budget execution they will be allocated to additional expenditure in almost all budget chapters. Concerning **the targets set for the period 2022-2024, the EC considered that they could not be achieved without a change in fiscal policy, indicating the need for a medium-term consolidation strategy and appropriate corrective action.**

Based on the expected compliance with the deficit target for 2021, the FC recommends continuing the suspension of the EDP, with the elaboration of a draft budget for 2022 and a medium-term fiscal-budgetary strategy in line with the Council recommendation of June 2021. To this end, the EC is to review compliance with the requirements set out in the Council Recommendation based on data from the 2022 budget and the medium-term fiscal strategy.

The programmatic documents prepared by the Ministry of Finance (MoF) and subject to the FC's opinion envisage a reduction of 1.79 pp in GDP in the budget deficit, according to the ESA 2010 methodology, from an estimate of 8.03% of GDP for 2021 to a target of 6.24% of GDP in 2022, and a return to budget deficits below the 3% of GDP threshold by 2024.

Other rules that could be subject to the FC's evaluation regarding the draft budget for 2022 and the Fiscal-Budget Strategy for the period 2022-2024 are represented by the compliance of the budget proposals with the ceilings provided in the *Law for approving the ceilings of some indicators specified in the fiscal-budgetary framework for 2022*. However, given that *the fiscal-budgetary strategy (FBS) for the period 2022-2024 and the Law on the ceilings of some indicators specified in the fiscal-budgetary framework for 2022* were drafted and sent for FC analysis simultaneously with the draft budget for 2022, verifying compliance with the established ceilings becomes a purely formal approach, the draft budget being in line with the established ceilings. Although the present situation can be justified by the provisions of art. 33 (c) of the FRL (according to which the fiscal-budgetary framework may be revised in the event of a change of Government), it should be noted that this practice has been perpetuated in recent years (FBS being published simultaneously with the draft budget and not in July-August provided in the FRL). In these circumstances, monitoring *ex-ante* compliance with fiscal rules on ceilings becomes irrelevant, eroding the role that the FBS should play in guiding fiscal-budgetary policy in the medium term. Moreover, in the context of the EDP, which involves a multi-year budget deficit reduction trajectory, the development and implementation of the medium-term fiscal-budgetary strategy are of particular importance, as highlighted by the EC and the EU Council in the documents issued.

Budget consolidation and sovereign rating

The budget consolidation process is of great importance in the assessment of the sovereign rating carried out by the main agencies.

In October 2021, the main rating agencies confirmed the ratings previously given to Romania: Standard & Poor's at "BBB-" with a stable outlook[5]; Moody's at "Baa3" with the change from negative to stable[6]; Fitch Ratings at "BBB-", with a negative outlook[7].

Maintaining Romania's sovereign rating in the investment-grade category is based on several anchors (EU membership, European funds from MFF 2021-2027 and NRRP, the development of the EDP and its effect on budgetary discipline, the prospects for strong economic growth), but especially on expectations of the rating agencies regarding the compliance with the fiscal consolidation scheduled in the next 3 years, the stabilization of the internal and external public debt, the implementation of credible reforms in the field of the pension system and of the public administration.

Even in these conditions, favorably anticipated, attention is drawn to the existence of risks and structural vulnerabilities of the Romanian economy, including the difficulties in maintaining fiscal sustainability and public debt, accentuated by the combination of increasing financing needs with the high share of debt denominated in foreign currency, the history of low absorption of European funds, the rising level of trade deficit, which shows a problem of loss of competitiveness.

From the perspective of the evaluation by these agencies of the factors that may lead to an improvement of the ratings given to Romania, respectively to a deterioration of them, it is relevant that most of them consider, directly or indirectly, the course of the fiscal consolidation process.

Thus, in the sense of *upgrading*, a faster-than-expected fiscal consolidation would focus on broadening the tax base and increasing the collection rate, increasing the soundness and predictability of the fiscal framework, reducing the current account deficit, including the public sector deficit, increasing confidence in the impact of fiscal consolidation on reducing the budget deficit and stabilizing public debt in the medium term. It is also appreciated that investment-based growth, including through the contribution of European funds, in particular from the NRRP, helps to achieve the budget deficit targets set in the fiscal adjustment timetable.

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[5] Standard and Poor's (2021). *Romania 'BBB-/A-3' Ratings Affirmed; Outlook Stable*, Press Release, October 15.

[6] Moody's Investor Service (2021). *Rating Action: Moody's changes Romania's outlook to stable; affirms Baa3 rating*, October 15.

[7] FitchRatings (2021). *Fitch Affirms Romania at 'BBB-'; Outlook Negative*, Press Release, October 22, 2021.

The downgrade is the possible failure to achieve a sustained reduction in budget imbalances with an impact on the deterioration of fiscal consolidation, faster growth of the share of public debt in GDP, increase of current account deficit and reduction of non-debt financial flows (foreign direct investment – FDI), the orientation of the financing of twin deficits towards the contracting of foreign debt denominated in foreign currency. To these can be added the failure of efforts to balance the budget and fiscal consolidation caused by a possible political stalemate.

3. The macroeconomic framework underlying the Budget Law for 2022 and the FBS 2022-2024

The Fiscal Council assesses the plausibility of the provisions of the current Budget Law, for the year 2022, and of the Fiscal Budget Strategy for the period 2022-2024, starting from the internal and external macroeconomic framework that underlies them. The considered considerations take into account, among others, the "Medium-Term Forecast 2021-2025" published by the National Commission for Strategy and Forecast (NCSF), on November 15 2021, and the accompanying Note.

The anticipated economic recovery materialized, for the most part, at the level of almost all economic indicators. This recovery – which in some cases brought the indicators back to pre-pandemic values or to even higher values – benefited from a strong base effect, unrepeatable, caused by the negative economic effects of the pandemic and its restrictions, especially during 2020. This reality shapes an economic trajectory, after the alert dynamics of 2021, which will return, in the coming years, to values close to the historical average of the potential GDP dynamics (4-4.5%), even in the conditions of an intense absorption of European funds (through the Multiannual Financial Framework – MFF and the National Recovery and Resilience Plan – NRRP).

The medium-term projection 2021-2025 – the autumn 2021 variant – of NCSF predicts a real economic growth rate in 2022, of +4.6%, the determinants being, mainly, an accelerated dynamics of the "Constructions" sector (+9%) as well as a dynamic in moderation and below the average GDP, of the "Industry" and "Services" sectors (+4.4% and +4.3%, respectively). The "Agriculture, forestry, fishing" sector has a slow pace in 2022, with a real growth of only 3.1% – this after a very good evolution in 2021, reflected by the GDP data from Q3 2021 – a year-on-year growth, in this quarter, of +33.8%. We can also notice a rapid evolution, also in Q3 2021, of the "Services" sector, with an annual dynamic of 11.9%, which creates favorable premises for an evolution close in 2022 to the one forecast by NCSF. However, also in Q3 2021, the dynamics in the "Industry" sectors, with a dynamic year by year, in Q3 2021, of only + 2.2%, and, in particular, "Constructions", with a contraction of 6.1%, shows, in the conditions of a significant persistence in time of the sectoral dynamics, an inverse tendency with the NCSF forecast (of deceleration or contraction towards the increase and acceleration of the dynamics). Moreover, high-frequency data from these sectors, such as, on the one hand, "Industrial production in October 2021", show the continuation of the contraction revealed by the data for the third quarter and, on the other hand, “Construction works in October 2021” shows only a timid positive dynamic compared to the previous period. These records raise certain questions about the structure of GDP forecast by NCSF to be the basis of the economic dynamics of 2022 and, therefore, implicitly the basis of the projection of fiscal revenues.

At the same time we can note that, on the one hand, the GDP data for Q3 2021 show a continuous slowdown in real economic growth in recent quarters. Thus, it was +5.7% in Q3 compared to Q2 2020 and fell to only +0.4% in Q3 compared to Q2 2021 (all intermediate values between Q3 2020 and Q3 2021 supporting this progressive loss, continuing to growth rate, on a seasonally adjusted data series). On the other hand, if the data for Q3 2021 for the recent dynamics (quarter by quarter) of GDP (+0.4%) are correlated with the evolution of the agricultural sector, we can conclude that the rest of the sectors suffer a loss of pace, excluding gross domestic product agriculture contracted quarter by quarter by 0.3%. Taking into account the fact that the following quarters are marked, due to the seasonality of agricultural production, by a much lower contribution of this sector to GDP, data for Q4 and early 2022 may shed light on the genesis of this syncope in the evolution of non-agricultural sectors. All this information shows that, for the real economic growth for 2022, the level forecast by NCSF, of +4.6%, appears, in the light of a slower dynamics in 2021 (which could materialize, if the previously mentioned trends continue, in an economic growth below the anticipated level of +7%, and which in any case is not repeatable as a growth rate of GDP in the coming years), as being slightly optimistic.

For the next 2 years that underpin the Fiscal Strategy for 2022-2024, NCSF anticipates, in the latest forecast of November 15, a rate of economic growth of 5.3% in 2023 and 5.0% in 2024. Although the trend of evolution – of return to the level of potential growth of the Romanian economy, probably in the range of 4-4.5% – is a normal one for economic forecasts (both those of other national institutions and those of international institutions), its level is very close to the upper edge of a range that can be considered probable. For these reasons, the FC considers that the real GDP forecast for the period 2023-2024 is also marked by optimism, being dependent on a high degree of absorption of European funds.

Although the real growth rates of each year of the forecast are in a plausible range, their value makes each of them in the upper part of the forecast, implicitly with a lower probability of realization. It should also be noted that the cumulative probability of such a scenario, formed by considering values at the upper end of plausible intervals of variation at the annual level, leads to the generation of a cumulative scenario over the 3 years of the projection with a considerably lower materialization probability, concerning, for example, the aggregation of the median scenarios of each year. In addition, we can see those possible systematic positive deviations of real growth rates are mutually reinforcing, thus leading, in the end, to a higher level of GDP, favorable in terms of the dynamics of fiscal-budgetary variables.

In the structure of real economic growth that underpins the FS for 2022-2024, there is a translation of its center of gravity, mainly, towards the "Construction" sector – the only one with a significantly above average dynamic. This, given the fiscal facilitaties granted to this sector, as well as the historical lower appetite for lower taxes and duties, may mean a less generous composition of GDP in taxes and duties, which should have a less pronounced dynamic of the budget revenue aggregates. In addition, the shift to the "Construction" sector could reflect a good absorption of NRRP funds in the transport infrastructure segment, for example, with the observation that recent history shows a slowdown in the absorption of European funds (either in the Balance of Payments at 10 months data, either in the MoF data related to MFF), and such an absorption should materialize in significantly more alert dynamics of the budget aggregates – NRRP grants transiting the budget, and loans from this program increasing expenditures, but also the level of deficit.

Moreover, the change in the composition of economic growth in the coming years, from a richer structure in fiscal taxes to a relatively poorer fiscal one, could be affected by the persistence of significant external deficits. In this respect, it can be mentioned that the NCSF forecast on the current account of the balance of payments indicates the incorporation by this institution of the trends revealed by recent data, its deficit being increased, for the whole year 2021, from 5.5% in the previous projection to 6.3% (in the current one). The latest balance of payments and external debt published by the NBR (as of December 13 this year) show a widening of the cumulative deficit over the first 10 months of this year[8], compared to the corresponding range in 2020, by 58.0% (at a deficit of 13.9 billion euros from 8.8 billion euros previously) which may foreshadow a level of the current account deficit indicator in GDP, for the whole year 2021, located close to the value of 7%. This fact, of a more unbalanced starting point, corroborated with the lack of factors to correct this deficit, which could be represented either by significant changes in relative prices (exchange rate) or by a large fiscal consolidation, doubled by credible, efficient measures, makes the forecast of the current account deficit for the period 2022-2024 (6.1%, 5.8% and 5.5%, respectively) be marked, therefore, by a significant adjustment trajectory in the coming years, but without specifying the factors that determine this evolution.

Given that, both in the past and in the forecast, most of the external deficit is determined by the public deficit, there is a clear need to reduce it, to return to a restrictive fiscal policy, to help control and reduce economic imbalances and not to boost them. This is all the more so as the size

[8] The determinants of this negative development are: (i) greater deficit with goods and services trade, (ii) lower secondary income surplus and deepening primary income deficit. We can also note: (iii) the structure of financing this deficit from non-generating debt flows is kept at a relatively low level (58%) ‑ mentioned in the previous opinion ‑ in contrast to the levels of about 70% recorded in 2019 and 2020, and (iv) in addition to the position of "foreign direct investment", significant contributions to the financing of the deficit also include the components of "other investments" (equity investments other than FDI, cash and deposits, trade credits and advances etc.).

of the external deficit is one of the highest from a historical point of view[9], but also at European level, being in the total result of the savings-investment gap at the level of the public sector, this being in the past years even partially offset by the positive balance of savings-investment from the private sector. Given that the coverage of these large external deficits is done through additional borrowing – in the absence of sufficient autonomous sources of financing – there is a strong need to adjust the external deficit to maintain the sustainability of the external position of the Romanian economy.

In addition to external imbalances and deteriorating macroeconomic conditions (slower economic growth with a less favorable structure of fiscal revenues), the conduct of other economic policies - especially monetary ones – argues for the need for consolidation in the public sector. Inflation far above target – both in Romania and in other EU countries, but also worldwide – calls for a tightening of monetary policy. This situation makes a consistent fiscal adjustment all the more difficult as it is postponed further in time, after the start of increasing the restrictive policies promoted by central banks. Rising interest rates[10] or the reduction of quantitative interventions[11] could lead to more difficult access to sources of finance, less favorable interest rates and increased investor selectivity in terms of risk. In this regard, it is already worth mentioning the increase in default yields (interest) on Romanian government securities by about 1.5 pp in October and November this year, regardless of maturity – a worrying sign for both Romania's financing capacity and costs that will strike on the budget in the future. Based on this information, as well as the increase in the volume of public debt (as a percentage of GDP), we can anticipate a significant increase in its cost (especially if budget consolidation is not done with the necessary steps) – faster, however, than the dynamics of nominal GDP, which should be reflected in an increase in interest expenditure as a share of GDP over the entire forecast period.

The rapid economic recovery of 2021 – generated, in part, by postponed demand (*pent-up demand*) – in most economies of the world, in the context of supply chains that have shortcomings in restoring continuity and rhythm due to the pandemic and not only (supply chains are disrupted, affected by political tensions, security reasons) – has led to a rapid rise in inflation in all economies. In Romania, these inflationary pressures are coupled with significant increases in the prices of electricity, gas, fuel and other products, some of them due to liberalization, with significant dysfunctions and delays in the internal market. These factors, internal and external,

[9] Share of external deficit in GDP similar or higher being registered only before 2012.

[10] NBR raises monetary policy interest rate twice in 2021 to 1.75%, Czech National Bank raises interest rate 4 times in 2021 to 2.75%, Hungarian National Bank makes 7 increases interest rate, at 2.4%, and the National Bank of Poland three increases in 2021, to 1.75%.

[11] US Central Bank – FED – take concrete steps towards faster monetary policy , starting this autumn, by reducing the volume of asset acquisitions and the decision to abandon them in March 2022, as well as signaling at least 3 increases in the rate of monetary policy in 2022 – in the communiqué of the meeting of 14-15 December 2021.

led to an annual inflation rate in November 2021 of 7.8% and an average inflation rate of 4.5% in the last 12 months. It is worth noting that a significant part of this inflationary outbreak is supply shocks (almost half of the inflation rate is due to price increases in electricity, gas and fuel), which would normally have a limited effect in time, even in the hypothesis of the permanence of these new prices. It is true that a longer period of high inflation can influence inflationary expectations and trigger dangerous spirals. A special element, with an impact on prices, but also with a fiscal impact, is represented by Law 259/2021, which transposes GEO 118/2021. The effect of offsetting measures on electricity and gas prices is likely to (i) mitigate the negative macroeconomic impact of higher commodity prices, (ii) shift inflation to the first half of 2022, (iii) incur spending additional budgetary opportunities for the transfer of compensation to producers and distributors of electricity and gas.

Under these conditions, NCSF forecast a GDP deflator of 5.4% in 2021 and 5.8%, 3.8% and 3.1%, respectively, in the period 2022-2024. The inflation rate (end of period) is expected to be 7.7% in 2021 and 4.7%, 3.4% and 2.7% respectively in the period 2022-2024. Also, the average annual inflation rate is expected to be 5.0% in 2021 and 6.5%, 3.7% and 2.9%, respectively, between 2022 and 2024.

Higher inflation, especially in 2022 – in the case of the GDP deflator and average inflation – is, from a public budget perspective, a source of unexpected growth in tax bases and therefore revenue – a potential source of the budget structural consolidation. However, high inflation – mainly driven by supply shocks – is leading to a slowdown in real economic activity over time, which tends to further unbalance the fiscal position, all the more so as this ”inflation tax” may require increases in expenditures to offset, at least in part, these developments. Under these conditions, the forecast of a high real GDP growth rate (above the normal level for an economy with the characteristics of Romania), accompanied by a high level of inflation for several years, reduces the probability of materialization of this forecast. The level of uncertainty in the dynamics of inflation – represented by the GDP deflator – is very high, especially in 2022, and it should be noted that industrial production prices in October 2021 were at 26.8% of the total (for internal and external markets), and those for the internal market at the level of 32.4%. As the mode of transmission (proportion and speed) of these price dynamics on the GDP deflator involves a high level of uncertainty, we can appreciate that the NCSF forecast regarding its level seems to be adequate.

Under these conditions, the nominal GDP forecast, which includes both the real dynamics of the economy and the dynamics of all prices - reflected by the GDP deflator - appear to be marked by a slight optimism in the sense of forecasting a higher level of this indicator, which leads to favorable effects in terms of the fiscal consolidation process - both through higher revenues forecast, as well as the deficit reporting base - higher.

The dynamics of labor market indicators - a determining component of the evolution of budgetary revenues, especially in terms of payroll tax, but also social contributions - is placed, in NCSP projection, at alert values. Thus, the increase in the average number of employees is 2% in 2022, 2.9% and 2.3%, respectively, in the period 2023-2024. These values, in the context of possible new pandemic waves, supply chain problems, price increases in international transport[12], supply shocks reflected by rising commodity prices first and foremost, the significant future tightening of global monetary policy and nationally, it is thus placed, in the opinion of the FC, towards an upper edge of a plausible range of variation. We can make a similar observation in terms of dynamics of average gross earnings, these are projected to increase by 8.7% in 2022 and by 7.9% and 8.0% respectively in the 2023-2024. Similar considerations can be made regarding the unemployment rate, which, in NCSP forecast gradually decreases from 3% in 2021 to 2.6% in 2024, in the national methodology (unemployment registered) and in the methodology of the International Labor Office decreases from 5.3% in 2021 to 4.7% in 2024. It can also be mentioned that in the case of labor market indicators, an optimistic gap in level the dynamics of the number of employees, but also at the level of earnings multiplies at the level of one year and, moreover, the cumulation of these annual variances multiplies again at the level of the dynamics of the whole interval. For this reason, the selection of scenarios close to the median of some plausible variation intervals is extremely important; otherwise, the selection of very values high, but with a lower probability of achievement, the cumulative probability over several years may become extremely low due to the cumulation of forecasts described above.

In conclusion, it is clear that for 2022, the risks to the macroeconomic scenario are considered by FC to be relatively balanced. At the level of the period 2023-2024, however, corroborating elements presented above (real GDP dynamics, GDP deflator, market variables labor market) outlines a dynamic predicted by NCSP of the macroeconomic variables – relevant at the level of the fiscal-budgetary projection - excessively favorable both to the fiscal revenues and to some relatively high nominal GDP levels, which can accommodate, at the level of the ratio of the level of fiscal variables in GDP, their generous dynamics; hence the additional risks involved achieving fiscal-budgetary consolidation according to the FS projections.

The current macroeconomic circumstances also raise the following issues:

- The insufficient step of fiscal consolidation in 2021 makes it a window of opportunity for this to be restricted, the realization of future revenues at a growth rate compared to the current one being unlikely - due to the slowdown in growth damage to its structure in terms of taxes and duties obtainable, the transitional nature of high inflation, the depletion of deferred payments, hence the cyclical and temporary nature of some of these revenues. It is true that it can exist better collection of taxes and duties, but this is hypothetical (especially in on the VAT shortfall, which a recent European Commission

[12] Increases and 3 or even 4 times the price of transport compared to previous years for some routes (expressed in dollars per FEU - unit of measure for container capacity).

report places, in relative terms, the highest level in the EU13 - 34.9% - compared to a level average in the EU28 of 10.3%);

- Higher total revenues, also driven by higher inflation - which have an effect of structural consolidation -, however, will be offset by increased expenditure offset the influx of inflation - especially those targeting vulnerable groups of citizens. To this increase in expenditure may be added the costs of internal and external financing that are growing relatively fast. It emphasizes the acute need for fiscal consolidation, in especially by increasing revenues. Consolidation is also demanded by the large deficit on a worrying trend in the current account of the balance of payments, all the more so, as it is entirely determined by the deficit-saving balance of the sector public;
- Slower-than-optimal consolidation - in the context of an optimistic macroeconomic scenario that may not materialize, given the lack of significant measures structural assistance - increases the risks to non-problematic financing of the imbalance as well as in terms of financing conditions - these risks being exacerbated by the general context of strengthening monetary policy. Making adjustments in a climate of contractionary policies is much more difficult - and from the perspective of fiscal policy options even more painful;

- In the absence of a consolidation carried out at an appropriate pace, the economy can reach an area of precarious balancing, which could not ensure its stability targeted through fiscal[14] consolidation;

- A slower economic momentum, coupled with rising yields for refinancing external and internal debt, as well as with greater selectivity of investors in terms of risk, draws attention to the sustainability of public debt in the wider context of ensuring the financing of Romania 's total external debt (public and private);

- The use of EU funding to replace as much as possible the use of own budgetary resources, is essential for a favorable economy in the medium and long term, and attracting European funds constitutes a sine-qua-non condition of a sustainable fiscal-budgetary and economic policy, which would improve Romania's financial soundness;

- <u>NRRP, along with the resources available through the MFF, can be a vital tool for facilitating the necessary fiscal adjustment (budgetary consolidation) by supporting a higher level of economic activity than that induced by a negative fiscal impulse and tightening monetary policy - to avoid entering a precarious balancing zone or even economic instability.</u>

[13] https://ec.europa.eu/taxation_customs/document/download/887bf334-8048-4f9c-8a6a-bd6f91e154b0_en
[14] This precarious balancing zone would amount to an unstable equilibrium, as such a state is encountered in the literature.

4. Fiscal-budgetary framework – context

The starting point of the budget projection for 2022 is the revenue level and budgetary expenditures for 2021 taken into account in the second budget revision from this year.

It should be noted that during 2021, the projections of revenues and expenditures aggregates had the highest upward changes during the year in the history of budgetary constructions evaluated by the Fiscal Council. Thus, at the second revision, revenues were projected at a level about 22 billion lei higher than the initial budget (+ 6%), while expenditures were expected to be higher by 26.9 billion lei compared to the initial budget (+ 6.1%). The projected budget deficit, although higher in absolute terms with 4.9 billion lei, marginally decreases as a percentage of GDP to 7.13% from 7.16% initially, amid the increase in nominal GDP forecasted from 1,116.8 billion lei to 1,190.3 billion lei.

The revenue growth in 2021 is mostly attributable to two factors: the above initial expectations increase in the nominal GDP forecast and the recovery of significant amounts of taxes deferred to payment by economic agents in 2020 and taken into account only to a small extent in the initial budget projection. According to the information received from the Ministry of Finance, these amounts coming from the 2020 deferred taxes reached about 10 billion lei in 2021, then in 2022 the difference up to the total level of about 13 billion lei shall be collected.

These deferred amounts are listed as revenues for 2020 in the execution according to the ESA 2010 methodology, regardless of when they will be settled, while the cash execution will register these amounts only when they are settled, respectively, 10 billion lei in 2021 and 3 billion lei in 2022. Consequently, this results in a higher cash deficit in 2020 corresponding to the deferred amounts, the gap reversing (lower cash deficit) in 2021-2022 as these amounts are recovered.

More specific, in 2022 the budget revenues according to the cash execution will be lower by about 7 billion lei, representing the difference between the 10 billion lei collected in 2021 on the account of taxes deferred to payment by economic agents and the 2022 forecasted revenue from this source, of 3 billion lei. The disappearance of these temporary revenues should significantly temper the dynamics of some budget revenues in 2022 compared to the previous year according to cash execution.

However, this significant increase in revenues in 2021 – partially from temporary revenues – was exceeded by the rise in the budget expenditure with 26.9 billion lei coming mainly from the additional allocations for: expenditures on goods and services (+7.46 billion lei), social assistance (+4.8 billion lei), capital expenditures (+4.8 billion lei), other transfers (+3.5 billion lei), personnel expenses (+2.8 billion lei), interest (+1.3 billion lei), subsidies (+1.3 billion lei). Essentially, in 2021 an inability to keep the level of current expenditure under control was manifest. This situation is problematic, the increases taking place at the level of some categories of permanent expenses, which will persist in the coming years.

The budgetary developments in 2021, respectively, large expenditure upsurges financed by cyclical or temporary revenues, hamper the budgetary consolidation process. In other words, there is a need for additional measures in the draft budget for 2022 in order to achieve the targets, compared to the situation in which at least part of the important revenue growth recorded in 2021 could have been saved/ used to get a budget deficit lower than the initial target. However, this was not possible due to the slippage on the expenditure side in 2021, which exhausted all the additional revenue.

It should also be noted that the budget execution for the first 10 months ended with a deficit of 4.03% of GDP, well below the estimated level of 7.13% of GDP for 2021. This situation is almost entirely explained by the failure in achieving the planned investments, which is likely to call into question the quality of the budget programming. In recent years, investment expenditures (at least their execution) have been concentrated in the last 2-3 months of the year, with the mention that in 2021 the gap from the initial target is the highest.

At this moment, the FC cannot exclude a lower budget deficit for 2021 due to the non-execution of investment expenditure as planned. However, this element will not allow a better budgetary perspective for 2022 (the starting point of the budget deficit being lower) unless this hypothetical decrease in investment becomes permanent – which is unlikely, as the data presented in the draft budget for 2022 show.

Objectives and targets of the fiscal-budgetary policy for the 2022-2025 period

The budget construction for 2022 envisages a budget deficit target of 5.84% according to the cash methodology, representing a decrease of 1.29 pp of GDP compared to the level projected for 2021 (7.13% of GDP). The corresponding level of the budget deficit target for 2022, according to ESA 2010, is 6.24% of GDP and, compared to the estimated level by the MF for the previous year, the reduction is 1.79 pp of GDP. This development is compatible, according to the Ministry of Finance, with a reduction in the structural deficit by 1.6 pp of potential GDP, from 7.31% to 5.71%.

It is worth mentioning that the reduction in the cash headline deficit in 2022 compared to 2021 is also supported by exceptional revenues, namely the amounts related to the rental of 5G frequency bands for the next 10 years by the mobile operators, which are estimated at about 2.5 billion lei. The budget balance according to ESA 2010 is projected at -6.24% of GDP compared to -8.03% of GDP in the previous year, resulting that it improves significantly less compared to the level according to cash methodology.

According to the budget construction for 2022, the decrease in the cash deficit of about 1.3 pp compared to the previous year is made by increasing the budget revenues with 0.83% of GDP and reducing the budget expenditures by 0.46% of GDP. In the structure of budget revenues, higher growths are planned for fiscal revenues (+0.47 pp of GDP) and amounts attracted from the EU funds (+0.59 pp of GDP). Fiscal revenues and social contributions will rise by 0.52 pp of GDP, of which significant increases are projected for VAT revenues (+0.27 pp of GDP) and amounts related to the rental of frequency bands (+0.18 pp of GDP).

In the structure of budgetary expenditure, larger cuts are projected for personnel expenditure (-0.68 pp of GDP), other transfers (-0.35 pp of GDP), goods and services (-0.23 pp of GDP), social assistance (-0.23 pp of GDP), while increases are estimated for projects financed by EU funds (+1.01 pp of GDP).

<u>In essence, beyond an anticipated acceleration in revenues and expenditures related to European funds coming from the NRPS and the MFF, the budget foresees – considering values expressed as a percentage of GDP – on the revenue side, a slight increase in fiscal revenues simultaneously with a reduction on the expenditure side in the personnel, goods and services and social assistance spending. The measures aiming at reducing the above categories of expenditure can be considered as structural measures decreasing the deficit.</u>

The fiscal-budgetary framework for the period 2023-2025 targets a budget deficit at the end of the interval below the 3% threshold set by the corrective arm of the Stability and Growth Pact, both according to the cash and European methodology. More specifically, the deficit according to the national methodology is expected to decrease by 1.47 pp of GDP in 2023, by 1.48 pp of GDP in 2024 and by 0.9 pp of GDP in 2025, respectively, to a level of 2.0% of GDP at the end of the period. The headline deficit according to ESA 2010 methodology is expected to decrease by 1.79 pp of GDP in 2022, by 1.84 pp of GDP in 2023 and by 1.5 pp of GDP in 2024, respectively, up to a level of 2.9% of GDP. In structural terms, according to the Ministry of Finance, the deficit adjustment in the period 2023-2024 represents 1.3 pp of potential GDP, at the end of 2024 a deviation of 1.88 pp of potential GDP from the medium-term objective – represented by a structural deficit of 1% of potential GDP persists.

Assessment of the budget construction for 2022

The budget construction for 2022 envisages the reduction in the headline deficit according to the national methodology up to 5.84% of GDP, respectively by 1.29 pp of GDP compared to the level projected for 2021. This decrease is planned through increasing budget revenues by 0.83 pp of GDP, while reducing budget expenditure by 0.46 pp of GDP.

I. Budget revenues

Budget revenues according to the national methodology are expected to increase in 2022 compared to 2021 in nominal terms by about 13.5% or by 52.25 billion lei, their share in GDP being anticipated to rise by 0.83 pp. More significant changes in the budget revenues categories expressed as a share of GDP are anticipated at the level of: the amounts related to the EU financial assistance (+0.59 pp cumulated on all categories of budget revenue related to EU funds), VAT (+0.27 pp), tax on the use of goods, authorization to use goods or on carrying out activities (+0.18 pp), non-fiscal revenues (-0.24 pp).

The main factors that influence the dynamics of budget revenues in nominal terms in 2022 are represented by the macroeconomic framework projected for the next year, the fiscal policy measures adopted, amounts collected in 2022 from taxes on the account of the 2020 deferred taxes and the sums having as a source the improvement in the efficiency of collection rate/ the reduction of tax evasion.

Regarding the dynamics of macroeconomic indicators taken into account when substantiating budget revenues, as indicated above, the FC appreciates it as plausible. The fiscal policy measures adopted that affect the trajectory of the budget revenues (introduction of health social contribution for pensions higher than 4,000 lei, the application of a reduced VAT rate for dwellings whose value does not exceed 140,000 euro, for firewood, etc.) have a cumulative negative budgetary impact of less than 500 million lei to which the FC has no objections. In essence, the adopted fiscal policy measures that influence the dynamics of budget revenues have little impact on their trajectory for 2022.

The amounts planned for 2022 from taxes deferred to payment by economic agents in 2020 are 3 billion lei compared to 10 billion lei in 2021. Therefore, this element justifies for 2022 lesser nominal revenues by 7 billion lei compared to 2021, which should, *ceteris paribus*, lead to a lower share of fiscal revenues (including social contributions) according to the national methodology compared to 2021.

Though, in the budgetary programming, this reduction is not foreseen, on the contrary, the fiscal revenues (including social contributions) are expected to increase in 2022 compared to 2021 by 0.52 pp of GDP. The explanation for this development is the inclusion in the projected budget revenues of sums accounting for 10.65 billion lei coming from an increased efficiency of collection/ reducing tax evasion. In the structure of the 10.65 billion lei, revenues are distributed as follows: VAT (+7.2 billion lei), social contributions (+2.5 billion lei), profit tax (+0.6 billion lei), tax on the income of micro-enterprises (+0.1 billion lei), personal income tax (+0.25 billion lei).

However, regarding the practice of counting in the budget construction on *ex-ante* additional amounts based on increasing the efficiency of collection/reducing tax evasion, the FC has revealed on numerous occasions that such an approach is not prudent. The principle of fiscal responsibility as stated by art. 4 of the FRL requires the Government "to manage the fiscal-budgetary policy prudently", and the *ex-ante* inclusion of possible additional revenues generated by the institutional reform of NAFA is not likely – as there is no historical evidence that can substantiate such calculations.

There is no doubt that there is a potential to acquire additional revenue from a better collection – moreover, the Fiscal Council has highlighted this perspective in its analyses – but the sole existence of this potential does not mean that it is reasonable or prudent to assume ex-ante its materialization, especially in such a significant amount and so rapidly.

The FC agrees with the ex-post inclusion of additional revenues from an improved collection in the budget construction, but only after their amount can be assessed with a high degree of confidence and there are sufficient signals of a trend in reducing tax evasion – which would be equivalent to a permanency associated with these revenues. Moreover, the improvement in collection usually takes place in the context of deep reforms in the tax administration that require legislative changes, as well as significant financial, human and time resources. Taking these aspects into account, the FC will not consider the amounts based on increasing the efficiency of the collection in its present assessment.

Beyond the reservations expressed above regarding the amounts backed by increasing the collection efficiency (10.65 billion lei representing 0.8% of GDP), the FC's assessment on the revenue projections led to a lower amount of budget receipts by about 1.5 billion lei based on the forecasted revenues from excise duties that increase beyond what would be justified by the evolution of macroeconomic indicators and the fiscal policy measures announced.

Concluding, on the basis of a prudent approach, the Fiscal Council considers as probable the manifestation of a revenue gap compared to the assumed targets in the draft budget of around 12.15 billion lei, representing about 0.92% of GDP.

II. Budget expenditures

The budget expenditures according to the national methodology are projected to increase in 2022 compared to 2021 in nominal terms by about 9.4% or 44.3 billion lei, their share in GDP is projected to decrease by 0.46 pp. In the forecasting, the main sources of adjustment are personnel spending (-0.68 pp of GDP), other transfers (-0.35 pp), goods and services (-0.23 pp of GDP), social assistance (-0.23 pp of GDP), other expenditure (-0.09 pp of GDP), in the opposite direction acting the projects financed by EU funds (+1.01 pp of GDP, cumulated on all categories of budgetary expenditure related to the relationship with the EU) and subsidies (+0.25 pp of GDP, under the conditions of support granted to compensate for the upsurge in energy prices).

In a nutshell, on the expenditure side, the planned reduction as share of GDP is done by wage freeze for public servants in the majority of public sector and by maintaining moderate growth rates in nominal terms and below the nominal GDP dynamics for goods and services, social assistance, and other transfers.

It should be stressed that the main structural fiscal-budgetary policy measures adopted by the Government aiming at reducing the budget deficit focused on the expenditure side, while the budget revenues increase takes place only as a result of the anticipated improvement in the collection efficiency.

Personnel expenses are planned to increase by about 2.65% or 2.98 billion lei compared to 2021, in the context of granting moderate increases for education and health, reintroducing holiday vouchers (a budgetary impact of about 1.6 billion lei) and wage freeze for other public servants. The FC express its doubts to the extent to which the projected wage envelope can accommodate granting of the announced benefits, so that further evaluations are needed.

Spending on goods and services are projected to increase by 5.8% or 3.65 billion lei, a lower dynamic compared to the increase of 10.67% in nominal GDP. Such an evolution is challenging given that in 2021 this budget aggregate showed to be particularly difficult to control, the budget execution recording higher amounts by about 7 billion lei compared to the initial budget forecasts. The development of the pandemic and the above-expected acceleration of inflation partial explain this situation. Given the high base of these expenses in 2021, compliance with the planned level for 2022 is possible, but requires an adequate control of these expenses, control that did not work effectively in 2021.

As for the social assistance expenditures, the planned decrease as share in GDP is possible as a result of the nominal GDP growth rate of 10.67%, lessening the support measures for the labor market financed from the unemployment insurance budget (whose expenses decrease by 1.5 billion lei) and maintaining sick leave spending. On the other hand, the main components of this expenditure aggregate, namely state pensions and social assistance rights financed by the state budget, are significantly augmented as a result of the policy measures adopted with effect from 1 January 2022 (the increase of the pension point by 10%, the growth of the social allowance for pensioners from 800 to 1,000 lei, winter aid for pensioners with incomes below 1,600 lei, the 13th allowance for persons with disabilities, state allowance for children increase from 214 lei to 243 lei, respectively from 427 lei to 600 lei for children under the age of 2 years).

More precisely, the increase in the social assistance expenditures financed through state budget and social insurance budget is about 14.2 billion lei. However, the impact of the fiscal policy measures announced by the Ministry of Finance and notified to the FC is about 16.1 billion lei. Given that this estimate of budgetary impact seems realistic, the FC identifies an under-estimation of 1.9 billion lei for this budget aggregate. In addition, given the last 2 years developments, the FC appreciates as probable the need of additional allocations for this budget aggregate having as a source higher pension for the retirees in 2022 compared to those previously retired. Risks also persist in terms of sick leave expenses, framing in the same envelope as in 2021 being a challenge.

As for the rest of the categories of budgetary expenditures, the FC appreciates as surprising the growth in 2022 compared to 2021 by only 8.95% or by 1.64 billion lei for the interest expenses in the context of significant increase in the public debt stock in 2021 on the background of high budget deficit, as well as the substantial surge in financing costs – especially those corresponding to loans denominated in national currency – that has manifested in recent months[15]. In this context, the FC considers as likely a need for additional allocations of at least 2 billion lei for 2022.

Total public investment expenditures, from internal and external sources, are scheduled to increase in 2022 compared to the level estimated by the MF for 2021 by 21.8 billion lei (up to 6.7% of GDP, +1.1 pp compared to 2021), this increase being mainly supported by the budgeting of the amounts for the projects financed from the amounts representing the non-reimbursable financial assistance and loan related to NRRP (10.5 billion lei), by the significant increase of the amounts allocated to the projects financed by post-accession external funds (+8.3 billion lei) and the increase in capital expenditures (+3.2 billion lei). Moreover, it can be seen the intention to finance investment expenditures mainly from external funds for the horizon 2022-2025, the amounts related to projects financed from external funds after accession, to which from next year are added those from NRRP, representing approximately 58% in 2022, 63% in 2023, 65% in 2024 and 64% in 2025 of total investment expenditures. It is worth noting the ambitious target assumed for investment expenditures, which in the draft budget is 6.7% of GDP, the highest from 2009 to date (in 2021 they were about 5.5% of GDP), as well as the share which the amounts from NRRP have in the total investment expenses, approximately 12% in 2022.

<u>In conclusion, on the side of budget expenditures, FC identifies an additional need for allocations in terms of social assistance and interest expenses, in a total amount of at least 4 billion lei,</u>

[15] The public debt estimated for the end of 2021 by the MF, according to the European methodology, is 48.8% of GDP, by 1.4 pp of GDP above the 2020 level, respectively an increase of about 16%. As for the evolution of the financing cost, the yields of government bonds on the domestic market increased on average by 2.24 pp in 2021 compared to 2020, according to MF, the largest growths being recorded for maturities greater than or equal to 3 years.

representing 0.3% of GDP. Uncertainties also exist in terms of personnel costs, while for other budgetary aggregates (such as, for example, goods and services) the proposed envelope requires a rigorous control of expenditure, which did not work effectively in 2021.

Considering the above, based on a prudent approach to budget revenues and expenditures, the FC estimates the budget construction for 2022 to be compatible with a cash deficit of around 7% of GDP (equivalent to 7.5% of GDP according to the European methodology). This raises big questions about the budgetary consolidation, according to the initial budget construction.

Although the draft budget targets a cash deficit of 5.84% of GDP, the FC considers that there are not enough credible adjustment measures to achieve this target. FC considers that it is not prudent to include *ex-ante* in the revenue projections of additional amounts as a source of increasing the efficiency of collection/reduction of tax evasion and, therefore, cannot consider them at this time. To this is added the revenue gap at the level of excise duties and the need for additional allocations at the level of interest and social assistance expenses identified by the FC.

As the FC has repeatedly argued, the process of budgetary consolidation is vital for Romania for several reasons: for reasons of stabilizing the level of public debt (given that the primary deficit is the main element in bringing it to a sustainable path), reducing external vulnerabilities (by controlling the external deficit, which is relatively high and unique in the region), stabilizing the national currency (preserving the scope of monetary policy) and defending macroeconomic balances. The macroeconomic situation is also judged by the assumed goal of joining the euro area, which calls for a small budget deficit as well as non-harmful external deficits. At the same time, the need for consolidation must be considered in correlation with Romania's financial standing, the firm commitment towards a credible fiscal consolidation plan being the essential premise for maintaining the country's rating and investor confidence in international markets. Last but not least, the correction of the budget deficit is a legal obligation from the perspective of European and national fiscal rules, and it is necessary to meet the gradual deficit reduction targets set in the EDP.

5. Medium-term fiscal perspectives - budget construction beyond the 2022 horizon

Similar to the fiscal strategies of previous years, the current iteration of the medium-term fiscal projection reveals that the authorities are concerned about the first year covered by it, without paying enough attention to projections beyond 2022, showing a tendency to generate medium-term fiscal/budgetary consolidation in the absence of a rigorous substantiation of revenues and expenditures and concrete details on the assumptions underlying the trajectories of the aggregates of revenues and expenditures. This asymmetry of attention could have important consequences given that the 2022-2024 FS horizon coincides with the period set out in the EU

Council Recommendation issued in the EDP to gradually reduce the budget deficit to a level below the 3% of GDP ceiling.

In order to follow the recommended trajectory within the EDP, FS envisages in the period 2023-2024 a reduction of the budget deficit, according to the national methodology, by 2.9 pp of GDP, from a target of 5.8% in 2022, to a level projected at 2.9% of GDP in 2024. It should be noted that this reduction is projected to be mainly due to budget expenditures (-2.3 pp of GDP), plus a slight increase in budget revenues (+0.6 pp of GDP, amid rising fiscal revenues, including social contributions, at 1.1 pp of GDP, partially offset by a decrease in amounts received from the EU by 0.5 pp of GDP). The analysis of expenditure aggregates shows that most of the adjustment has as its source the reduction of the share in GDP of personnel expenditures (by 1 pp) and those with goods and services (by 0.7 pp). In addition, smaller reductions are projected in other transfers (by 0.5 pp), subsidies (by 0.4 pp), social assistance expenditure (by 0.3 pp) and capital expenditure (by 0.3 pp), while expenditures on projects financed by European funds (including NRRP) and other non-reimbursable external funds are estimated to increase by 0.8 pp of GDP.

Given that most of the expenditure aggregates listed above increase in nominal terms (excluding subsidies and other transfers, whose estimated level for 2024 is 3.5 billion lei and 2.5 billion lei, respectively, smaller compared to the budget for 2022), the reduction of their share in GDP takes place against the backdrop of a faster growth of nominal GDP, estimated at 18.4% for the period 2023-2024. This corresponds to an average annual growth rate of about 9%, on which the FC has already expressed reservations, considering it too optimistic, which raises questions about the possibility of such a large adjustment of budgetary expenditures.

In terms of personnel costs, the MF does not specify the assumptions that underpin their medium-term trajectory, but the levels projected by the FS for the period 2023-2024 assume a nominal increase lower than the average annual inflation rates estimated for the same period: increase of 1.9% compared to an average inflation of 3.7% in 2023, respectively an increase of 2.7% compared to an average inflation of 2.9% in 2024. Such a development could be possible by freezing salaries in the budgetary sector or by a combination of a reduction in personnel numbers and a moderate increase in salaries, but from a historical perspective and taking into account social considerations, the allocation of personnel costs at the projected levels is unlikely. Assuming a more realistic assumption of indexing personnel costs with the average inflation forecast for the period 2023-2024 (equivalent to keeping them constant in real terms), this also being difficult to achieve, the size of the adjustment envisaged by the MF for this budget aggregate decreases by about 0.15 pp of GDP.

On the other hand, the proposed adjustment to expenditure on goods and services, which has resulted in a decrease in their share of GDP by 0.7 pp in the period 2023-2024, would lead to a level of 4.4% of GDP in 2024. This would represent an absolute minimum for the period 2008-

2024, well below the average expenditure on goods and services of about 5.5% of GDP for the period 2008-2021. Such a development seems all the more unlikely, given that the average annual growth rate of spending on goods and services in recent years (2018-2021) was almost 12% in nominal terms, while the 2022-2024 FS projects a significant slowdown in this aggregate to a nominal increase of 5.8% in 2022, followed by a further slowdown to 0.9% in 2023 and 1.9% in 2024 respectively. FC has reservations about the possibility of including spending on goods and services in the projected levels in the medium term, even in the conditions of a profound reform of the public procurement system.

In conclusion, given the arguments mentioned above, as well as the large-scale slippage of budget expenditures, recorded during the bugdet revisions made during 2021, the FC considers that adjusting the budget deficit in the medium term mainly by restricting expenditures is not realistic. This conclusion is also supported by the November 2021[16] EC assessment of the EDP, which found that there was a lack of adequate control over the spending of public money, as well as the absence of concrete budgetary consolidation measures to support the gradual adjustment of the deficit. Thus, in the event of non-modification of current fiscal policies, the EC estimates a trajectory of the budget deficit (according to the ESA 2010 methodology) significantly higher than the targets recommended in the EDP, even projecting a resumption of the deficit growth in 2024.

The analysis of the medium-term fiscal strategy reveals that the consolidation of the budget and the exit from the EDP by 2024 are unlikely in the absence of a significant increase in budgetary revenues. This could come from: improving collection efficiency, broadening the tax base, narrowing down exceptions and loopholes that negatively offset taxes paid by some taxpayers from standard rates, firmly combating tax evasion and unfair tax competition, and optimizing tax rates.

Even if, as it has repeatedly pointed out, FC considers it unwise to include in the revenue projection the ones resulting from the improvement of collection efficiency before their actual materialization, a profound reform of the tax administration leading to increased revenues from this source being urgently needed, with much room for improvement in this direction, as evidenced by the latest report on the EU VAT gap[17].

In view of the above, as well as the favorable nature of the projected economic growth trajectory and the coordinates of the labor market in the medium term, FC considers that, in the absence of sufficiently concrete and credible policies to support the fiscal consolidation on average, the risk

[16] https://ec.europa.eu/info/sites/default/files/economy-finance/assessment_of_the_action_taken_by_romania.pdf.
[17] https://op.europa.eu/en/publication-detail/-/publication/f769dd4a-57da-11ec-91ac-01aa75ed71a1/language-en/format-PDF/source-245971484.

balance is tilted towards substantially higher deficits than those foreseen by the fiscal strategy for the period 2022-2024.

6. The importance of European funds: the National Recovery and Resilience Plan

The approval by the European Commission of Romania's National Recovery and Resilience Plan at the end of September 2021[18] is a vital economic and financial opportunity for reforms and the implementation of major investment projects[19], providing Romania with about 29 billion euros, from which 14.2 billion euro grants and 14.9 billion euro loans, with a pre-financing of about 3.8 billion euro available since December 2021, for the year 2022 being provided an allocation of 6.2 billion euro.

Achieving the highest possible absorption of these funds is a viable foundation for the resilient reconstruction of the Romanian economy in the face of the crisis we face, the reconfiguration of industrial policy towards restructuring the economy and its decarbonization, and increasing competitiveness, mitigating the impact contractual impact of budgetary corrective measures, restoring internal and external macroeconomic and financial balances, advancing on the upper links of value-added chains, including digital, supporting the process of fiscal consolidation, by contributing to a higher level of economic activity than that driven by momentum negative fiscal policy and tightening monetary policy.

Given that the lack of regulation of the institutional and financial framework for European funds allocated to Romania under the Recovery and Resilience Mechanism (RRM), both grants and loans, risks generating delays in starting as soon as possible its implementation, with an impact on the degree absorption of funds, an important first step was the urgent adoption of a regulatory act in this regard[20]. It is noteworthy that it is an extremely complex system in the coordination, management and control of funds involving virtually all institutions and public bodies of central and local government, with a more important role of the Ministry of Investment and European Projects, respectively Ministry of Finance. In order for the system to become operational and

[18] European Commission. *NextGenerationEU: European Commission endorses Romania's €29.2 billion recovery and resilience plan*, EC Press Release, Brussels, 27 September 2021.

[19] At the end of October 2021, NRRP was also approved by ECOFIN (Council of the European Union. *Recovery fund: ministers welcome assessment of Estonia’s, Finland’s and Romania’s plans*, ECOFIN Press release, 28 October 2021).

[20] EMERGENCY ORDINANCE on establishing the institutional and financial framework for the management of European funds allocated to Romania through the Recovery and Resilience Mechanism, as well as for amending and supplementing the Government Emergency Ordinance no. 155/2020 on some measures for the elaboration of the National Recovery and Resilience Plan necessary for Romania for accessing reimbursable and non-reimbursable external funds within the Recovery and Resilience Mechanism, Government of Romania, December 10, 2021.

functional, in addition to the fact that all these public authorities with a role in the management and implementation of NRRP funds must modify and complete their internal regulations regarding their organization and operation in the shortest possible time, one of the difficulties that may arise is related to the possible deficit in terms of quality and expertise of existing human capital and necessary to be engaged in these new activities.

From a budgetary perspective, it should be noted that the budgets of the beneficiaries of public institutions financed entirely from the state budget, the state social security budget or special funds budgets include commitment appropriations and budget appropriations related to the total value of own projects approved under NRRP, and if the EC suspends payments due to the partial fulfillment of milestones and targets, financing agreements and/or contracts/decisions/financing orders associated with those milestones and targets continue to be financed from the state budget for a maximum period of 6 months from the date communication of the decision to suspend payments.

Conclusions

- The end of 2021 is marked by several large-scale shocks: a new pandemic wave with the rapidly spreading Omicron variant; the energy price shock, which is reminiscent of the oil shock of the 1970s that caused stagflation; the impact of climate change and, last but not least, the inflationary surge that is surprisingly large.
- However, the temporary nature of the inflationary surge is put into question by its persistence and the possibility that wage-price and price-price spirals may proliferate.
- Accommodative monetary policies (with strongly negative real interest rates) support funding deficits and debt refinancing, but markets clearly discriminate, depending on the sustainability of public finances, the credibility of central banks (especially where no reserve currency is issued), the situation of external balances etc.
- Emerging non-euro area economies from the EU have an advantage (over other emerging economies) because they belong to the EU bloc and can enter into financial support arrangements if needed. At the same time, the Multiannual Financial Framework (MFF) and the National Recovery and Resilience Plans (NRRP) provide a safety net, facilitate reforms, and, in the case of Romania, can greatly help budgetary consolidation.
- Economies are still under siege and operate as a *sui generis* war regime, which requires mobilization of resources, allocation towards priorities, solidarity, responsibility.
- Romania has a very complicated fiscal problem. Tax revenues (including social security contributions) are among the lowest in the EU, at around 27% of GDP, compared to an EU average of around 40%. Therefore, social spending (salaries, pensions and other social benefits), which in the European context do not seem excessive, are overwhelming

relative to domestic tax revenues – in recent years these expenditures have accounted for over 80% of tax revenues (81% in 2019, 94.3% in 2020 and 83.6% in 2021).

- The fiscal issue is also illustrated by the size of the structural deficit, which before the pandemic was about 5% of GDP, and in 2020, according to EC estimates, reached over 7% of GDP.
- External deficits have also become a major structural problem for Romania.
- A much better collection of tax revenues is needed. The multitude of exemptions and loopholes greatly reduces the state's tax revenues.
- In terms of VAT revenues, we could earn around 2% of GDP if we would reach the EU average for collection. It is also possible to collect more from other taxes and duties – from business taxes, by discouraging tax optimizations, from taxing categories of personal income that are currently not declared.
- It is strange the thesis according to which Romania cannot collect more than 27-28% of GDP and that, because of this, the budgetary consolidation can be done only on the expenditure side. It is not possible to support the consolidation only on the expenditure side and, at the same time, blame the very inefficient collection, given the deplorable VAT situation.
- Conceptual blockage and hypocrisy must be overcome. Public health and education are chronically and significantly underfunded; defense and security spending may necessarily increase (not only because there are very high risks of military conflict on the borders), the impact of climate change requires the ability of the state to intervene at critical times. Relying solely on resources from the NRRP and MFF would mean short-sightedness in economic policy, especially as there are basic needs that cannot be covered by European funds.
- Analyzes of the FC, other analyzes (including those of the EC), show that it is not possible for this consolidation to be achieved simultaneously with the provision of a critical mass of essential public goods, only by restricting public spending.
- The FC does not underestimate the economic, social and political difficulty of some measures for increasing tax revenues, which have a significant distributional impact.
- Therefore, 2022 is a very severe test in terms of budgetary consolidation.
- The insufficient step of fiscal-budgetary consolidation in 2021 makes the window of opportunity for it to be narrowed, the realization of future revenues with a growth rate similar to that of 2021 being unlikely.
- Slower-than-optimal consolidation poses risks for the non-problematic financing of the external imbalance, as well as to financing conditions. Achieving adjustment in a climate of contractionary policies is much more difficult.

- The use of EU funds, which will replace as much as possible the use of own budgetary resources, is essential for a favorable course of the Romanian economy over the medium and long term.
- The NRRP, together with the resources available through the MFF, can be a vital tool for facilitating the necessary fiscal adjustment (fiscal consolidation) by supporting a higher level of economic activity than the one induced by a negative fiscal impulse and a tightening monetary policy – to avoid entering an area of precarious balancing or even economic instability.
- The budgetary construction for 2022 envisages a deficit target of 5.84% according to the *cash* methodology, representing a decrease of 1.29 pp of GDP compared to the level projected for 2021 (7.13% of GDP). The corresponding budget deficit target for 2022 according to ESA 2010 is 6.24% of GDP and, relative to the MF estimate for the current year, the reduction is of 1.79 pp of GDP.
- According to the *cash* methodology, the reduction of the deficit is projected in the budget planning for 2022 by means of increasing the budget revenues by 0.83 pp of GDP while reducing budget expenditures by 0.46 pp of GDP.
- The main source of the increase in the share of tax revenues in GDP is represented by the inclusion in the revenue projection of the amount of 10.65 billion lei coming from the increase of collection efficiency/reduction of tax evasion.
- Regarding the inclusion in the budget projection of additional amounts coming from the desired improvement of collection efficiency, the FC has reservations in considering them at this time, by virtue of the prudence principle.
- Beyond the reservations expressed above on the amounts coming from the increase of collection efficiency, the FC's evaluation on the revenue projection included in the draft budget led to a lower amount of budget revenues by about 1.5 billion lei.
- Based on a prudent approach, the Fiscal Council considers it probable that there will be a revenue gap compared to the targets assumed in the draft budget of about 12.15 billion lei, representing about 0.92% of GDP.
- On the expenditure side, the planned reduction of their share in GDP takes place by freezing the majority of public sector wages and by growth rates in nominal terms which are moderate and lower than the nominal GDP dynamics for spending on goods and services, social assistance and other transfers.
- The FC estimates as likely an additional budget allocation of 1.9 billion lei for social assistance expenditures and at least 2 billion lei for interest expenditures. Taken together, the FC estimates an under-budgeting of expenditures of at least 0.3% of GDP.
- It is worth noting the ambitious target for investment expenditures, which in the draft budget amounts to 6.7% of GDP, the highest from 2009 to date (in 2021 they were about 5.5% of GDP), and the share that the amounts from NRRP have in total investment expenditures, approximately 12% in 2022.

- Based on a prudent approach to budget revenues and expenditures, the FC estimates that the budget construction for 2022 is compatible with a cash deficit of around 7% of GDP (equivalent to 7.5% of GDP according to European methodology). This situation raises questions about the budget consolidation, according to the initial budget construction. Although the draft budget targets a cash deficit of 5.84% of GDP, the FC considers that there are not enough credible budget adjustment measures to achieve this target.
- In the fiscal-budgetary strategy for the period 2022-2024, the consolidation in the last two years is overwhelmingly projected on the side of budget expenditures. The FC puts into question the realism of this approach.

The opinions and recommendations formulated above by the FC were approved by the President of the Fiscal Council, according to the provisions of art. 56, para. (2), lit. d) of Law no. 69/2010 republished, following their approval by the Council members, through vote, in the meeting of December 20th, 2021.

20th December 2021

Chairman of the Fiscal Council
Professor Daniel Dăianu

Annex I	Execution 2021	Swap Execution 2021	Execution 2021 (without swap)	Initial budget 2022	Swap program 2022	Initial budget 2022 (without swap)	Initial budget 2022 - Execution 2021	Initial budget 2022 - Execution 2021 (without swap)	Initial budget 2022 - Execution 2021 (%)	Initial budget 2022 - Execution 2021 (without swap)(%)	Initial budget 2022 (without swap) (% of GDP)	Execution 2021 (without swap) (% of GDP)	Initial budget 2022 - Execution 2021 (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	**387,737.08**	**1,263.77**	**386,473.31**	**439,985.96**	**850.00**	**439,135.96**	**52,248.88**	**52,662.65**	**13.48%**	**13.63%**	**33.34%**	**32.47%**	**0.87**
Current revenue	340,156.74	1,263.77	338,892.97	380,118.55	850.00	379,268.55	39,961.81	40,375.58	11.75%	11.91%	28.79%	28.47%	0.32
Tax revenue	185,004.37	510.72	184,493.65	210,917.42	250.00	210,667.42	25,913.05	26,173.77	14.01%	14.19%	15.99%	15.50%	0.49
Taxes on profit, wages, income and capital gains	52,081.91	0.06	52,081.85	57,603.09	129.00	57,474.09	5,521.18	5,392.24	10.60%	10.35%	4.36%	4.38%	-0.01
Corporate income tax	20,062.25	0.06	20,062.19	21,581.82	9.00	21,572.82	1,519.57	1,510.63	7.57%	7.53%	1.64%	1.69%	-0.05
Personal income tax	28,020.35		28,020.35	31,498.91	120.00	31,378.91	3,478.55	3,358.55	12.41%	11.99%	2.38%	2.35%	0.03
Other taxes on income, profit and capital gains	3,999.31		3,999.31	4,522.37		4,522.37	523.06	523.06	13.08%	13.08%	0.34%	0.34%	0.01
Property tax	6,580.00		6,580.00	7,467.70		7,467.70	887.70	887.70	13.49%	13.49%	0.57%	0.55%	0.01
Taxes on goods and services	123,789.80	509.48	123,280.31	143,059.44	121.00	142,938.44	19,269.65	19,658.13	15.57%	15.95%	10.85%	10.36%	0.49
VAT	79,591.64	508.42	79,083.22	91,692.53	84.00	91,608.53	12,100.88	12,525.30	15.20%	15.84%	6.95%	6.64%	0.31
Excises	34,665.34	1.06	34,664.28	38,416.82	37.00	38,379.82	3,751.48	3,715.54	10.82%	10.72%	2.91%	2.91%	0.00
Other taxes on goods and services	4,523.91		4,523.91	5,088.05		5,088.05	564.14	564.14	12.47%	12.47%	0.39%	0.38%	0.01
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	5,008.90		5,008.90	7,862.05		7,862.05	2,853.15	2,853.15	56.96%	56.96%	0.60%	0.42%	0.18
Taxes on foreign trade and international transactions (custom duty)	1,471.12		1,471.12	1,678.09		1,678.09	206.96	206.96	14.07%	14.07%	0.13%	0.12%	0.00
Other tax revenue	1,081.55	1.18	1,080.37	1,109.10		1,109.10	27.56	28.73	2.55%	2.66%	0.08%	0.09%	-0.01
Social security contributions	126,007.04	753.05	125,253.99	140,088.53	557.00	139,531.53	14,081.50	14,277.55	11.18%	11.40%	10.59%	10.52%	0.07
Nontax revenue	29,145.33		29,145.33	29,112.59	43.00	29,069.59	-32.74	-75.74	-0.11%	-0.26%	2.21%	2.45%	-0.24
Capital revenue	1,280.03		1,280.03	867.87		867.87	-412.16	-412.16	-32.20%	-32.20%	0.07%	0.11%	-0.04
Grants	8.28		8.28	8.66		8.66	0.38	0.38	4.54%	4.54%	0.00%	0.00%	0.00
Amounts received from the EU in the account of payments made and prefinancing	17.87		17.87	5,000.06		5,000.06	4,982.19	4,982.19	27878.61%	27878.61%	0.38%	0.00%	0.38
Amounts collected in the single account			0.00			0.00	0.00	0.00	-	-	0.00%	0.00%	0.00
Other amounts received from the EU	2,679.40		2,679.40			0.00	-2,679.40	-2,679.40	-100.00%	-100.00%	0.00%	0.23%	-0.23

Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	43,594.76		43,594.76	45,113.39		45,113.39	1,518.63	1,518.63	3.48%	3.48%	3.42%	3.66%	-0.24
Amounts related to the non-reimbursable financial assistance allocated for NRRP				8,877.44		8,877.44	8,877.44	8,877.44	-	-	0.67%	0.00%	0.67
Total expenditure	**472,642.21**	**1,263.77**	**471,378.44**	**516,968.92**	**850.00**	**516,118.92**	**44,326.71**	**44,740.48**	**9.38%**	**9.49%**	**39.18%**	**39.60%**	**-0.42**
Current expenditure	437,386.26	500.00	436,886.26	478,328.50		478,328.50	40,942.24	41,442.24	9.36%	9.49%	36.31%	36.70%	-0.39
Personnel	112,429.49		112,429.49	115,406.97		115,406.97	2,977.49	2,977.49	2.65%	2.65%	8.76%	9.45%	-0.68
Goods and services	62,922.25	500.00	62,422.25	66,568.63		66,568.63	3,646.38	4,146.38	5.80%	6.64%	5.05%	5.24%	-0.19
Interest	18,300.06		18,300.06	19,938.17		19,938.17	1,638.11	1,638.11	8.95%	8.95%	1.51%	1.54%	-0.02
Subsidies	8,453.75		8,453.75	12,646.48		12,646.48	4,192.73	4,192.73	49.60%	49.60%	0.96%	0.71%	0.25
Total transfers	233,398.73		233,398.73	262,598.46		262,598.46	29,199.72	29,199.72	12.51%	12.51%	19.93%	19.61%	0.33
Transfers between public administration entities	2,599.37		2,599.37	2,583.34	850.00	1,733.34	-16.03	-866.03	-0.62%	-33.32%	0.13%	0.22%	-0.09
Other transfers	27,011.64		27,011.64	25,308.73		25308.726	-1,702.91	-1,702.91	-6.30%	-6.30%	1.92%	2.27%	-0.35
Projects funded by external post-accession grants	279.89		279.89	5,204.07		5,204.07	4,924.18	4,924.18	1759.33%	1759.33%	0.40%	0.02%	0.37
Social assistance	147,662.62		147,662.62	160,401.03		160,401.03	12,738.41	12,738.41	8.63%	8.63%	12.18%	12.41%	-0.23
Projects funded by external post-accession grants 2014-2020	47,549.41		47,549.41	50,577.43		50,577.43	3,028.03	3,028.03	6.37%	6.37%	3.84%	3.99%	-0.16
Other expenditure	8,295.80		8,295.80	7,963.03		7,963.03	-332.77	-332.77	-4.01%	-4.01%	0.60%	0.70%	-0.09
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP			0.00	10,238.82		10,238.82	10,238.82	10,238.82	-	-	0.78%	0.00%	0.78
Projects financed from the amounts related to the loan component of NRRP				322.00		322.00	322.00	322.00	-	-	0.02%	0.00%	0.02
Reserve funds	1,199.95		1,199.95	500.00		500.00	-699.95	-699.95	-58.33%	-58.33%	0.04%	0.10%	-0.06
Expenditure Funded from reimbursable funds	682.03		682.03	669.79		669.79	-12.24	-12.24	-1.79%	-1.79%	0.05%	0.06%	-0.01
Capital expenditure	35,255.94	763.77	34,492.17	38,640.42		38,640.42	3,384.47	4,148.24	9.60%	12.03%	2.93%	2.90%	0.04
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(-)	**-84,905.13**		**-84,905.13**	**-76,982.97**	**0.00**	**-76,982.97**	**7,922.16**	**7,922.16**	**-9.33%**	**-9.33%**	**-5.84%**	**-7.13%**	**1.29**

Source: MF, FC’s calculations

Annex II	FS projection 2022 (mil. lei)	FS projection 2023 (mil. lei)	FS projection 2023 -FS projection 2022 (mil. lei)	FS projection 2023 -FS projection 2022 (%)	FS projection 2022 (% GDP)	FS projection 2023 (% GDP)	FS projection 2023 -FS projection 2022 (% GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
Total revenue	**439,985.9**	**485,717.9**	**45,732.0**	**10.4%**	**33.4%**	**33.7%**	**0.3**
Current revenue	**380,118.5**	**420,224.0**	**40,105.5**	**10.6%**	**28.9%**	**29.2%**	**0.3**
Tax revenue	**210,917.4**	**232,854.5**	**21,937.1**	**10.4%**	**16.0%**	**16.2%**	**0.2**
Taxes on profit, wages, income and capital gains	**57,603.1**	**64,290.9**	**6,687.8**	**11.6%**	**4.4%**	**4.5%**	**0.1**
Corporate income tax	21,581.8	23,955.1	2,373.3	11.0%	1.6%	1.7%	0.0
Personal income tax	31,498.9	35,393.3	3,894.4	12.4%	2.4%	2.5%	0.1
Other taxes on income, profit and capital gains	4,522.4	4,942.6	420.2	9.3%	0.3%	0.3%	0.0
Property tax	**7,467.7**	**8,322.4**	**854.7**	**11.4%**	**0.6%**	**0.6%**	**0.0**
Taxes on goods and services	**143,059.4**	**157,278.6**	**14,219.2**	**9.9%**	**10.9%**	**10.9%**	**0.1**
VAT	91,692.5	103,040.2	11,347.7	12.4%	7.0%	7.2%	0.2
Excises	38,416.8	43,083.6	4,666.7	12.1%	2.9%	3.0%	0.1
Other taxes on goods and services	5,088.1	5,301.0	212.9	4.2%	0.4%	0.4%	0.0
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	7,862.0	5,853.9	-2,008.1	-25.5%	0.6%	0.4%	-0.2
Taxes on foreign trade and international transactions (custom duty)	**1,678.1**	**1,762.5**	**84.4**	**5.0%**	**0.1%**	**0.1%**	**0.0**
Other tax revenue	**1,109.1**	**1,200.0**	**90.9**	**8.2%**	**0.1%**	**0.1%**	**0.0**
Social security contributions	**140,088.5**	**155,470.8**	**15,382.3**	**11.0%**	**10.6%**	**10.8%**	**0.2**
Nontax revenue	**29,112.6**	**31,898.7**	**2,786.1**	**9.6%**	**2.2%**	**2.2%**	**0.0**
Capital revenue	**867.9**	**945.1**	**77.3**	**8.9%**	**0.1%**	**0.1%**	**0.0**
Grants	**8.7**	**3.5**	**-5.1**	**-59.4%**	**0.0%**	**0.0%**	**0.0**
Amounts received from the EU in the account of payments made and prefinancing	**5,000.1**	**5,000.0**	**-0.1**	**0.0%**	**0.4%**	**0.3%**	**0.0**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Amounts collected in the single account	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Other amounts received from the EU	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**

Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	**45,113.4**	**46,304.6**	**1,191.2**	**0.0%**	**3.4%**	**3.2%**	**-0.2**
Amounts related to the non-reimbursable financial assistance allocated for NRRP	**8,877.4**	**13,240.6**	**4,363.2**	**0.0%**	**0.7%**	**0.9%**	**0.2**
Total expenditure	**516,968.9**	**548,650.2**	**31,681.3**	**6.1%**	**39.2%**	**38.1%**	**-1.1**
Current expenditure	**478,328.5**	**505,188.7**	**26,860.2**	**5.6%**	**36.3%**	**35.1%**	**-1.2**
Personnel	115,407.0	117,555.2	2,148.2	1.9%	8.8%	8.2%	-0.6
Goods and services	66,568.6	67,156.2	587.6	0.9%	5.1%	4.7%	-0.4
Interest	19,938.2	21,912.6	1,974.5	9.9%	1.5%	1.5%	0.0
Subsidies	12,646.5	9,009.7	-3,636.8	-28.8%	1.0%	0.6%	-0.3
Total transfers	**262,598.5**	**288,254.6**	**25,656.1**	**9.8%**	**19.9%**	**20.0%**	**0.1**
Transfers between public administration entities	2,583.3	2,981.3	397.9	15.4%	0.2%	0.2%	0.0
Other transfers	25,308.7	22,337.7	-2,971.0	-11.7%	1.9%	1.6%	-0.4
Projects funded by external post-accession grants	5,204.1	5,037.5	-166.6	-3.2%	0.4%	0.3%	0.0
Social assistance	160,401.0	171,687.6	11,286.5	7.0%	12.2%	11.9%	-0.3
Projects funded by external post-accession grants 2014-2020	50,577.4	51,767.8	1,190.3	2.4%	3.8%	3.6%	-0.2
Other expenditure	7,963.0	9,040.2	1,077.2	13.5%	0.6%	0.6%	0.0
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	10,238.8	17,756.3	7,517.5	73.4%	0.8%	1.2%	0.5
Projects financed from the amounts related to the loan component of NRRP	322.0	7,646.2	7,324.2	2274.6%	0.0%	0.5%	0.5
Reserve funds	**500.0**	**500.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Expenditure Funded from reimbursable funds	**669.8**	**800.4**	**130.6**	**19.5%**	**0.1%**	**0.1%**	**0.0**
Capital expenditure	**38,640.4**	**43,461.5**	**4,821.1**	**12.5%**	**2.9%**	**3.0%**	**0.1**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Payments made in previous years and recovered in the current year	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
EXCEDENT(+) / DEFICIT(-)	**-76,983.0**	**-62,932.4**	**14,050.6**	**-18.3%**	**-5.8%**	**-4.4%**	**1.5**

Source: MF, FC's calculations

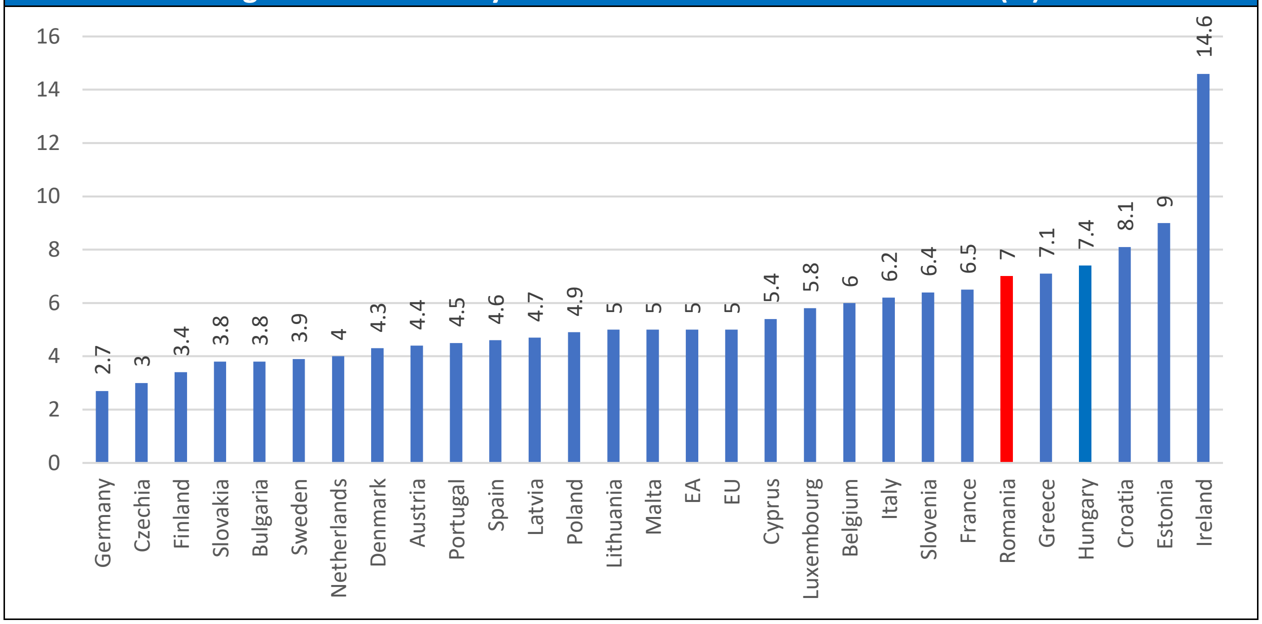
Annex III	FS projection 2023 (mil. lei)	FS projection 2024 (mil. lei)	FS projection 2024 -FS projection 2023 (mil. lei)	FS projection 2024 -FS projection 2023 (%)	FS projection 2023 (% GDP)	FS projection 2024 (% GDP)	FS projection 2024 -FS projection 2023 (% GDP)
	1	2	3=2-1	4=3/1	5	6	7=6-5
Total revenue	**485,717.9**	**530,523.0**	**44,805.1**	**9.2%**	**33.7%**	**34.0%**	**0.3**
Current revenue	**420,224.0**	**467,279.2**	**47,055.2**	**11.2%**	**29.2%**	**30.0%**	**0.8**
Tax revenue	**232,854.5**	**260,579.2**	**27,724.7**	**11.9%**	**16.2%**	**16.7%**	**0.5**
Taxes on profit, wages, income and capital gains	**64,290.9**	**72,434.0**	**8,143.1**	**12.7%**	**4.5%**	**4.6%**	**0.2**
Corporate income tax	23,955.1	27,484.3	3,529.2	14.7%	1.7%	1.8%	**0.1**
Personal income tax	35,393.3	39,596.4	4,203.1	11.9%	2.5%	2.5%	**0.1**
Other taxes on income, profit and capital gains	4,942.6	5,353.3	410.7	8.3%	0.3%	0.3%	**0.0**
Property tax	**8,322.4**	**9,173.8**	**851.4**	**10.2%**	**0.6%**	**0.6%**	**0.0**
Taxes on goods and services	**157,278.6**	**175,829.4**	**18,550.8**	**11.8%**	**10.9%**	**11.3%**	**0.3**
VAT	103,040.2	116,093.0	13,052.8	12.7%	7.2%	7.4%	**0.3**
Excises	43,083.6	47,911.5	4,828.0	11.2%	3.0%	3.1%	**0.1**
Other taxes on goods and services	5,301.0	5,489.0	188.0	3.5%	0.4%	0.4%	**0.0**
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	5,853.9	6,335.9	482.0	8.2%	0.4%	0.4%	**0.0**
Taxes on foreign trade and international transactions (custom duty)	**1,762.5**	**1,848.4**	**85.9**	**4.9%**	**0.1%**	**0.1%**	**0.0**
Other tax revenue	**1,200.0**	**1,293.6**	**93.6**	**7.8%**	**0.1%**	**0.1%**	**0.0**
Social security contributions	**155,470.8**	**171,377.2**	**15,906.4**	**10.2%**	**10.8%**	**11.0%**	**0.2**
Nontax revenue	**31,898.7**	**35,322.8**	**3,424.1**	**10.7%**	**2.2%**	**2.3%**	**0.0**
Capital revenue	**945.1**	**1,022.5**	**77.3**	**8.2%**	**0.1%**	**0.1%**	**0.0**
Grants	**3.5**	**3.5**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Amounts received from the EU in the account of payments made and prefinancing	**5,000.0**	**11,500.0**	**6,500.0**	**130.0%**	**0.3%**	**0.7%**	**0.4**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Amounts collected in the single account	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Other amounts received from the EU	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**

Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	**46,304.6**	**30,427.2**	**-15,877.4**	**-34.3%**	**3.2%**	**2.0%**	**-1.3**
Amounts related to the non-reimbursable financial assistance allocated for NRRP	**13,240.6**	**20,290.6**	**7,050.0**	**53.2%**	**0.9%**	**1.3%**	**0.4**
Total expenditure	**548,650.2**	**575,609.9**	**26,959.7**	**4.9%**	**38.1%**	**36.9%**	**-1.2**
Current expenditure	**505,188.7**	**534,525.7**	**29,337.0**	**5.8%**	**35.1%**	**34.3%**	**-0.8**
Personnel	117,555.2	120,666.6	3,111.4	2.6%	8.2%	7.7%	**-0.4**
Goods and services	67,156.2	68,421.2	1,265.0	1.9%	4.7%	4.4%	**-0.3**
Interest	21,912.6	23,069.7	1,157.0	5.3%	1.5%	1.5%	**0.0**
Subsidies	9,009.7	9,168.0	158.2	1.8%	0.6%	0.6%	**0.0**
Total transfers	**288,254.6**	**311,684.1**	**23,429.5**	**8.1%**	**20.0%**	**20.0%**	**0.0**
Transfers between public administration entities	2,981.3	3,160.3	179.0	6.0%	0.2%	0.2%	**0.0**
Other transfers	22,337.7	22,829.6	491.9	2.2%	1.6%	1.5%	**-0.1**
Projects funded by external post-accession grants	5,037.5	11,539.2	6,501.7	129.1%	0.3%	0.7%	**0.4**
Social assistance	171,687.6	185,068.8	13,381.2	7.8%	11.9%	11.9%	**-0.1**
Projects funded by external post-accession grants 2014-2020	51,767.8	42,317.5	-9,450.3	-18.3%	3.6%	2.7%	**-0.9**
Other expenditure	9,040.2	8,996.0	-44.2	-0.5%	0.6%	0.6%	**-0.1**
Projects with financing from the amounts representing the non-reimbursable financial assistance related to NRRP	17,756.3	27,145.8	9,389.5	52.9%	1.2%	1.7%	**0.5**
Projects financed from the amounts related to the loan component of NRRP	7,646.2	10,626.8	2,980.6	39.0%	0.5%	0.7%	**0.2**
Reserve funds	**500.0**	**500.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Expenditure Funded from reimbursable funds	**800.4**	**1,016.1**	**215.7**	**26.9%**	**0.1%**	**0.1%**	**0.0**
Capital expenditure	**43,461.5**	**41,084.3**	**-2,377.3**	**-5.5%**	**3.0%**	**2.6%**	**-0.4**
Financial operations	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
Payments made in previous years and recovered in the current year	**0.0**	**0.0**	**0.0**	**0.0%**	**0.0%**	**0.0%**	**0.0**
EXCEDENT(+) / DEFICIT(-)	**-62,932.4**	**-45,086.9**	**17,845.5**	**-28.4%**	**-4.4%**	**-2.9%**	**1.5**

Source: MF, FC's calculations

Annex IV

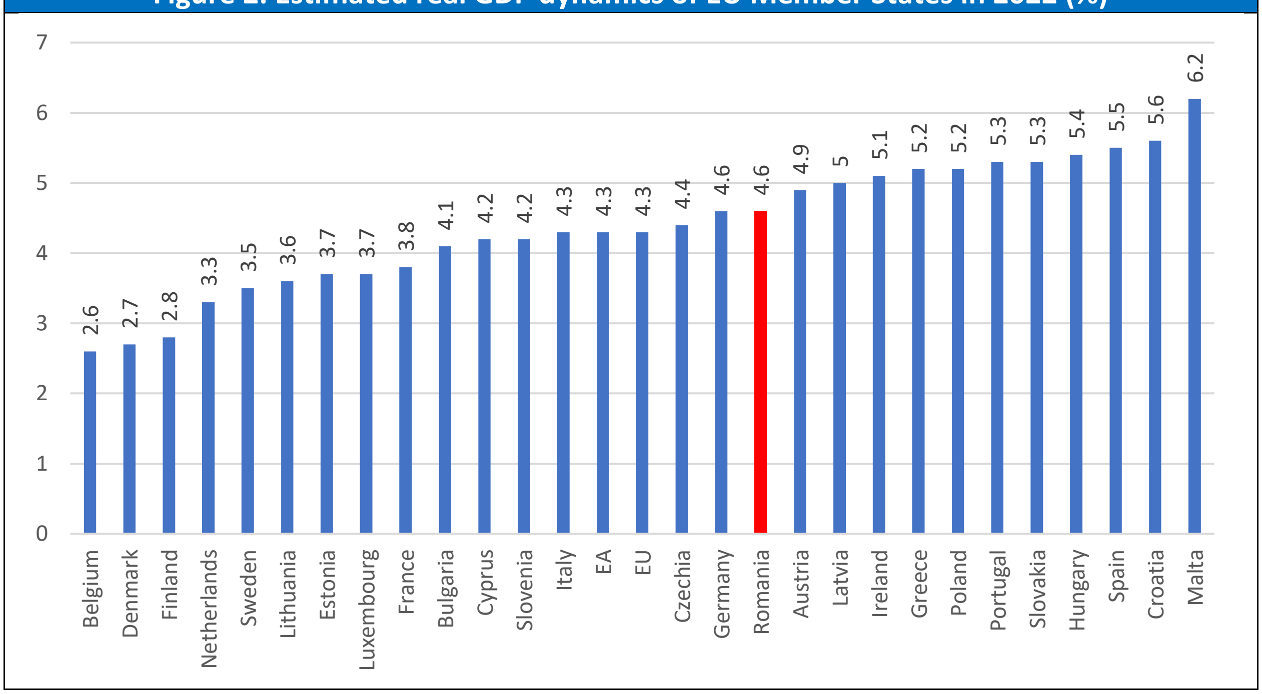
Figure 1: Real GDP dynamics of EU Member States in 2021 (%)



Source: EC, NCSP

Note: *In the case of Romania, real GDP dynamics is given by the most recent NCSP estimates*

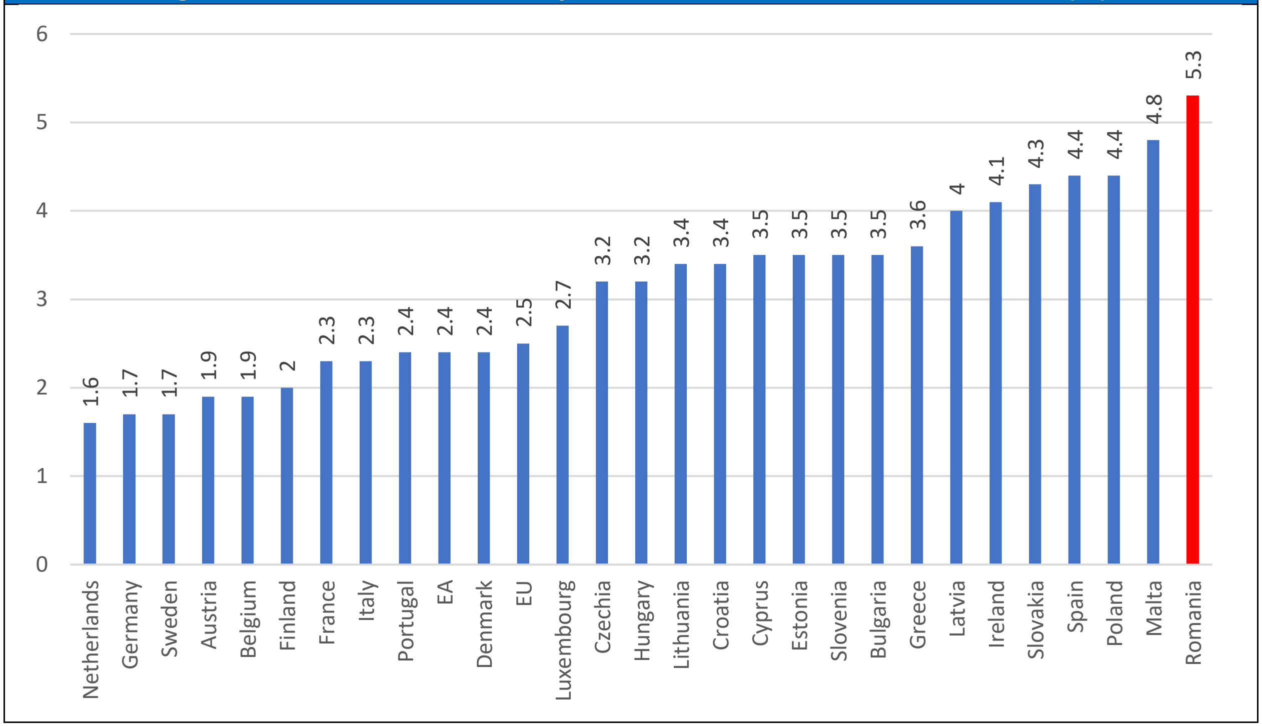
Figure 2: Estimated real GDP dynamics of EU Member States in 2022 (%)



Source: EC, NCSP

Note: *In the case of Romania, real GDP dynamics is given by the most recent NCSP estimates*

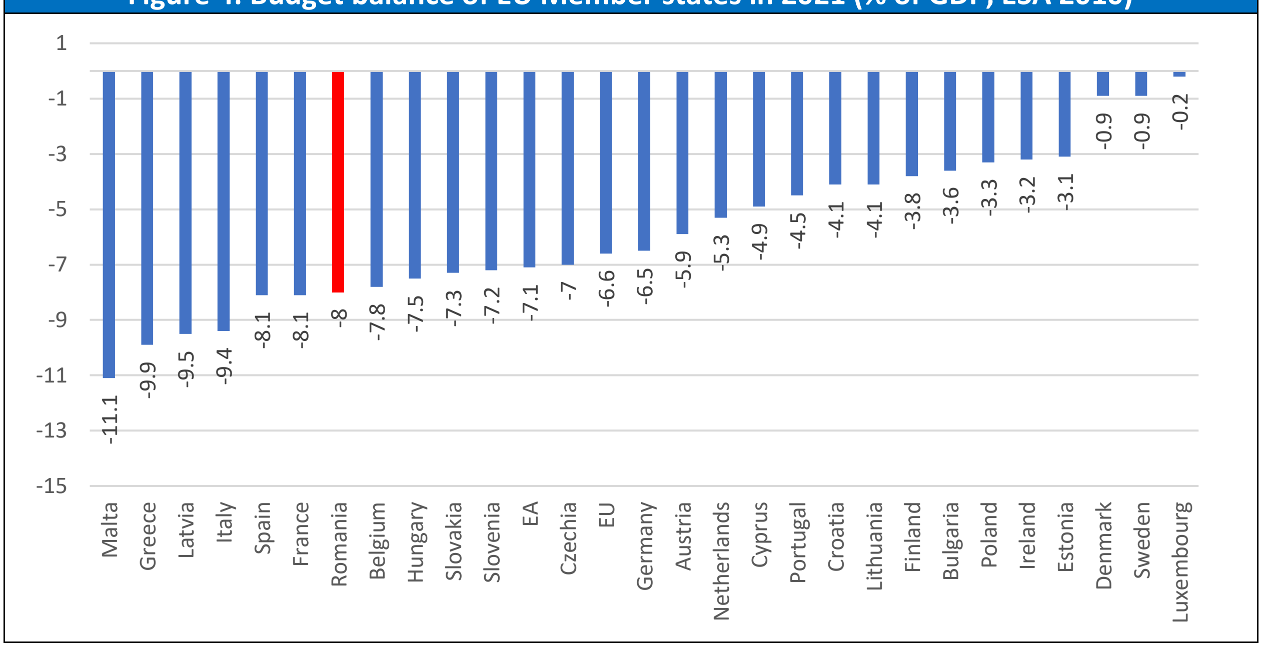
Figure 3: Estimated real GDP dynamics of EU Member States in 2023 (%)



Source: EC, NCSP

Note: *In the case of Romania, real GDP dynamics is given by the most recent NCSP estimates*

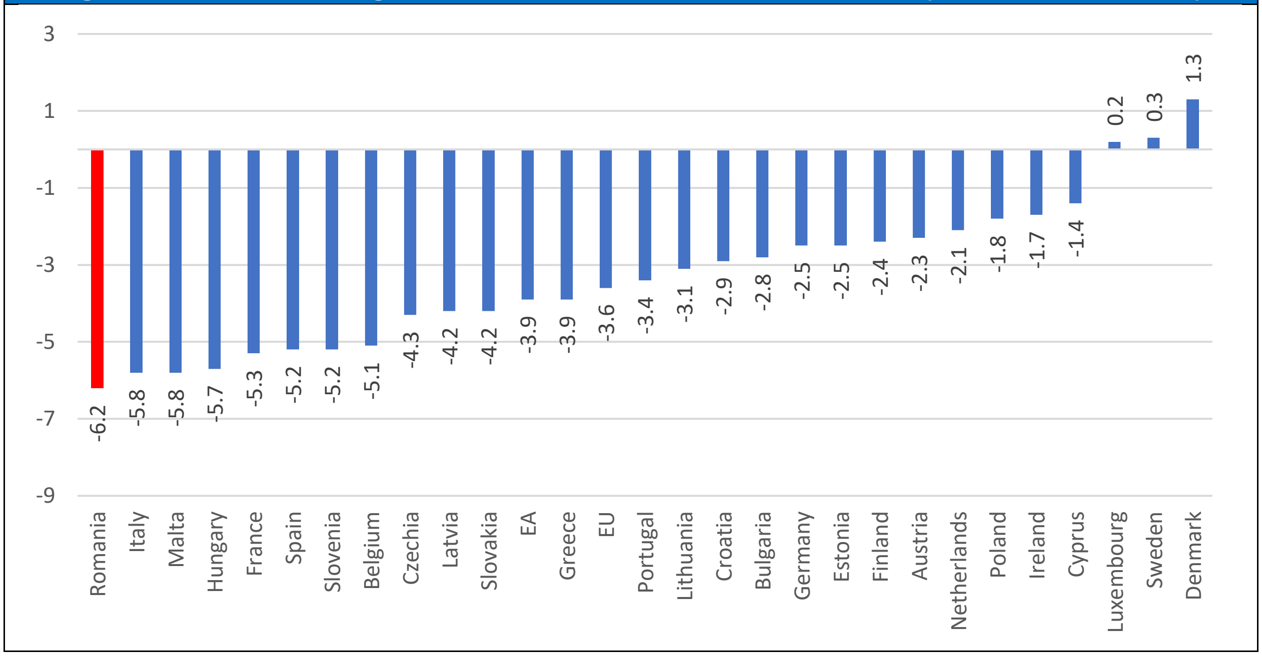
Figure 4: Budget balance of EU Member states in 2021 (% of GDP, ESA 2010)



Source: Ameco, MF

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

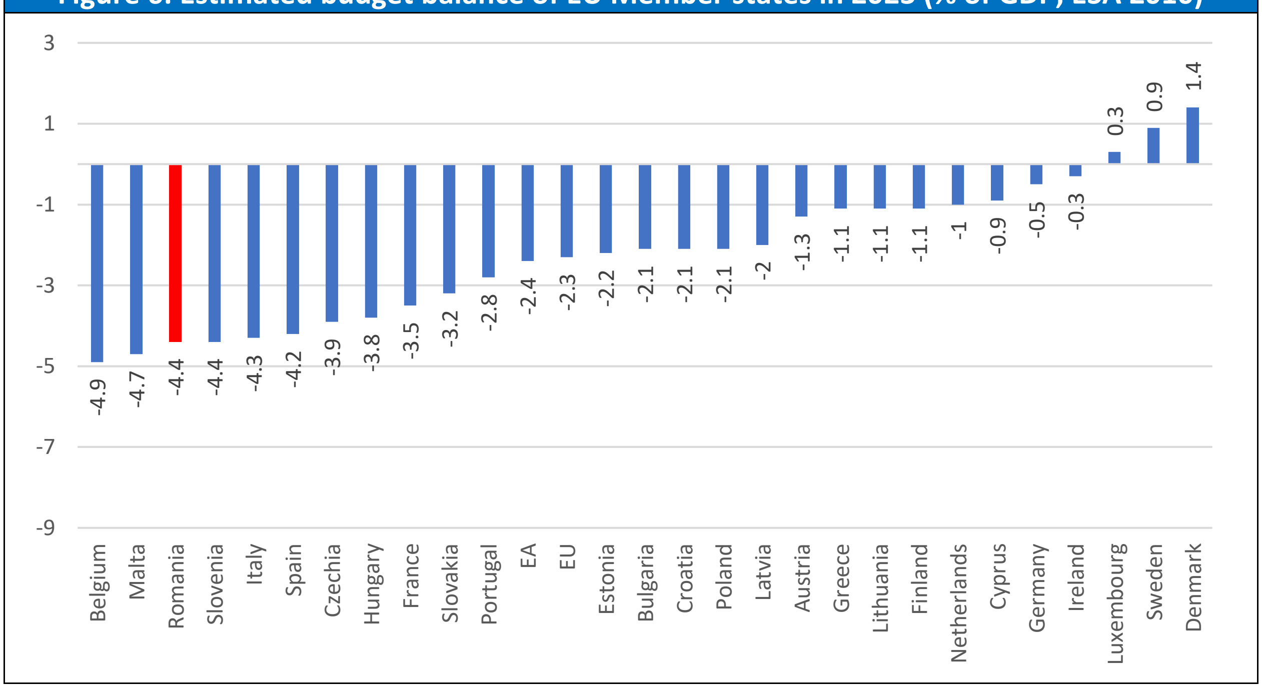
Figure 5: Estimated budget balance of EU Member states in 2022 (% of GDP, ESA 2010)



Source: Ameco, MF

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

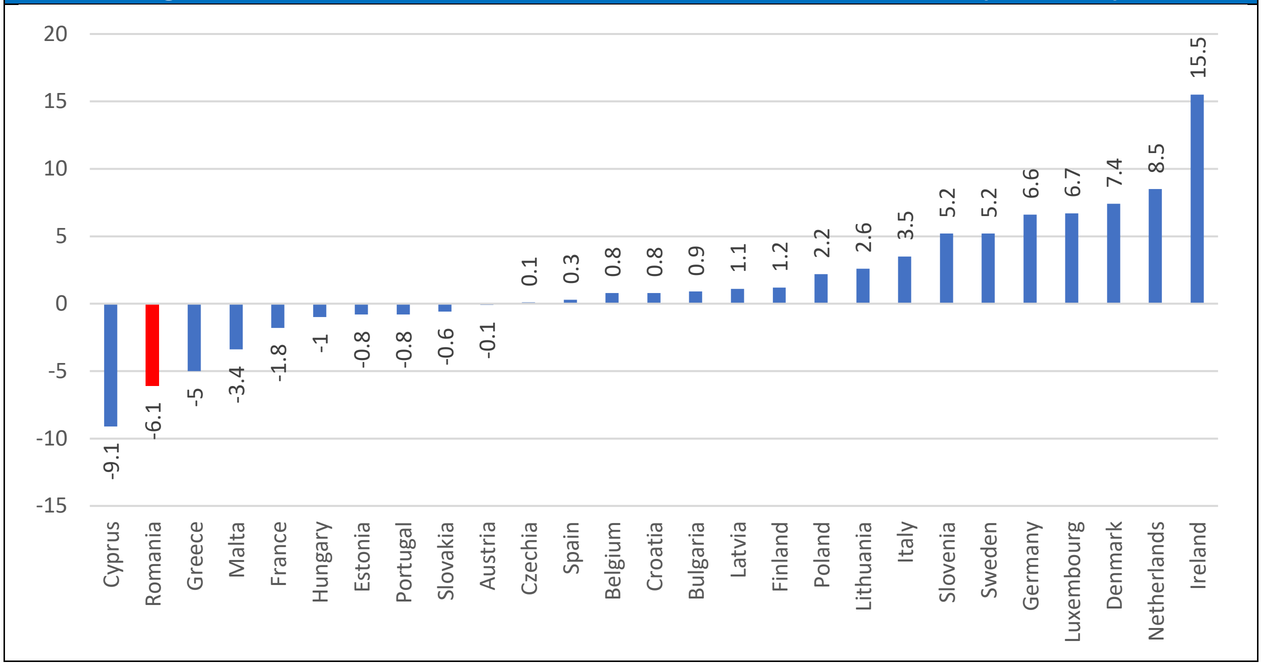
Figure 6: Estimated budget balance of EU Member states in 2023 (% of GDP, ESA 2010)



Source: Ameco, MF

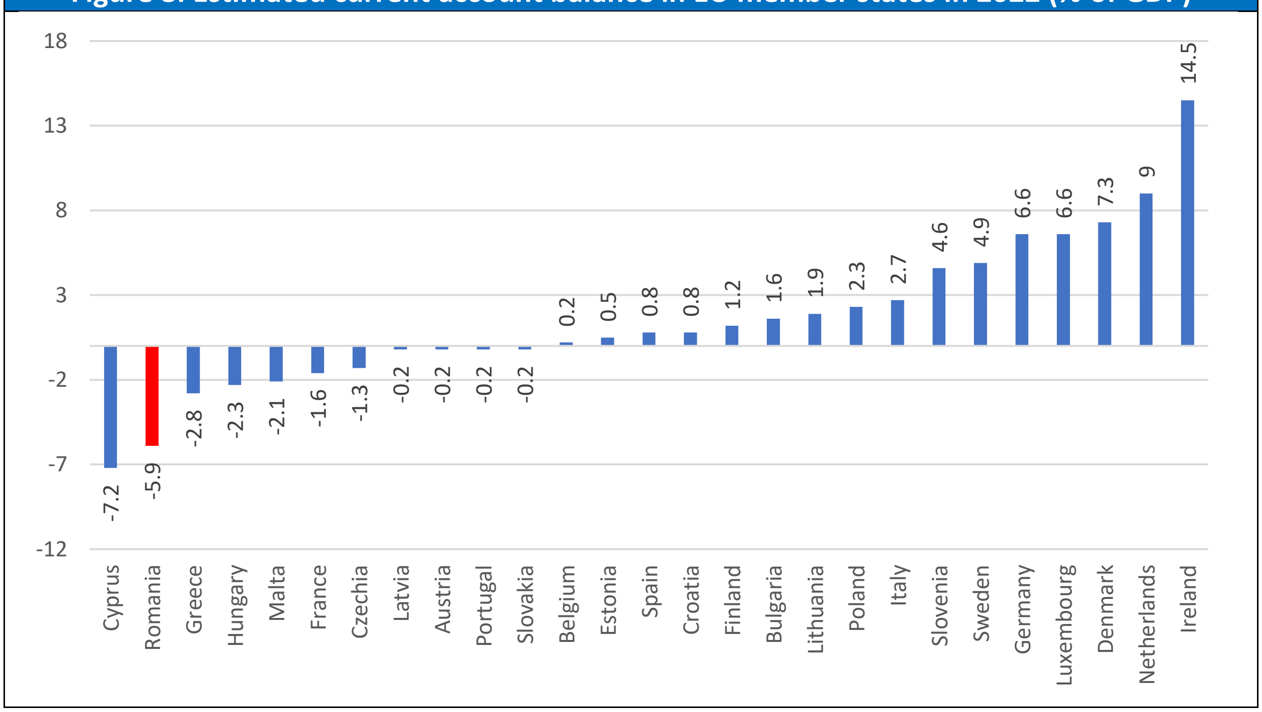
Note: In the case of Romania, the level of budget balance is the one estimated by the MF

Figure 7: Current account balance in EU member states in 2021 (% of GDP)



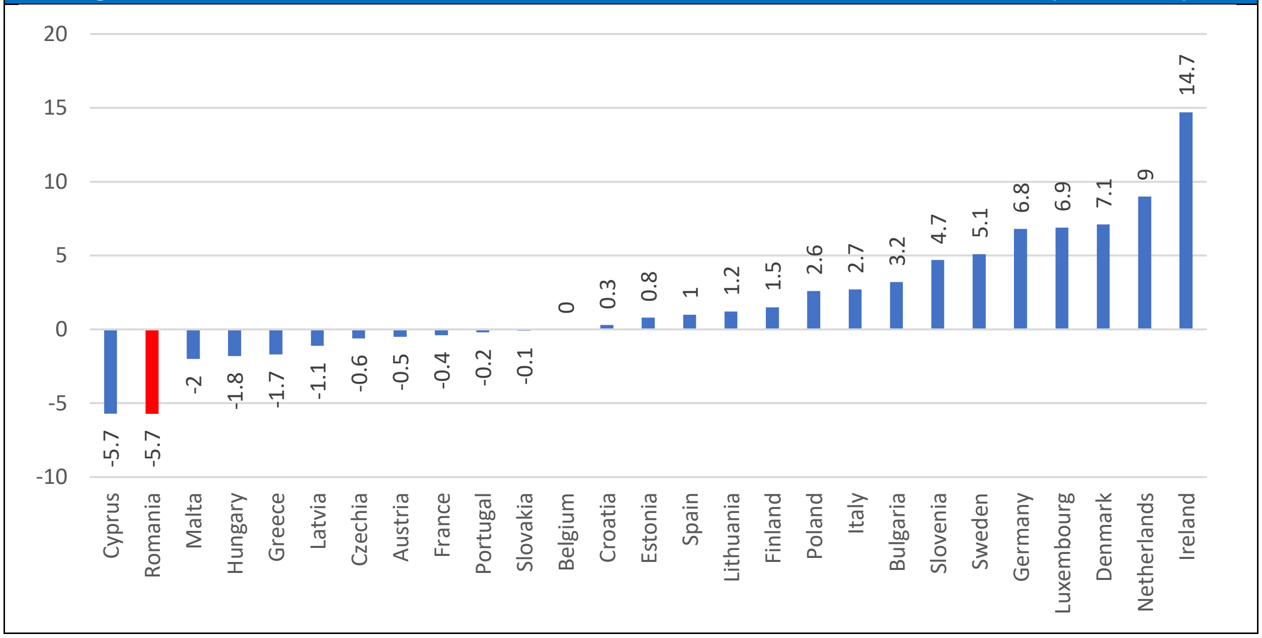
Source: AMECO

Figure 8: Estimated current account balance in EU member states in 2022 (% of GDP)



Source: AMECO

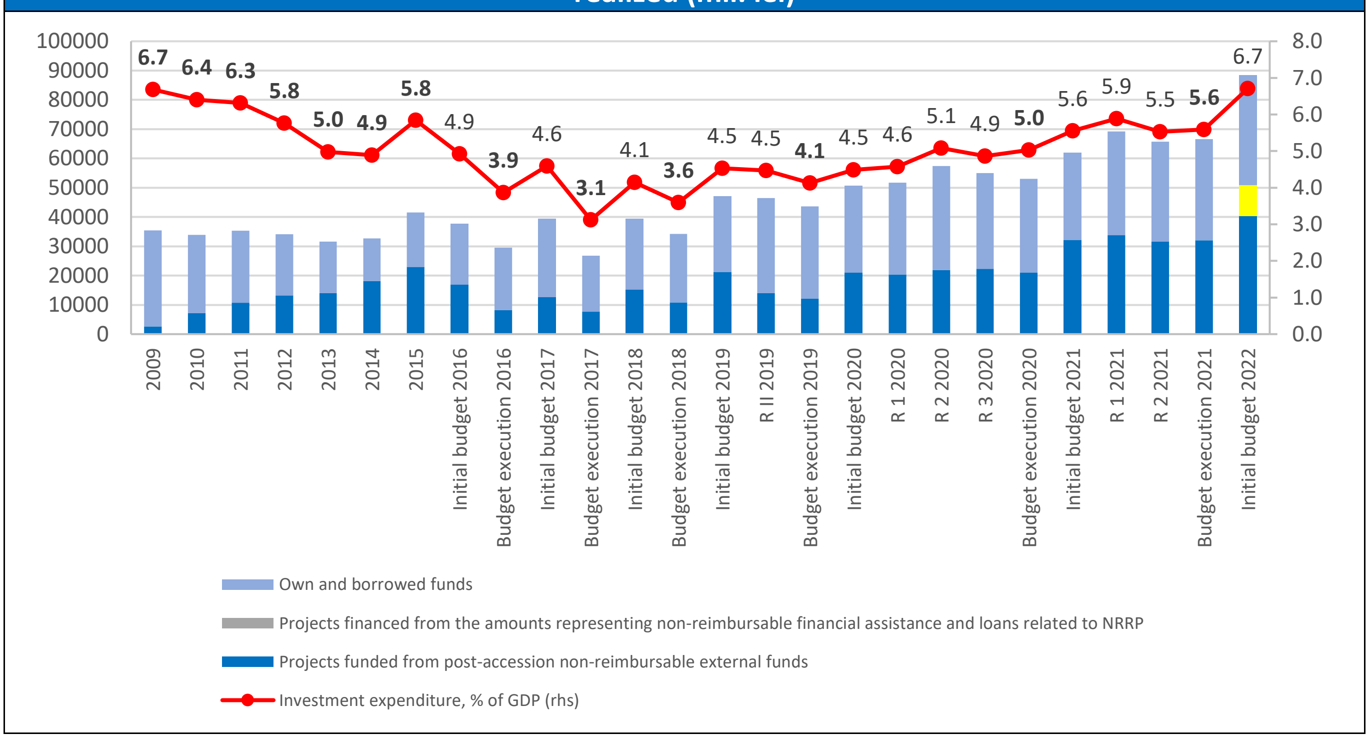
Figure 9: Estimated current account balance in EU member states in 2023 (% of GDP)



Source: AMECO

Annex V

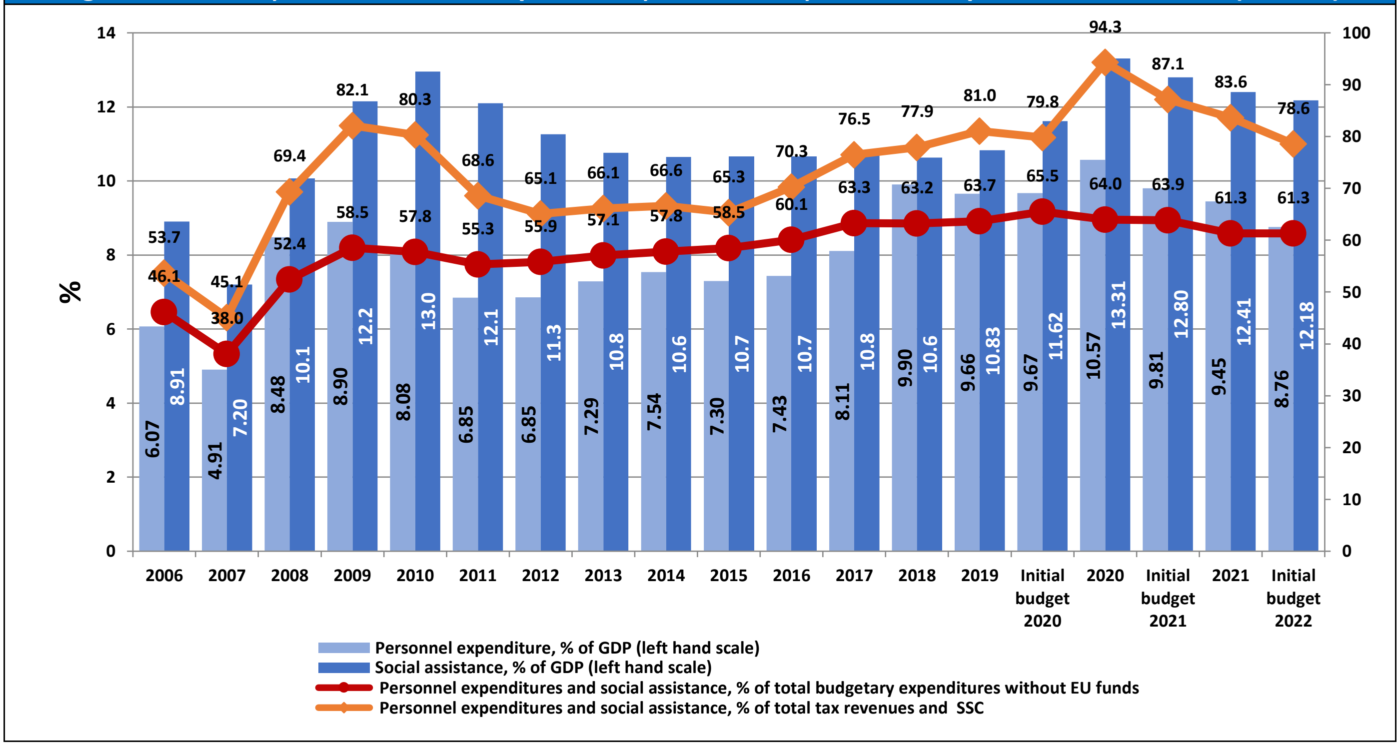
Figure 10: The evolution of public investment expenditures between 2009-2022 – planned level vs. realized (mil. lei)



Source: MF, FC's calculations

Annex VI

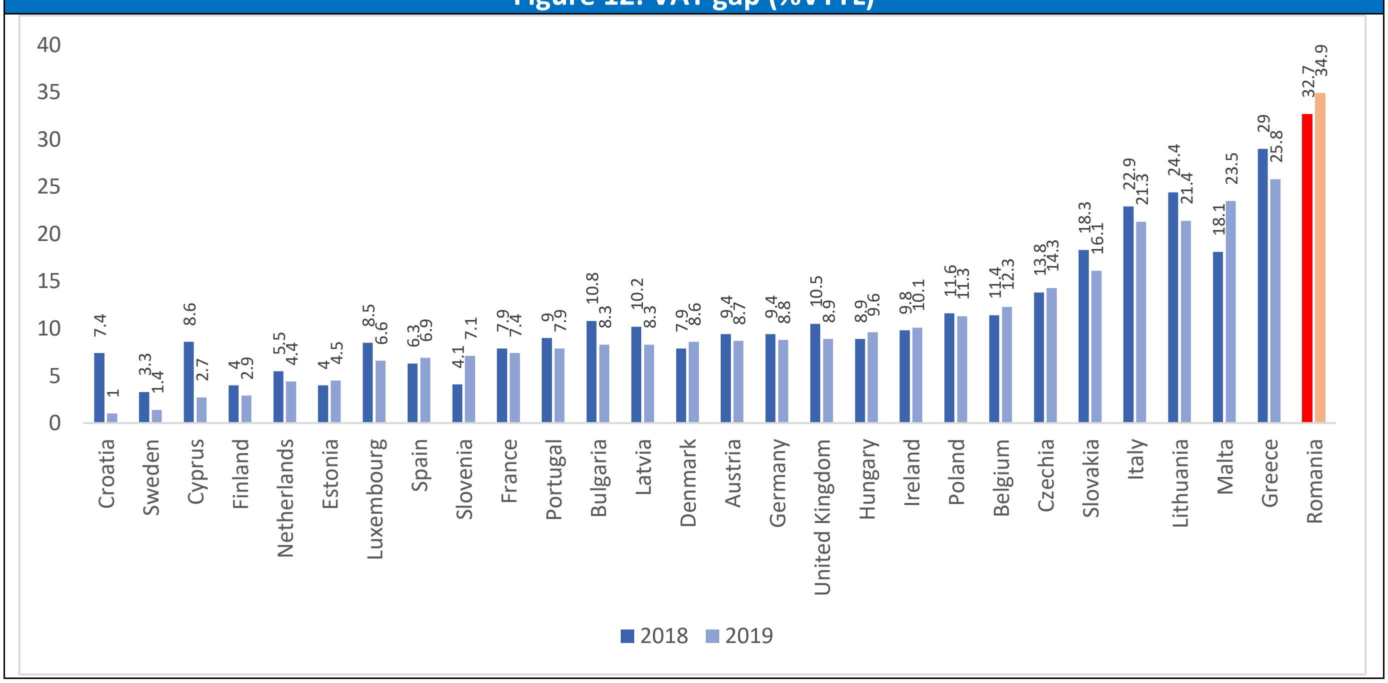
Figure 11: Evoluția cheltuielilor de personal și de asistență socială în perioada 2006-2022(mil. lei)



Source: MF, FC's calculations

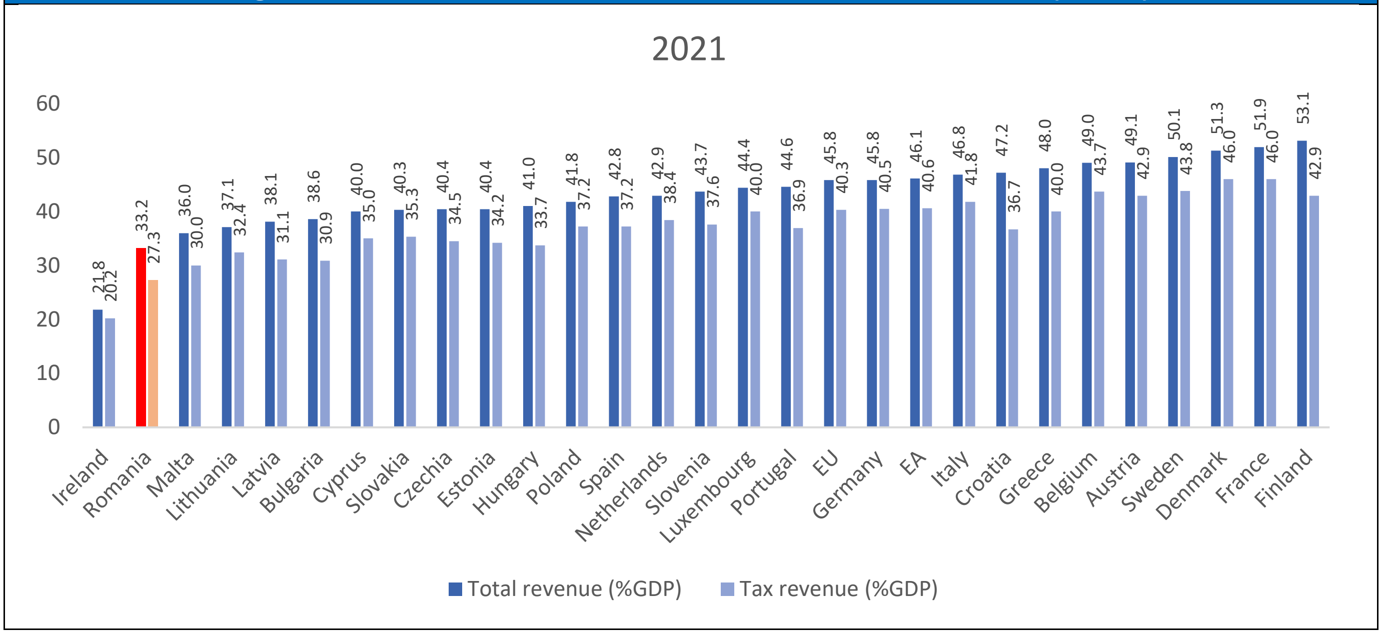
Annex VII

Figure 12: VAT gap (%VTTL)



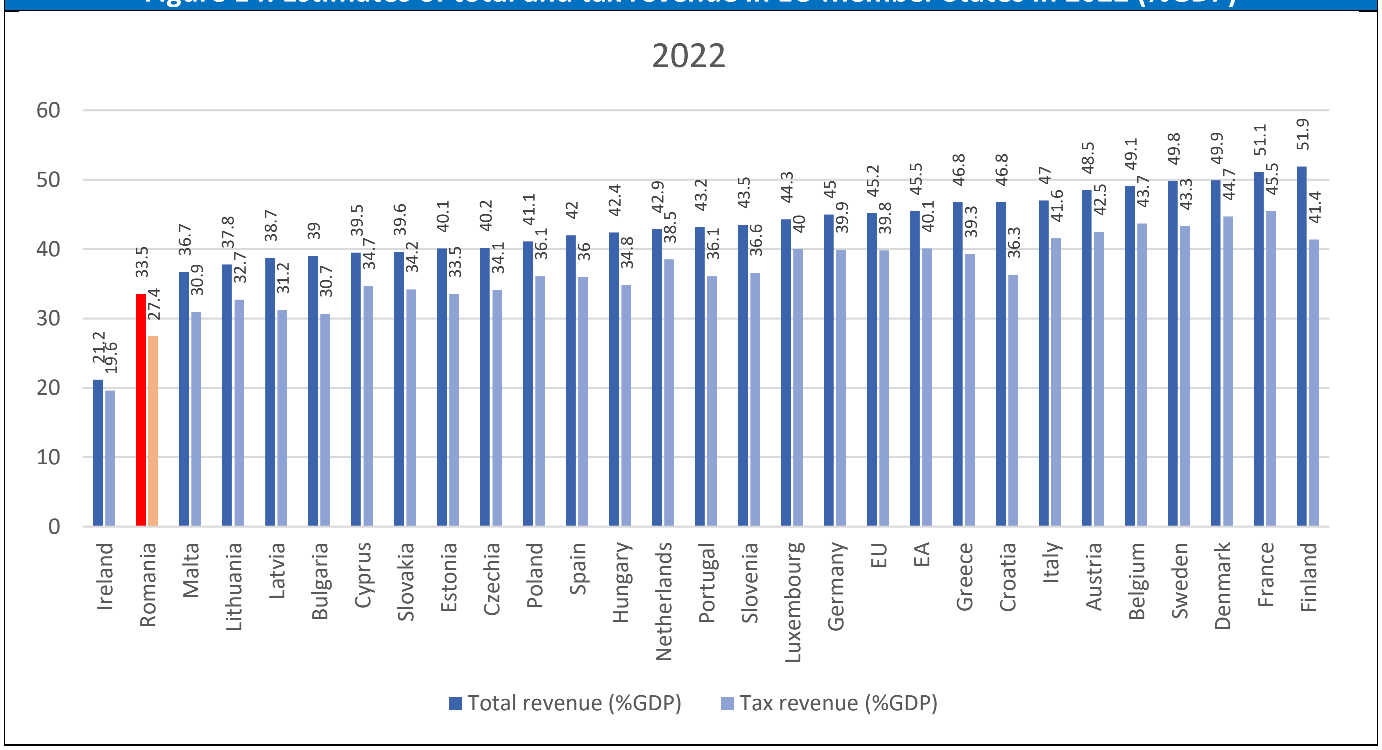
Source: EC, VAT Gap in the EU Report 2021

Figure 13:Total and tax revenue in EU Member States in 2021 (%GDP)



Source: AMECO

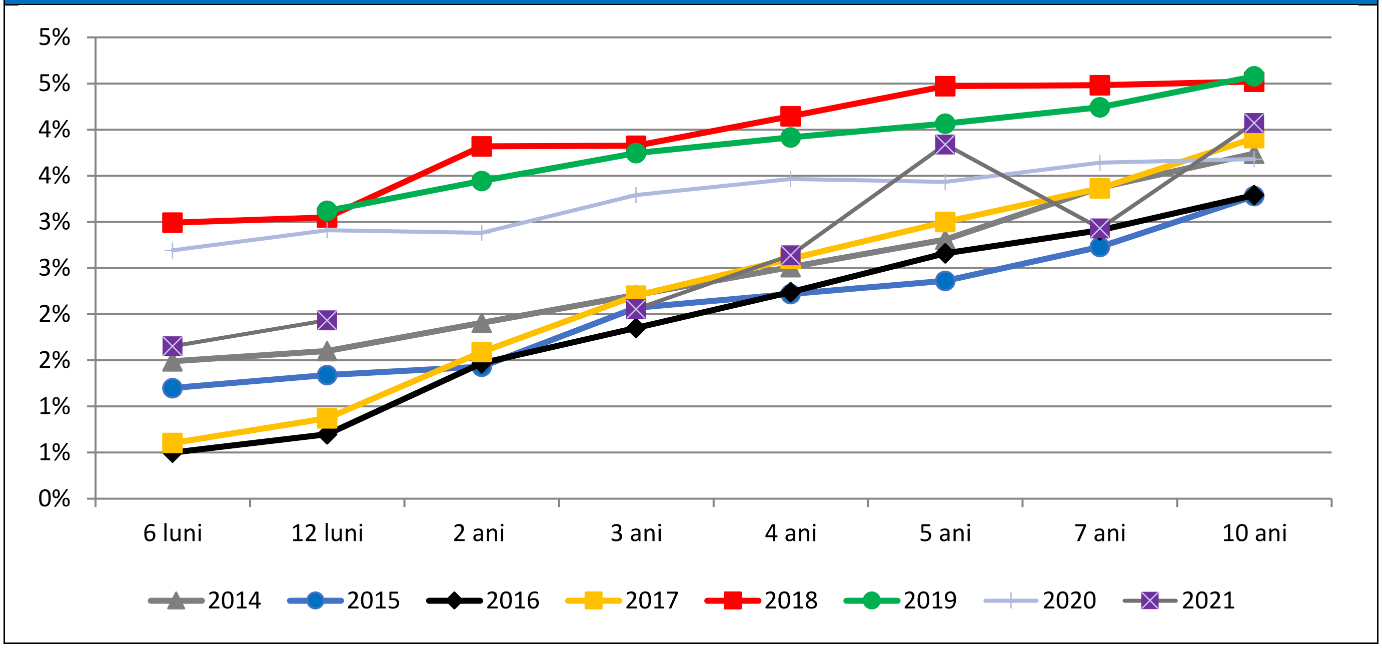
Figure 14: Estimates of total and tax revenue in EU Member States in 2022 (%GDP)



Source: AMECO

Annex VIII

Figure 15: The yield curve for government securities issued in domestic currency between 2014-2021*



Source: NBR

Note: Data for 2021 were extracted from NBR website on 18.12.2021.