Fiscal Council of Romania

Fiscal Council's Opinion on the First Budget Revision for 2021

Summary

- The economic year 2021 is marked by: a strong recovery of European economies, of those developed in general - an average GDP growth of 4.8% in the EU, over 6.5% in the US, probably over 7% in Romania; a fourth wave of the COVID-19 pandemic whose impact is effectively combated wherever the vaccination rate is high and the rules of protection are followed; a big jump in public debt in Europe, in many other countries, as a result of the explosion of budget deficits; an inflationary process with which Europe, the developed countries, were no longer accustomed; extreme events such as floods alternating with drought, hot temperatures, devastating fires, which signal the passage of critical thresholds of climate change that have very severe consequences for humans; geopolitical tensions, tragedies such as the one in Afghanistan, which affect international economic and political relations and which put pressure on public budgets.
- Climate change will increasingly strain public and private budgets in the coming years. Fragile economies with less robust budgets (illustrated also by low budget revenues) can be easily overwhelmed by adverse shocks and future crises. Due to shortcomings related to the fiscal policy over the years, Romania ranks among lasts in the EU in terms of budget revenues, with fiscal revenues (including social security contributions) around 27% of GDP compared to the EU average of 41.1% in 2020.
- The budget for this year had as initial target a cash deficit of 7.16%, respectively an ESA deficit of 8.28% of GDP. The revision comes with a cash deficit target of 7.13%, marginally below the one originally programmed.
- The large-scale revision of budget revenues (increase of 17.6 billion lei) in the revision project has two main sources: incorporating the recovery of deferred taxes by companies in the revenue forecast (not initially considered because of a conservative approach of the MF) and the favorable revision of the macroeconomic framework - projected economic growth of 7% compared to the initial forecast of 4.3%.
- FC considers as plausible the updated forecast of budget revenues, less the amounts coming from the rental of frequency bands (2.5 billion lei, respectively 0.21% of GDP) on which we consider that there are relevant risks that these revenues will not be realized. It should be emphasized the temporary nature (one-off) of the amounts recovered from

the taxes related to the previous year deferred to payment by economic agents, their amount for the current year being high (about 10 billion lei).

- On the side of budget expenditures, there is a large increase (+21.4 billion lei) compared to the parameters approved by the draft budget, the main causes being supplements to capital expenditures, other transfers, goods and services, personnel expenditures and social assistance. Thus, there is a major slippage on the part of budget expenditures with the main explanations being the inability to keep them under control, an under-budgeting in the initial budget construction and price increases above expectations for goods and services purchased by the state.
- FC identifies an under-budgeting at the level of social assistance expenditures in the amount of 0.3 pp of GDP and risks of exceeding the budget envelope for personnel and goods and services expenditures.
- Considering the probable non-realization of the revenues from the rental of 5G frequency bands and the additional needs identified by FC at the level of social assistance expenditures, an unfavorable deviation in the amount of about 0.5% of GDP results above the new budget deficit estimate of 7.13% of GDP, which calls for additional measures to comply with it.
- The draft budget revision weakens the budget consolidation as announced for 2021. The soundness of the budget construction scheduled for revision is lower than that of the draft budget, even if the target level of the budget deficit (7.13% of GDP) is close to the initial level (7.16% of GDP).
- Given the more favorable development of the economy and the higher amount of revenue from the recovery of deferred taxes, an optimal and achievable level of the budget deficit target should have been, in the FC's view, significantly below 7% of GDP - around 6.5% of GDP. Such a level is not plausible to be reached now, given the major slippage on the budget expenditure side.
- The opportunity for new investment expenditures from own resources of the public budget in the conditions of a high budget deficit and the urgency of the budgetary consolidation in the coming years is also to be judged.
- This budgetary revision is unique in the history of the revisions assessed by the Fiscal Council, from 2010 up till now, by the magnitude of the positive rectification of budgetary revenues and expenditures (their increase being of approximately 4.8% compared to the previously proposed values). In this revision, amounts higher than the increase in programmed revenues is allocated to expenditure.
- Given that part of these revenues is temporary (at least those postponed from payment in 2020) and another part is due to the favorable cyclical dynamics of the economy, FC considers that the allocation of revenues, as part of the revision, involves considerable risks, which they can materialize through future unfavorable economic developments, domestically and internationally. Moreover, these revenues, some of which are not permanent, finance, to a large extent, permanent budget expenditures, which

accentuates the risks related to the sustainability of the fiscal position of the public sector.

- The adjustment of deficit targets exclusively by restriction to the level of budgetary expenditure has a very low probability of achievement, the mission of fiscal consolidation only on expenditure can be, under certain conditions, illusory, with adverse effects on the sustainability of public finances.
- The situation of the public budget in Romania compared to most EU countries is problematic for several reasons: a) structural deficit of about 5% of GDP in Romania at the beginning of the pandemic; b) many EU Member States have started with relatively little or no structural deficits in the pandemic crisis and, moreover, have applied temporary measures, which exhaust their effect on the actual budget deficit almost on their own, leading to a recovery of this deficit close to the structural one before the pandemic crisis; c) in the case of Romania, the fiscal adjustment is a process spread over several years, and has, implicitly, an effect of substantial increase of the public debt, which induces increasing sustainability risks; d) the acute lack of fiscal space (also generated by a very low level of fiscal/budgetary revenues) exposes the Romanian economy to the risk of not being able to intervene in case of new moments of high tension domestically and internationally - induced by large debts in the world, a new pandemic wave, the impact of climate change, geopolitical tensions and other crises, etc.
- A tightening of domestic and foreign monetary policy, at the level of the main central banks in developed countries, may aggravate financing risks by reducing the supply of funds, increasing their cost and worsening the risk perception of assets issued by entities/Romanian institutions. There are already signs of the beginning of a tightening of monetary policy by some major central banks.
- National and international experience shows that achieving fiscal consolidation and fiscal adjustments under a set of contractionary policies (especially a restrictive monetary policy) is much more difficult and painful.
- Insufficient fiscal adjustment makes the level of deficit needed to stabilize public debt in GDP increasingly constraining, and at the same time more difficult to achieve over the scheduled time horizon.
- Romania is unique in the region, in the EU, through large imbalances of the external balance. Data for the first half of 2021 on the balance of payments show an increase in the cumulative current account deficit in January-June 2021, compared to the cumulative deficit in the same period last year, of 73.5% (from 4.1 billion euros to 7.0 billion euros), with the current account deficit likely to exceed the 6% of GDP threshold this year. The growing external imbalance is mainly determined by the conduct of fiscal policy. Therefore, the reduction of external vulnerabilities, especially by reversing the conduct of fiscal and budgetary policy, from incentive to restrictive, is also demanded by these data.

- Covering deficits from debt generating flows can also be a risk generator for the sustainability of the external position of the Romanian economy. For these reasons, corroborated with the NCSP forecast of an external deficit in significant reduction - but without specifying the determining factors - we can conclude that the current information raises, strictly, the issue of adjusting the imbalances of the Romanian economy.
- It is difficult to imagine the consolidation of the budget in the absence of the increase of fiscal revenues by a few percent of GDP - to over 30% of GDP. This increase may come from: improving collection efficiency (including through digitalization), broadening the tax base, narrowing exceptions and loopholes that negatively deviate taxes paid by some taxpayers from standard rates, firmly combating tax evasion, unfair tax competition, and of „optimizing” tax rates.
- To have a real respectable, robust economic growth, we need a massive attraction of European funds, which can be a strong piston to mitigate the contractionary impact of the measures to correct the budget deficit. European funds can help restructure the economy (green transition), stimulate necessary reforms and increase competitiveness, help macroeconomic correction. These are aspects that have often been highlighted in FC documents.
- Attracting funding from EU resources to replace as much as possible the use of own budgetary resources would help to create fiscal space. Attracting European funds is a *sine-qua-non* condition of a sustainable fiscal-budgetary and economic policy, which would improve Romania's financial soundness.
- The forward-looking analysis of the public budget must consider extraordinary challenges, such as the impact of climate change, which will put great pressure on the public budget. Even more so is the need to increase fiscal/budgetary revenues. An impact on the public budget will also be due to the situation on the domestic energy market (among others, the need to support vulnerable consumers).
- A severe test for the budget revision will be the year 2022, when the inevitable reduction of the fiscal impulse will be felt in conjunction with the strengthening of the monetary policy, as well as the effects of this year's budget slippage. The budget deficit (cash, ESA, structural) should be around 3% of GDP in 2024, according to the correction program undertaken by the Government and agreed with the EC. In October this year, the Government is due to send a set of measures to Brussels to implement the macroeconomic correction plan. It should be recalled that Romania is subject to the excessive deficit procedure (EDP).
- Budgetary consolidation is essential for stabilizing the level of public debt, for the stability of the national currency, for the economic stability of Romania.

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On August 13, 2021, the Ministry of Finance (MF) sent to the Fiscal Council (FC), by address no. 465570/13.08.2021, the Report on the economic and budgetary situation for the first six months of 2021, the draft revision of the general consolidated budget for 2021, the explanatory note and the draft of the Government Emergency Ordinance on the revision of the state budget for 2021, as well as the explanatory note and the draft of the Government Emergency Ordinance for the revision of the social security budget for 2021, requesting, under art. 53, para. (2) of the Fiscal Responsibility Law (no. 69/2010, republished, hereafter referred to as FRL), the opinion of the Fiscal Council.

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 Fiscal Council when they work out the Fiscal Strategy, the annual budgetary laws, as well as other measures determined by the implementation of this law and, respectively, to their appropriation/approval.

The Fiscal Council, through the addresses no. 20 and 21 of 16 and 18 August 2021, respectively, requested the following information from the MF: (i) the updated coordinates of the budget revision as decided by the governing coalition, (ii) an estimate of revenues, by categories of taxes, collected in the first 6 months of last year's account following the call for the facility to defer payment to the general budget of the economic operators, and their estimate for the whole year, (iii) possible new data and information on the pension system, (iv) the manner of reflecting the amounts related to NRRP in the budget data/coordinates (revised), (v) the amounts covering the gross financing requirement for the whole year already insured up to the current time, (vi) the reflection of the new cash deficit coordinates in the European methodology (ESA2010) and (vii) the situation, with a higher degree of detail, of the budget execution. The MF provided (through addresses no. 465 626 and no. 465 627 of 19 August 2021) the requested data and information. Until the date of approval of the Opinion, the FC received from the MF updates of the figures for the rectification of the general consolidated budget.

1. The general context of the current budgetary revision

There are some important features that define the economic year 2021. First, there is a strong recovery of European economies, of those developed in general. The latest European Commission figures on expected GDP growth this year are indicating over 5% in Italy and over 6% in Spain, France, over 7% in Ireland, an average of 4.8%[1] in the EU, over 6.5% in the US.

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

Romania enters this constellation with a figure of 7%, the official forecast, which is also embraced by FC, by other analyzes performed in the country and abroad. The economic rebound is natural after the year of great difficulties 2020, with the partial closure of savings (lockdown) and a repressed domestic demand.

A second feature concerns the economic impact of the pandemic, which is effectively combated wherever the vaccination rate is high and protection rules are followed; a high vaccination rate is a process characteristic of developed countries. A new wave of the pandemic, due to the mutations of the virus, makes its presence felt, but the existence of vaccines and rules for the protection of citizens/communities, companies, helps to mitigate the harmful effects of infection with this virus. The fourth wave of the pandemic will probably reduce the economic boom in the latter part of the year. Overall, however, 2021 is a year of economic recovery, and in some European economies the negative output gap will be closed; this is also the case of the domestic economy.

A third feature concerns the large jump in public debt in Europe, in developed countries, because of the explosion of budget deficits - governments being forced to intervene to prevent economic activity from collapsing. The impact on public debt has been considerable. In Romania, the public debt (according to the EU methodology) increased from about 35% in 2019 to 47.3% at the end of 2020. And in the middle of the current year, it had exceeded 49% of GDP. This increase was inevitable under the given conditions. In the case of Romania, it is worth mentioning, again, that the fight against the pandemic started from a structural deficit of almost 5% of GDP, which greatly reduced the room for maneuver in this *sui generis* war. It should be noted that the decrease in GDP in Romania was 3.9% in 2020.

A unique feature is an inflationary process with which Europe, the developed countries in general, were no longer accustomed. The reduction of natural interest rates (which ensure the full use of factors of production in stable conditions) in recent decades - amid globalization, demographic developments, new technologies - has led to a dramatic decline in inflation and monetary policy interest rates. But now, the strong economic recovery, the disruptions in the international production chains induced by the pandemic, the rise of prices for commodities and intermediates, have considerably boosted inflation. The big debate is whether this development is temporary or will continue to call for a strengthening of monetary policy. If the FED will react at the end of the year, and especially in 2022, all financial markets will reverberate, with increases in bond yields, even if the ECB is still waiting. Inflation has risen faster in emerging EU economies, including Romania. We also had the liberalization of energy tariffs, which brings an additional boost to inflation through costs/cost push (which is combined with the effect through excess demand), and which has a different impact on the various categories of income/citizens.

Finally, extreme events hypostasized by high floods alternating with drought, hot temperatures, devastating fires signal the crossing of critical thresholds (tipping points) that have very severe consequences for people and require new rules and measures in public policy, changes in individual business models and behaviors. Limiting carbon emissions is vital for the survival of the mankind. The implications for public budgets are inevitable and will require significant changes in the structure of public spending and increased public revenues. The more fragile economies are those with less robust, low-income budgets. And from this point of view, Romania is at the back of the EU, with tax revenues around 27% of GDP, compared to an average of about 41.1% of GDP in the EU. The economic issue of climate change, the severe impact on public and private budgets, are much underestimated in our debates.

The year 2021 must be the first year of macroeconomic correction in Romania. The budget for this year was aimed at a cash deficit of 7.16%, respectively a deficit on ESA of 8.28% of GDP. The revision comes with a cash deficit target of 7.13%, marginally lower than originally programmed. This year's adjustment is taking place against the backdrop of a recovery, a strong economic rebound and is accompanied by a considerable increase in public budget revenues. That is why it is necessary for the budget execution this year to record a deficit of less than 7% of GDP, to help consolidate in the coming years. Romania is also under the excessive deficit procedure.

The 2021 budget was built on a real growth rate of 4.3% with a deflator of 2.8%. As the growth rate assumed at revision is 7.0% and with a deflator of 4.0%, it would have been necessary for a large part of the additional revenue gains to contribute to the reduction of the budget deficit. When an economy has such a strong recovery, when budget revenues also increase (entering the State Treasury and deferred payments in 2020), the question is legitimate: *why is all the additional resources allocated to increase budget expenditures knowing that we have a big correction to make in the period 2021-2024?*

The major test for the budget correction will be the year 2022, when it will feel necessary to reduce the fiscal impulse (it becomes negative in fact) in conjunction with the strengthening of monetary policy and the effects of this year's budget slippage.

Romania is unique in the region, in the EU, through imbalances of the external balance, either the trade or the current account; it is an imbalance that has been structural and that requires financing through borrowing (about 30% of the financing of the current account deficit has been achieved through borrowing in recent years). In 2021 we are already witnessing a sharp rise in the trade deficit, the current account deficit - which is likely to exceed 6% of GDP this year. The budget imbalance, together with the balance of payments, is an unfavorable combination. The correction of the budget deficit in the coming years must also be judged from this standpoint.

To have a real respectable, robust economic growth, in the coming years we need a massive attraction of European funds, which can be a strong piston to mitigate the contractionary impact of the measures to correct the budget deficit. It is an aspect that many neglect in the public debate. The money from the MFF and through the Recovery and Resilience Mechanism means about 80 billion euros. There are „strong” resources for investment and modernization, which can greatly help our economy, given the extraordinary challenges of the coming years - including the very severe impact of climate change. European funds can help restructure the economy (green transition), stimulate necessary reforms and increase competitiveness, help macroeconomic correction. These are aspects that have often been highlighted in FC documents.

Great uncertainties persist in 2021, some of which derive from the pandemic, others being generated by unconventional risks (such as cyber-attacks) and tensions, geopolitical crises - which have economic effects.

2. *The macroeconomic framework underlying the first budget revision in 2021*

Like the opinions issued previously, the Fiscal Council starts in its considerations - regarding the first budgetary revision in 2021 - from the general economic coordinates of Romania, as well as from the international context. These considerations are based on the recently published forecast of the National Commission for Strategy and Prognosis (NCSP) - from August 2021 - as well as the accompanying note related to this forecast. It should be noted that all recent forecasts - by domestic or international institutions - consider a rapid recovery from the negative economic impact of the pandemic and its restrictions, a recovery which, for this reason, has a strong base effect in the case of almost all indicators. This reflects, in this context, a return to or at the pre-pandemic level and, in some cases, even an excess of this level.

The recent forecast of NCSP compared to that of April this year considers updates of the main economic variables to the new information available. Thus, real GDP is projected to increase, this year, by 7%, an increase 2 pp higher compared to the projection of April this year and 2.7 pp more alert compared to the one from the initial draft budget. The main determinants of this faster advance are anticipated to be private consumption and gross fixed capital formation, on the demand side, while in the supply side, similar to the previous projection, industry, agriculture to which is added the services sector. We can note that this faster evolution is also confirmed by the „signal” estimates of the National Institute of Statistics (NIS)[2] which indicate a real economic growth in the first half of the year, of 6.5% (on the gross series). The 13.6% increase in GDP[3] in the second quarter of 2021 compared to the second quarter of 2020

[2] Published on August 17, 2021.

[3] It can be mentioned that this accelerated recovery of the real economy, with a significant contribution of the base effect, revealed by the quarterly GDP data, as well as the placement of the center of gravity of the return to consumption, is reinforced by other indicators (of NIS), with a higher publication frequency (monthly), such as: (i) wholesale trade turnover for the first 6 months cumulatively increased by 13.2% over the previous year, (ii) turnover in retail trade (excluding trade in motor vehicles and motorcycles) increased by 11.6% in the first 6 months compared to last year, (iii) tourism activity increased by about 50% in the first half compared to the corresponding half of last year, (iv) the trend of economic activity is upward, in the manufacturing industry, construction, retail trade, services according to NIS data, (v) total industry turnover for the first 6 months compared to the same period last year increased by 26%, (vi) new orders in the manufacturing industry, for the first 6 months of this year, compared to the same period last year, show an advance of 29.1%, (vii) the industrial production index is 16.7% higher in the first 6 months than last year, (viii) the volume of construction works indicates an increase of 3.8% in the first half of last year, (ix) energy resources are higher, also in the first 6 months compared to the first

confirms both the significant impact of the base effect - which makes this development temporarily prevalent, unrepeatable in the coming years - and the fact that this recovery brings the level real GDP slightly above peak in the first quarter of 2020. This rapid evolution of GDP, especially in sectors which, under normal conditions, are rich in taxes, such as domestic absorption, especially private consumption, can be constituted in a period marked by additional fiscal revenues (windfall taxes), which are not permanent! In addition, the rapid evolution of real GDP, coupled with a plausible dynamic of potential GDP, could place excess demand in the economy at a positive level, as early as the first quarter of this year, and more likely in the second quarter of 2021. This means that the cyclical position of the Romanian economy has changed, from a deficit of demand to a surplus, which requires, by virtue of the function of stabilizing public finances[4], a restrictive conduct of fiscal policy since this year - beyond the necessary correction of the structural budget deficit. At the same time, it is noteworthy that, both in current data and in the NCSP forecasts, the net export of goods and services has a negative contribution to the GDP dynamics, the dynamics of imports exceeding that of exports constantly. Moreover, the trade deficit (in euro) increases from one year to the next, contributing significantly to the external deficit (of the current account of the balance of payments).

In this respect, the data for the first half of 2021 regarding the balance of payments - published by the National Bank of Romania on August 13 this year - reveals an increase of the cumulative current account deficit in January-June 2021, compared to the cumulative one in the same period last year, of 73.5% (from 4.1 billion euros to 7.0 billion euros)! The following are noteworthy: (i) the main contributions to the increase in the external deficit are made by the increase in the deficit in trade in goods and services and in primary income, (ii) this growing (current account) deficit is covered to a lesser extent by non-generating debt flows (these being considered to be the balance of the capital account as well as, from the financial account, only „equity participations"), amounting to 3.9 billion euros over the first six months, which is a current account deficit of 7.9 billion euros (over the same period), with a coverage of 55.9%, reduced compared to previous periods when they accounted for about 70% (in 2020 or 2019), (iii) the capital account balance has a significant contribution to the financing of this deficit and, from the financial account, the items „foreign direct investment", „portfolio investment", „other investment" and, more recently, the item „reserve assets".

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half of last year, by 9.1%, the final electricity consumption being higher by 7%, mainly in terms of population consumption but also in economy (+8.3% and +6.8%, respectively), (x) the turnover of market services provided mainly to enterprises shows a half-yearly increase this year compared to the previous one of 14,9%, (xi) the average net real earnings in June 2021 compared to June 2020 show an increase of 3.3%, (xii) Romania's deficit in international trade in goods, for the first 6 months compared to the first 6 months of 2020, shows an increase of almost 2 billion euros, equivalent to +22.8%.

[4] According to the public finance functions exposed, for example, by Musgrave, R.A. (various editions), "The Theory of Public Finance", New York, McGraw-Hill.

Covering deficits with debt generating flows can also be a risk generator for the sustainability of the external position of the Romanian economy. For these reasons, corroborated with the NCSP forecast of an external deficit in significant reduction - but without specifying the determining factors - we can conclude that the current information strictly raises the issue of adjusting the imbalances of the Romanian economy.

In the context where, in the public sector, the savings-investment gap, as a percentage of GDP, is higher than the value of the economy-wide indicator (reflected by the current account balance of payments, as a percentage of GDP) both in the past and in the next years of the projection, it is clear that the growing external imbalance is mainly determined by the conduct of fiscal and budgetary policy. Therefore, the reduction of external vulnerabilities, especially by reversing the conduct of fiscal and budgetary policy, from incentive to restrictive, is also demanded by these data. Moreover, possible reversals in the conduct of monetary policy in Romania - by gradually strengthening it towards the end of 2021 and in the coming years - as well as internationally (US Central Bank - FED - recently provided a first signal of a possible strengthening of monetary policy in the autumn of this year) could lead to lower, more expensive and risk-selective sources of financing. This makes the problem of fiscal adjustment, of budgetary consolidation, even more acute.

The economic recovery, after the negative shock induced by the pandemic on both supply and demand, is with many facets and not necessarily positive developments, a fact also reflected by the dynamics of prices domestically and internationally. Externally, it can be noted that problems in restoring the continuity and rhythmicity of international production chains and the creation of added value have led to rapid increases in prices for most raw materials[5], these being close to the maximum of the last 52 weeks and close to the maximum level recorded, in the relatively recent period, in 2018. These external inflationary influences have been accompanied by internal shocks to the price of electricity and natural gas, because of the liberalization of the internal market - in some cases delayed and with certain dysfunctions. The shock of the increase of the electricity price by 18.38% from January and by 4.18% from July 2021, as well as that of the increase of the gas price by 20.49% in July 2021 can be noticed. The combination of these factors, internal and external, led to an inflation rate, measured by the consumer price index (CPI), in July 2021, which was only marginally below 5% (4.95%). However, the effect of these shocks will persist within the consumer price index for a limited period, the basic effects that will be felt in the corresponding months of 2022 (January and July), reversing

[5] On August 18, 2021, WTI oil showed a price increase of +56% in the last year, Brent oil of +54%, natural gas of 44%, gasoline of 66% and heating oil (fuel oil) and ethanol of 68 % and 72%, respectively. Also on August 18, 2021, the price of copper on international markets had increased by 40% in the last year, iron by 41%, platinum by 4% and palladium by 12%. For food, the dynamics of the last year show increases of: +19% for beef, +64% for pork, +22% for robust coffee and +42% for arabica, +61% for corn, +43% for soybeans , +60% for sugar, +35% for wheat, etc.

the current influence on the CPI and thus restoring the value on a downward trajectory and placed closer to the range targeted by the NBR.

Under these conditions, the revised NCSP forecast envisages both higher CPI inflation and a higher deflator this year. Inflation at the end of 2021 is expected to reach 5.0% (compared to 2.06% in the previous projection, from April this year and that of the initial budget), and the GDP deflator value of 4% (compared to 3.2% previously, in the projection from April this year, and 2.8% in the forecast for the initial budget, from January this year). The temporary nature of the price shock (which can be seen as the market mechanism for repairing global production chains, facilitating the return of production to previous levels both quantitatively and qualitatively) is also reflected in their return to values, lower in the following years, in the vision of NCSP. The consequence of such an economic development is the observation that part of the increase in budget revenues, which is determined by rising prices and not the volume of economic activity or the degree of compliance, will not be repeated with the same magnitude in the coming years, being a localized phenomenon in the current year - due to circumstances different from the typical evolution of a normal year. This means that the increase in fiscal revenues, achieved in the budget execution for the first 6 months, was optimal to have been allocated, due to their non-repetitive nature, to the need for fiscal adjustment of the internal and external budget imbalance. This observation is also reinforced by the finding that part of the tax revenue is the result of an eminently temporary phenomenon - the collection of deferred taxes and fees from 2020 to 2021.

Regarding labor market dynamics - important for income categories such as payroll taxes, social security contributions and some items of expenditure such as unemployment benefits and social transfers, all with a significant impact on the value of the deficit - we can note that the average number of employees is expected to increase at a rate similar to previous projections (+1.4% compared to 1.3% in the projection of April and January this year), and the average gross earnings have a faster dynamics in the updated projection for 2021 (+6.9% compared to 5.0% in the projection from April 2021 and +4.5% in the one from January this year). The unemployment rate is maintained at the value from the previous projection, from April this year (4.8% ILO unemployment rate and 3.3% for the unemployment rate recorded at the end of the year) and changes marginally compared to that used in the draft budget, from January this year, which corresponds to unemployment rate values of 4.5% (ILO) and 3.6% (registered unemployment). These coordinates indicate a plausible projection of labor market aggregates, marked only by a slight possible overestimation of the relevant dynamics.

The corroboration of the latest economic data with the dynamics of the relevant macroeconomic variables at the level of the fiscal-budgetary projection (from the NCSP forecast) leads to the conclusion of a plausible trajectory of these aggregates for the year 2021, being even possible a faster economic evolution in terms of real GDP and prices[6], being at the same time possible a more favorable structure/composition from the fiscal point of view of economic growth. However, the special circumstances of the current economic recovery raise some issues and lead to some basic findings:

- Achieving higher revenues, but with a rate of growth that is unrepeatable in the coming years (from taxes deferred to payment, through the option of economic agents, from 2020 to 2021; from the cyclical recovery of the economy which causes an increase in the value of the cyclical component of the GCB balance; from the increase in tax revenues due to the temporary shock of prices), raises the question of how to use them.
- Full use of the revenue increase to supplement expenditures, given the unrepeatability of a considerable part of this increase and its cyclical nature, which means that the budget deficit remains, as a share in GDP, at coordinates like those in the 2021 draft budget, raises the issue of the sustainability of the fiscal position and, consequently, of the evolution of internal and external imbalances. Economic reason recommends the use of such revenues to advance adjustment trajectories, even more so as external imbalances do not appear to have entered an adjustment direction but, on the contrary.
- The increase in the absolute value of the deficit is based on the one hand, on a non-repeatable increase in revenues, as well as on the hypothesis of an equally good or better evolution of the economy in the second half of 2021. This poses risks at least in terms of the incidence of the 4th wave of the pandemic - caused by new, more virulent and more easily transmitted strains - which could lead to a sudden deterioration of the domestic and international economic climate, which will lead, through the disappearance of part of these additional revenues, to a sharp increase in the deficit at the end of the year, corresponding to a higher volume of expenditures in conditions of stagnant or even declining revenues, which will highlight the still high value of the structural deficit in Romania. In addition, such a development would also be highlighted by the fact that the other EU countries will adjust their actual deficit relatively automatically, by the expiry of the temporary measures imposed by the acute phase of the pandemic during 2020 and the lack of significant new measures, in conditions of high vaccination rates.
- Delays in adjusting fiscal policy create major risks. The first is the contribution of the fiscal deficit to the external imbalance (of the current account of the balance of payments), the financing indicators already showing a deterioration of its structure. In addition, indicators of the adequacy of internal buffers also seem to be suffering, which leads to an increased risk of funding problems for these deficits.

[6] It should be noted that, on the whole budget, higher inflation has an effect of reducing the actual deficit and, at the same time, the structural deficit.

- A tightening of domestic and foreign monetary policy at the level of the main (or part of) central banks in developed countries may exacerbate the risks of funding problems by reducing the supply of funds, increasing their cost and worsening the perception of regarding the risk of assets issued by Romanian entities/institutions.
- National and international experience shows that making a fiscal adjustment under a set of contractionary policies is much more difficult and painful. Less favorable external financing conditions will make the adjustment more brutal, rather guided by financing constraints, and carried out on an ad-hoc basis.
- In addition to the risks associated with financing current imbalances - in the face of a still high primary deficit and projected to remain significant in the coming years - a less favorable evolution of the economy, due to, for example, a four-wave pandemic or restrictive monetary policies at the international level, raises the issue of refinancing the debt already contracted, especially in the event of a narrowing gap between nominal economic growth and the average yield on the debt already issued (interest-growth differential). In the conditions of a less favorable international environment, or, even more, adverse, the problems of financing the deficit can be only a small part of the more complex problem of financing Romania's total external debt (public and private).
- The lack of deficit adjustment through well-specified, coherent, credible and longer-term measures - the European Commission requesting that such measures be sent by the Romanian Government in the autumn of this year (October) - may exacerbate the risk that all the negative factors listed above will act simultaneously, leading to a rapid upward evolution of the share of public debt in GDP. Insufficient pace of adjustment makes the level of deficit needed to stabilize public debt in GDP increasingly constraining and, at the same time, more difficult to achieve in a short period of time.
- Attracting funding from EU resources, replacing as much as possible from the use of own budgetary resources, is essential for a favorable course of the Romanian economy in the medium and long term, and the attraction of European funds is a *sine-qua-non* condition of a sustainable fiscal-budgetary and economic policy, which would improve Romania's financial soundness.

3. Updated coordinates of budget revenues and expenditures

In the judgment of the draft budget revision, FC starts from its evaluation regarding the initial budget construction - detailed in the opinion of the institution regarding the draft budget. Considering the macroeconomic framework forecasted at that time, FC considered the proposed target for the budget deficit of 7.16% of GDP to be adequate and its achievement feasible. Moreover, FC identified for the first time some reserves in reaching the target (probable revenues not taken into account) in the amount of 0.45 pp of GDP on the national methodology as a result of a conservative approach of the MF in substantiating the revenue forecast, which reflected only partially the recovery of amounts deferred for payment by economic operators. FC recommended at that time that these amounts, in the event of their materialization, to be used to reduce the budget deficit.

The current information indicates a higher amount of amounts deferred for payment by economic agents compared to those taken into account in substantiating the initial budget (12 billion lei compared to 9 billion lei), but also a good rate of collection (9.9 billion lei estimate for the current year, of which 5.7 billion lei already collected in the first 6 months of 2021), which is likely to cause a significant increase in budget revenues from this source and thus lead to an increase in reserves (additional amounts) on the side of budget revenues - even using slightly conservative assumptions - to over 10 billion lei or 0.85 % of GDP. Moreover, economic growth has been revised upwards significantly from that considered in the draft budget, respectively with 2.7 pp, which is also likely to lead to higher budget revenues and, *ceteris paribus*, to a lower budget deficit. Given a nominal GDP estimated for 2021 by about 5.2% higher than initially considered - which implies a decrease in the share of GDP in the nominal budget deficit related to the draft budget to about 6.85% of GDP - such surpluses on the part of budget revenues would indicate the possibility of a budget deficit in the vicinity of the 6% of GDP level, considering the envelope of expenditure in the draft budget. The additional economic growth could have accommodated some potentially unforeseen expenses (such as, for example, increasing the allocations to the Ministry of Health by about 3 billion lei proposed in this rectification to fight the pandemic). It should also be noted that, in its opinion on the budget, FC noted in relation to the budget expenditures proposed at that time that the inclusion in the proposed level is possible only under the strict control of them, in the case of certain categories (such as goods and services, social assistance), the proposed targets being ambitious.

Compared to the parameters approved in the initial budget, the draft of the first budget revision includes a significant increase - unprecedented in the history of budget corrections in the recent past - of both GCB's total revenues (+17.62 billion lei) and total budget expenditures (+21.38 billion lei), the budget deficit being 3.76 billion lei above the initial target. Expressed as a percentage of GDP, the estimated level of the budget deficit is 7.13% of GDP, slightly below the level projected in the initial budget construction (7.16% of GDP), amid the increase in GDP projection by 58.1 billion lei. The first budget revision also includes an increase by 413.8 million lei of the chain compensation scheme of arrears to GCB of swap type, with symmetrical impact on revenues and expenditures (and therefore neutral on the budget deficit), a more accurate illustration of the position public finances requiring the exclusion of this element from the analysis. Eliminating the impact of swap schemes, the budget revenues projected in the first rectification increase by about 17.21 billion lei, and the budget expenditures by 20.97 billion lei.

In essence, the large-scale review of budget revenues has two main sources: incorporating the recovery of deferred taxes by companies into the revenue forecast (not initially taken into account due to a conservative approach to MF) and the favorable review of the macroeconomic framework. This can be explained by a higher value than the one initially considered of deferred taxes, but also an honest behavior of companies that have reimbursed a significant proportion of deferred taxes.

By budget revenue categories, positive revisions of the initial (excluding swap scheme) estimates occur in almost all of them, based on the revival of economic activity and the partial recovery of some revenue categories (income tax, insurance contributions and VAT) in the first part of the year:

- *Tax revenues:* +9.8 billion lei, amid achievements above initial expectations in the first half of the year, confirming the estimates of the Fiscal Council in its Opinion on the initial budget, as well as the significant increase in macroeconomic indicators underlying the tax base of the main categories of taxes, but also from the recovery of amounts receivable on account of 2020 following the call for the facility to defer the payment of obligations to GCB of economic agents. Thus, the main increases occur as follows:
    - *Corporate income tax*: +2,3 billion lei. The Fiscal Council considers, both on the basis of the budget execution for the first semester, net of the amount of deferred taxes, and on the basis of the scheduled annual dynamics of this aggregate, also corrected with the deferred taxes for 2020, corroborated with the dynamics of the relevant macroeconomic aggregates, that the proposed value is plausible.
    - *Personal income tax*: +1.3 billion lei. The revision envisages the modification of the forecast which was the basis for the initial elaboration of the budget on the relevant macroeconomic aggregates, respectively for the average number of employees from +1.6% to +1.3% and respectively the average gross earnings from +6.1% to +6.7%. At the same time, this revision is also compatible with taking into account the amounts recovered from the deferred budgetary obligations (according to the MF data, the deferred budgetary obligations at the personal income tax level amount to 0.4 billion lei).
    - *Other taxes on income, profit and capital gains:* +0.37 billion lei.
    - *Property taxes:* +0.2 billion lei.
    - *VAT:* +4.4 billion lei. The increase is mainly attributable to the economic recovery, as well as the recovery of part of the amounts deferred for payment for this indicator. Corroborating the available information with the dynamics of the relevant macroeconomic bases, FC has no reservations regarding the proposed value of this indicator.

- *Excise duties:* +1.6 billion lei.
- *Tax on the use of goods, authorization to use goods or on conducting activities:* +0.43 billion lei. It is worth mentioning the maintenance of revenues from the sale of licenses for 5G technology (2.5 billion lei, the equivalent of 0.21% of GDP). FC considers that there is a relevant risk that these amounts will not be found in the cash budget execution for 2021, but this probable non-realization of revenues will only slightly affect the budget execution according to the European methodology, according to which revenues associated with renting frequency bands are distributed over the entire duration of the contracts.
- *Foreign trade tax (customs duties):* +0.13 billion lei.
- *Other taxes and fiscal fees:* +0.17 billion lei.

- *Social security contributions:* +3.9 billion lei. The increase is in line with the revaluation of the macroeconomic framework and up-to-date revenues. Similar to income tax receipts, social security contributions receipts have as a relevant macroeconomic basis the wage bill in the economy, determined by the average number of employees and the average gross earnings. At the same time, this revision is also compatible with taking into account the amounts recovered from the deferred budget obligations (according to the data provided by the MF, these deferred budget obligations at the level of insurance contributions amount to 3.6 billion lei).

- *Non-tax revenues*: +0.9 billion lei. The projection for this category incorporates additional amounts related to greenhouse gas emission certificates allocated to investment projects estimated at 2 billion lei, with an impact also on budgetary expenditures in the category of *other transfers*. Thus, net of this element, the projection of non-tax revenues is actually decreasing. The estimation of dividend revenues and payments from the net profit of the autonomous units is maintained, according to Memorandum no. 679681/2021, approving the distribution of at least 90% of the net profit realized in the form of payments to the state budget, in the case of autonomous units, or dividends, in the case of national companies and companies fully funded or mainly funded by state capital.

- *Capital revenues*: +0.34 billion lei.

- *Amounts received from the EU/other donors on account of payments made and pre-financing related to the 2014-2020 financial framework*: +2.25 billion lei. This revision occurs mainly as a result of the increase in the amounts transiting the general consolidated budget for the pre-financing of non-governmental sector projects in case of temporary unavailability of European funds, based on art. 10 of GEO no. 40/2015 (+1 billion lei), while the amounts related to European funds for agriculture increase by 0.76

billion lei and the amounts from structural and cohesion funds by about 0.5 billion lei. The first two categories, which were not included in the cash budget execution before 2016, represent European funds whose recipient is the private sector with a symmetrical impact on revenues and expenditures, these only transiting the general consolidated budget. Considering the up-to-date execution, the FC notes the existence of risks regarding the materialization of the projected revenues from European funds, taking into account the relatively high gap between their projected level and the 6 months execution, respectively a degree of collection of less than 30% of the initial program, although traditionally the absorption of European funds accelerates strongly towards the end of the year.

Summarizing on the side of budgetary revenues, the FC considers as plausible the updated forecast, less the amounts from the rental of frequency bands (2.5 billion lei, respectively 0.21% of GDP) which exhibit a relevant risk of non-materialization. It is worth noting the temporary (one-off) nature of the amounts recovered from taxes related to the previous year which were deferred from payment by economic agents, their amount for the current year being high (about 10 billion lei), but they will no longer be received in the following years.

On the side of budget expenditures, there is a large increase compared to the parameters approved by the draft budget, the main causes being the supplementation of capital expenditures, other transfers, goods and services, personnel and social assistance expenditures. Specifically, the revisions of previous estimates are as follows:

- *Personnel expenditures*: +1.7 billion lei. The amounts are intended for the payment of staff in public health units, the granting of the risk incentive, bonuses for special danger conditions and overtime. These additional amounts are financed by European funds. Given that the increase in personnel expenditures compared to the one envisaged is not negligible and takes place under the conditions of a wage freeze, further explanations would be needed on this increase, as well as a strict control of these expenditures. In addition, compliance with the ceiling proposed in this revision project entails risks.

- *Goods and services*: +3.87 billion lei. Under the new conditions, the estimate of this budgetary aggregate is placed at 59.3 billion lei, 5% above the nominal level from 2020 (the growth rate in 2020 compared to 2019 being 8.1%, and in 2019 compared to 2018 being 8%). At the same time, in the first 6 months of 2021, this category of expenditures registered a growth rate of 8.3% compared to the same period last year. The FC notes the substantial increase in this category of expenditures, partly justified by higher inflation in 2021, as well as additional needs to fight the pandemic. The FC highlighted in its opinion on the initial budget that the 2021 target for this category of expenditures is ambitious and difficult to achieve in the absence of significant reforms in the public procurement system. Moreover, given the up-to-date execution, the level proposed by this budget revision may be problematic. An overrun of the current ceiling by about 0.1% of GDP could be accommodated, given the supplementation of the reserve fund proposed in this revision project, without affecting the estimated deficit, assuming that the amounts in the reserve fund are not used for other purposes.

- *Interest*: -0.07 billion lei.
- *Subsidies*: +0.36 billion lei.
- *Transfers between public administration units*: +0.81 billion lei.
- *Other transfers*: +4.07 billion lei. (+2 billion lei additional amounts related to greenhouse gas emission certificates allocated to investment projects, +0.7 billion lei for the replenishment of revenues resulting from privatization which were used for giving a financing grant to the Company "Complexul Energetic Oltenia" S.A., +0.6 billion lei supplementing Romania's contribution to the EU budget, +0.5 billion lei transfers to enterprises under state aid schemes).
- *Social assistance*: +1.21 billion lei, as a result of supplementing the amounts related to the unemployment insurance budget (+0.6 billion lei) and the single national health insurance fund (+0.8 billion lei). Given the current budget execution, the FC considers this revision to be insufficient and identifies an additional need of about 3.5 billion lei or 0.3% of GDP (2 billion lei to the state budget, 0.3 billion lei to the state social security budget, 0.6 billion lei to the unemployment insurance budget and 0.6 billion lei to the single national health insurance fund). These overruns estimated by the FC have a high amount, take place in the absence of fiscal policy measures and show a lack of control in the management of this category of expenditures.
- *Projects financed from post-accession non-reimbursable external funds for the 2014-2020 financial framework*: +2.4 billion lei.
- *Other expenditures*: +0.6 billion lei.
- *Reserve fun*ds: +0.8 billion lei. The amounts will then be distributed by budget category according to actual needs.
- *Capital expenditures*: +5.46 billion lei. Out of this increase, the amount allocated to the territorial administrative units is 3.9 billion lei, of which a considerable part is represented by PNDL1 and PNDL2 - about 2 billion lei. The FC does not dispute, being in the field of evidence, the need for public investments in Romania, but expresses reservations regarding the allocation of these resources considering:

(i) the allocation of these amounts, fragmented over time, through various initiatives marked by a stop-and-go evolution, by disparate programs, uncoordinated in a unitary framework, lacking well-founded priorities, cannot achieve a high level of efficiency, close to that needed for a country with so many needs to cover, such as Romania and, at the same time, given the budgetary constraints imposed by the mandatory budgetary consolidation;

(ii) it must be understood that the public budget is not a 'bottomless bag', especially when budgetary consolidation is vital for the country's economic stability;

(iii) the amount allocated to territorial administrative units is close to that which will be additionally borrowed by Romania, following the increase of the nominal value of the deficit through this first budget revision of 2021. Such a practice is not desirable in the context of a rapidly growing public debt and marked by risks, in an international context that could become less favorable or even hostile.

Summarizing on the side of budgetary expenditures, this revision shows an inability to control current expenditures (personnel, goods and services, social assistance etc.) even in the absence of new budgetary policy measures, to which are added new discretionary allocations for capital expenditures. Even if higher inflation and additional medical spending to combat the pandemic are justifications for higher allocations, the overall increase in GCB expenditures is much higher. This represents a major slippage on the part of budget expenditures, having as main explanations the inability to control expenditures, and reflects an underestimation in the initial budget construction. This situation is worrying and needs to be fixed given the stringent need for budgetary consolidation.

Particularly problematic is the fact that the increase in expenditures is mainly located at the level of permanent ones, which will continue to impact the budget in the coming years. In addition, at the level of social assistance expenditures, the FC identifies a probable overrun of the new ceiling by about 0.3% of GDP.

This budget revision - the first for 2021 - is unique in the history of revisions assessed by the FC, from 2010 to the present, in terms of the magnitude of the positive adjustment of budget revenues and expenditures (their increase being about 4.8% compared to the values proposed in the draft budget).

Considering the probable non-realization of the revenues from the rental of 5G frequency bands and the additional needs identified by the FC at the level of social assistance expenditures, we identify an unfavorable deviation of about 0.5% of GDP compared to the new budget deficit estimate of 7.13% of GDP, which calls for additional measures to comply with it.

The draft budget revision is largely influenced by three main elements: the significant favorable revision of the macroeconomic framework with a positive impact on budget revenues; the incorporation of the recovery of deferred taxes by companies in the revenue forecast - not initially taken into account as a result of a conservative approach by the MF; a major slippage on the side of budget expenditures. Specifically, from a budget deficit target of 7.16% of GDP, under the conditions of not taking into account probable revenues and of a clearly higher economic growth (these two elements being equivalent to a budget deficit of less than 6% of GDP based on expenditures initially budgeted), a budget deficit target of 7.13% of GDP is reached, the achievement of which requires additional adjustment measures of about 0.5% of GDP. However, these measures are not enough in relation to the scale of the consolidation process which is required to respond to the pressure of imbalances in our economy.

The draft budget revision weakens the fiscal consolidation that was announced for 2021. This situation calls for additional corrective measures in the coming years - in addition to those that would have been needed to reduce the budget deficit below 3% of GDP in 2024, according to the trajectory agreed with the EC. In other words, the soundness of the budget construction envisaged by this revision is lower than that of the draft budget, even if the target level of the budget deficit (7.13% of GDP) is close to the initial one (7.16% of GDP). Given the more favorable development of the economy and the higher amount of revenues from the recovery of deferred taxes, an optimal and achievable level of the budget deficit target should have been, in the FC's opinion, significantly below 7% of GDP - at around 6.5% of GDP. However, such a level is not plausible to be reached, given the major slippage on the budget expenditure side.

It is also worrying that a significant part of the budget revenues is temporary, being attributable to amounts recovered from taxes that were deferred by companies in 2020, while the component of temporary expenditures is much lower.

The opportunity for new investment expenditures from the resources of the public budget, under the conditions of a high budget deficit and given the stringency of the budgetary consolidation in the coming years, is also to be judged.

The FC also notes the following:

i) This budget revision - the first for 2021 - is unique in the history of revisions assessed by the FC, from 2010 to the present, in terms of the magnitude of the positive adjustment of budget revenues and expenditures (their increase being about 4.8% compared to the values proposed in the draft budget), as well as by the percentage of allocation of the increase of revenues to expenditures. Thus, in the current revision, amounts higher than the increase in programmed revenues are allocated to expenditures, the ratio of changes in expenditures relative to changes in revenues being 121%, which shows that all additional revenues, as well as new loans, are required in order to supplement budget expenditures. Given that a part of this revenues is temporary (at least those deferred from payment in 2020) and another part is due to the favorable cyclical dynamics of the economy, the FC considers that this revenue allocation involves considerable risks, which can materialize through future unfavorable economic developments at domestic and international level. Moreover, these revenues, some of which are not permanent, are allocated, to a large extent, for permanent budget expenditures, which accentuates the risks related to the sustainability of the public sector position.

ii) The current revision is one of the most substantial, in terms of the variation of expenditures relative to GDP (+1.8 pp), which raises the issue of the weakness of the budget programming process, as well as the discipline in budget execution. These problems are all the more acute as the FC's findings (referring to the initial budget draft) concerning the expenditures on goods and services and social assistance, although these categories received new allocations, highlight new risks of under-budgeting which have the potential to further increase the final budget deficit, *ceteris paribus*.

In addition, the restrictiveness that the FC relied on in its opinion on the initial draft budget concerning personnel expenditures, in order to fit in the proposed ceilings, indicates, according to the 6 months execution, a more alert dynamics of these expenditures, which displays weaknesses in the construction, programming and discipline of the budget execution. All these elements seem to indicate that the adjustment of the deficit targets exclusively by limiting the level of budget expenditures, as proposed by the Executive, has a very low probability of materialization, the mission of budget consolidation solely on the expenditure side having the potential to be, under certain conditions, illusory with adverse effects on the sustainability of public finances.

As in other of its documents, the FC advocates for a significant increase in fiscal and budgetary revenues, which will help the budgetary consolidation and increase the robustness of the public budget.

iii) From another perspective, the construction of the current revision also considerably weakens the adjustment of the structural deficit[7], in a very complicated domestic and international economic environment, marked by significant risks.

[7] Assuming that the deficit adjustment (European methodology, ESA2010) would be, between 2020 and 2021, of 1 pp of GDP, this being the baseline scenario of the current budget revision, and considering that the cyclical position of the economy would evolve, between 2020 and 2021, through an increase of 2 pp of GDP, this would translate, with the hypothesis of a semi-elasticity of the budget balance to excess demand of 0.35-0.40, into an adjustment of the cyclical budget balance by 0.7-0.8 pp, which means that the structural balance would be reduced only by the difference between the consolidation of the budget balance and that of the cyclical budget balance, i.e. by 0.2-0.3 pp of GDP. This indicates a low, almost insignificant value of the adjustment, which is on the margin of statistical calculations, and which, moreover, is burdened by significant risks. These non-negligible risks consist of: (i) a wider

Even if these risks do not materialize, the situation of the Romanian public budget compared to most EU countries is problematic, for several reasons: a) many EU member states started with relatively low, or nonexistent, structural deficits in the pandemic crisis and, moreover, they applied temporary measures, which exhaust their effect on the actual budget deficit almost by themselves, leading to the return of this deficit close to the structural one before the pandemic crisis[8], b) in the case of Romania fiscal adjustment is a process spread over several years and has, implicitly, an effect of substantial increase on public debt, which induces increasing sustainability risks, c) the acute lack of fiscal space (generated by a very low level of fiscal/budgetary revenues) exposes the Romanian economy to the risk of not being able to intervene in the event of new moments of great tension domestically and internationally - induced by large debts in the world, a new wave of the pandemic, the impact of climate change etc.

Moreover, fiscal policy, in addition to the impossibility of an effective action in this eventuality, also leads to a more vulnerable external position of Romania, consuming from the space of action of other instruments through monetary policy. And this reason, as well as those set out above, emphasize the need to initiate as firmly and credibly as possible the process of consolidating public finances - to assure Romania's international partners, including investors, of the sustainability of the public sector position, a condition for the sustainability of Romania's international investment position - determined by the public sector, but also by the private sector.

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

The funds allocated to Romania within the European Next Generation EU plan, which, on the component of the Recovery and Resilience Mechanism (RRM) amount to 29.2 billion euros (14.2 billion euro in grants and about 15 billion euro in loans) representing about 13% of GDP, is a financial support equivalent to a Romanian New Deal in the context of extraordinary future challenges arising from the new technological revolution, climate change, geopolitical competition, imperatives of economic and social stability.

Starting from the strategic and operational framework of the NRRP, which consists of a coherent package of investments and reforms with six pillars (transition to a green economy;

improvement (than the 2 pp considered in this example) of last year's demand deficit towards an excess of demand in 2021 may lead to a zero structural balance adjustment or even to a deterioration of it; (ii) the impact of one-off measures can significantly influence these calculations, in the sense of a possible reduction in the size of the structural budget balance (lower consolidation) or even in the sense of reversing its contribution (deterioration of the structural deficit between 2020 and 2021).

[8] There are differences between estimates of structural deficits in relation to the calculation methods used, but the reasoning is unbeatable, regardless of the calculation method.

digital transformation; economic growth, jobs and cohesion; social and territorial cohesion; economic, social and institutional health and resilience; policies for the Next Generation), in the particular case of Romania it must take into account the need to correct imbalances, to overcome development gaps and large territorial disparities, the chronic underfunding of public education and health, the precariousness of road, rail, airport infrastructure, etc., so as to make the country's economy more robust and, last but not least, competitive.

Under the circumstances of a very limited fiscal space and accentuated by the acute need for fiscal/budgetary consolidation, a robust medium and long term economic growth, driven by public and private investments, supported by European funds, including through NRRP[9], represents the only viable foundation of:

- the resilient reconstruction of the Romanian economy,
- reducing development gaps,
- reconfiguring industrial policy towards restructuring and decarbonizing the economy, as well as increasing competitiveness,
- mitigating the contractionary impact of the inevitable budget correction measures under the imperative of fiscal consolidation in the coming years,
- restoring macroeconomic balances (including external ones),
- advancing towards the upper links of the value chains (including digital ones),
- overcoming inflationary pressures in an international context dominated by major economic uncertainties, as well as by the spectrum of the resurgence of the coronavirus pandemic with new vaccine-resistant strains.

It is often underestimated that, according to the key principles underpinning NRRP, the priorities set for Member States stem from the Country Specific Recommendations[10]. In the case of Romania, it is about applying a fiscal consolidation strategy to correct the excessive deficit, supported by extensive structural reforms, as well as promoting mature investment projects, both public and private, focused on the green and digital transition[11].

The scale of reforms in Romania covers a wide range of economic and social issues, whether they take into account the salary and pension system, or the digitalization of public administration, especially NAFA, the taxation regime, supporting the business environment and

[9] This vision is partly found in the 2022-2025 medium-term scenario developed by the NCSP, which considers the positive impact of European funds from NRRP (https://cnp.ro/user/repository/prognoze/Nota-Prognoza-de-vara-2021-2025.pdf)

[10] European Commission, *Annual Sustainable Growth Strategy 2021*, Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM(2020) 575 final, Brussels, 17.9.2020.

[11] European Commission, *Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania*, COM(2020) 523 final, Brussels, 20.5.2020.

the local businesses, the improvement of exports, state-owned companies (including those with high losses), the Development Bank, the ability to cope with cyber-attacks and others.

The full absorption of European funds allocated by the EU is vital for Romania in terms of achieving the primary objective of joining the Eurozone in the shortest possible time, which requires the country to return to the path of nominal and real convergence. From this point of view, as shown in various studies of comparative analysis between the NRRPs submitted by Member States[12], the significant dependence of grant allocation to countries in relation to their level of development suggests that the RRM financial instrument can contribute to accelerating the convergence of less developed EU countries.

In order not to remain a mere desideratum and learning from the lessons of elaborating, updating and negotiating NRRP components, at the time of its approval by the EC, most likely in mid or at the end of September 2021, the institutional and financial mechanisms must be prepared for access to pre-financing - the latter projected at about 1.9 billion euro, which Romania would receive from the EU in the last months of 2021.

Delays in the approval of NRRP in the case of Romania could be justified by the absolute novelty of the RRM and the complexity of the evaluation grid[13], by the lack of mature investment projects, etc. But any time wasted in starting it, especially in the hypothesis of reaching a maximum level of financing, and/or in the programmed schedule of reforms, in achieving the assumed targets and implementing investment projects, leads to losses that affect the degree of absorption of funds and, ultimately, the development of Romania's economy.

The stringency of absorbing NRRP funds as much as possible also stems from the increase in EU budget resources by 0.6% of GNI (Gross National Income)[14] from Member States to cover the cost of repaying loans borrowed from international capital markets for financing the RRM by

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[12] See also Darvas Zsolt et al. (2021). *European Union countries Recovery and Resilience Plans*, Bruegel, 14 July. https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/

[13] By July 2021, all Member States had submitted NRRPs to the EC, except the Netherlands and Estonia. Based on their assessment, the EC approved the NRRPs of 18 states (Austria, Belgium, Croatia, Cyprus, Czechia, Denmark, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Portugal, Slovakia, Slovenia, Spain). The evaluation system is based on 11 criteria, 9 of which have a three-step scale (A - met to a large extent; B - met to a medium/moderate extent; C - met to a small extent) and two (to not significantly harm the environment and the prevention of corruption, fraud and conflict of interest) have a two-step scale, namely A or B. The EC gave very good ratings to the approved NRRPs, most of the criteria meeting the A rating, noting that only according to the "Cost justification" criterion they were rated, as a whole, with the B rating, among the causes specified in the Commission's country reports - whose examination may be useful to the Romanian authorities in finalizing negotiations with the EC – being the following: doubts about the plausibility of calculations, lack of information, insufficiently explained methodologies, questionable hypotheses, insufficient detail on funding and beneficiaries, potential overlaps between NRRP and other EU financial instruments (European Union. *Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility*, EU Official Journal, 18.02.2021; Bruegel, 2021)

[14] The Council of the European Union, COUNCIL DECISION (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom, Official Journal of the European Union L 424/1, 15.12.2020.

issuing bonds of the EU[15]. This involves an additional contribution from Romania of about 1.1 billion euro per year, which requires the achievement of a high degree of absorption of these funds.

In the draft documents related to the budget revision received from the MF, no reference is made to NRRP, implicitly to the estimation, even preliminary, of its possible budgetary impact in 2021. Only in the Report on the budget execution for the first semester of 2021[16] it is specified that, for the 2021-2027 multiannual financial framework, operational programs are currently awaiting approval while the NRRP is being analyzed for approval by the EC.

In 2021, the degree of absorption of European funds from the two large-scale programs of EU funding for the next 6-7 years is expected to be relatively low, which requires concerted efforts from central and local government authorities in Romania, the management authorities, as well as all the other actors involved, to recover delays and increase the absorption capacity of these funds[17]. According to the previously mentioned report, in terms of the degree of absorption of structural and cohesion funds related to the 2014-2020 financial framework, out of the estimated 3.2 billion euros for this year were absorbed only about a third in the first 6 months.

5. Compliance with fiscal rules

The revision project increases the ceilings in nominal terms of the indicators specified in the fiscal framework for 2021, established by Law no. 14/2021, as follows:

- the nominal ceiling of the GCB primary deficit is increased by 3.8 billion lei to the level of 67 billion lei;
- the nominal ceiling of the GCB deficit is increased by 3.76 billion lei to the level of 83.8 billion lei;
- the nominal ceiling of GCB personnel expenditures is increased by 1.7 billion lei to the level of 109.5 billion lei;
- the nominal ceiling of the total expenditures of the GCB, excluding financial assistance from the EU and other donors, is increased by 19.1 billion lei to the level of 416.6 billion lei.

[15] Eurostat, Methodological note. *Draft guidance note on the statistical recording of the recovery and resilience facility*, Directorate - Government Finance Statistics, 17 November 2020.
[16] https://mfinante.gov.ro/ro/domenii/bugetul-de-stat/informatii-executie-bugetara
[17] According to the Ministry of Investments and European Projects data on the absorption of EU funds from the 2014-2020 financial framework, the effective absorption rate (reimbursements from the EC) at the end of July 2021 was only 38.3% across the six operational programs, respectively only 8.5 billion euro reimbursed from the total allocations of 22.6 billion euro (https://mfe.gov.ro/stadiul-absorbtiei-fondurilor-ue/)

Regarding the ceilings of the indicators expressed as a share of GDP, they have decreased slightly for the GCB deficit, for the total GCB expenditures, excluding financial assistance from the EU and other donors, as well as for the GCB personnel expenditures due to the nominal GDP increase by 58.1 billion lei. The public debt ceiling, expressed as a percentage of GDP, was adjusted downwards by 2.5 pp to 49.5%.

The draft Government Ordinance on the state budget revision for 2021 stipulates the necessary derogations from the fiscal rules established by the FRL and redefines the ceilings of the budgetary aggregates in accordance with the levels stipulated in the revision proposal.

Conclusions

- The large-scale amendment of budget revenues (increase of 17.6 billion lei) from the revision project has two main sources: incorporating the recovery of taxes deferred from payment by companies in the revenue forecast (not initially taken into account due to a conservative approach of the MF) and the favorable revision of the macroeconomic framework - projected economic growth of 7% compared to the initial forecast of 4.3%.
- The FC considers as plausible the updated forecast of budget revenues, less the amounts coming from the rental of frequency bands (2.5 billion lei, respectively 0.21% of GDP) which exhibit a relevant risk of non-materialization. It should be emphasized the temporary (one-off) nature of the amounts recovered from taxes related to the previous year which were deferred from payment by economic agents, their amount for the current year being high (about 10 billion lei).
- On the side of budget expenditures, there is a sizeable increase (+21.4 billion lei) compared to the parameters approved by the draft budget, the main causes being the supplementation of capital expenditures, other transfers, goods and services, personnel and social assistance expenditures. This represents a major slippage on the side of budget expenditures with the main explanations being the inability to control expenditures, an underestimation in the initial budget construction and price increases above expectations for goods and services purchased by the state.
- The FC identifies additional financing needs at the level of social assistance expenditures in the amount of 0.3 pp of GDP and risks of exceeding the budget estimate for personnel expenditures and those with goods and services.
- Considering the probable non-realization of the revenues from the rental of 5G frequency bands and the additional needs identified by the FC at the level of social assistance expenditures, it results an unfavorable difference of about 0.5% of GDP compared to the new budget deficit estimate of 7.13 % of GDP, requiring additional measures to comply with it.

- The draft budget revision weakens the fiscal consolidation that was announced for 2021. The soundness of the budget construction envisaged by this revision is lower than that of the draft budget, even if the target level of the budget deficit (7.13% of GDP) is close to the initial one (7.16% of GDP).
- Given the more favorable development of the economy and the higher amount of revenues from the recovery of deferred taxes, an optimal and achievable level of the budget deficit target should have been, in the FC's opinion, significantly below 7% of GDP - at around 6.5% of GDP. However, such a level is not plausible to be reached, given the major slippage on the budget expenditure side.
- The opportunity for new investment expenditures from the resources of the public budget, under the conditions of a high budget deficit and given the stringency of the budgetary consolidation in the coming years, is also to be judged.
- This budget revision is unique in the history of revisions assessed by the FC, from 2010 to the present, in terms of the magnitude of the positive adjustment of budget revenues and expenditures (their increase being about 4.8% compared to the values proposed in the draft budget). Thus, in the current revision, amounts higher than the increase in programmed revenues are allocated to supplementing expenditures.
- Given that a part of this revenues is temporary (at least those deferred from payment in 2020) and another part is due to the favorable cyclical dynamics of the economy, the FC considers that this revenue allocation involves considerable risks, which can materialize through future unfavorable economic developments at domestic and international level. Moreover, these revenues, some of which are not permanent, are allocated, to a large extent, for permanent budget expenditures, which accentuates the risks related to the sustainability of the public sector position.
- The adjustment of the deficit targets exclusively by restricting the level of budget expenditures – by diminishing their share in the GDP – has a very low probability of materialization, the mission of budget consolidation solely on the expenditure side having the potential to be, under certain conditions, illusory with adverse effects on the sustainability of public finances.
- The situation of the Romanian public budget, compared to most EU countries, is problematic for several reasons: a) the structural deficit of Romania was about 5% of GDP before the start of the pandemic; b) many EU member states started with relatively low, or nonexistent, structural deficits in the pandemic crisis and, moreover, they applied temporary measures, which exhaust their effect on the actual budget deficit almost by themselves, leading to the return of this deficit close to the structural one before the pandemic crisis; c) in the case of Romania fiscal adjustment is a process spread over several years and has, implicitly, an effect of substantial increase on public debt, which induces increasing sustainability risks; d) the acute lack of fiscal space

(generated also by a very low level of fiscal/budgetary revenues) exposes the Romanian economy to the risk of not being able to intervene in the event of new moments of great tension domestically and internationally - induced by large debts in the world, a new wave of the pandemic, the impact of climate change, geopolitical tensions, other crises etc.

- A tightening of domestic and foreign monetary policy, at the level of major central banks from developed countries, may exacerbate financing risks by reducing the supply of funds, increasing their cost and worsening the risk perception of assets issued by Romanian institutions/entities. There are already signs of the start of a tightening of monetary policy by some major central banks.
- National and international experience shows that achieving budgetary consolidation and fiscal adjustments under a set of contractionary policies (especially a restrictive monetary policy) is much more difficult and painful.
- An insufficiently fast fiscal adjustment makes the level of deficit needed to stabilize public debt in GDP increasingly constraining and, at the same time, more difficult to achieve over the scheduled time horizon.
- Romania stands out in the region and in the EU through large imbalances of the external balance. Data on the balance of payments for the first half of 2021 shows an increase in the cumulative current account deficit between January-June 2021, compared to the cumulative deficit in the same period last year, of 73.5% (from 4.1 billion euro to 7.0 billion euro), with the current account deficit likely to exceed the 6% of GDP threshold this year. The growing external imbalance is mainly determined by the conduct of fiscal policy. Therefore, the reduction of external vulnerabilities, especially by reversing the conduct of fiscal policy, from stimulative to restrictive, is also called for by this data.
- Covering these deficits through debt can also be a risk generator for the sustainability of the external position of the Romanian economy. For these reasons, corroborated with the NCSP forecast of an external deficit in significant reduction - but without specifying the causal factors - we can conclude that the current information raises sternly the issue of adjusting the imbalances of the Romanian economy.
- It is difficult to imagine achieving budgetary consolidation in the absence of an increase in tax revenues by a few pp of GDP - to over 30% of GDP. This increase may come from: improving collection efficiency (including through digitalization), broadening the tax base, narrowing exceptions and loopholes that negatively deviate taxes paid by some taxpayers from standard rates, firmly combating tax evasion, unfair tax competition and the "optimization" of tax rates.
- In order to have a robust real economic growth, we need a massive absorption of European funds, which can be a strong means of mitigating the contractionary impact of measures to correct the budget deficit. European funds can help restructure the

economy (green transition), can stimulate necessary reforms and increase competitiveness and they can help the macroeconomic correction. These are aspects that have often been highlighted in the FC's documents.

- Attracting funding from EU resources in order to replace as much as possible the use of budgetary resources would help to create fiscal space. Attracting European funds is a *sine-qua-non* condition of a sustainable fiscal-budgetary and economic policy, which would improve Romania's financial soundness.
- The forward-looking analysis of the public budget must take into account extraordinary challenges, such as the impact of climate change, which will put great pressure on the public budget. All the more so is the need to increase fiscal/budgetary revenues.
- An impact on the public budget will also be due to the situation on the domestic energy market (among others the need to support vulnerable consumers).
- The severe test for the budget correction will be in 2022, when the inevitable reduction of the fiscal impulse will be felt in conjunction with the strengthening of monetary policy, as well as the effects of this year's budget slippage. The budget deficit (cash, ESA, structural) should be around 3% of GDP in 2024, according to the correction program undertaken by the Government and agreed with the EC. In October this year, the Government is due to send to Brussels a set of measures that shape the macroeconomic correction plan. It should be recalled that Romania is subject to the excessive deficit procedure (EDP).
- Budgetary consolidation is essential for stabilizing the level of public debt, for the stability of the national currency and for the economic stability of Romania.

The opinions and recommendations formulated above by the FC were approved by the Chairman of the Fiscal Council, according to the provisions of art. 56, para (2), letter d) of Law no. 69/2010 republished, following their approval by the Council members, through vote, in the meeting of August 26, 2021.

August 26, 2021 — Chairman of the Fiscal Council

Professor Daniel Dăianu

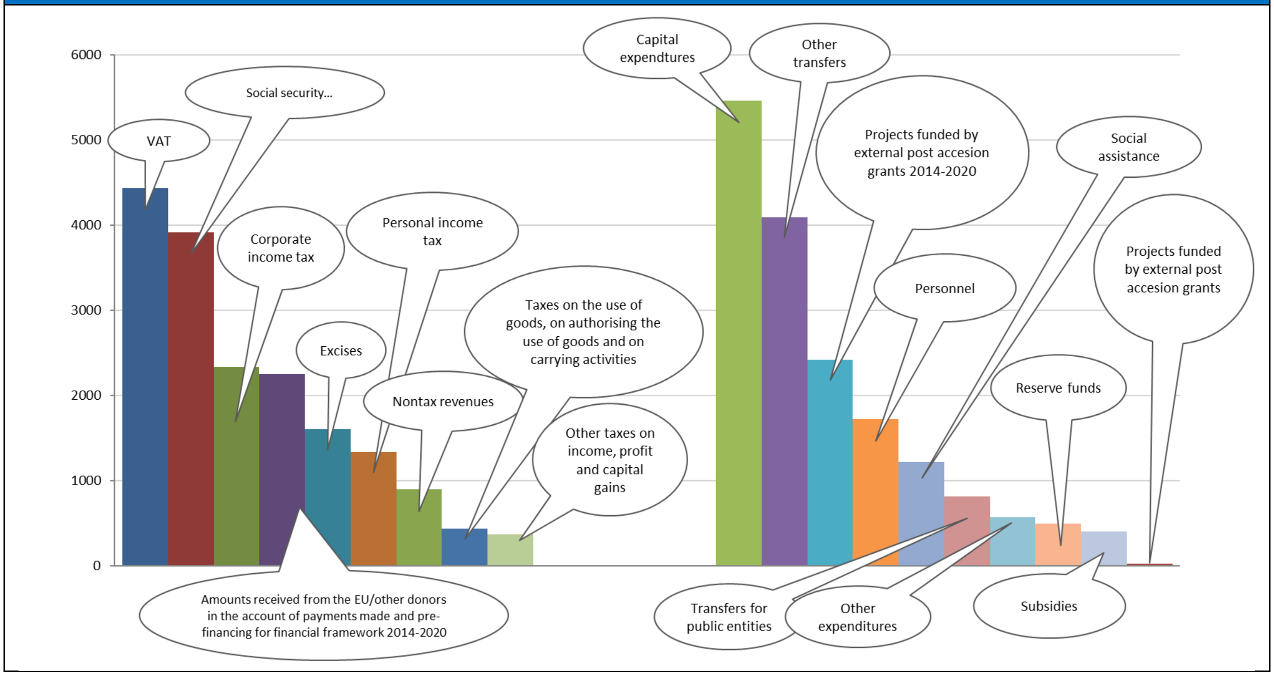
ANNEX I - Budget revision vs. Initial budget	Initial budget 2021	Swap program 2021	Initial Budget 2021 Without swap	First Budget Revision (R1) 2021	Swap program R1	First Budget Revision 2021 Without swap	R1 - Initial Budget 2021 With swap	R1 - Initial Budget 2021 Without swap	R1 2020/Budget Execution 2020 With swap
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9
TOTAL REVENUE	**364,907.1**	**850.0**	**364,057.1**	**382,531.8**	**1,263.8**	**381,268.0**	**17,624.7**	**17,210.9**	**18.6%**
Current revenue	**316,694.4**	**850.0**	**315,844.4**	**331,717.2**	**1,263.8**	**330,453.5**	**15,022.8**	**14,609.1**	15.2%
Tax revenue	**168,899.1**	**293.0**	**168,606.1**	**178,921.4**	**510.7**	**178,410.7**	**10,022.3**	**9,804.6**	18.3%
Taxes on profit, wages, income and capital gains	**47,067.6**	**129.0**	**46,938.6**	**49,553.2**	**0.1**	**49,553.1**	**2,485.6**	**2,614.5**	167.9%
Corporate income tax	15,988.1	9.0	15,979.1	18,310.8	0.1	18,310.8	2,322.8	2,331.7	14.5%
Personal income tax	26,245.2	120.0	26,125.2	27,462.6	0.0	27,462.6	1,217.4	1,337.4	12.9%
Other taxes on income, profit and capital gains	3,413.6	0.0	3,413.6	3,779.7	0.0	3,779.7	366.1	366.1	19.8%
Property tax	**6,105.1**	**0.0**	**6,105.1**	**6,335.0**	**0.0**	**6,335.0**	**229.9**	**229.9**	6.7%
Taxes on goods and services	**113,658.8**	**121.0**	**113,537.8**	**120,699.4**	**509.5**	**120,190.0**	**7,040.7**	**6,652.2**	20.9%
VAT	69,698.4	84.0	69,614.4	74,563.1	508.4	74,054.7	4,864.7	4,440.2	22.6%
Excises	33,095.6	37.0	33,058.6	34,665.3	1.1	34,664.3	1,569.8	1,605.7	12.9%
Other taxes on goods and services	4,214.4	0.0	4,214.4	4,386.3	0.0	4,386.3	171.8	171.8	-3.0%
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	6,650.3	0.0	6,650.3	7,084.7	0.0	7,084.7	434.4	434.4	88.0%
Taxes on foreign trade and international transactions (customs duty)	**1,131.9**	**0.0**	**1,131.9**	**1,265.3**	**0.0**	**1,265.3**	**133.5**	**133.5**	13.0%
Other tax revenue	**935.8**	**43.0**	**892.8**	**1,068.5**	**1.2**	**1,067.3**	**132.7**	**174.5**	15.7%
Social security contributions	**120,825.6**	**557.0**	**120,268.6**	**124,933.9**	**753.1**	**124,180.9**	**4,108.3**	**3,912.3**	11.3%
Nontax revenue	**26,969.7**	**0.0**	**26,969.7**	**27,861.9**	**0.0**	**27,861.9**	**892.2**	**892.2**	13.6%
Capital revenue	**820.9**	**0.0**	**820.9**	**1,156.8**	**0.0**	**1,156.8**	**335.8**	**335.8**	49.1%
Grants	**8.3**	**0.0**	**8.3**	**8.3**	**0.0**	**8.3**	**0.0**	**0.0**	141.5%
Amounts received from the EU for payments made and prefinancing	**0.1**	**0.0**	**0.1**	**17.9**	**0.0**	**17.9**	**17.8**	**17.8**	-46.0%

Other amounts received from the EU for operational Programmes funded under the convergence objective	**2,679.4**	**0.0**	**2,679.4**	**2,679.4**	**0.0**	**2,679.4**	**0.0**	**0.0**	114.9%
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	**44,704.0**	**0.0**	**44,704.0**	**46,952.2**	**0.0**	**46,952.2**	**2,248.2**	**2,248.2**	45.5%
TOTAL EXPENDITURE	**444,907.1**	**850.0**	**444,057.1**	**466,331.8**	**1,263.8**	**465,068.0**	**21,424.7**	**21,010.9**	**9.9%**
Current expenditure	**414,688.5**	**850.0**	**413,838.5**	**429,890.6**	**500.0**	**429,390.6**	**15,202.1**	**15,552.1**	9.4%
Personnel	**109,509.2**	**0.0**	**109,509.2**	**111,226.2**	**0.0**	**111,226.2**	**1,717.0**	**1,717.0**	1.1%
Goods and services	**55,428.5**	**0.0**	**55,428.5**	**59,802.2**	**500.0**	**59,302.2**	**4,373.6**	**3,873.6**	4.7%
Interest	**16,864.5**	**0.0**	**16,864.5**	**16,793.7**	**0.0**	**16,793.7**	**-70.8**	**-70.8**	15.7%
Subsidies	**6,963.9**	**0.0**	**6,963.9**	**7,361.7**	**0.0**	**7,361.7**	**397.8**	**397.8**	-9.6%
Total Transfers	**224,576.5**	**850.0**	**223,726.5**	**232,859.2**	**0.0**	**232,859.2**	**8,282.7**	**9,132.7**	14.9%
Transfers for public entities	1,975.0	850.0	1,125.0	1,933.2	0.0	1,933.2	-41.8	808.2	26.4%
Other transfers	23,809.5	0.0	23,809.5	27,905.1	0.0	27,905.1	4,095.6	4,095.6	46.4%
Projects funded by external post accession grants	184.7	0.0	184.7	208.0	0.0	208.0	23.3	23.3	-39.1%
Social assistance	142,877.5	0.0	142,877.5	144,095.5	0.0	144,095.5	1,218.0	1,218.0	4.0%
Projects funded by external post accession grants 2014-2020	48,726.8	0.0	48,726.8	51,149.3	0.0	51,149.3	2,422.5	2,422.5	47.1%
Other expenditure	7,003.0	0.0	7,003.0	7,568.1	0.0	7,568.1	565.1	565.1	-9.4%
Reserve funds	**598.7**	**0.0**	**598.7**	**1,094.3**	**0.0**	**1,094.3**	**495.5**	**495.5**	-
Expenditure funded from reimbursable funds	**747.2**	**0.0**	**747.2**	**753.4**	**0.0**	**753.4**	**6.2**	**6.2**	-0.3%
Capital expenditures	**30,218.6**	**0.0**	**30,218.6**	**36,441.2**	**763.8**	**35,677.4**	**6,222.6**	**5,458.8**	9.8%
EXCEDENT(+) / DEFICIT(-)	**-80,000.0**	**0.0**	**-80,000.0**	**-83,800.0**	**0.0**	**-83,800.0**	**-3,800.0**	**-3,800.0**	**-17.7%**

Source: MF, FC's calculations

Annex II

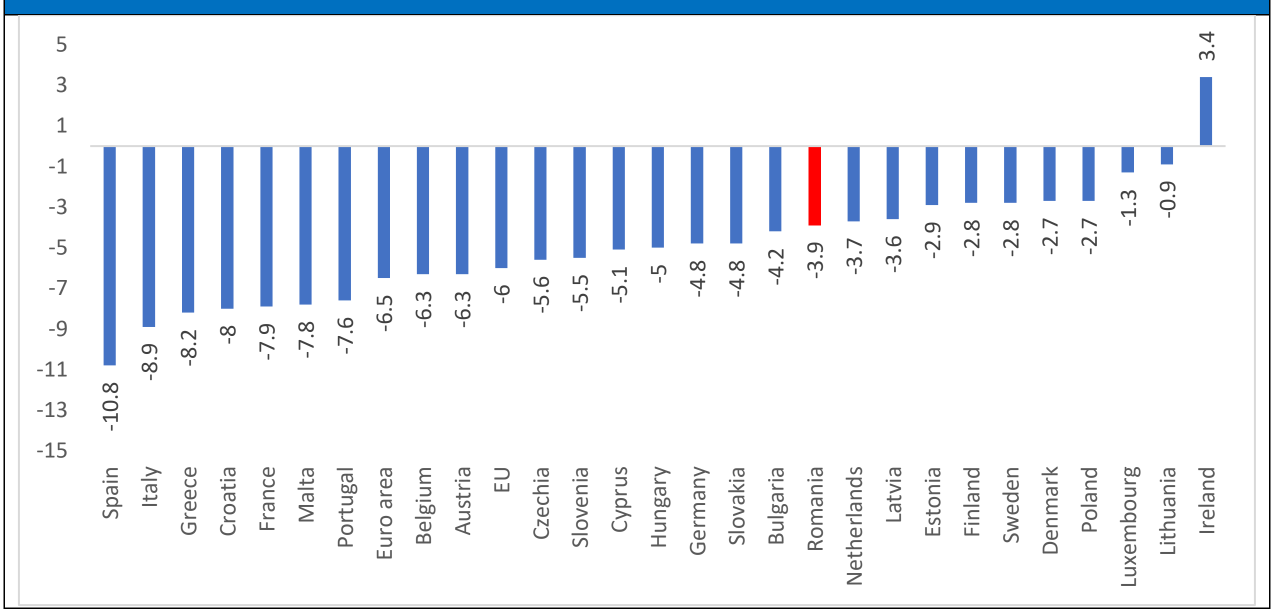
Figure 1: The main changes in expenditures and revenues after the budget revision (without the swap schemes, mil. lei)



Source: MF, FC's calculations

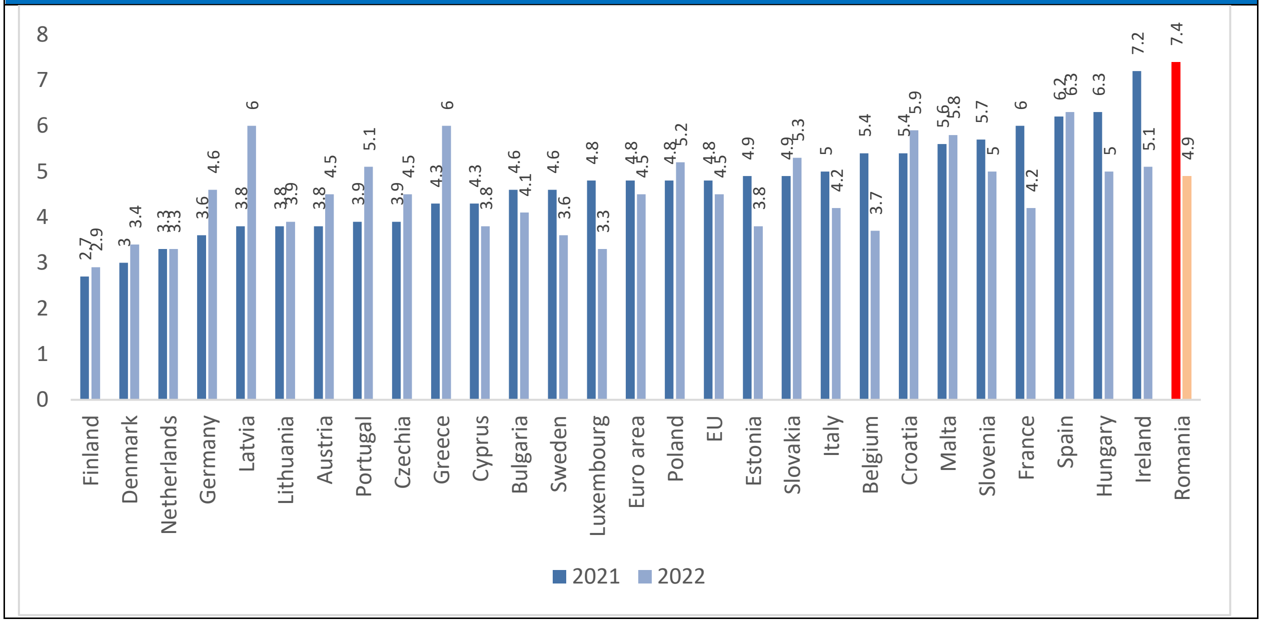
Annex III

Figure 2: Real GDP dynamics in EU countries in 2020 (%)



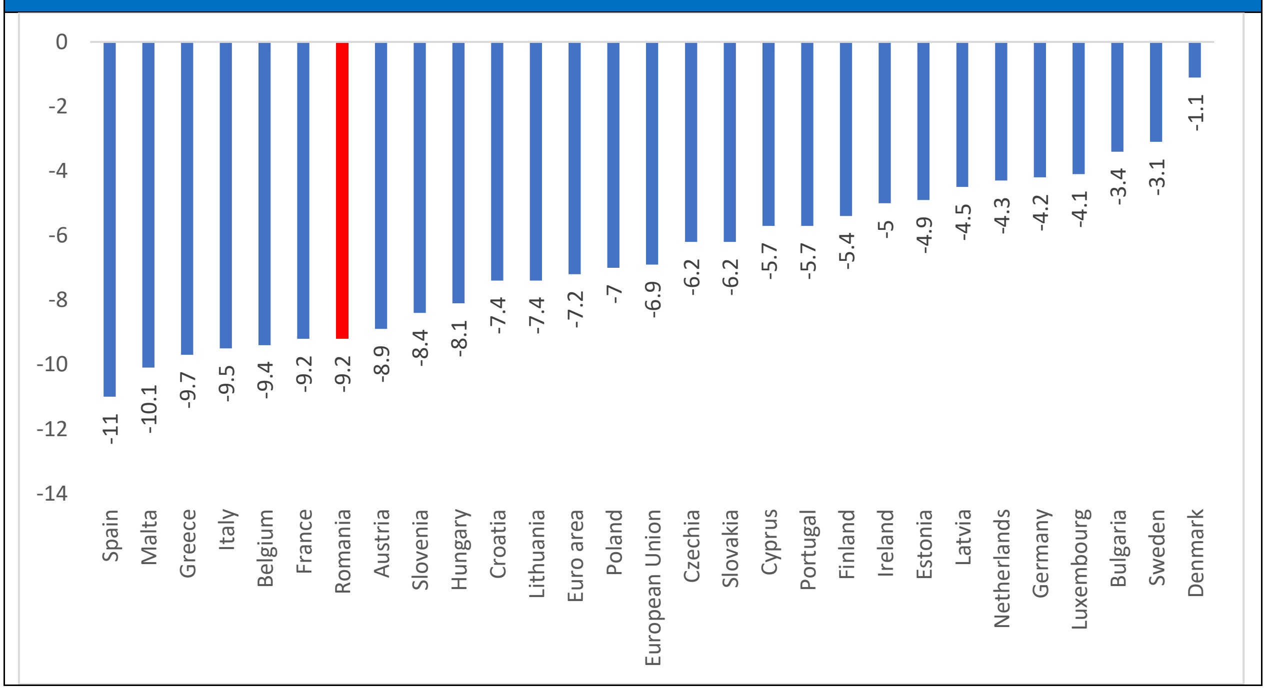
Source: European Economic Forecast, Summer 2021

Figure 3: Estimates of real GDP dynamics in EU countries in 2021 and 2022 (%)



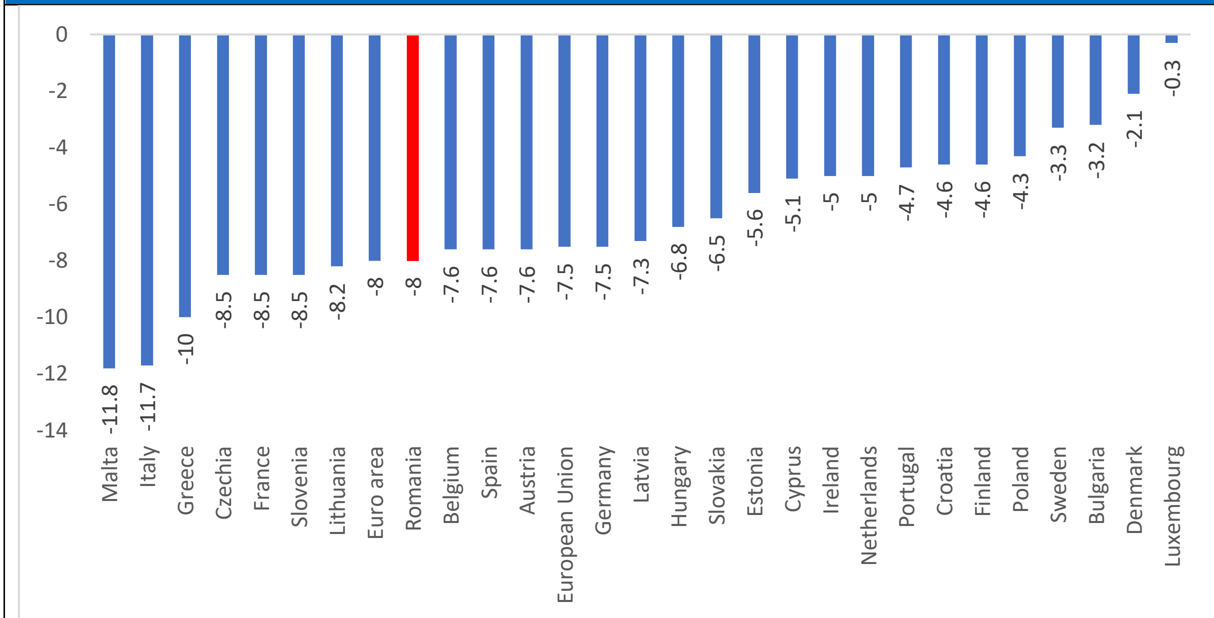
Source: European Economic Forecast, Summer 2021

Figure 4: Budget balance in EU countries in 2020 (% of GDP, ESA 2010)



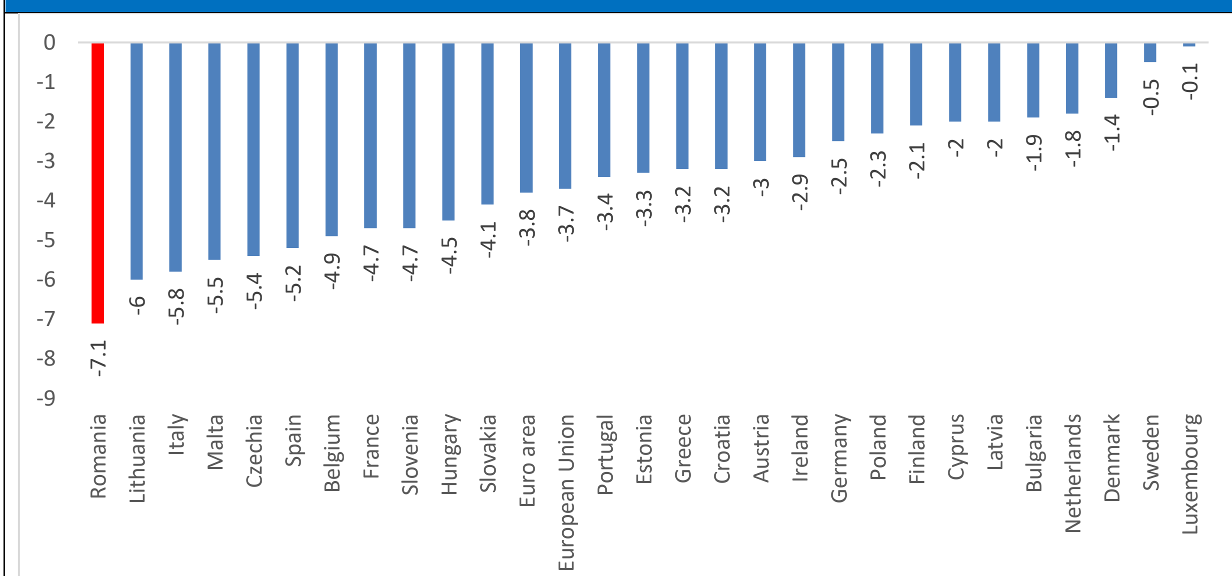
Source: AMECO

Figure 5: Estimates of the budget balance in EU countries in 2021
(% of GDP, ESA 2010)



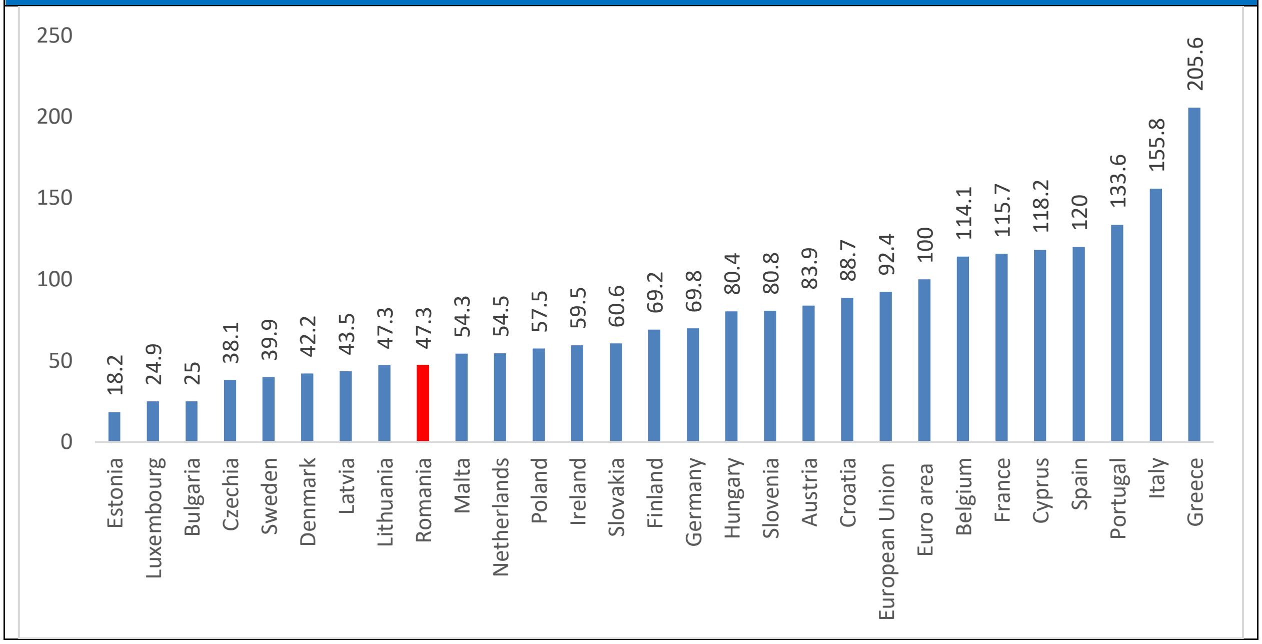
Source: AMECO

Figure 6: Estimates of the budget balance in EU countries in 2022
(% of GDP, ESA 2010)



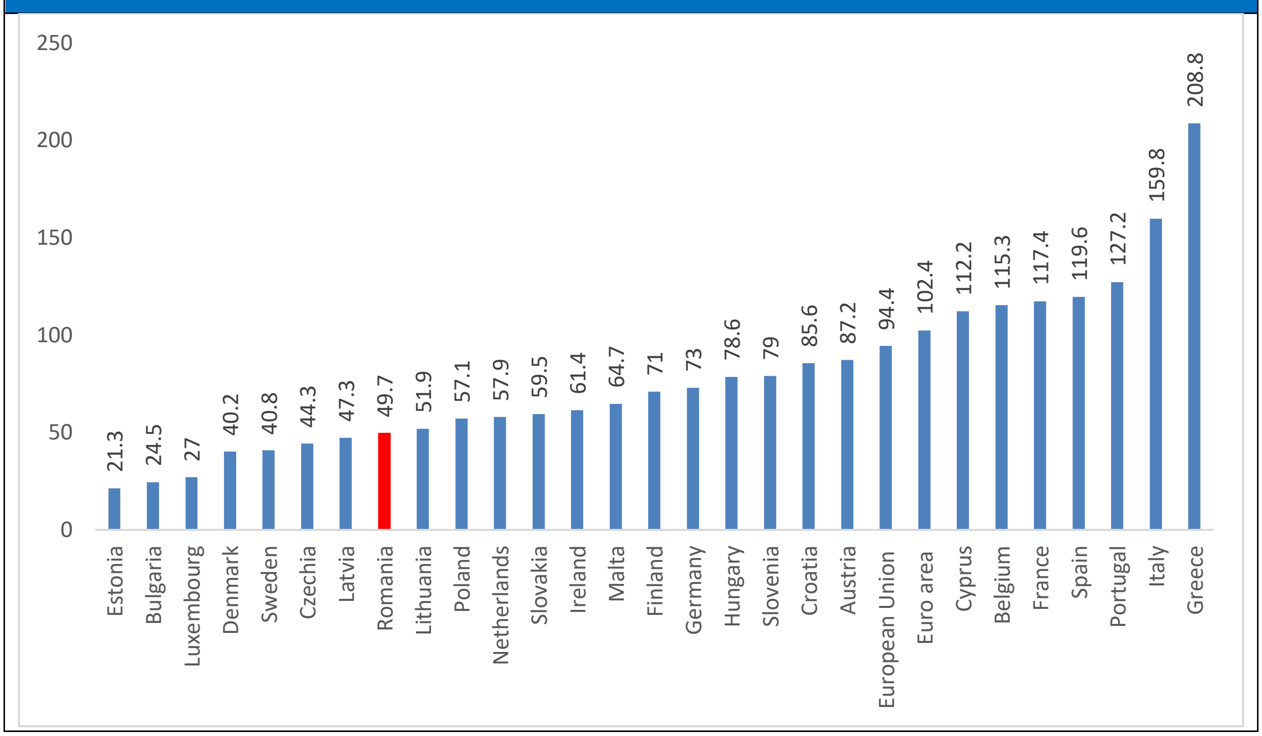
Source: AMECO

Figure 7: Public debt in EU countries in 2020 (% of GDP, ESA 2010)



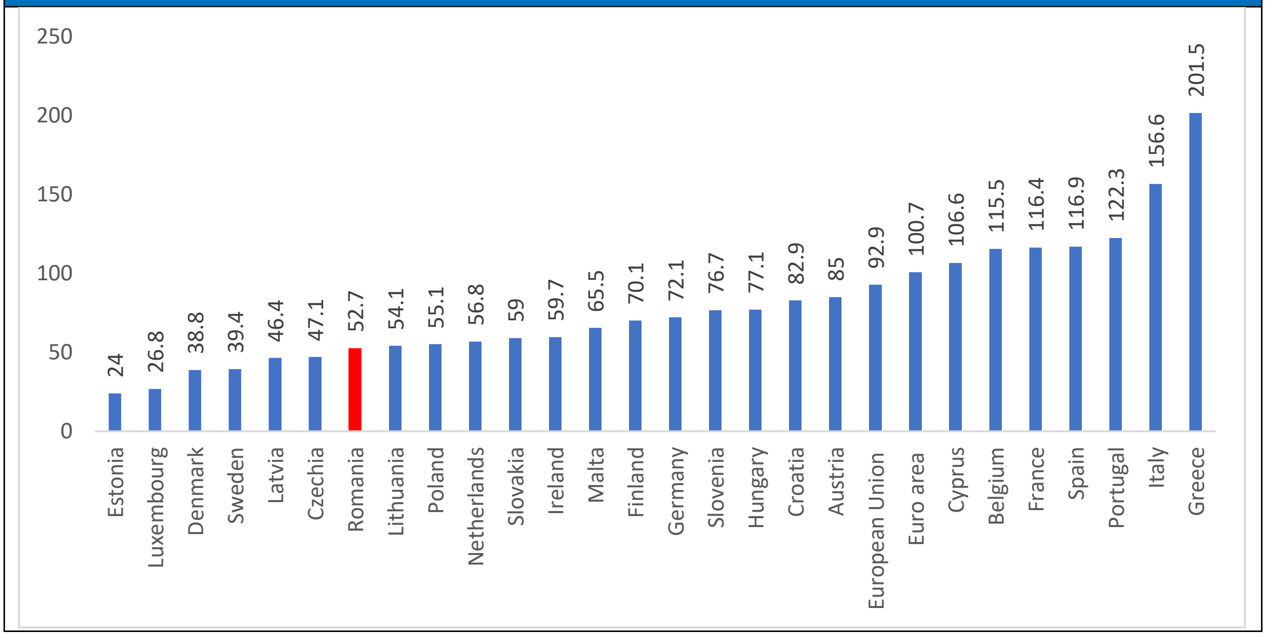
Source: AMECO

Figure 8: Estimates of the level of public debt in EU countries in 2021 (% of GDP, ESA 2010)



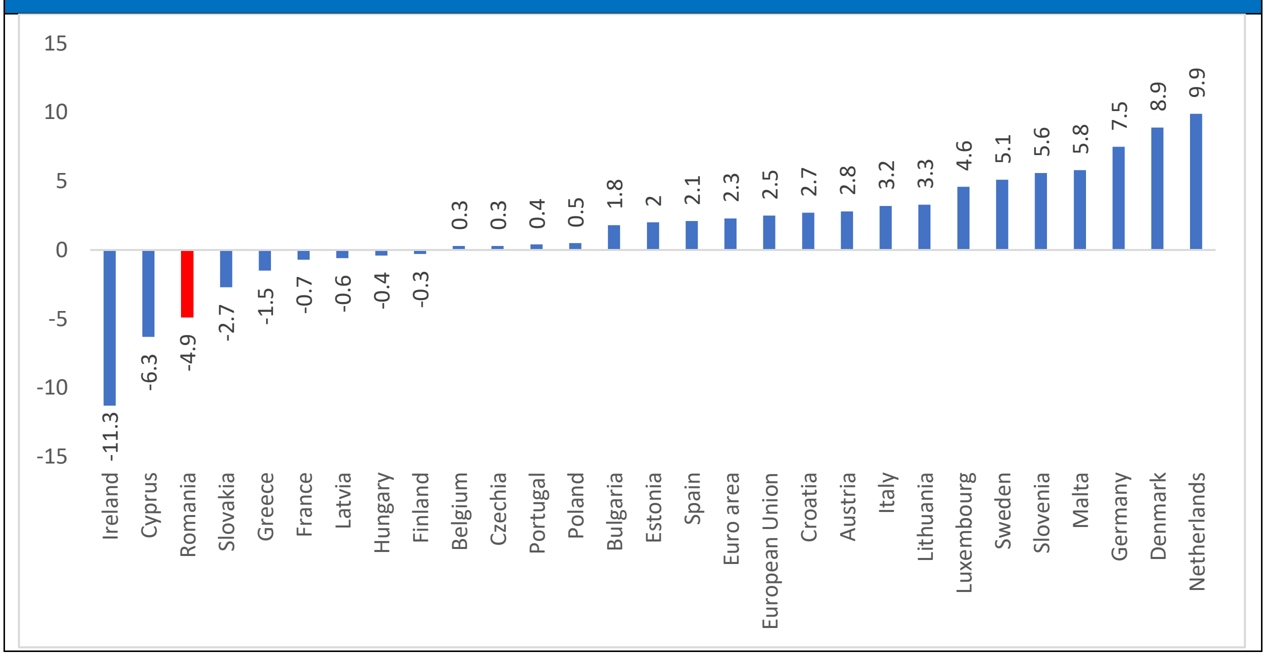
Source: AMECO

Figure 9: Estimates of the level of public debt in EU countries in 2022 (% of GDP, ESA 2010)



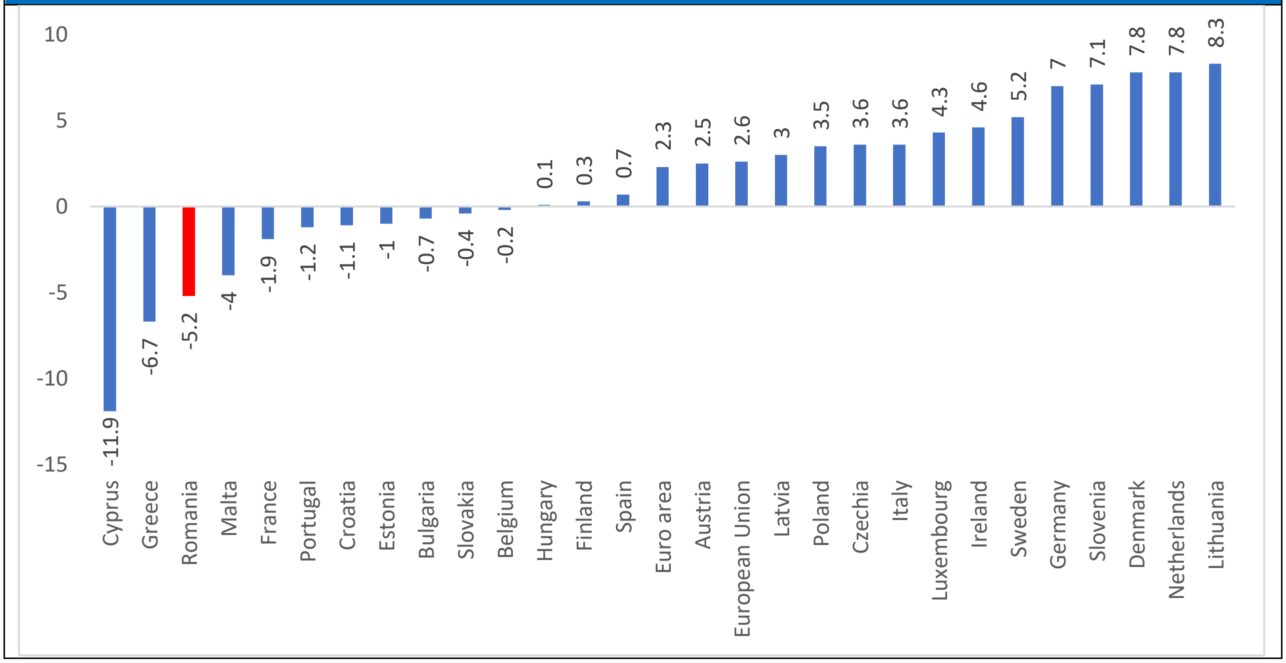
Source: AMECO

Figure 10: Current account balance in EU countries in 2019 (% of GDP)



Source: AMECO

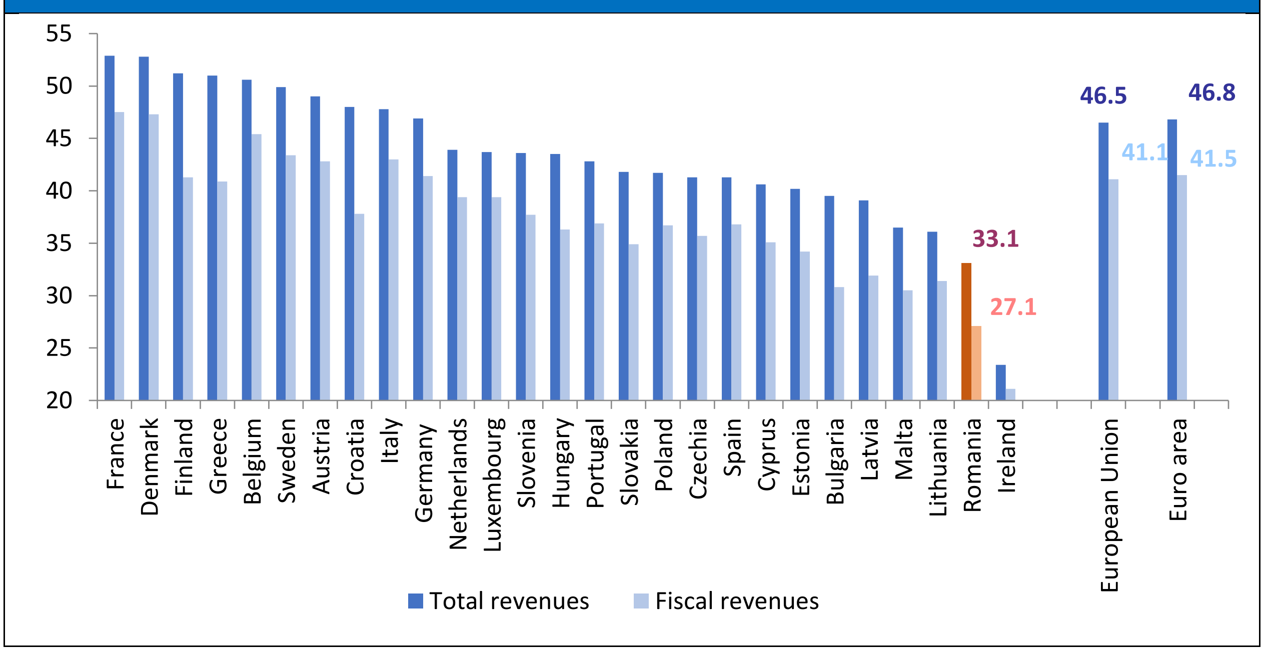
Figure 11: Current account balance in EU countries in 2020 (% of GDP)



Source: AMECO

Annex IV

Figure 12: Budgetary and tax revenues in 2020 (%GDP, ESA 2010)



Source: Eurostat, tax revenues include SSC

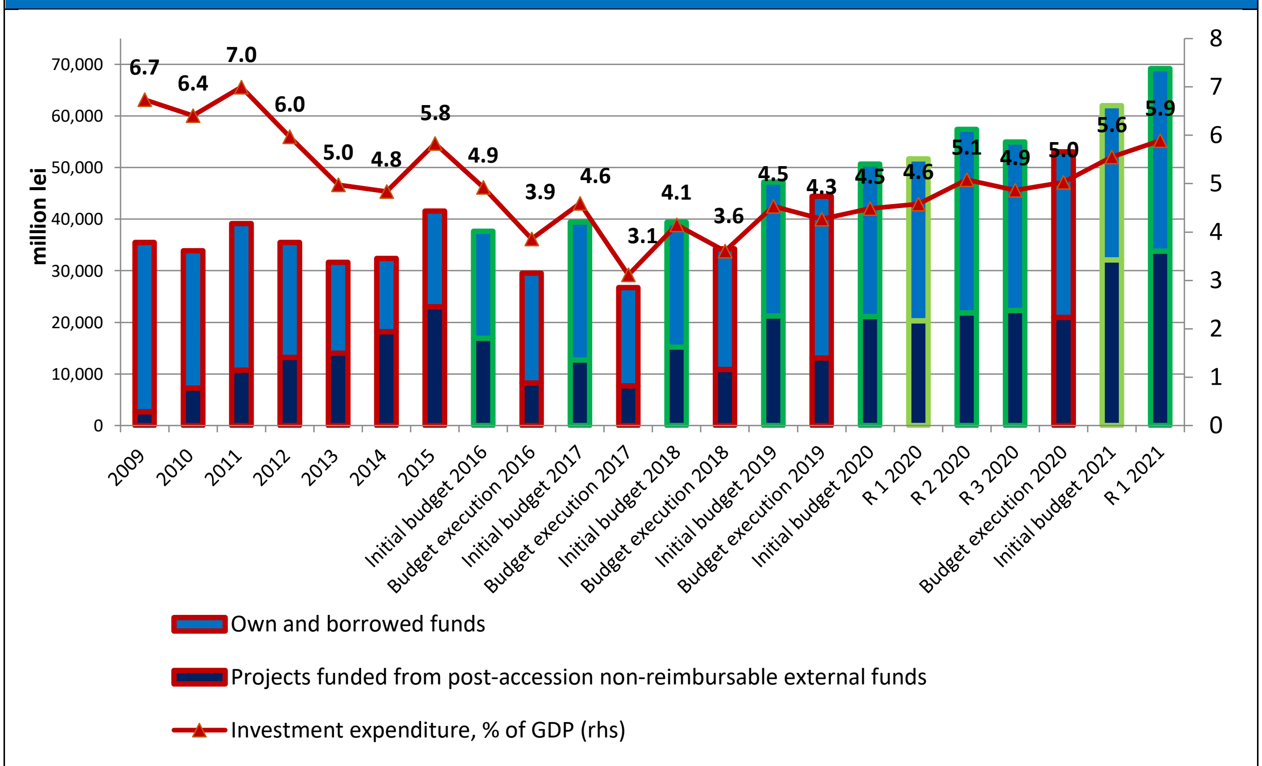
Annex V

ANNEX V- EU funds	Initial schedule 2021 (mil. lei)			Updated schedule 2021 (mil. lei)			R I 2021 (mil. lei)		
	Structural	Agriculture	Amounts according to art. 10 letter a) of GEO no. 40/2015	Structural	Agriculture	Amounts according to art. 10 letter a) of GEO no. 40/2015	Structural	Agriculture	Amounts according to art. 10 letter a) of GEO no. 40/2015
EU funds inflows	23,266.7	21,437.3	1,200.0	23,677.6	21,199.8	1,007.7	24,752.5	22,199.8	2,007.7
EU funds expenditure	34,704.2	21,437.3	1,200.0	34,569.0	21,199.8	1,007.7	36,233.3	22,199.8	2,007.7
National cofinancing and ineligible expenses	11,437.5	0.0	0.0	10,891.4	0.0	0.0	11,480.8	0.0	0.0

Source: MF, FC's calculation

Annex VI

Figure 13: The evolution of public investment expenditures between 2009-2020- planned level vs. realized (mil. lei)



Source: MF, FC's calculations