*Fiscal Council of Romania*

# Fiscal Council's Opinion on the Draft of the Second Budget Revision for 2019


## *Summary*

- The forecast of the macroeconomic framework accompanying the second budget revision is characterized by a deterioration, the advance of real GDP and of labor market indicators being projected to slow down, with a negative impact on budgetary revenues.
- The budget revision draft envisages a major adjustment of the budget deficit – unprecedented since the adoption of the FRL – from 2.76% to 4.3% of GDP, according to the national methodology, thus, validating the evaluation and warnings of the FC formulated in its opinions related to the initial budget draft and to the first budget revision. Therefore, it is very likely that the budget deficit will significantly exceed the 3% threshold, set according to the European methodology, beyond which the EC can trigger the excessive deficit procedure.
- The slowdown of the economy and the exposure of additional deficiencies in the budget construction – reflected as such by MPF in the second budget revision – led to a further deterioration of the budget balance, even in comparison with the upper limit of the previous evaluation made by the FC.
- The substantial increase of the projected budget deficit is mainly the result of a reduction in the estimated budgetary revenues, which is compensated only to a small extent by the decrease of budgetary expenditures.
- The significant downward adjustment of budgetary revenues comes as a result of the failure to realize the projected revenues from the reduction of tax evasion and fiscal amnesty measures, from the non-materialization of the expected levels for the absorption of EU funds and for non-tax revenues, as well as from the deterioration of the macroeconomic framework.
- The negative revision of budgetary expenditures comes mainly from the decrease of investment expenses, while social assistance expenditures are massively supplemented.
- In the FC's opinion, the balance of risks regarding the new projection of the budget balance is slightly tilted in the sense of recording a higher budget deficit, having as possible sources the under-fulfillment of non-tax revenues and the exceeding of goods and services expenditures. In the opposite side may operate a new reduction of investment expenses, compared to the budgeted level, taking into account that the gap between the planned level and the current execution is still relatively high.

- Under these circumstances, FC considers that credible budgetary consolidation measures are needed, in view of both the current deficit level and the medium-term perspective. Budgetary consolidation is not possible if the current timetable for applying the new pension law and the current coordinates of the fiscal-budgetary policy are maintained. FC considers that it is not realistic to presume a radical and rapid improvement in the collection of tax revenues that will allow the maintenance of the timetable for the fiscal policy measures that are already enacted. Moreover, this approach would not be in line with the principle of prudence in the construction of budgets.
- The draft budget for 2020 must respond to the objective of budgetary consolidation by signaling a change of trend, necessary from the perspective of defending the macroeconomic equilibriums and the robustness of the economy, but also in order to ensure compliance with the European and national fiscal rules.

## Fiscal Council's Opinion on the Draft of the Second Budget Revision for 2019

On November 26th, 2019 the Fiscal Council (FC) received from the Ministry of Public Finance (MPF), by letter no. 466271/26.11.2019, the draft of the budget revision for 2019, the explanatory note and the draft of the Government Ordinance regarding the state budget revision, as well as the explanatory note and the draft of the Government Ordinance regarding the social security budget revision, requesting, under art. 53 para. (2) of the Fiscal Responsibility Law (no. 69/2010 republished, hereafter referred to as FRL), the Fiscal Council's opinion.

### *General considerations*

The first consideration refers to the <u>updated macroeconomic scenario that underpins the budgetary construction</u>, the project of the second revision increasing the estimated size of nominal GDP from 1,031 billion lei to 1,040.8 billion lei, on the basis of an expected advance of the GDP deflator well above previous projections, 6.0% compared to 3.5%, which more than compensates for the downward revision of the real growth rate, to 4.0% compared to 5.5%. This evolution validates the FC assessment from the first budget revision, which considered that the nominal GDP level proposed at that time was plausible, based on a lower advance in real terms and a significant increase in prices throughout the economy. In FC's opinion, the new forecast of nominal GDP for the current year is not without risks, which are mainly located at the level of the GDP deflator. Thus, FC cannot exclude the possibility of a lower deflator resulting, implicitly, in a lower value of the nominal GDP.

The second consideration envisages the <u>labor market assumptions in terms of the projected dynamics for the number of employees in the economy and for the growth rate of the gross average wage</u>. Thus, the new MPF projection estimates a 2.0% advance of the number of employees in the economy – reduced from 3.4% – and a 13.5% increase of the gross average wage – compared to 14.7%. The new projection for the advance in the number of employees in the economy confirms the previous evaluation of FC which indicated a significant slowdown in the dynamics of the number of employees, but the revision carried out by MPF appears to be insufficient considering the latest statistical data, in particular an advance of 1.1% between January 2019 - September 2019 compared to the same period of last year, respectively an increase of 0.8% in September 2019 compared to the same month of 2018, the dynamics of both indicators being characterized by a persistent slowdown trend. In what concerns the new MPF projection for the growth rate of the gross average wage, FC considers it feasible given the slowdown pointed by the statistical data from previous months. The labor market assumptions have a major impact on the forecast of budgetary revenues – mainly social security contributions and personal income tax – given their high sensitivity to labor market projections, and the above-mentioned updates justify the negative revision of the corresponding categories of budgetary revenues.

A third consideration refers to the major adjustment of the budget deficit assumed through the second budget revision for the current year – unprecedented since the adoption of the FRL – from 2.76% to 4.3% of GDP according to the national methodology (*cash*), thus, validating the evaluation and warnings of the FC formulated in its opinions related to the initial budget draft and the first budget revision for 2019. Moreover, the slowdown of the economy and the exposure of additional deficiencies in the budget construction – reflected as such by MPF in the second budget revision – led to a further deterioration of the budget balance, even in comparison with the upper limit of the previous assessment made by the FC, respectively 3.7% of GDP. The new value estimated for the budget deficit, according to the *cash* methodology, makes it very likely to significantly exceed the 3% threshold for the budget deficit according to the European methodology, beyond which the EC can trigger the excessive deficit procedure. Implicitly, the deviation from the medium-term objective, respectively a level of 1% of GDP for the structural deficit, increases significantly in the context in which Romania is the subject of a significant deviation procedure since 2017.

The fourth consideration concerns the publicly available documents that accompany the budget revision. **FC reiterates the appeal made in its Opinion on the first budget revision for 2019 to increase transparency by publishing the data related to the general consolidated budget (GCB), highlighting the differences relative to the initial budget and offering explanations that motivate these differences**. This approach is relevant because the budgetary targets from the perspective of evaluating macroeconomic balances, as well as the national and European fiscal rules, are related to the GCB.

### *Compliance with fiscal rules*

Compared to the estimates of the first budget revision, the revenues and expenditures of the GCB are reduced by 18.3 billion lei, respectively by 2.1 billion lei, so that the GCB deficit is projected to increase considerably from 28.5 billion lei to 44.7 billion lei. Given the fact that the draft budget revision recognizes significant decreases in revenues, previously identified by FC, and also revealed by the current budget execution, as well as the need for increasing expenditures, especially those with social assistance, it is obvious that the compliance with fiscal rules is no longer possible and the deviations are proportional to the revisions that were operated. Moreover, the GCB deficit exceeds considerably, for the first time, the reference level of 3% of GDP. FC has repeatedly emphasized the lack of constraint of the fiscal rules stipulated by the FRL, reflected by the systematic use of derogations from them. Proceeding to the analysis of the budget revision draft from the perspective of the fiscal rules instituted by the FRL, the following can be stated:

- The new level of the budget deficit exceeds by 16.3 billion lei the nominal ceiling established by derogation on the occasion of the first budget revision, respectively by 1.5 pp the ceiling defined as a percentage of GDP, established by GEO no. 14/2019, which represents non-compliance with the rules concerning the GCB balance, established by the FRL at art. 12 letter a) (for the level expressed as a percentage in GDP) and letter b) (for the nominal level);
- Considering the downward revision of the interest expenses by about 0.4 billion lei, the primary balance of the GCB is projected at 31.8 billion lei, which denotes non-compliance with the rule instituted by the FRL at art. 12 letter b), the nominal ceiling established by derogation on the occasion of the first budget revision being exceeded by 16.7 billion lei;
- Given the downward revision of the financial assistance from the EU by 7.9 billion lei, the projected level for GCB total expenditures, excluding financial assistance from the EU and other donors (344.2 billion lei), exceeds by 5.8 billion lei the nominal ceiling established by derogation on the occasion of the first budget revision. Thus, there is a lack of compliance with the fiscal rules established by the FRL at art. 12 letter c) (for the nominal level) and at art. 24 (which allows the increase of GCB total expenditures, excluding financial assistance from the EU and other donors, during budget revisions only if it is realized for the service of public debt or for paying Romania’s contribution to the EU budget), taking into account that the amounts allocated for paying the national contribution to the EU budget were supplemented by just 15 million lei;
- The estimated level of GCB personnel expenditures (101.9 billion lei, respectively 9.8% of GDP) represents a decrease of about 0.1 billion lei compared to the value set at the first budget revision. Consequently, taking into account the upward adjustment of nominal GDP as compared to the estimate used at the first budget revision, personnel expenditures do not exceed the ceilings defined by GEO no. 14/2019, respecting the fiscal rules established by the FRL at art. 12 letter a) (for the level expressed as a percentage of GDP) and letter c) (for the nominal level), respectively at art. 17 para. 2 which prohibits the increase of personnel expenditures during budget revisions.

The draft Government Ordinance regarding the state budget revision for 2019 stipulates the necessary derogations from the fiscal rules that were violated and redefines the ceilings that have been exceeded according to the levels proposed by the second revision for the budgetary aggregates.

## *The updated coordinates of budgetary revenues and expenditures*

Compared to the parameters approved by the budget revision of August this year, the draft of the second budget revision diminishes the estimated total revenues of the GCB by 18.3 billion lei, while the total budgetary expenditures are reduced only by 2.1 billion lei, the budget deficit being thus increased by 16.3 billion lei. Expressed as a percentage of GDP, the projected level of the budget deficit is 4.3%, higher by 1.54 pp compared to the target related to the initial budgetary construction, and maintained on the occasion of the first budgetary amendment.

The downward revision of total revenues is found in almost all categories of revenues, significant decreases being located at the level of European funds, and also at revenues from the internal economy, respectively VAT, social security contributions, tax on the use of goods, non-tax revenues, etc.

At the level of budgetary expenditures, the draft of the second budgetary amendment accommodates large pressures coming from social assistance expenses, the reduction in the total budgetary spending being possible only under the circumstances of a large negative revision of the expenses related to the projects financed from non-reimbursable external funds.

The main revisions on the revenue side of the budget are as follows:

- *Tax revenues:* - 6.7 billion lei, out of which:
  - *Corporate income tax*: - 0.4 billion lei. The FC considers this adjustment justified under the conditions that the previous upward revision was only partially attributable to the over-performance of the revenues in the first half of the year and included higher revenues by about 0.8 billion lei from the fiscal amnesty and improved collection efficiency. The FC also identifies a risk of not achieving this target, the potential minus being of around 0.2 - 0.3 billion lei.
  - *Personal income tax:* - 0.5 billion lei. The difference is attributable to the labor market indicators worsening compared to the previous projection.
  - *Other taxes on income, profits and capital gains:* - 0.3 billion lei. The MPF explains this negative review by not achieving the additional revenues from improving the tax collection on the income of micro-enterprises, projected at 0.5 billion lei.
  - *VAT:* - 3.4 billion lei. The MPF justifies this reduction by not fully attaining the additional revenues from improving the collection rate, including the effects of the financial restructuring measures, and by accelerating the process of reimbursing the unpaid VAT to the companies. Consequently, the previous assessments of the FC are fully confirmed, the new target being consistent with the current estimations of the institution.
  - *Excise duties:* - 0.4 billion lei. In the explanatory note accompanying the draft for the second budget revision, this change is justified by the non-realization of the additional revenues coming from the tax evasion reduction. However, it should be taken into account the abandoning of introducing soft drinks with a high content of sugars in the scope of excisable products, as well as the increase of the total excise duty for cigarettes scheduled for January 1, 2020 in advance by 4 months (cumulative impact of the two measures of about 0.5 billion lei). However, the FC appreciates that there are prerequisites for obtaining higher revenues than in the updated projection, with a possible favorable difference of about 0.4 billion lei.
  - *The tax on the use of goods, the authorization of the use of goods or on the conduct of activities:* - 1.7 billion lei. The main determinant of this evolution is the not approving in

2019 of the auction calendars for the sale of 5G type licenses, the amount included in the initial budget from this source being about 2.4 billion lei. It should also be mentioned that this under-fulfillment will only affect to a small extent the budget execution for 2019 according to the European methodology, as the revenues associated with the rental of the frequency bands are distributed over the entire contracting period of 10 years.

- *Social security contributions* - 2.9 billion lei. In the opinion issued on the occasion of the first budgetary revision, the FC identified an additional revenue gap compared to MPF estimates of about 2 billion lei, out of which 1.1 billion lei represented the revenues expected to be obtained from the fiscal amnesty. The current revision of the MPF validates the previous assessments of the FC, supplemented by the additional negative impact generated by the slowing down in the labor market indicators' dynamics.

- *Non-tax revenues:* - 0.9 billion lei. According to the MPF, the negative influence is attributable to this category actual execution over the last months and the failure to collect additional revenues from the sale of confiscated assets in amount of 650 mil. lei. Also, in the note underpinning the project of the second budgetary revision, the achievement of the target is conditioned by the total collection by the end of the year of the dividends from the profit of the national and state companies as well as the autonomous companies regulated by GEO no. 114/2018. In the FC opinion, the current budgetary execution and the uncertainties associated with the distribution of additional dividends by the state-owned companies – taking into account the short time remaining until the end of the year – imply relevant risks, respectively a probability of not reaching the updated target by 1 - 2 billion lei.

- *Amounts received from the EU in the account of payments made and pre-financing related to the financial framework 2014-2020:* - 6.1 billion lei. The downward revision is due to the decrease of the estimated amounts to be attracted from structural and cohesion funds whose final beneficiary is the state by 5.2 billion lei (a reduction of about 34%), but also the decline of the amounts related to programs for the agricultural sector that transit the consolidated budget by 1.1 billion lei. It should be noted that only the first category – structural and cohesion funds whose final beneficiary is the state – is represented in the budget execution in accordance with ESA 2010, and also in the aggregate of investment spending reported by the MPF.

- *Other amounts received from the EU for operational programs financed under the convergence objective:* - 1.8 billion lei. The authorities' request to receive from EU funds *post factum* the amounts spent from the state budget in the period 2014-2019 from the National Program for Local Development was refused by the EC. Thus, the assessment of the FC formulated with the occasion of the opinion on the first budget revision of 2019, that highlighted the significant risks associated with this initiative, considering the uncertain eligibility of these projects from the perspective of granting European funding, is validated. This evolution does not affect that much the budget balance according to ESA 2010, as recording these revenues in the budgetary execution according to the above-mentioned methodology would have been made according to the year in which the projects for which the EU funding was requested, have been completed.

In conclusion, the negative large-scale revision of the budgetary revenues comes as a result of: underachieving the estimated revenues from the reduction of tax evasion and fiscal amnesty, non-materialization at the projected level of the EU funds absorption and non-tax revenues, as well as the macroeconomic framework worsening. Regarding the *ex-ante* inclusion in the revenue projection of the amounts from improving the collection efficiency, FC reiterates the importance of consistent application of prudence in the conduct of fiscal policy - as stated in the FRL within the principle of fiscal responsibility - and agrees to include only *ex post* in the budgetary construction the additional revenues from improving the collection rate. A similar reasoning also applies to initiatives such as fiscal amnesty, whose impact cannot be assessed *ex ante* with a reasonable degree of confidence.

By expenditure categories, the revisions of the initial estimates are as follows:

- *Goods and services:* + 0.4 billion lei. The upward revision confirms the previous assessments of the FC regarding the insufficiency of the allocations for this budgetary aggregate, a situation also revealed by the up-to-date budget execution which shows a growth rate of 16.6% in the first 10 months of the current year over the same period of last year, compared to a whole year forecast of only 7.8%. Moreover, compared to the first budget revision, the dynamics of this expenditure accelerated. In these conditions, FC maintains its assessment regarding the risk of exceeding the target for this category of expenses, with a possible deviation of 1-2 billion lei, as the additional allocations decided by the draft of the budget revision cover only the supplementary deterioration observed in the interval between the two budget amendments. Such a development was registered in 2018, too, when the final execution of the goods and services spending exceeded by 1.8 billion lei the target set by the second budget revision, and compared with the initial budget, the surpass being even higher, respectively of 5.1 billion lei. The FC notes a chronic lack of transparency regarding the forecast for this expenditure aggregate, the assumptions that underpinned its trajectory or the motivation of the major revisions carried out during the year, being not explained in the documents accompanying the successive iterations of the budget. Increased transparency could be a good starting point regarding the efficiency of goods and services spending, and this also requires a comprehensive reform of the public procurement system as a whole.

- *Interest spending*: - 0.4 billion lei.

- *Other transfers*: + 0.4 billion lei. The upward revision is explained by the MPF in the explanatory note that accompanies the draft of budget revision mainly through the additional allocations for financing the projects within the Program Start-Up Nation Romania for encouraging the setting up of small and medium enterprises, and for finalizing the ISPA projects in the transport sector (+ 0.6 billion lei).

- *Social assistance*: + 3.5 billion lei. The upward revision validates the previous warning of the FC regarding the under-budgeting of this category of expenses, but the size of the supplementation exceeds the FC assessments from the first revision concerning the necessary additional amounts. However, the new target is consistent with the situation of the up-to-date budget execution, which indicates a larger deterioration of a permanent nature. Thus, the starting point in the construction of future budgets for this category of expenditure will also be higher. It should be mentioned that the new target is consistent with the reversal by the end of this year of the decision to pay in advance the pensions benefits distributed through the Romanian Post, otherwise there is an additional need for 1.4 billion lei.

- *Other expenses*: + 0.4 billion lei. The source of this increase is mainly the supplementation of the amounts related to the payment titles issued by the National Authority for the Restitution of Properties.

- *Projects financed from external post-accession funds 2014-2020:* - 7.9 billion lei. The downward revision is due to the decrease of the estimated amounts to be spent from structural and cohesion funds whose final beneficiary is the state by 7 billion lei (diminished by about 28%), but also the reduction of the amounts transiting the consolidated budget related to the programs for the agricultural sector by 1.1 billion lei. **A lower absorption of European funds, undesirable from the perspective of economic development, has an impact in terms of reducing the budget deficit.** Therefore, the reduction of the co-financing expenses related to the current deterioration in the EU funds absorption accounts for 1.9 billion lei.

- *Capital expenditures:* +1.1 billion lei. The upward revision is explained by the supplementing the amounts related to the National Program for Local Development (NPLD) with 1.8 billion lei. The execution at the level of October 2019 related to this budgetary aggregate indicates that about 17.3 billion lei were spent, and for the last 2 months the amounts remaining to be spent being about 12.7 billion lei.

Total public investment expenditures, from internal and external sources, are planned to decrease by about 5.2 billion lei. The concentration of investment spending in the last quarter of the budget year, a situation met every year, highlights deficiencies in the budget programming process, even though the principle of prudence could partially justify to postpone some spending until the forecast for the budgetary revenues has a lower degree of uncertainty.

Summarizing, the negative revision of the total budgetary expenditures originates mainly from the significant cut in investment spending – the decline of the projects financed from EU funds being only to a small extent offset by the increase in capital expenditures from internal sources – under the circumstances of massively supplementing social assistance spending. Consequently, the substantial increase of the projected budget deficit is mainly based on lower budgetary revenues estimations, compensated only to a small extent by the reduction in total budgetary expenditures.

## *Conclusions*

The draft budget amendment records a downward revision, on an unprecedented scale since the adoption of FRL, of total GCB revenues (-18.3 billion lei), while total budgetary expenditures are reduced only to a much smaller extent (-2.1 billion lei), the budgetary deficit thus increasing by 16.3 billion lei up to a level of 44.7 billion lei, the equivalent of 4.3% of GDP, or higher by 1.54 pp compared to the level previously assumed. **Thus, the considerable exceeding of the 3% reference level for the budget deficit according to the European methodology, beyond which the EC can trigger the excessive deficit procedure, is imminent.**

The increase of the budgetary deficit compared to the the first budget revision by 16.3 billion lei takes place, mainly as a result of reduction of the estimates regarding the revenues from: VAT (-3.4 billion lei), social security contributions (-2.9 billion lei), taxes on using goods as a result of not organizing this year the auction regarding the rental of 5G frequency bands (-2.4 billion lei), other amounts received from the EU for operational programs financed under the convergence objective as a result of the EC refusal regarding the *post factum* settlement from EU funds of certain projects financed initially from national funds (-1.8 billion lei), non-tax revenue (-0.9 billion lei), as well as the increase of social assistance expenditures (+3.5 billion lei) and capital expenditures (+1.1 billion lei).

The evolutions observed at the level of GCB validate the FC's evaluation and warnings formulated within the opinions related to the draft budget and the first budget amendment. The differences in the sense of a higher deficit than the previous FC's assessment, 4.3% compared with 3.4% - 3.7% of GDP, mainly come from the revenue side from: not organizing this year the auction for the rental of 5G frequency bands (-2.4 billion lei), even lower revenues compared with the FC's projection from social security contributions (-0.9 billion lei) led by the slowdown in the dynamics of labor market indicators and lower revenues from non-tax revenues (-0.9 billion lei). On the expenses side, the differences are generated by the increase well above the expectations of social assistance expenditures (+2.2 billion lei compared with the previous forecast of FC) and higher discretionary allocations for capital expenditures (+1.1 billion lei). In addition, the savings anticipated by FC at the level of co-financing expenses related to the projects with European financing did not materialize at the expected level (a decrease of only 1.9 billion lei compared with 2.5 – 3.5 billion lei, the FC previous estimation).

In conclusion, **the draft of the second budget revision shows a large budgetary slippage, and the main factors that led to this result are of permanent nature and, therefore, difficult to correct.** Moreover, in the FC's opinion, <u>the balance of risks regarding the new projection for the budget balance is slightly tilted on the negative side</u>, respectively recording a higher budget deficit, having as sources the possible under-fulfillment of non-tax revenues and the exceeding of goods and services expenses. On the contrary, it can act in the opposite direction, a reduction, compared to the budgeted level, of the investment expenses, as the gap between the planned level and the up-to-date execution is still relatively high.

<u>Under these conditions, the FC considers that credible fiscal consolidation measures are needed, considering both the current level of the deficit and its medium-term outlook. The latter is considerably</u>

influenced by the new pension law that involves additional expenses compared to 2019 of about 0.7% of GDP in 2020, 2.7% of GDP in 2021 and 3.7% of GDP in 2022 respectively. **The budgetary consolidation is not possible if the current timetable for applying the new pension law and the current coordinates of the fiscal-budgetary policy are maintained.** This assertion takes into account the hypothesis that a major and rapid increase in tax revenues which would allow the current calendar of pension law enforcement to be maintained by improving tax collection is not credible.

**The draft budget for 2020 must respond to the desired objective of budgetary consolidation by signaling a change in trend**, necessary both from the perspective of defending macroeconomic equilibriums and the robustness of the economy, as well as from the need to comply with both European and national fiscal rules.

The opinions and the recommendations above mentioned by the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Art. 56, para (2) letter d) of the Law no. 69/2010 republished, after being approved by the Council members, through vote, on 28th November, 2019.

28th November 2019

Charmain of the Fiscal Council

Professor Daniel DĂIANU

| ANNEX 1 | Initial budget 2019 | Swap program 2019 | Initial budget 2019 without swap | First budget revision (R1) 2019 | Swap R1 | R1 without swap | Second budget revision (R2) | Swap R2 | R2 without swap | R1-initial budget | R2-initial budget | R2-R1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Without swap | | |
| | 1 | 2 | 3=1-2 | 4 | 5 | 6=4-5 | 7 | 8 | 9=7-8 | 10=6-3 | 11=9-3 | 12=9-6 |
| **Total revenue** | **342,675.1** | **850.0** | **341,825.1** | **344,909.5** | **850.0** | **344,059.5** | **326,587.8** | **850.0** | **325,737.8** | **2,234.4** | **-16,087.3** | **-18,321.6** |
| **Current revenue** | 307,985.9 | 850.0 | 307,135.9 | 308,944.3 | 850.0 | 308,094.3 | 298,480.8 | 850.0 | 297,630.8 | 958.4 | -9,505.1 | -10,463.5 |
| **Tax revenue** | 162,447.9 | 850.0 | 161,597.9 | 163,611.6 | 850.0 | 162,761.6 | 156,959.4 | 850.0 | 156,109.4 | 1,163.7 | -5,488.5 | -6,652.3 |
| **Taxes on profit, wages, income and capital gains** | 44,257.2 | 0.0 | 44,257.2 | 46,082.1 | 0.0 | 46,082.1 | 44,846.2 | 0.0 | 44,846.2 | 1,824.8 | 588.9 | -1,235.9 |
| Corporate income tax | 17,192.9 | 0.0 | 17,192.9 | 18,300.8 | 0.0 | 18,300.8 | 17,947.5 | 0.0 | 17,947.5 | 1,107.9 | 754.6 | -353.4 |
| Personal income tax | 23,663.0 | 0.0 | 23,663.0 | 23,662.9 | 0.0 | 23,662.9 | 23,122.8 | 0.0 | 23,122.8 | 0.0 | -540.1 | -540.1 |
| Other taxes on income, profit and capital gains | 3,401.4 | 0.0 | 3,401.4 | 4,118.3 | 0.0 | 4,118.3 | 3,775.9 | 0.0 | 3,775.9 | 717.0 | 374.5 | -342.5 |
| **Property tax** | 6,087.1 | 0.0 | 6,087.1 | 6,225.2 | 0.0 | 6,225.2 | 6,152.3 | 0.0 | 6,152.3 | 138.1 | 65.2 | -72.9 |
| **Taxes on goods and services** | 110,190.9 | 850.0 | 109,340.9 | 109,311.1 | 850.0 | 108,461.1 | 103,992.5 | 850.0 | 103,142.5 | -879.8 | -6,198.4 | -5,318.7 |
| VAT | 69,648.0 | 850.0 | 68,798.0 | 69,648.0 | 850.0 | 68,798.0 | 66,203.4 | 850.0 | 65,353.4 | 0.0 | -3,444.6 | -3,444.6 |
| Excises | 31,071.0 | 0.0 | 31,071.0 | 31,552.7 | 0.0 | 31,552.7 | 31,178.8 | 0.0 | 31,178.8 | 481.7 | 107.8 | -373.9 |
| Other taxes on goods and services | 4,534.3 | 0.0 | 4,534.3 | 5,101.2 | 0.0 | 5,101.2 | 5,257.4 | 0.0 | 5,257.4 | 567.0 | 723.1 | 156.1 |
| Taxes on the use of goods, on authorizing the use of goods and on carrying activities | 4,937.6 | 0.0 | 4,937.6 | 3,009.2 | 0.0 | 3,009.2 | 1,352.8 | 0.0 | 1,352.8 | -1,928.4 | -3,584.7 | -1,656.4 |
| **Taxes on foreign trade and international transactions (custom duty)** | 1,144.7 | 0.0 | 1,144.7 | 1,212.0 | 0.0 | 1,212.0 | 1,187.2 | 0.0 | 1,187.2 | 67.3 | 42.5 | -24.7 |
| **Other tax revenue** | 768.0 | 0.0 | 768.0 | 781.2 | 0.0 | 781.2 | 781.2 | 0.0 | 781.2 | 13.3 | 13.2 | -0.1 |
| **Social security contributions** | 117,246.1 | 0.0 | 117,246.1 | 115,050.3 | 0.0 | 115,050.3 | 112,125.3 | 0.0 | 112,125.3 | -2,195.7 | -5,120.7 | -2,925.0 |
| **Non-tax revenue** | 28,291.9 | 0.0 | 28,291.9 | 30,282.3 | 0.0 | 30,282.3 | 29,396.1 | 0.0 | 29,396.1 | 1,990.4 | 1,104.2 | -886.2 |
| **Capital revenue** | 972.9 | 0.0 | 972.9 | 972.9 | 0.0 | 972.9 | 959.2 | 0.0 | 959.2 | 0.0 | -13.7 | -13.7 |
| **Grants** | 8.8 | 0.0 | 8.8 | 8.8 | 0.0 | 8.8 | 18.2 | 0.0 | 18.2 | 0.0 | 9.4 | 9.4 |
| **Amounts received from the EU in the account of payments made and prefinancing** | 95.5 | 0.0 | 95.5 | 72.9 | 0.0 | 72.9 | 72.1 | 0.0 | 72.1 | -22.5 | -23.4 | -0.8 |
| **Financial operations** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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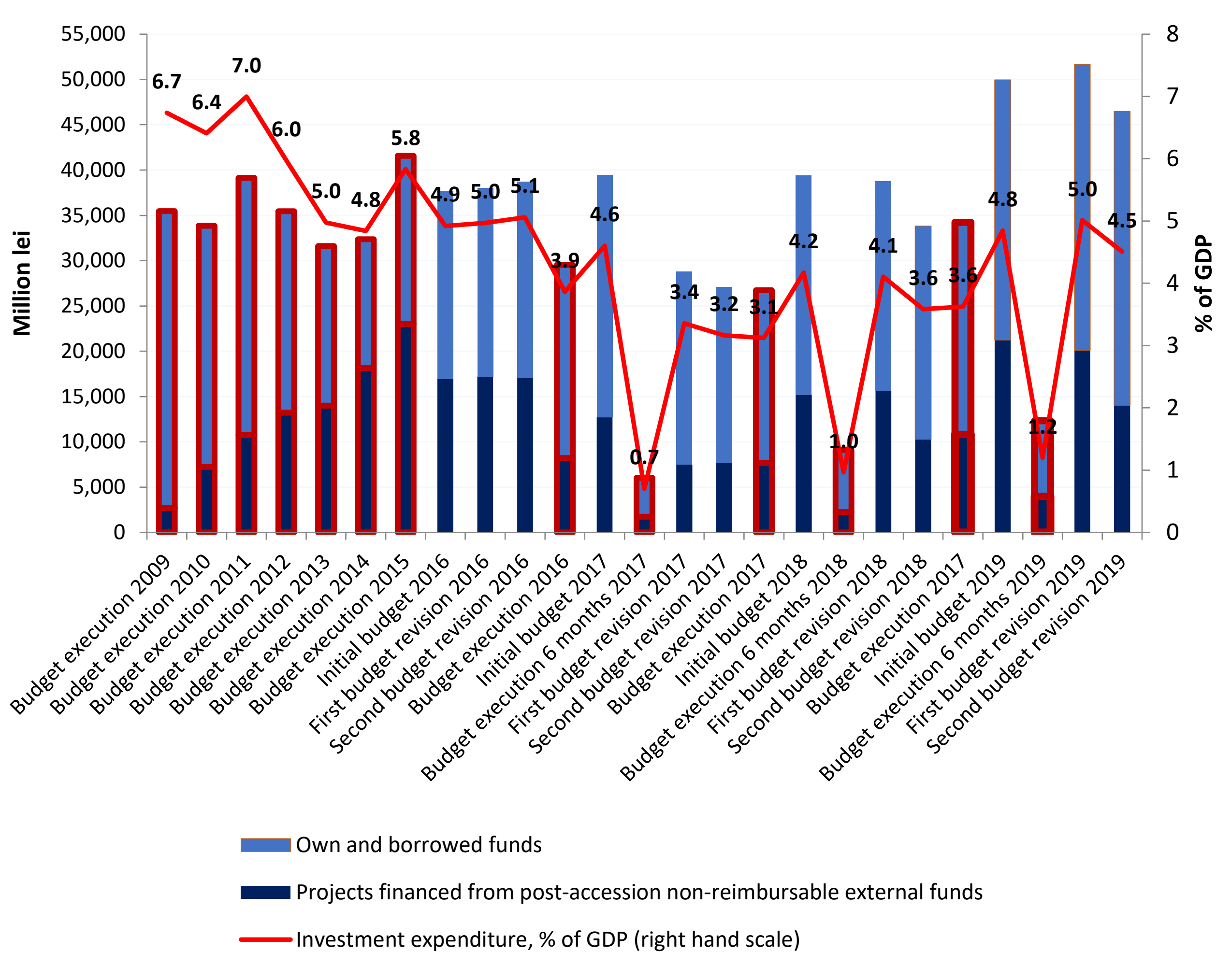
| **Amounts collected in the single account** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other amounts received from the EU** | 108.7 | 0.0 | 108.7 | 2,045.5 | 0.0 | 2,045.5 | 245.5 | 0.0 | 245.5 | 1,936.8 | 136.8 | -1,800.0 |
| **Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework** | 33,503.4 | 0.0 | 33,503.4 | 32,865.2 | 0.0 | 32,865.2 | 26,812.1 | 0.0 | 26,812.1 | -638.2 | -6,691.3 | -6,053.1 |
| **Total expenditure** | **370,923.8** | **850.0** | **370,073.8** | **373,365.1** | **850.0** | **372,515.1** | **371,307.8** | **850.0** | **370,457.8** | **2,441.4** | **384.1** | **-2,057.3** |
| **Current expenditure** | 345,803.3 | 850.0 | 344,953.3 | 344,498.3 | 850.0 | 343,648.3 | 341,348.5 | 850.0 | 340,498.5 | -1,305.0 | -4,454.8 | -3,149.8 |
| Personnel | 102,117.8 | 0.0 | 102,117.8 | 102,050.1 | 0.0 | 102,050.1 | 101,907.8 | 0.0 | 101,907.8 | -67.7 | -209.9 | -142.3 |
| Goods and services | 48,590.2 | 0.0 | 48,590.2 | 48,154.8 | 0.0 | 48,154.8 | 48,543.5 | 0.0 | 48,543.5 | -435.4 | -46.7 | 388.7 |
| Interest | 13,410.1 | 0.0 | 13,410.1 | 13,372.7 | 0.0 | 13,372.7 | 12,932.8 | 0.0 | 12,932.8 | -37.5 | -477.3 | -439.9 |
| Subsidies | 7,667.3 | 0.0 | 7,667.3 | 7,280.9 | 0.0 | 7,280.9 | 7,105.6 | 0.0 | 7,105.6 | -386.4 | -561.7 | -175.3 |
| **Total transfers** | 173,211.2 | 850.0 | 172,361.2 | 172,384.0 | 850.0 | 171,534.0 | 169,701.4 | 850.0 | 168,851.4 | -827.2 | -3,509.8 | -2,682.6 |
| Transfers between public administration entities | 2,378.4 | 850.0 | 1,528.4 | 2,298.4 | 850.0 | 1,448.4 | 2,081.9 | 850.0 | 1,231.9 | -80.0 | -296.6 | -216.6 |
| Other transfers | 16,673.4 | 0.0 | 16,673.4 | 16,060.9 | 0.0 | 16,060.9 | 16,421.4 | 0.0 | 16,421.4 | -612.4 | -251.9 | 360.5 |
| Projects funded by external post-accession grants | 359.4 | 0.0 | 359.4 | 284.3 | 0.0 | 284.3 | 324.5 | 0.0 | 324.5 | -75.1 | -35.0 | 40.2 |
| Social assistance | 109,585.8 | 0.0 | 109,585.8 | 110,590.5 | 0.0 | 110,590.5 | 114,117.1 | 0.0 | 114,117.1 | 1,004.7 | 4,531.4 | 3,526.6 |
| Projects funded by external post-accession grants 2014-2020 | 38,058.7 | 0.0 | 38,058.7 | 37,004.0 | 0.0 | 37,004.0 | 30,173.0 | 0.0 | 30,173.0 | -1,054.7 | -7,885.7 | -6,831.1 |
| Other expenditure | 6,155.4 | 0.0 | 6,155.4 | 6,145.8 | 0.0 | 6,145.8 | 6,583.5 | 0.0 | 6,583.5 | -9.7 | 428.0 | 437.7 |
| **Reserve funds** | 100.0 | 0.0 | 100.0 | 551.3 | 0.0 | 551.3 | 655.3 | 0.0 | 655.3 | 451.3 | 555.3 | 104.0 |
| **Expenditure Funded from reimbursable funds** | 706.8 | 0.0 | 706.8 | 704.5 | 0.0 | 704.5 | 502.1 | 0.0 | 502.1 | -2.2 | -204.7 | -202.5 |
| **Capital expenditure** | 25,120.5 | 0.0 | 25,120.5 | 28,866.9 | 0.0 | 28,866.9 | 29,959.4 | 0.0 | 29,959.4 | 3,746.4 | 4,838.9 | 1,092.5 |
| **Financial operations** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Payments made in previous years and recovered in the current year** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **EXCEDENT(+) / DEFICIT(-)** | **-28,248.7** | **0.0** | **-28,248.7** | **-28,455.7** | **0.0** | **-28,455.7** | **-44,720.0** | **0.0** | **-44,720.0** | **-207.0** | **-16,471.3** | **-16,264.3** |

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

| ANNEX II – EU FUNDS | Initial budget 2019 (mil. lei) | | | First budget revision 2019 (mil. lei) | | | Second budget revision 2019 (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 | 16,238.5 | 17,264.9 | 800.0 | 15,600.3 | 17,264.9 | 800.0 | 10,372.2 | 16,439.9 | 1,046.9 |
| EU funds expenditure | 26,328.0 | 17,264.9 | 800.0 | 24,850.9 | 17,264.9 | 800.0 | 17,846.4 | 16,439.9 | 1,046.9 |
| National co-financing and ineligible expenses | 10,089.5 | 0.0 | 0.0 | 9,250.6 | 0.0 | 0.0 | 7,474.2 | 0.0 | 0.0 |

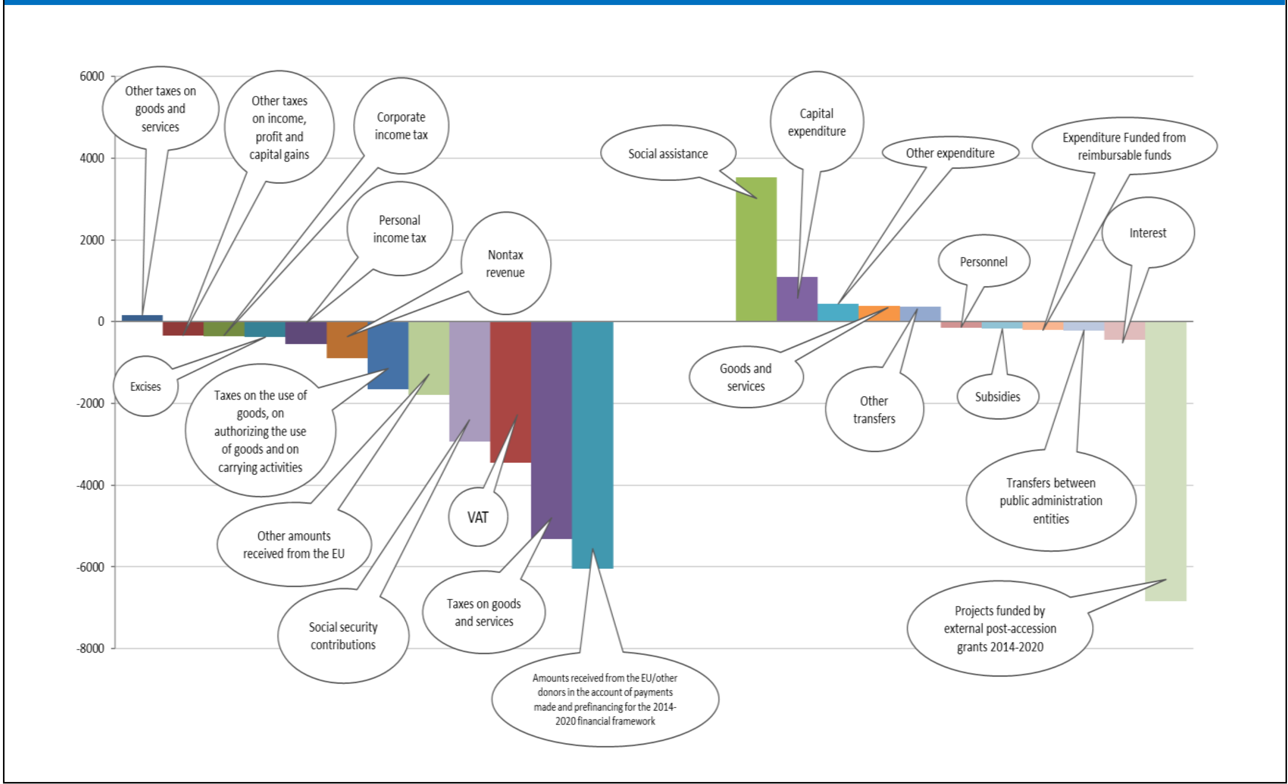
*Source: Ministry of Public Finance, Fiscal Council's calculations*

**Figure 1: Evolution of the public investment expenditure according to the national standards in the period 2009-2019 (planned vs. execution, million lei)**



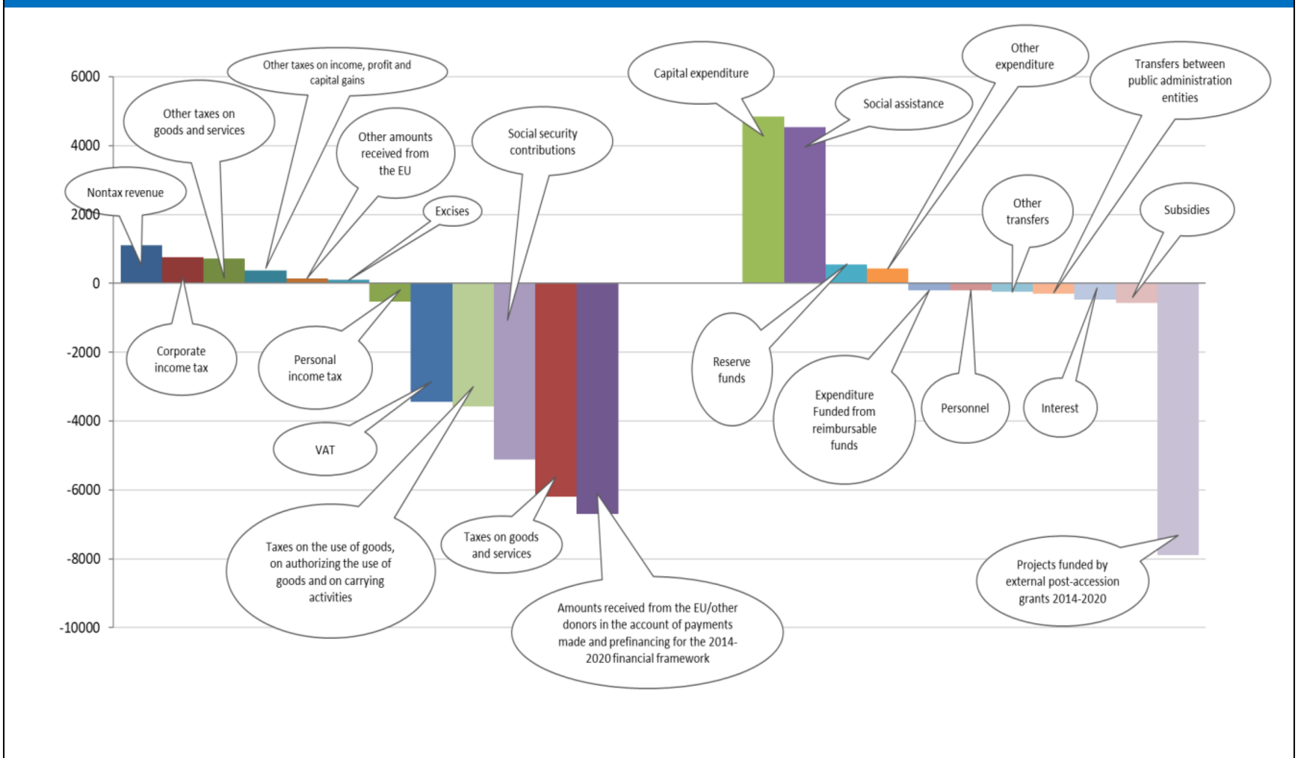

*Source: Ministry of Public Finance, Fiscal Council's calculations*

**Figure 2: The main changes in expenditures and revenues compared to the first budget revision 2019 (without swap), million lei**




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

**Figure 3: The main changes in expenditures and revenues compared to the initial budget 2019 (without swap), million lei**




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