Fiscal Council of Romania

Fiscal Council's Opinion on the second budget revision for 2021

Summary

- The second budget revision for 2021 takes place under more complicated conditions than anticipated at the previous revision; a new wave of the pandemics is emerging and the dynamics of the economy is showing visible signs of a sharp slowdown in recent months. At the same time, the inflationary surge caused by the shock of energy prices and supply chain disruptions fuels tensions in the economy and society.
- The economic slowdown, the temporary and cyclical nature of some of the budget revenues, the widening external imbalance (determined entirely by the savings-investment gap of the public sector) that puts pressure on financing costs, the need for spending increases under the impact of inflation underline together the acute need for sustainable, credible fiscal-budgetary consolidation, which will bring confidence and predictability in fiscal and economic developments, in order to reduce the costs of the adjustment process.
- The start of budgetary consolidation in 2021 should have been more visible, firmer, given that the nominal GDP increased significantly above the initial forecast. The deficits resulting from the actual budget execution could have been substantially lower than those targeted in this year's draft budget.
- The second budget revision increases total budget revenues by 5.2 billion lei. Upward revisions of the initial estimates are made to almost all revenues dependent on nominal GDP dynamics, changes in the opposite direction being recorded in the case of amounts from European funds and those based on the rental of 5G frequency bands.
- The upward revision of budget revenues is mainly explained by two factors: the increase of the nominal GDP forecast above initial expectations and the behavior of firms which reimbursed a significant proportion of the taxes deferred from payment in the previous year, above the level estimated at the first revision from August 2021.
- The Fiscal Council assesses the new revenue estimates as compatible with the latest macroeconomic forecast of the NCSP and with the budget execution.
- On the side of budget expenditures, there is a new increase (+6.3 billion lei) compared to the parameters approved at the first revision, mainly as a result of current expenditure

increases – especially those related to personnel, goods and services, social assistance – partly offset by declining investment spending. Although higher inflation, additional medical expenditures to combat the COVID-19 pandemic, the need to react to the energy market situation and the under-budgeting of some aggregates somewhat justify the increase of budget expenditures, the amplification of the expenditure slippage is fueled by the inability to control spending.

- The evolution of budget expenditures is all the more problematic, as the increases take place at the level of permanent expenditure categories, which will affect the budget in the coming years. Recurrent exceeding of permanent expenditures, which contributes to their unsustainable levels, weakens the overall budget and complicates the fiscal/budgetary consolidation process.
- In view of the latest data concerning the execution of the general consolidated budget, the Fiscal Council considers it likely to be in line with the new projected level of budget expenditures. This assessment does not equate to a positive judgment of expenditure levels for some chapters of the budget structure.
- The Fiscal Council considers that the target level of the budget deficit for the current year, 7.13% of GDP, seems feasible given that the increase above expectations of current expenditures is covered by additional revenues obtained as a result of nominal GDP growth and by reducing investment spending.
- The budget revisions implemented during 2021 exhibited the largest upward adjustment of revenues in the history of budget constructions assessed by the Fiscal Council. However, these developments do not lead to a reduction in the targeted budget deficit, additional revenues being fully allocated to increases in expenditure aggregates. Moreover, the current revision operates a further increase in budget expenditures. This complicates the process of consolidating the budget, as part of the additional revenues collected in 2021 is temporary - mainly coming from taxes deferred from payment in the previous year - or due to the favorable cyclical dynamics of the economy, while an even larger part of the expenditure growth was generated by increases in permanent expenditures.
- The Fiscal Council emphasizes that it is imperative to combine a strict control over the spending of public money, which should provide basic public goods for citizens (health, education etc.) and at the same time take into account the constraints imposed by the budgetary consolidation, with an increase in tax revenues.
- Without a substantial increase in fiscal-budgetary revenues, it will be virtually impossible to meet current and future challenges regarding the public budget and Romanian society.
- The VAT collection gap, positioned at the highest level in the EU (34.9% in 2019), in relative terms, by a recent report of the European Commission, mandates the reform of NAFA and a firm campaign to increase collection.

- As evidenced by the slippage of budget expenditures this year, the process of budget consolidation in the coming years exclusively through spending restrictions is unlikely to materialize.
- The problem of exceeding the ceilings has become chronic, the limits established by law being irrelevant due to the systematic practice of increasing them on the occasion of budget revisions.
- The construction of the 2022 budget will be a very severe test given the need to reconcile the management of the difficult situations faced by Romania (health crisis, energy price shock, effects of tensions on international markets), which require adequate resources, with the urgent need for budgetary consolidation.
- Fiscal-budgetary consolidation is needed not only in itself (for the sustainability of public finances), but also for a smooth financing of external imbalances. The latter, if large and difficult to finance, jeopardize financial and economic stability.
- The NRRP, together with the resources available through the Multiannual Financial Framework (MFF), can be a vital tool for facilitating the necessary fiscal adjustment (budgetary consolidation) by supporting a higher level of economic activity than that induced by a negative fiscal impulse and a tightening monetary policy.

Fiscal Council's Opinion on the second budget revision for 2021

On November 24, 2021, the Ministry of Finance (MF) sent to the Fiscal Council (FC), by address no. 467372/24.11.2021, the draft budget revision 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. Given the Government's intention to approve the budget revision during the meeting scheduled for Friday, November 26, the FC issued a preliminary opinion on November 26, 2021, taking into account both the very short timeframe for drafting a full opinion and the need to clarify some information concerning the budget revision.

Taking into account that there are some differences between the initial form sent to the FC (on November 24) and the one that was approved (and published in the Official Gazette on November 26), MF has updated the information set and sent it to the FC, by email, on December 3. This opinion complements the previous one by conducting an extensive analysis of the second budget revision for 2021.

The current evaluation takes into account the form of the second budget revision that was approved by the Government.

The macroeconomic framework underlying the second budget revision for 2021

The Fiscal Council assesses the plausibility of the changes in the current revision, the second for this year, starting from the internal and external macroeconomic framework underlying them. The assessments take into account, among other things, the revised forecast published by the National Commission for Strategy and Prognosis (NCSP), on November 15, and the Note that accompanies it.

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

The updated NCSP projection upholds the pace of real economic growth at 7% in 2021, the determinants being, in this forecast, an accelerated dynamics of the "Agriculture, forestry, fishing" sector – marked by a very good harvest this year, leading to a year-on-year increase of 33.8% in Q3 2021 – and a rapid evolution, similar to the one previously forecasted, of the "Services" sector (year-on-year dynamics of +11.9% in Q3 2021, the pace being slower compared to the previous quarter) and, on the other hand, the slowdown in dynamics for "Industry" (year-on-year increase of 2.2% in Q3 2021) and, in particular, for "Constructions" (-6.1%, marking an entry into negative territory). Other sectors also exhibited a weaker performance in Q3 2021, such as: "Financial intermediation and insurance" (-0.3%), "Real estate transactions" (+2.1%), "Public administration" (+1.5%). These developments correspond to the information revealed by the high frequency data on the above-mentioned sectors, recently published by the National Institute of Statistics (INS). However, this partial translation of the center of gravity for economic growth may also result in a composition of GDP that is less generous in taxes, the evolution characterized by supplementary fiscal revenues (including from the recovery of taxes deferred from payment in 2020) being possibly close to returning to a dynamic that is more resemblant to historical developments.

Moreover, the GDP data for the third quarter, published by NIS on December7, shows, on the one hand, that the cumulative increase, in real terms of GDP in the first three quarters of 2021, of 7.2% compared to the same period from 2020, is close to the annual forecast for this indicator. On the other hand, revised GDP data indicates a steady slowdown in real economic growth during recent quarters. Thus, it was +5.7% in Q3 compared to Q2 2020 and +0.4% in Q3 compared to Q2 2021 (all intermediate values between Q3 2020 and Q3 2021 displaying this progressive and continuous slowdown of economic growth).

If the Q3 2021 data for the quarter-on-quarter dynamics of the GDP (+0.4%) is correlated with the evolution of the agricultural sector, we can conclude that the rest of the sectors suffer a loss of pace, the GDP, excluding agriculture, recording a 0.3% contraction (quarter-on-quarter). Given that the following quarters are characterized, due to the seasonal nature of agricultural production, by a much lower contribution of this sector to GDP, data for Q4 and the beginning of 2022 may shed light on the genesis of this syncope in the evolution of non-agricultural sectors. All this information, while partially validating the economic growth forecast for 2021, shows that the uncertainty about the evolution of future macroeconomic aggregates is increasing and, with it, the uncertainty about maintaining budget revenues on the recent rapid growth trend.

It is clear that the economic recovery of 2021 is not repeatable in terms of GDP growth in the coming years. Moreover, its composition, from a structure that is richer in taxes to a relatively poorer one, could be affected by the persistence of significant external deficits. In this respect, the NCSP forecast on the current account of the balance of payments incorporates the latest developments in 2021, the deficit for the current year being increased from 5.5% in the previous projection to 6.3% (in the current one). The latest data published by the NBR on the balance of payments and external debt (on November 15) exhibits a widening of the cumulative deficit for the first 9 months of this year, compared to the corresponding interval of 2020, by 46.8% (at a deficit of 11.5 billion euros from 7.8 billion euros, previously).

In this respect, the NCSP forecast on the balance of payments' current account indicates the incorporation of the latest developments in 2021, the deficit being increased for this year from 5.5% in the previous projection up to 6.3% (in the current one). The latest data published by the NBR on the balance of payments and external debt (November 15th, this year) show a widening of the balance of payments' deficit in the first 9 months of this year, compared to the corresponding interval of 2020, by 46.8% (at 11.5 billion euro from 7.8 billion euro).

The determinants of this negative development are: (i) the larger deficit for trade in goods and services, (ii) the lower secondary income surplus and the widening of the primary income deficit. We can also note: (iii) in the structure of deficit financing the non-generating debt[1] flows component is kept at a relatively low level (57%) – as mentioned in the previous opinion - in contrast to the levels of about 70% recorded in 2019 and 2020, and (iv) in addition to the "foreign direct investment" position, significant contributions to the financing of the deficit also include "other investment" components (equity investments other than FDI, cash and deposits, trade credits and early payments, etc.).

The size of the external deficit - one of the highest both historically[2] and at European level - is the result of the savings-investment gap in the public sector, which in recent years has been partially offset by the positive balance of savings-investment in the private sector. Given that the coverage of these large external deficits is done through additional borrowing - in the absence of sufficient autonomous sources of financing - there is a strong need to adjust the external deficit to maintain the sustainability of the external position of the Romanian economy.

Within the NCSP forecast, the external deficit is placed on a significant adjustment trajectory in the coming years, but without specifying the factors that determine this evolution. Given that, both in the past and in the forecast, the most part of the external deficit is determined by the public deficit, there is a clear need to reduce it, to return to a restrictive fiscal policy, that help control and reduce the economic imbalances instead of increasing them.

[1] Including, from the balance of the financial account/ direct foreign investments, only those in the form of equity participations to capital without debt instruments, to which is added the balance of the capital account.
[2] Similar or higher shares of the external deficit in GDP are registered only before 2012.

For the need to consolidate the public sector pledges, in addition to external imbalances and deteriorating macroeconomic conditions (slower economic growth with less favorable structure for fiscal revenues), the conduct of other economic policies - especially the monetary one.

An inflation far above the target - both in Romania and in other EU countries - calls for a monetary policy tightening. This situation makes the fiscal adjustment even more difficult as it is postponed further on, more after starting restrictive monetary policies promoted by the central banks. Increasing interest rates[3] or reducing quantitative interventions[4] could lead to a shortage of funding sources as well as increased investor selectivity in terms of risk. In this sense, it is already worth mentioning the increase of the default yields (interest) for the Romanian government securities by about 1.5 pp from the beginning of October 2021 until now, regardless of maturity - a worrying dynamic for both Romania's financing capacity and for future budget costs.

The rapid economic recovery - generated, in part, by the pent-up demand - in most economies of the world, in the context of supply chains facing shortcomings in restoring continuity and rhythm due to the pandemic and not only (supply chains are disrupted, affected by political tensions, security reasons) has led to a rapid rise in inflation in all economies.

In Romania, these inflationary pressures are coupled with significant increases in the prices of electricity, gas, fuel and other products, some of them due to the liberalization of the energy market, with significant dysfunctions and delays in the internal market. These factors, internal and external, led to an annual inflation rate of 7.9% per year in October 2021 and an average inflation rate of 4.1% in the last 12 months.

It is noteworthy that a significant part of this inflationary momentum is represented by shocks on the supply side (almost half of the inflation rate being determined by price increases for electricity, gas and fuels), which will generate effects for a limited period of time, even assuming the permanence of these new prices. It is true that a longer period of high inflation can influence inflationary expectations.

A special element, with an impact on prices, but also with a fiscal impact, is represented by Law no. 259/2021, which transposes GEO no. 118/2021. The effect of measures aiming at offsetting the electricity and gas prices is likely to (i) mitigate the negative macroeconomic impact of higher commodity prices, (ii) shift inflation to the first half of 2022, (iii) incur additional

[3] NBR has increased the monetary policy rate twice in 2021 to 1.75%, the Czech National Bank has increased the interest rate 4 times in 2021 to 2.75%, the National Bank of Hungary has made 6 interest rate increases up to 2. 1%, and the National Bank of Poland only two increases in 2021, to 1.25%.

[4] The US Central Bank (Fed) has recently signaled a possible further tightening of monetary policy since the autumn of this year (a first measure to reduce asset purchases has already been implemented).

budgetary spending by transferring the compensation to electricity and gas producers and distributors. Under these circumstances, the NCSP revised for 2021, in the latest published forecast, the GDP deflator from 4% to 5.4%, as well as the inflation rate (end of period) from 5% to 7.7% and the average annual inflation rate, from 4.2% to 5%.

Higher inflation is, from a public budget perspective, a source of higher-than-expected growth in the tax base and, therefore, in the budget revenues – and therefore, a potential source of structural budget consolidation. However, high inflation - driven mainly by supply shocks - is leading to a slowdown in real economic activity over time, making this year's developments unrepeatable for next year (especially as to the lower economic growth in the future - compared to the normal one for an economy with the characteristics of Romania – it can be added the temporary character of these price upsurges, even if only the important base effect). The development of this indicator also shows the exceptional situation regarding the evolution of tax revenues, emphasizing the challenges to fiscal consolidation. Fiscal imbalance is, in addition of being the main determinant of the external deficit, also one of the factors that increase internal absorption and, implicitly, the inflationary pressures.

The coordinates of the labor market - a key component of the evolution of budget revenues, especially in terms of personal income tax and social security contributions - have also been revised in the latest NCSP forecast. According to it, the average number of employees is projected to increase in 2021 also by 1.4%, but following a slower dynamic in 2022 (+2.0% compared to +2.3% previously). The dynamics of average gross earnings is more accelerated both in 2021 in the last projection (+7.6% from +6.9%) and in 2022 (+8.7% from +6.7%).

The 2021 evolution has a direct effect on this year's budget execution, and the one projected for 2022, to the degree it reflects the expectations of households and companies and, implicitly, their decisions, also influences the current evolution of the economy. The forecast for the unemployment rate is marginally changed in 2021 (registered unemployment is 3%, compared to 3.3% in the previous projection, and unemployment according to the International Labor Office methodology is 5.3%, compared to 4.8% previously). These data indicate a plausible projection of labor market aggregates, marked only by a slight overestimation of the relevant dynamics.

The corroboration of the latest economic data with the NCSP forecast, which is the basis of the second budget revision in 2021, leads to the conclusion of a plausible trajectory of these aggregates.

However, the current special circumstances raise some issues:

- The insufficient pace of fiscal consolidation in 2021 makes the window of opportunity for it narrowing, as is unlikely to achieve in future revenues at a growth rate comparable to the current one - due to the economic slowdown, deteriorating of its structure toward a less tax-rich one, the transitory character of the high inflation, the exhaustion of the amounts deferred to the payment - therefore to the cyclical and temporary character of some revenues. It is true that there may be a better tax collection, but this is hypothetical (especially with regard to the VAT gap, placed in relative terms, at the highest level in EU - 34.9% - compared to an average level in the EU28 of 10.3%, according to a recent European Commission report[5]).
- Higher budget revenues, also driven by higher inflation, may be accompanied by increased spending to offset inflation - especially for vulnerable groups of citizens. To this increase in expenditure can be added the relatively fast-growing costs of domestic and foreign financing.
- Slower-than-optimal consolidation increases the risks to non-problematic financing of the external imbalance, as well as to financing conditions - in the context of the overall tightening monetary policies. Making the adjustment in a climate of contractionary policies is much more difficult - and from the perspective of fiscal policy options even more painful.
- A slower economic dynamic, coupled with rising yields for external and domestic debt refinancing, brings to the attention the sustainability of public debt in the broader context of ensuring Romania's total external debt financing (public and private).
- <u>The use of EU funding, which should replace as much as possible the use of own budgetary resources, is essential for a favorable development of the Romanian economy in the medium and long term, and attracting European funds is a *sine-qua-non* condition for a sustainable fiscal-budgetary and economic policy, which would improve Romania's financial soundness.</u>
- <u>The NRRP, together with the resources available through the MFF, can be a vital tool for facilitating the necessary fiscal adjustment (fiscal consolidation), by supporting a higher level of economic activity than that induced by a negative fiscal impulse and a tight monetary policy.</u>

Updated coordinates of the budget revenues and expenditures

In its opinion on the first budget revision in 2021, the FC noted that it was unique in the history of assessing budget revisions starting from 2010 given the magnitude of the positive revision for

[5] https://ec.europa.eu/taxation_customs/document/download/887bf334-8048-4f9c-8a6a-bd6f91e154b0_en.

budget revenues and expenditures (an increase of about 4.8% compared to the values proposed in the initial budget). The large-scale revision in the budget revenues had as main sources the favorable revision of the macroeconomic framework (economic growth forecasted at 7% compared to the initial forecast of 4.3%, respectively, an increase of 58.1 billion lei) and the incorporation of some amounts from deferred taxes and fees by companies not taken fully into account in the initial budget. The Fiscal Council had since drawn attention to the allocation of revenue (of which a significant part is non-recurring) exclusively to increases in expenditure, that involved considerable risks, weakening the budgetary consolidation as announced for 2021.

Compared to the budgetary parameters previously approved, the second budget revision includes a new increase in both total revenues of the general consolidated budget (the GCB thereafter) (+5.2 billion lei) and total budgetary expenditures (+6.3 billion lei), the budget deficit standing at 1.1 billion lei over the previous projection. Expressed as a percentage of GDP, the forecasted level of the budget deficit is maintained at 7.13% of GDP, amid the increase in the nominal GDP projection by 15.4 billion lei.

Thus, including the swap[6] compensation scheme, the GCB revenues are projected at 387.7 billion lei, expenditures at 472.6 billion lei and the headline deficit at 84.9 billion lei (compared to the initial budget which assumed 364.9 billion lei for revenues, 444.9 billion lei for expenditures and a budget deficit of 80 billion lei).

Compared to the draft of the second budget revision sent to the FC on November 24, in the updated version received from the Ministry of Finance on December 3rd, the total revenues and expenditures of the GCB were increased by about 0.8 billion lei. In the structure of budget revenues, non-fiscal revenues were augmented (+0.9 billion lei), slightly offset by the reduction in the European funds for 2014-2020 (-0.12 billion lei); in the structure of total expenditures were supplemented current expenditures (+0.5 billion lei), other transfers (+0.15 billion lei) and capital expenditures (+0.3 billion lei), while the amounts related to projects from non-reimbursable external funds were reduced by 0.12 billion lei.

By category of budget revenues, positive revisions of the initial estimates are made to almost all revenues dependent on nominal GDP dynamics, opposite trends being recorded in the case of amounts from European funds and those based on renting 5G frequency bands.

The upward revision of total budget revenues is mainly explained by two factors: the increase over the previous forecast in the nominal GDP forecast due to the upward revision of the GDP

[6] In the amount of 1,263.8 million lei in the first and second revision, compared to 850 million lei in the initial budget.

deflator[7] attributable to the increases above expectations in prices over the whole economy - especially electricity, natural gas and fuels; the behavior of the companies that reimbursed in a significant proportion the taxes and fees deferred to the payment in the previous year, above the level estimated on the occasion of the first revision operated in August. Thus, the last information regarding the amounts deferred for payment by the economic agents shows a very good collection degree ((from the estimate from the first revision of 9.9 billion lei for the current year, 8.9 billion lei were collected in the first 9 months), which is likely to determine, in the conditions of maintaining this rhythm, the achievement of a level about 0.9% of GDP (representing about 10-11 billion lei) from this source by the end of the year.

By budget revenue categories, revisions of estimates from the first budget revision (excluding swap scheme[8]) occur as follows:

- *Fiscal revenues:* +6.1 billion lei (+3.4%), amid achievements above expectations in the first ten months of the year, having as sources: the increase of the level of the tax base related to the main categories of taxes and duties determined by the framework more favorable macroeconomic situation, as well as the large-scale recovery of amounts receivable on account of 2020, following the call for the facility to defer the payment of obligations to GCB of economic operators. By categories of tax revenues, the main increases were made at:
    - *Corporate income tax:* +1.75 billion lei. The Fiscal Council considers on the basis of the budget execution for the first ten months that the proposed new value is achievable. It should also be noted that the revenues from the first ten months of 2021 were already higher by about 0.26 billion lei compared to the projection of revenues for the whole year from the first budget revision;
    - *Personal income tax:* +0.6 billion lei. The revision envisages the modification of the forecast which was the basis for the elaboration of the first budget revision regarding the relevant macroeconomic aggregates, respectively the increase of the annual dynamics for the average gross earnings from +6.9% to +7.6%, while maintaining the estimate for the dynamics average number of employees at +1.4%. The FC considers this revision realistic, taking into account the evolution of the amounts recovered from the budgetary obligations deferred to payment (according to the MF data, at the end of September 0.3 billion lei had been collected, compared to the total estimated value of 0.4 billion lei);

[7] Respectively, in the updated projection of NCSP from 4% to 5.4% maintaining the real GDP growth at 7%.

[8] The amounts related to the chain compensation scheme of arrears to GCB of swap type, with symmetrical impact on revenues and expenditures were maintained at the same level as at the first revision (1.26 billion lei).

- *Other taxes on income, profit and capital gains:* +0.2 billion lei;
- *Property taxes:* +0.25 billion lei;
- *VAT:* +5 billion lei. The increase in the estimate of VAT receipts is in line with the receipts for the first ten months, and the evolution above expectations can be attributed both to the more favorable dynamics of consumption in nominal terms and to the recovery of a significant part of the deferred amounts related to this fiscal aggregate[9]. The FC has no reservations about the value proposed for VAT receipts;
- *Tax on the use of goods, authorization to use goods or on conducting activities:* -2.1 billion lei. The reduction is based on the elimination of revenues from fees and charges for the issuance of licenses and operating permits, revenues related to the use of radio frequencies in the new harmonized frequency bands at European level for 5G terrestrial broadband mobile communications systems (2.5 billion lei)[10], and is slightly offset by the increase in gambling tax revenues (+0.2 billion lei). This non-realization of revenues will to a small extent affect the budget execution according to the ESA2010 methodology, according to which the revenues associated with the rental of frequency bands are distributed over the entire duration of the contracts;
- *Foreign trade tax (customs duties):* +0.2 billion lei;
- *Other taxes and fees on goods and services:* +0.13 billion lei;

- *Social security contributions:* +1.1 billion lei. The increase is in line with the revaluation of the macroeconomic framework and up-to-date revenues. Similar to personal income tax revenues, those from social security contributions are based on the relevant macroeconomic basis of the wage bill in the economy, determined by the average number of employees and the average gross earnings. The FC considers that the revision is also compatible with taking into account the amounts recovered from the budgetary obligations deferred to payment (according to the data provided by the MF, about 1.7 billion lei were collected in the first 9 months from the total value estimated at 1.96 billion lei);

[9] At the end of September, 6.3 billion lei were collected, about 91% of the annual level estimated by the MF (6.9 billion lei).
[10] The FC warned in the Opinion regarding the first revision regarding the major risk of non-realization of these amounts in 2021.

- *Non-tax revenues:* +1.28 billion lei[11]. This increase is mainly found in the level of dividend income and payments from the net profit of the autonomous units, 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 with full or majority state capital; from these, according to the MF, 0.9 billion lei represent dividends to be paid by the CEC Bank after fulfilling all the necessary conditions for this operation;

- *Capital revenues:* +0.12 billion lei;

- *Amounts received from the EU/other donors on account of payments made and pre-financing related to the 2014-2020 financial framework*: -3.4 billion lei. This revision occurs mainly as a result of the reduction of the amounts from structural and cohesion funds by about 2.25 billion lei[12]. The possibility of a downward revision for this budget aggregate was mentioned in the FC Opinion on the first revision, which drew attention to a likely oversizing of this aggregate, taking into account the 6-month execution (30% of the total annual estimate). The 10-month execution data shows a collection of about 56% compared to the proposed new target, and the FC considers that this is achievable only if the average absorption rate is significantly higher than in previous months. It is also worth noting that traditionally, the absorption of European funds accelerates sharply at the end of the year.

Summarizing, on the side of budget revenues, the Fiscal Council appreciates their new level as being compatible with the latest macroeconomic forecast of the NCSP and with the budget execution. However, it should be noted that a large part of these amounts is of a temporary nature, being determined by a favorable cyclical dynamics of the economy and a collection above expectations of the amounts recovered from taxes and duties related to the previous year deferred to payment by economic agents (about 9 billion lei were collected in 9 months).

There is a further increase in the budget expenditure side, compared to the parameters approved at the first revision, mainly due to the current expenditure supplements, partially offset by the decrease in investment expenditure. By expenditure category, revisions of previous estimates are as follows:

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[11] The increase is significantly higher than the one in the revision project sent to the FC on November 24 (by +0.4 billion lei compared to the first revision).

[12] The *Substantiation note to the draft revision of the State Budget* states that this reduction is the effect of delays in the implementation of actions related to the period 2022-2023.

- *Personnel expenditures:* +1.2 billion lei. The supplement to personnel expenditures is mainly intended for the payment of salary entitlements established by court decisions for staff in the judiciary system.

- *Goods and services:* +3.1 billion lei. Under the new conditions, the budget envelope of this aggregate is placed at a level, net of swap scheme, of 62.4 billion lei, by 10.2% above that recorded in 2020, which indicates an acceleration of the growth rate compared to previous years (the growth rate in 2020 compared to 2019 being 8.1%, and in 2019 compared to 2018 of 8%). On the other hand, the execution for the first 10 months of 2021 indicates an advance of 6.8% compared to the same period last year. The FC noted from the Opinion on the draft budget that the target for spending on goods and services is ambitious and difficult to achieve in the absence of deep reforms in the public procurement system, and on the occasion of the first revision noted that there are risks on compliance with the level proposed at that time. Considerable increase in this category of expenditures on the occasion of this revision, although partially justified by the higher inflation in 2021 and the additional needs for the fight against the pandemic (1.8 billion lei being allocated in addition to the Single National Health Insurance Fund), reflects the concretization of the risks signaled by the FC, but the magnitude of this increase exceeds the previous anticipations, being also the consequence of the lack of an adequate control of the expenses with goods and services.

- *Interest:* +1.5 billion lei. The supplementation of this category of expenditures occurs against the background of the increase of the public debt and of the interest rates at which the new loans are contracted.

- *Subsidies:* +1.1 billion lei, mainly due to the support schemes introduced in response to developments in the energy market.

- *Transfers between public administration units:* +0.7 billion lei.

- *Other transfers:* -0.9 billion lei.

- *Social assistance:* +3.6 billion lei. The substantial increase in social assistance expenditures is due to: the supplementation of the amounts related to the state budget (+2.4 billion lei) for compensating the electricity and gas bills according to the adopted schemes, the payment of allowances granted for the interruption of activity in pandemic conditions, state allowances for children, the rights of persons with disabilities, child-raising allowances and full payment of pensions, allowances and heating allowances;

supplementing the amounts related to the state social insurance budget (+0.5 billion lei, to cover the additional need for funds for the payment of pensions); supplementing the budgets of the administrative-territorial units (+0.4 billion lei); supplementing the budget of the Single National Health Insurance Fund (+0.2 billion lei). It should be noted that this review confirms the FC assessments in the Opinion on the first budget revision which identified an additional need of about 3.5 billion lei in social assistance expenditures. The realization of substantial overruns at the level of this budget aggregate signals weaknesses in the budget programming process and shows a lack of control in the management of this category of expenditure.

- *Projects financed from post-accession non-reimbursable external funds for the 2014-2020 financial framework:* -3.6 billion lei. This revision is mainly due to the decrease in planning of expenditures related to projects financed from structural and cohesion funds (-2.5 billion lei, including a decrease of national co-financing by 0.2 billion lei). Consequently, the second rectification operates or reduces the absorption of structural and cohesion funds compared to previous estimates and there is also a marginal effect on the budget deficit by reducing national co-financing. This reduction in absorption is not conducive to sustaining economic activity, especially as there is a slowdown in their dynamics.
- *Other expenses:* +0.7 billion lei.
- *Reserve funds:* +0.1 billion lei. The amounts will then be distributed by budget category according to actual needs.
- *Capital expenditures:* -1.2 billion lei. The decrease of the amounts allocated to this category of expenditures is found at the level of the institutions financed entirely/partially from own revenues (-0.8 billion lei), respectively at the level of the administrative-territorial units (-0.6 billion lei), counterbalanced in a small measure of the increase in the amounts allocated to the National Road Infrastructure Company - C.N.A.I.R.

Total public investment expenditures, from internal and external sources, are decreased in the planning by 3.4 billion lei (-0.4 pp of GDP) compared to the level estimated at the first rectification, as main sources being both the decrease of the amounts allocated to projects with financing from non-reimbursable external funds post-accession (-2.25 billion lei), as well as the decrease of capital expenditures (-1.3 billion lei), marginally offset by an increase in other investment transfers (+0.2 billion lei). It should be noted that, despite this reduction, the planned level of investment expenditures remains about 6% (+3.8 billion lei) higher than the value provided in the initial budget and is almost 24% higher (+12.7 billion lei, representing +0.5 pp of GDP) compared to the level of execution for 2020. Considering the accentuated dynamics of investment expenditures, expected for this year, as well as the one registered in the previous year (an increase of 21.5% in 2020 compared to 2019), it is required a careful analysis of the investment opportunities from own resources of the public budget in the conditions of a high budget deficit and the budget consolidation for the coming years.

At the same time, according to the substantiation note of the ordinance for the rectification of the state budget, the execution of investment expenditures during the first 10 months of the year recorded a level of 38.2 billion lei (representing an increase of 7.7% compared to the same period of the previous year), given that the scheduled level of this aggregate, according to the rectification project, is 65.8 billion lei. Therefore, meeting the target set for this category of expenditures would require an advance of about 72% (representing 27.6 billion lei) of their execution by the end of 2021, from a monthly average of investment expenditures of 3.8 billion in the first 10 months of the year, at an average of 13.8 billion lei (about 3.6 times higher) in November and December. There is a defined trend towards a concentration of investment spending in the last months of the year, which, given the similar developments in previous years, calls into question the efficiency of the budgetary programming process, both in terms of how to manage investment projects, as well as in terms of establishing the criteria for making investments in accordance with their importance and usefulness.

In summary, on the side of budget expenditures, there is still a lack of control over current expenditures (especially personnel, goods and services, social assistance), the increase in these categories being only partially offset by lower investment expenditures. This slippage can only be partially explained by under-budgeting of expenditures (the draft budget) and by the additional resources required to combat the COVID-19 pandemic. In fact, the FC evaluations at the time of the first budget rectification identified a sub-budgeting of social assistance expenditures in the amount of 3.5 billion lei and risks of exceeding the level of personnel and goods and services expenditures, but in their case from after all, the additional allocations exceed the FC's previous expectations.

Even if higher inflation, additional medical expenditures to combat the COVID-19 pandemic, the need to react to the situation on the energy market, the under-budgeting of some expenditure aggregates, justify to some extent the increase of the expenditure part expresses the inability to control expenditure. Under these conditions, the process of budgetary consolidation for the coming years, exclusively by restricting the level of budget expenditures, has a low probability of realization.

This situation is all the more problematic, as the increases take place at the level of certain categories of permanent expenses, which will be found in the coming years. Recurrent overspending of permanent expenditures, which contributes to unsustainable levels, weakens the overall budget and complicates the fiscal/budgetary consolidation process.

In view of the latest data on the implementation of the CGB, the Fiscal Council considers that it is likely to fall within the new projected level of budget expenditures. This finding does not translate into a positive judgment of all proposed levels for expenditure aggregates.

Summarizing the analysis of the changes made by the second budget rectification at the level of the main aggregates of revenues and expenditures, the Fiscal Council considers that the placement of the budget deficit for the current year at the target level of 7.13% of GDP seems feasible, given that the increase in current spending needs is covered by additional revenues from rising nominal GDP projections and declining investment spending.

<u>It should be noted that although the budget corrections made during 2021 recorded the largest upward revision of revenues in the history of budget constructions assessed by the Fiscal Council, these developments do not lead to a decrease in the planned budget deficit. expenditure aggregates. This complicates the process of budget consolidation</u>, as part of the additional revenue collected in 2021 is temporary (mainly due to taxes and deferred payments in the previous year) or due to the favorable cyclical dynamics of the economy, while part and a more significant increase in expenditure was generated by increases in permanent expenditure. Moreover, the Fiscal Council points out that, in the face of GDP growth well above the forecast and a high deflator, it is contraindicated for the budget deficit to increase in absolute terms.

<u>The construction of the budget for 2022 will be a very severe test, given the need to reconcile the management of the difficult situations Romania is facing (health crisis, energy price shock, effects of tensions on international markets, threats to national security), which calls for adequate resources, with an urgent need for budgetary consolidation.</u>

In this context and given the above-mentioned considerations, the Fiscal Council reiterates the need for strict control over the expenditure of public money, public expenditure that provides basic public goods for citizens (health, education, etc.) and at the same time takes into account of the constraints imposed by the budgetary consolidation, to be combined with the increase of fiscal revenues.

<u>Without a substantial increase in tax revenues, it will be virtually impossible to meet current and future challenges regarding the public budget and Romanian society.</u>

Compliance with tax rules

The form approved by the Government for the second budget correction differs from the original draft submitted for analysis to the Fiscal Council, on the basis of which the Preliminary Opinion was issued, with both estimates for revenue aggregates and allocations for expenditure aggregates being supplemented by about 0.8 billion lei, so that the level of the budget deficit was maintained at 84.9 billion lei, respectively 7.13% of GDP.

Given the addition of some elements of expenses, the rectification approved by the Government modifies the ceilings in nominal terms of some indicators specified in the fiscal-budgetary framework for the year 2021[13] compared to the original draft analyzed in the Preliminary Opinion, as follows:

- the nominal ceiling of the CGB primary deficit is reduced by 0.1 billion lei to the level of 66.6 billion lei, representing a decrease of 0.4 billion lei compared to the ceiling established on the occasion of the first budget rectification;
- the nominal ceiling of the CGB deficit is maintained at the level of 84.9 billion lei, representing an increase of 1.1 billion lei compared to the ceiling established on the occasion of the first budget rectification;
- the nominal ceiling of CGB's personnel expenses is supplemented by 0.1 billion lei up to the level of 112.4 billion lei, representing an increase of 1.2 billion lei compared to the ceiling established on the occasion of the first budget rectification;
- the nominal ceiling of CGB's total expenditures, excluding financial assistance from the EU and other donors, is supplemented by 0.9 billion lei to the level of 426.3 billion lei, representing an increase of 9.6 billion lei compared to the ceiling set on the first budget correction.

Thus, the addition of some elements of expenditure compared to the original draft rectification led to a further increase in the nominal ceilings except for those related to the CGB deficit, confirming the observation of the Fiscal Council in the Preliminary Opinion on the practice of repeated increase over the years by derogating ceilings for some of the indicators specified in the fiscal-budgetary framework. This practice reflects the persistence of major weaknesses in the construction of public budgets in Romania, arbitrary in reorienting the allocation of expenditures, national fiscal rules that can be easily circumvented, which limits the role they should play in guiding fiscal policy.

As mentioned in the Preliminary Opinion, the indicators expressed as a share in GDP have remained within the limits initially provided by Law no. 14/2021 (7.16% of GDP in case of CGB deficit, respectively 9.8% of GDP in case of CGB staff costs), as a result of the increase of nominal GDP projection by 15.4 billion lei compared to the estimate from first rectification.

[13] Initially established by Law no. 14/2021 and then amended on the occasion of the first budget rectification by GEO no. 97/2021.

Government Ordinance no. 122/2021 on the rectification of the state budget 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 their new levels.

Conclusions

- Total budget revenues increase at the second budget rectification by 5.2 billion lei. Upward revisions of the initial estimates are made to almost all revenues dependent on nominal GDP dynamics, changes in the opposite direction in the case of amounts from European funds and those based on the rental of 5G frequency bands.
- The upward revision of budget revenues is mainly explained by two factors: the increase over previous expectations of the forecast for nominal GDP and the behavior of firms that reimbursed a significant proportion of taxes and deferred payments in the previous year, above the level estimated at the first rectification made in August 2021.
- The Fiscal Council appreciates the proposed new level of revenues as being compatible with the latest macroeconomic forecast of the National Commission for Strategy and Prognosis - NCSP and with the budget execution.
- A new increase in budget expenditures (+6.3 billion lei) compared to the parameters approved at the first rectification, mainly as a result of current expenditure supplements – especially those of staff, goods and services, social assistance – partially offset by lower investment costs. Although higher inflation, additional medical expenditures to combat the COVID-19 pandemic and the need to react to the energy market situation partly justify the supplementation of budget expenditures, the widening of the expenditure side slip is fueled by under-budgeting of some aggregates and the inability to control spending.
- The evolution of budget expenditures is all the more problematic, as the increases take place at the level of some categories of permanent expenditures, which will be found in the coming years. Recurring overspending, which contributes to unsustainable levels, weakens the overall budget and complicates the fiscal consolidation process.
- In view of the latest data on the execution of the general consolidated budget, the Fiscal Council considers it likely to be in line with the new projected level of budget expenditure.
- The Fiscal Council considers that the situation of the budget deficit for the current year at the target level of 7.13% of GDP seems feasible, given that the increase over expectations of current expenditure is covered by additional revenues obtained as a result of the increase in nominal GDP and by reducing investment costs.

- Budgetary revisions made during 2021 recorded the largest upward revision of revenues in the history of budget constructions assessed by the Fiscal Council. These developments do not lead to a reduction in the budget deficit, with additional revenue being allocated in full to increases in expenditure aggregates. This situation poses considerable risks to the sustainability of the public sector's fiscal position, as some of the additional revenue collected in 2021 is temporary - mainly due to taxes and deferred payments in the previous year – or due to the favorable cyclical dynamics of the economy, while an even larger share of the increase in expenditure was generated by increases in permanent expenditure.
- The Fiscal Council emphasizes that it is mandatory that a rigorous control of public spending, public spending that provides basic public goods for citizens (health, education, etc.) and at the same time take into account the constraints imposed by budget consolidation, be combined with increasing tax revenues. Without a substantial increase in tax revenues, it will be virtually impossible to meet current and future challenges regarding the public budget and the Romanian society.
- As evidenced by the slippage of budget expenditures this year, the process of fiscal consolidation in the coming years exclusively by spending restraint has a low probability of realization.
- The problem of exceeding the ceilings has become chronic, the limits established by law being irrelevant through the systematic practice of increasing them on the occasion of budget corrections.
- The construction of the budget for 2022 will be a very severe test, given the need to reconcile the management of the difficult situations facing Romania (health crisis, energy price shock, effects of tensions on international markets), which require adequate resources, with the urgent need for budgetary consolidation.

The opinions and recommendations formulated above by the FC were approved by the President of the Fiscal Council, according to the provisions of art. 56, para. (2), lit. d) of Law no. 69/2010 republished, following their approval by the Council members, through vote, in the meeting of December 7th, 2021.

7th December 2021

Chairman of the Fiscal Council

Professor Daniel Dăianu

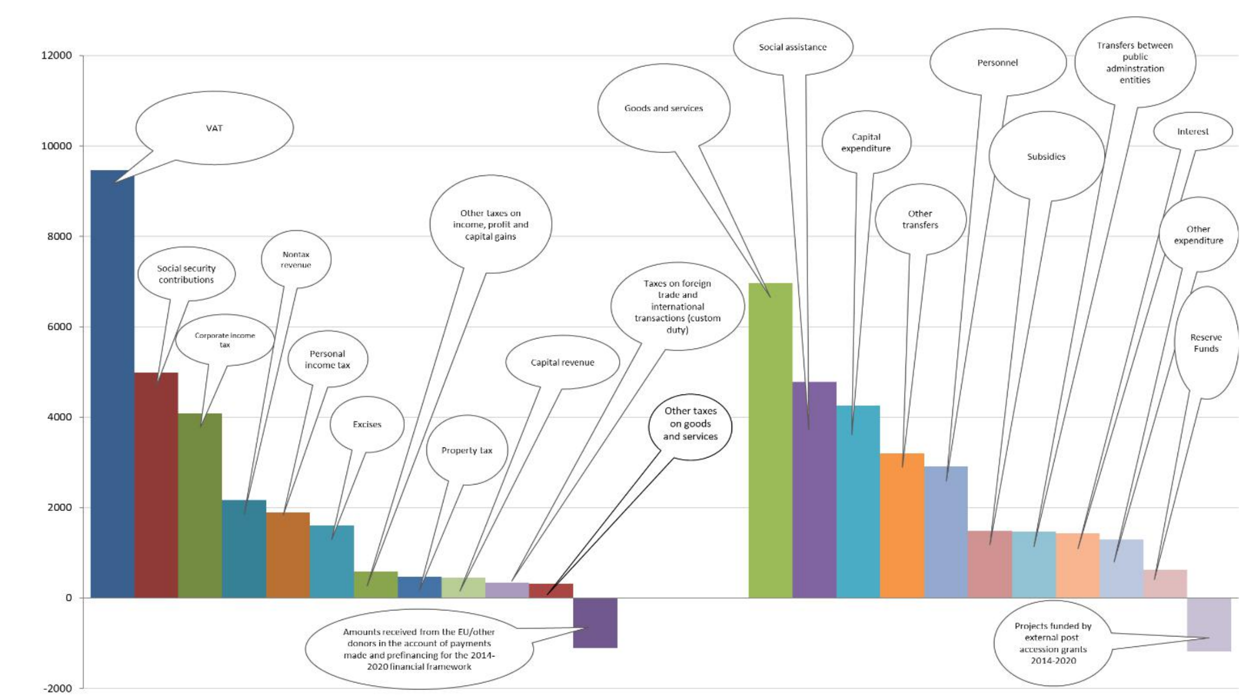
ANNEX I	Initial budget 2021	Swap program 2021	Initial budget 2021 without swap	First budget revision (R1) 2021	Swap R1	R1 without swap	Second budget revision (R2) 2021	Swap R2	R2 without swap	R1-initial budget	R2-initial budget	R2-R1
										Without swap		
	1	2	3=1-2	4	5	6=4-5	7	8	9=7-8	10=6-3	11=9-3	12=9-6
Total revenue	**364,907.1**	**850.0**	**364,057.1**	**382,531.8**	**1,263.8**	**381,268.0**	**387,728.0**	**1,263.8**	**386,464.2**	**17,210.9**	**22,407.1**	**5,196.2**
Current revenue	316,694.4	850.0	315,844.4	331,717.2	1,263.8	330,453.5	340,153.0	1,263.8	338,889.2	14,609.1	23,044.8	8,435.8
Tax revenue	168,899.1	293.0	168,606.1	178,921.4	510.7	178,410.7	185,004.4	510.7	184,493.7	9,804.6	15,887.6	6,083.0
Taxes on profit, wages, income and capital gains	47,067.6	129.0	46,938.6	49,553.2	0.1	49,553.1	52,081.9	0.1	52,081.9	2,614.5	5,143.3	2,528.8
Corporate income tax	15,988.1	9.0	15,979.1	18,310.8	0.1	18,310.8	20,062.3	0.1	20,062.2	2,331.7	4,083.1	1,751.4
Personal income tax	26,245.2	120.0	26,125.2	27,462.6	0.0	27,462.6	28,020.4	0.0	28,020.4	1,337.4	1,895.2	557.8
Other taxes on income, profit and capital gains	3,413.6	0.0	3,413.6	3,779.7	0.0	3,779.7	3,999.3	0.0	3,999.3	366.1	585.7	219.6
Property tax	6,105.1	0.0	6,105.1	6,335.0	0.0	6,335.0	6,580.0	0.0	6,580.0	229.9	474.9	245.0
Taxes on goods and services	113,658.8	121.0	113,537.8	120,699.4	509.5	120,190.0	123,789.8	509.5	123,280.3	6,652.2	9,742.5	3,090.3
VAT	69,698.4	84.0	69,614.4	74,563.1	508.4	74,054.7	79,591.6	508.4	79,083.2	4,440.2	9,468.8	5,028.5
Excises	33,095.6	37.0	33,058.6	34,665.3	1.1	34,664.3	34,665.3	1.1	34,664.3	1,605.7	1,605.7	0.0
Other taxes on goods and services	4,214.4	0.0	4,214.4	4,386.3	0.0	4,386.3	4,523.9	0.0	4,523.9	171.8	309.5	137.6
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	5,008.9	0.0	5,008.9	434.4	-1,641.4	-2,075.8
Taxes on foreign trade and international transactions (custom duty)	1,131.9	0.0	1,131.9	1,265.3	0.0	1,265.3	1,471.1	0.0	1,471.1	133.5	339.3	205.8
Other tax revenue	935.8	43.0	892.8	1,068.5	1.2	1,067.3	1,081.5	1.2	1,080.4	174.5	187.6	13.1
Social security contributions	120,825.6	557.0	120,268.6	124,933.9	753.1	124,180.9	126,007.0	753.1	125,254.0	3,912.3	4,985.4	1,073.1
Nontax revenue	26,969.7	0.0	26,969.7	27,861.9	0.0	27,861.9	29,141.6	0.0	29,141.6	892.2	2,171.9	1,279.7
Capital revenue	820.9	0.0	820.9	1,156.8	0.0	1,156.8	1,280.0	0.0	1,280.0	335.8	459.1	123.3
Grants	8.3	0.0	8.3	8.3	0.0	8.3	8.3	0.0	8.3	0.0	0.0	0.0
Amounts received from the EU in the account of payments made and prefinancing	0.1	0.0	0.1	17.9	0.0	17.9	17.9	0.0	17.9	17.8	17.8	0.0

Financial operations	-	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Amounts collected in the single account	-	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Other amounts received from the EU	2,679.4	0.0	2,679.4	2,679.4	0.0	2,679.4	2,679.4	0.0	2,679.4	0.0	0.0	0.0
Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	44,704.0	0.0	44,704.0	46,952.2	0.0	46,952.2	43,589.4	0.0	43,589.4	2,248.2	-1,114.6	-3,362.9
Total expenditure	**444,907.1**	**850.0**	**444,057.1**	**466,331.8**	**1,263.8**	**465,068.0**	**472,633.1**	**1,263.8**	**471,369.3**	**21,010.9**	**27,312.2**	**6,301.3**
Current expenditure	414,688.5	850.0	413,838.5	429,890.6	500.0	429,390.6	437,388.8	500.0	436,888.8	15,552.1	23,050.2	7,498.2
Personnel	109,509.2	0.0	109,509.2	111,226.2	0.0	111,226.2	112,429.5	0.0	112,429.5	1,717.0	2,920.3	1,203.3
Goods and services	55,428.5	0.0	55,428.5	59,802.2	500.0	59,302.2	62,893.8	500.0	62,393.8	3,873.6	6,965.3	3,091.7
Interest	16,864.5	0.0	16,864.5	16,793.7	0.0	16,793.7	18,300.1	0.0	18,300.1	-70.8	1,435.5	1,506.4
Subsidies	6,963.9	0.0	6,963.9	7,361.7	0.0	7,361.7	8,445.2	0.0	8,445.2	397.8	1,481.3	1,083.4
Total transfers	224,576.5	850.0	223,726.5	232,859.2	0.0	232,859.2	233,408.3	0.0	233,408.3	9,132.7	9,681.8	549.1
Transfers between public administration entities	1,975.0	850.0	1,125.0	1,933.2	0.0	1,933.2	2,599.4	0.0	2,599.4	808.2	1,474.4	666.2
Other transfers	23,809.5	0.0	23,809.5	27,905.1	0.0	27,905.1	27,011.5	0.0	27,011.5	4,095.6	3,201.9	-893.7
Projects funded by external post-accession grants	184.7	0.0	184.7	208.0	0.0	208.0	290.4	0.0	290.4	23.3	105.7	82.4
Social assistance	142,877.5	0.0	142,877.5	144,095.5	0.0	144,095.5	147,665.6	0.0	147,665.6	1,218.0	4,788.1	3,570.1
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	47,547.0	0.0	47,547.0	2,422.5	-1,179.8	-3,602.3
Other expenditure	7,003.0	0.0	7,003.0	7,568.1	0.0	7,568.1	8,294.4	0.0	8,294.4	565.1	1,291.4	726.3
Reserve funds	598.7	0.0	598.7	1,094.3	0.0	1,094.3	1,230.0	0.0	1,230.0	495.5	631.2	135.7
Expenditure Funded from reimbursable funds	747.2	0.0	747.2	753.4	0.0	753.4	682.0	0.0	682.0	6.2	-65.2	-71.4
Capital expenditure	30,218.6	0.0	30,218.6	36,441.2	763.8	35,677.4	35,244.3	763.8	34,480.6	5,458.8	4,262.0	-1,196.9
Financial operations	-	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
EXCEDENT(+) / DEFICIT(-)	**-80,000.0**	**0.0**	**-80,000.0**	**-83,800.0**	**0.0**	**-83,800.0**	**-84,905.1**	**0.0**	**-84,905.1**	**-3,800.0**	**-4,905.2**	**-1,105.1**

Source: MF, FC's calculations

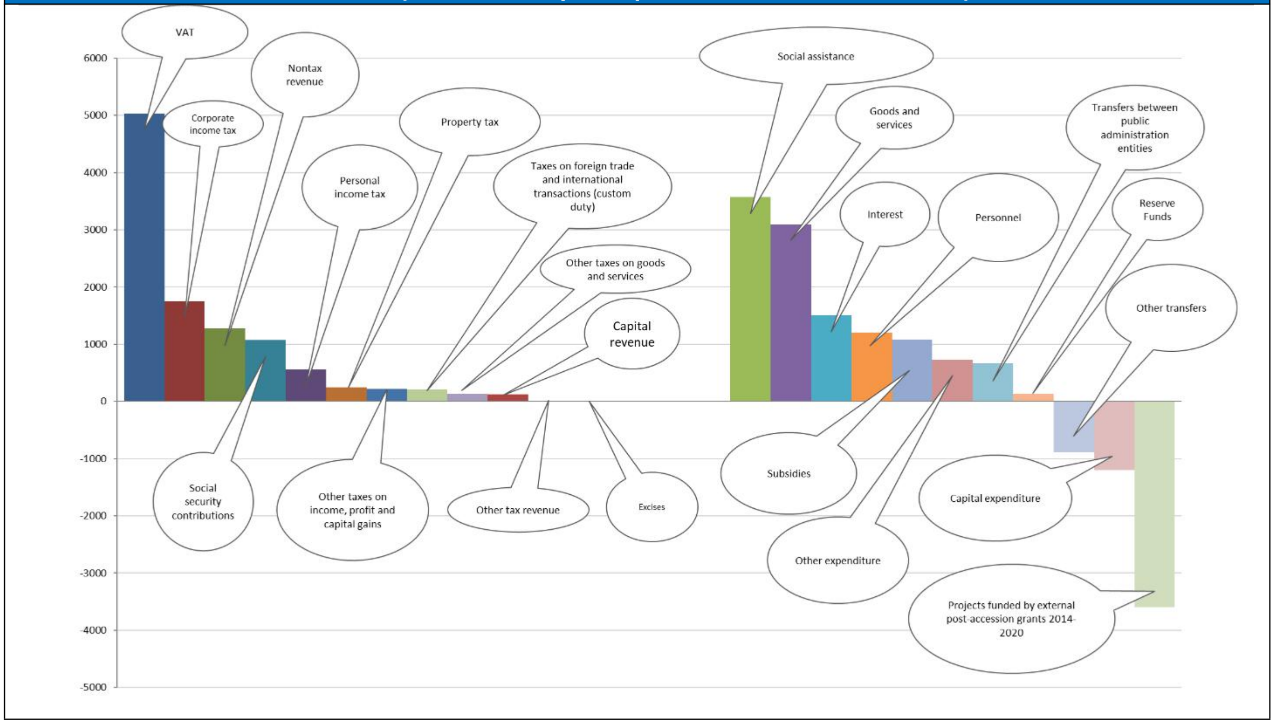
Annex II

Figure 1.: Main changes in budgetary expenditures and revenues compared to the initial 2021 budget (without swap compensation schemes, mil. lei)



Source: MF, FC's calculations

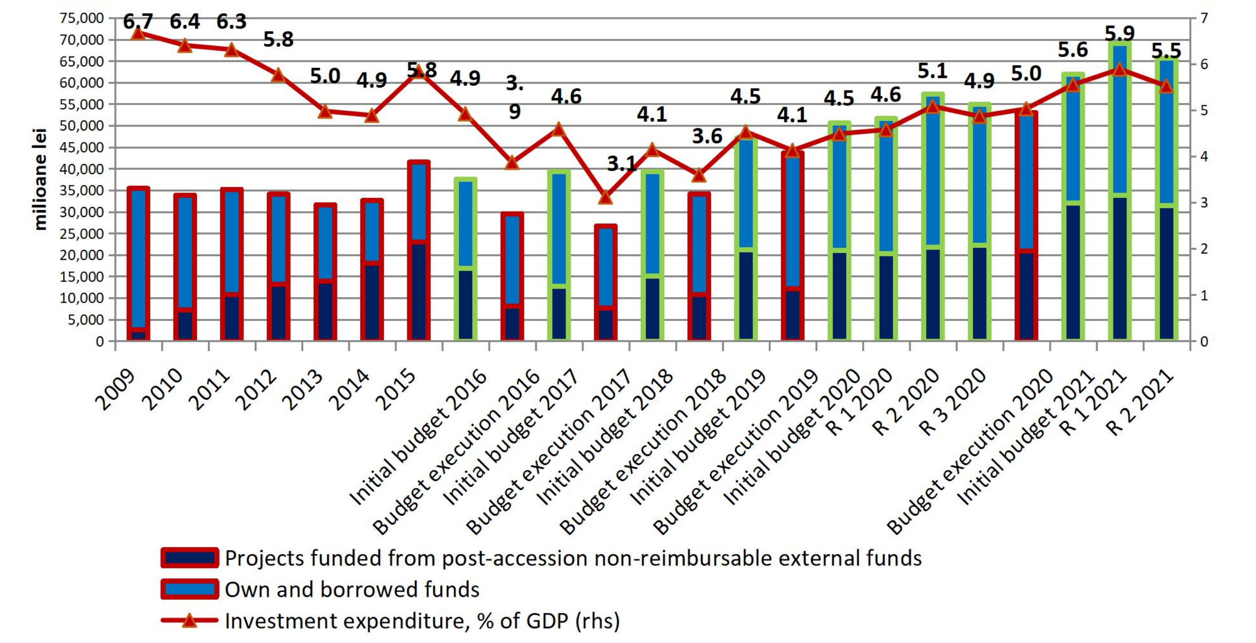
Figure 2.: Main changes in budgetary expenditures and revenues compared to the first2021 budget revision(without swap compensation schemes, mil. lei)



Source: MF, FC's calculations

Annex III

Figure 3. The evolution of public investment expenditures between 2009-2021- planned level vs. realized (mil. lei)



Source: MF, FC's calculations