

Fiscal Council's Preliminary Opinion on the Second Supplementary Budget Draft for 2018

On the evening of November 21st 2018, the Fiscal Council (FC) received from the Ministry of Public Finance (MPF), by letter no. 466699/21.11.2018, the draft of the second budget revision of the general consolidated budget for 2018, the explanatory note and the draft of the Government Emergency Ordinance (GEO) regarding the second revision of the state budget for 2018, as well as the explanatory note and the draft GEO regarding the second revision of the social security budget for 2018, requesting the FC's opinion under article 53, paragraph (2) of the Fiscal Responsibility Law no. 69/2010 republished (FRL).

According to article 53, paragraph (4) of the FRL, the Government and the Parliament have the obligation to take into consideration the opinions and recommendations of the FC when drafting the Fiscal Strategy, the annual budget laws and in the case of elaborating and approving other measures determined by the application of this law. Considering the Government's intention to approve the aforementioned documents at the meeting scheduled for November 23rd 2018, at 11 o'clock, the FC did not dispose of sufficient time to analyze them and elaborate a complete opinion. Under these circumstances, FC decided to draw up a preliminary opinion that assesses the compliance of the draft budget revision with the fiscal rules stated by the FRL, while the detailed opinion will be finalized in the week of 26-29 November 2018. Once it is completed, FC will notify its opinion to MPF and will publish it on the institution's website (www.consiliulfiscal.ro).

Compliance with fiscal rules

In comparison to the budget approved at the first revision, the revenues of the general consolidated budget (GCB) are projected to increase by 245.9 million lei, while expenditures are also projected to increase by 382.3 million lei, leading to an estimated GCB deficit of 28,203.2 million Lei, which is 136.7 million lei above the updated nominal ceiling established by Law no. 269/2017 (Law on the approval of ceilings for certain indicators specified in the fiscal-budgetary framework for 2018).

The draft of the GEO regarding the second revision of the state budget records a series of derogations from the provisions stipulated at art. 12, letters a) - c), art. 17 para. (2), art. 24 and art. 26 para. (4) and (5) of the FRL, as well as from art. 2 para. (2), art. 3 para. (5) and (6) of Law no. 269/2017, thereby stating the non-compliance with fiscal rules, except for the rules concerning the GCB balance and personnel expenditures expressed as a percentage of GDP, the GCB primary balance in nominal terms and total expenditures of the GCB in nominal terms, excluding financial assistance from the European Union (EU) and other donors. Art. 12, letters a) - c), art. 17 para. (2), art. 24 and art. 26 para. (4) and para. (5) of the FRL stipulate the obligation to respect the ceilings, expressed as nominal values and as a percentage of GDP, set by the Fiscal Strategy and the law on budgetary ceilings for the GCB balance, the GCB primary balance, personnel expenditures and total expenditures, excluding financial assistance from the EU and other donors, allowing for total expenditure increases in the course of

budget revisions only if they are related to the public debt service or the payment of Romania's contribution to the EU budget.

- The first budget amendment has already recorded significant deviations of the mandatory ceilings stipulated in the Law no. 269/2017 and the non-observance of all the FRL's fiscal rules except for the one regarding the level expressed as a percentage of GDP for the GCB headline deficit, this rule being respected in the context of the upward revision operated at the level of the nominal GDP compared to the initial budget estimate. Thus, the following exceeding of the ceilings were registered: the GCB headline deficit (+1.1 billion lei), the GCB primary deficit (+1.1 billion lei), the GCB personnel expenses (both in nominal terms + 5.1 billion lei and as share in GDP by 0.2 percentage points), respectively the total GCB expenditure excluding the financial assistance from the EU and other donors (+10.1 billion lei). At the same time, there were violations of the rules prohibiting the increase in personnel spending and the total GCB expenditure (net of financial assistance from the EU and other donors) on the occasion of the budget rectifications, exclusively for servicing the public debt and, respectively, for paying the Romanian contribution to the EU budget.
- The changes introduced by the draft of the second supplementary budget draft increase the size of the non-compliance with the personnel spending ceiling by 110.35 million lei (respectively, the exceeding of the nominal ceiling of the GCB personnel expenses by 5,194 million lei and as a percentage of GDP by 0.2 pp compared to the initial provisions of the Law on Ceilings no. 269/2017, in the context of the increasing the GDP estimate by 41.700 million lei compared to the initial forecast). On the other hand, on the background of increasing the European funds revenues, the total expenditures net of the financial assistance from the EU and other donors are now lower by 529.8 million lei compared to the updated ceiling stipulated by Law no. 269/2017. The increase of the amounts from European funds occurs in the context of decreasing the revenue from "Amounts received from the EU in respect to payments made and pre-financing for the 2014-2020 financial framework" which has been offset by those relating to a newly introduced item "Other funds from the EU" in the amount of about 4.2 billion lei. These amounts are related to retrospective projects, originally funded from own budgetary funds that will be settled/compensated from European funds. On this aspect the Fiscal Council will comment in more detail in the complete opinion based on the analysis following the later clarifications transmitted by the MPF. Also, the primary deficit according to the proposal in the second supplementary budget draft is lower than the ceiling defined by the Law no. 269/2017 by 911.6 million lei, as the upward revision of interest expenses (+1.048.3 million lei compared to the first rectification, and +1.045.6 million lei compared to the initial budget) was only partially offset by the increase other expenses.

The lack of coercion and the *de facto* inoperability of fiscal rules are aspects on which the Fiscal Council has repeatedly drawn attention in recent years in the context of its opinions and reports.

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 November 23rd, 2018.

November 23rd, 2018

Chairman of the Fiscal Council

IONUȚ DUMITRU