

Fiscal Council's Opinion on the State Budget Law, Social Insurance Budget Law for 2019 and Fiscal Strategy for 2019-2021

On January 31st, 2019, the Fiscal Council received from the Ministry of Public Finances (MPF) in electronic format, the letter no. 462204, requesting under art. 53, paragraph (2) of the Fiscal Responsibility Law no. 69/2010 republished (FRL), the opinion on the Report on the macroeconomic situation for 2019 and the projection for the period 2020-2022, the draft of the Budget Law for 2019, the draft of the Social Insurance Budget Law for 2019, the Fiscal Strategy (FS) for 2019-2021 and the draft Law for approving the ceilings of certain indicators specified in the fiscal framework for the year 2019.

Under article 53, paragraph (4) of the FRL, the Government and the Parliament are required to consider the opinions and recommendations of the Fiscal Council when **elaborating and approving the Fiscal Strategy and the annual budgets, as well as in the preparation of other measures triggered by the implementation of this law.**

General comments

The general consolidated budget draft for 2019 targets a deficit according to the cash methodology of 2.55% of GDP, being envisaged an adjustment of 0.33 pp of GDP compared to 2018 (2.88% of GDP). The budgetary construction accommodates large pressures from the personnel expenditure (projected to increase by 16.3 billion lei, equivalent to a 19% increase in the wage bill and a plus of 0.95 pp of GDP compared to the level of expenditures in 2018¹), maintaining a high rate of growth in the social assistance spending and a large expansion of the public investment (on the back of the non-reimbursable European funds projects), coupled with large tax cuts for the construction sector (budgetary impact due to the elimination of the health contribution and of the personal income tax). Framing in the deficit target is projected to be achieved on the background of an expected acceleration of the real economic growth and higher dynamics for the gross wage and the number of employees in the private sector (13.8% and 3.7% respectively), on substantial increases in the VAT receipts on the basis of a planned improvement in collection, on taking into account exceptional revenues from renting the 5G frequency bands, as well as on additional taxation in the energy, communications and gambling sectors.

On the expenditures side, as a source of budgetary adjustment, a nominal contraction of capital expenditures with own-funded financing and a significant moderation in the growth

¹ To be noted that the public sector wage bill in 2018 is already at historic highs and above the level in the UE28 (10.8% of GDP as compared to 9.9% of GDP in ESA2010 standards for UE28, according to European Commission estimates), while the Romanian tax revenues are much lower than the EU average (26.3% of GDP in Romania in 2018 versus 40% of GDP at EU28 level).

rate of interest and of purchases of goods and services are considered. It is worth noting that the draft budget does not include revenues from the newly established tax on bank assets - considering the current ROBOR and net banking assets levels, the tax would generate about 4 billion lei (taking into account 3 quarterly payments in 2019).

The deficit target appears as consistent with that assumed in the Fiscal Strategy 2018-2020, equivalent to a structural adjustment of 0.3% of GDP in the context of the assessments made by the National Commission for Strategy and Prognosis (NCSP) for the real and potential GDP levels and the materialization of the ESA 2010 projected deficit and the GDP dynamics for 2018. However, the level of the proposed structural adjustment is significantly below the European Council's recommendation² issued in the context of the significant deviation procedure to implement a structural adjustment of 1% of GDP in 2019. It should be noted that the trajectory of the structural deficit envisaged in the projection at the horizon of the year 2022 implies a cumulative structural adjustment of around 0.8% of GDP in 4 years, well below the standard adjustment path of 0.5% of GDP per year set by European regulations, a significant deviation from the medium-term objective (defined as a structural deficit of 1% of GDP) continuing to persist at the end of the projection horizon.

The fiscal rules set up by the FRL remain inoperable - the accompanying law on the ceilings of some indicators specified in the fiscal-budgetary framework for 2019 and the recently approved GEO no. 114/2018 include, as in the previous years, an extensive list of derogations from the FRL:

- Articles 6 and 7, which formalize in the national legislation the provisions of the Treaty on the Functioning of the European Union in terms of the reference values for the budget deficit and public debt;
- Article 14 paragraph 1, according to which in case of identifying a deviation from the medium-term budgetary objective or the timetable for adjustment to it, the Government approves or submits to Parliament for approval a set of measures meant to correct this deviation;
- Article 26 paragraph 3, according to which the companion law on the approval of the limits specified in the fiscal-budgetary framework comprises the medium-term budgetary objective and the adjustment path towards it.
- Article 29, paragraph 4, in the sense of abandoning the requirement that the statement of responsibility is signed by the Prime Minister and the Minister of Public Finances in order to certify Fiscal Strategy's compliance with the FRL, the targets or limits established by the fiscal rules and with the principles of fiscal responsibility;
- Article 30 paragraph 4, which requires the Government to submit to the Parliament an annual budget that complies with the principles of fiscal responsibility, fiscal rules, the Fiscal Strategy and any other provisions of the FRL;

² <http://data.consilium.europa.eu/doc/document/ST-14684-2018-INIT/en/pdf>

- Article 30 paragraph 5, which establishes that in the absence of the compliance conditions referred to in the previous paragraph, the statement should mention the deviations, as well as the measures and deadlines until which the Government will ensure compliance with the principles of fiscal responsibility, fiscal rules and the Fiscal Strategy.

Moreover, according to Article 26 (1) of the FRL, until 31st of July of each year, the Ministry of Public Finance has the obligation to submit to the Government the Fiscal Strategy for the next 3 years accompanied by the draft law for the approval of the ceilings specified in the fiscal-budgetary framework. Again, the Fiscal Strategy was elaborated and made public not at the deadline set by law, but concomitant with the draft budget, a situation that has been constantly perpetuating over the past 5 years. Under these conditions, monitoring the *ex-ante* compliance with the limits set for the budgetary indicators provided by the Law on ceilings becomes irrelevant (the fiscal framework being the same for the year 2019 in the two aforementioned documents), and the orientation role which a fiscal and budgetary strategy on the medium term must have for the budget is undermined, the fiscal policy remaining tributary to short-term objectives.

The general consolidated budget in 2019 - problems and risks

A first problematic issue is the economic growth scenario underpinning the budget construction, which appears to be excessively optimistic in relation to similar assessments of other institutions, especially in the context of the expected slowdown in the euro area economy (the latest available data indicating that the risk balance is tilted towards a faster slowdown than anticipated) and the increasing likelihood of ending the expansionary phase of the global economic cycle. In addition, the untimely adoption of some fiscal measures (by GEO no. 114/2018), with a negative impact on the economy (such as introducing a tax on the bank assets and additional taxes for the energy and communications sectors), is likely to amplify the above-mentioned external risks. In this context, maintaining the hypothesis of accelerating real economic growth to 5.5% in 2019 (compared to a likely level between 4 and 4.5% in 2018) in the projection of the macroeconomic framework elaborated after the adoption of GEO no.114/2018 appears surprising and, in the opinion of the Fiscal Council, unjustified. However, the dynamics estimated for the deflators in 2019 compared to the previous year (for GDP and private consumption) is probably undersized, allowing the space for the nominal variables of the macroeconomic framework (relevant for tax revenues excluding excise duty) to partly compensate the much lower than expected dynamics of the real variables. Another problematic aspect is, in the opinion of the Fiscal Council, the extremely favorable assumptions regarding the number of employees and the gross wage dynamics in the private sector, which are expected to increase by 3,7% and, respectively 13,8% in 2019. Monthly data published by the NIS reveals a trend of a marked slowdown in the growth rate for the number of employees in the private sector, from 4% in 2016 to 3.2% in 2017 and 1.7% in January-November 2018, and in this context, to accelerate the growth rate for the number of employees to 3.7% appears as unlikely. A more reasonable scenario (however, probably still optimistic) would be, in the opinion of the Fiscal Council, that the

growth rate will place in the proximity of the apparent level registered in the previous year (1.5%-1.7%), that would result in a deviation of around 2 pp compared to the growth rate in the NCSP projection. The annual growth rate of the private sector gross wage appears to be significantly higher than in the past three years (10.7% in 2016, 12% in 2017, or 11.2% in January-November 2018³). In this context, a scenario that would target a growth rate for the gross wage similar to the maximum post-crisis level of 12% (again, an optimistic hypothesis) implies a deviation from the growth rate of the gross wage in the private sector according to the NCSP projection of 1.8 pp. It should be noted that a growth rate for the wage bill in the economy lower by 1 pp than in the scenario taken into account in the budgetary construction will lead to a deficit higher by 1.2 billion lei (or 0.115 % of GDP) as a result of lower receipts from personal income tax and especially, social contributions, indicating a high sensitivity of the revenue aggregates to the labor market dynamics assumptions.

Given the above, we appreciate that the assumptions about the dynamics of labor market variables appear to be overly favorable and unlikely to materialize to the expected levels. We also consider that taking into account overly optimistic assumptions regarding the labor market developments contradict the requirement regarding the prudent management of the fiscal policy (actually enshrined in the FRL as the fiscal responsibility principle). The less favorable alternative scenarios identified above, albeit still optimistic, generate a lower dynamic of about 3 pp for the gross wage in the economy compared to the NCSP assumptions, which would involve lower budget revenues by about 3.5 billion lei compared to the draft budget estimates.

The Fiscal Council has reservations specifically on the development of the VAT receipts projected in the draft budget, a significant overstatement being apparent even in the context of using the official macroeconomic scenario. Thus, VAT revenues are projected to increase (after adjusting with the estimated temporary impact of the swap schemes for the outstanding obligations for 2018 and 2019) by 17% (10.1 billion lei or 0.54% of GDP) compared to the level of the 2018 execution. The proposed dynamic for the VAT receipts significantly exceeds the dynamic for the nominal private consumption net of self-consumption assessed by NCSP (about 8%). Moreover, out of the 7,5 billion lei, which the text of the budget report indicates on page 9 as additional revenue from measures to be taken by ANAF aiming at improving collection, 6 billion lei represents VAT additional revenues.

The Fiscal Council is skeptical about the validity of such an assessment because: firstly, the impact of the measures aimed at improving collection is included *ex ante* in the revenue projection (although the impact is very difficult or even impossible to estimate), displaying a serious lack of caution; secondly, the experience of the previous year, when the additional VAT revenues from improving the collection do not seem to have materialized at the expected

³In the year 2018, we report the annual net wage variation, which is comparable to future developments as the gross wages for this year are affected by the transfer of social contributions from the employers to the employees.

level⁴, should urge caution in formulating revenue projections. In view of the above, the Fiscal Council considers that VAT revenues for 2019 are most likely overestimated by about 5 billion lei, not taking into account the possible adverse impact of less favorable macroeconomic developments than those taken into account in the budget construction.

A similar situation, where additional revenues are projected based on measures to improve collection (assessed by MPF at 1 billion lei), appears at the level of excise tax revenues. Here as well, the experience of the previous year should urge caution given that the execution was lower by 1.7 billion lei than the initial estimates. The current assessment of the Fiscal Council reveals, however, that the size of this revenue aggregate is consistent with the real consumption projected by NCSP, without taking into account the additional revenues from improving collection. Nevertheless, in the case of excise duties, concerns about the excessively optimistic projection of real economic growth are much more relevant as the apparent underestimation of deflators does not function as a compensation factor for lower dynamics of real consumption, given the way of defining the tax base (physical quantities).

Furthermore, the draft budget includes exceptional revenues of 2.1 billion lei from the rental of 5G frequency bands (assigned to the taxes on the use of goods, on the authorization of the use of goods and on carrying activities). It is also worth noting the significantly higher level of the expected revenues compared to the one envisaged in the initial version of the budget for the previous year (which evaluated these revenues at 1.3 billion lei). It is very likely that additional taxation of the telecom sector (through GEO no. 114/2018) would be problematic to obtaining this revenue, given the possible reassessment of expansion plans by operators in the industry. Moreover, the respective revenues will not be reflected identically in the budget execution according to ESA 2010 standards, where they would be distributed linearly over the lifetime of the concession, thereby contributing to a negative spread between the ESA 2010 and cash budget balance.

On the spending side, the Fiscal Council identifies expenditures with goods and services and interest expenses as potential sources of risk. In the first case, the expenditures from the previous year were higher by 4.75 billion lei compared to the initial budget and by 4 billion lei compared to the value registered at the end of 2017, while they are expected to increase in 2019 by only 1.95 billion lei, the growth rate slowing down from 9.8% in 2018 to 4.4%. We consider that maintaining the budgeted level for expenditures with goods and services will prove difficult in light of the experience from the previous year.

In the second case, interest expenses are projected to increase by only 0.6 billion lei compared to an advance of 2.8 billion lei in the previous year, which is equivalent to a decrease of the growth rate from 27.8% to 4.4%. The Fiscal Council considers that the current budget proposal

⁴ Revenues from VAT in 2018 were lower by 1.7 billion lei than the initial target, the rate of increase in VAT revenues being explained by the nominal change in the macroeconomic base and by the drastic reduction of VAT reimbursements in the last two months of the year, with no significant revenue gains that would result from improved collection.

appears to be potentially undersized given the trend of rising financing costs, especially in the context of the newly adopted bank asset tax and the way in which it is set (including government bond holdings), as well as the rising volume of public debt. However, maintaining the budgeted level for interest expenses is likely to be possible given an increasing tendency for short-term financing or the intensive use of the Treasury's liquidity buffer. Nevertheless, such an approach would generate additional risks in terms of resilience to external shocks, which will impact the liquidity of the financial markets, or in terms of investors' risk aversion, which is increasingly probable in a potentially more complicated domestic and international context than in the past.

Finally, the draft budget targets a large expansion of investment expenditures (from 34.2 billion lei in 2018 to 47.1 billion lei in 2019), due to the quasi-tripling of anticipated inflows from EU structural and cohesion funds (SCF) whose final beneficiary is the public sector (from 5.2 billion lei in 2018 to 15.1 billion lei in 2019). Given that MPF anticipates a less rapid expansion of co-financing and ineligible expenditures (the FSC expenditure/income ratio falls from 2.1 in 2018 to 1.65 in 2019), the budget estimates that spending on investment projects with European funding will double (+13.8 billion lei compared to the execution from the previous year). Past budget executions consistently recorded significant deviations between the amounts set in the initial budgets or budget revisions and the actual investments expenditures which proved to be lower (see the chart from Appendix 7). A similar evolution is likely for the year 2019, all the more so since the hypothesis of a large-scale improvement in the absorption of structural and cohesion funds appears to be excessively optimistic (historically, initial estimates of absorption have never materialized).

Given the prospective size of overestimated revenues from VAT (around 5 billion lei) and from social contributions and income tax (around 3.5 billion lei)⁵, partly offset by the bank asset tax (currently estimated at approximately 4 billion lei) which was not included in the budget draft, we appreciate that, in the absence of additional compensatory measures, it is likely that the deficit at the end of the current year will be in the immediate vicinity of 3 % of GDP. We also reiterate our concern about the risk of significantly less favorable macroeconomic developments than those taken into account by the budget draft, which would lead to additional pressures on the budget deficit in 2019, with the risk of exceeding 3% of GDP in the absence of corrective measures.

The Fiscal Strategy for 2019-2021 – the budgetary construction beyond the 2019 horizon

Similar to the fiscal strategies from previous years, the current iteration (2019-2021) reveals that the authorities are concerned about the first year covered by it, without paying the same attention to medium-term budgetary projections. Thus, in the absence of a rigorous substantiation of revenues and expenditures and lacking concrete details of the underlying

⁵ The overstatement is generated by excessively optimistic assumptions about the dynamics of the average salary and of the number of employees.

assumptions⁶, there is a tendency to easily generate a superficial fiscal consolidation in the medium term.

Beyond 2019, for which the structural deficit is projected to decline by 0.27% of GDP, a break in the adjustment process is expected in 2020 while a further 0.25% reduction in the structural deficit is expected in 2021. As a result, at the end of the period covered by the Fiscal Strategy there is still a 1.55 pp deviation from the medium-term objective.

The Fiscal Council has reservations concerning the medium-term dimensions of some expenditure aggregates that appear too low compared to the macroeconomic assumptions underpinning the medium-term budgetary projection and other budgetary parameters. Thus, one of the major sources of fiscal consolidation in 2020 is the projected 4% increase of wages compared to 2019, although the macroeconomic scenario indicates wage increases in the public sector (in a narrow sense, excluding armed forces and assimilated staff) of 8.2%, to which is added a 1.9% increase in the number of public sector employees. If we assume that the wage dynamics would be about 10%, in line with the above-mentioned assumptions of the macroeconomic scenario, the amount of personnel costs would be about 6 billion lei (0.55% of GDP) higher than the one from the 2020 spending projection which, *caeteris paribus*, would lead to an equivalent widening of the actual and structural deficits. It should be noted that the average salary in the economy, used in the projection of revenues from social contributions and income tax, depends on the assumptions on the wage dynamics in the public sector, as well as on the evolution of the number of employees in the economy. Applying the same reasoning for the year 2021, the difference between the projected personnel costs and the figure from the draft budget would reach about 14.7 billion lei (1.25% of GDP).

Another element that could raise problems in the medium-term projection is the level of social assistance expenditures from the social security budget, where the estimated increases do not appear consistent with the developments envisaged by the new pension law approved by Parliament for years 2020 and 2021. Thus, the projected dynamics appears to be inferior to that which would prevail in the hypothesis where the pension point would evolve according to the path described in the aforementioned normative act, which stipulates its value at 1,775 lei as of 1 September 2020 and at 1,875 lei as of 1 September 2021. This trajectory would involve average increases of 24.2% (in 2020) and 26% (in 2021) while the projected dynamics of social assistance costs is only 20.4% and 8.9% respectively. According to the described path of the pension point, social assistance expenditures should be higher than those projected by 2.65 billion lei (0.24% of GDP) in 2020 and by 17.7 billion lei (1.5% of GDP) in 2021.

⁶ An example of this is the evolution of VAT revenues in 2020, which increase by only 3% compared to the level estimated for 2019. Given the dynamics of nominal private consumption projected for 2020, such a trajectory is consistent either with a possible additional reduction of the VAT rate (not mentioned in the document), as the revenue surplus from improving the collection in 2019 would be considered permanent, or with a no policy change scenario in which the NAFA residual from 2019 is regarded as a temporary phenomenon.

The objections to the excessive dynamics taken into account in 2019 for the number of employees in the private sector remain relevant for the 2020 and 2021 assumptions. In the event that they are close to 2% (instead of 3.6% and 3.5%), the estimated overstatement of about 3.5 billion lei in 2019, which is included in the projections by means of extrapolation, will further increase by 1.2 billion lei in 2020 and by another 2.5 billion lei in 2021.

Taking into account all the above, as well as the extremely favorable nature of the medium-term growth projection, the Fiscal Council considers that, assuming unchanged fiscal and budgetary policies, the risk balance is overwhelmingly inclined towards recording far higher deficits than those envisaged by the 2019-2021 Fiscal Strategy and significantly higher than the 3% of GDP benchmark from the corrective arm of the Stability and Growth Pact.

The opinions and the recommendations hereby stated 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 February 5th, 2019.

February 5th, 2019

Chairman of the Fiscal Council,

IONUȚ DUMITRU

Annex no. 1: Fiscal policy measures and estimated budgetary impact estimated

Fiscal policy measures – budgetary revenue	Budgetary impact (million. lei)	Revenue category
Total	10,874.4	
Increasing the minimum wage in construction sector and taxation change	-1,381.6	Social security contributions
	-825.4	Personal income tax
Revenue from dividends art. 43 GEO 118/2018 (35% of others reserve)	1,500	Nontax revenue
Increasing the level of cigarettes excise (from 1 April 2019)	615.5	Excise
Increasing the taxation of the gambling sector (participation fee 2%)	624.8	Taxes on the use of goods, on authorizing the use of goods and on carrying activities
	-100	Corporate income tax
Increase ANRE ANCOM's own income	896.8	Nontax revenue
	-55.8	Corporate income tax
Selling 5G licenses	2,100	Taxes on the use of goods, on authorizing the use of goods and on carrying activities
Improving the collection degree	6,000	VAT
	1,000	Excise
	500	Corporate income tax

Source: Ministry of Public Finance

Fiscal policy measures – budgetary expenditure	Budgetary impact (million lei)	Expenditure category
Total	15,608	
Increasing the pension point to 1.265 lei from 1 September 2019 (4 months of the year)	3,240	Social assistance
The correction index provided for art. 170 from the Law no. 263/2010 concerning the unitary public pensions system, with the subsequent amendments and completions is 1,2	237.2	Social assistance
Starting with 1 st January 2019, the basic wages, the indemnities for employment shall be established according to the provisions of art. 38, para. (4) of the Framework – Law no. 153/2017 regarding the salary of the staff paid out of public funds, with the subsequent amendments and completions	8,930.70	Personnel expenditure
Grant of the food allowance provided in Art. 18 of the Framework Law no. 153/2017, with the subsequent amendments and completions	3,200	Personnel expenditure

Source: Ministry of Public Finance

Annex no. 2 Revenue projection consistent with the winter macroeconomic framework published by the NCSP in January 2019	2018	2019							
	Budget execution for 2018 according to MPF (including swap) (mil. lei)	The influence of the swap compensation schemes in 2018 (mil. lei)	Amounts without swap (mil. lei)	Fiscal policy measures	Explanations	Relevant macroeconomic base	Revenue projection consistent with the macroeconomic framework published by the NCSP in winter 2019	CGB revenues according to the 2019 budget draft	Differences between revenue projection consistent with the winter macroeconomic framework and revenues in 2019 budget draft
	1	2	3 = 1-2	4	5	6	7	8	9
TOTAL REVENUE	295,118.2	889.2	294,229.0				334,774.3	341,510.0	-6,735.7
Current revenue	267,738.6	889.2	266,849.4				301,349.7	307,985.8	-6,636.0
Tax revenue	142,515.6	398.3	142,117.2				156,513.4	162,447.8	-5,934.5
Taxes on income, profit and capital gains	41,506.1	118.2	41,387.9				44,651.8	44,257.2	394.6
Corporate income tax	15,652.5	30.5	15,622.0	- 155.8	(The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF)*(1+Δ% macroeconomic base *1 elasticity) to which are added fiscal policy measures	Nominal GDP (+7.68%)	16,795.4	17,192.9	-397.4
Personal income tax	22,679.0	87.7	22,591.3	- 825.4	The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF (adjusted by the abolition of January when the income tax rate was 16% and the income tax on the enforceable titles paid in 2018) extrapolated with the dynamics of the number of employees and the dynamic of earnings. The result was then adjusted to take account of fiscal policy measures and enforceable titles to be paid in 2019.	Number of employees (+3.4%) Gross average wage (+14.7%)	24,438.0	23,663.0	775.0
Other taxes on income, profit and capital gains	3,174.7		3,174.7		(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF)*(1+Δ%relevant macroeconomic base)	Nominal GDP (+7.68%)	3,418.4	3,401.4	17.0
Property tax	5,469.4		5,469.4		According to MPF		6,087.1	6,087.1	0.0
Taxes on goods and services	93,776.0	212.5	93,563.5				103,938.6	110,190.8	-6,252.2

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	1	2	3 = 1-2	4	5	6	7	8	9
VAT	59,609.0	205.5	59,403.5	-	The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF which was extrapolated with the relevant macroeconomic base.	Households' final consumption without self-consumption and farmer market (+7.94%)	64,271.1	69,647.9	-5,376.8
Excises	28,518.1	7.0	28,511.2	615.5	(The starting point of extrapolation is represented by the amount from the execution for 2018 less the value of excises on cigarettes)* The dynamics of macroeconomic base, plus the impact of policy fiscal measures.	Households' final consumption without self-consumption and farmer market in real terms (+6.40%)	30,886.7	31,071.0	-184.4
Other taxes on goods and services	3,945.8		3,945.8		(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF)* The dynamics of relevant macroeconomic base	Households' final consumption without self-consumption and farmer market (+7.94%)	4,259.3	4,534.3	-275.0
Taxes on using goods, authorizing the use of goods or on carrying activities	1,703.0		1,703.0	2,724.8	(The starting point of extrapolation is represented by the amount from the execution for 2018)* The dynamics of macroeconomic base, plus the impact of policy fiscal measures.	Real GDP (+5,5%)	4,521.5	4,937.6	-416.1
Tax on foreign trade	1,050.1		1,050.1		(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF)* The dynamics of relevant macroeconomic base	Import of goods and services (+7,8%)	1,132.0	1,144.7	-12.7
Other tax revenue	713.9	67.6	646.3		(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF)* The dynamics of relevant macroeconomic base	Nominal GDP (+7,68%)	703.9	768.0	-64.1

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	1	2	3 = 1-2	4	5	6	7	8	9
Social security contributions	98,100.8	490.9	97,609.9	- 1,381.6	(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF, adjusted by abolition of January when the old system of social contributions and contributions of enforceable titles paid in 2018 applies)*The dynamics of relevant macroeconomic bases, plus the impact of fiscal policy measures and the impact of social contributions that will be collected on the executory titles to be paid in 2019.	Number of employees (+3.4%) Gross average wage (+14.7%)	116,544.5	117,246.1	-701.6
Non-tax revenue	27,122.3		27,122.3	2,396.8	According to MPF		28,291.9	28,291.9	0.0
Capital revenue	849.4		849.4		(The starting point of extrapolation is represented by the amount from the execution for 2018 according to MPF)*The consumer price index.	The average rate of inflation forecasted for 2019 (2,8%)	873.2	972.9	-99.7
Grants	10.2		10.2		According to MPF		8.8	8.8	0.0
Amounts received from the EU in the account of payments made and pre-financing	247.0		247.0		According to MPF		95.5	95.5	0.0
Amounts collected in the single account (State budget)	-578.7		- 578.7		According to MPF		0.0	0.0	0.0
Other amounts received from the EU for the operational programs financed in the convergence objective framework	3,870.2		3,870.2		According to MPF		108.7	108.7	0.0
Amounts received from the EU/other donors in the account of payments made and prefinancing for financial framework 2014-2020	22,981.5		22,981.5		According to MPF		32,338.4	32,338.4	0.0

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Amounts collected in the single account (State budget)	-578.7		- 578.7		According to MPF		0.0	0.0	0.0
Other amounts received from the EU for the operational programs financed in the convergence objective framework	3,870.2		3,870.2		According to MPF		108.7	108.7	0.0
Amounts received from the EU/other donors in the account of payments made and prefinancing for financial framework 2014-2020	22,981.5		22,981.5		According to MPF		32,338.4	32,338.4	0.0

Source: Ministry of Public Finance, Fiscal Council computations

Annex no. 3 – The evolution of the budgetary aggregates in the period 2018 – 2019	Budget execution 2018 (mil. Lei)	Swap execution 2018 (mil. Lei)	Budget execution 2018 (mil. lei)	Draft budget 2019 (mil. Lei)	Planned swap 2019 (mil. Lei)	Draft budget 2019 (mil. lei)	Draft budget 2019 - Budget execution 2018 (mil. lei)	Draft budget 2019 - Budget execution 2018 (mil. lei)	Draft budget 2019 - Budget execution 2018 (%)	Draft budget 2019 - Budget execution 2018 (%)	Draft budget 2019 (% of GDP)	Budget execution 2018 (% of GDP)	Draft budget 2019 - Budget execution 2018 (% of GDP)
			without swap			without swap		without swap		without swap	without swap		
	1	2	3 = 1-2	4	5	6 = 4-5	7 = 4 - 1	8 = 6-3	9 = 7/1	10 = 8/3	11	12	13 = 11-12
Total revenue	295,118.24	889.25	294,228.99	341,509.96	850.00	340,659.96	46,391.73	46,430.97	15.72%	15.78%	33.32%	30.98%	2.33
Current revenue	267,738.61	889.25	266,849.36	307,985.77	850.00	307,135.77	40,247.16	40,286.41	15.03%	15.10%	30.04%	28.10%	1.94
Tax revenue	142,515.57	398.32	142,117.25	162,447.82	436.00	162,011.82	19,932.25	19,894.57	13.99%	14.00%	15.84%	14.97%	0.88
Taxes on profit, wages, income and capital gains	41,506.14	118.20	41,387.94	44,257.24	280.00	43,977.24	2,751.10	2,589.30	6.63%	6.26%	4.30%	4.36%	-0.06
Corporate income tax	15,652.51	30.54	15,621.97	17,192.89	130.00	17,062.89	1,540.38	1,440.93	9.84%	9.22%	1.67%	1.65%	0.02
Personal income tax	22,678.98	87.66	22,591.32	23,662.99	150.00	23,512.99	984.01	921.67	4.34%	4.08%	2.30%	2.38%	-0.08
Other taxes on income, profit and capital gains	3,174.65		3,174.65	3,401.36		3,401.36	226.70	226.70	7.14%	7.14%	0.33%	0.33%	0.00
Property tax	5,469.43		5,469.43	6,087.10		6,087.10	617.67	617.67	11.29%	11.29%	0.60%	0.58%	0.02
Taxes on goods and services	93,775.98	212.47	93,563.51	110,190.80	148.00	110,042.80	16,414.82	16,479.29	17.50%	17.61%	10.76%	9.85%	0.91
VAT	59,609.02	205.51	59,403.51	69,647.92	148.00	69,499.92	10,038.90	10,096.41	16.84%	17.00%	6.80%	6.26%	0.54
Excises	28,518.13	6.96	28,511.17	31,071.03		31,071.03	2,552.90	2,559.86	8.95%	8.98%	3.04%	3.00%	0.04
Other taxes on goods and services	3,945.82		3,945.82	4,534.28		4,534.28	588.45	588.45	14.91%	14.91%	0.44%	0.42%	0.03
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	1,703.01		1,703.01	4,937.58		4,937.58	3,234.57	3,234.57	189.93%	189.93%	0.48%	0.18%	0.30
Taxes on foreign trade and international transactions (custom duty)	1,050.11		1,050.11	1,144.70		1,144.70	94.59	94.59	9.01%	9.01%	0.11%	0.11%	0.00
Other tax revenue	713.91	67.65	646.27	767.98	8.00	759.98	54.07	113.71	7.57%	17.60%	0.07%	0.07%	0.01
Social security contributions	98,100.78	490.93	97,609.85	117,246.08	414.00	116,832.08	19,145.30	19,222.23	19.52%	19.69%	11.43%	10.28%	1.15
Nontax revenue	27,122.26		27,122.26	28,291.87		28,291.87	1,169.61	1,169.61	4.31%	4.31%	2.77%	2.86%	-0.09
Capital revenue	849.40		849.40	972.86		972.86	123.46	123.46	14.53%	14.53%	0.10%	0.09%	0.01
Grants	10.18		10.18	8.76		8.76	-1.41	-1.41	-13.90%	-13.90%	0.00%	0.00%	0.00

Amounts received from the EU in the account of payments made and prefinancing	247.01	247.01	95.46	95.46	-151.54	-151.54	-61.35%	-61.35%	0.01%	0.03%	-0.02		
Amounts collected in the single account	-578.72	-578.72	0.00	0.00	578.72	578.72	-100.00%	-100.00%	0.00%	-0.06%	0.06		
Other amounts received from the EU	3,870.25	3,870.25	108.72	108.72	-3,761.52	-3,761.52	-97.19%	-97.19%	0.01%	0.41%	-0.40		
Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	22,981.52	22,981.52	32,338.39	32,338.39	9,356.87	9,356.87	40.71%	40.71%	3.16%	2.42%	0.74		
Total expenditure	322,454.49	889.25	321,565.25	367,628.13	850.00	366,778.13	45,173.64	45,212.88	14.01%	14.06%	35.87%	33.86%	2.01
Current expenditure	300,392.14	300,392.14	345,256.89	850.00	344,406.89	44,864.75	44,014.75	14.94%	14.65%	33.68%	31.63%	2.05	
Personnel	86,141.93	86,141.93	102,465.25		102,465.25	16,323.32	16,323.32	18.95%	18.95%	10.02%	9.07%	0.95	
Goods and services	44,674.45	44,674.45	46,621.84		46,621.84	1,947.40	1,947.40	4.36%	4.36%	4.56%	4.70%	-0.14	
Interest	12,941.15	12,941.15	13,510.12		13,510.12	568.97	568.97	4.40%	4.40%	1.32%	1.36%	-0.04	
Subsidies	6,669.50	6,669.50	7,948.28		7,948.28	1,278.78	1,278.78	19.17%	19.17%	0.78%	0.70%	0.07	
Total transfers	149,577.27	649.05	148,928.23	173,904.65	850.00	173,054.65	24,327.37	24,126.42	16.26%	16.20%	16.92%	15.68%	1.24
Transfers between public administration entities	1,537.57	649.05	888.53	2,526.46	850.00	1,676.46	988.89	787.93	64.31%	88.68%	0.16%	0.09%	0.07
Other transfers	14,117.34	14,117.34	17,370.26		17,370.26	3,252.93	3,252.93	23.04%	23.04%	1.70%	1.49%	0.21	
Projects funded by external post-accession grants	577.15	577.15	359.44		359.44	-217.71	-217.71	-37.72%	-37.72%	0.04%	0.06%	-0.03	
Social assistance	101,364.05	101,364.05	109,764.44		109,764.44	8,400.38	8,400.38	8.29%	8.29%	10.73%	10.67%	0.06	
Projects funded by external post-accession grants 2014-2020	24,948.70	24,948.70	38,058.72		38,058.72	13,110.02	13,110.02	52.55%	52.55%	3.72%	2.63%	1.09	
Other expenditure	7,032.47	7,032.47	5,825.32		5,825.32	-1,207.14	-1,207.14	-17.17%	-17.17%	0.57%	0.74%	-0.17	
Reserve funds	0.00	0.00	100.00		100.00	100.00	100.00	#DIV/0!	#DIV/0!	0.01%	0.00%	0.01	
Expenditure Funded from reimbursable funds	387.84	387.84	706.75		706.75	318.91	318.91	82.23%	82.23%	0.07%	0.04%	0.03	
Capital expenditure	23,861.10	240.20	23,620.90	22,371.24		22,371.24	-1,489.87	-1,249.67	-6.24%	-5.29%	2.19%	2.49%	-0.30
Payments made in previous years and recovered in the current year	-1,798.75	-1,798.75			0.00	1,798.75	1,798.75	-100.00%	-100.00%	0.00%	-0.19%	0.19	
EXCEDENT(+) / DEFICIT(-)	-27,336.26	0.00	-27,336.26	-26,118.17	0.00	-26,118.17	1,218.09	1,218.09	-4.46%	-4.46%	-2.55%	-2.88%	0.32

Source: Ministry of Public Finance, Fiscal Council computations

Annex no. 4 – The evolution of the budgetary aggregates in the period 2019– 2020	The draft budget 2019	The draft budget 2020	The draft budget 2020-The draft budget 2019 (mil. lei)	The draft budget 2020-The draft budget 2019 (%)	The draft budget 2019 (% of GDP)	The draft budget 2020 (% of GDP)	The draft budget 2020-The draft budget 2019 (% of GDP)
	1	2	3 = 2-1	4 =3/1	5	6	7 = 6-5
Total revenue	341,509.96	354,809.90	13,299.94	3.89%	33.40%	32.23%	-1.17
Current revenue	307,985.77	327,836.94	19,851.17	6.45%	30.12%	29.78%	-0.34
Tax revenue	162,447.82	169,481.64	7,033.82	4.33%	15.89%	15.39%	-0.49
Taxes on profit, wages, income and capital gains	44,257.24	47,495.56	3,238.32	7.32%	4.33%	4.31%	-0.01
Corporate income tax	17,192.89	17,972.44	779.55	4.53%	1.68%	1.63%	-0.05
Personal income tax	23,662.99	25,873.76	2,210.77	9.34%	2.31%	2.35%	0.04
Other taxes on income, profit and capital gains	3,401.36	3,649.36	248.00	7.29%	0.33%	0.33%	0.00
Property tax	6,087.10	6,799.70	712.60	11.71%	0.60%	0.62%	0.02
Taxes on goods and services	110,190.80	113,119.53	2,928.73	2.66%	10.78%	10.27%	-0.50
VAT	69,647.92	71,717.74	2,069.83	2.97%	6.81%	6.51%	-0.30
Excises	31,071.03	32,374.58	1,303.55	4.20%	3.04%	2.94%	-0.10
Other taxes on goods and services	4,534.28	4,660.17	125.90	2.78%	0.44%	0.42%	-0.02
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	4,937.58	4,367.03	-570.55	-11.56%	0.48%	0.40%	-0.09
Taxes on foreign trade and international transactions (custom duty)	1,144.70	1,246.58	101.88	8.90%	0.11%	0.11%	0.00
Other tax revenue	767.98	820.28	52.30	6.81%	0.08%	0.07%	0.00
Social security contributions	117,246.08	129,757.80	12,511.71	10.67%	11.47%	11.79%	0.32
Nontax revenue	28,291.87	28,597.50	305.63	1.08%	2.77%	2.60%	-0.17
Capital revenue	972.86	1,037.04	64.18	6.60%	0.10%	0.09%	0.00
Grants	8.76	2.58	-6.18	-70.56%	0.00%	0.00%	0.00
Amounts received from the EU in the account of payments made and prefinancing	95.46	1.29	-94.17	-98.65%	0.01%	0.00%	-0.01
Amounts collected in the single account	0.00	0.00	0.00	0.00%	0.00%	0.00%	0.00
Other amounts received from the EU	108.72	0.00	-108.72	-100.00%	0.01%	0.00%	-0.01
Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	32,338.39	25,932.05	-6,406.34	-19.81%	3.16%	2.36%	-0.81

Annex no. 4 – The evolution of the budgetary aggregates in the period 2019– 2020	The draft budget 2019	The draft budget 2020	The draft budget 2020-The draft budget 2019 (mil. lei)	The draft budget 2020-The draft budget 2019 (%)	The draft budget 2019 (% of GDP)	The draft budget 2020 (% of GDP)	The draft budget 2020-The draft budget 2019 (% of GDP)
	1	2	3 = 2-1	4 =3/1	5	6	7 = 6-5
Total expenditure	367,628.13	377,876.47	10,248.34	2.79%	35.95%	34.32%	-1.63
Current expenditure	345,256.89	356,206.50	10,949.60	3.17%	33.77%	32.35%	-1.41
Personnel	102,465.25	106,587.75	4,122.51	4.02%	10.02%	9.68%	-0.34
Goods and services	46,621.84	47,368.55	746.71	1.60%	4.56%	4.30%	-0.26
Interest	13,510.12	13,989.16	479.04	3.55%	1.32%	1.27%	-0.05
Subsidies	7,948.28	7,437.91	-510.38	-6.42%	0.78%	0.68%	-0.10
Total transfers	173,904.65	180,117.39	6,212.74	3.57%	17.01%	16.36%	-0.65
Transfers between public administration entities	2,526.46	2,646.51	120.05	4.75%	0.25%	0.24%	-0.01
Other transfers	17,370.26	16,371.12	-999.14	-5.75%	1.70%	1.49%	-0.21
Projects funded by external post-accession grants	359.44	84.05	-275.39	-76.62%	0.04%	0.01%	-0.03
Social assistance	109,764.44	124,124.03	14,359.59	13.08%	10.73%	11.27%	0.54
Projects funded by external post-accession grants 2014-2020	38,058.72	30,828.12	-7,230.60	-19.00%	3.72%	2.80%	-0.92
Other expenditure	5,825.32	6,063.55	238.23	4.09%	0.57%	0.55%	-0.02
Reserve funds	100.00	100.00	0.00	0.00%	0.01%	0.01%	0.00
Expenditure Funded from reimbursable funds	706.75	605.73	-101.02	-14.29%	0.07%	0.06%	-0.01
Capital expenditure	22,371.24	21,669.97	-701.27	-3.13%	2.19%	1.97%	-0.22
Payments made in previous years and recovered in the current year							
EXCEDENT(+)/ DEFICIT(-)	-26,118.17	-23,066.56	3,051.60	-11.68%	-2.55%	-2.10%	0.46

Source: Ministry of Public Finance, Fiscal Council computations

Annex no. 5 – The evolution of the budgetary aggregates in the period 2020–2021	The draft budget 2020	The draft budget 2021	The draft budget 2021-The draft budget 2020 (mil. lei)	The draft budget 2021-The draft budget 2020 (%)	The draft budget 2020 (% of GDP)	The draft budget 2021 (% of GDP)	The draft budget 2021-The draft budget 2020 (% of GDP)
	1	2	3 = 2-1	4 =3/1	5	6	7 = 6-5
Total revenue	354,809.90	376,847.02	22,037.12	6.21%	32.23%	31.97%	-0.25
Current revenue	327,836.94	352,455.14	24,618.21	7.51%	29.78%	29.90%	0.13
Tax revenue	169,481.64	178,782.27	9,300.63	5.49%	15.39%	15.17%	-0.22
Taxes on profit, wages, income and capital gains	47,495.56	51,648.64	4,153.08	8.74%	4.31%	4.38%	0.07
Corporate income tax	17,972.44	19,237.33	1,264.89	7.04%	1.63%	1.63%	0.00
Personal income tax	25,873.76	28,519.02	2,645.26	10.22%	2.35%	2.42%	0.07
Other taxes on income, profit and capital gains	3,649.36	3,892.30	242.94	6.66%	0.33%	0.33%	0.00
Property tax	6,799.70	7,553.60	753.90	11.09%	0.62%	0.64%	0.02
Taxes on goods and services	113,119.53	117,354.67	4,235.15	3.74%	10.27%	9.96%	-0.32
VAT	71,717.74	73,450.18	1,732.44	2.42%	6.51%	6.23%	-0.28
Excises	32,374.58	34,493.31	2,118.73	6.54%	2.94%	2.93%	-0.01
Other taxes on goods and services	4,660.17	4,778.90	118.73	2.55%	0.42%	0.41%	-0.02
Taxes on the use of goods, on authorizing the use of goods and on carrying activities	4,367.03	4,632.28	265.25	6.07%	0.40%	0.39%	0.00
Taxes on foreign trade and international transactions (custom duty)	1,246.58	1,355.03	108.45	8.70%	0.11%	0.11%	0.00
Other tax revenue	820.28	870.34	50.06	6.10%	0.07%	0.07%	0.00
Social security contributions	129,757.80	143,737.84	13,980.05	10.77%	11.79%	12.20%	0.41
Nontax revenue	28,597.50	29,935.03	1,337.53	4.68%	2.60%	2.54%	-0.06
Capital revenue	1,037.04	1,097.67	60.63	5.85%	0.09%	0.09%	0.00
Grants	2.58	2.40	-0.18	-6.94%	0.00%	0.00%	0.00
Amounts received from the EU in the account of payments made and prefinancing	1.29	0.92	-0.37	-28.54%	0.00%	0.00%	0.00
Amounts collected in the single account	0.00	0.00	0.00	#DIV/0!	0.00%	0.00%	0.00

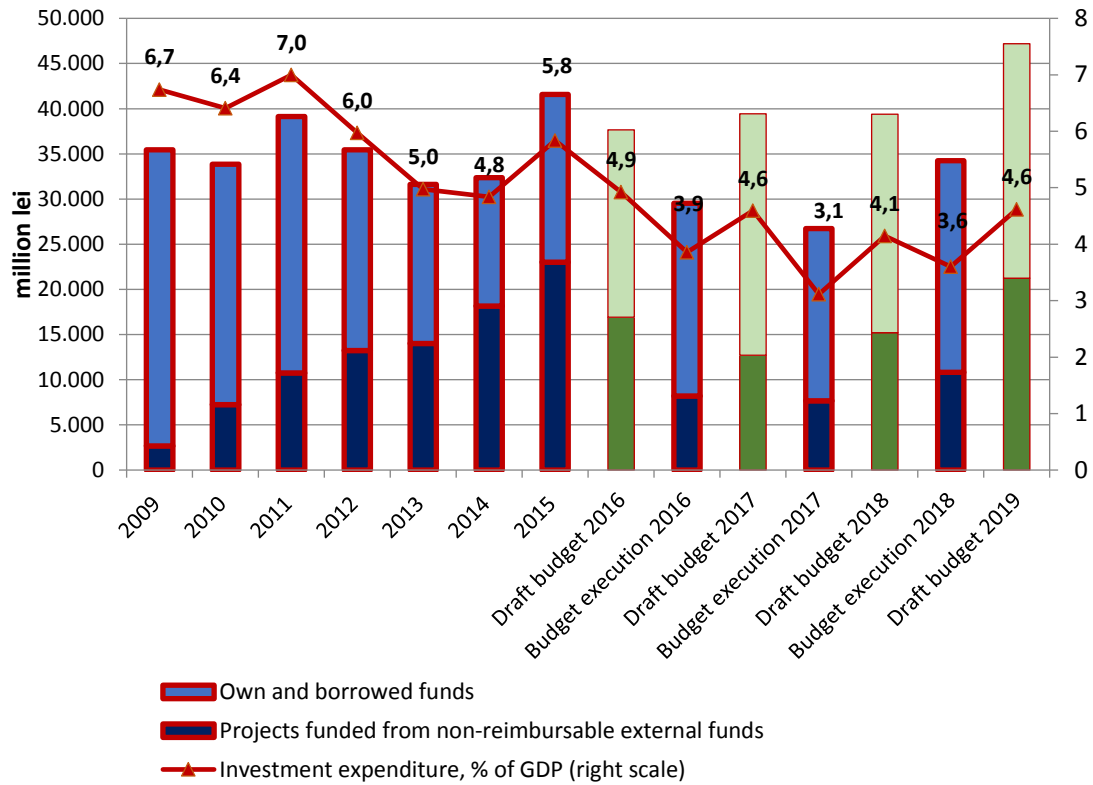
Annex no. 5 – The evolution of the budgetary aggregates in the period 2020–2021	The draft budget 2020	The draft budget 2021	The draft budget 2021-The draft budget 2020 (mil. lei)	The draft budget 2021-The draft budget 2020 (%)	The draft budget 2020 (% of GDP)	The draft budget 2021 (% of GDP)	The draft budget 2021-The draft budget 2020 (% of GDP)
	1	2	3 = 2-1	4 =3/1	5	6	7 = 6-5
Other amounts received from the EU	0.00	0.00	0.00	#DIV/0!	0.00%	0.00%	0.00
Amounts received from the EU/other donors in the account of payments made and prefinancing for the 2014-2020 financial framework	25,932.05	23,290.88	-2,641.17	-10.18%	2.36%	1.98%	-0.38
Total expenditure	377,876.47	397,943.41	20,066.94	5.31%	34.32%	33.76%	-0.56
Current expenditure	356,206.50	372,689.98	16,483.48	4.63%	32.35%	31.62%	-0.73
Personnel	106,587.75	110,387.90	3,800.14	3.57%	9.68%	9.37%	-0.31
Goods and services	47,368.55	54,223.34	6,854.79	14.47%	4.30%	4.60%	0.30
Interest	13,989.16	14,349.59	360.42	2.58%	1.27%	1.22%	-0.05
Subsidies	7,437.91	7,629.53	191.62	2.58%	0.68%	0.65%	-0.03
Total transfers	180,117.39	185,181.93	5,064.54	2.81%	16.36%	15.71%	-0.65
Transfers between public administration entities	2,646.51	2,726.51	80.00	3.02%	0.24%	0.23%	-0.01
Other transfers	16,371.12	16,738.22	367.10	2.24%	1.49%	1.42%	-0.07
Projects funded by external post-accession grants	84.05	56.16	-27.89	-33.18%	0.01%	0.00%	0.00
Social assistance	124,124.03	132,565.90	8,441.87	6.80%	11.27%	11.25%	-0.03
Projects funded by external post-accession grants 2014-2020	30,828.12	26,884.76	-3,943.36	-12.79%	2.80%	2.28%	-0.52
Other expenditure	6,063.55	6,210.37	146.82	2.42%	0.55%	0.53%	-0.02
Reserve funds	100.00	100.00	0.00	0.00%	0.01%	0.01%	0.00
Expenditure Funded from reimbursable funds	605.73	817.70	211.97	34.99%	0.06%	0.07%	0.01
Capital expenditure	21,669.97	25,253.43	3,583.46	16.54%	1.97%	2.14%	0.17
Payments made in previous years and recovered in the current year	0.00	0.00	0.00	0.00%	0.00%	0.00%	0.00
EXCEDENT(+)/DEFICIT(-)	-23,066.56	-21,096.38	1,970.18	-8.54%	-2.10%	-1.79%	0.31

Source: Ministry of Public Finance, Fiscal Council computations

Annex no. 6 – EU Funds	2018 (mil lei)			2019 (mil. lei)			2020 (mil. lei)			2021 (mil. lei)			2022 (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	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	5,185.5	17,796.0	3,096.2	15,073.5	17,264.9	800.0	13,133.9	12,798.1	232.1	10,812.9	12,478.0	232.1	11,416.2	23,558.8	232.1
EU funds expenditure	11,102.2	17,796.0	3,096.2	24,933.0	17,264.9	800.0	22,143.9	12,798.1	232.1	18,767.9	12,478.0	232.1	21,380.4	23,558.8	232.1
National co-financing and ineligible expenses	5,916.6	0.0	0.0	9,859.5	0.0	0.0	9,010.0	0.0	0.0	7,955.0	0.0	0.0	9,964.2	0.0	0.0

Source: Ministry of Public Finance, Fiscal Council computations

Annex no. 7: The evolution of investment expenses between 2009-2019 – planned level vs. execution (million lei)



Source: Ministry of Public Finance, Fiscal Council computations