



**Fiscal Council's Preliminary Opinion
on the State Budget Law for 2024, the Social Security Budget Law for 2024
and the 2024-2026 Fiscal Strategy**

On the evening of December 9, the Ministry of Finance (MF) sent to the Fiscal Council (FC), through address no. 468.605/09.12.2023, *the draft of the 2024-2027 General Consolidated Budget, the Report on the macroeconomic situation for 2024 and its projection for the 2025-2027 period, the draft of the 2024 State Budget Law, the Explanatory note and the draft of the 2024 Social Security Budget Law, the Explanatory note and the draft of the Law for the approval of the ceilings for certain indicators specified in the 2024 fiscal framework and the 2024-2026 Fiscal Strategy*, requesting, based on art. 53, para. (2) of the Fiscal Responsibility Law no. 69/2010 (FRL), republished, the FC's opinion on them.

According to art. 53, para. (4) of the FRL, the Government and the Parliament have the obligation to analyse the opinions and recommendations of the FC when elaborating and approving the fiscal strategy, the annual budget laws, as well as other measures determined by the application of the FRL.

The FC examined the documents submitted on the evening of December 9, in order to formulate an opinion until the next government meeting – scheduled for December 14. The available time for issuing an opinion was short considering that these documents do not cover only the budgetary projections for 2024, but also the trajectory of fiscal-budgetary aggregates in the medium term.

The FC wrote an opinion based on the set of documents received on December 9. In its assessment, the FC cannot take into account hypothetical revenues based on an anticipated increase in collection efficiency/reduction of tax evasion/digitalization of the tax administration. As a result, the FC's evaluation on the first set of documents leads to the conclusion that it is very possible that the 2024 budget deficit will significantly exceed the 2023 deficit, posing major risks to the budgetary consolidation process. The 2023 budget deficit, according to the documents sent by the MF, is 5.9% of GDP in *cash* terms and 6.0% of GDP in ESA2010 terms.

In what concerns the projections for the medium-term fiscal framework, the budgetary consolidation between 2025-2027, as stated in the documents received on December 9, is designed to be carried out exclusively on the expenditure side, the share of public revenues in GDP indicating a downward trend in the analysed period. This strategy raises doubts with regard to achieving the budgetary consolidation targets.

The commitments within the national recovery and resilience plan (NRRP) and the situation of the public budget in Romania imply, on the revenue side, the adoption of several recommendations made by the World Bank, by other international institutions, and by domestic analyses that would lead to an increase in tax revenues, and, on the expenditure side, the adoption of a new law regarding public sector wages. Measures arising from these recommendations are not found in the projections for the 2025-2027 period.

The FC emphasized in its opinions and analyses that macroeconomic adjustment and fiscal consolidation need a significant increase in tax revenues, which are at a very low level in relation to Romania’s needs and compared to EU benchmarks.

In the afternoon of December 13, through address no. 468.791/13.12.2023, the MF sent a new set of documents regarding the 2024 budget draft and the medium-term fiscal strategy which significantly change the trajectories of the budget variables over the entire forecasting horizon, both as a result of some changes in the baseline hypotheses and of a Government Emergency Ordinance¹ about to be approved together with the 2024 budget draft and the 2024-2026 Fiscal Strategy.

Considering the extent and complexity of the changes made to the budget draft and to the 2024-2026 Fiscal Strategy, through the documents sent on December 13, and the Government’s intention to approve the aforementioned documents during a meeting announced for Thursday, December 14, which represents an extremely short time frame for a thorough analysis, **the FC decided to issue a preliminary opinion, being practically impossible to revise the extended opinion in less than one day.**

The FC also emphasizes the need for such important documents to be sent for examination with adequate time in advance. The FC understands the great pressure under which the experts from the MF drew up the 2024 budget draft and the 2024-2026 Fiscal Strategy, but a serious assessment cannot be made in a few days, let alone within less than 24 hours.

In the following days, the FC will analyse the new set of documents and will issue an extended opinion, revising the opinion already made on the data set received on December 9.

The extended opinion will comprise: (i) an assessment of the global and national economic context, (ii) the compliance with the fiscal rules stipulated by the FRL, (iii) an analysis of the macroeconomic framework that underpins the 2024 budget draft and the 2024-2026 Fiscal Strategy, (iv) an analysis of the new fiscal framework, of the 2024 budget draft and of the 2025-2027 perspective, (v) developments in the absorption of European funds and those related to the NRRP. To these will be added (vi) details regarding the carrying out of spending reviews by the MF and other ministries in Romania, (vii) considerations on the VAT gap, including international comparisons, (viii) a summary of the fiscal reform proposals recommended by international financial institutions and (ix) aspects regarding the labour market in Romania.

¹ Entitled “Emergency Ordinance regarding some fiscal and budgetary measures on the public expenditures side, for fiscal consolidation, to fight against fiscal evasion, for the modification and completion of some normative acts, as well as for the extension of some deadlines”.

This preliminary opinion of the Fiscal Council was approved by the Chairman of the Fiscal Council, according to the provisions of art. 56, para (2), letter d) of Law no. 69/2010, republished, following its endorsement by the members of the Council, through vote, during the meeting held on December 14, 2023.

December 14, 2023

Chairman of the Fiscal Council

Professor Daniel DĂIANU