

## **Fiscal Council's Opinion on the State Budget Law, the Social Insurance Budget Law for 2017 and the Fiscal Strategy for 2017-2019**

On 23 January, 2017, the Fiscal Council (FC) received from the Ministry of Public Finance (MPF) the letter no. 5408, dated 21 January 2017, requesting, under art. 53, paragraph (2) of the Fiscal Responsibility Law (FRL) no. 69/2010 republished, the opinions on the Budget Law draft for 2017, the Report on the macroeconomic situation for 2017 and the projections for the years 2018-2020, the draft of the Social Insurance Budget Law for 2017 and the corresponding explanatory note, and also the Fiscal Strategy (FS) for 2017-2019, the explanatory note and the associated ceilings law of certain indicators specified in the fiscal framework for 2017. But, the complete set of documents necessary for the elaboration of the Fiscal Council's opinion and the updated budgetary projection, was received by our institution on the morning of January 27, 2017.

Given the objective time constraints determined by the Government's intention to approve the above documents at the meeting scheduled for January 27<sup>th</sup>, the Fiscal Council has decided to elaborate a preliminary opinion, containing some general considerations arising from a quick analysis that partially covered the set of information put at its disposal, the preliminary opinion being notified to the authorities on the same day. However, the FC has publicly announced that it will return during the week January 30<sup>th</sup> to February 3<sup>rd</sup> with a complete opinion.

### ***Preamble***

The draft budget for 2017 targets a deficit in cash terms of 2.96%, enlarged from a 2.4% of GDP deficit recorded at the end of 2016, accommodating the impact of further cuts of taxation enacted in the context of the changes introduced by the Fiscal Code in 2015, of some reductions of newly introduced taxes as well as some increases of social and personnel expenditures<sup>1</sup>.

Framing in the deficit limit of 3% of GDP is planned to be achieved through the introduction of compensatory measures such as the elimination of capping the tax base related to social contributions, extending measures of taxation of the energy sector and a temporary increase in the percentage distributed as dividends from the profit of state-owned companies<sup>2</sup>, combined with a quasi-nominal freezing of the goods and services expenditures and by a macroeconomic scenario substantially more favorable than the one envisaged in the autumn forecast of the National Commission for Economic Forecasting (NCEF).

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<sup>1</sup> Annex 1 presents the list of discretionary measures incorporated into the draft budget.

<sup>2</sup> MPF estimated additional income from dividends of state owned companies of 865 mil. lei.

In the context of its opinion on the budget construction of the previous year and the projection for the medium term, the Fiscal Council noticed the abandonment of the idea of a fiscal framework based on rules, given that it was expected a persistent and difficult to correct deviation from the balanced budget rule held as an objective by FRL and by the European treaties of which Romania is a signatory (in this case the Stability and Growth Pact and the so-called Fiscal Compact) as a result of concomitant enactment of some tax cuts and some increases in expenditures, both being permanent. The budget construction for the current year and its medium-term projection strengthen the validity of the assertions made earlier by the Fiscal Council. The major deviation from the so-called medium-term objective of 1% of GDP in structural terms, already produced in the context of the budget execution for the year 2016, is expected to persist throughout the projection horizon covered by the medium term framework (2017-2020) and the beginning of a convergence trajectory towards it is delayed until 2019. The explanatory note of the Law on approving ceilings for some certain indicators specified in the fiscal framework for 2017 records exemptions from art. 6 and 7 of FRL, which formalize in the national legislation the link with the Treaty of the European Union in terms of reference values for the budget deficit and public debt, as well as exemptions from art. 14 para. 1 and art. 26 para. 3 of FRL, which implies the abdication from the commitment which refers to correcting the deviation, once emerged, from the medium-term budgetary objective.

The concern about the objective of a balanced budgetary position as defined by FRL and European treaties is replaced (in the medium term) by the avoidance of ceiling overruns of 3% of GDP for the headline deficit (according to ESA 2010) stipulated by the corrective arm of the Stability and Growth Pact, persistent levels of deficit placed in their immediate vicinity of this level being by default considered benign. The Fiscal Council objections, actually formulated in the past, regarding this approach, mainly refer to the prudence principle stated by FRL, in the idea of desirability of a countercyclical fiscal policy conduct and to avoid the deterioration of Romania's public finances position:

- A 3% deficit is not at all a "target", but rather a maximum level that is allowed only under cyclical effects of deep recession, which obviously is not at all the case now in Romania.
- Avoiding the outrun of the deficit ceiling of 3% of GDP is possible in the conditions of a large upward revision of the NCEF projection for economic growth both in 2017 and over the medium term, compared to its previous assessments (on average by one percentage point on the period 2017-2019, an acceleration of the economic growth from 4.8% in 2016 to 5.2% in 2017, continuing to 5.7% in 2019 being expected).
  - The NCEF autumn projections were already significantly above the assessments of other institutions (e.g. European Commission anticipated in

its autumn projection, growth rates of 3.9% and 3.6% in 2017 and 2018), and the current revision of the forecast, even though justified in the sense of the additional fiscal stimulus newly legislated, remains difficult to be reconciled with their lower size compared to those that prevailed in 2016. Also, the extremely favorable macroeconomic projection over the medium term makes the balance of risks to be exclusively tilted in the sense of registering growth rates lower than those forecasted (NCEF's scenario for economic growth significantly exceeds alternative forecasts<sup>3</sup>), which, in the absence of a fiscal space compared to the reference value of 3% of GDP, makes likely the need for additional measures of fiscal policy in order to allow the control of the deficit (in the event of a materialization of a less favorable macroeconomic scenario than expected).

- Also, the Fiscal Council has reservations regarding the internal consistency of the macroeconomic scenario review operated by NCEF in the light of the evolution of domestic absorption components. Thus, we find it difficult to reconcile the operated upward revisions for the growth of household consumption (average upward revision of 1.3 pp. between 2017 and 2019) and of gross fixed capital formation (average upward revision of 0.6 pp.) with the fact that the growth pace for imports remains virtually unchanged compared to the autumn forecast of NCEF. In their current form, the revisions operated by NCEF suggest that the extra domestic absorption should be fully covered from domestic production, without generating an acceleration in imports, an unlikely evolution that is enough to justify reserves on both the forecasted economic growth trajectory and the size of the substantial acceleration projected to occur in the number of employees in the economy (from growth rates of 2.8%, 2.6% and 2.5% in 2017, 2018 and 2019 in the autumn forecast, to growth rates of 4.3%, 4.2% and 4.3% in the current forecast).
- NCEF also operates a massive upward revision of potential growth between 2017-2019 - compared to its autumn projection, when potential GDP growth was regarded to be accelerated from 4% in 2016 to 4.3-4.4% in the period 2017-2019. The macroeconomic projection that underlies the draft budget envisages accelerations of growth rate of potential GDP from 4.6% in 2017, 5.1% in 2018 and 5.4% in 2019, so in the NCEF assessing, the closing of the aggregate demand deficit occurs in 2018. The Fiscal Council considers as extremely optimistic such a trajectory of potential GDP, very surprising being the fact that the upward revision of the assessments on

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<sup>3</sup> Bloomberg survey indicates a median of expectations for economic growth in 2017 of 3.5%, with a minimum of 2.2% and a maximum of 4.2%.

potential GDP growth rate (averaging 0.8 pp. in addition to the growth rate between 2017 and 2019) appears as quasi-equivalent in magnitude with the forecast revisions in terms of real economic growth (1 pp. on average), given the relatively low magnitude revisions for the projections regarding the dynamics of gross fixed capital formation (0.6 percentage points on average between 2017 and 2019). We are extremely skeptical that differences between forecast horizons and newly announced fiscal measures (found mainly in social assistance expenses, personnel expenses in the public system and the taxation of pensions) are capable of justifying such steep differences compared to assessments of potential GDP growth dynamics by the European Commission (in contrast to NCEF's assessments, the European Commission projections indicate a potential GDP growth acceleration from 3.4% in 2016 to 3.76% in 2018). Moreover, an optimistic assessment by the NCEF on potential GDP growth, not confirmed by the European Commission's evaluations directly leads to underestimating the structural deficit and the necessary fiscal consolidation to restore a gradual compliance with the budgetary target in the medium term, given the obligations set for Romania in the European regulations.

- Framing the budget deficit at the ceiling of 3% of GDP while the economy is in the upward phase of the business cycle is far from being a benign situation. This situation corresponds to a pro cyclical fiscal policy, which presses the accelerator in the expansion phase of the economic cycle (when the economy would grow anyway with high rates) and which is unable to stimulate it – because of the lack of fiscal space - in the event (inevitable) of a reverse of the economic cycle (in the future), even creating the prerequisites for adopting structural adjustment measures in an economic slowdown (a situation which Romania experienced, in fact, not long ago). Moreover, the recent literature<sup>4</sup> identifies higher levels of fiscal multipliers in the recession phase and low values during the expansion phase, which means that the benefits in terms of additional economic growth in the short term as a result of a pro-cyclical fiscal easing are outweighed by the costs that an inevitable fiscal consolidation could generate in the downward phase of the economic cycle.
- Government assessments indicate a ratio of public debt / GDP relatively constant at the level of 37.7% in the period 2017-2019, a possible phenomenon in the conditions of deficits located close to the level of 3%, only due to the extremely favorable assumptions on economic growth during this period. Beyond the doubts about the materialization of economic growth scenario that was taken into account, the Fiscal Council believes that maintaining or entering on an even moderate growth path of public debt / GDP ratio in the context of a period of high economic growth, conceals

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<sup>4</sup> Auerbach, A. and Y. Gorodnichenko, "Fiscal Multipliers in Recession and Expansion", NBER Working Paper 17447, September 2011.

the accumulation of vulnerabilities that will become apparent in an (inevitable) future downward phase of the economic cycle. Moreover, the sense of security induced by the significant distance towards the ceiling of 60% of GDP (the Maastricht criteria) should be tempered. Arguments in this regard are linked on one hand on the fact that a recession may cause episodes of extremely rapid growth of public debt to GDP ratio (recent experiences of Spain, Finland or Croatia are illustrative). On the other hand, an additional constraint is related to the relatively high level of the public debt compared to the dimension of the domestic financial sector and its most likely limited ability to absorb an additional stock of public debt at the current level of financial intermediation, given that the share of exposure to the government sector in the total assets of local banks, the main holder of the domestic public debt, is among the highest in the EU. The corollary of this situation is most likely a high dependence on non-resident investors, which is associated with a rising vulnerability to interest shocks and changes in risk appetite in global financial markets and to any change in the sovereign rating. The current climate of global financial markets, still characterized by the abundance of liquidity, conceals for the moment these vulnerabilities, but a deterioration of liquidity conditions can occur quickly, especially given the increases expected in the interest rate of the US central bank (FED) in the current complicated global context.

#### ***Budgetary revenues and expenditures in the 2017 budget draft***

The draft budget anticipates total revenues of 254.72 billion lei (31.2% of GDP) and estimates total expenditures of 278.82 billion lei (34.2% of GDP), both in a significant increase compared with the levels in the execution of the previous year, by 223.72 billion lei (29.5% of GDP), respectively 242.02 billion lei (31.9% of GDP). The dynamics of the amounts received from the EU in the account of payments made (which can be found on both the revenue and the expenditure side of the budget) is the component that largely explains the increases above, given that this component is designed to increase from a level of 6.9 billion lei in 2016 (0.9% of GDP) to 22.26 billion lei in the draft budget (2.7% of GDP). By adjusting the budget revenue and expenditure for the influence of this component, the budget revenues expressed as a percentage of GDP would record a marginal increase (from 28.5% to 28.6% of GDP), while budget expenditures would increase from 31% GDP at the end of 2016 to 31.5% of GDP in the draft budget. Moreover, the evolution of the revenues and expenditures aggregates net of influence of EU funds remains influenced by the presence, both at the level of the budget execution for 2016, and for the 2017 projection, of the compensation schemes to settle outstanding budgetary obligations (so-called swaps), amounting 750 million lei in 2016 and 1,593 million lei in 2017. By further adjusting for their influence, budgetary revenues expressed

as a percentage of GDP would be virtually identical to those in 2016 (28.5% of GDP), while the expenditure to GDP ratio would increase by 0.4 pp.

### ***Budgetary revenues***

The Fiscal Council's analysis reveals that the MPF's projection of tax revenues and social contributions is evolving basically in line with the macroeconomic scenario of the NCEF underlying the draft budget, but the parallel evaluation of the Fiscal Council, made also from the NCEF's updated macroeconomic framework indicates potentially lower revenue by about 1 billion lei. The biggest difference (-395 million lei) is appears in revenues from excise duties, however, we have to mention that the Fiscal Council considers its disappearance as possible, to the extent that less favorable developments in terms of receipts from excise duties for fuels at the end of 2016 are due to postponement of consumption as a result of the anticipation of excise of 7 cent elimination from January 1st 2017.

Regarding the impact of newly introduced fiscal measures, the Fiscal Council assessments do not differ significantly from those of MPF's except the impact of eliminating the capping of five national average salaries for the tax base related to contributions to the public pension system. MPF's assessment indicates extra revenue of 1,057.1 million lei, having as sources 493 million lei additionally collected from the individual contribution to the pension scheme, generating additional transfers to the Pillar 2 of the pension system of 177 million lei (negative influence) and 741 million lei from eliminating the capping for the tax base related to contributions payable by the employer. The Fiscal Council's assessment indicates an amount close to that indicated by the MPF in terms of revenues related to the pension contributions payable by employees (+373 million lei, after taking into account the net impact of additional transfers to Pillar 2), but considers as less likely to materialize a significant impact as having source the elimination of the capping the tax base related to contributions payable by the employer because the cap was acting at the level of the wage bill; thus, the impact of the legislative change would occur only in case of companies where the average wage at the company level would exceed the amount of five national average salaries, a situation which we regard as unlikely. Despite this difference, the Fiscal Council's calculations does not identify a significant difference in the level of projected revenues from social contributions, indicating perhaps that the MPF uses assumptions more conservative regarding the ratio of social contributions payable and receivable, a cautious approach in the light of historical developments.

Regarding the impact of the measure modifying the regime of microenterprises (changing the annual turnover ceiling to 500,000 EUR from 100,000 EUR and the standardization of the tax rate of 1% on turnover), MPF's evaluation indicates a negative impact of 429 million lei at the level of income tax and capital gains tax from juridical entities, while the Fiscal Council estimates (see Annex 8) indicates a potential loss of revenue of 662 million lei. We appreciate, however, that the difference in the estimated impact appears relatively minor in relation to the

uncertainty about the behavior of firms regarding declaring themselves as paying the profit tax or the income tax for microenterprises.

The central issue in the assessment of the budget revenue projection remains the validity of the extremely favorable macroeconomic scenario used to substantiate it. In the preamble to current opinion, the Fiscal Council appreciated the character of extreme value of the growth forecast level for 2017 and estimated that the balance of risks is tilted to the materialization of a macroeconomic scenario less favorable than that advanced by the NCEF, especially in the context of the inconsistencies identified in the review of macroeconomic framework compared to the autumn forecast. Even if the Fiscal Council is unable or does not have the responsibility to offer a complete macroeconomic alternative forecast, considers as illustrative, in the view of an assessment of the size of potential losses of revenue which would occur if the favorable parameters of macroeconomic scenario taken into account for the budget construction fail to materialize, the revenue aggregates forecast being based on the macroeconomic parameters that prevailed in the autumn forecast of the NCEF. The forecast takes into account the first-round impact at the level of revenues of the new fiscal policy measures enacted. The forecast (see Annex 2) reveals lower budget revenues by about 4.5 billion lei than the MPF's ones based on the NCEF's updated projection. The Fiscal Council considers a reasonable event the materialization of a macroeconomic scenario whose parameters lie between those of the autumn forecast and those of the updated forecast of NCEF and the indicative amount of the budget revenues associated with this scenario (located halfway between the two forecast versions of NCEF) would be lower by about 2.7 billion lei compared to the current projection of the MPF.

The draft budget foresees a massive acceleration in respect of the amounts received from the EU in the account of payments made, whose amount is set to increase from 6.86 billion lei in 2016 to 22.2 billion lei in 2017. But the size of the increase is largely due to the inclusion in the general consolidated budget of the amounts of direct payments in agriculture from the European Agricultural Guarantee Fund (EAGF), amounting to 8.1 billion lei, as well as those related to payments to European Agricultural Fund for Rural Development amounting 4.1 billion lei, whose ultimate beneficiary is the private sector, with a virtually identical impact on the revenue and expenditure side. It has to be mentioned that the figures related to the budget execution in 2016 include such payments for farmers, amounting to about 3 billion lei (of which 2.2 billion lei EAGF subsidies). Including these amounts makes the size of this revenue aggregate not being comparable to historical developments related to the previous financial year (2007-2013). It should also be noted that, according to ESA 2010 methodology, this amounts, whose beneficiary is the private sector will not be included in the government sector. The relevant amounts from the EU related to the general consolidated budget according to ESA 2010 (and comparable with historical developments) would therefore be about 10 billion lei,

increasing by about 6 billion lei compared to equivalent amounts related to the budget execution of 2016.

### ***Budgetary expenditure***

The Fiscal Council has doubts regarding the budgeted levels of expenditures for social assistance, interest and other transfers, which we consider as being probably undersized in the absence of an indication by the MFP of some specific measures to justify their level:

- *Social assistance*: potential under dimension of at least 2 billion.
  - a. Expenditures for social security state budget are forecasted to increase by 8.7%, while the average value of the pension point in 2017 (for 958.8 lei, corresponding to some levels of 917.5 lei in January-July 2017 respectively 1,000 lei in the period July-December 2017) implies an increase of about 10% compared with the pension point value for 2016 (871.7 million). Assuming a relatively constant number of pensioners in the social security system, we believe that these expenditures are probably undersized by about 680 mil. lei.
  - b. Social assistance spending related to the state budget is estimated to grow in nominal terms by 1,285 mil. lei compared to the 2016 level. We consider that the proposed level is severely underestimated, given that the execution of the previous year reveals an increasing trend of flows of the quarterly spending (in fact, both budget amendments in 2016 supplemented significantly this expenditure aggregate) and extrapolating on annual basis the flow of expenses related to the second half of the previous year (24,307.8 million. lei, corresponding to a flow of 12,153.9 million lei in the second half of 2016) would already produce annual expenditure about equal to the proposed amount in the draft budget (24.472 2 mil. lei). Given that the amount proposed for 2017 should contain the additional impact of increasing the minimum guaranteed social pension (+1,200 million lei) and the impact of increasing the military pensions by 5.25% from 1st January, 2017 (+255 million lei according to the calculations of the Fiscal Council), there is sufficient reason for considering this expenditure aggregate's projection undersized by about 1,300 to 1,400 million lei.
- *Interest spending* : potential underestimation of about 500 million lei
  - a. In his opinions from the previous years, the Fiscal Council usually noticed the apparent oversizing of this aggregate in the construction of the initial budget, as the execution regularly revealed further savings for this chapter. In contrast, we consider the current draft budget, indicating an increase in interest expenses by only 180 million lei compared with the execution of the previous year, is potential undersized, in the context of a widening budget deficit and a reduced probability for a further decrease in the financing costs compared to previous



years, especially given that the FED's interest rate growths have already triggered widespread increases in long-term yields of the sovereign bonds in global financial markets. The execution for the year 2016 indicated an increase in interest expenses compared to 2015 by about 435 million lei (4.5%). For the reasons stated above, we consider as prudent to estimate an increase in interest expenses higher than that recorded in the previous year and, accordingly we consider as credible the materialization of higher interest expenses by about 500 million lei compared to the budgeted level. A framing in the current budgetary envelope is likely to remain still possible under an orientation towards increasing financing for short term maturities or using the liquidity buffer of the Treasury, but such an approach would cause additional risks in terms of resilience to external shocks, related to the liquidity of financial markets or to investors' risk aversion, which is likely to grow in a complicated international context.

- *Other transfers*: potential under budgeted by about 1,500 million lei
  - a. The Fiscal Council's reserves are related to the projection for the Romanian's due contribution to the EU budget (see Appendix 2 of the draft budget, p. 19). Thus, the draft budget advances a value of 5.55 billion lei for this aggregate of expenditure, while the amount of spent in the previous year was 6.65 billion lei (which, in turn, was higher compared to that of the execution from 2015 of 6.4 billion lei). The due contribution to the EU budget is established according to the gross national income level, and therefore we expect it to be on an upward trend, as it is also revealed by the historical data. We consider that the amount advanced for the this indicator in the first version of the draft general consolidated budget submitted to the Fiscal Council, of 7.05 billion lei, is most likely to materialize. Compared to the latter, the level of expenditure from the current projected budget appears as undersized by 1.5 billion lei.

Personnel spending are estimated to increase compared with the execution of 2016 by about 6.8 billion lei (from 7.5% to 7.8% of GDP); by adjusting with the compensatory payments made in 2016 (about 1 billion lei) and those established for 2017 (probably about 200 million lei), the nominal increase would be of 7.6 billion lei. The Fiscal Council's calculations indicate that the budgeted amount appears as sufficient to cover the impact of wage increases already enacted for 2017 (described in Appendix 1). But the Fiscal Strategy 2017-2019, announces at pages 66-67, additional wage increases in the education and research sector (20%) and for actors (50%), even making reference to a 20% increase of the average salary in the public sector (which presumably includes the above mentioned measures) from July 1, 2017 (page 66); the Fiscal Council considers that the draft budget does not allocate in its current form the needed budgetary resources for those additional measures.

The amount of goods and services spending is projected in contraction in nominal terms compared to the level in 2016 (-318 million lei). Even if the development of this budgetary aggregate as a percentage of GDP represented a permanent source of fiscal consolidation between 2014-2016 (from 6% of GDP in 2013 to 5.4% of GDP in 2016), there has never been an episode of contraction of the nominal spending, even while reducing the standard VAT rate in 2016. The Fiscal Council anticipates that maintaining this indicator in the initial budgetary envelope during the budget execution, although possible, will probably prove to be difficult.

The investment spending are expected to massively increase in 2017 relative to the execution of 2016 (+9.9 billion lei). The expansion is located in the highest proportion in the capital spending (+6.2 billion lei), which occurs mainly for the Ministry of Defense with an increase of the capital spending compared with the 2016 execution (by +5.4 billion lei), but also an increase in co-financing costs included in this aggregate in the context of the projected increase in the absorption of EU funds, major increases occurring also in terms of expenses related to EU-funded projects (+4.5 billion lei). In contrast, the transfers of the nature of investments are expected to be reduced by about 800 million lei. However, the historical budgetary executions recorded constantly deviations of considerable amounts from the initial budgeted amounts or at the budget amendments in the sense of capital expenditure lower than allocations (see Appendix 9), and a similar trend cannot be excluded for 2017 even if the assumption of improving the absorption of structural and cohesion funds (from 3 billion to 10 billion lei) appears not necessarily unfeasible - but historical data shows that the initial estimates for absorption were never materialized at the estimated levels.

### **The Fiscal Strategy 2017-2019**

Regarding the Fiscal Strategy 2017-2019, the government attention is again exclusively concentrated on the current year, while not giving the same attention to the medium-term budget projections. In almost all fiscal strategies that the Fiscal Council has received over the years (since 2010), there was the temptation to generate with an extremely high easiness fiscal consolidation in the medium term, without a rigorous estimation for the budgetary revenue and expenditure and without providing an assessment of the impact of the envisaged discretionary measures. The current strategy indicates a quasi-stable structural deficit in 2018 (up from 2.91% in 2017 to 2.97% of GDP), followed by a reduction by 0.3 pp. in 2019. Thus, even accepting an extremely favorable assessments of NCEF regarding the potential GDP growth (Fiscal Council expressed skepticism about them in the preamble of this opinion) at the end of the horizon covered by the strategy would remain a deviation of 1.7 pp. compared to the level of 1% in terms of structural deficit of the medium term objective consistent with FRL perspective of a balanced budget. Given the considerable differences between the trajectories of the potential GDP forecasted by NCEF and the European Commission, registering a higher

deviation from the medium term objective at the end of the forecasted period appears as probable.

Regarding the revenue projections for the year 2018, the Fiscal Council considers that they appear rather consistent with a scenario of unchanged fiscal policies, excluding the aggregates personal income tax and social contributions that seem to accommodate, in the first case, the reduction of taxation on pensions higher than 2,000 lei to 10% (from 16% in 2017), while in the second case, the increase of the transfers to Pillar 2 of the pension system in order to achieve the target of 6% provided in the law (in 2017, the transfers remained at the previous year's level of 5.1%). The estimates of the budget expenditures include significant increases for social assistance spending (+9.3 billion lei) in order to accommodate the propagated effect of the pension point indexation to 1.000 lei in the mid-year and the increase to 1,100 lei from July 2018 and the increase in minimum social pension to 640 lei starting 1 January 2018 (from 520 lei). Personnel spending are projected to increase by 3.3 billion lei (corresponding to a nominal growth of 5.2%), but the budgeted amount appears insufficient compared to the target of 20% increase in public sector wages from July 1, 2018 announced the Fiscal Strategy (page 66). Maintaining the deficit below 3% of GDP in 2018 is designed under a sharp reduction in capital expenditure (by 6.5 billion lei compared with 2017), while the capital expenditure allocations to the Ministry of Defense decrease from 7.4 billion lei in 2017 to 3.4 billion lei in 2018 despite an increase in co-financing costs (but capital expenditure allocations to the Ministry of Defense are expected to return to higher values starting 2019). However, the public investment spending is expected to continue to grow rapidly (+8 billion lei) due to the substantial acceleration of the amounts of structural and cohesion funds attracted, the expenses related to European funds indicating higher amounts of structural and cohesion funds compared to the peak year 2015 in terms of absorption of EU funds for the previous financial year.

The Fiscal Council considers that, given the reservations expressed relative to the optimistic macroeconomic scenario for 2017 and on the medium term that impact the trajectories of budget revenues, to which is added the apparent undersized budget expenditure for 2017, shows a balance of risks tilted mainly in the direction of recording higher budget deficits than projected according to the Fiscal Strategy, under the assumption of unchanged fiscal policies.

### ***Conclusion***

The draft budget for 2017, as well as that one of the previous year, deviates deliberately and substantially from the fiscal rules imposed by both national laws and European treaties signed by Romania. The Fiscal Council maintains its objections to the approach of persistent placing the budget deficit in the immediate vicinity of the reference level of 3% of GDP that is considered to be benign, appreciating that this is likely to lead to vulnerabilities of the public

finances' position, significantly complicating the response in the event of adverse shocks, keeping the fiscal policy in the trap of a pro-cyclical behavior .

The Fiscal Council's assessments indicate a high probability for the manifestation of a negative revenue gap in 2017, determined by the highly optimistic macroeconomic scenario underlying the budgetary projections. Moreover, the Fiscal Council identifies a potential significant underestimation of budgetary aggregates of non-discretionary nature and, therefore, considers as likely the need to adopt corrective measures targeting revenues or expenses in order to avoid exceeding the threshold of 3% of GDP during the budgetary execution of 2017.

The budgetary slippage recorded since 2016 and which is predicted to continue in the coming years is caused by a mix of aggressive tax cuts, particularly on consumption, combined with huge increases in government expenditure, particularly in the social spending area. The estimates indicate that Romania, since 2016, has probably, by far the lowest fiscal revenues (including social security contributions) in the EU (along with Ireland), which will greatly complicate the construction of the medium-term budget. The gap between Romania and the EU28 average for fiscal revenues is about 14 pp. of GDP. In these circumstances, the Fiscal Council recommends that the government should accelerate the structural reform measures impacting the revenue collection rate and the efficiency of public spending. In this regard, the Fiscal Council believes that speeding up the implementation of the program on the modernization of the revenue administration system signed with the World Bank in 2013 by Romania should be an immediate priority. Also, the rapid operationalization of the process of prioritizing public investments and the real reform of the public administration, designed to set the functioning of the state on the basis of performance management at various levels, could generate significant efficiency gains at the level of public spending.

The above opinions and recommendations of the Fiscal Council were approved by the Chairman of the Fiscal Council, according to article 56, paragraph (2), letter d) of Law no. 69/2010, republished, after being approved by the Council members through vote, on 3rd of February, 2017.

**3 February 2017**

**Chairman of the Fiscal Council,  
IONUȚ DUMITRU**

## Annexes

### Annex no. 1: Fiscal policy measures and impact according to MPF

Fiscal policy measures - budgetary revenues	Budgetary Impact (million lei)	Revenue category
<b>Total</b>	<b>-7,176.8</b>	
Exemption of personal income tax on pensions below 2,000 lei	-1,200.0	Personal income tax
Changing the taxation on real estate transfers from the personal property	-300.0	Personal income tax
Romanian legal persons paying income tax which on December 31, 2016 have incomes below 500,000 euro are required to pay income tax from 1 February 2017. The tax rates: 1% for firms that have one or more employees; 3% for firms that have zero employees*	-429.0	Other taxes on profits, income and capital gains from legal persons
Eliminating special tax on constructions since January 1st, 2017	-1,000.0	Fees and taxes on property
Reducing the standard VAT rate from 20% to 19% since 1 January 2017	-2,200.0	Value added tax
Elimination of excise duty of 7 cents and increased excises from 430.71 lei / 1,000 cigarettes in 2016 to 435.58 lei / 1,000 cigarettes in 2017	-2,886.0	Excise
Prolongation G.D. no. 5/2013 - Tax monopoly in the electricity and natural gas	152.5	Other taxes on goods and services
Prolongation G.D. no. 5/2013 - Tax on income from natural resources, other than natural gas (G.D. no. 6/2013)	58.7	Other taxes on goods and services
Prolongation G.D. no. 5/2013 - Additional income tax resulting from the deregulation of prices of natural gas (G.D. no. 7/2013)	708.6	Other taxes on goods and services
Elimination of health contribution payment for pensioners	-900.0	Social contributions
Eliminating the capping of 5 gross average salaries for the calculation of individual social security contribution and for the social insurance contributions payable by employers or persons assimilated, for the income from wages or salaries **	1,100.0	Social contributions
Eliminating 104 non-fiscal taxes	-281.6	Non-fiscal taxes

<i>state budget</i>	-146.0	Non-fiscal taxes
<i>local budget</i>	-135.6	Non-fiscal taxes

Source: Ministry of Public Finance

\* In the case of introduction of the tax rate of 1% of income for microenterprises with one or more employees and of changing from February 1st, the threshold at which a firm is considered microenterprise from 100,000 euros to 500,000 euros, the Fiscal Council has a different estimate or impact of -662.1 million. lei, which is detailed in Appendix 8.

\*\*In the case of elimination the cap of 5 average gross salaries of the social contribution's tax base, the Fiscal Council estimate differs significantly from the MPF, the plus of income being estimated at 372.8 million lei by the Fiscal Council, less by about 727 million lei compared to MPF's projection.

Fiscal policy measures - budgetary spending	Budgetary Impact (million lei)	Spending category
<b>Total</b>	<b>-10,474.2</b>	
The increase of the pension point to 917.5 lei to 1,000 lei from July 1 <sup>st</sup> , 2017	-2,502	Social assistance
The increase of the minimum guaranteed social pension from 400 lei to 520 lei starting with March 1 <sup>st</sup> , 2017	-1,200	Social assistance
Free transportation to all categories of domestic rail trains, the class II, for students enrolled at higher education institutions (day courses)	-75	Social assistance
Establishing the amount allocated to the fund for scholarships and social protection of students to the value of 201 lei / month during teaching activities (for day classes, without tuition fees)	-285	Social assistance
20% increase of the gross salaries and bonuses for personnel from local administration, starting February 1 <sup>st</sup> 2017	-1,478	Personnel spending
50% increase of the gross wage and bonuses for personnel enrolled in public institutions of performances or concerts, starting February 1 <sup>st</sup> 2017	-84	Personnel spending
15% increase of the gross wages and bonuses for the personnel in the health sector, social assistance system and education system and a 25% increase in the basic salary for the staff of the House of Health Insurance, increase the remunerations for the staff of the Directorates of Public Health and County's Health Houses at the level of 85% of the wages of National Health Insurance House and similar employment rights to the Inspectorate for Emergency Situations for the staff of the Romanian Agency for Saving Life at Sea starting January 1 <sup>st</sup> 2017 (GEO 20/2016).	-4,850.2	Personnel spending

Source: Ministry of Public Finance

**Annex no. 2: Revenue projection based on the Autumn macroeconomic framework published by NCEF in November 2016**

Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF in autumn 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with autumn macroeconomic framework and revenues in 2017 budget draft
<b>TOTAL REVENUE</b>	<b>223,721.8</b>	<b>1,593</b>	<b>-5,479.8</b>			<b>250,211.5</b>	<b>254,716.5</b>	<b>-4,505.0</b>
<b>Current revenue</b>	215,618.8	1,593	-5,479.8			227,146.1	231,618.1	-4,472.1
<b>Tax revenue</b>	136,406.1	1,593	-5,479.8			139,140.2	142,836.0	-3,695.8
<b>Corporate income tax</b>	16,398.0		-662.1	(The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF)*(1+Δ% macroeconomic base *1.75 elasticity) to which are added fiscal policy measures	Nominal GDP (+6.5%)	17,513.9	18,055.3	-541.5
<b>Personal income tax</b>	28,383.6					29,574.8	30,782.0	-1,207.2
<b>Wages and income tax</b>	27,756.4		-1,373.3	The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF corrected with fiscal measures and extrapolated with the number of employees and the dynamic of earnings	The average number of employees (+2.8%) Average gross earnings (+6.4%)	28,907.2	30,108.2	-1,201.0
<b>Other taxes on income, profit and capital gains</b>	627.219			The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF)*(1+Δ%the relevant macroeconomic growth)	Nominal GDP (+6.5%)	667.7	673.9	-6.2
<b>Property tax</b>	5,898.1		-1,000.0	According to MPF projection		5,161.1	5,161.1	0.0
<b>Taxes on goods and services</b>	84,127.1	1,593				85,251.9	87,068.8	-1,816.9

Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF in autumn 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with autumn macroeconomic framework and revenues in 2017 budget draft
VAT	51,675.1	1,593	-3,241.0	The starting point of extrapolation is represented by the <b>amount from the preliminary execution, excluding swap schemes effect that was extrapolated with the relevant macroeconomic base and then adjusted with fiscal policy measures</b>	Household's final consumption expenditure (+7%)	53,319.7	54,142.3	-822.6
Excises	26,957.0		-2,886.0	(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base plus the impact of the fiscal policy measures	Household's final consumption expenditure in real terms (+5.4%)	25,326.8	26,051.3	-724.5
Other taxes on goods and services	2,250.3		919.8		Household's final consumption expenditure (+7%)	3,326.9	3,385.6	-58.7
Taxes on using goods. authorizing the use of goods or on carrying activities	3,244.6			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base	Real GDP (+4.3%)	3,278.5	3,489.6	-211.1
Tax on foreign trade	882.7			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base	Imports of goods and services (+3.3%)	894.3	951.3	-57.0
Other tax revenue	716.7			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base	Nominal GDP (+6.5%)	744.2	817.6	-73.3



Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF in autumn 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with autumn macroeconomic framework and revenues in 2017 budget draft
Social security contributions	61,274.4		2,762.8	(The starting point of extrapolation is represented by the amount from the preliminary execution excluding swap schemes effect minus the impact of pensions contributions from court decisions in 2016 of 434 million lei)* The growth of macroeconomic base plus fiscal policy measures	The number of employees (+2.8%) Average gross earnings (+6.4%)	68,982.1	69,758.4	-776.3
Non-tax revenue	17,938.3			According to MPF projection		19,023.7	19,023.7	0.0
Capital revenue	769.4			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* Consumer price index	The average rate of inflation forecasted for 2017 (1.9%)	784.0	817.0	-33.0
Grants	1.6			According to MPF projection		19.7	19.7	0.0
Amounts received from the EU in the account of payments made and pre-financing	949.9			According to MPF projection		184.3	184.3	0.0
Financial operations						0.0	0.0	0.0
Amounts collected in the single account(State budget)	472.7					0.0		0.0
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	5,909.5			According to MPF projection		22,077.3	22,077.3	0.0

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

Note: Fiscal policy measures considered - impact:	
Other taxes on profits, income and capital gains from legal persons	Increase the threshold for a firm to be considered microenterprise from 100,000 euro in 2016 to 500,000 euro in 2017, starting January 1 <sup>st</sup> , 2017 (-662.1 mil. lei)
Personal income tax	1. Increase minimum salary to 1,450 lei per month starting February 1 <sup>st</sup> , 2017 (+370 mil. lei)
	2. 20% increase of the gross salaries for personnel from local administration, increase by 50% the gross wages for personnel of performances or concerts, increase by 15% the gross wage and bonuses for the personnel in the health sector, social assistance system and education system and a 25% increase in the basic salary for the staff of the House of Health Insurance, increase the remunerations for the staff of the Directorates of Public Health and County's Health Houses at the level of 85% of the wages of National Health Insurance House and similar employment rights to the Inspectorate for Emergency Situations for the staff of the Romanian Agency for Saving Life at Sea starting January 1st 2017 (+542 mil. lei)
	3. Exemption of personal income tax on pensions below 2,000 lei (-1200 mil. lei)
	4. Introducing a non-taxable threshold for income resulting from the transfer of property rights in the amount of 450,000 lei starting February 1st 2017 (-300 mil. lei)
	5. Decrease of the personal income tax resulting from the reduced tax base following the elimination of the capping of 5 average gross salaries for the payment of social insurance contributions (-700 million lei on dividend tax and -85.3 million lei on personal income)
Fees and taxes on property	Eliminating special tax on constructions starting January 1 <sup>st</sup> , 2017 (-1000 mil. lei)
VAT	Adjusting the starting point of extrapolation (VAT implementation in 2016) due to revenue recorded in January 2016 with 24% VAT (for December 2015) (-700 million. lei), reduction of VAT rate to 19% and lowering VAT income resulting from the elimination of extra excise of 7 cents per liter of fuel (-2,541 mil. lei)
Excise duty	Elimination of excise duty of 7 cents and increase from 430.71 lei / 1,000 cigarettes in 2016 to 435.58 lei / 1,000 cigarettes in 2017 (-2,886 million lei). There were not extrapolated excise taxes collected from the sale of tobacco products considering that they do not grow in line with real consumption growth.
Other taxes on goods and services	1. Application of tax rates from 0.1 to 0.85 lei / MWh on revenue from electricity and gas transmission and distribution (152.5 million lei)
	2. Apply a 0.5% tax on revenue from natural resources, other than natural gas (forestry, quarrying, extraction of non-ferrous ores, etc.) (58.7 million lei)
	3. Applying a tax of 60% on additional revenues as a result of deregulation of natural gas (708.6 million lei)
Social contributions	1. 20% increase of the gross salaries for personnel from local administration, increase by 50% of the gross salaries for personnel of performances or concerts, increase by 15% of the gross wages and bonuses for the personnel in the health sector, social assistance system and education system and a 25% increase in the basic salary for the staff of the House of Health Insurance, increase the remunerations for the staff of the Directorates of Public Health and County's Health Houses at the level of 85% of the wages of National Health Insurance House and similar employment rights to the Inspectorate for Emergency Situations for the staff of the Romanian Agency for Saving Life at Sea since January 1st 2017 (+2190 mil. lei)
	2. Increase minimum salary to 1,450 lei per month starting February 1 <sup>st</sup> , 2017 (+1,100 mil. lei)
	3. Elimination of health contribution payment for pensioners (-900 mil. lei)
	4. Eliminating the capping of 5 gross average salaries for the calculation of individual social security contribution and for the social insurance contributions payable by employers or persons assimilated, for the income from wages or salaries (+372.8 mil. lei)

Annex no. 3: Revenue projection based on the Winter macroeconomic framework published by NCEF in January 2017

Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF on 20 January 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with winter macroeconomic framework and revenues in 2017 budget draft
<b>TOTAL REVENUE</b>	<b>223,721.8</b>	<b>1,592.7</b>	<b>- 9,681.8</b>			<b>253,708.6</b>	<b>254,716.5</b>	<b>-1,007.9</b>
<b>Current revenue</b>	215,618.8	1,592.7	-9,681.8			230,647.0	231,618.1	-971.1
<b>Tax revenue</b>	136,406.1	1,592.7	-9,681.8			141,934.0	142,836.0	-902.0
<b>Corporate income tax</b>	16,398.0		- 662.1	(The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF)*(1+Δ% macroeconomic base *1.75 elasticity) to which are added fiscal policy measures	Nominal GDP (+7.48%)	17,807.8	18,055.3	-247.5
<b>Personal income tax</b>	28,383.6					30,497.1	30,782.0	-284.9
<b>Wages and income tax</b>	27,756.4		- 2,285.3	The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF corrected with fiscal measures and extrapolated with the number of employees and the dynamic of earnings	The average number of employees (+4.3%) Average gross earnings (+11.2%)	29,823.0	30,108.2	-285.2
<b>Other taxes on income, profit and capital gains</b>	627.2			The starting point of extrapolation is represented by the amount from the preliminary execution for 2016 according to MPF)*(1+Δ%the relevant macroeconomic growth)	Nominal GDP (+7.48%)	674.1	673.9	0.3
<b>Property tax</b>	5,898.1		-1,000.0	According to MPF projection		5,161.1	5,161.1	0.0
<b>Taxes on goods and services</b>	84,127.1	1,592.7				86,758.9	87,068.8	-309.9
<b>VAT</b>	51,675.1	1,592.7	-3,241.0	The starting point of extrapolation is represented by the amount from the preliminary execution.	Household's final consumption expenditure (+8.9%)	54,319.1	54,142.3	176.8

Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF on 20 January 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with winter macroeconomic framework and revenues in 2017 budget draft
				excluding swap schemes effect that was extrapolated with the relevant macroeconomic base and then adjusted with fiscal policy measures				
Excises	26,957.0		-2,886.0	(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base plus the impact of the fiscal policy measures	Household's final consumption expenditure in real terms (+7.23%)	25,655.8	26,051.3	-395.5
Other taxes on goods and services	2,250.3		919.8		Household's final consumption expenditure (+8.9%)	3,370.7	3,385.6	-14.9
Taxes on using goods. authorizing the use of goods or on carrying activities	3,244.6			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base	Real GDP (+5.2%)	3,413.3	3,489.6	-76.3
Tax on foreign trade	882.7			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of macroeconomic base	Imports of goods and services (+8.5%)	957.7	951.3	6.5
Other tax revenue	716.7			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* The growth of	Nominal GDP (+7.48%)	751.4	817.6	-66.1

Mil. lei	2016	2017						
	Preliminary execution for 2016 according to MPF (without swap)	The influence of the compensation schemes in 2017	Fiscal policy measures	Explanations	Relevant macroeconomic basis	Revenue projection consistent with macroeconomic framework published by NCEF on 20 January 2016	CGB revenues according to the 2017 budget draft (with swap)	Differences between revenue projection consistent with winter macroeconomic framework and revenues in 2017 budget draft
				macroeconomic base				
<b>Social security contributions</b>	61,274.4		- 527.2	(The starting point of extrapolation is represented by the amount from the preliminary execution. excluding swap schemes effect MPF minus the impact of pensions contributions from court decisions in 2016 of 434 million lei)* The growth of macroeconomic base plus fiscal policy measures	The average number of employees (+4.3%) Average gross earnings (+11.2%)	69,689.2	69,758.4	-69.1
<b>Non-tax revenue</b>	17,938.3			According to MPF projection		19,023.7	19,023.7	0.0
<b>Capital revenue</b>	769.4			(The starting point of extrapolation is represented by the available series in the preliminary execution according to MPF)* Consumer price index	The average rate of inflation forecasted for 2017 (1.4%)	780.2	817.0	-36.8
<b>Grants</b>	1.6			According to MPF projection		19.7	19.7	0.0
<b>Amounts received from the EU in the account of payments made and pre-financing</b>	949.9			According to MPF projection		184.3	184.3	0.0
<b>Financial operations</b>						0.0	0.0	0.0
<b>Amounts collected in the single account(State budget)</b>	472.7					0.0		
<b>Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020</b>	5,909.5			According to MPF projection		22,077.3	22,077.3	0.0

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

Note: Fiscal policy measures considered - impact	
Tax on income, profits and capital gains from legal entities	Increasing the threshold at which a firm is considered microenterprise from 100,000 euros to 500,000 euros in 2016 from January 1 <sup>st</sup> 2017 (-662.1 mil. lei)
Personal income tax	1. Exemption of personal income tax on pensions below 2,000 lei (-1,200 mil. lei)
	2. Introducing a non-taxable threshold for income resulting from the transfer of property rights in the amount of 450,000 lei starting February 1 <sup>st</sup> 2017 (-300 mil. lei)
	3. Decrease of the personal income tax resulting from the reduced tax base following the elimination of the capping of 5 average gross salaries for the payment of social insurance contributions (-700 million lei on dividend tax and -85.3 million lei on personal income)
Fees and taxes on property	Eliminating special tax on constructions starting January 1 <sup>st</sup> , 2017 (-1,000 mil. lei)
VAT	Adjusting the starting point of extrapolation (VAT implementation in 2016) due to revenue recorded in January 2016 with 24% VAT (for December 2015) (-700 million. lei), reduction of VAT rate to 19% and lowering VAT income resulting from the elimination of extra excise of 7 cents per liter of fuel (-2,541 mil. lei)
Excise duty	Elimination of excise duty of 7 cents and increase from 430.71 lei / 1,000 cigarettes in 2016 to 435.58 lei / 1,000 cigarettes in 2017 (-2,886 million lei). There were not extrapolated excise taxes collected from the sale of tobacco products considering that they do not grow in line with real consumption growth.
Other taxes on goods and services	1. Application of tax rates from 0.1 to 0.85 lei / MWh on revenue from electricity and gas transmission and distribution (152.5 million lei)
	2. Apply a 0.5% tax on revenue from natural resources, other than natural gas (forestry, quarrying, extraction of non-ferrous ores, etc.) (58.7 million lei)
	3. Applying a tax of 60% on additional revenues as a result of deregulation of natural gas (708.6 million lei)
Social contributions	1. Elimination of health contribution payment for pensioners (-900 mil. lei)
	2. Eliminating the capping of 5 gross average salaries for the calculation of individual social security contribution and for the social insurance contributions payable by employers or persons assimilated, for the income from wages or salaries (+372.8 mil. lei)

**Annex no. 4: The evolution of the budget aggregates in the period 2016-2017**

Mil. lei	Preliminary execution for 2016 according to MPF	Swap exec. 2016	Preliminary execution for 2016 according to MPF (without swap)	The draft budget 2017	The planned swap for 2017	The draft budget 2017 (without swap)	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016
	1	2	3=1-2	4	5	6=4-5	7=4-1	without swap	9=4/1	without swap	with swap, % GDP			without swap, % GDP		
								8=6-3		10=6/3	11	12	13=12-11	14	15	16=15-14
<b>TOTAL REVENUE</b>	<b>223,721.8</b>	<b>750.3</b>	<b>222,971.5</b>	<b>254,716.5</b>	<b>1,592.7</b>	<b>253,123.8</b>	<b>30,994.7</b>	<b>30,152.3</b>	<b>13.9%</b>	<b>13.5%</b>	<b>29.5%</b>	<b>31.2%</b>	<b>1.8%</b>	<b>29.4%</b>	<b>31.1%</b>	<b>1.7%</b>
<b>Current revenue</b>	215,618.8	740.9	214,877.9	231,618.1	1,592.7	230,025.4	15,999.3	15,147.5	7.4%	7.0%	28.4%	28.4%	0.0%	28.3%	28.2%	-0.1%
<b>Tax revenue</b>	136,406.1	441.5	135,964.7	142,836.0	1,592.7	141,243.3	6,429.9	5,278.7	4.7%	3.9%	18.0%	17.5%	-0.5%	17.9%	17.3%	-0.6%
<b>Corporate income tax</b>	44,781.6	137.1	44,644.5	48,837.4		48,837.4	4,055.7	4,192.9	9.1%	9.4%	5.9%	6.0%	0.1%	5.9%	6.0%	0.1%
Profit	15,442.0	64.8	15,377.2	16,629.9		16,629.9	1,187.9	1,252.7	7.7%	8.1%	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%
Wages and income tax	27,756.4	72.4	27,684.0	30,108.2		30,108.2	2,351.8	2,424.2	8.5%	8.8%	3.7%	3.7%	0.0%	3.6%	3.7%	0.0%
Other taxes on income, profit and capital gains	1,583.3		1,583.3	2,099.3		2,099.3	516.0	516.0	32.6%	32.6%	0.2%	0.3%	0.0%	0.2%	0.3%	0.0%
<b>Property tax</b>	5,898.1		5,898.1	5,161.1		5,161.1	-737.0	-737.0	-12.5%	-12.5%	0.8%	0.6%	-0.1%	0.8%	0.6%	-0.1%
<b>Taxes on goods and services</b>	84,127.1	286.8	83,840.2	87,068.8	1,592.7	85,476.1	2,941.7	1,635.9	3.5%	2.0%	11.1%	10.7%	-0.4%	11.1%	10.5%	-0.6%
VAT	51,675.1	286.8	51,388.3	54,142.3	1,592.7	52,549.6	2,467.2	1,161.3	4.8%	2.3%	6.8%	6.6%	-0.2%	6.8%	6.4%	-0.3%
Excises	26,957.0	0.1	26,956.9	26,051.3		26,051.3	-905.6	-905.6	-3.4%	-3.4%	3.6%	3.2%	-0.4%	3.6%	3.2%	-0.4%
Other taxes on goods and services	2,250.3		2,250.3	3,385.6		3,385.6	1,135.2	1,135.2	50.4%	50.4%	0.3%	0.4%	0.1%	0.3%	0.4%	0.1%
Taxes on using goods, authorizing the use of goods or on carrying activities	3,244.6		3,244.6	3,489.6		3,489.6	245.0	245.0	7.6%	7.6%	0.4%	0.4%	0.0%	0.4%	0.4%	0.0%
<b>Tax on foreign trade and international transactions</b>	882.7		882.7	951.3		951.3	68.6	68.6	7.8%	7.8%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
<b>Other tax revenue</b>	716.7	17.5	699.2	817.6		817.6	100.9	118.4	14.1%	16.9%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
<b>Social security contributions</b>	61,274.4	299.4	60,975.0	69,758.4		69,758.4	8,483.9	8,783.4	13.8%	14.4%	8.1%	8.6%	0.5%	8.0%	8.6%	0.5%
<b>Non-tax revenue</b>	17,938.3		17,938.3	19,023.7		19,023.7	1,085.5	1,085.5	6.1%	6.1%	2.4%	2.3%	0.0%	2.4%	2.3%	0.0%
<b>Capital revenue</b>	769.4		769.4	817.0		817.0	47.6	47.6	6.2%	6.2%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
<b>Grant</b>	1.6		1.6	19.7		19.7	18.1	18.1	1141.8%	1141.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Mil. lei	Preliminary execution for 2016 according to MPF	Swap exec. 2016	Preliminary execution for 2016 according to MPF (without swap)	The draft budget 2017	The planned swap for 2017	The draft budget 2017 (without swap)	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9=4/1	10=6/3	with swap, % GDP			without swap, % GDP		
											11	12	13=12-11	14	15	16=15-14
Amounts received from the EU in the account of payments made and prefinancing	949.9		949.9	184.3		184.3	-765.5	-765.5	-80.6%	-80.6%	0.1%	0.0%	-0.1%	0.1%	0.0%	-0.1%
Amounts collected in the single account (State budget)	472.7	9.4	463.3	0.0		0.0	-472.7	-463.3	-100.0%	-100.0%	0.1%	0.0%	-0.1%	0.1%	0.0%	-0.1%
Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020	5,909.5		5,909.5	22,077.3		2,077.3	16,167.8	16,167.8	273.6%	273.6%	0.8%	2.7%	1.9%	0.8%	2.7%	1.9%
<b>TOTAL EXPENDITURE</b>	<b>242,016.3</b>	<b>750.3</b>	<b>241,266.0</b>	<b>278,816.5</b>	<b>1,592.7</b>	<b>277,223.8</b>	<b>36,800.2</b>	<b>35,957.8</b>	<b>15.2%</b>	<b>14.9%</b>	<b>31.9%</b>	<b>34.2%</b>	<b>2.3%</b>	<b>31.8%</b>	<b>34.0%</b>	<b>2.2%</b>
Current expenditure	223,001.1	750.3	222,250.8	253,629.6	1,422.7	252,206.9	30,628.4	29,956.0	13.7%	13.5%	29.4%	31.1%	1.7%	29.3%	30.9%	1.6%
Personnel	57,040.1		57,040.1	63,884.3		63,884.3	6,844.2	6,844.2	12.0%	12.0%	7.5%	7.8%	0.3%	7.5%	7.8%	0.3%
Goods and services	40,950.2		40,950.2	40,631.9	522.7	40,109.2	-318.3	-841.0	-0.8%	-2.1%	5.4%	5.0%	-0.4%	5.4%	4.9%	-0.5%
Interest	10,008.3		10,008.3	10,185.0		10,185.0	176.7	176.7	1.8%	1.8%	1.3%	1.2%	-0.1%	1.3%	1.2%	-0.1%
Subsidies	6,604.9		6,604.9	7,161.5		7,161.5	556.6	556.6	8.4%	8.4%	0.9%	0.9%	0.0%	0.9%	0.9%	0.0%
<b>Total Transfers</b>	<b>107,953.3</b>	<b>750.3</b>	<b>107,203.0</b>	<b>131,133.4</b>	<b>900.0</b>	<b>130,233.4</b>	<b>23,180.1</b>	<b>23,030.4</b>	<b>21.5%</b>	<b>21.5%</b>	<b>14.2%</b>	<b>16.1%</b>	<b>1.9%</b>	<b>14.1%</b>	<b>16.0%</b>	<b>1.8%</b>
Transfers for public entities	820.9		820.9	1,977.2	900.0	1,077.2	1,156.3	256.3	140.9%	31.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.0%
Other transfers	10,951.8		10,951.8	11,302.4		11,302.4	350.6	350.6	3.2%	3.2%	1.4%	1.4%	-0.1%	1.4%	1.4%	-0.1%
Projects funded by external post-accession grants	4,019.7		4,019.7	974.5		974.5	-3,045.2	-3,045.2	-75.8%	-75.8%	0.5%	0.1%	-0.4%	0.5%	0.1%	-0.4%
Social assistance	81,837.2		81,837.2	88,499.3		88,499.3	6,662.2	6,662.2	8.1%	8.1%	10.8%	10.9%	0.1%	10.8%	10.9%	0.1%
Projects funded by external post-accession grants 2014-2020	6,352.0		6,352.0	24,126.7		24,126.7	17,774.7	17,774.7	279.8%	279.8%	0.8%	3.0%	2.1%	0.8%	3.0%	2.1%
Other expenditure	3,971.7		3,971.7	4,253.3		4,253.3	281.5	281.5	7.1%	7.1%	0.5%	0.5%	0.0%	0.5%	0.5%	0.0%
<b>Reserve funds</b>	<b>0.0</b>		<b>0.0</b>	<b>153.9</b>		<b>153.9</b>	<b>153.9</b>	<b>153.9</b>			<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>



Mil. lei	Preliminary execution for 2016 according to MPF	Swap exec. 2016	Preliminary execution for 2016 according to MPF (without swap)	The draft budget 2017	The planned swap for 2017	The draft budget 2017 (without swap)	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 – Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	The draft budget 2017 / Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016	Prelim. execution for 2016	The draft budget 2017	The draft budget 2017 – Prelim. execution for 2016
	1	2	3=1-2	4	5	6=4-5	7=4-1	8=6-3	9=4/1	10=6/3	with swap, % GDP			without swap, % GDP		
	11	12	13=12-11	14	15	16=15-14										
Expenditure funded from reimbursable funds	444.4		444.4	479.6		479.6	35.2	35.2	7.9%	7.9%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
Capital expenditure	19,015.2		19,015.2	25,187.0	170.0	25,017.0	6,171.8	6,001.8	32.5%	31.6%	2.5%	3.1%	0.6%	2.5%	3.1%	0.6%
Financial operations	0.0		0.0	0.0		0.0	0.0	0.0			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payments made in previous years and recovered in the current year	0.0		0.0	0.0		0.0	0.0	0.0			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>SURPLUS(+) / DEFICIT(-)</b>	<b>-18,294.5</b>		<b>-18,294.5</b>	<b>-24,100.0</b>		<b>-24,100.0</b>	<b>-5,805.5</b>	<b>-5,805.5</b>	<b>31.7%</b>	<b>31.7%</b>	<b>-2.4%</b>	<b>-2.96%</b>	<b>-0.5%</b>	<b>-2.4%</b>	<b>-2.96%</b>	<b>-0.5%</b>

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

**Annex no. 5: The evolution of the budget aggregates in the period 2017-2018**

Mil. lei	The draft budget 2017	The draft budget 2018	The draft budget 2018 - The draft budget 2017	The draft budget 2018/ The draft budget 2017	The draft budget 2017	The draft budget 2018	The draft budget 2018 - The draft budget 2017
	% GDP						
	1	2	3=2-1	4=2/1	5	6	7=6-5
<b>TOTAL REVENUE</b>	<b>254,716.5</b>	<b>284,303.7</b>	<b>29,587.1</b>	<b>11.6%</b>	<b>31.25%</b>	<b>32.38%</b>	<b>1.13%</b>
<b>Current revenue</b>	231,618.1	249,786.9	18,168.7	7.8%	28.41%	28.45%	0.04%
<b>Tax revenue</b>	142,836.0	153,728.3	10,892.2	7.6%	17.52%	17.51%	-0.01%
<b>Corporate income tax</b>	48,837.4	53,897.5	5,060.2	10.4%	5.99%	6.14%	0.15%
Profit	16,629.9	17,968.2	1,338.3	8.0%	2.04%	2.05%	0.01%
Wages and income tax	30,108.2	33,682.6	3,574.5	11.9%	3.69%	3.84%	0.14%
Other taxes on income, profit and capital gains	2,099.3	2,246.7	147.4	7.0%	0.26%	0.26%	0.00%
<b>Property tax</b>	5,161.1	5,564.2	403.1	7.8%	0.63%	0.63%	0.00%
<b>Taxes on goods and services</b>	87,068.8	92,525.1	5,456.3	6.3%	10.68%	10.54%	-0.14%
VAT	54,142.3	58,057.0	3,914.7	7.2%	6.64%	6.61%	-0.03%
Excises	26,051.3	28,297.6	2,246.2	8.6%	3.20%	3.22%	0.03%
Other taxes on goods and services	3,385.6	2,529.5	-856.1	-25.3%	0.42%	0.29%	-0.13%
Taxes on using goods, authorizing the use of goods or on carrying activities	3,489.6	3,641.1	151.5	4.3%	0.43%	0.41%	-0.01%
<b>Tax on foreign trade and international transactions</b>	951.3	955.1	3.8	0.4%	0.12%	0.11%	-0.01%
<b>Other tax revenue</b>	817.6	786.4	-31.1	-3.8%	0.10%	0.09%	-0.01%
<b>Social security contributions</b>	69,758.4	76,631.2	6,872.8	9.9%	8.56%	8.73%	0.17%
<b>Non-tax revenue</b>	19,023.7	19,427.4	403.7	2.1%	2.33%	2.21%	-0.12%
<b>Capital revenue</b>	817.0	963.4	146.4	17.9%	0.10%	0.11%	0.01%
<b>Grant</b>	19.7	6.7	-13.1	-66.2%	0.00%	0.00%	0.00%
<b>Amounts received from the EU in the account of payments made and prefinancing</b>	184.3	60.9	-123.4	-66.9%	0.02%	0.01%	-0.02%
<b>Amounts collected in the single account (State budget)</b>	0.0	0.0	0.0		0.00%	0.00%	0.00%
<b>Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020</b>	22,077.3	33,485.8	11,408.5	51.7%	2.71%	3.81%	1.11%
<b>TOTAL EXPENDITURE</b>	<b>278,816.5</b>	<b>310,292.9</b>	<b>31,476.3</b>	<b>11.3%</b>	<b>34.20%</b>	<b>35.34%</b>	<b>1.14%</b>
<b>Current expenditure</b>	253,629.6	291,597.3	37,967.7	15.0%	31.11%	33.21%	2.10%
Personnel	63,884.3	67,200.9	3,316.6	5.2%	7.84%	7.65%	-0.18%
Goods and services	40,631.9	44,189.7	3,557.8	8.8%	4.98%	5.03%	0.05%

Mil. lei	The draft budget 2017	The draft budget 2018	The draft budget 2018 - The draft budget 2017	The draft budget 2018/ The draft budget 2017	The draft budget 2017	The draft budget 2018	The draft budget 2018 - The draft budget 2017
	% GDP						
	1	2	3=2-1	4=2/1	5	6	7=6-5
Interest	10,185.0	12,295.0	2,110.0	20.7%	1.25%	1.40%	0.15%
Subsidies	7,161.5	7,503.2	341.7	4.8%	0.88%	0.85%	-0.02%
<b>Total Transfers</b>	131,133.4	159,790.5	28,657.1	21.9%	16.09%	18.20%	2.11%
Transfers for public entities	1,977.2	2,365.9	388.7	19.7%	0.24%	0.27%	0.03%
Other transfers	11,302.4	13,102.8	1,800.5	15.9%	1.39%	1.49%	0.11%
Projects funded by external post-accession grants	974.5	936.9	-37.6	-3.9%	0.12%	0.11%	-0.01%
Social assistance	88,499.3	97,770.3	9,270.9	10.5%	10.86%	11.14%	0.28%
Projects funded by external post-accession grants 2014- 2020	24,126.7	40,415.1	16,288.4	67.5%	2.96%	4.60%	1.64%
Other expenditure	4,253.3	5,199.5	946.2	22.2%	0.52%	0.59%	0.07%
<b>Reserve funds</b>	153.9	107.0	-46.9	-30.5%	0.02%	0.01%	-0.01%
<b>Expenditure funded from reimbursable funds</b>	479.6	511.1	31.4	6.5%	0.06%	0.06%	0.00%
<b>Capital expenditure</b>	25,187.0	18,695.6	-6,491.4	-25.8%	3.09%	2.13%	-0.96%
<b>Financial operations</b>	0.0	0.0	0.0				0.00%
<b>Payments made in previous years and recovered in the current year</b>	0.0	0.0	0.0				0.00%
<b>SURPLUS(+)/ DEFICIT(-)</b>	<b>-24,100.0</b>	<b>-25,989.2</b>	<b>-1,889.2</b>	<b>7.8%</b>	<b>-2.96%</b>	<b>-2.96%</b>	<b>0.00%</b>

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

**Annex no. 6: The evolution of the budget aggregates in the period 2018-2019**

	The draft budget 2018	The draft budget 2019	The draft budget 2019 - The draft budget 2018	The draft budget 2019/ The draft budget 2018	The draft budget 2018	The draft budget 2019	The draft budget 2019 - The draft budget 2018
	% GDP						
	1	2	3=2-1	4=2/1	5	6	7=6-5
<b>TOTAL REVENUE</b>	<b>284,303.7</b>	<b>311,667.3</b>	<b>27,363.6</b>	<b>9.6%</b>	<b>32.38%</b>	<b>32.95%</b>	<b>0.56%</b>
<b>Current revenue</b>	249,786.9	273,108.3	23,321.5	9.3%	28.45%	28.87%	0.42%
<b>Tax revenue</b>	153,728.3	166,468.5	12,740.3	8.3%	17.51%	17.60%	0.09%
<b>Corporate income tax</b>	53,897.5	59,983.7	6,086.1	11.3%	6.14%	6.34%	0.20%
Profit	17,968.2	19,676.7	1,708.5	9.5%	2.05%	2.08%	0.03%
Wages and income tax	33,682.6	37,900.8	4,218.2	12.5%	3.84%	4.01%	0.17%
Other taxes on income, profit and capital gains	2,246.7	2,406.1	159.4	7.1%	0.26%	0.25%	0.00%
<b>Property tax</b>	5,564.2	5,934.3	370.1	6.7%	0.63%	0.63%	-0.01%
<b>Taxes on goods and services</b>	92,525.1	98,788.6	6,263.5	6.8%	10.54%	10.44%	-0.10%
VAT	58,057.0	62,074.3	4,017.3	6.9%	6.61%	6.56%	-0.05%
Excises	28,297.6	30,264.8	1,967.3	7.0%	3.22%	3.20%	-0.02%
Other taxes on goods and services	2,529.5	2,590.1	60.6	2.4%	0.29%	0.27%	-0.01%
Taxes on using goods, authorizing the use of goods or on carrying activities	3,641.1	3,859.4	218.3	6.0%	0.41%	0.41%	-0.01%
<b>Tax on foreign trade and international transactions</b>	955.1	958.9	3.8	0.4%	0.11%	0.10%	-0.01%
<b>Other tax revenue</b>	786.4	803.2	16.7	2.1%	0.09%	0.08%	0.00%
<b>Social security contributions</b>	76,631.2	86,443.5	9,812.3	12.8%	8.73%	9.14%	0.41%
<b>Non-tax revenue</b>	19,427.4	20,196.3	768.9	4.0%	2.21%	2.13%	-0.08%
<b>Capital revenue</b>	963.4	1,005.4	42.0	4.4%	0.11%	0.11%	0.00%
<b>Grant</b>	6.7	4.9	-1.8	-26.4%	0.00%	0.00%	0.00%
<b>Amounts received from the EU in the account of payments made and prefinancing</b>	60.9	2.7	-58.3	-95.6%	0.01%	0.00%	-0.01%
<b>Amounts collected in the single account (State budget)</b>	0.0	0.0	0		0.00%	0.00%	0.00%
<b>Amounts received from the EU/other donors in the account of payments made and pre-financing for financial framework 2014-2020</b>	33,485.8	37,546.0	4,060.2	12.1%	3.81%	3.97%	0.16%
<b>TOTAL EXPENDITURE</b>	<b>310,292.9</b>	<b>335,884.9</b>	<b>25,592.1</b>	<b>8.2%</b>	<b>35.34%</b>	<b>35.51%</b>	<b>0.16%</b>
<b>Current expenditure</b>	291,597.3	307,805.7	16,208.4	5.6%	33.21%	32.54%	-0.67%
Personnel	67,200.9	68,642.1	1,441.2	2.1%	7.65%	7.26%	-0.40%

	The draft budget 2018	The draft budget 2019	The draft budget 2019 - The draft budget 2018	The draft budget 2019/ The draft budget 2018	The draft budget 2018	The draft budget 2019	The draft budget 2019 - The draft budget 2018
	% GDP						
	1	2	3=2-1	4=2/1	5	6	7=6-5
Goods and services	44,189.7	45,607.9	1,418.2	3.2%	5.03%	4.82%	-0.21%
Interest	12,295.0	13,238.2	943.1	7.7%	1.40%	1.40%	0.00%
Subsidies	7,503.2	7,837.0	333.9	4.4%	0.85%	0.83%	-0.03%
<b>Total Transfers</b>	159,790.5	171,996.6	12,206.2	7.6%	18.20%	18.18%	-0.02%
Transfers for public entities	2,365.9	2,331.4	-34.6	-1.5%	0.27%	0.25%	-0.02%
Other transfers	13,102.8	13,453.7	350.9	2.7%	1.49%	1.42%	-0.07%
grants	936.9	446.3	-490.6	-52.4%	0.11%	0.05%	-0.06%
Social assistance	97,770.3	102,734.1	4,963.9	5.1%	11.14%	10.86%	-0.28%
Projects funded by external post-accession grants 2014- 2020	40,415.1	47,551.5	7,136.5	17.7%	4.60%	5.03%	0.42%
Other expenditure	5,199.5	5,479.6	280.2	5.4%	0.59%	0.58%	-0.01%
<b>Reserve funds</b>	107.0	107.0	0	0.0%	0.01%	0.01%	0.00%
<b>Expenditure funded from reimbursable funds</b>	511.1	376.8	-134.2	-26.3%	0.06%	0.04%	-0.02%
<b>Capital expenditure</b>	18,695.6	28,079.2	9,383.6	50.2%	2.13%	2.97%	0.84%
<b>Financial operations</b>	0.0	0.0	0			0.00%	0.00%
<b>Payments made in previous years and recovered in the current year</b>	0.0	0.0	0			0.00%	0.00%
<b>SURPLUS(+)/ DEFICIT(-)</b>	<b>-25,989.2</b>	<b>-24,217.7</b>	<b>1,771.5</b>	<b>-6.8%</b>	<b>-2.96%</b>	<b>-2.56%</b>	<b>0.40%</b>

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

**Annex no. 7: The calculation of the eliminating impact of the cap of 5 gross average salaries for the calculation of individual social security contribution and for the social insurance contributions payable by employer and employees**

**Fiscal Code in force in December 2016**

The tax base for the contribution to the state social security budget is capped for the individual contribution of the employee (10.5%) at five gross average salaries. For the employer, the SSC capping (15.8%) at five gross average salaries is applicable at the aggregate wage bill.

**Emergency Ordinance no. 3/2017 - amending the Fiscal Code since February 2017**

Removing the cap of five gross average salaries for the calculation of employee and employer SSC.

**General assumptions:**

1. The starting point for estimating the impact on budget revenues caused by the removal of 5 gross average wages cap on the payment of SSC by the employer and the employee, is represented by the gross income distribution achieved by the insured with full time program and those working part time, extracted from the publication MMJS "Pensions and social insurance", with the latest data available at the level of June 2016. ([http://www.mmuncii.ro/j33/images/buletin\\_statistic/pensii\\_II\\_2016.pdf](http://www.mmuncii.ro/j33/images/buletin_statistic/pensii_II_2016.pdf)) that have been updated for the year 2017 using salary increases indices estimated by the National Commission for Economic Forecasting (11.2% according to Winter forecast for 2017)

2. The impact of removing the SSC capping is basically just at the level of the individual contribution, because at the level of payable contribution by the employer the total wage bill (art. 140 of the Fiscal Code) is taken into account, which makes the impact of the cap in this case to be negligible (the share of employees with average gross salaries over 5 gross average wages in the economy is tiny for private companies or public institutions).

3. The measure will be applied from 1<sup>st</sup> February, 2017 (10 months of budget execution in cash terms). To determine the impact, regarding the data, the average wage considered to substantiate state insurance budget was set for the year 2017 at 3,131 lei per month and was applied to the income distribution in the aforementioned publication. The calculation of revenues from social contributions and personal income tax before and after the legislative proposal is made at the level of full and part-time employment, with monthly income over the cap of 5 gross average wages (15,655 =5\*3,131 lei). The pension contribution directed to Pillar 2 (5.1%) was calculated from the percentage of participants with paid contributions into total participants at Pillar 2 pension in last 3 months of 2016 resulting 59%, according to the statistics taken from the website of CSSPP: <http://www.csspp.ro/evolutie-indicatori/pilon2/part-virat/1-5> and <http://www.csspp.ro/evolutie-indicatori/pilon2/norma/1>).

Calculation of impact (287,5 mil. lei for 10 months of application)		
	No.	Mil. lei/2016
The gross average salary per economy, lei	1	3,131.0
Cap, 5 gross average salary, lei	2=5*1	15,655.0
Proceeds from capped individual SSC	3	865.8
of which, the Pillar 2 pension	4=3*(5.1%/10.5%)*59%	248.1
Proceeds from the personal income tax, considering the cap on individual social contributions	5	2,001.8
Proceeds from the individual SSC considering removing cap	6	1,492.8
of which, the Pillar 2 pension	7=6*(5.1%/10.5%)*59%	427.8
Proceeds from the personal income tax, considering the removing of the cap on individual social contributions	8	1,899.5
Total impact on revenues from individual SSC	9=(6-7)-(3-4)	447.3
Total impact on revenues from personal income tax	10=8-5	-102.4
Net impact SSC 10 months	11=9*(10/12)	372.8
Total impact personal income tax 10 months	12=10*(10/12)	-85.3
<b>Total net impact</b>	<b>13=11+12</b>	<b>287.5</b>

Source: MPF, Fiscal Council's calculations

## Annex no. 8: Calculating the impact on microenterprises stemming from legislative changes on taxation

**The changes on taxation of microenterprises would result in a decline of the total tax paid by microenterprises by around 662 mil. lei**

1. Revenues ceiling until which a company is registered as microenterprise was increased to 500,000 euro from 100,000 euro previously. As a result more companies would qualify to microenterprises (by around 75,000 based on our estimates).

2. A taxation rate of 1% on revenues was introduced for microenterprises with at least one employee, while microenterprises with zero employees would continue to be taxed with a rate of 3%. Previously, a taxation rate between 1% and 3% was applied, as follows: 1% for microenterprises with at least 2 employees, 2% for those with 1 employee and 3% for those with zero employees. As a result companies with 1 employee would pay lower taxes.

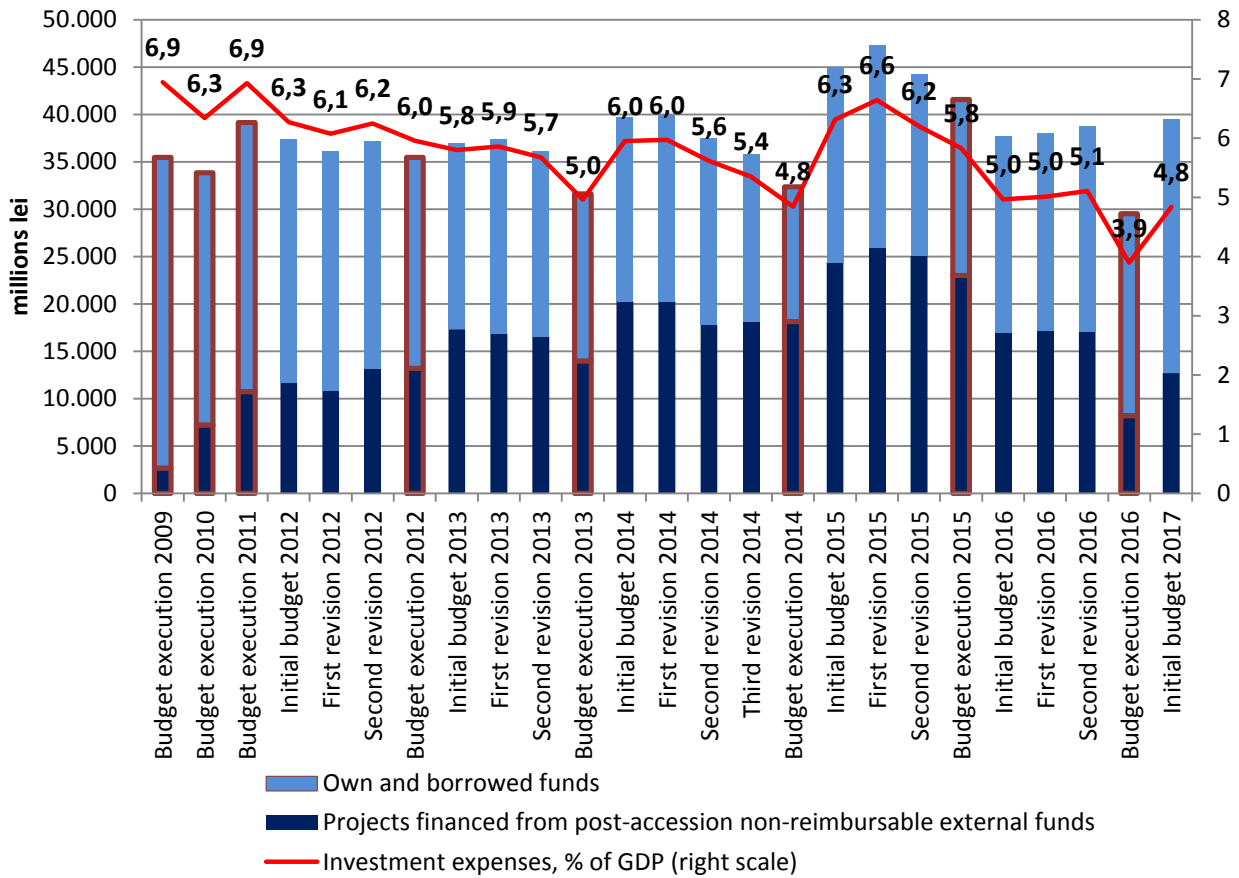
3. A microenterprise can choose between paying the corporate income tax (16%) and the tax on revenues (1% or 3%) if its social capital is higher than a threshold of 45,000 lei. In 2016 the threshold was higher amounting to 25,000 euro. As result more companies can exercise this option. However, the number of microenterprises which fulfill the criteria is low; respectively out of total microenterprises less than 2% have a social capital above 25,000 euro and around 5% of them have a social capital above 45,000 lei. Hence, the majority of microenterprises will pay the tax on revenues (1% or 3%).



Number of employees	Number of micro enterprises		Total revenues (mil. lei)		Total employees		Taxes 2016 (mil lei)		Taxes 2017 (mil. lei)		Change (RON mil. lei)	
	< 100,000 euro	100,000 - 500,000 euro	< 100,000 euro	100,000 - 500,000 euro	< 100,000 euro	100,000 - 500,000 euro	< 100,000 euro	100,000 - 500,000 euro	< 100,000 euro	100,000 - 500,000 euro	< 100,000 euro	100,000 - 500,000 euro
<i>Zero employees</i>	100,769	6,040	6,551.0	5,642.30	-	-	193.3	122.2	192.1	157.2	-1.2	34.9
<i>One employee</i>	109,697	6,849	10,203.2	5,766.90	109,697	6,849	202.0	143.1	100.6	55,6	-101.4	-87.4
<i>More than 2 employees</i>	114,465	62,181	19,940.3	72,302.00	426,048	643,093	195.2	1,172.10	193.0	667,3	-2.2	-504.8
<i>Total</i>	324,931	75,070	36,694.4	83,711.10	535,745	649,942	590.6	1,437.40	485.7	880.1	-104.8	-557.3
<b>Total impact of legislative changes</b>	400,001		120,405.60		1,185,687		2,028.0		1.365.80		<b>-662.1</b>	

Source: based on balance sheets data submitted by the economic agents to MPF, Fiscal Council's calculations

**Annex no. 9: The evolution of investment expenses between 2009-2017 – planned level vs. execution (million lei)**



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