

Fiscal Council's Opinion on the Second Supplementary Budget in 2011

On November 15th 2011, the Ministry of Finance sent to the Fiscal Council the second draft supplementary budget for 2011, requesting the FC's opinion based on article 40, paragraph (2) of Law no. 69/2010, according to which the Fiscal Council has the legal attribution to „analyse and issue opinions and recommendations on the annual budget laws before approval by the Government and before submission to Parliament, on the supplementary budgets and other legislative initiatives that may have an impact on the budgetary targets, as well as assessing their compliance with the principles and rules specified in this Law”.

Thus, given its mandate in accordance with law 69/2010, the Fiscal Council issues the following opinions and recommendations on the second supplementary budget:

The draft budget revision meets the requirements of article 15, paragraph (2) of the FRL according to which only two budgetary revisions can be performed during one year. The draft budget also complies with the rule stipulated in article 9, paragraph (2) of the Law no 69/2010 based on which the total personnel expenditure of the general government cannot be increased during the budgetary year.

The draft supplementary budget revises downwards both the general government revenues and expenditures by the same amount of 132 billion lei, keeping unchanged the deficit target assumed by Law no. 285/2010 that approves the budgetary ceilings as specified in the Fiscal Strategy.

The net adjustment in the revenue projection is generated by two factors:

- The upward adjustment of revenues by 1 075 million lei, as a result of implementing a new SWAP compensation scheme for clearing budgetary arrears. Under this scheme, the respective amount will be transferred from the state budget to local budgets and to some state-owned enterprises and line ministries, so that ultimately these entities can pay their outstanding budgetary obligations., However, these amounts are reflected

both on the revenue and spending side of the budget, having no impact on the budget deficit.

- The downward adjustment of total general government revenues (net of the above-mentioned SWAP impact) by 1 206 million lei, mainly due to the downward revision of indirect taxes and non-tax revenues (*Details on the evolution of budgetary aggregates relative to the first supplementary budget in 201 are presented in Appendix 1*).

Regarding the overall government spending, the net revision is the result of two factors:

- Upward adjustment in total spending by 1 075 million lei as a result of implementing the aforementioned SWAP scheme.
- Downward adjustment in total general government expenditure (net of the above-mentioned SWAP impact) by 1 206 million lei. Significant reductions are operated in 'other transfers' (-996 million lei), social assistance (-346 million lei), capital expenditure (-315 million lei) and personnel expenditure (-244 million lei), thus allowing for a substantial increase of 655 million lei in goods and services spending also for arrears repayment.

The Fiscal Council recalls that the first supplementary budget for 2011 increased total spending by 3.2 billion lei, out of which 1.43 billion were related to the first SWAP scheme for arrears repayment (with equal impact on revenues and expenditure), while 1.8 billion lei represented a discretionary increase in spending, motivated at that time by a more optimistic revenue projection.

Furthermore, the Fiscal Council reiterates that the upward revision of total expenditures in the first supplementary budget was made by waiving from the FRL provisions, which prohibits any increase in overall spending during the year. In retrospect, the Fiscal Council finds that waiving from the Fiscal Responsibility Law, besides setting an unfortunate precedent, ultimately proved to be unnecessary, considering that the spending increase

(excluding the impact of SWAP schemes) from the first budget revision was totally reversed by the second budget revision.

In this context, the Fiscal Council reiterates its recommendation to improve the budgetary planning process in order to avoid situations like the one that appeared in 2011, when practically, excluding the impact of the one-off SWAP schemes, the second supplementary budget mostly reversed the amendments made by the first supplementary budget. In the future, this would allow the compliance with the fiscal rules stated by the FRL.

With regard to the recurrent use of the SWAP schemes for clearing the arrears, the Fiscal Council considers that strengthening the fiscal discipline and a more sound budgetary process, both at the central level and at the SOEs' level, are the only ones able to address the structural causes of arrears emergence.

The above opinions and recommendations of the Fiscal Council were approved by the President of the Fiscal Council, according to Art. 43, paragraph (2), letter d) of FRL, based on the vote of the Fiscal Council members in the meeting on November 16, 2011.

November 16, 2011

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Appendix 1. CGB evolution after the two budget rectifications in 2011

	2011 Initial Budget	First budget rectification			Second budget rectification			2011 Budget after the two rectifications, excluding schemes effect	Difference from the initial Budget
		The influence of the first scheme	Discretionary adjustment	2011 Budget after the first rectification	The influence of the second scheme	Discretionary adjustment	2011 Budget after the second rectification		
	1	2	3	4=1+2+3	5	6	7=4+5+6	8=7-2-5	9=8-1
Total revenue	179,234.5	1,426.4	1,829.7	182,490.6	1,074.8	-1,206.4	182,359.0	179,857.8	623.3
Total expenditure	203,187.7	1,426.4	1,829.8	206,443.9	1,074.8	-1,206.9	206,311.8	203,810.6	622.9
Budget balance	-23,953.2			-23,953.3			-23,952.8		0.4