Fiscal Council's Opinion on the Draft Budget Revision for 2013

On July 29th 2013, at 10:22 PM, the Fiscal Council received from the Ministry of Finance by letter no. 82016/29.07.2013 *The half-year report regarding the economic and budgetary situation, The draft of the budget revision for 2013, the explanatory note and the Government Ordinance project regarding the draft of the budget revision for 2013,* as well as *The explanatory note and the Government Ordinance project regarding the draft of the revised social security budget for 2013*, requesting the Fiscal Council's opinion under article 40, paragraph (2) of Law no. 69/2010. Given the Government's intention to approve the documents mentioned above during the government session taking place on July 30th 2013, the time frame in which the Fiscal Council should elaborate a rigorous analysis is clearly insufficient, therefore the institution will not be able to issue a complete opinion regarding the documents submitted in such a short period of time, reserving its right to issue a more detailed opinion afterwards. The Fiscal Council is forced to reiterate its previously stated recommendation to ensure a period of at least one week between the submission of the documentation by the Ministry of Finance and the adoption of the relevant legislation, this interval being an absolute minimum required to elaborate an accurate analysis. In addition, the draft of the revised budget contains a set of amendments to the Tax Code that will come into force starting September 1st 2013, without being subjected to a minimal public debate for a reasonable period of time, contrary to the spirit of the provisions of article 4, paragraph (1) of the Tax Code, which states that "the present code can be modified and supplemented only by law, after being typically promoted for 6 months before the date of its entry into force".

Given its mandate in accordance with the provisions of the Law no. 69/2010, article 40, paragraph (2), letter d), **the Fiscal Council states and issues the following opinions and recommendations on the draft revised budget:**

The assessment of compliance with the rules established by Law no. 69/2010

a. The draft of the revised budget does not comply with the rule established by article 6, letter b) of Law no. 69/2010, according to which "the balance (overall and primary) of the general consolidated budget for the forthcoming budget year should not exceed the threshold specified in the fiscal framework section of the fiscal strategy approved by the Parliament". The draft of the revised budget states a 14.7 billion lei budget deficit, higher by 1.3 billion lei than the limit of 13.394 billion lei stipulated by Law no. 4/2013.

b. The draft budget amendment does not comply with the rule established by article 6 letter c) of the Law no. 69/2010, according to which "the total expenditure (which shall exclude EU funds and personnel expenditure) for the state budget, social budgets, local budgets, self-financed institutions budgets, special funds budgets and other budgets shall not exceed the ceilings specified in the fiscal strategy for the forthcoming year". The total expenditures of the draft budget revision, net of the impact of financial assistance from the EU and from other donors, are 211.3222 billion lei, exceeding with 493 million lei the threshold stated inLaw no. 4/2013. However, the proposed personal expenditure of 46.1527 billion lei is within the stated ceiling of 46.156 billion lei.

c. Also, the draft budget revision does not meet the requirements stipulated in article 16 of Law no. 69/2010, according to which "the total expenditure of the consolidated general budget, excluding the financial assistance from the EU, shall not be increased during budgetary revisions, except for adjustments concerning debt service payments or Romania's contribution to the EU budget", considering that the increase of total expenditure with 493 million lei as defined in the above article is mainly due to the increase in spending on goods and services (+2503 million lei compared with the initial budget), partially offset by cuts in expenditure related to projects funded by external post-accession grants (-465 million lei), social assistance (-603.7 million lei) and other transfers (-480.3 million lei).

In the Fiscal Council's opinion, the violation of the fiscal rules seriously undermines their credibility, especially in terms of budget deficit target rule, for which the derogation is a first (the increase of the last year's target budget deficit was covered by the escape clauses specified in Law no. 69/2010).

The above opinions and recommendations of the Fiscal Council were approved by the Chairman of the Fiscal Council, according to Article 43, paragraph (2), letter d) of Law no. 69/2010, after being approved by the Council members through vote, on July30th, 2013.

July 30th, 2013

President of the Fiscal Council

IONUT DUMITRU