Report on the actions undertaken at the request of the Council of the European Union to adjust the budget deficit following the activation of the excessive deficit procedure for Romania

In recent years, Romania has registered a consumption based economic growth, supported by a pro-cyclical fiscal policy. This has led to the deterioration of external balances and to an inflation level over the average of the countries from the area. Therefore, at the end of 2019, the budget deficit exceeded the 3% ceiling established through the Stability and Growth Pact (SGP).

2020 is marked by the crisis generated by the COVID-19 pandemic, which has affected both internal and external demand. The Government of Romania approved and implemented a series of fiscal and budgetary measures in order to stop the negative effects of the pandemic.

Therefore, the slowing of economic activity, as well as the fiscal policy measures dedicated to fighting the effects of the COVID-19 pandemic, caused an increase of the estimated budget deficit to 8.6% of GDP in2020.

In this framework, the fiscal and budgetary policy must face significant challenges. On the short-term, budgetary efforts are necessary to mitigate the social and economic effects of the pandemic, while on medium-term the challenge refers to efficient measures to support the economy at the same time as entering a path of adjustment of the budget deficit.

I. Main economic results in the first part of 2020

According to the data published by the National Institute of Statistics (INS), in the first semester of 2020 **the Romanian economy** registered a 4.6% decrease of the activity volume (provisional data, gross series) compared to the first half of 2019.

On **the supply side** it can be noted, on the one hand, the significant decrease in the industry (-14.1%) due to the pandemic, as well as that from agriculture (-6.7%) due to the drought, and, on the other hand, the significant increase in the constructions sector, whose gross value added increased by 15.5% compared to the same semester of 2019.

Services registered a balanced decrease of 1.7% compared to the corresponding period of 2019, with an important support from information and communications activities that had a 12.1% increase (and a contribution of 0.7 percentage points to GDP growth), while the area of services rendered to the population (the branch of shows, cultural and recreational activities) had a 29.1% decrease, respectively a negative contribution of 1.1 percentage points to GDP growth.

An important positive signal is given by the fact that **gross investments** in the economy (gross fixed capital formation - GFCP) registered a 5.8% increase in the first semester (with a 1.8% increase in Q2), having the most important positive contribution to GDP growth, respectively 1.2 percentage points.

Governmental support is also found in the positive influence of **Government consumption** on the GDP, as well as in the cost mitigation for companies in industrial and service activities. Thus, in the first semester, the effective collective final consumption of the public administration increased by 8.7% compared to the corresponding period of the previous year, having a positive contribution of 0.9 percent to GDP growth.

Although the final consumption of households registered a 5.3% decrease in the first semester of this year, due to the effect of the pandemic on services, the data from July outline an ascending trend of the volume of retail sales and a recovery of household expenses in the second part of the year.

The export of goods and services had a more accentuated decrease in real terms (-15.1%) in the first semester, correlated with the evolution from the industry, while the negative dynamic of the import of goods and services (-9.4%) was more attenuated, being supported by certain elements of domestic demand. These evolutions made **net export** register a negative contribution to the decrease of gross domestic product of 2.3 percentage points.

With a decrease of 3.9% on GDP seasonally adjusted series in the first half of this year, Romania's economy had one of the lowest decreases in the EU, along with Lithuania (-0.8%), Bulgaria (-3.0%), Poland (-3.1%), Estonia (-3.3%), Sweden (-3.5%), and Finland (-3.8%), which proves that governmental policies have had a favorable effect of attenuating the shock of the COVID-19 crisis.

In Q2 the decrease was of 10.5%, both on the gross and seasonally adjusted series, as a result of the quite abrupt negative adjustment of FOB export (-33.6% in foreign currency) and of industrial production (-26.8% in volume) on the backdrop of a slowing of international commercial transactions on high added-value branches.

On average, the industrial production volume decreased in the first semester by

16.4% in annual terms, the most vulnerable branches in the context of the pandemic being those of light industry and the industry of capital goods (manufacturing of motor vehicles, machinery, and equipment and manufacturing of electrical equipment). On the whole, the production of capital goods registered the biggest decrease, of 27.1%, compared to the period of January - June 2019, the most affected being the car industry with a 32.7% activity decrease. In the case of the branches of light industry, a continued decline can be noted in recent years, caused by a gradual loss of competitiveness, as well as by a reduction of external demand during the pandemic crisis.

The turnover volume for retail trade increased slightly in the first seven months of 2020 compared to the level registered during the same period of 2019 (+1.2%), due to the increase of food product sales (+7.1%). For non-food products it should be noted the decrease of the sales volume of textiles, clothing, and footwear (-23.2%). Retail trade of fuels decreased in the first 7 months by 9.5%, due to the travel restrictions from the period of April-May.

The turnover volume for market services provided to the population decreased by 38.3%, especially as a result of the decrease in the activity of travel agencies by 47.2%.

Services rendered to enterprises -increased on average by 3.1%, in January - June 2020 as a result of the significant increase in the first quarter (+13.3%). A4.4% decrease in the transport activities must be nonetheless noted in the first semester compared to the corresponding period of 2019 due to the decline of the air transport activity (-58.8%).

The performance of the construction sector is notable in on the backdrop of the pandemic, as **the volume of construction works** increased by 18.9% in the first semester. On construction objects were noted positive evolutions for all the components in the first half of this year, the most spectacular being for construction engineering (+29.6%), a branch mostly supported by public investments, while on elements of structure the increases were of approximately 50% both in the case of capital repairs and in the case of maintenance and current repair works.

International **commercial exchanges** strongly constricted in the first 6 months of 2020, due to the pandemic which affected the world and European economy. **Exports of goods** amounted to 28.6 billion EUR, decreasingd by 18.1% compared to the similar period of the previous year, while **imports of goods** decreased by 12.6%. Thus, Romania's trade balance registered a FOB-CIF deficit of 8.7 billion EUR in the first semester, which is 12.1% higherthan the deficit in the first semester of 2019.

The average gross salary on the whole economy was of Lei 5,269 in January - June 2020, which is 5.3% higherthan the one registered in the corresponding period of 2019.

The average **net** salary increased by 5.7%, being of Lei 3,224.

The average number of employees (calculated as arithmetic mean of the monthly staff headcount) in the first 6 months of 2020 was of 4,944.1 thousand individuals, which is 0.6% lower than in the same period of 2019.

Registered unemployment at national level followed a descending trend, in spite of the manifestation of the effects of the COVID-19 pandemic. The support measures adopted by the Government of Romania, especially those referring to technical unemployment, allowed the staff to remain employed in the companies, even if the activity of the companies decreased. At the end of June 2020, the number of registered unemployed increased to 260.7 thousand persons, with a rate of registered unemployment of 3.0% (according to the ANOFM's statistical data).

On average, **inflation** registered a moderate level of 2.86% in the first seven months of 2020, being noted the increase above average for food products (5.12%) and service tariffs (3.3%), while the prices of non-food products increased by only 1.19%.

The extension of the state of alert in Q3 will lead to a slower economic recovery than estimated in the spring forecast, because the resumption of economic activity will not be made at full capacity, on the basis of a lower aggregated demand and of the maintenance of certain restrictions. There will still be activities affected, like restaurants, tourism, passenger transportation, especially air transportation. We are also expecting the processing industry to relaunch according to external demand.

Overall, the risks which could influence the growth projections of this year are severe and interconnected, doubled by a high degree of uncertainty with regard to the occurrence of a second pandemic wave, the absence of a vaccine, the speed of recovery of the main commercial partners, changes in consumer behavior, etc.

The risks on the economic dynamics are mainly of external nature, since Romania's economy is strongly dependent on the situation of commercial exchanges with the Euro Area for certain high added value industrial activities, like the car sector or the sector of means of transport, machines, and equipment. If the main European commercial partners continue to record significant contractions of their industrial production, the recovery of domestic production will be more difficult, but the unfavorable external effects will be compensated by governmental support.

An additional risk, apart from that induced by the pandemic, is expected from **the agricultural sector**, due to the persistent drought from the first part of the year, with negative effects mainly on straw crops.

Factors such as sectoral developments in the first half, presented previously, the

recovery of the international context below expectations and the extension by 3 additional months of social distancing restrictions, compared to the hypothesis form the spring forecast, imposed the revision of the economic growth scenario.

The cumulated action of the aforementioned factors will cause a **decrease of economic activity in the second half**, resulting in downward revision of GDP growth by about 2 percentage points in 2020, compared to the spring forecast. **Thus, based on current assumptions, a real GDP decline of 3.8% is expected for 2020.**

However, the measures adopted by the Government to support companies and employees affected by the pandemic have a mitigating effect on both the number of employees and the average gross earnings.

II. Fiscal and budgetary policy of 2020

The budgetary plan of 2020 was based on the following objectives:

- Supporting smart, sustainable and inclusive economic growth, through efficient use of production factors, productivity increase and starting sustainable investments:
- 2. Creating fiscal space for allocation in order to support major public investments and implementing projects financed from European funds, with multiplier effect and direct contribution to gross fixed capital formation;
- 3. Creating a predictable fiscal policy to support the business environment, simplifying taxation and streamlining internal processes, in order to create the premises for a sustainable economic growth;
- 4. Adopting salary and social measures which are well-targeted and suited to the real needs of the beneficiaries, for the purpose of ensuring social protection and security for the elderly, the retired and the categories who are most vulnerable and in distress.
- 5. Developing and diversifying public debt management instruments;
- 6. Improving, applying and consolidating budgetary governance, increasing budgetary transparency and making public spending more efficient.

Main measures considered when elaborating the budget of 2020:

- ✓ The increase of the monthly minimum wage to 2,230 Lei, as of January 1, 2020, compared to 2,080 Lei in 2019, up 7.2% yoy.
- ✓ When estimating the personnel expenses of the general consolidated budget for 2020 was considered the enforcement in stages of Law no. 153/2017 on salaries of the personnel paid from public funds, as subsequently amended and supplemented, in accordance with the provisions of this legislative act.
- ✓ Withdrawal of the VAT split payment mechanism in order to make it compatible
 with the Community acquis in this area; the credit institutions shall
 correspondingly take forced execution measures of the amounts existing in the
 VAT account, within the limit of the total amount of budget liabilities, as
 mentioned in the notice of garnishment;
- ✓ As of January 1, 2020, the monthly allowances for public dignity positions and positions assimilated thereto, as provided in annex IX to Framework-law no. 153/2017, as subsequently amended and supplemented, shall be maintained at the level of December 2019;
- ✓ The value of meal vouchers shall be maintained at the level of 2019;
- ✓ As of January 2020, the monthly amount of the merit allowance shall be maintained at the level of 6,240 Lei;
- ✓ Ensuring 2% of GDP for defense.

The first budget rectification of 2020 was approved through Government Emergency Ordinance no. 50/2020 on the rectification of the State budget for year 2020, approved as amended through Law no. 115/2020 and, respectively, Government Emergency Ordinance no. 51/2020 for the rectification of the social insurance budget for 2020, and was based on:

- ✓ The need to correlate budget planning with the forecasted developments of macroeconomic indicators in the context of the COVID-19 pandemic effects. The estimated economic contraction was of 1.9% for 2020, which leads, given a GDP deflator of 4.1%, to a nominal value of the gross domestic product of 1,082.1 billion Lei, compared to 1,129.2 billion Lei which was considered for the initial budget.
- ✓ The need to ensure in the budget the amounts that correspond to the implementation of the measures taken for the purpose of preventing the spread of the virus and mitigating the negative effects thereof.

Once the first budget rectification was approved, the target deficit for 2020 was amended to 6.79% of GDP, compared to 3.6% of GDP as it was in the initial law. The estimated general government revenue were decreased by 19 billion Lei (1.7% of GDP), and the general government expenditure were supplemented by 12.9 billion Lei (1.2% of GDP).

The main measures considered for the budget rectification:

- ✓ the support programme for small and medium enterprises IMM INVEST ROMANIA: shall be resized guaranteed loans through the Programme; shall be subsidized the interest for guaranteed loans; shall be recalibrated the maximum duration of financings, respectively shall be increased the guarantee period of loans/credit lines for working capital from 24 to 36 months, with possibility of extension by 36 months; the expenses related to the management fee for coverage of award costs and of the costs for monitoring the guarantees granted by F.N.G.C.I.M.M. in the name and on behalf of the State are covered from the State budget through the budget of the Ministry of Public Finance General Actions, within a State aid/de minimis aid scheme associated to this programme throughout the period of award of the interest subsidy;
- ✓ postponement of the payment term for the tax on buildings, the tax on land and the tax on means of transport from March 31, 2020 to June 30, 2020;
- ✓ considering the fact that the payment of local taxes owed by private individuals
 was postponed for three months, the due date being June 30, 2020, and
 considering that the majority of revenues of the administrative-territorial
 units/subdivisions originate in taxes and charges, in order to avoid the blockage of
 accounts in case of failure to pay the outstanding debts that correspond to the
 loans contracted from the Ministry of Public Finance, the payment of the
 installments and interests that correspond to these loans shall be postponed for
 three months;
- ✓ shall not be calculated or owed interests and late payment penalties for the outstanding fiscal liabilities;
- ✓ shall be amended the system of declaration and payment of the annual corporate income tax, with prepayments made on a quarterly basis, the taxpayers being allowed to make quarterly prepayments at the level of the amount resulting from the calculation of the current quarterly corporate income tax. The manner of calculation shall be kept for all the quarters of fiscal year 2020.

- ✓ shall be granted during the period of establishment of emergency measures, without interruption, the social assistance benefits dedicated to children and youth which are conditioned on school attendance;
- ✓ shall be borne from the unemployment insurance budget for the period of suspension of the individual employment agreement at the employer's initiative in case of temporary activity interruption in accordance with art. 52 para. (1) letter c) in Law no. 53/2003 - Labor Code, as subsequently amended and supplemented, the allowance granted to the employees of minimum 75% of the basic salary corresponding to their job paid from the salaries fund, but not more than 75% of the average gross salary provided by Law no. 6/2020 on the social insurance budget for 2020;
- ✓ the obligation of the employers that benefit of the measure mentioned above of
 maintaining the employment relationships of the individuals in question for a
 period of at least 6 months as of the date of resuming the activity after suspension
 of the employment relationships in accordance with art. 52 para. (1) letter c) in
 Law no. 53/2003 Labor Code, as subsequently amended and supplemented;
- ✓ the taxpayers of corporate income tax, no matter the system of declaration and payment provided by art. 41 in Law no. 227/2015 on the Fiscal Code, as subsequently amended and supplemented, who pay the tax owed for Q1 of 2020, respectively pay in advance the amount corresponding to the same quarter, on or before the due date of April 25, 2020, shall benefit of a bonus calculated on the corporate income tax owed, as follows: 5% for large taxpayers and 10% for medium taxpayers and the rest of taxpayers. These provisions shall be correspondingly applied for the taxpayers that are subject to art. 16 para. (5) in Law no. 227/2015 on the Fiscal code, as subsequently amended and supplemented. The determination of the profit for payment purposes shall be made by deducting the bonus from the tax owed. These provisions shall be correspondingly applied by the other taxpayers who are subject to Law no.170/2016 on the tax specific for certain activities, for the corporate income tax that corresponds to Q1 of 2020 determined for the activities performed, other than those which correspond to the NACE codes provided by law;
- ✓ the taxpayers who pay tax on the microenterprises revenue for Q1 of 2020 on or before April 25, 2020 shall benefit of a bonus of 10% calculated on the tax owed for that quarter. The payment due for microenterprises revenue will be determined by deducting the bonus from the tax amount owed.
- ✓ for ensuring within the shortest time the necessary medicines, protective equipment, other devices or medical equipment and sanitary materials used for

the prevention, limitation, treatment and fighting against COVID-19 and in order to offer support to the economic operators registered for VAT purposes (in accordance with art. 316 in the Fiscal Code) who import such goods, VAT payment in customs have been postponed for imports made during the state of emergency (established in accordance with the President's Decree no. 195/2020) and the following 30 calendar days.

- ✓ Postponement of the liabilities representing capital installments, interests and fees corresponding to loans granted to private individual debtors, including certified private individuals, individual enterprises and family enterprises, liberal professions and those exercised on the basis of special laws, as well as to legal entities other than credit institutions part of credit/leasing agreements, for up to 9 months, but not later than December 31, 2020;
- ✓ decreasing the excise duties for fuels to the level due before the increase of September 15, 2017. In 2020, in accordance with art. 342 para. (2) in Law no. 227/2015 on the Fiscal Code subsequently amended and supplemented, the level of excise duties was increased as follows: for leaded gasoline - Lei 2,085.97/1,000 liters; for unleaded gasoline - Lei 1,773.46/1,000 liters, and for diesel - Lei 1,625.37/1,000 liters;
- ✓ amendment of the calculation base for social insurance contributions and health insurance contribution for part-time employees with individual employment agreement (the calculation base is set to the obtained revenue, instead of the minimum gross salary at national level).
- ✓ granting an allowance for parents during the suspension of classes in accordance with the provisions of Law no. 19/2020.
- ✓ deferment of the deadline (March, 15) for submission of the Unique statement on personal income tax and social contributions owed by private individuals (according to Law no. 227/2015 on the Fiscal Code, subsequently amended and supplemented, as well as to other legislative acts), until June 30.
- ✓ the amount of the license fee for the radio frequencies in the duplex band 1920-1980 MHz/2110-2170 MHz (which reached their term on March 31, 2020) has been set to 30 million EUR/license, for the period April 1, 2020 - December 31, 2031.

At the same time, the following amounts have been allocated from the Government's Budgetary reserve fund for the prevention and treatment of conditions associated with COVID-19 in 2020:

- ➤ RON 225 mln. for stocks of products for medical emergency, including thermal scanners, as well as for certain measures corresponding to the establishment of the quarantine (G.E.O. no. 11/2020; through supplementing the budget of the Ministry of Internal Affairs);
- ➤ RON 100 mln. for managing the infections with Coronavirus SARS-CoV-2 (G.D. No. 206/2020; through supplementing the budget of the Ministry of Internal Affairs)
- ➤ RON 200 mln. for the organization and implementation of public information campaigns in the framework of the epidemiological situation caused by the spread of COVID-19 (G.E.O. no. 63/2020, through supplementing the budget of the General Secretariat of the Government);
- ➢ RON 150 mln. for the National Programme "Scoala de Acasa" (Home Schooling) for purchasing electronic devices with Internet connection necessary in State-owned pre-university educational units in order to facilitate remote teaching activities for pupils from disadvantaged environments (G.D. No. 370/2020, through supplementing the budget of the Ministry of Education and Research);
- ➤ RON 350 mln. for preparing the sanitary units in order to care for COVID19 patients, as well as for optimizing the implementation of priority actions necessary to care and ensure treatment for critical patients, under the given circumstances, in accordance with the legislation for administration, financing, and implementation of priority actions (G.D. No. 171/2020, through supplementing the budget of the Ministry of Health);
- ➤ RON 42 mln. for approval of the methodological norms for establishment of rents for quarantine and taking certain measures in the health sector (G.D. No. 201/2020, through which supplementing the budget of the Ministry of Health);
- ➤ RON 16.5 mln. as free-of-charge external humanitarian aid to the Republic of Moldova for the purchase of medicines, disinfectants, medical devices and sanitary materials in order to ensure the prevention and treatment of conditions associated to COVID-19 (G.D. No. 334/2020, by supplementing the budget of the Ministry of Health);

- ➤ RON 230 mln. for ensuring the necessary protective masks for the disadvantaged families and individuals (G.E.O. No. 78/2020, through supplementing the budget of the Ministry of Health);
- ➤ RON 600 mln. for settling the expenses for quarantine, as well as for the meal allowance and other support measures for vulnerable individuals in isolation at their domicile for limitation of the spread of COVID-19 (G.D. No. 419/2020, by supplementing the budget of the Ministry of Health);
- ➤ RON 8.5 mln. as free-of-charge external humanitarian aid to Ukraine for the purchase of medicines, disinfectants, medical devices and sanitary materials in order to ensure the prevention and treatment of conditions associated to COVID-19 (G.D. No. 464/2020, by supplementing the budget of the Ministry of Health);
- ➤ RON 10.379 mln. for the implementation of IT&C solutions in order to ensure the activity under isolation for the members of the Government and Parliament, as well as for other public institutions involved in fighting the pandemic (G.D. No. 205/2020 supplementing the budget of the Special Telecommunications Service);
- ➤ RON 15.638 mln. for meal and accommodation allowances granted to the personnel of public and private social services such as residential centers for the care of elderly, children or adults (with or without disabilities), as well as for the other vulnerable categories who are in preventive isolation at the workplace or in special dedicated areas where no outside individuals have access (G.D. no. 329/2020 for supplementing the local budgets);

After the first budget rectification, a series of fiscal and budgetary measures designed for fighting the effects of the pandemic, continuing support for the business environment, and offering aid to citizens and to the most affected sectors have been adopted, among which:

- ✓ As of June 1, 2020, the employers whose employees benefited from the provisions of G.E.O no. 30/2020, as well as the employers whose employees had their individual employment agreements suspended and did not benefit of the provisions of G.E.O no. 30/2020 during the state of emergency or alert, shall benefit, for a period of three months, of the settlement of part of their salary representing 41.5% of the gross basic salary corresponding to their job, but not more than 41.5% of the average gross salary provided by Law no. 6/2020.
- ✓ The employers who hire during the period of June 1, 2020 and December 31, 2020, for undetermined period of time and on a full-time basis, people over 50.

years old whose employment relationships ended during the state of emergency and alert and who are registered as unemployed, shall receive 50% of the employee's salary, but not more than RON 2,500, on a monthly basis, for 12 months, for every person they employ from this category.

- ✓ The employers who hire people between 16 and 29 years old who are registered as unemployed, until December 31, 2020, for an undetermined period and on a full-time basis, shall receive 50% of the employee's salary, but not more than RON 2,500, for 12 months, for every person they hire from this category.
- ✓ The employees of the employers whose activity was suspended as a result of the epidemiological investigation performed by the county public health directorates and the public health directorate of Bucharest shall benefit of the allowance provided by Government Emergency Ordinance no. 30/2020 amending and supplementing certain legislative acts, as well as establishing certain measures in the field of social protection in the framework of the epidemiological situation generated by the spread of the SARS-CoV-2 virus, approved as amended and supplemented through Law no. 59/2020, as subsequently supplemented.
- ✓ The exemption from payment of the specific tax in the fiscal year 2020 for a period of 90 days for the taxpayers subject to Law no. 170/2016 on the tax specific to certain activities;
- ✓ The postponement of the terms of application of the facilities granted through prior ordinances related to the outstanding fiscal liabilities (until October 25, inclusive).

For the measures presented above, the financing was ensured through Government Emergency Ordinance no. 135/2020 on the rectification of the State budget for 2020 and Government Emergency Ordinance no. 136/2020 on the rectification of the social insurance budget for 2020.

The second budget rectification amended several legislative acts and established a series of measures, namely:

- ✓ the pension point was increased by 14%, from RON 1,265 to RON 1,442, as of September 1, 2020;
- ✓ the social allowance for pensioners was increased from RON 704 to RON 800, as of September 1, 2020;
- ✓ the child allowance was increased by 19% compared to the amount granted in July, as of August 1, 2020;

✓ the increase of wages at the level of 2022 grid for the employees in the field of education was postponed until September 1, 2021;

At the same time, several legislative acts regarding the European funds were adopted, such as:

- ✓ GEO no. 60/2020 (adopted on April 30, 2020) on certain financial measures on the implementation of infrastructure projects corresponding to 2007-2013 programming period, projects that were financed with 2014 2020 EU funds.
- ✓ GEO no. 88/2020 (adopted on May 27, 2020) on the establishment of certain measures, as well as providing financial support for the preparation of projects in strategic fields considered as priorities for the 2021-2027 programming period finance through the Operational Programme on Technical Assistance 2014-2020 (OPTA) and the Large Infrastructure Operational Programme 2014-2020 (LIOP).
- ✓ GEO no. 84/2020 (adopted on May 21, 2020) on the establishment of certain measures necessary for the implementation of the Operational Programme of Aid to the Most Deprived - FEAD.
- ✓ GEO no. 94/2020 (adopted on June 4, 2020) on certain measures for financing certain national programs from European funds.
- ✓ GEO no. 101/2020 (adopted on June 25, 2020) on certain measures regarding the implementation of EU founded projects in order to avoid the risk of decommitment for the 2014-2020 programming period.
- ✓ GEO no. 115/2020 (adopted on July 16, 2020) on certain measures to support the most disadvantaged categories of citizens who benefit of warm meals based on electronic social vouchers granted from external non-reimbursable funds, as well as certain measures of vouchers' distribution.
- ✓ GD no. 558/2020 (adopted on July 16, 2020) approving the National Programme INNOTECH STUDENT, financed through the Operational Programme Human Capital 2014-2020.

According to the second 2020 budget rectification, the total revenues are estimated at 32.3% of GDP, while the total expenditures represent 40.9% of GDP, leading to a target deficit of 8.6% of GDP (in cash terms), corresponding to a 8.61% of GDP deficit (in ESA terms) and a structural deficit of 5.79% of GDP.

The total revenues of the domestic economy decrease by RON 7.8 billion (0.7% of GDP), being offset by the increase of the non-reimbursable EU funds by RON 8.5 billion (0.8% of GDP). Thus, the total revenues slightly increase by RON 0.9 billion (0.1% of

GDP). At the same time, the total expenditures are supplemented by RON 19.4 billion (1.8% of GDP), representing the main driver of the budget deficit deepening.

A larger deficit (+ 5 pp) compared to the initial target established in accordance to the Fiscal Strategy 2020-2022 (3.6% of GDP) is mainly explained by the contraction of economic activity in the most affected sectors by the pandemic, as well as due to higher social expenditures and fiscal facilities.

III. The budget execution in the first 7 months of 2020

General government budget recorded a **deficit of RON 49.68 billion (4.7% of GDP)** in the first seven months of 2020.

Part of the deficit, namely **RON 27.01 billion (2.55% of GDP)** corresponds to fiscal facilities — amounts left in the economy to support private companies' liquidity, investment and extraordinary expenditures to limit the spread of the virus.

A larger deficit compared to the similar period of last year is mainly explained, on the revenues side, by (i) the unfavorable total revenues' dynamics during March - July due to the economic downturn, but also as a consequence of payment deferral (RON 12.5 billion), (ii) higher VAT reimbursement to support private companies' liquidity (RON +3.05 billion compared to the first seven months of 2019), (iii) discounts applied on CIT and on tax on micro-enterprises' revenues (RON 0.25 billion).

Also, on the expenditure side, beside the increase resulted from applying the current legislation, investment rose by RON 4.61 billion compared to the first seven months of 2019, while extraordinary Covid-19 related payments totaled RON ~6.56 billion.

Total revenue amounted to RON 175.15 billion in the first seven months of 2020, down by 2.7% compared to the similar period of last year. As a percentage of GDP forecast, the total revenues decreased by 0.4 pp (yoy), mainly due to a contraction of net VAT receipts (higher VAT reimbursement and payment deferral) and a decline of non-tax revenues.

Whilst the total revenue registered a favorable evolution in June¹, it turned negative again in July (-8.1% yoy), mainly due to the economic downturn and the expansion of fiscal facilities². Besides, the severe contraction of economic activity in Q2 (-10.5% yoy) affected the revenues dynamics during April - July. In addition, fiscal facilities granted in

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¹ 30th of June 2020 was the deadline for certain tax payment postponed during March – May.

² GEO no. 99/2020

the current context have led to an increased volatility of monthly revenues over this period.

Total expenditure reached RON 224.83 billion in the first seven months of 2020, advancing by 13.4% compared to the corresponding period of the previous year. As a percentage of GDP forecast, total expenditure increased by 2.5 pp, from 18.7% in 2019 to 21.3% in 2020. This increase is also explained by the measures adopted to limit the spread of the virus, and on the other hand, by discretionary measures adopted to mitigate the negative impact on the economic activity.

Thus, RON 3.94 billion were paid in the first seven months of 2020 for technical unemployment benefits, RON 785,7 million for other categories of professionals and for those with an individual employment agreement that were forced to stop their activity in the context of the state of emergency, and RON 66.8 million for allowances to parents in order to supervise their children during the temporary closure of educational institutions.

Investment, which include capital expenditure and spending related to development programs financed from domestic and external sources, amounted to RON 20.41 billion in the first seven months of 2020, recording the peak of the last 10 years (for the cumulative seven months' period).